



Domestic Market Helps Sustain Tourism Growth

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The Tourism Intelligence Bulletin monitors the tourism industry around the world. This issue features tourism intelligence gathered in November and December 2006, and early January 2007.

Tourism Overview

- Boosted by the stellar performance of the domestic travel market, the Canadian tourism industry finished 2006 with another year of positive growth, building on the solid gains achieved in 2005. Canada's international markets fell short of expectations, but strong growth in domestic travel offset these weaknesses.

The strength of the domestic market was especially apparent in the Canadian airline industry, which benefited from the significant expansion of domestic air travel demand. Domestic travellers also helped buoy the accommodations industry in 2006. But the decline in international visits weighed heavily on Canadian hotel room revenues, keeping growth modest.

- Unfortunately, Canada's U.S. travel market continues to decline, stifled by soaring energy costs, the crumbling U.S. housing market and the slowdown in the U.S. economy. Also, high gasoline prices continue to encourage more Americans to fly rather than drive to their holiday destinations, cutting further into Canada's beleaguered rubber tire market. At the same time, the relatively high cost of flying to Canada creates a distinct price disadvantage compared with U.S. domestic destinations, as well as some European ones. Confusion over passport requirements as part of the Western Hemisphere Travel Initiative (WHTI) is only exacerbating these challenges.
- The performance of Canada's traditional overseas tourism markets has also been troubling. The World Cup soccer tournament was partly to blame for poor visitation out of Europe last year, but the lack of a rebound in subsequent months suggests Canada's traditional European markets have largely matured, offering only modest growth potential. One issue is Canada's price disadvantage in a global marketplace that is increasingly competitive. Yet, the expansion of the global tourism market has also contributed to the emergence and growing importance of non-traditional tourism markets, such as China. As Toronto expands its role as a key gateway for Chinese visitors, more central and eastern Canadian destinations are gaining access to this rapidly expanding market.

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- Looking ahead, overall growth in the Canadian tourism industry is expected to stay on the decelerating trend that began in the latter part of 2006. The domestic market is expected to lose some steam, in line with the more subdued outlook for the Canadian economy. Prospects for the U.S. travel market are not expected to improve either. The first implementation date for the WHTI is scheduled for January 23, 2007, creating another hurdle for U.S. visits to Canada. Meanwhile, the slowing European economy and the increase in the value added tax in Germany will likely limit growth and deter a strong recovery in overseas visits to Canada this year. However, the recent open-skies agreement between Canada and the U.K., and the Canadian government's plans to liberalize its air service agreements, have helped improve the outlook for Canada's overseas markets over the medium and long term.

Consumer (Traveller) Overview - Canada and the United States

- **Consumer confidence supports improvement in winter travel intentions:** After exhibiting a "wait and see" attitude earlier in the fall, Canadian travel sentiment appeared to strengthen by October, supported by solid consumer confidence. The October 2006 Travel Intentions Survey by the Canadian Tourism Research Institute indicated that nearly 47 per cent of the Canadians polled intended to take a winter vacation between November 2006 and April 2007, up from 33 per cent a year earlier. Those planning to stay in Canada for their longest trip rose to 20 per cent, up from 12.4 per cent in 2005. Intentions for trips to the United States and other international destinations also rebounded.
- **Canadian business travel growth to level off:** The pace of growth in Canadian business travel is expected to level off slightly this year, according to a recent forecast by the Canadian Alliance of Business Travel. Most of the companies surveyed anticipated their travel expenditures will increase this year, although fewer expected their trip volumes to increase.
- **Vacation intentions of Americans appear stable:** The latest Consumer Confidence Survey report by the U.S. Conference Board, Inc. revealed that U.S. travel intentions remained relatively steady in December. Intentions for domestic trips were on par with the previous survey in October, but intentions for trips outside the U.S. had declined. Although consumer confidence appeared to improve in December, it is expected to remain volatile as household budgets react to low savings rates and high debt loads.

The Travel Industry Association (TIA) recently predicted that the pace of U.S. travel spending would slow over the winter travel season. The TIA estimated that growth in U.S. travel industry revenues reached 7.5 per cent in 2006, year-over-year, but will slow to 5.3 per cent in 2007.

- **U.S. weekend getaway trips on the rise:** The TIA's latest TravelScope revealed that American weekend getaway trips have increased by 10 per cent in the last five years. The shoulder seasons (April/May and September/October) are the prime times for weekend getaways. The report noted that weekend travellers spend more and participate in more activities than the average leisure traveller, fitting in as much as they can into their short trip.

Travel Supplier Overview - Canada and the United States

- **Air travel demand remains robust:** Solid economic fundamentals and strong income growth in Canada have helped sustain robust levels of domestic air travel demand. Air Canada and WestJet both reported record-high load factors and solid increases in passenger traffic for 2006. The falling price of oil has also benefited the airlines, but neither has indicated plans to reduce fuel surcharges anytime soon. In fact, recent research showed that airfares are rising: in January, Air Canada's fares were up by an average of 4 per cent, year-over-year, while WestJet's airfares jumped 10 per cent.
- **Domestic travel helps offset weak international visits:** Strong domestic travel demand continues to support revenue growth for the Canadian hotel industry, despite the weak level of U.S. visits to Canada.

PKF Consulting reported that revenues per available room rose 6.3 per cent between January and October 2006, compared with the same 10 months in 2005. According to HVS International, Canadian hotel demand increased 2.4 per cent during this period.

- **U.S. international air demand continues to grow:** U.S. airlines have also been benefiting from lower jet fuel costs and incremental airfare hikes. By early January, jet fuel prices had fallen to their lowest levels since December 2005. Demand for international air travel continues to drive growth in overall U.S. air travel volumes, while demand on domestic routes has levelled off.

International Overview - Europe

- **U.K. demand for pre-packaged holidays continues to drop:** All the major U.K. tour operators have reported a drop in bookings for the 2006-2007 winter season, although MyTravel noted that its prices had increased over the previous year. Thomas Cook reported that demand for package holidays in the U.K. fell 8 per cent in 2006, in large part because of growing interest among travellers in building their own packages. Meanwhile, the Association of British Travel Agents (ABTA) expected a record number of outbound trips over the Christmas holiday period, noting that many skiers were expected to take advantage of the heavy snowfalls in parts of Canada and the United States as well as the favourable exchange rates.
- **Air France-KLM forms new venture to serve French leisure market:** Air France-KLM plans to launch a new low-cost carrier in the spring of 2007 to serve point-to-point medium-haul leisure routes under the brand of transavia.com, a partner in the venture. The new airline will focus on meeting the specific needs of French leisure travellers, who were described as preferring medium-haul destinations and being less likely to travel, overall, than other western Europeans. Air France-KLM said that most leisure travel growth in France is being driven by the Internet, where online travel agency bookings are growing much more rapidly than traditional package bookings.
- **German demand for longer holidays expected to soften this winter:** The overall performance of the German outbound travel market last year was disappointing, according to the *World Travel Trends Report 2006-2007* by ITB Berlin and IPK International. The report suggested the World Cup tournament was partly to blame for this trend, although demand picked up significantly in the latter part of the year. The report also noted that German online holiday bookings continue to register strong growth, driven primarily by the expansion of dynamic packaging. Looking ahead to the winter season, the report suggested that short breaks between November 2006 and March 2007 will increase 3 per cent, while longer holidays of five days or more are expected to decline slightly (-1%) from the previous year.

International Overview - Asia-Pacific

- **Japanese senior and luxury segments offer strong potential:** H.I.S. Co. Ltd., a leading Japanese travel company reported strong growth in all its customer segments in 2006, despite a minimal increase (1%) in overall Japanese outbound travel. Looking ahead, the company plans to expand its Internet sales strategies, partly by launching an online hotel booking system, to cater to the growing Japanese online travel market. It also plans to launch new products aimed at seniors and affluent travellers, two travel segments that are expected to see above-average growth this year. The company expects that in 2007, continued growth in Japanese corporate earnings will help keep overseas travel demand on a "gradual upturn."
- **Korean outbound trips surge over holiday season:** Korean vacation package and air ticket sales for trips abroad during the Christmas holiday season nearly doubled this year over last, according to the *Korea Times*. Korean Air reported that Southeast Asian sun destinations and Japanese ski trips were especially popular. *Korea Times* suggested there was some pent-up travel demand from the summer, when the World Cup tournament kept many Koreans closer to home.

- Australian outbound travel demand remains solid:** The strong Australian dollar continues to fuel overseas travel, and this trend is expected to continue at the expense of the domestic travel market. Tourism Australia recently forecast that outbound trips will increase at an average annual rate of nearly 4 per cent over the next 10 years, while domestic trips grow only 0.5 per cent annually.

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 tourism industry, by tracking the progress of the economic and non-economic factors that affect travel demand from Canada's key tourism markets, including the domestic market.

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 Trends	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	↔	↓	↓	↔	-
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.

- **Economic Trends:** A more subdued economic environment persists. Fortunately, consumer spending and consumer confidence in most markets remain upbeat. Although lingering concerns exist about Canada's overall price competitiveness as a tourism destination, for the time being the gap in competitiveness appears to have stabilized and, for some markets, even been reduced.
- **Traveller and Supplier Trends:** Nothing significant has changed since the last index was reported, except that the U.S. travel market faces the additional hurdle of the passport requirement imposed by the implementation of the WHTI for air travellers returning to the U.S.
- **Overall Tourism Trends:** In general, there are few changes since the last index was reported. For the most part, there is small growth potential for most of Canada's key markets except China and the United States. On one hand, the Chinese market is expected to continue to generate solid growth. On the other hand, the U.S. travel market to Canada continues to struggle.

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

In Brief

Boosted by the stellar performance of the domestic travel market, the Canadian tourism industry finished 2006 with another year of positive growth, building on the solid gains achieved in 2005. Although Canada's key overseas markets fell short of expectations and overnight U.S. visits remained on a downward trend for a second year in a row, strong growth in domestic travel was able to offset these weaknesses, helping most tourism sectors achieve revenue growth.

Thanks to rising disposable income levels and higher corporate profits, the domestic leisure and business travel markets each expanded at a healthy clip last year. The strength of the domestic market was especially apparent in the Canadian airline industry, which experienced strong growth in passenger demand. Domestic travellers also helped buoy the accommodations industry in 2006. But the decline in international visits weighed heavily on Canadian hotel room revenues, keeping overall growth in the Canadian lodging sector modest.

Unfortunately, Canada's U.S. travel market continued to decline in 2006. U.S. travel demand has been largely stifled by soaring energy costs, the crumbling U.S. housing market and the slowdown in the U.S. economy.

In addition, high gasoline prices continue to encourage more Americans to fly rather than drive to their holiday destinations, opening the door to many other international destinations and cutting further into Canada's beleaguered rubber tire market. At the same time, U.S. domestic airfares remain dramatically lower than airfares to Canada, leaving Canadian destinations at a distinct price disadvantage.

Confusion over passport requirements as part of the Western Hemisphere Travel Initiative (WHTI) is exacerbating these challenges. Recent research suggests that more than 85 per cent of Americans either don't know or have incorrect information about the WHTI's actual implementation dates. This confusion is likely the result of mixed messages in media reports about potential changes to the passport implementation dates and is expected to keep hindering the performance of the American travel market this year.

The lacklustre performance of Canada's traditional overseas tourism markets has also been a troubling trend. The FIFA World Cup soccer tournament was partly to blame for poor visitation out of Europe last

year, but the lack of a rebound in subsequent months suggests that Canada's traditional European markets have largely matured, offering only modest growth potential in the near term. One issue is the deterioration of Canada's price competitiveness in a marketplace that is increasingly global and competitive. The rapid rise of the Canadian dollar over the past few years is largely to blame, although rising Canadian travel costs are another factor.

Yet, the expanding global tourism market has also contributed to the emergence and growing importance of non-traditional tourism markets, such as China. Even though China has yet to implement approved destination status for Canada, travel to Canada increased 25.2 per cent between January and October 2006, compared with the previous year. And as Toronto expands its role as a key gateway for Chinese visitors, more central and eastern Canadian destinations are gaining access to this rapidly expanding market.

Overall growth to ease in the near term

Looking ahead, overall growth in the Canadian tourism industry is expected to stay on the decelerating trend that began in the latter part of 2006. The domestic market is expected keep growing, but at a slower pace, in line with the more subdued outlook for the Canadian economy. Weaker growth in disposable income this year and the absence of last year's tax cuts will result in softer leisure travel demand. Canadian business travel demand is also expected to ease, as corporate profit growth moderates and companies reign in their travel spending.

Prospects for the U.S. travel market are not expected to improve in the near term. The first implementation date for the WHTI is scheduled for January 23, 2006, creating another hurdle for U.S. visitors to Canada this year. As of that day, air travellers will need a passport or other secure document to enter or re-enter the United States. This has generated record-high demand for passports: the U.S. government expects to issue 16 million passports this year, a 25 per cent increase over 2006. As well, the effects of the new regulation will be the first indication of the true impact of the WHTI on the U.S. travel market.

Meanwhile, the slowing European economy and the increase in the value added tax in Germany will likely limit growth and prevent a strong recovery in overseas visits to Canada this year. However, with well-off baby boomers driving demand for luxury travel, growth in overseas spending is expected to do better. Moreover, the recent open-skies agreement between Canada and the U.K., and the Canadian government's plans to liberalize its air service agreements with other countries, will help expand Canada's overseas markets over the medium and long term.

Economic Overview

NORTH AMERICA

The slowdown in economic activity in the United States will result in weaker economic growth in North America and the world. The weakness in the U.S. economy is characterized by turmoil in the housing market, weaker vehicle sales and softer orders for durable goods. However, home sales rebounded slightly at the end of 2006, as did consumer confidence and manufacturing activity, reinforcing the notion that the U.S. is heading for a soft landing. Still, the struggles of the U.S. economy are expected to be felt in Canada and Mexico's export sectors. Mexico also faces the added challenge of having to compete with China for many of its manufactured export markets. Overall, real GDP growth in North America is expected to slow to 2.2 per cent in 2007.

EUROPE

After years of feeble growth, Europe's economy increased by an estimated 2.6 per cent in 2006, nearly double its average over the previous five years. For 2007, real GDP growth in Europe is expected to slow to 2 per cent, mainly because of tax increases in Germany and the strengthening euro. The euro is near its highest level since being introduced and continues to be pushed higher thanks to the solid economic expansion in Europe. Although Germany is expected to feel the effects from the increase in the value added tax, it should also reap the benefits of deep-reaching reforms to its labour market. Still, the economies of eastern Europe are expected to expand at a faster rate than western Europe largely because of the higher levels of investment the region has been attracting.

ASIA-PACIFIC

The Asia Pacific region will enter into a transition period this year as economic growth slows from 5.2 per cent in 2006 to 4.6 per cent in 2007. Export demand is crucial for the region, as it is the main generator of output growth. The fall of the U.S. dollar and the slowdown in U.S. consumer spending are key factors behind weakening export demand for the region. Fortunately, since domestic production has become more important, it leaves the region in better shape to handle the expected decline in global demand. Meanwhile, economic growth in China is expected to remain hot over the near term, supported by strong levels of domestic investment.



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:

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).  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.

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 (November 2006) Tourism Intelligence Bulletin.

After a lacklustre performance in September and October, the Canadian economy generated an estimated 61,600 new jobs in December, bringing total job gains in 2006 to a respectable 344,800. With December's increase, the unemployment rate edged back down to its 30-year low of 6.1 per cent. Both the goods and services sectors generated new jobs in December; however, the services sector continued to lead the way. Overall, the services sector accounted for over 97 per cent of all employment gains in 2006.

Meanwhile, the Canadian economy appears to have stalled in October, unable to rebound from a 0.4 per cent contraction in September. Neither the goods sector nor the services sector was able to post gains. Consumers were also less active in October, with retail sales dropping 0.7 per cent. Fortunately, the Canadian Composite Leading Indicator increased by 0.5 per cent in November. This increase suggests the recent slowdown in economic activity will not be prolonged.

Despite the fact that the value of the Canadian dollar has declined slightly against the U.S. dollar in the past few months, the latest outbound travel statistics (from October 2006) still suggest growing demand for outbound travel to the United States. Canadian outbound travel demand for non-U.S. destinations continues to increase as well. It appears that the relatively high value of the Canadian dollar is still contributing to strong outbound travel trends.

Although the level of direct air capacity planned for travel within Canada is expected to increase 1 per cent over the first quarter of 2007, the pace of growth has declined from recent quarters. 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 (November 2006) Tourism Intelligence Bulletin.

After a few months of rather bleak news about the health of the U.S. economy, there was a welcome turnaround in some key indicators at the end of 2006. Existing home sales rebounded, as did consumer confidence and manufacturing activity. Also, the December increase in employment was higher than expected. Still, the latest evidence is consistent with the view that the economy will experience a soft landing in 2007. Going forward, consumer confidence is expected to remain volatile, because household budgets are stretched to the limit by low savings and high debt burdens. The recent rebound in confidence could quickly evaporate if energy prices start to accelerate again.

The latest figures from Statistics Canada indicate that overnight U.S. travel to Canada declined 2.4 per cent in October 2006, compared with the same month the previous year. The aggregate January to October figures show that overnight travel from the U.S. was down by 4.8 per cent from 2005. While the value of the Canadian dollar (vis-à-vis the U.S. dollar) has declined over the past few months, it remains on par with last year. This continues to detract from Canada's price competitiveness. On a more positive note, the level of direct air capacity planned for U.S. travel to Canada over the early part of 2007 appears to be increasing, compared with last winter. However, as the implementation date of the Western Hemisphere Travel Initiative (WHTI) for air travellers looms near, 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

Canadian consumer confidence supports strong winter travel intentions: After exhibiting a "wait and see" attitude earlier in the fall, Canadian travel sentiment had improved by October, according to the Travel Intentions Survey by the Canadian Tourism Research Institute. In fact, the survey results suggested that intentions for domestic winter holidays were particularly strong. Of the approximately 2,000 Canadians polled in October 2006, nearly 47 per cent said they planned to take a winter holiday between November 2006 and April 2007, a significant improvement from the October 2005 survey. Those planning to stay in Canada for their longest trip rose to 20 per cent, up from 12.4 per cent in 2005. Intentions for trips to the United States and other international destinations also rebounded.

Canadian consumer confidence had suffered in the fall of 2005 as a result of surging oil prices and a hike in interest rates. Fortunately, consumer confidence has stabilized since then, boosted by the solid performance of the Canadian economy. While it appears that the most significant rebound has occurred for domestic travel plans, demand for outbound travel continues to grow as well.

Table 1: Winter (November 2006-April 2007) Vacation Intentions
(per cent of Canadians surveyed)

	October 2004	October 2005	October 2006
Winter Vacation Intentions (All Destinations)	41.9	32.7	46.7
Canada	18.0	12.4	20.0
United States	10.4	8.3	12.2
Other International	12.4	10.4	14.0
Do Not Know/Refused	1.1	1.6	0.5

Source: *The Conference Board of Canada.*

U.S. vacation intentions hold steady: In the United States, the latest Consumer Confidence Survey report by the U.S. Conference Board, Inc. revealed that U.S. travel intentions remained relatively steady in December, falling only slightly from the previous bimonthly poll. In December 2006, 45.4 per cent of U.S. consumers polled said they planned to take a vacation within the next six months, a 1 per cent decline from the October survey. Intentions for domestic trips were on par with the previous survey, but intentions for trips outside the U.S. had declined.

Overall, the monthly consumer confidence index climbed 3.7 points in December, rising to 109.0 (1985=100) from 105.3 in November. Sentiments improved for present-day conditions and for consumers' short-term expectations for the economy. However, the Conference Board was cautious about the results, given the index's "see-saw pattern in recent months."

WHTI air travel deadline set for January 23: On November 21, 2006, the U.S. Department of Homeland Security announced that January 23, 2007 would be the final WHTI implementation date for air travel. As of that date, travellers entering or re-entering the United States by air will have to present a passport or another secure document. The previous WHTI deadline for air travel was January 8, 2007, but the deadline was extended to accommodate holiday travellers.

According to the Travel Industry Association (TIA), demand for U.S. passports has ramped up significantly in response to the new regulations. The latest statistics from the U.S. Department of State indicated that 12.1 million passports were issued in its fiscal year ended September 30, 2006, a 16.5 per cent increase over 2005. For the 2007 fiscal year, the Department expects to issue 16 million passports, a 25 per cent increase over 2006.

Increase in U.S. holiday travel projected: A record number of Americans were expected to travel over the Christmas and New Year's holiday season, according to a forecast by the American Automobile Association (AAA), based on a survey of 2,000 American adults. AAA estimated that 64.9 million Americans would travel over the holiday period, a 2.2 per cent increase over the previous year. The number of trips by plane was expected to increase by 2.7 per cent, and trips by bus, train and other modes of transportation were expected to edge up slightly over last year. The majority of holiday travellers polled (66%) said they would stay with friends or family during their trip, while 20 per cent planned to stay at a hotel.

But a recent Maritz poll suggested that the average amount spent by U.S. holiday travellers would decline this year for the first time in several years. Although the average U.S. holiday trip usually costs around US\$1,000, Maritz said that it appeared travellers would not spend quite as much this year as they did last year. Overall, Maritz said its holiday polling data has remained relatively steady from year to year since 2002, with about one-quarter of Americans planning a Christmas holiday trip each year.

TIA reveals latest U.S. travel trends: The TIA recently predicted that growth in U.S. travel expenditures would slow over the winter travel season, resulting in a dip in growth for the full year of 2007, according to *Travel Weekly*. In 2006, the TIA estimated that growth in U.S. travel industry revenues reached 7.5 per cent in 2006, year-over-year, but will slow to 5.3 per cent in 2007. However, the TIA said that overall, the U.S. travel industry is doing well.

Meanwhile, quick weekend getaways have become increasingly popular among American travellers, according to the latest TIA TravelScope. Since 2000, the volume of weekend getaway trips has increased 10 per cent, totalling 225 million in 2005. The prime time for weekend getaways is the shoulder seasons of April and May and of September and October (32% of all trips taken), followed closely by the summer (31%). According to the TIA, weekend travellers spend more and participate in a greater number of activities than the average leisure traveller, fitting in as much as they can into their short trip.

In November, the TIA released the results of its Voice of the Traveller survey, pinpointing rising travel interests among U.S. travellers. The top trends emerging from the survey results were:

- **Enrichment travel:** 56 per cent of Americans polled said they were interested in a vacation where they and/or their family could learn something.
- **Spa vacations:** 45 per cent said they were interested in taking a trip to a spa for relaxation and rejuvenation.
- **Child-friendly destinations:** 35 per cent were interested in trips to places that cater to children.

- **Spiritual vacations:** 25 per cent said they were interested in taking a trip that is spiritual in nature, such as a religious retreat or a pilgrimage.
- **Volunteer vacations:** 24 per cent of respondents were interested in taking a volunteer or service-based leisure trip.

Business Travellers

Canadian business travel growth to level off: Although Canadian business travel growth is expected to stay strong this year, the pace of growth will level off slightly, according to the *Business Travel Overview and 2007 Cost Forecast* by the Canadian Alliance of Business Travel. Most (80%) of the companies surveyed anticipate an increase in business travel expenditures in 2007, and 40 per cent expect their trip volumes to increase. The results in both categories were slightly lower than in the Alliance's 2006 report.

Most Canadian travel managers also expect rate increases for hotel rates this year (80% of respondents), and higher airfares for domestic (80%), transborder (72%) and international flights (80%). Slightly more than half (55%) expected car rental rates to increase this year.

Similar outlook for U.S. business travel: The National Business Travel Association recently reported that 68 per cent of its members polled expected their company's business travel volumes to increase in 2007. Most respondents also expected their business travel spending to increase this year, but the main reason for the increase was higher rates, followed by an increase in trips taken.

To trim costs, 75 per cent of respondents planned to tighten their travel policies, while another 39 per cent said they would solicit bids from travel management companies. Some respondents also said they would reduce their number of preferred supplier contracts with hotels (29%), airlines (21%) or car rental agencies (21%). In addition, 42 per cent said they would push their travel management company to bypass global distribution systems (GDS) to avoid fees, and 34 per cent said they would explore the use of a combination of distribution channels.

High percentage of online visits result in bookings: A new study suggests that nearly half of all business travellers who visit branded hotel websites will carry through with a booking. *The Voice of the Hotel Customer*, recently released by the HSMAI Foundation and iPerceptions, states that 44 per cent of business travellers who visit branded hotel sites will make or change a reservation. Moreover, business travellers are less likely than leisure travellers to abandon a transaction midway through (22% versus 31%, respectively).

Trade and consumer shows are worth a billion: A recent study by the University of Guelph's School of Tourism Management revealed the powerful economic impact of consumer and trade shows. The report showed that in the Greater Toronto Area, more than 2.3 million people attend trade or consumer shows each year, generating \$1.1 billion in direct spending. Visitors account for 56 per cent of the spending, while exhibitors and organizers account for 44 per cent. In the Toronto region, trade and consumer shows provide 10,000 jobs and \$260 million in taxes for all three levels of government combined.

Travel Supplier Overview - Canada and the United States

Airlines - Canada

Air travel demand remains robust: Solid economic fundamentals and strong income growth in Canada are helping to keep air travel demand at robust levels. For the full year of 2006, Air Canada and WestJet both reported record-high load factors, flying their planes at an average of 81 per cent and 78 per cent full, respectively. Air Canada's passenger traffic (measured in revenue passenger miles) for the year grew 2.1 per cent over 2005, and WestJet's surged by 23 per cent.

The falling price of oil has also benefited both national airlines, but neither plans to reduce its fuel surcharges anytime soon. According to *The Globe and Mail*, both airlines have said that oil prices would have to drop significantly further before fuel surcharges are reduced. Both airlines build fuel surcharges into their base airfares for domestic and U.S. flights. ACE Aviation Holdings Inc., Air Canada's parent company, said its fuel costs for the first nine months of 2006 jumped 21 per cent compared with the previous year. Fuel now represents ACE's single largest operating expense.

In fact, average airfares continue to rise, according to a Desjardins Securities survey reported by *The Globe and Mail*. In early January, three-week-advance fares for Air Canada were up 4 per cent, year-over-year, while WestJet's airfares jumped 10 per cent. Reuters news agency reported that Delta Air Lines and American Airlines each raised their fares in Canadian markets in early January to match Air Canada's fare hikes.

Domestic traffic growth strong in December: Air Canada and its regional subsidiary Jazz reported that their combined monthly passenger traffic (measured by revenue passenger miles) in December grew 6.7 per cent compared with a year earlier, while capacity expanded by 4.5 per cent. The company's combined traffic on Canadian domestic routes jumped 9.2 per cent, while traffic on transborder U.S. routes surged 14.8 per cent. International traffic edged up 2.4 per cent during the month, boosted by growth on Latin American and transatlantic routes of 6.6 per cent and 3.1 per cent, respectively. Traffic on transpacific routes slipped 1.4 per cent, compared with a year earlier.

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

Airline	RPMs (in millions) December 2006	RPM change 2006 vs. 2005	Capacity 2006 vs. 2005
Air Canada mainline (includes Jetz)	3,575	+5.2%	+3.1%
ACE Aviation Holdings Regional (Jazz)	320	+25.5%	+20.8%
WestJet	895.7	+22%	+22%

In November, Transport Canada announced a new international air policy, called Blue Sky, with the aim of pursuing open-skies agreements with more international markets. These agreements remove restrictions on air services between countries, such as maximum flight frequencies, or on destinations that can be served, opening up competition on these routes. Currently, Canada has open-skies agreements with only two countries, the United States and Britain. Air Canada has benefited greatly from these agreements, according to the *Canadian Press*. Recently, the European Union expressed an interest in negotiating an open-skies agreement with Canada that would cover all 27 of its member states.

Airlines - U.S.

Growth in U.S. international air travel continues to outpace domestic: Growth in U.S. air travel demand continues to slow in the domestic market, but growth in international air travel remains strong. The latest figures from the U.S. Bureau of Transportation Statistics indicate that passenger numbers on U.S. airlines edged up 0.5 per cent between January and October 2006, compared with the same period in 2005. Domestic passenger numbers declined 0.2 per cent, but passengers on international flights were up 5.7 per cent. During the same period, domestic capacity slipped 1.9 per cent, while international capacity rose 5.2 per cent over the previous year.

Lower fuel costs, higher fares boost industry outlook: U.S. airline profitability has been benefiting from lower jet fuel costs and incremental airfare hikes, resulting in a "healthy revenue environment" according to the Air Transport Association (ATA). By early January, jet fuel prices had fallen to their lowest levels since December 2005. The ATA estimated that the U.S. airline industry achieved a collective net profit of US\$2 billion to \$3 billion in 2006, the industry's first profitable year since 2000. In 2007, profits are expected to rise even higher, to a projected \$4 billion. The ATA said that extensive cost-cutting efforts by the major U.S. airlines are also contributing to the positive outlook. However, some analysts believe that higher airfares and the current economic slowdown in the United States may begin weighing on air travel demand this year, resulting in slower revenue growth.

Northwest and Delta to emerge from Chapter 11: Delta Air Lines and Northwest Airlines have both filed reorganization plans that bring each carrier a step closer to emerging from creditor protection under Chapter 11 of the U.S. Bankruptcy Code. Northwest said it hoped to exit Chapter 11 between April and June 2007, while Delta plans to do the same in "mid-2007." Both carriers entered bankruptcy protection in September 2005.

Delta has been the target of a hostile takeover bid from U.S. Airways, which sparked a flurry of merger discussions among many of the major U.S. carriers. However, Delta rejected the offer, saying it plans to emerge from bankruptcy protection as a stand-alone carrier. Published reports suggest that Delta and Northwest have also discussed a possible merger.

Hotels - Canada

Domestic travel demand helps offset weaker international demand: Strong domestic travel demand continues to support revenue growth for the Canadian hotel industry, despite the weak levels of U.S. visits to Canada. The latest edition of the *Canadian Lodging Outlook* by HVS International reported that demand for Canadian accommodations increased 3.6 per cent in October 2006 over the previous year. Year-to-date, demand was ahead by 2.4 per cent, compared with the first 10 months of 2005. In addition, demand continues to outpace the growth of hotel room supply, which increased only 1.4 per cent between January and October 2006.

Canadian revenue per available room (RevPAR) rose 5 per cent in October 2006 over the previous year, according to the latest *National Market Report* by PKF Consulting. Hotel occupancy rose by an average of 1.1 percentage points to 67.6 per cent, and average daily rates jumped 3.3 per cent during the period. Year-to-date RevPAR in October was 6.3 per cent ahead of the first 10 months of 2005.

Legacy reports strong corporate and conventions demand: Legacy Hotels, a hotel real estate investment trust representing 25 high-end properties in North America, reported a 0.6 per cent improvement in RevPAR for its third quarter ended September 30, 2006. Occupancy declined 1.8 per cent, but average daily rates were up by 3.1 per cent, year-over-year. The company reported a general improvement in finances across its portfolio of properties, boosted by the continued strength in its Canadian and U.S. corporate group and convention markets.

However, this strength was offset by further declines in U.S. leisure visits to Canada's key summer travel markets, in particular Victoria and Québec City. If not for the declines in these two markets, Legacy's RevPAR for the quarter would have increased 3 per cent. Overall, the company said that market conditions "remain positive with early indications supporting continued strength in the business environment for 2007."

Labour shortage a significant concern: Optimism among Canadian hotel operators in the fourth quarter of 2006 waned to its lowest level all year, according to Statistics Canada's latest Business Conditions Survey for the Travel Accommodation Industries. On the whole, respondents expected occupancy rates, room night bookings and visitor numbers to decline in the fourth quarter, although daily rates were expected to keep rising.

Furthermore, the number of hotel operators facing business impediments continued to rise. The most significant impediments by far were shortages of unskilled labour and skilled labour, reported by 36 per cent and 29 per cent of respondents, respectively. On the other hand, those citing general economic conditions as a concern dropped to 22 per cent, down from 27 per cent in the previous quarter. Those indicating they were facing no impediments at the time of the survey dropped to 23 per cent, down from 26 per cent previously.

Hotels - U.S.

Rising rates are now the primary driver of growth in U.S. lodging revenues: The slowdown in the U.S. economy appears to be weighing on U.S. lodging demand, hurting U.S. hotel occupancy. According to the latest figures from Smith Travel Research (STR), average U.S. hotel occupancy in November 2006 declined 2.2 per cent compared with the previous year, but average daily rates shot up by 7.7 per cent, resulting in industry-wide RevPAR gains of 4.9 per cent. In the first 11 months of 2006, average occupancy increased only slightly (0.6 per cent), but rates were up 7 per cent, boosting RevPAR levels by 7.7 per cent over the previous year.

The STR figures indicate that the primary driver of revenue growth has shifted from lodging demand to rising rates. This has prompted many analysts to suggest that the growth cycle of the U.S. hotel industry is entering a mature phase. For example, PricewaterhouseCoopers recently released a report suggesting that per capita U.S. lodging demand growth among business travellers slowed to an estimated 0.8 per cent in 2006 after registering growth of 2.6 per cent in 2005. The report also said lodging demand among leisure travellers slipped an estimated 1.7 per cent after edging up 0.3 per cent in 2005.

Travel Agents and Other Suppliers

Transat A.T. has "banner year" in 2006: Transat A.T. Inc. reported a net profit of \$65.8 million for its fiscal year ended October 31, 2006, a 35 per cent increase from the previous year. Overall revenues for the year increased 10.1 per cent, primarily because of an 8.9 per cent increase in the number of travellers. The company noted that during the year, it made two major acquisitions: one doubled the number of its travel agency locations in Canada, and the other positioned the company as a major outgoing tour operator in the U.K. As a result, bookings increased by 7.3 per cent in North America and by 17.6 per cent in Europe. For winter 2006-07, the company reported that its North American reservations were showing a "marked increase," year-over-year, while European bookings were up slightly over last winter.

Agents report shift in U.S. holiday bookings: A recent survey of U.S. American Express agents revealed a noticeable shift in U.S. bookings from travel over Thanksgiving to travel over the Christmas holiday period this year, contrary to traditional travel patterns. The results showed that 67 per cent of respondents found Christmas to be the busiest travel period, well above the number citing the weeks between Thanksgiving and Christmas (27%) or Thanksgiving weekend (18%) as the busiest time. In addition, 50 per cent of agents reported that their clients are looking beyond "tried and true" destinations, seeking to go somewhere new

outside the United States. Most agents (76%) also reported an increase in luxury travel bookings this year.

AAA also reported a sharp increase in international bookings this winter, according to *Travel Weekly*. AAA's international tour bookings are up 14.9 per cent, and its international air bookings are up 13 per cent compared with last year. AAA said "exotic destinations" such as India and Asia are very popular, noting that more parents are taking their children to these destinations.

Majority of U.S. travel bookings will be made online this year: The latest U.S. Online Travel Overview by PhoCusWright Inc. suggests that more U.S. travel bookings will be made online than offline for the first time this year, with transactions over the Internet accounting for 54 per cent of all U.S. bookings. As the market becomes more mature, growth in dynamic packaging is expected to slow from 51 per cent in 2005 to 18 per cent in 2008. Furthermore, growth in online accommodation bookings is expected to begin outpacing growth in online airline bookings this year.

A recent report by comScore Networks indicated that the pace of growth in online travel spending slowed down over the course of 2006. In the first nine months of 2006, online travel spending increased 13 per cent, year-over-year, to US\$52.9 billion. But between July and September, online travel spending increased only 9 per cent. comScore suggested that growth is slowing because 70 per cent of online spending is for air travel, an online segment that has reached maturity. There is little potential for significant growth in this segment, since many Americans already purchase their airline tickets online.

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 (November 2006) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for the U.K. increased slightly in November. Even with November's increase, the six-month growth rate of the leading index continued at a modest 3 per cent annual rate. Fortunately, the strengths among the leading indicators continue to outweigh the negatives. At the same time, real gross domestic product (GDP) growth has fluctuated in the 2.5 to 3 per cent annual range in the last four quarters (including a 3 per cent rate in the third quarter of 2006). 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 4.5 per cent in October 2006, compared with the previous year. January-October figures show overall arrivals were down 4.3 per cent from the first 10 months of 2005. Looking ahead, the level of direct air capacity planned by scheduled carriers between the U.K. and Canada is expected to increase 7 per cent in the first quarter of 2007, compared with last year.

Meanwhile, between February and December 2006, the British pound appreciated 12.7 per cent vis-à-vis the Canadian dollar. However, Canada's price competitiveness is still expected to be challenged by most competitive markets early in 2007, year-over-year, according to analysis conducted by the Canadian Tourism Research Institute. 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 airport security hurts airline profits: British Airways (BA) posted a net profit of GBP168 million (CDN\$385 million) for its second quarter ended September 30, 2006, a 1.8 per cent decline from the same quarter in 2005. The main reason for the decline was the terrorist scare at Heathrow Airport in August, which led to tougher carry-on baggage restrictions at British airports. In particular, the tighter security hurt long-haul premium transfer traffic and short-haul premium traffic. However, overall passenger traffic (measured in revenue passenger kilometres) for the quarter rose 3.6 per cent, and passenger yields increased 2.2 per cent compared with the previous year.

In December, BA's passenger traffic declined 0.5 per cent from the previous year. Premium traffic volumes (business and first class) increased 2.8 per cent, year-over-year, but non-premium traffic (economy) fell 1 per cent. Revenue passenger kilometres (RPKs) on routes to the Americas slipped 1.2 per cent, while traffic on short- and medium-haul routes (U.K. and Europe) grew 2.2 per cent. In the busy travel days leading up to Christmas, BA was forced to cancel more than 800 flights in and out of Heathrow Airport because of dense fog.

In January, BA said it would reduce its fuel surcharge on long-haul flights up to nine hours long, in light of falling oil prices. The fee will fall by GBP5 per segment to GBP30 each way. Fuel surcharges on short-haul flights and on long-haul flights over nine hours will stay the same.

Table 3. Percentage change in passengers carried

Carrier	Dec. 2006 vs. Dec. 2005
British Airways	-1.3%
Ryanair	+19%
EasyJet	+11.2%

No-frills carriers spur much competition, little market growth: Low-cost carriers have had little impact on the overall growth of the U.K. domestic and U.K.-E.U. air markets in the last 30 years, according to the U.K. Civil Aviation Authority (CAA). Its new report *No-Frill Carriers: Revolution or Evolution?* contends that instead of generating growth, low-cost carriers have largely taken market share away from major airlines and charter carriers. This is contrary to the widely held belief that low-cost carriers have helped expand the U.K. air market to include lower-income leisure travellers. In fact, the report shows that the socio-economic profile of U.K. air travellers has changed little over the past decade. The most significant change brought on by low-cost carriers is a shift of air traffic from major airports to regional ones. Low-cost carriers have also helped drive a sharp increase in the range of fares and route choices available to passengers.

Air duty to double: The U.K. government announced plans to double the air passenger duty on all airline tickets as of February 1, 2007, in an effort to raise additional revenues for reducing carbon emissions. This would increase the passenger tax on long-haul flights from GBP20 to GBP40, and the tax on business class long-haul flights from GBP40 to GBP80.

Record level of outbound travel expected over holidays: The Association of British Travel Agents (ABTA) expected 3 million Brits to travel out of the U.K. between December 22 and January 2, a record number for the holiday period. The ABTA noted that many skiers were expected to take advantage of the heavy snowfalls and favourable exchange rates in Canada and the United States.

Market conditions remain tough for tour operators: According to the latest reports from major U.K. tour operators, bookings for the 2006-2007 winter season remain behind last year's figures:

- MyTravel said in December that its winter bookings were down by 9 per cent, year-over-year. The company has reduced its winter capacity by 10 per cent from last year. However, average prices have increased by 4 per cent. One of the company's priorities is to move beyond "fly and flop" vacations and offer more local cultural experiences as part of its holiday packages.
- First Choice's December trading statement revealed that its mainstream holiday bookings were down by 1 per cent for winter 2006-2007, although sales were up 15 per cent because of strong demand for its long-haul products. The company also quoted figures from the October AC Nielsen Travel Track report, which said that overall advance winter bookings in the U.K. market were down by 11 per cent, while sales were behind by 9 per cent, year-over-year.
- In a recent media briefing, Thomas Cook reported that demand for package holidays in the U.K. fell by 8 per cent in 2006, because of a growing interest in dynamically packaged trips, noting that "people are going into independent travel agents to build their own packages." Thomas Cook launched a new interactive website to try and capture a larger share of the online travel market.

Majority of U.K. Internet users book travel online: A new study by Nielsen//NetRatings, Harvest Digital and Adviva revealed that 55 per cent of all U.K. Internet users book their holidays online. Only 17 per cent research their trip online then book by telephone, while a small portion (9%) research online then book their trip in person at a travel agency. The most popular type of online travel booking is for beach holidays, followed by long-haul trips, cruises and fly-drive trips.

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 (November 2006) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for France decreased in October for the first time since January. Between April and October, the leading index grew at a 1.4 per cent annual rate, down from the 3 to 3.5 per cent annual growth rate recorded earlier in the year. In addition, the strengths and weaknesses among the leading indicators have become more balanced in recent months. Meanwhile, real GDP growth decreased at a 0.1 per cent annual rate in the third quarter of 2006, following a 3.4 per cent annual rate of expansion during the first six months of the year. The recent behaviour of the leading index suggests that economic growth is likely to continue, but at a slow to moderate rate in the near term.

Between February and December 2006, the euro increased 11 per cent vis-à-vis the Canadian dollar. Year-over-year, Canada's overall price competitiveness is expected to remain unchanged against competitive markets in the first quarter of 2007, according to Canadian Tourism Research Institute analysis.

The latest figures from Statistics Canada indicate that overall visitor arrivals from France increased 1.7 per cent in October 2006, compared with the previous year. January-October figures show that overall arrivals were up 2 per cent over the first eight months of 2006. Looking ahead, French visits might receive a slight boost from the estimated 16 per cent increase in direct air capacity planned in the first quarter of 2007 by scheduled carriers, compared with last year. Overall, with continued strength in outbound travel from France, the Tourism Leading Index suggests slight growth in travel to Canada over the near term.

France - Current Tourism Trends

Air France-KLM's passenger traffic remains "robust": Air France-KLM reported a net profit of 374 million euros (CDN\$565 million) for its second quarter ended September 30, 2006, a 25.5 per cent increase from the same quarter of 2005. Passenger traffic for the quarter rose 5.2 per cent and passenger yields jumped 4.7 per cent compared with the previous year. Looking ahead, the airline expects its "current robust traffic levels" to continue, noting that that forward bookings for its fiscal second half were "completely in line with the strong activity of the first half."

French discount carrier to launch in spring 2007: In December, Air France-KLM announced the spring 2007 launch of a new French low-cost carrier targeting point-to-point medium-haul leisure routes. The airline will partner with transavia.com, a Dutch low-cost carrier, to launch the new airline in France. The new carrier will operate under the transavia.com brand.

Meeting the specific needs of the French leisure travel market is the core focus of the new airline. The launch press kit described French outbound leisure travellers as primarily interested in medium-haul destinations. It noted that generally, French residents tend to travel abroad less than other western Europeans. In addition, it said that the French tour operator market is highly segmented, with about 350 companies. Most leisure travel growth in France is currently being driven by the Internet, where online travel agency bookings are growing much more rapidly than traditional package bookings. For these reasons, the carrier will offer low-cost scheduled flights for consumers, as well as charter services for tour operators.

TUI's winter bookings off to good start, despite market weakness: TUI, Europe's largest tour operator, reported that its winter bookings in France got off to a very good start, despite persistent weakness in the overall market. As of the end of October, its French bookings were up by 14.7 per cent and sales were up 5.3 per cent compared with the same time last year.

This is a turnaround from the decline in TUI's French business over the third quarter of 2006. TUI reported that the French travel market suffered from weak demand over the summer, in part because of the World Cup tournament. TUI's French bookings were down by 5 per cent for the third quarter of 2006, compared with the same quarter of 2005.

Consumer confidence on a downward trend: French consumer confidence continues to deteriorate, according to the latest release from the National Institute for Statistics and Economic Studies. The consumer confidence index fell to minus 26, down from minus 25 in November. The index registered declines in the outlook for living standards and inflation, as well as current living standards and the likelihood of a major purchase.

Germany - 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 (November 2006) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for Germany decreased slightly in October. The growth of the leading index has been fluctuating around a 1 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 and weaknesses among the leading indicators have become fairly balanced in recent months. Meanwhile, real GDP grew at a 2.6 per cent annual rate in the third quarter of 2006, down from the 3.8 per cent annual rate posted in the first half of 2006. Still, the recent behaviour of the leading index suggests that moderate economic growth is likely to continue in the near term.

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 2006, the euro has been able to make significant gains against the Canadian dollar. Still, on a year-over-year basis, Canada's overall price competitiveness is expected to decline slightly against its competitive markets in the first quarter of 2007, according to analysis conducted by the Canadian Tourism Research Institute.

The latest figures from Statistics Canada indicate that overall visitor arrivals from Germany declined 9.8 per cent in October 2006, compared with the previous year. Overall, January-October figures indicate that arrivals from Germany were down 7.7 per cent from the first 10 months in 2005. Looking ahead, German visits could be further hampered by a slight (0.8%) decline in direct air capacity planned by scheduled carriers to Canada over the first quarter of 2007, compared with last year. Unfortunately, weak economic and travel trends combined with weakening supplier trends suggest declining travel volumes to Canada are expected to continue over the near term.

Germany - Current Tourism Trends

European routes perform better than long-haul: In December 2006, Lufthansa's passenger traffic (measured in RPKs) among its group of passenger airlines jumped 7.4 per cent compared with a year earlier, while capacity expanded by 5.3 per cent. The number of passengers carried grew 6.9 per cent. Traffic on the company's European network increased 12.7 per cent, and traffic on routes to North and South America grew 4.4 per cent.

The company also reported that for the full year of 2006, passenger numbers, flight frequencies, capacity and sales all reached record highs. Passenger numbers rose 4.2 per cent to 53.4 million, and sales rose 2.2 per cent over the previous year. The press release noted that the pace of growth picked up to above-average levels in the latter part of the year.

Lufthansa also announced plans to strengthen its summer 2007 network through Munich International airport, its second-largest hub. Growth will be focused on long-haul routes, including 10 North American destinations.

Outbound market "disappointing" in 2006: The performance of the German outbound travel market in 2006 was disappointing, overall, according to the *World Travel Trends Report 2006-2007* by ITB Berlin and IPK International released in November. The report suggests that the World Cup tournament was partially to blame for this trend, contributing to a 2 per cent decline in outbound trips between January and August. However, reports from the travel trade suggest that demand picked up significantly in the latter part of the year.

The report also noted that online holiday bookings continued to register strong growth in Germany last year. In 2005, holidays booked online accounted for 27 per cent of all travel bookings; that share was expected to grow even further in 2006. The expansion of tour operators' dynamic packaging capabilities was cited as one of the main drivers of online bookings growth in Germany.

Looking ahead to the winter season, short breaks between November 2006 and March 2007 are expected to increase 3 per cent, while longer holidays of five days or more are expected to decline slightly (-1%).

A recent survey by the German Travel Association (DRV) painted a similar picture of the German travel market, according to fww.com. In the tourism year ended October 31, 2006, German travel agency revenues were on par (up 0.5%) with the same period of 2004-2005. German tour operators experienced a 1 per cent rise in revenues and a 2 per cent increase in bookings, according to the survey results. The main areas of growth were holidays in the budget and luxury categories, as well as dynamically packaged products. For the current tourism year, the DRV forecast 3 to 3.5 per cent growth in the German tour operator market. The improving German economy and pent-up travel demand following the weak 2006 summer season were the two main reasons cited for this year's growth.

German travel sales gain momentum: Overall German travel sales rose 3.8 per cent in November 2006, year-over-year, the second consecutive month of solid growth, according to the latest TATS survey of 2,750 German travel agencies. Leisure travel product sales were up 1.5 per cent, and airline ticket revenues jumped 7.4 per cent compared with a year earlier. Year-to-date figures showed that travel sales were ahead of the previous year by 3.4 per cent, but this was mainly due to a 7.7 per cent increase in air-only sales. Leisure travel sales were on par (up 0.2%) with the first 11 months of 2005.

Mexico - Tourism Leading Indicator Index

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

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

The Conference Board's leading economic index for Mexico fell again in October for the third consecutive month. The leading index has fallen at an annual rate of -1 per cent in recent months, a turnaround from the 5 to 6 per cent annual growth during the middle of 2006. However, the strengths among the leading indicators remain widespread. Meanwhile, real GDP growth slowed to a 3.9 per cent annual rate in the third quarter of 2006, down from the 5.3 per cent annual rate over the first half of the year. Despite the recent volatility, the behaviour of the leading index suggests that the economy will grow at a modest pace in the near term.

Unfortunately, the price competitiveness of Mexican travel to Canada continues to be hurt by the relatively weak Mexican peso. Analysis conducted by the Canadian Tourism Research Institute shows Canada's price competitiveness is expected to decline slightly against its competitive markets in the first quarter of 2007, year-over-year.

In the first 10 months of 2006, Mexican arrivals continued to register strong growth, increasing 9.2 per cent compared with the same period in 2005. The level of direct air capacity to Canada is expected to increase nearly 24 per cent in the first quarter of 2007, and 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 struggling price competitiveness and result in continued growth in Mexican arrivals to Canada over the near term.

Mexico - Current Tourism Trends

Experts predict bright future for Latin American air travel: Reports from a recent forum of CEOs and presidents of Latin American airlines suggest that the Latin American region is undergoing strong growth in air travel demand, which is expected to continue well into the future, according to *Air Transport World*. Passenger traffic in the region is expanding at an average annual rate of 6.9 per cent, which is second only to China's rate of growth. One analyst compared the situation in Latin America to the "golden era" of U.S. air travel in the 1960s, when soaring growth in air industry demand and profitability allowed U.S. carriers to flourish. Reports also suggested there is ample room for the Latin American market to keep growing.

Latin American airlines continue to see mixed performance: Latin American airlines saw their combined passenger traffic (measured by RPKs) fall 7.4 per cent in October 2006, compared with the same month in 2005, according to the latest figures from the Latin American Air Transport Association (ALTA-formerly AITAL). Year-to-date traffic among members was on par with the previous year. Between January and October 2006, traffic to the Asia-Pacific region continued to decline sharply compared with the previous year; traffic on European routes also continued to fall. As a result, overall international traffic fell 7.7 per cent over the period, while RPKs on routes within Latin American grew 5.9 per cent compared with the previous year.

Table 4. ALTA Airlines*
Revenue Passenger Kilometres (RPKs) and Passengers Carried -
January to October 2006

Regional Destination	RPK change YTD 2006 vs. 2005	Passengers Carried YTD 2006 vs. 2005
Intra-Latin America (scheduled and charter)	5.9%	5.7%
International - Total	-7.7%	-2.9%
North America	1.1%	1.1%
Europe	-16.7%	-19.8%
Asia-Pacific	-45.0%	-33.7%

Source: Latin American Air Transport Association (ALTA).

*ALTA includes 33 member airlines serving the Latin American region.

Mexican consumer confidence gains ground in December: According to INEGI, Mexico's national statistics agency, the Mexican consumer confidence index rose to 110.1 in December 2006, a significant improvement from the 106.8 reading a month earlier (January 2003=100). Progress was made in all five indicators of the index, including sentiments regarding current household finances (up 3.1 points) and future household finances (up 3.3 points). Confidence about purchases such as furniture and household appliances rose to 114.5 in December, up from 112.7 the previous month.

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 (November 2006) Tourism Intelligence Bulletin.

Although the Conference Board's leading economic index for Japan increased in November, the growth of the leading index has slowed to a 0.4 per cent annual rate in recent months. The current rate of growth in the index is well below the 4.5 to 5.5 per cent annual rate posted in the first half of 2006. Moreover, the weaknesses among the leading indicators have become more widespread in recent months. Meanwhile, real GDP growth slowed to a 0.8 per cent annual rate in the third quarter of 2006, down from the 1.8 per cent annual rate during the first half of 2006. The current behaviour of the leading index suggests that economic growth is likely to persist, but at a slow pace in the near term.

Unfortunately, the price competitiveness of Japanese travel to Canada continues to be hurt by the relatively weak value of the Japanese yen vis-à-vis the Canadian dollar. Canadian Tourism Research Institute analysis shows Canada's price competitiveness is expected to decline against its competitive markets in the first quarter of 2007, year-over-year.

During the first 10 months of 2006, Japanese arrivals were down 7.7 per cent, compared with the same period in 2005. Looking ahead, the level of direct air capacity scheduled to Canada over the first quarter of 2007 is expected to remain on par (-0.8%) with the previous year. Overall, the Tourism Leading Indicator suggests Japanese arrivals to Canada will continue to decline slightly over the near term.

Japan - Current Tourism Trends

Japanese airline revenues on upward trend: Japan Airlines Group (JAL) reported a net profit of 1.5 billion yen (CDN\$14.5 million) for its first fiscal half ended September 30, 2006, up from a 12 billion yen loss in the same period of 2005. However, the improvement was the result of internal cost restructuring, as the airline's operating profit dropped 48.3 per cent. The main issues during the period were high fuel costs and a decline in domestic passengers. Overall passenger traffic (measured in RPKs) declined 4 per cent, while the number of passengers carried slipped 1.9 per cent. International passenger traffic for the period decreased 6.9 per cent due to route restructuring and capacity cuts, but a hike in international airfares boosted revenues on these routes by 2.9 per cent compared with the previous year.

All Nippon Airways Co. (ANA) earned a record-high net profit of 33.3 billion yen for its first half ended September 30, 2006, a 68.8 per cent increase from the previous year. The airline said it experienced strong growth in its international and domestic markets during the period. Passengers carried on international flights jumped 12 per cent, driving up revenues on these routes by 20 per cent, year-over-year.

Both JAL and ANA announced they would raise their international fares by 7 per cent as of April 2007 to cover a projected increase in fuel costs for the new fiscal year that begins at that time. Domestic fares will be hiked by 2.7 per cent.

Travel agency optimistic about outbound market: H.I.S. Co. Ltd., a leading Japanese travel company reported a 13.2 per cent increase in net revenues to 329 billion yen for its fiscal year ended October 31, 2006. Despite a minimal increase (1%) in overall Japanese outbound travel over the year, the company experienced strong growth in all of its customer segments. Looking ahead, the company plans to expand

its Internet sales strategies, in part by launching an online hotel booking system, to cater to the growing Japanese online travel market. It also plans to launch new products aimed at seniors and affluent travellers, two travel segments that are expected to see above-average growth this year. The company expects that in 2007, continued growth in Japanese corporate earnings will help keep overseas travel demand on a "gradual upturn."

Expedia launches Japanese website: Expedia recently launched a new hotel booking website in Japan, the first launch of a major U.S. online travel agency in Japan, according to *Travel Weekly*. While the Japanese market has traditionally been dominated by package tour operators, online hotel bookings have been growing in popularity more quickly than air bookings. However, Expedia faces some significant challenges, including a lower level of credit card and debit card usage among Japanese consumers, and strong regulatory barriers. But only 10 per cent of all travel bookings are made online in Japan right now, suggesting there is great potential for future growth.

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 (November 2006) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for Korea increased slightly in November following a sharp decline in October. With the recent gain, the leading index is growing at an annual rate of 1.8 per cent, a far cry from the 6 per cent rate during most of 2006. Fortunately, the strength among the leading indicators remains more widespread than the weakness. Meanwhile, real GDP grew at a 4.4 per cent annual rate in the third quarter of 2006, up slightly from the annual pace of 4.1 per cent posted during the first half of 2006. Despite the short-term volatility, the behaviour of the leading index suggests the economy is likely to continue growing at a moderate to strong pace in the near term. However, Canada's price competitiveness for Korean travellers is expected to decline slightly against its competitive markets in the first quarter of 2007, according to analysis conducted by the Canadian Tourism Research Institute.

For the first 10 months of 2006, Korean arrivals to Canada were up 3.8 per cent ahead of the same period of 2005. Looking ahead, the level of direct air capacity planned from South Korea over the first quarter of 2007 is expected to remain on par with the previous 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 benefiting from global air travel demand: Korean Air (KAL) posted a net profit of 126.8 billion won (CDN\$157.9 million) for the third quarter ended September 30, 2006, an 18 per cent decline from the same period in 2005. The high cost of jet fuel in Asia was the main reason cited for the fall in earnings. Third quarter domestic passenger revenues fell 10.6 per cent during the period, but international passenger revenues rose 5.9 per cent. Average airfare yields on international routes jumped 12.9 per cent.

According to *Air Transport World*, the airline has been trimming its domestic capacity to focus on international routes, primarily to China and Southeast Asia. The airline also hopes to target high-end business travellers. For the final quarter of 2006, the airline's profitability is expected to improve, buoyed by strengthening global air travel demand and lower oil prices. In November, the airline placed its largest aircraft order in history, for 25 Boeing airplanes valued at US\$5.3 billion. Delivery will begin in 2009. The

airline hopes to increase its ability to compete with the top international airlines and capitalize on the surging growth of Chinese air travel demand.

Outbound Christmas holiday trips nearly doubled: Vacation package and air ticket sales for trips abroad during the Christmas holiday season nearly doubled in 2006 compared with the previous year, according to the *Korea Times*. One of Korea's largest travel agencies, Hana Tours, reported that its holiday bookings doubled this year over the 2005 holiday season. The main destinations were Southeast Asia (40% of bookings), Japan (18%) and China (14%). Hana also said its bookings were evenly split between the Christmas weekend (December 25-27) and the New Year's holiday weekend (December 30-January 1).

KAL also reported many sold-out flights over the holiday period to Southeast Asian destinations such as Manila, Hanoi and Bangkok. KAL noted that Southeast Asian sun destinations and Japanese ski trips were especially popular. *Korea Times* also suggested there was some pent-up demand to travel over the winter holiday season this year, since the World Cup tournament kept many Koreans closer to home during June and July.

A report by Korea.net noted that Christmas Day is a legal holiday in Korea, although it is not celebrated by Koreans as widely as the Chuseok (Thanksgiving) or Seollal (Lunar New Year) holidays.

Korean overseas spending continues to surge: Korea's overseas spending continues to break records as Korean overseas travel volumes continue to rise. Between January and November 2006, the Korean individual external transactions deficit reached US\$16.3 billion, a 20 per cent increase over the same period of 2005, according to the Bank of Korea. Of that total, travel and overseas study accounted for US\$11.6 billion, double the amount for the same period in 2004. According to the *Maeil Business Newspaper*, the Bank of Korea stated that "given the current consumption trend, it seems increasingly likely that the soaring volume of dollars spent on overseas travel and studying abroad will not slow down."

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 (November 2006) Tourism Intelligence Bulletin.

China's economy expanded by an estimated 10.5 per cent in 2006 and is forecast to grow by 9.5 per cent in 2007, according to the most recent Consensus Economics report. Based on real output indicators in October, China's economic activity appeared to moderate in the final quarter of 2006. Much of the slowdown was attributed to weaker fixed asset investment. Despite weaker output data, demand remained firm. In fact, retail sales picked up pace in October, rising to an annual growth rate of 14.3 per cent, up from 13.9 per cent in September. Moreover, Canada's price competitiveness for Chinese travellers is expected to increase against its competitive markets in the first quarter of 2007, year-over-year, according to Canadian Tourism Research Institute analysis.

Over the first 10 months of 2006, Chinese arrivals continued to register strong growth, increasing 25.2 per cent over the same months in 2005. However, looking ahead, the level of direct air capacity to Canada in the first quarter is expected to increase a relatively modest 4 per cent, compared with last year. Still, the Tourism Leading Indicator Index suggests that robust economic and travel trends should offset some of the challenges posed by modest supply growth, resulting in a solid expansion of Chinese arrivals to Canada over the near term.

China - Current Tourism Trends

Strong demand boosts airline profitability: In the third quarter of 2006, Chinese airlines posted net profits totalling over 5 billion yuan, reversing the losses accumulated over the first two quarters of the year, according to China Economic Net, a news website. China Eastern Airlines and China Southern Airlines each reported double-digit increases in revenues for the period, compared with the same quarter of 2005, driven by strong demand over the summer travel season. Air China, the country's flag carrier, attributed its financial turnaround to the benefits of joining Star Alliance, a membership of 18 international carriers that involves code-sharing agreements.

China Economic Net also reported that competition continues to heat up in the Chinese air travel market, driving down Chinese domestic airfares. Statistics from China's General Administration of Civil Aviation (CAAC) showed that in 2006, average domestic airfares fell to their lowest levels in three years. The CAAC also said that Chinese air fleets were expected to expand by a total of 130 aircraft in 2007, further intensifying industry competition. However, the CAAC also plans to heighten its regulation of air ticket sales to address the increasing number of deep discounts.

Business travel on the rise: China is the world's fourth-largest business travel market, behind the United States, Japan and Germany, according to the recently released American Express China Business Travel Survey. In 2005, Chinese corporations spent US\$7.4 billion on air travel alone. In addition, 28 per cent of the companies polled said their travel and entertainment spending had increased in 2006, although much of this spending was for domestic travel.

Of all respondents, 70 per cent reported having a corporate travel policy, a vast increase from 2005, when only 15 per cent of those polled said they had a travel policy in place. About 33 per cent said they use a travel agency to make their corporate travel bookings, while 37 per cent book their business travel online.

Internet use continues to expand rapidly: The China Internet Network Information Centre reported that Internet usage grew by 30 per cent in 2006 to 132 million users. Of those connected to the Internet, 52 million have broadband access.

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 (November 2006) Tourism Intelligence Bulletin.

The Conference Board's overall leading economic index for Australia increased slightly (0.3 per cent) in October. With October's increase, the leading index continued to grow at an annual rate of about 3.5 per cent, down slightly from the 4 to 4.5 per cent rate in mid-2006. In addition, the strengths and weaknesses among the leading indicators have become more balanced in recent months. Meanwhile, real GDP grew at a 1.2 per cent annual rate in the third quarter of 2006, down from the 2.2 per cent annual rate during the first half of 2006. 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 most of 2006, Canada's price competitiveness is expected to decline slightly against its competitive markets in the first quarter of 2007, compared with the previous year.

Although Australian visits to Canada increased 5 per cent in October 2006, compared with the previous year, they remained down 1.7 per cent for the first 10 months of the year. Looking ahead, the level of air capacity to Canada in the first quarter of 2007 is expected to fall, year-over-year. Overall, the Tourism Leading Indicator suggests little to no growth in Australian arrivals over the near term.

Australia - Current Tourism Trends

Qantas's international passenger numbers remain down: Qantas Airways Ltd. reported that although passenger traffic (measured in RPKs) on Qantas International climbed 3.5 per cent, the airline carried 5.5 per cent fewer passengers, compared with a year earlier. Overall, passenger traffic on all its group airlines increased 7.7 per cent in October 2006, compared with the same month in 2005, while total passenger numbers grew 7.8 per cent.

Qantas Airways Ltd., a public company, announced in December it would recommend its shareholders accept a takeover bid from the Airline Partners Australia (APA) consortium, a private firm. APA expressed a desire to stick with the air company's current market strategies, including maintaining Qantas's extensive international network and its low-cost brand, Jetstar.

Australian outbound travel demand remains solid: The strong Australian dollar continues to fuel overseas travel, according to recent research by Roy Morgan International, reported by Travelmole.com. This trend is expected to continue, at the expense of the domestic travel market. According to Tourism Australia, overnight domestic trips in the tourism year ending September 2006 increased only 2 per cent compared with the same period in 2004-2005. Tourism Australia recently forecast that outbound trips will increase at an average annual rate of nearly 4 per cent over the next 10 years. Over the same time horizon, domestic trips are only expected to grow 0.5 per cent annually.

Booking windows and e-ticketing increasing: In the third quarter of 2006, about 60 per cent of Australian overseas travellers purchased their flights a month or more in advance, a 16 per cent increase from the same quarter of 2005, according to a recent market report by Zuji.com. The largest group (25%) purchased tickets between one and two months in advance.

Of those tickets, 54 per cent were issued as e-tickets, up from 28 per cent a year earlier. The report noted that Australian travellers were finally moving away from paper tickets, a change that has been a difficult one to make in that market. The International Air Transport Association's aim of making e-ticketing mandatory by the end of this year has been a major driver of the shift to e-ticketing in Australia.

Opportunities

Group travel a key online market: According to a recent PhoCusWright Inc. report, *Groups and Meetings: Market Opportunity Redefined*, the groups and meetings market has become a key competitive area for the online travel industry. PhoCusWright expects this market to be worth \$175 billion by 2008, as the popularity of "mancations," "girl getaways" and other group travel continues to grow. The report revealed that 55 per cent of group travellers are travelling for a family reunion or other family event, although younger group travellers (aged 21-34) are more likely to be attending friend or school reunions, bachelor/bachelorette parties or entertainment/sporting events.

Canadian destinations continue to draw accolades: Canadian destinations continue to be singled out on the world stage, providing tourism marketers with additional opportunities to draw international visitors. Here are a few recent examples:

- A survey by Community Marketing Inc. of 7,500 online Americans revealed that Canada is the top international travel destination for the U.S. gay and lesbian travel market. The top three Canadian cities were Vancouver, Montréal and Toronto. A separate study by the Travel Industry Association, Harris Interactive and Witeck-Combs Communications showed that 75 per cent of gay and lesbian travellers view gay-friendly designations as important or extremely important when choosing a travel destination.
- Travelzoo, an online travel website, reported that two Canadian ski resorts ranked among its list of top 10 ski destinations in North America, according to a poll of over 6,500 of its subscribers. Whistler ranked number four, and Mont Tremblant was number eight. Whistler was also named "Best Overseas Ski Resort" for 2007 by Australia's *Luxury Travel Magazine*.
- The International Association of Golf Tour Operators named British Columbia the 2007 Golf Destination of the Year for North America, based on votes from golf tour operators around the world.
- B.C.'s Okanagan Valley was named one of Frommer's top 12 "unique and enticing" global destinations for 2007.
- Two B.C. adventure vacations, "Cycling the Okanagan Valley" and "Paddling the Great Bear Rainforest Coast," were listed among *National Geographic Adventure* magazine's World's Best Adventures for 2007.

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	↔ (↔)	↓ (↓)	↓ (↓)	↔ (↑)	-
Mexico	↑ (↑)	↓ (↓↓↓)	↑↑ (↑↑)	↑ (↑)	+
Japan	↓ (↓)	↓↓↓ (↓↓↓)	↓ (↓)	↔ (↔)	-
Korea	↑ (↑)	↓ (↓)	↑ (↑)	↔ (↔)	+
China	↑↑↑ (↑↑↑)	↑ (↓)	↑↑ (↑↑)	↑ (↑↑)	++
Australia	↑ (↑)	↓ (↓)	↔ (↔)	↓ (↔)	0

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

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 indexes 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 indexes 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 Indexes 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 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

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 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.