



Domestic, U.S. and Overseas Travel to Canada

Short-term Industry Outlook Third Quarter 2005

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Short-term Industry Outlook
Third Quarter 2005

Prepared by

The Conference Board of Canada

For the

Canadian Tourism Commission

May 2005

WHAT'S INSIDE

This study provides a short-term outlook for domestic and international travel to Canada for the third quarter of 2005 (July to September) using readily available market intelligence in a timely and cost-efficient manner.

National Library of Canada cataloguing in publication data

Main entry under title :

Domestic, U.S. and overseas travel to Canada : Short-Term Business Outlook, Quarter 3, 2005

Irregular.

2002-

(Research report)

Issued also in French under title : Voyages intérieurs et voyages en provenance des États-Unis et d'outre-mer à destination du Canada.

Subtitle varies.

Prepared by the Conference Board of Canada.

ISSN 1708-5853

Cat. no. IU85-1/2003-1E

1. Tourism – Canada – Forecasting.
 2. Americans – Travel – Canada.
 3. Tourism – Economic aspects – Canada.
- I. Conference Board of Canada.
 - II. Canadian Tourism Commission.

G155.C3D65

338.4'79171'04648

C2003-980272-8

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Executive Summary

Background

The *Short-term Industry Outlook* provides performance scenarios for Canada's major travel markets. A quarterly outlook of advance bookings and market intelligence is derived from the *Destination Suppliers/Receptive Agent Business Outlook Survey (BO Survey)*. This survey was developed by the Canadian Tourism Research Institute (CTRI), a division of The Conference Board of Canada, on behalf of the Canadian Tourism Commission (CTC). To bolster the quality of this report, quarterly staff reports and surveys of key tour operators, administered by the CTC's foreign offices, are also incorporated.

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

Highlights

The outlook for Canada's key markets for the third quarter of 2005 (relative to the third quarter of 2004) according to the results of the *BO Survey* is summarized as follows:

Q3 2005 Short-term Outlook for Canada's Key Markets
(per cent change over Q3 2004)

COUNTRY	MARKET SEGMENT				
	LEISURE— GROUP	LEISURE— FIT**	LEISURE— OVERALL	BUSINESS	TOTAL— OVERALL
Canada	3.0%	3.8%	3.7%	3.4%	3.6%
United States	6.2%	4.5%	4.9%	4.1%	4.8%
Mexico	9.0%	12.0%	10.7%	*	9.5%
United Kingdom	4.0%	9.5%	8.2%	5.0%	7.5%
France	4.0%	8.0%	6.3%	*	6.0%
Germany	5.5%	11.0%	9.1%	*	8.0%
Japan	1.0%	-1.0%	0.5%	3.0%	1.0%
South Korea	*	*	*	*	4.0%
China	4.5%	9.5%	6.0%	*	6.0%
Australia	13.0%	6.0%	8.0%	*	8.0%

* Not enough responses to ensure confidentiality

** Fully independent travel

North and South American Markets

Canada

Heading into the summer, the outlook for Canadian travel remains upbeat, although growth in the domestic market is expected to be more modest than in the previous several years. Solid economic prospects and building traveller confidence, combined with stable geopolitical conditions, are keeping travel intentions positive. However, for many Canadians, these factors are fuelling a greater desire for outbound travel rather than domestic holidays. Persistently high fuel prices are also expected to curtail growth in domestic auto travel this summer.

Consequently, *BO Survey* participants anticipate domestic travel will expand a modest 3.6 per cent in the third quarter of 2005, compared with a year earlier. A 3.7 per cent rise in leisure travel is expected, bolstered by a 3.8 per cent rise in fully independent travel (FIT). Growth in group leisure travel is expected to be slightly more sluggish, rising 3 per cent over the previous year. Business travel is expected to expand at a similar pace, rising 3.4 per cent in the third quarter of 2005.

U.S.

While travel expectations for the United States continue to strengthen, rising to their highest levels since 2000, wooing American travellers back to Canada is proving to be quite a challenge. Now that geopolitical events have stabilized, more Americans are renewing their interest in travelling overseas, despite the declining value of the U.S. dollar. Moreover, soaring fuel prices are expected to take their toll on American auto travel plans this summer, encouraging some travellers to drive shorter distances or reduce their stay. To make matters worse, the U.S. government recently announced its new Western Hemisphere Travel Initiative (WHTI), which outlines changes to its passport rules that could further dampen cross-border trips.

Fortunately, *BO Survey* participants expect solid growth in U.S. travel to Canada this summer, anticipating overall visits will rise 4.8 per cent in the third quarter compared with the same quarter of 2004. Leisure travel is expected to climb 4.9 per cent, boosted by a 6.2 per cent increase in group leisure travel, while FIT rises 4.5 per cent. Meanwhile, U.S. business travel to Canada is expected to post growth of 4.1 per cent, compared with the same quarter of 2004.

Mexico

Overall, *BO Survey* participants expect travel from Mexico to grow 9.5 per cent during the third quarter of 2005, compared with the same quarter of 2004. Leisure travel is expected to jump 10.7 per cent, boosted by a 12 per cent increase in independent (FIT) trips, while group travel climbs 9 per cent. Prospects for Mexico's economy remain strong, and are helping to keep consumer confidence steady—this, in turn, is helping to fuel the country's outbound travel market. South American destinations are luring more Mexican travellers, mainly because of attractive price offers and stronger travel agent incentives. However, interest in Canadian destinations continues to grow as well, resulting in an optimistic outlook for this travel market.

European Markets

UK

Reports from tour operators in the UK indicate that solid rather than robust growth is expected for the British outbound market this summer. Generally, advance bookings for the summer travel season are up only modestly compared with last year at this time, although improvements are expected as the summer approaches. This expectation suggests that last-minute reservations continue to play a role in UK booking patterns. For Canada, the outlook for the UK market is more optimistic. UK tour operators surveyed by the CTC expect a healthy rise in bookings for the third quarter, with the exchange rate encouraging sales of Canadian trips.

BO Survey participants expect overall travel from the UK to increase 7.5 per cent in the third quarter of 2005, compared with the same quarter of 2004. Overall leisure travel is expected to rise 8.2 per cent, boosted by a 9.5 per cent expansion in independent travel (FIT), while the group leisure segment grows at a significantly slower pace (4%). Meanwhile, UK business travel to Canada is expected to rise a solid 5 per cent during this period.

France

French tour operators surveyed by the CTC are very optimistic about Canadian bookings for the third quarter of 2005. The relative strength of the euro has been helping to propel strong demand for trips to both Canada and the United States. Recent reports have indicated that French travellers see their own country as becoming an increasingly expensive place to vacation, and this perception has been fuelling a growing interest in international travel.

BO Survey participants also expect solid growth in the French travel market this summer. French visits to Canada are expected to rise 6 per cent over last year, bolstered by an 8 per cent jump in independent travel (FIT). Meanwhile, group leisure travel is expected to increase 4 per cent, resulting in a 6.3 per cent increase in overall leisure travel during the third quarter of 2005.

Germany

Despite the subdued outlook for Germany's economy, German travel demand continues to build, resulting in a very positive outlook for the summer travel season. The CTC's foreign office in Germany reported strong growth in the German long-haul travel market, particularly for North American destinations. German travellers are still searching for the best travel deals, and are increasingly turning to the Internet to do so. Fortunately, despite the growing popularity of online travel bookings, reports indicate that the proportion of last-minute bookings has been shrinking.

BO Survey participants anticipate German visits to Canada will increase 8 per cent, overall, in the third quarter of 2005, although leisure travel is expected to jump 9.1 per cent, compared with the same quarter of 2004. The FIT segment is expected to post the strongest growth, rising 11 per cent during this period, while growth in group leisure travel is somewhat more restrained (5.5%).

Asia-Pacific

Japan

After experiencing a significant rebound in visits during 2004, it appears expectations for the Japanese travel market in 2005 have cooled dramatically. *BO Survey* participants anticipate the overall number of Japanese visits will rise 1 per cent in the third quarter of 2005 compared with a year earlier. Independent leisure travel (FIT) is expected to decline during this period, dropping 1 per cent compared with the same quarter of 2004, offsetting the 1 per cent rise expected in group leisure travel. As a result, overall leisure travel is expected to remain almost on par with the previous year, rising only 0.5 per cent. Only the business travel segment is expected to see solid growth during this period, with corporate trips to Canada expected to climb 3 per cent compared with a year earlier.

The CTC foreign office in Japan offered a slightly more positive outlook for Japanese travel to Canada this summer, noting that Japanese tour operators have made significant investments in brochures for trips to Canada's three main gateway cities. However, some challenges remain in this market. Direct air capacity between Japan and Canada remains an issue, and the high value of the Canadian dollar continues to affect Canadian package prices. Moreover, the outlook for the Japanese economy has become cloudy this year, after the economy fell into a recession during the latter part of 2004. Fortunately, overall Japanese demand for international travel appears to have endured the economy's downturn, and continues to support the modest growth expectations for this market.

South Korea

BO Survey participants anticipate that overall leisure travel from South Korea will increase by 4 per cent during the third quarter of 2005 compared with a year earlier. While reports from Korean tour operators appear much more optimistic, insufficient air capacity continues to dampen the potential growth of Korean visits to Canada. One factor contributing to the optimistic outlook for this market is the switch to a five-day workweek, which the majority of Korean workplaces are expected to adopt by July. Already, Korean tour operators are developing more individual travel products, to cater to a burgeoning fully independent travel (FIT) segment. One niche of this segment showing a great deal of promise is the Korean golf market. Korea's customs office reported that 70,000 travellers took their golf clubs with them on outbound trips in 2004, a 55 per cent rise over 2003. This year, that figure is expected to double.

China

Canada's outlook for the Chinese travel market brightened considerably in January when the Chinese government awarded Canada Approved Destination Status (ADS), opening the door for robust growth in Chinese leisure trips to Canada over the next few years. A bilateral air agreement quickly followed, paving the way for a threefold increase in passenger and cargo capacity between the two countries. For Canada, these two events are significant steps towards maximizing the full potential of China's rapidly expanding travel market. This summer, *BO Survey* participants anticipate a 6 per cent rise in Chinese travel to Canada compared with the third quarter of 2004. Growth in the FIT segment (9.5%) is expected to significantly outpace growth in group leisure travel (4.5%) when compared with a year earlier. Direct air capacity between Canada and China is expected to surge 45 per cent in the third quarter, which should sufficiently accommodate travel between the two countries during this period.

Australia

According to BO Survey participants, Australian leisure travel to Canada is expected to rise 8 per cent in the third quarter of 2005 compared with the previous year. Group leisure travel is expected to surge 13 per cent, while independent travel (FIT) climbs 6 per cent during this period. Reports from the Australian travel industry are even more optimistic, suggesting that demand for Canadian trips remains high. Travel volumes to Canada posted robust growth in 2004, and 2005 is shaping up to be an even better year. A number of Australian tour operators have noted traveller preferences shifting towards independent trips that include options such as self-driving tours and rail travel. They also suggest that Australian travellers are becoming increasingly interested in Eastern Canadian destinations. Overall, Australians' robust appetite for international travel is expected to continue for at least the next two years, fuelled by the strengthening Australian dollar.

International Travel Statistics, Statistics Canada

Overnight Travel to Canada, January–February 2005

COUNTRY	PERSON-TRIPS	CHANGE OVER 2004 (%)
United States	1,305,938	0.2
Mexico	13,187	8.0
Europe	202,087	13.6
United Kingdom	85,808	14.2
France	38,626	9.6
Germany	21,853	15.8
Netherlands	7,613	6.8
Italy	7,124	43.6
Asia	119,397	9.5
Japan	37,863	14.5
South Korea	20,850	11.4
Taiwan	9,661	-6.0
Hong Kong	13,409	-1.3
China (Mainland)	11,496	8.0
Oceania	27,370	11.4
Australia	23,880	11.2

Source: *International Travel Survey, Statistics Canada.*

Introduction

The *Short-term Industry Outlook* provides an overview of the economic and travel outlook for Canada's key tourism markets (domestic and international) for the upcoming travel season. The prime objective of this report is to help the Canadian Tourism Commission (CTC) and its many tourism industry partners plan more effectively for the near term.

The primary source of advance bookings and market intelligence is the *Destination Supplier/Receptive Agent Business Outlook Survey (BO Survey)*. This survey was developed and is administered by the Canadian Tourism Research Institute (CTRI), a division of The Conference Board of Canada. Survey respondents, from a wide range of key destination suppliers and receptive agents in Canada and the United States, are asked for the overall status of their short-term advance bookings. The survey also probes respondents for further insights into the underlying factors that are driving short-term booking trends for their tourism businesses.

It should be noted that all data collected for the *BO Survey* is confidential and is not included in the short-term outlook if any individual response can be singled out. All dissemination of *BO Survey* responses involves consensus reporting. In this respect, there is no mention of individual participant responses.

In this short-term industry outlook, results of the *BO Survey* are supplemented by the intelligence-gathering activities of the CTC's foreign offices. These include quarterly reports on the status of key tourism markets, as well as market overviews provided by key foreign tour operators. Other pertinent market intelligence is derived from research conducted by The Conference Board of Canada and from a range of news sources.

While reviewing the outlook for the major international markets discussed in this report, the reader is invited to refer to **Appendix 1: Medium-term Travel Forecasts (CTRI)**. This chart offers a quick perspective of how this short-term industry outlook corresponds with CTRI's latest medium-term international forecast.

Economic Overview

World Outlook

The global economy continues to accelerate at a solid pace, mainly because of strong gross domestic product (GDP) growth in both the United States and China. Problem spots continue to exist in Japan and Europe, where several economies struggle with the huge adjustment costs from ongoing corporate restructuring and reforms in financial and labour markets. The world economy is expected to increase by 3 per cent in 2005, in the wake of near 4 per cent growth in 2004. In 2006, growth of 3.1 per cent is anticipated.

Evidence of the solid state of the world economy is apparent from the rebound in commodity prices. These prices slumped temporarily in the middle of 2004 but are on the increase once again. Fortunately, rising commodity prices have yet to translate into accelerating global inflation. With inflation under control worldwide, most major central banks have held interest rates steady at fairly low rates, thereby encouraging strong growth in consumer expenditures in many large economies.

While China continues to lead the world in economic growth, signs of strength are also apparent in emerging economies in Asia, Latin America, Eastern Europe and parts of the Middle East. Economic growth in these regions is currently ranging from 5 to 10 per cent. Deregulation and trade liberalization have helped their economic prospects, as has soaring growth in China, which has increased demand for goods and commodities. Low interest rates have also assisted in easing the debt burden in many countries in Latin America.

North America

Real GDP growth in North America is expected to cool from last year's pace to record growth of 3.4 per cent during 2005 and 2006. The slower growth for the region is mainly a result of weaker growth in the U.S. economy. In the United States, consumer spending has been one of the pillars of economic growth for some time. However, over the next two years, rising interest rates will reduce consumers' purchasing power and cut into consumer spending on durable goods, thus leading to a slowdown in the overall U.S. economy. As this process unfolds, growth in the Mexican economy—which is tied very closely to the U.S. economy—will begin to decelerate as well. Fortunately, the Canadian economy remains on solid footing. The domestic economy in Canada remains sound, with strong gains in consumer spending. The high value of the Canadian dollar will continue to put downward pressure on growth over the near term; however, these pressures are expected to ease as companies adjust to the new environment.

South America

Weaker economic growth in Venezuela, Argentina and Brazil is responsible for a slowdown in overall economic activity in South America. In fact, after advancing by 6 per cent in 2004, real GDP in the region is expected to grow by a more modest 4.2 per cent this year. Moreover, the economic slowdown is expected to persist into 2006, when even slower growth of 3.8 per cent is anticipated. Rising inflation in some South American countries, particularly Brazil, is the main culprit behind the deteriorating economic picture. For the most part, high inflation has been the result of high oil prices that have translated into high energy costs for South American producers. To combat inflation, central banks will likely increase interest rates, thereby causing the currency to appreciate and export growth to slow down. With Venezuela being the only major oil producer in the region, most South American countries face sharply higher oil import bills.

Europe

Economic growth across Europe will vary significantly, mainly because of different household spending projections. Countries such as Germany and Italy have less optimistic outlooks for consumer spending because of labour market rigidities that restrict hiring. As a result, the unemployment rate in those countries is expected to remain fairly high. In contrast, countries with more flexible labour markets and higher economic growth will experience higher job creation, lower unemployment rates and, consequently, increased consumer spending. The United Kingdom and, to a lesser extent, France and Sweden fall into this category. Yet, despite the strength of consumer spending in some European economies, overall real GDP growth for the region will be less than impressive and reach only 1.9 per cent in 2005. Moreover, sluggish growth in Germany, Europe's largest economy, will continue to constrain the European economy as a whole, thereby limiting growth in the region to no more than 2.1 per cent in 2006. Fortunately the outlook for inflation remains stable, with consumer prices in Europe expected to increase by less than 2 per cent in 2005 and again in 2006.

Asia-Pacific

After solid growth in real GDP during 2004, the economy in the Asia-Pacific region is slowing down this year. Economic growth is expected to reach only 2.9 per cent in 2005, but then pick up to 3.4 per cent in 2006. The slower growth this year is mainly a result of the deteriorating economic situation in Japan, whose economy fell into a recession during the latter part of 2004. Other countries to experience slower growth this year are South Korea and Australia. Fortunately, the Chinese economy continues to provide an economic boost to the entire region. Even though economic growth in China will decelerate slightly this year, growth still remains remarkably strong. India too continues to be in very good shape economically, thanks to the strength in manufacturing activity and household spending. Exports are expected to continue increasing at a double-digit clip, while the country's economic fallout from the tsunamis has been limited.

Exchange Rates

Exchange Rate Comparison—March 2004 to March 2005

Per cent 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	-	9.2%	4.7%	1.5%	5.9%	-5.5%	10.6%	4.5%
U.S. dollar	-8.5%	-	-4.2%	-7.1%	-3.0%	-13.5%	1.3%	-4.5%
British pound	-4.5%	4.4%	-	-3.0%	1.2%	-9.8%	5.7%	-0.3%
Euro	-1.5%	7.6%	3.1%	-	4.3%	-7.0%	9.0%	2.8%
Japanese yen	-5.6%	3.1%	-1.2%	-4.2%	-	-10.8%	4.4%	-1.5%
Korean won	5.9%	15.6%	10.8%	7.5%	12.2%	-	17.1%	10.4%
Mexican peso	-9.6%	-1.3%	-5.4%	-8.2%	-4.3%	-14.6%	-	-5.7%
Australian dollar	-4.1%	4.7%	0.3%	7.5%	1.5%	-9.5%	17.1%	-

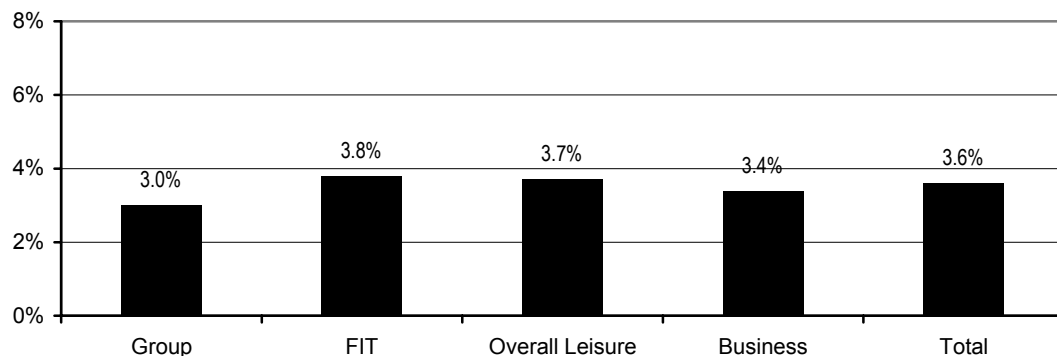
Domestic (Canada) Travel Outlook, Q3 2005

Economic Overview

The Canadian economy continues to support a positive outlook for the tourism industry. While the strong Canadian dollar has cut competitiveness for many exporters, it is also making imported goods much more affordable to consumers and businesses. In turn, Canadian consumers, still enjoying low financing rates and the vigour of their currency, will provide most of the strength to the economy in the next two years. But the high value of the Canadian dollar has also led businesses to intensify investment spending on machinery and equipment, especially in key resource sectors. Overall, real GDP growth of 2.3 per cent is forecast for 2005, down from the 2.8 per cent growth registered in 2004. However, with the adjustment to a stronger dollar largely over, economic growth is expected to bounce back, advancing by 2.8 per cent in 2006. Job creation is expected to be moderate and progress at a pace of 1.5 per cent and 2.1 per cent over the next two years while inflation remains under control.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-term Outlook—Q3 2005
Overnight Domestic Travel
(per cent change from previous year, same quarter)



Source: Q3 2005 Business Outlook Survey, Canadian Tourism Research Institute.

The business outlook—as indicated by Canadian travel suppliers and receptive agent bookings—suggests 3.6 per cent growth in overall advance bookings for domestic travel in the third quarter of 2005, compared with the previous year.

According to *BO Survey* participants, fully independent travel (FIT) is leading growth expectations for the period, with 3.8 per cent growth, while group leisure travel climbs 3 per cent. As a result, overall leisure travel is expected to rise 3.7 per cent compared with the same quarter of 2004. Meanwhile, business travel is expected to expand 3.4 per cent in the third quarter of 2005.

A number of survey participants commented that the relative strength of the Canadian dollar was expected to encourage more Canadians to travel to the United States this summer, as well as to other international destinations. This trend is expected to have a potentially negative effect on the growth of domestic travel in the third quarter of 2005.

Tourism Trends

The Conference Board of Canada's latest *Canadian Industrial Outlook* for tourism expects industry profits will improve in 2005. Despite solid growth in travel demand, particularly in Canada's international markets, intense competition is expected to keep travel price increases in check. As a result, overall profit margins are still forecast to remain relatively thin. Persistently high fuel prices are expected to dampen domestic and U.S. auto travel this summer as well as the profitability of Canada's airline sector.

Judging by 2004 year-end reports, the recovery in the Canadian hotel industry appears to be in full swing. According to PKF Consulting, growth in overall accommodation demand in Canada had expanded 2.3 per cent by December 2004 and rebounded to levels last reached in 2000. One sign of this solid upswing is the recent wave of announcements regarding new hotel developments, such as the luxury \$300-million Ritz-Carlton hotel and condominium residence to be built in downtown Toronto. Now that travel demand is finally lifting occupancy and revenue levels, daily rates are expected to begin rising, which will help to spur the sector's bottom line.

Domestic airfares within Canada gained considerable ground in year-over-year growth during February and March, according to the International Air Transport Association's (IATA) Billing and Settlement Plan, which tracks airline tickets sold through Canadian travel agencies. In fact, the average cost of a domestic air ticket increased 11 per cent in February and 10 per cent in March, compared with a year earlier. In the same period, airfares from Canada to the United States and to other international destinations continued to decline.

Canadian business travel also appears to be recovering steadily, with corporate travel demand well on its way to pre-2001 levels, according to the latest *Business Travel Trends and Forecast* report by American Express (Amex). The firm's outlook suggests that overall travel costs for Canadian businesses will rise 3 per cent in 2005 compared with last year, driven by strengthening travel demand in the corporate sector. Amex reported that Canadian business travel transactions have risen significantly since 2003, and are now surpassing levels seen in the first half of 2001.

Consumer Confidence and Travel Intentions, The Conference Board of Canada

Canadian consumers were slightly less upbeat in April, causing the Conference Board's Consumer Confidence Index to decline 3.4 points to 121.1 that month, but the overall level of confidence remained positive. While Canadians' views about their current financial situation held steady, optimism about employment prospects waned, as did the appetite for big-ticket spending. Looking ahead, the number of Canadians expecting their household income to improve over the next six months remained stable, yet the number expecting their household income level to worsen rose by a single percentage point compared with the previous month.

Consumer Confidence (1991=100 Index)

	2005:01	2005:02	2005:03	2005:04
Consumer Confidence Index	124.2	121.4	124.5	121.1

Source: The Conference Board of Canada

The outlook for Canadian travel remains optimistic, although domestic travel intentions for summer 2005 remain modest by historical standards, according to the February 2005 *Travel Intentions Survey* by the Canadian Tourism Research Institute. Of the approximately 2,000 Canadians polled, 59.1 per cent plan to take a summer vacation between May and September this year. This represents a 5.9 per cent increase over the previous year (the March 2004 survey), but the number of Canadians planning to travel within Canada was up by a more modest 3.4 per cent compared with last year's survey results. The growth in Canadian intentions for travel to the United States or other international destinations was more robust, climbing 6.5 and 12.8 per cent, respectively.

Summer (May–September) Vacation Intentions (per cent of Canadians surveyed)

	FEBRUARY 2005	MARCH 2004	MARCH 2003
Summer Vacation Intentions (All Destinations)	59.1	55.8	62.4
Canada	39.6	38.3	46.7
United States	8.2	7.7	6.4
Other International	9.7	8.6	8.1
Do Not Know/Refused	1.6	1.2	1.2

Source: The Conference Board of Canada.

The results suggest travel confidence continues to build, bolstered by a solid outlook for Canada's economy and steady consumer confidence. However, these factors appear to be fuelling an increase in outbound travel intentions to a greater degree than domestic travel, particularly to European destinations. The relatively high value of the Canadian dollar continues to play a part in outbound travel trends, and although the Canadian dollar has reached a plateau for the time being, it is not expected to recede until 2006.

Summary Outlook for Q3 2005

Heading into the summer season, the outlook for Canadian travel remains upbeat, although growth in the domestic market is expected to be more modest than in the previous several years. Solid economic prospects and building traveller confidence, combined with stable geopolitical conditions, are keeping travel intentions positive, but fuelling a greater expansion in outbound vacation plans than domestic trips. Furthermore, persistently high fuel prices are expected to curtail growth in domestic and U.S. auto travel this summer.

Consequently, *BO Survey* participants anticipate domestic travel to expand 3.6 per cent in the third quarter of 2005, compared with a year earlier. A 3.7 per cent rise in leisure travel is expected, bolstered by a 3.8 per cent rise in independent travel (FIT). Growth in group leisure travel is expected to be slightly more sluggish, rising 3 per cent over the previous year. Business travel is expected to expand at a similar pace, rising 3.4 per cent in the third quarter of 2005. A number of survey participants noted they expect the relative strength of the Canadian dollar to encourage more travel to the United States and overseas destinations this summer.

On a more positive note, solid growth in travel demand will allow travel prices to rise modestly this year—a key component for achieving profitability and a major area of struggle for the industry in recent years. The Conference Board of Canada's latest *Canadian Industrial Outlook* for tourism suggests that higher travel demand, particularly in Canada's international markets will support a marked improvement in tourism profits for 2005.

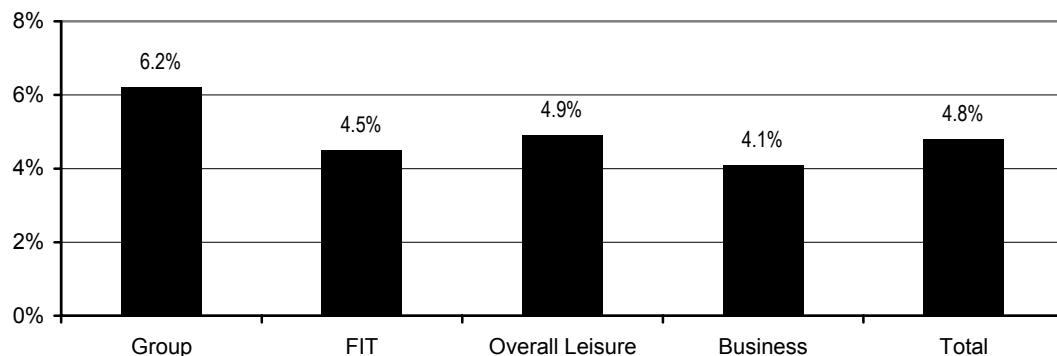
U.S. Travel Outlook, Q3 2005

Economic Overview

The continued recovery of U.S. travel to Canada will have to take place while the U.S. economy is slowing down. The U.S. economy, which grew by 4.2 per cent in 2004, is expected to expand by more modest 3.2 per cent in 2005 and 3.1 per cent in 2006. Growth this year is based on ongoing increases in investment spending as well as strong growth in exports. In fact, spending on machinery and equipment is likely to see double-digit growth this year, as U.S. businesses invest heavily to maintain high profits and productivity in the coming years. On the flip side, increased inflationary pressures arising from high energy prices, years of stimulative monetary and fiscal policy and, lately, increasing unit labour costs are expected to lead the Federal Reserve to keep increasing interest rates. The rising interest rates will start cutting into consumer spending during the year, especially on durable goods, and thereby lead to slower overall growth.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-term Outlook—Q3 2005
Overnight Person-trips from the United States to Canada
(per cent change from previous year, same quarter)



Source: Q3 2005 Business Outlook Survey, Canadian Tourism Research Institute.

Overall travel from the United States—as indicated by *BO Survey* participants—is expected to expand 4.8 per cent in the third quarter of 2005, compared with a year earlier. Group leisure travel is forecast to expand 6.2 per cent, posting the strongest pace of growth of all travel segments, while overall leisure travel rises 4.9 per cent. Independent travel (FIT) is expected to follow behind, climbing 4.5 per cent during this period. Meanwhile, U.S. business travel to Canada is expected to increase 4.1 per cent in the third quarter of 2005, compared with the previous year.

Survey participants commented that the less favourable exchange rate continued to have a negative effect on U.S. advance bookings to Canada, because of higher product prices.

Tourism Trends

Americans' positive attitudes towards the economy and their own finances are keeping U.S. travel intentions buoyant, according to the Travel Industry Association of America (TIA). The TIA's latest forecast anticipated a 1 per cent rise in leisure travel and a 2 per cent rise in business travel during the spring travel period (March to May, 2005). In fact, leisure travel was expected to reach record-high levels for this time frame—a full 7 per cent higher than the spring of 2003 and 10 per cent higher than 2000.

The TIA's latest quarterly Traveler Sentiment Index rose to 98.7 in the first quarter of 2005 (just under the baseline of 100, established in the first quarter of 2000)—a 2.5 per cent increase compared with the previous quarter. The greatest improvements were seen in consumers' increased ability to take leisure trips based on improving personal finances and more free time. The only region in the United States to register a decline was the Northeast (-11.1%), due to a 25.4 per cent drop in the component for perceptions of time available for travel.

Strengthening demand, particularly in business travel, combined with slow supply growth, continues to propel the ongoing recovery in the U.S. hotel industry. With increasing demand, hotels are gaining significant pricing power, allowing room rates to continue rising: in the first quarter of 2005, average daily room rates rose 4.2 per cent over the same period a year earlier, according to Smith Travel Research. Overall, analysts believe that the industry's recovery is still in its early stages and expect it to continue building through the next two years.

However, for the U.S. airline industry, strong travel demand and leaner operating costs have been no match for the impact of sky-high fuel prices and low airfares on the industry's profitability. As a result, losses in the first quarter of 2005 swelled. Some airlines have attempted to capitalize on the rising demand by implementing tentative fare hikes, but only on routes not facing heavy competition from low-cost carriers. The efforts to keep a tight rein on capacity have proven to be a more successful strategy and resulted in record-high load factors in March.

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

After reaching a peak in January 2005, The Conference Board Inc.'s Consumer Confidence Index fell steadily over the next three months, dropping to 97.7 in April (down 5.3 points from March). The Present Situation Index slipped to 113.6 in April, losing 3.4 points from the previous month. The Expectations Index fell 6.5 points to 87.2, its lowest level in almost two years. The Conference Board noted that less robust economic conditions and a more cautious outlook left consumers feeling less confident in April. However, the Present Situation Index remains strong, which is indicative of a healthy economy.

Looking ahead, however, consumers do not anticipate an improvement in the economy over the next six months. Those expecting business conditions to worsen rose to 9.7 per cent in April, from 8.2 per cent a month earlier, while those expecting conditions to improve slipped to 17.8 per cent, from 19.3 per cent the previous month. Expectations for employment and income levels declined as well.

Consumer Confidence (1985=100 Index)

	2005:01	2005:02	2005:03	2005:04 (P)*
Consumer Confidence Index	105.1	104.4	103.0	97.7
Present Situation	112.1	116.8	117.0	113.6
Expectations	100.4	96.1	93.7	87.2

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

According to the April 2005 travel intentions survey by The Conference Board Inc., 41.9 per cent of Americans polled said they planned to take a vacation some time in the next six months, down slightly from the April 2004 survey (42.7%). However, international travel plans increased to 9.2 per cent, from 8.3 per cent a year earlier, while domestic travel intentions slid to 34.7 per cent, down from 36.3 per cent last year.

The survey also indicated that the number of Americans planning to fly to their vacation destination edged up only slightly over the previous year, while plans for auto trips appear to have declined more significantly. Specifically, 20.8 per cent of Americans said they were planning to travel by car on a leisure trip in the next six months, a 1.6 percentage point decline from the same month last year.

Vacation Intentions for the Next Six Months (Per cent, Seasonally adjusted)

	OCTOBER 2004	DECEMBER 2004	FEBRUARY 2005	APRIL 2005 (P)*
Vacation Intended (all destinations)	47.8	48.5	42.9	41.9
U.S.	39.7	39.4	36.5	34.7
Foreign	9.3	10.1	8.5	9.2

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

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 United States and Canada was studied. To accomplish this task, a product from OAG Worldwide was used, called OAG Max, which provides information on worldwide flight capacity. Air access is important because the growth of specific travel segments is linked to improvements in air access.

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

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	3,911,441	3,989,993
Per cent change	N/A	2.0%

Source: OAG Worldwide

The number of seats available (as of April 2005) for direct air travel between the U.S. and Canada during the third quarter of 2005 is expected to rise 2 per cent, compared with the same quarter of 2004. Considering the overall growth in travel expected from the United States during this period, air capacity should not significantly constrain travel between the United States and Canada during this period.

Summary Outlook for Q3 2005

While expectations for U.S. travel continue to strengthen, rising to their highest levels since 2000, wooing U.S. travellers back to Canada has proven to be a challenge. Now that geopolitical events have stabilized, more Americans are renewing their interest in travelling overseas, despite the declining value of the U.S. dollar. Moreover, soaring fuel prices are expected to take their toll on American auto travel plans this summer, encouraging some travellers to drive shorter distances or reduce their stay.

To make matters worse, the U.S. government recently announced its new Western Hemisphere Travel Initiative (WHTI), which outlines changes to its passport rules that could further dampen cross-border trips. By the time it is fully implemented on Dec. 31, 2007, the WHTI will require all travellers between the United States, Canada, Mexico, the Caribbean and Bermuda to carry passports. While the WHTI has laid out three stages of actual implementation, visitor confusion could curtail cross-border travel as early as this year.

Fortunately, *BO Survey* participants do expect solid growth in U.S. travel to Canada this summer, anticipating overall visits will rise 4.8 per cent in the third quarter compared with the same quarter of 2004. Leisure travel is expected to climb 4.9 per cent, boosted by a 6.2 per cent increase in group leisure travel, while FIT rises 4.5 per cent. Meanwhile, U.S. business travel to Canada is expected to post growth of 4.1 per cent, compared with the same quarter of 2004.

Mexico Travel Outlook, Q3 2005

Economic Overview

The Mexican economy continued its recovery at the beginning of this year thanks to strong external demand and high oil prices. The value of oil exports has improved in line with rising crude prices, and this has also improved the outlook for the production of derivatives refined by the Mexican oil industry. Still, growth in the Mexican economy is expected to cool along with the moderation of U.S. growth. Real GDP growth of 3.6 per cent is anticipated this year, and a similar pace of growth is expected in 2006. Inflation will remain under control and, as a result, interest rates should not increase from current levels of about 8 per cent.

Tourism Trends

The CTC foreign office in Mexico reported that South American destinations continue to lure a growing number of Mexican travellers, mainly because of attractive prices and higher travel agent commissions. However, judging by the positive results seen in 2004, Canada is also gaining attention as a desirable vacation destination. Looking ahead, Mexican tour operators are expecting an 11 per cent increase in overall sales for outbound travel this year. Consumer prospects are a little uncertain because of the presidential elections scheduled for 2006.

Dow Jones International News reported that Mexican private consumption has been strengthening for more than two years, bolstered by an expansion of available credit. In February 2005, Mexican consumers increased their retail spending by 3.8 per cent compared with a year earlier, marking the 26th consecutive month of year-over-year spending gains, according to the latest statistics by Mexico's National Statistics Institute.

Mexico will have its first low-cost carrier in July 2005—Click Mexicana. The owners reportedly chose the name Click because it is easy to pronounce in any language and is a reference to the growing popularity of online bookings, the main channel through which Click will sell air tickets. For now, Click will offer domestic services from its main hub in Mexico City, and said its airfares would be priced about 30 per cent below the domestic fares charged by Mexico's major carriers.

A recent article in *Brand Strategy*, a British marketing journal, reported that the Mexican middle class is still relatively small, but is growing rapidly as the Mexican economy continues to strengthen. The article suggests that members of this group are attracted to consumer brands that denote status, although they show a much greater preference for newer, international brands than the more traditional Mexican elite do. They seek experiences that involve the values of family and friendship, and spiritual wealth, and are less concerned than upper-income Mexicans about brands that convey financial affluence.

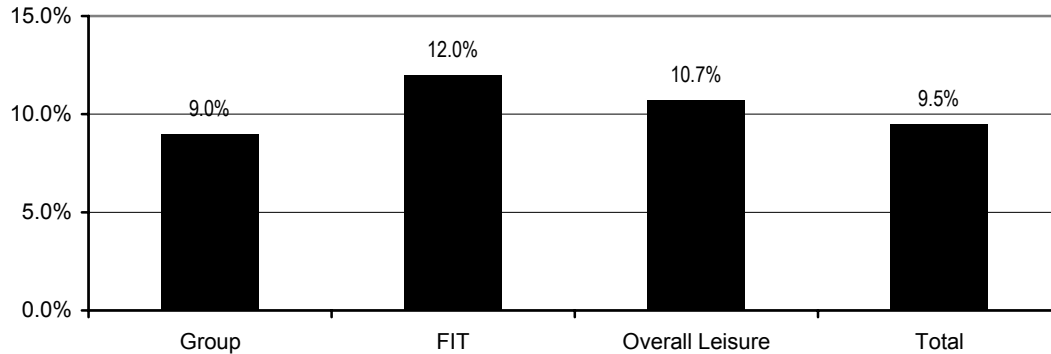
Market Overview

According to Mexican tour operators surveyed by the CTC, sales of Canadian products for the third quarter of 2005 are expected to increase by an average of about 15 per cent over the previous year's figures. Respondents noted that air capacity has been a challenge for bookings to Canada during this period, but responses were mixed about the effect of the exchange rate on trip sales.

Tour operators noted that independent bookings for individuals as well as group packages were selling particularly well for the third quarter of 2005. To date, most summer bookings have been for destinations in Ontario and Quebec (each have received about 35% of all sales to Canada) and B.C. (30%).

Destination Supplier/Receptive Agent Business Outlook Survey

Short-term Outlook—Q3 2005
Overnight Person-trips from Mexico to Canada
(per cent change from previous year, same quarter)



*Source: Q3 2005 Business Outlook Survey, Canadian Tourism Research Institute
Business travel is not broken out in order to preserve respondent confidentiality.*

According to *BO Survey* participants, overall travel from Mexico in the third quarter of 2005 is expected to expand 9.5 per cent, compared with the previous year. Independent leisure travel (FIT) is expected to jump 12 per cent, bolstering the anticipated 10.7 per cent growth in overall leisure travel. Group leisure travel is expected to rise 9 per cent.

Mexico-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Mexico is expected to expand 15.9 per cent during the third quarter of 2005, compared with the same period in 2004. This increase means that air capacity should not constrain growth in Mexican visits to Canada expected during this period.

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

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	71,475	82,815
Per cent change	N/A	15.9

Source: OAG Worldwide.

Summary Outlook for Q3 2005

Overall, *BO Survey* participants expect leisure travel from Mexico to grow 9.5 per cent during the third quarter of 2005, compared with the same quarter of 2004. Leisure travel is expected to jump 10.7 per cent, boosted by a 12 per cent increase in independent (FIT) trips, while group travel climbs 9 per cent. Prospects for Mexico's economy remain strong, and are helping to keep consumer confidence steady, which in turn is helping to fuel the country's outbound travel market. South American destinations are luring more Mexican travellers, mainly because of attractive price offers and stronger travel agent incentives. However, interest in Canadian destinations continues to grow as well, resulting in an optimistic outlook for this travel market.

UK Travel Outlook, Q3 2005

Economic Overview

Economic growth in the UK economy is gearing down. Overall growth is expected to drop to 2.5 per cent in 2005 and 2.4 per cent in 2006. Solid increases in employment and strong growth in average earnings will leave most UK residents with the financial means to increase purchases of goods and services. Manufacturing production, however, will continue to be a drag on overall growth. The strength of the pound against both the U.S. dollar and the euro has left exporters at a competitive disadvantage against its major trading partners, the United States, Germany and France, but represents a boon for UK travellers. Meanwhile, low unemployment at home (well below 3 per cent) and rising housing prices could stimulate inflationary pressures. Thus, interest rates are expected to rise to 5 per cent this year—nearly double the rates in the euro zone.

Tourism Trends

Looking ahead, UK tour operators are predicting solid, although not robust, growth in bookings for the summer 2005 travel season. TUI UK reported that by the end of March, their bookings were 1.6 per cent ahead of last year's figures at this time, although they were pleased to note an improvement in price quality. Thomas Cook UK reported similar results, indicating a "solid rather than buoyant" outlook for summer travel.

However, reports from First Choice were much more optimistic: in March it announced that summer 2005 sales were 18 per cent ahead of sales figures at the same time last year, with an 11 per cent jump in bookings. By the end of April, that lead had progressed to a 21 per cent rise in advance summer revenues, with a 14 per cent rise in bookings. Long-haul bookings were ahead by 28 per cent in April, and advance sales for long-haul trips were up 30 per cent over the previous year.

Mintel's *British Lifestyles 2005* report suggested that the most popular type of British holiday is an independent trip abroad. In 2004, 23 per cent of British adults took an independent holiday out of the country, up 5 per cent from 1999 and 1 per cent from 2003. The next most-popular type of trip is a domestic short break (one to three days), taken by 19 per cent of British adults last year. Meanwhile, long-haul package vacations have declined from 13 per cent in 1999 to 6 per cent in both 2003 and 2004. Overseas short breaks have seen the strongest pace of growth in the last five years, boosted by the growth in services by low-cost carriers—these trips accounted for 4 per cent of British travel in 1999, rising to 7 per cent in 2003 and 13 per cent in 2004.

The CTC foreign office in the UK recently reported that custom packages for couples and families were a strong sales trend for Canadian bookings in the third quarter of 2005. They also noted that online bookings dominated the overall growth in UK travel bookings in 2004.

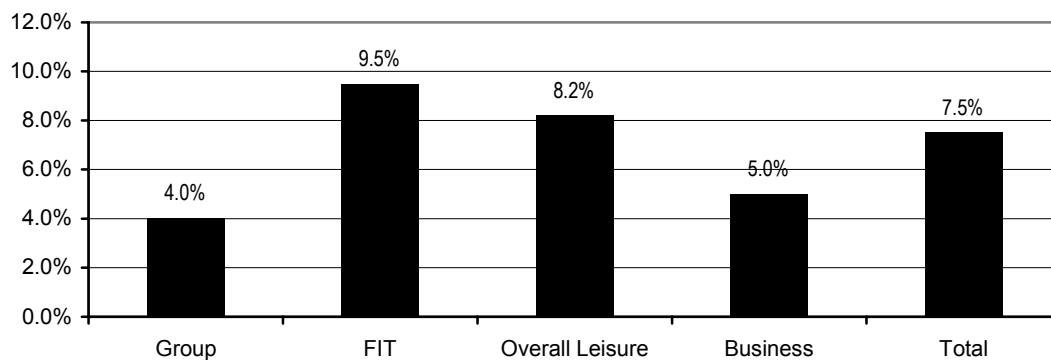
Market Overview

According to British tour operators surveyed by the CTC, sales of Canadian products for the third quarter of 2005 are expected to post healthy growth, although responses varied regarding the percentage of growth. Air capacity did not appear to be an issue at all for Canadian bookings during this period; however, a few responses indicated that the exchange rate was boosting sales.

Tour operators noted that trips for couples both with and without a package were selling well for the third quarter of 2005, although the leading sales trend was vacation packages for individuals. Ontario is expected to receive the most British visitors during this period (40%), followed by Alberta (23%) and B.C. (23%). Finally, cities/resorts were cited as the number-one-selling product type for the third quarter, followed by touring, nature, and outdoor/sports (respectively).

Destination Supplier/Receptive Agent Business Outlook Survey

Short-term Outlook—Q3 2005
Overnight Person-trips from the U.K. to Canada
(per cent change from previous year, same quarter)



Source: Q3 2005 Business Outlook Survey, Canadian Tourism Research Institute

The outlook for overall travel from the UK—as indicated by *BO Survey* participants—is for growth of 7.5 per cent in the third quarter of 2005 compared with the previous year. Leisure travel is expected to rise 8.2 per cent, boosted by a 9.5 per cent jump in independent travel (FIT), while group leisure travel lags behind at 4 per cent. Meanwhile, growth of 5 per cent is expected for UK business travel to Canada during this period.

UK-to-Canada Air Capacity, OAG Worldwide

The number of direct seats available (as of April 2005) for travel from the UK to Canada during the third quarter of 2005 is expected to expand 6.1 per cent compared with the same period in 2004. Considering the growth in UK visits expected during the summer quarter, it appears air capacity should not significantly constrain growth from the UK travel market during the period.

Seats Available for Direct Travel from the UK to Canada (Q3—July to September)

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	587,785	623,715
Per cent change	N/A	6.1

Source: OAG Worldwide

Summary Outlook for Q3 2005

Reports from tour operators in the UK indicate that solid rather than robust growth is expected for the British outbound market this summer. Generally, advance bookings for the summer travel season are up only modestly compared with last year at this time, although improvements are expected as the summer approaches. This expectation suggests that last-minute reservations continue to play a role in UK booking patterns. For Canada, the outlook for the UK market is more optimistic. UK tour operators surveyed by the CTC expect a healthy rise in bookings for the third quarter, with the exchange rate boosting sales of Canadian trips.

BO Survey participants expect overall travel from the UK to increase 7.5 per cent in the third quarter of 2005, compared with the same quarter of 2004. Overall leisure travel is expected to rise 8.2 per cent, boosted by a 9.5 per cent expansion in independent travel (FIT), while the group leisure segment grows at a significantly slower pace (4%). Meanwhile, UK business travel to Canada is expected to rise a solid 5 per cent during this period.

France Travel Outlook, Q3 2005

Economic Overview

Strong household spending helped France's economy expand by 2.3 per cent in 2004 and was part of the reason why French outbound travel rose sharply during that year. This year, consumer spending is expected to post weaker growth—in February, spending actually dropped for the first time in many months—and this factor will help drag down the overall economic growth. Unemployment remains a significant concern in France, and labour markets seem to be deteriorating instead of improving. The economy has high levels of both long-term and youth unemployment, two areas that are extremely difficult to reverse. As a result, the overall unemployment rate has continued to increase, and in the early part of 2005 it hit a five-year high of 10.1 per cent. In addition, firms are expected to reduce staff hiring further in the coming months, according to recent labour market surveys. In the short term, the French economy will also benefit from the easing of EU rules concerning the size of fiscal deficits. The fact that the government won't have to implement tough spending cuts will help the economy advance by 1.9 per cent in 2005 and by 2.1 per cent in 2006.

Travel Trends

The CTC foreign office in France reported that French tour operators are very optimistic in their outlook for French travel to Canada this summer. Many expect strong growth in Canadian package sales, and the favourable exchange rate has been helping to fuel this trend. Tourism Australia recently reported that demand for French travel to the United States has been strong as well, with the declining value of the U.S. dollar boosting sales of French trips to U.S. destinations.

Air France–KLM announced significant expansions to its network capacity this summer, which will rise 4.6 per cent overall and 5.9 per cent on long-haul routes. Capacity to the United States, the carrier's largest market outside France, will jump by 10 per cent.

In a separate announcement, the French airline also confirmed that it will be the first European airline to use the new Airbus A380, three of which are scheduled to join the carrier's fleet in spring 2007. The double-decker A380 has the capacity for up to 800 passengers, depending on the configuration, and Air France–KLM intends to use them on its North Atlantic routes to Montréal and New York.

Meanwhile, French outbound travel rebounded by 10 to 12 per cent in 2004, increasing by three million additional trips, according to the European Travel Monitor, recently released by IPK International. The study suggests that French travellers see trips within their own country as becoming increasingly expensive, and this attitude is helping to spur the rising demand for international travel.

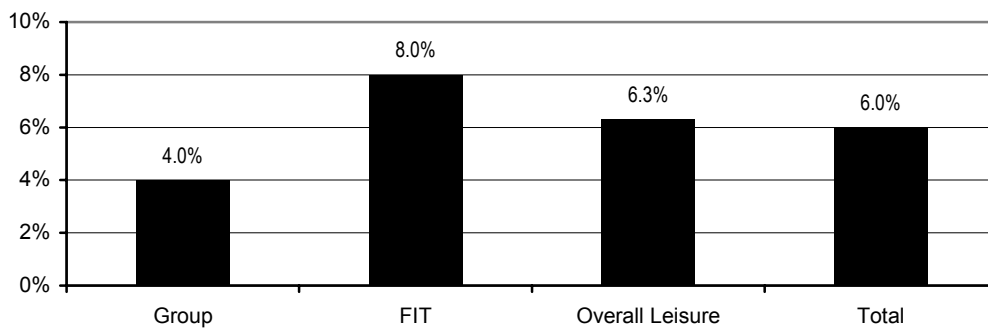
Market Overview

French tour operators surveyed by the CTC reported that sales of Canadian products for the third quarter of 2005 are expected to grow by an average of about 30 per cent compared with last year. Responses regarding the availability of air capacity were mixed, indicating that air access has been an issue for some tour operators.

Most tour operators noted that bookings for individuals with or without a package have been selling well for the third quarter of 2005. In terms of regional travel demand, Quebec is expected to continue receiving the most French visits (80%), followed by Alberta/B.C. Meanwhile, the Atlantic Coast was cited as a region with potential for the French travel market. In terms of the best-selling products for this period, nature-based trips appear to be the most popular, followed by urban trips.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-term Outlook—Q3 2005
Overnight Person-trips from France to Canada
(per cent change from previous year, same quarter)



*Source: Q3 2005 Business Outlook Survey, Canadian Tourism Research Institute
Business travel is not broken out in order to preserve respondent confidentiality.*

The outlook for overall travel from France in the third quarter of 2005—as indicated by *BO Survey* participants—is for growth of 6 per cent, compared with the same period last year. Growth in independent travel (FIT) is expected to jump 8 per cent, helping to fuel a 6.3 per cent rise in overall leisure travel. Group leisure travel, on the other hand, is expected to grow more modestly, climbing 4 per cent in the third quarter of 2005 compared with a year earlier.

France-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from France to Canada in the third quarter of 2005 is expected to grow 10.7 per cent compared with the same quarter of 2004. Fortunately, air capacity should not constrain growth of French travel to Canada during this period.

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

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	269,199	298,055
Per cent change	N/A	10.7

Source: OAG Worldwide

Summary Outlook for Q3 2005

French tour operators surveyed by the CTC are very optimistic about Canadian bookings for the third quarter of 2005. The relative strength of the euro has been helping to propel strong demand for trips to both Canada and the United States. Recent reports have indicated that French travellers see their own country as becoming an increasingly expensive place to vacation, and this perception has been fuelling a growing interest in international travel.

BO Survey participants also expect solid growth in the French travel market this summer. French visits to Canada are expected to rise 6 per cent over last year, bolstered by an 8 per cent jump in independent travel (FIT). Meanwhile, group leisure travel is expected to increase 4 per cent, resulting in a 6.3 per cent increase in overall leisure travel during the third quarter of 2005.

Germany Travel Outlook, Q3 2005

Economic Overview

The outlook for the German economy has become grim, with little economic growth expected over the next two years. The only source of optimism remains the external sector of the economy, where exports continue to expand. Meanwhile, domestic demand in Germany will be restrained by structural rigidities in the labour market—this will keep the unemployment rate above 10 per cent through 2006, and prevent a rebound in consumer spending. While Germany's corporations have had strong profit growth, they are investing in more business-friendly countries in Eastern Europe, Asia and North America as opposed to what many consider to be the over-regulated German economy. Overall economic growth is forecast to be a meagre 1.2 per cent in 2005 and 1.6 per cent in 2006.

Tourism Trends

The CTC's foreign office in Germany reported that the outlook for long-haul outbound travel remains very positive, especially for North American destinations. REWE Touristik, a leading German tour operator, reported that 2005 bookings for North American destinations were 29 per cent higher than the previous year, while overall long-haul travel bookings were up 23.5 per cent. The CTC report noted that German travellers continue to seek out the best prices and are increasingly looking for travel deals on the Internet. The most significant German travel trends are all-inclusive packages, health and wellness vacations, and city breaks.

Despite the increase in German online travel bookings, the proportion of last-minute bookings in Germany has been shrinking, according to Tourism Australia's latest market report for Germany. Last-minute bookings now account for about 20 per cent of all bookings, down from 30 per cent in the 2002/2003 travel season.

FVW, a German travel journal, recently reported that overall, the recovery pace of Germany's leisure travel market appears to have slowed down this year, compared with the robust growth in 2004. Still, travel agents are optimistic about the summer travel season. Germany's two leading travel companies, TUI AG and Thomas Cook AG, both reported solid growth in bookings for the summer 2005 travel season. In late March, TUI reported that its German travel bookings were 5.4 per cent ahead of the same time a year earlier, while Thomas Cook's bookings were 5.1 per cent ahead.

Frankfurt Airport reported it expects 4.4 per cent growth in overall passenger flights this summer, compared with last year. Intercontinental services are scheduled to rise 7.6 per cent, and European services by 4.9 per cent. Domestic flights, on the other hand, are expected to decline slightly.

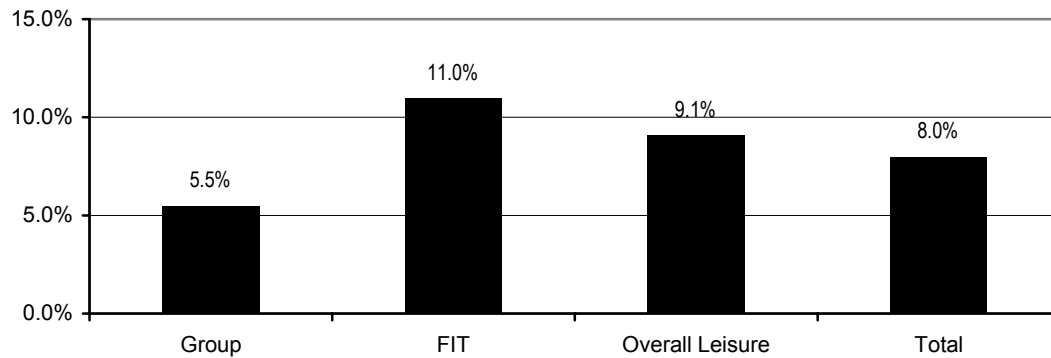
Market Overview

According to German tour operators surveyed by the CTC, sales of Canadian products for the third quarter of 2005 are expected to grow between 5 and 30 per cent compared with a year earlier. Air capacity and the exchange rate appear to be having little effect on the sales of Canadian trips during this period.

Tour operators noted that packages for individuals, couples and groups all continued to sell very well. For the summer period, B.C./Alberta continued to be the most popular regional destination, followed by Ontario, Quebec, the Yukon, the Atlantic Coast and the Northwest Territories. Additionally, Manitoba, Saskatchewan and the Atlantic Coast were mentioned as regions offering potential for the German market. Nature-based trips appear to be the most popular type of product for the third quarter, followed by touring, outdoor/sports, cities/resorts, and culture/history.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-term Outlook—Q3 2005
Overnight Person-trips from Germany to Canada
(per cent change from previous year, same quarter)



*Source: Q3 2005 Business Outlook Survey, Canadian Tourism Research Institute
Business travel is not broken out in order to preserve respondent confidentiality.*

According to *BO Survey* participants, overall travel from Germany in the third quarter of 2005 is expected to increase 8 per cent, compared with the same quarter of 2004. The FIT segment is expected to post the strongest growth, expanding 11 per cent, while group leisure travel lags behind at 5.5 per cent. As a result, overall leisure travel is expected to rise 9.1 per cent compared with the third 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 gain 5.1 per cent more seats in the third quarter of 2005, compared with the same quarter a year earlier. Considering the growth in German visits to Canada expected in the third quarter, direct air capacity could potentially constrain German travel to Canada during this period.

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

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	290,050	304,772
Per cent change	N/A	5.1

Source: OAG Worldwide

Summary Outlook for Q3 2005

Despite the subdued outlook for Germany's economy, German travel demand continues to build, resulting in a very positive outlook for the summer travel season. The CTC's foreign office in Germany reported strong growth in the German long-haul travel market, particularly for North American destinations. German travellers are still searching for the best travel deals, and are increasingly turning to the Internet to do so. Fortunately, despite the growing popularity of online travel bookings, reports indicate that the proportion of last-minute bookings has been shrinking.

BO Survey participants anticipate German visits to Canada will increase 8 per cent, overall, in the third quarter of 2005, although leisure travel is expected to jump 9.1 per cent, compared with the same quarter of 2004. The FIT segment is expected to post the strongest growth, rising 11 per cent during this period, while growth in group leisure travel is somewhat more restrained (5.5%).

Japan Travel Outlook, Q3 2005

Economic Overview

The Japanese economy is finding itself in a downward spiral. In fact, the Japanese economy fell into a recession during the latter part of 2004 as the export sector, which had been an engine of growth for the country for two years, weakened sharply. Part of the slowdown in export growth is linked to developments in the Chinese market. Chinese manufacturers are growing and developing quickly, and given their cost advantages and improving quality, they are starting to steal market share from Japanese manufacturers. Moreover, weak economic growth and the strong yen have led to a re-emergence of deflation in the Japanese economy. Deflation will continue to reduce both private consumption and business investment spending, thereby preventing either one from filling the economic void left by weaker exports. Thus, real GDP, which grew by 2.9 per cent in 2004, is expected to expand by only 1.1 per cent in 2005 and by 1.8 per cent in 2006.

Tourism Trends

In the first half of 2005, Japanese travellers are expected to make 19.8 per cent more outbound trips than in the same period of 2004, according to the latest *MasterIndex of Travel* report by MasterCard International. Among the Japanese travellers polled, the top three reasons for travelling were to see new places (29%), for a change of scenery (26%) and to visit historical sites (24%).

A record number of Japanese travellers were expected to travel overseas during the Golden Week holiday, which ran from April 27 to May 7 this year, according to a survey by JTB Corp. Outbound trips during this period were expected to jump 13.8 per cent compared with a year earlier, to 602,000—the highest number since JTB began the survey in 1969. Golden Week, a time of the year when four national holidays fall within seven days, is one of Japan's busiest travel seasons.

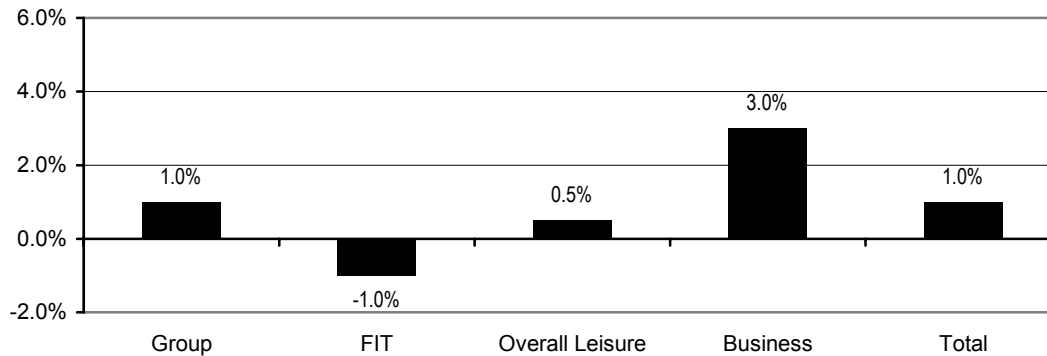
Japan opened its third major airport in February 2005, near Nagoya in the central region of the country. Every week, Chubu Centrair International Airport handles about 320 international flights to 25 destinations, plus 700 domestic flights. It is expected to serve 12 million passengers this year.

The CTC foreign office in Japan reported that Centrair International Airport offers seamless connections between domestic and international flights, at a level of convenience not previously offered in Japan. In fact, Nagoya-based tour operators anticipate a boost to their business from regional areas of Japan because of the enhanced flight connections. The CTC office also reported a positive outlook for Japanese travel to Canada this summer. Japanese tour operators have made significant investments in brochures for trips to Canada's three main gateway cities.

Meanwhile, Tourism Australia announced the launch of a new A\$8 million (CDN\$7.8 million) campaign in Japan targeting high-yield Japanese tourists. The organization is focusing on the growing number of Japanese travellers who are seeking independent trips as an alternative to traditional group travel packages. These visitors tend to stay longer, spend more and travel further away from the major gateways. They also noted that instead of just sightseeing, Japanese tourists were becoming more interested in "rejuvenating holiday experiences," such as nature-based trips.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-term Outlook—Q3 2005 Overnight Person-trips from Japan to Canada (per cent change from previous year, same quarter)



Source: Q3 2005 Business Outlook Survey, Canadian Tourism Research Institute

The outlook for travel from Japan in the third quarter of 2005—as indicated by *BO Survey* participants—suggests a modest increase of 1 per cent compared with the same quarter of 2004. Independent leisure travel (FIT) is expected to decline during this period, dropping 1 per cent compared with the same quarter of 2004, offsetting the 1 per cent rise expected in group leisure travel. As a result, overall leisure travel is expected to remain almost on par with the previous year, rising only 0.5 per cent. On the other hand, relatively solid growth of 3 per cent is expected for the business travel segment during this period.

Japan-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Japan for the third quarter of 2005 is expected to decline 3.5 per cent compared with the previous year. Consequently, available seat capacity could be a further challenge for Japanese travel to Canada during this period.

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

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	152,644	147,238
Per cent change	N/A	-3.5

Source: OAG Worldwide.

Summary Outlook for Q3 2005

After experiencing a significant rebound in visits during 2004, it appears expectations for the Japanese travel market in 2005 have cooled dramatically. *BO Survey* participants anticipate the overall number of Japanese visits will rise 1 per cent in the third quarter of 2005 compared with a year earlier. Independent leisure travel (FIT) is expected to decline during this period, dropping 1 per cent compared with the same quarter of 2004, offsetting the 1 per cent rise expected in group leisure travel. As a result, overall leisure travel is expected to remain almost on par with the previous year, rising only 0.5 per cent. Only the business travel segment is expected to see solid growth during this period, with corporate trips to Canada expected to climb 3 per cent compared with a year earlier.

South Korea Travel Outlook, Q3 2005

Economic Overview

Growth in the South Korean economy is slated to slow this year. In particular, exports are expected to weaken as the economic growth of key trading partners (the United States and Japan) gears down. The high value of the South Korean won vis-à-vis the U.S. dollar will also contribute to slower export growth, which is limiting industrial production. Consumer demand remains on a fragile footing and is therefore unlikely to absorb any excess production. Indeed, with a relatively weak labour market persisting throughout the year, household spending is expected to advance only 1.6 per cent this year, after declining in 2004. Consequently, growth in the country's real GDP is expected to drop to 3.9 per cent in 2005, then pick up slightly to 4.7 per cent in 2006.

Travel Trends

The CTC's foreign office in Korea reported that in July, the majority of Korean workplaces are expected to adopt a five-day workweek, which will likely give the Korean travel market a huge boost. Already, Korean tour operators are developing more individual tour products, to cater to a burgeoning fully independent travel (FIT) segment. One market niche that is showing very strong promise is the Korean golf market. According to Korea's customs office, 70,000 travellers took their golf clubs with them on outbound trips in 2004, a 55 per cent rise over 2003. This year, that figure is expected to double.

The CTC report also noted that Internet travel bookings are growing rapidly—online travel bookings jumped 43.4 per cent in 2004 compared with a year earlier. In fact, online marketing strategies are becoming critical to the success of Korean travel companies. Hana Tour, Korea's largest travel wholesaler, saw its online bookings rise by a third in 2004, to 20 per cent of the company's total bookings, up from 15 per cent in 2003. Currently, there are more than 31 million regular Internet users in South Korea.

The latest *MasterIndex of Travel* report by MasterCard International suggests that Korean outbound travel will grow to 4.6 million trips in the first six months of 2005, rising 12.1 per cent compared with the same period in 2004. Among the Korean travellers surveyed for the report, the most popular reasons for taking a trip abroad were to see different people/cultures (cited by 43% of respondents planning an international trip), for rest and relaxation (41%) and to study or take courses (19%).

Market Overview

Korean tour operators surveyed by the CTC anticipate strong growth in Canadian trips for the third quarter this year, with sales expected to rise 45 to 50 per cent over the previous year's figures. Air capacity is still a challenge, particularly for travel between mid-July and the end of August. Another challenge is the exchange rate, which continues to make package prices more expensive.

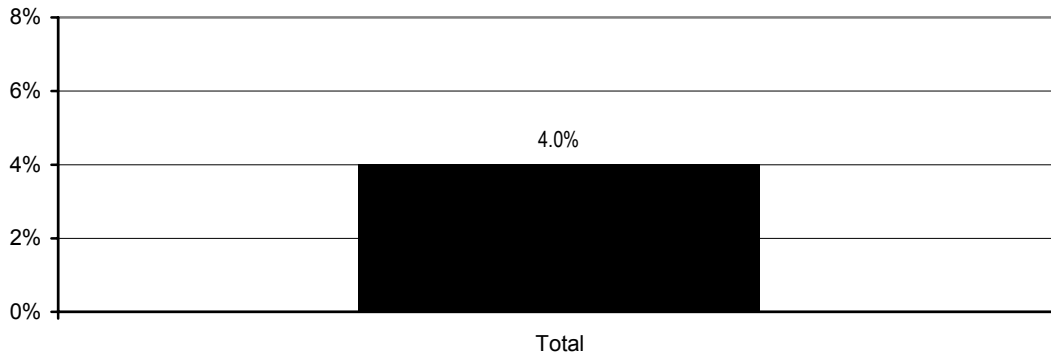
Tour operators indicated that Canadian packages for groups and individuals continued to sell very well. In terms of Canadian destinations, B.C. accounts for about 40 per cent of Canadian product sales for the summer travel period, followed by Ontario (30%), Alberta (20%) and Quebec (10%).

Respondents also identified a number of new areas of Canadian product development for the Korean market. These include Vancouver city trips, B.C. hot spring/spa packages and wine tours, high-end golf packages in B.C. and Alberta, circle tours linking B.C. cities and Seattle, family resorts, and rail tours in the Rocky Mountains and in Eastern Canada.

Finally, survey respondents indicated touring was the number-one-selling product category for the summer travel period, followed by nature, cities/resorts, outdoor/sports, and culture/history.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-term Outlook—Q3 2005
Overnight Person-trips from South Korea to Canada
(per cent change from previous year, same quarter)



Source: Q3 2005 Business Outlook Survey, Canadian Tourism Research Institute Group, fully independent, overall leisure and business travel are not broken out in order to preserve respondent confidentiality.

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

South Korea-to-Canada Air Capacity, OAG Worldwide

According to OAG, direct air capacity from South Korea to Canada during the third quarter of 2005 is expected to rise modestly, climbing 1.9 per cent compared with the previous year. As reports by Korean tour operators have indicated, insufficient direct air capacity is expected to remain a challenge for Korean travel to Canada this summer.

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

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	74,116	75,520
Per cent change	N/A	1.9

Source: OAG Worldwide.

Summary Outlook for Q3 2005

BO Survey participants anticipate that overall leisure travel from South Korea will increase by 4 per cent during the third quarter of 2005 compared with a year earlier. While reports from Korean tour operators appear much more optimistic, insufficient air capacity continues to dampen the potential growth of Korean visits to Canada. One factor contributing to the optimistic outlook for this market is the switch to a five-day workweek, which the majority of Korean workplaces are expected to adopt by July. Already, Korean tour operators are developing more individual travel products, to cater to a burgeoning fully independent travel (FIT) segment. One niche of this segment showing a great deal of promise is the Korean golf market. Korea's customs office reported that 70,000 travellers took their golf clubs with them on outbound trips in 2004, a 55 per cent rise over 2003. This year, that figure is expected to double.

China Travel Outlook, Q3 2005

Economic Overview

The latest data from China suggests that government attempts to slow down the pace of growth are garnering mixed results. While some sectors of the economy have responded to policies aimed to curtail the rate of expansion, other sectors have continued to develop. Investment is still accelerating in the residential property sector, and exports and imports continue to increase at year-over-year rates approaching 40 per cent. There are, however, some signs that industrial production is weakening somewhat. Real GDP is expected to post growth of 8.2 per cent this year, on the heels of a 9.4 per cent gain in 2004. In 2006, even weaker growth of 7.8 per cent is anticipated. Inflation will remain under control (3 to 3.5 per cent in 2005–2006) and the trade balance, while remaining positive, will decline from US\$22 billion in 2004 to US\$16 billion in 2005. The lower trade balance reflects the strength of Chinese imports, a result of surging consumer demand.

Tourism Trends

In January 2005, the People's Republic of China granted Canada Approved Destination Status (ADS), which allows Chinese travellers to easily obtain exit visas to visit Canada for leisure travel. In April 2005, Canada and China signed a deal that significantly expanded the bilateral air agreement between the two countries, paving the way for a threefold increase in passenger and cargo capacity. Air Canada subsequently announced extensive plans to expand flight services to China, beginning with an increase in passenger capacity between Vancouver and Shanghai this summer. In 2006 and 2007, the carrier plans to expand its flight services to Beijing, Shanghai and Guangzhou.

In the first half of 2005, 17.4 million Chinese are forecast to travel abroad, a 33.6 per cent rise over the previous year, according to the latest MasterIndex of Travel report by MasterCard International. In a related survey, 89 per cent of Chinese travellers polled said they planned to take at least one international trip in the next 12 months. The largest group of travellers cited “rest and relaxation” as the main reason for travelling (63%), followed by “a change of scenery or weather” (58%) and “to see different people/cultures” (52%).

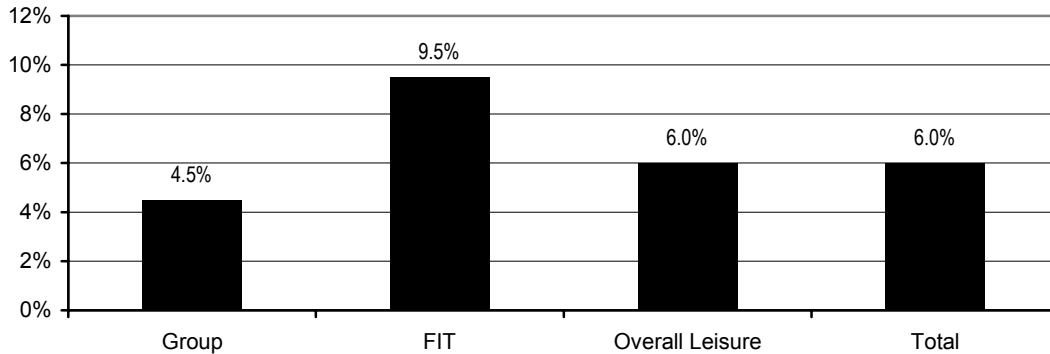
Beijing Capital International Airport served 30 million passengers in 2004 and expects that figure to rise to 35 million this year. The airport underwent a major expansion just six years ago, but the rapid growth in travel demand since then has prompted the airport to plan further upgrades, including a third terminal that will allow the airport to handle up to 60 million passengers per year.

In fact, Air Transport World (ATW) recently reported that China has overtaken Japan as Asia's largest air travel market, and is now second to the United States in terms of scheduled seat departures. ATW cited a new report by Airclaims' International Transport and Tourism Consultancy (ITTC), which stated that China's overall seat departures rose 22 per cent to 180 million in 2004, and are expected to climb another 13 per cent in 2005. Moreover, foreign carriers have now captured a major share of the Chinese outbound air travel market: in 1998, market share was split evenly between Chinese carriers and foreign carriers, but by 2004, China's share dropped to 46.5 per cent.

A recent article by USA Today reported that ski holidays are becoming more popular in China, with about five million Chinese expected to visit domestic ski resorts this year. Surprisingly, as little as 10 years ago, ski vacations did not exist—only professional athletes skied in China, and no ski resorts existed at all. Today, there are more than 200 ski hills in China to accommodate the country's burgeoning ski market.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-term Outlook—Q3 2005 Overnight Person-trips from China to Canada (per cent change from previous year, same quarter)



*Source: Q3 2005 Business Outlook Survey, Canadian Tourism Research Institute
Business travel is not broken out in order to preserve respondent confidentiality.*

The outlook for overall leisure travel from China—as indicated by BO Survey participants—is for 6 per cent growth in the third quarter of 2005, compared with the previous year. BO Survey participants anticipate that independent travel (FIT) will jump 9.5 per cent during this period, while group leisure travel rises 4.5 per cent.

China-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from China is expected to surge 45.4 per cent during the third quarter of 2005, compared with the previous year. As a result, there should be enough air capacity to accommodate the growth in Chinese visits to Canada expected during that period.

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

	2004 (DIRECT)	2005 EST. (DIRECT)
Non-stop seats available	75,053	109,093
Per cent change	N/A	45.4

Source: OAG Worldwide.

Summary Outlook for Q3 2005

Canada's outlook for the Chinese travel market brightened considerably in January when the Chinese government awarded Canada Approved Destination Status (ADS), opening the door for exponential growth in Chinese leisure trips to Canada over the next few years. A bilateral air agreement quickly followed, paving the way for a threefold increase in passenger and cargo capacity between the two countries. For Canada, these two events are significant steps towards maximizing the full potential of China's rapidly expanding travel market. This summer, *BO Survey* participants anticipate a 6 per cent rise in Chinese travel to Canada compared with the third quarter of 2004. Growth in the FIT segment (9.5%) is expected to significantly outpace growth in group leisure travel (4.5%) when compared with a year earlier. Direct air capacity between Canada and China is expected to surge 45 per cent in the third quarter, which should sufficiently accommodate travel between the two countries during this period.

Australia Travel Outlook, Q3 2005

Economic Overview

At the end of 2004, Australia completed its 12th consecutive year of solid GDP growth since the recession that took place in 1991–1992. In recent months, the centres of strength in the economy have shifted from the housing boom to rising household consumption. New housing approvals have been on the decline in recent months, and house prices have softened. Real GDP is expected to increase by 3.1 per cent this year and another 3.4 per cent in 2006. The main risk to the outlook for the Australian economy is the fact that the ratio of household debt to income has risen to unusually high levels. Fortunately, rising interest rates that could dry up consumer spending are not anticipated in the near term. Instead, interest rates are expected to remain unchanged throughout 2005 and possibly into 2006 as well.

Tourism Trends

A number of Australian tour operators have reported that demand remains quite high for Canadian travel, according to the latest quarterly report by the CTC's foreign office in Australia. Travel volumes to Canada posted strong growth in 2004, and 2005 is shaping up to be an even better year. The report noted that the independent travel market is rapidly expanding, with booking patterns showing an increase in options such as self-driving tours and rail travel. Although Western Canadian destinations remain popular, Australian travellers appear to be increasingly interested in Eastern Canada, particularly the Atlantic region.

Tourism Australia released its latest travel forecast in April, which suggests that Australian international travel volumes will rise 6.7 per cent in 2005, to 4.7 million outbound departures. In 2006, outbound trips are expected to grow another 4 per cent. The forecast noted that the continued appreciation of the Australian dollar is helping to fuel Australians' appetite for international travel.

The latest *MasterIndex of Travel* report by MasterCard International forecasts a 12.4 per cent increase in Australian outbound travel in the first half of 2005, to 2.25 million overseas trips, compared with a year earlier. A survey of Australian travellers for the report revealed that the most popular reasons for travel were rest and relaxation (cited by 49% of respondents), to see new places (22%) and a change of scenery or weather (22%).

Australians chose Whistler/Blackcomb as the number one overseas ski resort, according to a recent poll of American Express gold cardholders by *Luxury Travel Magazine* and American Express. In the "best country" category, Canada was ranked sixth, behind Australia, Italy, France, the United States and England.

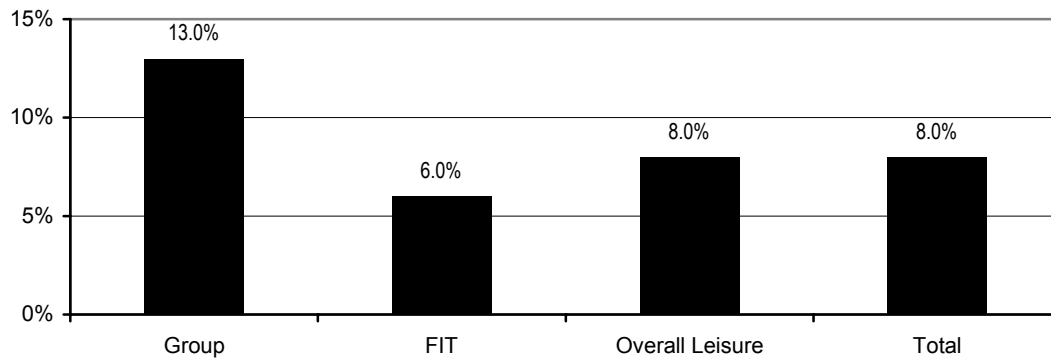
Market Overview

Australian tour operators surveyed by the CTC expect Canadian product sales for the third quarter of 2005 to expand up to 60 per cent over the previous year's figures. Survey responses were mixed regarding the availability of air services during this period, with some indicating that seat capacity has been an issue. However, the exchange rate did not appear to be having an effect on bookings.

Tour operators indicated that packages for couples were selling particularly well for the third quarter of 2005. B.C. is expected to receive the highest percentage of bookings for this period (45%), followed by Alberta (35%), Ontario (11%) and Quebec (10%). A number of Canadian regions were cited as offering potential for the Australian market, including Atlantic Canada, Yukon and Central Canada. Respondents also indicated that the most popular type of travel product for this period has been touring, followed by nature, cities/resorts, culture/history, and outdoor/sports (in that order).

Destination Supplier/Receptive Agent Business Outlook Survey

Short-term Outlook—Q3 2005
Overnight Person-trips from Australia to Canada
(per cent change from previous year, same quarter)



*Source: Q3 2005 Business Outlook Survey, Canadian Tourism Research Institute
Business travel is not broken out in order to preserve respondent confidentiality.*

The outlook for overall leisure travel from Australia in the third quarter of 2005—as indicated by *BO Survey* participants—is for 8 per cent growth, compared with a year earlier. Group leisure travel is expected to jump 13 per cent during this period, followed by a 6 per cent rise in independent travel (FIT).

Australia-to-Canada Air Capacity, OAG Worldwide

According to the latest figures from OAG (April 2005), air capacity from Australia in the third quarter of 2005 is expected to remain on par with the previous year. Considering the robust growth in visits from Australia expected during this period, it is possible that air capacity may constrain travel to Canada in the third quarter.

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

	2004 (DIRECT)	2005 EST. (DIRECT)
Direct seats (one stop) available	19,504	19,504
Per cent change	N/A	0

Source: OAG Worldwide.

Summary Outlook for Q3 2005

According to BO Survey participants, Australian leisure travel to Canada is expected to rise 8 per cent in the third quarter of 2005 compared with the previous year. Group leisure travel is expected to surge 13 per cent, while independent travel (FIT) climbs 6 per cent during this period. Reports from the Australian travel industry are even more optimistic, suggesting that demand for Canadian trips remains high. Travel volumes to Canada posted robust growth in 2004, and 2005 is shaping up to be an even better year. A number of Australian tour operators have noted traveller preferences shifting towards independent trips that include options such as self-driving tours and rail travel. They also suggest that Australian travellers are becoming increasingly interested in Eastern Canadian destinations. Overall, Australians' robust appetite for international travel is expected to continue for at least the next two years, fuelled by the strengthening Australian dollar.

Appendix 1: Medium-term Travel Forecasts (CTRI)

Since 1991–1992, 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 January 2005.

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	2004F	2005F	2006F
United States	15,022 5.5	15,552 3.5	16,090 3.5
Mexico	161 21.9	167 3.6	177 6.0
United Kingdom	800 15.8	832 3.9	864 4.0
France	323 18.0	341 5.3	357 5.0
Germany	297 17.4	314 5.6	333 6.3
Japan	387 55.6	407 5.1	427 5.0
South Korea	165 23.8	177 7.2	18.5 4.5
China	102 32.7	107 4.9	115 7.6
Australia	162 19.0	168 3.5	174 4.1

Source: Canadian Tourism Research Institute; Statistics Canada.