
Domestic, U.S. and Overseas Travel to Canada

Short-Term Markets Outlook Fourth Quarter 2006

Executive Summary

Prepared for:
The Canadian Tourism Commission (CTC)

By:

The Conference Board of Canada
Insights You Can Count On



WHAT'S INSIDE

This report provides a short-term outlook for domestic and international travel to Canada for the fourth quarter of 2006 (October to December).

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 fourth quarter of 2006, all growth comparisons are reported on a year-over-year basis compared with the fourth quarter of 2005.

Highlights

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

Q4 2006 Short-Term Outlook for Canada's Key Markets (per cent change over Q4 2005)

Country	Market Segment				
	Leisure-Group	Leisure-FIT**	Leisure- Overall	Business	Total-Overall
Canada	2.6%	3.1%	3.0%	3.5%	3.2%
United States	-2.2%	-1.3%	-1.5%	2.0%	-1.0%
Mexico	3.0%	7.0%	5.3%	*	5.0%
United Kingdom	4.5%	1.8%	2.4%	3.0%	2.5%
France	3.6%	1.0%	2.1%	*	2.1%
Germany	3.2%	0.8%	1.6%	*	1.6%
Japan	0.5%	3.0%	1.1%	2.5%	1.4%
South Korea	*	*	*	*	5.4%
China	9.0%	10.0%	9.5%	*	9.5%
Australia	2.7%	1.6%	2.0%	*	2.0%

* Not enough responses to ensure confidentiality

** Fully independent travel

North and South American Markets

Canada

Consumer spending continues to drive strong growth in the Canadian economy, keeping the solid outlook for domestic travel on track. Although the high value of the Canadian dollar is hurting the price competitiveness of Canadian vacation destinations to some degree, it has also softened the impact of soaring oil prices for Canadian consumers. Gasoline prices in Canada have not increased as much as they have in the United States; however, they are expected to keep automobile travellers closer to home this winter. On the other hand, domestic air travel demand shows no signs of abating, even when challenged by rising airfares. All in all, the Canadian tourism industry appears poised for another year of profit growth.

BO Survey participants anticipate overall domestic travel will expand 3.2 per cent in the fourth quarter of 2006, compared with a year earlier. The pace of growth in group travel is expected to ease, climbing 2.6 per cent compared with a year earlier, while fully independent travel (FIT) grows by 3.1 per cent. Consequently, overall leisure travel is expected to rise 3 per cent. The business travel segment is expected to perform slightly better, increasing 3.5 per cent in the fourth quarter of 2006.

U.S.

There has been little change in the generally subdued outlook for U.S. travel to Canada that has persisted for quite some time. BO Survey participants expect a 1 per cent decline in U.S. travel to Canada during the fourth quarter of 2006. Group leisure travel is expected to fall 2.2 per cent, while fully independent travel slips 1.3 per cent. As a result, overall leisure travel is expected to decrease by 1.5 per cent during this period. The outlook for U.S. business travel to Canada is the lone bright spot: this segment is expected to rise 2 per cent in the fourth quarter of 2006, compared with the previous year.

Soaring gasoline prices are taking a significant bite out of U.S. household budgets, and taking a toll on U.S. leisure travel demand. It is possible that travel demand will improve heading into the fall as Americans become more accustomed to higher pump prices—a reverse of the trend seen last summer, when gasoline costs spiked in the wake of the hurricanes in August and September. However, Canada's price competitiveness for U.S. travellers is expected to decline further during the fourth quarter of 2006, mainly because of the less favourable exchange rate. As a result, the cost of travelling to Canada has risen more quickly in the past year than the cost of travelling within the United States.

Mexico

Mexican visits to Canada are expected to continue rising at a moderate pace over the near term. BO Survey participants expect overall travel from Mexico will expand 5 per cent during the fourth quarter of 2006, compared with the same quarter of 2005. FIT visits are expected to keep growing at a significantly faster pace, jumping 7 per cent during the quarter, while growth in group travel continues to lag somewhat behind at 3 per cent. Mexican demand for international travel continues to build, and current trends suggest there is still a great deal of potential for this market. Mexican tour operators continue to widen their range of Canadian travel products, and direct air capacity between Canada and Mexico is still expanding at a double-digit rate. Canada's price competitiveness as a tourism destination for the fourth quarter is expected to slip slightly compared with the previous year, but this should not deter the solid growth in visits expected during this period.

European Markets

U.K.

Although U.K. travel demand has eased back from the robust levels seen in 2005, the short-term outlook for this market remains positive overall. BO Survey participants anticipate travel from the United Kingdom to Canada will expand by 2.5 per cent in the fourth quarter of 2006, compared with a year earlier. Overall leisure travel is expected to increase 2.4 per cent, driven mainly by a 4.5 per cent boost in group leisure travel, while FIT visits edge up 1.8 per cent. The outlook for U.K. business travel is slightly better, as this segment is expected to grow 3 per cent in the fourth quarter compared with the previous year.

Reports from British tour operators selling Canadian travel products have been more optimistic: most expect solid year-over-year growth in their sales of trips to Canada in the fourth quarter of 2006. The exchange rate is less favourable than it was a year ago, resulting in a moderate decline in Canada's overall price competitiveness for British travellers. However, this does not appear to be a significant challenge for U.K. visits to Canada in the fourth quarter.

France

French outbound travel demand appears to have slowed in recent months, and the overall market has become more restrained. While Canadian destinations continue to experience growth in French arrivals, many other international destinations have seen a substantial drop-off in French visits. For the fourth quarter of 2006, direct air capacity between France and Canada is slated to expand more than 9 per cent—an encouraging sign for potential growth in French arrivals during this period. On the other hand, Canada's price competitiveness for the fall quarter is expected to slide compared with other destinations competing for French travellers, largely because of the less favourable exchange rate.

BO Survey participants expect French visits to Canada to grow 2.1 per cent in the fourth quarter of 2006 compared with the previous year. Growth in group leisure travel is expected to increase 3.6 per cent, while fully independent travel edges up 1 per cent during the period.

Germany

Since the early part of this year, German travel demand has lost some momentum. As of the end of May, advance bookings for trips up to the end of the travel year (October 31, 2006) had achieved little growth, although they were still ahead of 2005 overall. However, bookings for trips to Canada in the fourth quarter are expected to achieve solid year-over-year growth, according to German tour operators surveyed by the CTC. Canada's price competitiveness for the German market has slipped since the fall quarter of 2005, but the decline has been modest compared with other travel destinations.

BO Survey participants anticipate overall travel from Germany will increase 1.6 per cent in the fourth quarter of 2006 compared with a year earlier. Growth in group leisure travel (3.2%) is expected to continue outpacing growth in FIT visits (0.8%) during the period. Survey respondents noted that the World Cup tournament in June and July had negatively affected early booking trends, as had Germany's hot summer temperatures, which may be delaying thoughts of a winter getaway.

Asia–Pacific Markets

Japan

The outlook for Canada's Japanese travel market suggests only slight growth is expected in the near term. BO Survey participants anticipate Japanese visits will increase 1.4 per cent during the fourth quarter of 2006 compared with the same quarter a year earlier. Fully independent travel is expected to rise 3 per cent during the quarter, while group leisure travel remains about the same as last year. As a result, overall leisure travel is expected to grow a modest 1.1 per cent this fall. The outlook for business travel from Japan is somewhat more positive, with growth of 2.5 per cent expected for the fourth quarter of this year.

Unfortunately, the less favourable exchange rate and additional reductions in direct air services between Japan and Canada both remain a challenge for this market. Moreover, the cost of travel to Canada is expected to increase substantially, year-over-year, for Japanese travellers in the fourth quarter. As a result, Canada's price competitiveness has deteriorated compared with other key competitive markets.

South Korea

BO Survey participants anticipate visits from South Korea will increase 5.4 per cent in the fourth quarter of 2006, compared with a year earlier, maintaining a trend of steady growth. Korean-based tour operators recently reported that demand for Canadian travel packages remains robust, with “fall colours” packages nearly sold out. In fact, direct air capacity remains a challenge for high demand periods in the fall quarter, such as early October, when the Korean national holidays occur. Canada’s price competitiveness for the Korean market is expected to slide in the fourth quarter, but this is not expected to have a significant impact on Korean visits during the fall travel season.

China

The upbeat outlook for Chinese travel to Canada remains on track for the fall travel quarter, supported by the stellar performance of the Chinese economy. BO Survey participants expect Chinese visits to Canada will expand 9.5 per cent during the fourth quarter of 2006 compared with the same quarter a year earlier. Fully independent leisure travel is expected to grow 10 per cent during this period, while group leisure travel climbs 9 per cent. The price competitiveness of Canadian destinations for Chinese travellers in the fourth quarter has slipped considerably, year-over-year; however, this does not appear to be stifling the growth of this market to a great degree. Direct air services between China and Canada are scheduled to continue expanding at a substantial rate through the fourth quarter, helping to facilitate the solid growth in Chinese visits to Canada expected this fall.

Australia

Similar to the U.S. market, Australians’ enthusiasm for travelling abroad has been curbed this year by the impact of higher energy costs and rising interest rates. The gradual slide in the value of the Australian dollar has also contributed to a slowdown in overseas travel. At the same time, the rising value of the Canadian dollar has weakened Canada’s price competitiveness as a destination for Australian travellers. BO Survey participants anticipate a modest increase in Australian visits to Canada in the fourth quarter of 2006: overall leisure visits are expected to rise 2 per cent, compared with the previous year. Group leisure travel is expected to climb 2.7 per cent, while FIT growth continues to lag behind at 1.6 per cent. A solid increase in the level of air capacity between Australia and Canada should provide sufficient air access for visits during the fall travel season.

International Travel Statistics, Statistics Canada

International Travel to Canada, January–May 2006

Country	Person-Trips	Change Over 2005 (%)
United States	3,871,660	-5.0
Mexico	62,382	16.4
Europe	650,668	2.4
United Kingdom	266,870	-1.2
France	102,387	5.0
Germany	81,661	-2.3
Netherlands	31,412	7.3
Italy	19,475	-8.4
Asia	405,750	3.3
Japan	124,628	-4.8
South Korea	59,994	5.0
China (Mainland)	40,864	25.6
Hong Kong	35,693	-5.1
Taiwan	30,521	-6.3
Oceania	78,147	-1.9
Australia	66,616	-2.0

Source: International Travel Survey, Statistics Canada.