CTC Tourism Intelligence Bulletin – Issue 32: March 2006

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

Profits edge higher, but so do concerns

Executive Summary

The profitability of Canada's tourism industry improved considerably over the past year and is poised for further growth in 2006. However, two very different stories are buried in the top-line numbers. In 2005, domestic travel spending was the strongest it had been since 2000, led by robust growth in the Canadian airline sector. On the other hand, spending by international tourists in Canada was much more subdued, dragged down by a weakening U.S. travel market.

Indeed, the decline in U.S. visits continues to overshadow the progress the tourism industry has made since 2003. Recent research by the Canadian Tourism Commission (CTC) and D.K. Shifflet revealed that a main reason for the decline in U.S. visits has been the lack of awareness of what Canada has to offer. Outdated perceptions of Canada as a destination limited to traditional outdoor pursuits are hampering the country's brand image. The study highlighted the need for rejuvenated marketing efforts that will place Canada top of mind among U.S. travellers looking for a destination that will fulfill their top two priorities: to have fun and explore.

Of course, the ability to promote Canada as a world-class travel destination hinges on the extent of the marketing investment made. Destinations around the globe continue to raise the bar on marketing spending, intensifying the level of competition for international travellers. For example, Tourism Australia recently launched a marketing campaign backed by a three-year A$180 million (CDN$153.4 million) investment targeting its most important international markets. This amount is roughly twice the annual budget allocated to the CTC for its overall operations.

Meanwhile, the Canadian tourism industry continues to grapple with other persistent challenges, such as a less favourable exchange rate and difficulties crossing the Canada-U.S. border. At the end of this year, new U.S. government regulations will take effect, likely requiring air travellers entering or returning to the United States to carry passports. This change is expected to compound challenges facing our most important international travel market.

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In mid-January, the U.S. Department of Homeland Security announced an alternative secure travel document for land border crossings that meets the travel requirements of the Western Hemisphere Travel Initiative (WHTI). The People Access Security Service (PASS) card is primarily aimed at U.S. citizens in border communities who regularly cross land borders as an integral part of their daily lives. While the card is expected to be cheaper than a U.S. passport, concerns remain about the effects of additional documentation requirements on U.S. visits in the coming years. As of January 1, 2007, U.S. air travellers will be required to carry a passport when leaving the country-a change that is expected to have a significant impact on U.S. travel to Canada.

In fact, the WHTI is one of the key issues affecting the profitability of Canada's tourism industry in 2006 and beyond. According to *Canada's Tourism Industry: Industrial Outlook Winter 2006* by The Conference Board of Canada, tourism profits recovered considerably in 2005, reaching an estimated $1.1 billion. Robust spending growth in the domestic sector was the main driver of overall revenue growth through the year. As a result, the industry's profit margin grew to 3 per cent, its highest level in recent history. Tourism industry profits are projected to improve further to $1.5 billion in 2006, but the implementation of the WHTI is expected to begin dampening profitability beyond this year. In 2007 and 2008, profits are forecast to fall partly as a result of the new passport regulations taking their toll on U.S. travel to Canada.

Other key issues Canada's tourism industry will have to contend with this year include the ongoing strength of the Canadian dollar and the performance of the world economy. The high value of the Canadian dollar has proven to be a challenge for the tourism industry by encouraging more Canadians to travel outside the country. At the same time, it has made Canada less price competitive as a destination for foreign travellers. Meanwhile, leading economic indicators point to growing economic challenges this year for many of Canada's key markets, including the domestic market and the United States. Another issue is the lack of awareness among U.S. travellers of Canada as a vacation destination. Recent CTC research has highlighted the need for Canada to step up its marketing activities in the face of increasing competition from other countries vying for U.S. travellers.

Growth of New Markets Helps Boost Outlook

A positive trend within the Canadian tourism industry has been the continued growth of new international markets-China, in particular. In 2005, Chinese arrivals to Canada grew 14.8 per cent over 2004. However, Chinese visitors currently account for a modest 0.3 per cent of all international visits to Canada, and Canada receives only 0.4 per cent of all Chinese outbound travellers. Fortunately, two recent developments have contributed to a very bright outlook for this market: the ongoing negotiations with China to grant Canada approved destination status (allowing Chinese residents to travel here for leisure purposes) and a new bilateral air transport agreement that will open up air access between the two countries.

Other new international markets are emerging as well, as the outbound travel markets in developing countries expand at a faster pace than more established markets in developed countries. This is due, in part, to accelerating population growth in developing countries, as well as the fact that a greater number of residents of these countries are able to travel as their incomes improve. Better transportation links and the growth of Internet travel bookings are also helping to facilitate the growth of these markets.

Consumer Overview - Canada and the United States

Business Travellers

Business travel demand continues to strengthen globally, although North American travellers are slightly less optimistic than those from other regions of the world, according to the latest Carlson Wagonlit Travel (CWT) global business travel survey. Overall, more than three-quarters of the corporate travellers polled around the world expected their level of travel either to remain the same (48%) or increase (30%) this year, while 60 per cent of travel managers expected an increase in travel expenditures. However, when broken down into regions, a smaller percentage of North American travellers (27%) expected an increase in business travel volumes this year, compared with the respondents from Latin American (50%), Asia-Pacific (44%) or Europe (32%). The top concern among travel managers in every region was cost-savings-in particular, as an expectation of top-level corporate leadership.

The survey also revealed that most respondents (83%) believe that virtually all corporate travel bookings will be made online within the next five years. Latin American respondents were the most likely to believe this (90%), followed by those from Europe (87%) and Asia-Pacific (83%), while slightly fewer North Americans (81%) believe this will transpire. CWT noted a growing enthusiasm for online bookings among its clients as a key method of cost-savings.

Meanwhile, the global meetings industry is expected to see its third consecutive year of growth this year, according to *FutureWatch 2006*, the latest annual report by Meeting Professionals International (MPI) and American Express. Of the meeting planners polled worldwide, those working in-house for private and public sector organizations expected a 7 per cent rise in meetings this year. Those working for independent meeting planning firms and destination organizations expected their meetings volume to increase 21 per cent compared with last year. Respondents also anticipated a dramatic increase in booking lead times, due to tighter availability of meetings space: the average booking lead time for meeting space this year was expected to be 40 weeks (ahead of the event), up from the 29-week average reported the previous year. The main concerns among the meeting planners polled were the health of the economy, the impact of rising fuel prices on travel costs, and health concerns such as avian flu.

The study also suggests that the pace of international meetings growth is slowing down. U.S. and European meeting planners expected to plan about the same number of international events this year, but Canadian planners expected a significant decline (14% of all meetings will be outside Canada in 2006, down from 23% in 2005). According to the U.S. respondents, Canada and Europe remain the top two destinations for their international meetings, with each expected to receive 5 per cent of U.S. meetings volume in 2006.

Similar results were reported in a recent study by PKF Hospitality Research, which surveyed U.S. meeting planners on behalf of *Convention South* magazine. The study suggests that the U.S. meetings market has reached a period of stabilized performance, which is expected to continue for the next few years. Survey respondents expected the number, duration and geographic scope of U.S. meetings in 2006 to be about the same as in 2005. However, many indicated that they are being asked to cut back on certain budget categories, including food and beverage (reported by 45.7% of respondents), off-site events (37.8%), audiovisual (36.6%) and rooms (24.4%). More than a third (38%) also reported that in 2005, they were asked to trim costs by avoiding large metropolitan markets and considering second- or third-tier cities for their events.

Meanwhile, a new study by Reardon Commerce and Lieberman Research Worldwide revealed that employee compliance with corporate travel policies remains a significant challenge for most companies, according to an article by *Business Travel News*. Only 38 per cent of employees at the 500 companies polled used the company's preferred vendors all the time, even though nearly all of the employees (90%) were aware of the vendors that should be used. More than 40 per cent of employees are reportedly researching and booking their business travel online, visiting an average of 4.2 different websites each time.

Leisure Travellers

U.S. and European travel destinations, followed by the Caribbean and Mexico, will be Canada's main competitors for U.S. travellers over the next 12 months, according to new research by the CTC and D.K. Shifflet. About 23 per cent of the U.S. outbound travel market has visited Canada, and this group is more likely to visit Canada in the future than those who have not visited before. Not surprisingly, interest in Canada is highest among the U.S. markets closest to the Canadian border and declines with distance. Previous U.S. visitors to Canada felt that the top five barriers to travelling to Canada were bad weather, the lure of more exotic destinations, the unfavourable exchange rate, the high price of gas and a general lack of interest ("been there, done that"). Interestingly, political differences between the two countries were perceived as having much less of an influence on U.S. travel decisions.

The study also revealed that the top five activities sought by U.S. overnight leisure travellers are dining, visiting beaches or waterfronts, heritage experiences, shopping and swimming. Canada is perceived as an outdoor destination, and tends to score higher than competing destinations on activities such as hiking, skiing and fishing, but score much lower on cultural, dining and "unique" experiences. The study also noted that U.S. travellers mostly prefer to create their own vacations, although some of those travelling to new destinations may opt for a pre-set or customized package.

The U.S. Department of Homeland Security (DHS) announced plans in mid-January to develop a new security card for U.S. travellers crossing the Canadian and Mexican land borders. The card is an alternative to the passport requirements outlined in the Western Hemisphere Travel Initiative (WHTI) that were scheduled to come into effect by the end of 2007. However, those travelling to the United States by air will still need a passport to enter the country by the end of this year. The new biometric cards will be part of the People Access Security Service (PASS) system, and will cost significantly less than a U.S. passport (approximately US$57, according to a Canadian Press report, versus the US$97 fee for a new U.S. passport). The DHS intends to begin issuing PASS cards by the end of 2006, but many tourism groups are concerned that the program will not expand quickly enough to meet the December 31, 2007, deadline set out in the WHTI.

According to the U.S. State Department, the WHTI was a main reason for the surge in U.S. passport requests in 2005. *USA Today* reported that the U.S. government issued a record-high 10.1 million passports in its fiscal year ended September 30, 2005, up from 8.8 million the previous year. In 2003, 7.3 million passports were issued.

A recent survey of American travellers by Travelocity suggested that interest in overseas travel continues to grow. When respondents were asked about their 2006 travel intentions, interest in Caribbean and western European destinations grew by 8 per cent each, compared with the 2005 survey. Most other overseas destinations registered an increase, as well.

Meanwhile, by the end of November, many Americans had not yet finalized their summer 2006 travel plans, according to a newly released survey by Harris Interactive. The survey results showed that half of the 1,718 U.S. adults polled in November 2005 were still unsure about their summer 2006 vacation plans. A further 24 per cent had made tentative plans but could still change their minds, while 17 per cent said they will not take a summer vacation. Only 9 per cent of those polled had definite travel plans for a summer holiday. When those who were unsure of their plans were asked about the main deciding factor for their trip, the top consideration by far was personal finances, cited by 59 per cent of respondents. Other factors included discussing plans with family or friends (37%), further research into vacation destinations (27%) and the ability to take time off work (23%).

Travel Supplier Overview - Canada and the United States

Airlines - Canada

Soaring fuel costs were a major factor in the subdued quarterly earnings reports posted by both Air Canada and WestJet for the final quarter of 2005, despite strong passenger traffic and a less competitive revenue environment. Jet fuel prices surged after hurricanes on the U.S. Gulf Coast disrupted the region's fuel refining capacity, hurting the profitability of both airlines. Looking ahead, WestJet described the volatility of jet fuel prices as its single largest challenge for 2006. Fortunately, crude oil prices are expected to ease slightly through the course of this year, and jet fuel refineries should return to full production, allowing prices to stabilize.

Air Canada recorded a net loss of $103 million for the fourth quarter of 2005, compared with a $15-million profit reported the same quarter a year earlier, when the airline's fuel costs were $146 million lower. Passenger revenues increased 17 per cent, boosted by a 9 per cent rise in passenger traffic (measured in revenue passenger miles) and a 7 per cent improvement in passenger yields (revenues per revenue passenger mile). For the full year of 2005, the airline earned a net profit of $258 million, a vast improvement from the $880 million loss reported for 2004. To curb its mounting operating expenses, largely due to much higher fuel prices, Air Canada announced it will lay off 600 employees over the next six months.

WestJet's fourth quarter earnings were also weaker than expected, although it recorded a net profit of $1 million, up from a net loss of $46.3 million a year earlier. Revenues for the period jumped 34.4 per cent compared with the previous year, largely due to a 19.5 per cent increase in passenger traffic and 12.3 per cent higher yields. For the full year of 2005, WestJet's net profit was $24.0 million, compared with a net loss of $17.2 million for 2004. The carrier noted its capacity expanded by 19 per cent in 2005, year-over-year, raising its domestic market share by 2 per cent to nearly a third (32%) of the Canadian market. In 2006, the airline intends to increase its capacity by a further 14 per cent.

In January 2006, both airlines posted strong growth in passenger traffic compared with a year earlier, bolstered by the elimination of Jetsgo as a competitor for Canadian air travellers. Air Canada's revenue passenger miles (RPMs) for the month rose 2.7 per cent, overall, with a 7.7 per cent increase on its North American routes (Air Canada and Jazz combined). WestJet's passenger traffic for the month jumped 20.8 per cent compared with the previous year.

Table 1. Airline Revenue Passenger Miles (RPMs) and Capacity - January 2006

Airline	RPMs (in millions) Jan. 2006	RPM change 2006 vs. 2005	Capacity 2006 vs. 2005
Air Canada mainline (includes Jetz)	3,500	+2.7%	+2.2%
ACE Aviation Holdings Regional (Jazz)	259	+79.9%	+81.9%
WestJet	741.8	+20.8%	+11.6%

Airlines - U.S.

Air passenger demand continues to trend upwards in the United States, providing U.S. airlines with a small bit of room to incrementally edge up air ticket prices, despite the fiercely competitive environment. According to the Air Transport Association (ATA), passenger traffic (RPMs) on U.S. airlines rose 1.7 per cent in January 2006, year-over-year, with domestic traffic up 1.5 per cent and international traffic climbing 2 per cent. Overall seat capacity remained about the same as the previous year (up 0.9%), but domestic capacity was reduced by 2.1 per cent-a trend that has also played a role in lifting fare levels. Domestic passenger yields for January were 8.8 per cent higher than they were a year earlier.

For the full year of 2005, system-wide passenger traffic was 4.4 per cent ahead of 2004, boosted by a 9 per cent rise in international traffic and a 2.6 per cent increase in domestic RPMs. Domestic passenger yields were an average of 1.9 per cent higher in 2005 than in 2004.

Table 2. Airline Revenue Passenger Miles (RPMs) and Capacity - January 2006

Airline	RPM Jan. 2006 vs. Jan. 2005	Capacity Jan. 2006 vs. Jan. 2005
AirTran Airways	+25.7%	+28.3%
Alaska Airlines	+3.7%	+3.5%
America West Airlines	+2.5%	+0.5%
American Airlines	+4.4%	+1.9%
Continental Airlines	+13.0%	+12.2%
Delta Air Lines	-4.5%	-6.8%
JetBlue Airways	+25.1%	+27.2%
Midwest Air Group	+30.4%	+29.4%
Northwest Airlines	-6.7%	-11.5%
Southwest Airlines	+18.8%	+10.1%
United Airlines	+2.4%	+0.4%
US Airways	+2.5%	+0.5%

But the unrelenting burden of high jet fuel costs continues to offset the positive effects of rising demand and yields, resulting in substantial losses for the U.S. airline industry in the fourth quarter of 2005. United Airline's parent company, UAL, posted a staggering net loss of US$16.9 billion for the quarter, although this was attributed to a one-time reorganization charge as it prepared to exit bankruptcy protection. Southwest Airlines-shielded from high fuel prices with a substantial fuel hedging program-once again led the industry in profitability, managing to increase its bottom line compared with a year earlier.

Looking ahead, airline analysts believe that a number of factors will help improve the outlook for the U.S. airline industry this year: the upward trend in passenger demand and yields, the cost cuts airlines have made over the last few years, and further reductions in domestic capacity that will ease competition.

Table 3. Net Income - Q4 2005

Airline	Net Income Q4 2005 (in US$)	Net Income Q4 2004 (in US$)
AirTran Airways	-$0.4 million	+$1.1 million
Alaska Air Group	-$33 million	-$44.9 million
AMR Corporation (American Airlines)	-$604 million	-$387 million
Continental Airlines	-$43 million	-$208 million
Delta Air Lines	-$1,200 million	-$2,200 million
JetBlue Airways	-$42.4 million	+$1.5 million
Southwest Airlines	+$86 million	+$56 million
UAL Corp. (United Airlines)	-$16,900 million	-$741 million
US Airways Group	-$261 million	-$259 million*

**Q4 2004 results reflect combination of U.S. Airways and America West Airlines, pre-merger*

United Airlines finally exited Chapter 11 in February after operating under bankruptcy protection for more than three years, making it the longest and most expensive bankruptcy in aviation history. The carrier posted a net loss of $21 billion for the full year of 2005, but said that it nearly made a profit when reorganization expenses were excluded. According to a Reuters news report, United slashed its annual expenses by US$7 billion, but analysts are still cautious about the airline's financial outlook.

Two other U.S. airlines also emerged from Chapter 11 bankruptcy protection in February. ATA Airlines and Aloha Airlines exited Chapter 11 after 16 months and 14 months, respectively, of creditor protection. Meanwhile, Delta and Northwest remain in Chapter 11 and are not likely to emerge in the near future. Northwest was recently granted a six-month extension until July 13, 2006, to file a reorganization plan with the federal bankruptcy court. The Associated Press recently reported that Delta aims to emerge from bankruptcy protection in the spring or summer of 2007.

Hotels - Canada

Solid growth in domestic travel demand, especially in the business travel segment, allowed average daily rates to appreciate in 2005. This enabled revenues for the Canadian hotel industry to complete their recovery from the steep decline following the severe acute respiratory syndrome (SARS) outbreak in 2003. The Conference Board's *Canada's Tourism Industry: Industrial Outlook Winter 2006* reported that Canadian lodging revenues grew 3.8 per cent in 2005 compared with the previous year. Revenues are expected to grow a further 4.2 per cent in 2006 as average daily rates continue to climb. Unfortunately, the industry's profitability did not do nearly as well, declining in 2005 because of surging capital costs that offset the industry's revenue gains. This year, the Canadian hotel industry's outlook is brighter, with profits expected to reach their highest level since 2002.

Hotel demand grew 4.7 per cent in Canada last year, supporting a 2.1 per cent year-over-year gain in average daily rates, according to the latest *National Market Report* by PKF Consulting. Occupancy across Canada increased by 2.1 percentage points to 63.4 per cent compared with 2004, resulting in a 5.6 per cent increase in overall revenues per available room (RevPAR). PKF projected that hotel demand will grow a further 4 per cent in 2006, boosting occupancy levels by 2 percentage points, and allowing average daily rates to rise a further 2.5 per cent during the year. Overall RevPAR levels for 2006 are expected to rise 3.8 per cent.

For the first quarter of 2006, Canadian hotel operators expected steady progress in occupancy and average daily rates, according to the latest Business Conditions Survey for the Accommodations Industry by Statistics Canada, conducted in January 2006. Most respondents expected their occupancy rates for the quarter either to remain the same (48%) or improve (31%) compared with the same quarter of 2004, while 22 per cent expected their occupancy rates to decline. Similar results were seen for the question about respondents' expectations for average daily rates.

Labour shortages are an increasing concern among respondents, and this appears to be affecting overall business sentiment. The shortage of unskilled and skilled labour represented two of the main business impediments, mentioned by 24 per cent and 21 per cent of respondents, respectively. Other concerns included excess room supply (23%) and general economic conditions (20%). The number of respondents reporting no business difficulties dropped to 31 per cent, from 38 per cent in the previous quarter.

Meanwhile, Legacy Hotels Real Estate Investment Trust narrowed its net loss for the fourth quarter of 2005 to $5.5 million, an improvement from the $7.3 million loss reported in the same quarter of 2004. The company's RevPAR increased 7.3 per cent, year-over-year, driven by "solid growth" in occupancy and average daily rates. Legacy said that its corporate groups volume saw the greatest gains over the period and that its business transient segment also performed well. Strong domestic demand buoyed its leisure segment and managed to offset continued weakness from its U.S. market. Looking ahead, Legacy said positive economic prospects and "growing corporate profits" were encouraging indicators for all its customer segments. It expects increasing travel demand and low projected supply growth to bolster its occupancy levels this year and, ultimately, its bottom line.

Hotels - U.S.

The U.S. hotel industry finished 2005 with strong growth in revenues and profitability, driven by accelerating business travel demand and continued strength in the leisure segment. According to the *2006 U.S. Lodging Report* by Ernst & Young, rising room demand coupled with minimal supply growth enabled overall average daily rates to climb 5.1 per cent over the previous year, boosting RevPAR levels by an estimated 8 per cent. Occupancy rose 1.7 percentage points in 2005, year-over-year, to 63 per cent, a figure in line with 1999 levels. Barring any major disruptions, these strong industry trends are expected to continue for the next two to three years.

The industry's robust performance was reflected in the latest (fourth quarter 2005) financial reports for the major U.S. hotel chains. Marriott, Hilton and Starwood, the three largest lodging companies in the United States, each reported double-digit growth in RevPAR for the quarter, compared with a year earlier, and achieved substantial improvements in net earnings. The reports indicated that the upward trend in lodging demand is expected to continue bolstering strong profit growth for the U.S. lodging industry throughout 2006.

Table 4. Hotel RevPAR and Net Income

Hotel	Revenue per available room (RevPAR) Q4 2005 vs. Q4 2004	Net Income Q4 2005 (US$)	Net Income Q4 2004 (US$)
Cendant Corp.	+11%	$537 million	$357 million
Choice Hotels International	+ 7.3%	$21.6 million	$20.3 million
FelCor Lodging Trust	+16.2%	-$274.9 million	-$20.9 million
Hilton Hotels Corp.	+13.5%	$105 million	$65 million
Host Marriott Corp.	+10.3%	$74 million	$61 million
Marriott International Inc.	+11.0% (North America)	$237 million	$189 million
Starwood Hotels & Resorts	+12.2% (North America)	$159 million	$100 million

The latest forecast from PricewaterhouseCoopers (PwC) suggests that average daily rates in the United States will increase 5.6 per cent this year, compared with 2005, for a total increase of US$5.08. This would be the highest dollar increase in 24 years. Many of the larger U.S. markets, including New York, San Francisco, Honolulu and Boston, are expected to see even higher rate hikes, ranging from 7 per cent to more than 10 per cent.

PwC also projected a record level of capital spending in the U.S. lodging industry this year on improvements and further enhancements to hotel properties, even though the general condition of U.S. hotels is "the best it has ever been." The industry is forecast to invest US$5 billion this year on items such as furniture, fixtures and equipment, as well as design upgrades, branded products, and food and beverage enhancements.

Travel Agents

Domestic airfares within Canada continue to rise, according to the International Air Transport Association's (IATA) Billing and Settlement Plan, which tracks airline tickets sold through Canadian travel agencies. Average domestic air ticket prices increased 5 per cent overall in January, boosted by a 9 per cent jump in leisure travel fares, year-over-year, and a 4 per cent rise in business travel fares. Fares on transborder routes to the United States also grew in January, climbing 8 per cent over the previous year. However, fares to other international destinations declined 8 per cent in January compared with a year earlier.

In the United States, total air ticket sales in January made through travel agencies and corporate travel departments rose by 9 per cent, year-over-year, to US$4.3 billion (exclusive of taxes), according to the Airlines Reporting Corporation (ARC). Domestic airfares and international airfares each increased by an average of 9 per cent in January compared with the same month of 2005.

Expedia Inc., the top-ranked online travel agency, reported a net profit of US$25.2 million for the fourth quarter of 2005, a 43 per cent drop in earnings compared with the same quarter of 2004. Gross revenues increased 13 per cent over the period, and booking sales were up 17 per cent, year-over-year, driven by increased worldwide hotel sales and car rentals. For the full year of 2005, Expedia's net income increased 40 per cent over 2004 to US$228.7 million. Expedia noted that its international sales growth slowed during the fourth quarter because of increasing online competition in Europe (primarily the U.K.). The company also said it is facing a sales conversion challenge: it suggested that 75 per cent of American online travellers visit Expedia when researching travel, but only 5 per cent of all U.S. online travel expenditures come through Expedia.com.

Despite increasing competition from online travel websites, Canadian travel agents are optimistic about the profitability of their agencies for 2006, according to a survey conducted by National Opinion Polls reported by Openjaw.com. The majority of respondents said they were either "very confident" (42%) or "somewhat confident" (45%) about making a reasonable profit this year. Over the last several years, online travel bookings have become an increasingly difficult challenge, yet a growing number of agents are moving into the online market themselves. This year, 70 per cent of respondents said they had established their own websites, up from 64 per cent in last year's survey.

Members of the American Society of Travel Agents (ASTA) recently ranked Canada among the top 10 "best value" destinations in the world, according to the results of its Travel Destination Survey. Canada also placed among the top 10 "up-and-coming" destinations. Other "up-and-coming" finalists included Costa Rica and Dominican Republic (in the first and second spots), as well as China and South America (tied for third). In another news article, *USA Today* named Whistler, B.C., as one of its top five bargain leisure travel picks for the spring of 2006, when travellers can take advantage of the ski resort's shoulder season prices.

Tourism Leading Indicator Index

Background

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

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

Components of the Tourism Leading Indicator

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

Economic Factors: To various degrees, economic conditions factor in the tourism decision-making process for travellers in Canada's key markets. Acknowledging that many economic components play a part, econometric analysis suggests that real gross domestic product (GDP) and personal disposable income growth are perhaps two of the most significant. A traveller's specific choice of destination is also often influenced by assessing price competitiveness. 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 the decision-making process has greatly increased. Some of the most significant non-economic factors that contribute to travel decisions include consumer confidence, travel concerns, travel trends, 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 to the travel decision-making process. For more information on the specific weighting and methodology used to produce the Tourism Leading Indicator Index, please refer to Tourism Leading Indicator Index - Summary Table section at the end of this report. The specific rating gradients that are 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.

Tourism Leading Indicator Index - Domestic

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

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

The Canadian job market generated an estimated 26,300 new jobs in January, after a pause in December. Job growth was concentrated in the service sector, with losses in the goods-producing sector weighing heavily on employment in the private sector. Weakness in the private sector was driven, in large part, by the 42,000 jobs lost in manufacturing. Overall, the number of jobs added in the public sector offset the decline in the private sector, with gains concentrated in education and public administration. According to the business survey of manufacturers, the manufacturing outlook has weakened, compared to a year ago. Fewer new orders, tight capacity utilization, a strong Canadian dollar and continued competition from foreign imports are a few of the reasons manufacturers do not expect production to expand during the first quarter of 2006.

While the value of the Canadian dollar remains relatively high vis-à-vis the U.S. dollar, the latest outbound travel statistics (from December) reveal a slight cooling of outbound travel to the United States. Meanwhile, outbound travel to non-U.S. destinations continued to increase. High gas prices (and increased fuel surcharges) are likely constraining some travel demand within Canada, but they are not expected to put domestic travel at a cost disadvantage compared with outbound destinations.

On a positive note, the level of direct air capacity planned for travel within Canada over the spring and summer is expected to increase 4-5 per cent, compared with last year. Overall, the Tourism Leading Indicator for domestic travel suggests the market will expand moderately 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)	
+ (+)	- (--)	- (--)	- (0)	- (-)

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

The U.S. economy recorded a sharp slowdown in growth during the final quarter of 2005, surprising most analysts. Weak consumer spending and deterioration in net exports were the main factors behind the poor performance. Housing starts also fell in December, as higher mortgage rates started to cut into housing demand. On the positive front, the economy continued to generate new jobs, and consumer confidence appears to be on the rise. Economic growth is expected to rebound over the first quarter of 2006, to reach 3.5 per cent for the year.

The Conference Board's overall leading economic index for the United States increased sharply in January, following increases in five of the last six months. The leading index has now increased at a 4.7 per cent annual rate between July 2005 and January 2006. The strengths among the leading indicators have become more widespread since August 2005. Despite the weak economic growth posted during the fourth quarter of 2005, the current behaviour of the leading index suggests growth will pick up in the near term.

Although domestic and overseas travel from the United States registered solid growth in 2005, overnight U.S. travel to Canada declined 4.6 per cent. While certain key economic factors contributed to the weak performance, recent research conducted by the Canadian Tourism Commission on the U.S. market revealed that a lack of awareness of what Canada has to offer also played a role. On top of that, ongoing confusion over impending requirements for passports or other secure travel documents further constrained travel during the year. Looking ahead, the level of direct air capacity planned for travel to Canada over the spring and summer is expected to dip compared to last year, with the biggest declines coming from U.S. carriers. Unfortunately, the overall Tourism Leading Indicator for the United States suggests that the declining travel trends are expected to continue over the near term.

International Overview

United Kingdom and Ireland

British Airways (BA) posted a pre-tax profit of GBP164 million (CDN$330.8 million) for its third fiscal quarter ended December 31, 2005, an 8.6 per cent increase over the same quarter of 2004. The airline attributed the improvement to strong growth in premium passenger traffic, which boosted overall revenues for the quarter by 8.8 per cent. Passenger yields dropped 1.5 per cent during the quarter, while passenger traffic (revenue passenger kilometres) increased 5.8 per cent compared with a year earlier. Looking ahead, the airline expects its yields to improve during its final quarter (ended March 31, 2006) and stated that market conditions remained "broadly unchanged, as significant promotional activity is required to maintain seat factors." Fuel costs also remain a challenge.

In January, BA's passenger traffic rose 3.3 per cent compared with a year earlier. Premium traffic volumes (business and first class) jumped 7.8 per cent, while non-premium traffic (economy) grew 2.6 per cent. Traffic volumes on routes to the Asia-Pacific region continued to perform the best, rising 14.2 per cent over the previous year, while RPKs on routes to the Americas declined 2.2 per cent. Passenger traffic on short- and medium-haul routes within the U.K. and to Europe climbed 1.3 per cent compared with a year earlier.

Ryanair, Europe's largest low-cost carrier, posted a profit (adjusted after tax) of 34.8 million euros (CDN$47.8 million) for its third quarter ended December 31, 2005, a 6 per cent increase over the same quarter of 2004. Passenger yields remained flat over the period, but the airline added 34 new routes during the quarter, expanding its seat capacity by 27 per cent. Overall revenues grew 27 per cent, as well, compared with the previous year. Looking ahead, Ryanair anticipates its yields will decline between 5 and 10 per cent during its final quarter (ending March 31, 2006), because of further planned capacity growth during a quarter that is traditionally its weakest. Separately, Ryanair announced it will begin charging for checked luggage on March 16, 2006, but will reduce its online airfares at the same time. The carrier anticipates that the lower airfares will stimulate traffic, offsetting any lost revenues from the lower fares, while the incentive for passengers to avoid checking their luggage will reduce the airline's baggage handling costs.

The British Airports Authority reported that for the full year of 2005, passenger traffic at its seven U.K. airports grew 3 per cent over 2004. Overall long-haul traffic grew 8.2 per cent, but North Atlantic routes edged up only 1.2 per cent. European scheduled routes climbed 4.2 per cent, while traffic on charter routes declined 8.7 per cent. Meanwhile, domestic traffic was up by 2 per cent. In January 2006, growth in passenger traffic slowed to 1.9 per cent, compared with a year earlier. Traffic on North American routes registered a decline of 3.4 per cent. Excluding transatlantic routes, other long-haul traffic increased by 6.8 per cent, driven by strong growth in newly expanded services to India.

Table 5. Percentage change in passengers carried

Carrier	Jan. 2006 vs. Jan. 2005
British Airways	+0.9%
EasyJet	+11.2%
Ryanair	+24%

The latest statistics from the U.K. government indicated that U.K. residents made 1 per cent fewer trips abroad in the final quarter of 2005 compared with a year earlier. For the full year of 2005, overseas trips rose 3 per cent over 2004. Visits to North America increased 3 per cent, while trips to western Europe and other regions of the world grew 1 per cent and 16 per cent, respectively. During the same 12 months, overseas expenditures by U.K. travellers increased 6 per cent to GBP32 billion compared with the previous year. The National Statistics office noted that visits to North America remained below the levels seen in 2000, while visits to western Europe and other overseas destinations were at a record high.

Canada appears to be a popular destination among British adventure travellers, according to the CTC's overseas office in the U.K. In a recent survey, the readers of the U.K. magazine *Wanderlust* ranked Canada as a finalist in the categories of "Top Country" and "Top Safest Country" for 2006. Québec City was also awarded a bronze in the category of "World's Top City." In last year's survey, Canada did not place in any category.

British travellers have reduced their travel budgets for the first quarter of 2006 compared with a year earlier, according to a recent survey commissioned by the Jamaica Tourist Board. For all types of travel during this period, including short breaks, main holidays and long-haul trips, the average budget is GBP412, a decline of GBP170 reported in the same survey a year ago. In another survey, the tourist board found that approximately 50 per cent of British travellers prefer a package holiday, while the other half prefer an independent trip. When broken down by age group, package holidays were most popular with travellers in their 20s (56%) and over the age of 60 (57%).

The latest business travel survey by Barclaycard revealed that U.K. business travel volumes are expected to grow in 2005-06, although average days away are expected to decline. Almost half (45%) of those polled said they expected their business trips to increase in the current fiscal year. The main reason for the increase was "business expansion," both overseas (33% of respondents) and in the U.K. (18%).

The latest BRMB Internet Monitor revealed that the growth rate of Internet usage in the U.K. doubled in 2005 to 13 per cent, compared with 7 per cent growth in 2003 and 2004, according to *Travel Hospitality Industry Digest*. Approximately 26.5 million Brits used the Internet in 2005, most of whom used it at home (23.5 million). Of the home users, 76 per cent (18 million) have a broadband connection. The survey also found that 17 per cent of all survey respondents had accessed the Internet through their mobile phones. Travel websites were ranked one of the most commonly visited category of sites among mobile phone users.

Tourism Leading Indicator Index - United Kingdom

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

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

The Conference Board's overall leading economic index for the U.K. was unchanged in December, following a slight decline in November. The leading index has been decreasing at a 1-2 per cent annual rate in recent months. While the rate of decline in the index has moderated since August 2005, the weakness among indicators has become more widespread. Meanwhile, real GDP growth grew at an average 2.1 per cent average annual rate in the second half of 2005 (including a 2.6 per cent rate in the fourth quarter of 2005). The continued widespread weakness in the leading index suggests that economic growth is likely to remain slow to moderate in the near term.

Despite moderating economic conditions, U.K. visitor arrivals to Canada during 2005 were 8.8 per cent ahead of 2004. While the overall level of direct air capacity planned between the U.K. and Canada for spring and summer of 2006 looks to be on par or slightly below 2005, capacity on U.K.-based airlines is increasing. Despite further appreciation of the Canadian dollar vis-à-vis the British pound, the continued strength of traveller trends should help sustain slight growth in U.K. travel to Canada over the near term.

France

Air France-KLM reported a net profit of 77 million euros (CDN$105.8 million) for its third fiscal quarter ended December 31, 2005, a sharp increase from the 23 million euros earned in the same quarter of 2004. The airline cited strong passenger activity and record load factors as two of the main reasons for the improvement. Revenues increased 12.4 per cent, boosted by 11 per cent growth in passenger traffic over the previous year. The carrier's seat capacity increased by 7.6 per cent, which resulted in an overall load factor improvement of 2.4 percentage points to 80.1 per cent. Separately, the airline announced plans to lift its summer 2006 capacity by 5.6 per cent compared with last year, as part of a "profitable growth strategy," according to *Air Transport World*. Most of the additional capacity is planned for routes to eastern Europe and the Middle East.

In January, passenger traffic on Air France-KLM routes (measured in RPKs) continued to post strong growth, jumping 9.5 per cent over the same month of 2005. North and South American traffic rose 13.9 per cent, surpassing growth on Asia-Pacific routes (12.5%). Short- and medium-haul routes (in France and the rest of Europe) climbed 12.5 per cent. Overall, the number of passengers carried in January increased 6.9 per cent, year-over-year, to more than 5.4 million.

French hotel group Accor retained its position as Europe's largest hotel company in 2005 by number of properties and rooms, according to *Travel and Hospitality Industry Digest*. A report by MKG Consulting said that Accor finished the year with 2,197 hotels and 239,279 rooms, far ahead of Best Western, which ranked second with 1,195 hotels and 78,140 rooms. InterContinental Hotels was ranked third, with 498 properties and 76,794 rooms. Accor recently reported that its revenues for the full year of 2005 were up 7.9 per cent, year-over-year, to 7.62 billion euros. Worldwide, the two segments that performed the best for Accor in 2005 were its services business and its economy hotels, while its upscale/midscale hotels segment "remained sluggish."

The French online travel market continues to expand rapidly, and the most significant segment of this market is the 50+ age group, according to the latest quarterly report by the CTC overseas office in France. Approximately 71 per cent of French Internet users aged 50 years and older have purchased travel online in the last 12 months. Overall, online travel products are moving away from being marketed as cheap, last-minute deals, as more online travel companies emerge with higher-end products, such as Thalasso. The booking windows for online travel arrangements are also getting progressively longer.

The CTC report also noted that French business travel volumes increased about 2.3 per cent in 2005, compared with 2004. Overall, most tour operators reported that 2005 saw a continuation of the tourism recovery that began at the end of 2004. According to L'Association Professionnelle de Solidarité du Tourisme (APS), a French travel trade association, there were fewer travel agency failures in 2005, following a record year of bankruptcies in 2004.

Meanwhile, Alberta Economic Development together with Zins Beauchesne and Associates recently conducted a study of the French Travel Market, which suggested potential areas for luring French travellers to western Canadian destinations. Currently Canada only receives about 1.8 per cent of all French overseas trips, but Canada's market share increases significantly for travellers aged 24 to 28 years old (6.8% market share), alpine skiing (7.8%), cross-country skiing (9.5%), snowshoeing (29%) and other winter sports (35%). Areas of potential for the French market include offering francophone bed and breakfast accommodations, western culture (such as ranch lodging) and nature tours that offer the opportunity to see animals. The report also revealed that French travellers were much more concerned about safety and the risk of terrorist attacks when travelling abroad-43 per cent consider this the most important factor in their choice of destination.

TravelwireNews.com recently reported that France missed the United States' October 2005 deadline for issuing biometric passports to its citizens, disqualifying France from the U.S. visa-waiver program. This means that French travellers now need to obtain a visa from the American embassy before taking a trip to the United States. Of the 27 countries that are part of the U.S. visa-waiver program, France was the only one to miss the deadline. The holdup is due to a labour dispute between the French government and its unions over who will print the new passports. Visit USA estimated that this could curtail French trips to the Unites States this year by up to 30 per cent, resulting in 250,000 fewer visits. The French government expects to begin issuing biometric passports by May 2006.

Tourism Leading Indicator Index - France

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

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

The Conference Board's overall leading economic index for France increased slightly in December, after four consecutive monthly declines. Despite December's small gain, the leading index has been declining at a 0.5 to 1 per cent annual rate in recent months. Overall, the strengths and weaknesses among the leading indicators remain somewhat balanced. Meanwhile, real GDP growth slowed to a 0.8 per cent annual rate (advance estimate) in the fourth quarter of 2005, down from 2.8 per cent in the third quarter and the 1 per cent average rate of the first six months in 2005. The behaviour of the leading index suggests that the economy will continue to grow at a slow to moderate 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.

Despite this, French visits to Canada increased 6 per cent during 2005. Looking ahead, visits from France are not expected to receive much of a boost from improved air access to Canada over the spring and summer, as the level of planned direct air capacity appears to be flat compared with last year. Overall, with moderating travel trends by both travellers and suppliers, the Tourism Leading Index suggests travel from France will remain on par with 2005 levels over the near term.

Germany

In January, passenger traffic on Lufthansa Group airlines remained virtually flat (up 0.8%) compared with the same month of 2005. Traffic on routes to the Americas fell 5 per cent compared with the previous year, while traffic on Asia-Pacific routes grew 5.4 per cent. Domestic and European routes saw a 5.8 per cent increase in traffic, driven by higher capacity and lower airfares on routes where Lufthansa competed with low-cost rivals.

Lufthansa announced further capacity expansion plans for summer 2006, concentrated mainly on European routes (4.6%) and flights out of Munich Airport. On its long-haul routes, Asia-Pacific destinations will receive the largest increases (2%), while capacity to North America remains on par with last summer (up 0.4%). Compared with its summer 2005 timetable, the airline's flight schedule from Munich will increase 10 per cent.

In 2005, the overall number of passengers travelling through Munich Airport, Germany's second largest hub, increased 6.7 per cent compared with 2004. The number of long-haul passengers increased 13 per cent, driven mainly by Lufthansa and its Star Alliance partners, according to Reuters news report.

Frankfurt Airport, Germany's largest hub, reported that its 2005 passenger numbers rose 2.2 per cent over the previous year, to a record-high 52.2 million. In January 2006, growth trends slowed, with overall passenger numbers remaining about the same (-0.5%) as the previous year. The airport noted that tourist traffic fell short of expectations, particularly for domestic routes, which fell 4.8 per cent. European and intercontinental traffic showed little difference compared with January 2005.

A new market report by Mintel indicated that Germany has been the largest outbound travel market in the world since 1993, when it overtook the United States in the number of outbound trips. In 2005, German residents made 86.6 million outbound trips, accounting for 20 per cent of the outbound trips made worldwide. The U.K. came in second, with 65.3 million trips (15% of the world's total), and the United States was third with 58.3 million trips (13.5% of the world's total). Japan and China came in fourth and fifth. Mintel forecast that Germany would remain the global leader in outbound travel for the next 15 years.

Germany is also emerging as an online travel *powerhaus* according to the recently released *Germany Online* report by eMarketer. In 2005, Germans spent US$27 billion online, ranking e-commerce as one of the most popular online activities, just behind e-mailing, research and accessing world news. The report suggests that for this reason, Germany should be considered the largest e-commerce market in western Europe.

Following a strong summer season, German travel bookings for the 2005-06 winter season were weaker than expected, according to the latest market report by the CTC's foreign office in Germany. In particular, bookings for winter trips to Canada slowed down in September and October. However, travel trends continue to favour North American and other long-haul destinations because of the relative strength of the euro. The report also noted an increasing demand for adventure holidays and travel activities that involve the latest trends in sports. For example, trips that involve biking, hiking, mountain tours, boating and cruising are gaining popularity. Fly-drive vacations have also been popular.

The latest TATS survey of German travel agents suggests that travel agency sales began the year on a positive trend. Overall revenues grew 8.4 per cent in January, bolstered by a 10.3 per cent increase in vacation sales and 7.1 per cent growth in air ticket sales.

Tourism Leading Indicator Index - Germany

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

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

The Conference Board's overall leading economic index for Germany increased in December, and the strength among the leading indicators continues to be widespread. With the latest increase, the leading index has been growing at a 2.5 to 3.5 per cent annual rate, up from essentially no growth during the early part of 2005. Meanwhile, real GDP growth slowed to a crawl in the fourth quarter of 2005, down from the 2.5 per cent annual rate in the third quarter and the 1.9 per cent average rate in the first six months of 2005. Fortunately, the steady growth of leading index suggests that the sluggish growth reported in the fourth quarter of 2005 is not likely to persist.

Unfortunately, since the start of 2005, the price competitiveness of German travel to Canada has continued to deteriorate in tandem with the further depreciation of the euro vis-à-vis the Canadian dollar. Still, German arrivals to Canada in 2005 were up 5.7 per cent compared with 2004 figures. Looking ahead, growth in German travel to Canada should be supported by a modest increase in planned direct air capacity over the spring and summer of 2006. Overall, despite continued challenges in price competitiveness, travel demand for Canada is expected to increase slightly over the near term.

Mexico

Ryanair Airlines founder Tony Ryan plans to set up a new low-cost airline in Mexico, according to eyefortravel.com. Ryan will partner with a local Mexican firm to establish the new company in March. UBS recently described the potential of the Mexican low-cost carrier market as "huge," noting that there were many Mexicans paying between US$40 and US$50 for a bus ticket, which is about the same price as many low-cost carriers around the world charge for a plane ticket.

Meanwhile, airlines in Latin America saw their passenger traffic (measured by RPKs) jump 7.5 per cent in December 2005, compared with the same month in 2004, according to the latest figures from the Latin American Airline Association (AITAL). For the full year of 2005, overall passenger traffic increased 12.1 per cent. Traffic on routes outside Latin America climbed 10.3 per cent, while intra-Latin American traffic surged 13.7 per cent compared with 2004.

Table 6. AITAL Airlines*
Revenue Passenger Kilometres (RPKs) and Passengers Carried - December 2005

Regional Destination	RPK change 2005 vs. 2004	Passengers Carried 2005 vs. 2004
Intra-Latin America (scheduled and charter)	8.3%	8.9%
International - Total	6.7%	6.1%
North America	6.9%	6.3%
Europe	8.1%	-0.1%
Asia-Pacific	6.7%	14.8%

Source: Latin American Airline Association (AITAL).
**AITAL airlines include 29 member airlines serving the Latin American region.*

Mexican international leisure travel increased by nearly 5 per cent in 2005, according to the latest quarterly market report by the CTC foreign office in Mexico. The largest growth was seen in trips to South America, Asia and Africa, which surged 23 per cent, followed by European travel, which climbed 13 per cent. Travel to the United States rose 7.5 per cent, while growth in Canadian trips reached 8.5 per cent.

Tourism Leading Indicator Index - Mexico

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

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

The Conference Board's leading economic index for Mexico declined in December. The leading index grew rapidly until the end the third quarter of 2005, but growth has since moderated to a 3 to 4 per cent annual rate. Fortunately, the strength among leading indicators continues to be widespread. At the same time, real GDP growth slowed to a 2.9 per cent annual rate in the fourth quarter of 2005, down from the 4.8 per cent annual rate in the third quarter of 2005, but up from the 1.7 per cent average rate in the first half of 2005. Despite the fluctuations, the behaviour of the leading index suggests that the economy is likely to continue growing moderately in the near term.

Mexican arrivals to Canada for 2005 increased 9.6 per cent, spurred on by solid 12.7 per cent growth in the fourth quarter. Looking ahead, the level of direct air capacity planned to Canada is slated to increase significantly over the spring and summer of 2006, compared with 2005 levels. In particular, the solid growth planned in capacity from Mexican branded airlines should help spur Mexicans arrivals. Overall, the Tourism Leading Indicator Index suggests steady growth in Mexican arrivals to Canada over the near term.

Japan

The financial performance of Japan Airlines Group (JAL) continues to suffer, according to the company's latest financial report. JAL posted a net loss of 11.1 billion yen (CDN$110 million) for its third fiscal quarter ended December 31, 2005, compared with a net loss of 3.7 billion yen in the same period of 2004. Soaring jet fuel expenses for the period overshadowed a 21 per cent rise in revenues compared with the same quarter a year earlier.

JAL's passenger demand has been sluggish as well, mainly on routes to China where demand has been slow to recover following the cultural dispute last April between Japan and China. The airline said it planned to revamp its international schedule in 2006 to focus more on its profitable routes, in particular those serving its business travel market. In the first nine months of JAL's fiscal year (April to December 2005), international traffic was down 1.4 per cent, and domestic traffic decreased 1.5 per cent. JAL has also sustained significant damage to its public image after a series of well-publicized maintenance mishaps last year. In January, the Japanese government ordered the airline to improve its accident-prevention procedures, according to *The Japan Times*.

In contrast, All Nippon Airways (ANA) continues to experience strong profitability. The airline posted a net profit of 10.2 billion yen for its third fiscal quarter ended December 31, 2005, nearly double the profit reported in the same quarter of 2004. This is the airline's 10th consecutive profitable quarter, according to *Air Transport World*. Operating revenues rose 6.9 per cent, but high oil prices added significant costs to the quarter and have resulted in a much more subdued outlook for its final quarter. Domestic traffic increased 3.4 per cent during the quarter, but international traffic slipped 1.8 per cent compared with a year earlier. However, international passenger yields jumped 7.2 per cent mainly because of robust demand for business travel.

Japan is a star performer of the latest MasterIndex of Consumer Confidence, making a significant improvement in the last six months, according to MasterCard International's latest semi-annual survey. For the first time since 1993, Japanese respondents registered optimistic scores in all five categories of the index regarding their expectations for the next six months: employment (65.9), economy (66.6), regular income (61.7), stock market (63.6) and quality of life (57.4). The report noted that these results reflect the generally encouraging outlook for the Japanese economy.

The latest MasterIndex of Travel forecast an 8 per cent increase in Japanese outbound trips in the first half of 2006. When asked about their key sources of travel information, Japanese respondents cited travel agents (43% of respondents), the Internet (34%) and travel guides (24%) as their top three preferences, respectively. Their main concern was safety and security issues (55%), and their preferred travel activities were general sightseeing (53%), entertainment (33%) and shopping (27%).

The overall performance of the Japanese tourism industry is estimated to have improved somewhat in 2005, compared with 2004, according to the latest quarterly report by the CTC's foreign office in Japan. Japanese demand for travel to Canada in November and December appeared promising, but the depreciation of the Japanese yen against the Canadian dollar has been a cause for concern. Moreover, the suspension of Air Canada's services in Nagoya were described as a "heavy blow" to the potential growth of Canada's Japanese travel market.

The Japanese government reported that Japanese outbound trips increased by an estimated 3.4 per cent in 2005 over the previous year, according to a Japanese market report by Tourism Australia. Outbound trips reached 17.4 million, just shy of the record 17.8 million trips taken in 2000. The short-term outlook remains positive, in particular for outbound air travel. Advance sales for package and group trips have been slightly less robust.

Tourism Leading Indicator Index - Japan

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 (January 2006) Tourism Intelligence Bulletin.

The Conference Board's leading economic index for Japan increased further in December. With December's gain, the leading index had been growing at a 4-5 per cent annual rate in recent months. As well, the strength among leading indicators continues to be widespread. Unfortunately, real GDP growth slowed to a 1 per cent annual rate in the third quarter of 2005, down from the 5.3 per cent average rate during the first half of 2005. Still, the recent behaviour of the leading index suggests the economy is likely to expand in the near term, and the sluggish rate reported in the third quarter of 2005 should not persist. Unfortunately, the price competitiveness of Japanese travel to Canada continues to decline with the further depreciation of the Japanese yen vis-à-vis the Canadian dollar.

Japanese arrivals in Canada during 2005 posted a modest 1.1 per cent increase compared with 2004 figures. However, arrivals during the fourth quarter declined 1.8 per cent, compared with the previous year. While the overall level of direct air capacity scheduled to Canada over the spring and summer in 2006 is expected to be down significantly, the level of direct air capacity planned by Japanese branded airlines is expected to increase. Overall, the Tourism Leading Indicator suggests little to no growth for Japanese arrivals over the near term.

Korea

Korean Air reported a net profit of 31.3 billion won (CDN$12 million) for its fourth quarter ended December 31, 2005, a drop of 85.7 per cent compared with the same quarter of 2004. High fuel costs and a December pilots' strike were the main culprits curtailing its profitability during the period. For the full year of 2005, the airline recorded a 61.1 per cent year-over-year decline in net profits to 202.3 billion won. Surging fuel costs dampened the full year results, but revenues rose 5.2 per cent because of "solid growth in international passenger traffic." According to a Reuters report, rising passenger traffic and the strengthening Korean won will help boost the airline's profitability in 2006.

Korean outbound travel reached a record high in 2005, surpassing 10 million trips, a 14 per cent increase over 2004, according to the Pacific Asia Travel Association (PATA). The peak season was in July and August, when more than one million Koreans travelled abroad. China and Japan received 51.1 per cent of the visits, while the Americas received 8.1 per cent and Europe 5.8 per cent. More than half (52.4%) of the overseas travellers were under the age of 40. PATA referred to the growth in outbound travel as the "Korean outbound tourism miracle," calling it the product of the country's dramatic economic reform following the financial collapse of 1997-1998. It also cited Korea as a strong example of a country valuing all aspects of its tourism industry, as well as the country's economic and socio-cultural benefits for many sectors of society.

The latest MasterIndex of Travel by MasterCard International forecast 7.8 per cent growth in Korean outbound travel in the first half of 2006. Word of mouth was cited as the most important source of travel information (by 61% of respondents), followed by familiarity of place (42%) and the Internet (27%). Their main concerns when travelling were language barriers (47%) and security issues (45%). Preferred travel activities were general sightseeing (80%) and visiting historical and cultural attractions (55%), followed by rest and relaxation (31%). The largest group of respondents (67%) chose Europe as their favourite travel destination.

The latest quarterly report by the CTC's foreign office in Korea confirmed that the outlook for the rapidly growing Korean outbound market is "very bright." Several key Korean tour operators plan to implement aggressive strategies to expand their Canadian product sales. The only significant concern is the depreciation of the Korean won against the value of the Canadian dollar, which has resulted in a noticeable increase in Canadian hotel rates and other fees.

Meanwhile, Korean consumers have become more cautious in their outlook for the next six months, according to the latest MasterIndex of Consumer Confidence by MasterCard International. Compared with the previous survey six months ago, consumers registered a drop in their prospects for the economy (to 35.7 from 57.6), employment (to 33.4 from 43.4) and quality of life (to 43.4 from 49.4). However, responses improved in the category of regular income (68.3) and were about the same on the stock market (56.5). Korea's overall index improved to a reading of 47.5, up from 29.6 a year ago.

Tourism Leading Indicator Index - Korea

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

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

The Conference Board's overall leading economic index for Korea increased in December, following a large gain in November. The leading index has been growing at a 3 per cent annual rate in recent months, with the strengths and weaknesses among the leading indicators fairly well balanced. Meanwhile, real GDP grew at an average 7.6 annual rate in the second half of 2005 (including a 7.2 per cent rate in the fourth quarter of 2005). This rate of growth is up considerably from the 3.3 per cent annual rate in the first half of 2005. The recent behaviour of the leading index suggest that the economy should continue expanding in the near term, but at perhaps a less rapid pace than in the second half of 2005. Despite some modest depreciation recently, the South Korean won has basically held its own vis-à-vis the Canadian dollar since the start of 2005.

Weak visits during September and October dragged down year-end growth for 2005 of arrivals from Korea to 0.2 per cent. While slight growth in visits was reported in November and December, the weakness in October led to fourth quarter arrivals that were 14.6 per cent lower than in the same period in 2004. Looking ahead, the level of direct air capacity planned from South Korea over the spring and summer of 2006 looks to be on par with 2005. Overall, the Tourism Leading Indicator Index suggests that slight growth in Korean arrivals is achievable over the near term, provided economic conditions continue to improve and price competitiveness remains in check.

China

Negotiations on Canada's approved destination status (ADS) remain ongoing with the Chinese government, according to the latest quarterly report by the CTC office in China. By the end of 2005, 76 countries had been granted ADS, while another 15 (including Canada) were still negotiating an ADS agreement with the Chinese government. In Europe, one issue that has become a problem for ADS travel is the increase in travellers who overstay their visa period. As a result, the China National Tourism Administration (CNTA) has suspended the outbound licences of at least five major travel agents, and European embassies and consulates have been forced to tighten their ADS visa procedures.

In the first 10 months of 2005, Chinese outbound travel increased 8.3 per cent to 26 million, according to a CNTA statistic reported in an article by *Asian Pulse*. A recent survey by the Beijing Tourism Administration revealed, however, that most Chinese outbound travellers choose Asian destinations because of their proximity, low cost, balmy coastal weather and the availability of Chinese language services. Nevertheless, a growing number of higher-income travellers have already travelled within Asia and are increasingly interested in new, more distant locations. The "zeal to buy" is also luring a growing number of Chinese tourists to European destinations.

More than six million Chinese travelled abroad during the spring festival holiday between January 28 and February 4, 2006, a 6 per cent increase over last year's holiday, according to the Chinese government. Trips to Hong Kong rose "markedly" because of the opening of the new Disney theme park there, as did trips to sun destinations in the Asia-Pacific region.

The latest MasterIndex of Travel by MasterCard International suggested that Chinese outbound travel will jump 9 per cent in the first half of 2006. Among the Chinese travellers surveyed for the study, key sources of travel information included travel agents (cited by 67%), the Internet (48%) and word of mouth (45%). Their main concerns when travelling were safety and security issues (53%), followed by language barriers (48%). The most popular travel activities were general sightseeing (78%), shopping (61%) and entertainment (47%). When shopping, respondents indicated they looked for local souvenirs/antiques/arts and crafts (71%), apparel and personal items (58%), and luxury items (29%).

The Chinese business travel market is growing at a rapid pace, according to a recent survey by Carlson Wagonlit Travel. About 45 per cent of Chinese respondents said they planned to increase the frequency of their business trips in 2006. Annual business travel expenditures in China have reached between US$4 billion and US$5 billion-a figure that is expected to double in the next five years given its current pace of growth.

Meanwhile, Chinese consumers remain "highly optimistic," according to the latest MasterIndex of Consumer Confidence by MasterCard International. Quality of life (93.8), the economy (92.6) and regular income (92.4) continued to register record-high scores for the market. The category for employment registered a slight drop (78.9), and sentiments regarding the stock market remain comparatively low (53.9), although that category of the index improved 3.8 points from the previous survey.

Tourism Leading Indicator Index - China

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

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

China's economy grew 9.8 per cent in 2005 and is poised to expand a further 8.7 per cent this year, according to Consensus Economics. Data releases covering the final months of the 2005 continue to suggest thriving economic activity. Solid retail sales figures in November also provide support for strong domestic demand. While a greater appreciation of the Chinese yuan might help strained relationships with the United States over the trade deficit, the central bank's concerns about the stability of domestic financial markets imply that further appreciation will likely occur at a very modest pace.

Spurred on by slightly stronger growth during the fourth quarter, Chinese visits to Canada increased 14.8 per cent in 2005. Led by solid growth from Canadian branded carriers, direct air capacity between China and Canada is expected to increase significantly over the summer of 2006. Overall, favourable economic conditions and strong travel trends (by travellers and suppliers) should support solid growth in Chinese visits to Canada over the near term.

Australia

Qantas Airways posted a net profit of A$352.6 million (CDN$297.4 million) for its first half ended December 31, 2005, a 9.6 per cent decline from the A$390.2 million profit earned in the same period of 2004. Revenues increased 8.5 per cent, but were offset by a 9.6 per cent increase in expenses due to higher jet fuel costs. The airline cited "aggressive competitor capacity increases in the international market" as an additional challenge during the period. Nonetheless, the airline's passenger numbers and RPKs for its mainline and subsidiary carriers each grew by 4.3 per cent, while passenger yields improved by 5.4 per cent. Looking ahead, the airline expects fuel prices to have a "substantial ongoing impact" on its financial performance.

Meanwhile, Australian outbound travel continues to expand, although the pace of growth continues to slow, according to the latest figures from the Australian Bureau of Statistics. In December 2005, short-term resident departures were up 4.2 per cent compared with December 2004.

The latest MasterIndex of Travel by MasterCard International suggested that Australian outbound travel will expand 9.5 per cent in the first half of 2006. The report also revealed that Australians rely on the Internet as their key source of travel information (cited by 44% of respondents), followed by travel agents (32%). Their main concern by far when travelling was safety and security issues (62%). Preferred travel activities include rest and relaxation (42%), as well as general sightseeing and shopping (36%).

Adventure travel market is booming in Australia right now, according to the CTC's foreign office in Australia. Couples and families are pursuing more adventure holidays, increasingly switching away from beach and resort vacations. Treks, tours and diving are popular adventure activities. An emerging group in the adventure travel market includes travellers aged 50 years and older-there are a growing number of travel services and products aimed at this segment. Some tour operators have begun offering pre-vacation training sessions to their clients in this segment to ensure they are physically ready for their adventure holidays.

Australian consumer confidence has dropped to a 2½-year low, according to the latest MasterIndex of Consumer Confidence by MasterCard International. The most recent overall index score fell to 49.8, from 56.5 six months earlier and 61.5 the previous year. Scores for regular income and the stock market remained in the optimistic range (55.8 and 54.2, respectively), but sentiment regarding employment and the economy was more pessimistic (44.9 and 43.5, respectively).

Tourism Leading Indicator Index - Australia

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

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

The Conference Board's overall leading economic index for Australia increased in December, the second consecutive increase. Growth in the leading index has been fluctuating around a 1-2 per cent annual rate in recent months, down from the 4-5 per cent annual rate witnessed through September 2005. At the same time, real GDP growth slowed to a 0.6 per cent annual rate in the third quarter of 2005, down from the 4.1 per cent annual rate in the first half of 2005. The behaviour of the leading index suggests that the sluggish economic growth reported in the third quarter of 2005 is not likely to persist and that the economy should post moderate growth over the near term. While the value of the Australian dollar has basically held its own vis-à-vis the Canadian dollar since the start of 2005, recent depreciation since the start of 2006 is hurting Canada's price competitiveness.

While year-end figures for 2005 suggest Australian arrivals to Canada increased 13 per cent, the increase reported for travel over the fourth quarter was more modest (3.1%). While there still do not appear to be any plans for direct flights early in 2006, the level of air capacity (for flights with one stop) is expected to grow, with additional lift provided by Australian branded airlines. Overall, solid travel trends (by travellers and suppliers) suggest Australian travel should continue to expand over the near term.

Economic Overview

North America

American consumers are upbeat about their future, which is good news for the North American economy. In the United States, The Conference Board, Inc.'s index of consumer confidence rose to 106.3 in January, with the percentage of respondents indicating that jobs are plentiful attaining its highest level since January 2001. Another reason for sunny consumer expectations is the unusually mild weather-it has so far prevented heating bills from squeezing home finances over the winter, freeing up money for other uses.

Aside from the weather, North American consumers are likely to get a break from rising interest rates. Interest rates, which have been on the rise since 2004, have started to affect housing markets and consumer spending. In the United States, a sizable drop in the pace of consumer spending was one reason why overall real GDP growth only reached 1.1 per cent in the fourth quarter of 2005. But given the latest rate increase in January, evidence is mounting that the cycle of rate hikes is coming to an end. This will provide welcome relief for consumers and travellers for the rest of the year. All told, economic growth in North America will reach to 3.4 per cent this year, slightly behind the pace of expansion of 2005.

Europe

The European economy is showing signs of improving, largely because Germany seems to be out of its slump for the moment. Following a dismal 2005 when German domestic demand actually declined, consumers are expected to bounce back this year. Granted, the increase in the value-added tax from 16 per cent to 19 per cent will likely constrain consumer enthusiasm. However, private consumption is still expected to increase this year. The country's manufacturing sector is also showing strong signs of improvement.

Italy is another country that will help swing the fortunes of the European economy. After experiencing a recession last year, growth in the country is slated to rebound by 1.3 per cent, thanks to a bounce-back in investment and the manufacturing sector. Still, two factors are weighing down consumer demand throughout most of Europe. First, rising interest rates-an effort to contain inflation-will slow consumer spending throughout the region. Second, slower growth in hourly wages, in some cases even below the rate of inflation, will reduce consumers' purchasing power, thereby further dampening domestic demand. On the whole, real GDP growth for the European economy is expected to improve to 2.1 per cent in 2006.

Asia-Pacific

For some time, Japan's economic performance has been hit and miss. However, the Japanese economy has been providing very positive indicators over the past several months. The question remains whether the positive news regarding inflation will continue or, once again, fade out quickly. For years, the county has suffered from weak consumer spending caused by deflation. Now, for the first time in years, consumer prices are expected to increase. Combined with improvements in domestic demand in South Korea, the resulting boost to domestic demand in Japan will help strengthen the economy in the region.

For China, now the world's fourth largest economy, much of its economic growth will again come from the external sector. Last year, exports grew by 18 per cent-a staggering pace, even though growth slowed by year-end. This year, Chinese exports are expected to benefit from improvements in the U.S. and world economies, as well as from continued strength in fixed asset investment. In turn, the Chinese economy is poised for another year with economic growth around 9 per cent. Overall, growth in the Asia-Pacific region is expected to reach 3.9 per cent in 2006.

Opportunities

A recent survey of Canadian travellers by the Hotel Association of Canada and GPC Public Affairs revealed the features that Canadians are looking for-and are willing to pay a premium for-in their hotel accommodations. The most important hotel features for leisure travellers are friendly service, proximity to local attractions, a restaurant and a pool. For business travellers, the most important feature is the property's location in relation to their work. The survey also indicated that safety and security are important factors for female travellers. Women favour hotel properties that offer security features such as numberless keys and women-only floors, as well as hotel security escorts to parking lots. The survey results also indicated that 67 per cent of Canadians polled planned to take at least one trip involving a hotel stay this year, a 10 per cent increase from the 2005 survey. Most of these trips involve long-weekend getaways (62%) rather than longer family vacations.

Meanwhile, a new study by WebSideStory, Inc. suggests that search engine marketing has a much higher chance of converting Internet browsers into buyers than other forms of online marketing, according to an article on HotelMarketing.com. The study showed that the conversion rate (the percentage of viewers who actually purchase a product) of consumers accessing websites through search sites was 2.3 per cent-twice as high as other types of online marketing, such as banner ads or shopping search sites, which had a conversion rate of less than 1 per cent. The conversion rate was even higher (4.23%) for consumers who access a company's website directly (by typing in the address or by using a bookmark). The article noted that businesses have focused a great deal of attention on search engine marketing in recent years because it is "successful at producing buyers."

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

Range spans: +++ (significantly improving) to --- (significantly deteriorating). 0 represents no change.
Note: the bracketed figures are from the previous (January 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 items that are considered in assessing the overall price competitiveness are how high gas prices, fuel surcharges, security-related charges or other costs are making Canada either more or less price competitive (compared to other competing destinations).

Non-Economic Factors

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

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

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

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

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