

Domestic, U.S. and Overseas Travel to Canada

Short-Term Markets Outlook First Quarter 2008 / 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, surveys of key tour operators and quarterly staff reports from the CTC's foreign offices are also incorporated.

Please note that, since the outlook's scope is restricted to the first quarter of 2008, all growth comparisons are reported on a year-over-year basis compared with the first quarter of 2007.

Highlights

The outlook for Canada's key markets for the first quarter of 2008 (relative to the first quarter of 2007) according to the results of the Business Outlook Survey is summarized as follows:

Q1 2008 Short-Term Outlook for Canada's Key Markets (per cent change over Q1 2007)

Country	Market Segment				
	Leisure— Group	Leisure— FIT**	Leisure— Overall	Business	Total— Overall
Canada	3.2%	2.4%	2.5%	2.6%	2.6%
United States	-2.5%	-1.9%	-2.0%	-1.0%	-1.9%
Mexico	4.0%	4.6%	4.3%	*	4.3%
United Kingdom	2.0%	2.4%	2.3%	2.5%	2.3%
France	2.0%	1.0%	1.4%	*	1.5%
Germany	1.5%	3.0%	2.5%	*	2.4%
Japan	-4.0%	-2.0%	-3.4%	1.0%	-3.0%
South Korea	*	*	*	*	3.0%
China	6.8%	5.9%	6.4%	*	6.4%
Australia	4.4%	4.0%	4.1%	*	4.1%

* Not enough responses to ensure confidentiality

** Fully independent travel

North American Markets

Canada

Healthy economic conditions continue to support modest growth expectations for the domestic travel market, but the soaring value of the Canadian dollar is fuelling a boom in outbound travel demand. The latest Canadian Travel Intentions Survey by The Conference Board of Canada suggests that plans for travel to the United States and other international destinations this winter have increased since last year, at the expense, unfortunately, of domestic travel. Moreover, the higher value of the Canadian dollar is hurting the price competitiveness of domestic travel destinations, and the recent rise in gas prices could curb domestic auto travel over the near term.

Business Outlook Survey participants anticipate overall domestic travel will expand 2.6 per cent in the first quarter of 2008 compared with the previous year. Group travel is expected to keep outpacing other segments, growing 3.2 per cent, while fully independent travel (FIT) increases 2.4 per cent. Consequently, overall leisure travel is expected to rise 2.5 per cent. A similar pace of growth (2.6%) is expected for domestic business travel.

U.S.

The outlook for U.S. travel to Canada remains weak, largely because of the recent run-up in the value of the Canadian dollar. The stronger loonie could have severe consequences for U.S. visits over the short to medium term, significantly detracting from Canada's price competitiveness for U.S. travellers. In addition, the recent slowdown in the U.S. economy is hurting consumer confidence and eroding travel sentiment. Economic growth is expected to remain tepid over the next few quarters as the difficulties in housing markets spread to other sectors of the economy. Florida and California, two of Canada's most important long-haul air markets, are among the regions hardest hit by the downturn in the housing sector.

Business Outlook Survey participants expect U.S. travel to Canada to decline by another 1.9 per cent during the first quarter of 2008 compared with the previous year. Group leisure travel is expected to fall 2.5 per cent and fully independent travel is expected to slip 1.9 per cent, resulting in a 2 per cent drop in overall leisure visits. U.S. business travel to Canada is expected to decline 1 per cent over the quarter. Not surprisingly, survey respondents were nearly unanimous in citing the weakness of the U.S. dollar as hurting their bookings to Canada this winter.

Mexico

The outlook for the Mexican travel market remains sunny, overall. Business Outlook Survey participants expect Mexican travel to Canada to expand by 4.3 per cent in the first quarter of 2008, compared with the previous year. Fully independent travel is expected to rise 4.6 per cent, while group visits climb 4 per cent. Direct air services between Mexico and Canada are scheduled to expand by nearly 16 per cent during the quarter, which will ensure there is sufficient air access to accommodate the expected growth in visits. However, the strength of the Canadian dollar is still a challenge, especially now that it has surpassed parity with the U.S. dollar. The cost of travelling to Canada in the first quarter is expected to increase by an average of more than 10 per cent, year-over-year, eroding Canada's price competitiveness for the Mexican market.

European Markets

U.K.

The outlook for British travel to Canada remains resiliently optimistic, for now. British tour operators surveyed by the CTC were upbeat in their expectations for bookings to Canada over the winter season, in particular for the ski market. Despite only a minimal increase in direct air capacity from the U.K. in the first quarter, there are no reports that air access will be an issue for this period. However, many respondents were concerned about the strengthening Canadian dollar. The higher Canadian dollar is taking its toll on Canada's price competitiveness for the U.K. market, detracting from its near-term growth potential.

Business Outlook Survey respondents anticipate a 2.3 per cent increase in travel from the U.K. to Canada in the first quarter of 2008, compared with a year earlier. Fully independent travel is expected to rise 2.4 per cent, while group leisure visits climb 2 per cent, bolstering overall leisure travel volumes by 2.3 per cent. Meanwhile, respondents anticipate U.K. business travel to Canada will grow 2.5 per cent during the period.

France

The outlook for French visits suggests they will continue to grow at a modest pace over the near term. Business Outlook Survey participants anticipate a 1.5 per cent increase in French travel to Canada in the first quarter of 2008 compared with a year earlier. Group leisure travel is expected to climb 2 per cent, while FIT visits edge up 1 per cent during the period. Consequently, respondents anticipate overall leisure visits will expand 1.4 per cent. A moderate expansion of direct air capacity between France and

Canada over the period should help ensure there is sufficient air access over the winter quarter.

However, Canada's price competitiveness for French travellers is expected to decline further in the first quarter. The cost of travelling to Canada continues to climb in tandem with the appreciation of the Canadian dollar, while travel costs to other competitive destinations fall. French-based tour operators report that the higher Canadian dollar has been dampening their sales of Canadian travel products for the winter period.

Germany

The outlook for the German travel market is best described as cautiously optimistic. While solid growth in bookings to Canada is expected for the first quarter, changes to Canada's GST rebate program have prompted some German tour operators to raise their winter package prices to offset the inconvenience of the GST reimbursement process. This has made the cost of Canadian travel packages considerably more expensive, especially as the Canadian dollar continues to strengthen. As a result, Canada's price competitiveness is expected to decline in the first quarter against all other key competitive long-haul destinations.

Business Outlook Survey participants anticipate overall German travel to Canada will expand by 2.4 per cent in the first quarter of 2008 compared with a year earlier. Respondents expect group leisure travel to edge up 1.5 per cent and FIT visits to grow 3 per cent during the period, lifting overall leisure visits by 2.5 per cent. Fortunately, direct air capacity between Germany and Canada is scheduled to increase by 8 per cent during the period, helping to bolster the growth potential of German visits over the near term.

Asia-Pacific Markets

Japan

The outlook for Canada's Japanese travel market in the first quarter of 2008 remains subdued. Business Outlook Survey participants expect Japanese visits to Canada in the first quarter to decline by 3 per cent, year-over-year. Group leisure visits are expected to fall by 4 per cent, while fully independent travel slips 2 per cent, resulting in a 3.4 per cent reduction in overall leisure travel. On the other hand, business travel from Japan during the quarter is expected to grow by 1 per cent.

Overall Japanese outbound travel demand remains sluggish, with growth mainly focused on short-haul Asian destinations. For travel to Canada, the strength of the Canadian dollar and fluctuations in air access continue to dampen Japanese visits. In fact, direct air capacity between Japan and Canada is scheduled to decline

6.4 per cent in the first quarter. Furthermore, the appreciation of the Canadian dollar is exacerbating the difficulties with this market, contributing to a substantial increase in the cost of travelling to Canada this winter.

South Korea

The short-term outlook for Korean travel to Canada is for continued growth. Business Outlook Survey participants anticipate a 3 per cent increase in South Korean arrivals during the first quarter of 2008 compared with a year earlier. Korean-based tour operators continue to expect robust growth in their sales of Canadian travel bookings during the winter quarter, despite some concerns about air access and the higher value of the Canadian dollar. Unfortunately, some tour operators report that insufficient air access is preventing them from booking group tours during peak travel periods this winter. Moreover, Canada's price competitiveness for the Korean market is expected to lose further ground in the first quarter. On average, the cost of a trip to Canada is expected to rise more than 17 per cent during the quarter compared with a year earlier. Some tour operators have indicated they may raise their package prices in the near future to account for the higher travel costs.

China

Growth expectations for Chinese travel to Canada remain positive. Business Outlook Survey participants expect Chinese visits to Canada will expand 6.4 per cent during the first quarter of 2008 compared with the previous year. Group leisure travel is expected to jump 6.8 per cent during this period, while fully independent visits rise 5.9 per cent. A substantial expansion of direct air capacity during the winter quarter should ensure there is sufficient air access to accommodate the anticipated growth in Chinese visits. However, the price competitiveness of Canadian destinations is set to decrease in the first quarter against most key competitors, in particular the United States and the United Kingdom.

Australia

The outlook for Australian travel to Canada during the first quarter of 2008 is upbeat. Australian tour operators surveyed by the CTC expect strong growth in their bookings to Canada this winter, despite mixed reports about the effects of the exchange rate. Although the strength of the Australian has mitigated some of the negative effects of the higher Canadian dollar, it has also increased the affordability of competing destinations. Overall, outbound travel demand remains on an upward trend, fuelled by the strong Australian dollar and the expanding availability of affordable international flights.

Business Outlook Survey participants expect overall visits from Australia to expand 4.1 per cent during the first quarter of 2008 compared with the previous year. Group leisure travel is expected to grow 4.4 per cent, while FIT visits rise 4 per cent during this period. Air capacity between Australia and Canada is scheduled for a sizable expansion during the quarter, due to the addition of non-stop services to Toronto. This expansion will provide a substantial boost to the near-term growth potential of the Australian market.

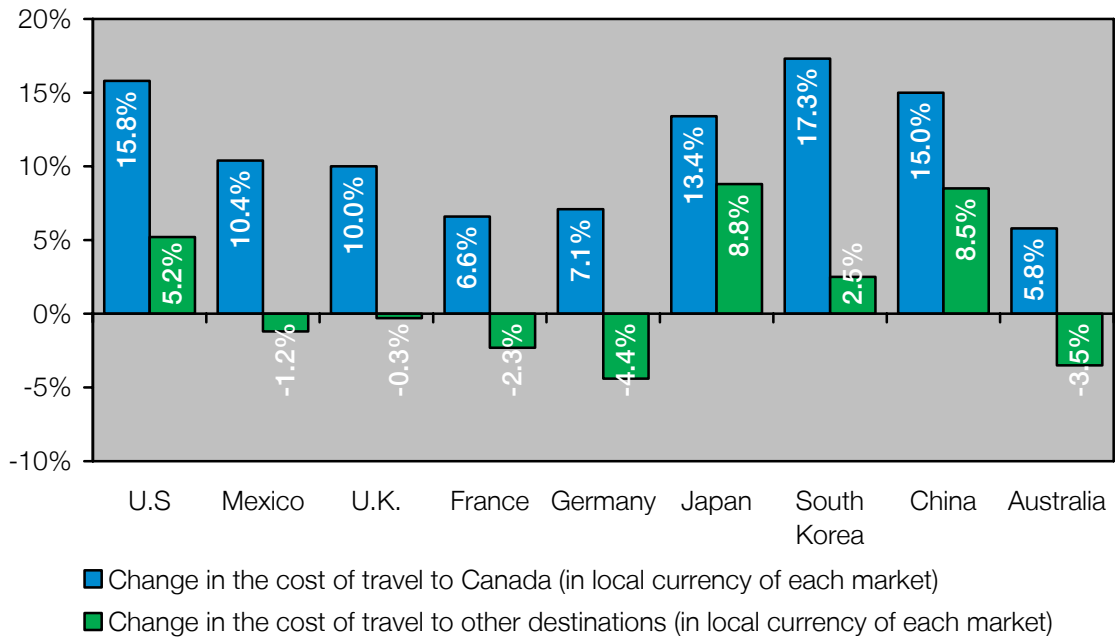
Competitive Price Index – Summary

One important aspect of Canada's global competitiveness as a tourism destination is the price of Canadian travel products relative to that of its key international competitors' products. 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 first quarter of 2008. 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 (Q1 2008 vs. Q1 2007)



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

Canada's price competitiveness is expected to decline against most competitive destinations in the first quarter of 2008, in large part because of the strengthening Canadian dollar. The latest competitive price analysis suggests that the overall cost of travelling to Canada will increase substantially, year-over-year, for most markets. For details, please see the competitive price index found in each country section of the full *Short-Term Markets Outlook*.