

Domestic, U.S. and Overseas Travel to Canada

Short-Term Markets Outlook Second Quarter 2007 / Executive Summary

Prepared for:
The Canadian Tourism Commission (CTC)

By:

The Conference Board of Canada
Insights You Can Count On



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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 second quarter of 2007, all growth comparisons are reported on a year-over-year basis compared with the second quarter of 2006.

Highlights

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

Q2 2007 Short-Term Outlook for Canada's Key Markets (per cent change over Q2 2006)

Country	Market Segment				
	Leisure— Group	Leisure—FIT**	Leisure— Overall	Business	Total— Overall
Canada	5.3%	2.1%	2.6%	3.0%	2.7%
United States	-2.0	0%	-0.5%	1.6%	-0.2%
Mexico	3.5%	3.6%	3.6%	*	3.8%
United Kingdom	2.6%	2.2%	2.3%	3.0%	2.7%
France	1.1%	1.5%	1.3%	*	1.4%
Germany	2.4%	3.5%	3.1%	*	3.0%
Japan	-2.0%	0.3%	-1.4%	0%	-1.1%
South Korea	*	*	*	*	4.7%
China	6.7%	8.3%	7.2%	*	7.2%
Australia	1.5%	2.4%	2.1%	*	2.1%

* Not enough responses to ensure confidentiality

** Fully independent travel

North American Markets

Canada

Despite a slowing trend that took hold heading into the winter season, the short-term outlook for Canadian domestic travel has improved, buoyed by a healthier outlook for Canada's economy. Personal disposable income is expected to make strong gains once again this year, and consumers are increasingly confident about their job prospects and their household finances. Recent research suggests that travellers are showing early enthusiasm for spring and summer vacation plans, in particular for domestic destinations. In contrast, intentions for trips to the United States have downshifted, likely because of the new passport rule for air travellers entering or re-entering the United States, as part of the Western Hemisphere Travel Initiative (WHTI). Summer is a time when families tend to travel with their children, and an estimated three-quarters of all Canadian children do not hold a valid passport.

Business Outlook Survey participants anticipate overall domestic travel will expand 2.7 per cent in the second quarter of 2007, compared with a year earlier. Growth in group travel is expected to continue outpacing other segments, rising 5.3 per cent, while fully independent travel (FIT) climbs by 2.1 per cent. As a result, overall leisure travel is expected to edge up 2.6 per cent. Respondents anticipate a similar pace of growth (3%) for domestic business travel.

U.S.

The declining trends in U.S. travel to Canada are expected to continue in the short term. The slowdown in economic activity in the United States is causing some uncertainty among consumers, and may curb some of the potential for growth in U.S. travel this year. Furthermore, confusion over the WHTI and the proposed elimination of the GST rebate program are only exacerbating the challenges already facing Canada's U.S. travel market. However, one critical factor that has improved is Canada's price competitiveness for U.S. travellers. The improvement is largely due to an expected reduction in average airfares to Canadian destinations in the second quarter, combined with an expected rise in U.S. domestic airfares.

Business Outlook Survey participants expect U.S. travel to Canada in the second quarter of 2007 to be about the same as the year before. Group leisure travel is expected to slip another 2 per cent, while fully independent travel remains on par with the previous year. As a result, overall leisure travel is expected to decrease 0.5 per cent during this period. Meanwhile, U.S. business travel to Canada is the only segment expected to register any growth in the second quarter: respondents anticipate a 1.6 per cent increase over the previous year.

Mexico

Mexico remains one of Canadian tourism's most consistently solid growth markets. In the second quarter of 2007, Business Outlook Survey participants expect Mexican visits to Canada to expand 3.8 per cent, compared with the same quarter of 2006. Group visits are expected to climb 3.5 per cent, while FIT visits increase 3.6 per cent. Canada's price competitiveness for Mexican travellers during the second quarter is expected to decline only slightly and is not expected to have a noticeable effect on Mexican arrivals during this period. In fact, Mexican tour operators have been enthusiastic about the performance of their Canadian travel products, and expect the positive trends to continue this year.

European Markets

U.K.

The outlook for British travel to Canada is improving, lifted in part by a more favourable exchange rate. British tour operators reported that their Canadian bookings are selling well for the second quarter, in particular since the better exchange rate is allowing some operators to pass on the savings to their clients through a small reduction off brochure prices. As well, Canada's price competitiveness for U.K. travellers has gained some ground, and overall travel costs to Canada are expected to be lower this year than last year. Meanwhile, direct air capacity from the U.K. to Canada is scheduled to increase by more than 12 per cent in the second quarter, expanding the potential for growth in U.K. visits during the period.

Business Outlook Survey respondents anticipate a 2.7 per cent increase in travel from the U.K. to Canada in the second quarter of 2007, compared with a year earlier. Group leisure travel is expected to grow 2.6 per cent, and FIT visits by 2.2 per cent, boosting overall leisure travel to Canada by 2.3 per cent during the period. The outlook for U.K. business travel in the second quarter remains slightly more optimistic, with growth of 3 per cent expected for this segment.

France

Although French leisure travel trends are improving overall, the outlook for French travel to Canada in the second quarter of 2007 is not quite as optimistic. French tour operators have reported slow advance sales for trips to Canada this spring. The main reason cited for this trend is the strong growth of direct bookings made over the Internet, which is taking away market share from traditional travel packages and fuelling demand for newer and more exotic travel experiences. Fortunately, the price competitiveness of Canadian destinations for French travellers has been improving, in part because of the more favourable exchange rate. Although the appreciation of the

euro has contributed to a decline in the cost of travelling to other competitive tourism destinations, costs for Canadian trips have decreased even more. Moreover, direct air capacity between France and Canada is scheduled for a substantial increase during the spring season.

Business Outlook Survey participants anticipate modest growth in French travel to Canada in the second quarter of 2007. Overall visit are expected to expand 1.4 per cent during the period, compared with a year earlier. Group leisure travel is expected to edge up 1.1 per cent, and fully independent travel is expected to climb 1.5 per cent over the same quarter of 2006.

Germany

The outlook for German travel to Canada in the second quarter of 2007 appears mixed: on the one hand, some reports suggest that demand for shorter-haul trips is rising and that the recent increase in Germany's value added tax will have hurt travel demand in the short term. Growth in traditional holiday packages has been stagnating as demand for self-packaged trips booked over the Internet increases. As well, Canada's price competitiveness for German travellers has lost further ground, and some tour operators report that this is hurting their Canadian bookings. On the other hand, the general outlook for German travel demand is upbeat, overall, with solid growth in bookings expected among German travel suppliers this year.

Business Outlook Survey participants anticipate overall German travel to Canada will expand by 3 per cent in the second quarter of 2007 compared with a year earlier. Respondents expect group leisure travel to climb 2.4 per cent and FIT visits to rise 3.5 per cent during the period. As a result, overall leisure travel to Canada is expected to grow 3.1 per cent compared with the same quarter of 2006.

Asia-Pacific Markets

Japan

The outlook for Canada's Japanese travel market suggests there may be a slight decline in Japanese arrivals over the near term. Business Outlook Survey respondents anticipate Japanese visits will decline 1.1 per cent compared with the previous year. Fully independent travel is expected to edge up marginally (0.3 %), but group leisure travel is expected to slide 2 per cent, resulting in a 1.4 per cent decrease in overall leisure travel. The outlook for business travel from Japan is not much better; it is expected to remain flat during the second quarter of 2007.

The price competitiveness of Canadian destinations continues to lose ground in the Japanese market, and is a major challenge for tour operators selling Canadian travel

packages. Air access is also a persistent problem, because of insufficient seat capacity as well as the high cost of airfares between the two countries. In addition, the Japanese economy, with its uncertain outlook, is unlikely to help spur a pickup in the modest growth expected in overseas travel. All told, these factors suggest there is little potential for growth in Japanese visits to Canada this spring.

South Korea

Business Outlook Survey participants anticipate a solid increase (4.7%) in overall travel from South Korea in the second quarter of 2007 compared with the previous year. Korean-based tour operators are even more optimistic, expecting robust growth in their sales of Canadian travel packages for the second quarter, especially for independent travellers. Spring is a popular time for travel to Canada, because the weather is warmer and airfares are still at shoulder-season prices. Moreover, the steep upward trend in Korean outbound travel is expected to remain on track into the foreseeable future.

Although a slight decline in direct air capacity to Canada is scheduled for the second quarter, the Korean travel trade has not found this to be a major issue for bookings to Canada during this period. Canada's price competitiveness for the Korean market has managed to gain considerable ground recently, and this is helping to boost Korean interest in Canadian destinations for the spring.

China

Aside from the issue of obtaining approved destination status from the Chinese government, there is very little to limit the potential growth of Chinese travel to Canada in the near term. Although Canada is still not allowed to market its leisure travel products in China, visits continue to register strong growth in all segments. Business Outlook Survey participants expect Chinese visits to Canada will expand 7.2 per cent during the second quarter of 2007 compared with the previous year. Fully independent leisure travel is expected to rise 8.3 per cent during this period, while group leisure travel rises 6.7 per cent. A healthy expansion in direct air capacity to Canada, combined with a strong improvement in Canada's price competitiveness for the Chinese market will help ensure the growth potential of Chinese visits is met this spring.

Australia

Business Outlook Survey participants continue to anticipate modest growth in Australian visits to Canada in the near term. During the second quarter of 2007, overall visits are expected to increase 2.1 per cent over the previous year. Group leisure travel is expected to climb 1.5 per cent, and FIT visits are expected to rise 2.4 per cent.

Reports from the Australian travel trade suggest a mixed outlook for bookings to Canada during the second quarter of 2007, and some tour operators continue to indicate that insufficient air capacity and a less favourable exchange rate are hurting their Canadian bookings. However, the average price of travel to Canada has dropped considerably since last year, giving Canada a solid boost in its price competitiveness for Australian long-haul travellers.

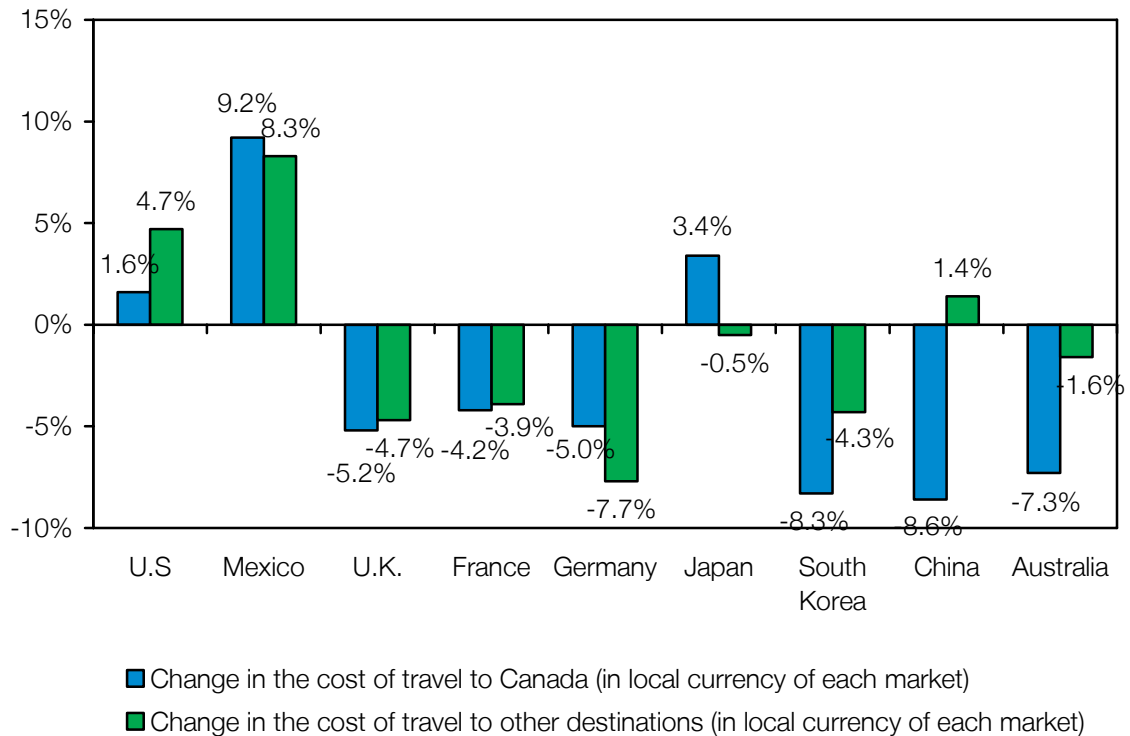
Competitive Price Index—Summary

One important aspect of Canada's global competitiveness as a tourism destination is the price of Canadian travel products relative to those of its key international competitors. The competitive price index tracks product pricing trends in key markets and monitors Canada's relative price competitiveness.

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 the costs for travelling to competing destinations.

The following summarizes the results of the competitive price index for the second quarter of 2007. The chart represents a snapshot of the year-over-year difference in the average cost of travelling to Canada from each origin market (the first bar) and the difference in the average cost of travelling to key competitive markets (the second bar).

**Changes in the Cost of Travel to Canada vs. Competitive Markets
(Q2 2007 vs. Q2 2006)**



Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank; Expedia; SideStep; FareCompare.

From the perspective of potential travellers in key international markets, Canada's price competitiveness is expected to improve against many competing destinations in the second quarter of 2007. In contrast to the negative trends reported last year, the early indications of an improvement in Canada's price competitiveness for 2007 should be welcome news for Canada's tourism industry. In fact, the latest competitive price analysis suggests that the overall cost of travelling to Canada will decline, year-over-year, for many markets. For details, please see the competitive price index found in each country section of the full *Short-Term Markets Outlook*.