



# Domestic, U.S. and Overseas Travel to Canada

*Short-term Industry Outlook*

Fourth Quarter 2005

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# **Domestic, U.S. and Overseas Travel to Canada**

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Short-term Industry Outlook  
Fourth Quarter 2005

Prepared by

The Conference Board of Canada

For the

Canadian Tourism Commission

September 2005

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WHAT'S INSIDE

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

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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 fourth quarter of 2005, all growth comparisons are reported on a year-over-year basis compared with the fourth quarter of 2004.

## Highlights

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

**Q4 2005 Short-term Outlook for Canada's Key Markets  
(per cent change over Q4 2004)**

COUNTRY	MARKET SEGMENT				
	LEISURE—GROUP	LEISURE—FIT**	LEISURE— OVERALL	BUSINESS	TOTAL—OVERALL
Canada	4.4%	3.5%	3.6%	3.2%	3.5%
United States	2.5%	1.1%	1.4%	1.7%	1.6%
Mexico	4.0%	8.5%	6.6%	*	7.0%
United Kingdom	2.8%	6.8%	5.9%	7.0%	6.0%
France	3.2%	6.4%	5.0%	*	4.8%
Germany	4.5%	7.5%	6.4%	*	6.0%
Japan	7.1%	6.2%	6.9%	2.0%	5.9%
South Korea	*	*	*	*	4.1%
China	9.1%	10.4%	9.3%	*	9.3%
Australia	6.8%	7.6%	6.8%	*	6.8%

\* *Not enough responses to ensure confidentiality*

\*\* *Fully independent travel*

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## North and South American Markets

### Canada

By and large, travel indicators support a positive outlook for Canada's tourism industry. Travel demand continues to build toward more stable levels, bolstered by Canada's strong economic performance and steady consumer confidence. And although this has benefited domestic travel trends, it continues to fuel outbound travel intentions to an even greater degree.

*BO Survey* participants expect domestic travel to grow 3.5 per cent in the fourth quarter of 2005 compared with a year earlier. Leisure travel is expected to rise 3.6 per cent, bolstered by a 4.4 per cent rise in group leisure bookings, while the fully independent travel (FIT) segment expands by 3.5 per cent. Respondents anticipate a somewhat slower pace of growth for business travel, which is expected to edge up by 3.2 per cent in the fourth quarter of 2005. Some respondents expressed concerns about the potentially negative consequences of rising energy prices, which are not only increasing the cost of travel but also reducing discretionary household income. However, it appears that, so far, travel demand has managed to withstand the steady rise in travel prices.

### U.S.

The recovery of the U.S. travel market is a lingering concern for the Canadian travel industry. Although U.S. travel demand is rebounding to record-high levels—for U.S. domestic and overseas trips in particular—unfortunately, this is not resulting in a recovery of U.S. travel to Canada. While the appreciation of the Canadian dollar has stabilized, many U.S. travellers still find Canada less price competitive because of higher gas prices (and fuel surcharges). The effect of these price increases as well as heightened concerns about crossing the border puts Canada at a disadvantage compared to other closer-to-home (U.S.) destinations.

*BO Survey* participants expect U.S. travel to Canada to expand by a modest 1.6 per cent in the fourth quarter of 2005, compared with a year earlier. Group leisure travel continues to lead growth expectations among all travel segments during the fall quarter (2.5%), while independent travel (FIT) lags behind (1.1%). As a result, overall leisure travel is expected to climb 1.4 per cent. Survey respondents noted that the less favourable exchange rate continued to discourage U.S. travellers from choosing Canadian vacation packages, because of higher product prices. Meanwhile, U.S. business travel to Canada is expected to increase 1.7 per cent in the fourth quarter of 2005, compared with the previous year.

### Mexico

Overall, *BO Survey* participants expect travel from Mexico to grow 7 per cent during the fourth quarter of 2005, compared with the same quarter of 2004. Leisure travel is expected to jump 6.6 per cent, boosted by a 8.5 per cent increase in independent (FIT) trips, while group travel climbs 4 per cent. According to Mexican tour operators surveyed by the CTC, travel demand for Canadian destinations remains high. In fact, many tour operators indicated that Canada was their "number one" travel destination for the summer season. Looking ahead, however, the overall outlook for Mexican outbound travel is slightly more cautious, due to an expected slowdown in the Mexican economy and uncertainties surrounding next year's presidential election.

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## European Markets

### U.K.

The terrorist bombings that struck London's transit system on July 7, 2005, were a terrible tragedy that once again made clear the ongoing vulnerability of the international tourism industry. A crisis report by the World Travel & Tourism Council (WTTC) suggested that outbound travel demand would largely withstand the impact of the tragic event, although the effects of the attacks were expected to soften demand by 2.3 per cent for both U.K. leisure and business travel this year. Even before this event, there were indications that the economic slowdown in the U.K. was dampening travel demand.

Nevertheless, *BO Survey* participants expect overall travel from the U.K. to expand by a solid 6 per cent in the fourth quarter of 2005, compared with the same quarter of 2004. Overall leisure travel is expected to rise 5.9 per cent, boosted by a 6.8 per cent expansion in independent travel (FIT), while the group leisure segment continues to lag behind (2.8%).

### France

*BO Survey* participants anticipate French visits to Canada will rise 4.8 per cent in the fourth quarter of 2005, bolstered by a 6.4 per cent jump in independent travel (FIT). Meanwhile, group leisure travel is expected to expand at a much more modest pace (3.2%), resulting in a 5 per cent increase in overall leisure travel during the period.

The CTC's foreign office in France reported that outbound travel has been quite positive this summer, bolstered by the relative strength of the euro. Solid travel demand, combined with ample direct air capacity between France and Canada, supports a positive outlook for the French travel market this fall. However, prospects for the French economy remain cautious, as the government struggles to overcome the country's high unemployment rate.

### Germany

By all accounts, it appears that German demand for travel to Canada continues to increase. Fortunately, Germany's weak domestic economy has done little to dampen German enthusiasm for leisure travel. In fact, the relative strength of the euro has fuelled demand for long-haul travel, in particular for North American destinations. Bus tours and "fly-drive" vacations have been especially popular, according to *FVW*, a German travel journal. Tour operators reported that ample air capacity to North American destinations was keeping air ticket prices at "acceptable levels," although security charges and airport taxes were a concern.

*BO Survey* participants anticipate German visits to Canada will increase 6 per cent, overall, in the fourth quarter of 2005. Leisure travel is expected to jump 6.4 per cent, compared with a year earlier. The FIT segment is expected to maintain the strongest pace of growth, rising 7.5 per cent during this period, while growth in group leisure travel will be somewhat more restrained (4.5%).



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## **Asia-Pacific**

### **Japan**

After registering a sharp decline earlier this year, it appears that expectations for the Japanese travel market have turned around for the final quarter of 2005. *BO Survey* participants anticipate Japanese visits to Canada will increase 5.9 per cent compared with the same quarter of 2004. Group leisure travel is expected to rise 7.1 per cent, while independent leisure travel (FIT) climbs 6.2 percent. As a result, overall leisure travel is expected to jump 6.9 per cent. Business travel to Canada is expected to expand more modestly, edging up 2 per cent compared with a year earlier.

The CTC foreign office in Japan reported that travel demand for long-haul destinations has been high, especially for European and Canadian destinations. Japanese tour operators are quite optimistic about sales of Canadian trips for the fall travel season and support a positive outlook for Japanese visits to Canada during the final quarter of this year.

### **South Korea**

*BO Survey* participants anticipate overall travel from South Korea will increase by 4.1 per cent during the fourth quarter of 2005 compared with a year earlier. However, reports from Korean tour operators are even more optimistic. The problem of insufficient air capacity between Korea and Canada, previously a major challenge for the Korean travel market, has been addressed. Air Canada, Korean Air and Asiana Airlines have all recently added seat capacity on routes to North America. Furthermore, the appreciation of the Korean won has improved the exchange rate for Korean travellers to Canada. Two additional factors—favourable prospects for the Korean economy and the gradual adoption of a shorter Korean workweek—are also contributing to a very positive outlook for the Korean travel market this fall.

### **China**

Canada's outlook for the Chinese travel market remains exceptionally upbeat. This fall, *BO Survey* participants anticipate a 9.3 per cent rise in Chinese travel to Canada compared with the fourth quarter of 2004. Growth in the FIT segment (10.4%) is expected to continue outpacing growth in group leisure travel (9.1%), which appears to be an ongoing trend in the Asian market. Direct air capacity between Canada and China is expected to surge by more than 33 per cent in the fourth quarter, which should sufficiently accommodate travel between the two countries during this period.

A recent forecast by the U.K.'s Economist Intelligence Unit suggested that this year, 28.5 million Chinese will take an outbound trip, placing China just second behind the United States in terms of outbound travellers. The rapid expansion of the Chinese government's list of approved travel destinations is one contributing factor, as is the growing number of bilateral air agreements with other countries. And while only a fraction of Chinese citizens can even afford to travel internationally, this number is expected to rise in tandem with the expanding Chinese economy.

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## Australia

BO Survey participants anticipate solid growth in Australian travel to Canada this fall: overall visits are expected to rise 6.8 per cent in the fourth quarter of 2005 compared with a year earlier. Independent travel (FIT) is expected to jump 7.6 per cent during this period, while group leisure bookings rise 6.8 per cent. Reports from the Australian travel industry remain quite optimistic, suggesting that sales for Canadian vacation packages remain strong. In fact, some wholesalers have reported fully booked tours to Canada this year. Rail vacations and nature viewing trips have been very popular, and bookings for ski vacations have been brisk, despite heavy competition from Japan and Colorado. The strong Australian dollar and improvements in air access between Australia and Canada have each contributed to a very positive outlook for the Australian travel market.

## International Travel Statistics, Statistics Canada

Overnight Travel to Canada, January–May 2005

COUNTRY	PERSON-TRIPS	CHANGE OVER 2004 (%)
United States	4,051,117	-2.9
Mexico	53,583	13.4
Europe	635,094	9.9
United Kingdom	270,158	10.3
France	97,485	12.3
Germany	83,584	12.9
Netherlands	29,267	3.7
Italy	21,262	21.4
Asia	392,675	8.5
Japan	130,862	12.0
South Korea	57,129	11.9
Taiwan	32,578	-12.1
Hong Kong	37,622	1.9
China (Mainland)	32,525	8.0
Oceania	79,649	14.5
Australia	68,012	14.4

*Source: International Travel Survey, Statistics Canada.*



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## 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.

### **New Feature—The Competitive Price Index**

Starting this issue, a new feature, the Tourism Price Competitive Index, will complement the traditional economic and travel overview provided in the *Short-term Industry Outlook*. One important aspect of Canada's global competitiveness as a tourism destination is the pricing level of Canadian travel products relative to key international competitors. The Competitive Price Index is calculated based on prices for airfares, hotels, meals and other costs incurred by visitors to Canada, compared against prices for competing destinations.

As a regular feature of the *Short-term Industry Outlook*, the Competitive Price Index will serve as a valuable reference for tracking product pricing trends in key markets and monitoring Canada's relative competitiveness on a regular, ongoing basis. While this issue focuses only on the inaugural generation of the benchmark levels, future issues will permit an analysis of any changes to Canada's price competitiveness.

In addition to developing the Competitive Price Index at a national index, a further analysis was done to disaggregate the Index into four distinct regions of Canada. The regional breakdowns used are similar to those used through out the rest of the *Short-term Industry Outlook*—Atlantic Canada, Ontario/Quebec, Manitoba/Saskatchewan and Alberta/B.C.

Please refer to “Appendix 1: Construction of the Competitive Price Index” in this report for a description of the methodology and data sources used to construct the Competitive Price Index. It should be noted that since this is the inaugural issue featuring the Competitive Price Index, further refinement in the development and presentation may be expected in upcoming issues of the *Short-term Industry Outlook*.



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## **Economic Overview**

### **World Outlook**

World economic growth has weakened from the 4 per cent pace set in 2004. This year, world gross domestic product (GDP) is expected to expand by close to 3 per cent, with a similar pace of growth anticipated in 2006. The deceleration in global economic activity is the result of a slowdown in global exports—particularly in the manufacturing sector. High oil prices have cut into global consumer spending, resulting in an increase in inventories. This has forced manufacturers to cut production and employment in order to reduce unwanted stocks.

Less accommodative monetary policies in some countries are also having a negative effect on global economic activity. Central banks from the United Kingdom to Australia have been aggressive in raising interest rates in order to take some of the steam out of their respective housing markets. Short-term interest rates in the United States will continue to increase at a “measured” pace. The central banks in Mexico, Brazil and Chile have been raising interest rates due to the inflationary effects created by high commodity prices. Even Japan, which has run a loose monetary policy for years, has indicated that tighter monetary conditions are ahead.

What will keep the world economy afloat in the face of tighter monetary policy and high oil prices is the ongoing strength of the U.S. and Chinese economies. Despite some slowdown, U.S. economic activity remains on solid ground because of reinvigorated housing and commercial real estate activity. In addition, China’s economy shows few signs of slowing down, despite efforts by government authorities. Exports are soaring and foreign direct investment continues to pour in.

### **North America**

Overall, real GDP growth in North America is expected to slow to 3.4 per cent this year, as economic conditions in the United States, Canada, and Mexico are tempering. Next year, North American economic growth is expected to continue slowing, easing to 3.3 per cent.

Consumer expenditures have been one of the principal drivers of economic growth throughout the North American economy. However, rising interest rates—due to fears of inflation and hot housing markets—are expected to rein in consumer expenditures over the next two years, thereby playing a principal role in the slowdown of the North American economy.

Apart from the slowdown in consumer spending, the economies of Canada, the United States and Mexico each face additional challenges. In Canada, the high value of the Canadian dollar vis-à-vis the U.S. dollar has hurt the country’s export sector and led to a slowdown in overall economic growth. At the same time, the U.S. economy is adjusting to US\$50-plus oil prices as well as higher effective tax rates. Finally, high inflation and high unemployment continue to beleaguer the Mexican economy.

### **South America**

South America’s growth prospects remain fairly upbeat, although real GDP growth will weaken to 4.4 per cent this year. In 2006, growth of 3.8 per cent is anticipated. This year, the slower growth is attributable to weaker economic activity in the region’s largest economies, Brazil, Argentina, Chile and Venezuela. In Brazil, higher inflation has led to an increase in interest rates that has hurt domestic demand. The same holds true for Argentina; however, consumer demand should benefit from income tax cuts earlier this year. Chile’s economy will be hurt by a weakening in world copper prices as well as the

dampening effects of higher interest rates on industrial production. Slower growth in Venezuela's economy is due to an expected deceleration from the 17 per cent gain in 2004. Economic growth in Venezuela is largely tied to the ups and down in world oil prices; therefore with oil prices remaining above US\$50 per barrel, real GDP is still expected to expand by a solid 5.5 per cent in 2005.

## Europe

Many "old" European Union countries—particularly Germany and France—continue to face economic weakness. Part of the reason is that Germany, France and Austria are increasingly concerned that jobs continue to be transferred to newer EU members with lower production costs—jobs they claim are desperately needed at home. Germany and France are expected to record real GDP growth below 2 per cent this year. In fact, German economic growth could easily slide below 1 per cent given the weak state of its domestic economy. Also, both Germany and France continue to suffer from high structural unemployment rates and have been unable to implement the necessary labour market reforms. By contrast, Poland and the Czech Republic have more flexible labour markets (and, consequently, lower labour costs) and are expected to grow in excess of 4 per cent in 2005. Overall, real GDP in Europe is forecast to expand by a paltry 1.8 per cent this year before climbing to 2 per cent in 2006.

## Asia-Pacific

Economic activity in the Asia-Pacific region will slow to 2.8 per cent this year from 4.2 per cent in 2004, in part because China is fading as a key export driver for countries in this region. In fact, now that Chinese manufacturers are starting to produce products previously imported from other countries in the Asia-Pacific, stratospheric export growth for many countries in the region will become a thing of the past. Japan is expected to record export growth of only 3.6 per cent this year, while Korean export growth will slow to 12 per cent from close to 30 per cent in 2004. Moreover, domestic consumption in Korea is only slowly recovering from two years of decline, and deflation is subduing Japan's domestic economy by limiting growth in consumer spending to 0.8 per cent this year. Fortunately China's economy continues to be on track for another year of exceptional performance. China's exports will continue to grow in the 20–30 per cent range in 2005 before being curtailed somewhat in 2006 by the continued revaluation of the currency.

## Exchange Rates

Exchange Rate Comparison—June 2004 to June 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	-	9.5%	10.1%	9.4%	8.8%	-4.4%	4.0%	-0.4%
U.S. dollar	-8.6%	-	0.6%	-0.1%	-0.6%	-12.6%	-5.0%	-9.5%
British pound	-9.2%	-0.6%	-	-0.6%	-1.2%	-13.1%	-5.5%	-10.0%
Euro	-8.6%	0.1%	0.6%	-	-0.5%	-12.6%	-4.9%	-9.4%
Japanese yen	-8.1%	0.6%	1.2%	0.5%	-	-12.1%	-4.4%	-8.9%
Korean won	4.6%	14.5%	15.1%	14.4%	13.8%	-	8.7%	3.6%
Mexican peso	-3.8%	5.3%	5.9%	5.2%	4.6%	-8.0%	-	-4.7%
Australian dollar	0.9%	10.5%	11.1%	14.4%	9.8%	-3.5%	8.7%	-

Source: *The Pacific Exchange Rate Service*

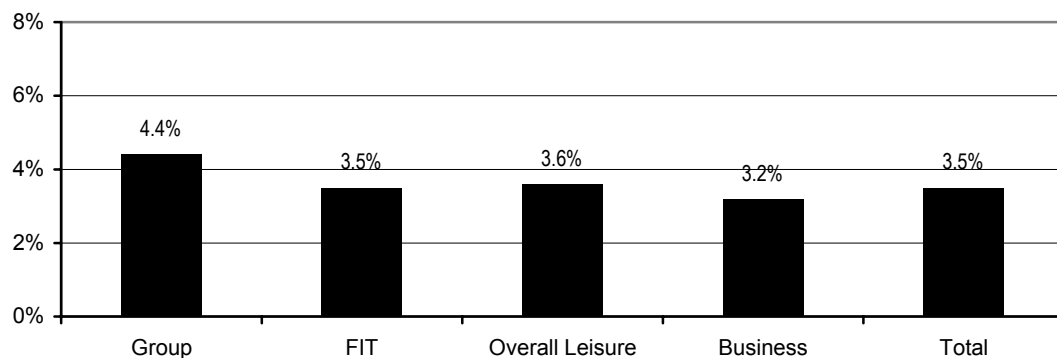
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## Domestic (Canada) Travel Outlook, Q4 2005

### Economic Overview

Led by a surge in consumer spending and continued strength in business investment, the Canadian economy has been outperforming expectations so far this year. But the increase in consumer spending and investment is also providing stimulus to imports, while exports are still contending with the strong value of the Canadian currency. Thus, while domestic demand is expected to advance at a stellar 3.8 per cent clip in 2005, stronger imports (including those of tourism services) and weaker exports will lower growth in real GDP to 2.5 per cent in 2005. Fortunately, stronger wage growth will help boost income over the rest of this year and into 2006. Also, federal (and some provincial) tax relief will help to boost disposable income in the near term. However, higher interest rates next year will hold back domestic demand and growth in consumer spending. Still, the value of the Canadian dollar is expected to stabilize and help the business sector complete its adjustment to the high value. As such, export growth is forecast to rebound and contribute to overall economic growth in 2006.

**Short-term Outlook—Q4 2005**  
**Overnight Domestic Travel**  
(per cent change from previous year, same quarter)



Source: Q4 2005 Business Outlook Survey, Canadian Tourism Research Institute.

### Destination Supplier/Receptive Agent Business Outlook Survey

The business outlook—as indicated by Canadian travel suppliers and receptive agent bookings—suggests 3.5 per cent growth in overall advance bookings for domestic travel in the fourth quarter of 2005, compared with the previous year.

According to *BO Survey* participants, group travel is expected to lead the pace of growth, increasing 4.4 per cent compared with a year earlier. Fully independent travel (FIT) is expected to rise 3.5 per cent. As a result, overall leisure travel is expected to climb 3.6 per cent compared with the same quarter of 2004. Business travel volumes are expected to edge up 3.2 per cent during this period.

Looking at domestic travel by provincial region, survey participants anticipate 4.5 per cent growth in trips to Alberta/British Columbia, and a 3.5 per cent rise in visits to Ontario/Quebec. The Manitoba/Saskatchewan region is expected to receive a 2.8 per cent increase in domestic visitors, and trips to Atlantic Canada will climb 2.5 per cent.



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A number of survey participants commented that the relative strength of the Canadian dollar continued to encourage more outbound travel, at the expense of growth in domestic travel. Some respondents also expressed concerns about the potentially negative consequences of rising energy costs, as consumers are faced with fuel surcharges and higher gasoline prices.

## **Tourism Trends**

A recent survey by Pollara, a Canadian market research firm, suggests that Canadian travellers are less concerned about high gas prices than they were a year ago. In fact, concerns about gas prices dropped from first place in last year's survey, to second place this year, cited by 32 per cent of respondents as a main concern. Personal finances were the top consideration in making travel plans, cited by 46 per cent of those polled.

Canadian businesses appear to be keeping a tight rein on travel expenses, and are still looking for the lowest-priced option when purchasing travel, according to a recent survey on corporate air travel by National Bank Financial and the Association of Corporate Travel Executives (ACTE). Of the organizations polled, the largest group said they had either kept the same level of travel restrictions (40%) or added even further restrictions (23%), despite a rise in profits over the past two years. Furthermore, "lowest fare" was cited as by far the most important criteria for choosing a flight, followed by "convenience of schedule and service." In 2005, Canadian business travel budgets are expected to increase about 2.5 per cent, on average, although many respondents said they expected their budgets to remain the same as in 2004.

Since the demise of low-cost carrier Jetsgo, competitive pressures in Canada's airline industry have eased. This has allowed domestic airfares to rise to more realistic levels, boosting the financial performance of the Canadian airline industry. In fact, a recent study by UBS Securities Canada showed that average domestic airfares rose 42 per cent in the first five months of this year, up from the rock-bottom levels seen in January when Jetsgo initiated an aggressive fare war.

Meanwhile, the outlook for the Canadian hotel industry is relatively optimistic, with average room rates and revenues expected to continue strengthening. Statistics Canada's recent *Business Conditions Survey on the Travel Accommodation Industry* revealed that economic conditions were the main concern among the accommodations suppliers polled (cited by 32%), followed by excess room supply (25%) and shortage of skilled labour (21%). However, almost a third of those polled were quite optimistic about business conditions, indicating they were facing no difficulties at the time.

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

Canadian consumers remain relatively optimistic, according to the latest Consumer Confidence Index by The Conference Board of Canada. The June index held steady at 122.9, up 0.3 points from the previous month. Canadians' views about their current financial situation improved, boosting their appetite for big-ticket purchases such as cars and homes. Looking ahead, however, Canadians were less optimistic about their future household finances. The index showed an increase in the number of respondents expecting their financial situation to deteriorate over the next six months, mainly due to a decline in expectations regarding future job prospects.

### Consumer Confidence (1991=100 Index)

	2005:03	2005:04	2005:05	2005:06
Consumer Confidence Index	124.5	121.1	122.6	122.9

Source: The Conference Board of Canada.

The outlook for Canadian travel remains stable, although growth in outbound travel demand is outshining domestic travel intentions, according to the July 2005 *Travel Intentions Survey* by the Canadian Tourism Research Institute. Of the approximately 2,000 Canadians polled, 44.7 per cent plan to take a winter vacation between November 2005 and April 2006. This represents a decline of 3.3 percentage points from the June 2004 survey, mainly due to the 4 percentage point slide in domestic travel plans. Canadian intentions for travel to the United States and other international destinations remained very close to the levels seen the previous year.

### Winter (November 2005–April 2006) Vacation Intentions (Per cent of Canadians surveyed)

	JULY 2005	JUNE 2004	JUNE 2003
Winter Vacation Intentions (All Destinations)	44.7	48.0	42.0
Canada	16.6	20.6	16.4
United States	10.2	9.6	10.1
Other International	16.9	16.9	14.3
Do Not Know/Refused	1.0	0.9	1.2

Source: The Conference Board of Canada.

The results suggest that travel demand remains steady, despite the decline in domestic travel intentions. A year ago, Canadian tourism was rebounding from the effects of the severe acute respiratory syndrome (SARS) outbreak in 2003. This recovery spurred a large jump in 2004 domestic travel intentions. In the June 2005 survey, winter vacation intentions returned to more stable levels. Meanwhile, overall travel confidence remains solid, bolstered by Canada's economic performance and steady consumer confidence.

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## Summary Outlook for Q4 2005

By and large, travel indicators support a positive outlook for Canada's tourism industry. Travel demand continues to build toward more stable levels, bolstered by Canada's strong economic performance and steady consumer confidence. And although this has benefited domestic travel trends, it continues to fuel outbound travel intentions to an even greater degree.

*BO Survey* participants anticipate domestic travel will grow 3.5 per cent in the fourth quarter of 2005, compared with a year earlier. Leisure travel is expected to rise 3.6 per cent, bolstered by a 4.4 per cent rise in group leisure bookings, while the independent travel (FIT) segment expands by 3.5 per cent. Respondents anticipate a somewhat slower pace of growth for business travel, which is expected to edge up by 3.2 per cent in the fourth quarter of 2005. A number of survey participants noted that they expected the relative strength of the Canadian dollar to continue boosting outbound travel trends this fall. Some respondents also expressed concerns about the potentially negative consequences of rising energy prices, which are not only increasing the cost of travel but also reducing discretionary household income.

However, it appears that, so far, travel demand has managed to withstand the steady rise in travel prices. In fact, the dramatic increase in domestic airfares that followed the demise of Jetsgo appears to have had little impact on the rise of air travel demand within Canada. The hotel industry has also benefited from this trend, which has allowed it to continue gaining ground in average daily rates and overall profitability.

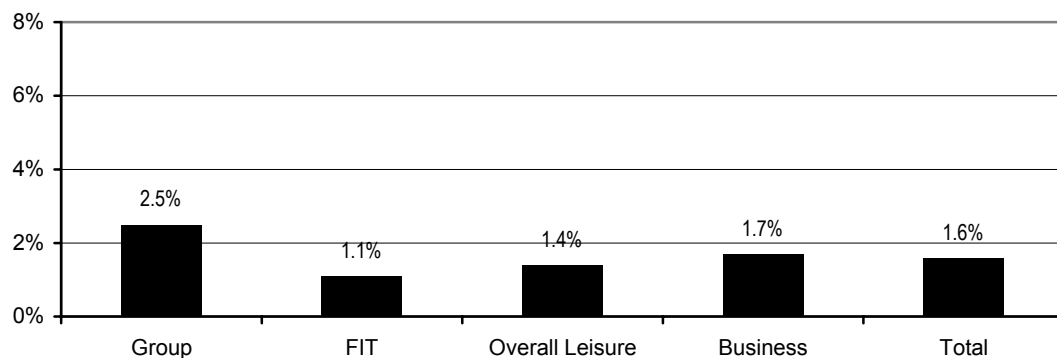
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## U.S. Travel Outlook, Q4 2005

### Economic Overview

A combination of higher energy prices and waning fiscal stimulus has resulted in slower growth in the U.S. economy. Real GDP growth of 3.5 per cent is anticipated this year, down from the 4.4 per cent growth recorded in 2004. Economic growth is expected to ease further next year to 3.2 per cent. The economy is still adjusting to US\$50-plus oil prices and higher effective tax rates. The factors that will enable the economy to adjust to these developments and still maintain growth above the 3 per cent mark include solid growth in consumer spending, strong export demand and double-digit growth in machinery and equipment investment. In fact, thanks to low interest rates, the outlook for consumer spending is much more optimistic, with real growth of 3.7 per cent expected this year, and 3.2 per cent in 2006. Steady gains in employment and real disposable income will also boost consumer spending. However, come 2006, higher interest rates will lead to an overall slowdown in consumer spending and economic growth.

**Short-term Outlook—Q4 2005**  
**Overnight Person-trips From the United States to Canada**  
(per cent change from previous year, same quarter)



Source: Q4 2005 Business Outlook Survey, Canadian Tourism Research Institute.

### Destination Supplier/Receptive Agent Business Outlook Survey

Overall travel from the United States—as indicated by *BO Survey* participants—is expected to expand by a modest 1.6 per cent in the fourth quarter of 2005, compared with a year earlier. Group leisure travel is forecast to rise 2.5 per cent, and continues to lead growth expectations among all travel segments. Overall leisure travel is expected to climb 1.4 per cent, with independent travel (FIT) lagging behind at 1.1 per cent during this period. Meanwhile, U.S. business travel to Canada is expected to increase 1.7 per cent in the fourth quarter of 2005, compared with the previous year.

Looking at regional destinations for U.S. visits during the fourth quarter of 2005, survey participants expected Ontario/Quebec to see the largest growth in American visitors (up 2.2%), followed by Alberta/British Columbia (up 1.8%). U.S. visits to Manitoba/Saskatchewan are expected to increase 1 per cent, while visits to Atlantic Canada will remain nearly on par (up 0.8%) with the fourth quarter of 2004.

Similar to previous surveys, respondents noted that the less favourable exchange rate continued to discourage U.S. travellers from choosing Canadian vacation packages, because of higher product prices.

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## Tourism Trends

Climbing gas prices were not expected to deter summer leisure travel in the United States, according to the Travel Industry Association of America (TIA). The TIA's summer forecast (for June to August) suggests that leisure travel volumes will reach a record high, rising 2.3 per cent above the volumes in the summer of 2004. The TIA noted that while climbing travel costs, including higher gas prices, have not dampened travel volumes, U.S. travellers have been looking for deals and ways to economize on their trips. Rising travel costs are expected to result in a reduction in average spending per trip this summer (down 7%), and cause the average trip duration to drop to seven days from 7.6 days.

A new TIA report on leisure travel planning revealed that price is not always the top factor in U.S. leisure travel decisions. In fact, the study suggests that a leisure traveller will choose the destination first and decide on the trip duration, then establish a budget. This implies that travel destinations and suppliers will have an advantage if they are able to capture a traveller's interest before the price is mentioned. When selecting a leisure travel destination, American travellers are most concerned about feeling safe (cited by 46% of respondents), available activities, and nearby friends or family. However, when choosing accommodations, price was more of an issue, mentioned by almost half of the respondents. Other important influences in hotel decisions were location, comfort and privacy.

Meanwhile, most North American companies have significantly increased their travel budgets this year, according to a recent survey by Runzheimer International. While rising travel costs have played a role in this increase, survey results showed that the primary reason for expanding budgets is increasing business travel volumes. In fact, according to the recently released YPBR *National Business Travel Monitor*, 42 per cent of U.S. business travellers polled said they planned to take more business trips in 2005 than they did last year, while only 24 per cent said they planned to travel less.

However, the YPBR survey noted that value is playing a larger role in travel bookings this year—86 per cent of respondents cited this as an important attribute of a hotel, up from 79 per cent in last year's survey, while the importance of hotel brand dropped significantly (cited by 52%, down from 64% in 2004). Furthermore, in a reversal of the trend seen over the past several years, more respondents reported using travel agents to book their business trips (32%, up from 25% last year). YPBR attributed this to convenience, as well as a "growing suspicion about the integrity of pricing for travel services across the multiple channels of distribution."

Meanwhile, the recovery in the U.S. hotel industry continues to flourish, particularly in the luxury segment, driven by the rebound in business travel demand and strong leisure travel volumes. In fact, PricewaterhouseCoopers (PWC) recently forecast that U.S. lodging demand would rise to record levels this summer, increasing 4.7 per cent over last year and 6.2 per cent over 2000. PWC also upgraded its full-year forecast for 2005, which suggests occupancy for the year will reach 63.4 per cent, the highest annual level since 1997.

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

After increasing by several points in June, The Conference Board, Inc.'s Consumer Confidence Index fell 3 points to 103.2 in July, a relatively stable level. The Present Situation Index slipped 2.3 points to 118.5, and the Expectations Index fell 3.4 points to 90.3, due to consumers' mixed responses regarding ongoing conditions. The Conference Board noted that despite this decline, economic conditions were healthy, with no "storm clouds on the short-term horizon." Even rising fuel prices appeared to be having a minimal impact on consumer confidence.

But while there are no signs of a downturn in the economy, there are also few indications of a short-term pickup. Looking ahead, consumers' short-term outlook was slightly less favourable than in June. Those expecting business conditions to improve declined to 17.6 per cent in July, down from 19.5 per cent in June, while those expecting conditions to worsen edged up to 9.6 per cent, from 9 per cent the previous month. Expectations for employment were mixed, but optimism regarding future income levels declined.

### Consumer Confidence (1985=100 Index)

	2005:04	2005:05	2005:06	2005:07 (P)*
Consumer Confidence Index	97.5	103.1	106.2	103.2
Present Situation	113.8	117.8	120.8	118.5
Expectations	86.7	93.4	96.4	93.0

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

\*preliminary

According to the June 2005 travel intentions survey by The Conference Board Inc., 42.4 per cent of Americans polled said they planned to take a vacation sometime in the next six months, on par with the April and February surveys. However, international travel plans declined to 8.5 per cent of respondents, after increasing to 9 per cent in the April survey.

The survey also indicated that the number of Americans planning to fly to their vacation destination edged up to 20.6 per cent of those planning to take a trip, up from 18.5 a year ago, while plans for auto trips remained steady (22% in 2005 vs. 21.8% in 2004).

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

	DECEMBER 2004	FEBRUARY 2005	APRIL 2005	JUNE 2005 (P)*
Vacation Intended (all destinations)	48.5	42.9	42.3	42.4
U.S.	39.4	36.5	35.2	35.5
Foreign	10.1	8.5	9.0	8.5

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

\* preliminary

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

Seats Available for Travel From the U.S. to Canada (Q4—October to December)

NON-STOP SEATS AVAILABLE	2004 (DIRECT)	2005 EST. (DIRECT)	2005 VS. 2004 CHANGE
to Canada (overall)	3,727,573	3,982,711	6.8%
B.C./Alberta	1,110,973	1,190,750	7.2%
Manitoba/Saskatchewan	113,234	122,595	8.3%
Ontario/Quebec	2,434,141	2,598,737	6.8%
Atlantic Canada	67,341	69,069	2.6%

Source: OAG Worldwide.

The number of seats available (as of July 2005) for direct air travel from the United States to Canada during the fourth quarter of 2005 is expected to rise 6.8 per cent, compared with the same quarter of 2004. Considering the overall growth in travel expected from the United States this fall, air capacity should not significantly constrain travel between the United States and Canada during this period.

## Air Capacity from the U.S. to Competitive Destinations

A comparison of air services from the U.S. travel destinations competing with Canada for the U.S. travel market is an important measurement of Canada's relative performance as a tourism destination. The table below illustrates the level and rate of change in direct air service to domestic destinations within the United States, the main competition for short- and medium-haul U.S. travellers. According to the latest OAG data, air capacity on non-stop domestic routes within the United States is expected to decline only slightly (down 1%) in the fourth quarter of 2005, compared with a year earlier.

Seats Available for Domestic Travel Within the United States (Q4—October to December)

NON-STOP SEATS AVAILABLE	2004 (DIRECT)	2005 EST. (DIRECT)	2005 VS. 2004 CHANGE
U.S. domestic destinations	235,784,522	233,497,018	-1.0%

Source: OAG Worldwide.

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## Competitive Price Index

From the perspective of potential U.S. travellers to Canada, the destinations that are most comparable are those within the United States. For the most part, the U.S. domestic market is Canada's major competitor for weekend getaways and mini-break trips. For this market, the competitive price analysis was based on a typical four-night stay, priced in U.S. dollars. While the resulting price indexes are interesting for Canada (and the various regions of Canada), the primary objective of the competitive price index is to monitor the change in competitive position among the various destinations. In fact, considering the disparity in average airfares, it may not be surprising to find U.S. domestic destinations hold a significant price advantage over Canadian destinations for short-duration trips. The estimated cost of meals (including beverages) was another area where Canada did not fare well, compared with domestic U.S. destinations. However, Canada was found to be very price competitive for hotels and other travel-related items. Overall, the index identified that Alberta/B.C. was the most price-competitive region of Canada for U.S. travellers.

**Competitive Price Index—U.S. Travellers to Canada (US\$, Based on Four-Night Stay)**

COMPETITIVE DESTINATIONS	AIRFARE (ROUND-TRIP)	HOTEL	MEALS	OTHER ITEMS	TOTAL	INDEX (CANADA=100)
Canada	\$930	\$563	\$305	\$281	\$2,079	100.0
Atlantic Canada	\$1,058	\$495	\$283	\$281	\$2,118	101.9
Ontario/Quebec	\$928	\$624	\$304	\$281	\$2,137	102.8
Manitoba/Sask.	\$1,130	\$464	\$275	\$281	\$2,150	103.4
Alberta/B.C.	\$893	\$517	\$325	\$281	\$2,017	97.0
U.S. (domestic)	\$488	\$542	\$188	\$373	\$1,591	76.5

*Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank; International Air Transport Association (IATA); American Express Business Travel Monitor.*

## Summary Outlook for Q4 2005

The recovery of the U.S. travel market is a lingering concern for the Canadian travel industry. Although U.S. travel demand is rebounding to record-high levels—for U.S. domestic and overseas trips in particular—U.S. travel to Canada continues to lag. While the appreciation of the Canadian dollar appears to have now stabilized, many U.S. travellers are finding Canada less price competitive because of higher gas prices (and fuel surcharges). The effect of these price increases as well as heightened concerns about crossing the border puts Canada at a disadvantage compared to other closer-to-home (U.S.) destinations.

*BO Survey* participants expect U.S. travel to Canada to expand by a modest 1.6 per cent in the fourth quarter of 2005, compared with a year earlier. Group leisure travel continues to lead growth expectations among all travel segments during the fall quarter (2.5%), while independent travel (FIT) lags behind (1.1%). As a result, overall leisure travel is expected to climb 1.4 per cent. Survey respondents noted that the less favourable exchange rate continued to discourage U.S. travellers from choosing Canadian vacation packages, because of higher product prices. Meanwhile, U.S. business travel to Canada is expected to increase 1.7 per cent in the fourth quarter of 2005, compared with the previous year.

Unfortunately, a significant turnaround in the U.S. travel market is not expected to occur anytime soon. As the year progresses, the negative impact of higher oil prices is expected to take its toll on the U.S. economy and American consumer confidence. The longer term outlook may even be more precarious, considering the potential dampening effect of the new passport regulations on cross-border travel, if they are implemented as proposed.





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# Mexico Travel Outlook, Q4 2005

## Economic Overview

This year, the Mexican economy is not expected to duplicate the 4.4 per cent growth recorded in 2004. However, the positive effects of high energy prices and solid growth in exports are expected to result in real GDP growth of 3.9 per cent this year. In 2006, growth will weaken slightly to 3.5 per cent. The strength in the external sector of the economy masks, to a certain extent, weakness in the internal sector. The domestic economy has been hampered by the government's failure to implement meaningful reforms, making it difficult to increase employment. In addition, rising interest rates will also hurt Mexican consumer spending this year. The dramatic rise in interest rates has become necessary in order to dampen inflation, which has crept up through high energy prices.

## Tourism Trends

According to the latest quarterly report by the CTC foreign office in Mexico, Mexican tour operators have reported that Canadian destinations have enjoyed the highest growth in product sales this year. In fact, many tour operators indicated that Canada was their "number one" travel destination for the summer season. The overall outlook for Mexican travel is slightly more cautious, due to the uncertainty surrounding the Mexican presidential election next year. However, this uncertainty does not appear to be hurting Mexican travel demand for Canada.

The most significant influence on travel decisions among Mexican travellers is personal recommendations, according to a recent online survey of worldwide consumers by Global Market Insite, Inc., a U.S. market research firm. Of the Mexican consumers polled, 47 per cent cite this as the most significant factor in their choice of travel destination. The Internet came in second (31%), followed by travel agents (26%) and television programs (25%). Newspaper ads seemed to have relatively little influence, cited by only 8 per cent of Mexican respondents. When asked about the barriers travellers faced in taking a vacation, the two most-cited constraints among Mexicans polled were cost (47%) and family commitments (31%).

Yet, despite the relatively important influence of the Internet in Mexican travel decisions, the same survey showed that Mexican travellers were among the least likely to book their travel online, compared with the 18 other countries surveyed. Of the Mexican respondents polled, most (60%) said they booked less than a quarter of their travel online, and a further 14 per cent said they booked less than half online. Only one-fourth said they booked more than half (25%) or all (3%) of their travel over the Internet. Contrary to the high growth in online travel bookings reported by most other countries in the poll, more than two-thirds of Mexican respondents (68%) said their use of the Internet for booking travel had remained unchanged over the last year, while only 15 per cent said it had increased.

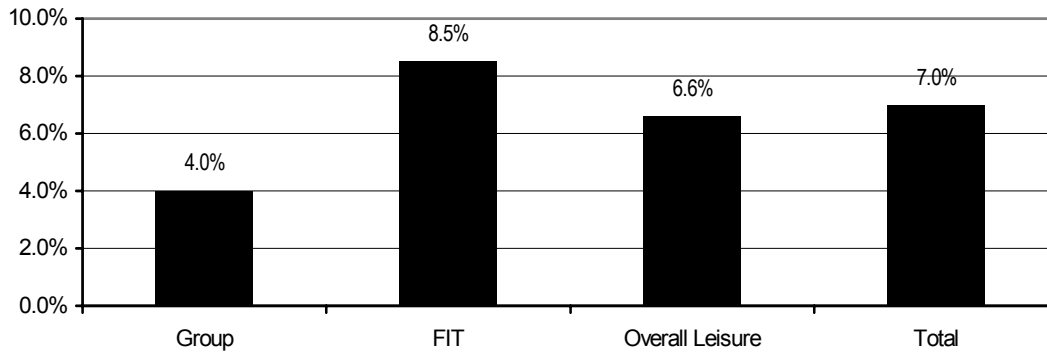
## Market Overview

According to Mexican tour operators surveyed by the CTC, sales of Canadian products for the fourth quarter of 2005 are expected to increase by an average of about 25 per cent over the same quarter of 2004. Respondents were mixed regarding the sufficiency of direct air capacity from Mexico to Canada during this period. They were also mixed about the effect of the exchange rate on trip sales.

Tour operators noted that packages for individuals, couples and groups were all selling well for the fourth quarter of 2005. To date, most bookings have been for destinations in Ontario (48% of all sales to Canada), Quebec (37%) and B.C. (27%). Alberta and B.C. were both mentioned as destinations with further potential for the Mexican travel market.

## Destination Supplier/Receptive Agent Business Outlook Survey

**Short-term Outlook—Q4 2005**  
**Overnight Person-trips From Mexico to Canada**  
 (per cent change from previous year, same quarter)



*Source: Q4 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 fourth quarter of 2005 is expected to expand by 7 per cent, compared with the previous year. Independent leisure travel (FIT) is expected to jump 8.5 per cent, bolstering the anticipated 6.6 per cent growth in overall leisure travel. Meanwhile, group leisure travel is expected to rise 4 per cent.

### Mexico-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Mexico is expected to expand 17.6 per cent during the fourth 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 (Q4—October to December)**

NON-STOP SEATS AVAILABLE	2004 EST. (DIRECT)	2005 EST. (DIRECT)	2005 VS. 2004 CHANGE
Canada (overall)	85,348	100,380	17.6%
B.C./Alberta	25,762	25,816	0.2%
Saskatchewan/Manitoba	280	420	50.0%
Ontario/Quebec	59,306	74,144	25.0%

*Source: OAG Worldwide.*

## Air Capacity from Mexico to Competitive Destinations

A comparison of air services from Mexico to travel destinations competing with Canada for the Mexican market is an important measurement of Canada's relative performance as an international tourism destination. The table below illustrates the level and rate of change in direct air service to competing long-haul travel destinations for the upcoming travel season.

### Seats Available for Travel From Mexico to Other International Destinations (Q4—October to December)

NON-STOP SEATS AVAILABLE FROM MEXICO	2004 (DIRECT)	2005 EST. (DIRECT)	2005 VS. 2004 CHANGE
to the United States	2,940,029	3,260,967	10.9%
to Spain	95,478	114,263	19.7%

Source: OAG Worldwide.

Similar to the expansions in seat capacity expected for routes between Mexico and Canada in the fourth quarter, direct air capacity to other competitive tourism destinations is also expected to rise significantly during that period. Direct air capacity between Mexico and the United States is expected to jump 10.9 per cent over the previous year, while capacity between Mexico and Spain will surge by 19.7 per cent.

## Competitive Price Index

From the perspective of potential Mexican travellers to Canada, the destinations that are most comparable are the United States and Spain. For this market, the competitive price analysis was based on a typical seven-night stay, priced in Mexican pesos. While future issues of the *Short-term Industry Outlook* will report on the change in competitive position among the various destinations, this issue establishes a few benchmarks. Perhaps not surprisingly, the United States was found to hold a fair price advantage compared to Canadian destinations for medium-duration trips (seven nights). On the other hand, Canada was found to be more price competitive for this type of trip than Spain. Here the index identified that Manitoba/Saskatchewan was the most price-competitive region of Canada for Mexican travellers.

### Competitive Price Index—Mexican Travellers to Canada (Mexican Pesos, Based on Seven-Night Stay)

COMPETITIVE DESTINATIONS	AIRFARE (ROUND-TRIP)	HOTEL	MEALS	OTHER ITEMS	TOTAL	INDEX (CANADA=100)
Canada	\$6,092	\$10,446	\$5,657	\$5,212	\$27,407	100.0
Atlantic	\$7,638	\$9,185	\$5,255	\$5,212	\$27,280	99.6
Ontario/Quebec	\$5,827	\$11,569	\$5,636	\$5,212	\$28,244	103.1
Manitoba/Sask.	\$7,342	\$8,602	\$5,106	\$5,212	\$26,263	95.8
Alberta/B.C.	\$5,615	\$9,588	\$6,028	\$5,212	\$26,443	96.5
US	\$3,401	\$10,054	\$3,485	\$6,918	\$23,858	87.0
Spain	\$8,412	\$13,264	\$6,695	\$4,333	\$32,704	119.3

Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank (purchasing power parity); Expedia; SideStep.

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## **Summary Outlook for Q4 2005**

Overall, *BO Survey* participants expect travel from Mexico to grow 7 per cent during the fourth quarter of 2005, compared with the same quarter of 2004. Leisure travel is expected to jump 6.6 per cent, boosted by a 8.5 per cent increase in independent (FIT) trips, while group travel climbs 4 per cent. According to Mexican tour operators surveyed by the CTC, travel demand for Canadian destinations remains high. In fact, many tour operators indicated that Canada was their “number one” travel destination for the summer season. Looking ahead, however, the overall outlook for Mexican outbound travel is slightly more cautious, due to an expected slowdown in the Mexican economy and uncertainties surrounding next year’s presidential election.

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# U.K. Travel Outlook, Q4 2005

## Economic Overview

Economic growth in the U.K. is slowing as the country manages to bring its red-hot housing market under control. This year, the Bank of England is set to end the string of interest rate increases that has seen short-term rates increase from below 4 per cent in 2002 to close to 5 per cent by the end of last year. As a consequence, house prices have been declining, but so too have retail sales and industrial activity. Real GDP growth is expected to ease from 3.1 per cent last year to 2.5 per cent in 2005. A positive indicator for travel demand is the U.K.'s low unemployment rate, which is expected to remain below 3 per cent in the near term.

## Tourism Trends

The terrorist bombings that struck London's transit system on July 7, 2005, were a terrible tragedy that once again made clear the ongoing vulnerability of the international tourism industry. The World Travel & Tourism Council (WTTC) released a crisis report suggesting that travel confidence would largely withstand the impact of the tragic event. However, the WTTC expects the effects of the attack to soften travel demand by 2.3 per cent for both U.K. leisure and business travel this year.

Even before this event, there were indications that the economic slowdown in the U.K. was hurting travel demand. A June poll of 300 U.K. travel agents and industry members by Amadeus revealed that 60 per cent of respondents believed travel demand would weaken as the year progressed, while 35 per cent believed business travel would decline. The vast majority of respondents (79%) believed that consumers saw travel as a flexible purchase, depending on financial circumstances, while 15 per cent thought consumers viewed travel as a necessity.

Meanwhile, the latest quarterly report from the CTC foreign office in the U.K. noted that British holidaymakers are becoming more adventurous: a recent survey by Halifax Travel Insurance revealed that 89 per cent of British travellers polled said they like to visit a new country every time they leave the U.K. However, France is still the most popular holiday destination, visited by 83 per cent of respondents, followed by Spain, the United States, Italy and Greece. Canada appeared in the top-20 most visited countries. The survey results showed that youth aged 18 to 20 were the most frequent travellers and were more likely to visit North America and Asia than any other age group.

The 2005 *Ski Industry Report* by Crystal Holidays revealed that Canada and the United States each continue to grow their share of the U.K. ski market. In the 2004/05 season, Canadian and U.S. destinations received 6 per cent of U.K. ski trips, up from 5.8 per cent the previous year. Overall, the U.K. ski market expanded by 3.8 per cent in 2004/05. Independent ski trips rose by 5.1 per cent, while package ski vacations climbed 4.3 per cent.

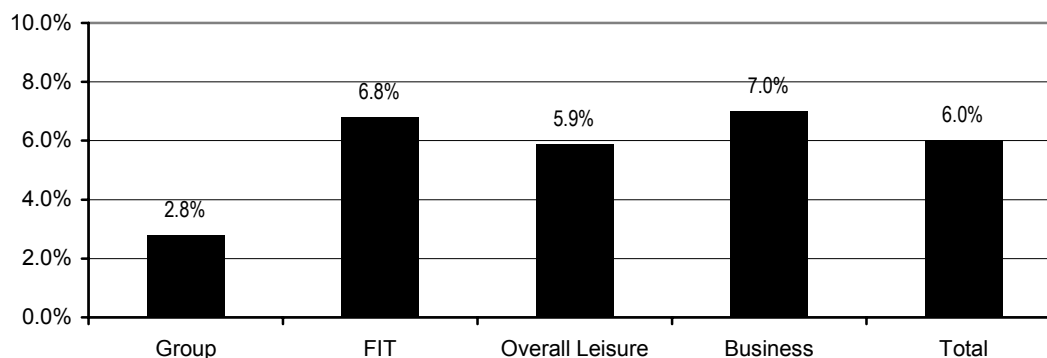
## Market Overview

According to British tour operators surveyed by the CTC, sales of Canadian products for the fourth quarter of 2005 are expected to rise by an average of about 10 per cent, compared with the previous year. Generally, air capacity from the U.K. to Canada did not appear to be an issue for Canadian bookings during this period. However, responses were mixed regarding the negative impact of the exchange rate on trip sales.

Tour operators noted that trips for individuals travelling as part of a package were selling well for the fourth quarter of 2005. B.C. is expected to receive the majority of British visitors during this period, followed by Ontario, Alberta and Quebec, respectively. Finally, cities/resorts continued to be the top selling product type among respondents, followed by winter packages and culture/history.

## Destination Supplier/Receptive Agent Business Outlook Survey

### Short-term Outlook—Q4 2005 Overnight Person-trips From the U.K. to Canada (per cent change from previous year, same quarter)



Source: Q4 2005 Business Outlook Survey, Canadian Tourism Research Institute.

The outlook for overall travel from the U.K.—as indicated by *BO Survey* participants—is for growth of 6 per cent in the fourth quarter of 2005 compared with the previous year. Leisure travel is expected to rise 5.9 per cent, boosted by a 6.8 per cent jump in independent travel (FIT), while group leisure travel continues to lag behind at 2.8 per cent. Meanwhile, U.K. business travel to Canada is expected to outperform leisure travel in the fourth quarter of 2005, expanding by 7 per cent compared with a year earlier.

Breaking down growth expectations by Canadian regions, respondents anticipate that U.K. travel to Ontario/Quebec will expand by 7.3 per cent during the fourth quarter of 2005, and visits to Alberta/B.C. will rise by 6.2 per cent.

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

The number of direct seats available (as of July 2005) from the U.K. to Canada during the fourth quarter of 2005 is expected to surge by 18.5 per cent compared with a year earlier. It appears there will be enough air capacity to accommodate the anticipated growth in U.K. visits to Canada during the period.

### Seats Available for Direct Travel From the U.K. to Canada (Q4—October to December)

NON-STOP SEATS AVAILABLE	2004 (DIRECT)	2005 EST. (DIRECT)	2005 VS. 2004 CHANGE
Canada (overall)	389,692	461,783	18.5%
B.C./Alberta	105,552	133,511	26.5%
Manitoba/Saskatchewan	0	536	n/a
Ontario/Quebec	264,076	300,324	13.7%
Atlantic Canada	20,064	27,412	36.6%

Source: OAG Worldwide.

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## Air Capacity from the U.K. to Competitive Destinations

A comparison of air services from the U.K. to travel destinations competing with Canada for the British travel market is an important measurement of Canada's relative performance as an international tourism destination. Below is a table illustrating the growth or decline of air service to competing long-haul travel destinations for the upcoming travel season.

### Seats Available for Travel From the U.K. to Other International Destinations (Q4—October to December)

NON-STOP SEATS AVAILABLE FROM THE U.K.	2004 (DIRECT)	2005 EST. (DIRECT)	2005 VS. 2004 CHANGE
to the United States	2,780,558	2,924,812	5.2%
to China	74,842	94,624	26.4%
to South Africa	275,459	289,173	5.0%
to Kenya/Nigeria/Ghana	205,515	236,366	15.0%
to Brazil	58,540	63,112	7.8%
to Mexico	20,374	25,403	24.7%

Source: OAG Worldwide.

Direct air capacity from the U.K. to other tourism destinations competing for British long-haul travellers is also expected to expand during the fourth quarter of 2005, compared with a year earlier. The largest expansion in air access is expected on routes from the U.K. to China (26.4%) and Mexico (24.7%). Solid growth is also expected on routes to other competitive destinations—specifically the United States, sub-Saharan Africa (South Africa, Kenya, Nigeria and Ghana) and Brazil.

## Competitive Price Index

From the perspective of potential U.K. travellers to Canada, the strongest competing destinations the United States, China, South Africa, sub-Saharan Africa (specifically Kenya, Nigeria and Ghana) and Latin America (specifically Brazil and Mexico). For this market, the competitive price analysis was based on a typical seven-night stay, priced in British pounds. While future issues of the *Short-term Industry Outlook* will report on the change in competitive position among these various destinations, this issue establishes some pricing benchmarks. Although Canada was found overall to be the least price competitive among this group of destinations, the disparity was generally not that large. Despite the high airfare, the most price-competitive destination for U.K. travellers was found to be South Africa. Meanwhile, Atlantic Canada was found to be strongest price-competitive region of Canada for U.K. travellers.



### Competitive Price Index—U.K. Travellers to Canada (British Pounds, Based on Seven-Night Stay)

COMPETITIVE DESTINATIONS	AIRFARE (ROUND-TRIP)	HOTEL	MEALS	OTHER ITEMS	TOTAL	INDEX (CANADA=100)
Canada	£446	£554	£300	£277	£1,578	100.0
Atlantic	£408	£487	£279	£277	£1,451	92.0
Ontario/Quebec	£350	£614	£299	£277	£1,540	97.6
Manitoba/Sask.	£612	£457	£271	£277	£1,616	102.4
Alberta/B.C.	£573	£509	£320	£277	£1,679	106.4
United States	£313	£534	£185	£367	£1,398	88.6
China	£321	£611	£357	£79	£1,368	86.7
South Africa	£574	£476	£207	£62	£1,319	83.6
Sub-Saharan Africa (Kenya, Nigeria, Ghana)	£414	£599	£272	£129	£1,415	89.7
Latin America (Brazil and Mexico)	£446	£554	£300	£277	£1,578	93.9

Sources: *The Conference Board of Canada*; *U.S. General Services Administration*; *World Bank* (purchasing power parity estimates); *Expedia*; *SideStep*.

## Summary Outlook for Q4 2005

The terrorist bombings that struck London's transit system on July 7, 2005, were a terrible tragedy that once again made clear the ongoing vulnerability of the tourism industry. A crisis report by the World Travel & Tourism Council (WTTC) suggested that travel confidence would largely withstand the impact of the tragic event, although the effects of the attacks were expected to soften travel demand by 2.3 per cent for both U.K. leisure and business travel this year. Even before this event, there were indications that the economic slowdown in the U.K. was dampening travel demand.

Nevertheless, *BO Survey* participants expect overall travel from the U.K. to expand by a solid 6 per cent in the fourth quarter of 2005, compared with the same quarter of 2004. Overall leisure travel is expected to rise 5.9 per cent, boosted by a 6.8 per cent expansion in independent travel (FIT), while the group leisure segment continues to lag behind (2.8%). Meanwhile, U.K. business travel to Canada is expected to outperform leisure travel in the fourth quarter of 2005, expanding 7 per cent compared with a year earlier.

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# France Travel Outlook, Q4 2005

## Economic Overview

The French government appears to be using the recent defeat of the EU constitution to backtrack on its reform agenda. The Prime Minister announced that his government was postponing promised income tax cuts and would, instead, pour more money into public sector job creation. Economists have been urging the government to strengthen the private sector by providing some overdue and long-planned tax relief. The additional spending on job creation programs, civil service pay increases and the extension of fuel subsidies for farmers are only short-term fixes—particularly since the spending has led to a renewed focus on France’s public finances and will likely come at the expense of slower economic growth down the road. The budget deficit is expected to surpass the EU’s GDP guidelines of 3 per cent this year, reaching close to 53 billion euros. In the meantime, real GDP is forecast to increase by 1.9 per cent this year and 2.1 per cent in 2006. The unemployment rate will remain largely unchanged and hover around the 10 per cent mark over the short term.

## Travel Trends

The CTC foreign office in France reported that French tour operators have experienced solid bookings for the summer season. The United States and a number of Asian destinations have seen significant growth in bookings, compared with last year. The report also noted that despite the increasing trend of short holidays spread throughout the year, French travellers still prioritize large holidays and will generally budget at least 250 euros (CDN\$370) per family member for these types of vacations.

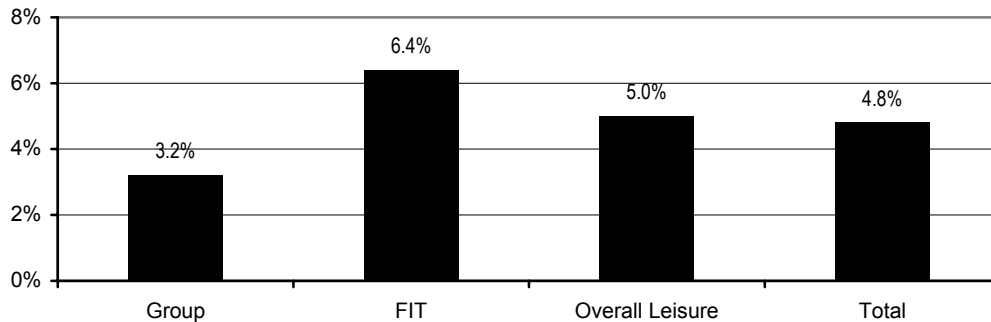
In fact, a recent Vacation Deprivation Survey by Expedia.com and Harris Interactive proclaimed France the “vacation champion” when it comes to average paid vacation days. According to the survey results, French adult workers receive an average of 39 days of paid vacation leave per year, well above the other countries included in the international study. Almost half (45%) of the 2,200 French adults polled said they take at least one three-to-four-week vacation per year. Germany came in second, averaging 25 vacation days per year.

However, when flying for business, it appears that French corporate travellers are the least interested in loyalty programs. According to the latest American Express Business Travel Survey, French travellers have the lowest rate of participation in frequent flyer programs of the 10 countries surveyed. Of the French business travellers polled, only 44 per cent said they participated in a frequent flyer program—only half of the percentage of U.S. respondents (83%). When it comes to flight amenities, food service was rated the most important feature among French, British and German travellers, as opposed to flat-bed seats, which were the most important amenity among respondents overall.

The French travel trade is very concerned about Air France eliminating its agency commission structure and replacing it with a fixed booking fee, according to Tourism Australia’s latest market report for France. There are fears that a substantial number of agencies that focus on air ticket distribution will go out of business as a result.

## Destination Supplier/Receptive Agent Business Outlook Survey

### Short-term Outlook—Q4 2005 Overnight Person-trips From France to Canada (per cent change from previous year, same quarter)



Source: Q4 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 fourth quarter of 2005—as indicated by *BO Survey* participants—is for growth of 4.8 per cent compared with the same period last year. Growth in independent travel (FIT) is expected to continue outpacing growth in group travel bookings (6.4% vs. 3.2%) during the period. Consequently, survey participants anticipate overall leisure travel will expand by 5 per cent in the fourth quarter of 2005, compared with a year earlier.

## France-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from France to Canada in the fourth quarter of 2005 is expected to jump 13.8 per cent compared with a year earlier. Fortunately, air capacity should not constrain growth of French travel to Canada during this period.

### Seats Available for Direct Travel From France to Canada (Q4—October to December)

NON-STOP SEATS AVAILABLE	2004 (DIRECT)	2005 EST. (DIRECT)	2005 VS. 2004 CHANGE
Canada (overall)	153,258	174,436	13.8%
Ontario/Quebec	153,258	174,436	13.8%

Source: OAG Worldwide.

## Air Capacity from France to Competitive Destinations

A comparison of air services from France to travel destinations competing with Canada for the French travel market is an important measurement of Canada's relative performance as an international tourism destination. Below is a table illustrating the growth or decline of air service to competing long-haul travel destinations for the upcoming travel season.

**Seats Available for Travel From France to Other International Destinations (Q4—October to December)**

NON-STOP SEATS AVAILABLE FROM FRANCE	2004 (DIRECT)	2005 EST. (DIRECT)	2005 vs. 2004 CHANGE
to the United States	894,013	937,207	4.8%
to Brazil	122,230	132,689	8.6%
to China	153,603	155,842	1.5%
to Nigeria/Ghana/Senegal	78,485	87,852	11.9%

Source: OAG Worldwide.

Seat capacity from France to other tourism destinations competing for French long-haul travellers is expected to increase during the fourth quarter of 2005, compared with the previous year. The largest increases in direct air access are expected for routes to Brazil, as well as to several popular destinations in sub-Saharan Africa (Nigeria, Ghana and Senegal).

**Competitive Price Index**

From the perspective of potential French travellers to Canada, the strongest competing destinations are the United States, China, sub-Saharan Africa (specifically Nigeria, Ghana and Senegal) and Latin America (specifically Brazil). For this market, the competitive price analysis was based on a typical seven-night stay, priced in euros. While future issues of the *Short-term Industry Outlook* will report on the change in competitive position among these various destinations, this issue establishes some pricing benchmarks. Aside from sub-Saharan Africa, Canada was found to be second-least price-competitive destination among this group. Once again, the disparity was generally not that large. In fact, had it not been for the low derived spending on “other items” in many competing destinations (due primarily to their low purchasing power parity estimates), Canada would have fared much better overall. Within Canada, Ontario/Quebec was found to be the strongest price-competitive region of Canada for French travellers.

**Competitive Price Index—French Travellers to Canada (Euros, Based on Seven-Night Stay)**

COMPETITIVE DESTINATIONS	AIRFARE (ROUND-TRIP)	HOTEL	MEALS	OTHER ITEMS	TOTAL	INDEX (CANADA=100)
Canada	€ 490	€ 800	€ 433	€ 399	€ 2,123	100.0
Atlantic	€ 585	€ 704	€ 403	€ 399	€ 2,091	98.5
Ontario/Quebec	€ 341	€ 886	€ 432	€ 399	€ 2,058	96.9
Manitoba/Sask.	€ 621	€ 659	€ 391	€ 399	€ 2,070	97.5
Alberta/B.C.	€ 666	€ 735	€ 462	€ 399	€ 2,261	106.5
United States	€ 386	€ 770	€ 267	€ 530	€ 1,954	92.0
China	€ 605	€ 882	€ 515	€ 114	€ 2,117	99.7
Sub-Saharan Africa (Nigeria, Ghana, Senegal)	€ 971	€ 829	€ 385	€ 128	€ 2,313	108.9
Latin America (Brazil)	€ 574	€ 790	€ 318	€ 83	€ 1,764	83.1

Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank (purchasing power parity estimates); Expedia; Sidestep.

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## **Summary Outlook for Q4 2005**

*BO Survey* participants anticipate French visits to Canada will rise 4.8 per cent in the fourth quarter of 2005, bolstered by a 6.4 per cent jump in independent travel (FIT). Meanwhile, group leisure travel is expected to expand at a much more modest pace (3.2%), resulting in a 5 per cent increase in overall leisure travel during the fall travel period.

The CTC's foreign office in France reported that outbound travel has been quite positive this summer, bolstered by the relative strength of the euro. Solid travel demand, combined with ample direct air capacity between France and Canada, supports a positive outlook for the French travel market this fall. However, prospects for the French economy remain cautious, as the government struggles to overcome the country's high unemployment rate.

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# Germany Travel Outlook, Q4 2005

## Economic Overview

What little growth there will be in the German economy this year (0.8 per cent) will have to come from the external sector, given the weak state of domestic demand in the country. The jobless rate remains above 11 per cent, with little relief in sight for the rest of 2005 and into 2006. The lack of job creation and worries about job losses have made households in Germany reluctant to spend. As a result, real consumption is expected to increase by less than 1 per cent this year. Next year will bring about a slight improvement in Germany's economic fortune, as real GDP growth of 1.4 per cent is anticipated. A cut in federal corporate taxes is expected to boost industrial production, although this higher growth is not expected to put much of a dent into the unemployment rate. Recently introduced labour market reforms, which are essential for the long-term health of the German economy, may actually lead to higher unemployment over the near term.

## Tourism Trends

The CTC's foreign office in Germany reported that German travel agencies are seeing solid growth in overall summer bookings, with sales up by about 7 per cent compared with last year. North American and Caribbean destinations have been quite popular, and it appears that growth in bookings for Canada will surpass the growth rate for U.S. bookings, particularly for Western Canadian destinations. The strength of the euro has fuelled demand for long-haul travel, especially for destinations that use the U.S. currency. Generally, trends in travel preferences remain on the same track. The rising popularity of Internet bookings continues to propel growth in low-cost air travel and dynamic packaging.

According to a recent survey by travel journal *FVW*, German tour operators are quite optimistic about sales of North American trips this year, with "high single-digit" growth expected. Dertour, noted as the leader of this market, said its North American products were selling well, particularly for Canadian destinations. Bus tours and "fly-drive" vacations were cited as being especially popular. Tour operators also reported that sufficient air capacity to North American destinations was keeping air ticket prices at "acceptable levels," although security charges and airport taxes were a concern.

In the first half of 2005 (January to June), Frankfurt Airport served 24.8 million passengers, a 1.9 per cent increase over the first half of 2004. The airport reported that intercontinental routes continued to see "over-proportional" growth in traffic, with a brisk rise in passengers to Canada, South Africa and the Middle East. The airport recently forecast a 3 per cent increase in overall passenger numbers this year.

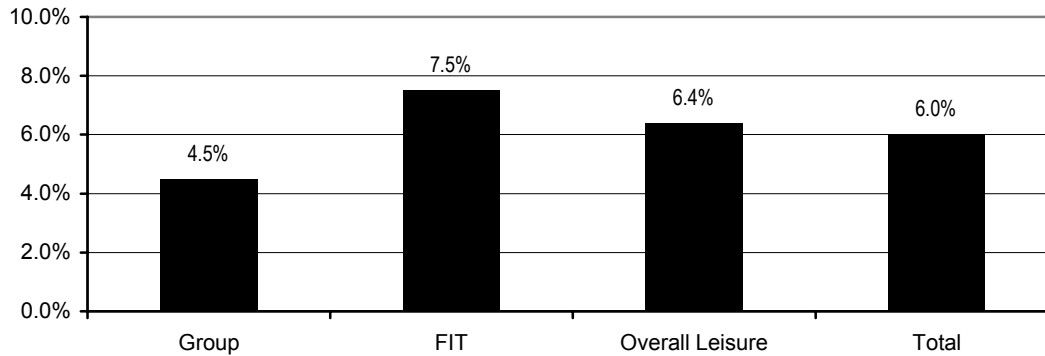
## Market Overview

German tour operators surveyed by the CTC expect their sales of Canadian products for the fourth quarter of 2005 to reach double-digit growth, with some anticipating increases of up to 50 per cent compared with a year earlier. Air capacity and the exchange rate continue to have little effect on the sales of Canadian trips during this period.

Respondents noted that individual and couples bookings for independent travel and package vacations all continued to sell very well. For the fall travel period, B.C./Alberta continued to be the most popular regional destination, followed by Ontario/Quebec, while the Yukon continues to grow in popularity. The Atlantic Coast, Manitoba and Saskatchewan were also mentioned as regions offering potential for the German market. The most popular types of products for this period appeared to be nature trips, touring, and cities/resorts.

## Destination Supplier/Receptive Agent Business Outlook Survey

### Short-term Outlook—Q4 2005 Overnight Person-trips From Germany to Canada (per cent change from previous year, same quarter)



Source: Q4 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 fourth quarter of 2005 is expected to increase 6 per cent compared with the same quarter of 2004. The FIT segment continues to lead growth expectations: survey respondents anticipate this segment will expand by 7.5 per cent, boosting growth in overall leisure travel to 6.4 per cent during the period. Meanwhile, group leisure travel continues to lag behind (4.5%).

Breaking down growth expectations by Canadian regions, respondents anticipate German travel to Alberta/B.C. will expand by 7.5 per cent during the fourth quarter of 2005, while visits to Ontario/Quebec will rise by 5 per cent.

## Germany-to-Canada Air Capacity, OAG Worldwide

According to the latest data from OAG, direct air capacity from Germany is expected to grow 4.3 per cent in the fourth quarter of 2005, compared with the same quarter a year earlier. Considering the growth in German visits to Canada expected during the quarter, insufficient direct air capacity could potentially be an issue, although so far this does not seem to be the case.

### Seats Available for Direct Travel From Germany to Canada (Q4—October to December)

NON-STOP SEATS AVAILABLE	2004 (DIRECT)	2005 EST. (DIRECT)	2005 VS. 2004 CHANGE
Canada (overall)	164,152	171,151	4.3%
Alberta/B.C.	52,383	55,632	6.2%
Ontario/Quebec	109,620	114,076	4.1%
Atlantic Canada	2,149	1,443	-32.9%

Source: OAG Worldwide.

## Air Capacity from Germany to Competitive Destinations

A comparison of air services from Germany to travel destinations competing with Canada for the German travel market is an important measurement of Canada's relative performance as an international tourism destination. Below is a table illustrating the growth or decline of air service to competing long-haul travel destinations for the upcoming travel season.

### Seats Available for Travel From Germany to Other International Destinations (Q4—October to December)

NON-STOP SEATS AVAILABLE FROM GERMANY	2004 (DIRECT)	2005 EST. (DIRECT)	2005 VS. 2004 CHANGE
to the United States	1,171,031	1,290,035	10.2%
to South Africa	106,759	128,164	20.0%
to Brazil	84,824	111,073	30.9%
to Mexico	69,538	57,213	-17.7%
to China	179,978	217,277	20.7%

Source: OAG Worldwide.

Seat capacity from Germany to other international tourism destinations is expected to grow substantially during the fourth quarter of 2005, compared with the previous year. In fact, double-digit increases are expected on routes between Germany and the United States, South Africa, Brazil and China. The only competitive destination that is expected to see a decline in direct air services from Germany is Mexico, which as of July 2005 had 17.7 per cent fewer seats scheduled for the fourth quarter of 2005, compared with a year earlier.

## Competitive Price Index

From the perspective of potential German travellers to Canada, the strongest competing destinations are the United States, China, South Africa and Latin America (specifically Brazil and Mexico). For this market, the competitive price analysis was based on a typical seven-night stay, priced in euros. While future issues of the *Short-term Industry Outlook* will report on the change in competitive position among these various destinations, this issue establishes some pricing benchmarks. Although Canada was found to be least price-competitive destination among this group, the disparity was quite slim. Within Canada, Manitoba/Saskatchewan was found to be the strongest price-competitive region of Canada for German travellers.

### Competitive Price Index—German Travellers to Canada (Euros, Based on Seven-Night Stay)

COMPETITIVE DESTINATIONS	AIRFARE (ROUND-TRIP)	HOTEL	MEALS	OTHER ITEMS	TOTAL	INDEX (CANADA=100)
Canada	€ 568	€ 800	€ 433	€ 399	€ 2,201	100.0
Atlantic	€ 627	€ 704	€ 403	€ 399	€ 2,133	96.9
Ontario/Quebec	€ 495	€ 886	€ 432	€ 399	€ 2,212	100.5
Manitoba/Sask.	€ 610	€ 659	€ 391	€ 399	€ 2,060	93.6
Alberta/B.C.	€ 655	€ 735	€ 462	€ 399	€ 2,251	102.2
United States	€ 459	€ 770	€ 267	€ 530	€ 2,027	92.1
China	€ 517	€ 882	€ 515	€ 114	€ 2,028	92.1
South Africa	€ 927	€ 687	€ 299	€ 89	€ 2,002	91.0
Latin America (Brazil and Mexico)	€ 730	€ 804	€ 347	€ 252	€ 2,133	96.9

Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank (purchasing power parity estimates); Expedia; SideStep.



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## **Summary Outlook for Q4 2005**

By all accounts, it appears German demand for travel to Canada continues to increase. Fortunately, Germany's weak domestic economy has done little to dampen German enthusiasm for leisure travel. In fact, the relative strength of the euro has fuelled demand for long-haul travel, in particular for North American destinations. Bus tours and fly-drive vacations have been especially popular, according to *FVW*, a German travel journal. Tour operators reported that ample air capacity to North American destinations was keeping air ticket prices at "acceptable levels," although security charges and airport taxes were a concern.

*BO Survey* participants anticipate German visits to Canada will increase 6 per cent, overall, in the fourth quarter of 2005. Leisure travel is expected to jump 6.4 per cent compared with a year earlier. The FIT segment is expected to maintain the strongest pace of growth, rising 7.5 per cent during this period, while growth in group leisure travel is somewhat more restrained (4.5%).

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# Japan Travel Outlook, Q4 2005

## Economic Overview

Japan's economy is slowing, due to the effects of China's expanding production of industrial-use goods. In fact, Japan's export growth to China slowed to a moderate 5.3 per cent in the first quarter of this year compared with a 24 per cent increase in the first half of 2004 and 18 per cent in the second half of last year. With export growth waning, the economy will have to depend on consumers to pick up the slack. In this respect, the outlook is much less optimistic, since real consumer spending is expected to increase by only 0.8 per cent this year. Deflation—and the resulting drop in consumer prices—is expected to continue weighing on consumer spending, as more consumers hold off on purchases while they wait for prices to decline. In addition, the unemployment rate will remain above 4 per cent over the near term, a high level by historical Japanese standards. Overall real GDP is expected to expand by only 1 per cent in 2005, and then rebound to 1.7 per cent in 2006.

## Tourism Trends

The CTC foreign office in Japan reported that travel demand for long-haul destinations has been high, especially for European and Canadian destinations. Travel demand for China, usually a popular trip destination, has diminished considerably because of lingering anti-Japanese sentiment in China over a recent conflict regarding the two countries' shared history.

Japan's largest travel agency, JTB Corp., recently released its summer forecast (for July 15 to Aug. 31, 2005), indicating it expected a minimal rise in Japanese outbound travel (up 0.4%) compared with last year's volumes. An anticipated 20 per cent drop in bookings to China is the main reason for the minimal growth. Japanese overseas travellers are expected to spend an average of 212,200 yen (CDN\$2300) per trip on transportation and accommodation, a 1.6 per cent increase over last summer. Japanese domestic travel for the same period is expected to increase 1.3 per cent.

A growing Japanese travel trend is vacation packages that involve unusual experiences, aimed at the growing number of Japanese travellers who are bored of conventional overseas tours, according to an article in *Nikkei Weekly*. For example, JTB Corp. is offering a package tour that allows clients to practice baseball with major league players at a training camp in Florida. Other popular packages include Jalpak's French cooking courses (targeting Japanese women over 30) and Kinki Nippon Tourist's ranch vacations in New Zealand.

A recent story in *The Japan Times* suggests that the approaching retirement of Japanese baby boomers is a worry for some companies, because of anticipated labour shortages, but an exciting prospect for others that cater to this important consumer segment. Travel providers are now beginning to plan how they will target this market—which is expected to have ample time and money for travel—by developing vacation packages that suit the particular needs of this group. For example, East Japan Railway Company believes baby boomers are looking for intellectually stimulating trips, such as sketching excursions with lessons. Cruise operators are conducting test cruises that include cabaret shows and nightclub dancing with music from the baby-boom generation.

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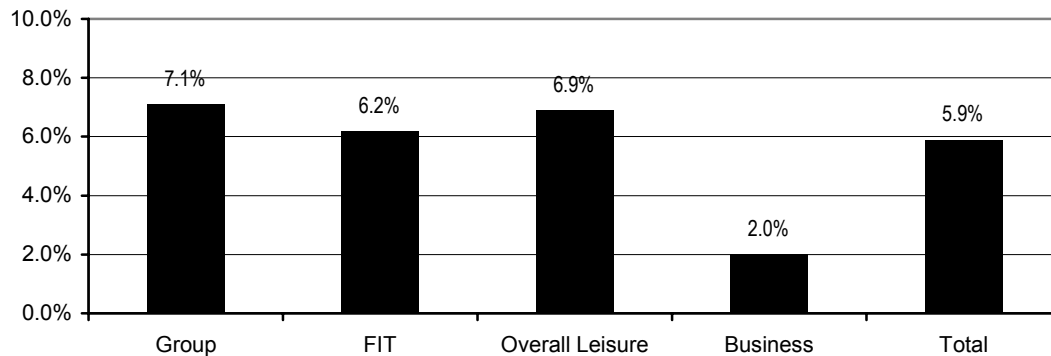
## Market Overview

Japanese tour operators surveyed by the CTC expect their sales of Canadian products for the fourth quarter of 2005 to grow by an average of about 10 per cent compared with the previous year. Some respondents reported that air capacity between Japan and Canada was a challenge, in particular the access to Air Canada's domestic network. Meanwhile, the exchange rate did not appear to be having an effect on bookings to Canada during this travel period.

The respondents noted that vacation packages for individuals, couples and groups were all selling well for the fourth quarter of 2005. Alberta appeared to be the most popular destination for the fall, receiving almost 35 per cent of bookings to Canada during this period, followed by Ontario (29%), B.C. (24%) and Quebec (12%). Tour operators noted that the best-selling products for the fourth quarter were touring, nature trips, cities/resorts, and outdoor sports, in that order.

## Destination Supplier/Receptive Agent Business Outlook Survey

**Short-term Outlook—Q4 2005**  
**Overnight Person-trips From Japan to Canada**  
(per cent change from previous year, same quarter)



*Source: Q4 2005 Business Outlook Survey, Canadian Tourism Research Institute.*

The outlook for travel from Japan in the fourth quarter of 2005—as indicated by *BO Survey* participants—suggests that visits to Canada will increase 5.9 per cent compared with the same quarter of 2004. Group leisure travel is expected to rise 7.1 per cent, while independent leisure travel (FIT) climbs 6.2 percent compared with the same quarter of 2004. As a result, overall leisure travel is expected to jump 6.9 per cent. On the other hand, the business travel segment is expected to expand at a much more modest pace, increasing 2 per cent compared with a year earlier.

Breaking down growth expectations by Canadian regions, respondents anticipated that Japanese travel to Ontario/Quebec would rise by 7.5 per cent during the fourth quarter of 2005, while visits to Alberta/B.C. climb by 5.5 per cent.

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## Japan-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Japan to Canada is expected to jump 11.3 per cent in the fourth quarter of 2005 compared with the previous year. Consequently, available seat capacity should not significantly constrain growth in Japanese visits to Canada during this period.

Seats Available for Direct Travel From Japan to Canada (Q4—October to December)

NON-STOP SEATS AVAILABLE	2004 (DIRECT)	2005 EST. (DIRECT)	2005 VS. 2004 CHANGE
Canada (overall)	103,648	115,390	11.3%
Alberta/B.C.	82,044	89,078	8.6%
Ontario/Quebec	21,604	26,312	21.8%

Source: OAG Worldwide.

## Air Capacity from Japan to Competitive Destinations

A comparison of air services from Japan to travel destinations competing with Canada for the Japanese travel market is an important measurement of Canada's relative performance as an international tourism destination. Below is a table illustrating the growth or decline of air service to competing long-haul travel destinations for the upcoming travel season.

Seats Available for Travel From Japan to Other International Destinations (Q4—October to December)

NON-STOP SEATS AVAILABLE FROM JAPAN	2004 (DIRECT)	2005 EST. (DIRECT)	2005 VS. 2004 CHANGE
to the United States	1,704,129	1,760,404	3.3%
to France	190,540	198,282	4.1%
to Germany	160,632	162,834	1.4%
to Italy	80,171	84,991	6.0%
to Australia	286,646	289,307	0.9%

Source: OAG Worldwide.

Seat capacity from Japan to other international tourism destinations is expected to rise during the fourth quarter of 2005, compared with the previous year. Direct air access on Japanese routes to France, the United States and Italy is expected to see modest growth, rising between 3 and 6 per cent during this period. On the other hand, seat capacity to Germany and Australia is expected to remain fairly stable during this period, expanding a meagre 1.4 per cent and 0.9 per cent, respectively.

## Competitive Price Index

From the perspective of potential Japanese travellers to Canada, the strongest competing destinations are the United States, France, Germany, Italy and Australia. For this market, the competitive price analysis was based on a typical 10-night stay, priced in Japanese yen. While future issues of the *Short-term Industry Outlook* will report on the change in competitive position among these various destinations, this issue establishes some pricing benchmarks. Here, along with the United States, Canada was found to be one of the most price-competitive destinations among this group. With the lowest estimated spending on accommodation, Manitoba/Saskatchewan was found to be the most price-competitive region of Canada for Japanese travellers.

### Competitive Price Index—Japanese Travellers to Canada (Yen, Based on 10-Night Stay)

COMPETITIVE DESTINATIONS	AIRFARE (ROUND-TRIP)	HOTEL	MEALS	OTHER ITEMS	TOTAL	INDEX (CANADA=100)
Canada	¥ 93779	¥ 157006	¥ 85082	¥ 78391	¥ 414259	100.0
Atlantic	¥ 117754	¥ 138049	¥ 78949	¥ 78391	¥ 413144	99.7
Ontario/Quebec	¥ 98686	¥ 173955	¥ 84747	¥ 78391	¥ 435781	105.2
Manitoba/Sask.	¥ 101474	¥ 129351	¥ 76718	¥ 78391	¥ 385936	93.2
Alberta/B.C.	¥ 84524	¥ 144182	¥ 90657	¥ 78391	¥ 397756	96.0
US	¥ 82071	¥ 151096	¥ 52409	¥ 104038	¥ 389615	94.1
France	¥ 99578	¥ 210753	¥ 103704	¥ 74265	¥ 488302	117.9
Germany	¥ 102700	¥ 228595	¥ 98128	¥ 72258	¥ 501683	121.1
Italy	¥ 101697	¥ 241753	¥ 113740	¥ 66125	¥ 523316	126.3
Australia	¥ 93779	¥ 157006	¥ 85082	¥ 78391	¥ 414259	135.8

Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank (purchasing power parity estimates); Expedia; SideStep.

## Summary Outlook for Q4 2005

After registering a sharp decline earlier this year, it appears that expectations for the Japanese travel market have turned around for the final quarter of 2005. *BO Survey* participants anticipate Japanese visits to Canada will increase 5.9 per cent compared with the same quarter of 2004. Group leisure travel is expected to rise 7.1 per cent, while independent leisure travel (FIT) climbs 6.2 per cent. As a result, overall leisure travel is expected to jump 6.9 per cent. Business travel to Canada is expected to expand more modestly, edging up 2 per cent compared with a year earlier.

The CTC foreign office in Japan reported that travel demand for long-haul destinations has been high, especially for European and Canadian destinations. Travel demand for China, usually a top Japanese travel destination, has diminished considerably because of lingering anti-Japanese sentiment in China over a recent conflict regarding the two countries' shared history. Conversely, Japanese tour operators are quite optimistic about sales of Canadian trips for the fall travel season and support a positive outlook for Japanese visits to Canada during the final quarter of this year.

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## **South Korea Travel Outlook, Q4 2005**

### **Economic Overview**

Slower export growth is the main reason why South Korea's economy will experience slower overall growth this year. The reduction in export growth is due to several factors including a slowdown in the economies of key trading partners like the United States and Japan, increasing competition for manufactured goods from China, and the rising value of the South Korean won vis-à-vis the U.S. dollar. Fortunately, while the external sector is slowing, the domestic economy in South Korea is showing signs of a mild recovery. Household consumption declined 0.5 per cent in 2004, but is slated to grow by 2.3 per cent this year and 3.5 per cent in 2006. Consumption is likely to benefit from lower inflation as well as an improving job market. Real GDP growth is forecast to drop to 4 per cent in 2005 but will accelerate to 4.8 per cent in 2006.

### **Travel Trends**

The CTC's foreign office in Korea reported that the expansion of air capacity between Korea and North America has created new opportunities for Canada to attract more Korean visitors this year. Korean Air launched new services to Seattle and Alaska this summer, Asiana Airlines has launched direct services to Chicago, and Air Canada increased its capacity between the two countries. This expansion coincides with the surge in outbound trips expected this year, as the majority of Korean workplaces adopt the five-day workweek (from six days).

A recent Global Market Insite Inc. online survey involving 25 countries revealed that Korean consumers were the most likely to be inspired by websites in their travel decisions. When asked about the factors that influence their choice of trip destination, 69 per cent of Koreans polled said they browsed the Internet for inspiration. Far behind were personal recommendations (30%) and travel agents (23%). Koreans also had one of the highest incidences of Internet travel purchases of all countries surveyed: 65 per cent of respondents said they booked more than half of their travel online, and 50 per cent said their use of online travel services had increased in the last year.

However, the poll also revealed that Koreans receive relatively little paid vacation time, in relation to the 17 other countries included in the survey. Half of the respondents (50%) indicated they receive less than two weeks holiday per year, and less than half of that group (47%) said they used all of their available vacation time. When asked about the barriers preventing them from taking a vacation, cost was the main concern, cited by 45 per cent of Korean respondents. Other issues included fear of losing their jobs (23%) and fear of work overload (19%).

### **Market Overview**

Korean tour operators surveyed by the CTC reported brisk sales for trips to Canada in the fourth quarter of this year, with sales expected to rise 30 per cent over last year's figures. Air capacity between the two countries received a large boost with the launch of new services by Korean Air and Air Canada, so it has not been a constraint for sales of Canadian tours for the fourth quarter. Respondents noted that the Korean won has stabilized vis-à-vis the Canadian dollar, so it is no longer hampering Canadian travel demand.

Tour operators indicated that Canadian packages for groups and individuals continued to sell very well, similar to previous quarters. In terms of Canadian destinations, B.C. continues to be the most popular, accounting for about 35 per cent of Canadian product sales for summer travel, followed by Ontario (25%), Alberta (25%) and Quebec (15%).

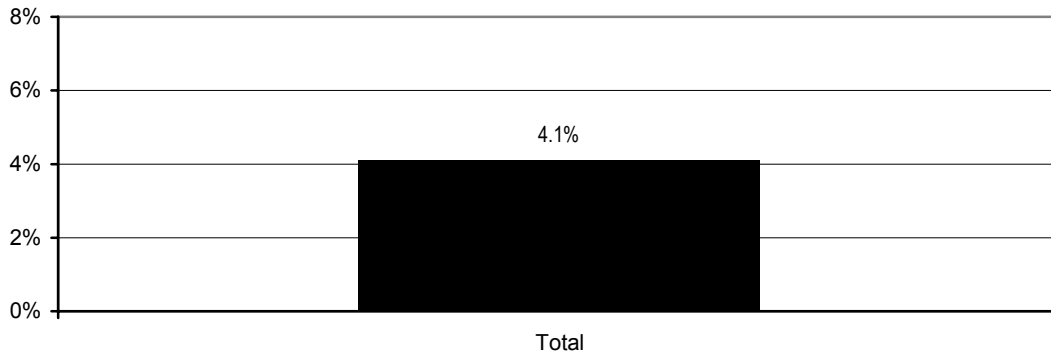
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Respondents also identified a number of areas for new Canadian product development: Vancouver and the Rocky Mountains, Eastern Canadian and cross-Canada tours (primarily focused on Ontario and Quebec), Western Canadian tours via Seattle, ski trips to B.C. and Alberta, and northern lights viewing in the Yukon and Northwest Territories.

Finally, survey respondents indicated that nature trips were the number-one-selling product category for the fall travel period, followed by touring, cities/resorts, culture/history, winter packages, and outdoor/sports, in that order.

## Destination Supplier/Receptive Agent Business Outlook Survey

**Short-term Outlook—Q4 2005**  
**Overnight Person-trips From South Korea to Canada**  
(per cent change from previous year, same quarter)



*Source: Q4 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 fourth quarter of 2005, as indicated by *BO Survey* participants, is for growth of 4.1 per cent compared with the same quarter of 2004.

Survey participants anticipated Korean visits to Alberta/B.C. will expand 4.5 per cent in the fourth quarter of 2005, compared with a year earlier, and visits to Ontario/Quebec were expected to climb 3.5 per cent.

## South Korea-to-Canada Air Capacity, OAG Worldwide

According to OAG, direct air capacity from South Korea to Canada during the fourth quarter of 2005 is expected to expand 4.7 per cent compared with the previous year. Therefore, direct air access should not constrain the pace of growth of Korean visits to Canada during this period.

### Seats Available for Direct Travel From South Korea to Canada (Q4—October to December)

NON-STOP SEATS AVAILABLE	2004 (DIRECT)	2005 EST. (DIRECT)	2005 VS. 2004 CHANGE
Canada (overall)	56,711	59,401	4.7%
B.C./Alberta	45,191	44,163	-2.3%
Ontario/Quebec	11,520	15,238	32.3%

Source: OAG Worldwide.

## Air Capacity from South Korea to Competitive Destinations

A comparison of air services from South Korea to travel destinations competing with Canada for the South Korean travel market is an important measurement of Canada's relative performance as an international tourism destination. Below is a table illustrating the growth or decline of air service to competing long-haul travel destinations for the upcoming travel season.

### Seats Available for Travel From South Korea to Other International Destinations (Q4—October to December)

NON-STOP SEATS AVAILABLE FROM SOUTH KOREA	2004 (DIRECT)	2005 EST. (DIRECT)	2005 VS. 2004 CHANGE
to the United States	403,186	421,930	4.6%
to Australia	77,344	70,780	-8.5%
to Germany	83,078	80,004	-3.7%
to the U.K.	45,858	47,728	4.1%
to France	49,950	56,078	12.3%

Source: OAG Worldwide.

On the whole, seat capacity from South Korea to other international tourism destinations is expected to expand during the fourth quarter of 2005, although two markets are expected to see substantial declines. Direct air access on routes to Australia and Germany is expected to fall by 8.5 per cent and 3.7 per cent respectively during this period. On the other hand, seat capacity between Korea and France is expected to surge by 12.3 per cent, while service to the United States and the U.K. is expected to expand more modestly.

## Competitive Price Index

From the perspective of potential Korean travellers to Canada, the strongest competing destinations are the United States, the U.K., France, Germany and Australia. For this market, the competitive price analysis was based on a typical 10-night stay, priced in Korean won. While future issues of the *Short-term Industry Outlook* will report on the change in competitive position among these various destinations, this issue establishes some pricing benchmarks. Here, Canada, along with the United States, was found to be one of the most price-competitive destinations among this group. Manitoba/Saskatchewan and Alberta/B.C. tied as the most price-competitive regions of Canada for Korean travellers.



**Competitive Price Index—Korean Travellers to Canada (Korean Won, Based on 10-Night Stay)**

COMPETITIVE DESTINATIONS	AIRFARE (ROUND-TRIP)	HOTEL	MEALS	OTHER ITEMS	TOTAL	INDEX (CANADA=100)
Canada	1,286,635	1,430,950	775,436	714,458	4,207,482	100.0
Atlantic	1,662,666	1,258,179	719,540	714,458	4,354,845	103.5
Ontario/Quebec	1,368,956	1,585,428	772,388	714,458	4,441,231	105.6
Manitoba/Sask.	1,399,445	1,178,908	699,214	714,458	3,992,026	94.9
Alberta/B.C.	1,138,256	1,314,075	826,251	714,458	3,993,042	94.9
U.S.	1,261,228	1,377,086	477,661	948,207	4,064,183	96.6
France	1,336,434	1,920,807	945,159	676,855	4,879,256	116.0
Germany	1,332,369	2,083,415	894,344	658,562	4,968,690	118.1
U.K.	1,350,662	2,342,571	1,006,137	851,659	5,551,030	131.9
Australia	1,545,792	1,392,331	884,181	602,665	4,424,970	105.2

*Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank (purchasing power parity estimates); Expedia; SideStep.*

## Summary Outlook for Q4 2005

*BO Survey* participants anticipate that overall travel from South Korea will increase by 4.1 per cent during the fourth quarter of 2005 compared with a year earlier. However, reports from Korean tour operators are even more optimistic. The problem of insufficient air capacity between Korea and Canada, previously a major challenge for the Korean travel market, has been addressed. Air Canada, Korean Air and Asiana Airlines have all recently added seat capacity on routes to North America. Furthermore, the appreciation of the Korean won has improved the exchange rate for Korean travellers to Canada. Two additional factors—favourable prospects for the Korean economy and the adoption of a shorter Korean workweek—are also contributing to the positive outlook for Korean travel this fall.

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# China Travel Outlook, Q4 2005

## Economic Overview

China's economy remains on track to record another year of exceptional albeit slightly slower growth compared with 2004. The economy has benefited significantly from the elimination of textile quotas in the West. In the first part of 2005, textile exports to the United States increased by 63 per cent, while exports to the EU jumped by close to 60 per cent. Continued strength in exports will help maintain growth in real GDP of 8.9 per cent in 2005—only slightly weaker than the 9.5 per cent gain recorded last year. Despite the initial token appreciation of the yuan (2%), further currency appreciation would enable the government and central bank to better control inflation—something that has eluded it so far. Moreover, a higher currency would ease the breakneck pace of the economy by slowing exports and stimulating imports.

## Tourism Trends

A recent online survey by Global Market Insite Inc. of Internet users around the world revealed that Chinese Internet users were among the most likely to be influenced by websites when making travel decisions. Of the Chinese Internet users polled, 65 per cent cited web searches as their preferred method of choosing a travel destination. Personal recommendations (51%) and travel agencies (50%) were the next most cited influences.

The latest market report on China from Tourism Australia revealed that as of May 1, 2005, there were 66 international destinations with approved destination status (ADS). By the end of 2005, that figure is expected to swell to 100. When travelling overseas, Chinese travellers are increasingly favouring independent trips. A recent online survey by a Chinese travel website indicated that 47 per cent of respondents said they had no interest in a group tour when travelling overseas, a 10 per cent rise over the previous year's survey.

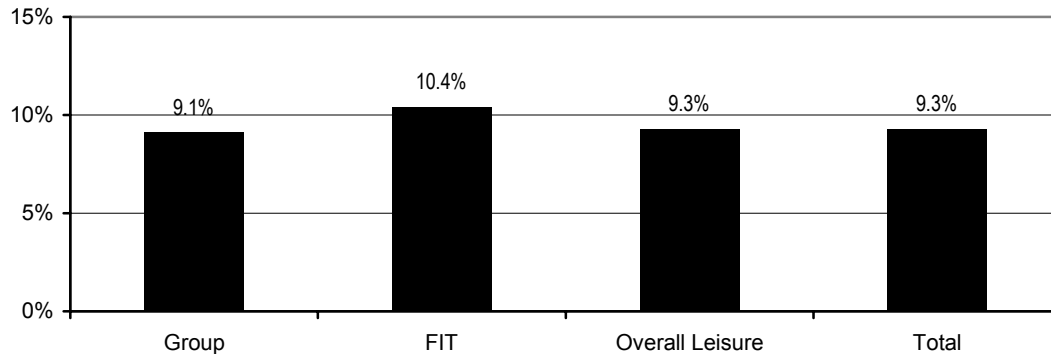
The U.K.'s Economist Intelligence Unit recently forecast that 28.5 million Chinese citizens would take an outbound trip this year, making China second only to the United States in terms of outbound markets, according to e-tid.com (Travel and Hospitality Industry Digest). The rapid expansion of the Chinese government's list of approved travel destinations is one contributing factor, as is the growing number of bilateral air agreements with other countries. Interestingly, the article noted that of the 1.2 billion Chinese citizens, only a fraction (100 million) can afford to fly, although this number is expected to grow in tandem with the Chinese economy.

The People's Bank of China recently announced plans to speed up the establishment of a coherent personal credit system in China, according to a news report by China Economic Net. The system will centralize all personal credit information, to help individuals develop a credit record and streamline the process of obtaining personal loans.

Korea's Tourism Minister recently announced he would allocate funding to upgrade the menus of 100 selected Chinese restaurants in Korea, to better cater to the tastes of Chinese tourists. This move was prompted by the results of a 2003 survey of Chinese visitors to Korea, whose main complaint about travelling to the country was the quality of the Chinese food available there. One criticism was that Chinese visitors found the portions served to be typically too small. The ministry also noted that sashimi (raw seafood) was a popular dish among Chinese visitors.

## Destination Supplier/Receptive Agent Business Outlook Survey

### Short-term Outlook—Q4 2005 Overnight Person-trips From China to Canada (per cent change from previous year, same quarter)



Source: Q4 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 9.3 per cent growth in the fourth quarter of 2005 compared with the previous year. BO Survey participants anticipate that independent travel (FIT) will jump 10.4 per cent during this period, while group leisure travel rises 9.1 per cent.

Survey participants anticipate Chinese visits to Ontario/Quebec will expand 12 per cent in the fourth quarter of 2005, compared with a year earlier, while visits to Alberta/B.C. rise 9 per cent.

## China-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from China is expected to surge 33.4 per cent during the fourth 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 (Q4—October to December)

NON-STOP SEATS AVAILABLE	2004 (DIRECT)	2005 EST. (DIRECT)	2005 vs. 2004 CHANGE
Canada (overall)	69,889	93,246	33.4%
Alberta/B.C.	69,889	76,944	10.1%
Ontario/Quebec	0	16,302	n/a

Source: OAG Worldwide.

## Air Capacity from China to Competitive Destinations

A comparison of air services from China to travel destinations competing with Canada for the Chinese travel market is an important measurement of Canada's relative performance as an international tourism destination. Below is a table illustrating the growth of air service to competing long-haul travel destinations for the upcoming travel season.

### Seats Available for Travel From China to Other International Destinations (Q4—October to December)

NON-STOP SEATS AVAILABLE FROM CHINA	2004 (DIRECT)	2005 EST. (DIRECT)	2005 VS. 2004 CHANGE
to the United States	211,650	258,470	22.1%
to Australia	91,041	94,097	3.4%
to Germany	180,669	217,080	20.2%
to France	153,590	155,895	1.5%
to the U.K.	74,842	94,420	26.2%

Source: OAG Worldwide.

Seat capacity from China to other competitive tourism destinations is expected to expand substantially during the fourth quarter of 2005, with large increases in services to the United States, the U.K. and Germany in the fall travel period. Direct air access on routes to Australia and France is expected to rise as well, albeit more modestly.

### Competitive Price Index

From the perspective of potential Chinese travellers to Canada, the strongest competing destinations are the United States, the U.K., France, Germany and Australia. For this market, the competitive price analysis was based on a typical 10-night stay, priced in Chinese yuan. While future issues of the *Short-term Industry Outlook* will report on the change in competitive position among these various destinations, this issue establishes some pricing benchmarks. Here, Canada, along the United States and Australia, was found to be one of the most price-competitive destinations among this group. Alberta/B.C. was found to be the most price-competitive region of Canada for Chinese travellers.

#### Competitive Price Index—Chinese Travellers to Canada (Chinese Yuan, Based on 10-Night Stay)

COMPETITIVE DESTINATIONS	AIRFARE (ROUND-TRIP)	HOTEL	MEALS	OTHER ITEMS	TOTAL	INDEX (CANADA=100)
Canada	10,877	11,412	6,184	5,698	34,172	100.0
Atlantic	12,109	10,034	5,739	5,698	33,581	98.3
Ontario/Quebec	11,064	12,644	6,160	5,698	35,566	104.1
Manitoba/Sask.	12,717	9,402	5,577	5,698	33,394	97.7
Alberta/B.C.	10,148	10,480	6,590	5,698	32,916	96.3
U.S.	8,648	10,983	3,810	7,562	31,003	90.7
France	7,846	15,319	7,538	5,398	36,101	105.6
Germany	7,806	16,616	7,133	5,252	36,807	107.7
U.K.	7,303	18,683	8,024	6,792	40,803	119.4
Australia	11,315	11,104	7,052	4,807	34,278	100.3

Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank (purchasing power parity estimates); Expedia; SideStep.

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## **Summary Outlook for Q4 2005**

Canada's outlook for the Chinese travel market remains exceptionally upbeat. This fall, *BO Survey* participants anticipate a 9.3 per cent rise in Chinese travel to Canada compared with the fourth quarter of 2004. Growth in the FIT segment (10.4%) is expected to continue outpacing growth in group leisure travel (9.1%), which appears to be an ongoing trend in the Asian market. Direct air capacity between Canada and China is expected to surge by more than 33 per cent in the fourth quarter, which should sufficiently accommodate travel between the two countries during this period.

A recent forecast by the U.K.'s Economist Intelligence Unit suggested that this year, 28.5 million Chinese will take an outbound trip, placing China just second behind the United States in terms of outbound travellers. The rapid expansion of the Chinese government's list of approved travel destinations is one contributing factor, as is the growing number of bilateral air agreements with other countries. And while only a fraction of Chinese citizens can even afford to travel internationally, this number is expected to rise in tandem with the expanding Chinese economy.

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# Australia Travel Outlook, Q4 2005

## Economic Overview

Real GDP growth is expected to slow this year to 2.6 per cent from 3.2 per cent in 2004. Rising interest rates—designed to cool the country's housing market—are the main reasons for the slowdown in economic growth this year. In addition, higher interest rates have lowered growth in household consumption. In the wake of a 5.4 per cent gain in 2004, real consumption is forecast to grow by 3 per cent this year, and then decelerate again to 2.8 per cent in 2006. Moreover, if capacity constraints and the tight labour market start pushing up wages and inflation, interest rates could rise further this year and put additional downward pressure on household consumption. In 2006, real GDP growth will rebound to 3.1 per cent as interest rates stabilize and industrial production increases.

## Tourism Trends

The latest quarterly report by the CTC's foreign office in Australia included some very positive tour operator reports about Australian demand for travel to Canada. Canadian bookings have been very strong—in fact, some wholesalers are already fully booked for the rest of this year. Rail vacation packages and nature viewing trips have been very popular among Australian travellers to Canada. Looking ahead, ski trips have been selling very well (mainly to Whistler–Blackcomb), despite strong competition from Japan and Colorado. The strong Australian dollar and improvements in air access between Australia and Canada have each contributed to the positive sales trends.

Australian outbound travel continues to trend upwards, although the pace of growth is starting to slow down, according to the latest figures from the Australia Bureau of Statistics. In April 2005, short-term resident departures were up 9.6 per cent compared with April 2004. Tourism Australia recently forecast that overall outbound travel volumes would rise 6.7 per cent this year, on top of the 28.9 per cent increase recorded in 2004. The longer term forecast suggests annual growth of outbound trips will settle into an average of 3.2 per cent over the next 10 years.

ZUJI, an Asian–Pacific subsidiary of online travel agency Travelocity, recently reported that Internet travel purchases are growing rapidly in its Australian market, particularly for international trips. In the final quarter of 2004, 99 per cent of the domestic air tickets purchased by Australians on ZUJI's website were issued as e-tickets, whereas only 10 per cent of the international air tickets were issued online. But the proportion of e-tickets jumped to 21 per cent of international tickets in the first quarter of 2005. ZUJI said that low-cost carriers were luring more online travel purchases, which in turn were making consumers more comfortable with booking trips over the Internet.

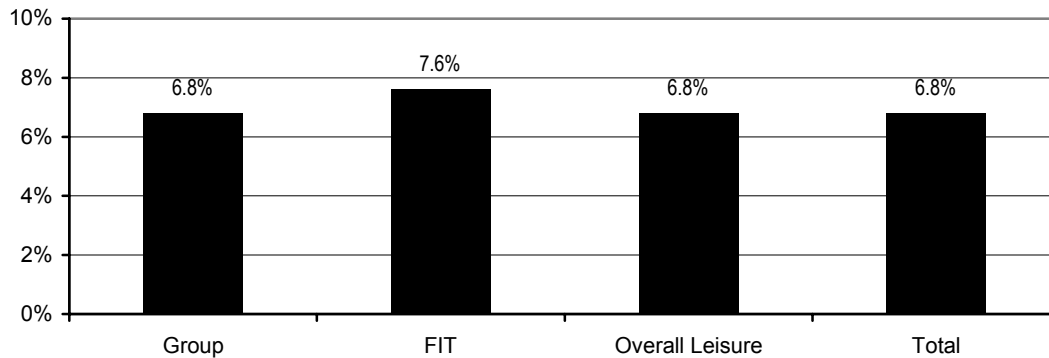
## Market Overview

Australian tour operators surveyed by the CTC were mixed in their outlook for Canadian product sales for travel during the fourth quarter of 2005—some expected a modest increase while other were not expecting to reach the levels seen in the same quarter of 2004. Responses were also mixed regarding the issues of direct air capacity and the exchange rate, with respect to Canadian bookings.

Tour operators indicated that packages for couples continued to sell well for the fall travel period. B.C. is expected to continue receiving the highest percentage of bookings (50%), followed by Alberta (40%). Ontario and Quebec are each expected to receive about 5 per cent of Australian visits. Respondents also mentioned that the Yukon offered potential for the Australian market. The two most popular types of travel products for this period were touring and nature trips, followed by cities/resorts, winter packages, outdoor/sports, and culture/history.

## Destination Supplier/Receptive Agent Business Outlook Survey

### Short-term Outlook—Q4 2005 Overnight Person-trips From Australia to Canada (per cent change from previous year, same quarter)



Source: Q4 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 fourth quarter of 2005—as indicated by BO Survey participants—is for 6.8 per cent growth, compared with a year earlier. Independent travel (FIT) is expected to jump 7.6 per cent during this period, followed by a 6.8 per cent rise in group leisure travel.

### Australia-to-Canada Air Capacity, OAG Worldwide

According to the latest figures from OAG (July 2005), air capacity from Australia in the fourth quarter of 2005 is expected to decline 4.1 per cent compared with the previous year. This planned decline in direct air access has the potential to constrain travel to Canada in the fourth quarter.

#### Seats Available for Travel from Australia to Canada (Q4—October to December)

DIRECT SEATS AVAILABLE (INCLUDES ONE STOP)	2004 (DIRECT)	2005 EST. (DIRECT)	2005 VS. 2004 CHANGE
Canada (overall)	24,976	23,956	-4.1%
Alberta/B.C.	24,976	23,956	-4.1%

Source: OAG Worldwide.

### Air Capacity from Australia to Competitive Destinations

A comparison of air services from Australia to travel destinations competing with Canada for the Australian travel market is an important measurement of Canada's relative performance as an international tourism destination. Below is a table illustrating the growth or decline of air service to competing long-haul travel destinations for the upcoming travel season.

### Seats Available for Travel From Australia to Other International Destinations (Q4—October to December)

NON-STOP SEATS AVAILABLE FROM AUSTRALIA	2004 (DIRECT)	2005 EST. (DIRECT)	2005 vs. 2004 CHANGE
to the United States	267,358	274,703	2.7%
to the U.K. (includes one stop)	247,646	281,456	13.7%
to China	95,560	89,052	-6.8%
to Hong Kong	287,232	321,423	11.9%
to Japan	286,514	289,039	0.9%
to Italy	0	0	n/a
to India	16,880	16,458	-2.5%

Source: OAG Worldwide.

Expansions in direct air access are expected on Australian routes to a number of competitive tourism destinations in the fourth quarter of 2005, compared with the previous year. Specifically, air capacity to the U.K. and Hong Kong is expected to increase substantially during the fall quarter, while service to the United States and Japan should see more modest growth. Meanwhile, scheduled air services from Australia to China and India are expected to decline during this period.

## Competitive Price Index

From the perspective of potential Australian travellers to Canada, the strongest competing destinations are the United States, the U.K., Italy, Japan, China, Hong Kong and India. For this market, the competitive price analysis was based on a typical 10-night stay, priced in Australian dollars. While future issues of the *Short-term Industry Outlook* will report on the change in competitive position among these various destinations, this issue establishes some pricing benchmarks. Here, Canada was found to rank near the middle in terms of price competitiveness in this group. Manitoba/Saskatchewan was found to be most price-competitive region of Canada for Australian travellers.

### Competitive Price Index—Australian Travellers to Canada (Australian Dollars, Based on 10-Night Stay)

COMPETITIVE DESTINATIONS	AIRFARE (ROUND-TRIP)	HOTEL	MEALS	OTHER ITEMS	TOTAL	INDEX (CANADA=100)
Canada	\$2,001	\$1,832	\$993	\$915	\$5,740	100.0
Atlantic	\$2,039	\$1,611	\$921	\$915	\$5,485	95.6
Ontario/Quebec	\$1,997	\$2,030	\$989	\$915	\$5,931	103.3
Manitoba/Sask.	\$2,107	\$1,510	\$895	\$915	\$5,425	94.5
Alberta/B.C.	\$1,991	\$1,683	\$1,058	\$915	\$5,645	98.3
U.S.	\$1,591	\$1,763	\$612	\$1,214	\$5,180	90.3
U.K.	\$1,601	\$2,999	\$1,288	\$1,090	\$6,979	121.6
Japan	\$1,284	\$2,264	\$1,230	\$1,366	\$6,145	107.1
China	\$1,929	\$2,021	\$1,180	\$260	\$5,390	93.9
Hong Kong	\$1,010	\$3,019	\$1,340	\$878	\$6,248	108.9
Italy	\$1,955	\$2,821	\$1,327	\$772	\$6,873	119.8
India	\$1,718	\$2,223	\$843	\$202	\$4,984	86.8

Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank (purchasing power parity estimates); Expedia; SideStep.



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## **Summary Outlook for Q4 2005**

BO Survey participants anticipate solid growth in Australian travel to Canada this fall: overall visits are expected to rise 6.8 per cent in the fourth quarter of 2005 compared with a year earlier. Independent travel (FIT) is expected to jump 7.6 per cent during this period, while group leisure bookings will rise 6.8 per cent. Reports from the Australian travel industry remain quite optimistic, suggesting that sales for Canadian vacation packages remain strong. In fact, some wholesalers have reported fully booked tours to Canada this year. Rail vacations and nature viewing trips have been very popular, and bookings for ski vacations have been brisk, despite heavy competition from Japan and Colorado. The strong Australian dollar and improvements in air access between Australia and Canada have each contributed to a very positive outlook for the Australian travel market.

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# Appendix 1: Construction of the Competitive Price Index

## Overview

One important aspect of Canada's global competitiveness as a tourism destination is the pricing level of Canadian travel products relative to other key international competitors. As a regular feature of the *Short-term Industry Outlook*, we hope the Competitive Price Index will serve as a valuable reference for tracking product pricing trends in key markets and monitoring Canada's relative competitiveness on an ongoing basis.

While this inaugural issue of the *Short-term Industry Outlook* featuring the Competitive Price Index establishes certain pricing benchmarks, future issues will permit an analysis into how Canada's price competitiveness may be changing. The Competitive Price Index is calculated based on a potential travellers' expected spending on airfares, hotels, meals and other costs for travel to Canada, compared with those for competing destinations.

Viewed from the perspective of potential travellers from Canada's key international markets, the Competitive Price Index will produce a measure of the absolute and relative rate of change in Canada's price competitiveness against that of its closest competitors. In addition to a national perspective, Canada's price competitiveness is further disaggregated to show the relative position of four distinct regions within Canada: Atlantic Canada, Ontario/Quebec, Manitoba/Saskatchewan and Alberta/B.C.

As noted in the Introduction, since this is the inaugural issue of the *Short-term Industry Outlook* featuring the Competitive Price Index, further refinement in the development and presentation may be expected in upcoming issues.

## Methodology

While the theory behind calculating a Competitive Price Index may appear straightforward, the ultimate calculation (and interpretation) of such an index depends on the various assumptions and parameters used in its construction. While the initial derivation of the Competitive Price Index is expected to reveal some interesting (and potentially quite subjective) rankings, the ultimate objective will be to use the Index to monitor the relative change in competitive position among the various destinations.

The following sections in this appendix indicate some of the important assumptions and data sources used to construct the Competitive Price Index.

## Average Length of Stay

The figures used to establish average length of stay for Canada's international travellers were determined by geography. Short-haul travellers (from the United States) were assumed to spend only four nights on average in Canada. Meanwhile, travellers from Europe and Mexico were assumed to spend an average of seven nights in Canada. Long-haul travellers from Asia-Pacific were assumed to spend an average of 10 nights in Canada. For the most part, the average length of stay was close to the average reported in the last full year of international arrivals data, from Statistics Canada's International Travel Survey in 2004. For competing destinations, the same average length of stay was assumed to apply.

**Table A1: Length of Stay Estimates**

INTERNATIONAL VISITOR MARKET ORIGIN	AVERAGE NIGHTS SPENT IN CANADA (AND COMPETING DESTINATIONS)
U.S.	4
U.K.	7
France	7
Germany	7
Mexico	7
Japan	10
Korea	10
China	10
Australia	10

## Canada's Competitive Destinations

The list of destinations deemed to be competing with Canada from the perspective of the international travel markets covered by the *Short-term Industry Outlook* was provided by the CTC. The following table shows the competitive destinations for each international travel market monitored in the *Short-term Industry Outlook*.

**Table A2: Canada's Competitive Destinations**

INTERNATIONAL TRAVEL MARKET	COMPETITIVE DESTINATIONS (TO CANADA)
U.S.	Domestic U.S.
U.K.	U.S., China, South Africa, sub-Saharan Africa (Kenya, Nigeria, Ghana), Latin America (Brazil, Mexico)
France	U.S., Latin America (Brazil), China, sub-Saharan Africa (Nigeria, Ghana, Senegal)
Germany	U.S., South Africa, Latin America (Brazil, Mexico), China
Mexico	U.S., Spain
Japan	U.S., France, Germany, Italy, Australia
Korea	U.S., Australia, Germany, U.K., France
China	U.S., Australia, Germany, France, U.K.
Australia	U.K., U.S., China, Hong Kong, Japan, Italy, India

## Cost Components of the Competitive Price Index

The Competitive Price Index comprises the estimated travel costs of airfares, hotels and meals, as well as other costs that are expected to be incurred by potential visitors to Canada, compared to the costs of other competing destinations. The following table indicates the data used to establish the various cost elements.

**Table A3: Competitive Price Index Components—Data sources/proxy values used**

COMPETITIVE PRICE INDEX COMPONENT	DATA SOURCES/PROXY VALUES USED
International airfares to Canada and other destinations (excluding airfare from the U.S. to Canada)	Lowest price obtained through web queries using travel search engines SideStep and Expedia. The period probed was for travel between Nov. 14 and Nov. 21—the midpoint of the reference period under analysis). Various specific destinations within each country were used and results weighted on the basis of estimated travel flows. All taxes and charges were included.
Airfare from the U.S. to Canada	The proxy value used for this segment was the average airfares reported for transborder travel in IATA's monthly agent air product sales report (June 2005).
Domestic U.S. average airfares	American Express Business Travel Monitor (2005, 1st quarter). Since taxes and charges were not included, an additional 16.1% was added (the average in 2004 according to the Ticket Tax Project, prepared by the MIT Global Airline Industry Program and Daniel Webster College).
U.S. hotel rates	Monthly published per diems from the U.S. Department of State, Office of Allowances. Since taxes and charges were not included, an additional 12.4% was added (the average rate according to the American Hotel & Lodging Association).
International hotel rates (including Canada)	U.S. Department of Defense. The maximum rates of per diem allowances for hotels outside the U.S. are established by the Secretary of State and updated every month. All taxes are included.
U.S. meal rates	Monthly published per diems from the U.S. Department of State, Office of Allowances. The amount allocated for incidentals was not used.
International meal rates (including Canada)	U.S. Department of Defense. The maximum rates of per diem allowances for meals is provided by the Secretary of State and updated every month. The amount allocated for incidentals was not included.
Other items	This category includes all other travel-related spending at the destination aside from accommodation and meals. Specifically, this includes other intercity public transportation, private transportation, local transportation, retail, recreation and entertainment and other miscellaneous purchases. For Canada, this figure was calculated to be equal to 50% of the allocated hotel spending at the national level. In order to estimate the cost in competing destinations, this figure was converted using the relative purchasing power parity (PPP) of the competing market to that of Canada. The PPP estimates were produced by the World Bank (2004).

## Overall Construction of the Competitive Price Index

The Competitive Price Index provides an aggregate assessment of the total cost of airfare, hotels, meals and other costs by visitors to Canada, compared with that of competing destinations. While the final figure used for airfares in the Competitive Price Index is simply the cost of one round-trip ticket, the cost attributed to hotels, meals and other costs is derived by multiplying the daily spending by the travellers estimated length of stay. After summing up the various cost components, the index is normalized such that Canada (at the national level) equals 100. Index figures representing the price competitiveness of other competing destinations, as well as the various regions within Canada, are calculated by dividing their estimated total cost for visitors by the cost calculated for Canada (at the national level) and multiplying by 100.