

RESEARCH

**DOMESTIC, U.S. AND
OVERSEAS TRAVEL
TO CANADA**

Short-Term Business Outlook

Quarter 3, 2004

**Research
report
2004-2-2**

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Domestic, U.S. and Overseas Travel to Canada

Short-Term Business Outlook
Quarter 3 2004

Prepared for the

Canadian Tourism Commission

by

The Conference Board of Canada

Ottawa, April 2004

WHAT'S INSIDE

The purpose of this study is to provide a short-term outlook for domestic & international travel to Canada for the third quarter of 2004 (July 2004 to September 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 third 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 third quarter of 2004 (relative to the third quarter of 2003) from the *Business Outlook (BO) Monitor* participants is summarized as follows:

Q3-2004 Business Outlook for Canada's Key Markets
(per cent change over Q3-2003)

COUNTRY	MARKET SEGMENT				
	LEISURE – GROUP	LEISURE - FIT	LEISURE – OVERALL	BUSINESS	TOTAL - OVERALL
Canada	9.2%	8.0%	8.2%	8.0%	8.0%
United States	6.5%	10.0%	9.2%	8.0%	9.0%
Mexico	20.0%	10.0%	14.3%	*	12.0%
Brazil	*	*	*	*	9.0%
United Kingdom	6.0%	9.5%	8.7%	9.0%	8.8%
France	8.0%	7.0%	7.4%	*	7.6%
Germany	7.5%	8.0%	7.8%	*	7.7%
Italy	*	*	*	*	15.0%
Netherlands	*	*	*	*	7.0%
Japan	19.0%	28.0%	21.3%	14.0%	20.0%
Taiwan	12.0%	8.0%	11.0%	*	11.0%
South Korea	*	*	*	*	10.0%
Hong Kong	*	*	*	*	10.0%
China	15.0%	17.0%	16.0%	*	16.0%
Australia	8.0%	11.0%	9.5%	*	9.5%
New Zealand	6.0%	9.0%	8.0%	*	8.0%

* 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 third quarter of 2004, all growth comparisons are reported on a year-over-year basis compared with the third quarter of 2003.

North and South American Markets

Canada

According to *BO Monitor* participants, domestic travel is expected to grow 8 per cent in the third quarter of 2004. Leisure travel is leading growth expectations for this quarter (up 8.2%) followed by an 8 per cent rise in business travel. Growth in the group travel segment is anticipated to outpace independent (FIT) travel (up 9.2% and 8%, respectively). Survey participants noted that travel demand appeared to be recovering after last year's dismal performance in the wake of the SARS outbreak. The only region of some concern was the Toronto market, which did not appear to be recovering as quickly as expected.

Results of the latest Summer 2004 *Travel Intentions Survey* by the Canadian Tourism Research Institute (CTRI) were not quite as optimistic, suggesting that Canadians were planning to travel less this summer than in previous years. Nevertheless, the tourism industry remains hopeful of a travel recovery, despite persisting uncertainties regarding the extent of the revival. Improving economic conditions and pent-up travel demand will likely spur growth in domestic travel this summer. The strength of the travel recovery will depend on the stability of the economic and geopolitical environment.

U.S.

BO Monitor participants anticipate that overall U.S. travel to Canada in the third quarter of 2004 will grow 9 per cent compared to last year. Independent (FIT) travel is expected to post the strongest growth—up 10 per cent—while group travel is expected to expand 6.5 per cent. Meanwhile, business travel is expected to expand 8 per cent during this period.

BO Monitor participants noted a few persistent challenges within the American travel market. Among those are fluctuating economic conditions and the continuing geopolitical concerns, particularly with respect to the war in Iraq. These concerns continue to inspire caution among American travellers. As well, shorter booking windows are making summer travel patterns even more difficult to anticipate. These factors, combined with the less favourable Canadian exchange rate have made travel suppliers slightly more guarded about the summer travel outlook than they may have otherwise been.

On a positive note, overall U.S. travel demand appears to be gaining momentum and is contributing to an improvement in the financial performance of many segments of the tourism industry. Moreover, the recent Canadian government announcements regarding increased funding for national security should help to reinforce Canada's image as a safe and friendly place to vacation.

Mexico

Overall, *BO Monitor* participants expect travel from Mexico to increase 12 per cent during the third quarter of 2004, compared with the same quarter of 2003. Similar to patterns seen in the previous quarter, group travel is expected to record the strongest growth, surging by 20 per cent, while independent (FIT) leisure travel increases 10 per cent.

Mexican tour operators have noted a growing interest in visits to Canada among Mexican travellers, who perceive Canada to be safe, friendly, and a better value compared with the U.S.

Brazil

BO Monitor participants anticipate travel from Brazil to Canada to increase 9 per cent during the third quarter of 2004. The strong increase (31.4%) in the level of direct air capacity available from Brazil during this period should help accommodate the expected increase in travel demand. Continuing improvements in Brazil's economic environment and building consumer confidence are expected to stimulate Brazilian outbound travel.

European Markets

U.K.

According to *BO Monitor* participants, overall travel from the U.K. is expected to increase 8.8 per cent in the third quarter of 2004, compared with the previous year. Business travel is expected to continue leading growth expectations, up 9 per cent over last summer's figures. Meanwhile, leisure travel is projected to rise 8.7 per cent, boosted by a 9.5 per cent growth in independent (FIT) travel. Group travel is expected to continue to lag slightly behind, but still post growth of 6 per cent during the period.

Tour operators in the U.K. are even more optimistic about the prospects for U.K. travel during the third quarter of this year. In fact, sales volumes for Canadian trips are expected to increase by almost a third this summer. Reports confirm that the popularity of independent bookings has surpassed that of traditional package bookings. One potential challenge to the level of growth expected for the U.K. market this summer is the modest increase in direct air capacity between the two countries planned for this period. On the other hand, the British tour operators surveyed reported that air capacity has not yet become an issue.

France

BO Monitor participants expect travel from France to expand 7.6 per cent during the third quarter of 2004, compared to last year. Overall leisure travel is expected to post growth of 7.4 per cent, led by an 8 per cent rise in group travel. The pace of growth in the independent (FIT) segment is expected to accelerate from previous quarters, increasing 7 per cent during this period.

French tour operators also appear to be increasingly optimistic regarding bookings to Canada—they report significant growth expectations for Canadian travel sales this summer. One challenge they did identify was the level of direct air capacity between France and Canada. However, the data from OAG suggests that direct air capacity will increase during the third quarter. While France's sluggish economy may also constrain some of the momentum expected for this market, the industry remains quite positive for growth during the third quarter.

Germany

BO Monitor participants anticipate that overall travel from Germany will increase 7.7 per cent in the third quarter of 2004, compared with the same quarter last year. Growth in the FIT segment (up 8%) is expected to surpass growth in group travel (up 7.5%) during this period. A surge in direct air capacity between Germany and Canada (20.8%) should help facilitate the growth in travel expected for this market.

Reports from Germany's tourism industry indicate that overall bookings for this year are continuing to gain momentum, posting solid growth in the first quarter of this year. However, travel prices and trip durations have dropped considerably. Germany's economic environment is also weighing on consumer and business sentiment, which is likely a contributing factor for these travel trends. Fortunately, German tour operators surveyed by the CTC expect solid growth in German travel to Canada this summer, supporting the positive outlook of *BO Monitor* participants for this market.

Italy

BO Monitor participants anticipate that travel to Canada from Italy will grow by 15 per cent in the third quarter, compared with the previous year. Italy's overall travel outlook has improved dramatically since last summer, which should help support the anticipated growth in this market. The one major concern is the tenuous future of its main airline, Alitalia. The national flag carrier has a 90 per cent share of direct air capacity between Italy and Canada and suspension of its services could represent a significant challenge to attracting visitors from this market.

Netherlands

BO Monitor participants anticipate that overall travel from the Netherlands will climb 7 per cent during the third quarter of 2004. Fortunately, direct air capacity from the Netherlands is expected to continue expanding, which should help facilitate growth in this market. Dutch tour operators surveyed by the CTC were slightly less optimistic regarding growth in travel to Canada this summer. The stalled economy is weighing on consumer confidence levels in the Netherlands and is likely contributing to their cautious outlook.

Asia/Pacific

Japan

According to *BO Monitor* participants, overall travel from Japan in the third quarter of 2004 is expected to grow 20 per cent compared with a year earlier. Independent (FIT) travel is expected to post the strongest growth, climbing 28 per cent during this period, while group travel expands 19 per cent. Meanwhile, the outlook for business travel is for growth of 14 per cent during the quarter.

Japanese tour operators surveyed by the CTC were even more optimistic about travel from Japan to Canada during this period. In particular, they anticipated that sales could recover to 2002 levels this summer. Respondents did note that direct air capacity from Japan continued to represent a challenge in selling travel products to Canada, but the rise in available seats expected for the third quarter (36.4%, according to OAG) may help alleviate some of those concerns.

Taiwan

BO Monitor participants expect overall travel from Taiwan to Canada will increase 11 per cent in the third quarter of 2004, maintaining a slow but steady pace of recovery. The Taiwanese outbound market remains understandably sensitive to health issues. The reappearance of SARS has raised concerns among Taiwanese travel agents, who have already received a rash of cancellations for trips to China. Furthermore, political uncertainty surrounding the disputed presidential election in March 2004 and the outbreaks of Avian flu earlier this year dampened the potential rebound in travel demand during the first quarter of 2004. Nevertheless, the tourism industry responded quickly by offering travel discounts which helped get the travel recovery back on track.

South Korea

BO Monitor participants anticipate that overall travel from South Korea will grow 10 per cent during the third quarter of 2004. If this growth materializes, South Korean travel will recover to levels reached in the third quarter of 2002. Meanwhile, the CTC foreign office in Korea reported that the Korean outbound market proved sensitive to the Avian flu outbreak during the first quarter of this year. In fact, many outbound trips were diverted towards destinations that were free of Avian flu cases, such as Australia and Europe. Air capacity was identified by foreign tour operators as representing a possible constraint for growth and the latest OAG data confirms it may be less than is required.

Hong Kong

According to *BO Monitor* participants, travel from Hong Kong to Canada is expected to grow by 10 per cent during the third quarter of 2004, compared with 2003. These gains would represent a partial recovery of this market after last summer's SARS crisis, but visits would remain below 2002 levels. Hong Kong's two largest airlines, Cathay Pacific and Dragonair each reported strengthening demand through the first quarter of this year, with steady growth in business traffic, particularly on long-haul routes. Improvements in air travel demand, and clear indications of Hong Kong's continuing economic recovery support the steady growth expected for this travel market. The planned expansion in direct air capacity (78.9%) between Hong Kong and Canada should help ensure there is sufficient capacity for air travel between the two countries this summer.

China

BO Monitor participants anticipate overall travel from China to grow by 16 per cent during the third quarter of 2004. Group travel is expected to rise 15 per cent, while independent (FIT) travel climbs 17 per cent during this period. The re-emergence of Chinese SARS cases has set off alarms in the global tourism industry, but the Chinese public appears to be taking the outbreak in stride. In addition, the new SARS cases do not appear to be impacting China's economy at all. If the situation with SARS does not get any worse, there still appears to be considerable optimism for achieving solid growth in Chinese travel to Canada this summer.

Australia

According to *BO Monitor* participants, growth in leisure travel from Australia to Canada is expected to accelerate in the third quarter of 2004, rising 9.5 per cent compared with the previous year. These gains would bring Australian visits close to 2002 levels for the quarter. The CTC's foreign office in Australia reported that pent-up demand and favourable exchange rates were providing a strong stimulus in expanding sales levels of North American travel products during the first quarter of this year. A number of travel wholesalers are expecting a bright year for the Australian travel industry in 2004. In the last several quarters, the Australian currency has been gaining considerable strength, which will help encourage further growth in this outbound travel market. Unfortunately, the level of air capacity to Canada for the third quarter could very well represent a constraint to this market.

New Zealand

According to *BO Monitor* participants, leisure travel from New Zealand is expected to continue its steady pace of growth, rising 8 per cent during the third quarter of 2004. The FIT segment (up 9%) is expected to do slightly better than group travel (up 6%). The Canadian Tourism Commission's (CTC) foreign office in Australia reported that New Zealanders' consumer and business confidence remain relatively high, despite the fact that the economy is beginning to weaken. The resiliency of consumer and business confidence should help support growth in this travel market during the third quarter.

International Travel Statistics – Statistics Canada

Overnight Travel to Canada, January - February 2004

COUNTRY	PERSON-TRIPS	CHANGE OVER 2003(%)
United States	1,296,017	-7.3
Mexico	12,215	-10.5
Europe	177,871	-8.0
United Kingdom	75,170	-7.8
France	35,233	-8.1
Germany	18,871	-10.1
Netherlands	7,130	-2.1
Italy	4,962	-22.1
Asia	109,046	-1.4
Japan	33,075	-1.5
South Korea	18,711	0.7
Taiwan	10,276	20.1
Hong Kong	13,580	0.7
China (Mainland)	10,644	-6.2
Oceania	24,574	-5.2
Australia	21,482	-5.1

Source: International Travel Survey, Statistics Canada.

Introduction

The purpose of this report is to provide a short-term outlook for domestic & international travel to Canada for the third quarter of 2004 (July 2004 to September 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

The world economy is expected to expand by 3.7 per cent this year on the heels of 2.6 per cent growth in 2003. In 2005, real growth of 3.2 per cent is anticipated. The main factor behind the solid growth is the fact that most of the world's major economies have implemented expansionary fiscal and monetary policies. The United States is leading the reflationary efforts with short-term interest rates at 40-year lows while, at the same time, fiscal policy remains extremely expansionary. In addition, the significant decline in the value of the U.S. dollar over the past two years has been another source of stimulus for the economy.

While economic policies have not been as stimulative in other parts of the world, the overall direction of fiscal and monetary policy has been expansionary. Short-term interest rates are low in Japan, China and the euro zone. Canada has also reduced rates in response to the strong value of the Canadian dollar while monetary policy remains neutral in Australia, the United Kingdom and most of the smaller countries in the Asia Pacific region of the world.

North America

The strength of the U.S. economy should support solid economic growth in North America this year. Meanwhile, Canadian real GDP is expected to expand by 2.8 per cent in 2004 and by 3.1 per cent in 2005. The Canadian dollar is forecast to average a relatively high \$0.743 U.S. this year before sliding gently to average \$0.721 U.S. in 2005. The U.S. economy is expected to expand by 4.3 per cent this year—the highest growth since 2000. U.S. growth will be led by solid gains in consumer spending as well as double-digit growth in equipment spending. The main risk to the current outlook remains the job market. The surge in employment in March 2004 was very encouraging, however, the U.S. economy must continue to generate solid job gains for the remainder of the year to ensure that the economic recovery is sustainable. While a cyclical upswing in the United States will boost the prospects of the Mexican economy in the short-term, growth will be constrained by the political paralysis that exists in the country.

South America

Real GDP growth in South America will rebound this year, posting growth of 4.1 per cent—up from the meager 1.5 per cent growth recorded in 2003. In 2005, growth of 3.8 per cent is anticipated. The improving external environment is the major factor behind the more optimistic outlook. The United States is an important trading partner for many South American countries and accelerating growth in the world's largest economy will lift export activity throughout the region. Also, stronger global economic activity has helped to increase commodity prices such as oil and copper that play an important role in the economies of some South American countries.

Euroland

Economic growth is expected to accelerate in Europe this year from the anemic 0.8 per cent real GDP growth recorded in 2003. However, anticipated growth of 2 per cent in 2004 will be well below growth in most other parts of the world. Economic growth will continue to be constrained by weak economic activity in two of the largest economies in the region, France and Germany. However, Belgium, Italy, the Netherlands and Switzerland are also expected to record real GDP growth below 2 per cent this year. The strong appreciation of the euro has hurt export growth and, to date, has not had a significant impact in reducing inflation. As a result, the European Central Bank (ECB) has left interest rates unchanged. Rate cuts are not expected in 2004 because the ECB believes that the economic problems in Europe are not attributable to monetary policy but are instead a result of the need for labour market reform.

Asia-Pacific

As European and U.S. demand for Asian commodities and manufactured goods increase, more solid economic growth should be possible for most countries throughout the Asia Pacific region this year and into 2005. In 2004, real GDP is expected to increase by 4.1 per cent and in 2005 growth of 3.2 per cent is anticipated. China is once again expected to lead the region in economic growth while the ongoing recovery in Japan should also help boost the region's economic prospects. In fact, the underlying economic fundamentals in Japan appear to be strong, corporate profits are strengthening and the banking system is relatively healthy, compared with the situation a few years ago. As a result, real GDP in Japan is expected to increase by 2.8 per cent in 2004 and a further 1.6 per cent in 2005.

Exchange Rates

Exchange Rate Comparison – April 2003 to April 2004

Per cent change in exchange rates between select countries:

	CANADIAN DOLLAR	U.S. DOLLAR	BRITISH POUND	EURO	JAPANESE YEN	TAIWANESE DOLLAR	MEXICAN PESO	AUSTRALIAN DOLLAR
Canadian dollar	--	8.7%	-5.1%	-1.5%	-2.4%	2.9%	15.7%	-10.9%
U.S. dollar	-8.0%	--	-12.6%	-9.4%	-10.2%	-5.3%	6.4%	-18.0%
British pound	5.3%	14.5%	--	3.7%	2.8%	8.4%	21.8%	-6.1%
Euro	1.6%	10.3%	-3.6%	--	-0.9%	4.5%	17.5%	-9.5%
Japanese yen	2.5%	11.4%	-2.7%	0.9%	--	5.4%	18.5%	-8.7%
Taiwanese dollar	-2.8%	5.6%	-7.7%	-4.3%	-5.1%	--	12.4%	-13.4%
Mexican peso	-13.5%	-6.1%	-17.9%	-14.9%	-15.6%	-11.0%	--	-22.9%
Australian dollar	12.2%	21.9%	6.5%	10.5%	9.5%	15.5%	29.8%	--

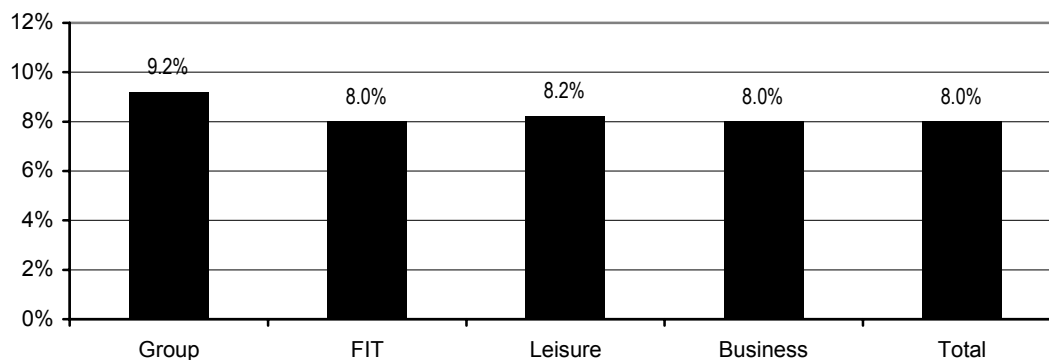
Domestic (Canada) Travel Outlook, Q3 2004

Economic Overview

Canadian real GDP is expected to expand 2.8 per cent in 2004 and by a further 3.1 per cent in 2005. Interest rates have already been cut by a total of 75 basis points early this year. Meanwhile, the Canadian dollar is forecast to average a relatively high \$0.743 U.S. this year but is expected to depreciate slightly to average \$0.721 U.S. in 2005. Consumer spending is expected to be solid over the next two years because of steady employment growth, a falling unemployment rate, significant wage gains and a relatively low interest rate environment.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004
Overnight Domestic Travel
(per cent change from previous year – same quarter)



Source: Q3 2004 Business Outlook System, Canadian Tourism Research Institute.

The Business Outlook—as indicated by Canadian travel suppliers and receptive agent bookings—suggests an 8.0 per cent growth in overall advance bookings for domestic travel for the third quarter of 2004, compared to the previous year.

According to *BO Monitor* participants, leisure travel is leading growth expectations (up 8.2%), boosted by a 9.2 per cent rise in group travel. Independent (FIT) travel is expected to perform almost as well, up 8 per cent over last summer's figures. Business travel is projected to increase 8 per cent, as well.

Survey participants noted that summer bookings appear to be recovering, compared to last summer, when the full impact of the SARS outbreak was felt. However, the booking window has narrowed to the shortest period ever between planning and taking the trip, making it difficult to gauge the true extent of the recovery. Some reports indicate that the Toronto market is not recovering as quickly as anticipated, and the uncertainty regarding Air Canada's future is dampening advance bookings as well. A positive factor has been the continued expansion of Canada's low-cost carrier market, which has opened up a greater number of market opportunities for many regions of Canada, particularly the Atlantic region.

When looking at domestic travel by provincial region, *BO Monitor* participants anticipate that Ontario/Quebec region will continue to lead growth expectations, rising 9.2 per cent, followed by Atlantic Canada at 8.0 per cent. Domestic travel to Alberta/British Columbia is expected to increase 7.5 per cent, while Manitoba/Saskatchewan rises 6 per cent.

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

Canadian consumers were marginally less upbeat in April 2004, as confidence for the month slid 0.5 points to 123.7. Optimism about current household finances and future job prospects increased modestly, but perceptions of future financial prospects inched backward. Despite recent interest rate cuts, consumers seemed less enthusiastic about making major purchases.

Consumer Confidence (1991=100 Index)

	2004:01	2004:02	2004:03	2004:04
Consumer Confidence Index	125.2	121.4	124.2	123.7

Source: *The Conference Board of Canada.*

The results from our latest *Travel Intentions Survey* suggest there might be some areas of concern for the tourism industry this summer. Specifically, the survey found that only 55.8 per cent of Canadians—the lowest number reported by a March survey in seven years—plan on taking a summer vacation this year. While the percentage of Canadians who intend to travel to the U.S. and other international destinations is up, compared with last year's survey results, the percentage planning to travel within Canada has fallen considerably.

Summer (May-September) Vacation Intentions (Per cent of Canadians surveyed)

	MARCH 2002	MARCH 2003	MARCH 2004
Summer Vacation Intentions (All Destinations)	61.2	62.4	55.8
Canada	43.7	46.7	38.3
US	8.7	6.4	7.7
Other International	7.4	8.1	8.6
Do Not Know/Refused	1.4	1.1	4.7

Source: *The Conference Board of Canada.*

The Conference Board of Canada had expected a more positive response, considering that the economic picture in Canada remains quite positive and that many of the global challenges that plagued the tourism industry last year have since diminished. However, new concerns over the future of Air Canada and recent terrorist activity (such as the Madrid bombings) have contributed towards a narrowing of the time period between the point when Canadians start planning to travel and when they actually take trips. The growing trend of booking travel on-line has also played a part in shortening the time period between trip-booking and trip-taking.

Nevertheless, pent-up travel demand is expected to spur growth in domestic travel this summer. Year-over-year growth will likely be the strongest over the second and third quarters of 2004, compared with the same quarters in 2003 when SARS had its largest impact. However, the strength of pent-up travel demand will be undoubtedly tested by events that occur outside Canada's borders, as well as economic and financial environments.

Summary Outlook for Q3 2004

According to *BO Monitor* participants, domestic travel is expected to grow 8 per cent in the third quarter of 2004. Leisure travel is leading growth expectations for this quarter (up 8.2%) followed by an 8 per cent rise in business travel. Growth in the group travel segment is anticipated to outpace independent (FIT) travel (up 9.2% and 8%, respectively). Survey participants noted that travel demand appeared to be recovering after last year's dismal performance in the wake of the SARS outbreak. The only region of some concern was the Toronto market, which did not appear to be recovering as quickly as anticipated.

Results of the latest Summer 2004 *Travel Intentions Survey* by the Canadian Tourism Research Institute (CTRI) were not quite as optimistic, suggesting that Canadians were planning to travel less this summer than in previous years. New concerns over Air Canada's ambiguous future, and recent terrorist activity (such as the Madrid bombings) have contributed to a narrowing of the trip booking window. As of the March survey, only 12 per cent of Canadians had already planned their summer vacation. Undoubtedly, this is leaving many travel suppliers slightly uneasy heading into their busiest season.

Nevertheless, the tourism industry remains hopeful of a travel recovery this summer, despite persisting uncertainties regarding the extent of the revival. Improving economic conditions and pent-up travel demand will likely spur growth in domestic travel this summer. The strength of the travel recovery will depend on the stability of the economic and geopolitical environment.

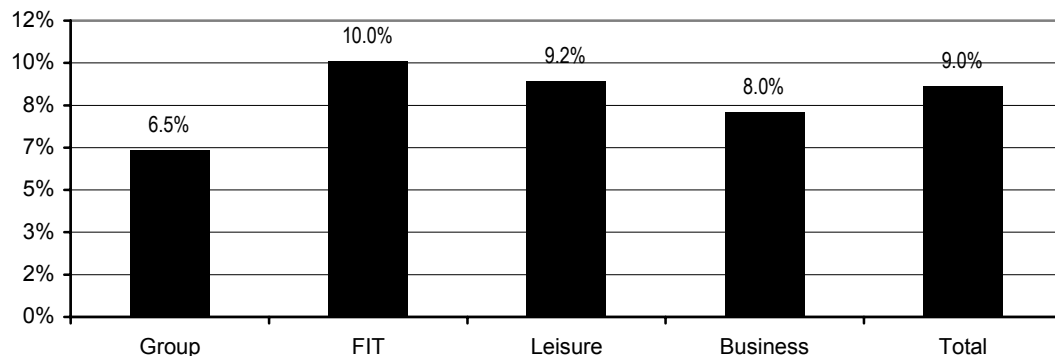
U.S. Travel Outlook, Q3 2004

Economic Overview

The U.S. economy is expected to expand by 4.3 per cent this year—the strongest growth witnessed since 2000. Growth will be led by solid gains in consumer spending as well as double-digit growth in equipment spending. Consumers should also get a boost from tax cuts made in the early part of this year. Consumer spending is also expected to be spurred by a rebound in U.S. labour markets later this year and into 2005. The renewed job creation is expected to lift real disposable income 3.5 per cent in 2004. Real consumer spending is expected to grow 3.6 per cent this year and a further 3.2 per cent in 2005.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004
Overnight Person-Trips from the U.S. to Canada
(per cent change from previous year – same quarter)



Source: Q3 2004 Business Outlook System, Canadian Tourism Research Institute.

Optimism appears strong for growth in U.S. travel to Canada during the third quarter of 2004. Overall travel from the U.S.—as indicated by *BO Monitor* participants—is expected to grow 9 per cent, compared with the same quarter of 2003, led by a 9.2 per cent increase in leisure travel. Independent (FIT) travel is expected to continue to post the strongest growth, up 10 per cent in the third quarter, with group travel lagging behind at 6.5 per cent. Business travel is also projected to post strong growth, climbing 8 per cent compared with the previous year.

BO Monitor participants anticipate that, of all the provincial regions, Ontario/Quebec should witness the strongest growth in U.S. travel (up 10%) during the third quarter of 2004. Meanwhile, travel to Atlantic Canada is expected to grow 8.5 per cent, while Alberta/British Columbia and Manitoba/Saskatchewan should see growth of 8 per cent and 7 per cent, respectively.

BO Monitor participants noted continuing challenges with the U.S. market, including fluctuating economic conditions and continuing geopolitical concerns, particularly with respect to the war in Iraq. Like Canadian participants, the U.S. survey respondents continued to face shorter and shorter booking windows, which tends to increase the difficulty in accurately assessing the pace of advance bookings. There were also indications that the relative high value of the Canadian dollar is hampering some sales of Canadian travel products.

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

The Conference Board Inc.'s Consumer Confidence Index, which was unchanged last month, rose in April 2004. The Index now stands at 92.9 (1985=100), up from 88.5 in March. "This latest improvement in consumer confidence was sparked by a more favorable assessment of current business and labor market conditions and increased consumer optimism about the next six months," says Lynn Franco, Director of The Conference Board's Consumer Research Center. "The job market, which has a major impact on confidence, appears to be gaining strength. The percentage of consumers claiming jobs are hard to get is now at its lowest level since November 2002, and more consumers expect this trend to continue." Consumers saying business conditions have improved rose to 21.4 percent, up from 20.7 percent in the previous survey, and consumers' optimism about the next six months improved for the first time this year.

Consumer Confidence (1985=100 Index)

	JANUARY 2004	FEBRUARY 2004	MARCH 2004	APRIL (P) 2004
Consumer Confidence Index	97.7	88.5	88.5	92.9
Present Situation	86.1	83.3	84.4	90.6
Expectations	105.3	91.9	91.3	94.5

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

According to the latest consumer survey by The Conference Board Inc., the seasonally adjusted U.S. travel intentions have been slowly decreasing over the past four surveys, but figures for April 2004 were still higher than reported in April 2003. The past four surveys have also shown that the percentage of Americans intending to travel internationally has been steadily declining. Compared with the same period last year, more Americans are planning to travel domestically. The declining interest in international travel may have something to do with the depreciation of the U.S. dollar versus major currencies but surely would also be affected by increased concerns in travelling to Europe, particularly after the Madrid bombing.

Vacation Intentions (Seasonally adjusted) (Per cent)

	OCTOBER 2003	DECEMBER 2003	FEBRUARY 2004	APRIL 2004
Vacation Intended	46.3	45.9	43.0	42.4
U.S.	38.3	38.8	36.6	36.2
Foreign	8.9	8.7	8.0	8.0

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

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

Since 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 was used, called OAG Max, which provides information on worldwide flight capacity. Air access is important because the growth of specific travel segments is linked to improvements in air access.

**Seats Available for Travel from the U.S. to Canada
(Q3 – July to September)**

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	3,838,361	3,946,023
Per cent change	N/A	2.8%

Source: OAG Worldwide

The number of seats available (as of April 2004) for direct air travel between the U.S. and Canada during the third quarter of 2004 is expected to increase 2.8 per cent, compared with the same period in 2003. Considering the overall growth in travel expected from the U.S. in the third quarter, it is possible that air capacity could represent a constraint for travel growth from the U.S. during this period. According to OAG, Air Canada's share of direct air capacity during this period is expected to be 33.4 per cent.

Summary Outlook for Q3 2004

BO Monitor participants anticipate that overall U.S. travel to Canada in the third quarter of 2004 will grow 9 per cent compared to last year. Independent (FIT) travel is expected to continue posting the strongest growth, up 10 per cent, while group travel lags behind at 6.5 per cent. This would result in overall leisure travel growth of 9.2 per cent. The outlook for business travel is optimistic as well. It is projected to grow 8 per cent during this period.

BO Monitor participants noted a few persistent challenges within the American travel market. Among those are fluctuating economic conditions and the continuing geopolitical concerns, particularly with respect to the war in Iraq. These concerns continue to inspire caution among American travellers. As well, shorter booking windows are making summer travel patterns even more difficult to anticipate. These factors, combined with the less favourable Canadian exchange rate have made travel suppliers slightly more guarded about the summer travel outlook than they may have otherwise been.

On a positive note, overall U.S. travel demand appears to be gaining momentum and is contributing to an improvement in the financial performance of many segments of the tourism industry. Moreover, the recent federal government announcements regarding increased funding for national security should help to reinforce Canada's image as a safe and friendly place to vacation.

Mexico Travel Outlook, Q3 2004

Economic Overview

The Mexican economy has been showing fledging signs of recovery on the heels of an extended period of slow real GDP growth and export demand. In 2003, real GDP expanded by only 1.2 per cent as weakness in the U.S. manufacturing sector spilled over into Mexico's economy. This year, real GDP growth of 3.2 per cent is anticipated mainly because industrial production, which declined by 2 per cent in 2003, will increase by 3.3 per cent this year. In 2005, higher GDP growth of 3.6 per cent is expected as the recovery in the manufacturing sector continues.

Tourism Trends

The Canadian Tourism Commission (CTC) foreign office in Mexico reported that Mexican interest in travel to Canada continues to grow, due to positive perceptions of Canadian destinations. Canada is perceived as a safe and friendly destination, with beautiful natural scenery, and a relatively favourable exchange rate. The general consensus among tour wholesalers appears to be that visits to Canada this year will reach levels last realized in 2000.

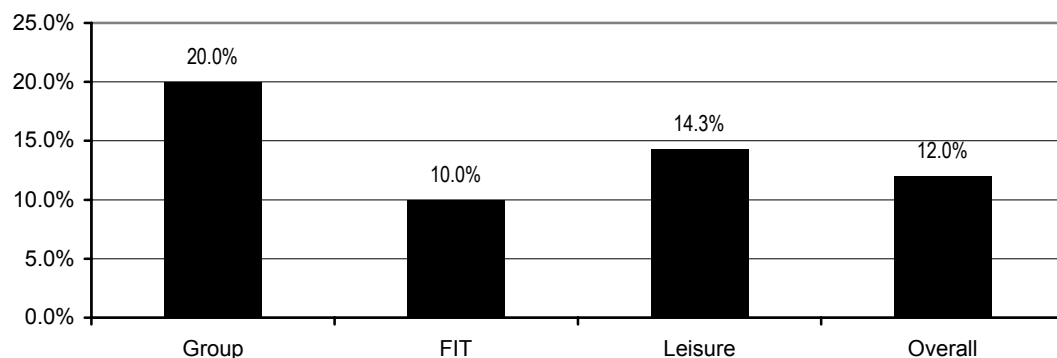
The CTC also reported that overall travel sales in Mexico strengthened during the first quarter of 2004, due to growing demand for international travel and improving economic conditions.

In the recently released Latin America Travel Demand Report for 2003, the Travel Industry Association of America (TIA) stated that consumer buying power has expanded for middle and upper income levels over the past several years, giving more Mexicans the resources for purchasing more goods and services, including travel. For example, the Mexican middle class, which makes up 22 per cent of the population, has seen incomes increase by an average of US\$5,000 annually for the past five years.

The TIA also reported that as the Mexican economy picks up, overall outbound travel is forecast to grow 3.4 per cent in 2004. Visits to the U.S. are expected to grow at approximately the same rate, and exceed 2000 levels by 2005.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004
Overnight Person-Trips from Mexico to Canada
(per cent change from previous year – same quarter)



Source: Q3 2004 Business Outlook System, Canadian Tourism Research Institute

According to *BO Monitor* participants, overall travel from Mexico in the third quarter of 2004 is expected to rise 12.0 per cent, compared with the previous year. Group travel is expected to record the strongest growth, surging by 20 per cent, while independent (FIT) leisure travel increases 10 per cent. Overall, leisure travel is expected to increase 14.3 per cent.

Mexico-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Mexico is expected to rise 2.9 per cent during the third quarter of 2004, compared with the same period in 2003. Considering the significant growth in overall travel from Mexico expected during the third quarter, it appears that air capacity could represent an impediment for Mexican travel to Canada during this period. According to OAG, Air Canada's share of direct air capacity during this period is expected to be 38.9 per cent.

**Seats Available for Travel from Mexico to Canada
(Q3 – July to September)**

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	61,756	63,548
Per cent change	N/A	2.9

Source: OAG Worldwide.

Summary Outlook for Q3 2004

Overall, *BO Monitor* participants expect leisure travel from Mexico to increase 12.0 per cent during the third quarter of 2004, compared with the same quarter of 2003. Similar to patterns seen in the previous quarter, group travel is expected to record the strongest growth, surging by 20 per cent, while independent (FIT) leisure travel increases 10 per cent.

Mexican tour operators have noted a growing interest in visits to Canada among Mexican travellers, who perceive Canada to be safe, friendly, and offer a better value compared with the U.S. These factors, combined with increasing demand for international travel and improving economic prospects could potentially propel Mexican travel to Canada to solidly recover this year.

Brazil Travel Outlook, Q3 2004

Economic Overview

Last year, Brazil's economy recorded anemic real GDP growth of 0.1 per cent. This year, the combination of lower interest rates and rising global economic activity will result in real GDP growth of 3.5 per cent. In 2005, slightly stronger growth of 3.6 per cent is expected. Lower interest rates will boost both household consumption and industrial production. In 2003, industrial production and household consumption declined, but this year, real growth in excess of 3 per cent is expected in both sectors. Brazil's two largest trading partners are the United States and Argentina and solid growth in these countries will lead to a rebound in export growth in the 2004 to 2005 period.

Tourism Trends

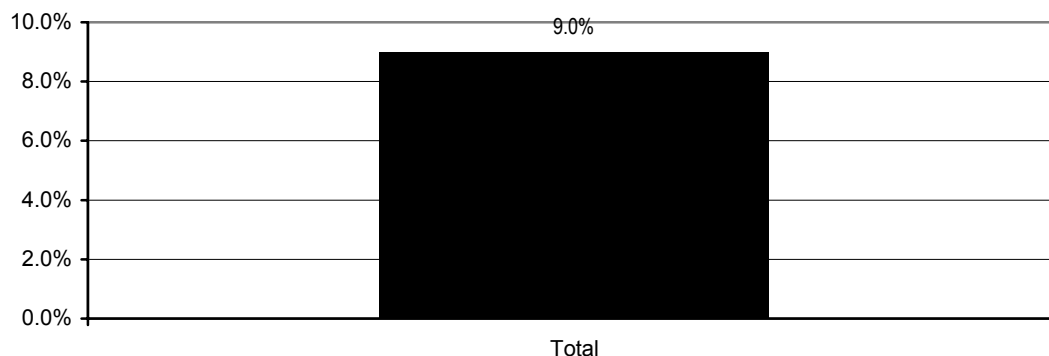
After a year of negotiations, Brazil's two largest airlines, TAM and Varig announced in February that they were putting their merger plans on hold for at least two years. Each airline would like to continue restructuring in the wake of recent financial problems, although they have agreed to expand their code-sharing agreement in order to maintain their combined share of the Brazilian air travel market.

According to the Travel Industry Association of America (TIA), the Brazilian Ministry of Tourism reported that overall international air travel from Brazil increased 16 per cent in 2003 compared with the previous year. Although overall Brazilian outbound figures for 2003 have not yet been released, the TIA noted that this was an indication of growth in Brazil's outbound travel market.

In the recently released Latin America Travel Demand Report for 2003, the Travel Industry Association of America (TIA) stated that Brazilian consumer confidence climbed consistently throughout 2003, despite the country's weak economic conditions. A number of interest rate cuts by the Central Bank in the latter part of the year made credit more affordable, which benefited the outbound travel market. In 2004, growth in the outbound market is expected to accelerate.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004
Overnight Person-Trips from Brazil to Canada
(per cent change from previous year – same quarter)



Source: Q3 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from Brazil in the third quarter of 2004—as indicated by *BO Monitor* participants—suggests an increase of 9 per cent compared with the same quarter of 2003. Unfortunately, there were not enough responses to break down bookings by segment to ensure confidentiality.

Brazil to Canada Air Capacity, OAG Worldwide

According to OAG data, direct air capacity between Brazil and Canada is expected to expand by 31.4 per cent in the third quarter of 2004, compared to the same period in 2003. If these gains hold, this substantial increase in air capacity should help facilitate travel between the two countries. Air Canada accounts for 100 per cent of the direct air capacity during this period.

**Seats Available for Direct Travel from Brazil to Canada
(Q3 – July to September)**

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	14,840	19,504
Per cent change	N/A	31.4

Source: OAG Worldwide.

Summary Outlook for Q3 2004

BO Monitor participants anticipate travel from Brazil to Canada to increase 9 per cent during the third quarter of 2004, indicating an acceleration of the growth trend this market has experienced over the previous several quarters. Further expansions (31.4%) of direct air capacity from Brazil during this period should help accommodate the expected increase in travel demand. Continuing improvements in Brazil's economic environment and building consumer confidence are also contributing to the optimistic outlook of Brazilian outbound travel.

U.K. Travel Outlook, Q3 2004

Economic Overview

Real GDP is expected to increase by 3.1 per cent in the U.K. this year and 2.6 per cent in 2005. Growth will be led by steady gains in consumer spending and slight gains in manufacturing production. Unfortunately, the current account deficit will continue to increase in large part because of the rising value of the pound. However, at 3 per cent, the unemployment rate will continue to be the envy of most European countries.

Tourism Trends

According to the First Quarter Market Report by The Canadian Tourism Commission's (CTC) foreign office in the U.K., British tour operators initially reported higher demand for U.S. destinations over Canadian trips earlier this year. Fortunately, this trend reversed itself in recent weeks, and bookings to Canada were up 20 per cent over 2003 levels. Demand for ski holidays to Canada, the U.S. and Bulgaria were strong, due to the favourable exchange rate for British travellers.

The CTC report also noted that the popularity of independent bookings appears to have surpassed that of traditional package bookings, with independent travel now the most common form of British holiday. Demand for adventure travel continues to rise as well—bookings in this category have grown 5 per cent annually since 2001.

British Airways (BA) announced plans to add more than 250,000 seats to long-haul routes this summer, including destinations in the U.S. and Mexico. BA noted that this move was in response to growing demand for longer-haul vacation destinations during the upcoming summer season.

Two of the U.K.'s major travel providers, TUI UK and First Choice U.K. recently noted that last-minute booking patterns were dampening advance summer booking levels. However, TUI revealed that its cruise bookings for summer 2004 were currently 33 per cent ahead of last year's figures at this time.

The latest Travel Index by Opodo, a survey of British travel industry members, revealed an increasing acceptance among British travellers of heightened security measures. Of those polled, 67 per cent were in favour of the new biometric passport rules while 58 per cent supported the use of sky marshals on airplanes. When questioned on the impact of these security measures, half of the respondents said they believed these would result in safer travel.

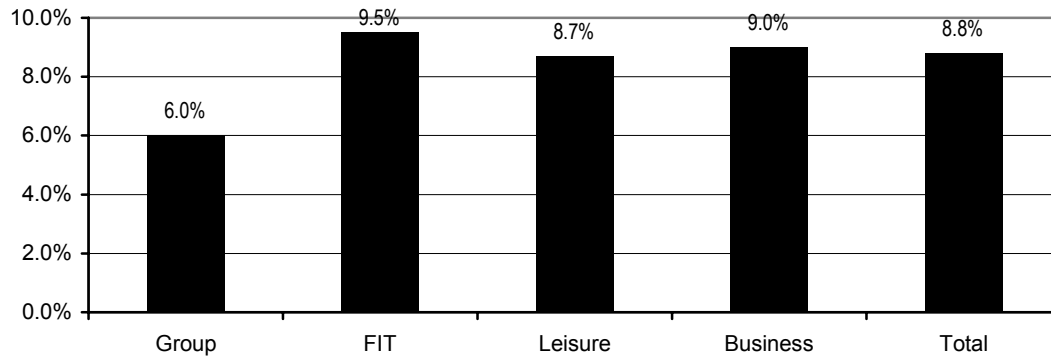
Market Overview

According to British tour operators surveyed by the CTC, sales of Canadian products for the third quarter of 2004 are expected to rise 29 per cent compared with the previous year. Respondents indicated that air capacity for this period has not been an issue with respect to selling travel products to Canada, while the exchange rate has had a positive effect on sales.

Tour operators noted that package bookings for individuals and groups, as well as independent trips for couples were selling particularly well for the third quarter of 2004. B.C. and Alberta are expected to receive the most British visitors during this period (38% and 32% of all bookings, respectively), followed by Ontario and Quebec (18% and 13%). Finally, U.K. tour operators reported that touring was the number one selling product cluster, followed by nature, and cities/resorts.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004 Overnight Person-Trips from the U.K. to Canada (per cent change from previous year – same quarter)



Source: Q3 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from the U.K.—as indicated by *BO Monitor* participants—is for growth of 8.8 per cent in the third quarter of 2004 compared with the previous year. Business travel is expected to continue leading growth expectations, up 9 per cent compared with the same quarter of 2003. Leisure travel is expected to rise 8.7 per cent, boosted by 9.5 per cent growth in independent (FIT) bookings. Meanwhile, group travel is predicted to lag somewhat behind, increasing 6 per cent during this period.

When breaking down growth expectations by regions, respondents anticipated that U.K. travel to Ontario/Quebec would climb 9.5 per cent in the third quarter of 2004, while travel to Alberta/B.C. grows 7.4 per cent (note: 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 April 2004) for travel from the U.K. to Canada during the third quarter of 2004 is expected to climb 1.1 per cent compared with the same period a year earlier. Considering this modest increase, and the overall growth in travel expected during the third quarter, air capacity may represent a constraint for travel from the U.K. to Canada during this period. According to OAG, Air Canada's share of direct air capacity in the third quarter of 2004 is expected to be 53.3 per cent.

Seats Available for Direct Travel from the U.K to Canada (Q3 – July to September)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	601,738	608,088
Per cent change	N/A	1.1

Source: OAG Worldwide

Summary Outlook for Q3 2004

According to *BO Monitor* participants, overall travel from the U.K. is expected to increase 8.8 per cent in the third quarter of 2004, compared with the previous year. Business travel is expected to continue leading growth expectations, up 9 per cent over last summer's figures. Leisure travel is predicted to rise 8.7 per cent, boosted by 9.5 per cent growth in independent (FIT) bookings. Meanwhile, group travel is expected to continue lagging behind, increasing 6 per cent during this period.

Tour operators in the U.K. are even more optimistic about the prospects for U.K. travel during the third quarter of this year—sales volumes for Canadian trips are expected to increase by almost a third this summer. Reports also indicate that the popularity of independent bookings appears to have surpassed that of traditional package bookings, with independent travel now the most common form of British holiday. The only potential challenge to the growth expected for the U.K. market this summer is the modest increase in direct air capacity between the two countries forecasted for this period. On the other hand, the British tour operators surveyed reported that air capacity has not yet become an issue.

France Travel Outlook, Q3 2004

Economic Overview

Two factors that will continue to restrain economic growth in France in the near term are weak consumer confidence and the budget deficit. Consumer confidence is weak because of a high unemployment rate of close to 10 per cent. Similar to the situation in Germany, France requires extensive reform of its labour markets before the unemployment rate can be significantly reduced. The budget deficit, which is around 4 per cent of GDP, is well above EU guidelines of 3 per cent. The pressure to reduce the deficit to more acceptable levels implies that the French government will not be in a position to reduce taxes in order to stimulate consumer spending. Real consumer spending is forecast to increase by only 1.6 per cent this year and 2 per cent in 2005.

Travel Trends

In its first quarter report, the Canadian Tourism Commission's (CTC) foreign office in France reported that tour operators ended 2003 with bookings down 7 per cent for the year, compared with 2002. Vacation packages were down 5 per cent, while air-only bookings fell 16.4 per cent. Bookings for vacation packages to Canada were down 20 per cent compared to the previous year. In 2004, French travel providers are expecting a 7.5 per cent recovery in overall bookings.

The foreign office report also noted that on-line travel continues to rapidly expand in France. According to a recent study of internet usage, 34 per cent of French travellers booked their travel on-line in 2003. Almost half of the French population (46%) use the internet, and of these users, 54 per cent have used the internet for researching and/or booking travel.

Air France announced plans to boost its overall flight capacity by 9 per cent this summer, after nearly two years of little growth. Many of these gains will be seen on Asian routes, reflecting a recovery in travel demand to this region after the SARS outbreak last year. However, because Air France transferred some capacity to North American routes from Asian routes last summer, the carrier plans to keep flight capacity on North American routes the same as last year. Air France also announced it would implement substantial fare reductions on domestic and European airfares, in response to escalating competition with low-cost carriers.

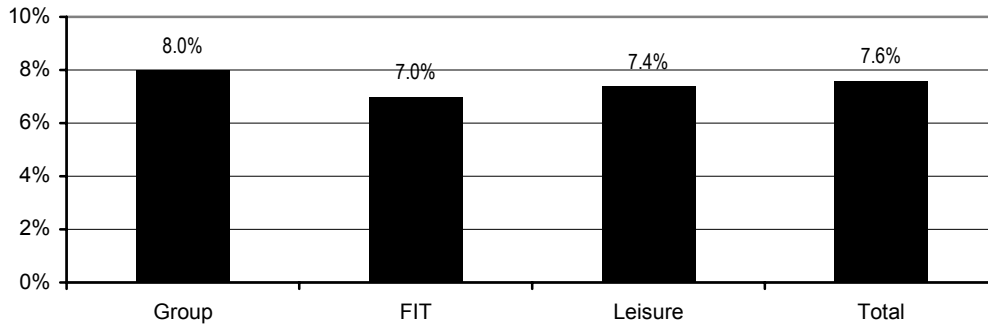
Market Overview

French tour operators surveyed by the CTC reported that sales of Canadian products for the third quarter of 2004 are expected to grow between 20 and 50 per cent compared with the previous year. Respondents indicated that air capacity has, unfortunately, represented a problem in selling Canadian travel products for all western destinations during this period, although this was not the case for eastern destinations. Meanwhile, the exchange rate appeared to have a positive affect on sales.

Tour operators noted that vacation packages for individuals and customized vacation packages were selling particularly well for the third quarter of 2004. In terms of regional travel demand, Quebec is expected to receive the most French visits—60 to 80 per cent of Canadian sales are for this region. The next most popular destination is Ontario. Respondents also identified New Brunswick and western Canada as two regional destinations with potential for the French travel market. Finally, respondents indicated that touring was the number one selling product cluster. Tied for second place were nature, culture/history and cities/resorts. The outdoor/sports category was ranked third.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004 Overnight Person-Trips from France to Canada (per cent change from previous year – same quarter)



Source: Q3 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from France in the third quarter of 2004—as indicated by *BO Monitor* participants—is for an increase of 7.6 per cent, compared with the same period last year. Group bookings are expected to continue leading the growth in leisure travel, up 8 per cent, while independent (FIT) travel is expected to rise 7 per cent.

France-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from France to Canada is expected to increase 6.1 per cent during the third quarter of 2004. In terms of numbers, it does not appear that air capacity should represent that large a constraint for travel between the two countries. According to OAG, Air Canada’s share of direct air capacity during the third quarter of 2004 is expected to be 24.4 per cent.

Seats Available for Direct Travel from France to Canada (Q3 – July to September)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	246,781	261,718
Per cent change	N/A	6.1

Source: OAG Worldwide

Summary Outlook for Q3 2004

BO Monitor participants expect travel from France to grow 7.6 per cent during the third quarter of 2004, with growth patterns similar to previous quarters. Overall leisure travel is expected to increase 7.4 per cent compared with a year earlier, led by an 8 per cent rise in group travel. The pace of growth in the independent (FIT) segment is expected to accelerate from previous quarters, increasing 7 per cent during this period.

Meanwhile, French tour operators appear to be increasingly optimistic regarding bookings to Canada, reporting expectations of significant growth for Canadian trip sales this summer. The only challenge they identified was an issue with direct air capacity between France and Canada. The latest data from OAG data suggests that the level of direct air capacity (by scheduled carriers) will increase during the third quarter. France's sluggish economy may somewhat constrain the momentum of growth expected for this market. However, so far, the outlook for travel from France remains positive for the third quarter.

Germany Travel Outlook, Q3 2004

Economic Overview

The German economy will grow by 1.7 per cent this year on the heels of flat growth in 2003. The rebound is almost entirely related to the external environment, as domestic demand will remain weak due to unemployment rates in excess of 10 per cent. High unemployment will continue to have a negative impact on both consumer and business sentiment. Rising health costs and general uncertainty over the economic outlook will result in sluggish real consumer spending growth of less than 1 per cent in 2004. The outlook for consumer spending growth in 2005 improves slightly, but is still expected to register less than a 2 per cent increase.

Tourism Trends

German-based Thomas Cook AG, Europe's second-largest travel agency, noted that in the first quarter of 2004, the total number of customers it served rose 2.8 per cent. However, travel prices decreased by an average of 9.7 per cent and the average trip duration fell 6.8 per cent compared with the previous year. By mid-March, Thomas Cook reported that overall bookings were up 4.3 per cent over the previous year.

According to the Australian Tourist Commission's latest German Monthly Market report, a DRV study showed that Germans are increasingly bypassing agencies and making more direct bookings in all travel categories. The study revealed that last year, the number of German trips booked through a travel agent fell to 37 per cent—down from 42 per cent the previous year.

Lufthansa announced plans to revamp its business class on all long-haul routes over the next two years in an effort to further target its lucrative business travel market. Vancouver, Toronto, and many U.S. routes have already been upgraded with new amenities, including lie-flat seats and in-flight broadband internet access.

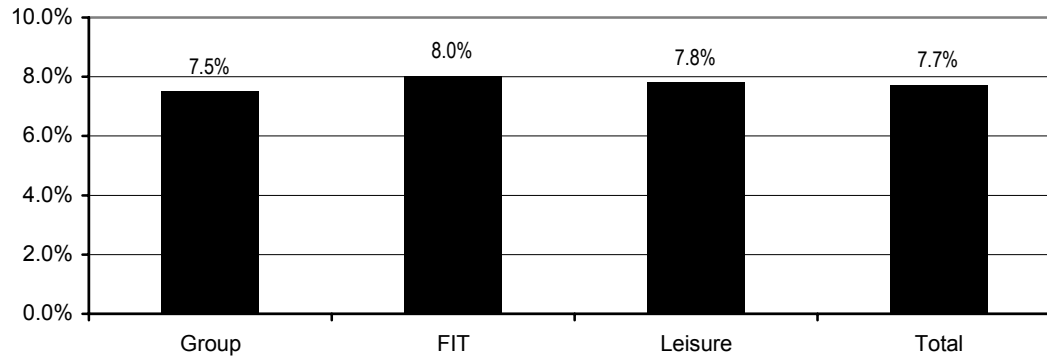
Market Overview

According to German tour operators surveyed by the CTC, sales of Canadian products for the third quarter of 2004 are expected to rise 15 to 25 per cent compared with the previous year. Respondents indicated that air capacity to Canada for this period does not currently represent a problem, and the exchange rate has had no influence on sales.

Tour operators noted strong sales trends for couples and individuals travelling without a package. For the third quarter, British Columbia and Alberta are by far the most popular regional destinations, followed by Ontario, Quebec and the Yukon. They also singled out Atlantic Canada and the Yukon as Canadian regions with potential. Finally, German tour operators reported that touring was the number one selling product cluster, followed by nature, cities and resorts, outdoor/sports, and culture/history.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004 Overnight Person-Trips from Germany to Canada (per cent change from previous year – same quarter)



Source: Q3 2004 Business Outlook System, Canadian Tourism Research Institute

According to *BO Monitor* participants, overall travel from Germany in the third quarter of 2004 is expected to increase 7.7 per cent, compared with the same quarter of 2003. Growth in the FIT segment (up 8%) is expected to surpass growth in group travel (up 7.5%) during this period.

Germany-to-Canada Air Capacity, OAG Worldwide

According to the latest data from OAG, direct air capacity from Germany is expected to expand by 20.8 per cent during the third quarter of 2004, compared to the previous year. This will help facilitate the expected growth in German travel demand to Canada. According to OAG, Air Canada's share of direct air capacity during this period is expected to be 46.6 per cent.

Seats Available for Direct Travel from Germany to Canada (Q3 – July to September)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	248,231	299,874
Per cent change	N/A	20.8

Source: OAG Worldwide

Summary Outlook for Q3 2004

BO Monitor participants anticipate that overall travel from Germany will increase 7.7 per cent in the third quarter of 2004, compared with the same quarter last year. Growth in the FIT segment (up 8%) is expected to surpass growth in group travel (up 7.5%) during this period. A surge in direct air capacity between Germany and Canada (20.8%) should help facilitate the growth in travel expected for this market.

Reports from Germany's tourism industry indicate that overall bookings for this year are continuing to gain momentum, posting solid growth in the first quarter of this year. However, travel prices and trip durations have dropped considerably. Germany's economic environment is weighing on consumer and business sentiment, which is likely a contributing factor for these travel trends. Fortunately, German tour operators surveyed by the CTC expect solid growth in German travel to Canada this summer, supporting the positive outlook of *BO Monitor* participants for this market.

Italy Travel Outlook, Q3 2004

Economic Overview

According to the Economist Intelligence Unit, unlike in most other European countries, consumer and business confidence in Italy has remained weak. The negative impact of the stronger euro on exports will continue to constrain the pace of recovery. We do expect consumer and business confidence to gradually improve and as a result strengthen domestic demand. Demand should also be spurred by low interest rates, falling inflation and moderate real wage and employment growth. However, real GDP growth is only expected to be 1 per cent in 2004.

Tourism Trends

The Canadian Tourism Commission's (CTC) foreign office in Italy reported in its latest quarterly report that Italians appear to be returning to longer, more traditional holiday periods. A survey by Sociometrica revealed that 80 per cent of Italians planned to take at least 2 weeks of uninterrupted vacation time this summer, reversing the trend of shorter breaks that has emerged over the past several years. Italians are expected to increase their travel spending by 5.9 per cent this summer, and indicated a growing interest in holidays abroad. However, at the time of the survey, most respondents had not yet decided on a vacation destination, confirming the persistence of last-minute booking trends.

According to the Australian Tourist Commission, Italian consumer confidence in travel is rising, with many tour operators recently reporting "good interest in quotes and solid bookings" for a range of destinations. In March 2004, Kuoni reported a 50 per cent increase in travel information requests, compared with the same time last year, particularly for honeymoons and U.S. destinations.

Unfortunately, Italy's flag carrier, Alitalia, recently reported that the strong reaction of travel agents against new commission rates and strike actions by its workforce continue to weigh heavily against its financial performance, despite improving airfare yields. The fate of Alitalia hangs in the balance while the Italian government (a 62% stakeholder in the airline) decides on the scope of an aid package, which according to EU competition rules, must be presented to the entire Italian airline industry. At the end of April, Alitalia staff staged another wild-cat strike at Rome Airport in protest of the government's inaction, which grounded Alitalia's entire fleet.

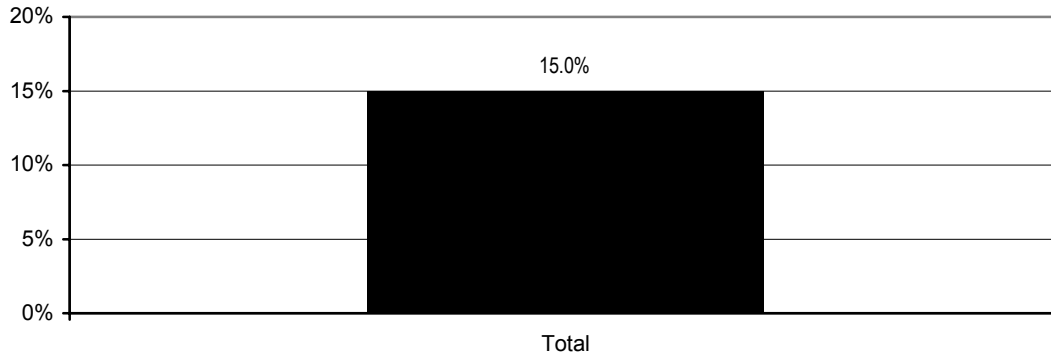
Market Overview

According to Italian tour operators surveyed by the CTC, sales of Canadian products for this summer are expected to double, up 99 per cent compared with the previous year. Respondents indicated that air capacity has become an issue with respect to selling travel products to Canada for the third quarter of 2004, although the exchange rate has had a positive influence on sales.

Tour operators noted that travel bookings for couples, both with and without a package were selling particularly well for the third quarter, as were packages for individuals. Ontario and Quebec are expected to receive the most Italian visitors during this period (26% and 27% of all bookings, respectively), followed by B.C. and Alberta (20% each). Finally, nature was identified as the number one selling product cluster, followed by touring, cities and resorts, culture/history and outdoor/sports.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004 Overnight Person-Trips from Italy to Canada (per cent change from previous year – same quarter)



Source: Q3 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from Italy in the third quarter of 2004—as indicated by *BO Monitor* participants—is for an increase of 15 per cent compared with the same quarter last year. 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 increase 2.2 per cent in the third quarter of 2004, compared with the same quarter a year ago. Considering the growth in overall travel demand expected from Italy, this could represent an impediment to travel between Italy and Canada during this period. According to OAG, Alitalia has a 90 per cent share of the direct air capacity during the third quarter, and Air Transat has 10 per cent. Since last summer, Air Canada has suspended its direct air service to Italy.

Seats Available for Direct Travel from Italy to Canada (Q3 – July to September)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	36,068	36,865
Per cent change	N/A	2.2

Source: OAG Worldwide.

Summary Outlook for Q3 2004

The pace of growth for travel from Italy is expected to accelerate through the third quarter of 2004. *BO Monitor* participants anticipate that travel to Canada from Italy will grow by 15 per cent in the third quarter, compared with the previous year. Italy’s overall travel outlook has improved dramatically since last summer, which should help support the anticipated growth in this market. The only real concern is the tenuous future of its main airline, Alitalia. The national flag carrier has a 90 per cent share of direct air capacity between Italy and Canada and suspension of its services could represent a significant challenge to attracting visitors from this market.

Netherlands Outlook, Q3 2004

Economic Overview

According to the Economist Intelligence Unit (EIU), economic growth has been stymied over the past two years as excessive wage increases made Dutch companies uncompetitive. Unfortunately, the EIU expect further wage increases will continue to dampen economic growth over the next five years.

Tourism Trends

KLM Royal Dutch Airlines reported that its passenger traffic grew 8 per cent in March 2004, compared with the previous year, boosted by a 12 per cent jump in intercontinental business-class traffic. In April, KLM reported that it expects to be “well in profit” for its fiscal year ended March 31, 2004, due in part to stronger than expected improvements in traffic volumes and airfare yields in the January to March quarter. The airline will report its full year financial results sometime in May.

KLM also announced plans to increase its summer capacity by 8 per cent compared with last summer. Most of these increases will be seen on Asian routes, which saw substantial cuts in the wake of the SARS crisis last year. However, the airline is planning to add capacity on Canadian routes, as well.

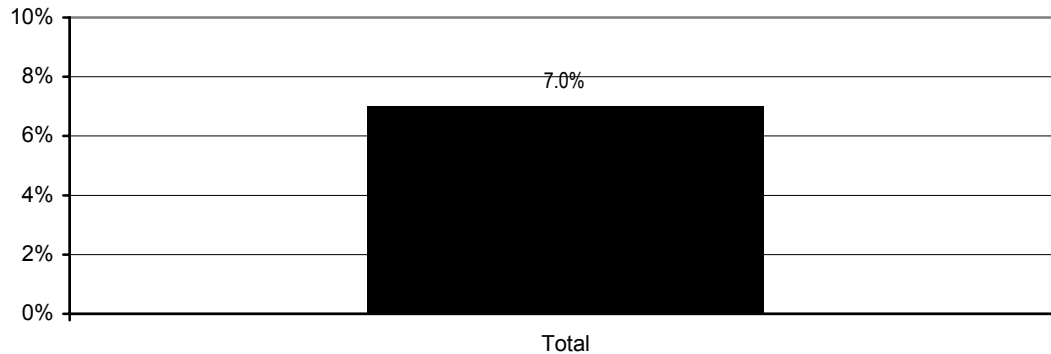
Market Overview

A CTC survey of Dutch tour operators revealed that sales of Canadian products for the third quarter of 2004 are expected to increase marginally compared with the previous year, growing up to 3 per cent. Respondents had mixed reactions to the question regarding air capacity issues, but the majority indicated that air capacity for this period did not represent a constraint in selling Canadian products. Responses regarding the effects of the exchange rate were mixed as well.

Tour operators identified vacation packages for individuals as a particularly strong sales category for the third quarter of 2004. B.C. and Alberta are expected to receive the most Dutch visitors during this period, followed by Ontario, Quebec and the Atlantic region. Respondents noted that Atlantic Canada, the Yukon and the Northwest Territories represented destinations with potential for the Dutch market and were currently “under development.” Finally, Dutch tour operators reported that nature was the number one selling product cluster, followed by outdoor/sports, cities and resorts, touring, and culture/history.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004 Overnight Person-Trips from the Netherlands to Canada (per cent change from previous year – same quarter)



Source: Q3 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from the Netherlands in the third quarter of 2004—as indicated by *BO Monitor* participants—is for an increase of 7 per cent, compared with last year. Unfortunately, there were not enough responses to break down bookings by segments to ensure confidentiality.

Netherlands-to-Canada Air Capacity, OAG Worldwide

Fortunately, continuing the positive trends seen in previous quarters, direct air capacity from the Netherlands is expected to increase by 19.8 per cent in the third quarter of 2004, compared with 2003. This means that air capacity should not present much of a constraint for travel between Netherlands and Canada in that quarter. According to OAG, Air Canada’s share of air capacity during this period is expected to be 13.0 per cent.

Seats Available for Direct Travel from the Netherlands to Canada (Q3 – July to September)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	124,917	149,627
Per cent change	N/A	19.8

Source: OAG Worldwide

Summary Outlook for Q3 2004

BO Monitor participants anticipate that overall travel from the Netherlands will climb 7 per cent during the third quarter of 2004. Fortunately, direct air capacity from the Netherlands is expected to continue expanding, which should help facilitate growth in this market. Dutch tour operators surveyed by the CTC were slightly less optimistic regarding growth in travel to Canada this summer. The stalled economy is weighing on consumer confidence levels in the Netherlands and is likely contributing to their cautious outlook.

Japan Travel Outlook, Q3 2004

Economic Overview

The Japanese economy is finally on the mend. Underlying economic fundamentals are strong, corporate profits are strengthening, and the banking system is relatively healthy compared with the situation a few years ago. An export-led recovery supported by growth in manufacturing should continue to boost job growth and consumer spending this year. Japan's export-led recovery is and will remain highly dependent upon China's continued economic growth. The most recent data on Japanese trade reveals a positive overall trade surplus, rising for the eighth consecutive month in February 2004. This represents a significant 52 per cent increase from the same period in 2003 and the highest level since 1998. Japanese exports to China increased by 14 per cent in February, outpacing a 5.2 per cent gain in imports. China is now Japan's second largest trading partner after the United States. Real GDP is expected to increase by 2.8 per cent in 2004 and 1.6 per cent in 2005.

Tourism Trends

JTB Corp., Japan's largest travel agency, estimated that overall travel during the Golden Week holiday period (April 29 – May 5) this year would increase 3.6 per cent over the same period in 2003. While travel within Japan is projected to increase a modest 2.4 per cent, overseas travel is expected to surge 107.3 per cent, compared with the previous year, when travel declined drastically in the wake of the SARS outbreak.

In anticipation of the surge in Golden Week travel, the Japanese government announced plans to tighten anti-terrorist security measures at a range of transportation facilities, including x-raying travellers' shoes at airport security checks.

Kansai Airport reported that flight frequencies could potentially reach record-high levels during the peak summer vacation season this year. The airport expects the number of flights during the peak travel period in August to reach 692 per week, just below the record-high of 700 per week seen in the summer of 2001.

The Canadian Tourism Commission's (CTC) foreign office in Japan recently reported that major Japanese wholesalers are switching sales strategies towards providing more travel products for FIT travellers, rather than package programs. The wholesalers believe that the Japanese FIT segment has proven to be a more resilient market in today's travel environment. The CTC foreign office also noted that Japanese trips to Canada this year are expected to return to 2002 levels.

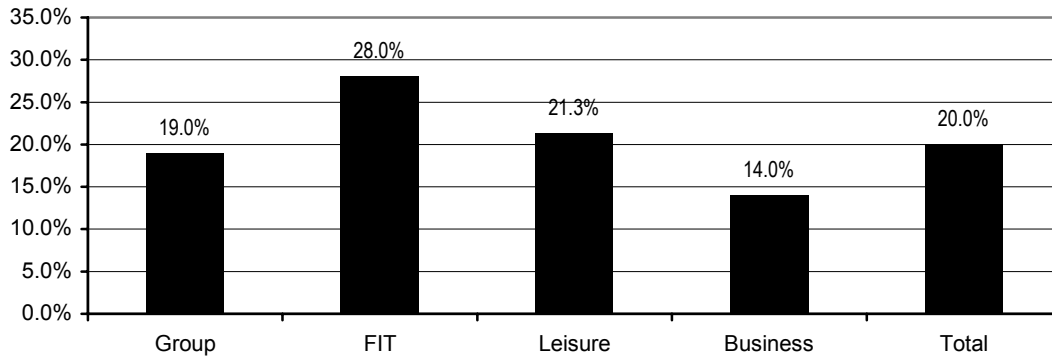
Market Overview

According to Japanese tour operators surveyed by the CTC, sales of Canadian products for the third quarter of 2004 are expected to rise 30 to 40 per cent compared with the previous year. If that happens, it would mean a return to 2002 levels. Respondents indicated that air capacity continued to represent a challenge for selling travel products to Canada, although questions regarding the impact of the exchange rate drew mixed responses.

Tour operators noted there were no particular sales trends emerging for the third quarter, with respect to package types. They noted, however, that B.C., Alberta and Ontario are expected to receive the most Japanese visitors during this period (30% each), followed by Quebec (10%). The Atlantic region was identified as a Canadian destinations representing potential. Finally, Japanese tour operators reported that nature continued to be the highest selling product cluster, followed by touring, outdoor activities, and cities/resorts.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004 Overnight Person-Trips from Japan to Canada (per cent change from previous year – same quarter)



Source: Q3 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from Japan in the third quarter of 2004—as indicated by *BO Monitor* participants—suggests a 20 per cent increase, compared with the same quarter of 2003. Independent (FIT) leisure travel is leading growth expectations, with survey participant anticipating a rise of 28 per cent in this segment, followed by a 19 per cent increase in group leisure travel. Overall gains in leisure travel (up 21.3%) are expected to outpace the growth in business travel (up 14%).

Of the two Canadian regions reported on by *BO Monitor* participants, Ontario/Quebec is expected to maintain a higher rate of growth, up 22 per cent during the third quarter of 2004, while visits to Alberta/British Columbia increase 18 per cent.

Japan-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Japan for the third quarter of 2004 is expected to jump 36.4 per cent compared with the previous year and should help facilitate travel growth from Japan during this period. According to OAG, Air Canada's share of direct air capacity during this period is expected to be 68.9 per cent.

Seats Available for Direct Travel from Japan to Canada (Q3 – July to September)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	112,060	152,852
Per cent change	N/A	36.4

Source: OAG Worldwide.

Summary Outlook for Q3

According to *BO Monitor* participants, overall travel from Japan in the third quarter of 2004 is expected to grow 20 per cent compared with a year earlier. Independent (FIT) travel is expected to post the strongest growth, climbing 28 per cent during this period, while group travel expands 19 per cent. Meanwhile, the outlook for business travel is to post growth of 14 per cent during the quarter.

Japanese tour operators surveyed by the CTC were even more optimistic about travel from Japan to Canada during this period—they anticipated that sales would recover to 2002 levels this summer. Respondents did note that direct air capacity from Japan continued to represent a challenge in selling travel products to Canada, but the rise in available seats expected for the third quarter (36.4%, according to OAG) may help alleviate some of those concerns.

Taiwan Outlook, Q3 2004

Economic Overview

A recent report by the Economist Intelligence Unit states that economic growth during the first half of 2004 in Taiwan should significantly strengthen but slow later in the year. As a result, annual real economic growth of 5.6 per cent is projected for 2004, followed by 4.9 per cent growth in 2005. In addition, the Taiwan Institute of Economic Research (TIER), a private economic think-tank, said it recently raised its 2004 gross domestic product (GDP) growth forecast to 5.08 per cent from a previous estimate of 4.81 per cent provided in January 2004. It said the revision was due to the projection that the island's industrial output, exports and stock market would continue to pick up steam as political concerns, triggered by the disputed presidential polls, ease.

Tourism Trends

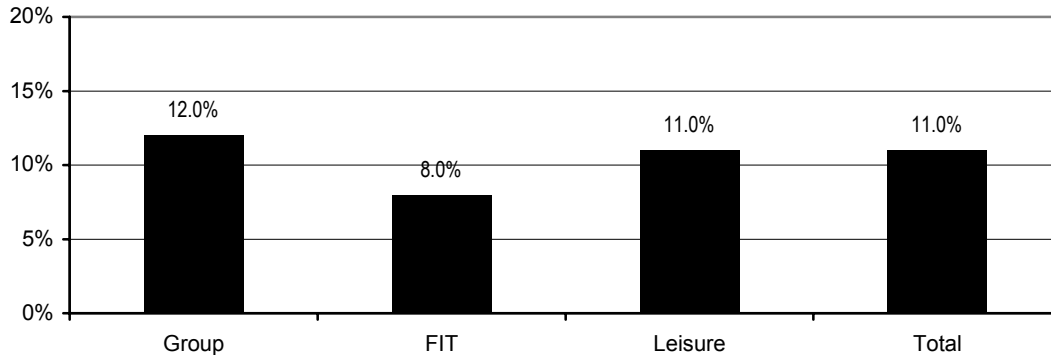
Taiwan's two major airlines, China Airlines and EVA Airways, recently reported substantial growth in its first quarter 2004 earnings—up 53 per cent and 85 per cent, respectively, in comparison to the same quarter of 2003. While much of the earnings were attributed to strong cargo traffic, they also reflected a strong rebound in passenger traffic after last year's SARS outbreak. According to a Reuters news report, both of Taiwan's main airlines are planning fleet expansions in anticipation of rising passenger and cargo demand.

According to the Taiwan Journal, the Taiwanese Department of Health announced an elevation of the country's SARS alert in late April 2004, after new SARS cases were confirmed in mainland China. The heightened alert involved the reactivation of certain border control measures such as taking the temperature of inbound travellers. The reappearance of SARS has raised concerns among Taiwanese travel agents, who have already received a rash of cancellations for trips to China.

The Canadian Tourism Commission's (CTC) foreign office in Taiwan reported that the outbreak of Avian flu negatively impacted outbound travel to a number of Asian destinations during the first quarter of this year. The Taiwanese presidential election was also dampening travel demand, which in turn prompted airlines to offer discounts in an attempt to stimulate outbound travel in the period leading up to the election. The CTC also noted that the relatively high value of the Canadian dollar was impeding the sales of travel products to Canada.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004 Overnight Person-Trips from Taiwan to Canada (per cent change from previous year – same quarter)



Source: Q3 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall leisure travel from Taiwan in the third quarter of 2004—as indicated by *BO Monitor* participants—is for an increase of 11 per cent, compared with last year. *BO Monitor* respondents anticipate that growth in the leisure group segment (up 12%) will outpace growth in independent (FIT) travel (up 8%).

Taiwan-to-Canada Air Capacity, OAG Worldwide

According to OAG, direct air capacity from Taiwan to Canada is expected to decline 3.3 per cent during the third quarter of 2004, compared with a year earlier. Therefore, air capacity could very well represent a problem in facilitating the travel needs of significantly more Taiwanese travellers 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 (Q3 – July to September)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	62,524	60,444
Per cent change	N/A	-3.3

Source: OAG Worldwide.

Summary Outlook for Q3 2004

BO Monitor participants expect overall travel from Taiwan to Canada will increase 11 per cent in the third quarter of 2004, maintaining a slow but steady pace of recovery. The Taiwanese outbound market remains understandably sensitive to health issues. The reappearance of SARS has raised concerns among Taiwanese travel agents, who have already received a rash of cancellations for trips to China. Furthermore, political uncertainty surrounding the disputed presidential election in March 2004 and the outbreaks of Avian flu earlier this year dampened the potential rebound in travel demand during the first quarter of 2004. Nevertheless, the tourism industry responded quickly by offering travel discounts which helped get the travel recovery back on track.

South Korea Travel Outlook, Q3 2004

Economic Overview

The South Korean economy is currently in a relative lull. According to the Economist Intelligence Unit, in an attempt to boost private consumption, the South Korean government lowered special excise taxes earlier this year on a wide range of items, including electronic goods, cars and even golf merchandise. The tax breaks are scheduled to remain in place until the end of 2004. Nevertheless, the economy should continue to do well, aided by strong wage growth, as long as China's economy continues to surge and demand more Korean goods.

Travel Trends

The Canadian Tourism Commission's (CTC) foreign office in Korea reported that the Avian flu outbreak in Asia impacted outbound travel in the first quarter of this year, but more so for Asian destinations than longer-haul destinations. Honeymoons, which traditionally peak in the spring and fall, tended to be diverted towards destinations that were free of Avian flu cases, such as Australia and Europe. The CTC also reported that Korean travel agents have been increasing their focus of the on-line travel market, particularly the FIT segment, in response to growing consumer trends.

The latest Korean Monthly Market Report by the Australia Tourist Commission noted that the April 16th general elections hampered travel demand in the period leading up to the elections. The leap month of the Chinese calendar system also had a negative effect on travel. For these reasons, the ATC anticipated an increase in travel package discounts.

Korean Air Lines (KAL) recently unveiled plans to upgrade its fleet and improve its international image, in an effort to become one of the world's top ten passenger airlines by 2010. The airline's strategies, which will cost an estimated US\$9 billion over the next ten years, include redesigning aircraft interiors, upgrading its business class and first class amenities, increasing its fleet size, as well as other modernizations. The airline also intends to upgrade its cargo facilities.

Market Overview

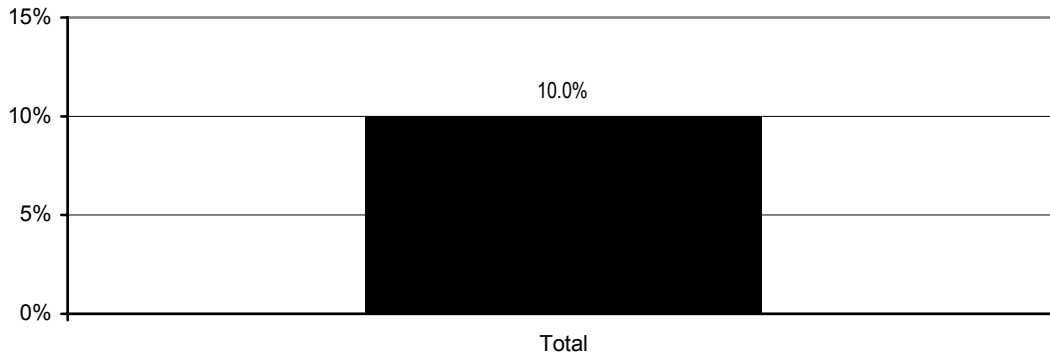
Korean tour operators surveyed by the CTC were very optimistic regarding the sales of Canadian products for the third quarter of 2004. In fact, they expected increases of 20 to 50 per cent over the previous year. However, respondents indicated that air capacity has represented a problem in selling Canadian travel products for this period, as the capacity allocated to travel agents has decreased relative to the seats allocated for independent (FIT) travellers. The exchange rate, as well, represented a challenge, due to the appreciation of the Canadian dollar.

Tour operators noted that FIT travel bookings are gaining popularity, and therefore agents are developing more FIT products. However, group packages still comprise the majority of travel agent sales. In terms of regional travel demand, B.C. is expected to receive the most Korean visitors during this period (40% of all bookings), followed by Ontario (35%), Alberta (20%), and Quebec (15%).

Respondents also identified a number of Canadian destinations under development for the Korean market: B.C. (for the Butchart Gardens and the Okanagan region), Halifax (for lobster), Prince Edward Island (for Anne of Green Gables attractions), Alberta's UNESCO trail, and Ontario's winery region. Finally, respondents indicated that touring was the number one selling product cluster, followed by culture/history, nature, and cities/resorts.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004 Overnight Person-Trips from South Korea to Canada (per cent change from previous year – same quarter)



Source: Q3 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from South Korea in the third quarter of 2004—as indicated by *BO Monitor* participants—is for 10 per cent growth, compared with the same quarter last year. If this growth materializes, South Korean visits to Canada will recover to 2002 levels.

BO Monitor participants also indicated they expect Korean travel to Ontario/Quebec and Alberta/British Columbia to increase 10 per cent in each region during this period.

South Korea-to-Canada Air Capacity, OAG Worldwide

According to OAG, direct air capacity from South Korea to Canada during the third quarter of 2004 is expected to increase marginally compared with the previous year, up 1.7 per cent. While, the increase is a welcome reversal of the negative trends seen in previous quarters, it may not be enough to facilitate the growth in travel from Korea expected during this period. According to OAG, Air Canada’s share of direct air capacity during the third quarter is projected to be 39.5 per cent.

Seats Available for Direct Travel from South Korea to Canada (Q3 – July to September)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	65,012	66,147
Per cent change	N/A	1.7

Source: OAG Worldwide.

Summary Outlook for Q3 2004

BO Monitor participants anticipate that overall leisure travel from South Korea will grow 10 per cent during the third quarter of 2004. If this growth materializes, South Korean travel will recover to levels reached in the third quarter of 2002. Meanwhile, the CTC foreign office in Korea reported that the Korean outbound market proved sensitive to the Avian flu outbreak during the first quarter of this year. Instead, outbound trips were diverted towards destinations that were free of Avian flu cases, such as Australia and Europe. Air capacity was mentioned by foreign tour operators as representing a possible constraint and the OAG data also suggests it may be less than is required.

Hong Kong Outlook, Q3 2004

Economic Overview

The Hong Kong economy was showing clear signs of recovery, largely due to a rebound in the property market, according to the Asian Development Bank. An increase in housing values gives consumers a greater sense of wealth and confidence. The Bank expects that real economic growth was 3.3 per cent last year and is expected to nearly double that this year (6%) before cooling slightly to post further growth of 5 per cent in 2005.

Tourism Trends

Hong Kong's two largest airlines, Cathay Pacific and Dragonair each reported strengthening demand through the first quarter of this year, with steady growth in business traffic, particularly on long-haul routes. Dragonair warned, however, that overall yields remained under pressure.

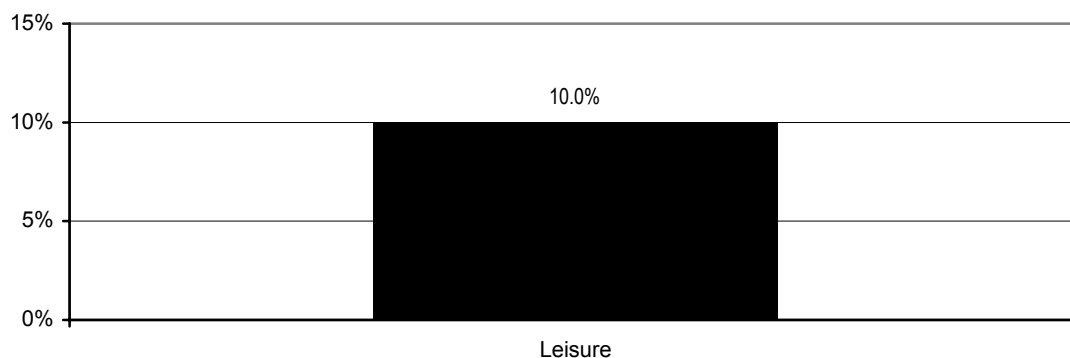
After lowering its SARS alert level on April 6, 2004, the Hong Kong government issued a new SARS alert in late April after new SARS cases were diagnosed in mainland China. According to a Reuters report, the alert included increased health screening measures of airport and rail passengers.

The Canadian Tourism Commission's (CTC) foreign office in Hong Kong noted in its First Quarter Report that the World Travel and Tourism Council forecasted strong growth in Hong Kong's tourism industry in 2004, following the losses experienced during the SARS outbreak last year. The CTC also indicated that overall air capacity levels between Hong Kong and Canada were strong, with Air Canada and Cathay Pacific currently offering five direct flights on a daily basis.

A recent survey of 4.8 million airline passengers by Skytrax, a U.K.-based aviation consultant, revealed that travellers rated Hong Kong as having the best airport and one of the top three airlines in the world. According to survey results, Hong Kong International Airport was rated as the best overall airport, based on comfort and usability. For best airline, Cathay Pacific Airlines was tied with Emirates and Singapore Airlines for first place, based on quality and service.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004
Overnight Person-Trips from Hong Kong to Canada
(per cent change from previous year – same quarter)



Source: Q3 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for travel from Hong Kong in the third quarter of 2004—as indicated by *BO Monitor* participants—is for growth of 10 per cent, compared with last year. It appears that this market will gain solid ground in its rebound from last summer’s SARS crisis. According to Statistics Canada, overnight travel from Hong Kong to Canada was off more than 17 per cent in the third quarter of 2003, compared with the previous year.

Hong Kong-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Hong Kong to Canada is expected to jump by 78.9 per cent during the third quarter of 2004, compared with the previous year. This considerable increase is a clear indication of the recovery in travel expected from Hong Kong during this period. According to OAG, Air Canada’s share of direct air capacity during the third quarter of 2004 is 39.6 per cent.

**Seats Available for Direct Travel from Hong Kong to Canada
(Q3 – July to September)**

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	73,797	132,020
Per cent change	N/A	78.9

Source: OAG Worldwide.

Summary Outlook for Q3 2004

According to *BO Monitor* participants, travel from Hong Kong to Canada is expected to grow by 10 per cent during the third quarter of 2004, compared with 2003. These gains would represent a partial recovery of this market after last summer’s SARS crisis, but visits would remain below 2002 levels. Hong Kong’s two largest airlines, Cathay Pacific and Dragonair each reported strengthening demand through the first quarter of this year, with steady growth in business traffic, particularly on long-haul routes. Improvements in air travel demand, and clear indications of Hong Kong’s continuing economic recovery support the steady growth expected for this travel market. Massive growth in direct air capacity (78.9%) between Hong Kong and Canada should help ensure there is sufficient capacity for air travel between the two countries this summer.

China Travel Outlook, Q3 2004

Economic Overview

In terms of economic growth, SARS appeared to have barely made a dent in China's surging economy last year. In fact, the economy recorded real economic growth of 9.1 per cent in 2003 and is projected to grow a further 8.3 per cent this year and 7.6 per cent in 2005. Growth will once again be led by an expected 20 per cent increase in exports, with the bulk going to advanced economies. Growth in the short-term will, however, be more restrained than last year as pressure mounts on the Chinese government to restrain its economy and abandon the fixed pegging of the yuan to the U.S. dollar. The exchange rate has been fixed at 8.3 yuan per U.S. dollar since the early 1990's.

Tourism Trends

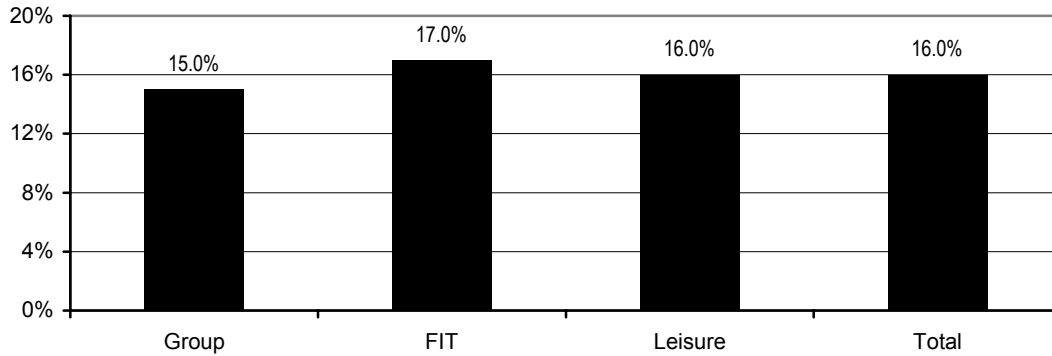
As of the first week of May 2004, China's Health Ministry confirmed nine new cases of Severe Acute Respiratory Syndrome (SARS), and had isolated over 600 other people for observation. However, according to a Reuters news report, the Chinese media has not been focusing too heavily on the new cases, despite heightened health measures such as temperature checks of travellers at airports and railway stations. The new outbreak appears to be linked to a laboratory that had been working with the SARS virus. This may be part of the reason the Chinese public is not as concerned. Unlike last year's outbreak, the Chinese government appears to have a better system in place for dealing with the highly contagious disease.

The latest passenger figures from Chinese airlines indicate that China's domestic air travel market continues to rapidly expand. China Southern Airlines reported a 25.7 per cent rise in traffic for March, compared with the previous year, while international traffic declined 2.8 per cent. China Eastern Airlines saw its domestic passenger traffic soar 38.5 per cent higher in March, while its international traffic fell 4.3 per cent compared with the previous year. China Eastern noted that its international traffic levels had slipped due to increasing competition from foreign airlines.

According to the Australian Tourist Commission (ATC), Chinese outbound travel peaked during the Chinese New Year holiday this year (January 22 – 28), then slowed down in the beginning of February. Travel providers responded by cutting airfares and tour prices by up to 40 per cent to most Asian destinations. The ATC also noted that the World Travel and Tourism Council forecasted a 20.5 per cent rise in China's outbound market in 2004.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004 Overnight Person-Trips from China to Canada (per cent change from previous year – same quarter)



Source: Q3 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall leisure travel from China—as indicated by BO Monitor participants—is for 16 per cent growth in the third quarter of 2004, compared with the previous year. BO Monitor participants anticipate that group travel will rise 15 per cent, while independent (FIT) travel climbs 17 per cent during this period.

BO Monitor participants indicated they expected travel to Ontario/Quebec and Alberta/British Columbia to grow 16 per cent in each region during the third quarter.

China to Canada Air Capacity, OAG Worldwide

Direct air capacity from China is expected to increase 84.7 per cent during the third quarter of 2004, compared with the previous year, reflecting the rebound in travel demand expected from China this summer. According to OAG, Air Canada’s share of direct air capacity during this period is expected to be 55.9 per cent.

Seats Available for Direct Travel from China to Canada (Q3 – July to September)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	37,830	69,889
Per cent change	N/A	84.7

Source: OAG Worldwide.

Summary Outlook for Q3 2004

BO Monitor participants anticipate overall travel from China to grow by 16 per cent during the third quarter of 2004. Group travel is expected to rise 15 per cent, while independent (FIT) travel climbs 17 per cent during this period. The re-emergence of Chinese SARS cases has set off alarms in the global tourism industry, but the Chinese public appears to be taking the outbreak in stride. In addition, the new SARS cases do not appear to be impacting China's economy at all. If the situation with SARS does not get any worse, there still appears to be considerable optimism for achieving solid growth in Chinese travel to Canada this summer.

Australia Travel Outlook, Q3 2004

Economic Overview

Australia's economy will record strong growth over the short-term. Real GDP is forecast to increase by 3.9 per cent this year and 3.3 per cent in 2005. The increase in commodity prices, a result of Chinese demand, will boost export earnings while the domestic economy will benefit from rising employment and wages. The main factor that could constrain growth is rising interest rates. Over the past six months the Central Bank has increased interest rates by 50 basis points in an attempt to cool down the country's red-hot housing market. However, consumer credit for housing continues to increase and it now appears possible that interest rates will rise again over the next few months.

Tourism Trends

The Canadian Tourism Commission's (CTC) foreign office in Australia reported that pent-up demand and favourable exchange rates were pushing sales levels of North American travel products "through the roof." One major travel supplier reported "huge growth" on sales to the U.S. and Canada in the first quarter of 2004. According to the CTC, a number of travel wholesalers are expecting a bright year for the Australian travel industry in 2004. In the last several quarters, the Australian currency has been gaining considerable strength, which will help encourage further growth in the outbound travel market.

The CTC also reported that consumer confidence has reached record-high levels in Australia. In January 2004, the Roy Morgan Consumer Confidence Rating registered the highest rating seen in 29 years of measurement.

Competition within Australia's low-cost carrier market appears to be heating up. Qantas Airways launched its low-fare subsidiary, Jetstar, in late February, with a special promotion offering 100,000 seats to a number of domestic destinations for A\$29 (CDN\$28.94). Jetstar's main competitor, Virgin Blue retaliated by offering 200,000 domestic tickets for the same price. Jetstar reported it sold more than 60,000 seats in the first 10 hours of taking reservations.

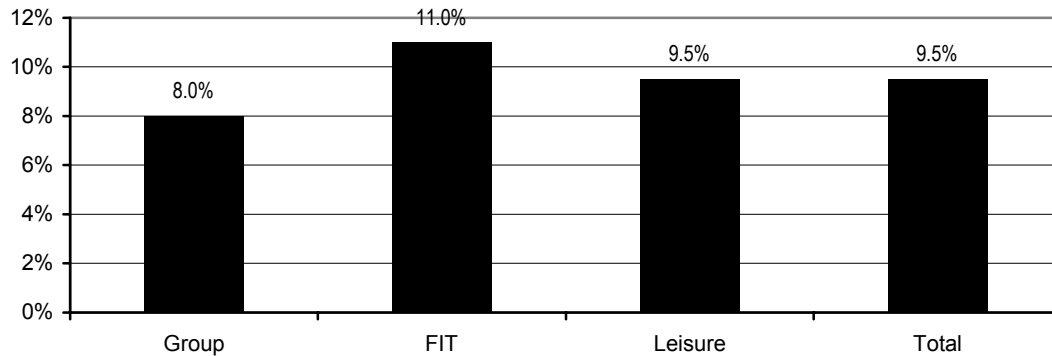
Market Overview

According to Australian tour operators surveyed by the CTC, sales of Canadian products are expected to grow 92 per cent in the third quarter of 2004, compared with the previous year. However, a few respondents indicated that air capacity for this period became a problem with respect to selling travel products to Canada during this period. Fortunately, the increasing value of the Australian dollar has had a positive effect on sales.

Tour operators noted that vacation packages for couples were selling particularly well for the third quarter of 2004. B.C. and Alberta are expected to receive the most Australian visitors during this period (56% and 32% of all bookings, respectively), with Quebec (8%) and Ontario (3%) receiving much smaller proportions of visits. Finally, Australian tour operators reported that touring was the number one selling product cluster, followed by cities/resorts, nature, culture/history, and outdoor/sports.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004 Overnight Person-Trips from Australia to Canada (per cent change from previous year – same quarter)



Source: Q3 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall leisure travel from Australia in the third quarter of 2004—as indicated by BO Monitor participants—is for a 9.5 per cent surge in growth, compared with the previous year. Independent leisure travel (FIT), up 11 per cent, is expected to outpace group travel, up 8 per cent. These gains would bring Australian visits close to 2002 levels for this quarter—travel from Australia in the third quarter of 2003 declined 9.2 per cent compared with 2002.

Australia to Canada Air Capacity, OAG Worldwide

Unfortunately, total air capacity from Australia (including both direct and non-direct flights) is expected to decrease substantially during the third quarter of 2004, falling 23.0 per cent compared with the previous year. This means that air capacity could be a significant issue with respect to travel from Australia during this period.

Seats Available for Travel from Australia to Canada (Q3 – July to September)

	2003	2004 EST.
Seats available	25,336	19,504
Per cent change	N/A	-23.0

Source: OAG Worldwide.

Summary Outlook for Q3 2004

According to *BO Monitor* participants, growth in leisure travel from Australia to Canada is expected to accelerate in the third quarter of 2004, rising 9.5 per cent compared with the previous year. These gains would bring Australian visits close to 2002 levels for this quarter. The CTC's foreign office in Australia reported that pent-up demand and favourable exchange rates were pushing sales levels of North American travel products "through the roof" during the first quarter of this year. A number of travel wholesalers are expecting a bright year for the Australian travel industry in 2004. In the last several quarters, the Australian currency has been gaining considerable strength, which will help encourage further growth in this outbound travel market. Air capacity during this quarter, however, could present a very real challenge for this market.

New Zealand Travel Outlook, Q3 2004

Economic Overview

A recent article in the Japan Weekly Monitor quotes New Zealand Bank governor Allan Bollard as saying, "The New Zealand economy continues to perform strongly and this is being supported by further improvements in the global economy". However, the consensus is that the New Zealand dollar will continue to depreciate this year, in spite of recent interest rate increases, making it more expensive for New Zealanders to travel abroad.

Tourism Trends

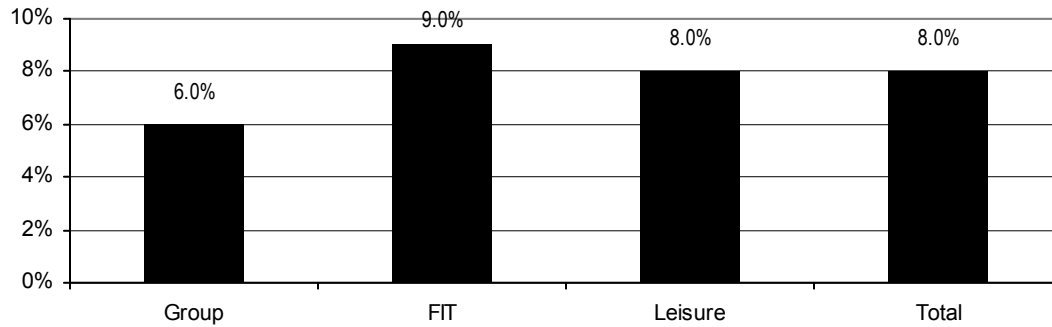
The Canadian Tourism Commission's (CTC) foreign office in Australia reported that New Zealand's economy is beginning to weaken, although consumer and business confidence levels remain relatively high. The economy, strong for the past two years, is now being threatened by a number of factors, including the high value of the country's currency, high household debt levels and looming interest rate hikes. According to the CTC, the New Zealand dollar has risen in value by 25 per cent in the last year, compared with the U.S. dollar.

Air New Zealand (ANZ)'s latest operation statistics show that the airline's overall passenger traffic fell 2.3 per cent in February 2004, compared with a year earlier. Traffic on international routes fell 3.5 per cent, due, in part, to the slow recovery of the Japanese market. Increased competition from the low cost carrier segment forced ANZ to slash fares up to 64 per cent on Pacific island services. However, the carrier expects "double-digit traffic growth" on its short-haul routes as a result of the discounts.

Statistics New Zealand reported that overseas travel by New Zealanders jumped 30 per cent in March 2004 over the previous year. Overall holiday travel rose by 37 per cent, and business travel climbed 19 per cent, compared with the same month in 2003. However, travel to North America for holiday reasons fell by 14 per cent, although leisure travel to "Other Americas" rose 30 per cent.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q3 2004 Overnight Person-Trips from New Zealand to Canada (per cent change from previous year – same quarter)



Source: Q3 2004 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 8 per cent during the third quarter of 2004, compared with 2003. *BO Monitor* respondents anticipated that independent (FIT) leisure travel (up 9%) would outperform the growth in group travel (up 6%).

Summary Outlook for Q3 2004

According to *BO Monitor* participants, leisure travel from New Zealand is expected to continue its steady pace of growth, rising 8 per cent during the third quarter of 2004. The FIT segment (up 9%) is expected to do slightly better than group travel (up 6%). The Canadian Tourism Commission's (CTC) foreign office in Australia reported that New Zealanders' consumer and business confidence remain relatively high, despite the fact that the economy is beginning to weaken. This resiliency should help support the growth expected in this travel market during the third quarter.

Appendix 1: 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 December 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	2003F	2004F	2005F
United States	14,227 -12.0%	15,191 6.8%	15,903 4.7%
Mexico	141 -12.7%	153 8.8%	161 5.5%
United Kingdom	682 -5.4%	723 6.0%	758 4.8%
France	272 -12.9%	292 7.3%	309 5.8%
Germany	255 -12.7%	272 6.7%	287 5.5%
Italy	59 -39.4%	76 29.0%	84 10.2%
Switzerland	81 -7.8%	86 5.7%	90 5.2%
Netherlands	104 -3.0%	109 5.1%	115 5.0%
Japan	253 -40.1%	315 24.4%	354 12.3%
Taiwan	69 -33.8%	81 17.5%	93 15.0%
Hong Kong	89 -24.5%	103 15.4%	113 10.0%
South Korea	130 -9.3%	142 9.7%	155 8.8%
China	74 -22.4%	85 15.5%	95 11.0%
South East Asia	63 -29.6%	74 16.5%	81 10.0%
Australia	145 -2.8%	155 6.7%	164 6.0%

Source: Canadian Tourism Research Institute; Statistics Canada