



A New Era in Canada-U.S. Travel

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Tourism Overview

- The first stage of the Western Hemisphere Travel Initiative (WHTI) came into effect on January 23, 2007, signifying the start of a new era in Canada-U.S. cross-border travel. Canadian and American travellers now need a passport or other secure document to enter or re-enter the United States by air.

It is too soon to determine the impact of this first phase of the new rules on Canada's tourism industry, but recent developments may help mitigate some of the more significant effects of the upcoming WHTI deadline for land and sea travel.

- The U.S. Department of Homeland Security is showing signs of reconsidering its hardline stance, acknowledging the need for balance between security and pragmatism. The department recently announced that American and Canadian children aged 15 and younger will be exempt from the WHTI regulations that will eventually apply to land and sea borders. Youths aged 16 to 18 who are travelling in school, religious or sports groups will also be exempt. However, children travelling by air still require a valid passport when entering or re-entering the United States. The prohibitive cost of obtaining passports for children was expected to detract significantly from cross-border trips by families and youth travel groups.
- Unfortunately, one of the most persistent challenges associated with the WHTI is proving difficult to overcome: traveller confusion remains as high as ever. For example, only 60 per cent of Americans polled in December 2006 were aware of new WHTI regulations. Moreover, 85 per cent of Americans were still unaware of, or had incorrect information about, the actual implementation dates of the regulations. Mixed media reports about potential changes to the implementation dates are partly to blame. Unfortunately, this confusion is clearly already deterring some American visitors from travelling across the border, even by land.
- The flipside of this is that some Canadians will be deterred from taking a trip south of the border and, instead, will stay within Canada when vacationing. More than one-quarter of the Canadians polled in December said they would travel to the United States less frequently because of the new passport regulations. The majority of those taking fewer U.S. trips plan to take more leisure trips to domestic destinations.
- A major influence on the propensity of Americans and Canadians to travel between the two countries once the WHTI is fully in effect will be passport possession. Although the demand for passports among Americans and Canadians has risen sharply over the last two years, the cost and inconvenience of obtaining a passport remains a substantial hurdle for many travel consumers-Americans, in particular.



Consumer (Traveller) Overview - Canada and the United States

- **Upbeat outlook for domestic travel:** Early indications suggest that Canadians are upbeat about their vacation plans for this summer, in particular for domestic travel. The latest Travel Intentions Survey by the Canadian Tourism Research Institute, conducted in December 2006, revealed that nearly 83 per cent of the Canadians polled intended to take a summer vacation this year, up from 69 per cent in the December 2005 survey. There was also a decisive shift in summer trip destinations: 73 per cent of summer travellers plan to take their vacation in Canada, up from 65 per cent a year earlier. Intentions for U.S. trips dropped 8 percentage points to 10.2 per cent, while plans for trips to other international destinations were about the same. The new passport rule for air travel between Canada and the United States likely played a role in this shift.

Results of a new survey by the Hotel Association of Canada and Fleishman-Hillard Canada paint an equally rosy picture for domestic travel. More than three-quarters of the Canadians polled (78%) said they intended to take an overnight domestic trip sometime in 2007, up from 67 per cent in 2006.

- **U.S. vacation intentions trending downward:** Meanwhile, U.S. travel intentions appeared to have softened in February, according to the latest Consumer Confidence Survey report by the U.S. Conference Board, Inc. The February poll indicated that 39.9 per cent of U.S. consumers planned to take a vacation within the next six months, down from 46 per cent in December 2006. Intentions for domestic and international leisure trips both declined.

Conversely, the Conference Board's monthly U.S. consumer confidence index has been on an upward trend in recent months. The index rose 2.3 points in February to 112.5-its highest level in over five years, according to preliminary results.

- **Meeting expenditures poised for strong growth again:** The international meetings industry will record another year of strong growth this year, according to the *FutureWatch 2007* report by Meeting Professionals International and American Express. Corporations are expected to spend 18 per cent more on meetings than they did in 2006, while associations will increase their meeting expenditures by 21 per cent. However, Canadian planners expect to hold fewer events in Canada this year; instead, they expect to double the number of meetings they hold in the United States.

Travel Supplier Overview - Canada and the United States

- **Air travel demand flying high:** Canadian travel demand continues to register solid growth. In fact, Canada was the "stellar New Year performer" among North and South American airlines, according to OAG statistics. Year-over-year, flights to and from Canada increased 8 per cent in January 2007 to 39,000-the highest January figure since 2001. Flights within Canada increased 9 per cent. Growth in domestic low-cost flights was modest (3%), but there was a substantial increase (57%) in the number of low-cost flights to and from Canada.
- **Domestic travel demand still boosting hotel revenues:** Solid domestic travel demand continues to boost revenues for the Canadian hotel industry, although growth rates cooled slightly in the final months of 2006. According to PKF Consulting, nationwide hotel occupancy edged up 0.5 percentage points in December, but average daily rates rose 3.4 per cent, year-over year, boosting revenues per available room (RevPAR) by 4.4 per cent. For 2006, RevPAR was up by 6.1 per cent.
- **U.S. international air demand still trending up:** While growth in U.S. domestic air demand remains relatively flat, demand for international travel continues to rise. These trends are reflected in the average airfare reports, which reveal a slight decline in U.S. domestic air ticket prices and substantial growth in international fares.

International Overview - Europe

- **Two leading tourism firms to merge:** U.K.-based MyTravel and German-based Thomas Cook announced they will merge in June 2007, creating Europe's second-largest travel company after Germany's TUI. The merged company will be headquartered in London and will operate under the name Thomas Cook Group. According to MyTravel, the new company will account for combined revenues of GBP£8 billion annually and will serve 19 million customers per year. Some analysts have speculated that competitive pressures arising from the merger could prompt further consolidation among European travel companies.
- **U.K. consumers "flocked" to travel websites in January:** As soon as Christmas holidays were over, British consumers "flocked" to travel websites to plan their next holiday, resulting in a 60 per cent surge in travel website visits over the previous month, according to comScore Networks. Visits to Expedia jumped 38 per cent to 6.6 million, and visits to TUI doubled to 5.5 million. MyTravel, Thomas Cook and First Choice each received approximately 3 million visits that month, about 150 per cent more than they each received in December.
- **Modest growth potential for French market, but German outlook still subdued:** While overall outbound travel trends in France and Germany appear to be looking up, Canada is still facing a number of challenges with these two key markets. European travellers are increasingly on the lookout for new and unique travel experiences, a trend that is driven mainly by the growth in direct bookings made through the Internet by individual travellers. At the same time, Canada's struggles with price competitiveness have achieved only modest progress in recent months. Air access to Canada has also been a challenge. On the upside, there is a large increase in direct air capacity planned for routes between France and Canada in the first half of this year. The latest travel statistics also reveal a sharp rebound in visits from France in December.

International Overview - Asia-Pacific

- **Canada and Japan expand air services agreement:** In February, Transport Canada announced a new bilateral air services agreement with Japan that will expand air service rights for flights between Japan and Canada. With the new agreement, airlines will have greater flexibility in capacity adjustments, aircraft types and code-sharing services, opening up competition on these routes. This improvement in air access should help improve the growth potential of Japanese travel to Canada, which has been on a declining trend for some time.
- **South Korean market outlook remains upbeat:** Outbound trips from South Korea are expected to reach 12 million this year, and major Korean tour operators are developing aggressive marketing strategies to capitalize on this growth. A group of Korean tour operators specializing in golf vacations have formed a Golf Tour Association, to promote golf vacation packages for Korean travellers. In addition, solid growth in Korean visits to Canada is expected over the near term.
- **Australians reveal long-haul travel preferences:** Australians enjoy using low-cost carriers for short- and medium-haul flights, but prefer to stick with major carriers for long-haul flights of over eight hours, according to a recent survey. High-income households were least likely to use a low-cost carrier for long-haul flights, but were just as likely to use them for shorter trips. A separate survey revealed that the vast majority (82%) of Australians still prefer to book long-haul trips through travel agencies. Most of those who book through an agent prefer to do so in person, rather than by telephone or via the Internet.

Overnight Trips to Canada

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.	↑	↔	↔	↑	+
France	↔	↔	↑	↑	+
Germany	↔	↓	↔	↓	0
Mexico	↔	↓	↑↑	↑	+
Japan	↔	↓	↓↓↓	↔	-
Korea	↑	↑	↑	↔	+
China	↑↑	↑	↑↑	↑	++
Australia	↑	↑	↔	↓	0

Ratings Key:**Economic Factors and Non-Economic Factors:**

Range from ↑↑↑ (significantly adds to demand) to ↓↓↓↓ (significantly impedes demand).
↔ represents neutral effect on demand.

Overall Tourism Leading Indicator:

Ranges from +++ (significantly improving) to --- (significantly deteriorating). 0 represents no change.

- **Economic Factors:** A subdued economic environment continues to persist for most markets, although many countries have seen a slight improvement since the last index because of better prospects for export markets and domestic demand. Global economic prospects are improving overall, but the latest reports about the U.S. economy have generated some concerns. Fortunately, consumer spending and consumer confidence remain upbeat. Canada's overall price competitiveness is still a concern, but the gap in competitiveness appears to be slowly improving.
- **Non-Economic Factors:** The biggest change since the last index has been the implementation of the WHTI passport requirement for travellers entering or re-entering the U.S. by air. Conversely, domestic travel trends may be bolstered by Canadian travellers who decide to avoid trips to the U.S. because of the new passport requirements and travel to domestic destinations instead.
- **Overall Tourism Leading Indicators:** While there have been a number of changes to the economic and non-economic factors affecting travel to/within Canada since the last index, few changes were significant enough to warrant changes in the overall assessment of the leading indicators. Exceptions were the domestic, U.K. and German markets, each of which received a more positive assessment.

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.

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