

RESEARCH

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

SHORT-TERM BUSINESS OUTLOOK

QUARTER 1, 2005

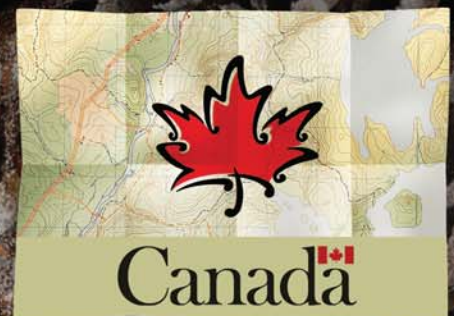
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Domestic, U.S. and Overseas Travel to Canada

Short-Term Business Outlook
Quarter 1 2005

Prepared for the

Canadian Tourism Commission

by

The Conference Board of Canada

October 2004

WHAT'S INSIDE

The purpose of this study is to provide a short-term outlook for domestic & international travel to Canada for the first quarter of 2005 (January 2005 to March 2005) using readily available market intelligence in a timely and cost-efficient manner.

The short-term outlook for travel to, and within, Canada for the first quarter of 2005 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	3
Introduction	9
Economic Overview	11
Domestic (Canada) Travel Outlook, Q1 2005	13
U.S. Travel Outlook, Q1 2005	17
Mexico Travel Outlook, Q1 2005.....	21
U.K. Travel Outlook, Q1 2005.....	23
France Travel Outlook, Q1 2005.....	27
Germany Travel Outlook, Q1 2005	29
Japan Travel Outlook, Q1 2005	33
South Korea Travel Outlook, Q1 2005	37
China Travel Outlook, Q1 2005	39
Australia Travel Outlook, Q1 2005	43
Appendix 1: Medium-Term Travel Forecasts (CTRI)	45

Executive Summary

Highlights

The outlook for Canada's key markets for the first quarter of 2005 (relative to the first quarter of 2004) from the *Business Outlook (BO) Monitor* participants is summarized as follows:

Q1-2005 Business Outlook for Canada's Key Markets (% change over Q1-2004)

COUNTRY	MARKET SEGMENT				
	LEISURE – GROUP	LEISURE - FIT	LEISURE – OVERALL	BUSINESS	TOTAL -OVERALL
Canada	4.5%	4.1%	4.2%	4.8%	4.4%
United States	5.1%	4.9%	4.9%	4.0%	4.8%
Mexico	4.8%	5.8%	5.4%	*	5.4%
United Kingdom	3.5%	5.0%	4.6%	4.0%	4.5%
France	3.5%	4.2%	3.9%	*	4.0%
Germany	4.7%	4.0%	4.2%	*	4.1%
Japan	5.5%	7.0%	5.9%	3.5%	5.5%
South Korea	*	*	*	*	4.0%
China	9.2%	6.8%	8.5%	*	8.5%
Australia	5.5%	5.0%	5.2%	*	5.2%

* Not enough responses to ensure confidentiality

Background

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

Please note that, since the outlook's scope is restricted to the first quarter of 2005, all growth comparisons are reported on a year-over-year basis compared with the first quarter of 2004.

North and South American Markets

Canada

The Conference Board of Canada's latest *Travel Intentions Survey* shows that Canadian winter vacation intentions remain quite strong for both domestic travel and international sun destinations. Canadian consumer confidence and economic prospects remain solid and support a substantial increase in overall travel intentions compared with a year ago.

BO Monitor participants support the notion that domestic travel demand is expected to continue to improve and post growth of 4.4 per cent in the first quarter of 2005, compared with the same quarter of 2004. In fact, participants anticipate that growth in business travel is expected to outpace that of leisure travel, climbing 4.8 per cent and 4.2 per cent, respectively, compared with a year earlier. Meanwhile, in the leisure segment, group travel is expected to grow 4.5 per cent, while independent (FIT) travel rises 4.1 per cent. While travel demand appears to be rebounding well, low travel prices continue to make it difficult for many segments of the tourism industry to generate profits.

U.S.

There appears to be a number of issues hampering a more substantial recovery in the U.S. travel market. These include uncertainty over the American election, a weaker-than-expected U.S. labour market and the high value of the Canadian dollar. Moreover, skyrocketing oil prices not only inflate the relative cost of travel, they also constrain the discretionary spending of potential travellers.

Fortunately, the outlook for leisure travel in the United States may be improving. The fall 2004 (September to November) forecast by the Travel Industry Association of America (TIA) indicated that U.S. leisure travel volumes are expected to rise 2.6 per cent over the same period in 2003, due to consumers' pent-up demand and a "wide array of travel bargains." This increase in demand was reflected in the TIA's third quarter Traveler Sentiment Index, which rose 1.6 percentage points over the previous quarter. When broken down by region, the largest increase in the overall index was registered in the Northeast (up 9%)—potentially good news for Canadian businesses wanting to attract cross-border traffic from that area.

BO Monitor participants also expressed renewed optimism for our most important international market, anticipating that overall U.S. travel to Canada in the first quarter of 2005 would expand 4.8 per cent, compared with the previous year. Leisure travel is expected to rise 4.9 per cent, boosted by a 5.1 per cent increase in group travel, while FIT travel climbs 4.9 per cent. Meanwhile, U.S. business travel to Canada is anticipated to grow 4 per cent, compared with the same quarter of 2004.

Mexico

Overall, *BO Monitor* participants expect leisure travel from Mexico to increase 5.4 per cent during the first quarter of 2005, compared with the same quarter of 2004. Leisure travel is expected to post solid growth, in part due to the expected 5.8 per cent surge in (FIT) leisure travel. Meanwhile, group travel is expected to expand 4.8 per cent. Mexico's economic outlook remains quite positive and is helping to fuel Mexican demand for outbound travel. Fortunately, Canada appears to be benefiting from this growing travel market, as Mexican tour operators continue expanding their Canadian products.

European Markets

U.K.

Reports from tour operators in the U.K. indicate that overall travel bookings picked up at the end of the summer season, amidst a difficult competitive environment described as rife with discounting and over-capacity. Internet and “do-it-yourself” travel bookings continue to trend upwards, which are prompting some U.K. tour operators to re-evaluate their product offerings. U.K. tour operators expect solid growth in travel to Canada this winter, although intense competition and the growing popularity of on-line bookings have brought down the average price of Canadian ski packages. Unfortunately, air capacity between Canada and the U.K. is expected to decline during the first quarter of 2005 and could potentially represent a challenge for travel between the two countries during this period.

Despite the challenges of air capacity, *BO Monitor* participants expect overall travel from the U.K. to increase 4.5 per cent in the first quarter of 2005, compared with the same quarter of 2004. Overall leisure travel is expected to grow 4.6 per cent, with a 5 per cent rise in independent (FIT) travel and a 3.5 per cent climb in group travel. Meanwhile, U.K. business travel to Canada is anticipated to grow 4 per cent during this period.

France

Tour operators surveyed by the CTC were quite optimistic regarding Canadian bookings for the first quarter of 2005. The favourable exchange rate has played a positive role in the sales of Canadian trips, although fuel surcharges are offsetting some of this effect. The French economy continues to recover and supports a positive outlook for consumer spending.

BO Monitor participants also expect travel from France to increase over the first quarter. Specifically, overall growth of 4 per cent is anticipated, with independent (FIT) travel leading growth expectations for the period (up 4.2%). Meanwhile, group travel is expected to increase 3.5 per cent. Overall, leisure travel was anticipated to rise 3.9 per cent during the first quarter of 2005, compared to 2004.

Germany

It appears that the recovery in German travel demand continues to gain ground, despite the less optimistic outlook for the country’s economy. Members of the German travel industry have reported a clear upturn in the overall holiday market, with solid growth in demand for winter packages—Canadian destinations included. Furthermore, the level of discounting and last-minute bookings has been trending steadily lower, as tour operators make a collective effort to offer incentives for advance bookings and rein in capacity.

According to *BO Monitor* participants, overall travel from Germany in the first quarter of 2005 is expected to expand 4.1 per cent, compared with the same quarter of 2004. Group travel is expected to edge ahead of other segments, increasing 4.7 per cent, while the FIT segment rises 4 per cent. As a result, overall leisure travel to Canada is expected to grow 4.2 per cent, compared with 2004.

Asia/Pacific

Japan

While Japanese tour operators surveyed by the CTC remain optimistic about travel demand to Canada, a few challenges were identified for this market. Direct air capacity between Japan and Canada remains an issue, and the high value of the Canadian dollar has made package prices a little less attractive. Moreover, booking windows for overseas trips are shrinking, with Japanese travellers booking their trips much closer to their departure date. However, the fundamentals for growth in Japanese visits appear to be in place as demand for overseas travel recovers. Fortunately, buoyed by strengthening consumer confidence and positive economic prospects, the Japanese are showing renewed interest in travelling overseas again.

According to *BO Monitor* participants, overall travel from Japan in the first quarter of 2005 is expected to rise 5.5 per cent compared with a year earlier. Independent (FIT) travel is expected to continue posting the strongest growth, climbing 7 per cent during this period, while group travel expands 5.5 per cent. However, business travel is expected to continue lagging somewhat behind, increasing 3.5 per cent during the quarter.

South Korea

BO Monitor participants anticipate that overall leisure travel from South Korea will increase by a rather modest 4 per cent during the first quarter of 2005. While Korean tour operators surveyed by the CTC were more optimistic, insufficient air capacity did surface as a concern that could curtail potential travel during the period. In addition, the less favourable exchange rate for Korean travellers was also mentioned as an issue, because the high value of the Canadian dollar has pushed package prices up by 10 per cent over last year's rates. Still, the latest figures from the Korean National Tourist Organization confirm that the country's overall outbound market continues to expand steadily. Hopefully, the growing demand for international travel will help support solid growth in Korean visits to Canada during the first quarter of 2005.

China

Overall prospects for the Chinese outbound travel market remain very bright, buoyed by persistently strong growth in the country's economy. Income levels continue to rise rapidly, driving skyrocketing demand for both domestic and international leisure trips. While the economy is expected to cool somewhat in 2005, there are no signs that this will derail the growing demand in Chinese outbound travel. *BO Monitor* participants anticipate Chinese travel to Canada will increase by 8.5 per cent during the first quarter of 2005. Group travel is expected to rise 9.2 per cent, while independent (FIT) travel climbs 6.8 per cent during this quarter. OAG data shows that direct air capacity to Canada is expected to increase nearly 25 per cent in the first quarter, which should help facilitate the growth in Chinese visits expected for this period.

Australia

According to *BO Monitor* participants, Australian leisure travel to Canada is expected to rise 5.2 per cent in the first quarter of 2005 compared with the previous year. Group leisure travel is expected to grow 5.5 per cent, while independent (FIT) travel climbs 5 per cent during this period. Reports from the Australian travel industry support these growth expectations and indicate a burgeoning interest in Canadian vacation packages. A number of tour operators have recently expanded their Canadian product offerings in order to accommodate this rising demand. Air Canada has also recently announced a new daily service between Sydney and Vancouver, which will help facilitate the growth in Australian visits expected in the first quarter of 2005.

International Travel Statistics – Statistics Canada

Overnight Travel to Canada, January - August 2004

COUNTRY	PERSON-TRIPS	CHANGE OVER 2003(%)
United States	10,890,902	5.4
Mexico	128,031	20.4
Europe	1,491,926	17.2
United Kingdom	575,647	15.6
France	225,519	17.7
Germany	207,047	14.3
Netherlands	86,086	12.9
Italy	58,069	51.1
Asia	808,193	39.6
Japan	256,525	64.6
South Korea	117,591	21.6
Taiwan	74,989	85.5
Hong Kong	83,467	34.7
China (Mainland)	65,719	35.3
Oceania	150,283	18.6
Australia	123,541	18.4

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 first quarter of 2005 (January to March) 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

The world economy has benefited from strong growth in the U.S. and Chinese economies. However, rapidly rising oil prices and less than stellar job growth in the U.S. have slowed growth during the summer months. Still, economic activity is expected to pick up in the final months of this year as oil prices ease somewhat. World output, as measured in real GDP, is therefore expected to grow by 4 per cent this year before slowing to 3.1 per cent growth in 2005. The weaker growth next year is mainly a result of rising interest rates in many of the world's largest economies.

Oil prices remain the wild card in the near term prospects for the world economy. The Conference Board of Canada expects oil prices to ease gradually from current levels. And, while the volatile geopolitical situation makes forecasting oil prices extremely precarious, West Texas intermediate oil prices are expected to fall below \$40 by the end of next year. If oil prices do not ease and remain at current levels well into 2005, world economic growth will falter. Domestic demand in the major oil importing countries and regions such as the United States, Japan, Europe and most of Asia-Pacific will be negatively affected as households spend more on energy products at the expense of domestically produced goods and services. Business investment that has generated strong productivity growth world-wide would also slow considerably as higher energy prices reduce profitability.

North America

Economic growth in the North American economy is expected to improve significantly in 2004, compared to last year's lacklustre performance. Consensus Forecasts expects real GDP for the North American economy to grow by 4.3 per cent in 2004. However, overall growth is expected to slow to 3.5 per cent in 2005, principally because the U.S. and Mexican economies each post slower growth. The slower growth next year is partly due to the corrective action taken by central banks over the near term. The current strength in the economy along with rock-bottom interest rates, high commodity prices and oil prices has rekindled inflation fears among economic observers. In an effort to alleviate any inflationary pressures, U.S. and Canadian central banks are likely to raise interest rates significantly over the next two years, inevitably taking some steam out of the economy. Still, with interest rates remaining at historically low levels, moderate gains in employment are enough to foster continued growth in consumer spending across the continent.

South America

Solid growth in Brazil, combined with a rebound in economic activity in Argentina and Venezuela will help boost growth in South America to 5.2 per cent in 2004. Solid export growth, a result of China's breakneck pace of activity, as well as lower borrowing costs have turned the region into a more attractive destination for foreign investors and has led to strong inflows of foreign capital. In turn, many South American stock markets have been booming, while strengthening exchange rates have assisted in containing inflationary pressures. Lower inflation has enabled monetary authorities to facilitate looser monetary conditions. However, the spectre of political uncertainty continues to haunt the region. Although President Chavez won the recent referendum, his leadership continues to be deeply polarizing, signalling that further turbulence may lie ahead. This uncertainty is the main factor behind a slowdown in economic activity next year. Growth in real GDP in South America is expected to slow to 3.7 per cent in 2005.

Europe

Economic activity in Europe has picked up decidedly from last year. Growth in real GDP is expected to reach at 2.3 per cent in 2004, and similarly in 2005. The Euro zone continues to be plagued by weak job growth and high unemployment. The unemployment rate will be 9 per cent in 2004 before declining marginally to 8.8 per cent in 2005. However, faced with low labour costs by new entrants into the EU, labour unions are starting to make wage concessions to employers. As this process unfolds, and as manufacturers become leaner and more efficient, output and capital spending are expected to rise. This is expected to put downward pressure on unemployment rates. On the other hand, the unemployment rate in the U.K. is already very low and is expected to remain below 3 per cent over the near term. There, growth in real GDP is forecast to reach 3.3 per cent this year, but will slow to 2.6 per cent in 2005 as higher interest rates lead to slower growth in consumer demand.

Asia-Pacific

Led by the surging Chinese economy and solid economic growth in Japan, real GDP is expected to increase by 5.2 per cent this year. Strong growth in exports is the main driver behind the solid economic outlook as the majority of the countries in this region are heavily dependent upon the international sector. A case in point is Japan where strong growth in exports helped lift that economy out of years of stagnation. On the other hand, the outlook for 2005 is not as optimistic. Real GDP in the Asia-Pacific region is expected to grow less than 4 per cent as weaker U.S. demand and high energy prices dampen output. In fact, since the region uses more than twice the amount of oil it produces, economic growth in the entire Asia-Pacific region could drop by as much as 1 per cent if energy prices remain at current levels for a period of one year or more. Moreover, while high inflation in China is expected to lower economic growth there, deflation continues to persist in Japan. This will cause Japanese consumer spending to retrench once again and thus provide little offset to the slowdown in exports.

Exchange Rates

Exchange Rate Comparison – October 2003 to October 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	-	5.9%	-1.5%	-0.7%	5.3%	3.5%	7.8%	2.7%
U.S. dollar	-5.6%	-	-7.0%	-6.2%	-0.5%	-2.3%	1.8%	-5.2%
British pound	1.6%	7.6%	-	0.8%	7.0%	5.1%	9.5%	2.0%
Euro	0.7%	6.7%	-0.8%	-	6.1%	4.2%	8.6%	1.1%
Japanese yen	-5.1%	0.5%	-6.5%	-5.7%	-	-1.7%	2.4%	-4.7%
Korean won	-3.4%	2.3%	-4.9%	-4.1%	1.8%	-	4.2%	-3.0%
Mexican peso	-7.3%	-1.8%	-8.7%	-7.9%	-2.3%	-4.0%	-	-6.9%
Australian dollar	-0.4%	5.5%	-1.9%	-4.1%	4.9%	3.1%	4.2%	-

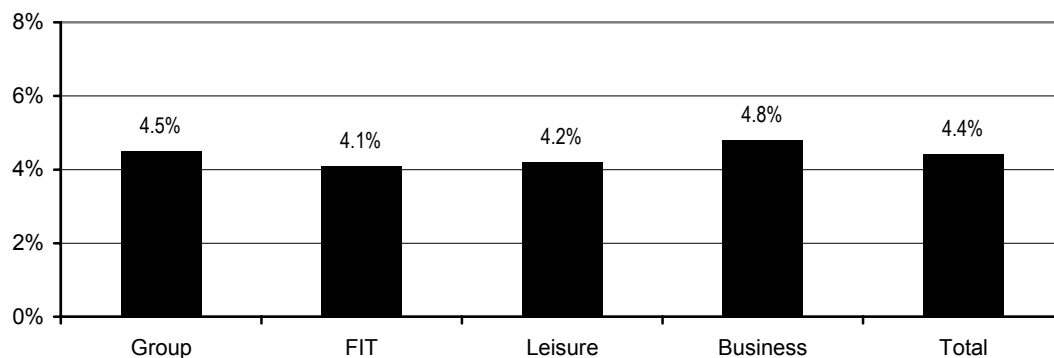
Domestic (Canada) Travel Outlook, Q1 2005

Economic Overview

The Canadian economy continues to grow steadily and is expected to expand by 3 per cent in 2004 and a further 3.2 per cent in 2005. Strong import demand from the U.S. has spurred the economy despite the high value of the loonie. As the U.S. raises interest rates and narrows the interest rate differential with Canada in 2005, the Canadian dollar is expected to ease somewhat from its current high. Despite this, export growth is still expected to dampen slightly because of lower demand from the U.S. Domestic demand, on the other hand, is expected to remain very strong. Solid growth in employment along with strong wage gains will lift growth in disposable income from 4.8 per cent in 2004 to 5.4 per cent in 2005.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2005
Overnight Domestic Travel
(per cent change from previous year – same quarter)



Source: Q1 2005 Business Outlook System, Canadian Tourism Research Institute.

The Business Outlook—as indicated by Canadian travel suppliers and receptive agent bookings—suggests 4.4 per cent growth in overall advance bookings for domestic travel in the first quarter of 2005, compared with the previous year.

According to *BO Monitor* participants, growth in business travel is expected to outpace that of leisure travel, climbing 4.8 per cent and 4.2 per cent, respectively. In the leisure segment, group travel is expected to grow 4.5 per cent, while independent (FIT) travel rises 4.1 per cent, compared with the same quarter in 2004.

When looking at domestic travel by provincial region, *BO Monitor* participants anticipate that travel to the Ontario/Quebec region will continue leading growth expectations, rising 5.3 per cent, followed by Alberta/British Columbia (3.6%) and Atlantic Canada (3.5%). Growth in travel to Manitoba/Saskatchewan is expected to lag somewhat behind, climbing 2.9 per cent compared with the same quarter of 2004.

A number of survey participants commented that low domestic airfares appeared to be spurring domestic travel demand for the winter travel season. It was also noted that booking windows remain very short, making advance booking projections very challenging for the travel industry.

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

On the strength of a more optimistic outlook, The Conference Board's Consumer Confidence Index increased 1.6 points in September to reach 122.9. Canadians were quite upbeat about family budgets and job prospects six months from now, and consumers are still favourably disposed to making major purchases: the September survey suggested that 60 per cent of Canadians believed that now is a good time to make a large purchase. Looking ahead, consumer spending is expected to grow by 3.3 this year and 3.4 per cent in 2005, despite a rapid rise in interest rates throughout 2005.

Consumer Confidence (1991=100 Index)

	2004:06	2004:07	2004:08	2004:09
Consumer Confidence Index	117.2	121.8	121.3	122.9

Source: The Conference Board of Canada

Canadian domestic leisure travel intentions remain as strong as they appeared earlier this summer, according to The Conference Board of Canada's updated *Winter Travel Intentions Survey*. Of the Canadians polled during August 2004, 20.2 per cent intend to take a domestic winter vacation this year, on par with the June 2004 survey, and up from 19.4 per cent in the September 2003 survey. Overall travel intentions appear to have increased dramatically when compared with last year, with 48.6 per cent of respondents citing plans to take a trip this winter. Of course, last year's survey reflected the impact of the severe acute respiratory syndrome (SARS) outbreak on Canadian traveller confidence.

Winter (November 2004 to April 2005) Vacation Intentions (% of Canadians surveyed)

	AUGUST 2004	SEPTEMBER 2003	SEPTEMBER 2002
Winter Vacation Intentions (All Destinations)	48.6	39.0	42.3
Canada	20.2	19.4	19.6
United States	10.4	8.2	9.0
Other International	16.7	10.7	13.0
Do Not Know/Refused	1.3	0.7	0.7

Source: The Conference Board of Canada.

The latest survey findings show that international travel intentions have taken a huge leap, likely due to a combination of pent-up demand, greater geopolitical stability and a strong dollar. Another factor is the cool weather experienced in many parts of Canada this past summer, which has encouraged more Canadians to seek warmer temperatures at sun destinations this winter. Furthermore, economic prospects and consumer confidence remain solid, fuelling Canadians' enthusiasm for warmer winter getaways.

Summary Outlook for Q1 2005

The Conference Board of Canada's latest Travel Intentions Survey shows that Canadian winter vacation intentions remain quite strong for both domestic travel and international sun destinations. Canadian consumer confidence and economic prospects remain solid, supporting a dramatic increase in overall travel intentions compared with a year ago. Of course, last year's survey reflected the impact of the severe acute respiratory syndrome (SARS) outbreak on Canadian traveller confidence.

While all indications suggest that travel demand continues to improve, travel prices have remained low. Unfortunately, low prices have made it difficult for many segments of the tourism industry to generate profits. In this environment, those businesses require prices to increase or demand to rise significantly to establish a comfortable financial operating environment. However, the Conference Board of Canada's latest travel forecast suggests that overnight domestic travel is expected to expand by a rather modest 4 per cent this year. Moreover, the outlook for 2005 and 2006 forecasts further conservative growth of 3.4 and 2.8 per cent, respectively.

On a slightly more positive note, *BO Monitor* participants anticipate domestic travel to expand 4.4 per cent in the first quarter of 2005, compared with a year earlier. Growth in business travel is expected to outpace that of leisure travel, climbing 4.8 per cent and 4.2 per cent, respectively, compared with the same quarter in 2004. In the leisure segment, group travel is expected to grow 4.5 per cent, while independent (FIT) travel rises 4.1 per cent.

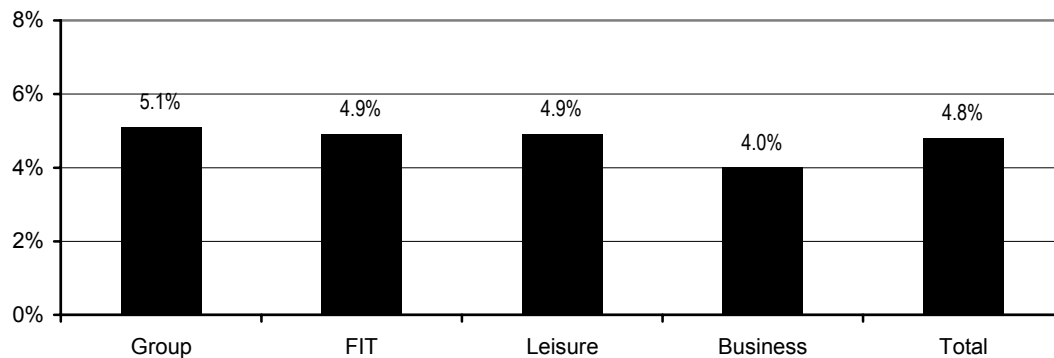
U.S. Travel Outlook, Q1 2005

Economic Overview

The positive impact from stimulative fiscal and monetary policy will propel growth in real U.S. GDP to 4.2 per cent this year. Rock-bottom interest rates helped spur both investment and consumer spending. In fact, business investment is expected to grow by close to 10 per cent in 2004 while consumer spending advances a strong 3.6 per cent. However, the economy is expected to slow significantly in 2005 as higher interest rates dampen domestic demand. As a result, growth in real GDP is expected to slow to 3.2 per cent next year. However, consumer spending will remain relatively strong as the labour market picks up and productivity increases shore up income growth. While we expect oil prices to ease somewhat, persistent high energy prices would pose a significant risk to economic growth.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2005
Overnight Person-Trips from the U.S. to Canada
(per cent change from previous year – same quarter)



Source: Q1 2005 Business Outlook System, Canadian Tourism Research Institute.

Overall travel from the U.S.—as indicated by *BO Monitor* participants—is expected to grow 4.8 per cent in the first quarter of 2005, compared with a year earlier, led by a 4.9 per cent increase in leisure travel. Within the leisure segment, group travel continues to lead growth expectations, rising 5.1 per cent during that period, while FIT travel climbs 4.9 per cent. Meanwhile, U.S. business travel to Canada is anticipated to increase 4 per cent in the first quarter of 2005, compared with the previous year.

BO Monitor participants anticipate that, of all the provincial regions, Ontario/Quebec will experience the strongest growth in U.S. travel (up 5.5%) during the first quarter of 2005, followed by Atlantic Canada (up 4.5%). Travel to Alberta/British Columbia and Manitoba/Saskatchewan is expected to post growth of 3.9 per cent and 3.6 per cent, respectively.

Survey participants commented that the U.S. election was taking its toll on advance U.S. bookings to Canada, but most were confident that bookings would pick up once the election was over. A number of respondents also cited uncertainty about the U.S. economy as another dampening factor. Concerns about the exchange rate still persist, with some tour operators noting that they've had to raise their package prices to Canada.

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

The Conference Board Inc.'s Consumer Confidence Index has declined steadily since July, falling to 92.8 in October. The Present Situation Index dropped to 94.2 in October from 95.3 the previous month, and the Expectations Index to 92.0 from 97.7. The Conference Board noted that October's decline was primarily due to "subdued expectations as opposed to eroding present-day conditions." Confidence in the current labour market was somewhat stronger, but that gain was offset by increasing concerns about the near-term outlook for job growth.

Consumers appear to be cautious, overall, about the next six months. Those expecting business conditions to worsen rose to 10.3 per cent in October, from 9.4 per cent in September, while those expecting conditions to improve slipped to 20.6 percent from 21.6 percent.

Consumer Confidence (1985=100 Index)

	JULY 2004	AUGUST 2004	SEPTEMBER 2004	OCTOBER 2004 (P)
Consumer Confidence Index	105.7	98.7	96.7	92.8
Present Situation	106.4	100.7	95.3	94.2
Expectations	105.3	97.3	97.7	92.0

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

According to the October 2004 travel intentions survey by The Conference Board Inc., 47.8 per cent of Americans polled indicated they planned to take a vacation some time in the next six months, up from 46.3 per cent in the October 2003 survey. Plans for both domestic and international travel appear to have increased: 39.9 per cent of respondents said they intend to take a domestic trip, compared with 38.3 per cent in 2003, while 9.2 per cent plan to travel outside of the U.S., up from 8.9 per cent last year.

The survey also indicates that the number of Americans planning to fly to their vacation destination has increased over the previous year. Specifically, 18.3 per cent of Americans intend to travel by plane on a leisure trip in the next six months, compared with 17.3 per cent the previous year. Meanwhile, those planning to take their trip by car remained approximately the same as last year's survey.

Vacation Intentions (Seasonally adjusted) (Per cent)

	APRIL 2004	JUNE 2004	AUGUST 2004	OCTOBER 2004 (P)
Vacation Intended (all destinations)	42.7	42.7	42.1	47.8
U.S.	36.3	35.5	34.9	39.9
Foreign	8.3	9.3	8.4	9.2

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
(Q1 – January to March)**

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	3,699,072	3,891,806
Per cent change	N/A	5.2%

Source: OAG Worldwide

The number of seats available (as of October 2004) for direct air travel between the U.S. and Canada during the first quarter of 2005 is expected to increase 5.2 per cent, compared with the same period in 2004. Considering the overall growth in travel expected from the U.S. during that quarter, air capacity should not represent a constraint for travel growth from the U.S. during this period.

Summary Outlook for Q1 2005

There appears to be a number of issues hampering a more substantial recovery in the U.S. travel market, including the uncertainty over the upcoming American election, a weaker-than-expected U.S. labour market and the high value of the Canadian dollar. Moreover, skyrocketing oil prices not only inflate the relative cost of travel, they also constrain the discretionary spending of potential travellers.

Fortunately, the outlook for leisure travel in the United States may be improving. The fall 2004 (September to November) forecast by the Travel Industry Association of America (TIA) indicated that U.S. leisure travel volumes are expected to rise 2.6 per cent over the same period in 2003, due to consumers' pent-up demand and a "wide array of travel bargains." This increase in demand was reflected in the TIA's third quarter Traveler Sentiment Index, which rose 1.6 percentage points over the previous quarter. When broken down by region, the largest increase in the overall index was registered in the Northeast (up 9%)—potentially good news for Canadian businesses wanting to attract cross-border traffic from that area.

In conjunction, *BO Monitor* participants were rather optimistic, anticipating that overall U.S. travel to Canada would expand 4.8 per cent in the first quarter of 2005 compared with the previous year. Leisure travel is expected to rise 4.9 per cent, boosted by a 5.1 per cent increase in group travel, while FIT travel climbs 4.9 per cent. Meanwhile, U.S. business travel to Canada is anticipated to grow 4.0 per cent, compared with the same quarter of 2004.

Mexico Travel Outlook, Q1 2005

Economic Overview

The close trade links between Mexico and the United States have had a positive impact on Mexico's economy in 2004. The solid U.S. expansion has helped lift Mexico's manufacturing sector out of the doldrums while higher energy prices boosted electricity, gas and mining output. Moreover, U.S. travellers single-handedly turned the country's tourism sector around and helped kick-start the Mexican economy. Thus, after growing by only 1.3 per cent in 2003, real GDP is expected to expand by 4 per cent in 2004 and 3.7 per cent in 2005. Similarly, consumer spending is expected to remain strong as income growth picks up with private consumption expected to grow by 4 per cent in 2004 and 4.1 per cent in 2005. Finally, the surge in oil prices will help the Mexican government keep the country's fiscal situation under control. The extra revenue implies that the budget deficit will fall from 1.2 per cent of GDP in 2002 to 0.3 per cent by 2005.

Tourism Trends

Mexico's two main carriers, Aeromexico and Mexicana de Aviacion are expected to merge as part of a privatization plan, according to a recent Reuters news report. The two airlines will merge under Cintra, their government-owned parent company. However, the merger was granted regulatory approval on the condition that the carriers be sold next year to independent investors as two separate airlines, which can then compete against each other.

The CTC foreign office in Mexico reported that Mexican outbound travel demand was strong over the summer season, particularly to Canada, Europe and South America. Chile and Argentina aggressively promoted ski packages during this period to take advantage of growing interest in South American trips.

The only destination that has seen a decline in Mexican interest is the United States. In fact, this prompted tour operator Onvisa to re-direct a number of their charter flights from Orlando, Florida to Vancouver and Edmonton. According to the CTC, Onvisa recently started tours to Toronto and Quebec City, and their first five trips were sold out. Other tour operators, such as Euromundo and Ofertas Turísticas have been operating Mexican tours to eastern Canada as well, and will be promoting ski packages to Whistler this winter.

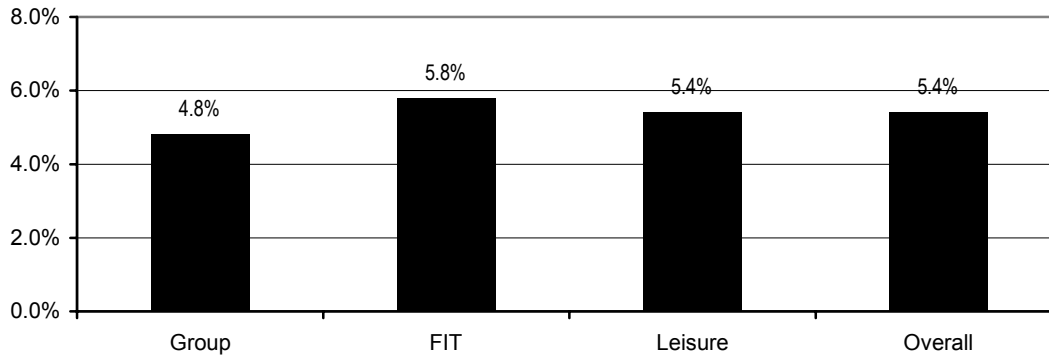
Market Overview

According to Mexican tour operators surveyed by the CTC, sales of Canadian products for the first quarter of 2005 are expected to grow by an average of 30 per cent over the previous year's figures. Respondents indicated that air capacity to Canada could hamper sales of Canadian packages during this period, because Mexican travellers are very reluctant to choose flights that fly through the U.S. Responses regarding the effect of the exchange rate on sales for Canadian trips were mixed.

Tour operators noted that package bookings for individuals, groups and couples were all selling particularly well for the first quarter of 2005. British Columbia is expected to receive the most Mexican visitors during this period (34%), followed by Ontario and Quebec (31%), and Alberta (10%). Finally, Mexican tour operators reported that touring and cities/resorts were tied as the top-selling product clusters, followed by winter, nature, and outdoor/sports (in that order).

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2005 Overnight Person-Trips from Mexico to Canada (per cent change from previous year – same quarter)



Source: Q1 2005 Business Outlook System, Canadian Tourism Research Institute

According to *BO Monitor* participants, overall travel from Mexico in the first quarter of 2005 is expected to rise 5.4 per cent, compared with the previous year. Independent (FIT) leisure travel is expected to increase 5.8 per cent, boosting overall leisure travel growth to 5.4 per cent, while group travel climbs 4.8 per cent.

Mexico-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Mexico is expected to rise 21.1 per cent during the first quarter of 2005, compared with the same period in 2004. It does not appear that air capacity should represent an impediment to the growth of travel from Mexico during this period.

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

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	101,509	122,904
Per cent change	N/A	21.1

Source: OAG Worldwide.

Summary Outlook for Q1 2005

Overall, *BO Monitor* participants expect leisure travel from Mexico to increase 5.4 per cent during the first quarter of 2005, compared with the same quarter of 2004. Leisure travel is expected to rise 5.4 per cent, boosted by a 5.8 per cent increase in (FIT) leisure travel, while group travel climbs 4.8 per cent. Mexico's economic outlook remains quite positive, and is helping to fuel Mexican demand for outbound travel. Fortunately, Canada appears to be benefiting from this growing travel market. Mexican tour operators continue to expand their Canadian products, which, so far, have captured growing interest from Mexican travellers.

U.K. Travel Outlook, Q1 2005

Economic Overview

In an effort to bring the red-hot housing market under control, the Bank of England has increased interest rates considerably since November 2003. However, those higher interest rates will lead to somewhat slower economic growth in 2005. Real GDP, which is forecast to expand by 3.3 per cent this year, is expected to increase by 2.6 per cent in 2005. Higher interest rates will also lead to slower growth in household consumption (2.4 per cent growth versus 3 per cent in 2004). The U.K. economy will continue to benefit from solid growth in the world economy, as industrial production is expected to increase in 2005. The unemployment rate will remain below 3 per cent over the near term, in stark contrast with the close to double-digit rate that persists throughout many of the countries in the EU.

Tourism Trends

U.K. agents and operators reported a pick-up in travel demand at the end of the summer, ending the season on a “buoyant” note, according to Travel Mole. Although the competitive environment was described as difficult, rife with discounting and over-capacity, the season nonetheless ended strongly, with bookings gaining pace in September and October. However, changing trends have prompted tour operator TUI UK to review its business fundamentals and cut back its workforce by 8 per cent. The company plans to increase its offerings in flexible flight and hotel options, low-cost air-only tickets, and dynamic packaging products. A spokesperson for the company stated, “we have to take into account the fact that people book on the Internet or take independent holidays. The whole shape of the package holiday is changing.”

In fact, according to a Mintel poll, Internet travel bookings have overtaken those made through travel agents in the U.K. The survey findings showed that 33 per cent of respondents had booked travel through the Internet in the past 12 months, while 32 per cent had booked through a travel agent. Mintel attributed the increase in on-line bookings to the rising popularity of discount airlines.

Moreover, a survey by the Jamaica Tourist Board confirmed that the option of arranging an independent holiday, rather than a package vacation, is on the rise in the U.K. Of the long-haul travellers polled in September 2004, 41 per cent booked their travel and accommodation separately, up from 38 per cent in the March 2004 survey. Conversely, those preferring a package or all-inclusive vacation dropped to 56 per cent from 60 per cent over the same period.

The CTC foreign office in the U.K. reported that competition for British skiers has brought down ski package prices for trips to Canada and the U.S., although the increasing popularity of on-line bookings are likely contributing to this trend as well. In 2003, ski packages sold through travel agents dropped to 44 per cent of ski packages sold (down from 49% in 2002 and 51% in 2001).

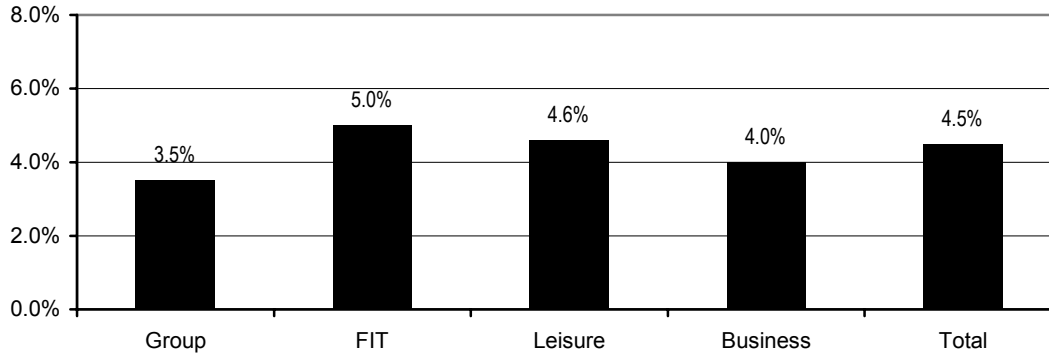
Market Overview

According to British tour operators surveyed by the CTC, sales of Canadian products for the first quarter of 2005 are expected to rise solidly, although the degree of growth ranged widely among respondents. Air capacity did not appear to be a significant issue for Canadian trips during this period, and the exchange rate did not seem to be having much of an effect on sales.

Tour operators noted that the leading sales trends for the first quarter of 2005 were packages for individuals and couples, as well as bookings for couples without a package. B.C. is expected to receive the most British visitors during this period (32%), followed by Ontario (28%), Alberta (27%), and Quebec (10%). Finally, the winter category was the number one selling product cluster, followed by cities/resorts, outdoor/sports, touring, culture/history, and nature (respectively).

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2005 Overnight Person-Trips from the U.K. to Canada (per cent change from previous year – same quarter)



Source: Q1 2005 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 4.5 per cent in the first quarter of 2005 compared with the previous year. Leisure travel is expected to edge ahead of business travel, increasing 4.6 per cent compared with the same quarter of 2004. Independent (FIT) leisure travel is expected to rise 5 per cent, while group leisure travel climbs 3.5 per cent. Meanwhile, business travel is predicted to grow 4 per cent during this period.

When breaking down growth expectations by provincial region, *BO Monitor* participants anticipate that U.K. travel to Ontario/Quebec will climb 4.8 per cent in the first quarter of 2005, while travel to Alberta/B.C. grows 4.2 per cent (note: these were the only regions of Canada where responses could ensure confidentiality).

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

The number of direct seats available (as of October 2004) for travel from the U.K. to Canada during the first quarter of 2005 is expected to decline 5.4 per cent compared with the same period of 2004. Considering the overall growth in visits expected during the first quarter, air capacity could potentially represent a constraint for travel from the U.K. to Canada during this period.

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

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	366,171	346,320
Per cent change	N/A	-5.4

Source: OAG Worldwide

Summary Outlook for Q1 2005

Reports from tour operators in the U.K. indicate that overall travel bookings picked up at the end of the summer season, amidst a difficult competitive environment described as rife with discounting and over-capacity. Internet and “do-it-yourself” travel bookings continue to trend upwards, which are prompting some U.K. tour operators to re-evaluate their product offerings. U.K. tour operators expect solid growth in travel to Canada this winter, although intense competition and the growing popularity of on-line bookings have brought down the average price of Canadian ski packages. However, air capacity between Canada and the U.K. is expected to decline during this period and could potentially represent a constraint for travel between the two countries.

Despite the challenges of air capacity, *BO Monitor* participants expect overall travel from the U.K. to increase 4.5 per cent in the first quarter of 2005, compared with the same quarter of 2004. Overall leisure travel is expected to grow 4.6 per cent, with a 5 per cent rise in independent (FIT) travel and a 3.5 per cent climb in group travel. Meanwhile, U.K. business travel to Canada is anticipated to grow 4 per cent during this period.

France Travel Outlook, Q1 2005

Economic Overview

Real GDP in France is expected to increase by 2.5 per cent this year and 2.3 per cent in 2005. While other large European countries—most notably Germany—have relied on strong international demand to offset domestic weakness, France can rely on solid growth in the domestic sector of its economy. Indeed, French businesses are boosting investment in capital equipment and some are gearing up for the production of the Airbus A380 in 2005, an aircraft whose construction will largely be completed in France. Consumer spending has been solid and is expected to grow by 2.4 per cent in 2004 despite a sluggish job market. However, the pace of consumer spending is expected to slow next year to 2.2 per cent as the job market remains weak and high oil prices erode households' purchasing power.

Travel Trends

In its third quarter report, the Canadian Tourism Commission's (CTC) foreign office in France reported a strong recovery in travel demand this summer, particularly for outbound trips. The season started slowly, but picked up in July, and by August, had exceeded expectations. Overall, travel volumes increased by 7 to 8 per cent over last summer and reached 2002 levels. A number of travel agencies reported strong growth in Canadian trips during this period.

However, Thomas Cook, one of Europe's largest travel agencies, is cutting 10 per cent of its workforce at its French division due to financial losses this year. The company stated that "incorrect capacity planning for hotels and flights" had led to unexpected financial difficulties.

The Australian Tourist Commission recently released a business tourism market report for France, which suggested that French corporate decision-makers look for quality or luxury, and "once in a lifetime experiences" when planning their incentive travel programs. The report went on to say that program planners are interested in soft adventure options if participants can return to luxury accommodations afterwards. It also noted that sunshine is a prerequisite.

Air France-KLM reported that its overall passenger traffic climbed 6.9 per cent in September. The airline noted strong demand on its transatlantic routes (up 7.5%), particularly within its North American network. In October, the airline increased its fuel surcharge on all long-haul flights by 11 euros (CDN\$17.20) to offset skyrocketing oil prices, but said it would withdraw the increase once oil prices dropped below US\$40 for at least a month. Looking ahead, the airline plans to expand its winter flight schedule by 3 per cent, although Asian routes will receive the bulk of these increases. It also announced new discounts for its l'Espace Affaires-Business class fares of between 10 to 35 per cent on a number of medium- and long-haul routes.

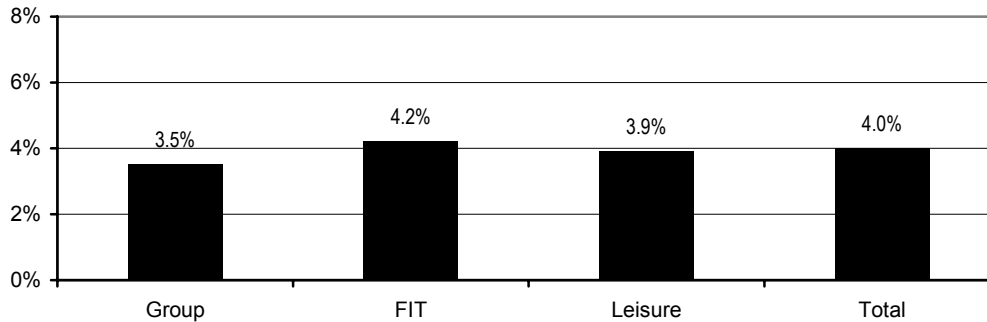
Market Overview

French tour operators surveyed by the CTC reported that sales of Canadian products for the first quarter of 2005 are expected to grow by an average of nearly 40 per cent compared with the previous year. Respondents indicated that air capacity has not (for the most part) represented a problem in selling Canadian travel products. Meanwhile, the exchange rate appears to have had a positive affect on sales, although fuel surcharges have largely offset these gains.

Tour operators noted that vacation packages for individuals and groups have been selling particularly well for the first quarter. In terms of regional travel demand, Quebec is expected to continue receiving the most French visits (80%), although they pointed to Alberta/B.C. as a region with potential for the French travel market. In terms of the types of travel products sold for the first quarter, winter outdoor/sports was identified as the top-selling category, followed by winter touring.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2005 Overnight Person-Trips from France to Canada (per cent change from previous year – same quarter)



Source: Q1 2005 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from France in the first quarter of 2005—as indicated by *BO Monitor* participants—is for an increase of 4 per cent, compared with the same period last year. Growth in independent (FIT) travel is expected to reach 4.2 per cent, while group travel rises 3.5 per cent. As a result, overall leisure travel is anticipated to rise 3.9 per cent in the first quarter of 2005.

France-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from France to Canada in the first quarter of 2005 is expected to remain virtually on par with the same quarter of 2004, rising a meagre 0.6 per cent. In this case, it is possible that air capacity could represent a slight constraint to some French travellers intending to visit Canada during this period.

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

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	126,029	126,780
Per cent change	N/A	0.6

Source: OAG Worldwide

Summary Outlook for Q1 2005

Tour operators surveyed by the CTC were quite optimistic regarding Canadian bookings for the first quarter of 2005. The favourable exchange rate has played a positive role in the sales of Canadian trips, although fuel surcharges are offsetting some of this effect. The French economy continues to recover and supports a positive outlook for consumer spending.

BO Monitor participants also expect visits from France to increase over the first quarter. Specifically, overall growth of 4 per cent was expected, with independent (FIT) travel leading growth expectations for the period (up 4.2%). Meanwhile, group travel is expected to increase 3.5 per cent. Overall, leisure travel was anticipated to rise 3.9 per cent during the first quarter of 2005, compared to 2004.

Germany Travel Outlook, Q1 2005

Economic Overview

Strong exports have helped lift the German economy out of recession and will drive growth in real GDP to 1.8 per cent this year. However, despite the improvement, GDP growth still lags noticeably behind most industrialized countries. Moreover, economic activity is expected to stay weak in 2005 as growth slips to 1.6 per cent. Responsible for the lacklustre economic performance is the ongoing weakness in domestic demand. In particular, real consumption is forecast to grow by a mere 0.1 per cent this year and 1.2 per cent in 2005. Thus, while strong exports have boosted production numbers, they have failed to translate into higher job growth. Employment in July fell for the thirtieth straight month. Moreover, manufacturers are expected to hire few new workers but instead increase productivity, all in an effort to improve competitiveness and profitability. As a result, the German unemployment rate is expected to remain above 10 per cent for the next two years.

Tourism Trends

The Canadian Tourism Commission's foreign office in Germany reported that the German travel industry is trying to reverse the climbing trend of last-minute bookings by offering early-booking incentives. Last-minute packages are increasingly more expensive than those booked in advance, especially for the upcoming winter season. The report also noted that the United States is shaping up to be a more popular winter ski destination than Canada because of lower package prices.

Overall, there has been a clear upturn in the German holiday market this year, according to industry feedback received at FVW Kongress Zukunft, a recent German tourism conference. Thomas Cook reported that its client numbers were up about 4 per cent this year, with winter sales ahead by 7 per cent. Tour operator Rewe reported that its business would grow 3 to 4 per cent this year, with much stronger growth in its "modular holiday sales." Rewe also noted that flight capacity was kept down this past summer, which meant less discounting was necessary.

FVW also reported that total travel agency sales rose 11.4 per cent over the first nine months of 2004, compared with the same period in 2003, according to a recent TATS survey of 2,050 German travel agencies. Tourism sales increased 8.2 per cent, while airline sales jumped 15.2 per cent. At the end of October, overall bookings, including advance winter holiday bookings, were 7.6 per cent ahead of last year's figures.

German airport operator Fraport reported that Frankfurt Airport had its busiest third quarter ever this year, in terms of passenger traffic, air freight tonnage and aircraft take-offs and landings. Fraport credited the strong growth in passenger numbers to a continued rise in business and leisure travel demand in the intercontinental sector.

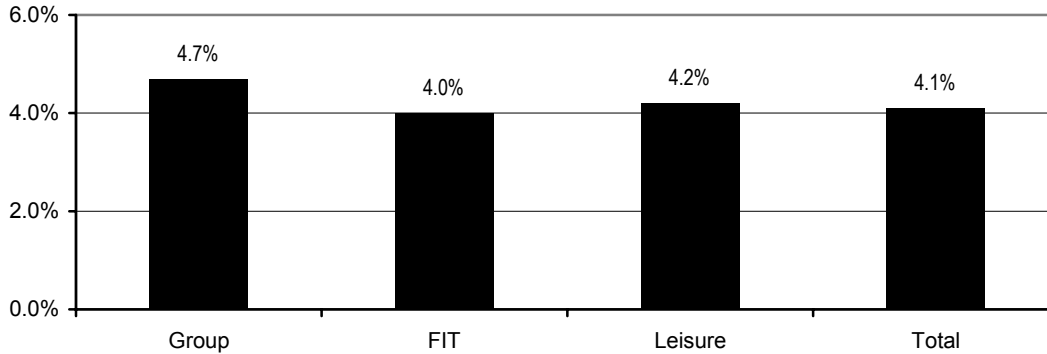
Market Overview

According to German tour operators surveyed by the CTC, sales of Canadian products for the first quarter of 2005 are expected to increase between 10 – 35 per cent compared with the same quarter of 2004. Respondents were mixed regarding the issue of air capacity to Canada, as well as the effect of the exchange rate on sales of Canadian trips during this period.

Tour operators noted that packages for individuals, couples and groups for the first quarter of 2005 were all selling well. B.C./Alberta is the most popular Canadian destination for this period, followed by Ontario/Quebec, the Yukon, and the East Coast. Respondents noted that Manitoba, Saskatchewan and the Northwest Territories all represent regions with potential for the German market. Finally, the ski category was the number one selling product cluster, followed by touring, nature and outdoor/sports, cities/resorts, and culture/history (in that order).

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2005 Overnight Person-Trips from Germany to Canada (per cent change from previous year – same quarter)



Source: Q1 2005 Business Outlook System, Canadian Tourism Research Institute

According to *BO Monitor* participants, overall travel from Germany in the first quarter of 2005 is expected to increase 4.1 per cent, compared with the same quarter of 2004. Group travel is expected to edge ahead of other segments, increasing 4.7 per cent, while the FIT segment rises 4 per cent. As a result, overall leisure travel was anticipated to expand 4.2 per cent compared with the first quarter of 2004.

Germany-to-Canada Air Capacity, OAG Worldwide

According to the latest data from OAG, direct air capacity from Germany is expected to decline 3.2 per cent during the first quarter of 2005, compared with the previous year. The reduction in direct air capacity could represent a constraint for German travel to Canada during that quarter.

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

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	156,776	151,755
Per cent change	N/A	-3.2

Source: OAG Worldwide

Summary Outlook for Q1 2005

Fortunately, the recovery in German travel demand continues to gain ground, despite the less optimistic outlook for the country's economy. Members of the German travel industry have reported a clear upturn in the overall holiday market, with solid growth in demand for winter packages—Canadian destinations included. Furthermore, the level of discounting and last-minute booking has been trending steadily lower, as tour operators make a collective effort to offer incentives for advance bookings and rein in capacity.

According to *BO Monitor* participants, overall travel from Germany in the first quarter of 2005 is expected to expand 4.1 per cent, compared with the same quarter of 2004. Group travel is expected to edge ahead of other segments, increasing 4.7 per cent, while the FIT segment rises 4 per cent. As a result, overall leisure travel to Canada is expected to grow 4.2 per cent, compared with 2004.

Japan Travel Outlook, Q1 2005

Economic Overview

Thanks to burgeoning exports and strong domestic demand, the Japanese economy is expected to expand by 4.3 per cent this year. In fact, exports are expected to boost growth in industrial production to 6.5 per cent this year, while growth in consumer spending springs to 3.1 per cent. However the economy is expected to slow in 2005. Export growth is forecast to slow in line with weaker economic activity in China and the United States. Moreover, households are expected to spend less due to the negative impact of deflation, which, while easing, remains a fact of life in the Japanese economy. The spectre of deflation leads households to delay spending until a later date in the hope that prices will slip even lower. This fact, along with rising unemployment—a result of the structural adjustments initiated by the government—will dampen consumer spending. Growth in consumer spending is expected to slip to 1.6 per cent in 2005 and cause growth in real GDP to slow to 1.8 per cent.

Tourism Trends

Pent-up demand for Japanese outbound travel has been very strong this year, according to the Las Vegas Convention and Visitors Authority (LVCVA) in Japan. The LVCVA stated that after refraining from travelling in 2003, Japanese people are taking trips abroad again because “they are tired of staying home.” The TIA recently forecast that Japanese trips to the United States will climb 7.2 per cent in 2004 over the previous year, boosted by an improving economy, renewed consumer confidence and a favourable exchange rate.

However, booking windows for overseas trips are getting shorter, with Japanese travellers booking their trips much closer to their departure date, according to Tourism Australia’s latest market report for Japan. In the final few months of 2004, FIT (fully independent travel) and individual packages are expected to grow steadily, while the pace of group travel lags somewhat behind.

Tourism Australia’s business tourism market report for Japan indicated that incentive travel is on the rise among Japanese companies, due to a higher focus on individual performance. When planning incentive travel, Japanese corporate decision-makers tend to look for accessible destinations (in terms of flight schedules, visas, etc.), deluxe or luxury standards, good quality facilities and the availability of familiar (i.e. Japanese) food.

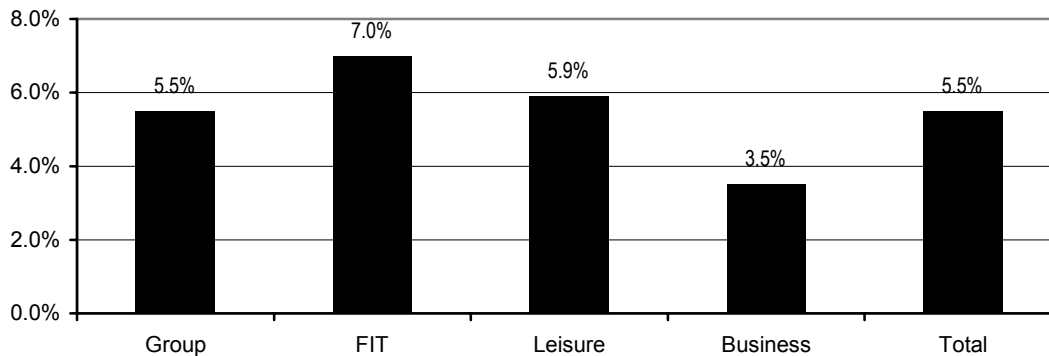
Market Overview

According to Japanese tour operators surveyed by the CTC, sales of Canadian products for the first quarter of 2005 are expected to grow up to 20 per cent compared with the same quarter a year earlier. Unfortunately, respondents indicated that air capacity to Canada continued to represent a challenge for bookings during this period as did the exchange rate.

Survey respondents noted that group packages and trips for individuals travelling independently were selling particularly well for the first quarter of 2005. In addition, B.C. is expected to receive the most Japanese visitors during this period (58%), followed by Northwest Territories (20%) and Alberta (12%). B.C., Ontario, the Northwest Territories and Alberta were identified as Canadian destinations with even further potential for the Japanese travel market. Finally, Japanese tour operators reported that the most popular types of packages sold for the first quarter of 2005 were winter, nature, and outdoor/sports.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2005 Overnight Person-Trips from Japan to Canada (per cent change from previous year – same quarter)



Source: Q1 2005 Business Outlook System, Canadian Tourism Research Institute

The outlook for travel from Japan in the first quarter of 2005—as indicated by *BO Monitor* participants—suggests an overall increase of 5.5 per cent compared with the same quarter of 2004. Independent (FIT) leisure travel continues to lead growth expectations, with survey participants anticipating a 7 per cent increase in this segment, followed by a 5.5 per cent rise in group leisure travel. Overall leisure travel is expected to grow 5.9 per cent, but survey respondents anticipate that business travel will lag behind at 3.5 per cent.

BO Monitor participants also provided an outlook for two Canadian provincial regions: Japanese travel to Alberta/British Columbia is expected grow 7 per cent, while visits to Ontario/Quebec climb 4.5 per cent during the first quarter of 2005, compared with a year earlier.

Japan-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Japan for the first quarter of 2005 is expected to decline 2 per cent, compared with the previous year. Considering the growth in Japanese visits expected during this quarter, available seat capacity could represent a constraint in travel between Japan and Canada during this period.

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

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	95,124	93,250
Per cent change	N/A	-2.0

Source: OAG Worldwide.

Summary Outlook for Q1 2005

While Japanese tour operators surveyed by the CTC remain optimistic about travel demand to Canada, a few challenges were identified for this market. Direct air capacity between Japan and Canada remains an issue, and the high value of the Canadian dollar has made package prices a little less attractive. Moreover, booking windows for overseas trips are shrinking, with Japanese travellers booking their trips much closer to their departure date. However, the fundamentals for growth in Japanese visits appear to be in place as demand for overseas travel recovers. Fortunately, buoyed by strengthening consumer confidence and positive economic prospects, the Japanese are showing renewed interest in travelling overseas again.

According to *BO Monitor* participants, overall travel from Japan in the first quarter of 2005 is expected to rise 5.5 per cent compared with a year earlier. Independent (FIT) travel is expected to continue posting the strongest growth, climbing 7 per cent during this period, while group travel expands 5.5 per cent. However, business travel is expected to continue lagging somewhat behind, increasing 3.5 per cent during the quarter.

South Korea Travel Outlook, Q1 2005

Economic Overview

South Korea's economy continues to reap the benefits of a strong export sector. In fact, merchandise exports, which are expected to expand nearly 30 per cent this year, have boosted industrial production and significantly contributed to overall GDP growth of 5.1 per cent in 2004. However, despite the strong economic growth, there is still trouble on the domestic front. Household demand remains weak and will only escape a second year of decline by a hair. With some inflationary pressures building, the central bank is not expected to lower interest rates in an effort to stimulate consumer demand. Instead, the government has rolled out a fiscal stimulus package centering on tax cuts. As a result, growth in real household spending is expected to surge 3.5 per cent next year, partly offsetting the slowdown in exports due to softer world demand.

Travel Trends

The Canadian Tourism Commission's (CTC) foreign office in Korea reported that Canada ranked seventh among Koreans as an overseas destination, according to a survey by *Korea Travel News*. Japan ranked first, with 29 per cent of the vote, followed by China and the Maldives. Canada was cited as the preferred overseas destination among 4.2 per cent of respondents.

The CTC market report also noted that obtaining a U.S. visa is becoming increasingly difficult for Koreans, due to a new Internet system. This is deterring Korean travellers from choosing U.S. destinations. As of the end of August, year-to-date Korean visits to the U.S. had dropped 16.4 per cent.

Korean outbound travel continues to grow steadily, according to the latest figures by the Korea National Tourism Organization (KNTO). In August, Korean outbound departures rose 17.3 per cent compared with a year earlier, and in September they rose 15.4 per cent. These increases build on growth achieved in the same months last year (2.5% and 12.2% for August and September of 2003).

Market Overview

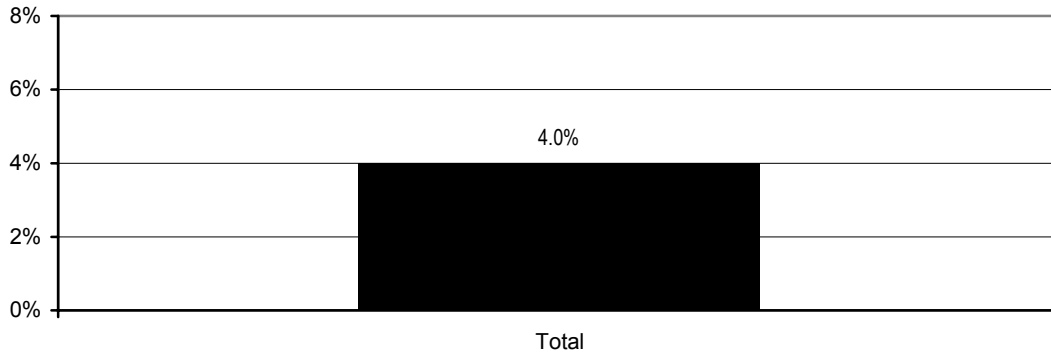
Korean tour operators surveyed by the CTC expected sales of Canadian products for the first quarter of 2005 to increase by approximately 20 per cent over the previous year's figures. However, survey respondents noted that insufficient air capacity and the appreciation of the Canadian dollar remain a challenge for bookings during this period. Prices have increased about 10 per cent compared with last year because of the less favourable exchange rate.

Tour operators indicated that packages for groups and individuals were selling particularly well for the first quarter of 2005. In terms of Canadian destinations by region, "cross-Canada" trips have been the most popular, representing about 60 per cent of product sales. Trips to B.C. and Alberta have comprised about 25 per cent of bookings, while trips to Ontario and Quebec represent about 10 per cent.

Respondents also identified a number of Canadian destinations under development for the Korean market. These include B.C. (for Okanagan winery and Hot Springs vacations), Alberta (for trips to Drumheller) and the Yukon (to view the Northern Lights). Finally, respondents indicated that for the first quarter of 2005, nature was the number one selling product cluster, followed by (in order of popularity): touring; cities/resorts; culture/history; winter tours; and outdoor/sports.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2005 Overnight Person-Trips from South Korea to Canada (per cent change from previous year – same quarter)



Source: Q1 2005 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from South Korea in the first quarter of 2005—as indicated by *BO Monitor* participants—is for growth of 4 per cent compared with the same quarter of 2004.

BO Monitor participants also indicated they expect Korean travel to Ontario/Quebec and Alberta/British Columbia to increase 4.8 per cent and 3.4 per cent, 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 first quarter of 2005 is expected to decline 5.4 per cent compared with the previous year. Considering the rise in South Korean trips to Canada expected, it is possible that direct air capacity may constrain growth in travel between the two countries during this period.

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

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	56,515	53,483
Per cent change	N/A	-5.4

Source: OAG Worldwide.

Summary Outlook for Q1 2005

BO Monitor participants anticipate that overall leisure travel from South Korea will increase by a rather modest 4 per cent during the first quarter of 2005. While Korean tour operators surveyed by the CTC were more optimistic, insufficient air capacity did surface as a concern that could curtail potential travel during the period. In addition, the less favourable exchange rate for Korean travellers was also mentioned as an issue, since the high value of the Canadian dollar has pushed package prices up by 10 per cent over last year's rates. Still, the latest figures from the Korea National Tourist Organization confirm that the country's overall outbound market continues to expand steadily. Hopefully, the growing demand for international travel will help support solid growth in Korean visits to Canada during the first quarter of 2005.

China Travel Outlook, Q1 2005

Economic Overview

The Chinese economy continues to fire on all cylinders, despite efforts on the part of authorities to cool it down. Real GDP growth is expected to inch down only mildly from 9.1 per cent in 2003 to 8.9 per cent in 2004. Inflation—now running over 5 per cent compared to last year—has led to a series of policies to curb credit availability and to lower price pressures. However, those policies have been slow to take effect, partly because Chinese domestic demand remains extremely strong. July retail sales rose 13.2 per cent compared to last year, and indicate that consumers are still spending big. Industrial production has grown even more, and the adopted policies have done little to detract foreign investment. In fact, real investment spending is projected to increase by more than 20 per cent this year, adding further strength to the Chinese economy. However, economic growth is expected to slow somewhat in 2005 as tighter credit conditions work their way through the economy and higher oil prices plus slower world demand dampen industrial output.

Tourism Trends

The newly affluent Chinese middle class now accounts for nearly 10 per cent of the population of China, or about 100 million people, according to a recent series in the *Toronto Star*. This segment of the Chinese population is experiencing wealth for the first time, and driving skyrocketing growth in leisure travel spending. The rising middle class is also contributing to an outpouring of overseas trips, expected to reach 32 million trips this year.

The *Toronto Star* quoted a tourism instructor from Shanghai's Fudang University, who said that travel is part of traditional Chinese culture. Chinese tourists favour busy travel schedules, covering a lot of ground on their tours in order to feel they have received value for their money. Furthermore, travel to North America is hugely desirable to many Chinese travellers. The instructor stated that once Canada and the United States are granted "approved destination status" for Chinese tour groups, travel to North America will become a priority for them."

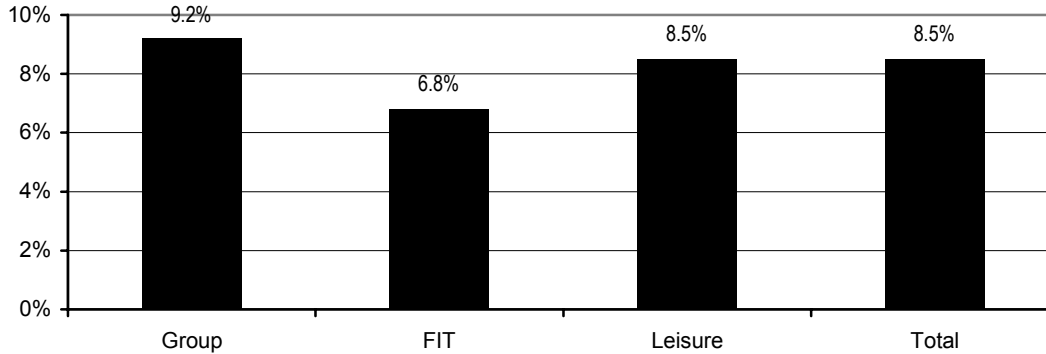
China Eastern Airlines reported its passenger traffic climbed 20 per cent in September compared with the same month of 2003. Meanwhile, China Southern Airlines said its passenger traffic grew 9.6 per cent in September, with international traffic surging 37.4 per cent compared with a year earlier. China's airline industry has seen passenger demand rebound strongly since the SARS outbreak in 2003 but sky-high oil prices are clouding the industry's profitability outlook. Chinese carriers have been less vulnerable to rising oil prices because China's state-controlled oil markets keep prices lower than the international market. However, the recent steep increases are now beginning to affect Chinese airline fuel costs.

The Chinese airline industry will soon have its first private airline, Okay Airways, according to BBC News. The new carrier, also known as Aokai, will launch domestic charter and air cargo services by the end of this year with a fleet of Boeing 747 aircraft. BBC News also reported that two other carriers, United Eagle Airlines and Air Spring have also applied for licenses "to meet the burgeoning demand for air travel within China."

China Southern Airlines took a significant step into the international marketplace by signing an agreement to join the SkyTeam airline alliance, pending fulfillment of SkyTeam's quality standard requirements. This will mark the first time a Chinese carrier will join a global air alliance, strengthening the country's connection to the global airline network and opening itself to further growth in international passenger traffic. Once the carrier joins the alliance, the new Baiyun International Airport will become SkyTeam's first Chinese hub.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2005 Overnight Person-Trips from China to Canada (per cent change from previous year – same quarter)



Source: Q1 2005 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall leisure travel from China—as indicated by BO Monitor participants—is for 8.5 per cent growth in the first quarter of 2005, compared with the previous year. BO Monitor participants anticipate that group travel will rise 9.2 per cent, while independent (FIT) travel climbs 6.8 per cent during this period.

When broken down by provincial region, BO Monitor participants indicated they expect Chinese visits to increase 9.5 per cent in Ontario/Quebec and 8 per cent in Alberta/British Columbia during the first quarter.

China-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from China is expected to jump 24.3 per cent during the first quarter of 2005, compared with the previous year. As a result, air capacity should not represent a constraint for travel between China and Canada during that period.

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

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	55,195	68,613
Per cent change	N/A	24.3

Source: OAG Worldwide.

Summary Outlook for Q1 2005

Overall prospects for the Chinese outbound travel market remain very bright, buoyed by persistently strong growth in the country's economy. Income levels continue to rise rapidly, driving skyrocketing demand for both domestic and international leisure trips. While the economy is expected to cool somewhat in 2005, there are no signs that this will derail the growing demand for Chinese outbound travel. *BO Monitor* participants anticipate Chinese travel to Canada will increase by 8.5 per cent during the first quarter of 2005. Group travel is expected to rise 9.2 per cent, while independent (FIT) travel climbs 6.8 per cent compared with a year earlier. OAG data shows that direct air capacity to Canada is expected to increase nearly 25 per cent in the first quarter, which should help facilitate the growth in Chinese visits expected for this period.

Australia Travel Outlook, Q1 2005

Economic Overview

The Australian economy continues to grow at a steady pace and growth in real GDP is expected to notch up to 3.6 per cent in 2004. Household consumption—the stalwart of the Australian economy over the past few years—got an additional boost this year from a one-time fiscal stimulus and is expected to rise by 5.4 per cent in 2004. Higher commodity prices have also helped boost the economy as over half of total exports are for raw materials. However, as demand for raw materials from China, Japan, and the U.S. slows next year and household consumption tapers off, growth in real GDP is expected to ease to 3.5 per cent.

Tourism Trends

A number of Australian tour operators have reported strong demand for Canadian packages, according to the latest quarterly report by the CTC's foreign office in Australia. Trafalgar Tours released its Canada and U.S. brochures a month early due to "huge demand," and as of September, sales for Canadian tours were three times higher than they were at the same point last year. Contiki has revamped its 2005 U.S.–Canada brochure, adding two new Canadian tours in anticipation of doubling its business over last year's figures. Australian ski operators have launched their tour products to Canada for this winter and all report strong sales.

The CTC also reported that Australian consumer confidence remains high, despite a small decline in the latest Roy Morgan Confidence Rating. While the index fell 1.3 points from July to August, the reading was still the highest August result since the survey was started in 1986.

Australian outbound travel has maintained a strong pace of growth, according to the Australian Bureau of Statistics. In August 2004, the number of overall outbound trips increased 18 per cent over August 2003, with outbound leisure trips up 31 per cent. Departures for business trips were up 7 per cent compared with the previous year.

Air Canada announced plans to launch the first non-stop flight between Australia and Canada, starting Dec. 16, 2004. The flight will operate between Sydney and Vancouver, allowing Australian travellers to bypass the United States, thus eliminating the inconvenience of U.S. customs clearance and transit visas.

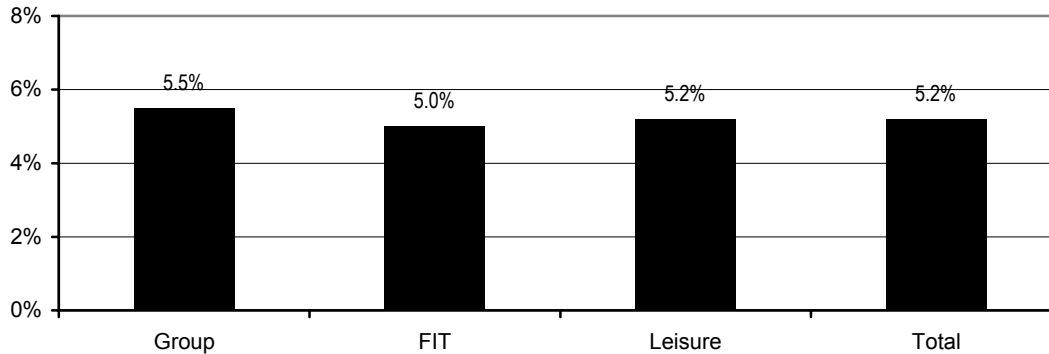
Market Overview

Australian tour operators surveyed by the CTC expect Canadian product sales for the first quarter of 2005 to rise by an average of 15 per cent over the previous year's figures. Survey respondents were mixed regarding the availability of air capacity during this period, with some indications that seat availability has become an issue. The exchange rate did not appear to be having much of an effect on bookings for the first quarter.

Tour operators indicated that packages for groups, families and individuals were selling particularly well for the first quarter of 2005. B.C. is expected to receive the highest percentage of bookings for this period (65%), followed by Alberta (25%), the Yukon (10%) and Atlantic Canada (5%). Respondents also indicated that the most popular type of package for this period has been ski packages, followed by touring, and then cities/resorts.

Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q1 2005
Overnight Person-Trips from Australia to Canada
 (per cent change from previous year – same quarter)



Source: Q1 2005 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall leisure travel from Australia in the first quarter of 2005—as indicated by BO Monitor participants—is for 5.2 per cent growth, compared with the previous year. Group leisure travel is expected to rise 5.5 per cent, while independent (FIT) travel climbs 5 per cent during this period.

Australia-to-Canada Air Capacity, OAG Worldwide

According to the latest figures from OAG (October 2004), air capacity from Australia in the first quarter of 2005 is expected to remain approximately on par with the previous year (-0.8%). However, these figures do not incorporate the most recent announcement by Air Canada of a new daily direct service between Sydney and Vancouver. According to Air Canada, these flights will increase the number of available seats between Australia and Canada by 33 per cent.

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

	2004 (STOP-OVER)	2005 EST. (STOP-OVER)
Stop-over seats available	30,916	30,680
Per cent change	N/A	-0.8

Source: OAG Worldwide.

Summary Outlook for Q1 2005

According to BO Monitor participants, Australian leisure travel to Canada is expected to rise 5.2 per cent in the first quarter of 2005 compared with the previous year. Group leisure travel is expected to grow 5.5 per cent, while independent (FIT) travel climbs 5 per cent during this period. Reports from the Australian travel industry support these growth expectations, indicating a burgeoning interest in Canadian vacation packages. A number of tour operators have recently expanded their Canadian product offerings in order to accommodate this growing demand. Air Canada has also recently announced a new daily service between Sydney and Vancouver, which will help facilitate the growth in Australian visits expected in the first quarter.

Appendix 1: Medium-Term Travel Forecasts (CTRI)

Since 1991–92, the Canadian Tourism Research Institute (CTRI) has used econometric models to forecast international travel both to and from Canada. The forecasts presented in the following table were completed in August 2004.

Travel Forecasts (Medium-Term)

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

COUNTRY	2003	2004F	2005F
United States	14,232 -12.0	14,915 4.8	15,530 4.1
Mexico	132 -18.1	146 10.2	155 6.2
United Kingdom	691 -4.2	736 6.5	777 5.6
France	274 -12.2	293 6.9	311 6.1
Germany	253 -13.4	274 8.3	290 5.8
Japan	249 -41.0	319 27.9	353 10.6
South Korea	133 -7.1	150 13.0	163 8.5
China	77 -19.1	92 20.0	100 8.7
Australia	136 -8.4	149 9.3	158 6.0

Source: Canadian Tourism Research Institute; Statistics Canada.