

RESEARCH

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

SHORT-TERM BUSINESS OUTLOOK

QUARTER 4 2004

**Research
report
2004-2-3**

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Domestic, U.S. and Overseas Travel to Canada

Short-Term Business Outlook
Quarter 4 2004

Prepared for the

Canadian Tourism Commission

by

The Conference Board of Canada

Ottawa, August 2004

WHAT'S INSIDE

The purpose of this study is to provide a short-term outlook for domestic & international travel to Canada for the fourth quarter of 2004 (October 2004 to December 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 fourth 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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Table of Contents

Executive Summary	1
Introduction	7
Economic Overview	9
Domestic (Canada) Travel Outlook, Q4 2004	11
U.S. Travel Outlook, Q4 2004	15
Mexico Travel Outlook, Q4 2004	19
Brazil Travel Outlook, Q4 2004	21
U.K. Travel Outlook, Q4 2004	23
France Travel Outlook, Q4 2004	27
Germany Travel Outlook, Q4 2004	29
Italy Travel Outlook, Q4 2004	31
Netherlands Outlook, Q4 2004	33
Japan Travel Outlook, Q4 2004	35
Taiwan Outlook, Q4 2004	39
South Korea Travel Outlook, Q4 2004	41
Hong Kong Outlook, Q4 2004	43
China Travel Outlook, Q4 2004	45
Australia Travel Outlook, Q4 2004	47
New Zealand Travel Outlook, Q4 2004	49
Appendix 1: Medium-Term Travel Forecasts (CTRI)	51

Executive Summary

Highlights

The outlook for Canada's key markets for the fourth quarter of 2004 (relative to the fourth quarter of 2003) from the *Business Outlook (BO) Monitor* participants is summarized as follows:

Q4-2004 Business Outlook for Canada's Key Markets
(% change over Q4-2003)

COUNTRY	MARKET SEGMENT				
	LEISURE – GROUP	LEISURE - FIT	LEISURE – OVERALL	BUSINESS	TOTAL - OVERALL
Canada	6.5%	5.5%	5.7%	3.7%	5.1%
United States	6.9%	5.0%	5.4%	4.5%	5.2%
Mexico	4.0%	5.5%	4.9%	*	5.8%
Brazil	*	*	*	*	4.0%
United Kingdom	8.0%	6.8%	7.1%	6.2%	7.0%
France	4.0%	8.0%	6.3%	*	6.0%
Germany	5.0%	8.0%	6.9%	*	6.5%
Italy	*	*	*	*	8.0%
Netherlands	*	*	*	*	4.5%
Japan	15.0%	17.0%	15.5%	6.0%	14.0%
Taiwan	5.0%	6.0%	5.5%	*	5.5%
South Korea	*	*	*	*	9.0%
Hong Kong	*	*	*	*	10.5%
China	12.0%	8.0%	11.0%	*	11.0%
Australia	5.0%	6.0%	5.5%	*	5.5%
New Zealand	3.5%	5.5%	4.8%	*	4.8%

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

North and South American Markets

Canada

According to *BO Monitor* participants, domestic travel is expected to expand 5.1 % in the fourth quarter of 2004. Leisure travel continues to lead growth expectations for this quarter (up 5.7%), with group travel increasing 6.5 % and independent (FIT) travel rising 5.5 %. Growth in the business travel segment is expected to continue lagging behind, increasing 3.7 % over the same quarter of 2003.

The latest Winter 2004-2005 Travel Intentions Survey by the Canadian Tourism Research Institute (CTRI) offered an optimistic outlook for a strong winter travel season. It suggests that more Canadians are planning to travel domestically this winter, compared with previous years. These results reinforce the notion that Canada's economic picture remains quite positive and that many of the global challenges plaguing tourism for the past several years have diminished considerably. While the domestic market appears to have improved significantly this year, further growth is still needed to establish a comfortable operating environment for the Canadian tourism industry.

U.S.

BO Monitor participants anticipate that overall U.S. travel to Canada in the fourth quarter of 2004 will grow 5.2 % compared with the previous year. Group travel is expected to post the strongest growth, up 6.9 %, while independent (FIT) travel increases 5 %. This would result in overall leisure travel growth of 5.4 %. The outlook for business travel is for growth of 4.5 % during this period.

Although the latest American travel intentions data suggests an increase in international travel over the next six months, European destinations may benefit from this increase to a greater extent than Canada. *BO Monitor* participants noted that the cross-border rubber-tire market could be hampered by the relatively less favourable exchange rate and record-high gas prices. High gas prices have already encouraged some Americans to plan shorter car trips. Nevertheless, the U.S. travel market is expected to continue recovering this fall, buoyed by a healthier U.S. economy, strengthening consumer confidence and an improving business environment.

Mexico

Overall, *BO Monitor* participants expect travel from Mexico to increase 5.8 % during the fourth quarter of 2004, compared with the same quarter of 2003. Leisure travel is expected to rise 4.9 %, boosted by a 5.5 % increase in independent (FIT) travel, while group travel lags somewhat behind with 4 % growth. Mexico's positive economic outlook should help boost the outbound travel market and ensure that the demand for Canadian travel products continues to grow.

Brazil

BO Monitor participants anticipate travel from Brazil to Canada to increase modestly during the fourth quarter of 2004—up 4 % compared with the same quarter of 2003. Overall, the number of Brazilian outbound trips are expected to grow considerably this year—up 11 % for the full year of 2004 compared with 2003. Consumer confidence in Brazil has been shaky but lower interest rates are expected to stimulate consumer spending, supporting the optimistic outlook for the Brazilian outbound market.

European Markets

U.K.

According to *BO Monitor* participants, overall travel from the U.K. is expected to increase 7 % in the fourth quarter of 2004, compared with the previous year. Leisure travel is expected to lead the surge with 7.1 % growth, spurred on by 8 % growth in group travel and 6.8 % growth in independent (FIT) bookings. Meanwhile, business travel is expected to expand 6.2 % during this period.

Reports from tour operators in the U.K. are even more optimistic, predicting that sales volumes for Canadian trips will increase more than 35 % in the fourth quarter of this year. Other reports related to the overall U.K. outbound market support this positive outlook: airlines are expecting British long-haul travel to continue rising through the remainder of 2004, bolstered by the strengthening economies of the U.K., North America and Asia. However, air capacity from the U.K. to Canada is scheduled to increase by a modest 4 % during the fourth quarter. This could constrain the solid growth in British visits expected during this period.

France

BO Monitor participants expect travel from France to expand 6 % during the fourth quarter of 2004. In a change from previous travel trends, growth in independent (FIT) travel (up 8%) is expected to be double the rate of growth for group travel (up 4%). As a result, overall leisure travel is anticipated to rise 6.3 % in the fourth quarter of this year.

French tour operators appear to be much more optimistic regarding bookings to Canada during the fourth quarter. In fact, some reports suggest that Canadian product sales will increase by at least a third this fall, bolstered, in part, by the favourable exchange rate. Direct air capacity between France and Canada is expected to increase during the fourth quarter, which should help accommodate the expected growth in travel. Fortunately, France's economy appears to be finally turning around, another positive factor supporting the optimistic outlook for this market.

Germany

According to *BO Monitor* participants, overall travel from Germany in the fourth quarter of 2004 is expected to increase 6.5 % compared with the same quarter of 2003. The FIT segment (up 8%) continues to lead growth expectations during this period, while group travel lags somewhat behind (up 5%).

Optimism in the German tourism industry continues to strengthen. Recent surveys suggest that the overall German travel market will expand this year, and the positive performance of summer travel bookings appears to support this outlook. However, one factor constraining the growth momentum of this outbound market is weak consumer confidence, weighed down by high unemployment levels. Although Germany has finally emerged from the recession it suffered in 2003, its economic recovery has been slow.

Italy

BO Monitor participants anticipate that travel to Canada from Italy will climb 8 % in the fourth quarter of 2004. The CTC's foreign office in Italy recently reported that Canada ranks highly among Italian visitors as a destination offering a very positive travel experience, scoring high points for key factors such as accommodation, friendliness and the environment. However, air access between Italy and Canada remains a challenge, with direct air capacity between the two countries down by 35 % in the fourth quarter. Italian carrier Alitalia maintains a 100 % share of direct air capacity during this period and its future remains tenuous.

Netherlands

BO Monitor participants anticipate that overall travel from the Netherlands will climb 4.5 % during the fourth 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 very optimistic regarding their sales for Canadian products during the final quarter of this year and reported that vacation packages for all travel segments were selling well. The Dutch economy is finally showing signs of improvement, which may help resuscitate consumer confidence in the Netherlands and support the optimistic outlook for this market.

Asia/Pacific

Japan

According to *BO Monitor* participants, overall travel from Japan in the fourth quarter of 2004 is expected to grow 14 % compared with a year earlier. Independent (FIT) travel is expected to continue posting the strongest growth, climbing 17 % during this period, while group travel expands 15 %. Meanwhile, business travel is expected to expand by a more modest 6 % during the quarter.

Japanese tour operators surveyed by the CTC remain optimistic about travel from Japan to Canada during this period. They anticipate that sales of Canadian products will continue recovering to 2002 levels through the remainder of this year. A significant recovery in the overall outbound market reinforces this optimistic perspective: Japanese airlines are reporting a substantial rebound in international air travel this summer, with flights to North America approaching full capacity during the busiest periods.

Taiwan

BO Monitor participants expect overall travel from Taiwan to Canada to increase 5.5 % in the fourth quarter of 2004. The political instability that followed the March presidential election put a significant damper on consumer confidence but Taiwanese consumers appear to have since resumed their “business as usual” attitude. Taiwanese tour operators appear quite optimistic about the outlook for visits to Canada in the final quarter of this year. A solid increase in direct air capacity between Taiwan and Canada should help accommodate the growth in travel expected during this period.

South Korea

BO Monitor participants anticipate that overall leisure travel from South Korea will grow 9 % during the fourth quarter of 2004. Recent data from the Korean National Tourist Organization indicates that the overall Korean outbound market, spurred on by a stronger currency, has been rebounding to levels surpassing 2002 figures. This bodes well for the Canadian tourism industry’s growth expectations for this market. Unfortunately, Korean tour operators have indicated that insufficient air capacity has been a problem for Canadian travel bookings up until early October. The situation is expected to improve by November as demand eases.

Hong Kong

According to *BO Monitor* participants, travel from Hong Kong is expected to increase 10.5 % during the fourth quarter of 2004 compared with the previous year. Steady improvements in long-haul travel demand and Hong Kong’s booming economic recovery support an optimistic view of this travel market. The expansion of direct air capacity from Hong Kong expected for the fourth quarter (13%) should ensure there is ample air access between the two countries during the fall travel period.

China

BO Monitor participants anticipate visits from China to expand by 11 % during the fourth quarter of 2004. Group travel is expected to rise 12 % while independent (FIT) travel climbs 8 % during this period. Overall, the Chinese outbound leisure market continues to grow rapidly, buoyed by the robust expansion of the Chinese economy and rising personal income levels. There are no signs that these economic trends will abate in the foreseeable future. A recent forecast suggested that Chinese demand for air travel will continue to surge for the next two years—rising by an annual rate of 20 % in both 2004 and 2005. A substantial increase in direct air capacity between China and Canada during the fourth quarter of 2004 reflects this expanding demand.

Australia

According to *BO Monitor* participants, Australian leisure travel to Canada is expected to rise 5.5 % in the fourth quarter of 2004 compared with the previous year. Independent (FIT) travel (up 6%) is expected to continue outpacing group travel (up 5%) during this period. Meanwhile, feedback from Australian consumers at recent CTC travel shows indicate that this market may be poised for significant future growth. Over one-third (37%) of potential long-haul leisure travellers expressed an interest in visiting Canada in the next twelve months and almost three-quarters (71%) indicated an interest in visiting Canada within the next five years. Overall, the Australian outbound market is experiencing a substantial recovery this year, supported by a strong Australian economy, record-low unemployment levels and pent-up travel demand.

New Zealand

According to *BO Monitor* participants, leisure travel from New Zealand is expected to maintain a steady pace of growth, climbing 4.8 % during the fourth quarter of 2004. Independent (FIT) leisure travel (up 5.5%) is expected to continue outperforming group travel (up 3.5%). The overall New Zealand outbound market has recovered substantially this year, posting significant growth in each month since mid-2003 when it plummeted in the wake of the SARS outbreak. Outbound departures for Canada have rebounded as well and appear to support the positive outlook expected in this market during the final quarter of this year.

International Travel Statistics – Statistics Canada

Overnight Travel to Canada, January - May 2004

COUNTRY	PERSON-TRIPS	CHANGE OVER 2003 (%)
United States	4,168,387	5.8
Mexico	47,253	9.7
Europe	577,841	7.3
United Kingdom	244,861	6.1
France	86,827	1.5
Germany	74,029	8.0
Netherlands	28,231	7.8
Italy	17,515	15.0
Asia	361,598	32.2
Japan	116,805	29.8
South Korea	51,053	24.9
Taiwan	37,061	124.4
Hong Kong	36,925	36.3
China (Mainland)	30,124	26.6
Oceania	69,580	10.1
Australia	59,458	11.1

Source: International Travel Survey, Statistics Canada.

Introduction

The purpose of this report is to provide a short-term outlook for domestic and international travel to Canada for the fourth quarter of 2004 (October 2004 to December 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 is 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 Appendix 1: Medium-Term Travel Forecasts (CTRI) to get a quick perspective of the way in which the short-term travel outlook corresponds with the latest medium-term forecast generated by CTRI.

Economic Overview

World Outlook

Spurred on by strong growth in the United States and China, the world economy is set to expand by 3.7 % this year. In 2005, higher interest rates will restrain global economic activity somewhat, and real GDP growth of 3.2 % is anticipated. The strength of the recovery in the world economy is quickly eating up idle capacity and leading to much stronger investment compared with the 2001-2003 period. World commodity prices are increasing as a result of China's booming economy and the general recovery in other parts of the Asia-Pacific region. The rise in commodity prices is starting to put upward pressure on global inflation.

A significant risk for the health of the world economy is surging oil prices. The price of crude oil has been around U.S. \$40 per barrel since May, and it remains 38 % higher than the price that prevailed in the second quarter of last year (U.S. \$29 per barrel). Precipitating the higher prices has been terrorist attacks in the Middle East as well as the strong growth in the world economy, particularly in the United States and China. In addition, OPEC has, until recently, been cutting back on production quotas due to the effect of the weaker U.S. dollar on oil revenues for OPEC members. The Conference Board expects crude oil prices to average US\$35 per barrel in 2004 and US\$31.91 per barrel in 2005.

North America

The strength of the U.S. economy will result in better-than-average real GDP growth in North America in 2004. However, stronger economic growth combined with higher inflation will drive central banks to raise interest rates. It is expected that higher interest rates will cut into consumer spending in 2005. Until then, the U.S. economy is expected to expand 4.4 % in 2004. In Canada, real GDP growth is expected to reach 3 % in 2004. Our outlook still suggests that Canada's dollar will continue sliding against the U.S. dollar, fetching an average of \$0.737 U.S. in 2004 and \$0.72 U.S. in 2005. Meanwhile, the Mexican economy is expected to expand by a relatively modest 3.2 % this year and 3.6 % in 2005. Private (Mexican) consumption is expanding and is forecast to increase by 3.4 % this year and by 3.7 % in 2005.

South America

A solid recovery in economic activity in South America is anticipated this year. Last year, real GDP in the region expanded by a modest 1.6 %. This year growth of 4.3 % is anticipated and further growth of 3.7 % is expected in 2005. The positive outlook is attributable to strong economic activity in two of the region's largest economies, Brazil and Argentina. The Brazilian economy is benefiting from lower interest rates while Argentina's economy is soaring because of strength in industrial production. Lower interest rates will also boost Chile's economic prospects, the region's most stable country. In Venezuela, high oil prices and a recovery in industrial production will lead to economic growth of 6.7 % this year. This is on the heels of a 9.2 % decline in 2003. However, political uncertainty continues to be a significant factor in the outlook as the country approaches the recall referendum concerning the leadership of President Chavez.

Euroland

With the exception of employment, economic activity in Europe is improving. Unfortunately, the unemployment rate in Europe is expected to remain unchanged in 2004 (8.8 %) before falling slightly to 8.6 % in 2005. Real GDP in the Eurozone is expected to increase 1.6 % in 2004 and by 2 % in 2005. It is possible that growth will be constrained both in the near and in the medium term by the costs involved in absorbing ten new European Union memberships. The economic expansion in the U.K. is not expected to be derailed by the higher interest rates required to tame inflation. Partly because of solid retail sales, real GDP in the U.K. is forecast to increase by 3.1 % this year and 2.7 % in 2005.

Asia-Pacific

Growth prospects for the Asia-Pacific region have taken a more positive slant over the past year, because significantly lower interest rates contributed to stronger economic activity. In 2004, real GDP growth of 4.4 % is anticipated for the region, partly because of the strength of the Chinese economy and the rebound in economic activity in Japan. The Japanese economy has been spurred by the ongoing strength of the Chinese economy, an improving U.S. economy and the boost to growth provided by Japan's domestic sector. Despite concerted efforts to curtail the booming Chinese economy, it still managed to expand at an annualized rate of 9.7 % in the first quarter of 2004. China's real GDP is expected to increase by 8.6 % this year before decreasing slightly to 7.7 % in 2005.

Exchange Rates

Exchange Rate Comparison – June 2003 to June 2004
% change in exchange rates between select countries:

	CANADIAN DOLLAR	U.S. DOLLAR	BRITISH POUND	EURO	JAPANESE YEN	KOREAN WON	MEXICAN PESO	AUSTRALIAN DOLLAR
Canadian dollar	--	-0.4%	-9.5%	-4.3%	-7.9%	-3.3%	12.2%	-4.5%
U.S. dollar	0.4%	--	-9.1%	-3.9%	-7.5%	-2.9%	1.0%	-4.1%
British pound	10.5%	10.1%	--	5.8%	1.8%	6.8%	16.5%	5.6%
Euro	4.4%	4.0%	-5.5%	--	-3.8%	1.0%	14.7%	-0.2%
Japanese yen	8.6%	8.1%	-1.7%	3.9%	--	5.0%	10.5%	3.7%
Korean won	3.4%	3.0%	-6.4%	-1.0%	0.0%	--	-6.3%	-1.2%
Mexican peso	-7.5%	-7.8%	-16.3%	-11.4%	-14.8%	-14.7%	--	-11.6%
Australian dollar	4.7%	4.3%	-5.3%	0.2%	-3.6%	1.2%	13.1%	--

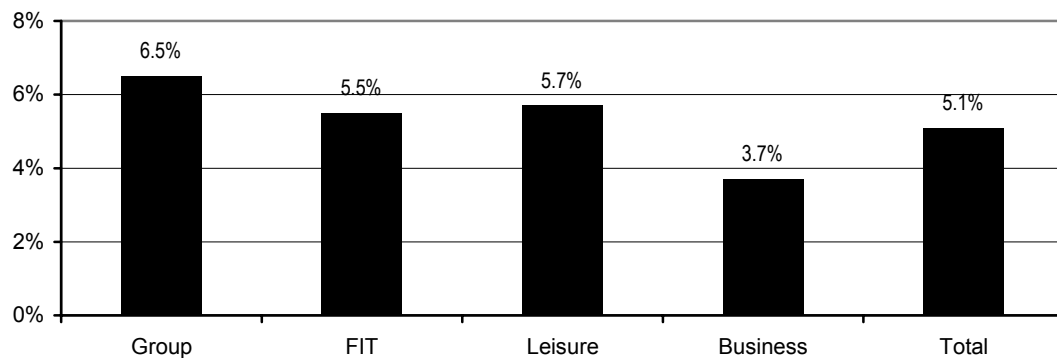
Domestic (Canada) Travel Outlook, Q4 2004

Economic Overview

Restrained by a number of key domestic developments, economic growth will reach 3 % in 2004 and 3.2 % in 2005. Our outlook still suggests that Canada's dollar will continue to slide against the U.S. dollar, fetching \$0.737 U.S. in 2004 and \$0.72 U.S. in 2005. Unfortunately, the outlook for consumer spending in Canada for the remainder of 2004 is expected to be less than stellar. Monetary tightening will commence early in 2005, with short-term interest rates heading up 185 basis points during the year. In addition, faced with a substantial tax increase on July 1, 2004 Ontario consumers are expected to rein in spending enough to hold the national growth rate for the third quarter of 2004 to just 0.5 %.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2004
Overnight Domestic Travel
(% change from previous year – same quarter)



Source: Q4 2004 Business Outlook System, Canadian Tourism Research Institute.

The Business Outlook—as indicated by Canadian travel suppliers and receptive agent bookings—suggests 5.1 % growth in overall advance bookings for domestic travel in the fourth quarter of 2004, compared to the previous year.

According to *BO Monitor* participants, leisure travel continues to lead growth expectations (up 5.7%), with a 6.5 % rise in group travel and 5.5 % increase in independent (FIT) travel. Growth in business travel is expected to continue lagging behind during the fourth quarter, increasing 3.7 % over the same period of 2003.

When looking at domestic travel by provincial region, *BO Monitor* participants anticipate that Ontario/Quebec region will continue leading growth expectations, rising 5.8 %, followed by Alberta/British Columbia and Manitoba/Saskatchewan (up 5%, respectively). Domestic travel to Atlantic Canada is expected to increase 3.0 %.

Survey participants noted that growth in fall bookings is not expected to be as dramatic as predicted for the summer travel season, because by the fall of 2003, domestic travel had already begun recovering from the impact of the SARS outbreak. Booking periods between planning and taking a trip continue to be very short, making it difficult to accurately predict even short-term advance bookings.

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

Overall consumer confidence has been trending lower over the first half of 2004. After sliding 5 points in May, the Consumer Confidence Index fell a further 1.5 percentage points to 117.2 in June. The latest decline is largely due to increased consumer uncertainty, with all four components of the Index recording rising doubt. Canadians may be starting to feel the pinch of rising debt levels and creeping interest rates, pushing a larger number of respondents in June to indicate they are dissatisfied with their financial circumstances. Overall, the index is showing increasing uncertainty rather than increasing pessimism.

Consumer Confidence (1991=100 Index)

	2004:03	2004:04	2004:05	2004:06
Consumer Confidence Index	124.2	123.7	118.7	117.2

Source: *The Conference Board of Canada*

The results of the Conference Board of Canada's June *Travel Intentions Survey* suggest that Canadian travel intentions for the winter season (November 2004 to April 2005) have strengthened considerably in comparison to June surveys in previous years. Specifically, 48 % of Canadians polled indicated they planned to take a winter trip this year, up from 42 % in June 2003 and June 2002. The largest increase appears to occur in the domestic travel category, which increased 4.2 percentage points to 20.6 % of respondents, compared with 2003.

(November-April) Vacation Intentions (% of Canadians surveyed)

	JUNE 2004	JUNE 2003	JUNE 2002
Winter Vacation Intentions (All Destinations)	48.0	42.0	42.1
Canada	20.6	16.4	18.5
US	9.6	10.1	7.6
Other International	16.9	14.3	13.5
Do Not Know/Refused	0.9	1.2	2.5

Source: *The Conference Board of Canada*.

These results reinforce the notion that Canada's economic picture remains reasonably positive and that many of the global challenges that plagued the tourism industry last year (and over the past few years) have diminished. In addition, it appears that concerns from earlier this year, such as the future of Air Canada and the escalation in terrorist activity (specifically associated with the Madrid bombings), are having less of an effect on travel decisions later in the year.

However, the survey does reflect a further narrowing of the booking period between the time Canadians start planning their trips and the time they actually travel. The prevalence of on-line travel bookings appears to be contributing to this trend. Survey results revealed that in June 2004, only 6 % of Canadians had already planned their domestic winter vacation. Most respondents (68%) indicated they planned to make their travel arrangements 1 to 6 weeks prior to the departure date, while only 20 % said they intended to book their travel more than 7 weeks in advance. Relatively short booking windows are not unusual for domestic winter trips, but in the past, travellers were inclined to book their trips further in advance.

Summary Outlook for Q4 2004

According to *BO Monitor* participants, domestic travel is expected to grow 5.1 % in the fourth quarter of 2004. Leisure travel continues to lead growth expectations for this quarter (up 5.7%), with group travel increasing 6.5 % and independent (FIT) travel rising 5.5 %. Growth in the business travel segment is expected to continue lagging behind, increasing 3.7 % over the same quarter of 2003.

The latest Winter 2004-2005 *Travel Intentions Survey* by the Canadian Tourism Research Institute (CTRI) offered an optimistic outlook for a strong winter travel season. It suggested that more Canadians are planning to travel domestically this winter, compared with previous years. These results reinforce the notion that Canada's economic picture remains quite positive, and that many of the global challenges that have plagued tourism for the past several years have diminished considerably. However, the survey does reflect a further narrowing of the booking period between planning and taking a trip; the majority of domestic travellers indicated they intend to book their trip within 6 weeks of the departure date.

While the domestic market appears to have improved significantly this year, further growth is still needed to establish a comfortable operating environment for the Canadian tourism industry. Fortunately, this segment is expected to continue gaining ground through the rest of 2004. Some of the factors supporting the upbeat outlook include a growing low-cost air travel sector, a competitive cost environment, strengthening economic conditions and some lingering pent up travel demand. As conditions in the Canadian tourism industry continue to stabilize, more traditional concerns, such as the economic and financial prosperity of consumers and businesses, will play a larger role in shaping the travel environment.

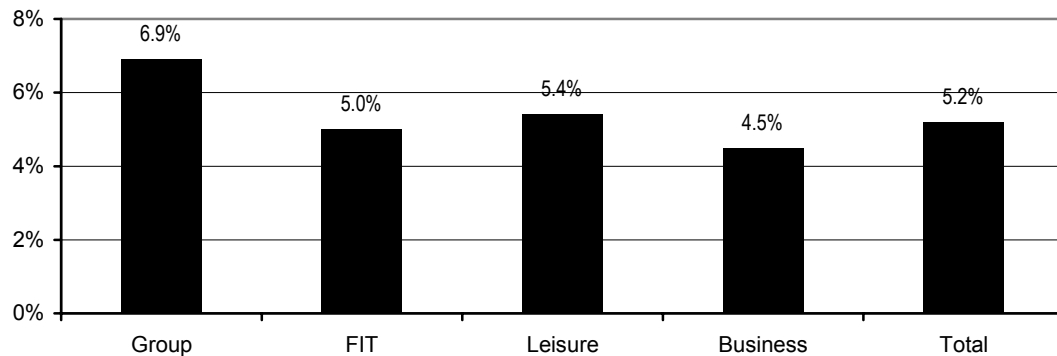
U.S. Travel Outlook, Q4 2004

Economic Overview

Rapidly expanding demand and output, combined with a long-awaited revival in U.S. labour markets, will result in strong real GDP growth of 4.4 % this year. In 2005, growth will slow down as higher interest rates cut into consumer and investment spending. Inflation is expected to remain under control despite the impact of soaring energy prices. The positive impact of stimulative fiscal and monetary policy will ensure that real consumer spending grows by 3.8 % in 2004. Next year, real consumer spending is expected to remain strong, growing a further 3.3 %, despite higher interest rates. Households are expected to continue spending due to increasing personal incomes, stemming from a stronger labour market.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2004
Overnight Person-Trips from the U.S. to Canada
(% change from previous year – same quarter)



Source: Q4 2004 Business Outlook System, Canadian Tourism Research Institute.

Overall travel from the U.S.—as indicated by *BO Monitor* participants—is expected to grow 5.2 % in the fourth quarter of 2004, compared with the same quarter of 2003, led by a 5.4 % increase in leisure travel. Group travel is expected to post the strongest growth, climbing 6.9 % in the fourth quarter, while FIT travel follows behind at 5.0 %. Business travel is predicted to increase 4.5 % compared with the previous year.

BO Monitor participants anticipate that, of all the provincial regions, Ontario/Quebec should continue posting the strongest growth in U.S. travel (up 5.6%) during the fourth quarter of 2004. Alberta/British Columbia and Manitoba/Saskatchewan should see growth of 5.3 % and 4.8 %, respectively, while Atlantic Canada rises 3.5 %.

BO Monitor participants noted that U.S. travel to Canada has not recovered as quickly this year as U.S. travel to European destinations. Significant increases in gas prices may be deterring some Americans from taking longer automobile trips, and, combined with the less favourable exchange rate, may be hampering the cross-border market. Other enduring challenges within the U.S. market include concerns about the economy and world events, particularly with respect to the ongoing conflict in Iraq. Some tour operators believe that the November election is dampening travel demand in the fourth quarter.

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

The Conference Board Inc.'s Consumer Confidence Index posted further gains in July, after increasing sharply in June. The July index rose to 106.1 from 102.8 in June. The Expectations Index jumped to 105.8 in July from 100.8 the previous month, and the Present Situation Index climbed to 106.5 from 105.9. The Conference Board noted that consumer confidence has risen for four consecutive months, and is currently at its highest level since June 2002, boosted by an improving job market.

Consumers appear to be relatively optimistic about the short-term future, as well. Those expecting business conditions to improve in the next six months remained steady at 23 percent in June and July, after rising from 22.8 percent in May. Consumers expecting conditions to worsen declined to 7.0 percent in July from 9.1 percent in June.

Consumer Confidence (1985=100 Index)

	APRIL 2004	MAY 2004	JUNE 2004	JULY (P) 2004
Consumer Confidence Index	93.0	93.1	102.8	106.1
Present Situation	90.4	90.5	105.9	106.5
Expectations	94.8	94.8	100.8	105.8

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

According to the latest consumer travel intentions survey by The Conference Board Inc., 42.7 % of Americans polled for the June survey indicated they planned to take a vacation some time in the next six months. This represents a rise of nearly 1 percentage point compared with the June 2003 survey. The number of Americans intending to travel outside of the U.S. has risen to 9.3 % in June 2004, compared with 7.2 % in June 2003. The survey also indicates that the number of Americans planning to fly to their vacation destination has increased over the previous year. Specifically, 20.5 % of Americans intend to travel by plane on a leisure trip in the next six months, compared to 16.8 % that indicated similar plans in June 2003. Meanwhile, the number of those planning to travel by car dropped to 22.4 % in June from 24.9 % a year earlier.

Vacation Intentions (Seasonally adjusted) (%)

	DEC 2003	FEB 2004	APR 2004	JUN 2004 (R)
Vacation Intended (all destinations)	45.9	43.0	42.7	42.7
U.S.	38.0	36.6	36.3	35.5
Foreign	8.7	8.0	8.3	9.3

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
(Q4 – October to December)**

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	3,605,722	3,672,322
% change	N/A	1.8%

Source: OAG Worldwide

The number of seats available (as of July 2004) for direct air travel between the U.S. and Canada during the fourth quarter of 2004 is expected to increase 1.8 %, compared with the same period in 2003. Considering the overall growth in travel expected from the U.S. in the fourth 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 36.1 %.

Summary Outlook for Q4 2004

BO Monitor participants anticipate that overall U.S. travel to Canada in the fourth quarter of 2004 will grow 5.2 % compared with the previous year. Group travel is expected to post the strongest growth, up 6.9 %, while independent (FIT) travel increases 5.0 %. This would result in overall leisure travel growth of 5.4 %. The outlook for business travel is slightly less optimistic; it is projected to grow 4.5 % during this period.

Although the latest American travel intentions data suggests an increase in international travel over the next six months, European destinations may benefit from this increase to a greater degree than Canada. *BO Monitor* participants noted that the cross-border market could be hampered by the less favourable exchange rate, and the record-high gas prices, which are probably encouraging some Americans to plan shorter car trips. In fact, a recent survey by Yesawich, Pepperdine, Brown & Russell suggested that high gas prices could affect the travel plans of more than half of U.S. leisure travellers. The survey revealed that 56 % of respondents agreed that the rising cost of gasoline would impact their summer travel plans, while only 24 % of respondents indicated they would have no effect.

The Travel Industry Association of America (TIA) recently noted that American consumers are increasingly concerned about rising gas prices and, consequently, higher inflation. The TIA remained optimistic, however, that 2004 would be a “strong year for all areas of travel”, predicting in its recent annual forecast that U.S. leisure travel would grow 3.4 % in volume this year. A healthier U.S. economy, strengthening consumer confidence, and an improving business environment should all support the ongoing recovery of the U.S. travel market this fall.

Mexico Travel Outlook, Q4 2004

Economic Overview

The Mexican economy is expected to expand by a modest 3.2 % this year and 3.6 % in 2005. Private consumption is expanding and is forecast to increase by 3.4 % this year and 3.7 % in 2005. There has also been a number of positive announcements in recent months. Volkswagen plans to invest \$1.8 billion over the next five years in its current operations and hire an additional 1,000 workers. Motorola has announced its intention to relocate one of its assembly lines to Mexico from Taiwan, and this should create another 1,000 new jobs.

Tourism Trends

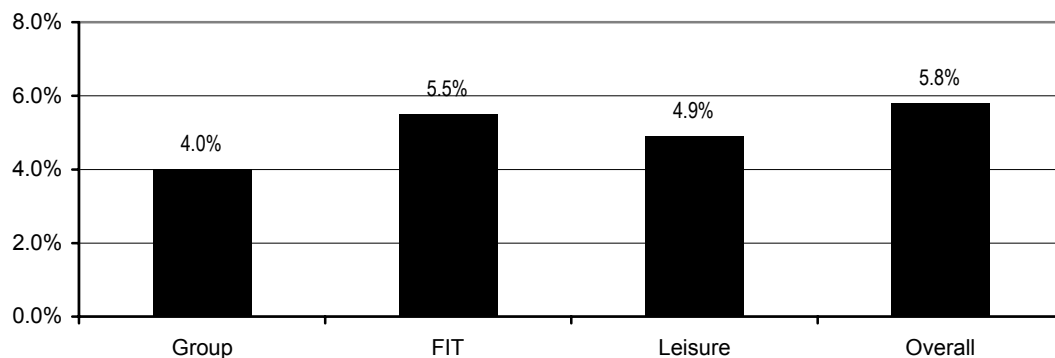
The CTC foreign office in Mexico reported that Canada continues to rate highly as a vacation destination among Mexican travellers, with key factors being the favourable exchange rate, the friendliness of Canadians, and the fact that a visa is unnecessary. Mexican travel to Canada appeared to gain momentum through the first quarter of this year, and the outlook for the rest of this year remains positive.

The foreign office report also noted that May and June tend to be the most competitive months for attracting Mexican travellers, as these are typically the months in which consumers choose their summer vacation destination. The U.S. increased its travel marketing campaigns dramatically in the months leading up to this year's summer travel season, in an attempt to counteract the negative media coverage of heightened border security.

In response to growing Mexican demand for Canadian vacations, Onvisa, a tour operator based in Mexico City, has launched new tour packages from Mexico City to Edmonton and Vancouver. Onvisa stated that the success of these charters, which include trips to West Edmonton Mall and a tour through the Rocky Mountains, is a "sign that Mexicans are interested in the variety of things to see and do in Canada, especially for families."

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2004
Overnight Person-Trips from Mexico to Canada
(% change from previous year – same quarter)



Source: Q4 2004 Business Outlook System, Canadian Tourism Research Institute

According to *BO Monitor* participants, overall travel from Mexico in the fourth quarter of 2004 is expected to rise 5.8 %, compared with the previous year. Group travel is expected to climb 4.0 %, while independent (FIT) leisure travel increases 5.5 %, resulting in overall leisure travel growth of 4.9 %.

Mexico-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Mexico is expected to rise 21.4 % during the fourth quarter of 2004, compared with the same period in 2003. It does not appear that air capacity will represent an impediment to the growth of travel from Mexico during this period. According to OAG, Air Canada's share of direct air capacity during this period is expected to be 44.2 %.

**Seats Available for Travel from Mexico to Canada
(Q4 – October to December)**

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	63,935	77,606
% change	N/A	21.4

Source: OAG Worldwide.

Summary Outlook for Q4 2004

Overall, *BO Monitor* participants expect leisure travel from Mexico to increase 5.8 % during the fourth quarter of 2004, compared with the same quarter of 2003. Leisure travel is expected to rise 4.9 %, boosted by a 5.5 % increase in (FIT) leisure travel, while group travel lags somewhat behind at 4.0 %. Mexico's positive economic outlook should help boost the outbound travel market, and ensure that the demand for Canadian travel products continues to grow.

Brazil Travel Outlook, Q4 2004

Economic Overview

Real GDP in Brazil is expected to increase by 3.2 % this year and 3.4 % in 2005. The economy is benefiting from an accommodative monetary policy. Brazil's central bank reduced the benchmark Selic rate by 25 basis points in March and by a similar amount in April, and this reduction in interest rates reflects receding inflation expectations. However, consumer prices are expected to increase by 6.2 % this year, in the wake of a 9.3 % increase in 2003 and a double digit increase in 2002. Still, lower interest rates will stimulate consumer spending and industrial production. In 2003, both of these categories recorded negative growth, but in 2004, consumer spending is expected to grow by 2.9 %, while industrial production grows by 4.2 %. Strong growth is expected to continue for both of these categories in 2005.

Tourism Trends

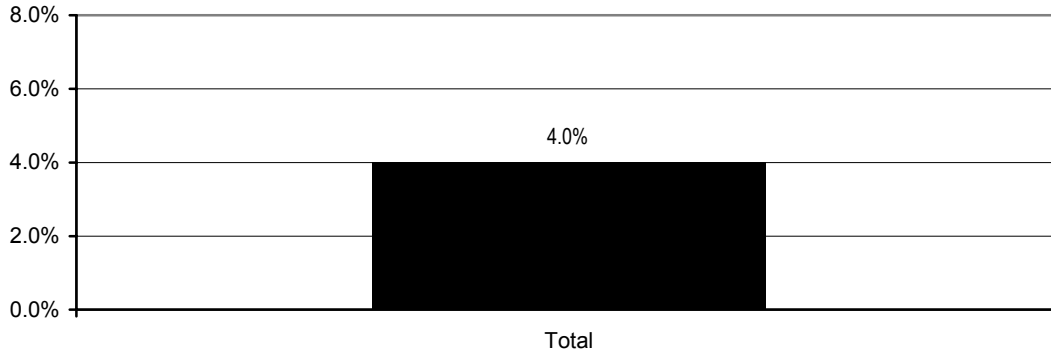
According to the Travel Industry Association of America (TIA), overall Brazilian outbound travel is expected to increase 11.7 % for the full year of 2004, compared with 2003. Last year, total outbound travel declined 1.8 % compared with 2002, which was a smaller drop than the 8.3 % decline originally forecasted.

The TIA also reported that Brazilian consumer confidence has been fluctuating, despite economic growth and increased consumer spending. A consumer confidence survey by the Getulio Vargas Foundation indicated that consumer confidence levels in the first quarter of 2004 were higher than they were the same quarter of 2003; however, confidence levels deteriorated significantly between January and March of this year. In March, the number of consumers who said they believed the economic situation had deteriorated over the previous six months rose dramatically to 40.9 %, compared with 20.7 % in January. Moreover, the percentage of those who expected the economic environment to improve in the upcoming six months dropped from 60.1 % in January, to 34.5 % in March.

Gol Linhas Aereas Inteligentes, Brazil's largest low-cost carrier, recently announced plans to expand its fleet, up to triple its current size by the year 2010. According to USA Today, the airline has managed to capture nearly 25 % of the Brazilian travel market since its inception in 2001, and hopes to begin international services in the near future. In June, Gol reported that its passenger traffic increased by 31 % compared with the previous year.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2004 Overnight Person-Trips from Brazil to Canada (% change from previous year – same quarter)



Source: Q4 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from Brazil in the fourth quarter of 2004—as indicated by *BO Monitor* participants—is for growth of 4 % compared with the same quarter of 2003. Unfortunately, there were not enough responses to break down bookings by segment and ensure confidentiality.

Brazil-to-Canada Air Capacity, OAG Worldwide

According to OAG data, direct air capacity between Brazil and Canada is expected to rise 1.3 % in the fourth quarter of 2004, compared with the same period in 2003. Considering the growth in visits expected during this period, air capacity could represent an impediment to the growth of travel between the two countries. Air Canada accounts for 100 % of the direct air capacity during the fourth quarter of this year.

Seats Available for Direct Travel from Brazil to Canada (Q4 – October to December)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	16,536	16,748
% change	N/A	1.3

Source: OAG Worldwide.

Summary Outlook for Q4 2004

BO Monitor participants anticipate travel from Brazil to Canada to increase modestly during the fourth quarter of 2004, up 4 % compared with the same quarter of 2003. Overall, the number of Brazilian outbound trips are expected to grow considerably this year, up 11 % for the full year of 2004 compared with 2003. Consumer confidence in Brazil has been shaky, but lower interest rates are expected to stimulate consumer spending, supporting the optimistic outlook for the Brazilian outbound market.

U.K. Travel Outlook, Q4 2004

Economic Overview

Real GDP in the U.K. is forecast to increase by 3.1 % this year and 2.7 % in 2005. According to the Conference Board Inc., the continued strength in the leading index suggests that this rate of economic growth is likely to persist in the near term, with some risk of slightly slower growth. The unemployment rate is expected to remain below 3 % in the 2004-2005 period, a rate unheard of in most countries in mainland Europe. The surge in mortgage lending in the spring has caused the aggregate consumer debt burden in the United Kingdom to increase. The Bank of England is concerned that British consumers are taking on too much debt. An increase in interest rates by the Bank to slow the accumulation of debt may also derail some spending on tourism as British consumers repair their balance sheets.

Tourism Trends

British Airways (BA) recently reported that market trends for air travel were continuing along similar patterns as previous reports: long-haul premium traffic has continued recovering, while short-haul premium traffic remains low. Price sensitivity was still an issue for economy passengers. BA said that although airfare yields are expected to decline even further, they anticipate passenger volumes to continue increasing. The airline also announced they would offer discounts on premium fares over the summer in an effort to attract more leisure travellers to fill business-class seats.

BAA, the airport authority that owns seven UK airports, including Heathrow, Gatwick and Stansted, recently forecasted a 6 % growth in passenger traffic at its UK airports this year. BAA noted that Heathrow was experiencing a very strong recovery in the long-haul market, which had been significantly impacted by SARS and the war in Iraq. The airport authority expects the strengthening UK economy, as well as economies in key regions such as North America and Asia to support the growth in air travel through the rest of 2004.

Company Barclaycard recently released their annual Travel in Business Survey, which revealed that 47 % of British business travellers are travelling more in 2003/2004 than they did in the previous year. A further 29 % indicated their travel frequency was about the same, while 24 % indicated it was less. The top reason for travelling more frequently was “business expansion in the U.K. or overseas” (28% and 24%, respectively). The number one reason for travelling less was “technology is reducing the need.”

E-tid.com reported that Visa cardholders in the U.K. spent 159 % more on travel and tourism products in the first quarter of 2004 than the same period of 2003. Visa noted that spending increases for travel and tourism were larger than spending increases in the overall market.

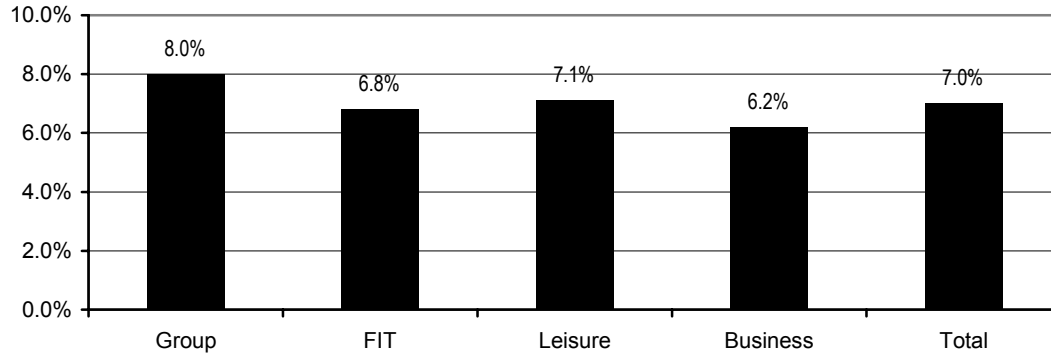
Market Overview

According to British tour operators surveyed by the CTC, sales of Canadian products for the fourth quarter of 2004 are expected to rise an average of 36 % (and in one case, almost 80 %) over the previous year’s figures. Responses regarding the issue of air capacity for this period were mixed, but all agreed that the exchange rate was having a positive effect on sales.

Tour operators noted that package bookings for individuals, groups and couples were all selling particularly well for the fourth quarter of 2004. Ontario is expected to receive the most British visitors during this period (35%), followed by B.C., Alberta, Nova Scotia and Quebec. Finally, U.K. tour operators reported that the cities and resorts category was the number one selling product cluster, followed by touring, nature, and outdoor/sports (respectively).

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2004 Overnight Person-Trips from the U.K. to Canada (% change from previous year – same quarter)



Source: Q4 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 7.0 % in the fourth quarter of 2004 compared with the previous year. Leisure travel is expected to edge ahead of business travel, increasing 7.1 % compared with the same quarter of 2003. Growth of 8.0 % is expected for group travel, while independent (FIT) bookings rise 6.8 %. Meanwhile, business travel is predicted to follow behind, increasing 6.2 % during this period.

When breaking down growth expectations by provincial regions, *BO Monitor* participants anticipate that U.K. travel to Ontario/Quebec will climb 7.4 % in the fourth quarter of 2004, while travel to Alberta/B.C. grows 6.5 % (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 July 2004) for travel from the U.K. to Canada during the fourth quarter of 2004 is expected to climb 4.0 % compared with the same period of 2003. Considering this modest increase, and the overall growth in travel expected during the fourth quarter, air capacity could potentially represent a slight 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 fourth quarter of 2004 is expected to be 60.2 %.

Seats Available for Direct Travel from the U.K to Canada (Q4 – October to December)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	379,656	394,690
% change	N/A	4.0

Source: OAG Worldwide

Summary Outlook for Q4 2004

According to *BO Monitor* participants, overall travel from the U.K. is expected to increase 7.0 % in the fourth quarter of 2004, compared with the previous year. Leisure travel is expected to edge ahead, increasing 7.1 % compared with the same quarter of 2003, with an 8.0 % rise in group travel, and 6.8 % growth in independent (FIT) bookings. Meanwhile, business travel is predicted to follow behind, increasing 6.2 % during this period.

Reports from tour operators in the U.K. continue to be quite optimistic, predicting that sales volumes for Canadian trips will increase more than 35 % in the fourth quarter of this year, compared with the same period of 2003. Other reports related to the overall U.K. outbound market support this positive outlook: airlines are expecting British long-haul travel to continue rising through the remainder of 2004, bolstered by the strengthening economies of the U.K., North America and Asia. Air capacity from the U.K. to Canada is scheduled to increase by a modest 4 % during the fourth quarter, which may constrain the solid growth in British visits expected during this period.

France Travel Outlook, Q4 2004

Economic Overview

A modest economic recovery is underway in France. In 2004, real GDP is expected to grow by 1.8 %—a marked improvement from the 0.5 % gain recorded in 2003. In 2005, economic growth of 2.1 % is anticipated. Real GDP has increased at an average annual rate of 2.8 percent over the last two quarters (2.5 percent in the fourth quarter of 2003 and 3.1 percent in the first quarter of 2004). According to the Conference Board Inc., the continued widespread growth in the leading index suggests that this rate of economic growth will likely persist in the near-term.

Travel Trends

In its second quarter report, the Canadian Tourism Commission's (CTC) foreign office in France reported the results of an annual survey by IPK International, which revealed travel preferences among French travellers. Of those polled, more travellers preferred tours (37%), while the next popular trip was resort stays (29%). Only 7 % indicated they preferred city tours. Meanwhile, a survey by lastminute.com revealed that most French travellers prefer to vacation in August (54%), followed by July (36%), June (13%), and September (12%). The survey results also showed that the majority of respondents (two-thirds) book their travel less than 3 months before the departure date.

The foreign office report also stated that tour operators were reporting positive results for their summer season sales, although July appeared to be busier than August. Many tour operators have increased their prices due to rising fuel costs.

In early May 2004, Air France and KLM completed their merger and announced they would begin coordinating their schedules as of June 1, 2004. The two airlines will continue providing their own brand products under a common holding company for the next three years while transitioning into their new operation. The new airline, the largest in Europe, ranks first in the world by sales, but third in passenger traffic, after American Airlines and United Airlines.

Air France-KLM also reported that passenger traffic continued its strong recovery through May and June, compared with last year's performance (which was severely impacted by the SARS outbreak and the war in Iraq). Not surprisingly, Asia-Pacific routes have seen the most significant growth—in May, traffic on these routes was up by 76.9 % over the previous year, while passenger traffic on routes to the Americas climbed 19.8 %.

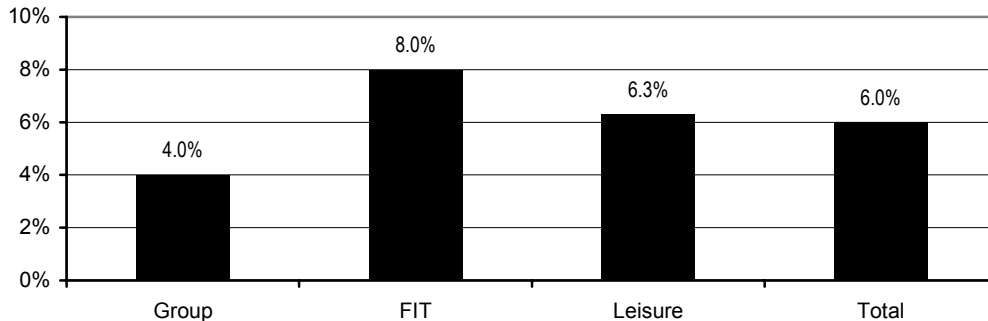
Market Overview

French tour operators surveyed by the CTC reported that sales of Canadian products for the fourth quarter of 2004 are expected to grow between 24 and 35 % compared with the previous year. Respondents indicated that air capacity has not represented a problem in selling Canadian travel products and the exchange rate appears to have had a positive affect on sales.

Tour operators noted that vacation packages for individuals, and customized vacation packages have both continued to sell particularly well. In terms of regional travel demand, Quebec is expected to continue receiving the most French visits—similar to previous quarters, 60 to 80 % of Canadian sales are for this province, while 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 – Q4 2004 Overnight Person-Trips from France to Canada (% change from previous year – same quarter)



Source: Q4 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from France in the fourth quarter of 2004—as indicated by *BO Monitor* participants—is for an increase of 6.0 %, compared with the same period last year. In a change from previous travel trends, growth in independent (FIT) travel (up 8.0%) is expected to be double the rate of growth for group travel (up 4.0%). As a result, overall leisure travel is anticipated to rise 6.3 % in the fourth quarter of this year.

France-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from France to Canada is expected to jump 15.7 % during the fourth quarter of 2004. If these gains hold, it appears that this increase in air capacity should help facilitate travel between the two countries. According to OAG, Air Canada’s share of direct air capacity during the fourth quarter of 2004 is expected to be 30.1 %.

Seats Available for Direct Travel from France to Canada (Q4 – October to December)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	140,014	162,045
% change	N/A	15.7

Source: OAG Worldwide

Summary Outlook for Q4 2004

BO Monitor participants expect travel from France to grow 6.0 % during the fourth quarter of 2004. In a change from previous travel trends, growth in independent (FIT) travel (up 8.0%) is expected to be double the rate of growth for group travel (up 4.0%). As a result, overall leisure travel is anticipated to rise 6.3 % in the fourth quarter of this year.

French tour operators appear to be much more optimistic regarding bookings to Canada during the fourth quarter—some reports suggest that Canadian product sales will increase by at least a third this fall, bolstered, in part, by the favourable exchange rate. Direct air capacity between France and Canada is expected to increase during the fourth quarter, which will help accommodate the expected growth in travel. Meanwhile, France’s economy appears to be finally turning around, another positive factor supporting the optimistic outlook for this market.

Germany Travel Outlook, Q4 2004

Economic Overview

The German economy is slowly on the mend from the recession that enveloped the economy in 2003, when real GDP declined by 0.1 %. This year, the economy is expected to expand by 1.6 %, and slightly stronger growth of 1.7 % is anticipated for 2005. The factor restraining growth in Germany over the short-term continues to be weak household consumption. Real consumer spending is forecast to grow by only 0.6 % this year and growth of less than 2 % is anticipated in 2005. High unemployment continues to depress households' appetite for spending. Not only is the unemployment rate on the rise again—10.5 % of the labour force are currently jobless—but companies are reluctant to take on additional workers and incur higher labour costs while the economic recovery remains tepid. The unemployment rate will remain above 10 % in the 2004-2005 period.

Tourism Trends

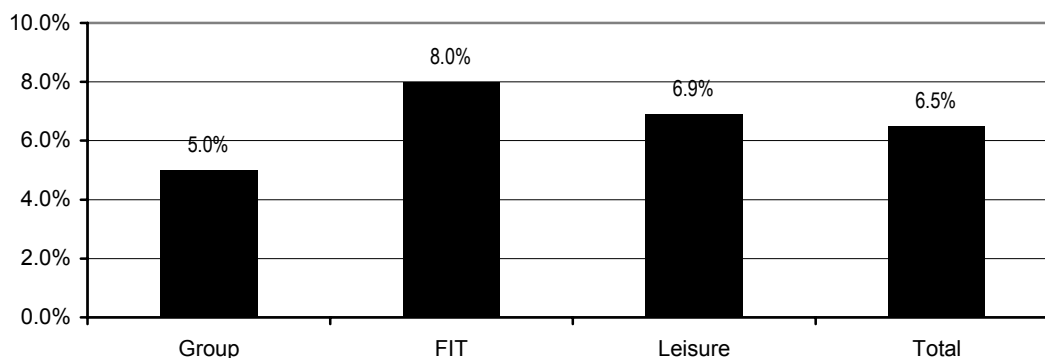
The Canadian Tourism Commission's foreign office in Germany recently reported the results of a survey by FUR, which suggested that the German travel market will expand this year. Of the Germans polled, 69 % indicated they were planning to take a trip sometime in 2004—up from 67 % in 2003. Of those planned trips, 5.1 % were expected to be to long-haul destinations.

German-based TUI AG, the largest travel company in Europe, stated in their latest financial report that demand for holiday tours picked up considerably during the winter season (November – April). Overall bookings increased 6.2 % over the previous year, and bookings within Germany grew 6.8 %. As of early May, overall bookings for the summer season were already ahead of last year's figures by 2.2 %, and sales were up 3.3 %. TUI indicated they were very optimistic about their prospects for the summer season, and noted that their German and U.K. markets were outperforming the overall group.

German airport operator Fraport, recently forecasted that its full-year passenger figures for 2004 would rise between 3.5 to 4.5 % compared with 2003. This would bring the airport's passenger numbers to over 50 million for the full year.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2004
Overnight Person-Trips from Germany to Canada
(% change from previous year – same quarter)



Source: Q4 2004 Business Outlook System, Canadian Tourism Research Institute

According to *BO Monitor* participants, overall travel from Germany in the fourth quarter of 2004 is expected to increase 6.5 %, compared with the same quarter of 2003. The FIT segment (up 8%) continues to lead growth expectations during this period, while group travel lags somewhat behind (up 5%).

Germany-to-Canada Air Capacity, OAG Worldwide

According to the latest data from OAG, direct air capacity from Germany is expected to decline slightly (-1.0%) during the fourth quarter of 2004, compared to the previous year. The lack of growth in direct air capacity during this period may represent a constraint for German travel to Canada. According to OAG, Air Canada's share of direct air capacity is expected to be 60.9 %.

Seats Available for Direct Travel from Germany to Canada
(Q4 – October to December)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	172,812	171,089
% change	N/A	-1.0

Source: OAG Worldwide

Summary Outlook for Q4 2004

According to *BO Monitor* participants, overall travel from Germany in the fourth quarter of 2004 is expected to increase 6.5 %, compared with the same quarter of 2003. The FIT segment (up 8%) continues to lead growth expectations during this period, while group travel lags somewhat behind (up 5%).

Meanwhile, optimism in the German tourism industry continues to strengthen. Recent surveys suggest that the overall German travel market will grow this year, and the positive performance of summer travel bookings appears to support this outlook. However, one factor constraining the growth momentum of this outbound market is weak consumer confidence, weighed down by high unemployment levels. Although Germany has finally emerged from the recession it suffered in 2003, its economic recovery has been slow.

Italy Travel Outlook, Q4 2004

Economic Overview

According to the Wall St. Journal, Italian research centre ISAE lowered its expectations for Italy's economy this year, cutting its forecast to 1.3 % growth, down from the 1.7 % forecasted in February. Still, a rise in exports and an increase in manufacturing output this year is expected to accelerate economic growth from 0.3 % in 2003. In 2005, ISAE expects Italy's economy to expand by 2 %. Meanwhile, the Economist Intelligence Unit reported that the European Union issued a deficit warning to Italy in May, because the country's swelling public debt was quickly approaching EU limits. This forced the Italian government to adopt significant deficit-cutting measures, but did not prevent Prime Minister Berlusconi from announcing substantial tax cuts for 2005. Berlusconi argued that tax relief would boost economic growth; however, analysts have warned that reducing taxes at the national level would likely lead to a rise in taxes at the municipal level, thereby having no effect on the overall tax burden.

Tourism Trends

The Canadian Tourism Commission's (CTC) foreign office in Italy recently reported the results of a survey conducted by the Italian Exchange offices, which placed Canada third (after Australia and Thailand) in a list of countries where Italians travellers return to the most often. According to the survey, Canada scored highly in points considered key to the Italian travel market, such as accommodation, courtesy of people, environment, information, safety and shopping.

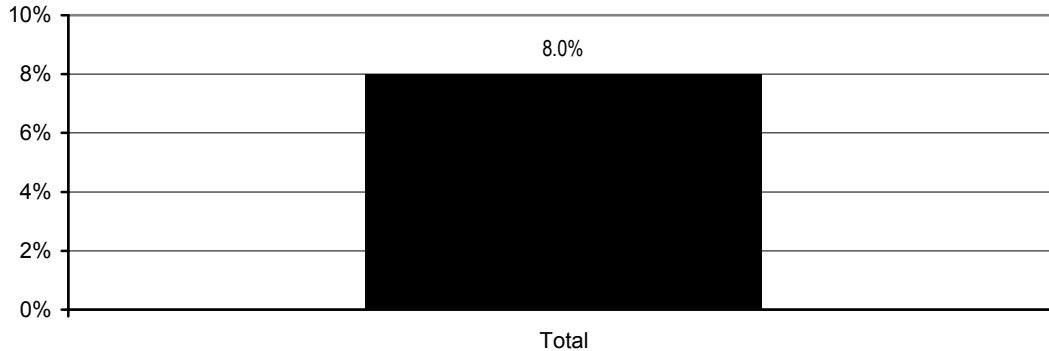
The CTC's Italian office also reported the results of an Assoturismo survey, which indicated that 77 % of Italians intend to take a summer vacation this year. Of those polled, only 4 % plan to take a trip outside of Europe. The most popular type of trip was a seaside vacation (71%), and the most popular month for taking a vacation is August (62%). It was also reported that the vast majority of respondents (84%) were undeterred by potential terrorist action. Another survey (by CISET) indicated that the "hot" destinations for Italian tourists this summer were Eastern and Southern Europe, as well as Central and South America. North America was listed as a "stable" destination for Summer 2004.

Italy's flag carrier, Alitalia reported that its passenger traffic for the first quarter of 2004 grew 3.7 %, although growth on the airline's intercontinental routes was much more significant. In this sector, traffic rose 11.5 % compared with the same quarter of 2003.

In late June, Alitalia received a significant boost from the Italian government, which announced it would provide the ailing airline with a short-term bridge loan. This will give Alitalia an opportunity to develop a new business plan. Italy's Department of Infrastructure stated that this would be "a first and significant step towards hitting the important objective of cleaning up the flag carrier's accounts." The European Union, which has strict competition rules regarding state aid for airlines, approved an emergency loan in the amount of EUR400 million (CDN\$645 million). However, the loan hinges on the airline's ability to achieve cost-cutting deals with its union, or else the airline will be forced to liquidate. It is worth noting that Alitalia currently accounts for 100 % of the direct air access between Italy and Canada.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2004 Overnight Person-Trips from Italy to Canada (% change from previous year – same quarter)



Source: Q4 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from Italy in the fourth quarter of 2004—as indicated by *BO Monitor* participants—is for an 8 % growth in visits 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 plummet by 35.4 % in the fourth quarter of 2004, compared with the previous year, as a result of Air Canada’s suspension of its direct air service to Italy. Considering the growth in Italian visits expected during this period, this decline could represent a significant impediment to travel between Italy and Canada in the fourth quarter. Furthermore, Italian carrier Alitalia currently holds 100 % of the direct air capacity between Italy and Canada during this quarter. In light of the carrier’s financial troubles, this places direct air access between the two countries at considerable risk.

Seats Available for Direct Travel from Italy to Canada (Q4 – October to December)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	34,136	22,050
% change	N/A	-35.4

Source: OAG Worldwide.

Summary Outlook for Q4 2004

BO Monitor participants anticipate that travel to Canada from Italy will climb 8 % in the fourth quarter of 2004, continuing its steady pace of growth. The CTC’s foreign office in Italy recently reported that Canada ranks highly among Italian visitors as a destination offering a very positive travel experience, scoring high points for key factors such as accommodation, friendliness and the environment. However, air access between Italy and Canada remains a challenge, with direct air capacity between the two countries down by 35 % in the fourth quarter. Italian carrier Alitalia maintains a 100 % share of direct air capacity during this period, and its future remains tenuous.

Netherlands Outlook, Q4 2004

Economic Overview

Oxford Economic Forecasting Inc. reports that the Dutch economy stagnated over the past three years—underperforming even Germany. The Netherlands has only emerged from its recession in the last six months, after recording a decline of 0.9 % in 2003. In the first quarter of this year, economic growth picked up at an annualized growth rate of 2.7 %—well above the growth originally forecasted. However, rampant unemployment is weighing heavily on consumer consumption, and is not showing any signs of easing. If the job situation improves, it could unleash a fair amount of pent-up spending. However, household debt levels continue to climb while incomes remain static, and these factors could prolong the current environment of consumer caution.

Tourism Trends

According to the Canadian Tourism Commission's (CTC) foreign office in the Netherlands, Canada maintains a position in the top ten countries visited by Dutch travellers. The number one foreign destination for Dutch travellers is France. In 2003, Dutch travellers took 35 million trips, many of which (34%) were taken without prior planning. A further 22 % of trips were booked directly with travel suppliers, while 24 % booked through a travel agency. The percentage of trips involving vacation packages increased from 39 % in 2002, to 44 % in 2003.

The CTC foreign office also reported the results of a survey by Toerkoop, which suggested that senior Dutch travellers comprise a growing travel segment. Survey results showed that this segment prefers trips which involve walking tours, cultural activities, and interesting local sites. Safety and reliability is important to this market, and they often travel during low and shoulder travel seasons. The survey respondents in this segment also said they intended to continue booking trips through travel agents rather than over the internet, because personal contact and familiarity were important to them.

A recent “market snapshot” report by the Australian Tourist Commission stated that Dutch consumers tend to research a travel destination extensively before going there, and are “passionate” about independent travel. On-line bookings are increasing, particularly among younger generations, but the internet is still used mainly for research. The trend for custom holidays is growing, prompting a rise in the number of retail travel outlets in the Netherlands to accommodate these bookings.

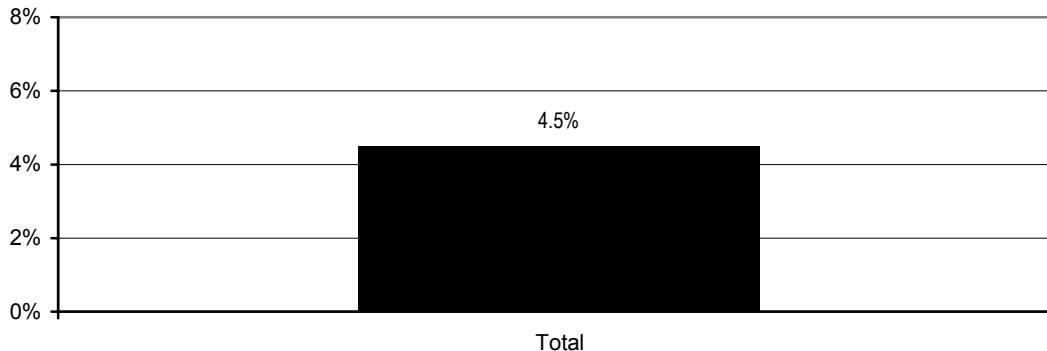
Market Overview

A CTC survey of Dutch tour operators revealed that sales of Canadian products are expected to increase up to 34 % in the fourth quarter of this year. Respondents indicated that air capacity did not appear to be an issue, although responses regarding the effects of the exchange rate were mixed.

Tour operators identified vacation packages for individuals, couples and groups as selling particularly well for the fall season. B.C. and Alberta are expected to receive the most Dutch visitors during this period (70-80%), 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/resorts, touring, and culture/history.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2004 Overnight Person-Trips from the Netherlands to Canada (% change from previous year – same quarter)



Source: Q4 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from the Netherlands in the fourth quarter of 2004—as indicated by *BO Monitor* participants—is for an increase of 4.5 %, 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

In continuation of the upward trend seen in previous quarters, direct air capacity from the Netherlands is expected to increase by 13.5 % in the fourth quarter of 2004, compared with 2003. This means that air capacity should not impede the growth of travel expected from Netherlands to Canada in that quarter. 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 the Netherlands to Canada (Q4 – October to December)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	72,573	82,383
% change	N/A	13.5

Source: OAG Worldwide

Summary Outlook for Q4 2004

BO Monitor participants anticipate that overall travel from the Netherlands will climb 4.5 % during the fourth 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 very optimistic regarding their sales of Canadian products during the final quarter of this year, reporting that vacation packages for all travel segments were selling well. The Dutch economy is finally showing signs of improving, which may help resuscitate consumer confidence in the Netherlands, and support the optimistic outlook for this market.

Japan Travel Outlook, Q4 2004

Economic Overview

The Japanese recovery continues to expand vigorously, due in large part to the ongoing strength in the Chinese economy, an improving U.S. economy and the boost to growth provided from Japan's domestic sector. The Japanese economy has expanded at annualized rates of over 5 % during the last two quarters and after such an excessively long period of economic stagnancy, this growth represents a welcome turn of events. Domestic residential investment has finally started to increase, as it appears that Japanese households have reached the point where they are more willing to invest some of their savings into prime residential investments. For the entire year, real GDP is expected to increase by 3.1 %. However, in 2005, weaker growth of less than 2 % is expected.

Tourism Trends

The Canadian Tourism Commission's (CTC) foreign office in Japan recently reported that many Japanese travel agents are expecting their bookings to Canada to reach 2002 levels this year. Agents also reported that their Canadian trips were selling better than U.S. trips. According to the CTC, the prime Japanese target travel market remains the "50+" age group. These are the travellers who spend the most on overseas trips, and make travel a high spending priority.

Reports from Japan's two main airlines, Japan Airlines Corp (JAL) and All Nippon Airways indicate that bookings for the July 16 to August 15, 2004 holiday period were 22.7 % higher than last year's figures. JAL noted that its booking ratio of available seats has surpassed 90 % on routes to North America, Hawaii and Oceania during this period.

The Australian Tourist Commission recently reported that the Japanese Tourism Marketing Co. has forecasted a rise in Japanese travel between July and September, to levels higher than those seen during the same period of 2003 and 2002. The report suggests that the FIT segment will register the highest growth in travel.

However, the Japanese Ministry of Health, Labour and Welfare issued a travel alert in June, cautioning visitors to North America this summer to be wary of West Nile fever. The alert noted that the virus caused 264 deaths in the U.S. last year and that any travellers returning home with a fever should seek immediate medical attention.

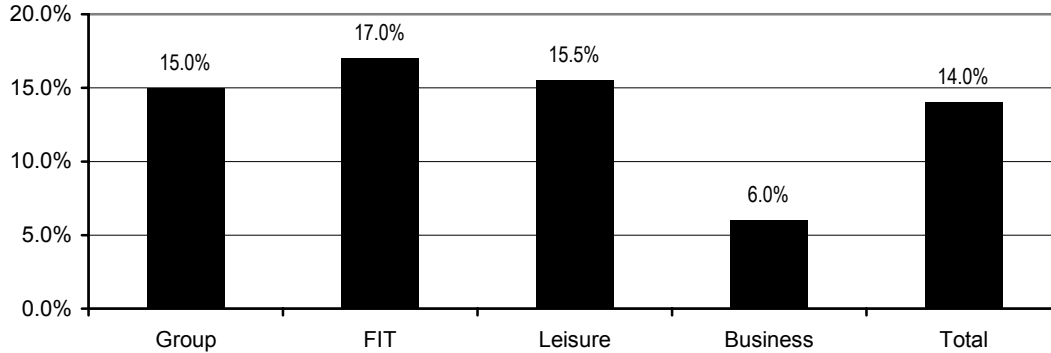
Market Overview

According to Japanese tour operators surveyed by the CTC, sales of Canadian products for the fourth quarter of 2004 are expected to rise to levels last seen in 2002. Respondents said that air capacity to Canada continued to represent a challenge for bookings scheduled in October, but seat availability appeared to be less of an issue for trips in November and December. The exchange rate does not appear to have any affect on bookings for the fourth quarter of this year.

Tour operators noted that trips for couples with or without a package were selling particularly well for the fourth quarter of 2004. Ontario is expected to receive the most Japanese visitors during this period (40%), followed by B.C. (30%), Northwest Territories (20%) and Quebec (10%). Destinations with potential for the Japanese travel market include Quebec City and Montreal, while products under development include trans-Canada rail tours, as well as Christmas trips to the Canadian Rockies and Prince Edward Island. Finally, Japanese tour operators reported that nature continued to be the highest selling product cluster, followed by touring, and cities/resorts.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2004 Overnight Person-Trips from Japan to Canada (% change from previous year – same quarter)



Source: Q4 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for travel from Japan in the fourth quarter of 2004—as indicated by *BO Monitor* participants—suggests an overall increase of 14.0, compared with the same quarter of 2003. Independent (FIT) leisure travel continues to lead growth expectations, with survey participants anticipating a rise of 17.0 % in this segment, followed by a 15.0 % increase in group leisure travel. Overall leisure travel is expected to grow 15.5 %, but survey respondents anticipate that business travel will lag behind at 6.0 %.

BO Monitor participants also provided an outlook for two Canadian provincial regions: Ontario/Quebec is expected to maintain a higher rate of growth, up 18.0 % during the fourth quarter of 2004, while visits to Alberta/British Columbia increase 13.0 %.

Japan-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Japan for the fourth quarter of 2004 is expected to rise 7.3 %, compared with the previous year. It should not represent a significant constraint in travel between Japan and Canada during this period. According to OAG, Air Canada’s share of direct air capacity during this period is expected to be 69.4 %.

Seats Available for Direct Travel from Japan to Canada (Q4 – October to December)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	105,430	113,112
% change	N/A	7.3

Source: OAG Worldwide.

Summary Outlook for Q4 2004

According to *BO Monitor* participants, overall travel from Japan in the fourth quarter of 2004 is expected to grow 14 % compared with a year earlier. Independent (FIT) travel is expected to continue posting the strongest growth, climbing 17.0 % during this period, while group travel expands 15.0 %. Meanwhile, the outlook for business travel is not quite as optimistic—this segment is expected to increase 6 % during the quarter.

Japanese tour operators surveyed by the CTC remain optimistic about travel from Japan to Canada during this period. They anticipate that sales of Canadian products will continue recovering to 2002 levels through the remainder of this year. A significant recovery in the overall outbound market reinforces this optimistic perspective: Japanese airlines are reporting a substantial rebound in international air travel this summer, with flights to North America approaching full capacity during the busiest periods.

Taiwan Outlook, Q4 2004

Economic Overview

Taiwan's political scene remains somewhat tense, due to the disputed outcome of the March presidential election. However, according to Oxford Economic Forecasting, the economy continues to perform relatively well on most measures. After declining drastically in the wake of the March election, consumer confidence appears to be picking up, despite the current political uncertainty and another parliamentary election scheduled for December. Taiwanese consumers appear to be adopting a "business as usual" attitude, although this may change as the next election draws closer.

Tourism Trends

The Canadian Tourism Commission's (CTC) foreign office in Taiwan reported that the travel outlook for Taiwanese travel to Canada is improving. Airline bookings are near capacity, even though flights between Taipei and Vancouver have increased by 5 %. However, the strong Canadian dollar does appear to be restricting growth in this market. Despite this, tour operators are optimistic about fall bookings to Canada. Trips from Taiwan during the fall months are expected to increase 20 – 30 % over last year's figures.

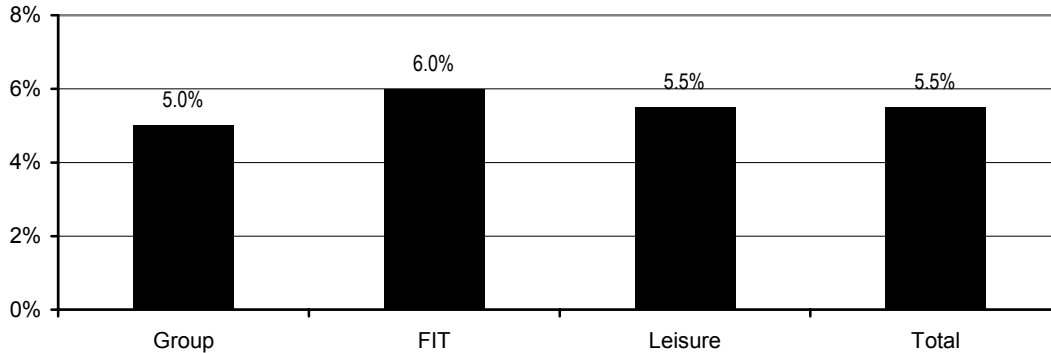
The Australian Tourist Commission (ATC) recently reported that outbound travel from Taiwan was quiet in March and April due to the Taiwanese presidential election. Unfortunately, the outcome of the election appears to have had a negative impact on Taiwanese business confidence; a recent survey showed that 78 % of Taiwanese workers feel less confident about the future, with 76 % indicating they expect unemployment to increase. Of those polled, 56 % worried that their income level would fall.

The ATC also reported that short-haul, cheaper air travel is expected to grow in popularity in Taiwan, because of the difficult economic and political environment there. Competition for the long-haul outbound market is fierce, sparking many price-driven promotions, which now dominate the travel marketplace. More than 90 % of Taiwanese travellers currently pre-book all of their travel arrangements, but bookings are usually made in as little as 2 weeks in advance.

EVA Air announced it plans to expand its fleet and add more scheduled flights to its long-haul routes, now that it is emerging from the downturn instigated by last year's SARS outbreak. The airline noted that its European routes appeared to have the most growth potential, especially among business travellers.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2004 Overnight Person-Trips from Taiwan to Canada (% change from previous year – same quarter)



Source: Q4 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall leisure travel from Taiwan in the fourth quarter of 2004—as indicated by *BO Monitor* participants—is for an increase of 5.5 %, compared with last year. *BO Monitor* respondents anticipate that group travel to Canada will rise 5 %, while independent (FIT) visits climb 6 %.

Taiwan-to-Canada Air Capacity, OAG Worldwide

According to OAG, direct air capacity from Taiwan to Canada is expected to jump 14.1 % during the fourth quarter of 2004, compared with a year earlier. Therefore, air capacity should not represent a problem for Taiwanese travellers visiting Canada during this period. According to OAG, Air Canada does not presently account for any share of the direct air capacity during the fourth quarter.

Seats Available for Direct Travel from Taiwan to Canada (Q4 – October to December)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	50,493	57,596
% change	N/A	14.1

Source: OAG Worldwide.

Summary Outlook for Q4 2004

BO Monitor participants expect overall travel from Taiwan to Canada to increase 5.5 % in the fourth quarter of 2004, maintaining a modest but steady pace of growth. The political instability that followed the March presidential election did have a significant impact on consumer confidence, but Taiwanese consumers appear to have resumed their “business as usual” attitude since then. Taiwanese tour operators appear quite optimistic about the outlook for visits to Canada in the final quarter of this year. A solid increase in direct air capacity between Taiwan and Canada should help accommodate the growth in travel expected during this period.

South Korea Travel Outlook, Q4 2004

Economic Overview

According to the Conference Board Inc., the leading economic index for Korea suggests that economic growth should still expand in the later part of 2004; however, its growth rate might ease from the rapid pace (an annual rate of approximately 6.5 percent) recorded during the second half of 2003. Real GDP growth has been fluctuating around an average rate of 7.0 percent (annual) since the middle of 2003.

Travel Trends

The Canadian Tourism Commission's (CTC) foreign office in Korea reported that "well-being" themed packages are growing in popularity, and these packages are being developed for Canada. The CTC also reported that Air Canada will increase its direct air capacity between Korea and Canada during the summer months to meet increasing demand, although it appears there will still be a shortage of seat capacity.

According to the latest figures by the Korea National Tourism Organization (KNTO), Korean outbound travel appears to be recovering to levels higher than 2002. In June, Korean outbound departures rose 47.2 % compared with a year earlier, to 712,260. This increase comes on top of a 10.1 % drop in outbound travel in June of 2003, when the effects of SARS caused outbound trips to decline to 483,965. In June 2002, Koreans took 538,110 trips outside their country. A similar trend was seen in April and May.

Korean Air Lines (KAL) reported that its international passenger traffic rose 9.2 % during the first quarter of this year. Revenues increased 9.2 %, and its operating profit surged 83.3 %, despite high fuel costs. The airline attributed its positive results to rising passenger demand and a stronger local currency.

Market Overview

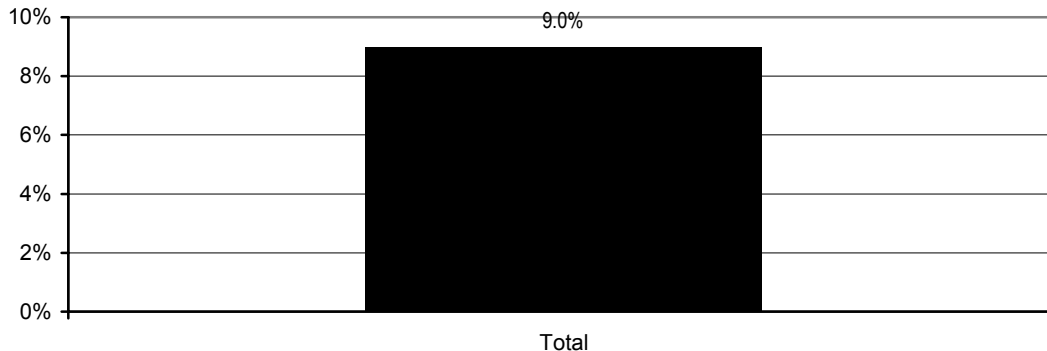
Korean tour operators surveyed by the CTC indicated they expected sales of Canadian products for the fourth quarter of 2004 to increase by 10 – 15 % over the previous year's figures. The outlook for Korean travel demand appears very optimistic; however, insufficient air capacity has been a problem for bookings up until early October. By November, demand is expected to ease somewhat, which will improve the situation for seat availability. The exchange rate has been a challenge as well, due to the appreciation of the Canadian dollar.

Tour operators noted that a trend of increasing FIT travel is still gaining ground, and family travel appears to be rising as well. However, group packages continue to be the most popular type of travel product sold. In terms of regional travel demand, B.C. is expected to receive the most Korean visitors during this period (35% of all bookings), followed by Ontario (30%), Alberta (25%), and Quebec (10%).

Respondents also identified a number of Canadian destinations under development for the Korean market: B.C. (for Vancouver, in particular, as well as honeymoon packages, and golf or ski vacations), Quebec (for "Special Maple Road" trips), and Alberta (for the UNESCO trail). Other destinations with potential for this market include Ontario (for winery and wellness tours, as well as foliage viewing), Prince Edward Island (for Anne of Green Gables attractions) and northern Canada, for viewing the Northern Lights. Finally, respondents indicated that for the fourth quarter of 2004, nature was the number one selling product cluster, followed by (in order of popularity): touring; cities/resorts; winter tours; outdoor/sports; and culture/history.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2004 Overnight Person-Trips from South Korea to Canada (% change from previous year – same quarter)



Source: Q4 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from South Korea in the fourth quarter of 2004—as indicated by *BO Monitor* participants—is for growth of 9 % compared with the same quarter last year.

BO Monitor participants also indicated they expect Korean travel to Ontario/Quebec and Alberta/British Columbia to increase 10 % and 8 %, respectively, during this period.

South Korea-to-Canada Air Capacity, OAG Worldwide

According to OAG, direct air capacity from South Korea to Canada during the fourth quarter of 2004 is expected to decline 4.8 % compared with the previous year. Considering the rise in South Korean trips to Canada expected in the fourth quarter, direct air capacity may constrain growth in travel between the two countries during this period. According to OAG, Air Canada’s share of direct air capacity during the fourth quarter of 2004 is expected to be 36.5 %.

Seats Available for Direct Travel from South Korea to Canada (Q4 – October to December)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	59,280	56,440
% change	N/A	-4.8

Source: OAG Worldwide.

Summary Outlook for Q4 2004

BO Monitor participants anticipate that overall leisure travel from South Korea will grow 9 % during the fourth quarter of 2004. Recent data from the Korean National Tourist Organization indicates that the overall Korean outbound market has been rebounding to levels surpassing 2002 figures, which bodes well for the Canadian tourism industry’s growth expectations for this market. Rising travel demand and a stronger Korean currency is boosting outbound departures. However, Korean tour operators have indicated that insufficient air capacity has been a problem for Canadian travel bookings up until early October. By November, demand is expected to ease somewhat, which will improve the situation for seat availability.

Hong Kong Outlook, Q4 2004

Economic Overview

The Hong Kong Tourism Board reported that the number of visitors to Hong Kong climbed to 10 million in the first half of 2004, surpassing all previous records for first-half visits. The main reason for the record-high numbers is the easing of travel restrictions on visitors from mainland China. The Chinese authorities began liberalizing travel regulations in July 2003 to help Hong Kong recover from the severe impact of the SARS outbreak on the territory's economy. According to a Reuters news report, the Hong Kong government has forecast the economy will expand by 6 % this year as a result of the tourism boom. However, many analysts believe that economic growth will cool in the second half of 2004, following China's measures to curb inflation. Hong Kong's unemployment rate has fallen from a record high of 8.7 % in 2003 to 6.9 %, but still remains one of the highest in Asia.

Tourism Trends

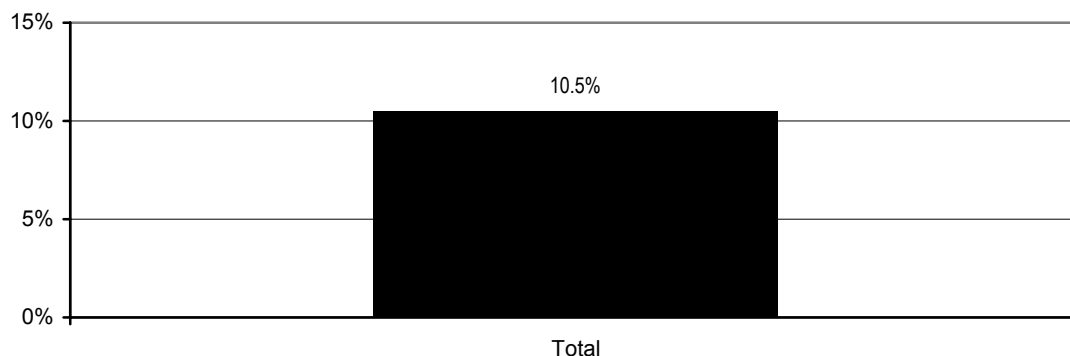
The Canadian Tourism Commission's (CTC) foreign office in Hong Kong noted in its latest quarterly report that travel demand has been very strong for the summer season. Flights to many long-haul destinations, including North America, Europe, Australia and some Asian destinations have been booked almost to capacity. Learning-themed trips, such as English courses have been particularly popular during this period.

Hong Kong's two main airlines, Cathay Pacific Airways and Dragonair have both reported strengthening passenger demand through the second quarter of this year. Cathay set a one-day passenger record on June 27, 2004, and the airline's overall passenger figures for that month were double the numbers seen in June 2003. Meanwhile, Dragonair's passenger figures for June were triple the levels seen the previous year (when passenger figures were depressed due to the SARS outbreak).

The Australian Tourist Commission recently reported that a number of Hong Kong travel agents launched special promotions in conjunction with the major airlines, in order to stimulate travel demand. These promotions were created in response to an expected lull in travel between May and mid-July, which is typically a slow travel period for the Chinese market.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2004
Overnight Person-Trips from Hong Kong to Canada
(% change from previous year – same quarter)



Source: Q4 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for travel from Hong Kong in the fourth quarter of 2004—as indicated by BO Monitor participants—is for growth of 10.5 %, compared with last year.

Hong Kong-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Hong Kong to Canada is expected to climb 13.0 % during the fourth quarter of 2004, compared with the previous year. This increase should help facilitate the growth in visits from Hong Kong expected during this period. According to OAG, Air Canada’s share of direct air capacity during the fourth quarter of 2004 is 40.6 %.

**Seats Available for Direct Travel from Hong Kong to Canada
(Q4 – October to December)**

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	118,898	134,345
% change	N/A	13.0

Source: OAG Worldwide.

Summary Outlook for Q4 2004

According to *BO Monitor* participants, growth in travel from Hong Kong is anticipated to pick up in pace during the fourth quarter of 2004, climbing by 10.5 % over the previous year. Steady improvements in long-haul travel demand and Hong Kong’s booming economic recovery support an optimistic view of this travel market. The expansion of direct air capacity from Hong Kong expected for the fourth quarter (13%) should ensure there is ample air access between the two countries during the fall travel period.

China Travel Outlook, Q4 2004

Economic Overview

Despite concerted efforts to cool down the booming Chinese economy, it expanded at an annualized rate of 9.7 % in the first quarter of 2004. Real GDP is expected to increase by 8.6 % this year before growth slows to 7.7 % in 2005. First quarter growth was driven by investment spending and soaring bank lending. The economy's rapid expansion is resulting in huge increases in raw material prices and is also leading to supply bottlenecks. With economic growth showing few signs of abating, monetary authorities may be forced to adopt other measures to slow down the economy and contain inflation.

Tourism Trends

According to the latest monthly report by the Australian Tourist Commission (ATC), Chinese outbound leisure travel continues to grow rapidly, although travel for business purposes appears to be declining. In the first quarter of 2004, Chinese outbound leisure travel rose 54 % compared with the previous year, while outbound business travel declined 12 %.

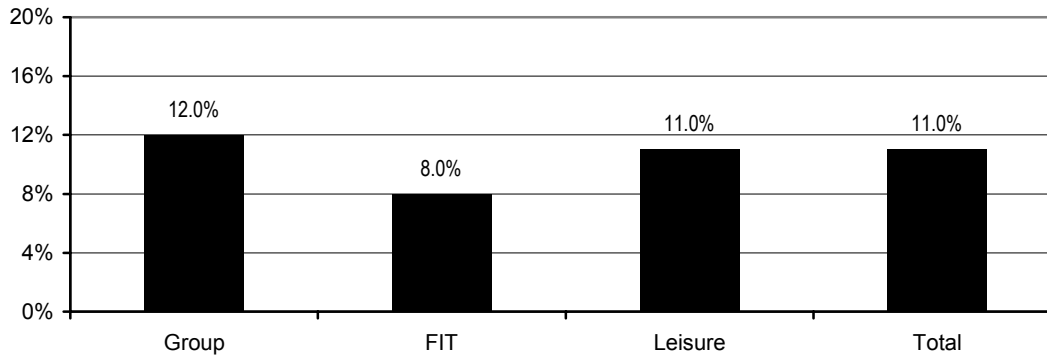
An ATC report on consumer booking patterns in China suggested that the Chinese travel market is price-conscious and responds to competitive pricing when choosing a travel package. Chinese travellers tend to use multiple information sources for planning their holiday, including the internet. However, on-line travel bookings have not yet become a key feature of the market due to current visa requirements and the inability to process electronic payments. The ATC also noted that the expansion of internet usage has been hampered by "difficulties in system compatibility in China."

European airplane manufacturer Airbus recently forecasted that China's air transportation sector would grow in volume by 500 % between now and the year 2022. The company predicted that passenger traffic on mainland Chinese airlines would grow 20 % in 2004 and 2005, respectively, then would slow to an average annual growth rate of 8 % after that. Factors boosting traffic growth include robust expansion of the Chinese economy, rising personal income levels, deregulation of airfares, further privatization of the airline industry, increasing "open skies" agreements with other countries, and rising numbers of tourist visas being issued to outbound travellers.

According to a recent article in the Economist, the Chinese outbound travel market is becoming increasingly interested in shopping for luxury goods when they travel. These travellers tend to be relatively budget-conscious about accommodation and meals, but enjoy shopping for expensive, high-status goods. The article noted that attitudes towards luxury in China have changed "dramatically" in the last several years.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2004 Overnight Person-Trips from China to Canada (% change from previous year – same quarter)



Source: Q4 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall leisure travel from China—as indicated by BO Monitor participants—is for 11 % growth in the fourth quarter of 2004, compared with the previous year. BO Monitor participants anticipate that group travel will rise 12 %, while independent (FIT) travel climbs 8 % during this period.

When broken down by provincial region, BO Monitor participants indicated they expect Chinese visits to grow 12 % in Ontario/Quebec and 9 % in Alberta/British Columbia during the fourth quarter.

China-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from China is expected to jump 22.8 % during the fourth quarter of 2004, compared with the previous year; therefore, air capacity should not represent a significant constraint to travel between China and Canada during that period. According to OAG, Air Canada’s share of direct air capacity during this period is expected to be 55.8 %.

Seats Available for Direct Travel from China to Canada (Q4 – October to December)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	56,928	69,889
% change	N/A	22.8

Source: OAG Worldwide.

Summary Outlook for Q4 2004

BO Monitor participants anticipate visits from China to grow by 11 % during the fourth quarter of 2004. Group travel is expected to rise 12 %, while independent (FIT) travel climbs 8 % during this period. Overall, the Chinese outbound leisure market continues to grow rapidly, buoyed by the robust expansion of the Chinese economy and rising personal income levels, and there are no signs that these economic trends will abate in the foreseeable future. A recent forecast suggested that Chinese demand for air travel will continue to surge for the next two years, rising by an annual rate of 20 % in 2004 and 2005. A substantial increase in direct air capacity between China and Canada during the fourth quarter of 2004 reflects this expanding demand.

Australia Travel Outlook, Q4 2004

Economic Overview

The Wall Street Journal quoted Australian Treasurer Peter Costello as saying that he would be pleased if domestic economic growth remained at 3 %, although retail sales would likely slow over the course of fiscal 2004-05 due to a softening of consumer consumption. Australia's unemployment rate is now at a 23 year low of 5.5 %.

Tourism Trends

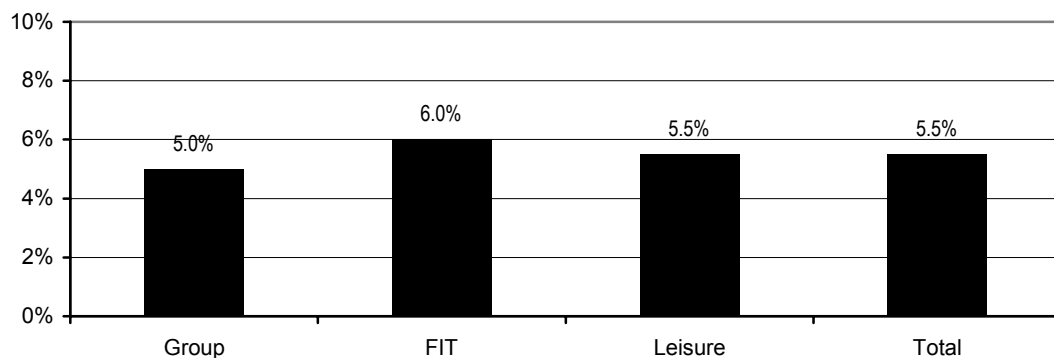
Recent surveys conducted by the Canadian Tourism Commission (CTC) at consumer travel shows indicate that the Australian tourism market is poised for significant growth over the next year. Survey results revealed that 37 % of potential long-haul leisure travellers expressed an interest in visiting Canada in the next twelve months. A much larger group of potential travellers (71%) indicated they were interested in visiting Canada within the next five years. According to survey findings, most Australian travellers are seeking holidays in a natural setting, away from crowds, but in a location where they can experience the local culture.

As reported by the CTC's foreign office in Australia, international airfare transactions grew significantly throughout the first quarter of 2004 compared with the previous year. According to the International Air Transport Association (IATA), transactions during March 2004 increased 58 % over the previous year, although the average transaction value dropped 10 %. The report noted that the problems affecting Australian outbound travel last year have led to "huge pent-up demand this year."

According to the Australian Bureau of Statistics, Australian outbound travel has continued to trend upwards since plunging drastically in May and June of last year. In May 2004, the number of overall outbound trips increased 51 % over May 2003, with outbound leisure trips up 68 %.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2004
Overnight Person-Trips from Australia to Canada
(% change from previous year – same quarter)



Source: Q4 2004 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall leisure travel from Australia in the fourth quarter of 2004—as indicated by BO Monitor participants—is for 5.5 % growth, compared with the previous year. Independent (FIT) travel (up 6%) is expected to continue outpacing group travel (up 5%) during this period.

Australia-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Australia is expected to increase 24.2 % during the fourth quarter of 2004 compared with the previous year. This expansion of air capacity should help facilitate the growth of Australian trips to Canada expected during this period.

Seats Available for Stop-Over Travel from Australia to Canada (Q4 – October to December)

	2003 (DIRECT)	2004 EST. (DIRECT)
Non-stop seats available	19,292	23,968
% change	N/A	24.2

Source: OAG Worldwide.

Summary Outlook for Q4 2004

According to BO Monitor participants, Australian leisure travel to Canada is expected to rise 5.5 % in the fourth quarter of 2004 compared with the previous year. Independent (FIT) travel (up 6%) is expected to continue outpacing group travel (up 5%) during this period. Meanwhile, feedback from Australian consumers at recent CTC travel shows indicate that this market may be poised for significant future growth. Over one-third (37%) of potential long-haul leisure travellers expressed an interest in visiting Canada in the next twelve months, and almost three-quarters (71%) indicated an interest in visiting Canada within the next five years. Overall, the Australian outbound market is experiencing a substantial recovery this year, supported by a strong Australian economy, record-low unemployment levels, and pent-up travel demand.

New Zealand Travel Outlook, Q4 2004

Economic Overview

According to the Economist Intelligence Unit, the New Zealand Treasury has forecast that real GDP growth will slow to 2.8 % for the fiscal year ending March 2005, from an estimated 3.3 % in the year ended March 2004. Net migration has slowed, and the booming housing market has lost some steam. However, the Treasury has acknowledged that this forecast is on the cautious side. According to the Australian Tourist Commission, consumer confidence fell slightly in the first quarter of 2004, but consumers remain “extremely optimistic.”

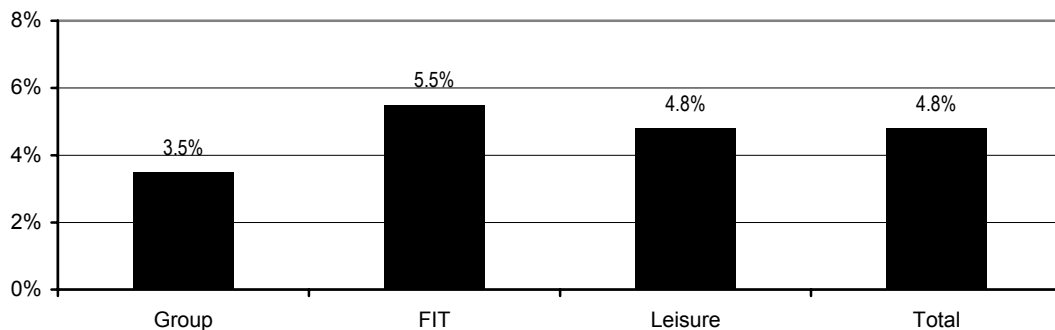
Tourism Trends

According to Statistics New Zealand data, overseas travel by New Zealanders has continued to recover substantially, posting significant growth in each month since mid-2003, when it plummeted in the wake of last year’s SARS outbreak. The latest figures show that outbound trips surpassed 169,000 in June 2004, up 39 % over June 2003. Holiday travel rose by 40 %, and business travel climbed 26 %, compared with the same month in 2003. Total outbound trips to Canada increased 51 % in June 2004, and 41 % in the second quarter of 2004 compared with the previous year.

A recent article by Travel Wire News stated that New Zealand travellers are shifting their travel patterns, appearing to increasingly prefer more exotic destinations. This has resulted in a loss of market share for more traditional destinations such as North America and mainland Asia. Over the past five years, Canada and the U.S. have lost market share, while growth has been seen in eastern European countries and Pacific island destinations. The Middle East has also registered a significant growth in visits despite growing political instability in that region.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2004
Overnight Person-Trips from New Zealand to Canada
(% change from previous year – same quarter)



Source: Q4 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 4.8 % during the fourth quarter of 2004, compared with 2003. *BO Monitor* respondents anticipated that growth in independent (FIT) leisure travel (up 5.5%) would continue to outperform group leisure travel (up 3.5%).

Summary Outlook for Q4 2004

According to *BO Monitor* participants, leisure travel from New Zealand is expected to maintain a steady pace of growth, climbing 4.8 % during the fourth quarter of 2004. Independent (FIT) leisure travel (up 5.5%) is expected to continue outperforming group travel (up 3.5%). The overall New Zealand outbound market has recovered substantially this year, posting significant growth in each month since mid-2003, when it plummeted in the wake of last year's SARS outbreak. Outbound departures for Canada have rebounded as well, supporting the positive outlook for growth in this market during the final quarter of this year.

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; % 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