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An Analysis of Developments in Tourism Markets in Latin America and Caribbean Region¹

by Nicolino Strizzi and Scott Meis

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The recent Asian and Russian financial crises, the protracted Japanese economic slump and rising economic volatility in the Latin America and Caribbean² (LAC) region have drastically shaken investor confidence in the growth prospects of these areas.

The purpose of this paper is to lay the foundation and the framework for assessing tourism markets of opportunity in the LAC region. This paper briefly examines the extent and economic importance of inbound and outbound tourism for the LAC region. It then assesses the prospect of the LAC region becoming a major tourist generating area and identifies and explores some of the pressure points that will constrain the region's tourism growth over the next decade or so. Finally, the paper assesses Canada's ability to capture the region's anticipated growth in outbound tourism.

Inbound Travel Activity

For many LAC countries, international tourism stimulates economic growth, creates jobs, generates badly-needed foreign exchange and raises tax revenues. Table 1 shows that total international tourist arrivals in the LAC region reached



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¹ This article is an abstract from *An Analysis of Developments in Tourism Markets in Latin America and Caribbean Region*, Occasional Research Report 1998-1, published by the Canadian Tourism Commission (CTC).

² For purposes of this study, the *Latin America and Caribbean* region comprises: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

Table 1

Trends in International Tourist Arrivals and Shares in World Tourist Arrivals

| | International tourist arrivals (thousands of arrivals) | | | Shares in world tourist arrivals (%) | | |
|-------------------------------------------|-----------------------------------------------------------|----------------|----------------|-----------------------------------------|--------------|--------------|
| | 1985 | 1990 | 1996 | 1985 | 1990 | 1996 |
| World | 327,853 | 458,331 | 593,638 | 100.0 | 100.0 | 100.0 |
| Developed economies | 213,145 | 281,760 | 328,222 | 65.0 | 61.5 | 55.3 |
| Developing economies of which: | 85,730 | 129,848 | 181,937 | 26.1 | 28.3 | 30.6 |
| Latin America | 19,886 | 27,559 | 38,177 | 6.1 | 6.0 | 6.4 |
| Caribbean | 7,976 | 11,263 | 14,352 | 2.4 | 2.5 | 2.4 |
| Africa | 8,982 | 14,029 | 15,618 | 2.7 | 3.1 | 2.6 |
| Middle East | 7,463 | 8,959 | 15,256 | 2.3 | 2.0 | 2.6 |
| China | 7,133 | 10,484 | 22,765 | 2.2 | 2.3 | 3.8 |
| Other Asia | 22,331 | 40,845 | 60,927 | 6.8 | 8.9 | 10.3 |
| Rest of Europe | 11,959 | 16,709 | 14,842 | 3.6 | 3.6 | 2.5 |
| Transition economies | 28,978 | 46,723 | 83,479 | 8.8 | 10.2 | 14.1 |

Data compiled from World Tourism Organization, *Tourism Market Trends, The Americas 1997 Edition*, World Tourism Organization, Madrid, Spain (1997), pp. 3, 6.

52.5 million individuals (8.8 percent of world total) in 1996. Of the world's 40 top tourist destinations, only two countries were from the LAC region. The World Tourism Organization (WTO) ranked Mexico and Argentina,

respectively, as the world's 7th and 29th most popular tourist destinations in 1996 (WTO, 1997).

At the same time, Table 2 shows that international tourism receipts reached U.S. \$33 billion (7.8 percent of world total).

Table 2

Trends in International Tourism Receipts and Shares in World Tourism Receipts

| | International tourism receipts (U.S.\$ million) | | | Shares in world tourism receipts (%) | | |
|-------------------------------------------|----------------------------------------------------|----------------|----------------|-----------------------------------------|--------------|--------------|
| | 1985 | 1990 | 1996 | 1985 | 1990 | 1996 |
| World | 117,643 | 266,207 | 422,745 | 100.0 | 100.0 | 100.0 |
| Developed economies | 80,386 | 190,913 | 270,274 | 68.3 | 71.7 | 63.9 |
| Developing economies of which: | 34,378 | 70,445 | 128,477 | 29.2 | 26.5 | 30.4 |
| Latin America | 7,480 | 12,107 | 19,780 | 6.4 | 4.5 | 4.7 |
| Caribbean | 4,978 | 8,748 | 13,225 | 4.2 | 3.3 | 3.1 |
| Africa | 2,164 | 4,341 | 6,036 | 1.8 | 1.6 | 1.4 |
| Middle East | 4,803 | 5,147 | 8,037 | 4.1 | 1.9 | 1.9 |
| China | 1,250 | 2,218 | 10,200 | 1.1 | 0.8 | 2.4 |
| Other Asia | 10,631 | 30,010 | 59,340 | 9.0 | 11.3 | 14.0 |
| Rest of Europe | 3,072 | 7,874 | 11,859 | 2.6 | 3.0 | 2.8 |
| Transition economies | 2,879 | 4,849 | 23,994 | 2.4 | 1.8 | 5.7 |

Data compiled from World Tourism Organization, *Tourism Market Trends, The Americas 1997 Edition*, World Tourism Organization, Madrid, Spain (1997), pp. 7, 11.



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Note of appreciation

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Three LAC countries ranked in the world's top 40 tourism earners in 1996. Data from the WTO (1997) showed that Mexico earned U.S. \$6.9 billion (1.6 percent of world total) from international tourists in 1996, ranking Mexico as the world's 16th largest earner of international tourism receipts. Likewise, Argentina earned U.S. \$4.6 billion (1.1 percent of world total) and Brazil earned U.S. \$2.3 billion (0.5 percent of world total). This ranked Argentina and Brazil, respectively, as the world's 23rd and 40th largest earners of international tourism receipts in 1996.

The LAC's inbound pleasure travel market has strong potential to grow given its abundant natural endowments (including sand, sea and sun), diverse cultures and rich historical heritage. In addition, greater regional economic integration will most likely facilitate increased business travel within and outside the region. The prospect of the creation of a Free Trade Area of the Americas (FTAA) by the year 2005 will support this trend.

Outbound Travel Activity

Since the late 1980s, LAC outbound tourism growth has fluctuated considerably. To a large extent, this reflected the region's uneven and volatile economic performance. Outbound travel growth was particularly strong in 1992 (up 29 percent) and in 1994 (up 14 percent). In 1996, LAC outbound travel growth remained fairly stable, generating close to 22 million tourists worldwide (4.2 percent of the world total), 50.6 percent above 1988. This represented an average annual increase of roughly 6 percent over the 1988-1996 period. Meanwhile, international travel expenditures by LAC travellers reached almost U.S. \$18 billion in 1996 (4.7 percent of world tourism expenditures), 122.2 percent above 1988. This represented an average annual increase of approximately 14 percent over the 1988-1996 period.

Within the LAC region, a small number of countries account for a very large share of total outbound travel volumes and spending. In 1996, for instance, the top five LAC tourist generating countries accounted for 83 percent

of the region's total outbound travel. Mexico, at 41 percent, was the region's major outbound generating travel market, with Argentina (18 percent) at a distant second, followed by Brazil (14 percent), Chile (5 percent) and Colombia (5 percent). In terms of spending on travel abroad, five LAC countries also accounted for 83 percent of the region's total. Brazilian travellers outspend their regional counterparts in 1996, spending U.S. \$5.8 billion (33 percent of the total), with Mexico (19 percent) far behind in second place, followed by Argentina (13 percent), Venezuela (13 percent) and Colombia (5 percent).

Growth of LAC outbound tourism, especially outbound leisure travel flows, will continue to be closely associated with current and future economic development. As such, LAC outbound travel volumes and spending patterns will be adversely affected by the growing economic and financial volatility in the LAC region over the next two years or so. More worrisome, however, is that most LAC countries will face substantial political, economic and social challenges that will likely limit their long-run growth and tourism potential.

Some Factors Affecting Inbound and Outbound Travel

Slower Economic Growth

The LAC region experienced unimpressive economic growth rates during the last 15 years or so. Growth in real per capita incomes continues to vary widely, ranging from a low of U.S. \$481 annually in Nicaragua to a high of almost U.S. \$6,200 annually in Argentina. Unemployment remains a large and growing problem. Clear evidence of the region's mediocre economic performance is reflected in its still generally low socioeconomic indicators.

The recent Asian financial turmoil together with the flagging Japanese economy will continue to adversely affect many LAC economies. Weaker Asian demand means that LAC countries will export fewer commodities, especially resource-based products, to Asia. As well, international tourists will increasingly

favour cheaper Asian tourist destinations at the expense of LAC tourist destinations. International tourist arrivals and receipts in many LAC countries will likely slow down in the next few years, reflecting rising global economic uncertainty, weak income growth, intensified competitive pressures and rising job insecurity.

The recent Russian financial turmoil also threatens to exacerbate economic difficulties in many LAC countries. This largely reflects their similar export structures. In order to boost foreign exchange earnings to service ballooning foreign debts, for instance, it is expected that Russian exporters will increasingly dump commodities, such as minerals, oil, metals, steel, and wood products, on world markets. The combination of global oversupply conditions and weaker global demand means that commodity prices will likely remain flat or decline in the next few years. This poses a serious competitive challenge to major resource producing and exporting economies in the LAC region and elsewhere.

As LAC credit conditions tighten, the region's small and medium-sized enterprises will find it increasingly difficult to raise funds. In addition, many budget-constrained household borrowers will become delinquent on their debt obligations. The region's already fragile financial sector, especially its banking system, will be saddled with more and more non-performing loans and bad debts. A smaller portion of the LAC region's gross domestic product (GDP) will be spent on travel over the next two to five years.

High Inflation

Despite the region's anti-inflation successes, most LAC economies remain highly vulnerable to runaway inflation, with Argentina, Brazil, Jamaica, Mexico, Nicaragua, Peru, Uruguay and Venezuela having the region's most inflation-prone economies. The average annual rate of inflation in the LAC region, for instance, was nearly 117 percent during the 1980-1989 period, 438 percent in 1990, 209 percent in 1993 and 13 percent in 1997. Sharp budgetary subsidy cuts, excess demand for all types of goods, services and skilled labour, strong money

expansion, and rapid credit growth are some factors that will lead to a surge in regional inflation. The prospect of widespread currency devaluations will further fuel inflationary pressures across the LAC region.

If lower inflation cannot be achieved and sustained, it will lead to higher interest rates and reduced business fixed investments in many LAC countries. That will constrain regional industrial production and undercut export competitiveness. It will also erode the purchasing power of many LAC consumers. Travel costs will be driven up, making saving for vacations extremely difficult. As LAC economies slow, consumption spending on goods and services, including travel, generally bought with discretionary income will be postponed or scaled back. The region's outbound tourism growth will be seriously constrained.

Continuing High Debt

The latest World Bank (1998) data show that foreign debt levels for many LAC countries remain very high despite years of painful structural reforms and debt-restructuring agreements.³ In 1996, the region's foreign debt level totalled some U.S. \$616 billion relative to roughly U.S. \$242 billion in 1980, up over 154 percent. Argentina, Brazil, Chile, Colombia, Mexico⁴, Peru and Venezuela accounted for about 90 percent (or U.S. \$551 billion) of the region's total foreign debt. The balance (U.S. \$65 billion) was held by the region's smaller debtor countries. The recent Asian and Russian financial crises and the deepening economic volatility across the LAC region will seriously limit the access of heavily indebted LAC countries to international capital markets, thereby raising their borrowing costs.

Aviation Capacity Constraints

In the LAC region, average air travel growth rates are forecasted to reach over 8 percent in South America and in excess of 5 percent in Central America during the 1998-2007 period (Boeing Commercial Airplane Group, 1998). Yet, the LAC region still has one of the world's smallest and oldest aircraft fleets, with an average age of the region's aircraft fleet over

18 years and a fleet size of slightly more than 800 airplanes as at mid-1996 (Skapinker, 1996). The cost of replacing and expanding the region's aircraft fleet and upgrading airport and air traffic control systems will be immense, with Brazil, Argentina, Mexico and Chile having the region's largest aviation capital requirements.

As airline capacity expands in many LAC countries, heightened competition will lead to lower flying costs in the short to medium term. This will in turn make air travel more affordable for a larger number of LAC people. Better flight service in terms of flight connections and non-stop flights will also bolster tourism growth to new and traditional tourist destinations within and outside the region. Longer term, the forces and trends that will largely drive change in the regional aviation industry include: world economic expansion, airline cost developments (labour, capital, land and fuel), airport congestion, airline deregulation, globalization and environmental regulation (ICAO, 1997).

Table 3
Air Travel Growth Rates¹

| World Region | 1998-2007 (annual growth rate, %) |
|-----------------|-----------------------------------------|
| China | 8.4 |
| South America | 8.1 |
| CIS Region | 7.6 |
| Southwest Asia | 6.9 |
| Northeast Asia | 6.9 |
| Southeast Asia | 6.1 |
| Africa | 6.0 |
| Central America | 5.4 |
| Middle East | 5.2 |
| Europe | 4.7 |
| Oceania | 4.1 |
| North America | 3.5 |
| World | 5.0 |

¹ Revenue passenger-kilometres: the number of passengers multiplied by the number of kilometres they fly. Data compiled from Boeing Commercial Airplane Group, 1998 *Current Market Outlook*, Seattle, Washington, U.S.A. (June 1998), p. 23.

Canadian Implications

In 1997, according to provisional WTO estimates, Canada attracted some 17.6 million international tourists

(2.9 percent of the world total), an increase of 1.6 percentage points from the year before. This ranked Canada as the world's 9th most attractive tourist destination, up from its 10th place showing in 1996. Meanwhile, Canada earned over U.S. \$8.9 billion (2 percent of the world total) in 1997 from international tourists, excluding transport, 0.7 percent above 1996. This ranked Canada as the world's 11th largest earner of international tourism receipts, the same as the final ranking recorded in 1996.

Despite its overall success in attracting international tourists, Canada has made limited inroads in capturing LAC tourist arrivals and receipts. Table 4 and Table 5 show that the total number of LAC tourists to Canada and their total spending during the 1990-1997 period remained relatively small. For instance, Table 4 shows that tourist arrivals from the LAC region reached 327,000 in 1997, 25.3 percent above 1990, representing an average annual growth of roughly 3.2 percent over the 1990-1997 period. As a percentage of Canada's total visitors, the LAC region accounted for just 1.7 percent in 1990 and almost 1.9 percent in 1997. On the other hand, spending in Canada by LAC visitors increased from almost \$224 million (almost 3.8 percent of the total) in 1990 to around \$391 million (4.0 percent of the total) in 1997.

A closer look at the overnight travel figures from the LAC region to Canada reveals that the major purpose for travel is pleasure. Of the 340,000 trips made by LAC residents to Canada in 1997, other pleasure, which includes recreation or holiday, accounted for 157,000 trips (46 percent), followed by 90,000 trips (27 percent) for visiting friends or relatives in Canada. Business travel accounted for slightly more than one-fifth

³ For a detailed discussion on the foreign debts in Asia Pacific and the LAC region refer to Nicolino Strizzi and G.S. Kindra, *Foreign Debt in Asia Pacific and the Latin American and Caribbean Region: Is There a Cause for Concern?*, *European Business Review*, Volume 98, Number 4, 1998, pp. 235-244.

⁴ *Cleaning up the bad loans of Mexico's near-bankrupt banking system, resulting largely from the 1994 Mexican Peso Crisis, will cost taxpayers around U.S. \$60 billion* (*Financial Times*, 1998a).

Table 4

Visitors to Canada from Latin, Central and South America and the Caribbean ('000)¹

| Country | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Central America | 10 | 10 | 10 | 10 | 12 | 11 | 12 | 12 |
| Mexico | 64 | 65 | 65 | 74 | 81 | 63 | 81 | 96 |
| Caribbean | 94 | 87 | 87 | 84 | 84 | 92 | 98 | 97 |
| West Indies | 43 | 38 | 37 | 38 | 37 | 45 | 48 | 46 |
| Bermuda | 11 | 12 | 13 | 12 | 13 | 14 | 15 | 16 |
| Jamaica | 23 | 22 | 23 | 22 | 20 | 18 | 19 | 18 |
| Trinidad & Tobago | 17 | 15 | 14 | 13 | 14 | 14 | 15 | 16 |
| South America | 93 | 95 | 76 | 79 | 87 | 108 | 126 | 122 |
| Argentina | 24 | 24 | 16 | 18 | 19 | 21 | 24 | 23 |
| Brazil | 33 | 33 | 26 | 26 | 31 | 41 | 55 | 56 |
| Colombia | 6 | 5 | 5 | 6 | 7 | 8 | 10 | 10 |
| Guyana | 20 | 23 | 17 | 17 | 19 | 24 | 26 | 24 |
| Venezuela | 10 | 11 | 11 | 12 | 12 | 14 | 11 | 10 |
| Total LAC Visitors | 261 | 257 | 238 | 247 | 264 | 274 | 317 | 327 |
| Total Visitors All Countries | 15,210 | 14,912 | 14,741 | 15,105 | 15,972 | 16,932 | 17,285 | 17,636 |
| % of Total Visitors to Canada | 1.72 | 1.72 | 1.61 | 1.64 | 1.65 | 1.62 | 1.83 | 1.85 |

¹ One or more nights person trips; data for 1990-1997 period compiled from Statistics Canada, International Travel Survey: Overseas Residents and U.S.A. Residents (various years) Ottawa, Canada.

Table 5

Spending in Canada from Latin, Central and South America and the Caribbean (thousands of \$ CDN)¹

| Country | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Central America | 7,117 | 6,724 | 5,762 | 8,765 | 9,398 | 8,536 | 10,228 | 11,145 |
| Mexico | 47,409 | 52,080 | 57,563 | 65,187 | 81,529 | 66,205 | 79,558 | 90,454 |
| Caribbean | 68,473 | 70,678 | 60,767 | 61,553 | 68,301 | 84,615 | 99,035 | 116,036 |
| West Indies | 33,239 | 39,386 | 27,927 | 28,783 | 31,811 | 45,366 | 56,557 | 71,127 |
| Bermuda | 10,067 | 9,285 | 9,869 | 11,251 | 13,275 | 13,414 | 15,423 | 17,808 |
| Jamaica | 12,841 | 11,261 | 15,019 | 15,255 | 14,009 | 13,799 | 15,061 | 15,558 |
| Trinidad & Tobago | 12,326 | 10,747 | 7,952 | 6,265 | 9,207 | 12,036 | 11,994 | 11,542 |
| South America | 100,764 | 104,146 | 84,507 | 85,099 | 95,671 | 123,861 | 157,110 | 173,288 |
| Argentina | 25,999 | 29,054 | 22,376 | 18,085 | 20,949 | 21,422 | 22,255 | 21,735 |
| Brazil | 35,923 | 30,687 | 27,548 | 30,155 | 32,136 | 47,761 | 74,939 | 96,741 |
| Colombia | 6,610 | 6,026 | 6,396 | 7,866 | 9,433 | 9,060 | 19,024 | 8,966 |
| Guyana | 22,715 | 28,063 | 17,406 | 16,335 | 21,259 | 31,916 | 31,794 | 34,887 |
| Venezuela | 9,517 | 10,317 | 10,780 | 12,658 | 11,893 | 13,701 | 9,099 | 10,959 |
| Total LAC Spending | 223,763 | 233,628 | 208,599 | 220,604 | 254,899 | 283,217 | 345,931 | 390,923 |
| Total All Countries | 5,947,000 | 6,132,000 | 6,289,000 | 6,940,000 | 7,742,000 | 8,837,000 | 9,670,000 | 9,870,734 |
| % of Total Spending in Canada | 3.76 | 3.81 | 3.32 | 3.18 | 3.29 | 3.21 | 3.58 | 4.00 |

¹ One or more nights person trips; data for 1990-1997 compiled from Statistics Canada, International Travel Survey: Overseas Residents and U.S.A. Residents (various years) Ottawa, Canada.

(70,000) of the total LAC trips to Canada, largely reflecting the small current economic relationship between Canada and the LAC region. Other purposes, at 24,000 (7 percent), comprised the smallest share of total LAC trips to Canada.

Due to rapidly-changing world economic conditions and stiffer competition, Canada is facing increasing difficulty in sustaining growth from new international markets of opportunity. In addition, both Canada and the United States are slow growth, mature travel markets. Consequently, these countries will not experience long-term tourism growth in the five to ten percent range. The combination of a competitive Canadian dollar and steady economic growth will likely produce slightly higher than average growth rates for our travel goods and services over the next decade. Still, it is important to remember that even very small percentage changes on a very large base will generate large fluctuations in tourist volume and yield numbers.

Canada's tourism industry will continue to be heavily dependent on domestic travel. In 1997, for instance, spending of Canadian and non-resident visitors on goods and services reached 43.9 billion (Statistics Canada, 1998). Over 70 percent (\$31.2 billion) of industry receipts were derived from domestic travellers, with the rest being international travellers (Statistics Canada, 1998). Of these, around three quarters came from the United States. Growth in international travel arrivals will continue to largely come from the United States, especially given continued financial and economic instability in most emerging economies, as well as slower economic growth and persistent structural unemployment in most other mature industrialized countries, such as Japan and Germany.

In Canada, almost three-quarters of fluctuations in travel receipts are explained by the Canadian business cycle. A recent report prepared for the CTC, for instance, found that "[M]ost of the cyclical variation in tourism demand in Canada and the supply of total tourism commodities can be explained by the cyclical variation in the overall Canadian economy; 73% and 86% of the cyclical variation in tourism demand in Canada and in the supply of tourism commodities

can be statistically explained by the cyclical variation in Canadian GDP" (Wilton, 1998, p. 5). This means that Canada's tourism industry is relatively protected from the direct effects of potentially destabilizing external economic and financial shocks, including the most recent Asian and Russian financial meltdowns and the deepening economic volatility in the LAC region.

A complete listing of the references in this article can be obtained from the original paper *An Analysis of Developments in Tourism Markets in Latin America and Caribbean Region*. Copies of the original paper can be obtained from the CTC's Tourism Reference and Documentation Centre (TRDC) at: Telephone: (613) 954-3942; Fax: (613) 954-3945; or at the Canadian Tourism Exchange (CTX) website: <http://www.ctc-ctx.com>.



Domestic Travel Third Quarter 1998

The number of domestic trips by Canadians in Canada reached 51.6 million in the third quarter of 1998, an increase of 16.4% over the third quarter of 1997. A decrease in the number of trips abroad and the favourable economic climate for employment and personal income were both factors in the increase in domestic travel.

Overall, 80% of trips made by Canadians in the third quarter of 1998 were domestic, compared with 72% in 1997. This was largely due to a 21% drop in the number of trips to the United States in the third quarter of 1998, owing to the weakness of the Canadian dollar.

Exceptional weather and aggressive advertising led Canadians to visit Canada during their vacations. Of the 51.6 million

Note to readers

Data in this text came from the Canadian Travel Survey, a supplement to the Labour Force Survey. In the third quarter of 1998, the Canadian Travel Survey sampled 31,700 households.

Domestic travel is defined as any trip covering 80 kilometres or more one way, taken by a Canadian and having a Canadian destination.

Figures on the number of travellers are measured in person-trips, that is, the number of trips made by one Canadian multiplied by the number of people who were on each of those trips. For example, if four persons go on a trip together, it is counted as four person-trips. The distribution of person-trips by province is based on the province of destination rather than the province of residence.

Expenditures by residents are all travel expenditures made in the traveller's province of residence. Expenditures by non-residents are travel expenditures made by travellers in a province other than their province of residence.

trips made, nearly half (25 million) were pleasure trips, a 21.2% increase compared with the third quarter of 1997.

Spending on domestic travel was also up in the third quarter of 1998; it grew 12.4% to \$6.5 billion. After adjusting for inflation, this was an increase of nearly 10%.

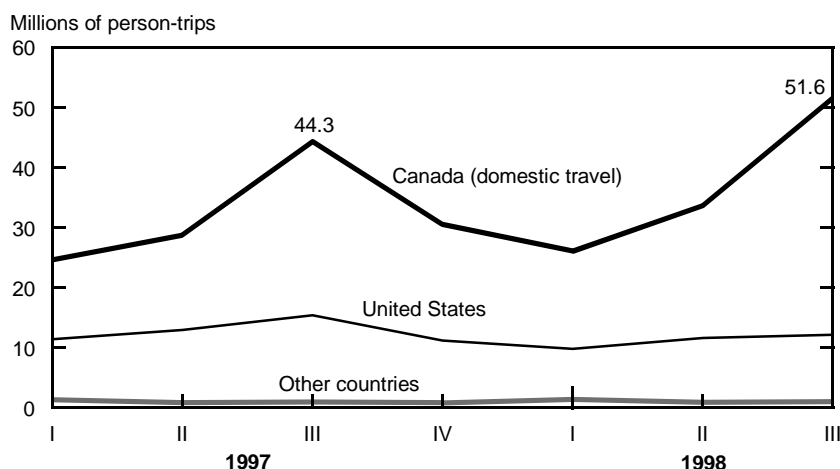
Of the \$6.5 billion that travellers spent on domestic travel, \$4.7 billion was spent in the province of residence and \$1.8 billion was spent in other provinces.

Strong increases in the third quarter of 1998, combined with an economic climate favourable to tourism at the start of the year, resulted in a 13.9% increase in the number of person-trips to reach 111.3 million over the first nine months of 1998. Spending also increased 16.8% during the first nine months to reach \$14.4 billion.

The number of trips increased in all provinces

Estimates of the number of trips, expressed in person-trips, were greater for all provinces in the third quarter of 1998 compared with the third quarter of 1997. The provinces that registered the greatest gains were Quebec (29.8%), for a total of 11.1 million person-trips; Manitoba

Trips by Canadians, by quarter



Distribution of person-trips and expenditures by province

Third quarter 1998

| | Person-trips | | Expenditures | | Average number of nights |
|---------------------------|--------------|------------|--------------|------------|--------------------------|
| | millions | % of total | \$ millions | % of total | |
| Canada¹ | 51.6 | 100 | 6,528 | 100 | 3.9 |
| Newfoundland | 0.9 | 1.7 | 174 | 2.7 | 5.0 |
| Prince Edward Island | 0.5 | 1.0 | 107 | 1.6 | 6.8 |
| Nova Scotia | 2.3 | 4.4 | 290 | 4.4 | 4.9 |
| New Brunswick | 1.4 | 2.7 | 209 | 3.2 | 4.2 |
| Quebec | 11.1 | 21.5 | 1,276 | 19.5 | 3.4 |
| Ontario | 18.6 | 36.0 | 2,050 | 31.4 | 3.5 |
| Manitoba | 2.2 | 4.3 | 222 | 3.4 | 3.8 |
| Saskatchewan | 2.5 | 4.8 | 259 | 4.0 | 4.2 |
| Alberta | 6.3 | 12.2 | 853 | 13.1 | 3.8 |
| British Columbia | 5.7 | 11.0 | 1,063 | 16.3 | 5.0 |

¹ Includes interprovincial estimates for Yukon and the Northwest Territories.

Tourism expenditures of provincial residents and non-residents

Third quarter 1998

| | Total | Residents | Non-residents | % non-residents |
|---------------------------------|--------------|--------------|---------------|-----------------|
| | | | | |
| Canada total¹ | 6,528 | 4,738 | 1,790 | 27.4 |
| Newfoundland | 174 | 114 | 60 | 34.5 |
| Prince Edward Island | 107 | 10 | 97 | 90.7 |
| Nova Scotia | 290 | 155 | 135 | 46.6 |
| New Brunswick | 209 | 88 | 121 | 57.9 |
| Quebec | 1,276 | 998 | 278 | 21.8 |
| Ontario | 2,050 | 1,750 | 300 | 14.6 |
| Manitoba | 222 | 151 | 71 | 32.0 |
| Saskatchewan | 259 | 169 | 90 | 34.7 |
| Alberta | 853 | 582 | 271 | 31.8 |
| British Columbia | 1,063 | 721 | 342 | 32.2 |

¹ Includes interprovincial estimates for Yukon and the Northwest Territories.

(22.6%), with 2.2 million person-trips; New Brunswick (19.2%), with 1.4 million person-trips; Ontario (16.8%), with 18.6 million person-trips; and Nova Scotia (13.4%), with 2.3 million person-trips. The gains in Quebec and Manitoba had been anticipated because of the increased number of requests for information at tourist information centres.

In general, Canadians used the summer to take pleasure trips and participate in ecotourism-related activities, cultural visits and sports activities. The number of person-trips related to sports activities was 20.1 million, representing two person-trips out of five, a 23% increase over the third quarter of 1997. Hiking and bird watching, both ecotourism-related activities, were also on the increase, accounting for 9.7 million and 2.1 million person-trips respectively.

Tourism spending is concentrated in Quebec and Ontario

Fifty-eight percent of person-trips made in the third quarter of 1998 were in Quebec and Ontario, which together accounted for 51% of domestic tourism spending. However, those provinces' relative share of spending declined because, on average, the trips made were of shorter duration. In Quebec, the average number of nights was 3.4 and in Ontario it was 3.5, both below the Canadian average of 3.9 nights.

Quebec and Ontario were mainly visited by travellers from those provinces. In fact, 88% of the 11.1 million person-trips in Quebec were made by Quebecers, while in Ontario, 91% of the 18.6 million person-trips were made by Ontarians.

Trips last longer in coastal provinces

Canadians who visited Canada's coasts spent more time on their trip than those who visited the inland provinces. The average number of nights in Prince Edward Island was 6.8, a province that has become much more accessible since the opening of the Confederation Bridge in June 1997. By comparison, Canadians stayed an average of 5.8 nights in the third quarter of 1997 and 6.0 nights in the third quarter of 1996.

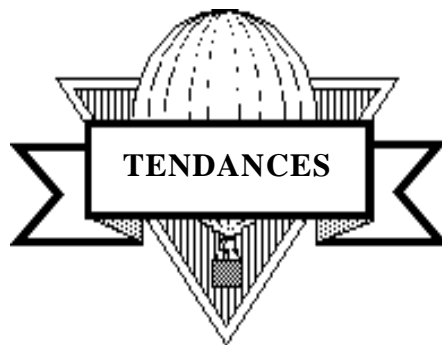
British Columbia, which was designated a prime international destination by the North American Travel Journalists' Association, succeeded in attracting large numbers of visitors from the United States. It was also able to attract Canadian travellers, who stayed on average 5.0 nights. British Columbia's share of domestic travel spending was 16.3%.

Tourism in the Atlantic provinces is largely based on trips by residents of other provinces

Prince Edward Island has the greatest share of domestic travel spending by non-residents. At \$97 million, this share represents 90.7% of the total. New Brunswick ranks second with non-resident tourism spending of \$121 million, representing 57.9% of the total. The province has been especially aggressive in its advertising to attract residents of neighbouring provinces to come bask on its beaches. Nova Scotia, benefitting from renewed interest in the Titanic, received an increased number of visitors from other provinces. The tourism expenditures of non-residents amounted to \$135 million, representing 46.6% of tourism spending in Nova Scotia.

Tourism spending in the first nine months of 1998 is above the 1996 and 1997 levels

A favourable economic climate boosted tourism spending during the first nine months of the year. In particular, employment grew by 2.6% and the value of the Canadian dollar declined by 5.9% relative to the U.S. dollar during this period.



Characteristics of International Travellers Third Quarter 1998

Buoyed by strong American tourism, more than eight million international tourists made overnight trips to Canada between July and September 1998, the highest quarterly level in the 26 years that travel data have been collected.

In total, 8.3 million international tourists made overnight trips to Canada during the third quarter of 1998, up 6.1% from the same quarter in 1997. The majority, about 6.6 million (10.6%), came from the United States. This strong increase in American overnight travel offset an 8.1% decline in overseas visits to Canada, which fell to 1.7 million.

Overnight American travel to Canada in the third quarter of 1998 represented the second highest quarterly level ever. The previous high occurred in 1986, the year of the World Exposition in Vancouver. A booming United States economy, strong American consumer confidence and a cheaper Canadian dollar were key factors in the growth in American tourism.

Tourism from the United States increased in almost all regions of Canada during the summer of 1998. British Columbia recorded the largest increase in American visitors (14.7%). However, American travellers made slightly fewer overnight visits (2.0%) to Atlantic Canada during the third quarter of 1998, following a record level during the summer of 1997.

American visitors injected more than \$3.1 billion into the Canadian economy in the third quarter of 1998, up 23.5% over the same period in 1997. They spent about \$480 per trip, an 11.7% increase.

American travellers took more flights to Canada (8.8%), maintaining the trend that began with the implementation of the Open Skies agreement in February 1995. Air travel has climbed steadily from 854,000 trips during the third quarter of 1994 to approximately 1.3 million in the third quarter of 1998. For the first time, Americans travelling for pleasure to Canada accounted for more plane trips than those travelling on business. Automobile trips increased 12.4%, the largest increase since 1986.

In terms of overseas travel, the 1.7 million visitors from countries other than the United States spent more than \$2 billion in the third quarter of 1998, 2.8% less than in the same quarter of 1997. Asian travel to Canada plunged 17.8%, the sixth consecutive quarterly decline from the Asian market. Overnight visits from Europe declined 4.5% despite the appreciation of many European currencies against the Canadian dollar.

Provincially, the strongest gains in overnight visits from countries other than the United States in the third quarter occurred in Alberta (20.9%) and British Columbia (18.3%). However, 1998 levels still remained well below those recorded in 1996. Large influxes in travellers from the United Kingdom, Germany and France were largely responsible for the growth in overseas visitors to these two provinces.

Meanwhile, overnight trips by Canadians to the United States declined 17.9% to 4.2 million in the third quarter of 1998, the lowest quarterly level since 1986. Many Canadians opted to take vacations in their own country, as domestic overnight travel increased 13.3% in the third quarter of 1998 compared with a year earlier.



International Travel Account Year 1998 and Fourth Quarter 1998 (preliminary)

Canada's travel deficit fell in 1998 to its lowest level in more than a decade. The deficit was just over \$1.9 billion, down 45.1% from 1997. It had peaked at \$6.4 billion in 1992.

Visitors to Canada injected a record \$13.7 billion into the Canadian economy, 13.0% more than in 1997. On the other hand, Canadians spent \$15.6 billion in other countries, unchanged from the record set in 1997. The resulting deficit of \$1.9 billion is the lowest since 1987 when the deficit stood at \$1.7 billion.

Record American spending in Canada

In 1998, Americans travelled and spent more in Canada, while Canadians travelled and spent less in the United States. Americans made 43.9 million trips to Canada, up 8.3% from 1997, and spent a record \$8.6 billion, a 24.4% increase from the previous high of \$6.9 billion in 1997.

Meanwhile, Canadians made 42.8 million trips to the United States, a 16% decrease from 1997. They spent \$9.7 billion, 3.3% less than in the previous year.

As a result, Canada's travel deficit with the United States declined a sharp 64.9% to \$1.1 billion, the lowest since 1987. The deficit with the United States had peaked at \$6.0 billion in 1991.

Canadians spent record high in overseas countries

In 1998, Canadian spending in overseas countries increased 5.8% to a record \$6.0 billion, while spending by overseas visitors to Canada fell 2.1% to \$5.1 billion.

The resulting travel deficit between Canada and overseas countries more than doubled from \$397 million in 1997 to \$835 million. This deficit is the

Note to readers

Unless otherwise stated, quarterly data used in this text are seasonally adjusted. Amounts are in Canadian dollars and are not adjusted for inflation.

Receipts represent spending by foreigners travelling in Canada, including both education-related and medical-related spending.

Payments represent spending by Canadians travelling abroad, including both education-related and medical-related spending.

Overseas countries are countries other than the United States.

highest since 1987, when it peaked at \$962 million.

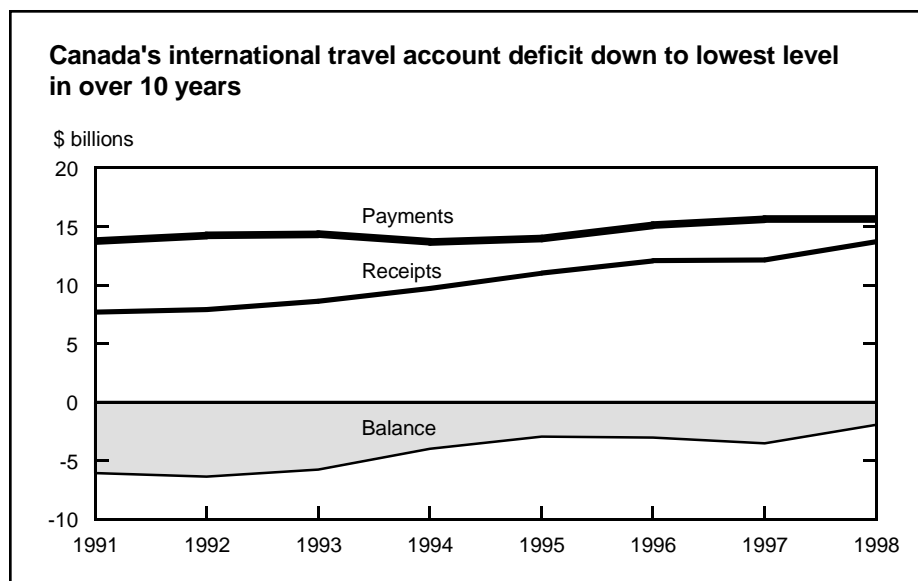
There were two important factors in the deterioration of Canada's travel balance with countries other than the United States: the strengthening of the Canadian dollar compared with most European currencies and the Japanese yen, and the continued weakening of the dollar compared with the American currency.

Canada became more expensive to travellers from overseas countries, and Canadians increasingly chose overseas destinations over the United States. In 1998, overseas residents made 4.2 million trips to Canada, an 8.3% decrease from the year before. Canadians increased their visits to overseas countries, up 5.9% to 4.2 million trips from 1997.

The continuing financial crisis in Asia was another factor that influenced the international travel deficit. Asian travel to Canada declined 21.4% from 1997 to 1.2 million trips in 1998.

Fourth quarter 1998: Travel deficit doubled with United States

Between October and December, American spending in Canada increased 5.1% from the third quarter of 1998 to a seasonally adjusted quarterly record of just under \$2.3 billion. During the same period, Canadian spending south of the border increased by a robust 9.3% to \$2.4 billion.



As a result, Canada's quarterly travel deficit with the United States more than doubled from \$82 million in the third quarter of 1998 to \$179 million in the fourth quarter.

In the fourth quarter, spending by Canadians in overseas countries remained virtually unchanged from the record high of \$1.5 billion set in the

second quarter of 1998. Meanwhile, spending by residents of overseas countries in Canada rose 2.5% to \$1.3 billion.

The resulting \$203-million deficit was the seventh consecutive quarterly deficit with overseas countries. There was a surplus of \$1 million in the first quarter of 1997.

The overall travel deficit in the fourth quarter of 1998 was \$382 million, the difference between \$3,543 million spent by foreigners in Canada and \$3,925 million spent by Canadians outside the country.

| International travel account receipts and payments | | | | | | | | | | |
|-----------------------------------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|---------------------------------------|----------------------------------------|---------------------------------------|----------------------------------------|--------|--------|
| | First quarter 1997 | Second quarter 1997 | Third quarter 1997 | Fourth quarter 1997 | First quarter 1998 ^r | Second quarter 1998 ^r | Third quarter 1998 ^r | Fourth quarter 1998 ^p | 1997 | 1998 |
| seasonally adjusted ¹ | | | | | | | | | | |
| \$ millions | | | | | | | | | | |
| United States | | | | | | | | | | |
| Receipts | 1,645 | 1,725 | 1,730 | 1,800 | 2,118 | 2,071 | 2,143 | 2,253 | 6,901 | 8,584 |
| Payments | 2,511 | 2,554 | 2,526 | 2,421 | 2,459 | 2,562 | 2,225 | 2,431 | 10,012 | 9,677 |
| Balance | -866 | -828 | -796 | -621 | -341 | -491 | -82 | -179 | -3,110 | -1,093 |
| All other countries | | | | | | | | | | |
| Receipts | 1,347 | 1,300 | 1,287 | 1,307 | 1,283 | 1,298 | 1,259 | 1,290 | 5,240 | 5,130 |
| Payments | 1,346 | 1,365 | 1,433 | 1,493 | 1,481 | 1,498 | 1,492 | 1,494 | 5,637 | 5,965 |
| Balance | 1 | -66 | -147 | -186 | -198 | -200 | -233 | -203 | -397 | -835 |
| Total | | | | | | | | | | |
| Receipts | 2,992 | 3,025 | 3,017 | 3,107 | 3,401 | 3,369 | 3,402 | 3,543 | 12,141 | 13,715 |
| Payments | 3,856 | 3,919 | 3,960 | 3,914 | 3,939 | 4,060 | 3,717 | 3,925 | 15,649 | 15,642 |
| Balance | -864 | -894 | -943 | -807 | -538 | -691 | -316 | -382 | -3,508 | -1,927 |
| unadjusted ¹ | | | | | | | | | | |
| \$ millions | | | | | | | | | | |
| United States | | | | | | | | | | |
| Receipts | 872 | 1,799 | 3,019 | 1,211 | 1,139 | 2,194 | 3,729 | 1,522 | 6,901 | 8,584 |
| Payments | 2,916 | 2,748 | 2,422 | 1,926 | 2,876 | 2,768 | 2,118 | 1,916 | 10,012 | 9,677 |
| Balance | -2,044 | -949 | 597 | -715 | -1,737 | -574 | 1,611 | -394 | -3,110 | -1,093 |
| All other countries | | | | | | | | | | |
| Receipts | 809 | 1,339 | 2,149 | 943 | 777 | 1,346 | 2,088 | 920 | 5,240 | 5,130 |
| Payments | 1,473 | 1,282 | 1,594 | 1,288 | 1,611 | 1,395 | 1,655 | 1,304 | 5,637 | 5,965 |
| Balance | -664 | 57 | 555 | -345 | -835 | -49 | 433 | -384 | -397 | -835 |
| Total | | | | | | | | | | |
| Receipts | 1,681 | 3,138 | 5,168 | 2,154 | 1,916 | 3,540 | 5,817 | 2,442 | 12,141 | 13,715 |
| Payments | 4,389 | 4,030 | 4,016 | 3,214 | 4,487 | 4,163 | 3,773 | 3,220 | 15,649 | 15,642 |
| Balance | -2,708 | -892 | 1,152 | -1,060 | -2,572 | -623 | 2,044 | -778 | -3,508 | -1,927 |

^r Revised figures.
^p Preliminary figures.
¹ Data may not add to totals due to rounding.



goods and services included in the Consumer Price Index remained stable during the same quarter.

The drop in the TPI between the third and fourth quarters of 1998 is in large part due to the 16.6% seasonal decline in accommodation costs.

Note to readers

The Travel Price Index (TPI) is an aggregate index of the goods and services used by travellers in Canada. Price movements are derived from the detailed Consumer Price Index (CPI) series.

A technical report on the Travel Price Index is available from the Tourism Statistics Program at (613) 951-1673.

**Travel Price Index
Year 1998 and Fourth
Quarter 1998**

**The TPI rises 2.7% between
1997 and 1998**

The average TPI for 1998 was 118.9, 2.7% higher than the year before. Between 1997 and 1998, the price of almost all TPI components rose, and the very few drops recorded were insufficient to halt the upward trend. The growth between 1997 and 1998 was mainly due to increases in inter-city transportation and accommodation costs.

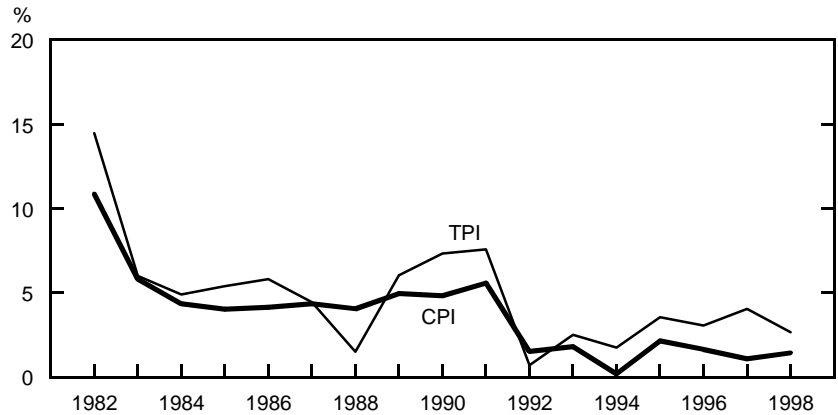
**The TPI rises 2.8% from the
same period last year**

In the last quarter of 1998, the Travel Price Index continued to rise more quickly than the Consumer Price Index (CPI), jumping 2.8% over the same period last year. Travellers paid more in the fourth quarter of 1998 for almost all goods and services used when travelling in Canada. Only the costs of photographic equipment and automotive and recreational vehicle operation declined slightly. The CPI rose 1.1% during the same period.

**The TPI drops 3.3% from the
previous quarter**

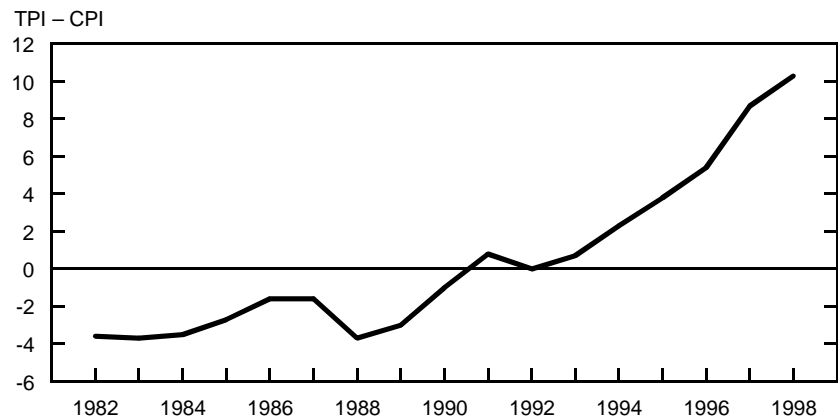
In the fourth quarter of 1998, the Travel Price Index fell 3.3% from the previous quarter. In comparison, the cost of all

Annual percentage change in TPI and CPI



Source: Tourism Statistics Program

The gap widens between TPI and CPI



Source: Tourism Statistics Program



| | Fourth Quarter | | % Change | Year | | % Change |
|-------------------------------------------------------|----------------|---------|----------|---------|---------|----------|
| | 1997 | 1998 | | 1997 | 1998 | |
| FOREIGNERS TO CANADA (000s) | | | | | | |
| From United States | 8,281 | 9,393 | 13.4 | 40,490 | 43,857 | 8.3 |
| One-or-more-night trips | 2,289 | 2,661 | 16.2 | 13,401 | 14,890 | 11.1 |
| - By auto | 1,382 | 1,596 | 15.5 | 8,399 | 9,402 | 11.9 |
| From Overseas | 738 | 725 | -1.8 | 4,586 | 4,207 | -8.3 |
| One-or-more-night trips | 696 | 688 | -1.2 | 4,267 | 3,977 | -6.8 |
| Top Seven Countries: | | | | | | |
| United Kingdom | 133 | 129 | -3.0 | 744 | 758 | 1.9 |
| Japan | 92 | 89 | -3.7 | 566 | 487 | -14.0 |
| France | 61 | 64 | 5.2 | 440 | 403 | -8.4 |
| Germany | 55 | 54 | -0.9 | 403 | 382 | -5.3 |
| Australia | 29 | 30 | 2.9 | 151 | 148 | -2.0 |
| Taiwan | 24 | 27 | 11.1 | 143 | 126 | -11.8 |
| Hong Kong | 27 | 23 | -12.9 | 147 | 151 | 2.8 |
| CANADIANS OUTSIDE CANADA (000s) | | | | | | |
| To United States: | 11,178 | 9,177 | -17.9 | 50,942 | 42,768 | -16.0 |
| One-or-more-night trips | 2,959 | 2,685 | -9.3 | 15,127 | 13,426 | -11.2 |
| - By auto | 1,616 | 1,325 | -18.0 | 9,203 | 7,605 | -17.4 |
| To Overseas (one or more nights) | 799 | 862 | 7.9 | 3,984 | 4,218 | 5.9 |
| INDUSTRY | | | | | | |
| Airline passengers (Level I) (000s) | 5,756 | 5,940 | 3.2 | 24,363 | 24,571 | 0.9 |
| Airline passenger-km (Level I) (000,000s) | 14,125 | 15,215 | 7.7 | 62,479 | 64,426 | 3.1 |
| PRICES 1992=100 (not s.a.) | | | | | | |
| Travel Price Index | 115.6 | 118.9 | 2.9 | 115.8 | 118.9 | 2.7 |
| Consumer Price Index | 107.7 | 108.9 | 1.1 | 107.6 | 108.6 | 0.9 |
| - Food purchased from restaurants | 108.8 | 110.9 | 1.9 | 108.1 | 110.3 | 2.0 |
| - Inter-city transportation | 146.2 | 154.3 | 5.5 | 142.3 | 152.6 | 7.2 |
| - Renting of automotive vehicles | 116.7 | 119.2 | 2.1 | 115.6 | 115.3 | -0.3 |
| - Gasoline | 106.7 | 97.5 | -8.6 | 108.4 | 99.1 | -8.6 |
| ECONOMIC | | | | | | |
| Gross Domestic Product, 1992 prices (s.a.) (000,000s) | 878,488 | 897,248 | 2.1 | 866,252 | 888,390 | 2.6 |
| - Amusement and recreation (000,000s) | 7,619 | 7,906 | 3.8 | 7,419 | 7,761 | 4.6 |
| - Accommodation and food services (000,000s) | 18,383 | 18,870 | 2.6 | 18,061 | 18,715 | 3.6 |
| Personal disposable income per capita (s.a.) | 17,677 | 18,120 | 2.5 | 17,660 | 18,029 | 2.1 |
| LABOUR (000s) | | | | | | |
| Labour force (s.a.) | 15,439 | 15,782 | 2.2 | 15,346 | 15,628 | 1.8 |
| Unemployed | 1,369 | 1,269 | -7.4 | 1,411 | 1,303 | -7.6 |
| Employed | 14,070 | 14,514 | 3.2 | 13,936 | 14,324 | 2.8 |
| - Accommodation and food service (not s.a.) | 911 | 910 | -0.1 | 901 | 920 | 2.1 |
| EXCHANGE RATES (in Canadian dollars) | | | | | | |
| American Dollar | 1.4089 | 1.5422 | 9.5 | 1.3846 | 1.4835 | 7.1 |
| British Pound | 2.3398 | 2.5844 | 10.5 | 2.2685 | 2.4591 | 8.4 |
| Japanese Yen | 0.0112 | 0.0129 | 14.9 | 0.0115 | 0.0114 | -0.5 |
| German Mark | 0.8022 | 0.9274 | 15.6 | 0.7993 | 0.8454 | 5.8 |
| French Franc | 0.2394 | 0.2765 | 15.5 | 0.2375 | 0.2522 | 6.2 |
| <i>(s.a.) seasonally adjusted.</i> | | | | | | |