CTC Tourism Intelligence Bulletin – Issue 29: September 2005

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

Oil Crisis Hinders Tourism's Recovery

Executive Summary

- Oil prices spiked again in August, prompting corresponding increases in the price Canadians paid for gasoline. Then, just as consumers were adjusting to price levels breaching the $1 per litre mark, hurricane Katrina hit the Gulf Coast of the United States, causing widespread devastation. This natural disaster-the worst in U.S. history-inflicted significant damage on the region's oil and gas industry, sparking supply fears that sent gas prices skyrocketing to $1.30 and more per litre in some Canadian cities. The financial squeeze of high gas prices will undoubtedly constrict consumer spending, as well as leisure and business travel demand over the coming months.
- This shock comes at the end of a profitable summer travel season that saw modest progress in travel prices, buoyed by leisure and business travel demand that continued to build steadily. The Canadian hotel industry gained further ground in overall revenues and average daily rates, boosted by steady growth in average occupancy levels. At the same time, Canadian airfares continued edging upward, providing airlines with a significant financial boost despite escalating fuel costs.
- The Conference Board of Canada's latest *Industrial Outlook* for the Canadian tourism industry forecasts strengthening tourism profits through this year and next. While the most significant improvement in profitability is attributed to the Canadian airline industry, the accommodation sector is also poised to achieve modest profit improvements. If the forecast holds, 2005 will be the strongest year for tourism profits since 1999.

Emerging Trends and Issues - Travellers Squeezed From Two Sides by Surging Gasoline Prices

- However, the outlook for the Canadian tourism industry becomes less optimistic if gasoline prices remain as high as they are now. Ensuing travel price increases (through higher gas prices and climbing fuel surcharges) could be substantial, but a potentially greater impact stems from the tightening squeeze on household finances.
- Already, consumers are being forced to dedicate a larger proportion of their household income to filling their vehicles with fuel. Recent estimates show fuel costs (as a share of household disposable income) are at their highest levels in 20 years. Undoubtedly this has constricted and will continue to constrict discretionary spending on travel.
- In the United States, the effect of higher gas prices on travel demand is already apparent. The American Automobile Association (AAA) expected minimal growth (0.9%) in travel volumes over the Labour Day weekend compared with the same weekend last year. This would be the smallest increase in travel volumes over a holiday weekend since the Memorial Day weekend in May 2003, when travel was just starting to rebound after the beginning of the war in Iraq.

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Consumer (Traveller) Overview

- The outlook for Canadian travel remains stable, although outbound travel demand appears to be outshining domestic travel intentions, according to the latest *Travel Intentions Survey* by the Canadian Tourism Research Institute. Of the Canadians polled in July, 44.7 per cent planned to take a winter vacation between November 2005 and April 2006-this was a modest decline (3.3%) from the previous year's survey, mainly due to a slide in domestic travel plans. While the value of the Canadian dollar vis-à-vis the U.S. dollar appears to have stabilized, Canadian outbound travel continues to flourish, largely due to the relatively high value of our currency.
- In the United States, domestic and overseas travel demand continues to build, although U.S. visits to Canada have not kept up with this growth. The exchange rate remains less favourable, which, combined with escalating gas prices, makes Canada a less price-competitive destination. In addition, confusion over the implementation of new passport regulations already appears to be constraining cross-border travel. Unfortunately, these weak travel trends are expected to continue over the near term.
- In August, the U.S. government withdrew the Dec. 31, 2005 implementation date for the new regulations on the mandatory use of passports for those travelling between the United States and the Caribbean. About 53 per cent of visitors to the Caribbean are Americans, and Caribbean officials had argued that the short notice would not give American travellers enough time to adjust to the changes. The U.S. State Department noted it still intended to proceed with the Dec. 31, 2007 deadline requiring all travellers in and out of the United States to carry a passport.

Travel Supplier Overview

- Air Canada reported a net income of $168 million for its second quarter ended June 30, 2005, a significant turnaround from the net loss of $510 million posted a year earlier, when the airline was still under bankruptcy protection. Passenger yields (average airfares) edged up 3 per cent, which helped the airline offset a 42 per cent rise in overall fuel costs. Looking ahead, the airline expects its financial performance to remain strong for the rest of the year, supported by a "healthier market environment in Canada."
- However, WestJet's second-quarter finances were less rosy: the low-cost carrier posted a net profit of $2.3 million for the period ended June 30, 2005, a steep drop from the $7.3 million reported a year earlier. The carrier blamed the lingering effects of the airfare wars seen earlier this year, as well as record-high fuel costs, for the decline in earnings. Both WestJet and Air Canada hiked airfares in August to help offset the rising cost of fuel-the second adjustment in two months.
- In the United States, most carriers have achieved small airfare increases, despite heavy competition, to help offset increasing fuel costs. Combined with strengthening passenger traffic and fuller planes, these fare hikes have led to modest improvements in industry revenues. However, fuel costs have soared so high that, for some carriers, jet fuel has now surpassed labour as the highest operational expense, a rare occurrence in the airline industry.
- Meanwhile, the Canadian hotel industry continues to see steady gains in occupancy and room rates, allowing revenues to continue building. In June 2005, average revenue per available room (RevPAR) increased 9.4 per cent in Canada, compared with June 2004, according to PKF's latest *National Market Report*. Occupancy levels climbed 3.6 per cent, while average daily rates moved up 3.9 per cent. PKF expects average daily rates in Canada to continue improving through the year, to reach an average of $120 for 2005. This would be a 2.5 per cent increase over 2004 and a 5 per cent increase over 2003 average daily rates.

Economic Overview

- Oil prices continue to put pressure on the North American economy, yet so far, the economy is holding up well. The U.S. housing market continues to defy predictions of imminent demise, the manufacturing sector is rebounding, and labour markets remain in good shape. On the flip side, the solid performance is expected to leave the U.S. Federal Reserve undeterred in its path of raising interest rates-a path that will inevitably lead to a slowdown in overall economic growth. The Canadian economy has been less resilient than its U.S. counterpart. While high oil prices continue to rejuvenate the Canadian energy industry, they are also raising input prices in other industries. Moreover, high oil prices are at least partly the reason for the strong value of the Canadian dollar. Canadian manufacturers have been struggling in the face of the strong currency, and with concerns over inventories and unfilled orders, more manufacturers are increasingly wary of the months ahead.

- Strong economic growth continues to elude the European economy as a whole. While many new entrants into the EU are boasting robust growth, the large economies of Germany and France continue to underperform. Economic growth in Germany is expected to fall below 1 per cent for the third time in four years, weighed down by a high unemployment rate and little wage growth. Even though France faces a similarly rigid labour market, it is performing slightly better and can count on solid growth in domestic demand. Still, economic growth in France is only expected to reach 1.6 per cent this year.
- China continues to propel economic growth in the Asia-Pacific region. Despite government-led efforts to slow down the Chinese economy, economic growth for the country is once again expected to surpass 9 per cent in 2005. Fuelled by unrelenting growth in investment spending, Chinese exports continue to grow rapidly. However, the rise of the Chinese yuan provides some competitive relief to exporters in Japan and Korea. A boost in Japan's industrial production from stronger exports could stabilize the country's domestic economy by strengthening consumer spending. As a result, real economic growth of 1.5 per cent is expected in Japan over the next two years.

Opportunities

- Canada has the second-strongest nation brand in the world, just behind Australia, and could further capitalize on the world's positive perceptions of Canadians, according to the second quarter Anholt-GMI Nation Brands Index. Canada's ranking was boosted by strong scores in tourism, investment, immigration, people and governance, although the score for culture and heritage was much weaker (18th, overall). The survey report surmised that Canada's appeal lies in perceptions of the country's purity, not only in terms of its natural environment, but also in liberal values and moral integrity. However, it also implied that Canada could do much more to communicate its cultural offerings.
- Meanwhile, a recent study by the Open Doors Organization and the Travel Industry Association of America (TIA) suggests that the travel market for adults with disabilities continues to expand, and would grow even faster if more barriers to access were removed. In the past two years, 21 million U.S. adults with disabilities have travelled for business and/or pleasure. Hotel stays alone for this market have increased by 50 per cent, although 60 per cent of hotel guests with disabilities have reported difficulties with their hotel stay such as physical barriers (48%), customer service issues (45%) or communication barriers (15%). The study noted that most of the common complaints, such as heavy doors or lack of knowledge among staff, could be resolved easily and inexpensively.

In Brief

Oil prices spiked again in August, prompting corresponding increases in consumer gasoline prices. Then, just as consumers were adjusting to prices breaching the $1 per litre mark, hurricane Katrina hit the Gulf Coast of the United States, causing widespread devastation. In addition to the overwhelming human tragedy, this natural disaster-the worst in U.S. history-significantly damaged the region's oil and gas industry, sparking supply fears that sent gas prices skyrocketing to $1.30 and more per litre in some Canadian cities. This will undoubtedly constrict consumer spending, as well as leisure and business travel demand over the coming months.

This shock comes at the end of a profitable summer travel season that saw modest progress in travel prices, buoyed by leisure and business travel demand that continued to build steadily. The Canadian hotel industry gained further ground in overall revenues and average daily rates, boosted by steady growth in average occupancy levels. Canadian airfares continued edging upward as well, providing airlines with a significant financial boost despite escalating fuel costs.

The Conference Board of Canada's latest *Industrial Outlook* for the Canadian tourism industry forecasts further growth in tourism profits through this year and next. This is mainly due to the strengthening profitability of the Canadian airline industry, although the accommodation sector is poised to achieve modest profit improvements as well. If the forecast holds, 2005 will be the strongest year for tourism profits since 1999.

Of course, the outlook for Canadian tourism is less optimistic if gasoline prices remain as high as they are now. This will depend on, among other things, the damage assessments for Gulf of Mexico oil production and their impact on the overall oil market, not to mention the longer term effects on the global economy.

Emerging Trends and Issues

Travellers Squeezed From Two Sides by Surging Gasoline Prices

Surging oil prices are yet another challenge for both travellers and travel businesses-one that a rebounding tourism industry could do without. While travel price increases (through higher gas prices and climbing fuel surcharges) could be substantial as new oil price thresholds are reached, the more significant impact stems from the tightening squeeze on the household finances of potential travellers. It is clear that now, more than ever, the outlook for the tourism industry is inextricably linked with events unfolding in the oil and gas industry over the coming months.

Even prior to the devastation inflicted by Hurricane Katrina, average pump prices had risen by approximately 33 per cent since the start of the year, to an average of $1.04 per litre in the week ending Aug. 26, 2005. A similar increase was seen just over a year ago, in May 2004, when average gas prices in Canada first surpassed the 90 cent per litre mark-a price jump that, at the time, was considered to be a short-lived phenomenon. However, while prices did eventually cool somewhat over subsequent months, consumers have been forced to accept higher fuel costs as a new reality. In fact, many analysts believe that current price levels will not only hold, but continue edging upward well into next year.

The Impact of Higher Fuel Prices on Canadian Travel Demand

In May 2004, The Conference Board of Canada investigated the impact of high gas prices on the performance of the Canadian tourism industry. Similar to the increases Canadians have endured this year, fuel prices in May 2004 jumped to 93 cents per litre, a full one-third (33%) above the 70 cent per litre level that was commonly used to estimate average fuel costs heading into 2004. The study analyzed the impact of this fuel increase on travel demand, based on the sticker shock alone.

The analysis found that, accounting for the average trip distance and fuel efficiency of Canadian vehicles, higher gasoline prices would increase the average cost of an automobile trip by 4.2 per cent (assuming that other travel costs remained constant). When taking into consideration the price sensitivity of consumers travelling by automobile, the analysis concluded that a 33 per cent increase in the price of gas (from 70 cents per litre to 93 cent per litre) could have a modest impact on domestic automobile travel, curtailing it by 1 to 2 per cent, compared with its potential performance at 70 cents per litre.

The impact of higher fuel prices on domestic air travel was estimated to be within a similar order of magnitude (in the 1 to 2 per cent range). This estimate took into consideration the cost of fuel as a proportion of the overall costs of operating an airline. The analysis also assumed that not all of the additional fuel costs would be passed on to consumers, due to fuel hedging and the extremely competitive nature of the domestic air industry.

Further analysis might show that the new $1 per litre threshold for gasoline could constrain Canadian travel by similar orders of magnitude, compared to gas at only 75 cents per litre. However, a more realistic assessment would now need to take into account the secondary (and potentially larger) blow that higher gas prices are inflicting on household finances. Consumers are being forced to dedicate a larger proportion of their household income to filling their vehicles with fuel. In fact, recent estimates show that fuel costs (as a share of household disposable income) are at their highest levels in 20 years. Undoubtedly this has constricted and will continue to constrict discretionary spending on travel.

In the United States, the effect of higher gas prices on travel demand is already apparent. The American Automobile Association (AAA) expected minimal growth (0.9%) in travel volumes over the Labour Day weekend compared with the same weekend last year. This would be the smallest increase in travel volumes for a holiday weekend since May 2003 (the Memorial Day weekend) when travel was just starting to rebound after the beginning of the war in Iraq.

At the time of AAA's forecast, holiday auto travellers in the United States were facing average pump prices of US$2.61 per gallon, up 32 cents from the previous month, and 73 cents higher than a year ago. By Sept. 1, 2005, gasoline prices soared past the three-dollar mark, with some analysts predicting peaks surpassing US$4 per gallon.

Consumer Overview - Canada and the United States

Business Travellers

Runzheimer International recently released the details of its 2005 Travel Costs survey, which revealed that while North American businesses plan to spend more on travel this year than they did in 2004, travel restrictions have become more prevalent than ever. Of the 78 companies polled for the survey, 43 per cent had expanded their 2005 travel budgets from the previous year, while 49 per cent reported keeping their travel budgets the same. Only 8 per cent had decreased their travel budgets for 2005, compared with 2004.

Runzheimer noted that 94 per cent of respondents said they had implemented formal travel policies for their staff, a 10 per cent increase from the 2004 survey. The most prevalent policy among companies polled was the mandatory use of a designated agency or in-house travel office, cited by 88 per cent of respondents. Other mandated policies included the use of preferred suppliers (cited by 63% of respondents), use of a corporate charge card (55%), standardized meal cost reimbursements (46%) and use of a designated online booking system (34%).

Spending on large-scale corporate meetings (more than 200 attendees) is expected to increase this year as well, according to the results of a recent Meetings Monitor survey reported in *Business Travel News*. Of those polled, about one-third of respondents anticipated their cost per attendee for large meetings would increase, while about half (53%) believed their costs would remain about the same this year, compared with 2004. Only 12 per cent expected their costs to decline. In terms of meeting volumes, 27 per cent of those polled anticipated holding more meetings in 2005 than in 2004, although 35 per cent expected their large-scale meetings to include more participants. A little more than half of the respondents (57%) expected their volume of large meetings to remain steady this year, while only 15 per cent expected to hold fewer meetings.

Leisure Travellers

The outlook for Canadian travel remains stable, although outbound travel demand appears to be outshining domestic travel intentions, according to the July 2005 *Travel Intentions Survey* by the Canadian Tourism Research Institute. Of the approximately 2,000 Canadians polled, 44.7 per cent plan to take a winter vacation between November 2005 and April 2006. This is a decline of 3.3 percentage points from the June 2004 survey, mainly due to the 4 percentage point slide in domestic travel plans. Meanwhile, Canadian travel intentions to the United States and other international destinations remain very close to the levels witnessed in previous years.

Table 1. Winter (November 2005-April 2006) Vacation Intentions (Per cent of Canadians surveyed)

	July 2005	June 2004	June 2003
Winter Vacation Intentions (All Destinations)	44.7	48.0	42.0
Canada	16.6	20.6	16.4
United States	10.2	9.6	10.1
Other International	16.9	16.9	14.3
Do Not Know/Refused	1.0	0.9	1.2

Source: The Conference Board of Canada.

The results suggest that travel demand remains steady, despite a decline in domestic travel intentions. A year ago, Canadian tourism was rebounding from the effects of the severe acute respiratory syndrome (SARS) outbreak in 2003. This recovery spurred a significant jump in 2004 domestic travel intentions. In the June 2005 survey, winter vacation intentions returned to more stable levels. Meanwhile, overall travel confidence remains solid, bolstered by Canada's sound economic performance and stable consumer confidence.

About two-thirds (66%) of American adults were expected to take a summer vacation this year, according to a recent Harris Poll conducted in mid-July. The most popular travel activity among respondents taking a summer leisure trip was visiting family and friends (38%). Other travel activities included going to the beach (21%), taking in historical sights or sightseeing (18%), attending theme parks (17%), hiking and/or camping (14%), and going to a casino (13%). Less popular activities included going to a spa or resort (7%) and taking a cruise (7%).

The number of Americans using the Internet for purchasing travel continues to grow, according to a recent study by Claria Corporation and Feedback Research. The study results were based on Internet traffic statistics combined with a survey of Claria's Internet clients. The report revealed that 61 per cent of the respondents who were planning a summer vacation intended to purchase their air ticket online, an 11 percentage point increase over last year. Those planning to purchase hotel accommodations on the Internet rose 12 percentage points to 52 per cent of summer travellers, compared with a year earlier.

The report also suggested that the accessibility of Internet travel purchases continued to support the ongoing trend of shorter booking windows. Most of the respondents planning a summer vacation (73%) booked their trip within three months of departure-in fact, travel websites saw the largest surge in traffic in mid-June.

Overall, however, Americans still feel most comfortable booking travel through traditional travel agents, according to a study by Galileo International, a global distribution system (GDS). Of the 1,000 American adults polled, 68 per cent said they preferred booking their vacation with a travel agent. The main reasons for this preference were the ability of agents to ask questions to gain an understanding of travellers' needs (cited by 53%) and to customize itineraries to best fit those needs (52%). Almost half of the respondents (49%) appreciated travel agents' ability to arrange complex itineraries that are difficult to book online. Galileo noted that personal service, knowledge, flexibility and vacation choices continued to give travel agents the edge over other booking channels.

Americans travelled abroad in record numbers last year, according to a new report by the U.S. Department of Commerce. In 2004, 61.8 million Americans travelled outside the country, a 10 per cent increase over 2003, and about 500,000 more than in 2000, when the previous record was set. It was also the first year since 2000 that saw the outbound travel market expand. U.S. visits overseas jumped by 12 per cent to 27.4 million (also a new record), while trips to Mexico climbed 10 per cent, and trips to Canada rose 6 per cent. The top five destinations for U.S. travellers last year were (in order) Mexico, Canada, the U.K., France and Italy, and the top five countries for spending were Mexico, the U.K., Canada, Germany and France. The average trip expenditure for U.S. outbound travellers last year was US$1,317, a 9 per cent increase over 2003.

In August, the U.S. government withdrew the Dec. 31, 2005 implementation date for the new regulations on the mandatory use of passports for those travelling between the United States and the Caribbean. About 53 per cent of visitors to the Caribbean are Americans, and Caribbean officials had argued that the short notice would not give American travellers enough time to adjust to the changes. The U.S. State Department said it would reconsider the deadline for the Caribbean region only, noting it still intended to proceed with the Dec. 31, 2007 deadline, when all travel in and out of the United States will require a passport.

Meanwhile, the majority of Canadian and American travellers appear to support adding biometric technology to passports, according to a recent online survey by TNS, a market research firm and TRUSTe, an online privacy company. In fact, passports were cited as the most appropriate use for such technology, compared with other identification documents, such as driver's licences or social security cards. Of the Internet users polled, 85 per cent of Canadian respondents and 79 per cent of the Americans polled supported the use of biometric identifiers on passports. Although 60 per cent of all respondents were concerned about government misuse of the information obtained through biometric identifiers and unsure of the reliability of the technology, the top concern (cited by 75% of respondents) was the high cost of implementing a biometric program.

Travel Supplier Overview - Canada and the United States

Airlines - Canada

Canada's air traffic system was thrown into chaos on Aug. 2, 2005, when an Air France Airbus A340 overshot a runway and crash-landed at Toronto's Pearson Airport, forcing the airport to close four out of five runways. The ripple effect of this incident at Canada's largest hub airport lasted two days, causing flight delays and cancellations across the country. Many international airliners bound for Toronto that day were forced to land at other airports, adding to the system disruptions. About 540 domestic and international flights in and out of Toronto were cancelled, according to the Greater Toronto Airports Authority, due to both the Air France accident and the severe weather conditions in the Toronto area earlier that day.

Meanwhile, Air Canada reported a net income of $168 million for its second quarter ended June 30, 2005. This was a significant turnaround from the net loss of $510 million posted for the second quarter of 2004, when the airline was still under bankruptcy protection. Overall passenger revenues for the period jumped 13.9 per cent over the previous year, boosting the airline's operating income to $177 million, compared with $22 million a year earlier. Passenger yields (average airfares) edged up 3 per cent, which helped the airline offset a 42 per cent rise in overall fuel costs. Looking ahead, the airline expects its financial performance to remain strong for the rest of the year, supported by a "healthier market environment in Canada."

In July, Air Canada's overall revenue passenger miles (RPMs) rose 6.8 per cent, compared with a year earlier. The carrier's mainline domestic passenger traffic climbed 4.6 per cent, while traffic on its regional carrier, Jazz, surged by 54.4 per cent. RPMs on Air Canada's U.S. transborder routes rose 4.7 per cent, while Atlantic overseas routes jumped 7.9 per cent. Traffic on Pacific routes grew 5.9 per cent. The airline continued to keep a tight rein on seat capacity (up 2.8%), which resulted in the airline's highest-ever monthly passenger load factor (up 3.2 percentage points to 83.6%). The airline now plans to expand its domestic and U.S. transborder services over the next several months. In July, Air Canada and Air Canada Jazz began receiving the first of a series of regional aircraft deliveries. By this winter, Air Canada will offer 1,300 daily flights in North America (to 60 destinations in Canada, and 50 in the United States).

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

Airline	RPMs (in millions) July 2005	RPM change 2005 vs. 2004	Capacity 2005 vs. 2004
Air Canada mainline (includes Jetz)	4,550	+6.8%	+2.8%
ACE Aviation Holdings Regional (Jazz)	331	+54.4%	+39.7%
WestJet	763.7	+19.9%	+15.9%

WestJet's financial picture for the second quarter was less rosy-the low cost-carrier posted a net profit of $2.3 million for the period ended June 30, 2005, a steep drop from the $7.3 million reported in the same quarter a year earlier. The carrier blamed the lingering effects of the airfare wars seen earlier in the year, as well as record-high fuel costs, for the decline in earnings. WestJet said in its earnings statement that it planned to accelerate the replacement of its older aircraft with the more fuel-efficient Boeing Next-Generation 737s to help combat its soaring fuel costs.

In fact, both WestJet and Air Canada hiked airfares in August to help offset the rising cost of fuel. Both carriers increased their base fares for all North American destinations between $5 and $12 each way, depending on the distance flown. This was the second fare adjustment in two months, after a similar increase in June 2005.

Meanwhile, the Greater Toronto Airports Authority (GTAA) recently released its operating results for the first six months of 2005. Passenger activity for the period was up 8.3 per cent compared with the first half of 2004, which, according to the company, reflected the continuing recovery of air travel demand. Interestingly, the GTAA said that the Jetsgo bankruptcy did not appear to have a material impact on airport activity, although the now-defunct discount carrier left the facility with an outstanding debt of $3.9 million.

Airlines - U.S.

U.S. air travel demand continued to strengthen in July, boosting overall passenger traffic by 4.8 per cent, according to the latest figures by the Air Transport Association (ATA). Compared with a year earlier, domestic traffic rose 2.9 per cent, while traffic on international routes jumped 9.7 per cent. Airlines continued to keep a tight rein on capacity (up 2.9%), which allowed flights to fly an average of 85 per cent full. Fortunately, airfares in the United States have continued gaining ground, which, combined with strengthening passenger traffic and fuller planes, has led to modest improvements in the industry's revenues, despite skyrocketing fuel costs.

Most U.S. carriers successfully raised their fares by small increments over the past several months to help offset rising oil prices. Domestic yields (i.e., revenues per passenger mile flown) for the eight major U.S. carriers rose 5 per cent in July 2005 compared with a year earlier-the third consecutive month of progress after nine months of declines. Growth in average airfares was even higher on Atlantic and Latin American routes (8.3% and 6.3%, respectively), while fares on Pacific routes climbed 3.1 per cent.

Table 3. Airline Revenue Passenger Miles (RPMs) and Capacity - July 2005

Airline	RPM July 2005 vs. July 2004	Capacity July 2005 vs. July 2004
Alaska Airlines	-2.1%	-5.5%
America West Airlines	+2.6%	+2.6%
American Airlines	+8.1%	+3.0%
AirTran Airways	+39.4%	+32.6%
Continental Airlines	+7.8%	+9.6%
Delta Air Lines	+6.1%	+5.0%
JetBlue Airways	+31.6%	+27.0%
Northwest Airlines	+5.4%	+3.4%
Southwest Airlines	+14.7%	+12.7%
United Airlines	-2.4%	-4.2%
US Airways	-1.7%	-0.7%

Second quarter earning reports confirmed that many of the major U.S. airlines are seeing modest improvements in their financial performance. In fact, American Airlines and Continental Airlines each achieved their first quarterly profit in years, as a result of strengthening passenger demand and small fare increases. However, record-high oil prices compounded the burden of soaring fuel costs, which for some airlines surpassed labour costs as their highest operational expense for the quarter. This reversal of fuel and labour costs is almost unheard of in the airline industry.

Unfortunately, Delta and Northwest-neither of which have been able to reduce costs as much as other major U.S. carriers-both continued to suffer significant financial losses in the second quarter. After releasing its financial results for the period, Delta sent a memo to its staff warning that the current cost-savings plan may not be enough to avert a Chapter 11 filing for bankruptcy protection within the next year. Meanwhile, Northwest has made little headway on its plan to reduce annual labour costs by US$1.1 billion. Talks broke down during contract negotiations with its mechanics union, which led to 4,400 mechanics walking off the job on Aug. 20, 2005. Northwest has pressed ahead with its operations despite the strike action, but most analysts believe that the airline's revenues and forward bookings will inevitably suffer as a result of the dispute.

Table 4. Net Income - Q2 2005

Airline	Net Income Q2 2005 (in US$)	Net Income Q2 2004 (in US$)
Alaska Air Group	+$17.4 million	-$1.7 million
AMR Corporation (American)	+$58 million	+$6 million
America West Airlines	+$13.9 million	+$10.7 million
Continental Airlines	+$100 million	-$17 million
Delta Air Lines	-$382 million	-$1,960 million
JetBlue Airways	+$12.2 million	+$21.5 million
Northwest Airlines	-$225 million	-$182 million
Southwest Airlines	+$159 million	+$113 million
US Airways	-$62 million	+$34 million

Hotels - Canada

Canadian hotel operators remained relatively optimistic heading into the summer travel season, according to the second quarter *Business Conditions Survey on the Travel Accommodation Industry* conducted by Statistics Canada. The July survey revealed that 31 per cent of respondents expected their bookings to increase between July and September 2005, compared with a year earlier, while 47 per cent expected them to be about the same. Less than one-quarter (23%) expected their bookings to decline during that period. When asked about expectations for average daily rates, respondents were even more optimistic: 39 per cent expected rates to increase this summer, year over year, while 44 per cent expected rates to remain steady.

Furthermore, the survey results suggest that Canadian hotels are facing even fewer challenges than they were in the previous survey. When asked about business impediments, those citing general economic conditions as a concern fell to 19 per cent, down from 32 per cent three months earlier. Excess room supply was the highest concern (mentioned by 26%), followed by shortages of skilled labour (23%) and unskilled labour (21%). Almost a third of those polled (32%) said they were facing no difficulties at the time, up from 30 per cent in the previous survey.

In June 2005, average revenue per available room (RevPAR) increased 9.4 per cent in Canada compared with June 2004, according to PKF's latest *National Market Report*. Occupancy levels gained 3.6 percentage points to reach 72.1 per cent, while average daily rates climbed 3.9 per cent to $128.27. PKF expects average daily rates in Canada to continue improving through the year, to reach an average of $120 for 2005. This would be a 2.5 per cent increase over 2004 and a 5 per cent increase over 2003 average daily rates.

Fairmont Hotels & Resorts, Four Seasons Hotels and Resorts, and Legacy Real Estate Investment Trust all achieved net profits for the second quarter of 2005, as the revenue environment continued to improve. Four Seasons noted that the luxury segment remained the industry leader in occupancy and room rate improvements, which helped the lodging company achieve a 19 per cent increase in net earnings for the quarter compared with the previous year. Fairmont was not quite as optimistic, stating that the lagging recovery of the U.S. market continued to hurt its Canadian business. The growth seen in other international markets only partially offset the decline of Fairmont's American bookings at Canadian properties. Fairmont is also still feeling the lingering effects of the 2003 SARS outbreak and the significant impact it had on forward convention bookings. Legacy Hotels, on the other hand, said it benefited from "continued strength in the transient corporate segment and modest improvement within the leisure segments."

Table 5. Hotel RevPAR and Net Income Q2 2005

Company	Revenue per Available Room (RevPAR), Q2 2005 vs. Q2 2004	Net Income Q2 2005	Net Income Q2 2004
Fairmont Hotels & Resorts	+6.9% (Cdn portfolio)	US$34.1 million	US$29.0 million
Four Seasons Hotels and Resorts	+12.8%	US$15.8 million	US$12.8 million
Legacy Hotels REIT	+0.4%	CDN$4.6 million	CDN$7.8 million

Four Seasons achieved the highest level of customer satisfaction within the luxury segment, according to the 2005 North America Hotel Guest Satisfaction Index Study by J.D. Power and Associates. The report mentioned that overall hotel guest satisfaction has improved since last year's study, mainly because healthier profits have allowed hotels to invest heavily in room renovations and enhanced guest amenities. Amenities that are of particular interest to consumers include complimentary breakfasts, in-room refrigerators, coffee makers, pillow-top mattresses and high-speed Internet access.

Hotels - U.S.

Strengthening travel demand, particularly in the business travel segment, combined with low supply growth, continues to support the fortunes of the U.S. hotel industry. These factors have provided a suitable environment for steady growth in average room rates, which are allowing hotel profits to flourish. According to the latest figures from Smith Travel Research (STR), occupancy in U.S. hotels rose 2.8 per cent in the first half of 2005, while average room rates rose 4.8 per cent compared with the same period a year earlier, resulting in a 7.8 per cent jump in RevPAR. STR noted that new room supply growth continued to hover at historically low levels and that demand growth was solid. STR expects current trends to hold steady and average room rates to continue building through the second half of 2005, resulting in significant RevPAR gains by the end of the year.

Strong growth in average daily rates and a steady rise in occupancy helped the U.S. hotel industry achieve very positive results in the second quarter of 2005. Marriott International, the largest U.S. hotel chain, attributed its double-digit revenue increases to "surging U.S. travel demand" during the period, noting an acceleration in corporate demand as well. Looking forward, most companies anticipated robust demand will continue to buoy up their financial performance for the rest of the year.

Table 6. Hotel RevPAR and Net Income

Hotel	Revenue per available room (RevPAR) Q2 2005 vs. Q2 2004	Net Income Q2 2005 (US$)	Net Income Q2 2004 (US$)
Choice Hotels International	+5.1%	+$21.5 million	+$17.5 million
Hilton Hotels Corp.	+9.4%	+$202 million	+$75 million
Host Marriott	+9.8%	+$91 million	+$17 million
Marriott International Inc.	+10.0% (North America)	+$138 million	+$160 million
Starwood Hotels & Resorts	+12.7% (North America)	+$145 million	+$154 million
Wyndham International	+7.4%	-$78 million	-$394.9 million

Travel Agents

Domestic airfares within Canada have a continued to climb steadily, according to the International Air Transport Association's (IATA) Billing and Settlement Plan, which tracks airline tickets sold through Canadian travel agencies. Its latest data shows that average domestic air ticket prices increased 8 per cent in July compared with a year earlier. Meanwhile, airfares from Canada to the United States and other international destinations continued to fall, declining 2 per cent and 3 per cent, respectively, compared with July 2004.

Tralliance Corporation, the company overseeing the dot-travel (.travel) Internet domain registry, announced a limited launch of the dot-travel domain on Oct. 1, 2005, followed by a full launch at the end of the year. Pre-authentication of bona-fide travel and tourism companies wanting to use the .travel suffix in their website addresses began on July 1. The Hotel Association of Canada (HAC) and the Tourism Industry Association of Canada (TIAC) have been appointed to pre-authenticate Canadian applicants, which according to HAC have numbered in the "high hundreds." The limited launch on Oct. 1 will allow for a 90-day system testing period before the full launch, as required by the Internet Corporation for Assigned Names and Numbers (ICANN), the agency that oversees the global Internet system.

Online travel spending in the United States reached US$5.1 billion in June 2005, a 25 per cent increase over the same month a year earlier, according to a monthly online report by comScore Media Metrix. Growth in website visits was strongest in the hotels and resorts subcategory, which rose 9 per cent to 34.9 million visitors, followed by a 5 per cent climb in the cruise subcategory (to 10.6 million visits).

Meanwhile, American Express Travel Related Services posted a net profit of US$808 million for its second quarter ended June 30, 2005, a 10 per cent increase over the previous year. Travel sales for the period increased 7.8 per cent compared with a year earlier.

Tourism Leading Indicator Index

Background

Continuing from the last issue, this new feature compliments the travel 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 be a valuable tool 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, Mexico, Japan, South Korea, China and Australia.

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 to the travel decision-making 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 index indicate the extent to which each 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.

While this is the second issue featuring the Tourism Leading Indicator Index, further refinement of the development and presentation may be expected in upcoming issues of the *Tourism Intelligence Bulletin*.

Tourism Leading Indicator Index - Domestic

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

Note: the bracketed figures are from the previous (July 2005) Tourism Intelligence Bulletin.

July employment figures suggest the Canadian job market appears to be losing some steam in new job creation, compared with previous months. In fact, the marginal 6,000 new jobs reported in the economy masked some rather dramatic sectoral differences-the manufacturing sector shed 26,000 jobs, while employment in retail and wholesale trade increased 24,000. Overall, the unemployment rate edged up slightly to 6.8 per cent, as the small employment growth did not match the increase in the size of the labour force. Meanwhile, real gross domestic product (GDP) registered modest 0.3 per cent growth in May. Stronger growth among goods-producing industries-led by energy-related activity-was tempered by slower growth in the services industry. Despite a pickup in non-residential construction activity, a fifth consecutive monthly decline in residential construction stymied overall growth in the construction sector.

While the value of the Canadian dollar vis-à-vis the U.S. dollar appears to have stabilized, Canadian outbound travel continues to flourish, largely due to the relatively high value of our currency. High gas prices (and increased fuel surcharges) are expected to put a slight damper on domestic travel decisions, but they are not expected to put domestic travel at a cost disadvantage compared with other outbound destinations. Although some suppliers plan to increase their fall product offerings to cater to domestic travellers, direct air capacity within Canada is expected to remain flat, or even decline slightly, compared with last year. Overall, the Tourism Leading Indicator for domestic travel suggests the overall domestic travel market will continue to expand in the short term, although the rate of growth will remain quite modest.

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 (0)

Note: the bracketed figures are from the previous (July 2005) Tourism Intelligence Bulletin.

Despite high energy costs, the U.S. economy remains on track to expand by around 3.5 per cent in 2005. The housing market continues to defy predictions of its imminent demise, the manufacturing sector is on the rebound, and labour markets are in good shape. Unfortunately, consumer confidence declined slightly in July to 103.2, down from 106.2 in June. Record-high gasoline prices likely played a major role in the decline; however, the relatively high level of confidence still implies strength in the economic recovery, and a rebound in labour markets. While the Conference Board's most recent (July 2005) leading economic indicator for the United States increased only slightly (0.1%) compared with June, it has increased at a 2.1 per cent annual rate over the last six months.

Since the beginning of the year, domestic and overseas travel has registered solid growth, although travel to Canada has not fared well. In fact, year-to-date (January-June) overnight travel from the United States remained 2.1 per cent behind the same time period last year. While the value of the U.S. dollar vis-à-vis the Canadian dollar appears to have stabilized, many U.S. travellers will still find Canada less price competitive because of escalating gas prices (and fuel surcharges). In addition, confusion over the recently announced Western Hemisphere Travel Initiative (WHTI) and its passports requirements already appears to be restricting cross-border travel to Canada. So far, the lone bright spot continues to be overnight air travel from the United States. This segment is still ahead of last year's pace, and a 4 per cent increase in direct air capacity to Canada is planned for October to December. Unfortunately, the Tourism Leading Indicator for the United States suggests that the weak travel trends, in part stemming from high gas prices and confusion over the passport requirement of the WHTI, will continue to constrain growth in visits to Canada over the near term.

International Overview

United Kingdom and Ireland

On Aug. 11, 2005, a wildcat strike forced British Airways (BA) to cancel nearly all of its operations at Heathrow Airport, the airline's worldwide hub, for about 24 hours. The unofficial strike action involved 1,000 airport ground crew, who were supporting a strike at BA's caterer, Gate Gourmet, in protest of massive layoffs by the caterer the day before. BA cancelled about 700 flights in and out of Heathrow, stranding or delaying more than 100,000 BA passengers over subsequent days. Preliminary estimates suggest the strike will cost BA about GBP30 million (CDN$64.3 million), although this figure could double if the European Union regulations on passenger compensation apply to this event. According to a Bloomberg report, this is the fourth consecutive year in which BA flights have been disrupted during the peak summer travel period due to a labour dispute.

Nevertheless, BA's financial picture remains very positive-the airline posted a net profit of GBP90 million (CDN$193.9 million) for its first quarter ended June 30, 2005, more than double the GBP43 million profit recorded a year earlier. The airline's operating profit rose 36.4 per cent, boosted by an 8.3 per cent increase in overall revenues. Despite a small decline in passengers carried (-1.2%), passenger revenues for the quarter climbed 4 per cent, which the airline attributed to "more customers flying in our premium cabins." Looking ahead, the strength of the U.S. dollar and increased fuel surcharges have boosted BA's financial outlook-the airline now expects its full-year revenues to grow between 5.5 per cent and 6.5 per cent compared with its previous fiscal year, even though no airfare increases are expected.

In fact, BA reported in its latest traffic statistics report that market conditions remain broadly unchanged. In July 2005, BA's overall passenger traffic, measured in revenue passenger kilometres (RPKs) rose 4.2 per cent compared with a year earlier. Traffic volumes on routes to the Asia-Pacific region continued to perform the best, surging 18.7 per cent over the previous year, while RPKs on routes to the Americas climbed 2 per cent. Passenger traffic on short- and medium-haul routes to the U.K. and Europe grew 2.1 per cent, overall, during the month. The airline noted that the July terrorist attacks in London did not appear to have a material impact on passenger traffic that month, although the airline is uncertain what the longer term effects may be.

According to the British Airport Authority (BAA), the impact of the London terrorist attacks slowed the rate of growth at its three London airports in July, although air travel still reached record levels in the U.K. that month. Overall, BAA's seven U.K. airports handled 14.58 million passengers in July, 2.6 per cent more than in the same month of 2004. The number of passengers at Heathrow, Gatwick and Stansted increased by 1.7 per cent, collectively, but Heathrow itself saw traffic decline by 0.6 per cent compared with a year earlier. Overall, traffic on North Atlantic routes grew 1 per cent, while passenger numbers on all other long-haul routes jumped by 7.5 per cent.

Table 7. Percentage change in passengers carried

Carrier	July 2005 vs. July 2004
British Airways	+0.1%
EasyJet	+18%
Ryanair	+29%

The region's two largest low-cost carriers, Ryanair and EasyJet, continued to see significant growth in both passenger numbers and revenues during the quarter ended June 30, 2005. Ryanair reported net earnings of EUR64.4 million (CDN$94.4 million) for the quarter, a record high for the carrier. Passenger numbers for the period jumped 30 per cent compared with a year earlier, which helped boost Ryanair's overall revenues by 35 per cent. Meanwhile, EasyJet released a quarterly trading statement reporting a 19.5 per cent rise in revenues for the quarter (quarterly profits were not disclosed) and a 20.6 per cent increase in passenger numbers compared with the previous year. Both airlines reported that bookings appeared to slow down in the days following the July terrorist attacks in London; however, neither carrier expected the attacks to have a material impact on their forward bookings.

In the week following the second attempt to attack London's transport system (on July 21), TNS conducted a poll on behalf of CNN/Time to determine the reaction of British, French and German adults to the terrorist attacks. A greater number of British and French respondents were put off from visiting London (31% and 32% of those polled, respectively), while a smaller percentage of German respondents indicated they would prefer to postpone travel to London (20%).

However, preliminary travel statistics for July suggest that the impact of the attacks on travel demand were much less significant than the survey results would suggest. PKF's monthly report for July indicated that while occupancy in London hotels declined by 4.9 percentage points to 79.4 per cent, average room rates grew by 1.2 per cent, compared with a year earlier. Furthermore, a recent survey by the European Tour Operators Association of its members revealed that most tour operators received minimal cancellations for London trips in the wake of the terrorist attacks, with half of those cancelling rebooking for future dates. Asian clients appeared to account for the highest proportion of cancellations. Most long-haul tour operators estimated their revenues declined between 1 per cent and 5 per cent as a result. Looking ahead, tour operators were uncertain about the effect of the attacks on future bookings, although respondents were fairly optimistic that overall visits to Europe would post strong growth in 2005 compared with last year.

Meanwhile, tour operator TUI recently reported that its U.K. business experienced steady growth during the second quarter of 2005 (April to June). U.K. clients increased 8.1 per cent, boosting demand for long-haul and cruise vacations. Average prices achieved year-over-year growth during the quarter, and U.K. web bookings saw the highest increase of all European divisions. The strong performance of U.K. bookings during the quarter was the main driver of the 0.7 per cent sales growth in TUI's Northern European division. By the end of July, TUI's U.K. summer bookings were 22 per cent ahead of last year at the same time.

The 2005 *Ski Industry Report* by Crystal Holidays revealed that Canada and the United States each continue to grow their share of the U.K. ski market. In the 2004/05 season, Canadian and U.S. destinations received 6 per cent of U.K. ski trips, up from 5.8 per cent the previous year. Overall, the U.K. ski market expanded by 3.8 per cent in 2004/05. Independent ski trips rose by 5.1 per cent, while package ski vacations climbed 4.3 per cent.

Tourism Leading Indicator Index - United Kingdom

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

Note: the bracketed figures are from the previous (July 2005) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for the U.K. fell for the fourth consecutive month in June (-0.4%), and the weakness among leading indicators appears widespread. At the same time, real GDP growth slowed to a 1.5 per cent average annual rate in the first half of 2005. The weakness in the leading index suggests that economic growth will likely remain sluggish over the near term. In addition, further recent deterioration in the exchange rate of the U.K. pound vis-à-vis the Canadian dollar has made Canadian destinations less price competitive than many competing destinations.

Despite moderating economic conditions, U.K. arrivals to Canada for the first half of the year (January-June) remained over 9 per cent ahead of last year's figures for the same period. Looking ahead, U.K. travel to Canada could receive a bit of a boost from a planned 19 per cent increase in direct air capacity between September and December, compared to last year. Overall, the strength of travel trends (by travellers and suppliers) should help sustain growth in U.K. travel to Canada over the near term.

France

Strong growth in passenger traffic and revenues helped Air France-KLM Group achieve 5.5 per cent growth in sales for its first quarter ended June 30, compared with a year earlier, according to the group's latest trading statement. Passenger revenues increased 6.5 per cent over the previous year, buoyed by a 6.6 per cent rise in passenger traffic. The group's average airfares remained stable during the quarter, despite a negative currency effect.

In July 2005, Air France-KLM's overall passenger traffic (measured in RPKs) rose 9.2 per cent, driven by double-digit growth on routes to North and South America (12.4%) and Asia (11.6%). Traffic on short- and medium-haul routes (including French domestic routes and those to the rest of Europe) posted strong growth as well, rising 8.3 per cent compared with a year earlier. Overall, the number of passengers carried in July jumped 7.1 per cent, year over year, to 6.5 million. The carrier noted that the loss of the Airbus A340-300 aircraft that crash-landed at Toronto's Pearson Airport on Aug. 3, 2005 was not expected to have a significant commercial or financial impact on the airline.

Travel company TUI AG recently reported that the positive summer booking trends in its French operations in the first quarter of 2005 continued through the second quarter. Overall bookings rose 16.4 per cent from April to June 2005, compared with the second quarter of 2004. Tour operator Nouvelles Frontières, which targets the price-conscious market, continued to experience "brisk business" during the quarter. As of July 29, summer bookings at TUI France were 10.4 per cent ahead of last year's figures at the same time, and sales were 10.8 per cent higher. The travel company also reported that Morocco and Tunisia were the two most popular destinations this summer.

The Canadian Tourism Commission (CTC) foreign office in France also reported that French tour operators had solid bookings this summer. The United States and a number of Asian destinations saw significant growth in bookings compared with last year. The report noted that despite the increasing trend of short holidays spread throughout the year, French travellers still prioritize their traditional big holiday during the summer. A recent news report by CNN attributed the growing trend of smaller getaways to the shortened 35-hour workweek and the sluggish French economy-French families have more time to travel throughout the year, but less money to spend on their trips, so they are taking more low-season short breaks.

If cost were not an issue, Canada would rank as the second-most popular holiday destination for French nationals, according to a recent online survey by Harris Interactive. Among the 1,075 French adults polled about where they would travel if cost were not a consideration, Australia ranked number one, followed (in order) by Canada, Italy, the United States and Spain. Among all European respondents (including British, French, Italian and German adults), Canada was ranked as the third most popular holiday destination if cost was not an issue.

Tourism Leading Indicator Index - France

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

Note: the bracketed figures are from the previous (July 2005) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for France was unchanged in June following three consecutive monthly declines. Furthermore, the weakness among the contributing leading economic indicators has become more widespread in recent months. Unfortunately, since the start of the year, the price competitiveness of French travel to Canada has continued to slide with the further depreciation of the euro vis-à-vis the Canadian dollar. Despite some very competitive airfares offered from Air France to Canada over the short term, long-haul fuel surcharges could put Canada at a slight price disadvantage compared with shorter-haul destinations.

Up to the end of June, French arrivals to Canada were more than 12 per cent ahead of last year's figures for the same period. Looking ahead, French travel to Canada could receive a solid boost from the planned 13.8 per cent increase in direct air capacity between October and December, compared with last year. Despite growing economic challenges and any negative fallout from the Air France incident at Toronto's Pearson airport, travel from France remains poised to expand modestly over the near term.

Germany

Lufthansa Group, parent company of Lufthansa German Airlines, posted a net profit of EUR200,000 (CDN$293,000) for its first half ended June 30, 2005, compared with a net profit of EUR39 million (CDN$57.2 million) in the same period of 2004. Considering the significant loss reported for the first three months of this year, these earnings reflect a very positive performance for the airline's second quarter (April to June 2005). Overall traffic on the group's airlines, including Lufthansa and four other smaller carriers, increased 4 per cent, although the number of passengers remained on par with the first half of last year (up 0.2%). Passenger volumes to all intercontinental regions grew during the period, especially on Asian-Pacific, Middle Eastern and African routes, which helped the group achieve a 4 per cent rise in revenues. Lufthansa said it continued to be challenged by soaring fuel costs and intense competition (from the rapidly expanding low-cost sector), but nevertheless anticipates a healthy profit this fiscal year.

In July, Lufthansa's passenger traffic increased 6.8 per cent compared with the same month in 2004, driven by solid growth on routes across the airline's global network. North and South American routes saw a 7.3 per cent rise in revenue passenger kilometres, and traffic to Asia-Pacific destinations grew 6 per cent over the previous year. Traffic on medium- and short-haul routes (including domestic German routes and the rest of Europe) climbed 5.5 per cent compared with a year earlier.

In July, Frankfurt Airport served 5 million passengers, a 5.2 per cent increase over the same month in 2004 and a new monthly record for the facility. The airport noted that traffic on routes within Europe registered the highest growth for the month, in particular Spain, Italy, Greece and Turkey.

TUI AG, Europe's largest travel company reported an improvement in its overall financial performance for the second quarter of 2005 compared with the same period a year earlier. Bookings for all divisions were up 8.5 per cent, and overall sales increased 4.2 per cent. Revenues grew 8 per cent compared with the same quarter of 2004. TUI's German operations saw a 13 per cent rise in bookings during the quarter. By the end of July, bookings originating in Germany for the summer travel period were 17.5 per cent ahead of last year's figures at the same time.

The CTC's foreign office in Germany reported that German travel agencies saw solid growth in overall summer bookings. North American and Caribbean destinations have been quite popular, and growth in bookings for Canada is set to surpass the growth rate for U.S. bookings, particularly for Western Canadian destinations. The rising popularity of Internet bookings continues to propel growth in low-cost air travel and dynamic packaging.

The latest TATS survey of German travel agencies revealed that the German holiday market slowed down in July, according to a report by *FVW*. Package holiday sales grew modestly (up 0.9%), but overall revenues were 0.8 per cent behind the figures seen in July 2004. Airline ticket sales for the month declined 4.8 per cent compared with a year earlier. However, as of July, tourism revenues for the travel period of November 2004 to October 2005 were still 4.6 per cent ahead of what they were the same period last year. *FVW* noted that the survey covers 2,150 German travel agencies and is considered a reliable indicator of overall market trends.

Tourism Leading Indicator Index - Germany

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

Note: the bracketed figures are from the previous (July 2005) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for Germany increased sharply (0.5 per cent) in June after staying flat for the previous three months. In fact, June's gain keeps the leading index on a slightly rising trend, with the strengths and weaknesses among the leading indicators becoming more balanced. Unfortunately, since the start of the year, the price competitiveness of German travel to Canada has continued to deteriorate in tandem with the further depreciation of the euro vis-à-vis the Canadian dollar. In addition, long-haul fuel surcharges will put Canada at a slight price disadvantage compared to shorter-haul destinations.

Up to the end of June, German arrivals to Canada for the year were up over 12 per cent compared with last year's figures for the same period. Looking ahead, German travel to Canada could receive a bit of a boost from the planned 4.3 per cent increase in direct air capacity from October to December, compared with the previous year. Despite the still modest outlook for the German economy, it appears that travel demand for Canada continues to support expectations of moderate growth in the near term.

Mexico

Brazilian discount airline GOL, which has significantly expanded routes throughout South America over the last year, announced in July that it plans to launch a low-cost carrier in Mexico in spring 2006. And according to *Air Transport World*, another Mexican low-cost venture was recently unveiled by ABC Aerolineas, a new start-up company. ABC plans to offer low-fare flights in Mexico under the brand name Interjet beginning in December.

Meanwhile, airlines in Latin America saw their passenger traffic (measured by RPKs) jump 11.2 per cent in June 2005, compared with the same month of 2004, according to the Latin American Airline Association (AITAL). The largest increases were seen in the charter flight segment (up 67.3%), while traffic on scheduled routes within Latin America grew 25.9 per cent. Traffic to North America and Europe climbed 9.1 per cent and 7.2 per cent, respectively.

Table 8. AITAL Airlines*
Revenue Passenger Kilometres (RPKs) and Passengers Carried - June 2005

Regional Destination	RPM change 2005 vs. 2004	Passengers Carried 2005 vs. 2004
Latin America (scheduled and charter)	12.7%	14.0%
International - Total	14.0%	18.9%
North America	9.1%	9.3%
Europe	7.2%	7.9%
Asia-Pacific	-0.1%	2.8%

Source: Latin American Airline Association (AITAL).
**AITAL airlines include 22 carriers serving the Latin American region.*

According to the latest quarterly report by the CTC foreign office in Mexico, Mexican tour operators are seeing their product sales for Canadian destinations achieve record-high growth this year. In fact, many tour operators said that Canada was their "number one" travel destination for the summer season. The overall outlook for Mexican travel is slightly more cautious, due to the uncertainty surrounding the Mexican presidential election next year. However, this uncertainty does not appear to be hurting Mexican travel demand for Canada.

The Bank of Mexico (Banxico) reported that Mexico's consumer price index edged up 0.39 per cent in July, compared with a month earlier. According to Banxico, one of the products contributing to the increase was a rise in the cost of tourism packages. Compared with a year earlier, Mexico's consumer price index was up 4.47 per cent.

Tourism Leading Indicator Index - Mexico

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

Note: the bracketed figures are from the previous (July 2005) Tourism Intelligence Bulletin.

The Conference Board's leading economic index for Mexico increased sharply (2.6 points) in June after declining in May. Although oil prices and inventories were the main contributors to the gain, the strength among leading indicators has become more widespread in recent 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.

Spurred by the strong visit numbers in June, Mexican arrivals to Canada for the first half of the year (January to June) were 15 per cent ahead of last year's figures for the same period. Mexican outbound travel should receive an added boost in the short term from substantial growth in planned air capacity. Fortunately, direct air capacity to Canada is slated to increase significantly (17.6%) from October to December. Overall, the Tourism Leading Indicator points to strong growth for Mexican arrivals to Canada over the near term.

Japan

Japan Airlines (JAL) reported a net loss of 38.3 billion yen (CDN$414.6 million) for its first quarter ended June 30, 2005, a slight improvement from the loss of 40.7 billion yen reported a year ago. Revenues from international services rose 6.4 per cent, due to increased fares and fuel surcharges. International passenger numbers increased 1.6 per cent, while domestic traffic edged up only 0.3 per cent compared with the same quarter of 2004. The airline noted that passenger traffic on long-haul routes to North America and Europe was steady. A Reuters news report stated that a spate of widely publicized safety issues on a number of JAL flights hurt the airline's passenger business during the quarter, especially on domestic routes.

All Nippon Airways (ANA) posted a net loss of 2.16 billion yen (CDN$23.4 million) for its first quarter ended June 30, 2005, a 10.9 per cent drop in earnings compared with a year earlier. Overall revenues increased 5.1 per cent, and passenger numbers climbed 2.6 per cent compared with the previous year. However, the number of passengers on international routes fell 1 per cent, mainly due to the drop in demand for travel to China as a result of the anti-Japanese demonstrations there. Similar to JAL, ANA reported that demand on its North American and European routes was strong throughout the period.

JAL reported that its international passenger numbers for the July 22 to August 21 holiday period slipped 0.9 per cent compared with the same period a year earlier. Demand on trans-Pacific, Korean and Oceania routes was strong, but traffic to Southeast Asian destinations was down, reflecting lingering effects of the tsunami on Japanese travel demand. Demand for China remained weak as well, due to the anti-Japanese demonstrations earlier in the year. Meanwhile, domestic passenger numbers during the holiday period rose 1.4 per cent compared with the previous year.

Tokyo's Narita International Airport announced it would extend its second runway to allow more jumbo jets to take off and land, thereby increasing the airport's international flight capacity. When construction of the extension is completed in 2010, the airport will be able to accommodate 220,000 flights per year, up from the current 200,000.

Meanwhile, it appears that some Japanese travellers are becoming bored with conventional overseas tours, and are increasingly seeking out vacation packages that involve unusual experiences, according to an article in *Nikkei Weekly*. For example, JTB Corp. is offering a package tour that allows clients to practise baseball with major league players at a training camp in Florida. Other popular packages include Jalpak's French cooking courses (targeting Japanese women over 30) and Kinki Nippon Tourist's ranch vacations in New Zealand.

The CTC foreign office in Japan recently reported that travel demand for long-haul destinations has been high, especially for European and Canadian destinations. To capitalize on the demand for Canadian travel, ANA has scheduled two direct charter flights to Montréal in October 2005, to see the autumn colours in Quebec. The vacation packages were developed in partnership with Destination Québec and travel agency KNT, with marketing support from the CTC.

Tourism Leading Indicator Index - Japan

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

Note: the bracketed figures are from the previous (July 2005) Tourism Intelligence Bulletin.

The Conference Board's leading economic index for Japan increased sharply (0.5%) in June after staying essentially flat since the beginning of the year. The pickup in the number of overtime hours worked in manufacturing made the largest contribution to June's gain, but the strength among the other components also became somewhat more widespread. Still, despite June's increase, the growth of the index has fluctuated around zero since end of 2004. Unfortunately, the price competitiveness of Japanese travel to Canada has declined since the start of the year due to the depreciation of the Japanese yen vis-à-vis the Canadian dollar.

Despite the 4.6 per cent decline in Japanese arrivals posted in June, arrivals to Canada were up by over 7 per cent over the first half of the year, compared with 2004. Fortunately, Japanese arrivals may receive a boost in the near term with a planned 11.3 per cent increase in direct air capacity between October and December, compared with last year. Overall, the Tourism Leading Indicator for Japan suggests the potential for growth in Japanese arrivals will persist over the near term.

Korea

South Korea faced its worst aviation industry strike in the nation's history when on July 17, 2005, nearly two-thirds of the pilots at Asiana Airlines (the country's second-largest carrier) walked off the job over a dispute about working conditions. The strike lasted 25 days, forcing Asiana to cancel over 2,000, or about one-third, of its scheduled flights. The airline tried to protect its international services as much as possible, even at the expense of its domestic services, but was forced to cut some flights to the United States and China as the strike wore on. The strike ended when the Korean government ordered the pilots back to work. Asiana estimated that the strike action cost the carrier more than 165 billion won (CDN$191.7 million) and Korea's overall tourism industry about 400 billion won (CDN$464.7 million). International services were not expected to be back to normal until the end of August.

The CTC's foreign office in Korea reported that the expansion of air capacity between Korea and North America has created new opportunities for Canada to attract more Korean visitors this year. Korean Air launched new services to Seattle and Alaska this summer, Asiana Airlines has launched direct services to Chicago, and Air Canada increased its capacity between the two countries. This expansion coincides with the surge in outbound trips expected this year, as most Korean workplaces adopt the five-day workweek (from six days). According to the latest data from OAG, direct air capacity between South Korea and Canada is expected to expand 4.7 per cent this fall (October to December) compared with a year earlier.

According to the latest Korean market report by Tourism Australia, Korean outbound travel increased 18 per cent in May 2005 compared with May 2004. However, demand for Asian destinations continued to drive the growth in outbound travel (up 22.5%), while trips to the United States rose 5.9 per cent, and trips to Europe climbed 7.9 per cent.

Tourism Leading Indicator Index - Korea

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

Note: the bracketed figures are from the previous (July 2005) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for Korea increased slightly in June, on top of the large gain posted in May. The leading index has grown at an annual rate of 1.5-2.5 per cent in recent months, with widespread strength among the leading indicators. At the same time, real GDP growth rose to an annual rate of 5 per cent in the second quarter, up from 1.6 per cent in the first quarter and 3.6 per cent in 2004. Despite some recent slippage, the South Korean won has basically held its own vis-à-vis the Canadian dollar since the start of the year.

Up to the end of June, South Korean arrivals in Canada were 11 per cent ahead of the same period last year. While double-digit travel growth could be challenged by the relatively modest (4.7%) planned growth in direct air capacity over October to December, the Tourism Leading Indicator Index suggests that improving economic conditions and strong travel demand should provide solid growth in Korean visits over the near term.

China

China Southern Airlines, China's largest airline by fleet, posted a net loss of 1.025 billion yuan (CDN$151.5 million) for the first half of 2005, compared with a net profit of 469 million yuan a year earlier. The loss was expected, in light of the carrier's spiralling fuel costs and its acquisition of two other Chinese airlines, China Northern and Xinjiang. China Southern receives about 80 per cent of its passenger revenues from domestic services, and has not added a fuel surcharge to its airfares to help offset its soaring fuel costs.

In July, passenger traffic through Beijing Capital International Airport rose 19.6 per cent, year over year, to 3.8 million passengers. Passenger volumes on domestic routes surged 22.2 per cent to 2.9 million, while passengers on international routes jumped 12.3 per cent, to 719,000 passengers, compared with a year earlier.

Shanghai-based Ctrip.com International Ltd., a leading Chinese online travel consolidator, posted a net profit of 56.5 million yuan (CDN$8.4 million) for the second quarter of 2005, an 80 per cent increase over the previous year. Hotel bookings rose to 1.39 million room nights, up from 1.05 million the same quarter a year earlier, boosting hotel sales volumes by 34 per cent. Air ticket sales rose 178 per cent, which the company attributed to continued demand strength and commission increases. Package tour revenues surged 167 per cent over the previous year. For the third quarter, Ctrip expected its revenues to increase about 40 per cent over the same quarter of 2004.

China's tourism industry is growing exponentially, at a pace that is expected to continue as China improves its infrastructure. According to an article by eTurboNews.com, about 80 airports are under construction across the country, and over the next 20 years, China is expected to add about 30,000 kilometres to its highway system. The Pacific Asia Travel Association (PATA) estimated that overall leisure travel volumes in China surpass 1.2 billion visits annually, when inbound, domestic and outbound trips are calculated. A little over half of these visits (51.9%) are domestic rural trips, while another 37 per cent are domestic urban visits. International visitors to China account for about 8.8 per cent of travel activity, while outbound trips account for 2.3 per cent of overall travel volumes.

Tourism Leading Indicator Index - China

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

Note: the bracketed figures are from the previous (July 2005) Tourism Intelligence Bulletin.

According to Consensus Economics, the economic outlook for China has improved significantly since the start of the year. The most current survey (Aug. 8, 2005) indicates the consensus for real economic growth now stands at 9.1 per cent for 2005, up from 8.2 per cent in the January survey. The revision was mainly due to stronger-than-expected economic activity in the first and second quarters. Despite the recent 2.1 per cent appreciation of the yuan against the U.S. dollar, the value of the Chinese currency has remained fairly stable vis-à-vis the Canadian dollar since the end of last year.

Boosted by a surge in June, Chinese visits between January and June were up 15 per cent ahead of the same period last year. Looking ahead, the level of direct air capacity planned for October to December is expected to increase 33.4 per cent over last year. Overall, favourable economic conditions and strengthening travel trends (by travellers and suppliers) should support solid growth in Chinese visits to Canada over the near term.

Australia

Qantas Airways Ltd., the parent company of Australia's flag carrier and of low-cost carrier Jetstar, posted a net profit of A$763.6 million (CDN$687.2 million) for its fiscal year ended June 30, 2005, a 17.8 per cent increase over the previous fiscal year. This was a record-high annual profit for the company. Revenues increased 11.4 per cent, boosted by a 7 per cent rise in passenger traffic. The number of passengers carried on international routes during the year rose by 3.2 per cent, while the number of domestic passengers jumped 10.9 per cent.

The company was heavily protected from the surge in fuel costs by extensive hedging, but faces a sharp increase (an additional A$1.25 billion) in the current fiscal year. In 2004/05, fuel represented 19 per cent of the company's expenses; however, if current prices hold, fuel will shoot up to account for 30 per cent of expenses in 2005/06. Shortly after it released its earnings report, Qantas hiked its fuel surcharge on all routes by A$6 to A$15 (CDN$5.40 to $13.50) each way, depending on distance flown.

Australian outbound travel continues to trend upward, although the pace of growth is starting to slow down, according to the latest figures from the Australia Bureau of Statistics. In June 2005, short-term resident departures were up 11.5 per cent compared with June 2004.

ZUJI, an Asian-Pacific subsidiary of online travel agency Travelocity, recently released its second quarter online travel report for the Asia-Pacific region. The report described Australians, who represent the company's second-largest market in the region, as the most confident in purchasing online travel among all Asia-Pacific markets. According to Nielsen//NetRatings, 44 per cent of all Internet users in the country visit travel sites once a month, on average, to either research or purchase travel. While this has supported the trend of shorter booking windows overall, ZUJI reported that booking windows have increased since the second quarter of 2004: 44 per cent of hotel bookings are made more than three weeks in advance, up from 35 per cent of hotel bookings last year.

The ZUJI report also noted an upward trend of shorter getaways among Australian travellers: 72 per cent of trips are for one week or less. ZUJI attributed this trend to a growing preference for more frequent and spontaneous travel, which is rising in tandem with the growth of low-cost carriers and the accessibility of attractive travel deals through the Internet. The report added that the strong Australian dollar and general stability around the region are making Australians "more enthusiastic and confident to travel than they have been in years."

Tourism Leading Indicator Index - Australia

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

Note: the bracketed figures are from the previous (July 2005) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for Australia increased 0.5 per cent in June, and the strength among leading indicators continues to be widespread. The leading index has grown at an annual rate of 0.5 to 1.5 per cent in recent months. At the same time, real GDP increased at an annual rate of 2.8 per cent in the first quarter, up from 1.5 per cent in 2004, but well below the pace of growth recorded in 2003 (4.5%). Meanwhile, despite some recent depreciation, the value of the Australian dollar has basically held its own vis-à-vis the Canadian dollar since last year.

Spurred on by tremendous growth in June, arrivals from Australia since the start of the year are more than 16 per cent ahead of the same period last year. While the level of air capacity (for flights with one stop) planned between October and December is not expected to increase, favourable economic conditions and strengthening travel trends (by travellers) suggest Australian travel should continue to expand over the near term.

Economic Overview

North America

Oil prices continue to put pressure on the North American economy, yet so far, the economy is holding up well. The U.S. housing market continues to defy predictions of imminent demise, the manufacturing sector is rebounding, and labour markets remain in good shape. Even the country's trade performance has been improving. On the flip side, the solid performance is expected to leave the U.S. Federal Reserve undeterred in its path of raising interest rates-a path that will inevitably lead to a slowdown in overall economic growth.

The Canadian economy has shown slightly less resiliency than its U.S. counterpart. While high oil prices continue to rejuvenate the Canadian energy industry, they are also raising input prices in other industries. Moreover, high oil prices are at least partly the reason for the strong value of the Canadian dollar. Canadian manufacturers have been struggling in the face of the strong currency, and with concerns over inventories and unfilled orders, more manufacturers are becoming increasingly wary of the months ahead.

Mexico's economy continues to boast solid overall economic growth, yet is also slowing quickly in the face of high interest rates and fears of inflation. The country's domestic economy remains the Achilles heel of the country's economy, due to struggling manufacturing activity and slowing consumer spending.

Europe

Strong economic growth continues to elude the European economy as a whole. While many new entrants into the EU are boasting strong numbers for economic growth, the large economies of Germany and France that dominate the European market continue to underperform. Economic growth in Germany is expected to fall below 1 per cent for the third time in four years. Stagnating levels of domestic consumption-brought about by a high unemployment rate and little wage growth-continue to play a large role in its weak economic performance. Even though France faces a similarly rigid labour market, it is performing slightly better and, at least, can count on solid growth in domestic demand. Still, economic growth in France is only expected to reach 1.6 per cent this year.

Meanwhile, high oil prices and hot housing markets in parts of Europe are keeping inflation fears alive. Thus, while looser monetary policy could help boost Europe's economy out of the doldrums, the European Central Bank is not expected to lower interest rates.

Asia-Pacific

China's economy continues to propel economic growth in the Asia-Pacific region. Despite government-led efforts to slow the Chinese economy down, economic growth for the country is once again expected to surpass 9 per cent in 2005. Fuelled by unrelenting growth in investment spending, Chinese exports continue to grow rapidly. While the recent change from a fixed exchange rate to a narrowly managed currency is expected to have little impact on export growth, Chinese exports could slow more substantially if expectations of a more significant revaluation of the yuan materialize.

The rise of the Chinese yuan provides some competitive relief to exporters in Japan and Korea. A boost in Japan's industrial production from stronger exports could stabilize the country's domestic economy by strengthening consumer spending. As a result, real economic growth of 1.5 per cent is expected in Japan over the next two years.

Opportunities

Canada has the second-strongest nation brand in the world, just behind Australia, and could further capitalize on the world's positive perceptions of Canadians, according to the second quarter Anholt-GMI Nation Brands Index. The index comprises the results of a survey of 10,000 people around the world, about their perceptions of 25 countries based on areas such as tourism, people, culture and investment. Canada's ranking was boosted by strong scores in tourism, investment, immigration, people and governance, although the score for culture and heritage was much weaker (18th, overall). The survey report surmised that Canada's appeal lies in perceptions of the country's purity, not only in terms of its natural environment, but also in liberal values and moral integrity. However, it also implied that Canada could do much more to communicate its cultural offerings.

Meanwhile, a recent study by the Open Doors Organization and the Travel Industry Association of America (TIA) suggests that the travel market for adults with disabilities continues to expand, and would grow even faster if more barriers to access were removed. In the past two years, 21 million U.S. adults with disabilities have travelled for business and/or pleasure. Hotel stays alone for this market have increased by 50 per cent, although 60 per cent of hotel guests with disabilities have reported difficulties with their hotel stay such as physical barriers (48%), customer service issues (45%) or communication barriers (15%). The study noted that most of the common complaints, such as heavy doors or lack of knowledge among staff, could be resolved easily and inexpensively. The study also found that 20 per cent of adults with disabilities have rented a car for travel in the past two years, although 50 per cent said they would be more inclined to rent a car if it were delivered to them.

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)	+ (+)	0 (0)	+ (+)
U.S.	+ (0)	-- (-)	- (-)	+ (+)	0 (0)
UK	0 (+)	- (0)	++ (++)	++ (+)	+ (+)
France	- (0)	- (-)	++ (++)	++ (+)	+ (+)
Germany	0 (-)	- (-)	++ (++)	+ (+)	+ (+)
Mexico	+ (0)	+ (+)	++ (++)	++ (++)	++ (++)
Japan	0 (0)	- (-)	+ (++)	+ (-)	+ (+)
Korea	++ (+)	0 (+)	++ (++)	+ (0)	++ (+)
China	+++ (+++)	0 (0)	++ (+)	+++ (+++)	++ (++)
Australia	+ (+)	0 (0)	++(++)	0 (0)	+ (+)

Range spans: +++ (significantly improving) to --- (significantly deteriorating). 0 represents no change.
Note: the bracketed figures are from the previous (July 2005) Tourism Intelligence Bulletin.

The ratings in each component of the Tourism Leading Indicator indicate the extent to which that particular 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%) from 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 is construed as slightly improving (+), 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 slightly improving (+) is warranted.

B) **Price Competitiveness:** Exchange rates between markets play a significant role in price competitiveness. 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 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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