



## Travellers Keen on Going Green

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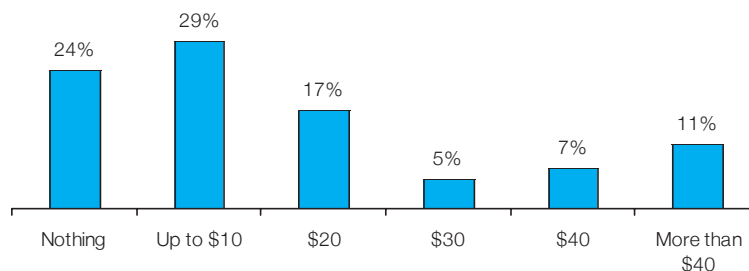
### Executive Summary

- As the summer approaches, Canadians' enthusiasm for summer travel appears to be holding up. Demand appears particularly strong for overseas destinations, fuelled by the strength of the Canadian dollar and an increase in the number of flights to many popular international destinations. Fortunately, the domestic market is also poised to do well, supported by the strength of Canada's economy.

With few exceptions, the outlook for travel to Canada from its traditional overseas markets is looking brighter, in part because of improving economic prospects in western Europe combined with steady prospects in China, India and other emerging markets.

- Unfortunately, the effects of the new passport rule for air travel in and out of the United States are beginning to have an obvious impact on U.S. travel to Canada. Overnight visits from the United States fell precipitously in February for all segments, and confusion about the different implementation dates for air and land-border crossings likely contributed to the decline. The added weight of a slowing economy and a weaker currency suggests the growth potential for the U.S. market remains highly uncertain in the near term.
- One issue that is becoming an increasingly important concern for travellers in Canada and around the world is the impact of travel on climate change. The Canadian Tourism Research Institute recently asked Canadians how much they would be willing to pay to offset the environmental impact of their air travel. Nearly 7 out of 10 Canadians polled said they would be willing to pay \$10 or more for every \$1,000 they paid in airfares, if the funds collected were used to develop sustainable resources of energy. (See Chart 1.)

Chart 1: Amount Canadians Are Willing to Pay to Offset Carbon Emissions When Travelling by Air



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



- The desire among environmentally conscious travellers to do something to offset the carbon dioxide emitted through travel-by air, in particular-has fuelled the recent popularity of "carbon offsets" or carbon-neutral travel. Dozens of North American and European companies now sell carbon-offset credits to travellers and use the proceeds to fund projects to develop sustainable-energy sources.

Most Canadian travel companies have yet to actively engage travellers to reduce the greenhouse gas emissions they generate, but carbon-offset programs are beginning to crop up. One of the first was UNIGLOBE Travel's "Green Flight" program, established more than a year ago. Given Canadians' concerns about climate change, it is likely that other Canadian companies will take an increasingly active approach to helping consumers offset their carbon footprint when travelling.

### Consumer (Traveller) Overview - Canada and the United States

- Outlook for summer travel remains upbeat: The latest Travel Intentions Survey by the Canadian Tourism Research Institute, conducted in March 2007, suggests that the outlook for summer travel this year remains upbeat. Of those polled, 65 per cent said they planned to take a leisure trip between May and September 2007, up from 59.5 per cent in the April 2006 survey. According to survey results, plans for travel to all destinations appear to be higher than they were a year ago. (See Table 1.)

Table 1: Summer (May-September 2007) Vacation Intentions  
(per cent of Canadians surveyed)

	April 2005	April 2006	March 2007
Summer Vacation Intentions (All Destinations)	52.3	59.5	65.0
Canada	36.5	41.8	43.1
United States	7.2	8.4	10.2
Other international	7.6	7.6	9.0
Do not know/refused	1.0	1.7	2.7

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

- U.S. vacation intentions remain soft: Meanwhile, U.S. travel intentions have not improved since declining in the previous bi-monthly poll, according to the latest Consumer Confidence Survey report by the U.S. Conference Board, Inc. In April 2007, preliminary results showed that 40.4 per cent of U.S. consumers polled planned to take a vacation within the next six months, about the same as in February poll, but down significantly from December 2006.

Moreover, the U.S. consumer confidence index has declined sharply in the last two months. After slipping in March, the index lost another 4.2 points in April, dipping to its lowest level since May 2006. Consumers were less confident about present-day conditions and the economic outlook.

In February, U.S. overnight trips to Canada by automobile dipped to their lowest levels in 22 years, according to Statistics Canada. In addition, same-day car trips plummeted to the lowest level since the government began tracking them in 1972. Statistics Canada stated that confusion over the new passport rules may have discouraged U.S. visits that month. It is likely that the continued strength of the Canadian dollar and the less favourable exchange rate also played a role.

- U.S. travel decisions increasingly influenced by environmental concerns: A number of recent studies have highlighted the increasing influence of environmental concerns on U.S. travellers. For example, a study by Orbitz.com revealed that 67 per cent of U.S. travellers are concerned about the eco-friendliness of travel destinations. More than half said it would affect their decision to stay at a hotel if the hotel was using a sustainable source of energy, and almost the same number said they would pay more to stay at a green hotel or to rent a hybrid vehicle. As well, 52 per cent said they would be willing to pay extra when booking a trip to help save the environment.

## Travel Supplier Overview - Canada and the United States

- Canadian air travel demand continues to register solid growth: The latest passenger traffic statistics suggest Canadian travel demand continues to register solid growth. In fact, rising domestic demand and lower fuel prices are expected to boost profits this year for Canada's overall air transportation industry, according to the Conference Board's latest *Canadian Industrial Outlook: Canada's Air Transportation Industry*. The average price of oil this year is expected to remain 5 per cent below the average for 2006, supporting an improvement in the industry's profitability.

In addition, the recent expansion of the open skies agreement between Canada and the United States will also benefit Canadian airlines. The new agreement is expected to stimulate competition on international routes, improving air access to and from these markets.

- Demand and daily rates are main drivers of Canadian hotel revenue growth: A steady increase in Canadian travel demand combined with solid hikes in average daily rates is fuelling growth in Canadian lodging revenues. Demand continues to outpace the growth of hotel room supply, but the gap between supply and demand growth is shrinking, constraining the growth of average occupancy rates in Canada.
- U.S. international air demand still robust: The slowing U.S. economy has been taking a toll on U.S. domestic air travel demand, cooling growth in the first quarter of 2007. However, demand for international air travel remains robust. As a result, U.S. domestic airfares are beginning to lose some ground, but international airfares continue to climb.

## International Overview - Europe

- Another major merger in Europe's travel market: Germany's TUI AG, Europe's largest tour operator (by revenues) announced plans to merge operations with U.K.-based First Choice Holidays, Europe's fourth-largest tour operator. The merged company, operating under the name TUI Travel PLC, will be based in London, with combined annual revenues of about 18 billion euros. However, the merger will need to be cleared of any potential competition concerns by the European Commission before it can proceed.
- Concerns about climate change affecting air travel: British and German residents are very concerned about global warming, but less than half support a "green" tax on air travel, according to a recent poll by Continental Research and KNOTs Research. Although the vast majority of respondents were concerned about climate change, an environmental tax on air travel was supported by only 45 per cent of German respondents and 44 per cent of U.K. respondents. Still, the results also showed that 29 per cent of the British polled said they had cut back on air travel because of environmental concerns.
- German outbound travel demand strengthening: A recent survey of German travel agents revealed that the German outbound travel market is strengthening. In January and February 2007, travel agency sales increased 7.2 per cent and 7.1 per cent, respectively, over the same months in 2006. Another travel agency survey revealed that most tourism sales in February were for last-minute holidays in March. Sales for April travel were low, but demand for May and June was described as "good." Advance bookings for July and August were described as having "significant sales potential."

## International Overview - Asia-Pacific

- Japanese and Chinese long-haul traveller segments identified: Two new studies by Tourism Australia have identified five main segments to the Japanese and Chinese long-haul travel markets:
  - Among Japanese outbound travellers, the two largest markets are "self-challengers" (24% of the market), who like to immerse themselves in the local culture and environment and prefer out-of-the-way destinations; and the "travel-in-style" group (23%), who love travelling and want a superior experience without having to put in much effort. According to the study, all Japanese outbound travel segments consider Canada to be a long-haul destination of interest.
  - The two largest segments identified in the Chinese long-haul market were "self-challengers" (24%) and the "ready-to-leave" segment (25%) made up of travellers who want to avoid group travel and prefer long-haul destinations outside Southeast Asia.

However, the only two Chinese market segments that identified Canada as a destination of interest were the "family-connections"(13%) and "close-to-home" (22%) segments. Travellers in the family-connections segment are focused on holiday destinations where they can visit family and friends, while those in the close-to-home segment prefer group travel experiences to destinations that are familiar and feel safe.

- Climate-change concerns may affect Australian air travel decisions: A recent survey by totaltravel.com suggested that environmental concerns may affect the air travel decisions of many Australian consumers. More than a third of those polled (35 per cent) said they were concerned enough about climate change to participate in a voluntary carbon-offset program, while 18 per cent said they are considering avoiding air travel altogether. The report suggested that these results highlight the potential impact of environmental concerns on future tourism business.



## Tourism Leading Indicator Index - Summary Table


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	↑↑ (↑)	↑ (↑)	↑ (↔)	↑ (↓)	+

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.



#### 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.

- Economic factors: Recent indicators have lessened concerns about the overall health of the U.S. economy. Still, the U.S. economy is expected to grow at a pace below its potential (of about 3 per cent) over the near term. Fortunately, the outlook for the global economy remains optimistic, as economic prospects are improving in western Europe while those in China, India and other emerging markets hold steady. Canada's overall price competitiveness remains a concern, but conditions appear to be slowly improving.
- Non-economic factors: One significant issue affecting U.S. travel to Canada is the implementation of the new passport requirement for travellers entering or re-entering the U.S. by air. Aside from the direct impact on U.S. air travellers, confusion over the new rules may be discouraging other modes of travel from the U.S., in particular by automobile. Direct air capacity will be another important factor affecting summer travel activity in Canada.
- Overall Tourism Leading Indicators: While there have been a number of changes to the economic and non-economic factors affecting travel to and within Canada since the last index, none were significant enough to warrant changes in the overall assessment of the leading indicators.

To obtain the full *Tourism Intelligence Bulletin* report, please contact the Research Unit by telephone (604) 638-8300 or email [research-recherche@ctc-cct.ca](mailto:research-recherche@ctc-cct.ca).