



CTC Tourism Intelligence Bulletin – Issue 36: November 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.

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.

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- **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.