CTC Tourism Intelligence Bulletin – Issue 28: July 2005

The Tourism Intelligence Bulletin continues to monitor the tourism industry around the world. This issue reveals tourism intelligence gathered in May and June 2005.

Tourism Indicators Look Positive This Summer

Executive Summary

- By and large, travel indicators support an optimistic outlook for Canada's tourism industry this summer. Strengthening travel demand, which is still building towards more normal travel patterns, appears to be withstanding the steady increase in travel prices. This is a trend the tourism industry has been eagerly awaiting, but hoped would materialize sooner.
- In fact, the dramatic increase in domestic airfares that followed the demise of Jetsgo appears to have had little effect on slowing the growth of air travel within Canada. Hotel operators have also been happy to report that stronger room revenues are allowing them to gain further ground in average daily rates and overall profitability. With soaring gas prices, this is good news for an industry that is particularly vulnerable to high gas prices. For the most part, Canadian travellers are adapting to higher fuel costs by adjusting their travel budgets, shortening their stays, or looking for better deals while travelling.
- However, a lingering concern for the Canadian travel industry is the recovery of the U.S. travel market. Higher oil prices are expected to have a larger impact on the U.S. economy and on American consumer confidence. This suggests that a significant turnaround in the U.S. travel market will not occur anytime soon. Moreover, the longer term outlook may be even more precarious, considering the potential impact of the Western Hemisphere Travel Initiative (WHTI) on cross-border travel.

Emerging Trends and Issues - Gauging the Impact of the Western Hemisphere Travel Initiative

- Since fewer American than Canadian travellers hold valid passports, it stands to reason that the new passport regulations associated with the WHTI will be felt more strongly in Canada than in the United States. While the impact on U.S. visits to Canada is expected to be relatively light this year, by 2008 (the year that cross-border auto travellers will need a passport), U.S. visits could be constrained by up to 12 per cent. While both the Canadian and U.S. governments are working towards improving the flow of cross-border traffic, it is clear that the American government's prioritization of homeland security since the tragic events of Sept. 11, 2001 have provoked a decisive shift in American border control policies-changes that continue to challenge the Canadian tourism industry.
- One silver lining is the anticipated impact of the WHTI on Canada's highest-yield U.S. market: long-haul leisure and business air travellers. These are the visitors who tend to spend the most nights and the most money in Canada. Fortunately, the relative impact of the new passport regulations on this group is expected to be considerably less, mainly because their rate of passport possession is higher than that of the overall travelling population.

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- Canadian businesses appear to be keeping a tight rein on travel expenses, and are still looking for the lowest-priced option when purchasing travel, according to a recent survey on corporate air travel by National Bank Financial and the Association of Corporate Travel Executives (ACTE). Of the organizations polled, the largest group said they had either kept the same level of travel restrictions (40%) or added even further restrictions (23%), despite a rise in profits over the past two years. Furthermore, "lowest fare" was cited as by far the most important criteria for choosing a flight, followed by "convenience of schedule and service." In 2005, Canadian business travel budgets are expected to increase about 2.5 per cent, on average, although the majority of respondents said they expected their budgets to remain the same as in 2004.
- The outlook for Canadian summer leisure travel remains optimistic, supported by strengthening consumer confidence. In fact, The Conference Board of Canada's latest Index of Consumer Confidence rose in May, boosted by an improvement in respondents' personal financial conditions. Furthermore, a recent survey by Pollara showed that concerns about high gas prices have diminished since last summer. In this year's survey, gas prices dropped to second place as a travel concern, while personal finances moved up to become the main consideration.
- Climbing gas prices are not expected to deter summer leisure travel in the United States either this year, according to the Travel Industry Association of America (TIA). Its summer forecast (for June to August) suggests that U.S. leisure travel volumes will reach record-high levels, rising 2.3 per cent above last summer. The TIA noted that while higher costs will not impede travel volumes, U.S. travellers are looking for deals and ways to economize on their vacations. However, higher costs are also expected to reduce average trip durations and average trip spending.

Travel Supplier Overview

- Since the demise of low-cost carrier Jetsgo, competitive pressures in Canada's airline industry have eased. This has allowed domestic airfares to rise to more realistic levels, boosting the financial performance of the Canadian airline industry. In fact, a recent study by UBS Securities Canada showed that average domestic airfares rose 42 per cent in the first five months of this year, up from the rock-bottom levels seen in January when Jetsgo initiated an aggressive fare war. Recently, CanJet Airlines has begun to exert some competitive pressure of its own: a recent seat sale lowered overall airfares on the routes it serves, causing a 3.5 per cent drop in average domestic airfares that week.
- In the United States, air travel demand is expected to continue building throughout the summer, according to the Air Transport Association. The ATA recently forecast that U.S. air travel between the Memorial Day and Labour Day holidays would rise 4.1 per cent compared with last year's summer period, to 200 million trips. However, the ATA expects high fuel prices and low fares to continue overriding any financial gains from the demand growth, particularly for the major U.S. carriers. Viewed as good news by the industry, the minimal 0.1 per cent rise in average domestic airfares during May 2005 was the first increase recorded since July 2004.
- Meanwhile, the outlook for the Canadian hotel industry is quite positive, with average room rates and revenues expected to continue strengthening through the summer. Statistics Canada's recent *Business Conditions Survey on the Travel Accommodation Industry* revealed that economic conditions were the highest concern among the accommodations suppliers polled (cited by 32%), followed by excess room supply (25%) and shortage of skilled labour (21%). However, almost a third of those polled indicated they were not facing any difficulties at the time.

Economic Overview

- Economic conditions in the United States, Canada, and Mexico are tempering this year. Overall, real GDP growth in North America is expected to slow to 3.4 per cent in 2005, down from the 4.3 per cent gain in 2004, and ease even further to 3.3 per cent in 2006. Consumer expenditures have been one of the principal drivers of economic growth throughout the North American economy. However, rising interest rates - for fears of inflation and hot housing markets - are expected to weigh on consumer expenditures over the next two years, and play a principal role in the slowdown of the North American economy. In Canada, the high value of the Canadian dollar vis-à-vis the U.S. dollar has hurt the country's export sector and led to a slowdown in overall economic growth. At the same time, the U.S. economy is struggling to adjust to U.S. $50 plus oil prices as well as higher effective tax rates. Meanwhile, high inflation and high unemployment continue to beleaguer the Mexican economy.

- The continued economic weakness in many European countries has led to growing discontent in Europe about "Europe". Some countries like Germany, France and Austria are concerned that jobs continue to be transferred to EU members with lower production costs - jobs they claim are desperately needed at home. Meanwhile, newer EU members like Poland and the Czech Republic continue to push for expansion of the union. Yet, Germany and France, two countries with the power to decide EU expansion, are expected to record real GDP growth below 2 per cent this year and, in fact, German growth could easily slide below 1 per cent given the weak state of its domestic economy. Overall, real GDP in Europe is forecast to grow by a paltry 1.8 per cent this year before climbing to 2 per cent in 2006.
- Economic growth in the Asia Pacific region is expected to slow to 2.8 per cent this year, down from 4.2 per cent in 2004, in part because China is gradually fading as a key export driver for countries in this region. In fact, now that Chinese manufacturers are starting to produce products previously imported from other countries in the Asia Pacific, stratospheric export growth for many Asia Pacific countries will become a thing of the past. Fortunately China's economy continues to be on track for another year of exceptional performance. China's exports will continue to grow in the 20-30 per cent range in 2005 before being curtailed somewhat in 2006 by the expected revaluation of the currency.

Opportunities

- A new TIA report on leisure travel planning revealed that price is not always the top factor in U.S. leisure travel decisions. In fact, the study suggests that a leisure traveller will choose the destination first and decide on the trip duration, then establish a budget. This implies that travel destinations and suppliers will have an advantage if they are able to capture a traveller's interest before the price is mentioned. When selecting a leisure travel destination, American travellers are most concerned about feeling safe (cited by 46% of respondents), available activities, and nearby friends or family. However, when choosing accommodations, price was more of an issue, mentioned by almost half of the respondents. Other important influences in hotel decisions were location, comfort and privacy.
- Canada's national parks could be an appealing summer destination for U.S. travellers, based on recent media stories. National parks are the top "dream destination" among American travellers, according to the YPBR *2005 National Leisure Travel Monitor*, chosen by 66 per cent of U.S. leisure travellers polled. In fact, a recent *USA Today* article listed Canadian national parks as one of their top five "budget-friendly" destinations this summer, describing them as less congested than American parks, with comparable driving distances.

In Brief

By and large, travel indicators support an optimistic outlook for Canada's tourism industry this summer. Strengthening travel demand, which is still building towards more normal travel patterns, appears to be withstanding the steady increase in travel prices. This is a trend the tourism industry has been eagerly awaiting, but hoped would materialize sooner.

In fact, the dramatic increase in domestic airfares that followed the demise of Jetsgo appears to have had little effect on slowing the growth of air travel within Canada. Hotel operators have also been happy to report that stronger room revenues are allowing them to continue gaining ground in average daily rates and overall profitability. This is good news for the industry, particularly now that soaring gas prices potentially pose a double threat to the industry, by not only increasing the cost of travel but also reducing the discretionary household income of potential travellers.

Fortunately, recent survey data suggests that high gas prices pose less of a concern among Canadian leisure travellers than they did last summer. For the most part, Canadian travellers are adapting to higher fuel costs by adjusting their travel budgets, shortening their stays, or looking for better deals while travelling.

However, a lingering concern for the Canadian travel industry is the recovery of the U.S. travel market. Higher oil prices are expected to have a larger impact on the U.S. economy and on American consumer confidence. These factors suggest that a significant turnaround in the U.S. travel market will not occur anytime soon. Looking ahead, the longer term outlook may even be more precarious, considering the potential impact of the U.S. government's Western Hemisphere Travel Initiative on cross-border travel.

Emerging Trends and Issues

Gauging the Impact of the Western Hemisphere Travel Initiative

The recovery of the U.S. travel market was presented with another challenge when the U.S. government's Department of Homeland Security (DHS) announced its new Western Hemisphere Travel Initiative (WHTI) in April. This initiative outlines new passport regulations that when implemented are expected to add a significant obstacle to the already problematic flow of cross-border traffic between Canada and the United States. The Canadian Tourism Commission recently commissioned the Canadian Tourism Research Institute (CTRI) to investigate the potential impact of the WHTI on Canada's tourism industry. While the overall effects of the initiative are cause for concern, the study findings show that there are segments of the U.S. market that will sustain less of an impact than others.

The WHTI stems from the U.S. *Intelligence Reform and Terrorism Prevention Act*, signed in December 2004, which ordered the DHS to develop a plan that would require every person, whether U.S. citizen or foreign national, to present a passport when entering the United States. Two other documents have been deemed as acceptable alternatives (NEXUS and FAST passes), and the DHS said it would examine other alternatives to determine their acceptability as well.

The new regulations will come into effect in three stages, to allow for an adjustment period during which travellers can obtain one of the mandatory border-crossing documents. On Dec. 31, 2005, all travellers to or from the Caribbean, Bermuda, and Central and South America will require a passport to enter or re-enter the United States (including anyone transiting through the United States). On Dec. 31, 2006, the passport regulations will extend to include all air and sea travellers to or from Canada and Mexico. By Dec. 31, 2007, all travellers (air, sea or auto) will require a passport to enter or re-enter the United States.

The DHS acknowledged that the WHTI will have the greatest impact on land border crossings, which is why the deadline for that segment was set the farthest into the future. Unfortunately, despite the advance notice provided, the impact of these new rules on the Canadian tourism industry is expected to be significant-particularly since the majority of U.S. car trips to Canada are made by Americans who do not possess a passport.

Considering that fewer American than Canadian travellers hold valid passports, it stands to reason that the negative effects of the WHTI will be felt more strongly in Canada than in the United States. While the impact on U.S. visits to Canada is expected to be relatively light this year (1% fewer trips, because of visitor confusion), by 2008, the year of implementation for land border crossings, U.S. visits could be held back by up to 12 per cent as a direct result of the WHTI.

On the other hand, because obtaining a passport imposes an additional cost and inconvenience on travel, some Canadians may substitute domestic travel for crossing the border, to avoid having to obtain a passport. Nevertheless, the net cumulative effect of the WHTI will certainly be felt throughout the Canadian tourism industry.

Higher-yield markets expected to sustain weaker shock

One silver lining to the study was the measured impact of the WHTI on Canada's highest-yield U.S. market: long-haul air travellers. These are the visitors who tend to spend the most nights and the most money in Canada. Fortunately, the relative impact of the WHTI on this group was considerably lighter, mainly because the rate of passport possession is higher for this group.

The study examined the potential effect of the new regulations on overnight air travel from three long-haul U.S. state markets that are major sources of U.S. travellers: California, Massachusetts and New York. The study showed that the WHTI is expected to result in a 1.5 per cent cumulative decline in visits to Canada from these three markets between 2005 and 2008. Another high-yield market, overnight business travel from the United States (those travelling by air, in particular), is also expected to see a less significant decline as a result of the new passport initiatives.

Meanwhile, both the Canadian and U.S. governments are working towards mitigating the economic losses stemming from tighter border security by seeking ways to improve the flow of cross-border traffic. Collaborative progress has been made on the action plan stemming from the Smart Border Declaration, spurred by high-level political support from both countries. However, it is clear that the American government's prioritization of homeland security since the tragic events of Sept. 11, 2001 has provoked a decisive shift in American border control policies-changes that continue to challenge the Canadian tourism industry.

New Feature -Tourism Leading Indicator Index

Background

Starting this issue, a new feature, the Tourism Leading Indicator Index, will compliment the tourism trend analysis covered in the Tourism Intelligence Bulletin by assessing the current and near-term performance of Canada's domestic and key international travel markets.

Many businesses, policy-makers and economists regularly rely on leading economic indicators to gain insights into future periods of economic activity, particularly when a change in direction is expected. Because of the constantly evolving nature of today's travel environment, it is becoming increasingly important to be able to anticipate fluctuations in travel demand, in order to make better business decisions. It is hoped that the Tourism Leading Indicator Index will prove to be a valuable addition for tourism stakeholders by providing additional insights into the near-term performance of the Canadian tourism industry.

Separate leading indicators have been established for Canada's domestic travel market, as well as each of Canada's key international markets: United States, United Kingdom, France, Germany, Japan, South Korea, Australia, Mexico and China.

Components of the Tourism Leading Indicator

The Tourism Leading Indicator incorporates components comprising both economic and non-economic motivating factors:

Economic Factors: To various degrees, economic conditions factor in the tourism decision-making process for travellers in Canada's key markets. Acknowledging that many economic components play a part, econometric analysis suggests that real gross domestic product (GDP) and personal disposable income growth are perhaps two of the most significant. In addition, a traveller's specific choice of destination is also often influenced by a price competitiveness assessment. Everything else being equal, travellers are attracted to destinations that are more price competitive.

Non-economic Factors: Since Sept. 11, 2001, the influence of non-economic factors in the decision-making process has greatly increased. Some of the most significant non-economic factors that contribute to travel decisions include consumer confidence, travel concerns, travel trends, regulations such as visa or passport requirements, and tourism supply (e.g., air capacity).

To derive the overall Tourism Leading Indicator Index, the various components representing economic and non-economic motivating factors are weighted to reflect their relative importance in the overall travel decision process. For more information on the specific weighting and methodology used to produce the Tourism Leading Indicator Index, please refer to Tourism Leading Indicator Index - Summary Table section at the end of the report. The specific rating gradients that are used to assess the various components of the Tourism Leading Indicator are as follows:

Tourism Leading Indicator Index (and its components) - Rating Used

Symbol	Interpretation
+++	Significant improvement
++	Moderate improvement
+	Slight improvement
0	No change (or little change)
-	Slight deterioration
--	Moderate deterioration
---	Significant deterioration

The ratings used to assess the components of the Tourism Leading Indicator indicate the extent to which that component can be expected to affect travel from the source market over the near term. Meanwhile, the overall rating for each source market indicates the expected performance of the source market in the near term, relative to the same time period of the previous year.

It should be noted that since this is the inaugural issue featuring the Tourism Leading Indicator Index, further refinement in the development and presentation may be expected in upcoming issues of the Tourism Intelligence Bulletin.

Consumer Overview - Canada and the United States

Business Travellers

Most North American companies returned to "business as usual" with their corporate travel in 2004, prompting a significant increase in 2005 travel budgets, according to a recent survey by Runzheimer International. While rising travel costs have played a role in this increase, Runzheimer stated that the primary reason for expanding budgets is increasing business travel volumes.

However, the Runzheimer survey did reveal that corporations continued to scale back on their use of luxury accommodations between 2002 and 2004. Among the companies polled, 38 per cent of corporate travellers used deluxe-brand hotels (e.g., Ritz-Carlton) in 2004, down from 43 per cent in 2002, while use of economy brands (e.g., Holiday Inn or Best Western) rose from 43 per cent to 62 per cent during the same period.

In Canada specifically, businesses appear to be keeping a tight rein on travel expenses, and are still looking for the lowest-cost alternative when purchasing travel, according to a new corporate air travel survey by National Bank Financial and the Association of Corporate Travel Executives (ACTE). Of the organizations polled, most said they had either kept the same level of travel restrictions (40%) or added even further restrictions (23%), despite a rise in profits over the past two years. Furthermore, "lowest fare" was cited as by far the most important criteria for choosing a flight (50%), followed by "convenience of schedule and service" (33%). In 2005, Canadian business travel budgets are expected to increase about 2.5 per cent, on average, although the majority of respondents (66.7%) said they expected their budgets to remain the same as in 2004.

In the United States, the outlook for business travel demand appears quite bullish, according to the recently released *National Business Travel Monitor* by Yesawich, Pepperdine, Brown & Russell (YPBR). In fact, of the U.S. business travellers polled for the study, 42 per cent said they planned to take more business trips in 2005 than they did last year, while only 24 per cent said they planned to travel less. The main reason for taking a business trip this year is to attend an association meeting (53% of respondents), followed by individual business travel (43%) and attending a corporate meeting (29%). The report noted, however, that international business travel and business trip duration were each expected to decline this year.

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

A recent article in *Business Travel News* (BTN) suggested that while demand for high-end executive board meetings has increased in the United States this year, and companies are spending more on amenities, sensitivities about extravagant travel perks remain prevalent. This has prompted many U.S. companies to choose less costly meeting locations that are closer to home, avoiding resort destinations that may be perceived as too lavish. BTN attributed this trend to heightened concerns about financial accountability in the wake of recent corporate fraud scandals, as well as security concerns about international travel. Nevertheless, corporate demand for luxury hotel accommodations is climbing, driven in part by loosening corporate travel restrictions.

Leisure Travellers

The outlook for leisure travel this summer remains optimistic, overall, supported by a number of positive travel indicators. For example, The Conference Board of Canada's latest Index of Consumer Confidence showed a rise in May, boosted by an improvement in respondents' personal financial conditions. In the United States, a similar picture is emerging: The Conference Board, Inc.'s Consumer Confidence Index gained ground in both May and June, buoyed by improving attitudes towards American economic conditions. However, while consumers are feeling more confident about their financial situation, budgetary concerns remain a high priority for leisure travellers, prompting them to look for ways to economize while travelling.

A recent survey by POLLARA, a Canadian market research firm, revealed that 81 per cent of Canadians are planning to take an overnight leisure trip this year, up from 76 per cent in 2003. Personal finances were the top consideration in making travel plans, cited by 46 per cent of those polled. Interestingly, concerns about gas prices dropped from first place in last year's survey, to second place this year, cited by 32 per cent of respondents as a main concern. The study results did not reveal where survey respondents were planning to travel.

Despite the fact that most Canadians and Americans feel refreshed after taking a vacation, North Americans take less advantage of their paid vacation time than their European counterparts, according to a recent study by Expedia.com, Ipsos-Reid and Harris Interactive. On average, each Canadian and U.S. worker loses three vacation days per year due to non-usage, and 25 per cent of Canadian respondents said they have had to cancel vacation plans due to work obligations. Yet 54 per cent of Canadian respondents and 48 per cent of American respondents admitted they felt more productive after a vacation. In comparison, French workers give back an average of one vacation day per year, while British workers lose half a vacation day per year. However, Canadians take much more paid vacation time than Americans-in the United States where there is no mandated vacation leave, workers take an average of 12 days per year, compared with 21 days in Canada.

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

The TIA forecast also revealed that 75 per cent of summer leisure trips will be to visit friends and family, and two-thirds will involve trips to the beach and/or rural areas (70% and 64%, respectively). About 37 per cent of travellers will take their children with them. Other travel activities will include visits to urban areas (54%), visiting national or state parks (47%), visiting historic sites (41%), camping/hiking/climbing (38%) and fishing (36%).

Growing travel intentions among Americans have prompted an increase in overall travel expenditures on Visa-branded credit cards, according to Visa USA, although there has been a noticeable drop in the average price paid for airfares, car rentals and dining. Between January and mid-May this year, travel and entertainment spending volumes increased 15 per cent over the same period of 2004, with airline spending volumes up 11 per cent, car rentals up 9 per cent, dining up 21 per cent and lodging up 9 per cent. Visa expects this growth trend to continue through the summer months. However, the average amounts charged for airfares, car rentals and dining bills have fallen (by -6.9%, -3.3% and -9.8%, respectively). Only accommodation costs have increased, by an average of 3.8 per cent per transaction.

The number of American online leisure travellers preferring to book travel directly through supplier websites rather than third-party travel agencies continues to grow, according to the recently released *PhoCusWright Consumer Travel Trends Survey Seventh Edition*. The report states that about 36 per cent of online travellers (i.e., those who have flown by commercial airline in the last year and have used the Internet within the last month) who were polled viewed supplier websites as offering the best customer service. In comparison, only 15 per cent cited online travel agencies as offering the best service, while 33 per cent still believed traditional travel agencies offer the best service.

Furthermore, more than one-third (38%) of those polled believed that suppliers offered the lowest prices, a dramatic jump from the 14 per cent who thought so in the 2002 survey. According to PhoCusWright, suppliers have become more aggressive in their efforts to win a greater share of direct travel bookings, and this is paying off.

Meanwhile, Canadian travellers remain less enthusiastic about online travel bookings than their American counterparts, and are much more likely to use the Internet for researching than for purchasing their trip. A recent survey by TNS Canadian Facts, a market research firm, revealed that the majority of Canadians with Internet access spend less than 10 per cent of their travel dollars online. Less than one-fifth (18%) spend more than half of their travel budget online. Satisfaction with travel websites may play a role in this trend: only 37 per cent said they were fully satisfied with their online experience, while half (50%) said they were "somewhat satisfied." A further 10 per cent said they were "decidedly unimpressed." Nevertheless, 46 per cent said that the Internet was very or extremely important for planning their trip, and more than half said they used the Internet to research travel costs (52%) or accommodations (51%).

Travel Supplier Overview - Canada and the United States

Airlines - Canada

Creditors drove the final nail into Jetsgo's coffin in mid-May when they refused to approve Jetsgo's restructuring plan, forcing the defunct airline to liquidate its assets as payment towards its many debts (a total of $271 million, according to the latest Canadian Press reports). Since then, competitive pressures within Canada's airline industry have eased. This has allowed airfares to rise to more realistic levels, boosting the monthly performance indicators of the remaining two national carriers, Air Canada and WestJet.

In fact, a recent study by UBS Securities Canada Inc. showed that the average domestic airfare rose 42 per cent between January and May this year to $234.34, up from the low of $165 seen at the beginning of the year, when Jetsgo initiated an aggressive fare war. However, UBS noted that CanJet Airlines is beginning to exert some competitive pressure of its own: a recent seat sale lowered overall airfares on the routes it serves, causing a 3.5 per cent drop in average domestic airfares in the first week of June.

Meanwhile, Air Canada reported its first quarter results in May, posting a net loss of $77 million for the three months ended March 31, 2005, a significant improvement from the $304-million loss reported for the same quarter of 2004. Despite intense competition during the quarter, and a $77-million increase in fuel costs compared with the same period a year earlier, unit costs fell 2 per cent. Operating revenues climbed 3 per cent, mainly due to passenger revenue increases in all markets except U.S. transborder routes. Looking ahead, the carrier expects its passenger revenues to continue strengthening. In June, the carrier announced a further $8 to $15 increase on all domestic fare types to help offset rising fuel costs.

Air Canada's overall revenue passenger miles (RPMs) rose 6.7 per cent in May, compared with a year earlier. The carrier's mainline domestic passenger traffic climbed 4.1 per cent, while its regional carrier, Jazz, saw a 32.1 per cent surge in domestic traffic. RPMs on Air Canada's U.S. transborder routes grew 11.3 per cent, while Atlantic overseas routes rose 10.6 per cent. Traffic on Pacific routes remained on par with the same month a year earlier (up 0.6%). The airline continued to keep a tight rein on seat capacity (up 4.7%), which resulted in the airline's 14th consecutive month of record load factors in year-over-year comparisons (up 1.4 percentage points to 79.9%). In June, the carrier won "Best Airline - North America" in the 2005 World Airline Awards. The awards program is based on the results of a global survey of 12 million airline passengers conducted annually by Skytrax, a UK-based research firm.

Table 1. Airline Revenue Passenger Miles (RPMs) and Capacity - May 2005

Airline	RPMs (in millions) May 2005	RPM change 2005 vs. 2004	Capacity 2005 vs. 2004
Air Canada mainline (includes Jetz)	3,655	+6.7%	+4.7%
Air Canada regional (Jazz)	185	+32.1%	+12.4%
WestJet	597	+32.2%	+ 21.8%

The Canadian federal government signed a bilateral air agreement with India in June, allowing direct flights between the two countries, to expand passenger services by five times the current levels. Canadian carriers will now be able to increase weekly flights from seven to 35 round trips per week, and Indian carriers will be allowed to do the same. In addition to Toronto and Montréal, Indian carriers will have access to Edmonton, Vancouver and two other cities still to be chosen by India.

In early May, Transport Minister Jean Lapierre announced a long-term plan to gradually reduce Canadian airport rent charges over the next five years. By 2010, cumulative rent reductions will total $350 million, although longer term reductions (over the course of the airports' lease terms) will amount to $8 billion. While the rent relief was welcomed, some industry groups criticized the long implementation period.

Toronto's Pearson Airport was recently cited as having the world's second-highest landing fees, just behind Tokyo's Narita Airport, but ahead of third-ranked Osaka's Kansai Airport, according to a news report by *The Globe and Mail*. The ranking was based on an annual survey by the Air Transport Research Society (ATRS). As an example, the landing fee for a Boeing 747-400 aircraft at Pearson was US$8,203 in 2004, while at Narita, it was US$8,777. In comparison, landing fees for the same aircraft in Montréal were US$2,238, while Vancouver charged US$2,146. The Greater Toronto Airport Authority cited high airport rent as the main reason for Pearson's expensive landing fees. However, the ATRS noted that a higher percentage of Pearson's revenues were derived from aeronautical-related sources, such as landing fees, while other Canadian airports have more diversified revenue sources, from areas such as retail stores, fast food and parking.

Airlines - U.S.

U.S. air passenger volumes continued to climb steadily through May, according to the latest figures by the Air Transport Association (ATA), rising 7.2 per cent over the previous year. Traffic on overseas routes surged, rising 10.3 per cent on Atlantic flights, 11.2 per cent on Pacific flights and 16.9 per cent on routes to Latin America. Domestic passenger traffic posted strong growth as well, increasing 5.4 per cent over May 2004. Capacity increases have been minimal (1.1% on domestic routes), resulting in fuller planes-while this is helpful for airline profitability, it also contributes to the growing congestion in American airports.

A recent forecast by the ATA suggested that U.S. air travel between the Memorial Day and Labour Day holidays would rise 4.1 per cent compared with last year's summer period, to 200 million trips. However, the ATA expects "high fuel prices, excessive taxes, and low fares" to continue overriding any financial gains from growing air travel volumes, particularly for the major U.S. carriers. The ATA described these factors as a financial burden for the airline industry, but noted that low airfares have been a "bonanza" for consumers-and a driving force in strengthening air travel demand.

Most analysts agree that domestic U.S. fares must rise to more reasonable levels before the major carriers will return to profitability. Fortunately for the airline industry, there appears to have been some progress on this front: domestic yields (i.e., revenues per passenger mile flown) for the eight major U.S. carriers rose 0.1 per cent in May 2005-a minimal increase, but the first increase, nonetheless, since July 2004. Overall yields for the month were up by 0.6 per cent, driven by more substantial increases on Atlantic (3%) and Pacific (3.8%) routes.

According to *USA Today*, there were seven successful (albeit modest) domestic fare hikes between February and June, although they have mainly been on routes facing less competition from low-cost carriers. In late June, when oil prices reached a new record high of nearly $60 per barrel, the four largest U.S. carriers implemented a new round of airfare increases. American and Delta raised fares by US$5 each way, while United and Northwest increased their fares by 3 per cent. It remains to be seen whether or not these increases will hold.

Table 2. Airline Revenue Passenger Miles (RPMs) and Capacity - May 2005

Airline	RPM May 2005 vs. May 2004	Capacity May 2005 vs. May 2004
Alaska Airlines	+6.0%	+3.3%
American Airlines	+10.0%	+3.0%
ATA Airlines	-49.8%	-46.5%
Continental Airlines	+10.8%	+4.2%
Delta Air Lines	+9.4%	+4.2%
JetBlue Airways	+32.9%	+25.6%
Northwest Airlines	+6.3%	+2.5%
Southwest Airlines	+12.0%	+14.3%
United Airlines	+0.9%	+1.2%
US Airways	+2.0%	+1.4%

On May 19, 2005, America West Holdings and US Airways Group announced plans to merge, with the intention of creating a full-service network airline with the cost structure of a low-cost carrier. The new airline will operate under the US Airways brand, but has a number of hurdles to overcome before the merger can occur. One major obstacle was removed when the U.S. Department of Justice approved the transaction after deciding the proposed merger would not reduce competition. Other hurdles still to be cleared include obtaining approvals from America West shareholders, US Airways creditors and the U.S. bankruptcy court (the airline is still operating under bankruptcy protection), as well as several other regulatory bodies. ACE Aviation Holdings, the parent company of Air Canada, announced its intention to invest US$75 million in the venture in exchange for maintenance contracts. America West and US Airways said they expect to secure all regulatory approvals this summer and complete the merger this fall.

Despite climbing levels of air passenger traffic, airline staffing levels have fallen dramatically in the last few years as airlines continue to cut back on operating costs. According to statistics by the U.S. Department of Transportation, the U.S. airline industry employed 451,915 workers in April 2005, a 2.8 per cent decline from the number recorded in April 2004. Among the seven largest carriers (American, United, Delta, Northwest, Continental, US Airways and Alaska), employment dropped 6.1 per cent over this period, to 304,761 workers, and has plummeted 34 per cent since April 2001. The largest declines have occurred at US Airways (49.6%) and United (42.4%).

Meanwhile, the Department of Homeland Security (DHS) has extended the deadline that requires all countries participating in its Visa Waiver Program (VWP) to present passports embedded with biometric data (also known as e-passports) by a year, to Oct. 26, 2006. Many tourism industry groups are relieved by the extension, as there were strong concerns that this new regulation would reduce travel volumes from a number of the 27 overseas countries in the VWP-countries that represent the USA's larger tourism markets. The DHS also reiterated that all visitors participating in the VWP must have a machine-readable passport to enter the United States as of June 26, 2005, and a digital photo in their passports by Oct. 26, 2005.

Hotels - Canada

The Canadian hotel industry is relatively optimistic about current business conditions, according to the recent *Business Conditions Survey on the Travel Accommodation Industry* conducted by Statistics Canada. This survey of traveller accommodation providers, conducted in April, revealed that 49 per cent of respondents expected their bookings to increase between April and June 2005, compared with a year earlier, while 31 per cent expected them to be about the same. Only 20 per cent expected their bookings to decline during that period. Respondents gave similar responses when asked about daily rate increases. Economic conditions were ranked as the highest concern among respondents (cited by 32%), followed by excess room supply (25%) and shortage of skilled labour (21%). However, almost a third of those polled (30%) indicated they were facing no difficulties at the time.

Fairmont, Four Seasons and Legacy Real Estate Investment Trust all reported their first quarter earnings, with mixed results. Earnings for Fairmont and Four Seasons were boosted by strong lodging demand in the United States, and to a lesser extent in Canada. Legacy sustained a heavier loss, citing among other things, the disruption of business travel by an early Easter holiday, and the lack of NHL hockey as a tourist draw. All companies remained cautious about U.S. leisure travel to Canada, which was not expected to improve significantly through the second and third quarters. Nevertheless, the general lodging outlook was quite positive, with all three companies anticipating strong growth in room rates and revenues this summer. Legacy, in particular, noted that its forward bookings were benefiting from improving business travel demand for both individual and group bookings.

Table 3. Hotel RevPAR and Net Income Q1 2005

Company	Revenue per Available Room (RevPAR), Q1 2005 vs. Q1 2004	Net Income Q1 2005	Net Income Q1 2004
Fairmont Hotels & Resorts	+7.8% (Cdn portfolio)	-$4 million (USD)	+$0.6 million (USD)
Four Seasons Hotels	+13.8%	+$5.2 million (USD)	+$8.7 million (USD)
Legacy Hotels REIT	-2.8%	-$31.4 million	-25.3 million

Vancouver was ranked as the top North American meeting destination for international associations, based on the number of association events held in the city last year, according to the International Congress and Convention Association. Worldwide, it placed 30th, with 21 international meetings in 2004, but most of the cities ahead of Vancouver were in Europe, where almost two-thirds of international associations are based. Montréal was the next North American city on the list, placing 35th, followed by Chicago (41st), Toronto and Washington, DC, (both 60th) and New York City (70th).

Hotels - U.S.

The recovery in the U.S. hotel industry continues to flourish, particularly in the luxury segment, driven by the rebound in business travel demand and strong leisure travel volumes. In fact, PricewaterhouseCoopers (PWC) recently forecast that U.S. lodging demand would rise to record levels this summer, increasing 4.7 per cent over last year, and 6.2 per cent over 2000. Overall, PWC expects occupancy between the Memorial Day and Labour Day weekends to rise 2.4 per cent, almost reaching levels last seen in 2000. However, room rates are expected to jump 4.5 per cent compared with last summer, taking average daily rates to record-high levels (6.7% higher than 2000). As a result, RevPAR is expected to grow 8.1 per cent compared with last year, to levels 5.4 per cent above those seen in 2000.

In early June, Smith Travel Research (STR) released its 2005 *Hotel Operating Statistics* report, which revealed that the U.S. hotel industry increased its full-year 2004 profits by 30.5 per cent over 2003, reaching US$16.7 billion. Overall revenues hit a record high of US$113.7 billion, an 8 per cent rise over the previous year. STR noted that these figures indicate the industry has been able to capitalize on the rebound in business travel demand, although profits remained below the US$22.5 billion achieved in 2000. STR said it expected a similarly strong performance in 2005.

The industry's strong revenue and profit growth is prompting an "unprecedented boom" in renovations and amenity upgrades, according to *Business Travel News*. PWC has forecast that hotels will spend a record US$4.5 billion in upgrades this year, not including new room additions or new construction. Hilton Hotels recently announced $500 million in renovations earmarked for more than 70 of its U.S. hotels, indicating there was pent-up demand for facility improvements now that the recent downturn has passed. New, more luxurious mattresses and bedding appears to be one popular upgrade among the major hotel chains, and *USA Today* recently reported that complimentary breakfast programs are receiving an overhaul in many mid-level hotels.

Hotels are also expanding their marketing budgets, according to a recent report by PKF Hospitality Research. In 2004, marketing expenditures at U.S. hotels increased 6.1 per cent, as companies directed more resources towards capitalizing on the growth in lodging demand. PKF further revealed that much of this spending increase was due to a rise in marketing staff costs, as opposed to other marketing expenses. PKF noted that there has been a shift away from advertising spending, which declined 5.1 per cent in 2004 compared with a year earlier, while dollars spent on selling rose 6.6 per cent.

This trend was apparent in a recent survey by *Hotel Pulse* magazine, which revealed that hotel operators are increasingly focusing their marketing efforts on developing personal relationships, especially within the corporate travel market. Of the hoteliers polled, 91 per cent said that direct calls to corporate travel managers were important or very important to their marketing efforts. Furthermore, 56 per cent of respondents said they regularly offer gifts and other incentives to travel arrangers, up from 47 per cent in the 2004 survey.

Meanwhile, rebounding business travel demand has helped the bottom lines of U.S. conference centres, according to PKF Consulting's *Trends in the Conference Centre Industry*. In 2004, revenues among the conference centres studied rose 7.5 per cent, boosted by a 4.3 per cent increase in meetings demand. This resulted in a 25.3 per cent surge in conference centre profits, compared with the previous year. PKF also noted that the bulk of last year's conferences were put on by business organizations (32.5%) and academic institutions (30%). In 2005, meetings demand is expected to rise a further 9 per cent, allowing conference centres to raise rates by an average of 4 per cent.

Travel Agents

Domestic airfares within Canada continued to gain ground in May 2005, according to the International Air Transport Association's (IATA) Billing and Settlement Plan, which tracks airline tickets sold through Canadian travel agencies. Average domestic air ticket prices increased 8 per cent in May compared with the same month in 2004. Meanwhile, airfares from Canada to the United States and other international destinations continued to fall, declining 4 per cent and 3 per cent, respectively, compared with a year earlier.

In the United States, air ticket sales processed through travel agencies in May increased 5 per cent, compared with a year earlier, driven by an 11 per cent hike in international ticket sales, according to the Airlines Reporting Corporation (ARC). In fact, international air ticket sales reached US$2.5 billion that month, a record high. Domestic air ticket sales for May, on the other hand, remained on par with May 2004.

Tour company Transat A.T. Inc., the parent company of charter airline Air Transat, posted net earnings of $38.4 million for its second quarter ended April 30, 2005, compared with net earnings of $45.4 million for the same quarter of 2004. The company reported that its net gains for the period were lower than the record high reached in the second quarter of 2004, dampened by excess capacity in the Ontario market and higher fuel costs. Overall, Transat's year-over-year passenger numbers increased 9.1 per cent during the quarter, and revenues climbed 4.7 per cent. In North America, passenger numbers jumped 12.9 per cent, boosting revenues in its North American operations by 9.3 per cent over the previous year.

Effective July 1, 2005, new amendments to Ontario's *Travel Industry Act* have compelled travel agents and wholesalers to include all taxes and surcharges in the prices they advertise. The government said that the new rules are meant to "protect consumers so there are no surprises when Ontarians purchase travel services through registered travel agents and wholesalers." Travel providers are also obligated to tell consumers about the cost and availability of trip-cancellation services and health insurance, when applicable. The government press release noted that the Ontario Travel Compensation Fund will remain in effect, to protect consumers who purchase but do not receive travel services from a registered Ontario travel agent, Ontario travel wholesaler, airline or cruise line due to insolvency or bankruptcy.

Meanwhile, the results of a recent member survey conducted by the National Tour Association (NTA) indicate that U.S. tour operators are enjoying strengthening sales and booking numbers, supporting the view that consumers are "increasingly optimistic and confident in travelling this year." Of the NTA members responding to the survey, 50 per cent said they served more passengers in the first quarter of 2005 than in the same quarter of 2004, while a further 28 per cent said their passenger levels remained the same. The majority of respondents (51%) said their sales volumes had increased in the first quarter, and an even greater number (56%) expected sales growth in the second quarter of this year.

Tourism Leading Indicator Index - Domestic

Economic		Non-economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (Domestic)	Supplier Trends (Domestic)	
+	0	+	0	+

The latest economic figures suggest that the Canadian economy continues to generate new jobs. In May, the Canadian economy generated 35,400 new jobs, most of which were full-time. Despite unspectacular 2.3 per cent (annualized rate) real economic growth during the first quarter of 2005, consumer spending still managed to surge ahead 6 per cent on an annual basis. While the rapid appreciation of the Canadian dollar vis-à-vis the U.S. dollar appears to have reached a plateau, Canadian outbound travel continues to flourish because of the relatively high value of our currency. High gas prices (and fuel surcharges) are expected to have a slightly negative impact on domestic travel decisions. However, they are not expected to put domestic travel at a cost disadvantage compared with other outbound destinations.

While outbound travel, particularly to non-U.S. destinations continues to surge ahead, the growth in domestic travel has been more modest. Statistics Canada's National Tourism Indicators report that domestic spending (tourism domestic demand) increased 5.2 per cent during the first quarter of 2005, compared with the same period last year. However, during the same period, Canadian outbound travel spending increased by 6.1 per cent overall, and by 8 per cent for non-U.S. destinations. Although some suppliers have increased their summer product offerings to cater to domestic travellers, direct air capacity within Canada between July and September is expected to be 1.8 per cent below what was available last year. Overall, the Tourism Leading Indicator for domestic travel suggests that this market should continue to expand over the summer due to positive economic conditions and growing domestic travel intentions.

Tourism Leading Indicator Index - U.S. (to Canada)

Economic		Non-economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (to Canada)	Supplier Trends (U.S. to Canada)	
0	–	–	+	0

Despite recent good news surrounding the reduction in the U.S. trade deficit and the fact that the U.S. economy remains on track to expand between 3 and 3.5 per cent in 2005, the latest (May 2005) overall leading economic indicator for the United States, produced by the Conference Board, declined 0.5 per cent. In fact, the overall leading economic indicator has now declined 2.2 per cent (on an annual basis) over the last six months. While the period of U.S. currency depreciation vis-à-vis the Canadian dollar appears to have stalled, many U.S. travellers will still find Canada less price competitive because of higher gas prices (and fuel surcharges). The effect of these price increases will put Canada at a slight price disadvantage compared to other closer-to-home domestic (U.S.) destinations.

So far in 2005, domestic travel and overseas travel has benefited with solid growth, however, visits to Canada have not fared as well. Hurt by weak travel numbers in April, year-to-date (January-April) overnight travel from the United States remains 2.1 per cent behind last year, for the same time period. In addition, confusion over the recently announced Western Hemisphere Travel Initiative (WHTI) could further restrict cross-border automobile travel over the summer. So far, the lone bright spot has been overnight air travel from the United States. This segment is still ahead of last year's pace and a 2 per cent increase in direct air capacity to Canada is planned for the July-September period. Unfortunately, the Tourism Leading Indicator for the United States suggests that economic challenges, high gas prices and possible confusion over the WHTI all pose a significant challenge to growth over the summer.

International Overview

United Kingdom and Ireland

British Airways (BA) posted a net profit of GBP251 million (CDN$551.5 million) for its fiscal year ended March 31, 2005, a 93.1 per cent increase from the GBP130 million (CDN$285.7 million) net profit reported a year earlier. The airline's operating profit rose 25 per cent, boosted by a 1.9 per cent increase in overall revenues. Despite high load factors (74.8%, on average), passenger yields (revenues per passenger kilometre flown) declined 4.4 per cent during the period, representing the carrier's third consecutive year of decreasing yields. Looking ahead, BA expects market conditions to remain "broadly unchanged," with no improvements in passenger yields. However, the airline expects modest increases in passenger volumes, seat capacity and overall revenues.

In May 2005, BA's overall passenger traffic, measured in revenue passenger kilometres (RPKs) rose 3.2 per cent, compared with a year earlier. Traffic volumes on short-to-medium routes to Europe and long-haul routes to the Asia-Pacific region continued to perform the best, increasing 4.4 and 10.3 per cent, respectively, while RPKs on routes to the Americas climbed 1.8 per cent, compared with a year earlier.

Irish discount airline Ryanair posted a 19 per cent rise in net profits for its fiscal year ended March 31, 2005, with EUR268.9 million (CDN$398.7 million) in net earnings for the period. The carrier expanded its capacity by 16 per cent, but still achieved a 2 per cent increase in passenger yields. The overall number of passengers carried surged by 19 per cent over the previous year.

EasyJet recorded a GBP22.3 million loss (-CDN$49 million) for its first half ended March 31, 2005. The British low-cost carrier blamed the "volatile fuel market" and "continuing competitive pressures" for widening its losses by nearly 12 per cent compared with the previous year. EasyJet's passenger numbers increased 25 per cent over the previous year, but its yields remained almost on par (+0.1%) with the first half of its previous fiscal year. Looking ahead, both Ryanair and EasyJet expect strong growth in passenger numbers, although the intensely competitive environment is expected to keep airfares down.

According to the British Airport Authority (BAA), passenger numbers at its seven UK airports (including Heathrow) rose 5 per cent to 12.32 million passengers in May 2005. North Atlantic routes continued to see modest growth in passengers (up 2.3% in May), while passenger volumes on other long-haul routes climbed 8.1 per cent. European routes saw a 7.4 per cent increase, while domestic passenger levels rose 5.7 per cent. BAA recently released a 10-year forecast, which anticipates 3.9 per cent average annual demand growth over the next decade. However, BAA noted that capacity constraints are expected to restrict traffic growth at its three London airports (Heathrow, Gatwick and Stansted), keeping growth at these facilities to 3 per cent per year, on average.

Table 4. Percentage change in passengers carried

Carrier	May 2005 vs. May 2004
British Airways	+0.1%
EasyJet	+21.9%
Ryanair	+34%

Two of Britain's largest travel companies recently reported an improvement in their financial performance. MyTravel reported a pre-tax loss of GBP114.1 million (-CDN$250.7 million) for its first half ended April 30, 2005, a marked improvement from the GBP177.9 million loss (-CDN$390.3 million) reported for the same period a year earlier. The firm cited the adverse effects of the Dec. 26 Asian tsunami and high fuel costs as contributing to its losses, although its North American division reported an operating profit of GBP23.1 million (CDN$50.8 million), up from GBP17.7 million the previous year.

First Choice narrowed its first half loss to GBP45.9 million (-CDN$100.9 million) for period ended April 30, 2005, a 10 per cent improvement from a year earlier. Short-haul business declined 15 per cent, but long-haul trip revenues rose 6 per cent over the same period of 2004. As of June, the company's summer long-haul bookings were ahead by 23 per cent, while bookings for medium-haul and short-haul trips were up 15 per cent and 3 per cent, respectively.

Looking ahead, both MyTravel and First Choice reported favourable conditions for the summer travel season, buoyed by strong leisure travel demand combined with an improved balance of supply and demand. First Choice and MyTravel were both emphatic that despite a slump in other areas of UK consumer spending, the demand for travel products remained buoyant. This outlook was supported by TUI's first quarter update: by the end of April, summer bookings in its UK division were ahead by 25 per cent, compared with the same time a year earlier.

In the year leading up to April 2005, British overseas trips rose 4 per cent to 64.8 million, compared with the same period a year earlier, according to the UK Office for National Statistics. North America recorded a 16 per cent increase in British visits (to 5 million), while trips to Western Europe remained on par with the previous year (49.4 million). Trips to destinations in all other regions of the world soared to 10.4 million, a 23 per cent jump from the previous year.

A new survey by Amadeus and YouGov revealed that the majority of UK travellers (51%) regularly turn to online travel agencies for inspiration in choosing a holiday destination, rather than traditional holiday brochures (cited by only 34%). Recommendations from family and friends influenced the travel decisions of 32 per cent of respondents, while only 29 per cent said they relied on the advice of a travel agent. Even further down the list were tourism websites (22%) and print media (14%). For making travel arrangements, online travel agents again came out on top, cited as the preferred booking method of 36 per cent of respondents. Another 20 per cent said they regularly booked through a travel agent, while only 18 per cent said they typically booked trips through a call centre. Amadeus noted an increasing desire among travellers to explore a travel destination before choosing it, a preference that the Internet easily accommodates.

Meanwhile, UK business travel is in the midst of a consistent recovery, according to the Guild of Travel Management Companies (GTMC). It recently reported that corporate travel bookings among GTMC members increased by 8 per cent in the first quarter of 2005 compared with the previous year. Hotel bookings were up 22 per cent, and air travel volumes rose 6 per cent during the quarter. Interestingly, the GTMC noted that corporate demand for low-cost air travel appears to have peaked, accounting for only 15 per cent of all air ticket transactions.

This observation was supported by the latest annual Barclaycard Business Travel Survey, which indicated that British Airways and Virgin Atlantic had each gained market share in corporate air travel over the last year. BA was cited as the favourite airline of 43 per cent of respondents, up from 35 per cent last year, while Virgin increased its popularity from 4 per cent to 7 per cent of respondents, moving from fifth to second place. Overall, business-class air travel has edged up 2 per cent since last year's survey.

Tourism Leading Indicator Index - United Kingdom

Economic		Non-economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
+	0	++	+	+

While the Conference Board's overall leading economic indicator for the UK decreased slightly (-0.4%) in April, it still has been on a rising trend on an annual basis (2%). In addition, despite some recent deterioration in the exchange rate of the UK pound vis-à-vis the Canadian dollar, the UK pound has generally maintained its value since last year.

Notwithstanding the weak visit numbers reported in April, UK arrivals to Canada for the year remain nearly 13 per cent ahead of last year's figures for the same period. UK travel to Canada should receive a bit of a boost over July to September with a planned 6.1 per cent increase in direct air capacity, compared to last year. Overall, the strength of travel trends (by travellers and suppliers) suggests that UK travel to Canada should continue to be solid this summer.

France

Strong air travel demand helped boost Air France-KLM Group's full-year net earnings by 20.2 per cent for its fiscal year ended March 31, 2005, compared with a year earlier, to EUR351 million (CDN$520.4 million). Passenger revenues increased 7.1 per cent over the previous year, buoyed by an 8.9 per cent rise in passenger traffic. Soaring oil prices caused the carrier's fuel costs to surge by 25 per cent over the year, but unexpectedly high gains from last year's merger of Air France and KLM helped offset this loss. This is the merged airline's first full-year financial report, which prompted the airline to proclaim its first year a "complete success."

Looking ahead, the airline plans to expand its overall capacity in the current fiscal year by 5 per cent. According to *Business Travel News*, Air France-KLM is now the world's leading airline by sales, which reached EUR14.1 billion (CDN$20.9 billion) in the carrier's 2004-2005 fiscal year, but fourth in terms of overall passenger traffic (behind American Airlines, Delta and United, respectively).

In May 2005, Air France-KLM's overall passenger traffic (measured in RPKs) rose 6.9 per cent, driven by strengthening demand on both European and long-haul routes. Traffic on transatlantic flights surged 12.3 per cent, while European traffic (including France) rose 7.5 per cent. Overall, the number of passengers carried in May jumped 6.7 per cent, compared with the same month last year, to 5.9 million.

Travel company TUI AG recently reported the first quarter results of its France Division, indicating that bookings rose 17.7 per cent in the January to March 2005 period, compared with the first quarter of 2004. Tour operators Nouvelles Frontières, which targets the price-conscious market, and TUI France, which targets the upper market segment, each reported "buoyant activity" during the period.

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

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

Tourism Leading Indicator Index - France

Economic		Non-economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
0	–	++	+	+

The Conference Board's overall leading economic indicator for France was unchanged in April and has now been fluctuating around a flat level since October 2004. Meanwhile, since the start of the year, the price competitiveness for French travel to Canada has slid a bit with a slight depreciation of the euro vis-à-vis the Canadian dollar. Long-haul fuel surcharges are also expected to put Canada at a slight price disadvantage compared with other shorter-haul destinations.

Up to the end of April, French arrivals to Canada were up over 11 per cent ahead of last year's figures for the same period. Looking ahead, French travel to Canada should receive a solid boost from the planned 10.7 per cent increase in direct air capacity over July-September, compared with last year. Overall, despite economic challenges, the strength of non-economic motivations suggests French travel to Canada remains poised to continue to expand over the summer months.

Germany

Lufthansa Group, parent company of Lufthansa German Airlines, posted a net loss of EUR116 million (-CDN$172 million) for its first quarter ended March 31, 2005, compared with a net profit of EUR62 million (CDN$91.9 million) in the same period of 2004. However, the company was able to narrow its year-over-year operating loss due to a healthier performance in all segments, despite a 35 per cent increase in fuel costs and Germany's weak economic conditions. Overall traffic on the group's airlines, including Lufthansa and four other smaller carriers, increased 2.9 per cent, although the number of passengers declined (-1.8%). Traffic on its European routes fell by 3.8 per cent during the quarter, which the company attributed to "slackening economic momentum and the fierce competitive environment." Lufthansa announced plans to drop its fares significantly this summer on specific domestic routes to compete with low-cost carriers.

In May, Lufthansa's passenger traffic increased 2.8 per cent compared with the same month in 2004. Traffic growth was mainly driven by higher demand on the airline's long-haul routes, in particular to Asia-Pacific destinations (up 5.1%). Traffic on North and South American routes edged up 2.5 per cent, while the number of passengers carried on these routes climbed 3.5 per cent.

On June 8, 2005, Lufthansa celebrated 50 years of flying from Germany to New York City. In 1955, the flight from Frankfurt to New York was on a 100-seat propeller aircraft and took about 20 hours, including a stopover in Ireland (today it takes about eight hours). The airline noted that relative ticket prices have fallen sharply since then: in 1955 the cost of flying from Frankfurt to New York City was "equivalent to three months' salary," while today it costs about EUR500 (CDN$741).

In May, Frankfurt Airport served 4.5 million passengers, a 2.6 per cent increase over the same month in 2004. The airport reported that intercontinental routes continued to see "over-proportional" growth in traffic, particularly to North America, Africa and the Middle East. Looking ahead, the airport noted that its forecast for the year remained unchanged-it still anticipates 3 per cent growth in overall passenger numbers this year.

The financial picture of Germany's two largest travel companies is improving, according to recent financial reports, buoyed by strong demand in the German market. TUI AG reported a pre-tax loss of EUR208 million (-CDN$308.4 million) for its first quarter ended March 31, 2005, narrowing the EUR227 million (-CDN$336.6 million) pre-tax loss reported a year earlier. TUI's Central European division experienced the strongest growth over the period, with sales up 11.8 per cent over the previous year, mainly due to positive sales trends in Germany. Overall, TUI's summer bookings (excluding the company's low-cost carriers) are 8.6 per cent higher than last year, and sales volumes are 9.5 per cent ahead.

Meanwhile, Thomas Cook AG saw its first half losses narrow by 28 per cent to EUR217 million (CDN$321.8 million) for the six months ended April 30, 2005, compared with the same period in 2004. Bookings were down by 1 per cent, but sales rose marginally (0.7%), boosted by a 1.8 per cent increase in average holiday prices. Looking ahead, overall summer bookings in all divisions were up 5.2 per cent in early June, boosted by a 9.8 per cent rise in German bookings, compared with the same time a year earlier. Strong advance summer bookings and a successful restructuring phase led the company to forecast it would break even this fiscal year, for the first time in four years.

According to a recent survey by travel journal *FVW*, German tour operators are generally quite optimistic about sales of North American trips this year, with "high single-digit" growth expected. Dertour, noted as the leader of this market, said its North American products were selling well, particularly for Canadian destinations. Another company reported "low, double-digit growth" for North American holidays, although U.S. trips were outselling Canadian ones. Bus tours and "fly-drive" vacations were cited as being especially popular. Tour operators also reported that sufficient air capacity to North American destinations was keeping air ticket prices at "acceptable levels," although security charges and airport taxes were a concern. *FVW* stated that the strength of the euro, relatively low destination costs and a pent-up desire to visit the United States were all helping to boost demand for North American products.

Tourism Leading Indicator Index - Germany

Economic		Non-economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
–	–	++	+	+

The Conference Board's overall leading economic indicator for Germany declined for the third consecutive month in April, and weakness among the leading indicators has become more widespread in recent months. During the same time, the price competitiveness for German travel to Canada has also deteriorated slightly with the slight depreciation of the euro vis-à-vis the Canadian dollar since the start of the year. Long-haul fuel surcharges will put Canada at a slight price disadvantage compared to shorter-haul destinations.

Despite the weak number of visits in April, German arrivals to Canada for the year remain 11 per cent ahead of last year's figures for the same period. In addition, German travel to Canada should receive a bit of a boost from the planned 5.1 per cent increase in direct air capacity over July-September, compared to last year. It appears that despite the subdued outlook for Germany's economy, German travel demand continues to build, resulting in a still favourable outlook for the summer travel season.

Mexico

The discount airline segment is currently undergoing a rapid expansion in Latin America, much like it did in North American, Europe and, most recently, in Asia, according to a recent article in *The Wall Street Journal*. On July 1, 2005, Mexico's flag carrier, Mexicana, launched its low-cost subsidiary, Click, which is expected to take over services on many of Mexicana's domestic and Caribbean routes at discount rates. Other examples cited were Brazilian discount airline GOL, which has made significant route expansions throughout South America in the last year, and a bevy of smaller charter airlines serving tourist destinations previously only accessible by arduous drives or boat rides. The primary targets of these new carriers are the middle and lower-middle class Latin Americans who travel regionally by bus, at fares that are similar to the ones now being offered by discount airlines. However, the article noted that air travel remains a relative luxury for Latin Americans-only about 10 per cent of the 500 million people in Latin America and the Caribbean currently travel by air.

A recent online survey of worldwide consumers by Global Market Insite Inc., a U.S. market research firm, revealed that 74 per cent of Mexican respondents said they would either definitely (31%) or possibly (43%) take an outbound trip in the next 12 months. When asked about the factors that influence their choice of travel destination, the most significant inspiration was personal recommendations, cited by 47 per cent of Mexican respondents. The Internet came in second (31%), followed by travel agents (26%) and television programs (25%). Newspaper ads seemed to have relatively little influence, cited by only 8 per cent of Mexican respondents. When asked about the barriers travellers faced in taking a vacation, the two most-cited constraints among Mexicans polled were cost (47%) and family commitments (31%).

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

The Economist Intelligence Unit recently reported that consumer spending provided a strong boost to Mexico's economy in the first quarter of this year, resulting in economic growth of 2.4 per cent compared with the same quarter of 2004. An even stronger indicator of consumption strength was seen in April, when retail sales jumped 8.9 per cent compared with a year earlier-the largest increase in four years. However, in May, consumer confidence dipped slightly (0.6%) to 99.7, the lowest level in six months, and same-store sales were down, creating concerns about a possible consumption slowdown. A recent news report by Dow Jones stated that the recent expansion in Mexican bank lending appears to be fuelling consumer demand, allowing consumers "a more active role in the country's economy."

Tourism Leading Indicator Index - Mexico

Economic		Non-economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
0	+	++	++	++

The Conference Board's leading economic indicator for Mexico has been flat or down slightly over the last six months. Meanwhile, the price competitiveness of Mexican travel to Canada should get a bit of a boost with the modest appreciation of the Mexican peso vis-à-vis the Canadian dollar since the start of the year.

Despite the weak number of visits in April, Mexican arrivals to Canada for the year remain 14 per cent ahead of last year's figures for the same period. Mexican outbound travel should receive an added boost through the significant growth planned in air capacity. Fortunately, direct air capacity to Canada is also slated to significantly increase (15.9%) over July to September. Overall, the Tourism Leading Indicator suggests that Mexican arrivals should be quite strong over the summer.

Japan

Japan's two largest airlines, Japan Airlines (JAL) and All Nippon Airways (ANA) each reported financial improvements in their full-year results for the period ended March 31, 2005. JAL posted a net income of 30 billion yen (CDN$333.6 million), reversing a net loss of 88 billion yen (-CDN$978.5 million) posted a year earlier. ANA strengthened its profitability, posting net earnings of 26.9 billion yen (CDN$299.1 million), a 25 per cent rise over the previous year. Both airlines credited robust growth in their international business with boosting their profits; ANA's international passenger revenues jumped 19%, while JAL's surged 22.1%.

Looking ahead, each carrier reported that its overall financial picture remained positive, although fuel costs were a concern. Subsequently, both carriers announced identical fare increases on international routes to offset rising fuel costs. The increases will range from 200 to 2,500 yen (CDN$2 to $28) and will come into effect in early July.

Tokyo's Narita International Airport submitted a proposal to the International Air Transport Association (IATA) to implement a 10 per cent net reduction in its airline fees. The airport, currently ranked as having the most expensive landing fees in the world, said it would slash its international landing fees by 20 per cent, but increase other charges at the same time, resulting in a 10 per cent net reduction for carriers using the facility. The airport has been facing intensifying competition from other Asian gateway hub airports for overseas services.

The number of travellers using Narita Airport during the Golden Week holiday, which ran from April 27 to May 7 this year, rose to a record-high 856,000 passengers, surpassing the previous record by 10,000, according to the airport's preliminary statistics. However, the figure was smaller than originally forecast (897,000 passengers), mainly because of a spate of cancellations for holidays to China, once the anti-Japanese demonstrations there began escalating in March.

Sales for overseas trips rose 32.3 per cent among Japan's top 50 travel agencies in the first quarter of 2005, to 2.4 trillion yen (CDN$26.7 billion) according to Japan's Land, Infrastructure and Transport Ministry. Sales rebounded from the steep decline in overseas bookings in the first quarter of 2004, when travel confidence was devastated by the effects of severe acute respiratory syndrome (SARS) and terror-related concerns stemming from the war in Iraq.

Japanese travel agency H.I.S. Co. reported a 14 per cent rise in sales for its first half ended April 30, 2005, boosted by strong growth in outbound travel compared with a year earlier. Sales for trips to Asian destinations spiked during the period, rising 21 per cent over the previous year. The agency also reported strong advance bookings to North America and Europe for August and September.

The Japan Times recently reported that "mother-and-child study abroad" programs are gaining popularity in Japan. These programs involve mothers taking their preschool children to countries such as the United States and Canada to learn English. According to the article, a growing number of women are purchasing travel packages that include English classes for the mother, while their children attend a daycare where they can play with local English-speaking tots.

Tourism Leading Indicator Index - Japan

Economic		Non-economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
0	–	++	–	+

The Conference Board's leading economic indicator for Japan remained virtually flat (-0.1) over the six months leading up to the most current release in April 2005. However, the price competitiveness of Japanese travel to Canada has declined slightly since the start of the year due to the slight depreciation of the Japanese yen vis-à-vis the Canadian dollar.

Despite the slight depreciation of the yen, Canadian arrivals were up over 18 per cent between January and April of this year, compared with 2004. While the financial health of Japan's airline industry has improved, the level of direct air capacity planned to Canada during July to September remains slightly below that of last year (-3.5 per cent). Overall, the Tourism Leading Indicator for Japan suggests that growth is expected to continue over the summer, although its pace may slow from that witnessed early in the year.

Korea

Korean Air posted a net profit of 52.6 billion won (CDN$63.2 million) for its first quarter ended March 31, 2005, a 70 per cent decline compared with the first quarter of 2004. The two main reasons for the steep decline were a 20 per cent increase in fuel costs and an accounting adjustment to correct a substantial error made in its 2003 financial statements. Overall sales increased 2.5 per cent, boosted by revenue growth of 7.8 per cent on international routes. Demand during the period was especially strong for Chinese and Japanese destinations. Looking ahead, the airline is seeing an increase in passenger demand for services to China, Europe and the United States, and is very optimistic about its full-year profits.

A recent Global Market Insite Inc. online survey revealed that more than half of the Korean consumers polled said they would either definitely (20%) or possibly (39%) take an outbound trip in the next 12 months. When asked about the factors that influence their choice of travel destination, Koreans were the most likely of all countries surveyed to be inspired by websites, cited by 69 per cent of Korean respondents. Far behind were personal recommendations (30%) and travel agents (23%). Koreans also had one of the highest incidences of Internet travel purchases of all countries surveyed: 65 per cent of respondents said they booked more than half of their travel online, and 50 per cent said their use of online travel had increased in the last year.

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

According to the latest Korean market report by Tourism Australia, Korean outbound travel increased 14.6 per cent in the first quarter of this year compared with the same quarter of 2004. However, most of this increase was due to a surge in travel to Asian destinations (up 27.1%), while trips to the United States declined 2.1 per cent, and trips to Europe remained virtually on par (up 0.7%) with the previous year.

Korean consumer sentiment fell sharply in the second quarter of 2005, reversing the optimistic trend seen in the previous quarter, according to an Agence Française de Presse (AFP) news report. The index measuring consumers' outlook for the economy slid 17 points to 91 in the second quarter results (a measurement above 100 indicates that the majority of consumers polled are optimistic about economic conditions). Earlier in the year, consumers were optimistic that an economic recovery was taking hold in Korea, but that optimism has faded in the wake of a prolonged slump in private spending and overseas demand.

Tourism Leading Indicator Index - Korea

Economic		Non-economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
+	+	++	0	+

While the Conference Board's overall leading economic indicator for Korea decreased slightly in April (-0.4%), it is still on a rising trend on an annual basis (2%-3%). The growth rate of the leading economic indicator has slowed gradually following two very strong years of growth that ended in early 2004. Fortunately, potential visitors from South Korea should receive a boost from the gradual appreciation of the South Korean won vis-à-vis the Canadian dollar, particularly since the summer and fall of 2004.

Up to the end of April, South Korean arrivals in Canada were 12 per cent ahead of last year, for the same time period. However, the level of direct air capacity planned between July and September is expected to remain virtually unchanged (up 1.9 per cent). Still, the overall Tourism Leading Indicator suggests that favourable economic conditions and solid travel trends (by travellers) should allow travel from Korea to continue to expand over the summer.

China

As part of the ongoing consolidation of China's airline industry, China Eastern Airlines announced it would acquire two of its rivals, Yunnan Airlines and China Northwest Airlines. The acquisition will expand China Eastern's fleet by 58 per cent to 163 aircraft, and boost its passenger revenues by 40 per cent. It will also allow the airline to substantially expand its network coverage from its base in the eastern region into the northwestern and southwestern regions of China.

In May, passenger traffic through Beijing Capital International Airport rose 26.3 per cent, year over year, to 3.3 million passengers. Passenger volumes on domestic routes surged 27.1 per cent to 2 million, while international routes saw 525,000 passengers, an increase of 17.6 per cent over the same month of 2004.

Shanghai-based Ctrip.com International Ltd., one of China's leading travel consolidators, posted a net profit of 39.6 million yuan (CDN$5.9 million) for the first quarter of 2005, an 82 per cent increase from the same quarter of 2004. Hotel room sales volumes increased 29 per cent, with booked hotel room nights rising to 1.1 million in the first quarter, from 850,000 in the same quarter a year earlier. Air ticket sales rose 177 per cent, which the company attributed to strong volume growth and commission increases. Package tour revenues increased 76 per cent over the previous year. A recent report by Deutsche Bank stated that China's Internet-based travel consolidators will continue to experience strong growth over the next few years, driven by an upward trend in Chinese independent travel demand as well as China's robust economic growth.

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

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

Tourism Leading Indicator Index - China

Economic		Non-economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
+++	0	+	+++	++

According to Consensus Economics, the economic outlook for China has improved significantly since the start of the year. The most current survey (May 9, 2005) reports the consensus for real economic growth now stands at 8.9 per cent for 2005-up from 8.2 per cent reported in January. The revision was mainly due to stronger-than-expected economic activity in the first quarter. Potential Chinese travellers should not be too affected by overall price competitiveness since the pegged value of the Chinese currency (with the U.S. dollar) has basically stabilized vis-à-vis the Canadian dollar since the end of last year.

Boosted by solid arrivals in April, Chinese visits for the year (January to April) were up 7 per cent ahead of last year, for the same period. Looking ahead, the level of direct air capacity planned for July to September is reported to increase 45.4 per cent, compared with last year. Overall, favourable economic conditions and solid travel trends (by travellers and suppliers) should allow travel from China to post solid growth over the summer.

Australia

In mid-June, the Australian government denied Singapore Airlines access to Australia's lucrative U.S.-Australia route. Singapore Airlines campaigned the Australian government strongly for the access, saying lack of competition on the route was driving up fares and depriving Australia of additional tourists. But Australia's flag carrier, Qantas, and its leading discount airline, Virgin Blue, had vehemently opposed the access. Qantas pointed out that any Australian or U.S. carrier can operate services between the two countries, even though Qantas and United Airlines are now the only two carriers currently servicing that route. Virgin Blue has signalled its interest in operating transpacific low-cost services.

Virgin Blue posted a net profit of A$138.1 million (CDN$128.9 million) for its full year ended March 31, 2005, a 13 per cent decline in earnings compared with the previous fiscal year. The domestic discount airline attributed its weakened profitability-its first earnings decline in its five-year history-to intensifying competition with low-cost rival Jetstar, escalating fuel costs (60% higher), and softening travel demand. The airline expanded its capacity by 40 per cent over the year, but passenger numbers increased only 27 per cent. Looking ahead, the carrier was cautious in its outlook, given the current trend in fuel prices and the softening domestic economy.

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

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

Tourism Leading Indicator Index - Australia

Economic		Non-economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
+	0	++	0	+

While the Conference Board's overall leading economic indicator for Australia increased 0.5 per cent in April, its annual growth rate (1%-2%) has slowed since the start of the year. The current behaviour of the leading index suggests that the economy will continue to grow in the near term, more rapidly than in 2004, but more slowly than in the latest quarter. Canada's price competitiveness is expected to be unchanged over the summer, as the value of the Australian dollar has basically held its own vis-à-vis the Canadian dollar since last year.

Up to the end of April, visits from Australia were up nearly 13 per cent ahead of last year, for the same period. While the level of stopover air capacity planned between July and September is not expected to increase, still favourable economic conditions and increasing travel trends (by travellers) suggest Australian travel should continue to expand over the summer.

Economic Overview

North America

Economic conditions in the United States, Canada and Mexico are moderating this year. Overall, real GDP growth in North America is expected to dip to 3.4 per cent in 2005, down from the 4.3 per cent gain in 2004. Next year, economic growth is expected to continue to ease down, to 3.3 per cent.

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

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

Europe

With continued economic weakness in many European countries, there is growing discontent in Europe about the Europe Union. Some countries, like Germany, France and Austria, are concerned that jobs continue to be transferred to EU members with lower production costs-jobs they claim are desperately needed at home. Newer EU members like Poland or the Czech Republic continue to push for expansion of the union. Yet, Germany and France, two countries with the power to decide EU expansion, are expected to record real GDP growth below 2 per cent this year. In fact, German growth could easily slide below 1 per cent, given the weak state of its domestic economy. Also, both countries continue to suffer from high structural unemployment rates and continue to fail in pushing through necessary labour market reforms. By contrast, Poland and the Czech Republic have more flexible labour markets, and consequently lower labour costs, and are expected to grow in excess of 4 per cent in 2005. Overall, real GDP in Europe is forecast to grow by a paltry 1.8 per cent this year, before climbing to 2 per cent in 2006.

Asia-Pacific

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

Opportunities

A new TIA report on leisure travel planning revealed that price is not always the top factor in U.S. leisure travel decisions. In fact, the study suggests that a leisure traveller will first choose the destination and decide on the trip duration, and then establish a budget. This implies that travel destinations and suppliers will have an advantage if they are able to capture a traveller's interest before the price is mentioned. When selecting a leisure travel destination, American travellers are most concerned about feeling safe (cited by 46% of respondents), available activities (45%), and nearby friends or family (43%). Deals and discounts were much farther down the list of priorities, mentioned as being important to 22 per cent of respondents. However, when choosing accommodations, price was more of an issue, mentioned by almost half of the respondents (47%). Other important influences in hotel decisions were location (60%), comfort (57%) and privacy (42%).

Canada's national parks could be an appealing summer destination for U.S. travellers, based on recent media stories. National parks are the number one "dream destination" among American travellers, according to the *2005 National Leisure Travel Monitor* by YPBR/Yankelovich Partners, chosen by 66 per cent of U.S. leisure travellers polled. In fact, a recent *USA Today* article listed Canadian national parks as one of their top five "budget-friendly" destinations this summer, describing them as less congested than American parks, and often just as close.

Meanwhile, a new study by New York University and PhoCusWright Inc. suggests that travel companies are increasingly dedicating resources to online travel marketing, with more than two-thirds choosing search engine optimization and e-mail marketing as the two most effective online marketing techniques. In fact, according to the study findings, 79 per cent of companies said that permission-based e-mails were their predominant method of online marketing. Compared with 2004, 74 per cent of respondents said they were spending more this year on website design and functionality, while 73 per cent said they were increasing spending on e-mail marketing. Looking ahead, the top three online trends cited as having the highest impact on future travel marketing strategies were making sure travel websites are optimized for metasearches, viral marketing and permission-based e-mail.

Summary of Indicators

Tourism Leading Indicator Index - Summary Table

	Economic Factors		Non-economic Factors		Overall Tourism Leading Indicator
Travel Market	General Economic Trend	Price Competitiveness	Traveller Trends (to/within Canada)	Supplier Trends (to/within Canada)	For travel to Canada
Domestic	+	0	+	0	+
U.S.	0	–	–	+	0
UK	+	0	++	+	+
France	0	–	++	+	+
Germany	–	–	++	+	+
Mexico	0	+	++	++	++
Japan	0	–	++	–	+
Korea	+	+	++	0	+
China	+++	0	+	+++	++
Australia	+	0	++	0	+

Note: Range spans +++ (significantly improving) to --- (significantly deteriorating). 0 represents no change.

The ratings in each component of the Tourism Leading Indicator indicate the extent to which that component may affect travel from the source market over the near term. Meanwhile, the overall rating for each Tourism Leading Indicator indicates the overall expected performance of the source market in the near term, compared with the same period a year earlier.

Methodology used to develop the Tourism Leading Indicator for each source market:

Economic Factors

A) **General Economic Trend:** The specific assessment of the general economic conditions for each source travel market is derived primarily (75%) by the degree to which economic conditions are changing (becoming more favourable or less favourable). Meanwhile, the remaining component (25%) of the general economic assessment of each source travel market accounts for the overall expected economic state of the source market by the end of the year. For instance, while the leading economic indicator for the United States would be construed as slightly deteriorating (-), the overall economy is poised to expand 3-3.5 per cent in 2005 (++). Considering the increased importance placed on the degree to which economic conditions are changing, an overall assessment of no change (0) is warranted.

B) **Price Competitiveness:** In terms of price competitiveness, exchange rates between markets play a significant role. Other items that are considered in assessing the overall price competitiveness are how high gas prices, fuel surcharges, security-related charges or other costs are making Canada either more or less price competitive (compared to other competing destinations).

Non-economic Factors

A) **Traveller Trends:** The assessment of traveller trends to and within Canada considers the source market's level of consumer confidence, regulations, current travel trends and/or travel intentions.

B) **Supplier Trends:** Supplier trends indicate the degree to which suppliers are increasing (or decreasing) their product offerings to facilitate travel from the source market to and within Canada. The result of changes in supply can increase (or decrease) growth potential.

The following table identifies the weighting used for each component of the Tourism Leading Indicator for each source market.

Economic			Non-economic	
Travel Market	General Economic Trend	Price Competitiveness	Traveller Trends (to/within Canada)	Supplier Trends (to/within Canada)
Domestic & U.S.	40%	10%	40%	10%
All others	30%	10%	50%	10%

A higher weight on economic factors is given to domestic and U.S. travel because a higher percentage of the travel that occurs in these markets is for non-leisure purposes, which tend to be more closely linked to economic motivations. In addition, the prevalence of shorter, more frequent automobile travel also tends to be more highly correlated with economic factors. On the other hand, the longer average distance and trip duration of overseas trips suggests that non-economic factors tend to play a bigger part in the decision-making process for these trips.

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