



CTC Tourism Intelligence Bulletin – Issue 36: November 2006

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

Winter Ushers In Cooling Trend

Executive Summary

Tourism Overview

- Weakening economic conditions around the globe are beginning to weigh on travel confidence, here at home and in many of Canada's key markets. The primary culprit is the slumping U.S. economy, where the bleeding in housing markets is showing no signs of letting up. While this slowdown has clearly hurt U.S. travel demand, it is also prompting some Canadians to adopt a "wait and see" attitude when it comes to planning a winter vacation.

Earlier this year, high income growth and stellar consumer confidence helped fuel the strong demand enjoyed by many segments of the Canadian travel industry. But an increasingly cautious sentiment emerged through the summer, despite falling energy costs and gasoline prices. The slowdown in some key Canadian industries-especially those related to exports-is a main reason for this moderating trend, dampening consumer confidence in Central Canada, in particular.

Still, prospects for the Canadian economy remain solid overall, and this should help support modest growth in domestic travel over the winter season, on top of the strong levels achieved last year. On the other hand, international visits are on a cooling trend: in addition to the subdued performance of Canada's U.S. market, visits from the U.K., Germany, and Japan are falling behind.

A combination of factors are contributing to the declining international visits

- While some of the shortfall in U.K. and German visitors can be attributed to the World Cup tournament and Europe's hot summer weather, one of the reasons for the overall cooling trend is the decline in Canada's price competitiveness as a travel destination. Although the cost of travel is increasing for most destinations around the world, costs for trips to Canada are climbing even higher.

A recent snapshot analysis of the cost of travelling to Canada from five key international markets revealed significant year-over-year increases. Moreover, this analysis showed that the higher costs are due not only to a difference in exchange rates but also to the combined effect of higher prices in airfares, accommodations and other trip costs.

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Winter Ushers In Cooling Trend

Other factors besides higher costs are also contributing to these cooling trends:

- low level of awareness
- competition from new and previously inaccessible tourism destinations
- the rapid growth of the online travel market around the world
- the availability of air access

Moreover, the federal government has proposed to eliminate the visitor GST/HST rebate, as of April 2007. The loss of this program could have a significant impact on tour business, as well as Canada's meetings and conventions market.

Consumer (Traveller) Overview - Canada and the United States

- **Canadians prefer to "wait and see":** Advance plans for winter vacations appear to be lower than they were a year ago, as Canadians exhibit a "wait and see" attitude, according to the Canadian Travel Intentions survey by the Canadian Tourism Research Institute. Of the Canadians polled in August 2006, 40 per cent intended to take a winter vacation this year, down from 45 per cent in 2005.

One factor curbing vacation intentions may have been the lingering effect of high gasoline prices on Canadians' household finances. When asked about the impact of gas prices on their summer vacations this year, a substantial number of those polled in August said the price hikes had a significant effect (20%) or somewhat of an effect (23%) on their summer travel.

Some travellers may also have been influenced by the U.K. security alert, which occurred only two weeks before the poll was taken. In fact, when asked if the alleged U.K. terrorist plot would change their winter vacation plans, 10 per cent of all respondents said it would change their plans significantly (4%) or to some degree (6%).

- **Many U.S. travellers prefer mountain and urban getaways:** A recent survey by Ipsos Reid revealed that 44 per cent of Americans polled plan to take a leisure trip within the next year, and one-third of these trips will be to international destinations. Although beach vacations were the most popular type of destination among those planning a vacation (cited by 35% of this group), the mountains came in second (29%), followed by a major city (19%). The results suggest that Canada offers year-round vacation experiences that could appeal to a wide range of U.S. travellers.
- **Canadian businesses report higher travel volumes:** Most Canadian companies have either increased (55%) or maintained (32%) their level of business travel this year, compared with 2005, according to a recent American Express study. However, trends in group travel for meetings over the past three years have not been nearly as positive: only one-fifth of companies reported an increase in group travel, while 56 per cent said it remained the same. Another one-fifth reported a decline.

Travel Supplier Overview - Canada and the United States

- **Significant changes in Canadian air market:** CanJet Airlines ceased operating scheduled flights on September 10, 2006, switching its focus to charter services. The carrier will also offer a limited number of scheduled flights during peak holiday times.

Average domestic airfares in Canada registered a considerable decline in the weeks after CanJet's announcement, in contrast to the fare hikes seen after Jetset's closure. Despite the loss of CanJet, domestic air capacity in Canada was slated to increase 6 per cent in October, year-over-year. Moreover, Porter Airlines launched services between Toronto and Ottawa in October, with plans to extend its network to Canadian and U.S. regions near Toronto.

- **U.S. air demand holds as airfares rise:** U.S. air travel demand remains relatively strong, especially for overseas routes, even as airfares continue to rise. According to the Air Transport Association, overall U.S. passenger traffic edged up 0.3 per cent in September, compared with a year earlier. International traffic increased 4.5 per cent, but domestic traffic slipped 1.5 per cent.
- **Demand growth continues to boost Canadian lodging results:** The Canadian hotel industry continues to benefit from strong domestic business and leisure travel demand. HVS International reported that demand for accommodations increased 5.1 per cent in August 2006, compared with the same month in 2005. At the same time, supply growth has been minimal, allowing the hotel industry to make further gains in occupancy, daily rates and revenues.

International Overview - Europe

- **U.K. travellers seek last-minute deals:** The U.K. travel trade experienced very difficult market conditions over the summer travel season this year. The warm British summer, the World Cup tournament and the growing popularity of do-it-yourself holidays all contributed to a decline in traditional vacation package sales. Overcapacity in the market was also a challenge. By the end of the summer, many tour operators were offering deep discounts. As a result, booking windows appeared to be shorter than ever, since many travellers took advantage of the cheap, last-minute deals available. Looking ahead to the winter season, overall advance bookings are currently well behind what they were a year ago.
- **French Internet users influenced by Internet ads:** A recent study revealed that of Europe's five largest online markets, French Internet users were more likely to be influenced by online marketing and advertising. In fact, more than half of the French Internet users polled said they had participated in an online competition organized by a brand or e-commerce site within the last three months—a substantially higher percentage than for British, Spanish, Italian and German respondents. French Internet users were also more likely to click on the advertising links appearing on results pages from search engines.
- **German travel sales soft in early fall:** Overall German leisure travel sales declined 8.3 per cent in September 2006, year-over-year, resulting in a weak start for winter 2006-2007 bookings, according to the latest TATS survey of German travel agents. Airline tickets sales for the month were also behind, by 1 per cent compared with the previous year. Year-to-date figures showed that leisure travel sales were down 0.8 per cent compared with the first nine months of 2005.

International Overview - Asia-Pacific

- **Japanese and Chinese travellers shifting away from tradition:** According to the Pacific Asia Travel Association (PATA) and the outcomes of two panel discussions at its recent Travel Mart 2006, noticeable shifts are occurring in the Japanese and Chinese travel markets:
 - In general, the Japanese are paying more attention to their individual needs than to societal expectations, spurring a shift towards "lifestyles of health and sustainability." This involves an emerging interest in physical fitness, health consciousness and environmental concerns. In terms of travel, Japanese consumers are looking for customized products offering personal experiences that are "original and simple." Heritage and cultural experiences are also becoming more popular.
 - In the Chinese market, travel segments are emerging that require a much more targeted approach. The traditional Chinese travel market is becoming a smaller proportion of the overall market, while other segments are emerging, such as business and incentive travel, as well as independent and single-service travel. Regional differences are also emerging, in terms of travel products being sought.
- **Korean overseas spending soars:** In the first half of 2006, Korean overseas trips increased 12 per cent to 5.43 million, year-over-year, and overseas spending surged. The stronger won and the implementation of the five-day workweek are two primary drivers of growth. Record-high overseas spending is expected to continue through the rest of this year.

Winter Ushers In Cooling Trend

Tourism Leading Indicator Index - Summary Table

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 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.

The rating for each component of the index indicates how that component is expected to affect travel from the source market over the near term. Meanwhile, the overall rating indicates the expected performance of the source market in the near term, relative to the same time period in the previous year.

Travel Market	Economic Factors		Non-economic Factors		Overall Tourism Leading Indicator
	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
France	↑	↓	↔	↑	+
Germany	↔	↓	↓	↑	0
Mexico	↑	↓↓↓	↑↑	↑	+
Japan	↓	↓↓↓	↓	↔	-
Korea	↑	↓	↑	↔	+
China	↑↑↑	↓	↑↑	↑↑	++
Australia	↑	↓	↔	↔	0

Ratings Key:
Economic Factors and Non-Economic Factors: Range from ↑↑↑ (significantly adds to demand) to ↓↓↓ (significantly impedes demand). ↔ represents neutral effect on demand.
Overall Tourism Leading Indicator: Ranges from +++ (significantly improving) to --- (significantly deteriorating). 0 represents no change.

For more details on travel demand in each market, as well as on the methodology used to produce the index, please refer to the full Tourism Intelligence Bulletin report.

In Brief

Weakening economic conditions around the globe are beginning to weigh on travel confidence, here at home and in many of Canada's key markets. The primary culprit is the slumping U.S. economy, where the bleeding in housing markets is showing no signs of letting up. While this slowdown has clearly hurt U.S. travel demand, moderating economic prospects are also having a noticeable effect on Canadian travel intentions, prompting many Canadians to adopt a "wait and see" attitude.

Earlier this year, high income growth and stellar consumer confidence helped fuel the strong demand enjoyed by many segments of the Canadian travel industry. Yet over the summer, consumer confidence began to show signs of waning as Canadian households became slightly more cautious about their financial prospects. Despite receiving some relief from high energy prices as oil prices began to recede, the slowdown in some key Canadian industries-especially those related to exports-have dampened consumer confidence in Central Canada, in particular.

Still, prospects for the Canadian economy remain solid overall, and this should help support modest growth in domestic travel over the winter season, on top of the strong levels achieved last year. On the other hand, international visits have been on a cooling trend through the second part of this year, with declines in year-over-year volumes in many of Canada's traditional key markets.

Emerging Trends and Issues

A combination of factors are contributing to the declining international visits

The gradual decline in overseas visits through the second half of this year has been a concern for the Canadian tourism industry. While some of the shortfall in U.K. and German visitors can be attributed to the World Cup tournament and Europe's hot summer weather, one of the main reasons for this cooling trend is the decline in Canada's price competitiveness as a travel destination. Although the cost of travel is increasing for most destinations around the world, travel costs for trips to Canada are climbing even higher. The appreciation of the Canadian dollar is a significant contributing factor, but higher price increases within the country are also playing a role.

The following chart presents a snapshot of the difference between cost increases for travel to Canada and for travel to destinations that compete with Canada. The figures are based on a cost analysis conducted by the Canadian Tourism Research Institute (CTRI) for travel from five key markets to Canada during the fourth quarter of 2006. For example, looking at the U.S. travel market, the competitive price analysis suggests that the cost of travelling from the United States to Canada in the fourth quarter of this year is expected to be 12.3 per cent more than last year from the perspective of an American traveller (represented by the first bar). Meanwhile, the cost of travel for Americans to other competitive destinations-in this case, other U.S. domestic destinations-is expected to increase 7.7 per cent, year-over-year (represented by the second bar).

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This competitive price analysis represents only one snapshot of the increase in travel costs to Canada in relation to other competing destinations. However, it does reveal that the higher costs are due to more than just a difference in exchange rates—they are also due to the combined effect of higher prices in airfares, accommodations and other trip costs.

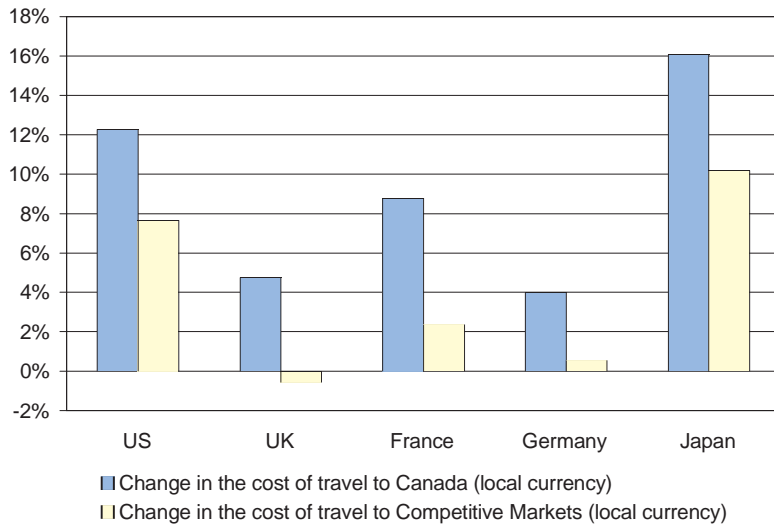
Still, price competitiveness is only one factor affecting international travel to Canada. Other factors are also contributing to the cooling trends in international visits to Canada, such as:

- **Low level of awareness:** A major impediment to the growth of the level of international visits to Canada is the low awareness of Canada as a four-season travel destination.
- **Growing competition from emerging destinations:** As travel confidence around the world builds, more travellers are lured to emerging destinations such as China and Vietnam, which are rapidly developing their local tourism industries. In 1970, the top 10 tourism destinations in the world (by visitor share) received 65 per cent of all global visits. In 2005, that figure dropped to 47 per cent. Although the number of international travellers continues to rise, new tourism destinations for those travellers to choose from continue to proliferate.
- **Rapidly expanding online travel market:** The burgeoning popularity of online travel purchases is not only having a significant effect on travel decisions in Canada and the United States. Consumers worldwide are gaining access to an increasing array of inexpensive travel products through the Internet, and they are becoming more and more sophisticated in their ability to search for them. In Europe, in particular, the prevalence of do-it-yourself holidays built around the increasing availability of budget flights have contributed to a decline in demand for traditional vacation packages.

Moreover, the Canadian federal government has proposed the elimination of the GST/HST Visitor Rebate Program as of April 2007. This would mean that international visitors to Canada would no longer be eligible for a refund of the Goods and Services Tax or Harmonized Sales Tax paid on accommodations and goods purchased during their visit. Although many independent travellers do not bother to apply for the rebate, nearly all tour operators and meeting planners build the rebate into the overall cost of their products. For this reason, the loss of this program could have a significant impact on tour business, as well as Canada's meetings and conventions market.

Other issues that affect overseas visitor trends include the level of air access to Canada and marketing competition from destinations with significantly higher advertising budgets. The Canadian Tourism Commission's quarterly *Short-Term Markets Outlook Report* monitors many of the factors that affect overseas travel to Canada and provides more information about their impact on the upcoming travel season.

Chart 1: Changes in the Cost of Travel to Canada vs. Competitive Markets
(year-over-year comparison, Q4 2006 vs. Q4 2005)



Sources: *The Conference Board of Canada; U.S. General Services Administration; World Bank; International Air Transport Association (IATA); American Express Business Travel Monitor; Expedia; SideStep.*

Economic Overview

NORTH AMERICA

The correction in U.S. housing markets will result in dramatically slower economic growth for the rest of this year and into 2007. As households reduce spending in the wake of the evaporating wealth effect from housing, the U.S. economy will slow to 2.2 per cent next year, down from the 3.5 per cent expected in 2006. Moreover, both the Canadian and Mexican economies will experience weaker growth as demand for their exports slows down. The downturn in the Mexican economy will be more severe than in Canada's, because domestic demand in Canada (consumer spending, business investment, and government spending) remains in very good shape. Overall, real GDP growth in North America will slow to 2.7 per cent in 2007.

EUROPE

Economic growth will weaken to 2 per cent in 2007, down from the estimated 2.4 per cent increase this year. The main factor in the decline is slower growth in Germany, Europe's largest economy. Germany is increasing its value added tax by 3 percentage points next year and, as a result, will experience slower growth in consumer spending. Another factor contributing to slower European growth is tighter monetary policy in response to rising inflation. Finally, since the United States is a major trading partner for many European countries, export growth will be restrained by the slowdown in the United States.

ASIA-PACIFIC

Economic conditions are beginning to weaken in the Asia-Pacific region, leading to a decline in growth to 4.4 per cent next year. The weakening U.S. economy will affect export performance in all countries throughout the region, as will a slowdown in overall Chinese growth. Weaker demand for electronic inputs in particular will result in slower export growth from many Asian countries. Higher interest rates will also contribute to slower growth in the region by curbing household spending.

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 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.

The rating for each component of the index indicates how that component is expected to affect travel from the source market over the near term. Meanwhile, the overall rating indicates the expected performance of the source market in the near term, relative to the same time period in the previous year.

Ratings Key:
Economic Factors and Non-Economic Factors: ↑↑↑ (significantly adds to demand) to ↓↓↓ (significantly impedes demand). ↔ represents neutral effect on demand.
Overall Tourism Leading Indicator: +++ (significantly improving) to --- (significantly deteriorating). 0 represents no change.

For more information on the specific weighting and methodology used to produce the Index, please refer to the Tourism Leading Indicator Index - Methodology section at the end of this report.

Winter Ushers In Cooling Trend

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 (September 2006) Tourism Intelligence Bulletin.

Labour market conditions remained tight in September, with the share of the population employed staying close to historical highs. The Canadian economy entered the second half of the year on a somewhat stronger note, expanding by 0.2 per cent in July. Although July's performance was an improvement over previous months, it also served to illustrate the limits to growth and the condition of the economy: it's the best of times for the energy industry and the worst of times for many manufacturers. As a result, Canada's overall economic performance will be limited to subpar growth over the near term.

Even though the value of the Canadian dollar has not appreciated further vis-à-vis the U.S. dollar over the past few months, the latest outbound travel statistics (from August 2006) still suggest growing demand for outbound travel to the United States. At the same time, outbound travel demand to non-U.S. destinations is also increasing. High gas costs likely constrained demand for travel within Canada to some degree this summer. As well, the relatively high value of the Canadian dollar continues to make 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 winter is expected to increase 3-4 per cent, compared with last year. 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 (September 2006) Tourism Intelligence Bulletin.

Signs of an economic slowdown are becoming more apparent. The housing market continued its sharp correction, as existing home prices declined and inventories established new records. Investors, another source of housing demand, seem to be withdrawing rapidly from the market as the prospects of rapid home appreciation come to a grinding halt. Although the manufacturing sector of the economy is not in as bad shape as housing, activity is slowing down. The employment report for September confirmed the weakness in the economy, as only 51,000 new jobs were created. However, the news is not all bad, as consumer confidence increased in September and oil prices dropped below U.S.\$60 per barrel. Still, despite some easing of the extent of concerns by consumers, there remains little to suggest a significant improvement in economic activity during the final quarter of 2006.

The latest figures from Statistics Canada indicate that overnight U.S. travel to Canada declined 3.9 per cent in August 2006, compared with the same month the previous year. So far, the aggregate year-to-date figures indicate that overnight travel from the U.S. remains down by 5.6 per cent from 2005. While the value of the Canadian dollar (vis-à-vis the U.S. dollar) has not gained recently, it still remains higher than last year. This continues to hurt Canada's price competitiveness. On a more positive note, the level of direct air capacity planned for travel to Canada over the winter appears to be increasing, compared with last winter. However, as the implementation date of the Western Hemisphere Travel Initiative (WHTI) for air travellers draws nearer, it undoubtedly adds some uncertainty to potential travel from the U.S. 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

Canadians prefer to "wait and see": Advance plans for winter vacations appear to be lower than they were a year ago, as Canadian exhibit a "wait and see" attitude, according to the latest Canadian Travel Intentions survey by the Canadian Tourism Research Institute. Results from the August 2006 survey revealed that 40 per cent of Canadians polled intended to take a winter vacation this year, down from 45 per cent in the August 2005 survey. Nevertheless, Canadian travel volumes are expected to post modest growth this winter, building on the strong levels achieved last year.

One reason for the decline in trip intentions may have been the lingering effect of high gasoline prices on Canadians' household finances. When asked about the impact of gas prices on their summer vacations this year, a substantial number of those polled in August said the price hikes had a significant effect (20%) or somewhat of an effect (23%) on their summer travel. Another 15 per cent said that high prices had very little effect, while the rest (39%) said the price of gas had no effect at all.

For some potential travellers, another factor weighing on their winter trip intentions may have been the U.K. security alert, which occurred only two weeks before the poll was taken. In fact, when asked if the alleged U.K. terrorist plot would change their winter vacation plans, 10 per cent of all respondents said it would change their plans significantly (4%) or to some degree (6%). Another 10 per cent said the security alert would have little effect on their winter travel plans, but most respondents (78%) said it would not influence their plans at all.

Canadian consumers remain upbeat: Canadian consumer confidence remains solid, supporting a positive outlook for winter travel this year. In September, the Conference Board's Consumer Confidence Index edged up half a point to 119.8, boosted by a slight improvement in Canadians' confidence in their current and future financial situation. Respondents were also slightly more confident about making a major purchase, such as a car or a house. Moreover, Canadian consumer sentiment is much more optimistic than it was a year ago, when oil prices surged and interest rates were raised.

WHTI deadline extended: On September 29, 2006, U.S. Congress approved an extension of the WHTI implementation date for land and sea travel in and out of the United States. Travellers crossing the U.S. border by land or sea will now have to present a passport or another secure document as of June 2009. This extension will give the United States, Canada and Mexico more time to develop the infrastructure necessary to roll out the proposed plan with as little disruption as possible, including the creation of a secure form of identification that costs less than a passport. If border solutions are in place before June 2009, then the deadline may be moved up to an earlier date. The WHTI deadline for air travel remains January 8, 2007.

U.S. vacationers reveal preferences: A recent survey by Ipsos Reid revealed that one-third of U.S. travellers will take an outbound trip in the next year, with western Europe receiving the most visits. Of the U.S. adults polled, 44 per cent said they planned to take a leisure trip in the next 12 months, and of those trips, about one-third (33%) will be outside the United States. The most popular destination was western Europe (29%), followed by the Caribbean (22%) and Mexico (15%). Another 4 per cent said they planned to travel to Canada.

Although beach destinations were cited as the most popular type of vacation destination among those planning trips (cited by 35% of this group), the mountains came in second (29%), followed by a major city (19%). These results suggest that Canada does offer year-round vacation experiences that could potentially appeal to a wide-range of U.S. travellers.

Survey respondents were also asked about their online travel research habits. Among all U.S. adults polled, 61 per cent said they have used the Internet to conduct research for a vacation. The online tools cited as being used frequently were travel websites (39%), photos or videos of destinations (34%) and articles written about travel destinations (30%).

Internet main source for travel research: A recent survey by the U.S. Tour Operators Association and TNS Research showed that the Internet is the most important source of information for U.S. travellers planning a vacation. Of the Americans polled, 35 per cent cited the Internet as their primary source for vacation information, while 30 per cent cited word of mouth. Travel agents came in third, cited by 10 per cent of respondents.

BUSINESS TRAVELLERS

Controlling travel costs a much higher priority: Controlling business travel costs has become a significantly higher priority for Canadian businesses, according to the 2006 American Express Travel Management and Business Expense Study. The results revealed that 73 per cent of medium- and large-sized companies in Canada now have a formal travel policy, up from 62 per cent in the previous survey conducted in 1997. Not surprisingly, online business travel bookings have grown substantially since 1997, but most corporate bookings are still made through travel agents—either through local travel agencies (for small to medium-sized companies), or large travel management companies (for large companies).

The study also revealed that business travel volumes among most companies surveyed had either increased (55%) over the past year or remained the same (32%). Amex described this as a "reflection of the strong Canadian economy." Among those citing an increase, the top two reasons were overall business growth (59%) and a good business environment (15%). The main reason cited for a decrease in business travel was a higher focus on controlling costs.

However, respondents were not nearly as positive when asked about their level of group travel for meetings over the past three years. Only 20 per cent of the companies polled said their group travel had increased, while 56 per cent said it remained the same, and 20 per cent said it had declined.

Business travel demand continues to drive travel price increases: In the United States, higher corporate travel demand helped boost cost increases for airfares, hotel rates and car rental prices during the second quarter of 2006, according to the latest American Express Business Travel Monitor. The average domestic one-way airfare paid by Amex clients during the period rose 13 per cent, year-over-year, to US\$247. Average one-way discount airfares edged up 3 per cent to US\$101, while business class fares jumped 14 per cent to US\$358. Amex said tight capacity and high fuel prices had also contributed to the airfare hikes. Average domestic and international hotel rates paid by Amex clients during the second quarter rose 3 per cent and 11 per cent, respectively, and car rental rates grew 4 per cent. Amex noted that it expected these climbing cost trends to continue.

But the Business Travel Coalition (BTC) released a statement in response to the Business Travel Monitor, noting that Amex statistics did not present a full picture of the corporate air travel market. BTC said that high-yield business-fare traffic is now half of what it was five years ago, noting that many business travellers now purchase leisure airfares for their business trips.

Looking ahead to 2007, Amex is forecasting an additional 4.5 per cent rise in the cost of an average domestic North American business trip, compared with 2006. This cost increase incorporates the average cost of air, hotel and car rental components of business travel. The cost of an international business trip is expected to grow 4.6 per cent. According to Amex, corporations will look for additional ways to tighten their travel policies to mitigate rising costs.

Meeting planners looking for ways to offset rising hotel costs: Recent coverage of supplier negotiations for 2007 by *Business Travel News* suggests that North American corporate meeting budgets will rise next year at about the same single-digit rate of growth as hotel rates. Despite strong growth in meeting attendance, budget increases will be kept to a minimum by cutting back on the cost per attendee. Corporations are expected to adjust their travel budgets to accommodate rising hotel costs by cutting back on extras such as entertainment and corporate gifts. In some cases, meeting planners are downgrading the class of hotel used for meetings and sending out greater numbers of proposal requests in search of better deals.

Travel Supplier Overview - Canada and the United States

AIRLINES - CANADA

Significant changes in domestic air market: CanJet Airlines ceased operating scheduled flights on September 10, 2006, citing the "rising business risks" of running a scheduled airline service as the reason for shutting down. In an interview with the *Globe and Mail*, CanJet said it was unable to successfully compete with Air Canada and WestJet, and has therefore switched its focus to charter services. The carrier will also offer a limited number of scheduled flights during peak holiday times. In October, CanJet announced it had secured charter agreements with Sunquest Vacations and Transat Tours.

In the weeks following the announcement, average domestic airfares in Canada registered a considerable decline, in contrast with the fare hikes seen after Jetsgo's closure. Air Canada and WestJet both offered seat sales that brought down their average ticket prices by 14 and 12 per cent, respectively, compared with the previous year, according to the *Globe and Mail*. This data was based on a mid-September survey by Raymond James Ltd. for six-week advance fares.

On October 23, 2006, Porter Airlines launched services between Toronto's City Centre Airport and Ottawa International Airport, mainly targeting the large amount of corporate traffic that flows between the two cities. The airline said it planned to add services to other Canadian and U.S. regional destinations within a 500-mile radius of Toronto.

Domestic demand remains solid: In September 2006, ACE Aviation's system-wide passenger traffic (measured by revenue passenger miles), including Air Canada and regional subsidiary Jazz, grew 2 per cent compared with a year earlier. Available seat capacity for the month expanded by 3 per cent, and as a result, the carrier's load factor slipped marginally (by 0.7 percentage points) to 79 per cent. The company's combined traffic on Canadian domestic routes rose 1.3 per cent, while traffic on transborder U.S. routes surged 18.5 per cent. International traffic registered a slight decrease (-1.3%) during the month, dampened by a 5 per cent fall on transatlantic routes. Meanwhile, traffic on transpacific and Latin American routes grew 3 per cent and 5.1 per cent, respectively.

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

Airline	RPMs (in millions) September 2006	RPM change 2006 vs. 2005	Capacity 2006 vs. 2005
Air Canada mainline (includes Jetz)	3,996	-0.4%	+0.5%
ACE Aviation Holdings Regional (Jazz)	336	+45.5%	+40.0%
WestJet	817.4	+24%	+17%

Domestic air capacity expands, despite loss of CanJet: According to the latest Quarterly Airline Traffic Statistics report by OAG, Canadian domestic seat capacity was slated to increase by 6 per cent in October 2006 compared with the same month of 2005. Seat capacity on low-cost domestic flights within Canada was expected to rise 7 per cent, but low-cost capacity in and out of Canada was set to drop by 30 per cent, year-over-year.

The report also revealed that overall passenger seat capacity (including domestic and international flights) in and out of Canada's three main hubs in October was scheduled to change as follows: Toronto-0%; Montréal-up 3%; and Vancouver-up 4%.

AIRLINES - U.S.

Demand holding as airfares rise: Heading into the fall travel season, U.S. air travel demand remained relatively strong, especially for overseas routes. According to the Air Transport Association, overall passenger traffic (measured in RPMs) on U.S. airlines edged up 0.3 per cent in September, compared with a year earlier. International traffic increased 4.5 per cent, but domestic traffic slipped 1.5 per cent. Traffic on Atlantic flights jumped 6.5 per cent in September, driven partially by a substantial (8%) increase in seat capacity on those routes. Traffic on Pacific and Latin American routes grew 4 per cent and 1 per cent, respectively.

Some airlines reported a slight dip in demand during August, as a result of the tighter restrictions on cabin baggage implemented in response to the U.K. terrorist scare. The temporary ban on liquids and gels in carry-on baggage appeared to hurt demand for short-stay trips, in particular, but this seems to have improved since the U.S. government began allowing small quantities of liquids on board U.S. aircraft at the end of September.

Meanwhile, airfares continue to register year-over-year growth, boosted by strong demand and tighter domestic seat capacity. In the first nine months of 2006, overall seat capacity declined 1 per cent compared with the same period in 2005. During the same period, passenger yields (fare paid per RPM flown) on domestic routes increased by an average of 7.3 per cent, compared with the previous year. For international services, yields grew 4.5 per cent on transatlantic routes, 9.7 per cent on Latin American routes, and 10 per cent on transpacific routes.

Third quarter results reflect industry recovery: Strong demand and higher airfares continue to support a recovery in U.S. airline profitability, especially now that oil prices are easing down. Many of the major carriers reported a net profit for the third quarter of 2006, including American Airlines, which posted a second consecutive quarterly profit for the first time in almost six years. In a reversal of the usual trend, Southwest Airlines and JetBlue Airways each posted weaker results for the third quarter, citing a dip in August air travel demand as a major reason for the decline. Looking ahead to the fourth quarter, analysts have cautioned that the slowing U.S. economy may dampen air travel demand, but lower jet fuel prices are expected to help boost airline profits.

HOTELS - CANADA

Domestic travel demand boosts results: The Canadian hotel industry continues to benefit from strong domestic business and leisure travel demand. The latest edition of *The Canadian Lodging Outlook* by HVS International reported that demand for accommodations increased 5.1 per cent in August 2006, compared with the same month in 2005. In the first eight months of this year, demand was ahead by 2.5 per cent, compared with a year earlier. At the same time, supply growth has been minimal, allowing the hotel industry to make further gains in occupancy, daily rates and revenues.

In August 2006, occupancy across Canada grew 2.1 percentage points over the previous year, to 77.3 per cent, according to the latest *National Market Report* by PKF Consulting. Average daily rates jumped 4.3 per cent during the period, boosting overall revenues per available room (RevPAR) by 7.2 per cent.

Looking ahead to the end of the year, PKF has forecast a 6.6 per cent increase in national RevPAR for 2006, compared with 2005. Western Canada is expected to outperform the national average, finishing the year 11 per cent ahead, while Central Canada is expected to increase 6.5 per cent. Atlantic Canada is expected to register more modest growth, with a 2.8 per cent rise in RevPAR.

Advance ski resort bookings soar: Intrawest reported in a press release on September 29, 2006, that advance winter bookings at its Canadian ski resorts were 50 per cent ahead of the booking pace set last year. The company said that last year's record snowfalls were contributing to the strong booking trends for winter 2006-2007. Intrawest also stated that its Canadian advance winter bookings have doubled over the past two years.

Winter Ushers In Cooling Trend

HOTELS - U.S.

Pace of growth in demand gradually losing steam: In the third quarter of 2006, U.S. hotel occupancy did not quite achieve the strong levels seen in the summer of 2005, but average daily rates and room revenues continued to register solid year-over-year growth. According to Smith Travel Research (STR), the average occupancy rate slipped 0.7 per cent the third quarter compared with a year earlier, but average daily rates gained 6.8 per cent, boosting RevPAR by 6 per cent. In September, occupancy fell 1.3 per cent, year-over-year, but STR noted that prior year comparisons were difficult because last year's figures were skewed by a spike in demand related to Hurricane Katrina.

However, STR pointed out that revenue growth had slowed from the energetic pace of the first half of this year. This slowing trend is expected to continue through the fourth quarter of 2006, as demand for U.S. lodging eases in tandem with the slowing U.S. economy. Last year's fourth quarter RevPAR growth was the highest on record, and STR does not anticipate this year's performance will be as strong.

Looking ahead to 2007, weaker growth in the U.S. economy is expected to affect travel demand, in particular for business travel, according to the Travel Industry Association of America (TIA). This will hurt lodging demand, but minimal growth in hotel supply will allow hotels to keep raising their rates "aggressively."

TRAVEL AGENTS

Transat A.T.'s net earnings improve: Transat A.T. Inc. reported a net profit of \$4.2 million for its third quarter ended July 31, 2006, a substantial improvement from the \$800,000 net profit earned for the same quarter of 2005. Revenues for the quarter increased 10.5 per cent to \$611.1 million, mainly because of increased business activity. The number of travellers during the quarter rose 6.8 per cent compared with a year earlier. In its North American operations, third quarter revenue growth was driven by increased demand for trips to Europe and sun destinations, except for Florida.

Looking ahead to the company's fourth quarter (August to October 2006), Transat said its North American bookings for European destinations were ahead of the previous year by 14 per cent. The company's capacity for these destinations, on the other hand, has increased by 9 per cent. Transat also said it continues to experience pricing pressures for almost all of its destinations.

Internet bookings overtake GDS reservations: Hotel reservations booked through the Internet surpassed the number of bookings made through global distribution systems (GDS) used by travel agents for the first time in the second quarter of 2006, according to the latest TravelCLICK eTRAK report. The report tracks bookings made through the central reservations offices of 23 major hotel brands worldwide. Compared with a year earlier, Internet bookings increased 19.9 per cent in the second quarter, and accounted for 37.3 per cent of all central reservations office bookings, while GDS bookings rose 4.8 per cent, making up 36.4 per cent of all bookings. Phone reservations declined 1.2 per cent, and accounted for 26.3 per cent of all central reservations office bookings in the second quarter.

International Overview

UNITED KINGDOM - TOURISM LEADING INDICATOR INDEX

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↑ (↑)	↓ (↓)	↓ (↓)	↑ (↔)	0

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

Winter Ushers In Cooling Trend

The Conference Board's overall leading economic index for the U.K. increased slightly in August. Yet despite August's increase, the six-month growth rate of the leading index has slowed to an annual rate of 3-4 per cent. Fortunately, the strengths among the leading indicators have become somewhat more widespread in recent months. At the same time, real GDP grew faster than expected in the third quarter, up 0.7 per cent, or 2.8 per cent on an annual basis. The current behaviour of the leading index suggests that moderate economic growth should continue in the near term.

The latest figures from Statistics Canada indicate that overall visitor arrivals from the U.K. declined 5.5 per cent in August 2006, compared with the previous year. January-August figures indicate that overall arrivals were down 5.1 per cent, compared with the first eight months of 2005. Looking ahead, the level of direct air capacity planned between the U.K. and Canada for the winter is expected to increase 4 to 5 per cent over the previous year.

The British pound has appreciated slightly vis-à-vis the Canadian dollar since February. However, on a year-over-year basis, Canada's price competitiveness is expected to decline against all competitive markets over the fourth quarter of 2006, according to analysis conducted by CTRI. Overall, weaker travel trends and declining price competitiveness suggest little to no growth in U.K. travel to Canada over the near term.

UNITED KINGDOM - CURRENT TOURISM TRENDS

Heightened security weakens airline revenues: British Airways (BA) revised its full-year revenue forecast downwards because the tougher carry-on baggage restrictions introduced at British airports in August had negatively affected its transfer traffic. The heightened security measures following the U.K. terrorist threat that month dampened BA's revenue forecast by about 1 per cent, down to a growth of 5 to 6 per cent. The airline noted that demand for its premium short-haul services, in particular, had softened in September. However, the loosening of hand luggage restrictions at the end of September and the harmonization of rules for liquids and gels among airlines were expected to help bolster traffic on BA routes in the near term.

In September, BA's passenger traffic (measured in revenue passenger kilometres) rose 1.5 per cent over the previous year. Premium traffic volumes (business and first class) and non-premium traffic (economy) each increased 1.5 per cent compared with a year earlier. Revenue passenger kilometres (RPKs) on routes to the Americas slipped marginally (-0.9%), while traffic on short- and medium-haul routes (U.K. and Europe) grew 3.2 per cent.

Transatlantic air travel dips in September: The British Airports Authority (BAA) reported that in September 2006, the number of passengers served by its seven U.K. airports rose 0.6 per cent, year-over-year, to 13.1 million passengers. The number of passengers on North Atlantic routes declined 2 per cent, while passengers on other long-haul routes rose 5.1 per cent. Passengers on European scheduled routes grew by 5.1 per cent, while domestic passengers fell 4.9 per cent for the month.

Table 2. Percentage change in passengers carried

Carrier	Sept. 2006 vs. Sept. 2005
British Airways	+1.1%
Ryanair	+17%
EasyJet	+9.8%

Trips to North America outpace average: The latest release from the U.K. Office for National Statistics revealed that overseas visits by British residents between June and August 2006 remained on par with the same period in 2005, although trips to North America grew 3 per cent. Trips to western Europe slipped 1 per cent during the period, while visits to other destinations grew 9 per cent, year-over-year. During those three months, British residents spent 6 per cent more than they did the previous year on overseas travel.

Winter Ushers In Cooling Trend

Demand for traditional vacation packages waning: Various media reports confirmed that market conditions were very difficult for the U.K. travel trade over the summer travel season this year. The warm British summer, the World Cup tournament and the prevalence of do-it-yourself holidays built around the increasing availability of budget flights all contributed to a decline in traditional vacation package sales. Overcapacity in the market was also cited as a reason. By the end of the summer, many tour operators were offering deep discounts to recoup some of their losses. Not surprisingly, booking windows appeared to be shorter than ever, since many travellers took advantage of the cheap, last-minute deals available.

Lastminute.com, a U.K.-based online travel agency, finished the summer season 12 per cent behind in traditional vacation package sales, compared with the previous year, but 35 per cent ahead in its dynamic packaging business. The agency reported that for traditionally packaged holidays, it saw the highest growth in non-traditional long-haul destinations, such as North and sub-Saharan Africa. The strongest growth in dynamically packaged trips was for major urban destinations such as Paris, Prague, Barcelona and New York.

Thomas Cook reported in a recent trading statement that its year-to-date U.K. bookings were 4 per cent behind what they were last year at the same time, according to Travelmole.com. The company noted that it planned to substantially expand its online presence in the European market over the next year.

Advance winter bookings behind: For the winter season ahead, MyTravel said in September that its U.K. bookings for vacation packages were behind by 11 per cent compared with the same time last year and that it had reduced its capacity by 10 per cent. However, the company managed to increase its average selling price by about 4 per cent, year-over-year.

First Choice's latest trading statement revealed that its mainstream holiday bookings were down by 3 per cent for winter 2006-2007 and that the overall U.K. market remained a challenge. The company said it had reduced its capacity for short- and medium-haul trips by 10 per cent, and would focus on its long-haul products instead-long-haul bookings were ahead by 25 per cent and sales were up 39 per cent compared with the same time last year.

First Choice also quoted figures from the September AC Nielsen Travel Track report, which said that overall advance winter bookings in the U.K. market were down by 13 per cent, while sales were behind by 10 per cent, year-over-year.

Websites with user-generated content are fastest-growing online brands in the U.K.: According to the latest figures from Nielsen//NetRatings, the three websites with the largest audience growth in the U.K. this year are YouTube, Flickr and MySpace, respectively. These websites offer users the ability to generate their own content and share that content with their peers—a trend that Nielsen referred to as this year's online theme. However, several travel media reports warned travel companies to monitor this trend and watch for negative postings about holiday experiences, which could potentially have negative repercussions for a company.

In its October 2006 newsletter, Hitwise UK noted that an increasing number of advertisers were capitalizing on the advertising opportunities offered by social networking websites. Hitwise anticipates these types of sites "will become an increasingly important source of visits to retailers."

FRANCE - 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 (September 2006) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for France remained unchanged in August, following an increase in July. Despite the stall in August, the leading index has been growing at a 5.3 per cent annual rate since February. In addition, strength among the leading indicators has been widespread. Meanwhile, real GDP growth increased at a 4.7 per cent annual rate during the second quarter of 2006, up from the 2 per cent annual rate posted in the first quarter of 2006. The recent behaviour of the leading index suggests that economic growth is likely to continue at a moderate to strong rate in the near term. Since February, the euro has made some slight headway vis-à-vis the Canadian dollar. However, on a year-over-year basis, Canada's price competitiveness is expected to decline significantly against most competitive markets in the fourth quarter of 2006, according to CTRI analysis.

Winter Ushers In Cooling Trend

The latest figures from Statistics Canada indicate that overall visitor arrivals from France increased 0.3 per cent in August 2006, compared with the previous year. January-August figures show that overall arrivals were up 3 per cent, compared with the first eight months of 2005. Looking ahead, French visits might receive a slight boost from the estimated 8-10 per cent increase in direct air capacity planned over the winter, compared with last year. Overall, with continued strength in France's economy, the Tourism Leading Index suggests modest growth in travel from France over the near term.

FRANCE - CURRENT TOURISM TRENDS

Air France-KLM's passenger activity remains "buoyant": In September 2006, passenger traffic on Air France-KLM routes "remained buoyant," according to the airline, expanding 5.9 per cent compared with the previous year. Capacity for the month increased 6.2 per cent, and the number of passengers carried rose 4.3 per cent to 6.4 million.

The airline's Asia-Pacific routes continued to see the largest growth in traffic (9.9%), while routes to North and South America (combined) climbed 4.8 per cent over the previous year. Traffic on short- and medium-haul routes in Europe (including France) jumped 6.2 per cent.

As of October 6, 2006, Air France-KLM withdrew its most recent fuel surcharge increase, as promised, because oil prices remained below US\$65 for 30 consecutive days. This reduced the airline's fuel surcharge by 7 euros on long-haul flights, 2 euros on medium-haul flights and 1 euro on domestic flights.

Looking ahead to the winter of 2006-2007, Air France -KLM announced it would increase its long-haul capacity by 3 per cent, including a marginal (0.2%) rise in seat capacity to North American destinations. The largest capacity increases will be implemented on Latin American and Asian routes, but capacity will be reduced on Caribbean routes. Meanwhile, capacity on its medium-haul network will increase by 5.7 per cent, mainly because of additional services to eastern European destinations.

Complimentary breakfast crucial hotel amenity for French travellers: The most important hotel amenity for French hotel guests is a complimentary breakfast, according to the recently released 2006 European Hotel Guest Satisfaction Index Study by J.D. Power and Associates. German, Italian, Spanish and Swedish hotel guests also cited this as their most preferred amenity. High-speed Internet access is also considered important, although guests in the mid-scale to upper-upscale segments want it to be wireless.

French Internet users influenced by Internet ads: A recent study by Novatris, a European online market research firm, revealed that of Europe's five largest online markets, French Internet users were more likely to be influenced by online marketing and advertising. In fact, more than half (55%) of the French Internet users polled said they had participated in an online competition organized by a brand or e-commerce site within the last three months. This was a substantially higher percentage than for British respondents, the next largest group at 35.1 per cent. Spain, Italy and Germany were farther behind. French Internet users were also more likely to click on the advertising links appearing on results pages from search engines-37.2 per cent of the French respondents said they had done this within the last three months, followed by 35.9 per cent of the U.K. the respondents.

GERMANY - TOURISM LEADING INDICATOR INDEX

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↔ (↑)	↓ (↓)	↓ (↓)	↑ (↑)	0

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

The Conference Board's overall leading economic index for Germany increased sharply in August. However, even with August's increase, the leading index has slowed to about a 0.2 per cent annual rate in recent months, down from the 5-6 per cent annual rate in the first quarter of 2006. In addition, the strengths among the leading indicators have become less widespread in recent months. Meanwhile, real GDP grew at a 3.2 per cent annual rate in the second quarter of 2006, significantly stronger than the 1.6 per cent annual rate posted over the first quarter. However, the slower growth in the leading index in recent months suggests that the economy is likely to continue to increase at only a moderate rate in the near term.

Winter Ushers In Cooling Trend

The price competitiveness of German travel to Canada has struggled in tandem with the depreciation of the euro vis-à-vis the Canadian dollar since the start of 2005. Fortunately, since February of this year, the euro has been able to appreciate slightly against the Canadian dollar. Still, on a year-over-year basis, Canada's price competitiveness is expected to decline significantly against most competitive markets in the fourth quarter of 2006, according to analysis conducted by CTRI.

The latest figures from Statistics Canada indicate that overall visitor arrivals from Germany declined 6.9 per cent in August 2006, compared with the previous year. Overall, January-August figures indicate that arrivals from Germany were down 7.2 per cent from the first eight months in 2005. Some of the weakness in outbound travel during the summer can be attributed to Germany hosting the 2006 FIFA World Cup. Looking ahead, German visits could receive a slight boost from the 4-5 per cent increase in direct air capacity planned to Canada over the winter, compared with last year. Unfortunately, weaker economic and travel trends combined with declining price competitiveness suggest no growth in German travel to Canada over the near term.

GERMANY - CURRENT TOURISM TRENDS

Growth on Lufthansa's European routes stronger than long-haul network: In September 2006, Lufthansa's passenger traffic (among group passenger airlines) climbed 0.9 per cent compared with a year earlier, while capacity edged up 0.6 per cent. Passenger numbers jumped 4.8 per cent over the previous year, surpassing the 5 million mark. The company's European network continued to see the largest growth, with RPKs up by 7.9 per cent, while traffic on routes to North and South America fell 4.8 per cent, compared with a year earlier.

In light of softening oil prices, Lufthansa reduced its fuel surcharge on intercontinental flights by 10 euros, to 52 euros per segment. The surcharge for domestic and European flights will stay the same, at 12 euros per segment. The airline noted that despite the recent decline, fuel prices remain relatively high and continue to put pressure on the airline's expenses.

Lufthansa also announced plans to expand its capacity this winter by 3.3 per cent, overall. Its European services will grow 6 per cent, while long-haul services climb 2.2 per cent. The airline noted that the four long-haul destinations to see a substantial increase will be San Francisco, Sao Paulo, Kolkata (Calcutta) and Cape Town.

Traffic at Frankfurt Airport continues to reach record highs: German airport operator Fraport reported that Frankfurt Airport, Germany's largest air hub, had its busiest September ever this year. Passenger numbers edged up 0.6 per cent over September 2005, to nearly 5 million. The company noted that runway capacity bottlenecks prevented the airport from achieving even higher growth.

Strong summer season for major tour operator: Tour operator Neckermann Reisen, one of Germany's largest tour operators, reported that it experienced strong demand for its travel products over the summer season this year, according to FVW, a German travel website. Among Neckermann's long-haul offerings, Brazilian trips saw the strongest growth, thanks to an expansion of charter flight services. Bookings for North American destinations also performed well, increasing 12 per cent over the previous year.

Looking ahead to the upcoming winter season, the company said its advance bookings had started well, matching the strong levels seen at the start of last winter. In the long-haul sector, the company said it was experiencing strong demand for Brazil, the Caribbean, the Indian Ocean and Asia.

German travel sales soft in early fall: Overall German leisure travel sales declined 8.3 per cent in September 2006, year-over-year, according to the latest TATS survey of 2,750 German travel agencies. Airline tickets sales for the month were also behind, down 1 per cent from the previous year. Year-to-date figures showed that leisure travel sales were down 0.8 per cent compared with the first nine months of 2005. According to FVW, the German market has experienced a weak start, overall, for winter 2006-2007 bookings.

Winter Ushers In Cooling Trend

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 (September 2006) Tourism Intelligence Bulletin.

The Conference Board's leading economic index for Mexico fell in August. Despite the recent setback, the annualized growth rate of the leading index has continued to fluctuate in the 5-6 per cent range in recent months, up from earlier this year. In addition, the strengths among the leading indicators have become somewhat more widespread in recent months. Meanwhile, real GDP grew at a 4.5 per cent annual rate in the second quarter of 2006, down from 6.9 per cent annual growth during the first quarter of 2006. Despite some short-term volatility, the recent behaviour of the leading index suggests that economic growth is likely to remain moderate to strong in the near term.

Unfortunately, the price competitiveness of Mexican travel to Canada continues to be hurt by the depreciation of the Mexican peso against the Canadian dollar. Analysis conducted by CTRI shows Canada's price competitiveness is expected to decline against its competitive markets (the U.S. and Spain) in the fourth quarter of 2006, year-over-year.

Over the first eight months of 2006, Mexican arrivals continued to register strong growth, increasing 10.1 per cent compared with the same months in 2005. While the level of direct air capacity planned for travel to Canada this winter is expected to increase 10-12 per cent over last year, the bulk of this increase will be provided by Canadian branded airlines. Overall, the Tourism Leading Indicator Index suggests that positive economic and travel trends should offset some of the challenges posed by declining price competitiveness and result in continued growth in Mexican arrivals to Canada over the near term.

MEXICO - CURRENT TOURISM TRENDS

Low-cost carriers are fuelling robust demand for air travel: A new report from Mexico's national department of civil aviation (DGAC) revealed that competition has driven down domestic airfares on the country's main routes by 55 to 65 per cent over the last year, according to *Aviation Daily*. Since December 2005, Interjet, Click, Avolar, Volaris and ALMA have all launched services, competing on Mexico's most profitable routes and significantly expanding Mexico's domestic air market.

According to a recent article in *Latin Finance*, Latin America is one of the fastest-growing air travel markets in the world, fuelled by increasing levels of disposable income and a growing number low-cost carriers. Nearly all segments of air travel are seeing a boom in demand, prompting a substantial expansion in routes and services across the region.

Mexican low-cost carrier Avolar recently announced plans to invest US\$700 million into expanding its fleet so it can begin operating flights from Mexico to the United States and Canada in 2008. According to a news item by *El Financiero*, the year-old carrier plans to acquire 20 aircraft to service these additional routes.

Mexican consumer confidence edged up in July: According to INEGI, Mexico's national statistics agency, the Mexican consumer confidence index rose slightly between August and September, to 111.5. Compared with a year earlier, the index increased 10.2 points.

Few Mexicans have access to high-speed Internet: Despite reports of growing demand for Internet access in Mexico, recently released figures by the Organisation for Economic Co-operation and Development revealed that as of June 2006, only 2.8 per cent of Mexican residents had broadband access. Nonetheless, in the last five years, broadband access subscription rates have made solid progress-in 2001, only 0.1 per cent of the population had high-speed Internet access. Recent media reports have indicated that major upgrades to Mexico's telecommunications infrastructure are underway. These upgrades are expected to provide a major boost to Mexico's rates of high-speed Internet access.

JAPAN - 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 (September 2006) Tourism Intelligence Bulletin.

The Conference Board's leading economic index for Japan fell in August for the second consecutive month. With this decline, the level of the leading index is now 0.9 per cent below its most recent peak in April. The strengths among the leading indicators have also become less widespread in recent months. Meanwhile, real GDP growth slowed to a 2.1 per cent annual rate in the first half of 2006, down slightly from the 2.6 per cent rate over the second half of 2005. The recent behaviour of the leading index suggests that the economy is likely to grow more slowly in the near term.

Unfortunately, the price competitiveness of Japanese travel to Canada continues to be hurt by the further depreciation of the Japanese yen vis-à-vis the Canadian dollar. CTRI analysis shows Canada's price competitiveness is expected to decline slightly against all competitive markets in the fourth quarter of 2006, year-over-year.

For the first eight months of 2006, Japanese arrivals were down 4.7 per cent, compared with the same period in 2005. Looking ahead, the level of direct air capacity scheduled to Canada over the winter is expected to remain on par with last year. Overall, the Tourism Leading Indicator suggests Japanese arrivals will decline slightly over the near term.

JAPAN - CURRENT TOURISM TRENDS

Japanese airlines tighten international capacity: Japan Airlines Group (JAL) reported that its international passenger traffic (measured in RPKs) declined 3.5 per cent in August 2006, as passenger numbers on those routes slipped 3.7 per cent, compared with the previous year, to 1.25 million. The airline's capacity on international routes was down by 8.8 per cent, resulting in an average load factor of 73.7 per cent. During the same month, JAL's domestic passenger traffic edged up 1.8 per cent.

Passenger numbers on JAL's transpacific routes dropped 1.7 per cent in August, while the passenger count on European routes fell 7.9 per cent, year-over-year. The only destination to register an increase was China, but traffic to China had been down significantly the previous year because of anti-Japanese sentiment in China at the time.

All Nippon Airways Co. (ANA) reported that its international passenger traffic rose 7.2 per cent in August, boosted by a 9 per cent increase in passenger numbers, to 396,000. Capacity edged up only 0.2 per cent, keeping flights on those routes 80.7 per cent full, on average, up 5.3 percentage points from the previous year. The carrier's domestic passenger traffic declined 1 per cent that month, year-over-year.

Japanese outbound tourism trending upwards: Overall, the volume of Japanese outbound trips increased 3.9 per cent in August 2006, compared with a year earlier, according to the Japan National Tourist Organization. Leisure travel to Europe and China is expected to stay strong, while bookings for the United States and Asia remain on an upward trend, according to a recent Japanese market update by Tourism Australia. Overall, the outlook appears to be slightly more optimistic for group tours and air-only bookings than for package tours, especially to U.S. destinations.

Traditional packages losing their lustre: The outcome of an interactive panel on Japanese outbound tourism suggested that Japanese travellers are losing their interest in traditional travel products, according to a press release by the Pacific Asia Travel Association (PATA). Held during PATA's Travel Mart 2006 in September, the panel asserted that the Japanese are paying more attention to their individual needs than to societal expectations, spurring a shift towards "lifestyles of health and sustainability." This involves an emerging interest in physical fitness, health consciousness and environmental concerns. In terms of travel, Japanese consumers are looking for customized products offering personal experiences that are "original and simple." Heritage and cultural experiences are also gaining popularity.

Winter Ushers In Cooling Trend

KOREA - 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 (September 2006) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for Korea increased sharply in August, after a slight decline in July. With August's increase, the growth of the leading index continued to fluctuate around a 5 per cent annual rate in recent months, down from the 6-8 per cent annual pace at the beginning of the year. Fortunately, the strengths among the leading indicators have become somewhat more widespread in recent months. Meanwhile, real GDP growth slowed to a 4.1 per cent annual rate in the first half of 2006, down from 6.7 per cent in the second half of 2005. The recent behaviour of the leading index suggests that moderate economic growth should continue in the near term. Despite some recent appreciation of the South Korean won, vis-à-vis the Canadian dollar, Canada's price competitiveness for Korean travellers is expected to decline against all competitive markets in the fourth quarter of 2006, according to analysis conducted by CTRI.

For the first eight months of 2006, Korean arrivals to Canada were up 4.2 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 winter is expected to be on par with that of last year. Overall, the Tourism Leading Indicator Index suggests that Korean arrivals will continue to increase slightly over the near term.

KOREA - CURRENT TOURISM TRENDS

Korean Air to expand international network: According to a recent report by *Air Transport World*, Korean Air (KAL) is planning to expand its international services to a number of destinations next year, to keep up with demand growth. This includes adding Houston to its network, followed by Miami, in addition to the 13 North American destinations the carrier already serves. KAL is also planning to substantially increase its fleet size over the coming years.

Chusok holiday spurs surge in travel: Travel volumes were expected to surge during the Chusok harvest holiday, the Korean version of Thanksgiving, according to *Korea Times*. More than 300,000 Korean residents were expected to travel outside the country for the holiday, which occurred from October 5 to 7 this year. Since October 3 is National Foundation Day, another holiday, and considering the recent reduction of the workweek to five days, many office workers were expected to take their full annual vacation over the holiday period. Korean Air and Asiana Airlines both reported that their flights over the holiday weekend were fully booked, even though they had both added capacity in anticipation of the exodus.

Overseas spending soars: In the first half of 2006, Korean overseas trips increased 12 per cent to 5.43 million, year-over-year, according to the Bank of Korea. Overseas spending surged 17.4 per cent to 7.7 trillion won (CDN\$9.1 billion), driven by record-high spending on leisure travel, medical services and overseas education. The stronger won and the implementation of the five-day workweek were cited as two primary drivers of the growth. The bank also reported that the ratio of household overseas spending to total spending has edged up half a percentage point to 4.3 per cent, contributing to sluggish domestic consumption. The bank expected record-high overseas spending to continue through the rest of this year.

Winter Ushers In Cooling Trend

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 (September 2006) Tourism Intelligence Bulletin.

China's economy is poised to expand 10.4 per cent in 2006, according to the most recent Consensus Economics report. While economic activity in China during the second quarter expanded at the fastest pace in 12 years, growth in the third quarter appears to have slowed slightly. It remains to be seen if the recent softness in economic activity reflects a weaker growth trend or just a momentary lapse. Unfortunately, on a year-over-year basis, Canada's price competitiveness for Chinese travellers is expected to decline against all competitive markets in the fourth quarter of 2006, according to CTRI analysis.

Over the first eight months of 2006, Chinese arrivals continued to register strong growth, increasing a further 24.4 per cent compared with the same months in 2005. In addition, the level of direct air capacity planned for travel to Canada over the winter is expected to increase 10-15 per cent over last year. Overall, the Tourism Leading Indicator Index suggests that positive economic and travel trends should offset some the challenges posed by declining price competitiveness and result in continued solid growth in Chinese arrivals to Canada over the near term.

CHINA - CURRENT TOURISM TRENDS

Further hikes in fuel surcharges: High fuel costs prompted the three largest Chinese carriers to raise their long-haul international fuel surcharges by about 50 per cent. As of October 1, 2006, Air China, China Eastern Airlines and Southern Airlines all increased their fuel surcharges to US\$60 per segment, up from the US\$40 charge imposed in July. According to *Shanghai Daily*, despite a 20 per cent drop in global oil prices in recent months, Chinese domestic jet fuel prices remain unchanged at record highs.

Growth in travel demand over Golden Week holiday: The number of air travellers on Chinese airlines over the National Day holiday week in early October increased by 2 per cent compared with a year earlier, according to China's General Administration of Civil Aviation. The number of flights operated over the period, considered one of China's "Golden Week" holidays, increased 9 per cent, year-over-year. According to the Xinhua news agency, once the holiday ended, Chinese airlines began offering deep discounts on airfares-in some cases up to 70 per cent off. After the holiday, Chinese air travel entered its low season, so these discounts are expected to persist until the end of the year.

Hot destinations for international trips during the National Day holiday were Southeast Asian island resorts and Europe, according to the latest Chinese market report by Tourism Australia. However the number of countries covered on a European trip has dropped to an average of two to three, down from ten to twelve. The report also noted that the average cost of outbound tour packages has increased by about 15 to 20 per cent, in part because of higher fuel surcharges, but also because receptive tour operators have increased the quality of their packages.

Chinese travel market increasingly diverse: According to the Pacific Asia Travel Association (PATA), diverse travel segments are emerging within the Chinese outbound travel market, requiring a much more targeted approach. A panel at PATA's Travel Mart 2006 in September asserted that the traditional Chinese travel market is becoming a smaller proportion of the overall market, while other segments, such as business and incentive travel, as well as independent and single-service travel, are all becoming more popular.

One panellist noted that it was possible to reach the majority of affluent Chinese by targeting specific regions such as Shanghai, Beijing, Guangdong, Zhejiang and Jiangsu, although there are regional differences in terms of travel preferences. The panel also suggested that tourism destinations receiving Chinese visitors pay close attention to the timing of China's Golden Week holidays, to prepare for an influx of visits during those periods.

*Winter Ushers In Cooling Trend***AUSTRALIA - TOURISM LEADING INDICATOR INDEX**

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↑ (↑)	↓ (↓)	↔ (↓)	↔ (↑)	0

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

The Conference Board's overall leading economic index for Australia increased slightly (0.4 per cent) in August, for the sixth consecutive month. With August's increase, the annual growth rate of the leading index continued to fluctuate in the 3-4 per cent range it has stayed in over recent months. In addition, the strengths among the leading indicators continue to be widespread. The current behaviour of the index suggests that moderate economic growth is likely to continue in the near term.

Despite the fact that the Australian dollar basically held its own vis-à-vis the Canadian dollar through this year, Canada's price competitiveness is expected to decline against several competitive markets in the fourth quarter of 2006 compared with the fourth quarter of 2005. CTRI analysis shows that the most significant declines are expected against China, Japan and the United States.

For the first eight months of 2006, Australian arrivals were down 1.8 per cent, compared with the same period in 2005. Looking ahead, the level of air capacity scheduled to Canada over the winter is expected to be flat, or down slightly, compared with last year. Overall, the Tourism Leading Indicator suggests little to no growth for Australian arrivals over the near term.

AUSTRALIA - CURRENT TOURISM TRENDS

Qantas's international passenger numbers fall: Qantas Airways Ltd. reported that passenger traffic (measured in RPKs) on all its group airlines increased 5.9 per cent in August, compared with the same month in 2005. Overall passenger numbers grew 6.8 per cent. On Qantas International, passenger traffic edged up 1.1 per cent, but the airline carried 9.4 per cent fewer passengers, compared with a year earlier.

In October, Qantas announced it would reduce its fuel surcharge in light of the recent decline in world oil prices. On routes to Canada, the United States, South America, South Africa and India, the surcharge was reduced to A\$133 each way, down from A\$145.

Australian outbound travel continues to rise: In August 2006, overseas travel by Australian residents increased 4.1 per cent over the same month in 2005, according to Australian Bureau of Statistics. The report noted that outbound travel is on a consistent growth trend.

Domestic travel on a downward trend: Although outbound travel remains on an upward trend, Australia's domestic travel market is weakening, according to recent research by Tourism Australia reported by eTurbo.com. Higher mortgage costs are taking a bigger bite of household finances, and consumers are spending more of their disposable income on goods such as home entertainment systems and renovations. The federal government will launch a A\$200,000 study to determine why Australians are spending more on consumer goods than on domestic holidays.

Many overseas travellers ignore warnings: Many Australian travellers ignore government travel warnings when planning an overseas holiday, according to a recent survey by totaltravel.com, reported by Travelmole.com. About 21 per cent of those polled said they rarely followed the advice in travel warnings, believing they could look after themselves, while 26 per cent said they were willing to take a risk and only sometimes followed the advice. Meanwhile, 53 per cent said they always heeded travel warnings. A spokesperson for totaltravel.com suggested that these results revealed that many Australians were not taking government travel warnings seriously—a situation that the government needed to address.

Opportunities

Travellers willing to share preferences in exchange for better service: Many business travellers would be willing to share personal information in order to receive better service from their travel suppliers and promotions targeted to their personal preferences, according to a recent survey by Accenture. Of the U.S. business travellers polled, more than half said they would provide information such as their favourite foods (53%), favourite sports (49%) and preferred leisure activities (56%) in return for better, more customized services. Also, 63 per cent said they would be willing to provide additional personal information in order to receive specific promotions relevant to their interests and lifestyles. Accenture said airlines, hotels and rental car firms should use this type of information to improve their service to frequent clients. Suppliers should also consider partnering with vendors such as local restaurants and attractions to create promotions targeting specific traveller interests.

Consumers underestimate packaged travel savings: A majority of Americans would be more willing to purchase a travel package if they knew it would save them money, yet few know the savings involved. A recent survey by the U.S. Tour Operators Association revealed that only 17 per cent of Americans polled were aware that purchasing prepackaged travel could save them 20 to 30 per cent off the cost of purchasing components separately. Yet 60 per cent of respondents said they would be more likely to purchase a tour or package if they knew it would save them money. The association stated that average savings from purchasing a tour or package are about 30 per cent, depending on time of year and destination—a fact that should be communicated to more travellers.

Tourism Leading Indicator Index - Methodology

SUMMARY TABLE

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

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

Winter Ushers In Cooling Trend

Ratings Key:
Economic Factors and Non-Economic Factors: Range from ↑↑↑ (significantly adds to demand) to ↓↓↓ (significantly impedes demand). ⇔ represents neutral effect on demand.
Overall Tourism Leading Indicator: Ranges from +++ (significantly improving) to --- (significantly deteriorating). 0 represents no change.

The Tourism Leading Indicator Index provides tourism stakeholders with 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.

To derive the overall Tourism Leading Indicator Index, the various component indices representing economic and non-economic motivating factors are weighted to reflect their relative importance in the travel decision-making process. The ratings used to assess the component indices of the overall index identify the degree to which each component provides added stimulus or, alternatively, provides an added impediment to visiting Canada over the near term. The specific rating gradients used to assess the various component indices of the Tourism Leading Indicator are as follows:

Ratings Used for the Component Indices of the Tourism Leading Indicator

Symbol	Interpretation
↑↑↑	Significant stimulus to demand
↑↑	Moderate stimulus to demand
↑	Slight stimulus to demand
⇔	No (or little) added stimulus to demand
↓	Slight impediment to demand
↓↓	Moderate impediment to demand
↓↓↓	Significant impediment to demand

Meanwhile, the overall index rating obtained 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. The specific rating gradients used to assess the Tourism Leading Indicator Index are as follows:

Ratings Used for the Tourism Leading Indicator Index

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

Winter Ushers In Cooling Trend

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

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 from the degree to which economic conditions are changing (becoming more favourable or less favourable) as well as a general economic assessment of economic conditions. Ultimately, the rating provided should represent the degree of positive push (stimulus) or negative pull (impediment) affecting decisions to visit Canada over the near term due to economic conditions in each source market.
- 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.

Travel Market	Economic		Non-Economic	
	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.