



## Domestic Travel Takes Off

Issue 40: July 2007

*The Tourism Intelligence Bulletin monitors the tourism industry around the world.  
This issue features tourism intelligence gathered in May and June 2007.*

### Bulletin Highlights

#### Tourism Overview: Canada & the United States

- **Domestic travel on track for solid growth:** Despite the recent spike in Canadian gasoline prices, the domestic travel market remains on track for solid growth this summer. However, while demand for domestic air travel remains robust, Canadian hotel occupancy rates have been on a flattening trend. This suggests, among other things, that high gasoline prices are already curbing domestic automobile travel. **(See page 14.)**

The Conference Board of Canada's latest Canadian Travel Intentions Survey showed that nearly 69 per cent of the Canadians polled intended to take a leisure trip between now and September, a strong increase from the previous year. Plans for travel to all destinations were higher than they last summer, and plans for domestic trips increased the most. Moreover, the majority of Canadians plan to take as many or more domestic getaways this summer as last year. **(See page 4.)**

- **Canadian hotel rates and revenues continue to register solid growth:** Average daily rates in Canada rose 3.6 per cent in April 2007, while occupancy levels remained on par with April 2006. Revenues per available room (RevPAR) rose 3.5 per cent over the previous year. **(See page 7.)**
- **Outlook for domestic air travel remains upbeat:** Air Canada and WestJet both reported strong growth in passenger traffic and revenues in the first quarter of 2007. Both airlines expect these trends to continue through the summer travel season. **(See page 6.)**
- **U.S. vacation intentions remain relatively soft:** The latest Consumer Confidence Survey report by the U.S. Conference Board, Inc. suggests that U.S. travel intentions remain relatively soft, at about the same level as they were a year ago. The Conference Board's monthly consumer confidence index declined in June to its lowest level since August 2006. **(See page 5.)**

#### Contents

Bulletin Highlights.....	1
Tourism Overview: Canada & U.S. ....	4
Tourism Overview: International .....	9
Tourism Leading Indicator Index .....	14



- **Slight growth in U.S. travel expected this summer:** Despite record-high gasoline prices and rising hotel rates, American leisure trips are expected to register a slight increase (1.4%) this summer, according to the Travel Industry Association of America (TIA) and the American Automobile Association (AAA). Similar to last year, some travellers may modify their summer vacation plans in response to higher travel costs, although most consumers appear to be taking cost increases "in stride." (See page 5.)
- **American vacations are shrinking:** Recent studies have shown that work demands and financial pressures are causing Americans to take fewer long vacations and more three- or four-day getaways. In fact, a relatively small percentage of Americans say they will take a two-week vacation this year. A growing number of business travellers are tacking on a leisure component to their business trips because of a lack of designated leisure time. (See page 5.)
- **U.S. business travel demand continues to strengthen:** Business travel in the United States has strengthened over the last 12 months, fuelled in part by the availability of cheaper U.S. domestic airfares. At the same time, companies are spending more on corporate meetings, because of a combination of higher hotel rates and growth in meeting demand. (See page 6.)
- **Final phase of WHTI to take effect next year:** The U.S. Department of Homeland Security announced plans to implement the final phase of the Western Travel Hemisphere Initiative (WHTI) sometime in the summer of 2008. At that time, a passport or other approved security document will be needed to enter or re-enter the United States by land or sea. In the meantime, since the WHTI rules for air travel took effect in January, overwhelming demand for U.S. passports has resulted in increasingly lengthy processing delays. (See page 5.)

## Tourism Overview: International

- **Evolved European travel market accommodates mergers:** The European Commission (EC) approved the merger of MyTravel and Thomas Cook, stating that substantial changes to Europe's travel market over the last several years—primarily related to the expanding online travel market—would ensure the merger would not impede competition. The EC also conditionally approved the merger of TUI AG and First Choice Holidays. (See page 9.)
- **U.K. market conditions still a challenge for major tour operators:** Weak growth in bookings through TUI UK and First Choice Holidays suggest that U.K. market conditions remain challenging for traditional travel companies. (See page 10.)
- **U.K. long-haul market expanding the most quickly:** British long-haul travel spending has grown 41 per cent in the last four years, making it the fastest-growing travel segment, according to the *British Lifestyles 2007* report by Mintel. At the same time, British travellers are turning away from "mass-market" packages and embracing niche holidays, according to a separate study. (See page 10.)
- **TUI reports strong outlook for Germany and modest outlook for France:** TUI AG, Germany's largest tour operator, provided a positive outlook for the German market in its latest trading report, noting that German demand for long-haul travel was "very good." On the other hand, although market conditions in France have gradually improved since the beginning of this year, TUI expects only slight growth in bookings over the summer. (See pages 11.)
- **German agency sales losing steam while online bookings surge:** German travel agency sales have lost steam in recent months, according to the latest TATS survey of German agents. Year-over-year, sales of package holidays slumped by 7.9 per cent in May—one of the largest monthly drops in recent years. At the same time, online travel sales continue to surge. (See page 11.)

- **Women travellers a growing Asian market:** Women travellers are becoming an increasingly important Asian travel market, according to a recent report. About 40 per cent of Asian trips are made by women, and this ratio is expected to increase over the next 10 years. (See page 12.)
- **Japanese outbound travel still sluggish, but may pick up:** Although Japanese outbound travel trends remains flat, Japanese overseas travel demand may gradually improve. (See page 12.)
- **Outbound demand in other key Asian markets holding strong:**
  - Strengthening consumer sentiment in Korea has boosted domestic spending in most sectors, including travel, in recent months. Korean travel agencies are nearly selling out of their overseas packages for summer travel. (See page 13.)
  - The Chinese outbound travel market continues to exhibit double-digit growth. China has also recently moved to further liberalize its tourism industry. (See page 13.)
  - The strong Australian economy continues to bolster the value of the Australian dollar, fuelling demand for overseas travel. (See page 13.)

## Tourism Leading Indicator Index - Summary Table

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.

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.	↑ (↑)	↑ (↔)	↔ (↑)	↑ (↑)	+
France	↔ (↔)	↔ (↔)	↑ (↑)	↑ (↑)	+
Germany	↑ (↑)	↔ (↓)	↑ (↑)	↔ (↔)	+
Mexico	↔ (↔)	↓ (↓)	↑↑ (↑↑↑)	↓ (↓)	+
Japan	↔ (↔)	↓ (↓)	↓↓ (↓↓)	↔ (↔)	-
Korea	↑ (↑)	↓ (↑)	↑ (↑)	↓ (↓)	+
China	↑↑↑ (↑↑)	↑ (↑)	↑↑ (↑↑)	↑↑ (↑↑)	++
Australia	↑↑ (↑↑)	↑ (↑)	↑↑ (↑)	↑ (↑)	++

**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 rating for each component of the index indicates how that component is expected to affect travel from the source market over the near term. 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.

Full details about the index for each market begin on page 14. For more information about the methodology used to construct the index, please refer to the Appendix of this report.

## Tourism Overview - Canada and the United States

### Leisure Travellers

**Domestic travel on track for solid growth this summer:** Despite the recent spike in Canadian gasoline prices, the domestic travel market remains on track for solid growth this summer. The Conference Board of Canada's latest Canadian Travel Intentions Survey showed that nearly 69 per cent of the Canadians polled said they planned to take a leisure trip between May and September 2007, a 9 percentage point increase from last summer. Plans for travel to all destinations were higher than they were a year ago, although plans for domestic trips increased the most. Almost half (49.4%) of all Canadians polled said they intended to stay in Canada for their longest summer vacation, a rise of 8 percentage points from April 2006.

**Table 1: Summer (May-September 2007) Vacation Intentions**  
(intended destination of longest summer vacation; per cent of all Canadians surveyed)

	April 2005	April 2006	May 2007
Summer Vacation Intentions (All Destinations)	52.3	59.5	68.9
Canada	36.5	41.8	49.4
United States	7.2	8.4	9.5
Other international	7.6	7.6	8.5
Do not know/refused	1.0	1.7	1.5

*Source: Canadian Tourism Research Institute, The Conference Board of Canada.*

The survey also revealed that the majority of Canadians plan to take as many or more domestic getaways this summer as they did last year. Of those polled, 17 per cent said they would take more domestic leisure trips between May and September, while 39 per cent said they would take the same number as last year.

While the buoyant Canadian economy is helping to fuel Canadian travel demand, it is also cutting into workers' vacation time, according to the latest Vacation Deprivation Survey by Expedia.ca and Harris Interactive. In 2006, Canadians received an average of 19 vacation days, down from 21 days in 2005. Employed Canadians forfeit an average of 2 vacation days, annually, for a national total of 32 million days per year.

**U.S. vacation intentions still relatively soft:** In the United States, the latest Consumer Confidence Survey report by the U.S. Conference Board, Inc. suggests that U.S. travel intentions remain relatively soft, at about the same level as they were a year ago. Preliminary results showed that in June 2007, 41.2 per cent of U.S. consumers polled said they planned to take a vacation within the next six months, close to the same percentage as in the April 2007 poll. Results are adjusted to account for seasonal fluctuations in travel demand.

In addition, the monthly U.S. consumer confidence index declined again in June, to its lowest level since August 2006. After gaining two points in May, the index fell 4.6 points in June to 103.9 (1985=100). Consumers were less upbeat about present-day business and employment conditions, and remained subdued about short-term economic prospects.

**Final phase of WHTI delayed until summer 2008:** On June 20, 2007, the U.S. Department of Homeland Security (DHS) announced it would implement the final phase of the Western Travel Hemisphere Initiative (WHTI) sometime in the summer of 2008 with at least 60 days notice. At that time, a passport or other approved security document will be needed to enter or re-enter the United States by land or sea. The announcement was made despite the fact that the U.S. House of Representatives voted to delay the final implementation date until June 2009. In addition, the DHS announced that as of January 31, 2008, travellers will require a piece of government-issued photo identification plus proof of citizenship to enter the country by land or sea. This latest series of announcements will likely further confuse travellers.

**Passport delays have worsened:** American travellers have been facing increasingly lengthy delays when applying for passports since the WHTI requirements for air travel took effect in January. On May 23, 2007, the U.S. State Department released a press statement advising travellers that passport applications were taking about three months to process. The department also said it continued to be overwhelmed with unprecedented demand for passports. It issued 8.6 million passports between October 2006 and April 2007, a 33 per cent increase over the previous year.

In response to the processing delays, the DHS has temporarily loosened WHTI requirements for American air travellers. Until September 30, 2007, Americans can present government-issued photo identification plus an official proof of passport application when re-entering the United States by air.

**Slight growth in U.S. travel expected this summer:** Despite record-high gasoline prices and rising hotel rates, Americans are expected to take slightly more leisure trips this summer. According to a recent forecast by the Travel Industry Association of America (TIA) and the American Automobile Association (AAA), leisure travel is expected to rise 1.4 per cent between June and August, to a record-high 330 million trips. Similar to last year, some travellers may modify their summer vacation plans in response to higher travel costs, although so far, most consumers appear to be taking cost increases "in stride." AAA expects some families to stay closer to home and reduce the length of their vacations to compensate for higher travel costs.

**American vacations are shrinking:** Work demands and financial pressures are causing Americans to take fewer long vacations and more three-day getaways, according to recent studies:

- Only 14 per cent of Americans are planning a two-week vacation this year, down from 16 per cent in 2006, according to a recent survey by Expedia.com and Harris Interactive.
- Long-weekend getaways are now the most popular type of leisure trips among Americans, outnumbering week-long vacations by two-to-one, according to the *PhoCusWright Consumer Travel*

*Trends Survey, Ninth Edition.* Nearly 40 per cent of business travellers tack on a leisure component to business trips, because of a dwindling amount of designated leisure time.

- Another study said even more business travellers combine business with pleasure. This study, from the National Business Travel Association, said the majority of business travellers (62%) add a leisure component to at least one business trip per year. Families were included in 14 per cent of the 435 million U.S. business trips taken in 2006, according to D.K. Shifflett & Associates.
- More than half of U.S. leisure trips taken in 2006 were four days or less, according to the 2007 Leisure Travel Monitor by Yesawich, Pepperdine, Brown & Russell. Of those polled, 25 per cent said they were planning to travel less this year; the most cited reasons were obligations at work or at home, and financial constraints.

## Business Travellers

**Business travel continues to strengthen:** Business travel in the United States has strengthened over the last 12 months, fuelled by lower U.S. domestic airfares, according to Ernst & Young's *2007 U.S. Lodging Report*. Corporate travel departments are also helping to lower air ticket prices through advance ticket purchases. This, in turn, has driven strong demand for hotel rooms in traditional corporate travel destinations.

Over the summer, growth in business travel volumes in the United States is expected to outpace the growth of leisure travel, according to a recent forecast by the Travel Industry Association of America (TIA). Between June and August, the number of corporate trips is expected to rise 3 per cent compared with last year.

**North American meeting expenditures still rising:** North American corporate meeting expenditures have increased over the last six months, mainly because of hotel rate hikes and a growing number of meetings, according to a Meetings Monitor survey by *Business Travel News*. Of the meeting planners polled, 43 per cent said their spending had increased. Most of this group reported increases of at least 5 per cent, and more than a third (34%) said their spending had increased by more than 10 per cent. The main reasons for the increases were higher hotel and air costs (61%), more meetings (53%), and more meeting attendees (38%). The report noted that higher fuel prices were also contributing to the increases.

## Airlines - Canada

**Domestic demand boosts quarterly profits:** Air Canada posted a net loss of \$34 million in the first quarter of 2007, a strong improvement over the \$126 million net loss reported for the same quarter of 2006. A 5 per cent rise in passenger traffic (measured by revenue passenger miles), which the airline attributed to strong market demand, helped boost passenger revenues by 7 per cent, year-over-year. Passenger yields (the average price a passenger paid to fly one mile, excluding taxes and fees) grew 2 per cent over the quarter.

Looking forward, the airline reported that domestic air travel demand remains robust, but U.S. demand is softening. Air Canada also described booking trends for travel in the coming months as "strong." Fuel prices, however, are an ongoing concern.

WestJet reported a net profit of \$29.9 million for the first quarter of 2007, more than double the \$12.9 million profit recorded a year earlier. Passenger revenues surged by 23.7 per cent, and passenger traffic grew 21.6 per cent. Passenger yields were up by 1.9 per cent. The airline described its full-year outlook as favourable, and planned to expand its capacity in the second quarter by 16 per cent compared with the same quarter of 2006.

Both carriers reported a strong increase in domestic passenger volumes in May 2007. Passenger traffic on Air Canada and its regional subsidiary, Jazz, edged up 1.3 per cent compared with a year earlier, but combined domestic traffic rose by 5.3 per cent, year-over-year. Capacity in May rose by 0.6 per cent. Traffic on transborder U.S. routes climbed 2 per cent, while international traffic slipped 1.5 per cent.

In May, WestJet's passenger traffic surged by 20 per cent compared with the same month last year. Capacity expanded by 15 per cent.

Table 2. Airline Revenue Passenger Miles (RPMs) and Capacity - May 2007

Airline	RPMs (in millions) May 2007	RPM change 2007 vs. 2006	Capacity 2007 vs. 2006
Air Canada mainline (includes Jetz)	3,751	-0.2%	-1.0%
Air Canada Regional (Jazz)	369	+19.8%	+16.9%
WestJet	945.6	+20%	+15%

## Airlines - U.S.

**U.S. domestic airfares have declined:** Weaker growth in U.S. domestic air travel demand has precipitated a decline in U.S. domestic airfares for summer travel. The latest traffic reports by the major U.S. airlines show that domestic passenger traffic has been on a gradual incline since the beginning of this year, but excess domestic capacity has been undermining airlines' abilities to raise domestic airfares. As a result, airfares paid for advance bookings for travel over the summer are slightly lower than they were last year. Meanwhile, demand for international air travel remains stronger.

According to the U.S. Air Transport Association (ATA), U.S. domestic passenger yields (the average price a passenger paid to fly one mile, excluding taxes and fees) slipped 1.5 per cent in May 2007, while yields on international routes continued to register strong growth: Atlantic routes were up by 8.6 per cent, Pacific routes increased by 10.1 per cent, and Latin American routes climbed 3.3 per cent, year-over-year. Between January and May 2007, domestic yields were up by 1 per cent over the same period of 2006, while international yields were ahead by 7.3 per cent.

Looking ahead, the average cost of a round-trip ticket for travel within the United States this summer has dropped 2 per cent to US\$340 compared with last year, according to an airfare analysis conducted by Sabre for *USA Today*. Sabre noted this is the first time since 2004 that summer domestic airfares have declined. In comparison, the average international airfare has risen 10 per cent to US\$997.

The ATA recently forecasted that 209 million Americans would travel globally on U.S. airlines this summer (June to August 2007), a 3 per cent increase over 2006. The Federal Aviation Administration warned travellers to expect extensive delays and cancellations this summer because of high traffic and above-normal extreme weather activity.

## Hotels - Canada

**Demand and daily rates continue to support growth in hotel revenues:** Strong domestic travel demand continues to support improvements in average daily rates and revenues for the Canadian lodging industry. The latest *National Market Report* by PKF Consulting reported that average daily rates in Canada rose 3.6 per cent in April 2007, while occupancy levels remained on par with April 2006. As a result, revenues per available room (RevPAR) rose 3.5 per cent over the previous year.

Between January and April 2007, average daily rates increased 4.3 per cent over the same period in 2006, while occupancy edged up 0.8 percentage points. Consequently, average room revenues were 5.8 per cent ahead of the previous year.

Demand for Canadian accommodations increased 1.6 per cent in the first four months of 2007 over the same period in 2006, according to the latest *Canadian Lodging Outlook* by HVS International. Hotel room supply increased 0.9 per cent during the period.

**Outlook still improving for hotel operators:** Sentiments among Canadian hotel operators improved significantly in the second quarter of 2007 compared with the previous quarter, according to Statistics Canada's latest Business Conditions Survey for the Travel Accommodation Industry. Expectations for bookings, occupancy rates, daily rates, and business travel volumes were much more positive than in the previous survey and have been on an improving trend.

There was a slight increase in the number of respondents reporting business impediments, but labour shortages were a much higher concern. Those facing a shortage of unskilled labour and skilled labour jumped to 36 per cent and 33 per cent, respectively, up from 28 per cent and 25 per cent in the previous quarter. Excess room supply (24%) and exchange rate fluctuation (22%) were also significant issues. However, nearly a quarter (24%) said they were facing no impediments at all.

## Hotels - U.S.

**Lodging demand growth is slowing, but rates and revenues continue to climb:** U.S. lodging demand growth has been on a slowing trend since the beginning of this year, but hotel revenues continue to climb, bolstered by a continual rise in average daily rates. The relatively slow growth in hotel supply is allowing U.S. hotels to keep raising their rates, despite flattening demand.

In the first five months of this year, hotel occupancy was behind by 0.6 per cent, year-over-year, but average daily rates were up by 5.8 per cent, boosting RevPAR by 5.2 per cent. According to *Business Travel News*, Smith Travel Research attributed the apparent decrease in hotel demand to unfavourable comparisons with 2006, when lodging demand spiked after Hurricane Katrina. The research firm expects demand trends to recover as the year progresses.

This summer, the average number of occupied rooms per night is expected to reach a record-high 3.14 million, up from last year's record of 3.08 million, according to a forecast by PricewaterhouseCoopers. However, occupancy rates will be slightly lower because of a higher supply of hotel rooms. The forecast also suggests that rising gasoline prices will hurt lodging demand this summer, curtailing it by 0.2 per cent if average prices rise another 10 per cent.

## Travel Agents and Other Suppliers

**Transat achieves another strong quarter:** Transat A.T. Inc. posted a net profit of \$53.9 million for its second quarter ended April 30, 2007, up from \$42.8 million in the same quarter of 2006. Revenues for the period grew 15.1 per cent to \$911.4 million. North American revenues increased 13.1 per cent, boosted by a 10.5 per cent increase in clients. European revenues jumped 26.3 per cent, while European passengers increased 18.1 per cent. Looking ahead to winter 2007-2008, the company plans to increase its capacity from the U.K. to Canada by 50 per cent, year-over-year.

**Canadian travel agents cite online market as their main challenge:** Competition from the online travel market is the highest concern among Canadian travel agents, according to the recently released Annual Study of Canadian Travel Agents, reported by Openjaw.com. About 42 per cent of respondents cited this as the main issue they are facing today. Still, the survey also revealed that agents are more confident about their agency's profitability than they were last year.



**Report calls for industry to reignite interest of American travellers:** The Canadian tourism industry needs to do more to pique the interest of American travellers, its largest source of inbound visitors, according to *Destination Canada: Are We Doing Enough?*, a new report by Deloitte and the Tourism Industry Association of Canada. The report states that Americans perceive Canada as "friendly, down to earth, traditional and safe," but not exciting or adventurous. The report calls for the industry to do what it can to reignite Americans' interest in Canadian destinations.

**Expedia reports flattening North American bookings:** Expedia.com reported that its bookings increased 8 per cent in the first quarter of 2007, year-over-year, boosted by a 32 per cent jump in European bookings. In comparison, North American bookings were up only 1 per cent, and have registered little growth for the past four quarters. Bookings in other regions climbed 23 per cent. Meanwhile, TripAdvisor.com, a subsidiary of Expedia.com, recently reported that the number of consumer reviews on its website has doubled over the last year to 10 million.

## Tourism Overview - International

### Europe

**Air travel between the U.K. and North America dipped slightly in May:** The British Airport Authority's seven U.K. airports handled 12.8 million passengers in May 2007, a 0.3 per cent increase over May 2006. Although passenger numbers on long-haul routes grew 3.3 per cent overall, passengers on North Atlantic routes declined 0.4 per cent. Passengers on scheduled routes to Europe rose 1.8 per cent, while domestic numbers fell 2 per cent.

British Airways reported that its overall passenger numbers declined 1.3 per cent in May compared with the previous year. The airline blamed the decline on a number of external factors: the unusual timing of bank holidays in the U.K. and continental Europe during the month, continuing carry-on baggage restrictions at Heathrow airport, and the weak U.S. dollar. To boost summer bookings, the airline is cutting fares on select flights to Europe by up to 20 per cent. Low-cost carriers Ryanair and EasyJet have each made similar announcements.

Table 2. Percentage change in passengers carried

Carrier	May 2007 vs. May 2006
British Airways	-1.3%
Ryanair	+17%
EasyJet	+13.8%

A recent forecast by Air4casts, a Geneva-based research organization, suggests that European air travel in the third quarter of 2007 will increase by a modest 3.9 per cent, year-over-year. A recent slowing trend has been especially apparent in the United Kingdom. French domestic air travel is also expected to be sluggish, although the firm noted that prospects for French outbound travel were better. Passenger growth in Germany is expected to stay about the same as the same quarter of 2006.

**Evolved European travel market accommodates major mergers:** The European Commission (EC) approved the merger of MyTravel and Thomas Cook in early May, stating that substantial changes to Europe's travel market over the past several years would ensure the merger would not "significantly impede effective competition." The EC pointed out that consumers now have access to a large spectrum of travel

sites through the Internet, and also have the ability to travel independently on a number of low-cost carriers. The merger was completed on June 19.

Not surprisingly, the EC also approved the merger of TUI AG and First Choice Holidays, with the condition that TUI sells its Irish subsidiary to avoid a monopoly in that market. The approval was announced in early June and the merger is expected to be completed in October 2007.

**Market conditions still challenging for major U.K. tour operators:** Recent interim trading statements by TUI UK and First Choice Holidays suggest that U.K. market conditions remain challenging for traditional travel companies.

- TUI reported that its U.K. client numbers rose 5.1 per cent in the first quarter of this year, driven mainly by strong growth in air-only bookings, while package bookings declined. Looking ahead, bookings for summer travel period were up marginally (1.9%) at the end of April, but sales were behind by 6.8 per cent. TUI noted that "difficult market conditions persist" in the U.K.
- First Choice reported that as of June 14, its summer bookings were on par with the previous year, while revenues were up 3 per cent. Short-haul bookings were behind and medium-haul bookings were about the same as the previous year, but long-haul bookings were ahead by 21 per cent. The company described the U.K. market as challenging, but noted that growth in its summer bookings had been gaining steam through the second quarter of this year.

**U.K. still the largest online travel market in Europe:** The U.K. remains the largest online travel market in Europe, followed by Germany, according to the latest *Trends in European Internet Distribution* report by the Centre for Regional and Tourism Research in Denmark. In 2006, the European online market accounted for 38.3 billion euros (C\$54.8 billion) in online sales, a 31 per cent increase over 2005. Spending in the U.K. accounted for 34 per cent of this figure, followed by Germany at 20 per cent. France was third at 14 per cent. In 2007, European online travel sales are expected to grow another 22 per cent.

U.K. online travellers are heavily influenced by online reviews, according to American Express' recent *Hospitality Monitor 2007* report. More than 80 per cent of U.K. consumers say they have researched a hotel online before making a booking, and nearly half of those who research travel on the Internet say they are likely to avoid a hotel because of a negative online review.

**U.K. long-haul market expanding the most quickly:** British spending on long-haul travel grew 41 per cent between 2002 and 2006 to GBP 8 billion (C\$17 billion), making it the fastest-growing travel segment, according to the *British Lifestyles 2007* report by Mintel. Overall outbound travel spending grew 28 per cent over the same four-year period to GBP 23.8 billion, while domestic travel spending grew 20 per cent to 9.8 billion.

The report noted that "rising disposable income has led to higher expectations about the quality of life" among U.K. consumers, spurring more spending on premium products and services. The firm suggests holidays are the top spending priority for British consumers over the next year, with nearly one in four (23%) planning a major outbound vacation.

**British travellers embracing niche holidays:** At the same time, British travellers are turning away from "mass-market" packages and embracing niche holidays, according to the *Niche Travel Report* by Travelzest, an online travel company. Since 2002, the number of packages booked through mainstream travel companies has dropped by 10 per cent, while online bookings for specialist holidays have boomed. The report suggests this trend is fuelled by a growing desire among consumers to spend more money on life-enriching experiences, as well as the expansion of the baby boomer and singles markets.

The report suggests that the niche markets poised to grow the most over the next five years include:

- inner self escapes (e.g. yoga, meditation, spa)
- hobbies abroad (e.g. art, gardens, cycling)
- eco-vacations and wildlife and nature tours

**Tour operator reports slight improvement in French travel market:** TUI AG reported a gradual improvement in travel market conditions in France over the first quarter of this year. Still, bookings among its French tour operators during the quarter were 2.5 per cent below the same quarter of 2006, although revenues increased slightly.

Looking ahead to the summer season, TUI reported that as of April 27, its bookings in France were up by 1.4 per cent, year-over-year, and sales were ahead by 4.6 per cent.

**German long-haul air travel on an upward trend:** Passenger numbers at Frankfurt Airport edged up 0.6 per cent in March 2007, year-over-year, to nearly 4.7 million, a new record for the month of May. Year-over-year comparisons appeared low because of the high passenger volumes leading up to last year's World Cup tournament, even though the favourable timing of statutory holidays this year helped offset this effect. Intercontinental travel volumes increased 3.2 per cent, boosted in part by a 7.3 per cent increase on routes to the United States.

**German agency sales losing steam while online bookings surge:** German travel agency sales have lost steam in recent months, falling 2.3 per cent in May 2007 compared with a year earlier, according to the latest TATS survey of German travel agents. Sales of package holidays and other leisure travel products slumped by 7.9 per cent—one of the largest monthly drops in recent years, according to *FVW*, a German travel trade journal. Meanwhile, airline tickets sales climbed 3.5 per cent. For the first five months of 2007, holiday sales were up by only 1.2 per cent over the same period of 2006, while year-to-date air-only bookings were ahead by 7 per cent.

Bookings for travel up to the end of October 2007 were also weak in May, offsetting much of the strong growth achieved earlier in the year. Compared with last year at the same time, bookings to the end of October were up by 3.4 per cent, and revenues were ahead by 2.8 per cent.

*FVW* also reported that about 6 per cent of German travel agencies went out of business last year because of stagnating sales and lower commission payments, as well as competition from the online travel market. Combined revenues among German travel agencies grew only 0.7 per cent last year to 20.8 billion euros. In comparison, German online travel sales grew by more than 10 per cent to 12.9 billion euros, according to a study by Ulysses Web-Tourismus.

**TUI optimistic about German long-haul travel demand:** TUI AG, Germany's largest tour operator, offered a positive outlook for the German market in its latest trading report. Its German customer numbers surged to 1.8 million in the first quarter of 2007, an 11.6 per cent increase over the previous year. It noted that German demand for long-haul travel was "very good." By the end of April, its German summer bookings were 10.1 per cent ahead, and sales were up by 5.6 per cent, year-over-year.

## Mexico

**Amex reports strong business travel demand in Latin American region:** Because of strong growth in demand, American Express Business Travel recently named the Latin America and Caribbean region as one of its fastest-growing global markets, coming in third after China and India, according to *Travel Daily News International*. Total travel sales for the region jumped 20 per cent in 2006 over 2005. The company's regional headquarters is based in Mexico City.

Strong business travel demand also pushed up average short-haul economy airfares in the overall region by 2.7 per cent last year, while international business class fares grew 4.4 per cent. However, this was not the case in Mexico, where new domestic low-cost carriers increased air travel competition, driving down short-haul fares in 2006 by 5 per cent, year-over-year.

**Mexican tour operators report disappointing first-quarter results:** The CTC foreign office in Mexico recently reported an increase in the number of Mexican tour operators selling vacation packages to Canada, creating competition that is putting pressure on profits. Recent additions to the market include Operadora Mundo Visión and Grupo Saguza. Another operator, Tips Travel, will begin offering vacation packages with direct flights to Canada on Mexicana de Aviación, but will focus on selling directly to consumers, bypassing travel agents. The company believes there is too much competition among Mexican travel agencies, and expects higher profits from direct sales. Overall, the Mexican travel trade remains very optimistic in its outlook for Mexican travel to Canada.

## Asia-Pacific

**Women travellers a growing market:** Women travellers are becoming an increasingly important Asian travel market, according to a report by Abacus, an Asian travel distribution company, as reported by *Travel Daily News International*. About 40 per cent of Asian trips are made by women, up from about 10 per cent in the mid-1970s. Abacus expects this ratio to increase over the next 10 years as Asian economies mature. The top five activities for Asian women travellers are shopping, cultural or historical interests, beach resorts, nature or adventure resorts, and family resorts. This market is also driving strong growth in the Asian spa industry.

**Asian travel up during Golden Week:** Asian travel demand was strong over the Golden Week holiday (April 27 to May 6) this year, according to the Centre for Asia Pacific Aviation:

- Passenger numbers on Japan Airlines rose 1.6 per cent, year-over-year, driven by a 2.3 per cent increase on domestic routes. However, passengers on international routes fell 1 per cent, mainly because of a sharp reduction in capacity on transpacific (-28%) and Oceania (-29%) routes, and a small decline (-1%) on European routes. On the other hand, demand for China (+11%), Guam (+11%), and South Korea (+18%) was very strong.
- Passenger numbers on Chinese airlines surged nearly 20 per cent during the holiday compared with the previous year.

**Japanese outbound travel still sluggish, but may pick up:** The number of passengers travelling through Narita International Airport in Tokyo grew by 2 per cent between January and May 2007 compared with a year earlier, according to the airport's latest traffic statistics. The number of Japanese passengers on international flights was on par with the previous year, and the number of domestic passengers jumped 13 per cent.

H.I.S. Co. Ltd., a leading Japanese travel and airline ticket agency, reported a 13.9 per cent increase in net sales to 168.6 billion yen (C\$1.5 billion) for its first half ended April 30, 2007. Although the Japan National Tourist Organization estimated that overseas travel over the period increased only 0.6 per cent, H.I.S. said it was able to boost its group travel business by focusing on key client segments: independent travellers, young travellers, and "seasoned" overseas travellers. Looking ahead, the company projects a gradual rise in Japanese overseas travel demand over the summer, as improving corporate profits help boost employment and personal consumption. Demand is expected to increase the most for beach vacations and for European trips by families and young female office workers.

**Korean Air reports healthy outbound travel demand:** Korean Air reported that its international passenger revenues increased 19.3 per cent in the first quarter of 2007, boosted by healthy outbound travel demand. International passenger traffic (measured by revenue passenger kilometres) over the period rose 12.9 per cent, while domestic traffic fell 5.6 per cent.

The airline plans to launch a low-cost carrier within the next three years for flights on short- and medium-haul flights. The airline is in the process of restructuring its domestic operations as it loses domestic passengers to Korea's new high-speed railway.

**Improving consumer sentiment boosts Korean travel bookings:** A recovery in consumer sentiment boosted domestic spending in most sectors, including travel, between January and May 2007, according to *Korea Times*. Korean travel agencies have reported near sellouts of overseas packages for summer travel. Other sectors related to travel and entertainment have also been doing very well.

**Chinese travel market still robust:** Chinese outbound travel increased 14.5 per cent in the first quarter of 2007, to 9.8 million trips, according to China National Tourism Administration (CNTA) statistics reported by [eyefortravel.com](http://eyefortravel.com).

Combined operating revenues among Chinese airlines increased nearly 20 per cent in the first quarter of 2007, because of strong market demand and a drop in fuel prices. Passenger numbers increased nearly 16 per cent to 40.9 million during the quarter compared with a year earlier.

**China further liberalizes its travel industry:** The Chinese government will allow foreign travel agencies to establish subsidiaries in China as of July 1, 2007, four months ahead of the November deadline set by the World Trade Organization. However, foreign agencies will only be allowed to sell domestic trips-outbound travel services will be off limits.

China and the United States signed a new bilateral air services agreement in May. The accord will allow air traffic between the two countries to increase gradually over the next five years, to more than double its current frequency.

**Strong Australian dollar fuelling outbound travel:** The strong Australian economy continues to bolster the value of the Australian dollar, fuelling demand for overseas travel. In June, the Australian dollar hit an 18-year high against the U.S. dollar. However, it is also constraining Australia's inbound and domestic travel markets, according to various media reports. The availability of affordable international flights and a lack of interest in domestic travel among young Australians were two other reasons given for the strong outbound travel trends.

The latest figures from the Australian Bureau of Statistics show that Australian outbound travel increased 8.5 per cent in April 2007 compared with the same month of 2006. The Bureau also reported that outbound travel has been trending upwards since December 2006.

Australians took 4.4 million outbound trips in 2006, a 2.3 per cent increase over 2005, according to the recently released National Tourism Survey by Tourism Australia. The most popular destinations were New Zealand (18%), Canada/U.S. (11%) and the U.K. (9%). Half of all outbound trips were for leisure purposes (50%), followed by visiting friends and family (24%) and business travel (23%).

## 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). 0 represents no change.

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

## Domestic Travel

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

*Note: the bracketed figures are from the previous (May 2007) Tourism Intelligence Bulletin.*

### Economic Trends:

- In May, Canadian employment advanced by 9,300 jobs, so the unemployment rate held steady at its 33-year low of 6.1 per cent. During the first quarter of 2007, real gross domestic product (GDP) grew at an annualized rate of 3.7 per cent-more than twice the pace of the previous quarter.
- The overall price competitiveness of domestic travel is weakening as the Canadian dollar continues to appreciate. As well, higher gas prices are likely to limit the potential growth of shorter, excursion-based trips by automobile.

### Traveller and Supplier Trends:

- Year-over-year, domestic air travel (as measured by the number of enplaned and deplaned passengers at Canada's top 30 airports) surged 9.2 per cent in April, according to Transport Canada. On the other hand, average Canadian hotel occupancy rates did not increase in April, according to PKF Consulting. Although there are a number of reasons for this discrepancy, it does suggest that high gas prices are already curbing growth in domestic automobile travel.

- The latest outbound travel statistics (from April 2007) also suggest a slight cooling in travel activity to the United States (down 2% year-over-year), despite the strength of the Canadian dollar vis-à-vis the U.S. dollar. However, during that same month, travel to other international countries remained strong.
- Overall, the Tourism Leading Indicator for domestic travel suggests the market should continue to expand at a modest pace over the near term.

## United States (to Canada)

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (to Canada)	Supplier Trends (U.S. to Canada)	
↔ (↔)	↓ (↓)	↓↓ (↓↓)	↔ (↔)	-

*Note: the bracketed figures are from the previous (May 2007) Tourism Intelligence Bulletin.*

### Economic Trends:

- Some recent economic indicators suggest slight optimism for the overall health of the U.S. economy. The Conference Board's leading economic index for the U.S. increased 0.3 per cent in May, reversing the decline registered in April. Still, real GDP grew by an annual rate of only 0.6 per cent in the first quarter of 2007, down from 2.5 per cent in the last quarter of 2006.
- According to recent analysis by the Canadian Tourism Research Institute, Canada's price competitiveness for U.S. air travellers may improve slightly during the third quarter of 2007 because of cheaper airfares. However, the cost of visiting Canada is expected to increase for many Americans, particularly auto travellers, as the U.S. dollar continues to lose ground vis-à-vis the Canadian dollar.

### Traveller and Supplier Trends:

- Overnight trips from the United States to Canada declined 11.1 per cent in April 2007 compared with April 2006, according to Statistics Canada. Overnight auto travel from the U.S. continues to register larger year-over-year declines than air travel, which suggests the new WHTI rule for air travellers is also creating some confusion among automobile travellers. Undoubtedly, high gas prices and the higher Canadian dollar are also dampening U.S. visits.
- The number of direct seats available for air travel from the United States to Canada during the third quarter of 2007 is scheduled to increase slightly (1.1%) over the same quarter of 2006.
- Overall, the Tourism Leading Indicator for U.S. travel to Canada suggests that U.S. visits will continue to decline over the near term.

## United Kingdom

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

*Note: the bracketed figures are from the previous (May 2007) Tourism Intelligence Bulletin.*

**Economic Trends:**

- The Conference Board's leading economic index for the U.K. increased 0.6 per cent in April. The six month growth rate of the index increased to an annual rate of 4.5 per cent. Real GDP grew at an annual rate of 3 per cent in the first quarter of 2007, down slightly from the fourth quarter of 2006. The current behaviour of the leading index suggests that moderate economic growth will continue, and perhaps pick up slightly, in the near term.
- Canada's price competitiveness for U.K. travellers is still a challenge. However, it is expected to improve against key competitive markets during the third quarter of 2007.

**Traveller and Supplier Trends:**

- Although visits from the U.K. declined 6.8 per cent in April, between January and April visits were still 4.2 per cent ahead of the same period in 2006, according to Statistics Canada. The U.K. Office for National Statistics reported that U.K. travel abroad increased 2 per cent in April, year-over-year, although travel to North America declined 4 per cent.
- Looking ahead, direct air capacity on scheduled flights from the U.K. and Canada is expected to increase 11.1 per cent during the third quarter of 2007, compared with a year earlier.
- Overall, economic gains and an improvement in Canada's price competitiveness suggest slight growth potential for U.K. travel to Canada over the near term, despite a softness in travel trends.

**France**

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

*Note: the bracketed figures are from the previous (May 2007) Tourism Intelligence Bulletin.*

**Economic Trends:**

- The Conference Board's leading economic index for France did not move in April, following three consecutive monthly gains. The six-month growth rate of the index increased slightly to an annual rate of 1.4 per cent, but that was still much lower than the 3 to 3.5 per cent annual growth rate recorded in the first half of 2006. Real GDP grew at a 2 per cent annual rate in the first quarter of 2007. The recent behaviour of the leading index suggests economic growth will likely continue at a slow to moderate rate over the near term.
- Although the euro has depreciated 7 per cent vis-à-vis the Canadian dollar since the beginning of this year, it is at the same level as last summer.

**Traveller and Supplier Trends:**

- Visits from France increased 3.7 per cent in April 2007, year-over-year, helping to boost arrivals between January and April by 6.5 per cent ahead of last year, according to Statistics Canada. The U.S. Office of Travel and Tourism Industries (OTTI) reported that travel from France to the U.S. increased 22.4 per cent during the first quarter of 2007.
- Looking ahead, French arrivals to Canada should receive a boost from the estimated 15 per cent increase in direct air capacity scheduled during the third quarter of 2007, compared with last year.



- All in all, despite some lingering issues with price competitiveness, the Tourism Leading Index suggests there is slight growth potential in travel to Canada over the near term.

## Germany

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

*Note: the bracketed figures are from the previous (May 2007) Tourism Intelligence Bulletin.*

### Economic Trends:

- The Conference Board's leading economic index for Germany increased 0.8 per cent in April. The six-month growth rate of the index increased slightly to a 3.3 per cent annual rate, with widespread strengths among the indicators. Meanwhile, real GDP grew at a 2.1 per cent annual rate in the first quarter of 2007, down from the 3.7 per cent rate posted in the second half of 2006. The behaviour of the leading index suggests that the recent moderation in economic growth will be short-lived, with economic activity picking up slightly in the near term.
- Despite the recent depreciation of the euro vis-à-vis the Canadian dollar, Canada's competitiveness for German travellers is expected to improve against some competitive markets in the third quarter of 2007.

### Traveller and Supplier Trends:

- Visitors from Germany increased 4.7 per cent in the first four months of 2007 compared with the same period in 2006, according to Statistics Canada. Meanwhile, the OTTI reported that travel from Germany to the U.S. increased 10.3 per cent during the first quarter of 2007.
- Looking ahead, growth in German arrivals could be curbed by the relatively modest 1 per cent increase in direct air capacity planned by scheduled carriers for the third quarter of 2007.
- Still, improving economic conditions and price competitiveness suggests there is potential for growth in German travel to Canada over the near term.

## Mexico

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

*Note: the bracketed figures are from the previous (May 2007) Tourism Intelligence Bulletin.*

### Economic Trends:

- The Conference Board's leading economic index for Mexico increased 0.4 per cent in April. With this increase, the six-month growth rate of the index increased to an annual pace of 1.4 per cent. This is a significant improvement from the -4.2 per cent annual rate recorded in January. Unfortunately, the strengths among the indicators have not been widespread in recent months. The behaviour of the leading index suggests that slow economic growth will likely continue in the near term.

- Despite cheaper airfares to Canada, the price competitiveness of Canadian destinations remains under pressure from the continued depreciation of the Mexican peso vis-à-vis the Canadian dollar.

**Traveller and Supplier Trends:**

- While Mexican arrivals to Canada dropped 4.2 per cent in April, arrivals for the first four months of 2007 overall were 18.1 per cent ahead of 2006, according to Statistics Canada. The OTTI reported that Mexican arrivals to the U.S. interior (beyond the 40 kilometre U.S. border zone) increased 28.5 per cent during the first quarter of 2007.
- Unfortunately, direct air capacity between Mexico and Canada is scheduled to decline 6.1 per cent in the third quarter of 2007, compared with a year earlier.
- The Tourism Leading Indicator Index suggests that the continued strength in Mexican travel trends should offset some of the country's economic concerns, as well as Canada's struggling price competitiveness and direct air capacity constraints. As a result, Mexican arrivals to Canada are expected to post modest growth over the near term.

Japan

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

*Note: the bracketed figures are from the previous (May 2007) Tourism Intelligence Bulletin.*

**Economic Trends:**

- The Conference Board's leading economic index for Japan increased 0.2 per cent in April, but the six-month index remained unchanged. The strengths and weaknesses among the leading indicators have been somewhat balanced in recent months. On a positive note, real GDP in the first quarter of 2007 grew at a 2.4 per cent annual rate, up significantly from the 1 per cent rate posted in the second half of 2006. The current behaviour of the leading index suggests that slow to moderate economic growth will likely continue in the near term.
- Unfortunately, the cost of visiting Canada is increasing as the value of the Japanese yen continues to depreciate. Still, Canada's relative price competitiveness is expected to improve slightly against competing markets during the third quarter of 2007.

**Traveller and Supplier Trends:**

- Over the first four months of 2007, Japanese arrivals to Canada were down 11.5 per cent from 2006. Similarly, the OTTI reports that travel from Japan to the U.S. declined 6.2 per cent during the first quarter of 2007.
- Looking ahead, direct air capacity from Japan to Canada in the third quarter is expected to be on par (-0.9%) with last year.
- Overall, the Tourism Leading Indicator suggests Japanese arrivals to Canada will continue to decline over the near term.

## South Korea

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

*Note: the bracketed figures are from the previous (May 2007) Tourism Intelligence Bulletin.*

### Economic Trends:

- The Conference Board's overall leading economic index for South Korea declined slightly (-0.1%) in April for the third consecutive month. The six-month growth rate of the index increased to a 1.3 annual pace, up from -0.7 per cent in the previous month. However, the strengths and weaknesses among the leading indicators are roughly balanced. Real GDP grew at a 3.6 per cent annual rate in the first quarter, down from 4.4. per cent in the second half of 2006. The recent behaviour of the leading index suggests that economic growth will be slow to moderate over the near term.
- The cost of travel to Canada continues to climb as the Korean won depreciates against the Canadian dollar. Canada's price competitiveness for Korean travellers is expected to weaken against most competitive markets during the third quarter of 2007.

### Traveller and Supplier Trends:

- Korean arrivals to Canada increased 8.3 per cent during the first four months of 2007 compared with the same period last year, according to Statistics Canada. Similarly, the OTTI reported that travel from South Korea to the U.S. increased 9.5 per cent during the first quarter of 2007.
- Unfortunately, direct air capacity from South Korea to Canada is scheduled to decline 6.8 per cent during the third quarter compared with last year.
- Overall, the Tourism Leading Indicator Index suggests Korean arrivals to Canada should increase slightly over the near term.

## China

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

*Note: the bracketed figures are from the previous (May 2007) Tourism Intelligence Bulletin.*

### Economic Trends:

- China's economy continues to surge ahead, despite the challenges presented by a slowdown in the U.S. economy. In fact, real GDP grew 11.1 per cent during the first quarter of 2007. The uptick in economic performance represents a solid rebound from the subpar growth registered in the fourth quarter of 2006. According to the latest Consensus Forecasts report (May 2007), projections for most economic indicators have been revised higher for 2007.
- Canada's price competitiveness for Chinese travellers is expected to improve against all key competitive destinations in the third quarter of 2007-especially the U.K., Germany, and France.

**Traveller and Supplier Trends:**

- In April, Chinese arrivals increased a relatively modest 4.5 per cent, but year-to-date arrivals were still 10.6 per cent ahead of 2006, according to Statistics Canada. The OTTI reported that travel from China (including Hong Kong) to the U.S. grew 20.3 per cent in the first quarter of 2007.
- Looking ahead, direct air capacity to Canada is scheduled to increase 22 per cent in the third quarter compared with the previous year.
- The Tourism Leading Indicator Index suggests that continued strength in economic and travel trends will help fuel solid growth in Chinese travel to Canada over the near term.

**Australia**

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

*Note: the bracketed figures are from the previous (May 2007) Tourism Intelligence Bulletin.*

**Economic Trends:**

- The Conference Board's overall leading economic index for Australia increased 0.3 per cent in April, the third consecutive monthly increase. With this gain, the six-month growth rate rebounded to an annual pace of 5 per cent. In addition, the strengths among the leading indicators have become more widespread than weaknesses in recent months. The behaviour of the leading index suggests that moderate to strong economic growth will likely continue in the near term.
- Aided by the relative strength of the Australian dollar, Canada's price competitiveness for Australian travellers is expected to improve against most competitive markets in the third quarter of 2007.

**Traveller and Supplier Trends:**

- Australian arrivals to Canada increased 10 per cent during the first four months of 2007 compared with a year earlier, according to Statistics Canada. Similarly, the OTTI reported that travel from Australia to the U.S. increased 11.8 per cent during the first quarter of 2007.
- For the third quarter of 2007, air capacity to Canada (with one stop) is expected to expand 11 per cent compared with 2006.
- Overall, the Tourism Leading Indicator suggests there is potential for moderate to strong growth in Australian arrivals over the near term.

## Appendix: Tourism Leading Indicator Index - Methodology

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 represents 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 include how gas prices, fuel surcharges, security-related charges, or other costs are making Canada either more or less price competitive than 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.