
Domestic, U.S. and Overseas Travel to Canada

Short-Term Markets Outlook
Second Quarter 2006

Prepared by

The Conference Board of Canada

For the

Canadian Tourism Commission

January 2006

WHAT'S INSIDE

This study provides a short-term outlook for domestic and international travel to Canada for the second quarter of 2006 (April to June) using readily available market intelligence in a timely and cost-efficient manner.

National Library of Canada cataloguing in publication data

Main entry under title :

Domestic, U.S. and Overseas Travel to Canada:
Short-Term Industry Outlook, Quarter 2, 2006

Irregular.

2002-

(Research report)

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

Subtitle varies.

Prepared by the Conference Board of Canada.

ISSN 1708-5853

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

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

G155.C3D65

338.4'79171'04648

C2003-980272-8

Table of Contents

Executive Summary	1
Introduction	7
Economic Overview	9
Domestic (Canada) Travel Outlook, Q2 2006	13
U.S. Travel Outlook, Q2 2006.....	17
Mexico Travel Outlook, Q2 2006	23
U.K. Travel Outlook, Q2 2006	27
France Travel Outlook, Q2 2006.....	31
Germany Travel Outlook, Q2 2006.....	35
Japan Travel Outlook, Q2 2006	39
South Korea Travel Outlook, Q2 2006	43
China Travel Outlook, Q2 2006.....	47
Australia Travel Outlook, Q2 2006	51
Appendix 1: Construction of the Competitive Price Index	55

Executive Summary

Background

The *Short-Term Markets 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 second quarter of 2006, all growth comparisons are reported on a year-over-year basis compared with the second quarter of 2005.

Highlights

The outlook for Canada's key markets for the second quarter of 2006 (relative to the second quarter of 2005) according to the results of the *BO Survey* is summarized as follows:

Q2 2006 Short-Term Outlook for Canada's Key Markets (per cent change over Q2 2005)

COUNTRY	MARKET SEGMENT				
	LEISURE—GROUP	LEISURE—FIT**	LEISURE— OVERALL	BUSINESS	TOTAL—OVERALL
Canada	5.2%	3.8%	4.0%	5.0%	4.5%
United States	2.2%	3.0%	2.8%	2.0%	2.6%
Mexico	4.0%	8.8%	6.7%	*	6.2%
United Kingdom	3.6%	3.2%	3.3%	4.0%	3.4%
France	2.5%	5.6%	4.2%	*	4.0%
Germany	3.0%	4.4%	3.9%	*	3.8%
Japan	1.4%	3.5%	1.9%	-1.5%	1.4%
South Korea	*	*	*	*	3.5%
China	6.7%	7.4%	6.9%	*	6.9%
Australia	6.7%	4.4%	4.9%	*	4.9%

* Not enough responses to ensure confidentiality

** Fully independent travel

North and South American Markets

Canada

The rebound in Canadian consumer confidence in the final months of 2005 appears to have provided travel confidence with a strong boost. The latest Travel Intentions Survey by the Canadian Tourism Research Institute suggested that travel confidence bounced back to stable levels in December after dropping to record lows in the October 2005 survey. The most significant improvement occurred in domestic vacation plans, and while this may have been partly due to the proximity of the Christmas holiday season, the results suggest that the overall outlook for domestic travel has staged somewhat of a comeback.

BO Survey participants anticipate domestic travel will grow 4.5 per cent, overall, in the second quarter of 2006, compared with a year earlier. Leisure travel is expected to expand 4 per cent, bolstered by a 5.2 per cent rise in group leisure bookings, while fully independent travel (FIT) bookings grow 3.8 per cent. Business travel bookings are also expected to pick up, climbing 5 per cent in the second quarter of 2006. In fact, rising business travel demand, buoyed by improving economic conditions, is expected to help boost Canadian airfares, hotel rates and car rental rates this year. This should help the Canadian travel industry build on the steady progress achieved over the past year.

U.S.

Similar to the rebound seen in Canada, American consumer confidence overcame a number of challenges to end 2005 on a positive trend. Once energy prices stabilized and gasoline prices began to recede, U.S. consumer confidence recovered to its highest level since the hurricanes struck the U.S. Gulf Coast. After a particularly soft fall travel season, this boost in confidence helped improve American demand for winter travel. Looking ahead, however, higher energy prices—which are expected to dramatically boost heating bills this winter—combined with rising interest rates are reasons to be cautious about the outlook for U.S. travel.

BO Survey participants expect U.S. visits to Canada to pick up slightly in the second quarter of 2006, expanding 2.6 per cent compared with a year earlier. Group leisure travel is forecast to climb 2.2 per cent, while fully independent travel rises 3 per cent. As a result, overall leisure travel is expected to grow 2.8 per cent during this period. Meanwhile, the outlook for U.S. business travel to Canada has become slightly less optimistic: it is expected to grow 2 per cent in the second quarter of 2006, compared with the previous year.

Mexico

Mexican visits to Canada are expected to register solid growth over the near term. *BO Survey* participants expect leisure travel from Mexico to grow 6.7 per cent during the second quarter of 2006, compared with the same quarter of 2005. Growth in FIT visits is expected to surge ahead, rising 8.8 per cent, while group travel lags somewhat behind at 4 per cent. According to various reports from the Mexican tourism industry, Canadian vacation destinations continue to grow in popularity among Mexican travellers. Fortunately, direct air capacity between Mexico and Canada is slated to increase significantly in the second quarter of 2006, which should help spur Mexican arrivals. In fact, the strongest growth in capacity is planned from Mexican branded airlines.

European Markets

U.K.

The overall consensus in the British travel industry is that U.K. travel demand will remain on an upward trend over the near term, despite less optimistic prospects for the U.K. economy. British vacationers are increasingly seeking experiences such as cultural destinations, wildlife breaks and locations that are off the beaten track. They are also becoming more willing to take longer haul flights to achieve these experiences. These trends have helped Canadian ski destinations lure a growing number of U.K. skiers away from traditional European ski destinations, and should contribute to further growth in U.K. visits to Canada overall.

BO Survey participants expect overall travel from the United Kingdom to expand by 3.4 per cent in the second quarter of 2006, compared with a year earlier. Leisure travel is expected to expand 3.3 per cent, bolstered by a 3.2 per cent increase in fully independent travel and 3.6 per cent growth in group leisure travel. Meanwhile, U.K. business travel to Canada is expected to continue growing at a slightly quicker pace, rising by 4 per cent in the second quarter of 2006 compared with the previous year.

France

France's sluggish economy, characterized by weakness in both consumer and business spending, is weighing down the outlook for the French travel market. Last year saw a continuation of the tourism recovery that began at the end of 2004, but growth has been modest at best. Unfortunately, since the start of 2005, the cost of French travel to Canada has continued to slide with the further depreciation of the euro vis-à-vis the Canadian dollar. Moreover, there will be a slight reduction in direct air capacity between France and Canada during the spring travel quarter.

Nevertheless, *BO Survey* participants expect 4 per cent growth in French visits to Canada in the second quarter of 2006. Independent travel is expected to increase 5.6 per cent, while growth in group leisure travel continues to grow at a somewhat slower pace (2.5%). Consequently, overall leisure travel is expected to expand 4.2 per cent during the period.

Germany

After two years of recovery, German travel trends are expected to lose some steam in 2006. In particular, higher fuel prices and weaker consumer demand are taking their toll on long-haul travel. Following a strong summer travel season, German tour operators have recently reported a slowdown in bookings for winter Canadian vacation packages; still, the season is expected to finish ahead of the previous year. Despite the further depreciation of the euro, its relative strength compared with the Canadian and U.S. dollars is encouraging Germans to travel to North America.

For the second quarter of 2006, *BO Survey* participants anticipate German visits to Canada will increase 3.8 per cent compared with the same quarter of 2005. The FIT segment continues to lead growth expectations—it is expected to expand 4.4 per cent during the period, boosting growth in overall leisure travel to 3.9 per cent. Expectations for group leisure travel are not quite as optimistic, with survey respondents expecting this segment to expand 3 per cent during the quarter.

Asia-Pacific

Japan

Optimism about the Japanese travel market has waned in recent months, even with the continued recovery of the Japanese economy. Canada's price competitiveness as a destination for Japanese travellers continues to fall because of the further depreciation of the Japanese yen vis-à-vis the Canadian dollar. In addition, the level of planned direct air capacity between Japan and Canada is slated to decline significantly in the spring travel quarter. On the whole, moderating conditions for Japanese travel to Canada have resulted in a much more subdued outlook for this market.

BO Survey participants anticipate Japanese visits to Canada will increase by a modest 1.4 per cent in the second quarter of 2006 compared with the same quarter of 2005. The outlook for independent leisure travel (FIT) is much more optimistic than the outlook for group leisure travel (3.5% vs. 1.4%). As a result, growth in overall leisure travel will likely remain slim, at 1.9 per cent. Business travel from Japan is expected to decline during the period, falling 1.5 per cent compared with the previous year.

South Korea

BO Survey participants anticipate a 3.5 per cent increase in arrivals from South Korea during the second quarter of 2006 compared with a year earlier. However, tour operators surveyed by the CTC's foreign office in Korea were much more optimistic, anticipating stellar growth in Canadian product sales for the spring travel season. Several key tour operators plan to capitalize on the growing demand for Canadian destinations by implementing aggressive strategies to expand this market. The only significant concern identified was the depreciating value of the Korean won against the Canadian dollar, which has increased travel prices for Koreans coming to Canada. Nevertheless, Korean tour operators described their outlook for Korean visits to Canada as "very bright."

China

For the second quarter of 2006, *BO Survey* participants expect solid growth in Chinese visits compared with the same quarter of 2005. Overall leisure travel is expected to rise 6.9 per cent during this period, boosted by a 7.4 per cent jump in fully independent leisure travel and a 6.7 per cent increase in group travel bookings.

The outlook for the Chinese travel market remains upbeat, and will improve even further once Canada completes its agreement with China on Canada's status as an approved travel destination. Although there is a slight reduction in direct air capacity planned for the spring quarter, overall air access between China and Canada has increased substantially in recent quarters, in anticipation of future growth in Chinese visits. More significantly, the largest near-term expansion in air capacity is expected to come from Chinese branded airlines. Overall, favourable economic conditions and strong travel trends continue to support optimistic prospects for Canada's Chinese travel market.

Australia

BO Survey participants anticipate 4.9 per cent growth in Australian travel to Canada during the spring travel season. Group leisure travel is expected to jump 6.7 per cent during the second quarter of 2006, compared with the previous year, while fully independent travel increases 4.4 per cent. A significant expansion in direct air capacity between Australia and Canada in the spring quarter should help spur growth in travel between the two countries. In addition, Canada's price competitiveness as a destination for Australian travellers has held up well, despite some recent depreciation of the Australian currency vis-à-vis the Canadian dollar. Overall, stable travel trends and economic conditions continue to support a positive outlook for the Australian travel market.

International Travel Statistics, Statistics Canada

Overnight Travel to Canada, January–November 2005

COUNTRY	PERSON-TRIPS	CHANGE OVER 2004 (%)
United States	13,549,987	-4.6
Mexico	179,039	9.1
Europe	2,229,771	6.9
United Kingdom	857,698	8.4
France	340,229	6.1
Germany	323,260	5.5
Netherlands	116,228	1.7
Italy	93,051	4.6
Asia	1,241,293	3.3
Japan	419,011	0.6
South Korea	178,609	-0.2
Taiwan	95,619	-8.8
Hong Kong	105,623	-6.9
China (Mainland)	111,734	13.6
Oceania	232,328	13.0
Australia	191,651	13.5

Source: International Travel Survey, Statistics Canada.

Introduction

The *Short-term Markets 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 Markets Outlook*, results of the *BO Survey* are supplemented by the intelligence-gathering activities of the CTC's foreign offices. This market intelligence includes 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

The Tourism Competitive Price Index is a recent addition that complements the traditional economic and travel overview provided in the *Short-Term Markets Outlook*. One important aspect of Canada's global competitiveness as a tourism destination is the price 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 Markets 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 the inaugural issue focused on generating benchmarks, this and future issues will focus on understanding changes to Canada's price competitiveness.

In addition to developing the Competitive Price Index at a national level, a further analysis was done to disaggregate the index into four distinct regions of Canada. The regional breakdowns used are similar to those used in the rest of the report: Atlantic Canada, Ontario/Quebec, Manitoba/Saskatchewan and Alberta/British Columbia.

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 the Competitive Price Index is a new feature, further refinement in the development and presentation may be expected in upcoming issues of the *Short-Term Markets Outlook*.

Economic Overview

World Outlook

The world economy withstood soaring energy prices last year to expand by a respectable 3 per cent. The main factor behind the solid growth was the stellar performance of the U.S. economy, where continued strength in consumer spending along with double-digit growth in business investment helped ward off the negative impact of the hurricanes and rising interest rates. The surging Chinese economy and a revival in economic activity in Japan also spurred global economic growth last year.

While economic growth is expected to slow down slightly to 2.8 per cent in 2006, the world economy should remain in good shape. Weaker economic activity in the United States and China will be offset, to a certain extent, by higher growth in Japan and some parts of Europe. In addition, the world economy will benefit from a moderate weakening in energy prices. The fact that the U.S. Federal Reserve is close to ending its series of 25 basis point increases in its key federal funds rate will also have a positive impact on the global economy.

North America

Solid growth in all three North American countries resulted in real gross domestic product (GDP) growth of 3.6 per cent in North America last year. The United States led the way with growth of 3.6 per cent, despite facing a number of difficulties. Meanwhile, Canada recorded the weakest growth (2.9 per cent), with exports being constrained by the high value of the Canadian dollar. This year, North American economic growth will weaken slightly to 3.4 per cent. Higher growth in Canada and Mexico will be offset by slower growth in the U.S. economy.

Once again, the U.S. economy will have to overcome serious difficulties this year, namely a slowdown in consumer spending due to weaker growth in vehicle and home sales. Consumer spending will also be weaker because households will react to higher interest rates by borrowing less and saving more. However, investment spending will remain strong thanks to high levels of business profitability as well as high profit margins. Exports will also expand at a healthy pace because of an anticipated moderation in the value of the U.S. dollar and solid growth in the world economy.

South America

The anti-American political rhetoric emanating from Venezuela and Bolivia has led to concerns that South America will gradually turn its back on more free market policies. However, despite the move to the left in parts of the continent, it is doubtful that the region will see a dramatic shift in the political landscape. After all, the Brazilian government was elected on a platform of radical change and has subsequently implemented very responsible macroeconomic policies. Also, Chile, the region's most successful economy, has basically implemented open market economic policies for a number of years, including the pursuit of free trade with countries such as Canada. Venezuela has the luxury of preaching anti-American policies because the country has huge oil reserves. Elsewhere in the region, most governments have adopted more prudent economic policies designed to promote low inflation and debt control.

Real GDP growth in South America will be 3.9 per cent this year, almost identical to the 4.1 per cent recorded in 2005. While growth in Venezuela, Argentina and Chile is expected to be slightly weaker this year, stronger growth in Brazil, the regions's largest economy, should help to pick up the slack. Brazil's economy will benefit from lower interest rates and strong external demand. The entire region (except Venezuela) should benefit from a moderation in oil prices this year, a factor that should help keep inflation under control.

Europe

The European economy continues to limp along, slowed down in large part by the poor performance of Germany and Italy. In fact, real GDP growth grew at a snail's pace—around 1.2 per cent in the first half of last year. Fortunately, in the second half of 2005, growth picked up slightly on the back of an upswing in fixed investment and exports. However, the recent increase in European interest rates will hurt consumption and investment next year, likely making the recent upswing short-lived.

The economic prospects for Europe over the short term will, once again, rest on the fate of its largest economies. While the French and U.K. economies continue to grow at a relatively healthy pace, the German and Italian economies are projected to record another year of weak growth. Overall, real GDP is expected to increase by 2.1 per cent this year on the heels of a 1.6 per cent increase last year. Most of the growth will originate from the smaller economies in Europe, particularly in eastern Europe, as well as another strong performance from the Spanish economy.

Asia-Pacific

The Asia-Pacific economy expanded by more than 4 per cent last year, primarily because of strong growth in exports. For most of last year, Chinese exports expanded at an annual pace of 25 per cent or more. Export growth from other countries in the region has not been as strong, and there has been growing concern that exporters in Malaysia, South Korea and Japan are losing ground to the ever-growing Chinese juggernaut. These fears were based on the undervalued yuan as well as significant Chinese labour cost advantages. However, there is now growing consensus in the region that, on balance, China adds to the potential for export growth for other countries in the region.

The region's economic prospects for 2006 are also optimistic because of weakening inflation pressure. Inflation surged in India, Malaysia, Thailand and Indonesia last summer and fall after governments removed expensive oil subsidies. Central banks subsequently increased interest rates, and this seems to have contained inflation. Although interest rates have increased sharply from the lows recorded in 2004, they remain low by historical standards and will not derail economic prospects for the region this year. On balance, real GDP in the Asia-Pacific region is expected to grow by 3.9 per cent in 2006.

Exchange Rates

Exchange Rate Comparison—December 2004 to December 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	-	5.0%	15.9%	18.5%	19.8%	2.2%	-0.5%	8.7%
U.S. dollar	-4.8%	-	10.4%	12.8%	14.1%	-2.7%	-5.2%	3.1%
British pound	-13.7%	-9.4%	-	2.2%	3.4%	-11.8%	-14.1%	-6.6%
Euro	-15.6%	-11.4%	-2.2%	-	1.1%	-13.7%	-16.0%	-8.6%
Japanese yen	-16.5%	-12.4%	-3.3%	-1.1%	-	-14.7%	-16.9%	-9.6%
Korean won	-2.1%	2.7%	13.4%	15.9%	17.2%	-	-2.6%	5.9%
Mexican peso	0.5%	5.5%	16.4%	19.0%	20.3%	2.6%	-	8.7%
Australian dollar	-7.6%	-3.0%	7.1%	15.9%	10.7%	-5.6%	-2.6%	-

Source: *The Pacific Exchange Rate Service.*

Domestic (Canada) Travel Outlook, Q2 2006

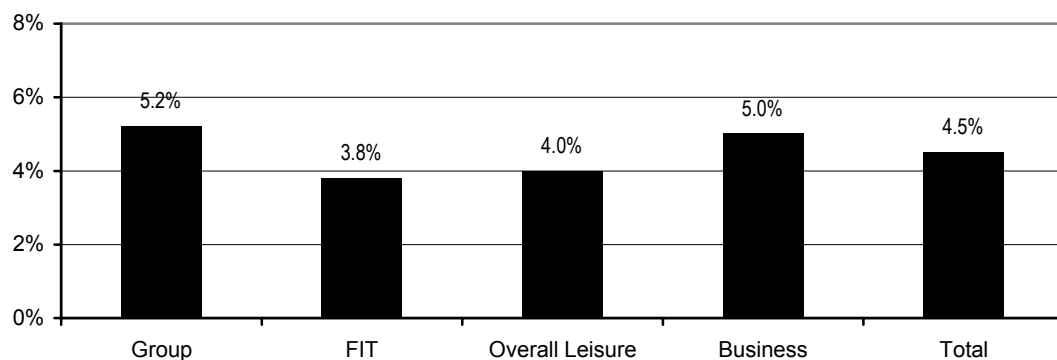
Economic Overview

Canada put forth a pretty good economic performance last year. Growth in real GDP reached 2.8 per cent, despite a run-up in the exchange rate. The stronger Canadian currency led to surging imports, which, in turn, depressed overall output. The Canadian economy continues to adjust to the significant structural change brought about by soaring raw material prices and the ensuing appreciation of the dollar. These changes favour some industries and regions, while others struggle to adapt. In particular, Canada's manufacturers are dealing with the decline in their global competitiveness as the result of the 33 per cent appreciation of the loonie.

Although the manufacturing sector is expected to under-perform, the overall outlook for the Canadian economy is very healthy as we enter 2006. In fact, income will be up sharply in 2006, because of higher real wages, stronger employment and tax relief in some provinces. The possibility of post-election tax relief provides a further upside to the outlook. These measures will largely offset the negative impact of higher interest rates on consumer spending. Coupled with better trade performance, the measures will help lift growth in real GDP to 3.1 per cent this year.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-Term Outlook—Q2 2006
Overnight Domestic Travel
(per cent change from previous year, same quarter)



Source: Q2 2006 Business Outlook Survey, Canadian Tourism Research Institute.

The business outlook—as indicated by Canadian travel suppliers and receptive agent bookings—suggests 4.5 per cent growth in overall advance bookings for domestic travel in the second quarter of 2006, compared with the previous year.

According to *BO Survey* respondents, group travel is expected to continue leading the pace of growth, increasing 5.2 per cent compared with a year earlier, followed by fully independent travel (FIT) at 3.8 per cent. Consequently, overall leisure travel is expected to expand 4 per cent compared with the same quarter of 2005. The pace of growth for business travel bookings is expected to ramp up during this period, climbing 5 per cent over the previous year.

For domestic travel by provincial region, survey participants anticipate a 5.5 per cent increase in visits to Alberta/British Columbia and a 3.8 per cent rise for destinations in Ontario/Quebec. The Manitoba/Saskatchewan region is expected to receive 3 per cent more domestic visitors in the second quarter of 2006, while trips to Atlantic Canada rise 4.2 per cent compared with a year earlier.

Tourism Trends

In 2006, Canadian businesses expect further growth in business travel volumes and expenditures, according to a recent forecast by the Canadian Alliance of Business Travel. The Alliance based its forecast on a survey of travel managers at 18 companies across Canada. Of this group, most (89%) said they planned to increase their corporate travel spending in 2006. More than half (59%) said they also expected to take more business trips this year than in 2005.

American Express (Amex) recently forecasted that rising business travel demand will help boost Canadian airfares, hotel rates and car rental rates this year. Canadian domestic fares (economy class) are expected to jump between 5 and 8 per cent, compared with 2005, while international (business class) fares climb 2 to 5 per cent. Hotel rates in the mid-range category are expected to grow up to 3 per cent, while upper-range hotels raise their rates by up to 4 per cent. Significant rate hikes (between 6% and 7%) are also anticipated for Canadian corporate car rentals.

Meanwhile, market conditions for the Canadian hotel industry remain on solid footing, according to the fourth quarter 2005 Business Conditions Survey for the Accommodations Industry by Statistics Canada. Occupancy rates for the fourth quarter were expected to remain stable, and there appeared to be a significant improvement in overall business sentiment among survey respondents: 38 per cent of respondents reported having no business difficulties at the time, up from 32 per cent in the previous quarter. Among those experiencing challenges, the two most-cited issues were finding skilled workers (cited by 23%) and finding unskilled workers (22%). Excess room supply and general economic conditions were tied for third, cited by 21 per cent of those polled.

Operating conditions for Canada's airline industry appear to be improving as well. Despite soaring jet fuel costs, Air Canada's and WestJet's operating performances for 2005 gained significant ground over 2004, now that competitive pressures have eased. Both airlines reported substantial growth in passenger traffic for the year, as well as strengthened bottom lines. WestJet recently noted that it has been able to price its airfares more in line with its costs.

Consumer Confidence and Travel Intentions, The Conference Board of Canada

After two successive monthly gains, the Conference Board's Index of Consumer Confidence registered a slight decline in December. The overall index slipped 3.4 points to a reading of 116.2, mainly due to weakening optimism about employment prospects and big-ticket purchases. Consumers' views on present and future finances remained more or less unchanged.

The drop in consumer confidence came largely from a decline in Canada's central provinces: the index fell 7.4 points in Ontario and 3.8 points in Quebec. Consumers in the Prairies registered a smaller decrease (1.9 points), while the index for British Columbia remained about the same. Atlantic Canada was the only region to experience a significant improvement in consumer confidence—the index for this region gained 8.5 points in December, after recording strong increases in October and November.

Consumer Confidence (1991=100 Index)

	2005:09	2005:10	2005:11	2005:12
Consumer Confidence Index	107.9	111.1	119.6	116.2

Source: The Conference Board of Canada.

The rebound in Canadian consumer confidence in the final months of 2005 provided a strong boost to travel confidence, according to the latest Travel Intentions Survey by the Canadian Tourism Research Institute. A special survey, conducted in December 2005, suggested that travel confidence bounced back to stable levels after dropping to record lows in the October 2005 survey. Of the approximately 2,000 Canadians polled in December, 54 per cent said they planned to take a winter vacation between then and April 2006, up from 33 per cent in October.

The most significant improvement in travel intentions occurred in plans for domestic winter trips. In the October 2005 survey, only 12 per cent of respondents indicated they planned a winter vacation to a Canadian destination. In the December 2005 survey, this number jumped to 28 per cent. While this change may have been partly due to the proximity of the Christmas holiday season, there is no doubt that the overall outlook for domestic travel has staged somewhat of a comeback. However, growth will be constrained to some degree by the challenges still facing the industry, including the fact that gasoline is around 36 per cent higher than it was a year ago. High gas prices, combined with higher overall energy costs and rising interest rates, will likely put a strain on travel spending this year.

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

	DECEMBER 2005	OCTOBER 2005	OCTOBER 2004
Winter Vacation Intentions (All Destinations)	53.9	32.7	41.9
Canada	27.6	12.4	18.0
United States	11.2	8.3	10.4
Other International	13.8	10.4	12.4
Do Not Know/Refused	1.3	1.6	1.1

Source: Canadian Tourism Research Institute.

Summary Outlook for Q2 2006

The rebound in Canadian consumer confidence in the final months of 2005 appeared to have provided travel confidence with a strong boost. The latest Travel Intentions Survey by the Canadian Tourism Research Institute suggested that travel confidence bounced back to stable levels in December after dropping to record lows in the October 2005 survey. The most significant improvement in winter travel intentions occurred in domestic vacation plans. While this change may have been partly due to the proximity of the Christmas holiday season, the overall outlook for domestic travel staged somewhat of a comeback.

BO Survey participants anticipate domestic travel will grow 4.5 per cent, overall, in the second quarter of 2006, compared with a year earlier. Leisure travel is expected to expand 4 per cent, bolstered by a 5.2 per cent rise in group leisure bookings, while FIT bookings grow 3.8 per cent. Business travel bookings are also expected to pick up, climbing 5 per cent in the second quarter of 2006.

In fact, rising business travel demand, buoyed by improving economic conditions, is expected to help boost Canadian airfares, hotel rates and car rental rates this year. This should help the Canadian travel industry build on the steady progress achieved over the last year. Nevertheless, progress will likely remain modest, considering the challenges still facing the industry, including the fact that gasoline is around 36 per cent higher than it was a year ago. High gas prices, combined with higher overall energy costs and rising interest rates, will likely constrain travel spending this year.

U.S. Travel Outlook, Q2 2006

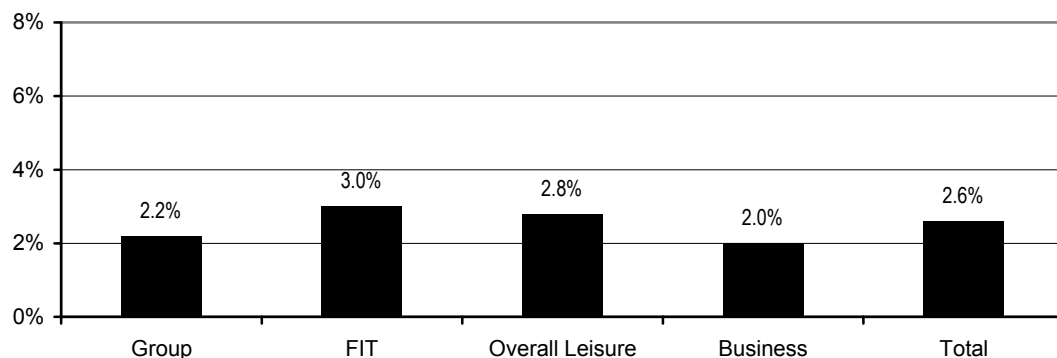
Economic Overview

The U.S. economy overcame a number of difficulties in 2005 to expand by an estimated 3.6 per cent. Hurricanes cost the economy around 300,000 jobs and close to \$100 billion in property damage. Meanwhile, surging oil and gas prices boosted the country's energy bill and effectively doubled the value of U.S. energy imports over the previous two years. What saved the economy was relatively low core inflation, solid gains in employment, surging corporate profitability and, thanks to a strong housing market, higher consumer spending.

Unfortunately, the U.S. economy will have difficulties to overcome in 2006. Consumer spending will slow as households hold off spending in the face of rising interest rates and falling homes sales. Meanwhile, hurricanes Katrina and Rita have resulted in unplanned government expenditures of between \$60 billion and \$100 billion dollars. Planned tax cuts will deplete federal coffers even further over the next five years. Fortunately, high levels of business profitability along with high profit margins continue to spur business investment. Also, exports will expand because of an anticipated moderation in the value of the U.S. dollar and solid growth in the world economy. In turn, U.S. growth in real GDP will be only slightly lower than last year, at 3.5 per cent in 2006.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-Term Outlook—Q2 2006
Overnight Person-Trips From the United States to Canada
(per cent change from previous year, same quarter)



Source: Q2 2006 Business Outlook Survey, Canadian Tourism Research Institute.

Overall travel from the United States—as indicated by *BO Survey* participants—is expected to pick up slightly in the second quarter of 2006, expanding by 2.6 per cent compared with a year earlier. Group leisure travel is forecast to climb 2.2 per cent, while fully independent travel rises 3 per cent. As a result, overall leisure travel is expected to grow 2.8 per cent during this period. Meanwhile, the outlook for U.S. business travel to Canada has become slightly less optimistic: it is expected to grow 2 per cent in the second quarter of 2006, compared with the previous year.

When looking at regional destinations for U.S. visits during the second quarter of 2006, survey participants expected Alberta/British Columbia to continue seeing the largest growth in American visitors (up 3.3%), followed by Ontario/Quebec (up 2.6%). U.S. visits to Atlantic Canada are expected to rise 1.7 per cent, while visits to Manitoba/Saskatchewan edge up 1.5 per cent compared with the same quarter of 2005.

As mentioned in previous surveys, respondents continue to comment that the strong value of the Canadian dollar is deterring U.S. travellers because of higher product prices, particularly for the auto travel market. Conversely, the air travel market does not appear to be nearly as sensitive to the exchange rate as the auto travel market.

Tourism Trends

U.S. leisure travel volumes were expected to grow 2.4 per cent this winter (December to February) compared with the previous year, according to the Travel Industry Association of America (TIA). This growth would bring the overall number of winter leisure trips to 251 million, a new record for the winter travel season. The TIA stated that after a particularly soft fall travel season, improving prospects for the U.S. economy have boosted travel confidence.

Overall, the TIA had forecast 4 per cent growth in U.S. domestic travel volumes and 7 per cent growth in international trips to the United States for the full year of 2005. Visitor expenditures for the year were forecast to reach US\$646 billion, a 7.8 per cent increase over 2004. For 2006, however, the TIA is more cautious in its outlook, because of the inevitable effects of high energy prices—which are expected to dramatically boost heating bills this winter—and a tempered economic outlook. U.S. domestic leisure trips are expected to rise 2 per cent this year, while international trips to the United States climb 5.5 per cent. Overall travel spending in the United States is forecast to grow 4.4 per cent over 2005.

U.S. businesses expect to increase their corporate travel expenditures this year as well, according to the 2006 Expense Management Benchmark Survey recently released by Amex. Of the financial executives polled (mainly at mid-sized firms), 47 per cent said they expected their organizations' travel and entertainment expenses for 2006 to increase by up to 10 per cent, while a further 9 per cent expected an even greater increase. About one-third of those polled said their 2006 travel and entertainment budgets remained the same, while the rest (about 11%) expected their budgets to decline. The increases were attributed to both an expected rise in travel volumes and anticipated rate hikes. Amex also noted that companies were expected to place a higher priority on enforcing travel policy compliance this year, both to maximize cost savings and crack down on expense-reporting abuse.

Meanwhile, U.S. air travel demand remains strong, similar to the upward trends seen throughout 2005. These trends, combined with steady progress in airfares and a slight reprieve in jet fuel prices, are easing the difficult conditions U.S. airlines have been facing over the past several years. In fact, some analysts have suggested that 2006 could be a turnaround year for the U.S. airline industry. Domestic air capacity is expected to decline this year, reducing the level of competition and allowing airlines to make further progress in raising domestic airfares.

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

After dropping to a two-year low in September and October, U.S. consumer confidence staged a significant recovery by the end of 2005, according to the U.S. Consumer Confidence Index by The Conference Board, Inc. The overall index jumped 13.1 points in November and a further 5.3 points in December to an overall reading of 103.6—the highest level since the hurricanes struck the U.S. Gulf Coast. According to the Conference Board, the resilient U.S. economy, receding gasoline prices and growth in the U.S. labour market have all contributed to improvements in U.S. consumer confidence.

Looking ahead, consumers' short-term outlook improved as well, rising further in December after November's rebound. Those expecting business conditions to worsen fell to 9.2 per cent, from 11.5 per cent in November, and 18.5 per cent in October. Those expecting conditions to improve also slipped a point, to 18.1 per cent in December, but remained well above the level registered in October (14.1%). Prospects for future employment and income registered little change between November and December, but respondents were much more optimistic than they had been in the preceding two months.

Consumer Confidence (1985=100 Index)

	2005:09	2005:10	2005:11	2005:12 (P)*
Consumer Confidence Index	87.5	85.2	98.3	103.6
Present Situation	110.4	107.8	113.2	121.5
Expectations (six months ahead)	72.3	70.1	88.4	91.6

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

**preliminary*

According to the December 2005 travel intentions survey by The Conference Board, Inc., 44 per cent of Americans polled said they planned to take a vacation sometime in the next six months, a 4.5 percentage point decrease from the December 2004 survey. The most significant decrease was seen in domestic travel intentions, which fell to 35.2 per cent from 39.4 per cent a year earlier. The number of respondents with international travel plans remained relatively stable compared with the previous year, at 9.9 per cent.

Not surprisingly, the mode of transportation to see the largest decline was automobile travel. Of the U.S. consumers polled, 20.6 per cent said they planned to take a car trip over the next six months, down from 25.5 per cent a year ago. Those planning to take a leisure trip by airplane remained virtually on par with the previous year, slipping only 0.1 percentage point to 18.6 per cent.

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

	JUNE 2005	AUG. 2005	OCT. 2005	DEC. 2005 (P)*
Vacation Intended (all destinations)	42.4	43.2	45.4	44.0
U.S.	35.5	35.2	38.4	35.2
Foreign	8.5	9.5	8.5	9.9

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

**preliminary*

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

Since the ability to get to a destination is an integral part of planning and taking a trip, the level of air service offered between the United States and Canada was studied. To accomplish this task, a product from OAG Worldwide, 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 (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 VS. 2005 CHANGE
to Canada (overall)	3,840,135	3,818,022	-0.6%
B.C./Alberta	1,242,809	1,217,136	-2.1%
Manitoba/Saskatchewan	117,305	113,223	-3.5%
Ontario/Quebec	2,401,489	2,420,495	0.8%
Atlantic Canada	76,876	65,608	-14.7%

Source: OAG Worldwide.

The number of seats available (as of January 2006) for direct air travel from the United States to Canada during the second quarter of 2006 is expected to decline slightly (-0.6%) compared with the same quarter of 2005. This reduction in direct air capacity could potentially constrain the growth of air travel from the United States 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, there will be a significant reduction in air capacity on non-stop domestic routes within the United States during the second quarter of 2006, compared with a year earlier.

Seats Available for Domestic Travel Within the United States (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 VS. 2005 CHANGE
U.S. domestic destinations	236,364,533	222,843,551	-5.7%

Source: OAG Worldwide.

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. The latest index rating suggests that Canada's price competitiveness for the U.S. market in the second quarter of 2006 will be about 1 per cent lower than in the first quarter of 2006 (76.6 versus 77.3). The latest decline in the Competitive Price Index puts it now back to the level reported in the fourth quarter of 2005. Overall, the index identified that Alberta/B.C. is 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	\$937	\$613	\$336	\$306	\$2,192	100.0
Atlantic Canada	\$992	\$548	\$314	\$306	\$2,160	98.6
Ontario/Quebec	\$938	\$677	\$333	\$306	\$2,255	102.9
Manitoba/Sask.	\$1,090	\$523	\$326	\$306	\$2,245	102.4
Alberta/B.C.	\$906	\$557	\$352	\$306	\$2,121	96.8
U.S. (domestic)	\$521	\$553	\$198	\$406	\$1,678	76.6

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 Q2 2006

Similar to the rebound seen in Canada, American consumer confidence overcame a number of challenges to end 2005 on a positive trend. Once energy prices stabilized and gasoline prices began to recede, U.S. consumer confidence recovered to its highest level since the hurricanes struck the U.S. Gulf Coast. After a particularly soft fall travel season, this boost in confidence helped improve the overall outlook for U.S. travel demand.

BO Survey participants expect U.S. travel to Canada to pick up slightly in the second quarter of 2006, expanding 2.6 per cent compared with a year earlier. Group leisure travel is forecast to climb 2.2 per cent, while fully independent travel rises 3 per cent. As a result, overall leisure travel is expected to grow 2.8 per cent during this period. Meanwhile, the outlook for U.S. business travel to Canada has become slightly less optimistic: it is expected to grow 2 per cent in the second quarter of 2006, compared with the previous year.

As mentioned in previous surveys, respondents noted that the strong value of the Canadian dollar continues to deter U.S. travellers, particularly in the cross-border auto travel market. Confusion over the changes to U.S. passport regulations is also possibly contributing to the decline of cross-border visits. Moreover, higher energy prices—which are expected to dramatically boost heating bills this winter—and rising interest rates are two more reasons to be cautious about the U.S. travel market. Overall, any near-term growth in U.S. visits to Canada is expected to remain modest.

Mexico Travel Outlook, Q2 2006

Economic Overview

Despite the damage to production caused by the series of hurricanes in the Gulf of Mexico region, the Mexican economy expanded by a solid 3.1 per cent in 2005. While the hurricanes disrupted oil production and refining activity in the Gulf Coast, increased activity in the service and agriculture sectors of the economy helped to offset the damage inflicted by the hurricanes.

Mexico's domestic demand continued to strengthen throughout the course of last year because of the strong dynamic of consumption and fixed investment. Mexico's declining inflation rate has been approaching the official target (3 per cent), allowing the Mexican central bank to reduce interest rates three times last fall. Additional interest rate cuts are anticipated in 2006, which should help boost both consumer and investment spending. In fact, the accumulation of fixed capital assets is finally expanding, broadening the country's economic growth potential. Along with continued strength in energy exports as well as growth in exports of manufactured goods to the United States, solid gains in investment and consumption will result in the Mexican economy growing by 3.5 per cent in 2006.

Tourism Trends

Mexican international leisure travel increased by nearly 5 per cent in 2005, according to the fourth-quarter market report by the CTC foreign office in Mexico. The largest growth was seen in trips to South America, Asia and Africa, which surged 23 per cent, followed by European travel, which climbed 13 per cent. Travel to the United States rose 7.5 per cent, while growth in Canadian trips reached 8.5 per cent.

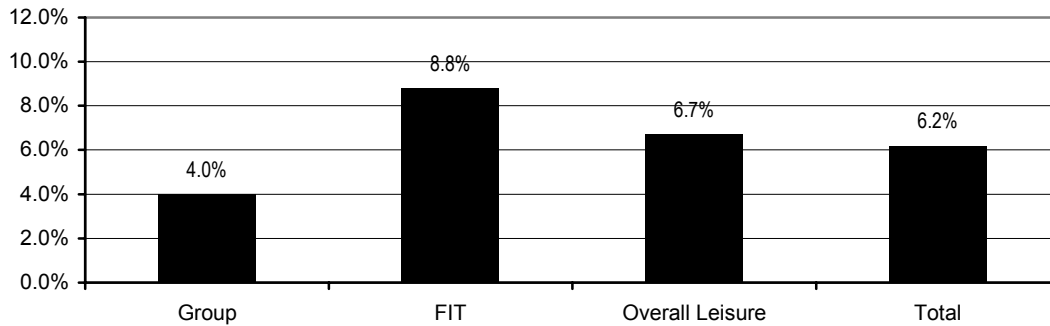
The CTC's Mexican office also reported that Canadian destinations continue to grow in popularity among Mexican travellers, drawing market share away from U.S. destinations. The main reasons for this trend are Canada's less stringent border-crossing policies and more favourable exchange rate. Skiing was cited as the primary motivator for travel to Canada. Overall, there are three strong travel seasons for the Mexican market: summer (for family travel), winter and the Easter holidays (the Catholic Holy Week).

Meanwhile, Mexican consumer lending has been expanding rapidly, boosting Mexico's consumer spending, according to a recent Reuters news report. On average, consumer lending has grown by 47.6 per cent per year over the last three years. Looking ahead, this trend is expected to continue, given Mexico's stable economic environment and the relatively low levels of consumer credit in the country compared with other countries.

Domestic air travel in Mexico could double over the next three years, according to a Bloomberg news report, as low-fare options continue to expand. About 40 million Mexicans travel by bus each year, and about half of those travellers could be lured to air travel, according to the Mexican government. Interjet, the first low-cost carrier to begin service from Mexico City, was launched in December with fares that in some cases are lower than those charged for premium bus services. Interjet's airfares are also substantially cheaper than the domestic airfares charged by Mexico's full-service airlines, Mexicana and Aeromexico.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-Term Outlook—Q2 2006 Overnight Person-Trips From Mexico to Canada (per cent change from previous year, same quarter)



Source: Q2 2006 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 second quarter of 2006 is expected to grow 6.2 per cent compared with the previous year. Growth in FIT visits is expected to surge ahead, rising 8.8 per cent, while group travel lags somewhat behind at 4 per cent. As a result, overall leisure travel is expected to expand 6.7 per cent compared with the same quarter of 2005.

Mexico-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Mexico is expected to expand 21.8 per cent during the second quarter of 2006, compared with the same period in 2005. This substantial increase should help facilitate growth in Mexican visits to Canada during this period.

Seats Available for Travel From Mexico to Canada (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 vs. 2005 CHANGE
Canada (overall)	81,011	98,634	21.8%
B.C./Alberta	27,687	26,476	-4.4%
Saskatchewan/Manitoba	140	240	71.4%
Ontario/Quebec	51,024	70,958	39.1%
Atlantic Canada	2,160	960	-55.6%

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 (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 vs. 2005 CHANGE
to the United States	3,230,727	3,355,412	3.9%
to Spain	97,882	118,858	21.4%

Source: OAG Worldwide.

Direct air capacity to other competitive tourism destinations is expected to increase during the second quarter of 2006, year-over-year. Air access between Mexico and Spain is expected to jump 21.4 per cent during this period, and 3.9 per cent between Mexico and the United States.

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. The latest index measure suggests that Canada's price competitiveness for the Mexican travel market in the second quarter of 2006 will be about 1 per cent lower than the United States and 2 per cent lower than Spain compared with the first quarter of 2006. While the latest decline in the Competitive Price Index puts the U.S. back to the level reported in the fourth quarter of 2005, Spain has continually improved. Overall, the index still suggests Canada will be more price competitive for this type of trip than Spain, but the gap is shrinking. With the exception of Ontario/Quebec, other regions of Canada will be equally price competitive for Mexican travellers during the second quarter of 2006.

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	\$5,950	\$11,398	\$6,246	\$5,699	\$29,294	100.0
Atlantic	\$6,600	\$10,189	\$5,835	\$5,699	\$28,323	96.7
Ontario/Quebec	\$5,663	\$12,596	\$6,190	\$5,699	\$30,147	102.9
Manitoba/Sask.	\$6,791	\$9,729	\$6,064	\$5,699	\$28,284	96.6
Alberta/B.C.	\$5,930	\$10,362	\$6,538	\$5,699	\$28,530	97.4
U.S.	\$3,742	\$10,285	\$3,683	\$7,550	\$25,260	86.2
Spain	\$8,896	\$13,306	\$6,717	\$4,347	\$33,266	113.6

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

Summary Outlook for Q2 2006

Overall, Mexican visits are expected to register solid growth over the near term. *BO Survey* participants expect leisure travel from Mexico to grow 6.7 per cent during the second quarter of 2006, compared with the same quarter of 2005. Growth in FIT visits is expected to surge ahead, rising 8.8 per cent, while group travel lags somewhat behind at 4 per cent. According to various reports from the Mexican tourism industry, Canadian vacation destinations continue to grow in popularity among Mexican travellers. Fortunately, direct air capacity between Mexico and Canada is slated to increase significantly (21.8%) in the second quarter of 2006, year-over-year. This should help spur Mexicans arrivals, in particular because the strongest growth in capacity is planned from Mexican branded airlines.

U.K. Travel Outlook, Q2 2006

Economic Overview

Economic growth in the U.K. slumped from 3.2 per cent in 2004 to less than 2 per cent last year. Despite weaker growth, the economy proved to be quite resilient in the face of a number of economic hurdles. The hurdles (some continuing into 2006) include higher energy prices, a deflating housing market, higher interest rates and a rising tax burden. Still, the economy managed to preserve its decade-long growth spurt—a streak that should continue this year with anticipated real GDP growth of 2.1 per cent. The resilience of the service sector and a healthy labour market were the main factors keeping the economy above water in 2005. The main drag on growth continues to be the manufacturing sector, which remains in a slump because of weak export demand from the eurozone economies. The slight rebound in economic growth anticipated in 2006 is attributable to a pickup in manufacturing production, due to higher export demand from Europe. A weaker pound vis-à-vis the euro should also help to spur export growth this year.

Tourism Trends

Most U.K. travel agents expect their first quarter 2006 bookings to increase compared with the same period of 2005, according to the results of a recent survey by Amadeus on Travelmole.com. Of the 185 agents polled, 82 per cent said they expected to register growth in their first-quarter bookings. When asked about the extent of growth expected, the group was fairly evenly split: about one-third said they expected 5 per cent growth, another third anticipated 10 per cent growth, and another third said they expected 20 per cent growth. Respondents also reported that substantially more travellers had booked their winter 2005–06 and summer 2006 vacations further in advance than in the previous year.

The U.K. travel market has “completely transformed in recent years,” shifting further away from traditional holidays towards more independent and adventurous ones, according to *Expanding Horizons*, a recent market report by Thomson Holidays. Research by Thomson suggests that British travellers are increasingly seeking experiences such as cultural destinations, wildlife breaks and locations that are off the beaten track. The report also noted an emerging singles market, revealing that 28 per cent of British survey respondents said they had taken a trip alone, and 50 per cent said they would travel alone.

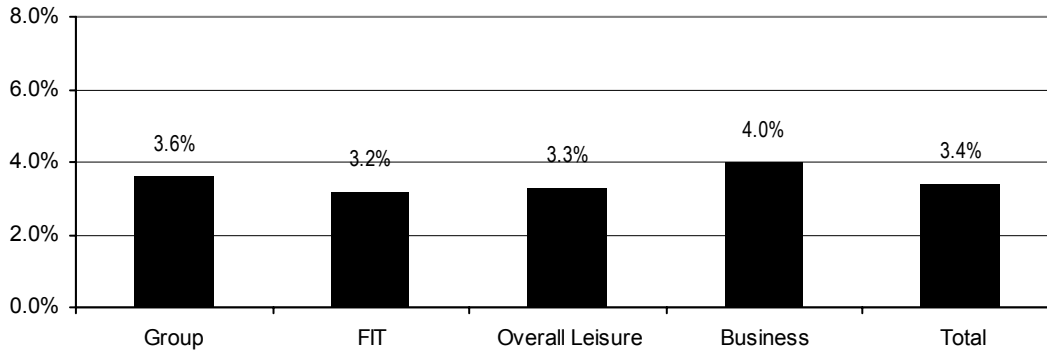
U.K. tour operator First Choice revealed in a recent trading update that, as of the end of November, bookings for mainstream package holidays for the winter season were 4 per cent ahead of the previous year. At the same time, bookings for the summer 2006 travel season were 7 per cent ahead. The company noted that it continued to shift towards long-haul and adventure holidays, reducing its proportion of short-haul trips.

Ski holidays are becoming increasingly popular among U.K. travellers, according to the latest quarterly market report by the CTC’s overseas office in the U.K. One U.K. tour operator, Trailfinders, reported a 36 per cent increase in ski holiday bookings this winter, compared with last year. North America’s quality and variety of ski offerings are luring a greater number of U.K. travellers away from the traditional European ski destinations. The company attributed this trend to an increasing willingness to fly further and a growing adventurousness among U.K. travellers.

Meanwhile, the British Airports Authority reported that for the full year of 2005, passenger traffic at its seven U.K. airports grew 3 per cent over 2004. Overall long-haul traffic grew 8.2 per cent, but North Atlantic routes edged up only 1.2 per cent. European scheduled routes climbed 4.2 per cent, while traffic on charter routes declined 8.7 per cent. Domestic traffic was up by 2 per cent.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-Term Outlook—Q2 2006 Overnight Person-Trips From the U.K. to Canada (per cent change from previous year, same quarter)



Source: Q2 2006 Business Outlook Survey, Canadian Tourism Research Institute.

The outlook for overall travel from the United Kingdom—as indicated by *BO Survey* participants—is for growth of 3.4 per cent in the second quarter of 2006 compared with the previous year. Leisure travel is expected to expand 3.3 per cent, bolstered by a 3.2 per cent increase in fully independent travel and 3.6 per cent growth in group leisure travel. Meanwhile, U.K. business travel to Canada is expected to continue outperforming leisure travel, rising by 4 per cent in the second quarter of 2006 compared with a year earlier.

When breaking down growth expectations by Canadian regions, respondents anticipate that U.K. travel to Alberta/B.C. will expand by 3.6 per cent during the second quarter of 2006, and visits to Ontario/Quebec will rise by 3.2 per cent.

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

The number of direct seats available (as of January 2006) from the United Kingdom to Canada during the second quarter of 2006 is expected to remain nearly on par with the same quarter of 2005. Direct air capacity may therefore impede the growth of U.K. visits to Canada anticipated for this period.

Seats Available for Direct Travel From the U.K. to Canada (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 vs. 2005 CHANGE
Canada (overall)	493,538	495,286	0.4%
B.C./Alberta	155,508	155,937	0.3%
Ontario/Quebec	316,950	316,175	-0.2%
Atlantic Canada	21,080	23,174	9.9%

Source: OAG Worldwide.

Air Capacity From the U.K. to Competitive Destinations

A comparison of air services from the United Kingdom 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 (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 vs. 2005 CHANGE
to the United States	3,000,781	3,028,998	0.9%
to China	81,142	108,456	33.7%
to South Africa	237,615	234,715	-1.2%
to Kenya/Nigeria/Ghana	186,366	214,270	15.0%
to Brazil	61,880	60,515	-2.2%
to Mexico	20,852	23,732	13.8%

Source: OAG Worldwide.

Direct air capacity from the United Kingdom to other tourism destinations competing for British long-haul travellers is expected to expand significantly during the second quarter of 2006, compared with a year earlier. The largest expansions are planned for routes to China (33.7%), Mexico (13.8%) and sub-Saharan Africa (Kenya, Nigeria and Ghana, up 15%). South Africa and Brazil are expected to see slight decreases in air capacity during this period, while routes to the United States see a minimal increase.

Competitive Price Index

From the perspective of potential U.K. travellers to Canada, the strongest competing destinations are 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. Our Competitive Price Index suggests that Canada will be the least price-competitive destination among the competitive set. Unfortunately, the latest index suggests the gap will widen, compared with the first quarter of 2006. Overall, the index suggests that Atlantic Canada and Ontario/Quebec will be the most price-competitive regions of Canada for U.K. travellers during the second quarter of 2006.

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	£389	£614	£337	£307	£1,646	100.0
Atlantic	£437	£549	£314	£307	£1,608	97.7
Ontario/Quebec	£286	£679	£333	£307	£1,605	97.5
Manitoba/Sask.	£520	£524	£327	£307	£1,678	101.9
Alberta/B.C.	£500	£558	£352	£307	£1,718	104.3
United States	£352	£554	£198	£407	£1,512	91.8
China	£379	£625	£374	£80	£1,459	88.6
South Africa	£479	£518	£226	£67	£1,289	78.3
Sub-Saharan Africa (Kenya, Nigeria, Ghana)	£417	£610	£277	£132	£1,435	87.2
Latin America (Brazil and Mexico)	£499	£570	£246	£178	£1,494	90.7

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

Summary Outlook for Q2 2006

Despite less than stellar economic conditions, the overall consensus in the British travel industry is that U.K. travel demand will remain on an upward trend over the near term. Yet recent research suggests that the nature of British travel demand is transforming, shifting away from traditional holidays towards more independent and adventurous ones. One report suggests that British travellers are increasingly seeking experiences such as cultural destinations, wildlife breaks and locations that are off the beaten track. They are also becoming more willing to take longer-haul flights to achieve these experiences. These trends have helped Canadian ski destinations lure a growing number of U.K. skiers away from traditional European ski destinations, and should contribute to further growth in U.K. visits to Canada overall.

BO Survey participants expect overall travel from the United Kingdom to expand by 3.4 per cent in the second quarter of 2006, compared with a year earlier. Leisure travel is expected to expand 3.3 per cent, bolstered by a 3.2 per cent increase in fully independent travel and 3.6 per cent growth in group leisure travel. Meanwhile, U.K. business travel to Canada is expected to continue growing at a slightly quicker pace, rising by 4 per cent in the second quarter of 2006 compared with the previous year.

France Travel Outlook, Q2 2006

Economic Overview

The French economy expanded by 1.6 per cent last year—better than the German performance but far below neighbouring Spain. The economy was weighed down by weak growth in both consumer and business investment spending. Export growth was responsible for most of the growth in the economy, facilitated by the competitive value of the euro.

As in Germany, France must address and reform the current economic structure of the economy. The system has only managed to deliver weak economic growth, while at the same time inflating the government deficit and doing little to address the country's high unemployment rate and social disparity. The old model essentially benefits those who have jobs, especially workers in the agricultural sector and public sector unions. Yet with an apparent disconnect between the politicians who run France and ordinary voters, change is not on the horizon. In turn, the country's unemployment rate will remain above 9 per cent in 2006. Overall economic growth will improve to 1.9 per cent, largely because of the anticipated pickup in industrial production.

Travel Trends

The French online travel market continues to expand rapidly, and the most significant segment of this market is the 50+ age group, according to the latest quarterly report by the CTC overseas office in France. Approximately 71 per cent of French Internet users aged 50 years and older have purchased travel online in the last 12 months. Overall, online travel products are moving away from being marketed as cheap, last-minute deals, as more online travel companies emerge with higher-end products, such as Thalasso. The booking windows for online travel arrangements are also getting progressively longer.

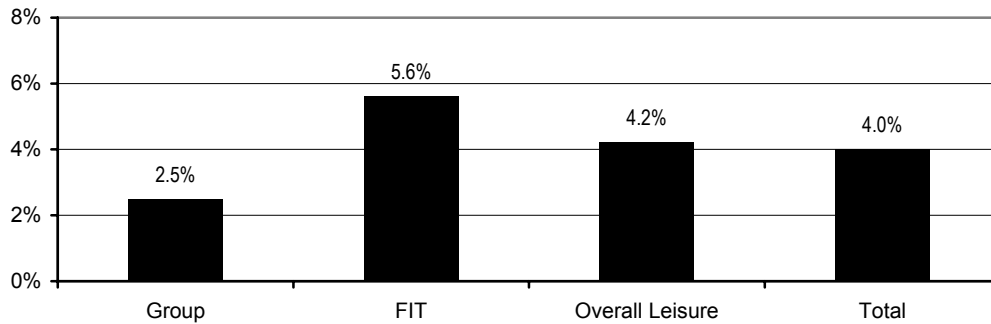
The CTC report also noted that French business travel volumes increased about 2.3 per cent in 2005, compared with 2004. Overall, most tour operators reported that 2005 saw a continuation of the tourism recovery that began at the end of 2004. According to L'Association Professionnelle de Solidarité du Tourisme (APS), a French travel trade association, there were fewer travel agency failures in 2005, following a record year of bankruptcies in 2004.

Passenger traffic on Air France-KLM routes continued to post strong growth up to the end of December, driven by strong demand on routes to nearly all regions of the world. In the first three quarters of the airline's fiscal year (April to December 2005), system-wide passenger volumes rose 6.6 per cent to 50.4 million. Passenger numbers on North and South American routes increased 12.3 per cent, while short- and medium-haul routes (in France and the rest of Europe) saw their numbers rise 5.6 per cent.

In December, the French parliament approved a plan to implement a tax on airline tickets for all flights originating in France as of July 1, 2006, to help fund development initiatives to combat global poverty. The fee will range from 1 to 4 euros for economy tickets, depending on the distance flown, and 10 to 40 euros for business class flights. According to a Reuters news report, the French government anticipates this levy will raise about 210 million euros per year for international aid. However, the European airline industry is concerned the levy will hamper air travel demand and hurt airline profitability.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-Term Outlook—Q2 2006 Overnight Person-Trips From France to Canada (per cent change from previous year, same quarter)



Source: Q2 2006 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 second quarter of 2006—as indicated by *BO Survey* participants—is for 4 per cent growth in visits compared with the same period last year. Similar to the trends seen in previous quarters, growth in fully independent travel is expected to reach 5.6 per cent, outpacing growth in group travel bookings (2.5%) during the period. Consequently, overall leisure travel is expected to climb 4.2 per cent in the second quarter of 2006, compared with a year earlier.

France-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from France to Canada in the second quarter of 2006 is expected to decline slightly (–0.8%) compared with a year earlier. Unfortunately, direct air capacity may be a challenge for the growth of French visits expected during this period.

Seats Available for Direct Travel From France to Canada (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 VS. 2005 CHANGE
Canada (overall)	199,048	197,523	–0.8%
Ontario/Quebec	199,048	197,523	–0.8%

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 of air service to competing long-haul travel destinations for the upcoming travel season.

Seats Available for Travel From France to Other International Destinations (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 vs. 2005 CHANGE
to the United States	990,058	995,160	0.5%
to Brazil	120,523	139,399	15.7%
to China	160,248	184,010	14.8%
to Nigeria/Ghana/Senegal	81,096	86,944	7.2%

Source: OAG Worldwide

Seat capacity on direct flights from France to other tourism destinations competing for French long-haul travellers is expected to expand significantly during the second quarter of 2006, compared with a year earlier. The largest increases are planned for flights to Brazil (15.7%) and China (14.8%). Direct air access to destinations in sub-Saharan Africa (specifically Nigeria, Ghana and Senegal) is expected to register solid growth as well, while seat availability on routes to the United States remains about the same as the previous year.

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. The latest index rating shows that, once again, Canada will be the least price-competitive destination among the competitive set for the second quarter of 2006. Unfortunately, the gap between Canada and the competitive destinations for the French travellers appears to be increasing, compared with the first quarter of 2006. Overall, the index suggests that Manitoba/Saskatchewan will be the most price-competitive region of Canada for French travellers during the second quarter of 2006.

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	€569	€906	€496	€453	€2,424	100.0
Atlantic	€629	€810	€464	€453	€2,355	97.2
Ontario/Quebec	€491	€1,001	€492	€453	€2,437	100.5
Manitoba/Sask.	€610	€773	€482	€453	€2,318	95.6
Alberta/B.C.	€664	€823	€520	€453	€2,460	101.5
United States	€501	€817	€293	€600	€2,211	91.2
China	€613	€922	€552	€119	€2,206	91.0
Sub-Saharan Africa (Nigeria, Ghana, Senegal)	€667	€863	€400	€133	€2,064	85.1
Latin America (Brazil)	€626	€826	€333	€87	€1,871	77.2

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

Summary Outlook for Q2 2006

Pessimistic prospects for France's economy, characterized by weakness in both consumer and business spending, are weighing down the outlook for the French travel market. Overall, most French tour operators report that 2005 saw a continuation of the tourism recovery that began at the end of 2004, but growth has been modest at best. Unfortunately, since the start of 2005, the cost of French travel to Canada has continued to slide with the further depreciation of the euro vis-à-vis the Canadian dollar. Moreover, there will be a slight reduction in direct air capacity between France and Canada in the second quarter of 2006, compared with the same quarter of 2005.

Nevertheless, *BO Survey* participants expect 4 per cent growth in French visits to Canada in the second quarter of 2006. Independent travel is expected to increase 5.6 per cent, while growth in group leisure travel continues to grow at a somewhat slower pace (2.5%). Consequently, overall leisure travel is expected to expand 4.2 per cent during the period.

Germany Travel Outlook, Q2 2006

Economic Overview

Political fighting and economic malaise were the main features of Europe's largest economy last year. Weak economic growth of less than 1 per cent was attributable to slow growth in private consumption. Fortunately, by the end of 2005, there were tentative signs of an economic rebound due to higher investment spending. Real GDP growth of 1.5 per cent is anticipated for 2006.

There is considerable downside risk to the outlook for the German economy. The two parties that form the coalition government have opposing policies on many issues, and proposed revisions to labour market regulations have already been compromised. As a result, the unemployment rate will remain above 11 per cent this year. Meanwhile the government's recent budget proposals have been criticized by the Bundesbank and are unlikely to reduce the deficit enough to meet targets set by the European Union's Stability and Growth Pact.

Tourism Trends

Following a strong summer season, German travel bookings for the winter season were weaker than expected, according to the latest market report by the CTC's foreign office in Germany. In particular, bookings for winter trips to Canada slowed down in September and October. However, travel trends continue to favour North American and other long-haul destinations because of the relative strength of the euro. The report also noted an increasing demand for adventure holidays and travel activities that involve the latest trends in sports. For example, trips that involve biking, hiking, mountain tours, boating and cruising are gaining popularity. Fly-drive vacations have also been popular.

After two years of recovery, German long-haul travel trends could lose some steam in 2006, according to market research by TUI and Travelscope reported in *FVW*, a German travel journal. The report suggests that higher fuel prices and "the impact of natural catastrophes" will be the main reasons for the slowdown. The report noted that in the 2003–04 travel season, North America received the largest number of German long-haul trips (1.4 million), followed by Asia and Australia (1.1 million). A clear trend for trips to Canada and the United States has been the shift from traditional packages towards more flexible holidays that allow travellers to choose their own combination of flights, hotels and rental cars.

The German travel agents and tour operators association, DRV, also reported that 2006 is expected to see slower growth in German travel, according to *FVW*. Tour operators are expected to see 2 to 4 per cent growth in overall revenues for 2006, compared with 5 per cent growth in the travel year ended October 31, 2005. The DRV suggested that rising fuel surcharges and weaker consumer demand were the main culprits for this decline.

In fact, the 2005 *UK & European Travel Report* recently released by the World Travel Market suggested that weak private consumption growth has been constraining the German travel market over the last 10 years. Consumption is expected to decline in 2005 for the fourth consecutive year—the first time this has happened since the Second World War. The overall German travel market was expected to expand by only 1 to 2 per cent in 2005 and perhaps slightly more in 2006. However, the FIFA World Cup is expected to encourage more Germans to take domestic vacations this year, since football matches will be held all over the country.

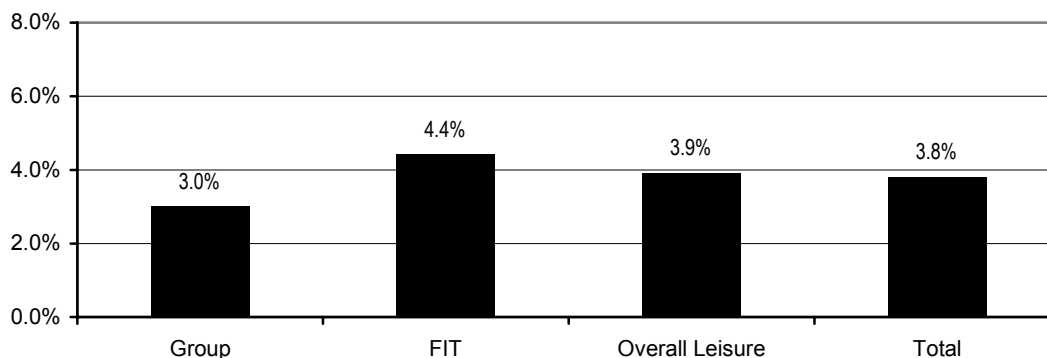
Market Overview

German tour operators surveyed by the CTC were quite mixed in their expectations for growth in their sales of Canadian products for the second quarter of 2006, although some degree of growth was anticipated by most respondents. Generally, most respondents did not find direct air capacity to be much of an issue, but were mixed about the effects of the less favourable exchange rate on bookings.

Respondents noted that vacation packages for individuals and for couples continued to generate the most significant sales growth. B.C./Alberta continues to be the most popular regional destination, followed by Yukon and Nova Scotia. Yukon and Quebec were mentioned as two destinations with potential for further growth in German visits. The most popular types of products for the second quarter of 2006 appeared to be outdoor/sports, nature, cities and resorts, touring and culture/history.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-Term Outlook—Q2 2006
Overnight Person-Trips From Germany to Canada
(per cent change from previous year, same quarter)



*Source: Q2 2006 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 second quarter of 2006 is expected to increase 3.8 per cent compared with the same quarter of 2005. Survey respondents anticipate the FIT segment will continue leading growth expectations, rising 4.4 per cent during the period and boosting growth in overall leisure travel to 3.9 per cent. Meanwhile, group leisure travel continues to lag behind (3%).

When breaking down growth expectations by Canadian regions, respondents anticipate German travel to Alberta/B.C. will expand by 4.2 per cent during the second quarter of 2006 compared with the previous year. Visits to Ontario/Quebec are expected to rise by 3.4 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 3.1 per cent in the second quarter of 2006, 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 possibly be a challenge during this period.

Seats Available for Direct Travel From Germany to Canada (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 vs. 2005 CHANGE
Canada (overall)	237,598	244,916	3.1%
Alberta/B.C.	77,705	73,734	-5.1%
Ontario/Quebec	149,351	157,838	5.7%
Atlantic Canada	7,045	9,578	36.0%

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 (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 vs. 2005 CHANGE
to the United States	1,369,709	1,484,861	8.4%
to South Africa	92,220	109,848	19.1%
to Brazil	110,656	121,264	9.6%
to Mexico	56,236	53,079	-5.6%
to China	216,811	250,000	15.3%

Source: OAG Worldwide.

Seat capacity on direct flights from Germany to most other competitive tourism destinations is expected to grow during the second quarter of 2006, compared with the previous year. The largest increases are planned for routes to South Africa and China during this period, but routes to the United States and Brazil are expected to see solid expansions as well. Mexico is the only competitive tourism destination that is expected to see a decline in direct air services from Germany in the second quarter of 2006.

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. The latest index rating suggests that Canada will lose a significant degree of price competitiveness to competing destinations for the German market in the second quarter of 2006. The latest index rating suggests that competing overseas destinations, except the United States, have benefited from lower airfares from Germany. For the most part, each region of Canada will offer similar price competitiveness for the German traveller during the second quarter of 2006.

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	€549	€906	€496	€453	€2,404	100.0
Atlantic	€669	€810	€464	€453	€2,395	99.6
Ontario/Quebec	€443	€1,001	€492	€453	€2,388	99.3
Manitoba/Sask.	€747	€773	€482	€453	€2,454	102.1
Alberta/B.C.	€622	€823	€520	€453	€2,417	100.5
United States	€509	€817	€293	€600	€2,219	92.3
China	€588	€922	€552	€119	€2,181	90.7
South Africa	€740	€763	€333	€99	€1,935	80.5
Latin America (Brazil and Mexico)	€696	€841	€363	€263	€2,163	90.0

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

Summary Outlook for Q2 2006

After two years of recovery, German travel trends are expected to lose some steam in 2006. In particular, higher fuel prices and weaker consumer demand are taking their toll on long-haul travel demand. Following a strong summer travel season, German tour operators have recently reported a slowdown in bookings for winter Canadian vacation packages; still, the season is expected to finish ahead of the previous year. Despite the further depreciation of the euro, its relative strength compared with the Canadian and U.S. dollars is encouraging Germans to travel to North America.

For the second quarter of 2006, *BO Survey* participants anticipate German visits to Canada will increase 3.8 per cent compared with the same quarter of 2005. The FIT segment continues to lead growth expectations—it is expected to expand 4.4 per cent during the period, boosting growth in overall leisure travel to 3.9 per cent. Expectations for group leisure travel are not quite as optimistic, with survey respondents expecting this segment to expand 3 per cent during the quarter.

Japan Travel Outlook, Q2 2006

Economic Overview

The Japanese economy recorded growth of 2.4 per cent last year, driven mainly by strength in private investment spending. The incentive to invest in Japan is strong because of surging equity markets, which saw the Nikkei increase by close to 40 per cent in 2005. In addition, property investors are at last experiencing a payoff on their investments, now that Tokyo real estate prices have finally increased after a decade of persistent declines.

Japan's economic prospects are expected to remain positive throughout the next year. One of the most significant factors is that overall lending in Japan will likely grow in 2006 for the first time in a decade. The country's largest banks have finally wiped out most of the bad loans that made it difficult for them to lend money, which consequently stifled companies' investments in plants and equipment. And, with improvements to Japan's financial markets, the Japanese economy could be entering a period of economic expansion. Real GDP is forecast to grow by 2 per cent this year and consumer prices are expected to rise by 0.2 per cent. While the anticipated consumer price increase is relatively miniscule, at least it is moving in the right direction after years of crippling deflation.

Meanwhile, business confidence in Japan is on the rise, according to a recent survey of 100 major Japanese firms by Kyodo News. The vast majority of the companies polled said they expected the current economic expansion to last either until the second half of 2006 (33 respondents) or into 2007 (49 respondents), thanks to improving corporate profitability and consumer spending. This would be the longest period of postwar economic expansion since 1970. Nearly all respondents, however, expected the pace of growth to be mild rather than strong.

Tourism Trends

The overall performance of the Japanese tourism industry is estimated to have improved somewhat in 2005, compared with 2004, according to the latest quarterly report by the CTC's foreign office in Japan. Japanese demand for travel to Canada in November and December appeared promising, but the depreciation of the Japanese yen against the Canadian dollar has been a cause for concern. Moreover, the suspension of Air Canada's services in Nagoya were described as a "heavy blow" to the potential growth of Canada's Japanese travel market.

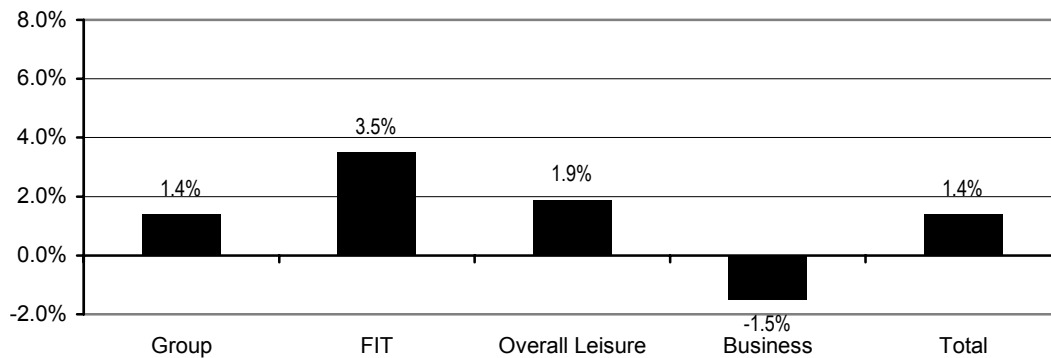
Meanwhile, the Japanese government has begun asking travellers from countries reporting cases of the avian flu virus to disinfect their shoes upon arrival at any of Japan's four international airports, according to a report by *The Japan Times*. Travellers from these countries are asked to voluntarily stop at airport quarantine centres to have their shoes cleaned. The measure has been implemented as a way of preventing poultry droppings from being brought into the country.

JAL has downgraded its full-year forecast for its fiscal year ending March 31, 2006. The airline anticipates a loss due to soaring fuel costs and sluggish passenger demand on key routes. Moreover, highly publicized safety issues have recently hurt the airline's reputation and passenger business. To counteract this negative publicity, JAL plans to invest 60 billion yen in its safety-related operations over the next five years. The airline will also raise its domestic fares as of April 2006 to help offset its fuel costs.

In its first half ended September 30, 2005, JAL's overall passenger traffic was relatively stagnant, rising only 0.3 per cent on international routes and declining 1 per cent on domestic routes compared with the previous year. While demand was strong on its transpacific, Korean and Taiwanese routes, routes to Southeast Asia, Europe and Oceania did not perform as well during the period.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-Term Outlook—Q2 2006
Overnight Person-Trips From Japan to Canada
 (per cent change from previous year, same quarter)



Source: Q1 2006 Business Outlook Survey, Canadian Tourism Research Institute.

The outlook for travel from Japan in the second quarter of 2006—as indicated by *BO Survey* participants—suggests that visits to Canada will increase by a modest 1.4 per cent compared with the same quarter of 2005. The outlook for independent leisure travel (FIT) is much more optimistic than the outlook for group leisure travel (3.5% vs. 1.4%). As a result, growth in overall leisure travel will likely remain slim, at 1.9 per cent. Business travel from Japan is expected to decline during the period, falling 1.5 per cent compared with the previous year.

When breaking down growth expectations by Canadian regions, respondents anticipated that Japanese visits to Ontario/Quebec will climb 2 per cent, while trips to Alberta/B.C. remain nearly on par (up 0.8%) with the previous year.

Japan-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Japan to Canada is expected to decline 15.1 per cent in the second quarter of 2006 compared with the previous year. Consequently, available seat capacity could be a significant challenge to the growth of Japanese visits to Canada during this period.

Seats Available for Direct Travel From Japan to Canada (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 VS. 2005 CHANGE
Canada (overall)	122,444	103,978	-15.1%
Alberta/B.C.	96,782	77,952	-19.5%
Ontario/Quebec	25,662	26,026	1.4%

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 (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 vs. 2005 CHANGE
to the United States	1,765,536	1,591,278	-9.9%
to France	199,662	197,860	-0.9%
to Germany	166,699	179,985	8.0%
to Italy	86,411	82,628	-4.4%
to Australia	272,734	273,572	0.3%

Source: OAG Worldwide.

Germany continues to be the only competitive tourism destination expected to see a significant increase direct air capacity. During the second quarter of 2006, seats on German routes are expected to expand 8 per cent compared with the previous year. Air access to Australia is expected to remain nearly on par with the previous year, but other travel destinations are expected to see a reduction in air services. Specifically, direct air access on Japanese routes to France, Italy and the United States is expected to fall between 0.9 and 9.9 per cent during this period.

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. The latest Competitive Price Index confirms that Canada will remain very price competitive compared with other destinations in the competitive set, except the United States, for the second quarter of 2006. However, aside from Australia, most destinations will increase their competitive position, compared with the index ratings reported for the first quarter of 2006. Because of significantly lower airfares, Alberta/B.C. was found to be the most price-competitive region of Canada.

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	¥107,234	¥180,684	¥99,014	¥90,342	¥477,274	100.0
Atlantic	¥135,855	¥161,513	¥92,498	¥90,342	¥480,208	100.6
Ontario/Quebec	¥116,582	¥199,665	¥98,118	¥90,342	¥504,707	105.7
Manitoba/Sask.	¥147,530	¥154,226	¥96,126	¥90,342	¥488,225	102.3
Alberta/B.C.	¥95,019	¥164,260	¥103,644	¥90,342	¥453,265	95.0
U.S.	¥97,693	¥163,038	¥58,375	¥119,674	¥438,781	91.9
France	¥132,671	¥222,415	¥112,304	¥78,375	¥545,766	114.4
Germany	¥132,671	¥227,645	¥114,372	¥71,958	¥546,647	114.5
Italy	¥148,356	¥266,234	¥123,314	¥72,821	¥610,725	128.0
Australia	¥220,435	¥156,430	¥104,040	¥67,710	¥548,614	114.9

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

Summary Outlook for Q2 2006

Optimism about the Japanese travel market has waned in recent months, despite the continued recovery of the Japanese economy. Canada's price competitiveness as a destination for Japanese travellers continues to fall because of the further depreciation of the Japanese yen vis-à-vis the Canadian dollar. In addition, the level of planned direct air capacity between Japan and Canada is slated to decline significantly in the second quarter of 2006 (-15.1%), compared with a year earlier. Overall, moderating conditions for Japanese travel to Canada have resulted in a much more subdued outlook for this market.

BO Survey participants anticipate Japanese visits to Canada will increase by a modest 1.4 per cent in the second quarter of 2006 compared with the same quarter of 2005. The outlook for independent leisure travel (FIT) is much more optimistic than the outlook for group leisure travel (3.5% vs. 1.4%). As a result, growth in overall leisure travel will likely remain slim, at 1.9 per cent. Business travel from Japan is expected to decline during the period, falling 1.5 per cent compared with the previous year.

South Korea Travel Outlook, Q2 2006

Economic Overview

Economic conditions in South Korea are improving. The export sector in particular has been recovering thanks to a rebound in industrial production. November's index of industrial production for manufacturing increased by over 12 per cent from the previous year, largely due to shipments of electronics and semi-conductors. Domestically, consumer spending continues to improve, anchoring the recovery of the South Korean economy. Higher interest rates will help stave off inflation over the next year but will also moderate consumer spending somewhat. Still, growth in South Korea's real GDP is expected to increase to 4.6 per cent in 2006 on the heels of a 3.8 per cent increase last year.

Travel Trends

The outlook for the rapidly growing Korean outbound market is "very bright," according to the latest quarterly report by the CTC's foreign office in Korea. Several key Korean tour operators plan to implement aggressive strategies to expand their Canadian product sales. The only significant concern is the depreciation of the Korean won against the value of the Canadian dollar, which has resulted in a noticeable increase in Canadian hotel rates and other fees.

Overall, the Korean outbound travel market continues to register substantial growth, according to the latest Korean market report by Tourism Australia. Between January and October 2005, Korean outbound departures grew 15.6 per cent to 8.5 million trips, compared with the same period of 2004. Visits to other Asian destinations were ahead by 14.1 per cent, trips to America were up 6.9 per cent, and visits to Europe climbed 7.4 per cent.

The Bank of Korea reported that Koreans spent a record-high US\$10.7 billion while travelling overseas between January and November 2005, a 19.9 per cent increase over the previous year, according to *The Korea Times*. The bank said that "demand for overseas travel exploded last year," driven in part by the strong value of the won against the U.S. dollar. The number of outbound trips was estimated to have hit a record high in 2005. The bank also noted that a growing number of "rich" Koreans were enjoying overseas holidays that involved golf and other expensive travel activities.

Market Overview

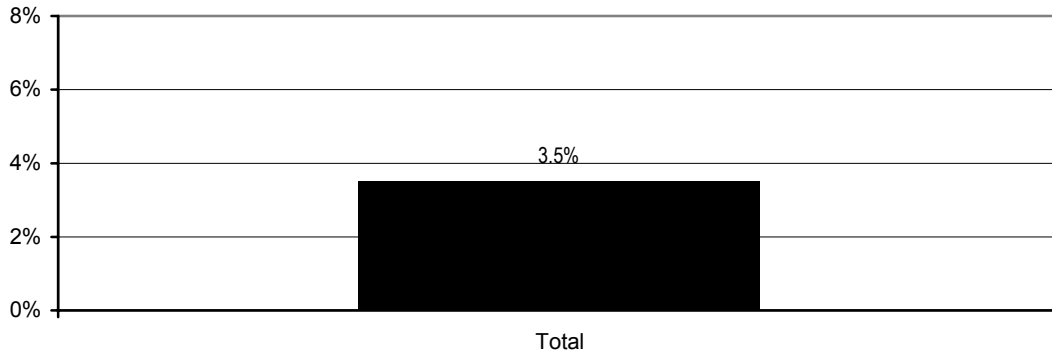
Korean tour operators surveyed by the CTC were very optimistic about their sales of Canadian vacation products for the second quarter of 2006, expecting growth of 45 per cent compared with the previous year. Respondents indicated that direct air capacity during this period was not a problem; however, the less favourable exchange rate appears to be hurting bookings.

Respondents noted that group leisure packages continued to make up the bulk of trips to Canada, although trips for individual travellers, both with and without a package, continue to grow in popularity. B.C. continues to be the most popular destination for Korean travellers, followed by Ontario and Alberta. Quebec is expected to receive a smaller proportion of visitors during the second quarter of 2006.

New products under development for the Korean market include: city breaks for Vancouver, Toronto, Ottawa, Québec City and Calgary; fly and drive trips to B.C. and Alberta; golf packages in Western Canada; a "world's best falls" tour to Niagara Falls, Iguassu Falls and Victoria Falls; and rail tours in the Rocky Mountains. The best-selling product types for the period have been touring, nature, and cities/resorts, in that order.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-Term Outlook—Q2 2006 Overnight Person-Trips From South Korea to Canada (per cent change from previous year, same quarter)



Source: Q2 2006 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 second quarter of 2006, as indicated by *BO Survey* participants, is for growth of 3.5 per cent compared with the same quarter of 2005.

Survey participants anticipate Korean visits to Alberta/B.C. will expand 4.1 per cent in the second quarter of 2006, compared with a year earlier, and visits to Ontario/Quebec are expected to climb 2.5 per cent.

South Korea-to-Canada Air Capacity, OAG Worldwide

According to OAG, direct air capacity from South Korea to Canada during the second quarter of 2006 is expected to decline slightly (−0.3%) compared with the previous year. Considering the growth in Korean visits anticipated during this period, direct air access could potentially be a challenge during this quarter.

Seats Available for Direct Travel From South Korea to Canada (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 VS. 2005 CHANGE
Canada (overall)	409,898	428,543	−0.3%
B.C./Alberta	69,329	73,970	−3.4%
Ontario/Quebec	78,559	79,287	9.1%

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 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 (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 VS. 2005 CHANGE
to the United States	409,898	428,543	4.5%
to Australia	69,329	73,970	6.7%
to Germany	78,559	79,287	0.9%
to the U.K.	44,746	45,474	1.6%
to France	56,966	63,154	10.9%

Source: OAG Worldwide.

Key tourism destinations competing for the Korean travel market are expected to see an expansion of direct air capacity during the second quarter of 2006. In particular, routes to France are expected to see substantial increases (10.9%) compared with a year earlier. Seat availability on Australian and U.S. routes is expected to grow 6.7 and 4.5 per cent, respectively, while air services to Germany and the U.K. expand minimally.

Competitive Price Index

From the perspective of potential Korean travellers to Canada, the strongest competing destinations are the United States, the United Kingdom, France, Germany and Australia. For this market, the competitive price analysis was based on a typical 10-night stay, priced in Korean won. The Competitive Price Index confirms that Canada will remain quite price competitive compared with most overseas destinations in the competitive set for the second quarter of 2006. However, the latest index suggests that Australia will become more price competitive than Canada for South Korean travellers. Thanks to significantly lower airfares, Alberta/B.C. was found to be the most price-competitive region of Canada during the second quarter of 2006.

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	1,529,273	1,549,274	848,998	774,637	4,702,183	100.0
Atlantic	1,935,418	1,384,891	793,125	774,637	4,888,070	104.0
Ontario/Quebec	1,542,209	1,712,022	841,310	774,637	4,870,179	103.6
Manitoba/Sask.	1,928,339	1,322,412	824,232	774,637	4,849,621	103.1
Alberta/B.C.	1,447,840	1,408,443	888,692	774,637	4,519,612	96.1
U.S.	1,308,379	1,397,970	500,539	1,026,143	4,233,031	90.0
France	1,828,232	1,907,097	954,278	672,025	5,361,632	114.0
Germany	1,799,918	1,951,942	980,683	617,004	5,349,547	113.8
U.K.	1,886,881	2,218,915	953,026	806,703	5,865,525	124.7
Australia	1,700,417	1,341,305	892,087	580,579	4,514,388	96.0

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

Summary Outlook for Q2 2006

BO Survey participants anticipate overall travel from South Korea will increase by 3.5 per cent during the second quarter of 2006 compared with a year earlier. However, tour operators surveyed by the CTC's foreign office in Korea were much more optimistic, anticipating substantial growth in Canadian product sales for the spring travel season. Several key tour operators plan to capitalize on the growing demand for Canadian destinations by implementing aggressive strategies to expand this market. The only significant concern identified was the depreciating value of the Korean won against the Canadian dollar, which has made Canadian trips less price competitive. And considering the solid growth potential of Korean visits anticipated during the spring quarter, it is possible that direct air access could be a challenge. Nevertheless, Korean tour operators described their outlook for Korean visits to Canada as "very bright."

China Travel Outlook, Q2 2006

Economic Overview

The Chinese economy grew by 9.3 per cent last year primarily because of surging growth in exports and investment. This year, economic growth will slow to 8.5 per cent, as export growth cools down from 30 per cent to the 20 per cent range. The textile agreements the Chinese government recently signed with the E.U. and the United States will limit the quantity of textile exports to these markets this year. Conversely, investment spending in 2006 is forecast to increase at an alarming rate of close to 20 per cent. Overcapacity already exists in the aluminum, steel and auto sectors of the economy, and problems are developing in the cement, coal and power sectors. Over-investment could lead to declining prices and tumbling corporate profitability.

Since last summer, the yuan has appreciated against the U.S. dollar by less than 3 per cent. A greater appreciation would not only help to cool down the Chinese economy but would also help China's strained relationship with the United States over the trade deficit. However, the central bank's concerns about the stability of domestic financial markets imply that the yuan will appreciate at a very modest pace throughout 2006.

Tourism Trends

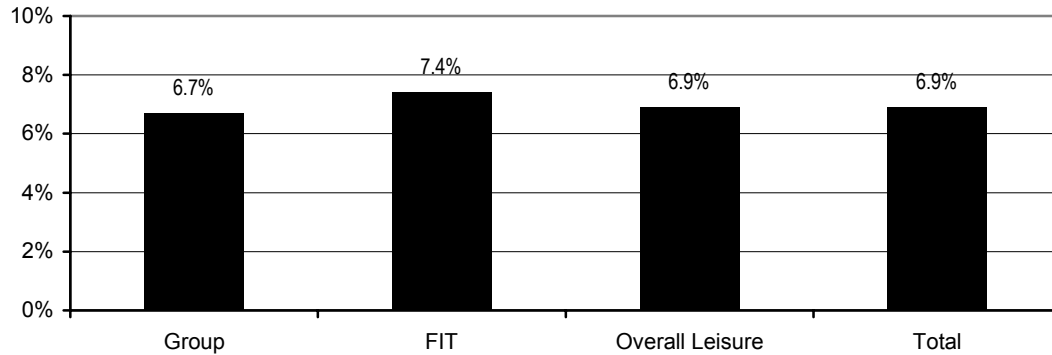
Negotiations on Canada's approved destination status (ADS) remain ongoing with the Chinese government, according to the latest quarterly report by the CTC office in China. By the end of 2005, 76 countries had been granted ADS, while another 15 (including Canada) were still negotiating an ADS agreement with the Chinese government. In Europe, one issue that has become a problem for ADS travel is the increase in travellers who overstay their visa period. As a result, the China National Tourism Authority (CNTA) has suspended the outbound licenses of at least five major travel agents, and European embassies and consulates have been forced to tighten their ADS visa procedures.

The pace of growth for air passenger demand in China is expected to ease off in 2006, according to a Reuters news report, following the rebound in demand witnessed over the last two years. The Chinese government has forecast 15 per cent growth in the number of air passengers this year, compared with 33 per cent growth in 2004 and 20 per cent growth in 2005. Meanwhile, the Chinese government has signed a record-breaking contract with European aircraft maker Airbus, worth US\$10 billion to deliver 150 A320 aircraft to six Chinese airlines. This has resulted in some concerns of overcapacity in China's domestic air market; however, Boeing has previously forecast that China will need 2,000 new aircraft over the next 20 years to keep up with demand.

Two challenges are constraining growth in the Chinese online travel market, according to a recent article by Air Transport World. The first is the lack of widespread implementation of electronic ticketing. The second is the scarcity of credit cards, which is the main method of paying for online products. Neither issue is insurmountable, however. Several international airlines have introduced e-ticketing in China, but technology will have to be upgraded for e-ticketing to move forward. With respect to online payments, China has a highly developed debit card system, but there are no wide-network debit cards. Each bank issues its own debit card, so connecting with each one is a major challenge for online travel companies. In addition, the maximum transaction amount for most debit cards is quite low, about US\$125—too low for an international air ticket. Consequently, many online transactions are currently done in convenience stores.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-Term Outlook—Q2 2006 Overnight Person-Trips From China to Canada (per cent change from previous year, same quarter)



Source: Q2 2006 Business Outlook Survey, Canadian Tourism Research Institute.
Business travel is not broken out in order to preserve respondent confidentiality.

The outlook for overall leisure travel from China—as indicated by *BO Survey* participants—is for 6.9 per cent growth in the second quarter of 2006 compared with the previous year. *BO Survey* participants anticipate that fully independent travel will jump 7.4 per cent during this period, while group leisure travel rises 6.7 per cent.

During the second quarter of 2006, survey participants anticipate Chinese visits to the Alberta/B.C. region will increase 7.1 per cent, while visits to Ontario/Quebec will expand 6.6 per cent compared with a year earlier.

China-to-Canada Air Capacity, OAG Worldwide

The number of non-stop seats between China and Canada in the second quarter of 2006 is expected to decline 1.6 per cent compared with the previous year. As a result, the level of direct air capacity between China and Canada may be a challenge for the growth in Chinese visits anticipated during this period.

Seats Available for Direct Travel From China to Canada (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 VS. 2005 CHANGE
Canada (overall)	91,735	90,289	-1.6%
Alberta/B.C.	88,351	70,555	-20.1%
Ontario/Quebec	3,384	19,734	483.2%

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 or decline of air service to competing long-haul travel destinations for the upcoming travel season.

Seats Available for Travel From China to Other International Destinations (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 VS. 2005 CHANGE
to the United States	219,644	294,431	34.0%
to Australia	113,420	108,498	-4.3%
to Germany	216,811	250,320	15.5%
to France	160,029	183,760	14.8%
to the U.K.	80,416	108,456	34.9%

Source: OAG Worldwide.

Seat capacity on direct flights from China to most key competitive tourism destinations is expected to expand during the second quarter of 2006, compared with a year earlier. Large increases are anticipated for air services to the United Kingdom and the United States, in particular. As well, double-digit growth is planned for routes to Germany and France. Australia is the only market expected to see a reduction in air services from China.

Competitive Price Index

From the perspective of potential Chinese travellers to Canada, the strongest competing destinations are the United States, the United Kingdom, France, Germany and Australia. For this market, the competitive price analysis was based on a typical 10-night stay, priced in Chinese yuan. The latest index suggests that Canada has lost a significant degree of price competitiveness compared with other competing destinations for the second quarter of 2006. In particular, with the exception of the U.K., the latest index suggests every other competitive destination will be more price competitive for the Chinese market than Canada for travel during the second quarter of 2006. Within Canada, the latest index found Alberta/B.C. to be the most price-competitive region of Canada.

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	13,319	12,362	6,774	6,181	38,636	100.0
Atlantic	15,951	11,050	6,329	6,181	39,511	102.3
Ontario/Quebec	12,918	13,661	6,713	6,181	39,472	102.2
Manitoba/Sask.	14,862	10,552	6,577	6,181	38,172	98.8
Alberta/B.C.	13,194	11,238	7,091	6,181	37,705	97.6
U.S.	9,519	11,155	3,994	8,188	32,855	85.0
France	8,262	15,217	7,684	5,362	36,525	94.5
Germany	8,319	15,575	7,825	4,923	36,642	94.8
U.K.	8,536	17,705	7,604	6,437	40,283	104.3
Australia	12,556	10,703	7,118	4,633	35,009	90.6

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

Summary Outlook for Q2 2006

The outlook for the Chinese travel market remains upbeat and will improve even further once an agreement is completed with China on Canada's status as an approved travel destination. Although there is a slight reduction (-1.6%) in direct air capacity planned for the second quarter of 2006, overall air access between China and Canada has increased substantially in recent quarters, in anticipation of future growth in Chinese visits. More significantly, the largest near-term expansion in air capacity is expected to come from Chinese branded airlines. Overall, favourable economic conditions and strong travel trends continue to support optimistic prospects for Canada's Chinese travel market.

For the second quarter of 2006, *BO Survey* participants expect solid growth in Chinese visits compared with the same quarter of 2005. Overall leisure travel is expected to rise 6.9 per cent during this period, boosted by a 7.4 per cent jump in fully independent leisure travel and a 6.7 per cent increase in group travel bookings.

Australia Travel Outlook, Q2 2006

Economic Overview

After expanding by 3.5 per cent in 2004, the Australian economy recorded growth of only 2.6 per cent in 2005. The combination of a weakening housing market and high oil prices sapped a lot of energy out of household spending. New housing approvals declined from 167,000 units in 2004 to 154,000 last year. Accordingly, consumer spending edged up by a marginal 0.3 per cent during the third quarter of 2005. This sluggishness will carry over into 2006, with growth in household consumption slowing slightly to 2.9 per cent. Still, overall economic activity will pick up this year. Strength in business investment spending and a rebound in industrial production will be the main factors behind the improvement. Real GDP growth of 3.3 per cent is anticipated for 2006.

Tourism Trends

The CTC's foreign office in Australia recently reported that adventure travel market is booming in Australia right now. Couples and families are pursuing more adventure holidays, increasingly switching away from beach and resort vacations. Treks, tours and diving are popular adventure activities. An emerging group in the adventure travel market includes travellers aged 50 years and older—there are a growing number of travel services and products aimed at this segment. Some tour operators have begun offering pre-vacation training sessions to their clients in this segment to ensure they are physically ready for their adventure holidays.

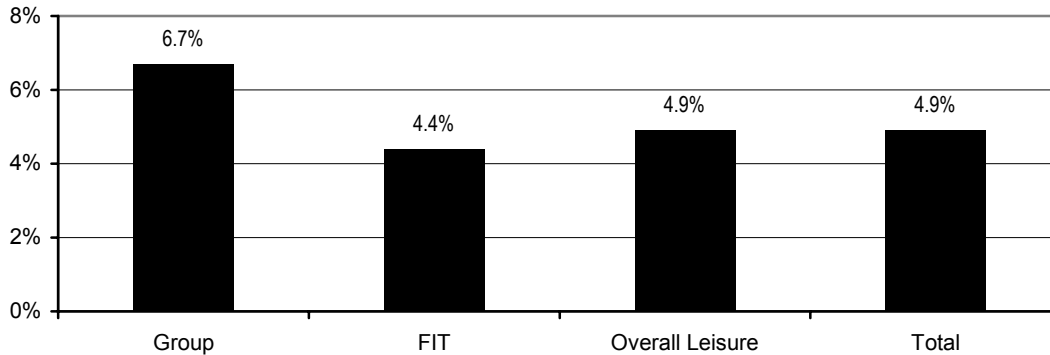
Meanwhile, Australian outbound travel continues to trend upward, although the pace of growth has slowed, according to the latest figures from the Australian Bureau of Statistics. In November 2005, short-term resident departures were up 3.1 per cent compared with November 2004.

Qantas Airways announced plans to begin operating seasonal service between Australia and Vancouver from June to August 2006, to accommodate the traditional peak travel season for that route. The airline will also offer service to Vancouver in December 2006 and January 2007, to accommodate demand for Canadian ski trips. The airline noted that these services would boost tourism in both Canada and Australia, and would be the first step in establishing year-round Qantas flights to Canada.

Qantas also announced plans to launch a long-haul, low-cost airline under its Jetstar brand, for point-to-point service between Australia and cities in Asia, and around the Pacific, according to a news report by *Air Transport World*. Qantas said its new subsidiary would complement its current mainline international operations with an emphasis on leisure travel. Qantas plans to begin services on its new subsidiary in January 2007. Subsequent expansions could potentially involve routes to Europe and other long-haul destinations.

Destination Supplier/Receptive Agent Business Outlook Survey

Short-Term Outlook—Q2 2006 Overnight Person-Trips From Australia to Canada (per cent change from previous year, same quarter)



Source: Q2 2006 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 second quarter of 2006—as indicated by *BO Survey* participants—is for 4.9 per cent growth, compared with a year earlier. Group leisure travel is expected to jump 6.7 per cent during this period, while independent travel rises 4.4 per cent.

Australia-to-Canada Air Capacity, OAG Worldwide

According to the latest figures from OAG (as of January 2006), direct air capacity (including one stop) between Australia and Canada is expected to increase 16.8 per cent during the second quarter of 2006, compared with the previous year. This substantial increase in air access should help facilitate the growth in visits anticipated from the Australian market during this period.

Seats Available for Travel From Australia to Canada (Q2—April to June)

DIRECT SEATS AVAILABLE (INCLUDES ONE STOP)	2005 (DIRECT)	2006 EST. (DIRECT)	2006 vs. 2005 CHANGE
Canada (overall)	19,292	22,536	16.8%
Alberta/B.C.	19,292	22,324	15.7%
Ontario/Quebec	0	212	n/a

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 (Q2—April to June)

NON-STOP SEATS AVAILABLE	2005 (DIRECT)	2006 EST. (DIRECT)	2006 vs. 2005 CHANGE
to the United States	255,068	276,420	8.4%
to the U.K. (includes one stop)	274,457	238,784	-13.0%
to China	85,970	96,772	12.6%
to Hong Kong	309,785	325,585	5.1%
to Japan	272,734	273,572	0.3%
to Italy	0	0	n/a
to India	16,458	11,583	-29.6%

Source: OAG Worldwide.

Air capacity to India and the U.K. is expected to decline substantially during the spring quarter, compared with a year earlier, while services to Japan remain about the same. Routes to Hong Kong, the United States and China are expected to see solid increases in direct air capacity during the second quarter of 2006, compared with the same quarter of 2005.

Competitive Price Index

From the perspective of potential Australian travellers to Canada, the strongest competing destinations are the United States, the United Kingdom, 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. The Competitive Price Index suggests that Canada will rank near the middle in terms of price competitiveness among this group for the second quarter of 2006. However, Canada's price competitiveness to the Australian traveller will decline relative to other competing destinations, except Hong Kong, during the second quarter of 2006. Within Canada, Alberta/B.C. was found to be the most price-competitive region of Canada.

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	\$2,773	\$2,088	\$1,144	\$1,044	\$7,050	100.0
Atlantic	\$3,283	\$1,867	\$1,069	\$1,044	\$7,263	103.0
Ontario/Quebec	\$2,871	\$2,308	\$1,134	\$1,044	\$7,357	104.4
Manitoba/Sask.	\$3,139	\$1,783	\$1,111	\$1,044	\$7,077	100.4
Alberta/B.C.	\$2,631	\$1,898	\$1,198	\$1,044	\$6,771	96.0
U.S.	\$2,199	\$1,884	\$675	\$1,383	\$6,142	87.1
U.K.	\$2,128	\$2,991	\$1,285	\$1,087	\$7,491	106.3
Japan	\$1,828	\$2,129	\$1,158	\$1,285	\$6,399	90.8
China	\$2,240	\$2,125	\$1,273	\$274	\$5,912	83.9
Hong Kong	\$2,028	\$3,162	\$1,404	\$920	\$7,514	106.6
Italy	\$2,158	\$3,077	\$1,425	\$842	\$7,502	106.4
India	\$1,581	\$2,606	\$921	\$236	\$5,344	75.8

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

Summary Outlook for Q2 2006

BO Survey participants anticipate 4.9 per cent growth in Australian travel to Canada during the spring travel season. Group leisure travel is expected to jump 6.7 per cent during the second quarter of 2006, compared with the previous year, while fully independent travel increases 4.4 per cent.

The overall Australian outbound market continues to expand, but at a much slower pace than in the earlier part of 2005. Direct air capacity between Australia and Canada is slated to expand substantially during the second quarter of 2006, which should help spur growth in travel between the two countries. Overall, Canada's price competitiveness as a destination for Australian travellers has held up well, despite some recent depreciation of the Australian currency vis-à-vis the Canadian dollar. On the whole, stable travel trends and economic conditions continue to support a positive outlook for the Australian travel market.

Appendix 1:

Construction of the Competitive Price Index

Overview

One important aspect of Canada's global competitiveness as a tourism destination is the price of Canadian travel products relative to other key international competitors. As a regular feature of the *Short-Term Markets 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 the first issue of this report featuring the Competitive Price Index established certain pricing benchmarks, this and future issues will focus on how Canada's price competitiveness is changing. The Competitive Price Index is calculated based on a potential traveller's 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 produces a measure of the absolute and relative rate of change in Canada's price competitiveness against that of its closest competitors. In addition to the 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, further refinement in the development and presentation of the Competitive Price Index may be expected in upcoming issues.

Methodology

While the theory behind calculating the 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. Although the levels reported by the Competitive Price Index are interesting (and potentially quite subjective), the primary objective in ongoing monitoring will be to understand how Canada's competitive position might be changing among 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
Mexico	7
U.K.	7
France	7
Germany	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 Markets Outlook* was provided by the CTC. The following table shows the competitive destinations for each international travel market monitored in the *Short-Term Markets Outlook*.

Table A2: Canada's Competitive Destinations

INTERNATIONAL TRAVEL MARKET	COMPETITIVE DESTINATIONS (TO CANADA)
U.S.	Domestic U.S.
Mexico	U.S., Spain
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
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 with 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 May 15, 2006 and May 22, 2006—the midpoint of the reference period under analysis. Various specific destinations within each country were used and results weighted based on 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 (May 2005 airfares used with November 2005 year-to-date airfare increases applied on top).
Domestic U.S. average airfares	The estimated Q2 2006 average airfare was constructed by applying the year-over-year annual growth reported by the December 2005 Air Transport Association monthly report to the Q3 2005 average airfares reported by American Express Business Travel Monitor. Since taxes and charges were not included in the American Express Business Travel Monitor figure, 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	The latest monthly published per diem 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 United States 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 are 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.