

RESEARCH

DOMESTIC, U.S. AND OVERSEAS TRAVEL TO CANADA

**Short-Term Business Outlook
Quarter 1 2004**

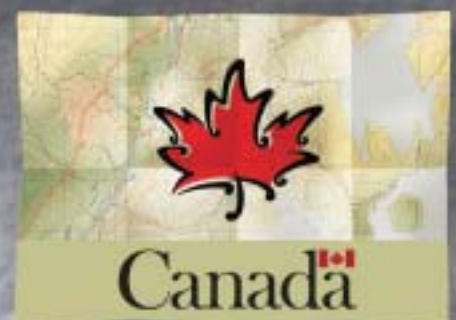
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Domestic, U.S. and Overseas Travel to Canada

Short-Term Business Outlook
Quarter 1 2004

Prepared by

The Conference
Board of Canada

For the

Canadian Tourism Commission

December 2003

WHAT'S INSIDE

The purpose of this study is to provide a short-term outlook for domestic & international travel to Canada for the first quarter of 2004 (January 2004 to March 2004) using readily available market intelligence in a timely and cost-efficient manner.

The short-term outlook for travel to, and within, Canada for the first quarter of 2004 should be interpreted in context with the uncertainty surrounding world affairs. In this respect, the outlook is presented as being valid only under status quo conditions.

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Executive Summary

Highlights

The outlook for Canada's key markets for the first quarter of 2004 (relative to the first quarter of 2004) from the *Business Outlook (BO) Monitor* participants is summarized as follows:

Q1-2004 Business Outlook for Canada's Key Markets (per cent change over Q1-2003)

COUNTRY	MARKET SEGMENT				
	LEISURE – GROUP	LEISURE - FIT	LEISURE – OVERALL	BUSINESS	TOTAL - OVERALL
Canada	3.5%	2.0%	2.2%	3.0%	2.5%
United States	-4.0%	-0.5%	-1.3%	-2.5%	-1.5%
Mexico	0.0%	2.0%	1.1%	*	1.5%
Brazil	*	*	*	*	2.0%
United Kingdom	4.0%	3.0%	3.2%	3.0%	3.2%
France	3.8%	2.8%	3.2%	2.0%	3.0%
Germany	4.5%	3.5%	3.9%	2.0%	3.5%
Italy	*	*	*	*	3.0%
Netherlands	*	*	*	*	3.5%
Japan	4.5%	3.0%	4.1%	0.0%	3.3%
Taiwan	3.0%	2.5%	2.8%	*	2.8%
South Korea	4.0%	4.5%	4.2%	*	4.0%
Hong Kong	3.0%	2.8%	2.9%	4.0%	3.0%
China	5.5%	4.1%	5.0%	*	5.0%
Australia	3.5%	3.0%	3.3%	*	3.3%
New Zealand	2.0%	4.0%	3.3%	*	3.3%

* Not enough responses to ensure confidentiality

Background

The short-term *Business Outlook (BO)* provides performance scenarios for Canada's major travel markets. A quarterly survey of advance bookings and market intelligence is derived from the *Destination Supplier/Receptive Agent Monitor*. This monitor was developed by CTRI, on behalf of the Canadian Tourism Commission (CTC). To bolster the quality of the *Business Outlook* report, quarterly staff reports and surveys of key tour operators—developed by the CTC's foreign offices—are also incorporated.

Please note that, since the outlook's scope is restricted to the first quarter of 2004, all growth comparisons are reported on a year-over-year basis compared with the first quarter of 2003.

North American Markets

Canada

According to *BO Monitor* participants, domestic travel is expected to increase 2.5 per cent in the first quarter of 2004, compared to the previous year. In fact, growth expectations are slightly more optimistic for domestic business travel (3%) than for leisure travel (2.2%). The anticipated rebound in business travel is a welcome turnaround from the considerable declines recently experienced in this segment during the second and third quarters of 2003.

Results of the latest (September 2003) *Winter 2003 Travel Intentions Survey* by the Canadian Tourism Research Institute (CTRI) support the domestic travel growth forecasted by *BO Monitor* participants. While the overall percentage of Canadians intending to take a domestic vacation this winter remained virtually unchanged against last year (19.4% in September 2003 compared to 19.6% in September 2002), improving economic conditions, rising consumer confidence and the absence of uncertainty surrounding the looming war in Iraq all help strengthen the likelihood that these intended trips will materialize.

Despite the fact that more Canadian travellers may be lured to outside the country this winter by the strong Canadian dollar, it is not expected to derail many declared domestic travel plans—at least over the winter season. While a continued appreciation of the dollar could alter some last minute travel decisions, the Conference Board of Canada suggests that the Canadian dollar may have reached its peak.

U.S.

Unfortunately, *BO Monitor* participants anticipate that overall U.S. travel to Canada in the first quarter of 2004 will decline 1.5 per cent compared to last year. This is the sole travel market in this report expected to generate declining visitor volumes over this period. Overall leisure travel is expected to decrease by 1.3 per cent, hindered by a 4 per cent drop in group bookings. Meanwhile, business travel is expected to perform slightly worse than leisure travel by declining 2.5 per cent compared with the previous year.

BO Monitor participants have indicated that the continuing appreciation of the Canadian dollar and the lingering effects of the SARS outbreak have both negatively impacted bookings for the first quarter of 2004. These issues have affected group travel and the meetings sector in particular, since these bookings are typically made much further in advance when SARS would still have been a factor. Meanwhile, the stronger dollar has made travel to Canada less economical, acting as a further deterrent.

It is possible that the outlook for the first quarter may turn out to be more positive, particularly for FIT bookings, in light of the ongoing “wait-and-see” trend among consumers. The surge in economic growth expected in the U.S. during the second half of 2003 should help maintain the momentum of climbing consumer confidence, which could sway more Americans to spend money on a winter vacation. There are already signs that improving economic prospects has initiated a rebound in business travel in the U.S. However, like their leisure counterparts, a main consideration affecting U.S. corporate travellers will be competitive prices.

Mexico

Overall, *BO Monitor* participants expect leisure travel from Mexico to increase 1.1 per cent during the first quarter of 2004. FIT travel is expected to outpace group travel while group bookings remain on par with the same quarter of 2003. Supporting growth expectations is the forecasted acceleration of the Mexican economy as well as the continued growth in direct air capacity.

Brazil

BO Monitor participants anticipate that overall travel from Brazil to Canada will grow 2 per cent during the first quarter of 2004, compared with the previous year. Fortunately, after slipping into a recession in the first half of 2003, Brazil's economy appears to be recovering—one signal has been the recent increase in consumer demand. Brazilian airline analysts are reporting an increase in business travel, spurred on by Brazil's improving economy. Meanwhile, leisure travel is expected to follow suit by the end of 2003.

European Markets

U.K.

According to *BO Monitor* participants, the outlook for travel from the U.K. in the first quarter of 2004 has improved tremendously compared against the outlook for the fourth quarter of 2003. In fact, overall leisure travel is expected to expand 3.2 per cent, led by a 4 per cent increase in group travel. Meanwhile, business travel is also projected to post a solid growth in this period as well (up 3%). However, *BO Monitor* participants noted that geo-political concerns are still a factor for U.K. travellers. In addition, tour operators surveyed by the CTC noted that the increasing value of the Canadian dollar has made Canadian products less economical. This could potentially counteract the increase in demand for travel to Canada.

Meanwhile, travel suppliers in the U.K. are reporting steady growth in overall sales for winter holiday packages and predicting that bookings will gain further momentum as the winter approaches. Booking lead-times continue to be short, and many believe this could become a permanent feature of the travel industry, at least in the U.K. Business travel continues to grow as well, although companies appear to be cutting their corporate travel expenditures through a combination of lower fares, less travel, and downgrading.

France

BO Monitor participants expect overall travel from France to increase 3 per cent during the first quarter of 2004. Group travel is expected to experience the strongest growth, up 3.8 per cent, followed by the FIT segment (up 2.8%). Overall, participants expect a 3.2 per cent improvement in leisure travel.

While slightly less optimistic than *BO Monitor* participants, sales reports by French tour operators do support this outlook, by and large, noting that individual and group packages to Canada represent the strongest sales trend for the first quarter 2004. Direct air capacity to Canada is expected to increase 3.9 per cent during this period, which should help facilitate the anticipated growth in travel demand.

Germany

BO Monitor participants suggest that overall travel from Germany will increase 3.5 cent in the first quarter of 2004, compared with the previous year. The group travel segment is expected to improve the most (up 4.5%) driving a 3.9 per cent growth in overall leisure travel.

Meanwhile, the German economy appears to be recovering, albeit at a slow pace. Although consumer spending is not expected to make a significant comeback in the short term, tour operators have reported a recent rise in winter bookings, rebounding towards “moderate growth” for the German tourism industry in 2004. A substantial increase in direct air capacity to Canada (up 18.6%) will help restore some of the capacity that was previously cut on these routes, and will help facilitate a growth in German travel demand to this country.

Italy

BO Monitor participants have indicated that travel to Canada from Italy is expected to grow by 3 per cent in the first quarter of 2004 and build on the 9 per cent rise in travel witnessed during the first quarter of 2003. This comes as great news following the significant decline in Italian visitors to Canada that followed the SARS outbreak, which impacted bookings through to the end of 2003. However, Air Canada recently cancelled its direct air service to Italy. Unfortunately, this could represent a significant constraint for travel to Canada during this period.

Netherlands

BO Monitor participants anticipate that overall travel from the Netherlands will climb 3.5 per cent during the first quarter of 2004. Although direct air capacity is expected to decline substantially during this period (-23.9%), Dutch tour operators surveyed by the CTC reported that they do not anticipate this will hinder the expected growth in travel demand. In fact, Dutch tour operators expect their Canadian bookings in the first quarter of 2004 to improve over the previous year, singling out travel by couples (without a package) as a significant sales trend.

Asia/Pacific

Japan

According to *BO Monitor* participants, overall travel from Japan in the first quarter of 2004 is expected to grow 3.3 per cent compared with the previous year. Group leisure travel is expected to be the main driver of the increase, climbing 4.5 per cent, while the pace of growth for independent (FIT) leisure travel lags slightly behind at 3 per cent. Unfortunately, the outlook for business travel remains slightly less optimistic. Specifically, participants expect it will remain on par with last year's figures.

Japanese tour operators surveyed by the CTC were slightly less optimistic for this period, indicating that they anticipate overall bookings for this period to be on par with the previous year. However, this is a vast improvement from the dismal performance of the Japanese outbound market in the second and third quarters of 2003. Recent bookings to Canada picked up significantly this fall, with many flights from Tokyo and Osaka reported to be full to capacity in September and October. Unfortunately, operators pointed out that direct air capacity was impeding their sales efforts for winter Canadian products.

Taiwan

Fortunately, *BO Monitor* participants are forecasting a much more positive outlook for travel from Taiwan in the first quarter of 2004 than in previous quarters. Overall travel is expected to grow 2.8 per cent—a welcome turnaround from the 21.4 per cent drop witnessed over the same quarter in 2003. Supporting this expected turnaround are recent economic forecasts that suggest Taiwan's economy will grow 4.3 per cent in 2004. One main driver of this optimistic outlook is expectations of a 3.2 per cent gain in Taiwanese consumption, the strongest gain seen in four years.

South Korea

BO Monitor participants anticipate that overall leisure travel from South Korea will grow by 4 per cent during the first quarter of 2004, with independent (FIT) travel (4.5%) performing slightly better than group travel (4%) during this period. CTC's foreign office in Taiwan reported that overseas travel has been rebounding quickly since SARS faded from the news. Tour operators have been encouraging consumers to book their travel farther in advance by promoting discounted group tour packages in an effort to stimulate a faster post-SARS recovery. Improving economic prospects and consumer confidence gains are two more positive factors supporting the travel growth outlook.

Hong Kong

According to *BO Monitor* participants, overall travel from Hong Kong is expected to increase by 3 per cent during the first quarter of 2004. This increase follows a drastic 19.2 per cent drop in visitation witnessed during the first quarter of 2003. Aggressive marketing by Hong Kong's tourism office has helped their post-SARS recovery get off the ground. This, in turn, has created spin-off benefits for the outbound market. Hong Kong travel suppliers are reporting a steady improvement in booking volumes. Improving economic prospects and increasing consumer confidence should help support the positive growth expected for the first quarter of 2004.

China

BO Monitor participants expect overall travel from China to grow by 5 per cent during the first quarter of 2004. This figure represents the most optimistic outlook of all markets included in this report and shows a return to the steady growth interrupted by the SARS outbreak. Now that the effects of SARS have faded, and China's economy continues to boom, the number of Chinese citizens willing and able to travel abroad is surging upwards. Already having surpassed Japan as the largest outbound market in Asia, it is predicted that China will eventually become one of the leading tourism markets in the world.

Australia

According to *BO Monitor* participants, overall leisure travel from Australia is expected to grow 3.3 per cent, bolstered by a 3.5 per cent rise in group travel. It is anticipated that independent (FIT) travel will do almost as well, up 3 per cent during the first quarter of 2004 compared with the previous year. Travel agents in Australia reported a resurgence in travel interest once the SARS outbreak disappeared from travellers' radar screens. As a result, the outbound market is predicted to bounce back significantly in 2004. Fortunately for the Canadian tourism industry, a solid increase in air capacity to Canada (8.5%) during the first quarter should help reverse some of the declines seen in 2003—a factor that may have deterred some travellers in the past.

New Zealand

According to *BO Monitor* participants, leisure travel from New Zealand is expected to grow 3.3 per cent during the first quarter of 2004. Independent (FIT) leisure travel is expected to lead the increase at 4 per cent, while group travel is expected to expand 2 per cent, compared with the previous year. Reports by travel agents in New Zealand support this growth forecast, indicating that sales of Canadian winter products have been strengthening considerably. The appreciating New Zealand dollar is playing a role in this trend (making long-haul travel less expensive), as are perceptions of Canada as a safe destination.

International Travel Statistics – Statistics Canada

Overnight Travel to Canada, January-August 2003

COUNTRY	PERSON-TRIPS	CHANGE OVER 2002(%)
United States	10,272,194	-14.0
Mexico	106,338	-11.9
Europe	1,271,749	-10.4
United Kingdom	498,049	-4.8
France	191,577	-11.5
Germany	180,438	-11.0
Netherlands	76,100	-3.1
Italy	38,375	-47.1
Asia	578,795	-29.3
Japan	155,824	-41.5
South Korea	96,669	-12.4
Taiwan	40,425	-45.6
Hong Kong	61,947	-28.7
China (Mainland)	48,561	-23.4
Oceania	126,641	-2.3
Australia	104,314	-1.7

Source: *International Travel, Statistics Canada.*

Introduction

The purpose of this report is to provide a short-term outlook for domestic & international travel to Canada for the first quarter of 2004 (January 2004 to March 2004) using readily available market intelligence in a timely and cost-efficient manner. Success with this short-term outlook will be achieved if the initiative helps direct the efforts of the CTC and the industry at large more effectively for the upcoming tourism season.

The short-term outlook presented within this report involves a *Business Outlook (BO)* that is developed and administered by the Canadian Tourism Research Institute (CTRI). The *BO* integrates primary data of advance bookings along with pertinent market intelligence.

One source of advance bookings and market intelligence is the *Destination Supplier–Receptive Agent Business Outlook Monitor*. The *BO Monitor* obtains advance international booking information from key destination suppliers and receptive agents in Canada. Another source of advance bookings and market intelligence for the *BO* comes from quarterly reports issued by the Canadian Tourism Commission (CTC) foreign posts. In order to provide more assistance to the *BO*, many of the quarterly reports have been enhanced with results from a trade questionnaire. The trade questionnaire is administered by the CTC foreign posts and obtains advance bookings and market intelligence from key foreign tour operators in each country.

All advance-booking data and market intelligence collected by the *Destination Supplier–Receptive Agent Business Outlook Monitor* is confidential and not included in the short-term outlook if any individual response can be singled out. All dissemination of *BO Monitor* responses, either in the form of a monthly report to participants or the short-term outlook report issued by the CTC, will involve consensus reporting. In this respect, there is no mention of individual participant responses.

While reviewing the outlook for the major international markets discussed in this report, the reader is reminded to refer to the Appendix 1: Medium-Term Travel Forecasts (CTRI) to get a quick perspective of how the short-term travel outlook corresponds to the latest medium-term forecast generated by CTRI.

Economic Overview

World Outlook

For the first time in two years, there are some encouraging signs that the beleaguered world economy is finally beginning to show some signs of life. Not only is the U.S. economy starting to emerge from the doldrums but other countries crucial to the overall health of the world economy appear to be on the road to recovery, as well. In Germany, business confidence has increased for the past three months, suggesting that the worst may be over for the world's second largest economy. Business leaders are also feeling more optimistic in Belgium and the Netherlands. Meanwhile, China has quickly recovered from the SARS health crisis and households are aggressively purchasing cars and new homes. In Japan, which has been in a never-ending slump for more than a decade, capital spending has finally started to pick up. Also, the difficulties associated with high inflation appear to be under control in Latin America.

As has been the case in past, the strengthening U.S. economy will be counted on to lead the world economic recovery. With the major uncertainties created by the Iraq war over, corporate profits are beginning to expand while households benefit from significant tax cuts. As a result, the U.S. economy is expected to grow at an annualized rate of 3.6 per cent in the second half of this year. Solid growth in the U.S. economy should help propel the world economy by nearly 3 per cent growth in 2004—its strongest performance since 2000.

North America

The solid economic recovery in the U.S. is expected to help generate 3.7 per cent growth in the overall North American economy in 2004. This on the wake of a projected 2.3 per cent growth witnessed in 2003. Stronger U.S. economic growth will support strengthening export sales in the heavily export dependent economies of Mexico and Canada. Real export growth in Canada will be positive in the wake of an anticipated decline this year. Mexico is also expected to record significant export growth in 2004.

The U.S. economy is expected to record its strongest pace of economic growth since the late 1990s in the second half of 2003. Real GDP expanded at an annualized rate of 7.2 per cent in the third quarter and is expected to expand by 3.2 per cent in the fourth quarter. In 2004, strong growth of 3.8 per cent is anticipated. The optimistic outlook is attributable to solid consumer spending, a significant rebound in investment spending and strong growth in real exports.

South America

Prospects for South America will receive a boost next year from the surprising strength of Argentina's economic recovery as well as stronger economic growth in Brazil—the region's largest economy. Real GDP growth of 3.5 per cent is expected for South America overall, on the heels of a meagre 1.3 per cent growth this year. Economic growth would be even stronger if not for the economic crisis in Venezuela. The economy in Venezuela is still suffering from the fallout from the oil sector strikes earlier this year. The state-owned oil company has yet to fully recover from the shutdown and cutbacks in staff and, as a result, output remains below pre-strike levels. Lower oil production implies that the economy is also failing to take advantage of the relatively high world prices that have been in place for most of 2003. As a result, real GDP in Venezuela is expected to fall by close to 14 per cent in 2003.

Euroland

Europe is expected to record anaemic growth of 0.5 per cent this year as the economies of the largest economies in the region—France, Germany and Italy—generate virtually no growth at all. These countries remain plagued by high unemployment, a result of not only weak domestic demand but also structural difficulties in labour markets. Reform is desperately needed and there are some tentative signs that governments in Europe will finally begin to tackle this problem. However, reform, if it comes, will not put much of a dent in the region's unemployment rate, which is expected to remain close to 10 per cent through 2004. The other factor that has constrained growth in the euro zone has been the appreciation of the euro. The currency, which traded below U.S. 90 cents in 2001, is now trading at around U.S. \$1.15. The appreciation has come at an inopportune time because it has hurt export growth at a time when domestic demand has been very weak in the region. Exports are expected to expand by only 1.1 per cent this year. In 2004, the euro is not forecast to appreciate as quickly vis-à-vis the U.S. dollar and, consequently, exports should expand by 3.7 per cent.

Asia-Pacific

This populous region of the world appears to have recovered quickly from the SARS health crisis which threatened to paralyze economic activity only a few short months ago. Economic growth will likely hit 3 per cent this year and much the same growth is anticipated in 2004. China remains the fastest growing economy in the region mainly because of rapid export growth, a factor that some countries view as a serious threat. However, domestic demand is also growing in China and, as a result, the country is currently the largest importer of goods from Taiwan and South Korea. Unfortunately, Japan will continue to restrain overall growth in the region, although there are some signs of a potential rebound in Japanese economic activity.

The central banks of Japan, China, Taiwan, South Korea and Hong Kong hold about U.S. \$1.3 trillion in official reserves, most of them in dollar assets. This represents over 50 per cent of the global total. Since the beginning of 2002, Japan's reserves have increased by 36 per cent while China's have grown by 65 per cent. The Asians' demand for American assets is an attempt to stop their currencies from appreciating against the U.S. dollar; something that would hurt export potential. China and Hong Kong fix their currencies against the dollar while other countries, notably Japan, use heavy intervention to curtail the rise in their currencies. Intervention by the central banks in Japan and South Korea has resulted in an appreciation of the yen and won against the U.S. dollar by only 13 per cent since the start of 2002 versus the euro's appreciation of 25 per cent for the same time period. Currency intervention has resulted in a more gradual and orderly decline in the value of the U.S. dollar over the past 20 months.

Exchange Rates

Exchange Rate Comparison – October 2002 to October 2003 Per cent change in exchange rates between select countries:

	CANADIAN DOLLAR	U.S. DOLLAR	BRITISH POUND	EURO	JAPANESE YEN	TAIWANESE DOLLAR	AUSTRALIAN DOLLAR
Canadian dollar	--	19.4%	10.7%	0.0%	5.5%	15.7%	-5.5%
U.S. dollar	-16.2%	--	-7.3%	-16.2%	-11.6%	-3.1%	-20.8%
British pound	-9.7%	7.8%	--	-9.7%	-4.7%	4.5%	-14.6%
Euro	0.0%	19.4%	10.7%	--	5.5%	15.7%	-5.5%
Japanese yen	-5.2%	13.2%	5.0%	-5.2%	--	9.7%	-10.4%
Taiwanese dollar	-13.6%	3.2%	-4.3%	-13.6%	-8.8%	--	-18.3%
Australian dollar	5.8%	26.3%	17.1%	5.8%	11.6%	22.4%	--

Source: *The Pacific Exchange Rate Service*

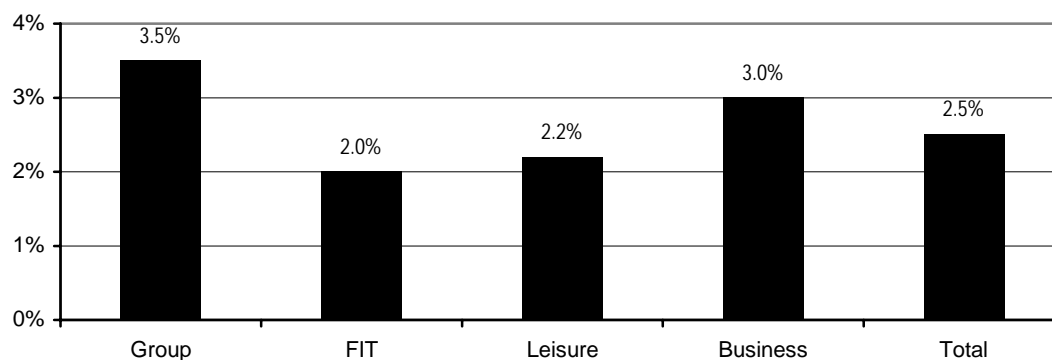
Domestic (Canada) Travel Outlook, Q1 2004

Economic Overview

The acceleration of Canada's economy is expected to be less robust and lag behind economic growth in the U.S. This factor should begin to put downward pressure on the Canadian dollar versus its U.S. counterpart early next year. The stalwarts of the near-term outlook are Canadian consumers. Unperturbed by the bizarre turn of events this year, consumers have remained active at the till, taking advantage of low interest rates and spending the money generated by the torrent of new jobs created last year. Back-to-back gains of 3.4 per cent in real consumer spending are forecast for this year and next. Meanwhile, the modest 1.7 per cent increase in real gross domestic product (GDP) in 2003 should yield to stronger 3 per cent growth in 2004.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004
Overnight Domestic Travel
(% change from previous year – same quarter)



Source: Q1 2004 Business Outlook System, Canadian Tourism Research Institute.

The Business Outlook—as indicated by Canadian travel suppliers and receptive agent bookings—suggests a 2.5 per cent growth in overall advance bookings for domestic travel for the first quarter of 2004, compared to the previous year.

According to *BO Monitor* participants, growth expectations are slightly more optimistic for domestic business travel (3%) than for leisure travel (2.2%); however, the anticipated increase in business travel is a welcome turnaround from the considerable declines experienced in the second and third quarters of 2003 in this segment.

Group leisure travel is expected to increase 3.5 per cent compared with the first quarter of last year, retaining its place as the strongest growth segment, while expectations for independent (FIT) leisure travel bookings (up 2%) continue to lag somewhat behind.

BO Monitor participants indicated that domestic travel growth expectations for the first quarter 2004 varied across Canada. The Ontario/Quebec region is expected to experience the strongest growth at 3.5 per cent, followed by Alberta/B.C. at 2 per cent. Domestic travel to Manitoba/Saskatchewan is predicted to remain on par with the previous year while Atlantic Canada should see a modest increase (1%).

Consumer Confidence and Travel Intentions, The Conference Board of Canada.

In comparison, there is little difference between this year's level of confidence in October (2003=122.8) versus 117.8 in October 2002. However consumer confidence has been recently trending higher this year—up by an average of 0.7 points over the three months leading to the October 2003 survey, compared to an average monthly loss of 1.5 points in 2002. This upward trend in confidence is an important indicator as we head into the travel reservation season of whether intentions will turn into actual trips. In addition, consumer confidence fell by an average of 1.90 points from October through December last year, due, in part, to rising uncertainty surrounding the war in Iraq. Plainly, the trend in consumer confidence declined during the most important booking months last year. While travel intentions appeared fairly strong for last winter, many actual trips did not materialize due to changes in the external environment.

Consumer Confidence (1991=100 Index)

	2003:07	2003:08	2003:09	2003:10
Consumer Confidence Index	120.6	118.9	121.8	122.8

Source: *The Conference Board of Canada.*

Meanwhile, the latest (September 2003) *Travel Intentions Survey* suggests domestic travel intentions for the winter are expected to remain solid. This is good news for the industry, which has come to rely increasingly on the domestic marketplace due to the ongoing fall-off of international travel markets. While we feel more Canadians will be influenced by a further appreciating Canadian dollar (since the time of the survey), we do not expect an off-setting decline in domestic travel plans. It is also worth noting that the outlook for the up-coming winter season is potentially even more promising than last year since economic conditions continue to improve, while last year's winter travel season was hampered by escalating uncertainty regarding the War in Iraq.

Overall, the results of our survey indicated 39.0 per cent of Canadians were likely or very likely to take a winter vacation this year—down marginally compared to 2002 (see Table 1).

Winter (November-APRIL) Vacation Intentions (Per cent of Canadians intending to take a Vacation)

	2003	2002
Winter Vacation Intentions (All Destinations)	39.0	42.3
Canada	19.4	19.6
US	8.2	9.0
Other International	10.7	13.0
Do Not Know/Refused	0.7	0.7

Source: *The Conference Board of Canada.*

The slight decline in intentions does not necessarily suggest fewer trips will occur this winter, but likely implies further evidence of the industry-wide trend of consumers taking a wait-and-see attitude towards travel planning and travel booking. Whereas in the past, travellers would plan their holidays three months in advance, now they typically book much closer (even within the month) to the time they intend to travel. Our survey confirms that the bulk of winter travel bookings are expected to occur in November and December—very close to the actual trips dates.

Summary Outlook for Q1 2004

According to *BO Monitor* participants, domestic travel is expected to increase 2.5 per cent in the first quarter of 2004. Growth expectations are slightly more optimistic for domestic business travel (3%) than for leisure travel (2.2%); however, the anticipated rebound in business travel is a welcome turnaround from the considerable declines experienced in this segment during the second and third quarters of 2003. Group leisure travel is expected to increase 3.5 per cent compared with the first quarter of last year, retaining the strongest pace of growth, while independent (FIT) leisure travel bookings (up 2%) continue their trend of lagging somewhat behind. Fortunately, overall domestic travel seems to be stabilizing after its dismal performance in the wake of the SARS outbreak and is showing signs of the recovery predicted for early 2004.

Results of the latest *Winter 2003 Travel Intentions Survey* by the Canadian Tourism Research Institute (CTRI) support the domestic travel growth forecasted by *BO Monitor* participants. Overall, the percentage of Canadians intending to take a domestic vacation this winter remains virtually unchanged compared to last year (19.4% in September 2003, compared with 19.6% in September 2002). However, improving economic conditions, rising consumer confidence and the absence of uncertainty generated last winter by the looming war in Iraq all help strengthen the likelihood that these intended trips will materialize. This year's survey responses also suggest further evidence of the growing trend of late booking patterns, with the bulk of winter vacation bookings expected to occur in November and December—close to the actual trip dates.

More Canadian travellers may be lured to the U.S. this winter by a stronger Canadian dollar, but this is not expected to off-set a significant portion of declared domestic travel plans, at least over the winter season. In the meantime, we believe that the Canadian dollar has reached its peak, with stronger economic growth in the U.S. weighing against further significant appreciation of the loonie.

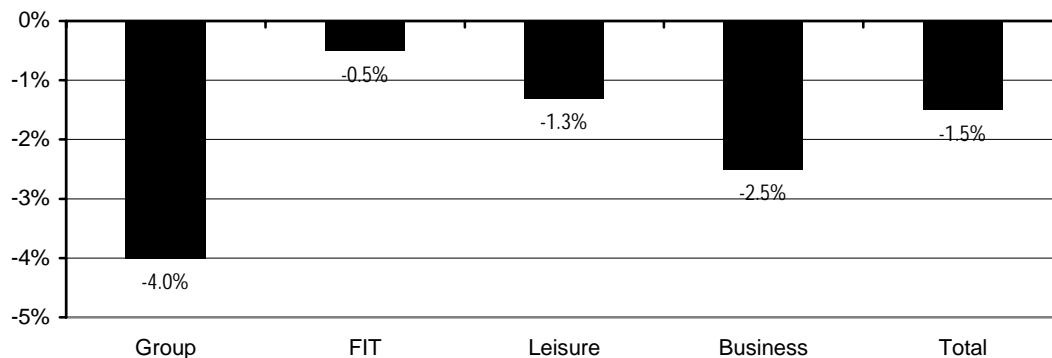
U.S. Travel Outlook, Q1 2004

Economic Overview

The economic recovery in the U.S. appears to have finally taken hold. According to the latest results, the U.S. economy grew at its fastest pace in 20 years during the third quarter of this year. In addition, it appears many American consumers took their tax rebate and spent it this summer. Over the last two years, U.S. productivity has expanded at an annual rate of more than 5 per cent—the fastest pace for a two-year period in more than 50 years. Unfortunately, the consequence of some of these more capital-intensive productivity gains (e.g. automatic check-in kiosks in airports) has been an erosion in jobs. Nevertheless, these productivity gains have led to higher wages in the jobs that remain and eventually, will create new jobs. The latest labour market figures indicate that new jobs are slowly materializing. The U.S. economy will continue to strengthen in 2004, with growth in real GDP expected to reach 3.8 per cent.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004
Overnight Person-Trips from the U.S. to Canada
(% change from previous year – same quarter)



Source: Q1 2004 Business Outlook System, Canadian Tourism Research Institute.

Unfortunately, the outlook for overall U.S. travel to Canada in the first quarter of 2004—as indicated by *BO Monitor* participants—suggests a decline of 1.5 per cent compared to last year. Independent (FIT) travel is expected to post the smallest drop (0.5 %), while overall leisure travel will decrease by 1.3 per cent, led by a 4 per cent drop in group bookings. Business travel is expected to do slightly worse than leisure travel, down 2.5 per cent compared with the previous year.

According to *BO Monitor* participants, Atlantic Canada is the Canadian region expected to see the largest decline in U.S. travel bookings (-3%) during the first quarter of 2004. Travel to Alberta/British Columbia is expected to fall by 2 per cent, while Ontario/Quebec and Manitoba/Saskatchewan each can expect a decline of 1 per cent.

BO Monitor participants feel that the continuing appreciation of the Canadian dollar and the lingering effects of the SARS outbreak have both negatively impacted bookings for the first quarter of 2004. These factors have affected groups and business travel in particular, since these bookings are typically made much further in advance, when SARS would still have been a factor. Meanwhile, the stronger dollar has made travel to Canada less economical, acting as a further deterrent to bookings in these two segments. While not probed specifically, *BO Monitor* participants indicated that U.S. travel to Canada is expected to pick up significantly in the second and third quarters of 2004.

U.S. Consumer Confidence and Travel Intentions Survey, The Conference Board Inc.

The Conference Board's *Consumer Confidence Index*, which has been fluctuating since May, increased in October. The Index now stands at 81.1 (1985=100), up from 77.0 in September. The Present Situation Index increased to 66.8 from 59.7. "After declining for five consecutive months, the Present Situation Index reversed course in October," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "A more favorable job market was a major factor in the turnaround. And, the belief that this trend will continue has boosted expectations. With the holiday season around the corner, this improvement in consumers' spirits is a good omen for upcoming retail sales."

Consumer Confidence (1985=100 Index)

	JULY 2003	AUGUST 2003	SEPTEMBER 2003 (R)	OCTOBER 2003 (P)
Consumer Confidence Index	77.0	81.7	77.0	81.1
Present Situation	63.0	62.0	59.7	66.8
Expectations	86.3	94.9	88.5	90.7

Source: The Consumer Research Center, The Conference Board Inc. U.S.

Meanwhile, the latest bimonthly U.S. Travel Intentions survey by The Conference Board Inc. reported that overall U.S. travel intentions in October of 2003 increased for a second consecutive time. The latest data indicates that U.S. travel intentions were up, while foreign destinations slipped a little. The survey reported that the percentage of Americans who intend to travel outside the U.S. in the next six months decreased in June to 8.2 per cent after an increase in August. However, compared with last year in October, foreign travel intentions are up slightly (+0.2 percentage points) while domestic travel intentions are down 1.8 percentage points.

Vacation Intentions (Seasonally adjusted) (%)

	OCT 2002	FEB 2003	JUN 2003	OCT 2003 (P)
Vacation Intended	47.3	42.7	41.8	46.1
U.S.	40.1	35.5	36.2	38.3
Foreign	8.0	8.7	7.2	8.2

Source: The Consumer Research Center, The Conference Board Inc., U.S.

U.S.-to-Canada Air Capacity, OAG Worldwide

Because the ability to get to a destination is an integral part of planning and taking a trip, the level of air service offered between the U.S. and Canada was studied. To accomplish this task, a product from OAG Worldwide, called OAG Max—which shows flights worldwide—was used. Air access is important since the growth for specific travel segments is linked to improvements made with respect to air access.

Seats Available for Travel from the U.S. to Canada (Q1 – January to March)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	3,700,133	3,712,993
Per cent change	N/A	0.3%

Source: OAG Worldwide

The number of seats available (as of November 2003) for direct U.S. to Canada air travel during the first quarter of 2004 has been increased by a nominal 0.3 per cent compared with the same period in 2003. Therefore air capacity is not expected to deter many U.S. travellers to Canada in the first quarter. However, according to OAG, Air Canada's share of direct air capacity during the first quarter of 2004 is expected to be 43.1 per cent, down slightly from the 45.0 per cent share reported during the first quarter of 2003.

Summary Outlook for Q1 2004

Unfortunately, *BO Monitor* participants anticipate that overall U.S. travel to Canada in the first quarter of 2004 will slip 1.5 per cent compared to last year. Independent (FIT) travel is expected to post the smallest drop (0.5 %), while overall leisure travel will decrease by 1.3 per cent, hindered by a 4 per cent drop in group bookings. Business travel is expected to do slightly worse than leisure travel, down 2.5 per cent compared with the previous year.

BO Monitor participants feel that the continuing appreciation of the Canadian dollar and the lingering effects of the SARS outbreak have both negatively impacted bookings for the first quarter of 2004. These factors have affected groups and business travel (i.e. meetings and conferences) in particular, since these bookings are typically made much further in advance, when SARS would still have been a factor. Meanwhile, the stronger dollar has made travel to Canada less economical, acting as a further deterrent to bookings in these two segments. Fortunately, U.S. bookings to Canada are already looking much more positive for the second and third quarters of 2004.

It is possible that the outlook for the first quarter is healthier than indicated, particularly for FIT bookings, in light of the ongoing "wait-and-see" trend among consumers, when it comes to planning and booking their vacations. The surge in economic growth expected in the U.S. during the second half of 2003 should help maintain the momentum of climbing consumer confidence, which could sway more Americans to spend money on a winter vacation. There are already signs that improving economic prospects has initiated a rebound in business travel, at least in terms of volume. However, like their leisure counterparts, a main consideration in U.S. corporate travellers' decisions will continue to be competitive prices.

Mexico Travel Outlook, Q1 2004

Economic Overview

Mexico's economy is poised to accelerate at its fastest pace in three years. The latest estimate from Consensus Forecasts sees a 3.6 per cent boost to real GDP in 2004. These gains are predicated spillover effects of the strengthening American economy. Consequently, according to the Wall Street Journal, Mexico City's main stock index is flirting with historical highs, the country's bond spreads are at record lows, and the local currency is starting to bounce back. The head of economic research at the Central Bank of Mexico said that record low interest rates, persistently low inflation and a boost in consumer credit in recent years have kept consumption relatively stable.

Tourism Trends

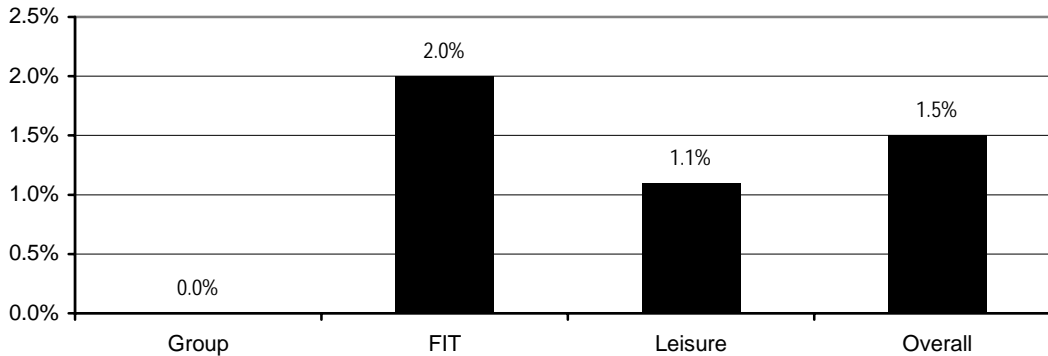
The Canadian Tourism Commission (CTC) foreign office in Mexico reported that Mexican travellers have recently shown a preference for domestic and South American vacation destinations. The U.S. is losing a portion of the Mexican travel market due to the negative reaction of Mexican travellers to the American government's recent changes to transit and visa programs, changes which were perceived to be too harsh.

The CTC also reported that a perceived lack of direct air capacity to Canada has become an issue with respect to Mexican visitors to Canada. That, and the high price of airfare to Canada are prompting many Mexican travellers to choose European destinations over Canadian ones. On a more positive note, the CTC observed that despite the fear of the SARS outbreak earlier this year, travel to Canada in June appeared to be down only 3 per cent compared with last year. British Columbia was the most popular destination this past summer.

According to a recent International Business Traveller survey by American Express, only 35 per cent of Mexican business travellers polled expect to increase their level of business travel in the next year. More than half of the Mexican group (56%) expected to use cheaper, non-refundable air tickets for their corporate travel—the highest percentage of the eight countries included in the survey—and 40 per cent of the Mexican respondents indicated they planned to increase their use of low-fare carriers. Furthermore, 51 per cent of the Mexicans polled believed that web based technologies offered an adequate substitute for face-to-face meetings (the sole majority out of the eight countries involved in the survey).

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004 Overnight Person-Trips from Mexico to Canada (% change from previous year – same quarter)



Source: Q1 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall leisure travel from Mexico in the first quarter of 2004—as indicated by *BO Monitor* participants—is for a steady market growth of 1.5 per cent. This Independent (FIT) leisure travel is expected to increase by 2 per cent, while group leisure travel remains on par with the previous year, resulting in overall leisure travel gains of 1.1 per cent.

Mexico-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Mexico is expected to jump 32.3 per cent during the first quarter of 2004, compared with the same period in 2003, boosted by a surge in Air Canada’s capacity on these routes. Even if only some of these gains hold, it appears that air capacity will not represent a major constraint for Mexican travel to Canada. According to OAG, Air Canada’s share of direct air capacity during this period is expected to be 62.4 per cent—up from 53.0 per cent the previous year.

Seats Available for Travel from Mexico to Canada (Q1–January to March)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	77,600	102,676
Per cent change	N/A	32.3

Source: OAG Worldwide.

Summary Outlook for Q1 2004

Overall, *BO Monitor* participants expect leisure travel from Mexico to increase 1.1 per cent during the first quarter of 2004. FIT travel is expected to outpace group travel, increasing by 2 per cent, while group bookings remain on par with the same quarter of 2003. Supporting growth expectations is the forecasted acceleration of the Mexican economy, as well as the continued growth in direct air capacity.

Brazil Travel Outlook, Q1 2004

Economic Overview

Brazil's economy appears to be solidly rebounding. At 3 per cent, the latest Consensus Forecast for Brazil's economic growth in 2004 will represent its fastest pace in four years. The foundations for the acceleration are built in part by increasing confidence outside and inside Brazil. The country's risk premium has fallen to a five-year low. Meanwhile, inside Brazil, output rose across a broad spectrum of sectors, but particularly important were the bursts in the production of capital goods, signaling renewed investment, and of consumer durables, signaling rebounding consumer demand.

Tourism Trends

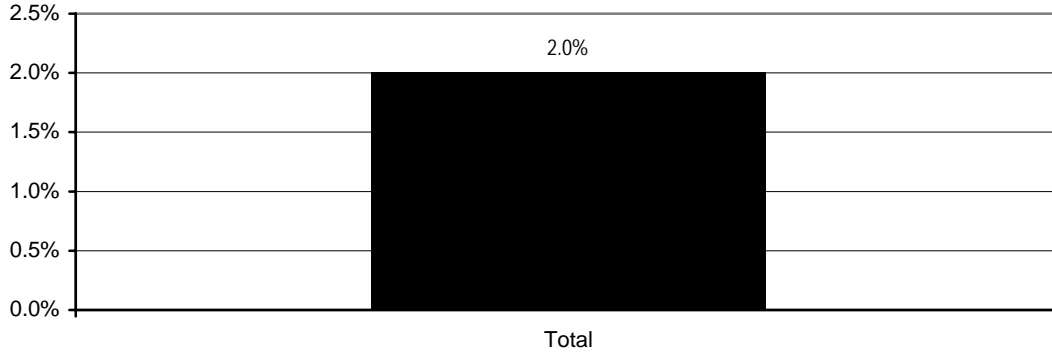
The Travel Industry Association of America (TIA) reported that outbound travel from Brazil declined by 7.6 per cent in 2002 over the previous year, and is expected to fall another 9.8 per cent in 2003. World events, such as SARS and the war in Iraq have contributed to the decline predicted for 2003, combined with a slide in Brazil's economy due to waning consumer spending and rising inflation. Decreased wages and rising unemployment has hindered Brazilian consumption. Fortunately, pent up travel demand generated an increase in international travel once the war in Iraq and SARS became less of an issue. Still, Brazilian travellers have been favouring European vacation destinations. The stricter visa requirements in the U.S. have deterred Brazilian visits to that country, making Europe even more appealing for leisure travellers.

Dow Jones recently reported that Brazil's two largest carriers, Varig and TAM raised fares in early September in response to increasing travel demand experienced in July and August. Traffic rose to the highest levels all year in July, and declined only slightly in August. Airline analysts are reporting an increase in business travel, spurred on by Brazil's improving economy, and leisure travel is expected to follow suit by the end of 2003.

Air Canada also announced in September that it was stepping up its air service to South America, in response to the recent changes by the U.S. government regarding visa requirements for travellers flying through American airports. Since the U.S. announced its suspension of the programs allowing Latin American and Asian passengers to stop over in U.S. airports without visas, the carrier has experienced an increase in travel demand to and from South America.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004 Overnight Person-Trips from Brazil to Canada (% change from previous year – same quarter)



Source: Q1 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from Brazil in the first quarter of 2004—as indicated by *BO Monitor* participants—suggests a solid increase of 2 per cent, compared to last year. Unfortunately, there were not enough responses to break down bookings by segment to ensure confidentiality.

Brazil to Canada Air Capacity, OAG Worldwide

Direct air capacity between Brazil and Canada is expected to climb by 11.1 per cent in the first quarter of 2004, compared to the same period in 2003. As a result, it is not expected to negatively affect travel between the two countries. According to OAG, Air Canada accounts for 100 per cent of the direct air capacity during this period.

Seats Available for Direct Travel from Brazil to Canada (Q1–January to March)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	15,264	16,960
Per cent change	N/A	11.1

Source: OAG Worldwide.

Summary Outlook for Q1 2004

BO Monitor participants anticipate that overall travel from Brazil to Canada will climb steadily through the first quarter of 2004, up 2 per cent compared with the previous year. Fortunately, after slipping into a recession in the first half of 2003, Brazil's economy appears to be recovering—one signal has been the recent increase in consumer demand. Brazilian airline analysts are reporting an increase in business travel, spurred on by Brazil's improving economy, and leisure travel is expected to follow suit by the end of 2003.

U.K. Travel Outlook, Q1 2004

Economic Overview

Hoping to slow the tide of rising consumer debt, the Bank of England raised interest rates this fall. The U.K. has enjoyed uninterrupted economic growth, rising employment levels and stable inflation since 1992. According to the Wall Street Journal, consumer spending has also been supported by homeowners who have taken out loans secured on their properties. However, the U.K.'s housing market is looking like a bubble ready to burst. Still, Consensus Forecast expects the U.K. economy will grow by 2 per cent in 2003 and a further 2.6 per cent in 2004.

Tourism Trends

Leisure travel company First Choice reported in a recent trading update that bookings for its 2004 winter package holidays appear to be strong, continuing the growth trend the company has experienced since this past summer. First Choice indicated that booking lead-times continue to be short, noting that this may become a permanent feature of the travel industry.

BTI UK, a business travel management company recently revealed that within its own client base, business travel volume was improving, although companies were increasingly focussed on cutting costs. Up to 90 per cent of BTI's clients include discount carriers in their travel policy, while 79 per cent said they encouraged employees to book air travel at the last minute in order to get the best available fare.

British Airways confirmed that it closed the first-class cabins on six of its long-haul routes, including Heathrow–Montreal, because of the lack of demand in the premium travel market. The airline described the future of its first class service as tenuous, albeit still profitable on about fifteen routes.

The Canadian Tourism Commission's (CTC) foreign office in the U.K. reported that early sales of ski holidays are up 15 per cent compared with the same period last year. The 2003 Ski & Snowboard Industry Report indicated that North America's share of the U.K.'s ski vacation market is 5.8 per cent.

According to a recent American Express survey, most "affluent" British consumers (in the top quarter of the income range) enjoy spending money on holidays and intend to maintain or increase their travel budget in the next year. Of those polled, 76 per cent said they enjoy indulging in holiday/pleasure travel and 88 per cent of travellers indicated that their travel spending will remain the same or increase in the next twelve months.

A recent report released by Mintel, a market research company, indicates that the British outbound travel market is expected to continue growing—in fact, the study predicts that British international travellers will outnumber American outbound travellers by 2015, putting the U.K. second behind Germany, and relegating the U.S. to third place. However, the U.S. is forecasted to remain ahead of the pack in terms of tourism expenditures.

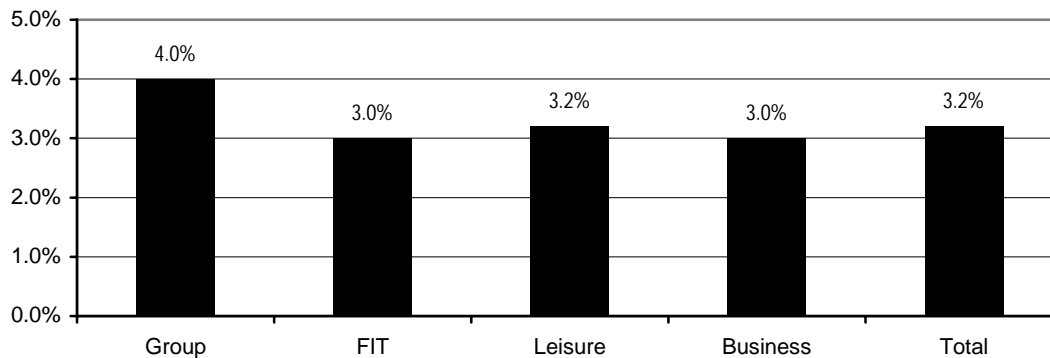
Market Overview

According to U.K. tour operators surveyed by the CTC, sales of winter products in Canada are expected to be up 5 per cent compared with last year. On the whole, air capacity was not identified as a hindrance in selling Canadian trips for this period. However, the increasing value of the Canadian dollar has made Canadian products less economical, and this factor is expected to have a slightly negative effect on U.K. travel to Canada.

The strongest sales trend appears to be bookings for couples with no package. The tour operators also reported that the most popular Canadian destination for the first quarter of 2004 was Alberta, followed closely by British Columbia and Ontario.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004
Overnight Person-Trips from the U.K. to Canada
(% change from previous year – same quarter)



Source: Q1 2004 Business Outlook System, Canadian Tourism Research Institute

Fortunately, the outlook for overall travel from the U.K. in the first quarter of 2004—as indicated by *BO Monitor* participants—has improved significantly since the last survey. Leisure travel is expected to climb 3.2 per cent, compared with the previous year, led by a 4 per cent increase in group travel, and independent (FIT) bookings should rise 3 per cent. Business travel is predicted to post a solid growth in this period as well (up 3.0%). *BO Monitor* participants indicated that geo-political concerns are still a factor for U.K. travellers. If more conflicts arise, this could negatively impact British bookings to Canada.

U.K. travel to Ontario/Quebec and Alberta/B.C. is expected to increase by 4 per cent and 2 per cent respectively. Unfortunately, these were the only regions of Canada where responses could ensure confidentiality.

U.K.-to-Canada Air Capacity, OAG Worldwide

The number of direct seats available (as of November 2003) for travel from the U.K. to Canada during the first quarter of 2004 is expected to jump 10.7 per cent compared with the same period a year earlier. Fortunately, this should ensure that air capacity does not represent a constraint for travel from the U.K. to Canada in the first quarter of 2004. According to OAG, Air Canada's share of direct air capacity during this period is expected to be 56.3 per cent, down from 60 per cent the previous year.

**Seats Available for Direct Travel from the U.K to Canada
(Q1–January to March)**

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	336,823`	372,990
Per cent change	N/A	10.7

Source: OAG Worldwide

Summary Outlook for Q1 2004

Fortunately, according to *BO Monitor* participants, the outlook for overall travel from the U.K. in the first quarter of 2004 has greatly improved since the last quarter. Leisure travel is expected to climb 3.2 per cent, compared with the previous year, led by a 4 per cent increase in group travel. Business travel is predicted to post a solid growth in this period as well (up 3.0%). However, *BO Monitor* participants indicated that geo-political concerns are still a factor for U.K. travellers—if more conflicts arise, this could impact British bookings. Tour operators surveyed by the CTC have noted that the increasing value of the Canadian dollar has made Canadian products less economical, and this factor could present an additional challenge for travel growth.

Meanwhile, travel suppliers in the U.K. are reporting steady growth in overall sales for winter holiday packages, which are expected to gain further momentum as the winter approaches. Booking lead-times continue to be short, and many believe this could become a permanent feature of the travel industry, at least in the U.K. Business travel continues to grow as well, although companies appear to be cutting their corporate travel expenditures through a combination of lower fares, less travel, and downgrading. British Airways was recently forced to close the first-class cabins on a number of long-haul routes, including Heathrow-Montreal, due to lack of demand. Fortunately, overall air capacity does not appear to represent a constraint for U.K. travel to Canada.

France Travel Outlook, Q1 2004

Economic Overview

The French economy is poised for stronger growth in 2004. Consensus Economics suggests that overall real GDP is forecast to grow by 0.2 per cent in 2003 and 1.6 per cent in 2004. Supporting this conservative outlook is the latest forward-looking Conference Board Inc. Leading Indicators Index. The Leading Index has been basically flat since early this year. However, this still represents an improvement from the significant decline witnessed during the second half of 2002. A further tax cut is also expected in 2004 which should help raise the spirits of French consumers.

Travel Trends

The Canadian Tourism Commission's (CTC) foreign office in France reported that last-minute booking trends continued through the summer season. Sales were down slightly in the third quarter (travel agent transactions declined 3.9% in July over the previous year) but on-line bookings surged by 40 per cent during this period. This ranked France just behind the U.K. in terms of e-tourism in Europe.

In a landmark deal signed in mid-October, Air France and KLM Royal Dutch Airlines finalized their transaction agreement to merge, although each carrier will continue flying under its own brand name. OAG reported that the newly created airline will rank as the largest in Europe, with 25 per cent more scheduled flights than its closest rival, Lufthansa.

Meanwhile, Air France's passenger traffic continued to improve throughout the third quarter of 2003. The airline attributed its positive performance to a continued recovery in long-haul traffic and a substantial improvement in international medium-haul traffic. Air France also noted that North American traffic looked particularly positive, up 10.2 per cent in August compared with the previous year.

The French government announced that it was increasing its tourism promotional budget by 40 per cent (EUR 4 million) for 2003 and 2004 in order to boost its lagging tourism industry. With foreign visits down significantly this year, the additional funding will be used to create a France Quality Plan to promote France globally as a vacation destination.

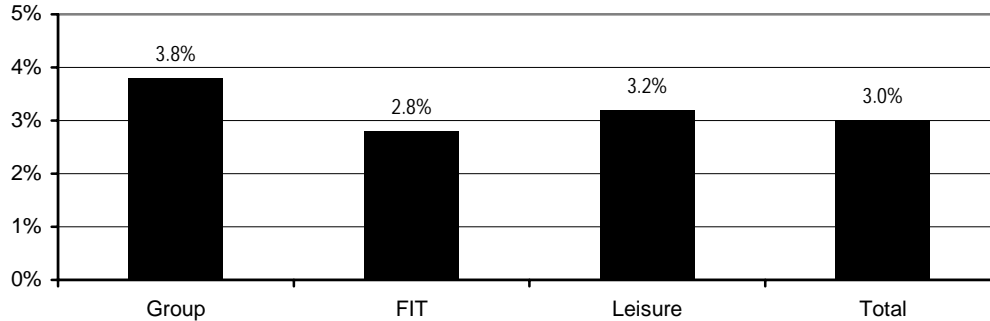
Market Overview

According to the French tour operators surveyed by the CTC, most expect their sales for travel to Canada during the first quarter 2004 to be approximately the same as last year, although one operator reported particularly strong growth for this period. Operators were mixed regarding the possibility of air capacity presenting a problem in selling Canadian products during this quarter, as well as the effect of the strong Canadian dollar on sales.

The strongest sales trend appears to be individual and group bookings with packages. Similar to previous quarters, tour operators indicated that interest remained focused on Quebec (80% of all sales) followed by Ontario and Alberta/BC (10% each of all sales). However, Quebec was singled out as representing a region with further potential for sales development. Not surprisingly, the most popular type of packages purchased were outdoor/sports and winter touring.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004 Overnight Person-Trips from France to Canada (% change from previous year – same quarter)



Source: Q1 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from France in the first quarter of 2004—as indicated by *BO Monitor* participants—is for an increase of 3.0 per cent, compared with the same period last year. Group travel is expected to experience the most growth, up 3.8 per cent, while independent (FIT) travel is expected to grow 2.8 per cent. Overall a 3.2 per cent improvement in leisure travel is expected.

France-to-Canada Air Capacity, OAG Worldwide

Direct air capacity is expected to increase by 3.9 per cent during the first quarter of 2004, indicating that air capacity should not represent a concern for travel between France and Canada during this period. According to OAG, Air Canada’s share of direct air capacity during the first quarter of 2004 is expected to be 37.4 per cent—up slightly from the 36.5 per cent share held during the previous year.

Seats Available for Direct Travel from France to Canada (Q1–January to March)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	118,111	122,701
Per cent change	N/A	3.9

Source: OAG Worldwide

Summary Outlook for Q1 2004

BO Monitor participants appear to be reasonably optimistic about travel from France during the first quarter of 2004. Overall, they expect travel to increase 3 per cent compared with a year earlier. Group travel is expected to experience the most growth, up 3.8 per cent, followed by the FIT segment (up 2.8%), resulting in an overall 3.2 per cent improvement in leisure travel.

While slightly less optimistic than *BO Monitor* participants, sales reports by French tour operators support this outlook, by and large, noting that individual and group packages to Canada represent the strongest sales trend for the first quarter 2004. Direct air capacity to Canada is expected to increase 3.9 per cent during this period, which should help facilitate the anticipated growth in travel demand.

Germany Travel Outlook, Q1 2004

Economic Overview

Fortunately, there appears to be some positive economic signals coming out of Germany. A rebound in the global economy is translating into improved readings in both Germany's Ifo index as well as the Conference Board's Leading Index. The Board's Leading Index increased for the third consecutive month in August and has now increased at about a 3.5 percent annual rate from its recent low in March. The latest increase makes it more likely that the long decline in the Leading Index over the preceding three years has come to an end. However, with German unemployment still above 10 per cent, even an expected tax cut in 2004 may not yield a marked increase in consumption. Still, Consensus Economics expects real GDP in Germany to expand by 1.6 per cent in 2004.

Tourism Trends

The Canadian Tourism Commission's foreign office in Germany reported that bookings to Canada for the winter season were rising, particularly for individuals (rather than groups). The general consensus among tour operators is that overall bookings will recover in the second half of this year, rebounding towards "moderate growth" for the German tourism industry in 2004.

Thomas Cook AG recently reported a drop of 11.6 per cent in third quarter sales for the period ending July 31, 2003, reflecting the repercussions of the war in Iraq and the SARS outbreak on the German-based travel company. Booking prices were down an average of 5.4 per cent, and despite extensive discounting, the company reported that consumers were not motivated to purchase holidays. However, the company commented that winter bookings were looking much more positive, with current numbers 5.4 per cent ahead of what they were last year. Despite the upturn, the company reported that it plans to cut capacity in the German leisure airline market and increase price incentives for early bookings to reduce the number of less-profitable, last-minute offers.

TUI Group, one of the largest tour operators in Europe, reported that their tour bookings were clearly recovering. The decline in their summer 2003 sales narrowed to 5 to 6 per cent below 2002 levels, down from the 15 per cent shortfall reported in May. Winter bookings were already looking positive and are expected to reach last year's levels by the end of September 2003.

Lufthansa German Airlines reported that the weak global economy continued to hamper its performance in the third quarter of 2003, along with lingering fallout from the SARS epidemic and the war in Iraq. However, year-to-date passenger traffic up to September 30, 2003 is 1.4 per cent higher than the previous year.

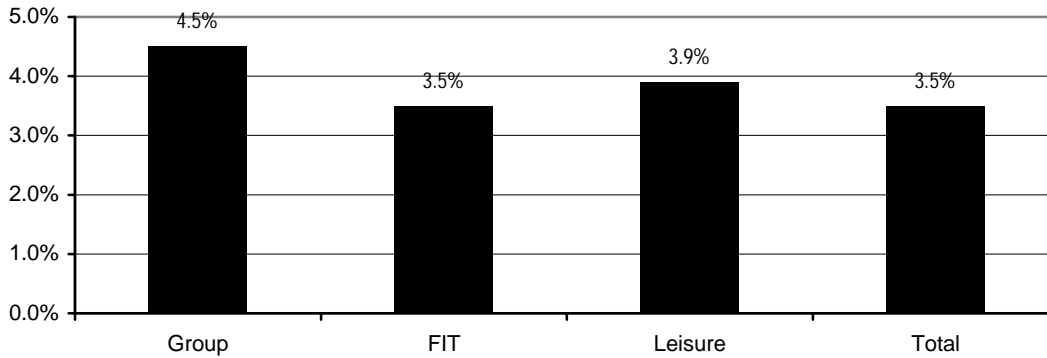
Market Overview

The majority of German tour operators surveyed by the CTC reported that bookings for the first quarter of 2004 are expected to increase 3 to 12 per cent compared with the previous year. Most indicated that air capacity would not present a problem, and the exchange rate was seen as having a positive effect on travel bookings to Canada.

A number of sales trends appeared to be emerging among surveyed tour operators for the first quarter 2004: individual, group and couple packages were all identified as selling particularly well. B.C. and Alberta continued to be the most popular regions in Canada to visit, and the top-selling product clusters were winter/ outdoor/sports, followed by touring and cities/resorts.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004 Overnight Person-Trips from Germany to Canada (% change from previous year – same quarter)



Source: Q1 2004 Business Outlook System, Canadian Tourism Research Institute

Fortunately, the outlook for overall travel from Germany in the first quarter of 2004 has turned around from previous quarters. *BO Monitor* participants indicated that overall travel is expected to increase 3.5 per cent, compared with the same quarter of 2003. German group travel is expected to increase the most (4.5%), followed by FIT (3.5%).

Germany-to-Canada Air Capacity, OAG Worldwide

According to the latest data from OAG, direct air capacity from Germany is expected to rise by a significant 18.6 per cent during the first quarter of 2004, compared to the previous year. This will help to restore some of the capacity that was previously cut on these routes, and will help facilitate a growth in the demand for travel to Canada. According to OAG, Air Canada's share of direct air capacity during this period is expected to be 70.5 per cent, up from 67.1 per cent the previous year.

Seats Available for Direct Travel from the Germany to Canada (Q1–January to March)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	133,556	158,387
Per cent change	N/A	18.6

Source: OAG Worldwide

Summary Outlook for Q1 2004

In the first quarter of 2004, *BO Monitor* participants suggest that overall travel from Germany will increase 3.5 cent. Group travel will show the largest increase (up 4.5%) driving a 3.9 per cent growth in overall leisure travel, compared with the previous year.

Fortunately, the German economy appears to be recovering, albeit at a slow pace. Although consumer spending is not expected to make a significant comeback in the short term, tour operators are reporting a recent rise in winter bookings, rebounding towards “moderate growth” for the German tourism industry in 2004. A substantial increase in direct air capacity to Canada (up 18.6%) will help restore some of the capacity that was previously cut on these routes, and will help facilitate a growth in the demand for German travel to Canada.

Italy Travel Outlook, Q1 2004

Economic Overview

The Italian economy is expected to lag the Eurozone this year and next. According to Consensus Economics, Italy's economy should increase by 1.5 per cent in 2004 versus a 1.7 per cent gain across the Eurozone. Unfortunately, the Italian government has little room to stimulate its economy, with monetary policy in the hands of the (conservative) Eurozone, and a rising public deficit gives it practically no room for increased spending or tax cuts. Nevertheless, there are prospects of tax cuts in 2004.

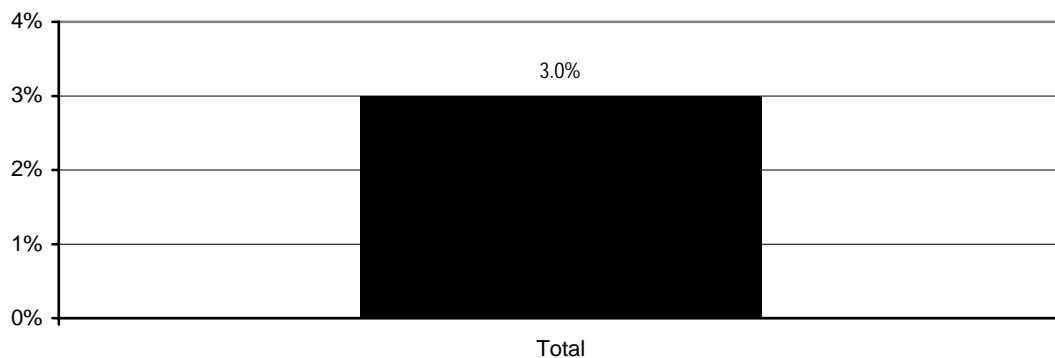
Tourism Trends

The Canadian Tourism Commission's foreign office in Italy reported that outbound tourism dropped 1 per cent this summer, with significant decreases in travel to Canada, the U.S. and Asia. July and August's outgoing figures were more positive, but will not make up for the decline seen in the months before July. With temperatures at the highest levels seen in 200 years, most Italian travellers were prompted to take their vacation at the beach (70 per cent) or in the mountains (17 per cent). Overall summer travel to domestic destinations climbed by 25 per cent.

According to a recent survey by American Express of affluent consumers in Italy, Australia, Canada, Mexico and the U.K., Italians were the group of respondents least likely to count holiday/pleasure travel as one of their favourite indulgences. Of the Italians polled, less than half (43%) indicated that they like to indulge in leisure travel, although 42 per cent said they planned to increase their spending on vacations in the next year. Italians were also the least optimistic when it came to personal finances; only 21 per cent expect their household income to increase or significantly increase in the short term, while 61 per cent expect it will remain the same.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004
Overnight Person-Trips from Italy to Canada
(% change from previous year – same quarter)



Source: Q1 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from Italy in the first quarter of 2004—as indicated by *BO Monitor* participants—is for an increase of 3 per cent compared with the same quarter last year. This comes on top of a 9 per cent increase seen in the first quarter of 2003. Unfortunately, not enough responses were obtained to break down travel segments and still maintain confidentiality.

Italy-to-Canada Air Capacity, OAG Worldwide

Direct air capacity to Canada is expected to plummet by 51.7 per cent in the first quarter of 2004, compared with the same quarter a year ago. This is mainly due to Air Canada's recent cancellation of its direct service to Italy. This recent development could represent a significant constraint for travel to Canada during this period. According to OAG, Alitalia's share of direct air capacity during this period is 100 per cent.

**Seats Available for Direct Travel from Italy to Canada
(Q1-January to March)**

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	34,356	16,590
Per cent change	N/A	-51.7

Source: OAG Worldwide.

Summary Outlook for Q1 2004

BO Monitor participants have indicated that travel to Canada from Italy is expected to grow by 3 per cent in the first quarter of 2004, compared with 2003, building on the 9 per cent rise in travel witnessed during the first quarter of 2003. This comes as great news following the significant decline in Italian visitors to Canada that followed the SARS outbreak, which affected bookings through to the end of 2003. Unfortunately, the decline in direct air service from Italy over the quarter could represent a significant constraint.

Netherlands Outlook, Q1 2004

Economic Overview

The Netherlands is by most accounts the weakest economy in Europe. Consensus Economics expects the economy to contract by 0.7 per cent this year before posting growth of 1.1 per cent in 2004. Dutch enterprises are now going through some tough industrial restructuring and as a result, the unemployment rate has been rising fast. As a result, both consumer confidence and consumer spending remain quite weak. While the Consensus Forecast for consumption next year suggests growth of 0.8 per cent, the Dutch Bank ING anticipates a 0.2 per cent decline.

Tourism Trends

The Canadian Tourism Commission's (CTC) foreign office in the Netherlands reported signs of improvement in the third quarter of 2003, with ticket sales stabilizing after a significant drop in the second quarter. Aggressive price wars among Dutch charter companies have resulted in rock-bottom prices to the Caribbean and other tropical destinations for winter travel packages—these are proving to be popular among price-conscious Dutch travellers. Although consumer confidence remains down, it showed sparks of recovery in August, prompted by slowly building optimism regarding the economic outlook.

The CTC also reported that the role of traditional travel agencies is being supplanted by increasing interest in tourism web sites. For this reason, many tour operators are focussing on improving their web sites to attract more consumers, and using them to feature vacation package discounts.

KLM Royal Dutch Airlines reported that passenger revenues decreased 11 per cent during its second quarter ending September 30, 2003, as a result of a 3 per cent drop in passenger traffic and an 8 per cent fall in yields (including currency effects). According to the airline, these results reinforce the need to implement structural cost-saving measures, noting that the industry outlook remains "fragile." Traffic on its Asia/Pacific routes has almost fully recovered and its load factor was virtually flat with the previous year. Unfortunately, traffic on North Atlantic routes is still significantly lower, down 10 per cent compared with September 2002, primarily on Canadian destinations. Overall, capacity on these routes has been cut by 12 per cent.

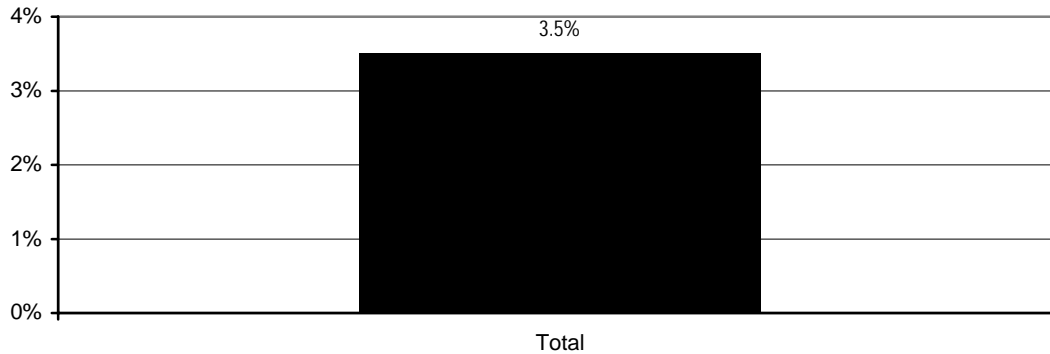
Market Overview

The consensus among tour operators surveyed by the CTC suggests that sales for the first quarter of 2004 will be on par or slightly higher than the previous year. Air capacity was not identified as representing a problem in selling Canadian products during this period and survey respondents were mixed regarding the affect of the exchange rate (euro versus the Canadian dollar) on sales.

The strongest sales trend identified by Dutch tour operators was couples travelling without a package. Survey respondents also indicated that interest was mainly focused on British Columbia and Alberta, followed by Ontario and Quebec. However, the Yukon and Maritime provinces were both identified as Canadian regions representing potential for tourism development. The most popular package type for the first quarter of 2004 appeared to be touring, followed by nature, cities/resorts, outdoor/sports and winter (in that order).

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004
Overnight Person-Trips from the Netherlands to Canada
 (% change from previous year – same quarter)



Source: Q1 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from the Netherlands in the first quarter of 2004—as indicated by *BO Monitor* participants—is for an increase of 3.5 per cent, compared with last year. This follows a 3.8 per cent increase in overall visits recorded during the first quarter of 2003. Unfortunately there were not enough responses to break down bookings by segments to ensure confidentiality.

Netherlands-to-Canada Air Capacity, OAG Worldwide

According to OAG, direct air capacity is once again expected to decrease significantly during the first quarter of 2004, dropping by 23.9 per cent compared with the previous year. Unfortunately, this decrease could represent a barrier to travel from the Netherlands to Canada in that quarter. According to OAG, KLM Royal Dutch Airlines is expected to account for 100 per cent of the direct air capacity during this period.

Seats Available for Direct Travel from the Netherlands to Canada (Q1-January to March)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	80,012	60,854
Per cent change	N/A	-23.9

Source: OAG Worldwide

Summary Outlook for Q1 2004

BO Monitor participants anticipate that overall travel from the Netherlands will climb 3.5 per cent during the first quarter of 2004, on top of the 3.8 per cent growth posted the previous year. Although direct air capacity is expected to decline substantially during this period (-23.9%), Dutch tour operators surveyed by the CTC reported that they do not anticipate this will hinder the expected growth in travel demand.

In fact, many Dutch tour operators expect their Canadian bookings in the first quarter of 2004 to improve over the previous year, singling out travel by couples (without a package) as a significant sales trend. Interest has mainly been focused on British Columbia and Alberta, followed by Ontario and Quebec.

Japan Travel Outlook, Q1 2004

Economic Overview

There are now some clear positive signs that the Japanese economy may have turned the corner and is emerging from years of lacklustre performance. This year and next should represent the strongest economic growth in over four years, according to Consensus Economics. There have been false starts before in Japan, but by all accounts this one is real. As confidence in the economic recovery builds, it is expected the mood of Japanese consumers will become more positive. The latest poll (November 8th) conducted by the Economist magazine sees the Japanese economy expanding by 2.6 per cent in 2003 and a further 1.8 per cent in 2004. However, a concern for the Japanese economy is controlling the appreciation of the yen.

Tourism Trends

The Canadian Tourism Commission's foreign office in Japan reported that the Japanese outbound market was still cautious as a result of lingering concerns about SARS but was expected to show signs of recovery by October or November of 2003. Bookings for trips to see Canada's fall colours were strong and Air Canada reported nearly sold-out flights to Canada from Tokyo and Osaka during September and October.

According to the Australian Tourist Commission (ATC), reservation trends for overseas package tours improved through the summer, although overseas bookings for the peak period of June through August were at half the levels witnessed in 2002. Meanwhile, domestic package tours grew substantially, peaking in August at 22 per cent over last year's figures. The ATC also noted that Japan's overseas market was down 22.9 per cent in the first half of 2003, with full-year forecasts predicting an overall drop of 20 per cent compared with 2002.

New passport rules announced by the U.S. government, effective October 2004, could severely impact Japanese travel to North America next year. According to the new rules, travellers from any country eligible for the U.S. Visa-Waiver Program, including Japan, will have to provide a machine-readable passport if they wish to enter the country without a visa. Furthermore, the U.S. will also require any passports issued after October 2004 to have biometric identifiers (i.e. digitally encoded with information about the person's facial features or fingerprints) to be accepted in lieu of a visa.

The Japanese government is concerned that, of the 5 million visitors who enter the U.S. annually, approximately 200,000 do not currently have machine-readable passports. In addition, the Foreign Ministry will not be equipped to issue passports with biometric identifiers until sometime in late 2005. Considering the current security difficulties inherent in obtaining a U.S. visa, this could be a huge obstacle to Japanese visits to the U.S. once the new passport rules are in place.

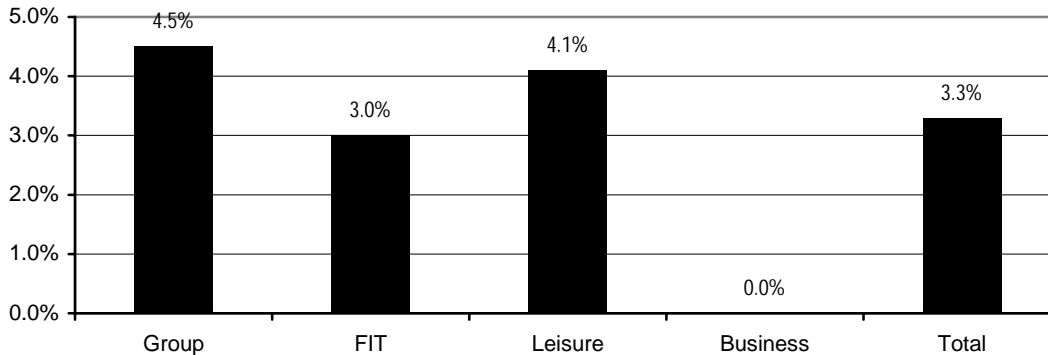
Market Overview

According to Japanese tour operators surveyed by the CTC, sales of Canadian products for the first quarter of 2004 are expected to be on par with the previous year. Most respondents agreed that air capacity for this period represented a problem in selling travel products to Canada, although the exchange rate was not expected to affect sales.

Tour operators noted that package vacations for individuals, groups and couples were all selling well for this quarter. Alberta/B.C. are expected to receive the most Japanese visitors in the first quarter of 2004 (80% of all bookings), followed by Northwest Territories. Ontario and Quebec were identified as "provinces under development." Finally, Japanese tour operators reported that nature was the number one selling product cluster, followed by winter (i.e. ski trips), then cities and resorts.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004 Overnight Person-Trips from Japan to Canada (% change from previous year – same quarter)



Source: Q1 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from Japan in the first quarter of 2004—as indicated by *BO Monitor* participants—is for a 3.3 per cent growth in bookings, compared with last year. This increase comes on top of an 8.8 per cent rise in travel demand witnessed during the first quarter of 2003. Group leisure travel is expected to be the main driver of the increase, climbing 4.5 per cent, while independent (FIT) leisure travel should increase 3 per cent. This is expected to result in an overall growth in leisure travel of 4.1 per cent. The outlook for business travel is less optimistic. It is expected to remain on par with last year’s figures.

Of the two Canadian regions reported on by *BO Monitor* participants, Alberta/British Columbia is expected to generate the strongest growth in Japanese travellers (up 5%) during the first quarter of 2004, while visits to Ontario/Quebec remain at the same levels seen last year.

Japan-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Japan for the first quarter of 2004 is expected to decline 17.2 per cent compared with the previous year, mainly due to a significant decrease in capacity on Air Canada. Unfortunately, this could represent a constraint for travel from Japan to Canada during this period. According to OAG, Air Canada’s share of direct air capacity during this period is expected to be 61.4 per cent, down from the 68.4 per cent share reported the previous year.

Seats Available for Direct Travel from Japan to Canada (Q1-January to March)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	113,876	94,276`
Per cent change	N/A	-17.2

Source: OAG Worldwide.

Summary Outlook for Q4

According to *BO Monitor* participants, overall travel from Japan in the first quarter of 2004 is expected to grow 3.3 per cent compared with a year earlier. Group leisure travel is expected to be the main driver of the increase, climbing 4.5 per cent, while the pace of growth for independent (FIT) leisure travel lags slightly behind at 3.0 per cent. The outlook for business travel is slightly less optimistic; it is expected to remain on par with last year's figures.

Japanese tour operators surveyed by the CTC are slightly less optimistic for this period, indicating that they anticipate overall bookings for this period to be on par with the previous year. However, this is a vast improvement from the dismal performance of the Japanese outbound market in the second and third quarters of 2003. Bookings to Canada picked up significantly in the fall, with many flights from Tokyo and Osaka full to capacity in September and October. Unfortunately, operators pointed out that direct air capacity was impeding their sales efforts for winter Canadian products. OAG data also suggests a decrease in direct air capacity of 17.2 per cent during the first quarter of 2004 compared with last year.

Taiwan Outlook, Q1 2004

Economic Overview

Economic growth in Taiwan is poised to accelerate into 2004. The stepping-up in economic activity is due in large part to the increase in exports to Hong Kong and China. While exports to the U.S. fell by 5 per cent in the third quarter of 2003, they jumped 20.5 per cent higher to Hong Kong and China. The surge in exports is spilling over to the rest of the economy. Unemployment is below 5 per cent for the first time since 2001. In addition, bank lending has been rising steadily for the first time since 2001. The latest Consensus Economics forecast suggests that Taiwan's economy will grow by 4.3 per cent in 2004. The outlook for 2004 is based on a stronger, more optimistic consumer, and a pick-up in exports to the U.S.

Tourism Trends

The Canadian Tourism Commission's (CTC) foreign office in Taiwan noted in its Third Quarter report that total outbound travel from Taiwan dropped 35 per cent in the period between January and July 2003. Passenger traffic to the U.S. dropped 17.5 per cent, Europe was down 26.3 per cent, and Asian destinations declined 37.9 per cent. Meanwhile, the number of Visas issued for Canadian travel declined 48 per cent in the January to August period.

Fortunately, outbound travel showed a significant rebound in July and August, with consumers responding well to the many travel price discounts. The Australian Tourist Commission reported that total outbound travel from Taiwan in August was up 1 per cent compared with August 2002. Australia, Canada and Europe were the top three long-haul destinations in terms of volume. The CTC reported that travel was expected to recover even further during the fall travel season.

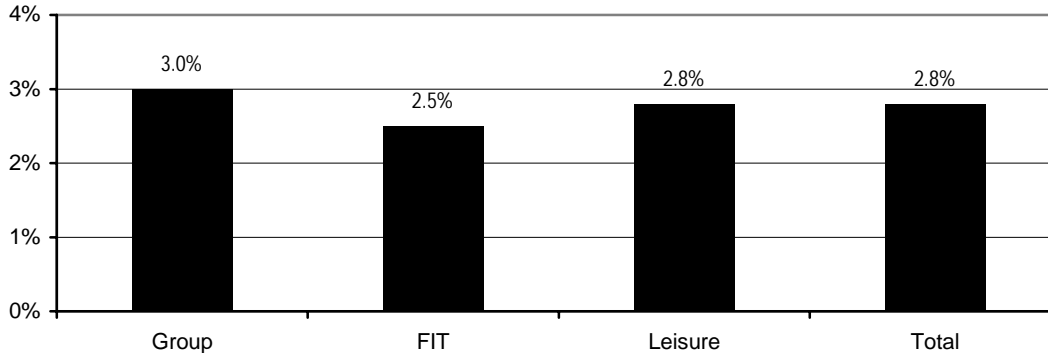
Market Overview

According to Taiwanese tour operators surveyed by the CTC, sales of Canadian products for the first quarter of 2004 are expected to increase 10 to 30 per cent for luxury products, and decline 15 to 30 per cent for "budget tour" products. Most respondents agreed that air capacity for this period would not be an issue with respect to selling travel products to Canada, while responses were mixed regarding the effect of the exchange rate on product sales.

Tour operators noted that packages for all segments (including individuals, groups and couples) were selling well for this period, and it appears that destinations in Alberta and British Columbia represent 95 per cent of all bookings in this quarter. Nature trips are the best-selling product cluster, followed by touring, cities and resorts, outdoor/sports, winter, and culture/history, respectively.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004 Overnight Person-Trips from Taiwan to Canada (% change from previous year – same quarter)



Source: Q1 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall leisure travel from Taiwan in the first quarter of 2004—as indicated by *BO Monitor* participants—is for an increase of 2.8 per cent, compared with last year. This expected growth is a welcome turnaround from the first quarter of 2003, when visits from Taiwan plummeted 21.4 per cent compared with 2002. For 2004, *BO Monitor* respondents anticipate the growth of group travel (up 3.0%) to outpace independent (FIT) leisure travel (up 2.5%).

Taiwan-to-Canada Air Capacity, OAG Worldwide

Fortunately, reversing a trend of capacity reductions seen in previous quarters on these routes, direct air capacity from Taiwan to Canada is expected to increase 5.3 per cent during the first quarter of 2004, compared with a year earlier. Therefore, direct air capacity should not hinder travel demand from Taiwan during this period. According to OAG, Air Canada does not presently account for any share of the direct air capacity during this period.

Seats Available for Direct Travel from Taiwan to Canada (Q1-January to March)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	48,455	51,025
Per cent change	N/A	5.3

Source: OAG Worldwide.

Summary Outlook for Q1 2004

Fortunately, *BO Monitor* participants are forecasting a much more positive outlook for travel from Taiwan in the first quarter of 2004 than in previous quarters. Overall travel is expected to grow 2.8 per cent—a welcome turnaround from the 21.4 per cent drop experienced in the same quarter a year earlier. Taiwanese tour operators surveyed by the CTC anticipated that much of this growth will be in luxury travel, rather than the budget travel segment. Supporting this expected turnaround in the Taiwanese market are recent economic forecasts which suggest that Taiwan's economy will grow 4.3 per cent in 2004. One main driver of this optimistic outlook is expectations of a 3.2 per cent gain in Taiwanese consumption, the strongest gain seen in four years.

South Korea Travel Outlook, Q1 2004

Economic Overview

Led by solid export growth to its immediate neighbours, the South Korean economy is poised to emerge its slowest growth in over five years. Some of the most striking aspects of the slowdown resided with consumers. According to Consensus Forecasts, tighter requirements on household credit and an uncertain business environment are expected to lead to a 0.2 per cent decline in consumer spending. Fortunately, an export-led recovery, is expected to lead to greater consumer confidence and consumption growth of 4 per cent in 2004. With exports and consumption in-line, Consensus Forecasts expects real GDP to increase 5.1 per cent in 2004.

Travel Trends

The Canadian Tourism Commission's foreign office in Korea reported that overseas travel rebounded quickly through the third quarter of 2003, once SARS faded from the news. Tour operators have been encouraging consumers to book their travel farther in advance by promoting discounted group tour packages, in cooperation with major airlines. Overseas traffic over the Korean thanksgiving holiday (August 10–14) was up 20 per cent over the previous year. The CTC also noted that the top three destinations for Korean travellers this year (as of August 2003) have been Japan, China and the U.S. Canada was stated as being in ninth place.

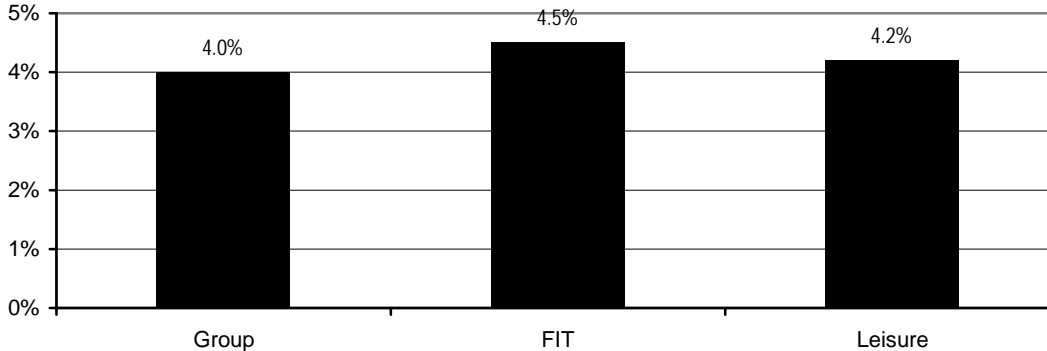
The Korea National Tourism Organization (KNTTO) reported that outbound Korean departures climbed by 12.3 per cent in September compared with a year earlier. This is on top of a 14.1 per cent increase in departures between September 2002 and 2001. However, year-to-September figures indicate that departures were still down 3.7 per cent compared with the same period last year, the result of the huge declines witnessed during the SARS outbreak. The KNTTO also reported that 12,615 Koreans visited Canada in September, an increase of 6.1 per cent over September 2002.

According to the Australian Tourist Commission (ATC), the number of Koreans declaring golf clubs when departing the country in July almost doubled (up 99%), compared with the same month in 2002.

In addition, the ATC mentioned that the number of Internet users in Korea reached 28.6 million in August—a 9 per cent increase over December 2002. Korea's two major airlines have recently introduced e-ticketing for their domestic routes with very successful results—they plan to introduce e-ticketing on their international services sometime in 2004. According to CTC reports, Korea recently ranked first globally in terms of internet penetration, noting that this presents an excellent marketing opportunity for travel providers.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004
Overnight Person-Trips from South Korea to Canada
 (% change from previous year – same quarter)



Source: Q1 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from South Korea in the first quarter of 2004—as indicated by *BO Monitor* participants—is for 4.2 per cent growth, compared with the same quarter last year. It is expected that independent (FIT) travel will perform slightly better than group travel during this period (4.5% versus 4%, respectively).

BO Monitor participants also expected Korean travel to Ontario/Quebec to climb 4.5 per cent, while travel to Alberta/British Columbia rises 3.5 per cent during the first quarter of 2004.

South Korea-to-Canada Air Capacity, OAG Worldwide

Direct air capacity during the first quarter of 2004 is expected to remain virtually on par with the same quarter of 2003 (up 0.6%), and is not expected to become a problem for travel from South Korea to Canada. According to OAG, Air Canada’s share of direct air capacity during this period is 37.0 per cent, basically unchanged from the previous year.

Seats Available for Direct Travel from South Korea to Canada
 (Q1-January to March)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	54,029	54,377
Per cent change	N/A	0.6

Source: OAG Worldwide.

Summary Outlook for Q1 2004

BO Monitor participants anticipate that overall leisure travel from South Korea will grow 4.2 per cent during the first quarter of 2004, with independent (FIT) travel (4.5%) performing slightly better than group travel (4.0%) during this period. CTC's foreign office in Taiwan reported that overseas travel has been rebounding quickly since SARS faded from the news. Tour operators have been encouraging consumers to book their travel farther in advance by promoting discounted group tour packages in order to stimulate a faster post-SARS recovery. Improving economic prospects and consumer confidence gains are two more positive factors supporting this travel growth.

Hong Kong Outlook, Q1 2004

Economic Overview

The Hong Kong economy was hammered by SARS in 2003. The overall economy should fare better, growing by 2.9 per cent in 2003, although it is expected that consumer spending will decline for a second consecutive year. Fortunately, the consensus is that the worst is over. Both consumer and business confidence have been rising in the fall and the stock market has also rallied. The latest economic data out of Hong Kong suggests a recovery in retail sales as well as the property market. As the economy grows by 4.5 per cent in 2004 and the unemployment rate falls to 7.2 (nearly a full percentage point) consumer confidence is expected to yield an increase in spending.

Tourism Trends

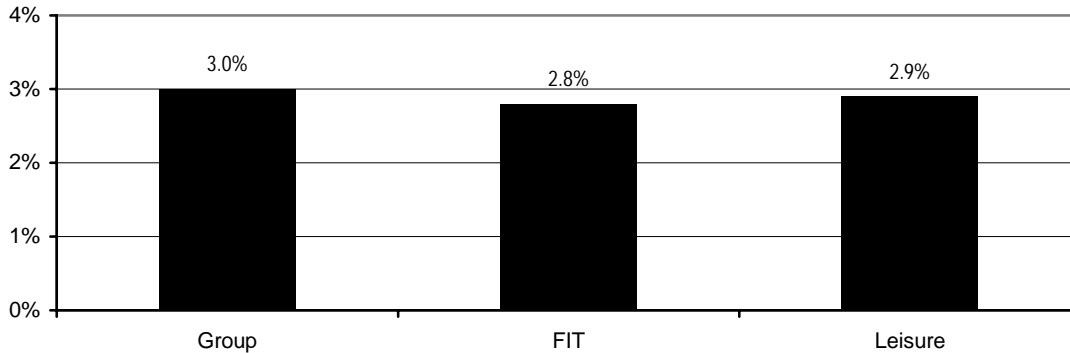
The Canadian Tourism Commission's (CTC) foreign office in Hong Kong stated in its Third Quarter Report that outbound travel began recovering through the summer months, with some segments showing marginal growth in July. Some travel agents were reporting increases in booking volumes of up to 10 per cent compared with the previous year. Since the outbreak of SARS in the region was contained, Hong Kong has been aggressively marketing itself as a key vacation and business destination, which has also indirectly benefited the outbound travel market.

However, the Australian Tourist Commission (ATC) reported that international departures from Hong Kong (with the exception of Japan) were still down in September, although the gap did narrow. Passenger numbers for U.S. destinations were 7.3 per cent lower than last year, and Europe was down by 1 per cent. The ATC also reported that the decline in travel agent sales transactions narrowed to 6 per cent in September compared with the previous year. This showed marked improvement from the previous months when transactions were off by more than 20 per cent.

Cathay Pacific Airways reported that its passenger traffic continued its steady recovery in September, as the decline narrowed to 3.2 per cent compared with last year's figures. Capacity was down 4.3 per cent, but the load factor increased 4.4 percentage points to 78.6 per cent. The airline noted that it was able to restore service back to normal levels by the end of September but it is still competing with quite aggressive pricing, which is keeping its passenger revenues down.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004 Overnight Person-Trips from Hong Kong to Canada (% change from previous year – same quarter)



Source: Q1 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from Hong Kong in the first quarter of 2004—as indicated by BO Monitor participants—is for growth of 2.9 per cent, compared with last year. Group travel is expected to do marginally better than independent (FIT) travel (up 3% and 2.8% respectively). It appears that travel from Hong Kong is stabilizing after the drastic reductions seen in 2003—travel from Hong Kong dropped 19.2 per cent in the first quarter of 2003.

Hong Kong-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Hong Kong to Canada is expected to increase 2.7 per cent during the first quarter of 2004, compared with the previous year. According to OAG, Air Canada’s share of direct air capacity during this period is expected to be 44.3 per cent, up from the 40.3 per cent share reported in the previous year.

Seats Available for Direct Travel from Hong Kong to Canada (Q1-January to March)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	126,786	130,165
Per cent change	N/A	2.7

Source: OAG Worldwide.

Summary Outlook for Q1 2004

According to *BO Monitor* participants, overall travel from Hong Kong is expected to grow by 3 per cent during the first quarter of 2004, compared with 2003. This increase follows a drastic 19.2 per cent fall in visitors witnessed during the first quarter of 2003. Aggressive marketing by Hong Kong’s tourism office has helped their post-SARS recovery get off the ground, thus creating spin-off benefits for the outbound market. Improving economic prospects and increasing consumer confidence should help support the positive growth expected for the first quarter of 2004.

China Travel Outlook, Q1 2004

Economic Overview

Overall growth in China is expected to slow from 8.1 in 2003 to 7.8 per cent in 2004. The good news is that the drag on overall growth in 2004 is expected to come from investment spending. In addition, the consensus is that consumption will accelerate by nearly 10 per cent. Much of the confidence underlying consumption spending comes from China's robust export market. Unfortunately, China's soaring export growth has angered governments in countries all over the world and has led to calls for the Chinese central bank to revalue its currency. The yuan has been fixed against the U.S. dollar at a rate of 8.3 since 1994. There is a good chance that the yuan would be allowed to appreciate slowly in the near term. This appreciation would relieve some of the international pressure on China and its trade practices as well as making international travel by the Chinese relatively less expensive.

Tourism Trends

The World Tourism Organization (WTO) announced at its recent general assembly that China is poised to become a "giant among the world's tourism leaders" over the next 20 years, considering the rapid pace of growth in both inbound and outbound travel. In August, 2.1 million Chinese travelled internationally, surpassing the previous year's figures by 34.5 per cent. And despite the embargo on tourism during the SARS epidemic, August's year-to-date figures were 15 per cent higher than the same period in 2002.

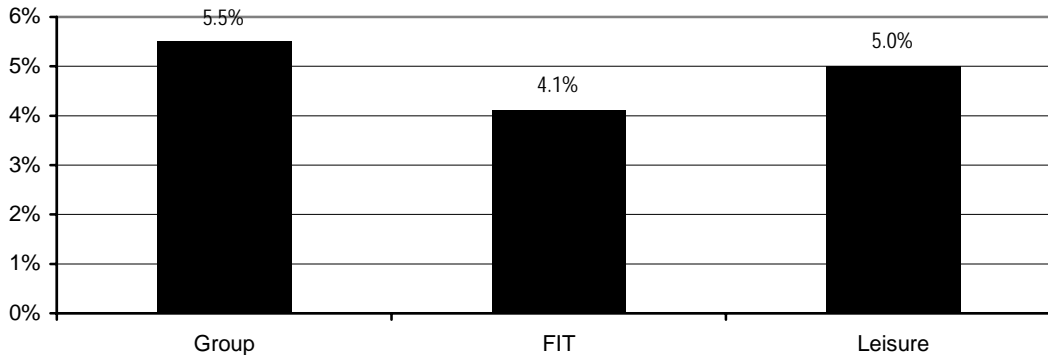
According to the World Travel Market 2003 Global Travel Report, produced in association with IPK International, China has already overtaken Japan as the largest outbound market in Asia. The report estimates that Chinese citizens will take 16.6 million international trips in 2003, approximately 100,000 more than the Japanese. The report also notes that Chinese travellers spend an average of CDN\$3,758 per outbound trip.

The Canadian Tourism Commission's (CTC) foreign office in China reported that the SARS outbreak cost the Chinese airline industry a total of 8 billion yuan (CDN \$1.26 billion). In fact, *Aviation Week* reported that China's three largest airlines, Air China, China Southern and China Eastern collectively grounded more than half of their respective fleets at the peak of the epidemic. However, in August, China Southern reported that leisure and business passenger traffic was recovering at "a tremendous rate."

According to the CTC, now that outbound travel is on the rebound from SARS, many global travel agencies are establishing a physical presence in China. Business Travel International (BTI) will open offices in 3 major cities in April 2004, and others, such as Carlson Wagonlit and Thomas Cook are planning to follow suit. German-based TUI has already launched a Chinese venture, looking to profit from the estimated 85 million Chinese who can now afford to travel abroad. According to TUI, Chinese international travellers are usually between the ages of 25 and 40 years old and are extremely enthusiastic about having access to new cars and modern technology when they travel. On the other hand, they tend to prefer to eat familiar food while on vacation, and have particular requests for their hotel rooms, such as having a kettle available.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004 Overnight Person-Trips from China to Canada (% change from previous year – same quarter)



Source: Q1 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from China in the first quarter of 2004—as indicated by BO Monitor participants—is for growth of 5 per cent, compared with the previous year. BO Monitor participants anticipate that group travel (5.5%) will outperform independent (FIT) travel (4.1%), although healthy growth is expected for both segments. These figures show a return to the steady travel growth that was gaining momentum in the period leading up to the SARS outbreak. During the first quarter of 2003, visits from China increased 3.6 per cent, compared with the year before.

BO Monitor participants anticipate that Ontario/Quebec will see a 5.5 per cent increase in bookings while bookings for Alberta/British Columbia are expected to rise by 4.9 per cent.

China to Canada Air Capacity, OAG Worldwide

Direct air capacity from China is expected to increase 10.7 per cent during the first quarter of 2004, compared with the same quarter of 2003. According to OAG, Air Canada’s share of direct air capacity during this period is expected to be 67.0 per cent, down from the 73.4 per cent share reported in the previous year.

Seats Available for Direct Travel from China to Canada (Q1-January to March)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	52,006	57,560
Per cent change	N/A	10.7

Source: OAG Worldwide.

Summary Outlook for Q1 2004

BO Monitor participants anticipate overall travel from China to grow by 5 per cent during the first quarter of 2004. This figure represents the most optimistic outlook of all markets included in this report and suggests a return to the steady growth interrupted by the SARS outbreak. Now that the effects of SARS have faded, and China's economy continues to boom, the number of Chinese citizens willing and able to travel abroad is surging upwards. Already having surpassed Japan as the largest outbound market in Asia, it is predicted that China will eventually become one of the leading tourism markets in the world.

Australia Travel Outlook, Q1 2004

Economic Overview

Real GDP growth in Australia is expected to slip from the 3.6 per cent recorded in 2002 to 2.5 per cent in 2003. A combination of weak global growth, a severe drought, an appreciating Australian dollar and declining tourism revenues are responsible for the weaker growth this year. In 2004, growth is expected to expand by 3.8 per cent mainly because of a recovery in the export market. The major problem facing Australia's economy has to do with the red hot housing market that has caused prices to soar. Households have used the dramatic house price increases to draw spending money from their mortgage lenders. This has left consumers very heavily leveraged and highly sensitive to increases in interest rates. In the past decade, Australia's household debt to household income ratio has more than doubled and, at about 120 per cent, is now among the highest in the developed world. The debt service burden has also increased dramatically in the last year, despite the fact that interest rates are at a low level.

Tourism Trends

The Canadian Tourism Commission's (CTC) foreign office in Australia reported a resurgence of travel interest in the third quarter of 2003, as SARS faded from Australians' radar screens. Unfortunately, there was a perceived lack of air capacity to North America during this time. Meanwhile, the Tourism Forecasting Council predicted a 4.2 per cent decline in Australian outbound travel for 2003, although it is expected to rebound by 8.7 per cent in 2004.

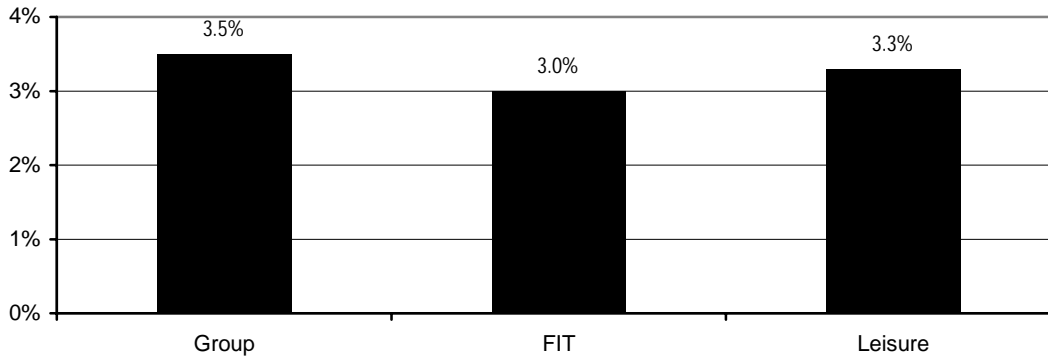
The CTC also noted that growth in the Australian seniors' tourism market (aged 55 and over) is expected to skyrocket over the next decade. The population of Australians aged 55 to 64 is predicted to jump 44 per cent between 2001 and 2011, while the number of residents aged 65 and over rises 26 per cent.

Melbourne Airport reported that its international departure figures have dropped 4.6 per cent over its fiscal year ending June 30, 2003, while overseas arrivals were only down 1.4 per cent. The airport authority indicated that the Bali bombings, the war in Iraq and the SARS outbreak had caused the first decline in international traffic since a pilots' strike in 1989. Meanwhile, domestic traffic registered a 5 per cent increase.

According to a recent survey by American Express of affluent consumers in Italy, Australia, Canada, Mexico and the U.K., the Australian respondents were fairly optimistic about their future finances and rated holiday/pleasure travel as one of their most popular forms of indulgence. Of the Australians polled, 68 per cent chose travel as their favourite spending indulgence, which was tied in first place with spending money on clothing. While almost half (49%) of all Australian respondents believed that their financial condition would improve or significantly improve over the next year, 92 per cent of the highest-earning households believe this to be true.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004 Overnight Person-Trips from Australia to Canada (% change from previous year – same quarter)



Source: Q1 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall leisure travel from Australia in the first quarter of 2004—as indicated by BO Monitor participants—is for a growth of 3.3 per cent, compared with last year. Independent leisure travel (FIT) is expected to experience slightly less robust growth (3 %) while group travel climbs 3.5 per cent. This comes on top of a 13.6 per cent surge in visits witnessed during the first quarter of 2003.

Australia to Canada Air Capacity, OAG Worldwide

Fortunately, total air capacity from Australia (including both direct and non-direct flights) is expected to increase 8.5 per cent during the first quarter of 2004. This reverses a trend of declining air capacity recently seen on these routes. The increase in air capacity during this quarter could help facilitate a growth in travel demand from Australia during this period.

Seats Available for Stop-Over Travel from Australia to Canada (Q1-January to March)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	29,530	32,048
Per cent change	N/A	8.5

Source: OAG Worldwide.

Summary Outlook for Q1 2004

According to *BO Monitor* participants, overall leisure travel from Australia is expected to grow 3.3 per cent, bolstered by a 3.5 per cent rise in group travel. It is anticipated that independent (FIT) travel will do almost as well, up 3 per cent during the first quarter of 2004 compared with the previous year. Travel agents in Australia began reporting a resurgence in travel interest once the SARS outbreak disappeared from travellers' radar screens, and the outbound market is predicted to bounce back significantly in 2004. Fortunately for the Canadian tourism industry, a solid increase in air capacity to Canada (8.5%) during the first quarter should help reverse some of the declines witnessed in 2003.

New Zealand Travel Outlook, Q1 2004

Economic Overview

According to Consensus Forecasts, New Zealand's economy is expected to grow by 2.8 per cent in 2004. This level of growth will continue to outperform the Asia-Pacific average. As the unemployment rate rises in 2004, the growth in consumer expenditures are expected to slow to 2.8 per cent. Next year, the expectation is that rising interest rates should support a further appreciation in the New Zealand dollar in 2004. If this happens, this will make international travel less expensive.

Tourism Trends

The Canadian Tourism Commission's (CTC) foreign office in New Zealand reported that New Zealand operators are experiencing "good to strong" sales of trips to Canada in fall tours and strong sales for the winter season. The strengthening New Zealand dollar is playing a role in this trend, as well as perceptions of Canada as a safe destination.

Statistics New Zealand reported that overall outbound travel in September climbed 10 per cent over the previous year and represented the highest recorded increase in New Zealand resident departures. The increase benefited Australia, Fiji, India and the U.S. Departures for the year ending September 2003 were up 4 per cent from the same period a year earlier.

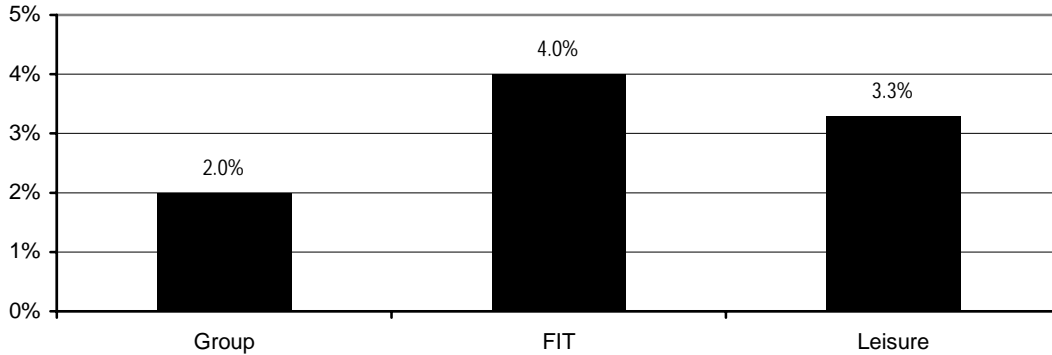
According to the Australian Tourist Commission (ATC), the New Zealand Ministry of Tourism reported that New Zealand's tourism industry has been experiencing an unprecedented boom in recent years. Tourism expenditures are increasing, making tourism the second largest sector in terms of export receipts. In 2002, visitor arrivals increased by 7 per cent, and expenditures were up 17.3 per cent compared with the previous year. Since 1997, average visitor spending has increased 95 per cent.

Meanwhile, any lingering hope for a merger between Air New Zealand and Qantas Airways was squashed in mid-October when the New Zealand Commerce Commission vetoed the deal, ruling that the economic benefits were not as high as the cost of reduced competition. The Commission argued that the merger would result in airfare increases of up to 19 per cent and reduced services which would deter overseas travel from New Zealand. Although the two carriers indicated they planned to appeal the decision, there seems to be little hope that the decision will be overturned.

Air New Zealand (ANZ) reported that its passenger traffic for the quarter ending September 30, 2003 improved over the previous year. Revenue passenger kilometres (RPKs) increased 2 per cent, and capacity was up 4.5 per cent compared with the same period last year. However, yields were down 35.7 per cent, mainly because of exchange rates fluctuations against the US dollar and yen.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2004
Overnight Person-Trips from New Zealand to Canada
(% change from previous year – same quarter)



Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute

The outlook for New Zealand leisure travel to Canada—as indicated by *BO Monitor* respondents—is for growth of 3.3 per cent during the first quarter of 2004, compared with 2003. *BO Monitor* respondents anticipated that independent (FIT) leisure travel will double the growth of group travel (4% versus 2%).

Summary Outlook for Q1 2004

According to *BO Monitor* participants, leisure travel from New Zealand is expected to grow 3.3 per cent during the first quarter of 2004. Independent (FIT) leisure travel is expected to lead the increase at 4 per cent, while group travel posts growth of 2 per cent compared with the previous year. Reports by travel agents in New Zealand support this growth forecast, indicating that sales of Canadian winter products have been strengthening considerably. The appreciating New Zealand dollar is playing a role in this trend (making long-haul travel less expensive), as are perceptions of Canada as a safe destination.

Appendix 1: Preliminary Medium-Term Travel Forecasts (CTRI)

Since 1991–92, the Canadian Tourism Research Institute (CTRI) has used econometric models to forecast international travel both to and from Canada. The forecasts presented in the following table were completed in July 2003.

Travel Forecasts (Medium-Term)

Overnight Travel from Select International Countries to Canada—All Purposes
(thousands of person-trips; per cent change from previous year)

COUNTRY	2002	2003F	2004F
United States	16,168 3.8%	15,537 -3.9%	16,300 4.9%
Mexico	161 8.9%	163 1.5%	178 8.8%
United Kingdom	721 -12.7%	707 -2.0%	745 5.5%
France	312 -12.5%	305 -2.3%	325 6.5%
Germany	292 -11.5%	280 -4.0%	300 6.9%
Italy	97 6.3%	91 -6.0%	99 8.3%
Switzerland	88 -9.4%	84 -4.9%	88 4.6%
Netherlands	107 -6.1%	103 -3.6%	109 5.4%
Japan	423 3.1%	378 -10.6%	410 8.5%
Taiwan	104 -11.5%	83 -20.0%	98 18.0%
Hong Kong	118 -5.7%	101 -14.5%	116 14.5%
South Korea	143 3.2%	134 -6.0%	148 10.0%
China	97 18.3%	91 -6.0%	105 15.0%
South East Asia	88 0.9%	78 -11.5%	90 16.1%
Australia	149 -4.6%	147 -1.2%	159 8.1%

Source: Canadian Tourism Research Institute; Statistics Canada