

Domestic, U.S. and Overseas Travel to Canada

Short-Term Markets Outlook Fourth Quarter 2007 / Executive Summary

Prepared for:
The Canadian Tourism Commission (CTC)

By:

The Conference Board of Canada
Insights You Can Count On



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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. This survey was developed by the Canadian Tourism Research Institute, a division of The Conference Board of Canada, on behalf of the Canadian Tourism Commission (CTC). To bolster the quality of this report, surveys of key tour operators and quarterly staff reports from the CTC's foreign offices are also incorporated.

Please note that, since the outlook's scope is restricted to the fourth quarter of 2007, all growth comparisons are reported on a year-over-year basis compared with the fourth quarter of 2006.

Highlights

The outlook for Canada's key markets for the fourth quarter of 2007 (relative to the fourth quarter of 2006) according to the results of the Business Outlook Survey is summarized as follows:

Q4 2007 Short-Term Outlook for Canada's Key Markets (per cent change over Q4 2006)

Country	Market Segment				
	Leisure—Group	Leisure—FIT**	Leisure— Overall	Business	Total—Overall
Canada	4.3%	3.1%	3.3%	2.2%	2.9%
United States	0.5%	-2.4%	-1.7%	1.0%	-1.3%
Mexico	6.0%	8.5%	7.4%	*	7.4%
United Kingdom	2.8%	4.2%	3.9%	1.5%	3.5%
France	3.3%	2.6%	2.9%	*	2.6%
Germany	1.9%	4.0%	3.3%	*	3.0%
Japan	-5.8%	-6.7%	-6.1%	-1.5%	-5.6%
South Korea	*	*	*	*	4.4%
China	6.4%	7.8%	6.8%	*	6.8%
Australia	5.4%	5.4%	5.3%	*	5.3%

* Not enough responses to ensure confidentiality

** Fully independent travel

North American Markets

Canada

Despite the spike in Canadian gasoline prices this summer, overall domestic travel demand is still rising. Healthy economic fundamentals continue to fuel domestic demand, as strong employment growth, healthy real wage gains, and a further appreciation in the loonie are shoring up household purchasing power. The latest Canadian Travel Intentions Survey by The Conference Board of Canada revealed that Canadians report having more time and money to travel this year—many are planning to take more domestic leisure trips this year than they did last year. Still, rising gasoline prices are taking a bite out of discretionary income, keeping a check on the degree of growth expected for domestic travel this fall.

Business Outlook Survey participants anticipate overall domestic travel will expand 2.9 per cent in the fourth quarter of 2007 compared with the previous year. Growth in group travel is expected to keep outpacing other segments, rising 4.3 per cent, while fully independent travel (FIT) climbs 3.1 per cent. As a result, overall leisure travel is expected to grow by 3.3 per cent. Respondents continue to anticipate a somewhat slower pace of growth for domestic business travel (2.2%) for the quarter.

U.S.

The outlook for Canada's U.S. travel market is not expected to improve substantially over the near term. High gasoline prices, modest income growth, and fallout from the troubled U.S. housing market continue to quell U.S. consumer confidence. Consequently, overall U.S. travel intentions remain relatively soft. In addition, changes to passport regulations and the strength of the Canadian dollar continue to hurt Canada's U.S. travel market, as does the lingering confusion over changes to the Canadian government's GST/HST rebate program.

Business Outlook Survey participants expect U.S. travel to Canada to decline another 1.3 per cent during the fourth quarter of 2007 compared with the same quarter of 2006. Group leisure travel is poised to register a minimal 0.5 per cent gain during the period, but fully independent travel is expected to slide 2.4 per cent. As a result, overall leisure travel is expected to decline 1.7 per cent during the period. The outlook for U.S. business travel to Canada remains slightly more optimistic—business travel is expected to increase 1 per cent in the fourth quarter.

Mexico

The Mexican travel market continues to thrive. Business Outlook Survey participants expect Mexican visits to Canada to increase 7.4 per cent in the fourth quarter of 2007, year-over-year. Fully independent travel is expected to jump 8.5 per cent, while group visits rise 6 per cent. Mexican tour operators report that demand for Canadian travel products has been robust over the last several months, and are confident this trend will continue over the near term. However, the strength of the Canadian dollar and its effect on travel is posing a challenge as the loonie inches closer to parity with the U.S. dollar. As well, the modest growth in air services scheduled between Mexico and Canada in the fourth quarter could curb some of the growth potential of Mexican arrivals during the period. Still, these negative issues appear to be having a limited effect on the otherwise sunny outlook for the Mexican travel market this fall.

European Markets

U.K.

The short-term outlook for British travel to Canada remains bright, mainly because of a significant recovery in Canada's price competitiveness for the U.K. market. A substantial expansion in direct air capacity has intensified competition on air services between the U.K. and Canada, driving down airfares on these routes. As a result, the average cost of travelling from the U.K. to Canada will drop significantly this fall. In addition, U.K. tour operators report that Canada is poised for solid growth in U.K. ski visits during the fall and winter ski season.

Business Outlook Survey respondents anticipate a 3.5 per cent increase in U.K. arrivals during the fourth quarter of 2007. FIT visits are expected to jump 4.2 per cent, while group leisure travel climbs 2.8 per cent, supporting a 3.9 per cent increase in overall leisure travel to Canada during the quarter. Meanwhile, respondents anticipate U.K. business travel to Canada will register more modest growth, increasing by 1.5 per cent over the fourth quarter of 2007.

France

Prospects for the French travel market have moderated in recent months. Reports from the French travel trade suggest that the pace of French travel bookings has lost some steam since the spring, following a period of strong growth earlier this year. In general, traditional travel package bookings have been stagnating, while independent bookings continue to soar, both online and through more traditional channels. However, tour operators have managed to raise their package prices by an average of nearly 7 per cent over last year, mainly through price hikes for long-haul products. Yet,

despite these price increases, the cost of travelling to Canada is expected to remain relatively stable this fall compared with last year.

Business Outlook Survey participants anticipate a 2.6 per cent increase in French visits to Canada in the fourth quarter of 2007 compared with a year earlier. Group leisure travel is expected to grow 3.3 per cent, and fully independent travel is expected to climb 2.6 per cent over the previous year. A large expansion of direct air capacity between France and Canada over the fall quarter will ensure there continues to be sufficient air access for French visitors.

Germany

The outlook for the German travel market has become slightly more restrained. While bookings to Canada are still on a recovering trend, changes to Canada's GST rebate program remain a major concern among German tour operators. Some operators are considering raising their winter package prices to offset the inconvenience of the GST reimbursement process, a move that would make the cost of travelling to Canada considerably more expensive. As it is, Canada's price competitiveness is expected to lose some ground during the fourth quarter compared with a year earlier.

Business Outlook Survey participants anticipate overall German visits will expand by 3 per cent in the fourth quarter, year-over-year. Respondents expect group leisure travel to edge up 1.9 per cent and FIT visits to grow 4 per cent during the period. As a result, overall leisure travel to Canada is expected to increase 3.3 per cent over the previous year. Direct air capacity between Germany and Canada is slated to expand by 5.9 per cent during the period, which will help bolster the growth potential of German visits during the fall quarter.

Asia-Pacific Markets

Japan

The short-term outlook for Canada's Japanese travel market continues to deteriorate. Business Outlook Survey participants expect Japanese visits to Canada in the fourth quarter to decline by 5.6 per cent, year-over-year. Group leisure visits are expected to fall by 5.8 per cent, while fully independent travel plummets by 6.7 per cent.

Consequently, overall leisure travel is expected to shrink by 6.1 per cent compared with a year earlier. Business travel from Japan during the quarter is expected to slip by 1.5 per cent.

Japanese outbound travel volumes continue to inch upwards overall, but visits to many traditionally popular long-haul destinations, including Canada, continue to fall. One factor fuelling this declining trend is the expansion of Asia's low-cost carrier market, which is opening up access to many emerging (and less expensive) short-haul Asian destinations. Moreover, the soaring cost of airfares to Canada combined with the less favourable exchange rate continues to limit the appeal of Canadian travel destinations. Direct air capacity between Japan and Canada is scheduled for a 9 per cent reduction in the fourth quarter of 2007, which will only exacerbate the issue of air access for Canada's Japanese travel market.

South Korea

The outlook for the Korean travel market in the fourth quarter of 2007 remains sunny, overall. Business Outlook Survey participants anticipate a 4.4 per cent rise in South Korean arrivals during the period, and Korean-based tour operators continue to expect robust growth in their Canadian travel bookings. An expansion of direct air capacity between Korea and Canada planned for the fall quarter has alleviated some persistent concerns over air access, although capacity remains tight for peak times such as the Christmas holiday period. However, the Korean presidential election scheduled for mid-December may discourage some Koreans from travelling during the final few months of the year. Another potential risk to the outlook is the decline in Canada's price competitiveness for Korean travellers expected for the fourth quarter. Still, Koreans will find the cost of travelling to Canada to be slightly less this fall than it was a year earlier.

China

Growth expectations for Canada's Chinese travel market remain high, despite Canada's lack of approved destinations status from the Chinese government. Business Outlook Survey participants expect Chinese arrivals to expand 6.8 per cent during the fourth quarter of 2007 compared with the previous year. Fully independent leisure travel is expected to jump 7.8 per cent during this period, while group leisure travel climbs 6.4 per cent. In addition, the price competitiveness of Canadian destinations is set to improve against all key long-haul markets in the fourth quarter, buoyed by a 9.1 per cent year-over-year decrease in the cost of air travel from China to Canada this fall. Although some reports from the Chinese travel trade indicate that air access to Canada has been a challenge, a 20 per cent expansion of direct air capacity between China and Canada planned for the fall quarter should help ease this problem.

Australia

The outlook for Australian travel to Canada continues to brighten. The high value of the Australian dollar and solid economic prospects continue to support the rising demand for overseas travel among Australians. Reports from Australian tour operators suggest that sales of fourth-quarter bookings to Canada are poised for strong growth this year, in particular for the ski market. The strength of the Australian dollar has boosted the price competitiveness of Canadian travel destinations against many long-haul markets, although some competitors will also benefit from a more favourable exchange rate.

Business Outlook Survey participants expect overall visits from Australia to expand 5.3 per cent during the fourth quarter of 2007 compared with the previous year. Group leisure travel and FIT visits are each expected to rise 5.4 per cent during this period. Air capacity between Australia and Canada is slated for a sizable increase during the fourth quarter—including the introduction of non-stop services to Vancouver—which will provide an additional boost to the growth potential of this market during the fall season.

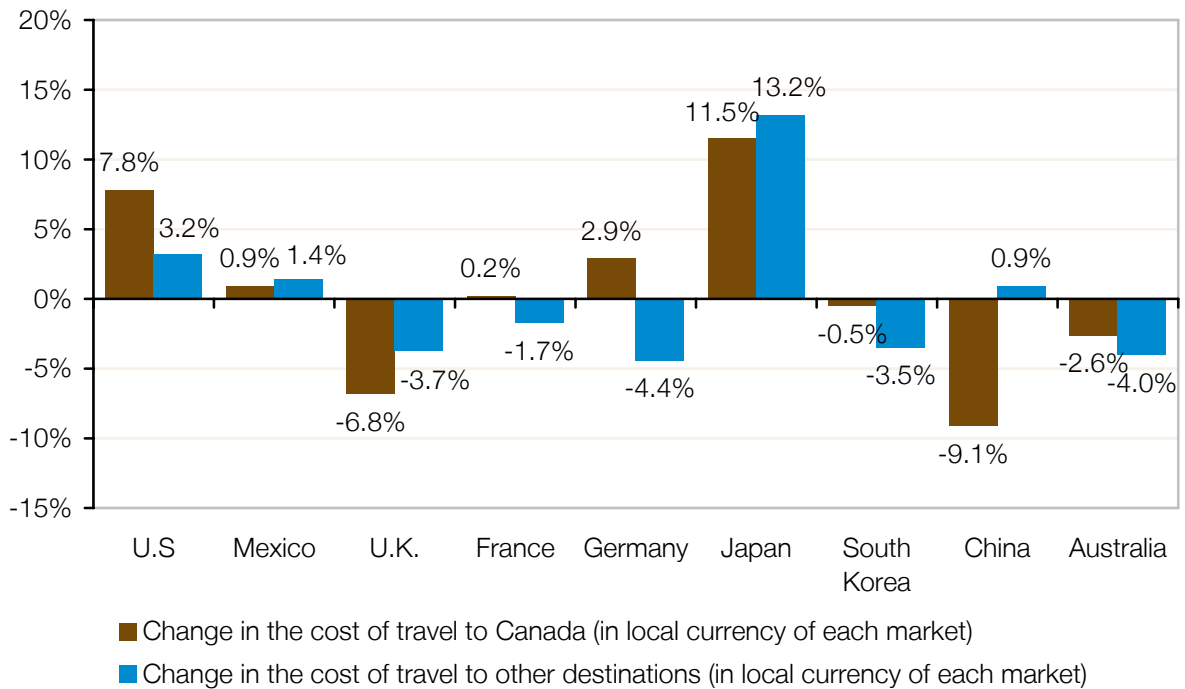
Competitive Price Index—Summary

One important aspect of Canada's global competitiveness as a tourism destination is the price of Canadian travel products relative to that of its key international competitors' products. The competitive price index tracks product pricing trends in key markets and monitors Canada's relative price competitiveness.

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 the costs for travelling to competing destinations.

The following summarizes the results of the competitive price index for the fourth quarter of 2007. The chart represents a snapshot of the year-over-year difference in the average cost of travelling to Canada from each origin market (the first bar) and the difference in the average cost of travelling to key competitive markets (the second bar).

**Changes in the Cost of Travel to Canada vs. Competitive Markets
(Q4 2007 vs. Q4 2006)**



Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank; Expedia; SideStep; FareCompare.

Despite the strength of the Canadian dollar, Canada's price competitiveness is expected to improve against many competing destinations in the fourth quarter of 2007. In fact, the latest competitive price analysis suggests that the overall cost of travelling to Canada will decline, year-over-year, for many markets. Most of the credit for limiting (and in many instances reversing) travel price increases can be attributed to the significant reductions in average airfares expected for the fourth quarter, compared with last year. For details, please see the competitive price index found in each country section of the full *Short-Term Markets Outlook*.