
Domestic, U.S. and Overseas Travel to Canada

Short-Term Markets Outlook
First Quarter 2007

Prepared for:
The Canadian Tourism Commission (CTC)

By:

The Conference Board of Canada
Insights You Can Count On



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WHAT'S INSIDE

This report provides a short-term outlook for domestic and international travel to Canada for the first quarter of 2007 (January to March).

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Background

The *Short-Term Markets Outlook* provides performance scenarios for Canada's major travel markets. A quarterly outlook of advance bookings and market intelligence is derived from the Destination Supplier/Receptive Agent Business Outlook Survey. This survey was developed by the Canadian Tourism Research Institute, a division of The Conference Board of Canada, on behalf of the Canadian Tourism Commission (CTC). To bolster the quality of this report, quarterly staff reports and surveys of key tour operators, administered by the CTC's foreign offices, are also incorporated.

Please note that, since the outlook's scope is restricted to the first quarter of 2007, all growth comparisons are reported on a year-over-year basis compared with the first quarter of 2006.

Highlights

The outlook for Canada's key markets for the first quarter of 2007 (relative to the first quarter of 2006) according to the results of the Business Outlook Survey is summarized as follows:

Q1 2007 Short-Term Outlook for Canada's Key Markets (per cent change over Q1 2006)					
Country	Market Segment				
	Leisure— Group	Leisure— FIT**	Leisure— Overall	Business	Total— Overall
Canada	4.2%	2.8%	3.0%	2.7%	2.9%
United States	-1.2%	-2.2%	-2.0%	1.1%	-1.5%
Mexico	5.2%	3.1%	4.0%	*	4.1%
United Kingdom	2.1%	2.8%	2.6%	3.0%	2.7%
France	1.1%	0.7%	0.9%	*	0.9%
Germany	2.4%	1.8%	2.0%	*	2.0%
Japan	0%	1.0%	0.3%	1.1%	0.4%
South Korea	*	*	*	*	2.6%
China	7.0%	9.0%	7.5%	*	7.5%
Australia	2.0%	3.9%	3.1%	*	3.1%

* Not enough responses to ensure confidentiality

** Fully independent travel

North American Markets

Canada

Although the outlook for the Canadian economy has moderated, domestic travel is expected to increase modestly this winter, building on the strong levels achieved last year. As a result of the sharp slowdown in U.S. economic growth, Canadian consumers have been feeling slightly more cautious about their own financial prospects. This prompted many Canadian travellers to adopt a “wait and see” attitude earlier this fall, but travel confidence has been gaining strength since then, buoyed by the recent decline in gasoline prices and improving household income. The high value of the Canadian dollar continues to provide a strong incentive for outbound travel, but the domestic market is expected to benefit the most from strengthening travel confidence.

Business Outlook Survey participants anticipate overall domestic travel will expand 2.9 per cent in the first quarter of 2007, compared with a year earlier. Growth in group travel is expected to outpace other segments, climbing 4.2 per cent, while fully independent travel (FIT) grows by 2.8 per cent. Consequently, overall leisure travel is expected to increase 3 per cent during the quarter. Over the same period, domestic business travel is expected to increase 2.7 per cent, year-over-year.

U.S.

The outlook for U.S. travel to Canada remains subdued and is not expected to improve in the near term. Deteriorating conditions for the U.S. housing market have resulted in a sharp downturn in the outlook for the U.S. economy, exacerbating the declining trends in U.S. travel demand. Overall, Business Outlook Survey participants expect a 1.5 per cent decline in U.S. travel to Canada during the first quarter of 2007. Group leisure travel is expected to slip 1.2 per cent, while fully independent travel falls 2.2 per cent compared with the previous year. As a result, overall leisure travel is expected to decrease by 2 per cent during this period. The only segment expected to register any growth in the first quarter is business travel, which is expected to rise 1.1 per cent over the previous year.

Canada’s price competitiveness for U.S. travellers is expected to remain relatively stable during the first quarter of 2007—positive news, considering the 4.3 per cent increase in the value of the Canadian dollar over the past year. While the cost of travelling to Canada has increased considerably for U.S. travellers since last year, the cost of travelling within the United States has increased almost as much. Nevertheless, the relative strength of the Canadian dollar remains a challenge, particularly for price-sensitive automobile travellers from U.S. border states.

Mexico

Mexican visits are expected to grow moderately over the first quarter of 2007. Overall trips to Canada are expected to increase 4.1 per cent during the period, compared with the same quarter of 2006. Group visits are expected to jump by 5.2 per cent, while FIT visits increase 3.1 per cent. A survey of Mexican tour operators revealed that sales of Canadian vacation packages continue to be brisk, despite the effect of a less favourable exchange rate on package prices. However, a growing number of Mexican travellers are making their own travel arrangements—a trend that will likely keep rising in tandem with the rapidly expanding Mexican air market. Canada's price competitiveness as a tourism destination for the first quarter is expected to remain relatively stable compared with the previous year, and should not deter potential Mexican visits during the winter.

European Markets

U.K.

Although travel market conditions in the U.K. remain challenging overall, visits to Canada are expected to grow modestly over the winter quarter. Business Outlook Survey respondents anticipate a 2.7 per cent increase in U.K. travel to Canada in the first quarter of 2007, compared with a year earlier. Overall leisure travel is expected to expand 2.6 per cent, boosted by a 2.8 per cent rise in FIT visits, while group leisure travel edges up 2.1 per cent. The outlook for U.K. business travel to Canada remains slightly more optimistic, with growth of 3 per cent expected for this segment during the winter travel period.

Recent research suggests that U.K. demand for Canadian ski destinations is rising, in part because of easier access to ski resorts and the favourable exchange rate. The late timing of the Easter holiday in 2007 may shift some ski bookings to the second quarter, but overall, Canada is expected to see further growth in its U.K. ski market this winter. Direct air access between the U.K. and Canada is scheduled to increase, helping to accommodate the expected growth in U.K. visitors during the period. Furthermore, Canada's relative price competitiveness has improved against two key competitors for U.K. travellers, and this should enhance the appeal of Canadian holidays over the winter season.

France

Following a slow summer season, overall French travel demand appears to be improving, bolstered by a slightly more optimistic outlook for the French economy. In addition, Canada's price competitiveness for French long-haul travellers has gained a bit of ground because of a combination of factors, including more competitive airfares between France and Canada, a slight appreciation of the euro and the higher cost of travelling to other competitive tourism destinations. Moreover, direct air capacity between France and Canada is slated for a substantial increase over the winter quarter, compared with the previous year.

Yet, Business Outlook Survey respondents remain cautious in their outlook for French travel to Canada in the first quarter of 2007. Overall visits to Canada are expected to grow less than 1 per cent during the period, compared with a year earlier. Group leisure travel is expected to increase 1.1 per cent, and fully independent travel is expected to remain nearly on par with the same quarter of 2006.

Germany

The outlook for German travel demand suggests there will be some growth in German outbound travel over the winter. Advance sales for winter vacations are off to a good start, but much of this momentum could be attributed to the impending increase in Germany's value-added tax (VAT). Many travellers are making a concerted effort to purchase their travel before January 1, 2007, when the 3 per cent increase will be implemented. The VAT hike is expected to curb travel spending for many segments of the German market next year.

Business Outlook Survey participants anticipate overall travel from Germany will edge up 2 per cent in the first quarter of 2007 compared with a year earlier. Growth in group leisure travel (2.4%) is expected to continue outpacing growth in FIT visits (1.8%) during the period. German tour operators surveyed by the CTC also expect year-over-year growth in their Canadian travel sales for the first quarter of 2007; however, direct air capacity between Germany and Canada is scheduled to decline slightly, which could pose a challenge. Moreover, Canada's price competitiveness for German long-haul travellers is expected to lose some ground this winter, introducing another risk to the outlook for the German market.

Asia–Pacific Markets

Japan

The outlook for Canada's Japanese travel market suggests Japanese arrivals will achieve little to no growth over the winter quarter. Business Outlook Survey participants anticipate Japanese visits to Canada will remain virtually on par with the same quarter last year, increasing only 0.4 per cent. Fully independent travel is expected to rise 1 per cent over the period, while group leisure travel remains the same as last year. As a result, overall leisure travel is expected to edge up 0.3 per cent this winter. The outlook for business travel from Japan is slightly more positive, with growth of 1.1 per cent expected for the first quarter of 2007.

Unfortunately, Canada's price competitiveness for Japanese long-haul travellers is expected to lose further ground during the winter quarter, mainly because of the considerable appreciation of the Canadian dollar against the Japanese yen. In addition, direct air capacity between Japan and Canada remains tight, keeping an upward pressure on the cost of air travel between the two countries. However, recent research suggests that Japanese travellers have become less price sensitive, and this motivational shift could help mitigate the negative effects of Canada's cost disadvantage compared with other long-haul tourism destinations.

South Korea

Business Outlook Survey participants anticipate overall travel from South Korea will increase modestly in the winter quarter, expanding 2.6 per cent compared with the previous year. Korean-based tour operators are reportedly experiencing strong demand for Canadian travel in the first quarter of 2007, in particular for the FIT segment. Winter is a popular time for family vacations as well, and the New Year holiday in early January is expected to be busy. Unfortunately, direct air capacity remains a challenge for peak demand periods, and may therefore be stifling the potential of further growth in Korean visits to Canada. Another risk to the outlook is a further decline in Canada's price competitiveness for the Korean market, despite the appreciation of the Korean won.

China

All in all, strong economic and travel trends suggest the brisk pace of growth in Chinese travel to Canada will continue over the near term. Business Outlook Survey participants expect Chinese visits will expand 7.5 per cent during the first quarter of 2007 compared with a year earlier. Fully independent leisure travel is expected to jump 9 per cent during this period, while group leisure travel rises 7 per cent. Furthermore, Canada's price competitiveness for Chinese tourists is expected to improve in the first quarter against most other key competitive destinations. The only concern for this market is the meagre increase in air access expected over the first quarter, which could pose a challenge for the solid growth in Chinese visits expected this winter.

Australia

The outlook for the Australian travel market this winter is mixed, overall. On the upside, outbound travel demand appears to be holding its own, and reports from the Australian travel trade suggest that demand is strong for Canadian travel products among some segments. Moreover, the price of travel to Canada from Australia has declined since last winter, giving Canada a leg up in its price competitiveness for Australian travellers. Yet, Australian consumer confidence has been vulnerable to rising interest rates this year, and a reduction in air capacity to Canada during the first quarter may curtail the growth potential of this market. Still, Business Outlook Survey participants anticipate 3.1 per cent growth in Australian visits during the first quarter of 2007. Group leisure travel is expected to climb 2 per cent, and FIT visits are expected to jump 3.9 per cent.

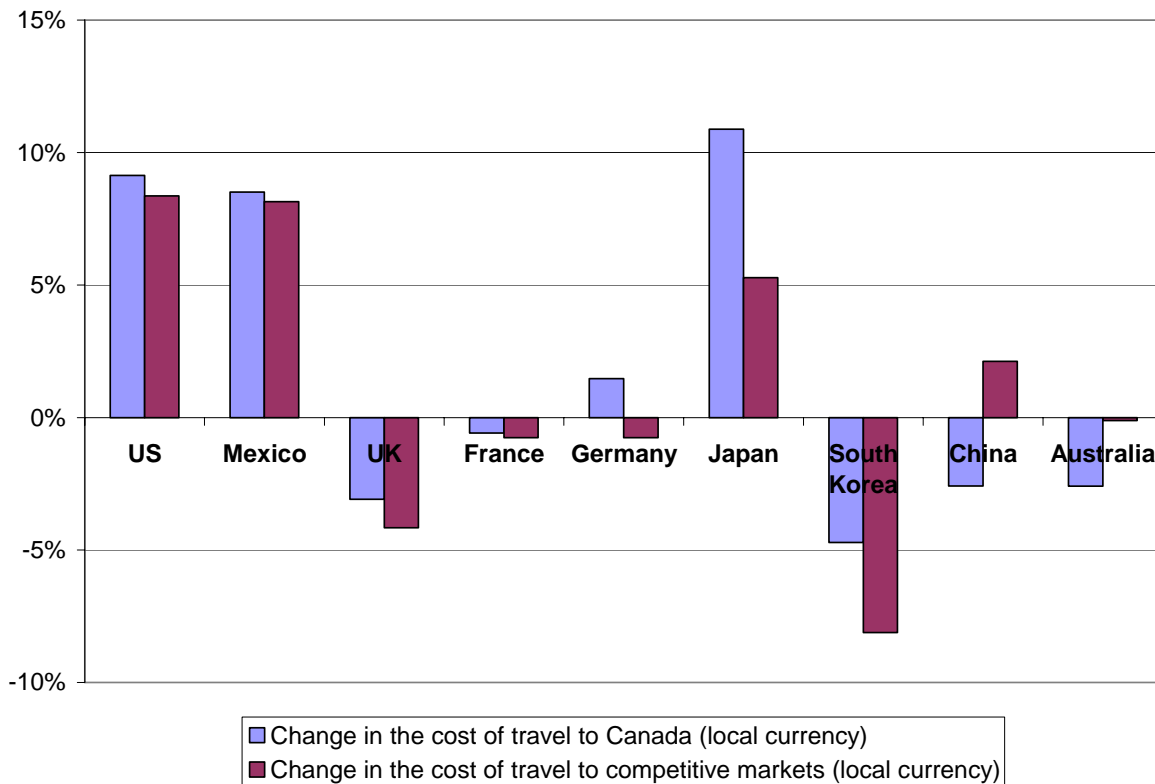
Competitive Price Index—Summary

One important aspect of Canada's global competitiveness as a tourism destination is the price of Canadian travel products relative to its key international competitors' products. The Competitive Price Index tracks product pricing trends in key markets and monitors Canada's relative competitiveness on an ongoing basis.

The Competitive Price Index is calculated based on a potential traveller's expected spending on airfares, hotels, meals and other costs for travel to Canada, compared with costs for competing destinations.

The following is a summary of the results of the Competitive Price Index for the first quarter of 2007. The chart represents a snapshot of the year-over-year increase in the cost of travelling to Canada from each origin market, compared with the increase in the cost of travelling to key competitive markets.

Changes in the Cost of Travel to Canada vs. Competitive Markets (Q1 2007 vs. Q1 2006)



Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank; International Air Transport Association (IATA); American Express Business Travel Monitor; Expedia; SideStep.

From the perspective of potential travellers in key international markets, Canada's price competitiveness is expected to continue to slip against many of its competitors during the first quarter of 2007. However, our latest analysis suggests that travel costs to Canada will increase less in the first quarter of 2007 than they did in the fourth quarter of 2006. Indeed, our analysis suggests that, for some markets, aggregate travel costs to Canada are expected to decline in the first quarter in 2007, compared with the previous year. For details, please see the Competitive Price Index found in each country section of the full *Short-Term Markets Outlook*.

Introduction

The *Short-Term Markets Outlook* provides an overview of the economic and travel outlook for Canada's key tourism markets (domestic and international) for the upcoming travel season. The prime objective of this report is to help the Canadian Tourism Commission (CTC) and its many tourism industry partners plan more effectively for the near term.

The primary source of advance bookings information and market intelligence is the Destination Supplier/Receptive Agent Business Outlook Survey. This survey was developed and is administered by the Canadian Tourism Research Institute, a division of The Conference Board of Canada. Survey respondents, from a wide range of key destination suppliers and receptive agents in Canada and the United States, are asked for the overall status of their short-term advance bookings. The survey also probes respondents for further insights into the underlying factors driving short-term booking trends for their tourism businesses.

All data collected for the Business Outlook Survey is confidential and is not included in the short-term outlook if any individual response can be singled out. All dissemination of survey responses involves consensus reporting. In this respect, there is no mention of individual participant responses.

In this *Short-Term Markets Outlook*, results of the Business Outlook Survey are supplemented by the intelligence-gathering activities of the CTC's foreign offices. This market intelligence includes quarterly reports on the status of key tourism markets, as well as market overviews provided by key foreign tour operators. Other pertinent market intelligence is derived from research conducted by The Conference Board of Canada and from a range of news sources.

Latest Feature—The Competitive Price Index

The Tourism Competitive Price Index is a recent addition that complements the traditional economic and travel overview provided in the *Short-Term Markets Outlook*. One important aspect of Canada's global competitiveness as a tourism destination is the price of Canadian travel products relative to those of its key international competitors. The Competitive Price Index is calculated based on prices for airfares, hotels, meals and other costs incurred by visitors to Canada, compared against prices for competing destinations.

As a regular feature of the *Short-Term Markets Outlook*, the Competitive Price Index serves as a valuable reference for tracking product pricing trends in key markets and monitoring Canada's relative competitiveness on a regular, ongoing basis. While the inaugural issue focused on generating benchmarks, this feature now focuses on understanding changes to Canada's price competitiveness.

In addition to developing the Competitive Price Index at a national level, a further analysis was done to disaggregate the index into four distinct regions of Canada. The regional breakdowns used are similar to those used in the rest of the report: Atlantic Canada, Ontario/Quebec, Manitoba/Saskatchewan and Alberta/British Columbia.

Please refer to “Appendix 1: Construction of the Competitive Price Index” in this report for a description of the methodology and data sources used to construct the Competitive Price Index. It should be noted that since the Competitive Price Index is a relatively new feature, further refinement in the development and presentation may occur in upcoming issues of the *Short-Term Markets Outlook*.

International Travel Statistics, Statistics Canada

International Travel to Canada, January–August 2006		
Country	Year-to-Date Person-Trips	Change Over 2005 (%)
United States	9,918,072	-5.6
Mexico	153,050	10.1
Europe	1,592,678	-1.6
United Kingdom	599,281	-5.1
France	248,942	3.0
Germany	211,358	-7.2
Netherlands	87,407	0.6
Italy	34,645	17.4
Asia	884,301	3.1
Japan	254,804	-4.7
South Korea	135,280	4.2
China (Mainland)	92,454	24.4
Hong Kong	80,029	-2.0
Taiwan	65,877	-0.9
Oceania	167,652	-1.9
Australia	138,727	-1.8

Source: International Travel Survey, Statistics Canada.

Exchange Rates

Exchange Rate Comparison—October 2005 to October 2006
Per cent change in exchange rates between select countries:

	Canadian dollar	U.S. dollar	British pound	Euro	Japanese yen	Korean won	Mexican peso	Australian dollar
Canadian dollar	-	4.3%	-1.9%	-0.6%	7.7%	-5.0%	4.8%	4.2%
U.S. dollar	-4.2%	-	-5.9%	-4.7%	3.3%	-9.0%	0.5%	-0.1%
British pound	1.9%	6.3%	-	1.3%	9.8%	-3.2%	6.8%	6.2%
Euro	0.6%	5.0%	-1.3%	-	8.4%	-4.5%	5.4%	4.8%
Japanese yen	-7.2%	-3.1%	-8.9%	-7.7%	-	-11.8%	-2.7%	-3.3%
Korean won	5.3%	9.9%	3.3%	4.7%	13.4%	-	10.4%	9.7%
Mexican peso	-4.6%	-0.4%	-6.4%	-5.1%	2.8%	-9.4%	-	-0.6%
Australian dollar	-4.1%	0.1%	-5.8%	-4.6%	3.4%	-8.9%	0.6%	-

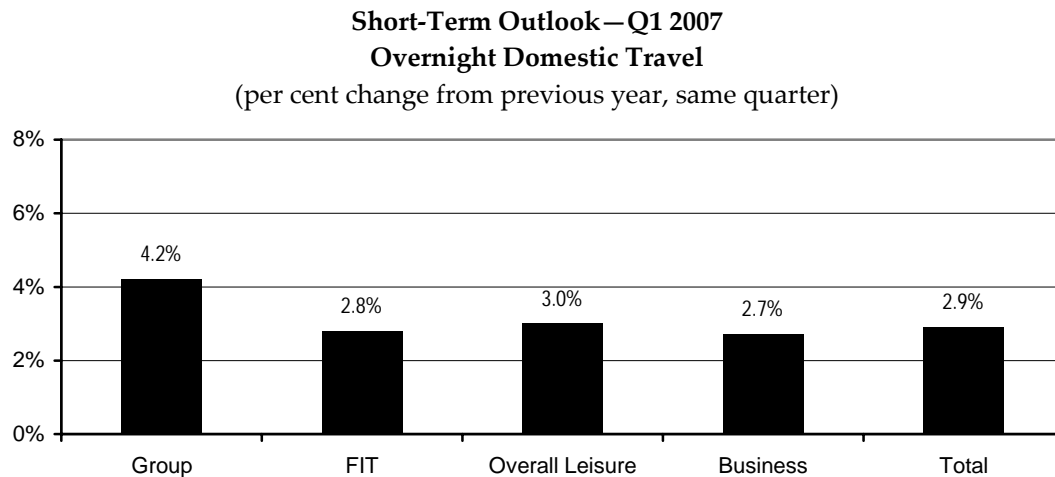
Source: The Pacific Exchange Rate Service.

Domestic (Canada) Travel Outlook, Q1 2007

Economic Overview

Canada's economy will feel the repercussions of weaker U.S. homebuilding and consumer spending. However, Canada's domestic economy has enough momentum to withstand the hiccup in U.S. growth. Canadian households are enjoying the combined effects of exceptional gains in after-tax income and the steep rise in purchasing power due to the strength of the loonie. Moreover, while housing prices may be softening in the United States, they are still rising in Canada, adding to the wealth effect. Corporate profits have also continued to rise, resulting in unabated growth in business investment spending, while the federal and provincial governments are likely to keep spending growth strong. Thus, while the outlook for the Canadian economy has become somewhat less optimistic, the economy is nevertheless expected to expand at a rate of 2.9 per cent in 2007—a slight improvement over the 2.7 per cent growth expected for 2006.

Business Outlook Survey



Source: Q1 2007 Business Outlook Survey, Canadian Tourism Research Institute.

The business outlook—as indicated by the survey responses of Canadian travel suppliers and receptive agents—suggests that overall bookings for domestic travel will expand by 2.9 per cent in the first quarter of 2007, compared with the same quarter of 2006.

According to Business Outlook Survey respondents, group travel will experience the strongest growth in the first quarter, rising 4.2 per cent compared with a year earlier, while fully independent travel (FIT) increases 2.8 per cent. Consequently, overall leisure travel is expected to expand 3 per cent compared with the same quarter of 2006. Meanwhile, the business travel segment is expected to edge up by 2.7 per cent over the previous year.

For domestic travel by provincial region, survey participants anticipate a 3.5 per cent increase in visits to Alberta/British Columbia during the first quarter of 2007, compared with a year earlier. Visits to the Manitoba/Saskatchewan region are expected to grow 2.3 per cent. Ontario/Quebec is expected to receive 2.6 per cent more domestic visitors, and visits to Atlantic Canada are expected to climb 2 per cent.

Consumer Confidence and Travel Intentions, The Conference Board of Canada

Following a period of slightly weaker consumer sentiment over the summer, the Conference Board's Index of Consumer Confidence rebounded to 121.0 in October 2006, a reading slightly above the two-year average. Consumer confidence in Ontario bounced back by 4.3 points, reversing the 3.5 point slide in the previous month. Overall, Canadians were more optimistic about their current financial situation—not surprising, considering the recent decline in gasoline prices and improving household income. Consumer sentiment towards big-ticket purchases, such as a car or a house, remained stable as well. However, respondents were slightly more cautious about their future financial prospects, perhaps because of concerns about the impact of a slowing U.S. economy.

Consumer Confidence (1991=100 Index)				
	2006:07	2006:08	2006:09	2006:10
Consumer Confidence Index	120.0	119.3	119.8	121.0

Source: The Conference Board of Canada.

After exhibiting a “wait and see” attitude earlier this fall, Canadians appear to be much more upbeat about their winter vacation plans, according to the latest Travel Intentions Survey by the Canadian Tourism Research Institute. Intentions for domestic winter holidays appear to be particularly strong, according to the survey results. Of the approximately 2,000 Canadians polled in October 2006, nearly 47 per cent said they planned to take a winter holiday between November 2006 and April 2007, a significantly higher percentage than in the October 2005 survey. Those planning to stay in Canada for their longest trip rose to 20 per cent, up from 12.4 per cent in 2005. Intentions for trips to the United States and other international destinations have also rebounded.

The survey results reveal a vast improvement in travel sentiment compared with a year ago. Last fall, Canadian consumer confidence suffered as a result of surging oil prices and a hike in interest rates. This year, consumer confidence is considerably more stable, helping to support a solid outlook for Canadian winter travel intentions. While it appears that the most significant rebound has occurred for domestic travel plans, the survey results suggest that demand for outbound travel continues to grow as well.

Winter (November 2006–April 2007) Vacation Intentions (Per cent of Canadians surveyed)

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

Source: *The Conference Board of Canada.*

Summary Outlook for Q1 2007

Although the outlook for the Canadian economy has moderated, domestic travel is expected to increase modestly this winter, building on the strong levels achieved last year. As a result of the sharp slowdown in economic growth in the United States, Canadian consumers have been feeling slightly more cautious about their own financial prospects. While this prompted many Canadians to adopt a “wait and see” attitude earlier this fall, consumers are now regaining some of their confidence, buoyed by the recent decline in gasoline prices and improving household income.

Business Outlook Survey participants anticipate overall domestic travel will expand 2.9 per cent in the first quarter of 2007, compared with a year earlier. Growth in group travel is expected to outpace other segments, climbing 4.2 per cent, while fully independent travel (FIT) grows by 2.8 per cent. As a result, overall leisure travel is expected to rise 3 per cent. Respondents anticipate domestic business travel will expand 2.7 per cent in the first quarter of 2007.

The latest Canadian Travel Intentions Survey by The Conference Board of Canada suggests that travel demand has been strengthening through the fall for both domestic and outbound travel. High prices at the gas pumps constrained demand for travel over the summer, but receding oil prices should provide the auto travel market with a solid boost over the winter season. The relative strength of the Canadian dollar continues to provide a strong incentive for international travel, but the survey results suggest that the domestic market will benefit the most from the growth in Canadian travel expected this winter.

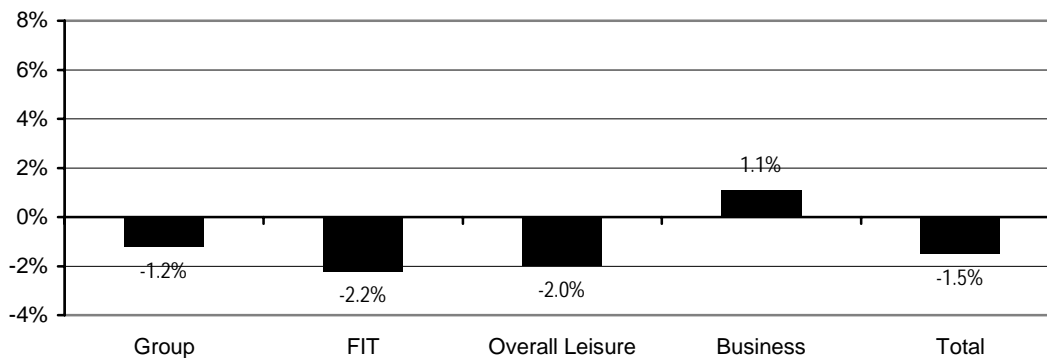
U.S. Travel Outlook, Q1 2007

Economic Overview

As a result of the correction in the housing market, the U.S. economy will experience sharply lower economic growth for the rest of 2006 and into 2007. An estimated 18 per cent decline in U.S. housing starts is expected to hurt the construction sector and lead to lower consumer and business confidence. In fact, U.S. households—already under pressure from high oil prices, higher interest rates and weaker job growth—will curtail spending over the near term as the wealth effect from increasing housing prices evaporates. Still, healthy financial conditions in the corporate sector, the sharp reduction of the U.S. fiscal deficit and a reduction of interest rates will help the economy avoid a “hard landing.” In 2007, growth in the U.S. economy is expected to drop to 2.2 per cent.

Business Outlook Survey

Short-Term Outlook—Q1 2007
Overnight Person-Trips From the United States to Canada
(per cent change from previous year, same quarter)



Source: Q1 2007 Business Outlook Survey, Canadian Tourism Research Institute.

Business Outlook Survey participants anticipate the declining trends in U.S. travel to Canada will continue through the first quarter of 2007. Overall visits from the U.S. are expected to fall 1.5 per cent compared with a year earlier. Results suggest group leisure travel will decrease 1.2 per cent, while fully independent travel slips 2.2 per cent. As a result, overall leisure travel is expected to decline by 2 per cent during this period. Meanwhile, the outlook for U.S. business travel to Canada remains the lone bright spot—this segment is expected to expand 1.1 per cent in the first quarter compared with a year earlier.

Looking at U.S. visits to regional destinations during the first quarter of 2007, survey respondents expected Atlantic Canada to suffer the largest year-over-year decline in American arrivals (-2.5%). U.S visits to Alberta/British Columbia are expected to fall 2 per cent, while trips to Ontario/Quebec decrease 1 per cent. Visits to Manitoba/Saskatchewan are expected to fall 1.5 per cent during the first quarter.

Many respondents also noted that the impending changes to passport regulations were already having a negative effect on U.S. bookings to Canada. The high value of the Canadian dollar also remains a challenge, since Canadian travel products continue to be more expensive because of the less favourable exchange rate.

Looking further ahead, many respondents said that if the proposed elimination of the GST/HST rebate program goes into effect next year as planned, it will have a significant impact on their U.S. and overseas markets.

U.S. Consumer Confidence and Travel Intentions Survey, The Conference Board, Inc.

After rebounding in September, U.S. consumer confidence declined slightly in October 2006, according to the U.S. Consumer Confidence Index by The Conference Board, Inc. The overall index jumped 5.7 points in September, then slipped half a point in October to an overall reading of 105.4. According to the Conference Board, October's index dipped slightly because consumers were less optimistic about present-day business conditions and the job market. However, optimism regarding the short-term outlook improved moderately compared with the previous month.

Consumer Confidence (1985=100 Index)				
	2006:07	2006:08	2006:09	2006:10 (p)*
Consumer Confidence Index	107.0	100.2	105.9	105.4
Present Situation	134.2	123.9	128.3	124.7
Expectations (six months ahead)	88.9	84.4	91.0	92.6

Source: The Consumer Research Center, The Conference Board, Inc., U.S.

*preliminary

According to the October 2006 vacation intentions survey by The Conference Board, Inc., 46.3 per cent of Americans polled said they planned to take a vacation sometime in the next six months. Overall vacation intentions were at virtually the same level as they were a year ago, although international travel plans are marginally stronger, and domestic travel plans have slipped slightly.

Vacation Intentions for the Next Six Months (Per cent, Seasonally adjusted)

	Apr. 2006	Jun. 2006	Aug. 2006	Oct. 2006 (p)*
Vacation Intended (all destinations)	41.9	40.1	43.3	46.3
U.S.	35.2	34.4	35.5	37.7
Foreign	8.4	8.2	9.5	9.7

Source: The Consumer Research Center, The Conference Board, Inc., U.S.

* preliminary

U.S.-to-Canada Air Capacity

Since the ability to get to a destination is an integral part of planning and taking a trip, the level of air service offered between the United States and Canada was studied using OAG Max, a product from OAG Worldwide. OAG Max provides information on worldwide flight capacity. Air access is very important because the growth of specific travel segments is linked to improvements in air access.

Seats Available for Travel From the U.S. to Canada (Q1 – January to March)

Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
to Canada (overall)	3,907,330	4,179,434	7.0%
B.C./Alberta	1,235,368	1,414,783	14.5%
Manitoba/Saskatchewan	112,120	115,540	3.1%
Ontario/Quebec	2,494,608	2,589,360	3.8%
Atlantic Canada	63,674	58,231	-8.5%

Source: OAG Worldwide.

The number of seats available (as of October 2006) for direct air travel from the United States to Canada during the first quarter of 2007 is expected to increase 7 per cent over the same quarter of 2006. With this expansion, air access is not expected to impede the growth of air travel from the United States to Canada during this period.

Air Capacity From the U.S. to Competitive Destinations

A comparison of air services from the U.S. travel destinations competing with Canada for the U.S. travel market is an important measurement of Canada's relative performance as a tourism destination. The table below illustrates the level and rate of change in direct air service to domestic destinations within the United States, the main competition for short- and medium-haul U.S. travellers. According to the latest OAG data, there will be a 4.1 per cent expansion of air capacity on non-stop domestic routes within the United States during the first quarter of 2007, compared with a year earlier.

Seats Available for Domestic Travel Within the United States (Q1—January to March)

Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
U.S. domestic destinations	214,561,760	223,431,488	4.1%

Source: OAG Worldwide.

Competitive Price Index

From the perspective of U.S. travellers to Canada, the potential travel destinations that are most comparable to Canada are those within the United States. The U.S. domestic market is Canada's main competitor for weekend getaways and mini-break trips. For this market, the competitive price analysis was based on a typical four-night stay, priced in U.S. dollars.

Overall, Canada's competitive price index is expected to slip a modest 0.5 points in the first quarter of 2007, compared with the same quarter the previous year. This may be considered quite modest, given the 4.3 per cent increase in the value of the Canadian dollar vis-à-vis the U.S. dollar over the past year (October 2006 versus October 2005). Our competitive price analysis suggests that a four-night stay in Canada, including airfare, hotels, meals and other items, will increase 9 per cent for U.S. travellers over last year. Meanwhile, a similar trip within the U.S. is expected to cost nearly 8 per cent more than it did last year. In terms of Canadian destinations, the index shows that Alberta/B.C. remains the most price-competitive region for U.S. travellers.

Competitive Price Index—U.S. Travellers to Canada (US\$, Based on Four-Night Stay)

Competitive Destinations	Airfare (Round-trip)	Hotel	Meals	Other Items	Total	Index (Canada=100)	Q1 2006 Index
Canada	\$1,052	\$610	\$327	\$305	\$2,294	100.0	100
Atlantic Canada	\$1,109	\$535	\$303	\$305	\$2,252	98.1	97.7
Ontario/Quebec	\$1,003	\$668	\$326	\$305	\$2,302	100.3	100.8
Manitoba/Sask.	\$1,181	\$506	\$294	\$305	\$2,287	99.7	99.3
Alberta/B.C.	\$945	\$573	\$351	\$302	\$2,171	94.6	94.1
U.S. (domestic)	\$575	\$581	\$202	\$404	\$1,762	76.8	77.3

Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank; International Air Transport Association (IATA); American Express Business Travel Monitor.

Summary Outlook for Q1 2007

The outlook for U.S. travel to Canada remains subdued and is not expected to improve in the near term. Deteriorating conditions for the U.S. housing market have resulted in a sharp downturn in the outlook for the U.S. economy, exacerbating the declining trends in U.S. travel demand. Despite the positive effects of receding gasoline prices, U.S. household spending is expected to continue weakening as the wealth effect from rising housing prices evaporates. Climbing interest rates and a flagging job market are also hurting consumer demand. All of these factors are expected to contribute to the declining trends in U.S. travel to Canada during the winter.

Overall, Business Outlook Survey participants expect a 1.5 per cent decline in U.S. travel to Canada during the first quarter of 2007. Group leisure travel is expected to slip 1.2 per cent, while fully independent travel falls 2.2 per cent compared with the previous year. As a result, overall leisure travel is expected to decrease by 2 per cent during this period. The outlook for U.S. business travel to Canada continues to be the lone bright spot: respondents anticipate 1.1 per cent growth in this segment during the first quarter.

Canada's price competitiveness for U.S. travellers is expected to remain relatively stable during the first quarter of 2007, compared with the same quarter of 2006. This is positive news, considering the 4.3 per cent increase in the value of the Canadian dollar vis-à-vis the U.S. dollar over the same period. While the cost of travelling to Canada has increased considerably for U.S. travellers since last year, the cost of travelling within the United States has increased almost as much. Nevertheless, the relative strength of the Canadian dollar remains a challenge, particularly for price-sensitive automobile travellers from U.S. border states.

Mexico Travel Outlook, Q1 2007

Economic Overview

Mexico's economic growth is expected to slow to 3.4 per cent in 2007 after reaching an estimated 4.1 per cent in 2006. The softer performance is mainly the result of weaker exports to the slowing U.S. economy. In fact, Mexican export growth is forecast to decline from close to 14 per cent in 2006 to 6 per cent in 2007. As well, the implementation of government-sponsored projects during the first half of next year could be delayed by the formation of the new government. Delays in the government budget and uncertainty surrounding economic policies could further reduce overall economic prospects for 2007.

Market Expectations

Canada to be positioned as golf vacation destination: The latest quarterly market report by the CTC foreign office in Mexico reported that a new marketing initiative has been launched in Mexico positioning Canada as a golf vacation destination. Members of prestigious golf clubs in Mexico City will be invited to golf resorts in Alberta, B.C., Ontario and Quebec, so that they can share their experiences with fellow members of their golf clubs upon returning to Mexico. Other components of the campaign include a new website and articles in Mexican golf magazines.

Competition for Mexican travellers heats up: The CTC report also said the United States is stepping up efforts to increase its Mexican visitor numbers. In 2005, 12.6 million Mexicans travelled to the United States, and the U.S. hopes to increase this number by 24 per cent to 14 million by 2008.

However, competition for Mexican domestic travellers is also on the rise. A new report from Mexico's national department of civil aviation (DGAC) revealed that competition has driven down domestic airfares on the country's main routes by 55 to 65 per cent over the last year, according to *Aviation Daily*. Since December 2005, Interjet, Click, Avolar, Volaris and ALMA have all launched services competing on Mexico's most profitable routes and significantly expanding Mexico's domestic air market. Moreover, Avolar recently announced plans to invest US\$700 million to expanding its fleet so it can begin operating flights to the United States and Canada in 2008.

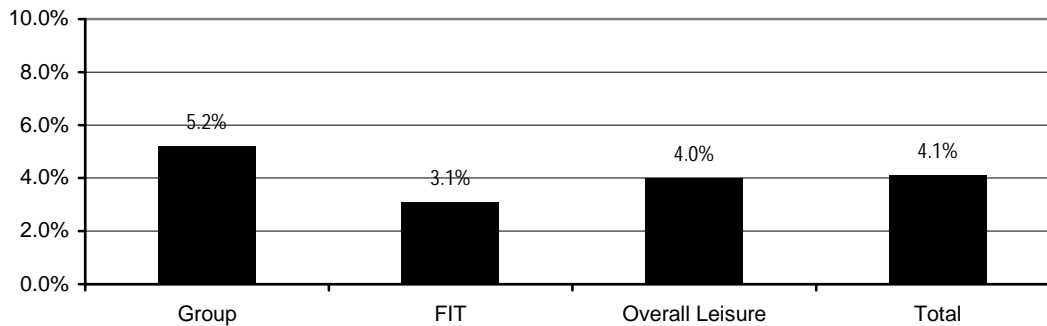
Tour operators expect sales of trips to Canada to rise: The majority of Mexican tour operators surveyed by the CTC's Mexican office expect their sales of Canadian products to rise by up to 10 per cent in the first quarter of 2007, compared with a year earlier. However, nearly all of the large tour operators surveyed expected their Canadian trip sales to increase by about 25 per cent. Air capacity does not appear to be a major impediment for most respondents, although the less favourable exchange rate was cited as a challenge for some tour operators.

In terms of particular sales trends, respondents continue to experience strong sales for vacation packages for couples and groups, although fully independent travel is rising and now makes up about 30 per cent of bookings. Respondents also said that for the first quarter of 2007, Quebec is the most popular destination for Mexican travellers, followed closely by Ontario and British Columbia.

Products under development for the Mexican leisure market include golf packages for B.C., Alberta, Ontario and Quebec, Northern Lights tours to Yukon and Alberta, and honeymoon packages.

Business Outlook Survey

Short-Term Outlook – Q1 2007
Overnight Person-Trips From Mexico to Canada
(per cent change from previous year, same quarter)



Source: Q1 2007 Business Outlook Survey, Canadian Tourism Research Institute.
Business travel is not broken out in order to preserve respondent confidentiality.

According to Business Outlook Survey participants, overall travel from Mexico in the first quarter of 2007 is expected to increase 4.1 per cent compared with the previous year. Growth in group visits is expected to reach 5.2 per cent, while fully independent travel climbs 3.1 per cent. As a result, overall leisure travel is expected to expand 4 per cent compared with the same quarter of 2006.

Mexico-to-Canada Air Capacity

Direct air capacity between Mexico and Canada is expected to jump by 15.5 per cent in the first quarter of 2007, compared with a year earlier. This substantial increase should help facilitate growth in Mexican visits during this period.

Seats Available for Travel From Mexico to Canada (Q1 – January to March)			
Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
Canada (overall)	126,128	145,697	15.5%
B.C./Alberta	32,956	38,757	17.6%
Saskatchewan/Manitoba	1,680	1,820	0.0%
Ontario/Quebec	88,612	102,360	15.5%
Atlantic Canada	0	2,760	n.a.

Source: OAG Worldwide.

Air Capacity From Mexico to Competitive Destinations

A comparison of air services from Mexico to travel destinations competing with Canada for the Mexican market is an important measurement of Canada's relative performance as an international tourism destination. The table below illustrates the level and rate of change in direct air service to competing long-haul travel destinations for the upcoming travel season.

Seats Available for Travel From Mexico to Other International Destinations (Q1 – January to March)			
Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
to the United States	3,637,424	3,795,150	4.3%
to Spain	90,215	100,106	11.0%

Source: OAG Worldwide.

During the first quarter of 2007, direct air capacity to the United States is expected to increase 4.3 per cent compared with the same quarter of 2006. Seat capacity on direct routes between Mexico and Spain is scheduled to expand even further, rising 11 per cent during the period.

Competitive Price Index

From the perspective of potential Mexican travellers to Canada, the key competitive tourism destinations are the United States and Spain. For the Mexican market, the competitive price analysis was based on a typical seven-night stay, priced in Mexican pesos.

Year-over-year, Canada's competitive price index is expected to decline by a modest 0.3 points against the United States in the first quarter of 2007. When compared with Spain, Canada's competitive price index is also expected to slip by 0.3 points, although Canada will remain a much cheaper destination than Spain for Mexican travellers.

Our competitive price analysis suggests that the cost of a seven-night stay in Canada, including airfare, hotels, meals and other items, will increase nearly 9 per cent for Mexican travellers in the first quarter compared with last year. Meanwhile, the cost of a similar trip to competitive destinations (in this case, the United States and Spain) is expected to increase by an average of 8 per cent.

In terms of Canadian destinations, the index shows that Alberta/B.C. is the most price-competitive region for Mexican travellers.

Competitive Price Index—Mexican Travellers to Canada (Mexican Pesos, Based on Seven-Night Stay)							
Competitive Destinations	Airfare (Round-trip)	Hotel	Meals	Other Items	Total	Index (Canada=100)	Q1 2006 Index
Canada	\$7,514	\$11,544	\$6,182	\$5,772	\$31,012	100.0	100.0
Atlantic	\$8,733	\$10,121	\$5,725	\$5,772	\$30,350	97.9	99.8
Ontario/Quebec	\$7,256	\$12,635	\$6,161	\$5,772	\$31,825	102.6	104.1
Manitoba/Sask.	\$9,522	\$9,578	\$5,568	\$5,772	\$30,441	98.2	94.6
Alberta/B.C.	\$6,867	\$10,836	\$6,638	\$5,712	\$30,053	96.9	95.1
U.S.	\$4,617	\$10,987	\$3,818	\$7,646	\$27,068	87.3	87.6
Spain	\$9,349	\$14,483	\$7,326	\$4,731	\$35,889	115.7	116.0

Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank (purchasing power parity); Expedia; SideStep.

Summary Outlook for Q1 2007

Business Outlook Survey participants anticipate moderate growth in Mexican visits through the first quarter of 2007. Overall trips to Canada are expected to expand 4.1 per cent during the period, compared with the same quarter of 2006. Group visits are expected to jump by 5.2 per cent, while FIT visits increase 3.1 per cent. A survey of Mexican tour operators revealed that sales of Canadian vacation packages continue to be brisk, despite the effect of a less favourable exchange rate on package prices. However, a growing number of Mexican travellers are making their own travel arrangements—a trend that will likely keep rising in tandem with the rapidly expanding Mexican air market. Canada's price competitiveness as a tourism destination for the first quarter is expected to remain relatively stable compared with the previous year, and should not deter potential Mexican visits during this period.

U.K. Travel Outlook, Q1 2007

Economic Overview

Rising inflation over the summer has prompted the Bank of England to increase interest rates. There could be further increases as monetary authorities attempt to keep inflation close to the 2 per cent target. As a result, real gross domestic product (GDP) is forecast to expand by 2.4 per cent in 2007, slightly below the 2.5 per cent growth anticipated for 2006. Pluses for growth include solid gains in consumer and business investment spending, while negatives include the effect of weaker U.S. economic growth on U.K. exports. Close to 15 per cent of U.K. exports are destined for the United States.

Market Expectations

U.K. travel market conditions remain challenging: The latest reports from major British tour operators suggest that U.K. travel market conditions are still challenging. Results of the September AC Nielsen TravelTrack revealed that overall advance winter bookings in the U.K. market were down by 13 per cent, while sales were behind by 10 per cent, year-over-year.

In November, MyTravel reported that its winter charter holiday bookings were down by 9.5 per cent compared with last year and that it had reduced its winter capacity by 10 per cent. On a positive note, its prices have edged up about 3 per cent over the previous year. First Choice reported similar conditions in its latest trading report, stating that it had reduced its capacity for short- and medium-haul trips in winter 2006–07 by 10 per cent. In October, its overall bookings were behind by 3 per cent, although its long-haul bookings were up by 25 per cent over last year.

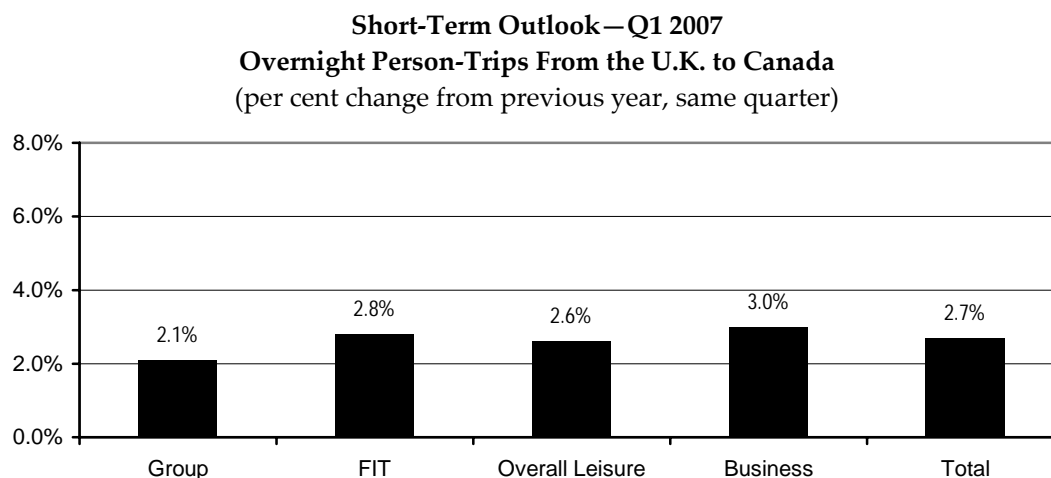
Traditional agencies ramp up online competition: The latest quarterly report from the CTC's overseas office in the U.K. confirmed that market conditions were very difficult during the summer travel season. The hot weather and the World Cup tournament were contributing factors; however, the main culprits were overcapacity in the market and waning demand for traditional vacation packages. As a result, major tour operators continue to shift their focus away from traditional packages, especially for short-haul destinations. Instead, they are focusing more on selling dynamically packaged products (where clients choose package components separately) through their websites for both short- and long-haul destinations.

The quarterly report also noted that booking patterns are undergoing a dramatic change, as British travellers increasingly wait until the last minute to book their vacations. The slow summer season, which prompted tour operators to offer deep, last-minute discounts, only compounded this trend.

Further growth in ski vacations to Canada expected this winter: Easier and cheaper access to Canadian and U.S. ski destinations, combined with the strong value of the British pound, is helping to boost growth in U.K. ski trips to North America, according to *Ski Industry Report 2006* by Crystal Ski. The report stated that these factors drove a 30 per cent increase in ski trips to North America last winter. Looking ahead to winter 2006–07, the report forecasts further growth in ski vacations to Canada and the United States, although the late timing of the Easter holiday in 2007 will hurt growth figures in the first quarter.

Tour operators expect to sell more Canadian products: Most British tour operators surveyed by the CTC expected solid growth in their sales of Canadian products for the first quarter of 2007. None of the respondents were concerned about direct air capacity between the U.K. and Canada, or the effect of the exchange rate on their bookings. Results of the survey suggested that Canadian vacation packages for all segments were selling well. The most popular provincial destinations for trips to Canada in the winter quarter are Alberta and Yukon, followed by B.C. and Ontario.

Business Outlook Survey



Source: Q1 2007 Business Outlook Survey, Canadian Tourism Research Institute.

The outlook for overall travel from the United Kingdom—as indicated by Business Outlook Survey participants—is for growth of 2.7 per cent in the first quarter of 2007 compared with the previous year. Leisure travel is expected to expand 2.6 per cent, with a 2.1 per cent increase in group leisure travel and 2.8 per cent boost in fully independent travel. Meanwhile, U.K. business travel to Canada is expected to continue outperforming leisure travel, rising by 3 per cent in the first quarter of 2007 compared with a year earlier.

Breaking down growth expectations by Canadian regions, respondents anticipate that U.K. travel to Alberta/B.C. will rise by 3.4 per cent and trips to Ontario/Quebec will increase 2.3 per cent during the first quarter of 2007.

U.K.-to-Canada Air Capacity

The number of direct seats available (as of October 2006) from the United Kingdom to Canada during the first quarter of 2007 is expected to jump 9.2 per cent compared with the same quarter of 2006. Therefore, direct air capacity should not impede the expected growth in U.K. visits to Canada during this period.

Seats Available for Direct Travel From the U.K. to Canada (Q1—January to March)				
Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change	
Canada (overall)	365,681	399,234	9.2%	
B.C./Alberta	100,732	123,729	22.8%	
Manitoba/Sask.	0	0	n.a.	
Ontario/Quebec	242,385	256,425	5.8%	
Atlantic Canada	22,564	19,080	-15.4%	

Source: OAG Worldwide.

Air Capacity From the U.K. to Competitive Destinations

A comparison of air services from the United Kingdom to travel destinations competing with Canada for the British travel market is an important measurement of Canada's relative performance as an international tourism destination. Below is a table illustrating the growth or decline of air service to competing long-haul travel destinations for the upcoming travel season.

Seats Available for Travel From the U.K. to Other International Destinations (Q1—January to March)				
Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change	
to the United States	2,701,908	2,614,991	-3.2%	
to China	94,425	103,801	9.9%	
to South Africa	307,934	270,658	-12.1%	
to Kenya/Nigeria/Ghana	247,546	199,731	-19.3%	
to Brazil	63,620	56,625	-11.0%	
to Mexico	23,580	11,640	-50.6%	

Source: OAG Worldwide.

Most tourism destinations competing for U.K. long-haul travellers are expected to see a decline in direct air capacity from the United Kingdom during the first quarter of 2007. Air access to the United States is expected to decline modestly (-3.2%), but other destinations will experience a double-digit reduction in direct air capacity during the first quarter. China is the only competitive destination expected to see an increase (9.9%) in direct air access during this period.

Competitive Price Index

Canada's key competitors for U.K. travellers are the United States, China, South Africa, sub-Saharan Africa (specifically Kenya, Nigeria and Ghana) and Latin America (specifically Brazil and Mexico). For the U.K. market, the competitive price analysis was based on a typical seven-night stay, priced in British pounds.

In the first quarter of 2007, Canada's competitive price index is expected to decline against South Africa, China and Latin America, compared with the same quarter of 2006. However, Canada's competitive price index is expected to increase against the United States and sub-Saharan Africa.

Overall, our competitive price analysis suggests that the cost of a seven-night stay in Canada, including airfare, hotels, meals and other items, will decrease 3 per cent in the first quarter, year-over-year, for U.K. travellers. Meanwhile, the cost of a similar trip to competitive destinations (U.S., China, South Africa, sub-Saharan Africa, Brazil and Mexico) is expected to fall by an average of 4 per cent in the first quarter of 2007.

In terms of Canadian destinations, the index shows that Atlantic Canada is the most price-competitive region for U.K. travellers.

Competitive Price Index—U.K. Travellers to Canada (British Pounds, Based on Seven-Night Stay)

Competitive Destinations	Airfare (Round-trip)	Hotel	Meals	Other Items	Total	Index (Canada=100)	Q1 2006 Index
Canada	£333	£561	£300	£280	£1,474	100.0	100.0
Atlantic	£301	£492	£278	£280	£1,351	91.7	89.8
Ontario/Quebec	£302	£614	£299	£280	£1,495	101.4	99.1
Manitoba/Sask.	£439	£465	£270	£280	£1,455	98.7	101.5
Alberta/B.C.	£360	£526	£322	£277	£1,487	100.8	104.4
United States	£313	£534	£185	£371	£1,403	95.2	92.2
China	£335	£593	£352	£76	£1,357	92.1	96.4
South Africa	£491	£472	£208	£61	£1,232	83.5	88.9
Sub-Saharan Africa (Kenya, Nigeria, Ghana)	£424	£632	£297	£136	£1,490	101.0	98.3
Latin America (Brazil and Mexico)	£491	£535	£237	£167	£1,430	97.0	98.0

Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank (purchasing power parity estimates); Expedia; SideStep.

Summary Outlook for Q1 2007

Although reports suggest that market conditions in the U.K. are challenging overall, the outlook for travel to Canada suggests there will be modest growth in U.K. arrivals this winter. Business Outlook Survey respondents anticipate a 2.7 per cent increase in travel from the U.K. to Canada in the first quarter of 2007, compared with a year earlier. Overall leisure travel is expected to expand 2.6 per cent, boosted by a 2.8 per cent rise in FIT visits. Group leisure travel is expected to edge up 2.1 per cent during the period. The outlook for U.K. business travel to Canada remains slightly more optimistic, with growth of 3 per cent expected for this segment during the first quarter.

A recent U.K. ski market report suggested that Canada is becoming an increasingly popular ski destination, partly because of easier access to Canadian ski resorts and the favourable exchange rate. The late timing of the Easter holiday in 2007 may shift some ski bookings to the second quarter, but Canada is expected to see further growth in its U.K. ski market this winter. In addition, Canada's price competitiveness for U.K. travellers is expected to improve in the first quarter against some key competitive destinations, including the United States. Direct air access between the U.K. and Canada will receive a much-needed boost during the quarter, which will help accommodate the expected growth in U.K. visitors.

France Travel Outlook, Q1 2007

Economic Overview

Real GDP growth in France is expected to reach 2 per cent this year and 2 per cent again in 2007. Growth would be higher if not for the reluctance of many businesses to undertake new investment. This reluctance is restraining hiring and, consequently, the unemployment rate is forecast to remain at or above 9 per cent through 2007. There is no doubt that the recent political unrest in France, combined with political scandals and a perceived lack of direction from the government, is restraining investment spending. The factor that will ensure the economy expands by about 2 per cent next year is strong export growth, which is driving industrial production.

Market Expectations

Growth in travel purchases constrained by rising prices: The latest market report by the CTC overseas office in France indicated that higher oil prices have driven up the cost of air travel in France by an average of 9.5 per cent over the past year and the cost of leisure trips by an average of 4.9 per cent, according to the Institut national de la consommation (National Institute of Consumption). This price increase has constrained the growth of travel purchases, but it has not caused it to decline. On the other hand, increasing travel prices do not appear to have curbed demand for luxury travel products.

The CTC market report also noted that French tour operators are increasingly using the Internet as a way of displaying their travel products. Most of the major tour operators have already posted electronic versions of their winter brochures on their websites. However, a recent Google study suggested that French travellers prefer online agencies to supplier websites—at least, when it comes to air travel. Of the 600 Internet users who had purchased flights online, 39 per cent had purchased their ticket through an online agency, while 33 per cent purchased their flight directly through the airline website.

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

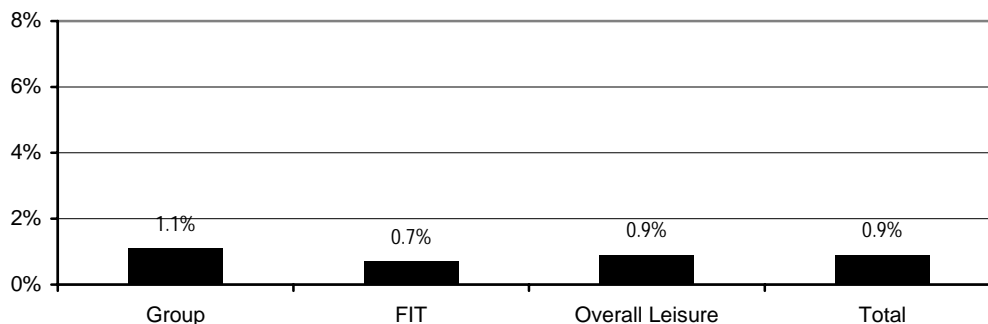
This is a turnaround from the decline in French business that TUI experienced over the third quarter of 2006. TUI reported that the French travel market suffered from weak demand over the summer, in part because of the World Cup tournament. TUI's French bookings were down by 5 per cent for the third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

Tour operators report mixed expectations: French tour operators surveyed by the CTC were mixed in their expectations for sales of Canadian vacations for the first quarter of 2007; however, few respondents anticipated a decline in sales compared with the same quarter of 2006. Direct air capacity did not appear to be a challenge for most respondents, but some did report that the exchange rate was hurting sales for the first quarter.

Respondents noted that winter vacation packages for individuals and groups were selling well. Quebec is by far the most popular Canadian destination for travel during this period, although products are under development for B.C./Alberta, Ontario and Atlantic Canada.

Business Outlook Survey

Short-Term Outlook—Q1 2007
Overnight Person-Trips From France to Canada
(per cent change from previous year, same quarter)



Source: Q1 2007 Business Outlook Survey, Canadian Tourism Research Institute.
Business travel is not broken out in order to preserve respondent confidentiality.

The outlook for overall travel from France in the first quarter of 2007—as indicated by Business Outlook Survey participants—is for marginal growth in visits (0.9%) over the previous year. Group leisure travel is expected to climb 1.1 per cent, while FIT visits edge up 0.7 per cent during the period. Consequently, respondents anticipate overall leisure travel from France will expand less than 1 per cent in the first quarter of 2007, compared with a year earlier.

France-to-Canada Air Capacity

Direct air capacity from France to Canada in the first quarter of 2007 is expected jump 13.7 per cent compared with a year earlier. This increase may help encourage further growth in French visits to Canada during the winter quarter.

Seats Available for Direct Travel From France to Canada (Q1—January to March)

Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
Canada (overall)	142,653	162,227	13.7%
Alberta/B.C.	0	0	n.a.
Ontario/Quebec	142,653	162,227	13.7%

Source: OAG Worldwide.

Air Capacity From France to Competitive Destinations

A comparison of air services from France to travel destinations competing with Canada for the French travel market is an important measurement of Canada's relative performance as an international tourism destination. The table below illustrates the growth of air service to competing long-haul travel destinations for the upcoming travel season.

Seats Available for Travel From France to Other International Destinations (Q1—January to March)

Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
to the United States	885,909	920,451	3.9%
to Brazil	137,961	148,838	7.9%
to China	143,331	161,202	12.5%
to Nigeria/Ghana/Senegal	83,432	85,920	3.0%

Source: OAG Worldwide.

Seat capacity on direct flights from France to other tourism destinations competing for French long-haul travellers is slated to expand during the first quarter of 2007. The largest year-over-year increases are planned for routes to China (12.5%) and Brazil (7.9%). The United States and sub-Saharan Africa (Nigeria, Ghana and Senegal) are expected to see modest growth during the period.

Competitive Price Index

Canada's key competitors for French long-haul travellers are the United States, China, sub-Saharan Africa (specifically Nigeria, Ghana and Senegal) and Brazil. For the French market, the competitive price analysis was based on a typical seven-night stay, priced in euros.

In the first quarter of 2007, Canada's competitive price index is expected to improve or remain the same for all competitive markets except China, compared with last year. The most significant increases are expected against sub-Saharan Africa and Brazil. Compared with the United States, Canada's competitive price index is expected to stay the same.

Our competitive price analysis suggests that the cost of a seven-night stay in Canada, including airfare, hotels, meals and other items, will decrease nearly 1 per cent, year-over-year, for French travellers. The cost of a similar trip to competitive destinations (U.S., China, sub-Saharan Africa and Brazil) is expected to decline by an average of nearly 1 per cent, as well.

In terms of Canadian destinations, the index reveals that Manitoba/Saskatchewan is the most price-competitive region for French travellers.

Competitive Price Index—French Travellers to Canada (Euros, Based on Seven-Night Stay)

Competitive Destinations	Airfare (Round-trip)	Hotel	Meals	Other Items	Total	Index (Canada=100)	Q1 2006 Index
Canada	€515	€837	€448	€419	€2,220	100.0	100.0
Atlantic	€517	€734	€415	€419	€2,086	93.9	99.5
Ontario/Quebec	€444	€917	€447	€419	€2,226	100.3	99.4
Manitoba/Sask.	€514	€695	€404	€419	€2,031	91.5	89.9
Alberta/B.C.	€635	€786	€482	€414	€2,317	104.4	104.6
United States	€426	€797	€277	€555	€2,055	92.6	92.6
China	€519	€886	€526	€114	€2,046	92.2	98.0
Sub-Saharan Africa (Nigeria, Ghana, Senegal)	€671	€905	€433	€140	€2,149	96.8	93.9
Brazil	€733	€795	€339	€83	€1,951	87.9	86.1

Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank (purchasing power parity estimates); Expedia; Sidestep.

Summary Outlook for Q1 2007

Reports from the French travel trade suggest that conditions in the French travel market are improving following a slow summer season. Prospects for the French economy have picked up, likely contributing to a brighter outlook for the French travel market over the winter season, overall. Looking ahead to the first quarter of 2007, Canada's price competitiveness for French long-haul travellers has gained a bit of ground because of a combination of factors, including more competitive airfares between France and Canada, a slight appreciation of the euro, and the higher cost of travelling to other competitive tourism destinations. In addition, direct air capacity between France and Canada is slated for a substantial increase over the winter quarter, compared with the previous year.

However, Business Outlook Survey participants remain cautious in their growth expectations for French travel to Canada in the first quarter of 2007. Overall visit are expected to expand less than 1 per cent during the period, compared with a year earlier. Group leisure travel is expected to increase 1.1 per cent, and fully independent travel is expected to remain near on par (0.7%) with the same quarter of 2006.

Germany Travel Outlook, Q1 2007

Economic Overview

In 2007, growth in the German economy is expected to slow down to 1.1 per cent as consumer spending remains essentially flat. Germany is increasing its value-added tax by 3 percentage points in January to raise revenues and bring its budget deficit more in line with European Union guidelines. As a result, many Germans have been on a spending spree during the latter half of 2006, boosting domestic consumption. This forward shift in spending is the main culprit behind the slower consumption growth expected in 2007. However, the disappearance of the jobs created by the World Cup tournament will also contribute to slower consumer spending next year. In addition, growth in German exports is expected to weaken in 2007 because of the anticipated slowdown in the world economy.

Market Expectations

Outlook for German leisure travel remains optimistic: Travel demand in Germany recovered after the World Cup tournament in June and July, according to the latest market report from the CTC's overseas office in Germany. The outlook for outbound travel over the winter season is optimistic, overall, and the choice of long-haul destinations continues to grow. The report also noted that two emerging markets for German tour operators are luxury travellers and senior travellers. Some tour operators have recently reported double-digit growth in the sales of high-end packages. In contrast, medium- and low-budget segments are not growing as quickly.

TUI winter bookings well ahead of last year: Tour operator TUI recently reported that its summer travel bookings were up by 4.4 per cent, despite the fact that it found the German market to be difficult and highly competitive during the summer quarter. Looking ahead to winter 2006–07, TUI said that by the end of October its bookings were ahead by 9.2 per cent and sales were up 4.3 per cent, compared with the same time last year.

Hike in value-added tax may hurt travel spending: The planned increase in the German value-added tax (VAT) from 16 per cent up to 19 per cent as of January 1, 2007, may curb travel spending next year, according to recent survey by ITB Berlin and GFK, a market research firm. The survey suggested that German consumers would increase their travel spending by 5 per cent in the final few months of 2006, to purchase their trips before the tax hike is implemented. As a result, growth in travel spending in 2007 is expected to slow to 2 per cent. ITB believes the VAT increase will take a bite out of many travellers' budgets, leaving them with less to spend on their overall trip.

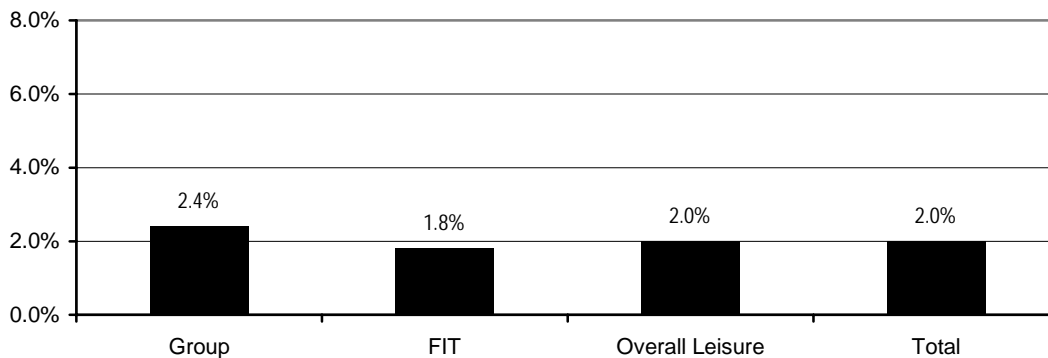
Tour operators expect to sell more trips to Canada: Nearly all of the German tour operators surveyed by the CTC expect year-over-year growth in their sales of Canadian products for the first quarter of 2007 – up to 20 per cent, in some cases. Fortunately, direct air capacity does not appear to be a problem among survey respondents for the first quarter. However, the exchange rate does appear to be hurting sales for some tour operators.

Respondents noted that sales trends are tilting towards flexible and customized travel packages. For travel to Canada, trips by individuals and couples travelling independently are the best sellers for the winter season.

B.C./Alberta continues to be the most popular regional destination, followed by Ontario, Yukon, Nova Scotia and Quebec. However, destinations under development for the German market include Yukon, Manitoba, Saskatchewan and Quebec.

Business Outlook Survey

Short-Term Outlook – Q1 2007
Overnight Person-Trips From Germany to Canada
 (per cent change from previous year, same quarter)



*Source: Q1 2007 Business Outlook Survey, Canadian Tourism Research Institute.
 Business travel is not broken out in order to preserve respondent confidentiality.*

According to Business Outlook Survey participants, overall travel from Germany is expected to increase 2 per cent in the first quarter of 2007, compared with a year earlier. Respondents anticipate growth in group leisure travel (2.4%) will continue to outpace growth in FIT visits (1.8%) during the period. As a result, overall leisure travel to Canada is expected to climb 2 per cent.

Breaking down growth expectations by Canadian regions, respondents anticipate German travel to Ontario/Quebec will increase 1.1 per cent during the first quarter of 2007 compared with the previous year. Visits to Alberta/B.C. are expected to rise by 3 per cent.

Germany-to-Canada Air Capacity

According to the latest data from OAG, direct air capacity from Germany is expected to dip slightly (-0.5%) in the first quarter of 2007, compared with the same period of 2006. Thus, direct air capacity may hinder the potential for growth in German visits during the winter quarter.

Seats Available for Direct Travel From Germany to Canada (Q1—January to March)			
Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
Canada (overall)	147,404	146,719	-0.5%
Alberta/B.C.	45,588	48,571	6.5%
Ontario/Quebec	101,816	98,148	-3.6%
Atlantic Canada	0	0	n.a.

Source: OAG Worldwide.

Air Capacity From Germany to Competitive Destinations

A comparison of air services from Germany to travel destinations competing with Canada for the German travel market is an important measurement of Canada's relative performance as an international tourism destination. The table below illustrates the growth or decline of air service to competing long-haul travel destinations for the upcoming travel season.

Seats Available for Travel From Germany to Other International Destinations (Q1—January to March)			
Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
to the United States	1,189,854	1,264,534	6.3%
to South Africa	128,774	131,623	2.2%
to Brazil	118,235	87,274	-26.2%
to Mexico	55,616	52,508	-5.6%
to China	191,427	239,177	24.9%

Source: OAG Worldwide.

The outlook is mixed for direct air capacity from Germany to other competitive tourism destinations during the first quarter of 2007. Direct air access is expected to decrease substantially (-26.2%) on routes to Brazil during the period, and slip moderately (-5.6%) on routes to Mexico. On the other hand, China is slated for a 24.9 per cent surge in air access during the quarter. Direct air capacity to the United States and South Africa is scheduled to expand moderately during the period.

Competitive Price Index

For potential German travellers to Canada, the key competitive destinations are the United States, China, South Africa and Latin America (specifically, Brazil and Mexico). For this market, the competitive price analysis was based on a typical seven-night stay, priced in euros.

Year-over-year, Canada's competitive price index is expected to decline against all competitive markets in the first quarter of 2007. The most significant declines are expected against China and South Africa. Compared with the United States, Canada's competitive price index is expected to slip by 2.2 points.

Our competitive price analysis suggests that the cost of a seven-night stay in Canada, including airfare, hotels, meals and other items, will increase nearly 2 per cent for German travellers visiting during the first quarter. Meanwhile, the cost of a similar trip to competitive destinations (U.S., China, South Africa, Brazil and Mexico) in the same quarter is expected to fall by an average of nearly 1 per cent, year-over-year.

In terms of Canadian destinations, the index reveals that Atlantic Canada is the most price-competitive region for German travellers.

Competitive Price Index—German Travellers to Canada (Euros, Based on Seven-Night Stay)

Competitive Destinations	Airfare (Round-trip)	Hotel	Meals	Other Items	Total	Index (Canada=100)	Q1 2006 Index
Canada	€514	€837	€448	€419	€2,218	100.0	100.0
Atlantic	€576	€734	€415	€419	€2,144	96.7	97.7
Ontario/Quebec	€439	€917	€447	€419	€2,221	100.1	99.6
Manitoba/Sask.	€630	€695	€404	€419	€2,148	96.8	95.9
Alberta/B.C.	€578	€786	€482	€414	€2,260	101.9	102.9
United States	€391	€797	€277	€555	€2,019	91.0	93.2
China	€514	€886	€526	€114	€2,041	92.0	100.5
South Africa	€725	€705	€310	€92	€1,832	82.6	90.6
Latin America (Brazil and Mexico)	€775	€800	€353	€250	€2,179	98.2	100.5

Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank (purchasing power parity estimates); Expedia; SideStep.

Summary Outlook for Q1 2007

The outlook for German outbound travel demand is looking slightly more positive for the winter travel season, following a summer that saw little growth in demand. Advance sales for winter vacations have picked up, but much of this momentum could be attributed to the impending increase in Germany's value-added tax. Research has suggested that many travellers are making a concerted effort to purchase their travel ahead of January 1, 2007—the date when the 3 per cent increase will be implemented. The VAT hike is expected to curb travel spending for many segments of the German market next year.

Business Outlook Survey participants anticipate overall travel from Germany will edge up 2 per cent in the first quarter of 2007 compared with a year earlier. Growth in group leisure travel (2.4%) is expected to continue outpacing growth in FIT visits (1.8%) during the period. German tour operators surveyed by the CTC also expect year-over-year growth in their Canadian travel sales for the first quarter of 2007; however, direct air capacity between Germany and Canada is scheduled to decline slightly, which could pose a challenge. Moreover, Canada's price competitiveness for German long-haul travellers is expected to lose some ground this winter, introducing another risk to the outlook for the German market.

Japan Travel Outlook, Q1 2007

Economic Overview

Japan's economy is expected to slow somewhat in 2007. Still, economic growth is expected to surpass 2 per cent for the fourth consecutive year after having grown by an estimated 2.9 per cent in 2006. Part of the slowdown is related to investment in Japan's export sector. Business investment spending has been strong, with Japanese exports benefiting from sales of capital equipment to China. However, machinery orders, an excellent gauge for capital expenditures, have been flat in recent months—a sign that the investment-led recovery has likely peaked and that growth will be weaker in 2007. In addition, slower growth in exports due to the softening in the world economy and the weak outlook for consumer spending will also contribute to the overall economic slowdown in 2007.

Market Expectations

Traditional packages losing their lustre: A panel of Asian tourism experts at a recent Pacific Asia Travel Association (PATA) conference suggested that Japanese travellers are losing their interest in traditional travel products. The panel asserted that the Japanese are paying more attention to their individual needs than to societal expectations. As a result, Japanese consumers are looking for customized products offering personal experiences that are “original and simple.” Heritage and cultural experiences are also gaining popularity.

Travel motivations changing: A recent market study of the Japanese travel market by the CTC and GlobeScan revealed that safety and security have become key influences on Japanese travel decisions. In Japan, the propensity for outbound travel has waned in recent years, mainly because of the current geopolitical climate.

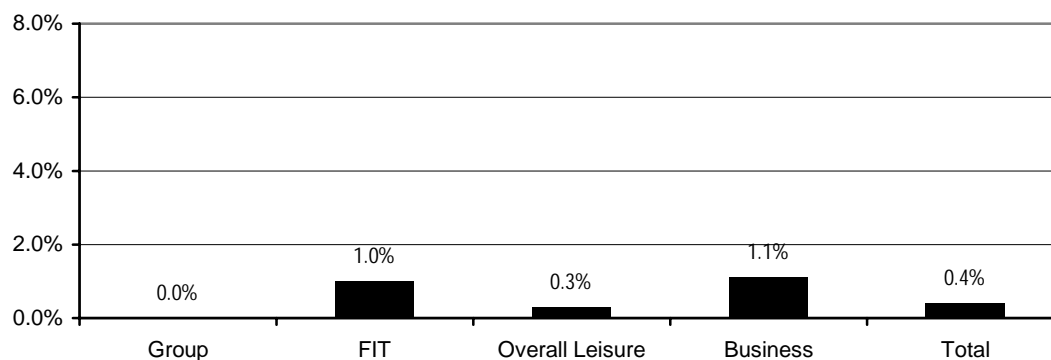
Japanese travellers are putting more of a priority on urban and outdoor experiences that feature nice scenery, good food, culture, fun and entertainment. Trip logistics, such as the availability of flights and all-inclusive packages have become less of a priority when choosing a travel destination. Japanese are less price sensitive than they were five years ago, but are still very concerned about overall value.

The study also determined that the two key drivers of Japanese travel to Canada are cultural experiences and the outdoor environment—these are the two aspects of Canadian destinations that will likely have the greatest impact on the Japanese long-haul travel market over the long term. While Canada is already known among Japanese travellers for its outdoor environment, entertainment and shopping are two additional elements that are crucial for positioning Canada as a “complete package” for the Japanese long-haul market.

Online travel market rapidly expanding: Japanese online travel agencies keep expanding their product offerings, as the popularity of online travel purchases continues to grow among Japanese consumers, according to the *Daily Yomiuri*. Many of these websites offer the ability to book overseas travel at prices that are considerably less than the cost of purchasing the same trip through a travel agent. Customizable options are a common feature, and many websites offer dynamic packaging for overseas trips, which is becoming increasingly popular. The article also noted that interactive travel websites, where individuals can post their travel experiences, are rapidly developing a large audience.

Business Outlook Survey

Short-Term Outlook—Q1 2007
Overnight Person-Trips From Japan to Canada
 (per cent change from previous year, same quarter)



Source: Q1 2007 Business Outlook Survey, Canadian Tourism Research Institute.

The outlook for Japan travel to Canada in the first quarter of 2007—as indicated by Business Outlook Survey participants—suggests visits will increase only marginally (0.4%) over the same quarter of 2006. The FIT segment is expected to edge up 1 per cent, while group travel remains on par with the previous year. As a result, overall Japanese leisure visits are expected to record nominal growth (0.3%) for the first quarter. Meanwhile, business travel from Japan is expected to rise 1.1 per cent during the period.

Breaking down growth expectations by Canadian regions, respondents expect little growth (0.2%) in Japanese visits to Ontario/Quebec during the first quarter. Trips to Alberta/B.C. are expected to rise 1.4 per cent over the previous year.

Japan-to-Canada Air Capacity

During the first quarter of 2007, direct air capacity from Japan to Canada is expected to remain virtually on par with the same quarter of 2006. Consequently, available seat capacity will likely remain a challenge for the Japanese travel market during this period.

Seats Available for Direct Travel From Japan to Canada (Q1—January to March)

Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
Canada (overall)	99,614	99,900	0.3%
Alberta/B.C.	74,160	74,160	0.0%
Ontario/Quebec	25,454	25,740	1.1%

Source: OAG Worldwide.

Air Capacity From Japan to Competitive Destinations

A comparison of air services from Japan to travel destinations competing with Canada for the Japanese travel market is an important measurement of Canada's relative performance as an international tourism destination. Below is a table illustrating the decline of air service to competing long-haul travel destinations for the upcoming travel season.

Seats Available for Travel From Japan to Other International Destinations (Q1—January to March)

Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
to the United States	1,586,934	1,501,539	-5.4%
to France	195,248	190,745	-2.3%
to Germany	174,850	159,780	-8.6%
to Italy	81,720	81,720	0.0%
to Australia	283,578	259,048	-8.7%

Source: OAG Worldwide.

The key tourism destinations competing with Canada for long-haul Japanese travellers are expected to see either no change or a decline in direct air capacity from Japan during the first quarter of 2007. The largest reductions are planned for routes to Germany (-8.6%), Australia (-8.7%) and the United States (-5.4%).

Competitive Price Index

For potential Japanese travellers to Canada, the key competitive destinations are the United States, France, Germany, Italy and Australia. For this market, the competitive price analysis was based on a typical 10-night stay, priced in Japanese yen.

Year-over-year, Canada's competitive price index is expected to decline against all competitive markets in the first quarter of 2007. The most significant declines are expected against Australia, France and Germany. Compared with the United States, Canada's competitive price index is expected to slip 2.7 points.

Our competitive price analysis suggests that the cost of a 10-night stay in Canada, including airfare, hotels, meals and other items, will increase 11 per cent over last year for Japanese travellers. Meanwhile, the cost of a similar trip in the first quarter to competitive destinations (U.S., France, Germany, Italy and Australia) is expected to increase by an average of 5 per cent, year-over-year.

In terms of Canadian destinations, Manitoba/Saskatchewan is the most price-competitive region for Japanese travellers.

Competitive Price Index— Japanese Travellers to Canada (Yen, Based on 10-Night Stay)							
Competitive Destinations	Airfare (Round-trip)	Hotel	Meals	Other Items	Total	Index (Canada=100)	Q1 2006 Index
Canada	¥110,596	¥179,490	¥96,114	¥89,745	¥475,944	100.0	100.0
Atlantic	¥134,333	¥157,355	¥89,007	¥89,745	¥470,441	98.8	101.7
Ontario/Quebec	¥119,882	¥196,448	¥95,799	¥89,745	¥501,874	105.4	106.2
Manitoba/Sask.	¥123,864	¥148,924	¥86,576	¥89,745	¥449,109	94.4	93.9
Alberta/B.C.	¥101,322	¥168,473	¥103,214	¥88,809	¥461,819	97.0	95.9
U.S.	¥95,098	¥170,822	¥59,368	¥118,883	¥444,171	93.3	96.0
France	¥91,869	¥237,451	¥119,658	¥83,673	¥532,651	111.9	118.8
Germany	¥91,751	¥246,500	¥126,314	¥77,918	¥542,484	114.0	120.3
Italy	¥89,634	¥293,031	¥134,422	¥80,151	¥597,238	125.5	128.6
Australia	¥108,314	¥165,182	¥104,813	¥71,499	¥449,807	94.5	103.9

Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank (purchasing power parity estimates); Expedia; SideStep.

Summary Outlook for Q1 2007

The outlook for Canada's Japanese travel market suggests that Japanese arrivals will achieve little to no growth over the winter quarter. Business Outlook Survey participants anticipate Japanese visits to Canada will remain virtually on par with the same quarter last year, increasing only 0.4 per cent. Fully independent travel is expected to continue growing at a marginally better rate, rising 1 per cent over the period, while group leisure travel remains the same as last year. As a result, overall leisure travel is expected to edge up 0.3 per cent this winter. The outlook for business travel from Japan is slightly more positive, with growth of 1.1 per cent expected for the first quarter of 2007.

Unfortunately, Canada's price competitiveness for Japanese long-haul travellers is expected to lose further ground during the winter quarter, mainly because of the considerable appreciation of the Canadian dollar against the Japanese yen. In addition, direct air capacity between Japan and Canada remains tight, keeping an upward pressure on the cost of air travel between the two countries. However, new research suggests that in recent years, Japanese travellers have become less price sensitive, although they are still concerned about overall value when choosing a vacation destination. This shift in travel motivation could help mitigate the negative effects of Canada's cost disadvantage compared with other long-haul tourism destinations.

South Korea Travel Outlook, Q1 2007

Economic Overview

The global slowdown will be felt by the export-oriented economy of South Korea, particularly given the appreciation of the won over the past year. Real GDP growth is therefore expected to decelerate from an estimated 5.1 per cent in 2006 to 4.5 per cent in 2007. Yet, even at this healthy pace of growth, there are concerns about the outlook. In particular, consumer spending is expected to continue to languish. Consumer confidence rose to a record high at the beginning of the year, then dropped to a 19-month low in August. High energy prices, fears of inflation and higher interest rates have all contributed to the fall in consumer sentiment. The nuclear tests conducted by North Korea are also expected to weigh on consumer spending and capital investment next year.

Market Expectations

Outlook for South Korean outbound travel remains buoyant: The CTC's overseas office in Korea reported that the Korean travel industry remains very optimistic in its outlook for Korean outbound travel over the winter season. The positive forecast is mainly based on surging demand for FIT and family travel, which are each expected to register strong growth over the winter period, barring any "unexpected external elements." Winter is a popular time for family travel in Korea.

A growing number of Korean travel companies are offering specialized leisure trips geared towards outdoor pursuits, such as golfing, trekking and hiking. The Korean travel trade is also increasing its focus on the expanding seniors demographic, which already accounts for more than a quarter of the Korean population.

Overseas spending soaring: Korean overseas spending continues to surge, buoyed by record-high spending on leisure travel, medical services and overseas education. In the first half of 2006, overseas spending soared by 17.4 per cent, year-over-year, and outbound travel rose 12 per cent, according to the Bank of Korea. The stronger won and the implementation of the five-day workweek were cited as two primary drivers of the growth. The bank expected the robust growth in overseas spending to continue through the rest of this year.

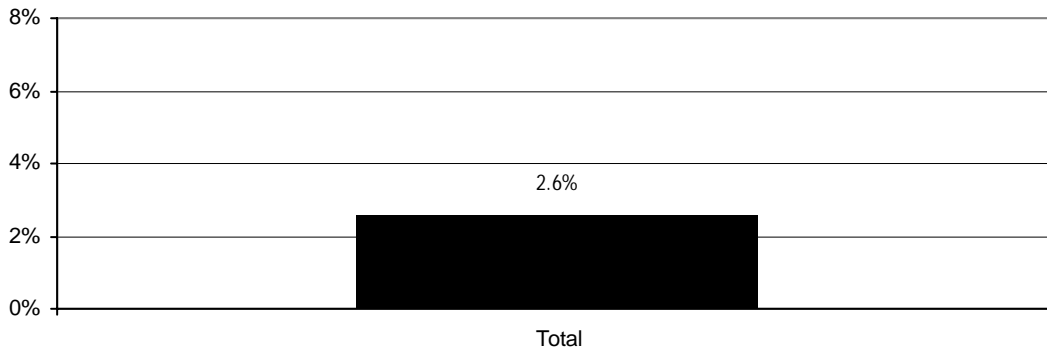
Tour operators expect surge in Canadian trips: Korean tour operators surveyed by the CTC expect their sales of Canadian products for the first quarter of 2007 to increase by about 15 per cent compared with the same quarter last year. Direct air capacity continues to be a challenge during peak demand periods; in the first quarter, this includes the New Year holiday in early January.

Although vacation packages for groups and couples have been selling well for the winter quarter, survey respondents have been experiencing very strong growth in FIT products. The most popular provincial destination for the quarter is B.C., followed by Alberta and

Ontario. Travel products under development in Alberta and B.C. for the Korean market include golf packages, high-end tours through the Canadian Rockies, trekking and honeymoon packages. Destinations in Yukon are also under development for the Korean market.

Business Outlook Survey

Short-Term Outlook—Q1 2007
Overnight Person-Trips From South Korea to Canada
(per cent change from previous year, same quarter)



Source: Q1 2007 Business Outlook Survey, Canadian Tourism Research Institute.
Group, fully independent, overall leisure and business travel are not broken out in order to preserve respondent confidentiality.

Business Outlook Survey participants anticipate South Korean visits will register modest growth during the first quarter of 2007. Compared with the previous year, Korean travel to Canada is expected to increase 2.6 per cent during the period.

In the first quarter, Korean visits to Alberta/B.C. are expected to grow 2.7 per cent over the previous year, and visits to Ontario/Quebec are expected to climb 2.5 per cent.

South Korea-to-Canada Air Capacity

According to OAG, direct air capacity from South Korea to Canada during the first quarter of 2007 is scheduled to expand only slightly (0.9%) over the previous year. This marginal increase in air services may be insufficient to accommodate the growth of Korean visits anticipated during the period.

Seats Available for Direct Travel From South Korea to Canada (Q1—January to March)

Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
Canada (overall)	54,831	55,317	0.9%
B.C./Alberta	43,695	44,565	2.0%
Ontario/Quebec	11,136	10,752	-3.4%

Source: OAG Worldwide.

Air Capacity From South Korea to Competitive Destinations

A comparison of air services from South Korea to travel destinations competing with Canada for the South Korean travel market is an important measurement of Canada's relative performance as an international tourism destination. Below is a table illustrating the growth or decline of air service to competing long-haul travel destinations for the upcoming travel season.

Seats Available for Travel From South Korea to Other International Destinations (Q1—January to March)

Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
to the United States	403,812	450,099	11.5%
to Australia	69,692	87,736	25.9%
to Germany	77,831	77,634	-0.3%
to the U.K.	37,848	50,370	33.1%
to France	44,844	54,420	21.4%

Source: OAG Worldwide.

With the exception of Germany, direct air capacity to all key tourism destinations competing for the Korean travel market is slated to expand by double-digits during the first quarter of 2007, compared with the previous year. The most substantial growth in direct air services is expected for routes to the U.K., Australia and France.

Competitive Price Index

Canada's key competitors for Korean long-haul travellers are the United States, the United Kingdom, France, Germany and Australia. For the Korean market, the competitive price analysis was based on a typical 10-night stay, priced in Korean won.

Year-over-year, Canada's competitive price index is expected to decline against all competitive markets in the first quarter of 2007, except Germany. The most significant declines are expected against the U.K. and Australia.

Our competitive price analysis suggests that the cost of a 10-night stay in Canada, including airfare, hotels, meals and other items, will decrease more than 4 per cent for South Korean travellers compared with last year. Meanwhile, the cost of a similar trip to competitive destinations (U.S., U.K., France, Germany and Australia) in the first quarter is expected to decline by an average of 8 per cent, year-over-year.

In terms of Canadian destinations, Alberta/B.C. is the most price-competitive region for Korean travellers.

Competitive Price Index—Korean Travellers to Canada (Korean Won, Based on 10-Night Stay)							
Competitive Destinations	Airfare (Round-trip)	Hotel	Meals	Other Items	Total	Index (Canada=100)	Q1 2006 Index
Canada	1,316,260	1,432,211	766,926	716,105	4,231,501	100.0	100.0
Atlantic	1,700,761	1,255,590	710,221	716,105	4,382,677	103.6	103.2
Ontario/Quebec	1,212,818	1,567,526	764,411	716,105	4,260,861	100.7	106.0
Manitoba/Sask.	1,655,708	1,188,318	690,817	716,105	4,250,948	100.5	103.6
Alberta/B.C.	1,316,273	1,344,306	823,582	708,641	4,192,801	99.1	95.1
U.S.	1,284,582	1,363,049	473,716	948,607	4,069,955	96.2	96.4
France	1,648,199	1,894,702	946,189	667,657	5,156,747	121.9	124.5
Germany	1,738,306	1,966,910	1,007,906	621,735	5,334,857	126.1	124.9
U.K.	888,864	2,333,367	1,000,869	848,313	5,071,412	119.8	136.3
Australia	1,628,113	1,318,045	836,336	570,511	4,353,005	102.9	107.6

Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank (purchasing power parity estimates); Expedia; SideStep.

Summary Outlook for Q1 2007

Business Outlook Survey participants anticipate overall travel from South Korea will increase modestly in the winter quarter, expanding 2.6 per cent compared with the previous year. Korean-based tour operators recently reported they expect strong year-over-year growth in Canadian travel package sales for the first quarter of 2007, in particular for the FIT segment. Winter is a popular time for family vacations as well, and the New Year holiday in early January is expected to be busy.

Unfortunately, direct air capacity remains a challenge for peak demand periods and may therefore be stifling the potential of further growth in Korean visits to Canada. Another risk to the outlook is a further decline in Canada's price competitiveness for the Korean market, despite the appreciation of the Korean won. Although the cost of travelling from Korea to Canada in the first quarter has declined since last winter, the cost of travelling to other tourism destinations has declined even further.

China Travel Outlook, Q1 2007

Economic Overview

The Chinese government faces a policy dilemma as it attempts to rein in an economy that continues to expand at a 10 per cent annual rate. The general ineffectiveness of monetary policy in the country combined with the growing power of local governments has made it difficult for the central government to tame the booming economy. Fears of an overheated economy led the central bank to increase the reserve requirement for banks by 0.5 per cent in August; however, more interest rate increases may be required to slow down the economy. The resulting rise in capital inflows would put upward pressure on the yuan, thereby slowing export growth. While the continued strength of the Chinese economy will help the world economy in the short term, more sustainable growth is desirable over the medium term to avoid repeating the pitfalls of Japan's economy in the early 1990s.

Market Expectations

ADS negotiations at a standstill: According to the latest market report by the CTC overseas office in China, negotiations with the Chinese government over Canada's approved destination status (ADS) remain at a standstill. There have been no further talks between Canada and the China National Tourism Administration (CNTA) since December 2005, so the full implementation of Canada's ADS arrangement with China will not likely happen this year. The CNTA said its priority is to increase tourism with Taiwan and to develop some type of ADS agreement with the United States. While the lack of ADS limits Canada's ability to expand its Chinese leisure travel market, the CTC report indicated that business and incentive travel segments, as well as the student travel segment, all continue to grow strongly.

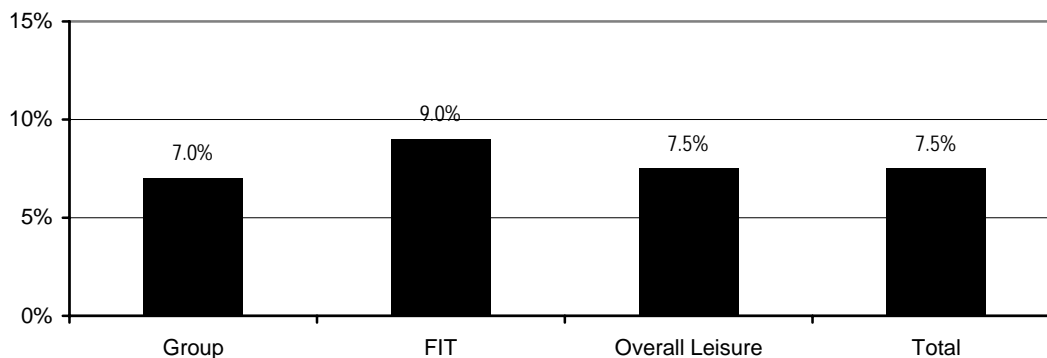
Business travel on the rise: China is the world's fourth largest business travel market, behind the United States, Japan and Germany, according to the recently released American Express China Business Travel Survey. In 2005, Chinese corporations spent US\$7.4 billion on air travel alone. In addition, 28 per cent of the companies polled said their travel spending would increase in 2006, although much of this spending (87%) was for domestic travel. Looking ahead to the next 12 months, about one-third of the respondents said their travel expenditures would continue to grow.

Chinese air travel market continues to expand rapidly: The General Administration of Civil Aviation of China (CAAC) recently forecast that air travel in China would expand at an average annual rate of 14.5 per cent between 2006 and 2010, according to a news report by Xinhuanet. By 2010, Chinese airlines will carry an estimated 270 million passengers per year.

The CAAC stated that China's aviation industry will absorb 100 new aircraft per year over the next five years, and will require an additional 10,000 pilots to meet the demands of the rapidly expanding air travel market. As a result, China is suffering from a severe shortage in trained pilots and has begun an overseas recruitment drive.

Business Outlook Survey

Short-Term Outlook—Q1 2007
Overnight Person-Trips From China to Canada
(per cent change from previous year, same quarter)



Source: Q1 2007 Business Outlook Survey, Canadian Tourism Research Institute.
Business travel is not broken out in order to preserve respondent confidentiality.

The outlook for overall leisure travel from China—as indicated by Business Outlook Survey participants—is for 7.5 per cent growth in the first quarter of 2007 compared with the previous year. Survey participants anticipate that FIT visits will jump 9 per cent during this period, while group leisure travel expands by 7 per cent.

Survey participants anticipate Chinese visits to the Ontario/Quebec region will increase 6.5 per cent during the first quarter of 2007, compared with a year earlier. Trips to the Alberta/B.C. region are expected to rise 8.1 per cent.

China-to-Canada Air Capacity

The number of non-stop seats between China and Canada in the first quarter of 2007 is scheduled to expand by a modest 1.6 per cent compared with the previous year. As a result, the level of direct air capacity between China and Canada may constrain the growth in Chinese visits anticipated during this period.

Seats Available for Direct Travel From China to Canada (Q1 – January to March)

Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
Canada (overall)	83,759	85,062	1.6%
Alberta/B.C.	70,317	73,908	5.1%
Ontario/Quebec	13,442	11,154	-17.0%

Source: OAG Worldwide.

Air Capacity From China to Competitive Destinations

A comparison of air services from China to travel destinations competing with Canada for the Chinese travel market is an important measurement of Canada's relative performance as an international tourism destination. Below is a table illustrating the growth or decline of air service to competing long-haul travel destinations for the upcoming travel season.

Seats Available for Travel From China to Other International Destinations (Q1 – January to March)

Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
to the United States	252,140	303,854	20.5%
to Australia	112,646	98,572	-12.5%
to Germany	190,691	238,882	25.3%
to France	142,840	151,241	5.9%
to the U.K.	94,425	103,801	9.9%

Source: OAG Worldwide.

Direct air capacity to most other competitive tourism destinations is scheduled to increase during the first quarter of 2007, compared with a year earlier. Australia is the only exception, as air access on these routes is expected to decline by 12.5 per cent compared with the previous year.

Competitive Price Index

Canada's key competitors for Chinese long-haul travellers are the United States, the United Kingdom, France, Germany and Australia. For the Chinese market, the competitive price analysis was based on a typical 10-night stay, priced in Chinese yuan.

Year-over-year, Canada's competitive price index is expected to increase against all key competitive markets in the first quarter of 2007, except Australia. The most significant increases are expected against the U.K., the U.S. and Germany.

Our competitive price analysis suggests that for travellers from China, the cost of a 10-night stay in Canada, including airfare, hotels, meals and other items, will decrease 3 per cent compared with last year. Meanwhile, the cost of a similar trip to competitive destinations (U.S., U.K., France, Germany and Australia) in the first quarter is expected to increase by an average of 2 per cent, year-over-year.

In terms of Canadian destinations, Manitoba/Saskatchewan is the most price-competitive region for Chinese travellers.

Competitive Price Index— Chinese Travellers to Canada (Chinese Yuan, Based on 10-Night Stay)							
Competitive Destinations	Airfare (Round-trip)	Hotel	Meals	Other Items	Total	Index (Canada=100)	Q1 2006 Index
Canada	8,600	12,014	6,433	6,007	33,054	100.0	100.0
Atlantic	10,983	10,532	5,958	6,007	33,480	101.3	101.2
Ontario/Quebec	9,070	13,149	6,412	6,007	34,638	104.8	104.4
Manitoba/Sask.	9,495	9,968	5,795	6,007	31,265	94.6	97.3
Alberta/B.C.	8,003	11,277	6,909	5,944	32,132	97.2	96.9
U.S.	9,145	11,434	3,974	7,957	32,510	98.4	93.1
France	7,283	15,893	8,009	5,601	36,786	111.3	106.4
Germany	7,125	16,499	8,455	5,215	37,295	112.8	107.1
U.K.	7,377	19,573	8,396	7,116	42,462	128.5	112.5
Australia	9,234	11,056	7,015	4,786	32,091	97.1	102.8

Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank (purchasing power parity estimates); Expedia; SideStep.

Summary Outlook for Q1 2007

Unfettered growth in Chinese travel demand continues to support an optimistic outlook for Chinese travel to Canada over the first quarter of 2007. Business Outlook Survey participants expect Chinese visits to Canada will expand 7.5 per cent during the first quarter of 2007 compared with the same quarter of 2006. Fully independent leisure travel is expected to jump 9 per cent during this period, while group leisure travel rises 7 per cent.

The CTC office in China recently reported that the process of implementing Canada's approved destination status remains at a standstill and is unlikely to be concluded this year. While this limits Canada's ability to expand its Chinese leisure travel market, visits to Canada continue to register strong growth in all market segments. Moreover, Canada's price competitiveness for Chinese tourists is expected to improve in the first quarter against most other key competitive destinations. All in all, strong economic and travel trends support expectations of a solid expansion in Chinese travel to Canada over the winter travel season.

Australia Travel Outlook, Q1 2007

Economic Overview

Australia's economic fortunes are perking up again. After the economy geared down and generated growth of 2.8 per cent in 2006, real GDP growth is once again expected to surpass the 3 per cent mark in 2007, reaching 3.3 per cent. Exports are not expected to be affected by the world economic slowdown, as they are largely composed of raw materials directed to China. Exports will also benefit from the investments into machinery, equipment and infrastructure that have taken place over the last year. At home, consumers are expected to come around as well. The country's housing market continues to be strong in parts of the country, while other parts have stabilized and are possibly gearing up for another wave of solid gains. With oil prices falling, this should help turn around consumer sentiment and bring about a solid increase in household expenditures next year.

Market Expectations

Strong demand for Canadian trips among some travel segments: According to the latest quarterly report by the CTC overseas office in Australia, Canadian specialists in the Australian travel trade have reported strong demand for small group tours and independent travel to Canada. Booking lead times are getting shorter and shorter, and travellers are becoming more concerned about value than price. Australian travellers are also preferring to book more elements of their trip before they leave.

The CTC report also noted that Australian consumer confidence is vulnerable right now, because of the negative effect of rising interest rates on the Australian housing market.

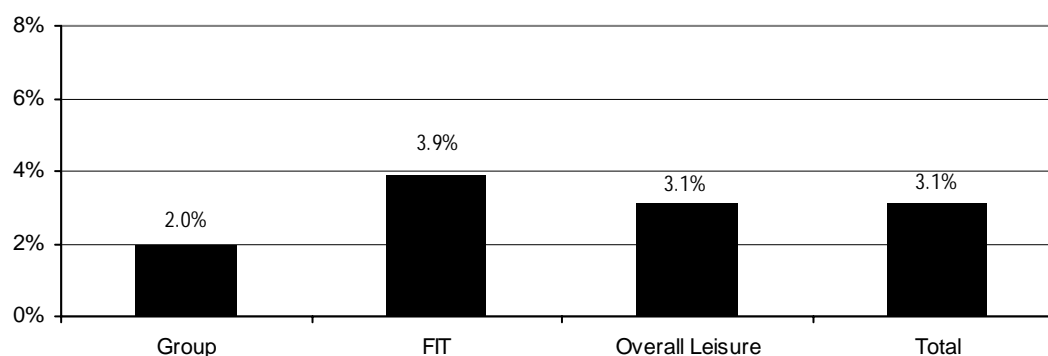
Domestic travel on a weakening trend: Although outbound travel remains on an upward trend, Australian domestic travel demand is waning, according to Tourism Australia. Higher mortgage costs are taking a bigger bite of household finances, and consumers are spending more of their disposable income on goods such as home entertainment systems and renovations. The federal government is planning a A\$200,000 study to determine why Australians are spending more on consumer goods than on domestic holidays.

Tour operators report mixed expectations for sales of trips to Canada: Australian tour operators surveyed by the CTC were mixed in their expectations for sales of Canadian travel products for the first quarter of 2007. Responses ranged widely, from growth of 30 to 35 per cent to a decrease in sales, compared with the previous year. Several respondents noted that insufficient air capacity and the less favourable exchange rate were hurting bookings for the winter quarter.

Respondents reported that vacation packages for individuals and for couples were selling very well for the first quarter. B.C./Alberta is the most popular regional destination for winter bookings because ski trips are the main focus of this period. A smaller number of bookings are for Ontario/Quebec and Yukon.

Business Outlook Survey

Short-Term Outlook—Q1 2007 Overnight Person-Trips From Australia to Canada (per cent change from previous year, same quarter)



Source: Q1 2007 Business Outlook Survey, Canadian Tourism Research Institute.
Business travel is not broken out in order to preserve respondent confidentiality.

Business Outlook Survey results suggest that overall leisure travel from Australia will expand 3.1 per cent in the first quarter of 2007, compared with the same quarter of 2006. Group leisure travel is expected to climb 2 per cent during this period, and FIT visits are expected to jump 3.9 per cent.

Some respondents noted that the Australian ski market is expected to do very well this winter.

Australia-to-Canada Air Capacity

According to the latest figures from OAG (as of October 2006), air capacity for flights with one stop between Australia and Canada is expected to decline by 12.4 per cent during the first quarter of 2007, compared with the previous year. This reduction in air access may constrain the growth of Australian visits to Canada over the winter quarter.

Seats Available for Travel From Australia to Canada (Q1—January to March)

Seats available (includes one stop)	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
Canada (overall)	27,984	24,525	-12.4%
Alberta/B.C.	27,984	24,525	-12.4%

Source: OAG Worldwide.

Air Capacity From Australia to Competitive Destinations

A comparison of air services from Australia to travel destinations competing with Canada for the Australian travel market is an important measurement of Canada's relative performance as an international tourism destination. The table below illustrates the growth or decline of air service to competing long-haul travel destinations for the upcoming travel season.

Seats Available for Travel From Australia to Other International Destinations (Q1—January to March)			
Non-stop seats available	2006 (Direct)	2007 est. (Direct)	2006 vs. 2007 Change
to the United States	286,390	292,538	2.1%
to the U.K. (includes one stop)	277,650	214,200	-22.9%
to China	112,551	99,696	-11.4%
to Hong Kong	318,305	305,783	-3.9%
to Japan	283,846	259,219	-8.7%
to Italy	0	0	n.a.
to India	10,914	11,286	3.4%

Source: OAG Worldwide.

The outlook is mixed for air capacity from Australia to other competitive destinations in the first quarter of 2007. Direct air access to the United States and India is expected to see modest growth. Meanwhile, available seat capacity to other key competitive markets is expected to decline.

Competitive Price Index

The key competitive destinations for Australian long-haul travellers are the United States, the United Kingdom, Italy, Japan, China, Hong Kong and India. For the Australian market, the competitive price analysis was based on a typical 10-night stay, priced in Australian dollars.

Year-over-year, Canada's competitive price index is expected to increase against four competitive markets in the first quarter of 2007—India, Hong Kong, Italy and the U.K.

Our competitive price analysis suggests that in the first quarter, the cost of a 10-night stay in Canada, including airfare, hotels, meals and other items, will decrease nearly 3 per cent, year-over-year, for Australian travellers. Meanwhile, the average cost of a similar trip to competitive destinations in the first quarter is expected to remain about the same as the previous year.

In terms of Canadian destinations, Manitoba/Saskatchewan is the most price-competitive region for Australian travellers.

Competitive Price Index—Australian Travellers to Canada (Australian Dollars, Based on 10-Night Stay)							
Competitive Destinations	Airfare (Round-trip)	Hotel	Meals	Other Items	Total	Index (Canada=100)	Q1 2006 Index
Canada	\$2,180	\$1,975	\$1,057	\$987	\$6,200	100.0	100.0
Atlantic	\$2,276	\$1,731	\$979	\$987	\$5,974	96.4	104.0
Ontario/Quebec	\$2,240	\$2,161	\$1,054	\$987	\$6,443	103.9	104.8
Manitoba/Sask.	\$2,371	\$1,639	\$953	\$987	\$5,949	96.0	99.2
Alberta/B.C.	\$2,115	\$1,854	\$1,136	\$977	\$6,082	98.1	96.3
U.S.	\$1,779	\$1,879	\$653	\$1,308	\$5,620	90.6	94.5
U.K.	\$1,763	\$3,217	\$1,380	\$1,170	\$7,530	121.5	113.2
Japan	\$1,519	\$2,051	\$1,115	\$1,237	\$5,922	95.5	100.3
China	\$1,363	\$2,090	\$1,240	\$269	\$4,963	80.0	89.0
Hong Kong	\$1,145	\$3,405	\$1,333	\$991	\$6,874	110.9	102.1
Italy	\$2,037	\$3,224	\$1,479	\$882	\$7,622	122.9	113.4
India	\$1,575	\$2,845	\$962	\$258	\$5,640	91.0	80.9

Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank (purchasing power parity estimates); Expedia; SideStep.

Summary Outlook for Q1 2007

The outlook for the Australian travel market this winter is mixed. On the upside, outbound travel demand appears to be holding its own, and reports from the Australian travel trade suggest demand is strong for Canadian travel products among some segments. Moreover, the price of travel to Canada from Australia has declined since last winter, giving Canada a leg up in its price competitiveness for Australian long-haul travellers. Yet, there are also some risks to the travel outlook for the first quarter: Australian consumer confidence has been vulnerable to rising interest rates this year, and this is already contributing to declining domestic travel trends. In addition, air capacity on one-stop flights to Canada is scheduled to decline in the first quarter, and this reduction may curtail the growth potential of this market over the winter season.

Still, Business Outlook Survey participants anticipate modest growth in Australian travel during the first quarter of 2007. Overall, Australian trips to Canada are expected to expand 3.1 per cent over the previous year. Group leisure travel is expected to climb 2 per cent, and FIT visits are expected to jump 3.9 per cent. Some respondents noted that they expect strong growth in Australian ski trips to Canada this year.

Appendix 1: Construction of the Competitive Price Index

Overview

One important aspect of Canada's global competitiveness as a tourism destination is the price of Canadian travel products relative to other key international competitors' products. As a regular feature of the *Short-Term Markets Outlook*, the Competitive Price Index serves as a valuable reference for tracking product pricing trends in key markets and monitoring Canada's relative competitiveness on an ongoing basis.

While the first issue of this report featuring the Competitive Price Index established certain pricing benchmarks, this feature now focuses on how Canada's price competitiveness is changing. The Competitive Price Index is calculated based on a potential traveller's expected spending on airfares, hotels, meals and other costs for travel to Canada, compared with those for competing destinations.

Viewed from the perspective of potential travellers from Canada's key international markets, the Competitive Price Index produces a measure of the absolute and relative rate of change in Canada's price competitiveness against that of its closest competitors. In addition to the national perspective, Canada's price competitiveness is further disaggregated to show the relative position of four distinct regions within Canada: Atlantic Canada, Ontario/Quebec, Manitoba/Saskatchewan and Alberta/B.C.

As noted in the Introduction, further refinement in the development and presentation of the Competitive Price Index may occur in upcoming issues.

Methodology

While the theory behind calculating the Competitive Price Index may appear straightforward, the ultimate calculation (and interpretation) of such an index depends on the various assumptions and parameters used in its construction. Although the levels reported by the Competitive Price Index are interesting (and potentially quite subjective), the primary objective in ongoing monitoring is to understand how Canada's competitive price position might be changing compared with various destinations.

The following sections in this appendix indicate some of the important assumptions and data sources used to construct the Competitive Price Index.

Average Length of Stay

The figures used to establish average length of stay for Canada's international travellers were determined by geography. Short-haul travellers (from the United States) were assumed to spend only four nights on average in Canada. Meanwhile, travellers from Europe and Mexico were assumed to spend an average of seven nights in Canada. Long-haul travellers from Asia-Pacific were assumed to spend an average of 10 nights in Canada. For the most part, the average length of stay was close to the average reported in the last full year of international arrivals data from Statistics Canada's International Travel Survey in 2005. For competing destinations, the same average length of stay was assumed to apply.

International Visitor Market Origin	Average nights spent in Canada (and competing destinations)
U.S.	4
Mexico	7
U.K.	7
France	7
Germany	7
Japan	10
Korea	10
China	10
Australia	10

Canada's Competitive Destinations

The list of destinations deemed to be competing with Canada from the perspective of the international travel markets covered by the *Short-Term Markets Outlook* was provided by the CTC. The following table shows the competitive destinations for each international travel market monitored in the *Short-Term Markets Outlook*.

Table A2: Canada's Competitive Destinations

International Travel Market	Competitive Destinations (to Canada)
U.S.	Domestic U.S.
Mexico	U.S., Spain
U.K.	U.S., China, South Africa, sub-Saharan Africa (Kenya, Nigeria, Ghana), Latin America (Brazil, Mexico)
France	U.S., Latin America (Brazil), China, sub-Saharan Africa (Nigeria, Ghana, Senegal)
Germany	U.S., South Africa, Latin America (Brazil, Mexico), China
Japan	U.S., France, Germany, Italy, Australia
Korea	U.S., Australia, Germany, U.K., France
China	U.S., Australia, Germany, France, U.K.
Australia	U.K., U.S., China, Hong Kong, Japan, Italy, India

Cost Components of the Competitive Price Index

The Competitive Price Index comprises the estimated travel costs of airfares, hotels and meals, as well as other costs that are expected to be incurred by potential visitors to Canada, compared with the costs of other competing destinations. The following table indicates the data used to establish the various cost elements.

Table A3: Competitive Price Index Components—Data sources/proxy values used

Competitive Price Index component	Data sources / proxy values used
International airfares to Canada and other destinations (excluding airfare from the U.S. to Canada)	Lowest price obtained through web queries using travel search engines SideStep and Expedia. The period examined was for travel between February 13, 2007 and February 20, 2007—the midpoint of the reference period under analysis. Various specific destinations within each country were used and results weighted based on estimated travel flows. All taxes and charges were included.
Airfare from the U.S. to Canada	The proxy value used for this segment was the average airfares reported for transborder travel in IATA's monthly agent air product sales report. (January 2006 airfares were used, with February 2006 year-over-year airfare increases applied on top.)
Domestic U.S. average airfares	The estimated Q1 2007 average airfare was constructed by applying the year-over-year annual growth reported by the July 2006 Air Transport Association monthly report to the Q2 2006 average airfares reported by American Express Business Travel Monitor. Since taxes and charges were not included in the American Express Business Travel Monitor figure, an additional 16.1% was added (the average in 2004 according to the Ticket Tax Project, prepared by the MIT Global Airline Industry Program and Daniel Webster College).
U.S. hotel rates	The latest monthly published per diem from the U.S. Department of State, Office of Allowances. Since taxes and charges were not included, an additional 12.4% was added (the average rate according to the American Hotel & Lodging Association).
International hotel rates (including Canada)	U.S. Department of Defense. The maximum rates of per diem allowances for hotels outside the United States are established by the Secretary of State and updated every month. All taxes are included.
U.S. meal rates	Monthly published per diems from the U.S. Department of State, Office of Allowances. The amount allocated for incidentals was not used.
International meal rates (including Canada)	U.S. Department of Defense. The maximum rates of per diem allowances for meals are provided by the Secretary of State and updated every month. The amount allocated for incidentals was not included.
Other items	This category includes all other travel-related spending at the destination aside from accommodation and meals. Specifically, this includes other intercity public transportation, private transportation, local transportation, retail, recreation and entertainment, and other miscellaneous purchases. For Canada, this figure was calculated to be equal to 50% of the allocated hotel spending at the national level. In order to estimate the cost in competing destinations, this figure was converted using the relative purchasing power parity (PPP) of the competing market to that of Canada. The PPP estimates were produced by the World Bank (2004).

Overall Construction of the Competitive Price Index

The Competitive Price Index provides an aggregate assessment of the total cost of airfare, hotels, meals and other costs for visitors to Canada, compared with that of competing destinations. While the final figure used for airfares in the Competitive Price Index is simply the cost of one round-trip ticket, the cost attributed to hotels, meals and other items is derived by multiplying the daily spending by the travellers' estimated length of stay. After summing up the various cost components, the index is normalized such that Canada (at the national level) equals 100. Index figures representing the price competitiveness of other competing destinations, as well as the various regions within Canada, are calculated by dividing their estimated total cost for visitors by the cost calculated for Canada (at the national level) and multiplying by 100.