
Domestic, U.S. and Overseas Travel to Canada

Short-Term Markets Outlook
Third Quarter 2006

Prepared for:
The Canadian Tourism Commission (CTC)

By:
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WHAT'S INSIDE

This study provides a short-term outlook for domestic and international travel to Canada for the third quarter of 2006 (July to September).

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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 Supplier/Receptive Agent Business Outlook Survey (BO Survey)*. This survey was developed by the Canadian Tourism Research Institute (CTRI), a division of The Conference Board of Canada, on behalf of the Canadian Tourism Commission (CTC). To bolster the quality of this report, quarterly staff reports and surveys of key tour operators, administered by the CTC's foreign offices, are also incorporated.

Please note that, since the outlook's scope is restricted to the third quarter of 2006, all growth comparisons are reported on a year-over-year basis compared with the third quarter of 2005.

Highlights

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

Q3 2006 Short-Term Outlook for Canada's Key Markets (per cent change over Q3 2005)

COUNTRY	MARKET SEGMENT				
	LEISURE—GROUP	LEISURE—FIT**	LEISURE— OVERALL	BUSINESS	TOTAL—OVERALL
Canada	4.3%	3.1%	3.3%	4.9%	3.9%
United States	0.5%	2.2%	1.8%	2.1%	1.8%
Mexico	4.0%	7.0%	5.7%	*	5.5%
United Kingdom	4.4%	1.9%	2.5%	2.9%	2.6%
France	2.9%	2.1%	2.5%	*	2.5%
Germany	4.6%	3.5%	3.9%	*	3.8%
Japan	1.5%	4.2%	2.2%	2.8%	2.3%
South Korea	*	*	*	*	3.5%
China	10.8%	8.4%	10.1%	*	10.1%
Australia	5.6%	2.1%	3.3%	*	3.3%

* Not enough responses to ensure confidentiality

** Fully independent travel

North and South American Markets

Canada

Canada's strong economic performance continues to bolster consumer confidence, supporting a buoyant outlook for domestic travel this summer. Although high gasoline prices are taking a bite out of Canadians' disposable income and may encourage some travellers to stay a little closer to home this summer, they are not expected to derail the positive momentum behind domestic travel demand. Canadian consumers are adjusting to the higher price levels—prices that consumers found shocking a year ago.

BO Survey participants anticipate overall domestic travel will expand 3.9 per cent in the third quarter of 2006, compared with a year earlier. Leisure travel is expected grow 3.3 per cent, bolstered by a 4.3 per cent rise in group leisure trips, while fully independent travel (FIT) grows 3.1 per cent. Business travel is expected to maintain its steady pace of growth, increasing 4.9 per cent in the third quarter of 2006. Canada's strong economic performance is expected to keep consumer confidence close to the high levels seen over the past year, supporting the upbeat outlook for domestic travel demand.

U.S.

U.S. travel to Canada remains a persistent concern that continues to cloud the otherwise solid outlook for the Canadian tourism industry this summer. Overall, *BO Survey* participants expect minimal (1.8%) growth in U.S. travel to Canada during the third quarter of 2006. Group leisure travel is forecast to edge up 0.5 per cent, while fully independent travel climbs 2.2 per cent. Meanwhile, U.S. business travel to Canada is expected to rise 2.1 per cent in the third quarter of 2006, compared with the previous year.

Over the coming months, climbing energy prices, combined with rising interest rates, are expected to have a noticeable impact on American consumers. Similar to last year, these factors are not expected to significantly reduce U.S. leisure travel volumes, but may encourage Americans to stay closer to home when taking a summer vacation by automobile. In addition, the climbing value of the Canadian dollar continues to stifle the U.S. travel market. Moreover, recent surveys suggest that ongoing confusion over the impending requirements for passports or other secure travel documents at the border is also dampening U.S. visits. Unfortunately, the combination of all these factors suggests concern over the performance of the U.S. travel market will continue.

Mexico

Overall, Mexican visits are expected to sustain a moderate pace of growth over the near term. *BO Survey* participants anticipate leisure travel from Mexico will expand 5.7 per cent during the third quarter of 2006, compared with the same quarter of 2005. FIT visits are expected to maintain their lively pace of growth, rising 7 per cent over the period, while growth in group travel continues to lag somewhat behind at 4 per cent. Mexican outbound travel trends remain strong, with Canada benefiting from much of this increase in travel volumes—in the first two months of 2006, Mexican visits to Canadian destinations surged more than 30 per cent compared with the same period in 2005. The substantial increase in direct air capacity planned between Mexico and Canada over the third quarter, particularly for Mexican branded airlines, should support continued growth in Mexican visits to Canada over the summer travel season.

European Markets

U.K.

Reports from the British travel industry suggest that U.K. travel demand has started to ease. Sluggish consumer spending, weakened by high debt levels and rising unemployment, among other factors, appears to have contributed to a mixed outlook for British travel over the summer season. Short- and medium-haul booking volumes remain behind the pace of growth set in 2005, although capacity cutbacks this year have resulted in further pricing gains for many British travel suppliers. The outlook for long-haul travel is more optimistic, even though the 2006 FIFA World Cup tournament in Germany during June and early July may delay some summer trips, since many travellers want to remain in the same time zone as the games.

BO Survey participants anticipate overall travel from the United Kingdom will expand by 2.6 per cent in the third quarter of 2006, compared with a year earlier. Leisure travel is expected to increase 2.5 per cent, with a 4.4 per cent boost in group leisure travel and 1.9 per cent growth in fully independent travel. Meanwhile, U.K. business travel to Canada will likely continue outperforming leisure travel, rising by 2.9 per cent in the third quarter of 2006 compared with a year earlier. Despite the further appreciation of the Canadian dollar vis-à-vis the British pound, positive long-haul travel trends support the outlook for modest growth in U.K. visits to Canada this summer.

France

French travel demand continues to show little momentum overall, constrained in part by the lacklustre performance of the French economy. However, outbound travel trends appear to be on a more positive trajectory, supporting a favourable outlook for French travel to Canada during the summer quarter. According to the CTC overseas office in France, a rapidly growing number of French travellers are using the Internet to research travel, which is encouraging them to widen their vacation horizons and choose travel destinations further abroad.

BO Survey participants expect French visits to Canada to grow 2.5 per cent in the third quarter of 2006 compared with the previous year. In a reversal of recent trends, group leisure travel is expected to increase 2.9 per cent, outpacing growth in fully independent travel (2.1%) during the period. Consequently, overall leisure travel is expected to climb 2.5 per cent over the previous year.

Germany

Overall travel demand in Germany is beginning to show signs of losing steam. German travel agency sales posted solid growth in the first quarter, but advance bookings for trips up to the end of the summer season are falling behind the booking pace set last year. Booking revenues, however, are slightly ahead, and this suggests that travel product prices continue to strengthen. The FIFA World Cup tournament in Germany is partly to blame, but other factors include concerns about the avian influenza outbreaks cropping up and the negative effects of the sluggish German economy on consumer demand. However, one promising leisure travel segment emerging from Germany is the singles market, which the CTC will target over the coming months.

BO Survey participants anticipate overall travel from Germany will expand 3.8 per cent in the third quarter of 2006 compared with a year earlier. Growth in group leisure travel (4.6%) is expected to outpace growth in FIT visits (3.5%) during the period. As a result, German leisure travel to Canada is expected to increase 3.9 per cent this summer.

Asia-Pacific Markets

Japan

There has been a modest improvement in the outlook for Canada's Japanese travel market. *BO Survey* participants anticipate Japanese visits to Canada will increase 2.3 per cent during the third quarter of 2006 compared with the same quarter a year earlier. The independent leisure travel segment (FIT) is expected to grow 4.2 per cent over the period, outperforming group leisure travel (up 1.5%) by a wide margin. As a result, Japanese leisure travel to Canada is expected to achieve modest gains (2.2%) over the summer quarter.

Reports from the CTC's overseas office in Japan, however, are somewhat more positive. Buoyed by the continued recovery of the Japanese economy, outbound travel from Japan is forecast to grow further this year, building on the solid growth recorded in 2005. In particular, the recent economic upswing has contributed to significant growth in the demographic of very wealthy Japanese, fuelling a boom in spending on luxury items. This includes high-end, deluxe vacation packages, which are quickly becoming an important product niche for Japanese travel companies.

South Korea

BO Survey participants anticipate overall travel from South Korea will maintain its steady pace of growth through the third quarter of 2006, expanding 3.5 per cent compared with the previous year. Canadian destinations have become more price competitive for Korean travellers, in tandem with the strong appreciation of the Korean won. In fact, the strength of the won has been contributing to a surge in Korean overseas travel—for independent trips, in particular—which is projected to remain on track through 2006. Elections scheduled for the end of May and the FIFA World Cup 2006 tournament in June and July may delay some travel bookings in the near term, but neither of these factors is expected to encourage any decline in outbound travel over the summer travel season.

China

The outlook for Chinese travel to Canada remains very positive, sustained by unabated growth in Chinese outbound travel demand. Unfortunately, the Canadian tourism industry cannot fully capitalize on the potential offered by this rapidly expanding market until the implementation of Canada's approved destination status (ADS) with China. Negotiations for ADS are progressing slowly, and it appears unlikely that they will be completed before the end of this year.

Nonetheless, *BO Survey* participants expect significant growth in Chinese visits during the third quarter of 2006 compared with the same quarter a year ago. Overall leisure travel is expected to jump 10.1 per cent during this period, boosted by a 10.8 per cent increase in group leisure travel. Meanwhile, fully independent travel is expected to rise 8.4 per cent. Direct air capacity between China and Canada is expected to increase significantly over the third quarter of 2006, supporting a strong outlook for Chinese visits to Canada this summer.

Australia

Overall, Canada's Australian travel market appears poised for solid growth over the summer travel season. *BO Survey* participants anticipate 3.3 per cent growth in Australian visits to Canada during the third quarter of 2006 compared with the previous year. Group leisure travel is expected to rise 5.6 per cent during the quarter, while growth in fully independent travel lags somewhat behind at 2.1 per cent. There are still no direct flights between Australia and Canada planned for 2006, but the level of air capacity for flights with one stop is slated to increase substantially over the summer quarter. The pace of growth in Australian outbound travel continues to wind down, but remains on an upward (albeit gradual) trend. One recent survey suggests that concerns about avian influenza may be emerging as a factor in travel decisions among some Australian travellers, but even if this is the case, it does not appear to be having a significant impact on outbound travel trends yet.

International Travel Statistics, Statistics Canada

International Travel to Canada, January–February 2006

COUNTRY	PERSON-TRIPS	CHANGE OVER 2005 (%)
United States	1,187,475	-9.4
Mexico	17,155	30.1
Europe	201,067	-0.5
United Kingdom	81,024	-5.6
France	39,817	3.1
Germany	21,923	0.3
Netherlands	7,530	-1.1
Italy	5,766	-19.1
Asia	125,861	5.4
Japan	38,130	0.7
South Korea	22,080	5.9
China (Mainland)	12,898	12.2
Hong Kong	12,650	-5.7
Taiwan	9,768	1.1
Oceania	24,515	-10.4
Australia	20,896	-12.5

Source: *International Travel Survey, Statistics Canada.*