CTC Tourism Intelligence Bulletin – Issue 34: July 2006

The Tourism Intelligence Bulletin continues to monitor the tourism industry around the world.
This issue reveals tourism intelligence gathered in May and June 2006.

Robust Economy Keeps Summer Travel Demand on Track

Executive Summary

- The Canadian economy continues to flourish, keeping the positive outlook for summer travel on track. Heading into the summer season, Canadian vacation intentions were at their highest level in three years, buoyed by the robust performance of the Canadian economy. Domestic travel intentions in particular have improved the most, although outbound trip plans have also increased-not surprisingly, considering the strong value of the Canadian dollar.
- Although the strengthening Canadian dollar is hurting the price competitiveness of Canadian vacation destinations to some degree, it has also softened the impact of soaring oil prices for Canadian consumers. Specifically, gasoline prices in Canada have not increased as much as they have in the United States. As well, travel prices in the United States have been rising more dramatically than travel costs to or within Canada, helping to offset some of the negative effects of a surging loonie.
- All in all, the Canadian tourism industry appears poised for another year of profit growth. Business travel, in particular, has benefited from Canada's strong economy, which is good news for the Canadian lodging industry. Pricing trends remain on an upward track, allowing tourism businesses to make further revenue gains as travel demand continues to build.

Emerging Trends and Issues - Canadian Domestic Travel: Can We Keep the Momentum Going?

- While the outlook for domestic travel is quite favourable, Canadians have also been travelling abroad in record numbers-a trend showing no signs of abating. Key reasons include the strengthening Canadian dollar and the lure of exotic travel experiences as traveller confidence builds and as destinations such as China and Vietnam rapidly develop their own tourism industries.
- The real trick will be to keep the current momentum in domestic travel on track. In the years ahead, aging baby boomers will swell the ranks of those aged 55 and older. These empty nesters have the time and money to travel, and are most interested in the cultural activities and exotic experiences associated with foreign destinations. Considering the current outbound travel patterns of Canadian age groups, as well as the estimated growth in the number of Canadians aged 55 and over, even the most conservative estimates point to a substantial increase in outbound travel demand among Canadians.
- Recent research has shown that a lack of awareness of what Canada has to offer may not only be an issue for the U.S. travel market. Survey results suggest that younger Canadian outbound travellers are also uncertain about where to travel in Canada. And it may be possible to attract more baby boomers to travel domestically by inviting them to experience the diverse and cosmopolitan activities available in Canada's world-class major cities. In the years ahead, it will be important to monitor these trends and perhaps entice more Canadians to explore their own country.

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Consumer (Traveller) Overview

- The strong performance of Canada's economy continues to fuel travel confidence, according to the latest Travel Intentions Survey by the Canadian Tourism Research Institute. Of the Canadians polled in April and May, almost 60 per cent said they planned to take a summer vacation between May and September 2006, up from 52 per cent in April 2005. In addition, 42 per cent of all Canadians polled said they would take their longest summer vacation in Canada this year, up from 37 per cent in 2005.
- In the United States, climbing energy prices, combined with rising interest rates, are having a noticeable impact on American travel trends. The latest forecast by the Travel Industry Association of America (TIA) suggests that U.S. leisure travel volumes will remain essentially flat this summer compared with last year, because of the impact of high gasoline prices on travel plans and general consumer confidence. The TIA believes that a US$3 per gallon pricing threshold could be the "tipping point" for many Americans deciding to cancel or change their summer travel plans-not necessarily because of the higher cost of travelling, but because higher pump prices are taking up a substantially larger share of American household budgets. Fortunately, U.S. travel demand is expected to improve as the summer progresses and as Americans become more accustomed to higher gas prices.
- Confidence among Canadian business leaders remains strong, according to the latest Index of Business Confidence by The Conference Board of Canada, and this is helping to support continued growth in Canadian business travel demand. The strength of the index reflects respondents' continued optimism about the financial position of their firms and their financial prospects over the next six months.

Travel Supplier Overview

- The Canadian airline industry continues to benefit from the strong Canadian economy. In their first-quarter financial reports, both Air Canada and WestJet reported significant improvements in net earnings, boosted by a solid rise in passenger fare yields. Despite the fact that pricing trends appear to be back on an upward track, air travel demand remains solid. The Canadian Air Transport Security Authority expects a 3 per cent increase in the number of passengers using Canadian airports this summer over last summer. Burgeoning jet fuel costs are still a concern, but favourable market conditions, overall, appear to be mitigating some of the negative effects of climbing fuel expenses.
- In the United States, the airline industry is expecting its best summer since 2000, according to the Air Transport Association. U.S. air travel demand continues to rise, and the major U.S. carriers continue to scale back their domestic capacity, giving airlines greater pricing power on those routes. In the first five months of 2006, domestic airfares were up an average of 11 per cent compared with the same period in 2005.
- Positive economic indicators continue to support an upbeat outlook for the Canadian hotel industry, as travel demand continues to build. The latest *Canadian Lodging Outlook* report by HVS International and Smith Travel Research revealed that between January and April 2006, room demand in Canada grew 4.2 per cent, compared with a year earlier. At the same time, room supply increased by only 1.3 per cent, allowing the lodging industry to gain further pricing power and continue raising daily rates. Strong business travel trends have boosted the outlook in particular for upper-end lodging segments, which are expected to see the highest growth in revenues this year.

Economic Overview

- Despite the surge in U.S. economic activity in the first quarter of 2006, growth is expected to slow significantly as the year progresses. The economy is currently operating at its productive capacity and with an unemployment rate below 5 per cent. That prompted the Federal Reserve to increase interest rates on June 29 to the highest point in five years, in an effort to ease inflationary pressures. Outside the U.S., however, domestic demand has improved the outlook for the Canadian economy, while Mexico continues to benefit from rising demand for exports. While weaker economic growth in the United States is not expected to significantly restrain growth in North America this year, it is expected to reduce growth to 2.7 per cent in 2007. By then, weakness in the housing market, higher interest rates and soaring energy prices will likely dampen household spending. The U.S. slowdown may not have a major impact on Canada's economy next year, but may hurt Mexican exports.

- The current economic outlook for most of Europe is far more optimistic than it was during 2004-2005. Real GDP growth of 2.2 per cent is expected this year, and growth at or above 2 per cent is anticipated in 2007. While this growth is not stellar compared with other parts of the world, it is a welcome change from the 1 to 1.5 per cent growth that has transpired since 2000. However, there are concerns that high commodity prices will feed into broader inflation. As a result, the European Central Bank, along with several other countries, has started to raise interest rates in an effort to slow inflationary pressures. If inflation accelerates, rates may increase further, jeopardizing the budding expansion.
- Much of the success of the Asia-Pacific economies can be traced to the strong performance of the export sector. Manufacturers are geared to making products that are in heavy demand in the developed world. This proven model for success has some drawbacks, however, since it can be susceptible to wild swings in exchange rates. The ongoing depreciation of the U.S. dollar against many of the major currencies in the Asia-Pacific region will make exports more expensive in the important U.S. market. In order to maintain their respective currencies at competitive levels, many Asian countries are forced to increase interest rates in step with the United States, thereby throttling domestic consumption and investment. As well, demand for high-technology equipment has shown signs of waning. Real GDP growth of 5 per cent is anticipated in the Asia-Pacific region this year, but growth is expected to slow over the final half of the year. In 2007, economic growth in the region is expected to reach 4.5 per cent.

Opportunities

- A study by TripVision Ltd., a U.K.-based travel research firm, analyzed the planning and booking preferences of U.K. leisure travellers to determine the best way to sell travel products to specific segments of the U.K. market, according to a recent article on Travelmole.com. The study results split British vacationers into five groups, each of which approaches travel bookings differently. "Explorers" pursue new options in travel and technology, tend to choose independent trips and prefer to book online, using travel agencies only to browse brochures. "Spenders" go for the latest gadgets and high-end brands and use the Internet to research travel, but prefer to book through travel agents to save time. In fact, they will spend more for better service. "Conformists" follow the pack when it comes to vacations, and use a broad range of booking methods. Finally, older travellers in their "golden years" like to travel but avoid technology, while "homebodies" like to take auto trips close to home-both of these groups rely heavily on travel agents for planning and booking their vacations. In general, U.K. online travel bookings are most likely to be made by consumers in higher socio-economic groups, who travel often and purchase independent trips.

In Brief

The Canadian economy continues to flourish, keeping the positive outlook for summer travel on track. Heading into the summer season, Canadian vacation intentions were at their highest level in three years, buoyed by the robust performance of the Canadian economy. Domestic travel intentions, in particular, have improved the most, although outbound trip plans have also increased-not surprisingly, considering the strong value of the Canadian dollar.

Although the strengthening Canadian dollar is hurting the price competitiveness of Canadian vacation destinations to some degree, it has also softened the impact of soaring oil prices for Canadian consumers. Specifically, gasoline prices in Canada have not increased as much as they have in the United States. As well, travel prices in the United States have been rising more dramatically than travel costs to or within Canada, helping to offset some of the negative effects of a surging loonie.

All in all, the Canadian tourism industry appears poised for another year of profit growth. Business travel, in particular, has benefited from Canada's strong economy, which is good news for the Canadian lodging industry. Pricing trends remain on an upward track, allowing tourism businesses to make further revenue gains as travel demand continues to build.

Meanwhile, even as domestic travel grows, so does Canadian demand for overseas trips. In fact, the latest figures from Statistics Canada show that Canadians have been travelling outside the country in record numbers-a trend showing no signs of abating. One key reason is the increasing price competitiveness of outbound travel destinations as a result of the strengthening Canadian dollar. Another major reason is the growing lure of exotic travel experiences as traveller confidence builds and as previously inaccessible overseas destinations, such as China and Vietnam, rapidly develop their own tourism industries. Over the next few years, it will be important to monitor these trends and perhaps entice more Canadians to explore their own country.

Emerging Trends and Issues

Canadian Domestic Travel: Can We Keep the Momentum Going?

Canada's strong economic performance continues to bolster consumer confidence, supporting a buoyant outlook for domestic travel this summer. Looking further ahead, however, evolving demographics in the Canadian population threaten domestic travel patterns. The real trick will be to keep the current momentum in domestic travel on track.

Between 1990 and 2004, Canadian outbound travel was on a slow downward trend, slipping by an average annual rate of 0.5 per cent. However, that decline is expected to reverse itself completely in the next five years, as Canadian demographics evolve and the aging baby boomers swell the ranks of those aged 55 and older. These empty nesters form the Canadian traveller segment with the most time and money to travel outside the country. They also make up the age demographic that is most interested in and has the finances to afford the cultural activities and exotic experiences associated with international travel.

The latest Travel Intentions Survey by the Canadian Tourism Research Institute captures this difference when breaking down summer vacation plans by age demographics. The results suggest that Canadian summer travellers aged 55 and over were least likely to be planning their longest summer trip in Canada and most likely to be travelling abroad this summer, compared with their younger counterparts.

Table 1: Destination of Longest Summer Vacation

(per cent of Canadians intending to take a vacation this summer)

Destination:	18 to 34	35 to 54	55 plus
Canada	70.7	72.9	64.6
U.S.	12.9	15.1	14.2
International	14.8	8.5	18.4
Don't know	1.6	3.5	2.8

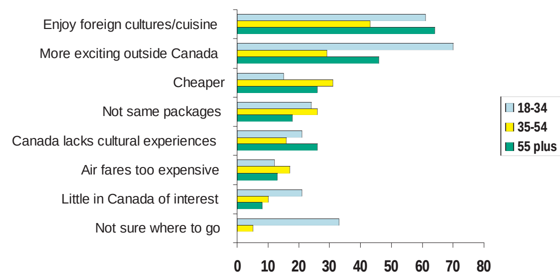
Source: Canadian Tourism Research Institute.

Considering the current outbound travel patterns of Canadian age groups, as well as the estimated growth in the number of Canadians aged 55 and over in the next five years, even the most conservative estimates point to a substantial increase in outbound travel demand among Canadians over this period.

In the latest Travel Intentions Survey, the respondents who were planning their longest summer trip outside Canada this year were asked why they had chosen an international destination. Aside from visiting friends and/or relatives, which was the largest draw for outbound travellers (cited by 46%), the excitement and adventure of foreign destinations appeared to be the main reasons for choosing an international vacation spot. Interestingly, the response for "little in Canada of interest" ranked quite low among survey respondents, chosen by only 6 per cent.

However, when the survey responses to the above question were broken down by age group, a different story emerged. Among the respondents aged 55 and over, the lure of foreign cultures and cuisine, combined with a perceived lack of cultural vacation experiences in Canada, played a much larger role in travel decisions than it did for other age groups. Meanwhile, respondents between the ages of 18 and 34 exhibited a greater general lack of awareness of what Canadian destinations have to offer. And responses of those aged 35 to 54 indicated a higher price-consciousness in this group compared with other respondents.

Chart 1: Main Reasons for Travelling Outside Canada
(% response by age demographic, excluding travellers visiting friends and relatives)



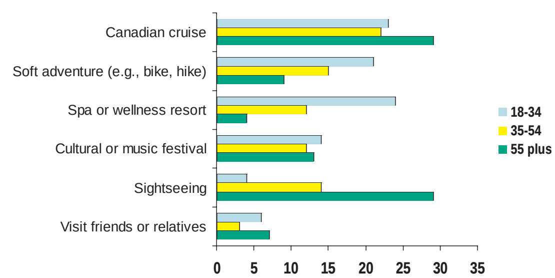
Source: Canadian Tourism Research Institute.

Survey respondents planning an outbound holiday this summer were then asked what ***one*** type of domestic vacation experience would be of greatest interest to them if they were to stay in Canada this summer. Again, survey responses suggest the types of vacations sought by Canadian outbound travellers vary greatly by age group. A cruise was the first choice for adult respondents aged 35 to 54 as well as those aged 55 and over, but it ranked second behind spa vacations for young adults 18 to 34.

The survey results suggest that a lack of awareness of what Canada has to offer may not be an issue only for Canada's U.S. travel market. As Chart 1 illustrates, younger Canadian outbound travellers exhibited a high level of uncertainty about where to go for a Canadian vacation. And it may be possible to lure more baby boomers to stay in Canada by inviting them to experience the diverse and cosmopolitan activities available in Canada's world-class major cities.

As the Canadian population ages over the next five years, it will become more important to continue monitoring the travel motivations of outbound Canadians. But a longer-term view of the demographic changes expected in Canada will give the travel industry time to prepare for this shift in travel motivations and develop strategies to encourage more travellers to choose Canadians destinations and travel activities when planning their vacations.

Chart 2: Domestic Trips of Interest to Outbound Travellers if They Stayed in Canada During the Summer
(% response by age demographic)



Source: Canadian Tourism Research Institute.

Tourism Leading Indicator Index

Because of the constantly evolving nature of today's travel environment, it is increasingly important to be able to anticipate fluctuations in travel demand, in order to make better business decisions. The Tourism Leading Indicator Index provides tourism stakeholders with additional insights into the near-term outlook for the Canadian tourism industry, by tracking the progress of the economic and non-economic factors that affect travel demand.

Economic Factors: To various degrees, economic conditions play a role in the tourism decision-making process for travellers in Canada's key markets. Econometric analysis suggests that real gross domestic product (GDP) and personal disposable income growth are perhaps two of the most significant economic factors. Another factor is the price competitiveness of a specific destination; everything else being equal, travellers are attracted to destinations that are more price competitive.

Non-Economic Factors: Since 9/11, the influence of non-economic factors in travellers' decision-making processes has greatly increased. Some of the most significant non-economic factors that contribute to travel decisions include consumer confidence, travel concerns, travel trends, travel awareness, regulations such as visa or passport requirements, and tourism supply (e.g., air capacity).

To derive the overall Tourism Leading Indicator Index, the various components representing economic and non-economic motivating factors are weighted to reflect their relative importance in the 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 this report. The specific rating gradients used to assess the various components of the Tourism Leading Indicator are as follows:

Ratings Used for the Tourism Leading Indicator Index and Its Components

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 how 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 in the previous year.

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.

Tourism Leading Indicator Index - Domestic

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

Note: the bracketed figures are from the previous (May 2006) Tourism Intelligence Bulletin.

The Canadian job market generated an estimated 96,700 new jobs in May-matching the high recorded early in 2002-following a sturdy employment report in the previous month. Furthermore, the large increase in employment drove the unemployment rate down 0.3 per cent to 6.1 per cent, the lowest rate since 1974. The job gains in May were distributed across all age groups, with significant gains in both the private and public sectors. Employment in the services sectors was very strong, easily offsetting weakness in the goods-producing sector. The manufacturing sector continued to suffer from the high Canadian dollar, giving up 21,700 jobs.

With the value of the Canadian dollar continuing to gain vis-à-vis the U.S. dollar, the latest outbound travel statistics (from April 2006) indicate a strengthening of outbound travel to the United States. Meanwhile, outbound travel to non-U.S. destinations continued to increase as well. While high gas prices (and increased fuel surcharges) are likely constraining Canadian travel demand to some degree, the increase in the value of the Canadian dollar against the U.S. dollar is also making domestic leisure destinations slightly less price competitive than some outbound destinations.

On a positive note, the level of direct air capacity planned for travel within Canada over the summer is expected to be 4-5 per cent higher than last summer. Overall, the Tourism Leading Indicator for domestic travel suggests the market should continue to expand slightly over the near term.

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)	
+ (+)	-- (--)	- (--)	- (-)	- (-)

Note: the bracketed figures are from the previous (May 2006) Tourism Intelligence Bulletin.

Higher energy prices resulted in a jump in consumer prices in April and May, a factor that led the U.S. Federal Reserve (Fed) to raise interest rates once again at the end of June. According to The Conference Board, Inc.'s May 2006 Consumer Confidence Survey, rising energy rates were a key factor in a 6.6 point drop in consumer confidence. The impact of high gasoline prices was evident from the weakness in buying plans. While the just-released June 2006 Consumer Confidence Survey did indicate a slight bounce back in confidence of 1 point, consumers remain concerned about the short-term outlook. The Conference Board expects real GDP growth to weaken over the next few quarters as the pace of job creation slows.

According to the Conference Board's *U.S. Business Cycle Indicators*, the leading economic index for the United States decreased sharply in May, the third decline in the last six months. From November to May, the leading index fell by 0.2 per cent, with declining housing permits representing the largest single negative contribution to the leading index. The current behaviour of the leading index suggests the rapid pace of economic activity during the first quarter of 2006 (a 5.3% annual rate) is unlikely to be sustained. Still, economic growth is expected to continue, but at a slow to moderate pace in the near term.

Although overnight U.S. travel to Canada increased 1.9 per cent in April 2006, compared with April 2005, the aggregate year-to-date figures indicate that travel from the U.S. remains down 6 per cent. While deteriorating economic factors are assumed to have contributed to the weak performance to date, research conducted by the Canadian Tourism Commission on the U.S. market reveals that a lack of awareness of what Canada has to offer is also a key factor. On top of that, escalating confusion over the impending requirements for passports or other secure travel documents (as part of the Western Hemisphere Travel Initiative) and higher gas prices are also likely dampening travel. Unfortunately, looking ahead, the level of direct air capacity planned for travel to Canada over the summer, particularly by U.S. carriers, is expected to decline compared with last year. All told, the overall Tourism Leading Indicator for the United States suggests that the declining travel trend is expected to continue over the near term.

Consumer Overview - Canada and the United States

Leisure Travellers

Canadian domestic travel intentions are up: The strong performance of Canada's economy continues to buoy consumer confidence and Canadian travel demand, according to the latest Travel Intentions Survey by the Canadian Tourism Research Institute. The results of the latest survey, conducted in April and May 2006, suggested that summer travel intentions have improved markedly compared with a year ago. Of the 2,000 Canadians polled, almost 60 per cent said they planned to take a summer vacation between May and September 2006, up from 52 per cent in April 2005.

The strongest improvement in summer travel intentions is for domestic vacation plans. In the April 2006 survey, 41.8 per cent of all Canadians polled said they would take their longest summer vacation in Canada this year, up from 36.5 per cent in 2005. Intentions for summer travel to the United States also increased-not surprisingly, considering the strengthening value of the Canadian dollar compared with the U.S. dollar. Canadians' improved purchasing power with the stronger loonie has helped keep travel plans to other international destinations stable as well.

Table 2: Summer 2006 (May-September) Vacation Intentions
(Per cent of Canadians surveyed)

	March 2004	April 2005	April 2006
Summer Vacation Intentions (All Destinations)	55.8	52.3	59.5
Canada	38.3	36.5	41.8
United States	7.7	7.2	8.4
Other International	8.6	7.6	7.6
Do Not Know/Refused	1.2	1.0	1.7

Source: The Conference Board of Canada.

Gasoline prices dampening U.S. travel demand: In the United States, climbing energy prices, combined with rising interest rates, are expected to have a noticeable impact on American travel trends this summer. The latest forecast by the Travel Industry Association of America (TIA) suggests that U.S. leisure travel volumes will remain essentially flat compared with last summer, because of the impact of high gasoline prices on travel plans and general consumer confidence. The TIA believes that a US$3 per gallon pricing threshold could be the "tipping point" for many Americans deciding to cancel or change their summer travel plans. While higher pump prices would only add between US$30 and US$50 to the cost of an average vacation-not enough to act as a deterrent on its own-climbing gasoline costs are also taking up a substantially larger share of American household budgets, affecting overall spending decisions.

A poll by Harris Interactive conducted in mid-May suggested that 44 per cent of American car owners have cut back on their spending on products or services to compensate for the rising cost of gasoline. Among the car owners who are cutting back on their spending, 29 per cent said they were dining out less, the same percentage said they were reducing their driving, and nearly one-quarter (24%) are cutting back on groceries to pay for gasoline. Eighteen per cent said they were cutting back on weekend trips and travel. Three-quarters of all respondents believe gas prices will continue increasing throughout the summer.

On the other hand, the TIA believes that although gasoline costs will dampen U.S. travel demand early this summer, demand will improve as the summer progresses and as Americans become more accustomed to higher pump prices. This is a reverse of the trend seen last summer, when gasoline costs spiked in the wake of the hurricanes in August and September. The outlook for improved demand also assumes that gas prices have stabilized and that no other negative events will occur over the summer travel period.

Slight increase in U.S. travel over Memorial Day weekend: The American Automobile Association (AAA) released a forecast just before the Memorial Day weekend, predicting a slight increase in U.S. travel volumes compared with last year. According to the AAA, about 37.6 million Americans were expected to take a trip more than 50 miles away from home between May 26 and 29, 2006, a 0.9 per cent increase over the same holiday in 2005. The Memorial Day holiday is generally regarded as the start of the summer travel period for Americans.

Increase in non-traditional family vacations this summer: According to a recent poll of American Express travel agents, one of this year's most significant travel trends in the United States is the growing number of non-traditional family groups planning vacations together. Most agents (79%) reported a significant increase in these types of bookings this year. These groups include multi-generational trips, grandparents travelling with grandchildren, and adult children travelling with their parents. The survey results also revealed that agents are booking more family outdoor adventure trips (cited by 62%), international family vacations (57%) and family cruise trips (49%). Amex agents indicated that the top motivators for family travel included "the desire to introduce children to different cultures, customs and lifestyles, to experience new things together, and to create lasting memories.

More travel packages purchased online in the U.S.: After two years of relatively flat growth, there has been a large jump in online travel package purchases in the United States this year, according to a recent report by JupiterResearch. The market research firm's 2006 U.S. Travel Consumer Survey revealed that 41 per cent of online travellers needing multiple travel products purchased a package, up from 29 per cent in the 2005 survey. The firm believes that the increase is largely due to the marketing efforts of online travel agencies, where virtually all of these sales are occurring.

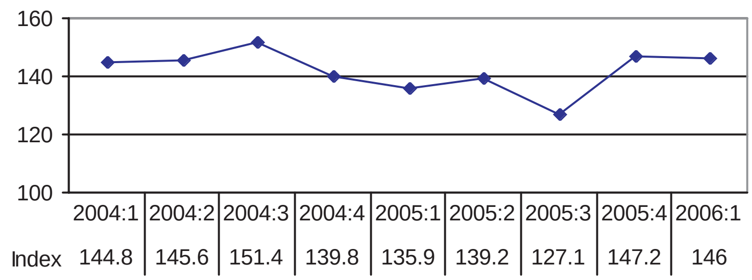
Business Travellers

Canadian business confidence holding strong: Confidence among Canadian business leaders remains strong, according to The Conference Board of Canada's latest Index of Business Confidence, based on a survey conducted in March and April 2006. The index is now 10 points higher than it was a year ago, and remains close to the peak reached in the third quarter of 2004. The continued strength of the index is indicative of respondents' optimism about the financial position of their firms and robust investment intentions. Most respondents were also upbeat about their firms' financial prospects over the next six months.

Companies rely on preventative measures to keep travel costs down: A survey conducted for the Association of Corporate Travel Executives by GetThere and Travelocity Business recently revealed that corporate travel spending continues to rise, although travel executives are employing preventative measures to keep travel costs down. A survey of nearly 400 large North American companies indicated that 92 per cent are spending more on business travel this year because of increased travel volumes and higher travel costs. Rising travel costs and getting good value for travel spending were the top two concerns among respondents. The most cited method of keeping travel costs down was by pre-approving travel itineraries, cited by 65 per cent of respondents. "Limiting travel" came in second, cited by 62 per cent of respondents, a 5 per cent decline compared with last year's survey, and 16 per cent down from the 2003 survey.

Chart 3: Business Confidence Index — Canada

(quarterly index, 1991=100)



Source: The Conference Board of Canada.

A growing number of companies are also using online booking tools to manage travel costs, with 48 per cent citing this method, up from 43 per cent last year and 31 per cent in 2003. The survey also revealed that mandated policies for online corporate travel bookings are becoming more prevalent. Among the executives polled, 84 per cent said that some or all of their corporate travel must be booked online, up from 81 per cent in 2005.

Hotel availability more important than price for some travel managers: Rising U.S. business travel demand is driving up U.S. hotel occupancy levels, causing corporate travel managers to shift their focus from finding the best price, to simply finding available hotels, according to a recent article in *Business Travel News*. When booking accommodations in a high-demand U.S. city, some travel managers are forced to find travellers a room first and then worry about prices later. Many companies are increasing their room allotments at preferred hotels and, in some cases, pre-paying for rooms up to a year ahead to secure availability. According to Smith Travel Research, these market conditions are not expected to change any time soon, since U.S. hotel supply is not expected to increase substantially for at least two more years.

Travel Supplier Overview - Canada and the United States

Airlines - Canada

Financial reports reflect strength of Canada's airline industry: The Canadian airline industry continues to benefit from the strong Canadian economy, which is helping to keep travel demand buoyant. In their first-quarter financial reports, both Air Canada and WestJet reported significant improvements in net earnings, boosted by a solid rise in passenger fare yields. Despite the fact that pricing trends appear to be back on an upward track, the latest passenger traffic reports indicate that air travel demand remains steady heading into the summer travel season. Burgeoning jet fuel costs are still a concern, but favourable market conditions, overall, appear to be mitigating some of the negative effects of climbing fuel expenses.

For the first quarter of this year (ended March 31, 2006), ACE Aviation Holdings posted a net profit of $118 million, a strong improvement from the $77 million loss reported for the same quarter of 2005. The airline said that "robust market demand" and a 9 per cent rise in passenger fare yields helped the airline achieve a 16 per cent increase in passenger revenues compared with the previous year. The airline's bottom line also received a large boost in February from selling a 20.3 per cent stake in Jazz, its regional subsidiary. However, the airline's operating loss for the first quarter was three times higher than it was a year ago, with fuel costs for the period up 37.1 per cent. Although fuel costs remain a concern for the carrier, ACE expects to deliver "strong" financial results compared with the overall industry.

WestJet reported a net profit of $12.9 million for the first quarter of 2006, compared with a net loss of $9.6 million for the same quarter of 2005. Passenger revenues on scheduled routes for the quarter rose 41.2 per cent, year-over-year, and passenger yields jumped 10.5 per cent. WestJet stated that its profitability improvement was driven by a "more rational pricing environment" in the Canadian airline industry. It also credited its financial performance to its marketing efforts in recent months. Looking ahead, the carrier expects to achieve further growth this year in its eastern Canadian and transborder services, as well as its business travel market. In June, WestJet launched a vacations division, WestJet Vacations, which offers air and hotel packages to the carrier's scheduled destinations.

In May 2006, ACE Aviation's system-wide passenger traffic (measured by revenue passenger miles), including Air Canada and regional subsidiary Jazz, grew 5.7 per cent compared with a year earlier. Available seat capacity for the month increased 2.2 per cent, resulting in a load factor increase of 2.7 percentage points to 83.2 per cent. The company's combined traffic on Canadian domestic routes rose 2.6 per cent, while traffic on transborder U.S. routes jumped 15.8 per cent. Traffic on other international routes rose 4.9 per cent. Transatlantic routes, in particular, continued to see strong growth in RPMs, registering a 9.9 per cent increase over the previous year.

WestJet's passenger traffic for May 2006 grew 32 per cent compared with a year earlier, on a capacity expansion of 21 per cent. The carrier's load factor for the month jumped 6.3 percentage points to 76.9 per cent. A recent *Globe and Mail* article reported that WestJet's market share now accounts for 30 per cent of the Canadian domestic air market, up from only 6 per cent in 1999.

Table 3. Airline Revenue Passenger Miles (RPMs) and Capacity - May 2006

Airline	RPMs (in millions) May 2006	RPM change 2006 vs. 2005	Capacity 2006 vs. 2005
Air Canada mainline (includes Jetz)	3,753	+2.7%	-1.4%
ACE Aviation Holdings Regional (Jazz)	308	+66.5%	+66.9%
WestJet	787.5	+32%	+21%

Solid rise in air travel expected this summer: About 14 million air travellers are expected to pass through Canadian airports between July 1 and Labour Day this summer, according to a press release from the Canadian Air Transport Security Authority (CATSA). This is a 3 per cent increase over last summer's passenger count. Over the next 12 months, CATSA expects a 4.7 per cent increase in the number of passengers using Canadian airports, compared with a year earlier. The press release also noted that in the past year, CATSA screening officers have intercepted 700,000 prohibited items at airport screening checkpoints.

Toronto's Pearson Airport charges highest landing fees in the world: A new survey by the Air Transport Research Society revealed that the landing fees at Toronto's Pearson Airport in 2005 were the costliest in the world. Partly because of the rising value of the Canadian dollar, Pearson's landing fees leapt far ahead of those charged at Tokyo's Narita Airport, which held the number one spot from 2001 to 2004. For instance, Pearson airport charged US$10,986 last year to land a Boeing 747 aircraft, while Narita airport charged US$7,400. The study also showed that Pearson's landing fees were double the fees charged at New York's LaGuardia airport, which had the second-most expensive landing fees in North America.

Most Canadians feel confident about Canadian air transport security: The vast majority of Canadians polled (94%) said they felt confident about the air transport security systems in place at Canadian airports, according to a CATSA survey. The survey was conducted in March 2006 by Decima Research of nearly 3,000 air travellers across Canada. According to CATSA, there was a dramatic increase in the number of passengers who said they were highly confident about Canadian air security systems: this figure jumped to 79 per cent in 2006, up from 43 per cent in 2005. In addition, nine out of ten respondents said they were satisfied with their overall experience at security screening checkpoints, similar to last year's survey.

Airlines - U.S.

U.S. airline industry expects best summer since 2000: In the United States, the airline industry is expecting its best summer since 2000, according to the Air Transport Association (ATA). U.S. air travel demand continues to rise, and the major U.S. carriers continue to scale back their domestic capacity, giving airlines greater pricing power on those routes. In the first five months of 2006, domestic airfares were up an average of 11 per cent compared with the same period in 2005.

Nevertheless, domestic fares remain about 13 per cent lower than they were in 2000, while jet fuel prices have increased 129 per cent, according to the ATA. A recent Reuters news item reported that American Airlines expects to spend 30 per cent of its overall revenues on jet fuel, up from 10 per cent of its revenues in the late 1990s.

Meanwhile, U.S. airlines continue to expand their seat capacity on their more lucrative international flights. Between January and May of 2006, available seat capacity on international routes grew 3.6 per cent over the previous year, while domestic capacity fell 3.7 per cent, according to ATA data. During the same period, passenger traffic (measured in revenue passenger miles) on international routes grew 4.2 per cent, while domestic traffic rose slightly (0.1%) compared with the previous year.

Table 4. Airline Revenue Passenger Miles (RPMs) and Capacity - May 2006

Airline	RPM May 2006 vs. May 2005	Capacity May 2006 vs. May 2005
AirTran Airways	+23.2%	+21.3%
Alaska Airlines	+7.9%	+6.9%
America West Airlines	-4.1%	-2.6%
American Airlines	+3.7%	0%
Continental Airlines	+14.6%	+11.9%
Delta Air Lines	-9.7%	-10.0%
JetBlue Airways	+11.3%	+21.9%
Midwest Air Group	+24.7%	+12.1%
Northwest Airlines	-5.6%	-9.4%
Southwest Airlines	+13.7%	+7.1%
United Airlines	+4.5%	+2.1%
US Airways	-8.2%	-12.9%

Delta and Northwest still under bankruptcy protection: Delta Air Lines and Northwest Airlines are continuing their restructuring efforts under Chapter 11 of the U.S. Bankruptcy Code. At the beginning of June, Delta said it was on track to achieve about 70 per cent of its business plan's annual cost cuts by the end of the year, and hopes to emerge from bankruptcy protection in the first half of 2007. Northwest continues to negotiate new contracts with its labour unions and has not yet indicated when it plans to emerge from Chapter 11.

Virgin's U.S. launch delayed: Virgin America Inc., an American airline with plans to operate in the United States under Richard Branson's Virgin brand, has been facing significant delays in the federal approval process. Virgin says that it still intends to launch domestic services sometime this year, although several U.S. carriers have filed objections with the Department of Transportation, and this has delayed the review process. According to a news item by eyefortravel.com, Virgin plans to offer airfares that are 30 to 50 per cent lower than competing airlines.

Hotels - Canada

Strong travel trends support Canadian lodging industry: Positive economic indicators continue to support an upbeat outlook for the Canadian hotel industry, as travel demand keeps building. The latest *Canadian Lodging Outlook* report by HVS International and Smith Travel Research revealed that between January and April 2006, room demand in Canada grew 4.2 per cent compared with the same period a year earlier. At the same time, room supply increased by only 1.3 per cent, allowing the lodging industry to gain further pricing power and continue raising daily rates. Strong business travel trends have boosted in particular the outlook for upper-end lodging segments, which are expected to see the highest growth in revenues this year.

Between January and April 2006, occupancy across Canada grew 1.7 percentage points compared with the previous year, to 57.5 per cent, according to the latest *National Market Report* by PKF Consulting. Average daily rates jumped 4 per cent during the period, resulting in a 7.2 per cent increase in overall revenues per available room (RevPAR).

Canadian hotel operators remain upbeat, overall, about business conditions: The outlook among Canadian hotel operators remains positive, according to Statistics Canada's latest Business Conditions Survey for the Travel Accommodation Industries. There was a significant increase in the number of respondents who expected their daily room rates to rise during the second quarter of 2006, as indicated by 45 per cent of those polled compared with 34 per cent in the previous quarter. There was also a rise in the number of hotel operators expecting year-over-year growth in second quarter bookings and occupancy. On balance, survey respondents expected business travel volumes to grow during the second quarter of 2006, compared with a year earlier.

However, there was a dramatic rise in the number of hotel operators facing a shortage of unskilled labour, a business impediment cited by 32 per cent of respondents in the current survey, up from 24 per cent in the previous quarter and 15 per cent a year ago. Those facing a shortage of skilled labour also rose 3 percentage points from the last survey, to 24 per cent of those polled. The number of respondents who said they were not facing any business impediments at the time edged down a percentage point to 30 per cent of those polled.

Legacy Hotels reports improvement in lodging indicators: Legacy Hotels Real Estate Investment Trust (REIT), the largest Canadian lodging REIT, reported a net loss of $24.1 million for the first quarter ended March 31, 2006, an improvement from the net loss of $31.4 million reported for the first quarter of 2005. All of Legacy's first quarter operating statistics improved this year: average occupancy levels rose 4.6 percentage points to 60.9 per cent, average daily rates jumped 2.9 per cent, and the company's RevPAR increased more than 10 per cent compared with a year earlier. The Canadian company, whose portfolio includes a range of luxury and first-class hotels, noted that "positive economic indicators and growing corporate profits" were contributing to increasing travel demand across all its markets and customer segments. Advance group bookings have also led the company to expect growth in this segment for 2006.

Hotels - U.S.

Strong travel demand continues to fuel revenue growth for U.S. hotel industry: Continued growth in U.S. travel demand, particularly within the business travel market, continues to fuel strong revenue trends for the U.S. hotel industry. In May 2006, nationwide occupancy grew an average of 2.4 per cent, year-over-year, and average daily rates rose 6.6 per cent, according to the latest figures by Smith Travel Research (STR). This drove up average revenues per available room (RevPAR) by 9.2 per cent compared with the same month in 2005. Analysts believe that the U.S. hotel industry is on track to achieve another record year of profitability this year.

In fact, PricewaterhouseCoopers (PWC) recently forecast that the number of occupied rooms in the U.S. lodging industry will reach a record high of 3.277 million this summer. This is a 2.9 per cent rise from 2005, also a record year. However, because of a recent increase in U.S. hotel supply, overall occupancy is expected to reach 71.5 per cent, just under the 72.8 per cent record set in 2000. In the last six years, U.S. hotel supply has increased 7.7 per cent.

Financial reports reflect industry's robust revenue trends: Financial statements for the major U.S. hotel chains for the first quarter of 2006 reflected the favourable trends seen in the U.S. lodging industry. Hotels reported that strong business travel demand and high occupancy levels allowed them to make significant gains in their average daily rates. While Marriott and Starwood each saw their net income fall as a result of one-time accounting charges, RevPAR levels at both companies grew by double-digits compared with the same quarter of 2005. Looking ahead, most U.S. lodging companies expect their strong revenue trends to continue throughout the year.

Table 5. Hotel RevPAR and Net Income - Q1 2006

Hotel	Revenue per available room (RevPAR) Q1 2006 vs. Q1 2005	Net Income Q1 2006 (US$)	Net Income Q1 2005 (US$)
Cendant Corp.	+10%	$70 million	-$82 million
Choice Hotels International	+9.4%	$12.0 million	$17.7 million
Hilton Hotels Corp.	+9%	$104 million	$64 million
Host Marriott Corp.	+7.6%	$172 million	$6 million
Marriott International Inc.	+10.9% (North America)	$65 million	$145 million
Starwood Hotels & Resorts	+12.1% (North America)	$5 million	$79 million

U.S. hotel industry expected to achieve record profits for next two years: A recent forecast by Smith Travel Research suggests that U.S. hotel industry profits will continue to reach record highs for the next two years, before losing steam because of increasing supply levels, according to a Reuters news report. STR projected that pre-tax profits for U.S. hotels would climb to US$25.8 billion this year, and US$28.1 billion in 2007, up from a record high of $22.6 billion in 2005. Meanwhile, U.S. hotel demand is expected to grow 2.8 per cent in 2006 and 2.4 per cent in 2007, while supply growth accelerates fourfold over the next two years.

Travel Agents

Travel industry reacts strongly to changes in Air Canada fare access: Air Canada caused a stir among Canadian travel agencies and corporate travel organizations when it removed all of its Tango fares-its lowest fare category-from the global distribution systems (GDSs) as well as its dedicated travel agency website on May 2, 2006. Travel agents were then forced to access Tango fares through the carrier's consumer website, which is much less efficient for agents and does not credit agents with the bookings. Air Canada said that the GDSs lacked the technological functionality to display the fares in the flexible way the airline does on its consumer website. For example, Tango fares include the option of a "Go Discount" if the passenger agrees not to check baggage and not to make any changes to the flight itinerary. However, the strong reaction of travel industry led Air Canada to announce it would reinstate the Tango fare category on its agency website on July 7, 2006, a move the Association of Canadian Travel Agencies called "a step in the right direction."

Air ticket sales through U.S. travel agencies and corporate travel departments rose by an average of 15 per cent in May, year-over-year, according to the Airlines Reporting Corporation (ARC). Sales were boosted by a 16 per cent rise in average domestic airfares and a 14 per cent jump in international airfares, partly due to the significant rise in airfares compared with last year.

Expedia Inc., the parent company of travel websites such as Expedia.com and TripAdvisor.com posted a net profit of US$23.3 million for its first quarter ended March 31, 2006, a 51 per cent decline compared with the same quarter of 2005. The company attributed the fall in earnings to a significant increase in operating expenses, mainly because of a 12 per cent rise in marketing and sales expenditures. Gross bookings for the period climbed 14 per cent, while revenues edged up only 2 per cent. Expedia called the results "disappointing" and said it would adjust its marketing strategies to improve its results in future quarters.

International Overview

United Kingdom - Tourism Leading Indicator Index

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 (May 2006) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for the U.K. increased sharply in April, the fourth consecutive increase. With April's gain, the growth rate of the leading index has picked up to a range of 3-4 per cent annual rate in recent months, up from zero to negative 2 per cent growth in the second half of 2005. The recent behaviour in the leading index suggests the economy is likely to continue to grow at a moderate pace in the near term.

While overall visitor arrivals from the U.K. managed to increase by 8.8 per cent during 2005, growth during the final quarter of the year was more modest (5.5%). U.K. arrivals this April were quite strong, but the year-to-date (January-April) figures indicate that overall arrivals were down 2.3 per cent, compared with the first four months of 2005. Although the overall level of direct air capacity planned between the U.K. and Canada for summer of 2006 will be slightly less than in 2005 (-3.1%), capacity on U.K.-based airlines is increasing. While the exchange rate for U.K. is not as favourable as it was last summer, the pace of Canadian currency appreciation, vis-à-vis the British pound, has cooled since February. Overall, the improved strength of the U.K. economy is expected to help sustain slight growth in U.K. travel to Canada over the near term.

United Kingdom - Tourism Trends

British Airways reports substantial improvement in latest quarterly earnings: British Airways (BA) posted a net profit of GBP£83 million (CDN$169 million) for its fourth quarter ended March 31, 2006, a substantial improvement from the GBP£6 million profit earned in the same quarter a year earlier. A 2.8 per cent rise in passenger traffic (revenue passenger kilometres) and a 3.7 per cent increase in passenger yields (revenues per revenue passenger kilometre) helped boost the carrier's overall revenues by 13.2 per cent for the quarter. However, the airline's fuel costs for the period increased 65.1 per cent compared with a year earlier, an expense that was only partially offset by additional passenger fuel charges. For its full year ended March 31, BA posted a net profit of GBP£467 million, a 19 per cent increase over the previous year.

Looking ahead to the current fiscal year, BA expects market conditions to remain unchanged, describing the market environment as "fiercely competitive." The airline plans to increase its capacity by 2.5 to 3 per cent, and anticipates a slight decline in its passenger yields. Fuel costs are expected to keep climbing. The carrier also said that because of increased competition from low-cost carriers, its share of the U.K.'s short-haul market fell from 30 per cent in 1998 to 20 per cent in 2005.

In May, BA's passenger traffic (measured in revenue passenger kilometres) rose 6.9 per cent over the previous year. Premium traffic volumes (business and first class) jumped 13.9 per cent, while non-premium traffic (economy) climbed 5.7 per cent compared with a year earlier. Revenue passenger kilometres (RPKs) on routes to the Americas rose 6 per cent, while traffic on short- and medium-haul routes (U.K. and Europe) edged up 1.5 per cent.

British Airways expanding air capacity to Canada: A recent article in the *Financial Post* reported that BA plans to ramp up its summer capacity to Montréal, Toronto and Vancouver by an average of 30 per cent. The airline said it is increasing its services between the U.K. and Canada to accommodate increasing leisure and business travel volumes in both directions.

Solid growth in U.K. air travellers in May: The British Airports Authority reported that in May 2006, the number of passengers served by its seven U.K. airports rose 3.7 per cent, year-over-year, to 12.8 million passengers. The number of passengers on North Atlantic routes grew 1.4 per cent, while passengers on other long-haul routes rose 11 per cent. Passengers on U.K. domestic and European scheduled routes grew by 0.4 per cent and 6.6 per cent, respectively.

Table 6. Percentage change in passengers carried

Carrier	May 2006 vs. May 2005
British Airways	+3.5%
Ryanair	+22%
EasyJet	+15.2%

U.K. remains market leader in European low-cost flights: A recent market analysis by Eurocontrol showed that the U.K. remains the largest low-cost air market in Europe by far, with 32 per cent of its flights operated by low-cost carriers, according to *Air Transport World*. This is far above the overall market share of low-cost flights in Europe, which is 16 per cent. The European airports with the largest number of low-cost flights are London Stansted, London Gatwick and Dublin, respectively.

The growth of low-cost flights in the U.K. has precipitated a dramatic fall in airfares, according to a recent article in *The Guardian* that quotes statistics from the Department of Transportation. Between 1994 and 2004, the average air ticket for a short-haul leisure flight plummeted 43 per cent, from GBP£110 to GBP£63. The article also revealed that the average airfare purchased by business travellers fell 49 per cent over the same period, as more corporate travellers chose economy fares or low-cost flights.

Summer 2006 travel bookings in the U.K. picking up: Reports from major U.K. travel companies suggest that booking trends for the 2006 summer season are beginning to pick up after a slow start earlier in the year. My Travel recently reported that its summer 2006 holiday bookings were improving, although they remained 4 per cent behind last year's figures. The company cited the World Cup tournament and generally late booking trends as contributing factors to its weaker bookings. However, its product prices were up 2 per cent compared with last summer. TUI reported a steady improvement in its summer bookings, after a slow start to the season. As of May, bookings were 1.6 per cent ahead of last year. First Choice reported that its summer 2006 bookings were up 4 per cent overall, with strong growth in its summer long-haul packages, while Thomas Cook's U.K. bookings were slightly behind the pace set last year.

Meanwhile, many U.K. travel agents continue to be quite optimistic about their short-term bookings, with many anticipating strong growth in sales during the third quarter of 2006, according to a recent snapshot poll by Amadeus. Of the 150 leisure and business travel agents polled, 64 per cent expected their third-quarter bookings to be higher than in the same quarter of 2005. Nearly half of the agents expected their sales for the period to increase between 10 and 20 per cent, while few expected a downturn in sales. When asked if the World Cup tournament was affecting their bookings, 51 per cent of leisure agents and 74.3 per cent of business agents said it was not having a noticeable effect.

Brits are Europe's biggest holiday spenders: British travellers spend more on holidays than any other Europeans, according to a recent survey by Europ Assistance, reported by *Travel and Hospitality Industry Digest*. The results showed that British households spend an average of 2,795 euros (CDN$3,900) per holiday, compared with 2,233 euros in Germany and 1,884 euros in France. The European average is 2,235 euros. British and German respondents cited the risk of a terrorist attack as a main factor in their travel decisions, while French respondents were more concerned with a destination's climate.

In addition, 50 per cent of British respondents said they intended to use the Internet to book their next holiday, a 9 percentage point increase from last year's survey. Nearly a quarter of the U.K. respondents (24%) also said they planned to amend their holiday plans because of the World Cup tournament, either to stay home to watch the games on television or to attend the games in Germany.

France - Tourism Leading Indicator Index

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

Note: the bracketed figures are from the previous (May 2006) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for France increased sharply in April, the third consecutive increase. The growth of the leading index has picked up in recent months, increasing by 3.1 per cent from October to April. In addition, the strength in the leading index has become more widespread. Meanwhile, real GDP growth increased at a 2.2 per cent annual rate during the first quarter of 2006, up from the 1.8 per cent average rate during the second half of 2005. The behaviour of the leading index suggests that the economy will continue to grow at a moderate to stronger pace in the near term. Unfortunately, the price competitiveness of French travel to Canada continues to decline with the further depreciation of the euro vis-à-vis the Canadian dollar.

While French visits to Canada increased 6 per cent during 2005, the rate of growth had slowed significantly by the end of the year, with fourth quarter arrivals actually 1.2 per cent below 2004 levels for the same period. For the first four months of 2006, French arrivals to Canada were 3.8 per cent ahead of the volume witnessed during the same time in 2005. Looking ahead, French visits might receive only a slight boost from improved air access to Canada over the third quarter of 2006, with a 1.7 per cent increase in direct air capacity compared with last year. Overall, with continued strength in France's economy, the Tourism Leading Index suggests slight growth in travel from France over the near term.

France - Tourism Trends

Air-France-KLM's earnings balloon: Air France-KLM posted a net profit of 913 million euros (CDN$1.3 billion) for its fiscal year ended March 31, 2006, a 29 per cent increase in earnings over the previous year. Passenger traffic grew 8.6 per cent, while passenger yields rose 1.5 per cent, which helped boost overall revenues by 10 per cent, year-over-year. The airline stated that the fiscal year was "marked by two features: strong world economic growth leading to extremely dynamic levels of activity in our sector, and a significant rise in oil prices." The airline was able to mitigate the impact of rising fuel prices with its ongoing cost-cutting measures.

In the fourth quarter ended March 31, the airline's net earnings were 7 million euros, a decline of 30 per cent compared with the same quarter last year. The airline's revenues for the period increased 12.7 per cent, but its operating expenses soared by the same margin, mainly because of higher jet fuel costs. Looking ahead, Air France-KLM plans to expand its overall seat capacity by 5 per cent, and anticipates its full-year financial results will match the positive performance of its fiscal year just ended.

In May 2005, Air France-KLM's passenger traffic rose 6.2 per cent compared with May 2005, while capacity increased 4.3 per cent. The airline's Asia-Pacific routes continued to see the largest growth, rising 15.8 per cent over the previous year, while routes to North and South America (combined) climbed 4.6 per cent. Traffic on short- and medium-haul routes in Europe (including France) grew 5.7 per cent.

Potential French travellers deterred by airfare taxes: A recent global survey by Visa International and the Pacific Asia Travel Association revealed that French travellers were the most likely to view airfare taxes as making the cost of long-haul travel too expensive. Of the potential French travellers polled for the survey, 58 per cent agreed with this notion, the highest proportion of respondents from any country involved in the global survey.

TUI describes French travel market as restrained: TUI, Europe's largest travel company, recently reported that customer numbers at its French division for the first quarter of 2006 dropped 10.6 per cent compared with the same quarter of 2005. TUI said that its French tour operator, Nouvelle Frontières, continued to "face customers' restraint in the travel market." TUI-branded products, however, appeared to be doing better in the French market. For the summer of 2006, the company said that its French bookings reflected the "restrained overall demand" in France, although bookings were beginning to pick up. As of May, TUI's French customer numbers for summer travel were down 11 per cent from last year, and sales were down 8 per cent.

France ranked third in fast-growing European online travel market: A recent market report, *Trends in European Internet Distribution*, by the Centre for Regional and Tourism Research in Denmark revealed that in 2005, France accounted for 14 per cent of the European online travel market. It was third behind the U.K., which accounted for 35 per cent of the market, and Germany, at 20 per cent. In the overall European market, air travel accounted for more than half (56%) of the online travel services purchased last year, followed by hotels (16%), package tours (16%), train travel (10%) and rental cars (2%). In total, European online travel sales reached an estimated 25.2 billion euros in 2005, a 34 per cent increase over the previous year.

Germany - Tourism Leading Indicator Index

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 (May 2006) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for Germany increased again in April. The growth of the leading index has picked up to a 4-5 per cent annual rate in recent months, up from essentially no growth during the early part of 2005. Meanwhile, real GDP grew at a 1.5 per cent annual rate in the first quarter of 2006, slightly above the 1.3 per cent average annual rate in the second half of 2005. The current behaviour of the leading index suggests that moderate economic growth is likely to continue in the near term.

While the price competitiveness of German travel to Canada has deteriorated in tandem with the depreciation of the euro vis-à-vis the Canadian dollar since the start of 2005, it has recently showed signs of stabilizing. Last year, German arrivals to Canada increased 5.7 per cent over 2004 figures. This year, German arrivals over the first four months of 2006 were up 2.3 per cent, compared with the same period in 2005. Looking ahead, growth in German travel to Canada is expected to receive only a very modest boost from the 1.4 per cent increase in direct air capacity planned over the third quarter of 2006. Overall, despite continued challenges in price competitiveness, travel demand for Canada is expected to increase slightly over the near term.

Germany - Tourism Trends

Lufthansa narrows its losses in first quarter of 2006: Lufthansa Group reported a net loss of 62 million euros (CDN$87.3 million) for its first quarter ended March 31, 2006, narrowing the net loss of 116 million euros reported the same quarter of 2005. Passenger traffic on the group's airlines rose by 1 per cent, although passenger numbers increased 2.8 per cent. Passenger yields jumped 8.5 per cent, which helped boost the airline's passenger revenues by 12.9 per cent. Looking ahead, the airline expected its full-year results to remain on par with the previous fiscal year, despite climbing jet fuel costs.

In May, Lufthansa's passenger traffic edged up 2.2 per cent compared with a year earlier, while capacity climbed 1.4 per cent. However, passenger numbers jumped 7.7 per cent over the previous year to 4.8 million. The company saw the largest growth in its European network, where sales and passenger numbers rose 9.9 per cent. On routes to North and South America, sales fell 5.3 per cent and passenger numbers dipped 3.6 per cent, mainly because of declines on its South Atlantic services.

Frankfurt Airport has busiest May ever: Meanwhile, German airport operator Fraport reported that its passenger business at Frankfurt Airport in May was its busiest on record for that month. Passenger numbers at the German hub climbed 2.6 per cent, year-over-year, to 4.6 million. Northern European traffic registered the strongest growth (12.1%) followed by Asian traffic (7.5%) and western European traffic (6.5%). The airport also reported that flights to Japan and China saw very strong growth in passenger numbers, at 11.2 per cent and 16.7 per cent, respectively.

Tour operators losses narrow: TUI AG, Europe's largest tour operator, reported a net loss of 94.1 million euros for the first quarter of 2006, a significant improvement from the net loss of 192.8 million euros posted in the same quarter of 2005. Sales across all its divisions rose 25 per cent, year-over-year, although its tourism-related revenues remained about the same (-0.2%) as the previous year. Looking ahead, TUI said it plans to expand its low-cost airline services, open new hotels and cut internal costs to double its travel earnings over the next two years, according to eyefortravel.com. It also plans to expand its share of the global online travel market.

In Germany, specifically, TUI's customer numbers for the first quarter were on par (-0.1%) with the same quarter of 2005. TUI said that German travel trends during the period were "restrained" and described German customers as highly price conscious. Looking ahead to the summer of 2006, the company said that it expected its German business to pick up strongly after the World Cup tournament, "as it did in similar cases in the past." As of May, German customer numbers for summer travel were up 2.2 per cent over last year, and sales were down 2 per cent.

German travel agency sales edge up over last year: Between January and April, leisure travel sales among German travel agents increased 2.1 per cent compared with the same period last year, according to the latest TATS survey of 2,750 German travel agencies. Overall tourism revenues for the November 2005 to October 2006 travel year are ahead 1.3 per cent, compared with a year earlier. However, sales of airline tickets in the first four months of the year jumped 7.3 per cent compared with the same period in 2005.

Mexico - Tourism Leading Indicator Index

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

Note: the bracketed figures are from the previous (May 2006) Tourism Intelligence Bulletin.

The Conference Board's leading economic index for Mexico increased sharply in April; stock and oil prices were the most significant contributors to the increase. The growth of the leading index has increased to a 4 per cent annual rate recently, while the strength among the leading indicators continues to be widespread. Meanwhile, real GDP growth picked up to a 6.9 per cent annual rate in the first quarter of 2006, up from the 4.1 per cent average rate in the second half of 2005. Despite some short-term volatility, the behaviour of the leading index suggests that economic growth is likely to grow moderately in the near term. Unfortunately, the price competitiveness of Mexican travel to Canada continues to decline with the further depreciation of the Mexican peso against the Canadian dollar.

Mexican arrivals to Canada for 2005 increased 9.6 per cent, spurred on by solid 12.7 per cent growth in the fourth quarter. Over the first four months of 2006, Mexican arrivals continued to register strong growth, increasing a further 20.3 per cent compared with the same months in 2005. Looking ahead, the level of direct air capacity planned, particularly for Mexican branded airlines, to Canada is slated to increase significantly over the summer of 2006, compared with 2005 levels. The solid growth planned in direct air capacity should help offset some of the challenges posed by the further weakening Mexican peso. Overall, the Tourism Leading Indicator Index suggests slight growth in Mexican arrivals to Canada over the near term.

Mexico - Tourism Trends

AeroMexico widens its first quarter losses: Consorcio Aeromexico, the parent company of major airline AeroMexico and regional carrier AeroLitoral, posted a net loss of 270 million pesos (CDN$26.6 million) for its first quarter ended March 31, 2006, according to *Air Transport World*. This was nearly double the loss reported for the same period in 2005. The company, formerly known as Cintra, said its overall revenues for the period declined 5.3 per cent, year-over-year. International passenger revenues plunged 19.1 per cent during the period, because of the appreciation of the peso, the late timing of the Easter holiday, and higher competition on U.S. routes. Domestic revenues for the period slipped 0.8 per cent. First-quarter passenger traffic fell 4.8 per cent compared with a year earlier, and capacity shrank by 3.6 per cent. The company also reported a 2.2 per cent decrease in passenger yields, owing to fare adjustments it was forced to make as the market grew more competitive.

Mexican low-cost carriers move into U.S. market: Mexico's growing low-cost airline market is beginning to expand into the United States, according to *Travel Weekly*. Click Mexicana announced plans to begin daily services between Cancun and Miami in June, pending approval from the U.S. government. Another Mexican discount carrier, Avolar, is expecting to launch services to various U.S. destinations by the end of this year.

Latin American passenger traffic continues to grow: In the first quarter of 2006, Latin American airlines saw their passenger traffic (measured in RPKs) jump 5.5 per cent, compared with the same quarter of 2005, according to the latest figures from the Latin American

Airline Association (AITAL). The number of passengers carried during the same period rose 3.3 per cent, year-over-year.

Japan - Tourism Leading Indicator Index

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

Note: the bracketed figures are from the previous (May 2006) Tourism Intelligence Bulletin..

The Conference Board's leading economic index for Japan increased slightly in April, following a small decrease in March. Since February, the annual growth rate of the leading index has slowed to a 3-4 per cent annual rate, down from the 4-5 per cent annual rate recorded at the beginning of the year. Meanwhile, real GDP growth slowed to a 1.9 per cent annual rate in the first quarter, down from the 4.3 per cent rate in the fourth quarter of 2005. Still, the recent behaviour of the leading index suggests that moderate economic growth is likely to continue in the near term. While it's less competitive than last summer, the price competitiveness of Japanese travel to Canada appears to have stabilized somewhat since the beginning of the year.

Japanese arrivals in Canada during 2005 posted a modest 1.1 per cent increase over 2004 figures. However, arrivals during the fourth quarter declined 1.8 per cent compared with the previous year. For the first four months of 2006, Japanese arrivals were down 4.1 per cent, compared with the same period in 2005. While the overall level of direct air capacity scheduled to Canada over the summer in 2006 is expected to decline significantly (-9.7%), the level of direct air capacity among Japanese branded airlines is expected to remain the same or increase slightly. Overall, the Tourism Leading Indicator suggests little to no growth for Japanese arrivals over the near term.

Japan - Tourism Trends

Japan's major carriers report mixed financial results: Japan Airlines Group (JAL) posted a net loss of 47.2 billion yen (CDN$453 million) for its fiscal year ended March 31, 2006, a significant plunge from the previous year, when the airline posted a net profit of 30 billion yen. A large portion of the decline was due to losses in its domestic passenger business, which suffered in the wake of a series of safety incidences that were widely reported in the national media. Escalating fuel costs also played a role in the decline. According to *Air Transport World*, passenger traffic on U.S., Korean and Taiwanese routes was steady, but demand to Europe and South Asia declined. Chinese traffic fell 8 per cent, compared with the previous year, because of anti-Japanese sentiment in China. *The Japan Times* reported that JAL hopes to get its passenger revenues back on track this fiscal year by growing its business and first-class services.

Conversely, All Nippon Airways Co. (ANA) achieved record-high revenues in its fiscal year ended March 31, 2006, which helped keep its full-year net income nearly on par with the previous year. The airline's net income for the year was 26.7 billion yen, a slight decrease (-0.9%) from a year earlier. International passenger revenues increased 8.8 per cent, while domestic revenues rose 4 per cent, year-over-year. According to *The Japan Times*, strong domestic air travel demand during the year, particularly for corporate travel, "more than offset" the impact of higher fuel costs on the airline's profitability. Looking ahead, the airline anticipates further growth in its domestic and international passenger revenues, fuelled by the recovering Japanese economy.

Expanding infrastructure makes international air travel more accessible: The infrastructure of Japan's air transportation industry continues to expand rapidly, greatly improving air access and convenience for Japanese travellers, according to a recent article by *Business Travel News*. Some recent additions include a new wing at Tokyo's Narita International Airport and a third airport serving Osaka. Last year's opening of Nagoya's Central Japan International Airport made it easier for international carriers to service regional destinations. For a long time, Narita was the only international gateway, but this has changed dramatically over the past few years with the development of new gateways, making international air services much more accessible.

Japanese trips to China and South Korea fall as relationships deteriorate: In June 2006, the Japanese government released a travel report for 2005 that revealed a sharp decline in Japanese trips to China and South Korea, two main travel destinations, according to *The Japan Times*. Japanese outbound travel jumped 9 per cent between January and April 2005, compared with the previous year, fuelled by growing travel demand and the appreciation of the yen. But beginning in May, after a series of anti-Japanese demonstrations in China and a territorial conflict with South Korea, outbound travel lost a great deal of momentum, ending the year just 3.4 per cent ahead of 2004. Interestingly, the political conflicts appeared to have had much less of an impact on visits to Japan from those countries: South Korean arrivals to Japan were up 10 per cent in 2005, and Chinese arrivals were up 6 per cent compared with a year earlier.

Korea - Tourism Leading Indicator Index

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

Note: the bracketed figures are from the previous (May 2006) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for Korea increased in April, following a sharp decline in March. The growth of the leading index has generally picked up since the second half of 2005 and has been fluctuating around a 7 per cent annual rate in recent months. However, the strengths and weaknesses among the leading indicators have become more balanced, as positive contributions from stock prices and real exports have been offset by weaknesses in private construction orders and a buildup of manufacturing inventories. Meanwhile, real GDP grew at an average annual rate of 5.1 per cent in the first quarter of 2006, down from 6.7 per cent in the second half of 2005. The recent behaviour of the leading index still suggests moderate to strong economic growth in the near term. Thanks in large part to the strength of the Korean won, Canada's price competitiveness for Korean travellers has continued to hold up reasonably well since the start of 2005.

For the first four months of 2006, Korean arrivals appear to have rebounded from the weakness witnessed during the later part of 2005, winding up 3.3 per cent ahead of the same time period the previous year. Looking ahead, the level of direct air capacity planned from South Korea over the third quarter of 2006 is expected to be up a slight 3.1 per cent, with most growth coming from Canadian branded airlines. Overall, the Tourism Leading Indicator Index suggests that Korean arrivals will continue to increase modestly over the near term.

Korea - Tourism Trends

Korean Air records profitable first quarter: Korean Air posted a net profit of 127 billion won (CDN$1.2 billion) for its first quarter ended March 31, 2006, more than double the profit recorded for the same quarter of 2005, according to *Air Transport World*. The airline credited the large jump in earnings to higher passenger and cargo demand, as well as the appreciation of the Korean won. International passenger traffic (measured in RPKs) rose 7.3 per cent, and yields on these routes grew 7.8 per cent, fuelling a 9.8 per cent rise in international passenger revenues. Domestic traffic increased 6.6 per cent, while domestic yields edged up 2.8 per cent.

Las Vegas bets on growing Korean market: A recent Reuters news item reported that Korean Air signed a direct air service agreement with Las Vegas tourism officials to begin non-stop services between Seoul and Las Vegas in September. The Las Vegas Convention and Visitors Authority believes this will increase Korean visits to the city by 50 per cent within the first year. Korea is already the city's fifth-largest international market, excluding Canada and Mexico, accounting for about 200,000 visits to Las Vegas per year. Korean Air said that Las Vegas was "changing its colours" from primarily a gambling destination, to a vacation spot offering great golfing, restaurants and family entertainment.

Korean overseas travel continues to grow steadily: Korean overseas travel rose 12.2 per cent in April 2006 compared with the same month of 2005, according to the latest market report by Tourism Australia. Visits to Asian destinations increased 11.8 per cent, and European trips climbed 7.9 per cent, but trips to the United States declined 1.6 per cent, year-over-year. Short-haul trips to China and Japan posted the strongest growth, rising 15.9 per cent and 32.7 per cent, respectively. The report noted that April was the third consecutive month of double-digit growth in outbound travel.

China - Tourism Leading Indicator Index

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

Note: the bracketed figures are from the previous (May 2006) Tourism Intelligence Bulletin.

China's economy is poised to expand 9.6 per cent in 2006-up from the previous month's expectation of 9.1 per cent growth-according to the most recent Consensus Economics report. After a string of strong first-quarter data releases, including real GDP growth at an annualized 10.2 per cent, fears about an overheating economy are growing. In an effort to restrain economic growth, the People's Bank of China recently increased its one-year benchmark lending rate by 27 basis points to 5.85 per cent. This was the first increase since October 2004.

Chinese arrivals in Canada grew 14.8 per cent in 2005. For the first four months of 2006, Chinese arrivals in Canada continued to surge ahead, posting growth of 19.8 per cent compared with the same months in 2005. Led by solid growth from Canadian branded carriers, direct air capacity between China and Canada is expected to increase significantly during the third quarter of 2006 (up 17.4%). Overall, favourable economic conditions and strong travel trends (by travellers and suppliers) suggest continued solid growth in Chinese visits to Canada over the near term.

China - Tourism Trends

Air China and Cathay Pacific create powerful airline partnership: Air China has created a financial partnership with Hong Kong airlines Cathay Pacific Airways and Dragonair that, once approved by shareholders, will create the most powerful airline group in Asia, according to *Air Transport World*. Through the new partnership, Air China and Cathay Pacific Airways (which will wholly own Dragonair once the partnership is approved), will have a reciprocal ticket sales agreement, as well as an extensive code-sharing relationship. Cathay Pacific said the partnership would improve flight access in and out of China, and strengthen the position of Hong Kong and Beijing as major aviation hubs.

Growth in Chinese travel demand remains in high gear: The China National Tourism Administration recently forecast that 35 million Chinese will travel overseas this year, a 10 per cent increase over 2005, according to an article in *China Daily*. This will make China the largest source of outbound travellers in Asia. The article said overseas travel has "become fashionable" for Chinese travellers during the Golden Week holidays, which include the May Day, National Day and Spring Festival holiday periods. Statistics from French tourism officials show that Chinese visitors are also big spenders-when visiting France they spend an average of three times the amount that U.S. or European tourists spend.

A report recently released by the World Travel and Tourism Council (WTTC) forecast that China's tourism demand (comprising consumption, investment, government spending and exports) will grow by 14 per cent this year to 2.77 trillion yuan (CDN$386 billion), accounting for 2.9 per cent of China's total GDP. Over the next 10 years, the WTTC forecast suggests Chinese tourism demand will grow at an average annual rate of 8.7 per cent.

Meanwhile, travellers from Beijing appear to be favouring holidays that are more leisurely than in previous years, according to the *South China Morning Post*. One outbound travel agency reported that tours covering up to 11 countries in a single trip used to be popular, but Beijing travellers are now shifting towards packages that cover one country at a time. Preferred travel activities are still the same-shopping and visiting local landmarks-but travellers now want to take their time.

Expedia extends its reach into the Chinese market: eLong Inc., a Chinese online travel service provider majority owned by Expedia, posted a net loss for the first quarter of 2006, although its travel revenues increased by 47 per cent compared with a year earlier. According to a recent article in *The Australian*, the company plans to vastly expand its library of international hotel information, to capture a larger share of Chinese outbound travel bookings. The upgrade involves adding 4,000 new international properties at 140 destinations around the world, including photos and virtual tours. Hotel bookings account for about 75 per cent of the company's revenues, while 14 per cent come from airline bookings. Even though credit cards are rarely used in China, Expedia believes that Chinese travellers will increasingly turn to the Internet to make travel bookings. The company currently receives most of its bookings over the phone, rather than through the Internet.

Australia - Tourism Leading Indicator Index

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

Note: the bracketed figures are from the previous (May 2006) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for Australia increased slightly in April, the fifth increase in the past six months. The leading index has been increasing at a 3-4 per cent annual rate in recent months, up from about 2 per cent annual growth through December. Meanwhile, real GDP growth picked up to a 3.5 per cent annual rate in the first quarter of 2006, up from a 1.9 per cent annual rate in the second half of 2005. The current behaviour of the index suggests that moderate economic growth is likely to continue in the near term. While the value of the Australian dollar basically held its own vis-à-vis the Canadian dollar through much of last year, depreciation since the beginning of 2006 is hurting Canada's price competitiveness.

Year-end figures for 2005 suggest Australian arrivals to Canada increased 13 per cent last year, but the rise in visits over the fourth quarter was more modest (3.1%). For the first four months of 2006, Australian travel to Canada declined 7 per cent, compared with the same months in 2005. While there still do not appear to be any plans for direct flights over the summer of 2006, the level of air capacity (for flights with one stop) is expected to increase, with additional lift provided by Australian branded airlines. Overall, the Tourism Leading Indicator suggests little to no growth for Australian arrivals over the near term.

Australia - Tourism Trends

Fuel costs hurt Qantas' profitability: Qantas Airways Ltd. recently downgraded its profit forecast for its fiscal year ending June 30, 2006 because of the severe impact of higher fuel costs. The airline said that its jet fuel expenses for the year would increase A$1 billion (CDN$816 million) compared with the previous year, even after hedging. Most of the increase will not be recovered by air ticket fuel surcharges.

In April 2006, passenger traffic on all Qantas Airways airlines grew 6.7 per cent and capacity rose 5.3 per cent compared with the same month in 2005, according to the company's latest traffic statistics. Passenger numbers for the month climbed 5.7 per cent. Passenger traffic on Qantas International flights grew 5.2 per cent, year-over-year, and capacity grew 3.3 per cent, although the number of passengers flown remained about the same. During the same month, domestic passenger numbers declined 1.9 per cent.

Australian online booking lead times are getting longer: Online booking lead times are getting longer in Australia, according to the latest *ZUJI Online Travel Report*. In the first quarter of 2006, 45 per cent of the hotel bookings made on ZUJI's travel website were done 30 days or more in advance, while about a quarter were made within the same week of travel. Two years earlier, 35 per cent of the hotel bookings made on ZUJI's Australian website were made the same week of travel. On the other hand, trends in international airfare booking lead times remain steady. In the first quarter, about one-quarter of ZUJI's Australian outbound air bookings were made within two weeks of the departure date, while nearly half (43%) were made two to eight weeks in advance. The report noted that many of these international flights are to long-haul destinations.

Outlook for Australian outbound travel remains optimistic: Tourism Australia recently released its latest travel forecast, which suggests that short-term resident departures will grow 6 per cent this year to 5 million outbound trips. The strength of the Australian dollar is expected to continue fuelling outbound travel demand, largely at the expense of domestic travel. Over the next 10 years, outbound trips are forecast to grow at an average annual rate of 2.8 per cent. This is higher than the expected rate of growth of the Australian population in general, which implies an increase in the propensity of Australians to travel overseas. One of the main reasons for this increase is the expected growth in Australian baby boomers aged 65 and older, who have the time and money to travel and who are more likely than previous generations to travel abroad after retirement.

Economic Overview

North America

Despite the surge in U.S. economic activity in the first quarter of 2006, growth is expected to slow significantly as the year progresses. The economy is currently operating at its productive capacity and with an unemployment rate below 5 per cent. That prompted the Federal Reserve to increase interest rates on June 29 to the highest point in five years, in an effort to ease inflationary pressures. Outside the U.S., however, domestic demand has improved the outlook for the Canadian economy, while Mexico continues to benefit from rising demand for exports. Expanding revenues from oil exports have also resulted in a surge in government spending on infrastructure projects, which have boosted the fortunes of the Mexican construction industry.

While weaker economic growth in the United States is not expected to significantly restrain growth in North America this year, it is expected to reduce growth to 2.7 per cent in 2007. By then, weakness in the housing market is expected to extract a toll on household spending. Meanwhile, higher interest rates and soaring energy prices are forecast to aggravate that impact. While the U.S. slowdown may not have a major impact on Canada's economic prospects for next year, it is likely to hurt Mexican exports.

Europe

The current economic outlook for most of Europe is far more optimistic than it was in 2004-2005. Real GDP growth of 2.2 per cent is expected this year, and growth at or above 2 per cent is anticipated in 2007. While this growth cannot be considered stellar compared with other parts of the world, it is a welcome change from the 1 to 1.5 per cent growth that has transpired since 2000.

However, there are concerns that high commodity prices will feed into broader inflation. As a result, the European Central Bank, along with several other countries, has started to raise interest rates in an effort to slow inflationary pressures. Rising interest rates will bring about higher borrowing costs but should contain consumer price increases in the eurozone to around 2 per cent in both 2006 and 2007. If, however, inflation accelerates past the 2 per cent mark, central bankers are likely to increase interest rates further, thereby jeopardizing the budding expansion.

Asia-Pacific

Much of the success of the Asia-Pacific economies can be traced to the strong performance of the export sector. Manufacturers are geared to making products that are in heavy demand in the developed world. This proven model for success has some drawbacks, however, since it can be susceptible to wild swings in exchange rates. The ongoing depreciation of the U.S. dollar against many of the major currencies in the Asia-Pacific region will make exports more expensive in the important U.S. market.

To maintain their respective currencies at competitive levels, many Asian countries are forced to increase interest rates in step with the United States, thereby throttling domestic consumption and investment. As well, demand for high-technology equipment has shown signs of waning, as businesses and households in the developed world may have reached the saturation point in their need for the latest equipment. Weaker demand for high-technology equipment is expected to be particularly hard on the technology-dependent economies of Taiwan, Thailand and Malaysia. Real GDP growth of 5 per cent is anticipated this year, but growth is expected to slow over the final half of the year. In 2007, economic growth in the region is expected to reach 4.5 per cent.

Opportunities

A study by TripVision Ltd., a U.K.-based travel research firm, analyzed the planning and booking preferences of U.K. leisure travellers to determine the best way to sell travel products to specific segments of the U.K. market, according to a recent article on Travelmole.com. The study results split British vacationers into five groups, each of which approaches travel bookings differently. "Explorers" pursue new options in travel and technology, tend to choose independent trips, and prefer to book online, using travel agencies only to browse brochures. "Spenders" go for the latest gadgets and high-end brands and use the Internet to research travel, but prefer to book through travel agents to save time. In fact, they will spend more for better service. "Conformists" follow the pack when it comes to vacations, and use a broad range of booking methods. Finally, older travellers in their "golden years" like to travel but avoid technology, while "homebodies" like to take auto trips close to home-both of these groups rely heavily on travel agents for planning and booking their vacations. The article also noted that in general, U.K. online travel bookings are most likely to be made by consumers in higher socio-economic groups, who travel often and purchase independent trips.

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

Range spans: +++ (significantly improving) to --- (significantly deteriorating). 0 represents no change.
Note: the bracketed figures are from the previous (May 2006) 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 to (or within) Canada 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.

B) **Price Competitiveness:** Exchange rates between markets play a significant role in price competitiveness. Other factors that are used to assess 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 with 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.