



Soaring Gas Prices Curbing Travel Confidence

Issue 45: May 2008

The Tourism Intelligence Bulletin monitors the tourism industry around the world. This issue features tourism intelligence gathered in March and April 2008.

Bulletin Highlights

Tourism Overview: North America

- **Canadian summer travel intentions down slightly:** The latest Canadian Travel Intentions Survey by The Conference Board of Canada suggests growing economic concerns and skyrocketing gas prices are taking their toll on domestic travel intentions, resulting in a modest decrease in summer vacation plans compared with a year ago. Planned trips within Canada and to the United States registered a decline, while intentions for overseas travel stayed about the same as last year. **(See page 4.)**
- **Growth in domestic travel expected to stay modest:** The latest travel indicators suggest the domestic travel market will grow only modestly over the short term. The strong Canadian dollar continues to spur outbound travel, while reducing the price competitiveness of domestic travel destinations. In addition, soaring gasoline prices are taking a bite out of household budgets and will likely curtail domestic auto travel. **(See "Domestic Travel," page 10.)**
- **U.S. vacation intentions weakening:** U.S. travel intentions softened further in April, dropping to a 30-year low, according to the latest Consumer Confidence Survey report by the U.S. Conference Board, Inc. Consumer confidence also continues to deteriorate, as Americans become increasingly pessimistic about present and future economic conditions. **(See page 4.)**
- **Soaring gas prices expected to curb U.S. auto travel:** The average price of gasoline soared to a record-high in April, increasing by 22 per cent, year-over-year. Many analysts believe average gas prices will peak at close to \$4.00 per gallon this summer, cutting into U.S. auto travel demand. The Energy Information Administration predicted that rising prices and the economic slowdown will cause U.S. gas demand to fall in 2008 for the first time in 17 years. **(See page 5.)**
- **Companies curbing costs, but still travelling:** Although there are still no definite signs of a slowdown in North American business travel volumes, media reports continue to suggest that rising financial concerns are prompting companies to heighten efforts to curb travel spending. **(See page 5.)**

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- **Canadian airlines and hotels still seeing healthy demand:** Concerns about economic conditions do not appear to be cutting into demand for Canadian airlines and hotels—at least, not yet.
 - Air Canada and WestJet both reported solid growth in passenger traffic in the first quarter of 2008, and continue to expand their domestic capacity. The carriers are also optimistic about summer bookings. However, soaring jet fuel prices are a challenge, and so the two airlines have begun increasing their fares to cover their rising operational costs. (See "Airlines," page 6.)
 - Solid demand for Canadian accommodations combined with a tight supply of available hotel rooms helped drive the continued growth of average daily room rates and revenues in January and February. However, the latest industry forecast by the Conference Board suggests the ongoing decline in U.S. visitors will severely impact accommodation profits this year. (See "Hotels," page 7.)

Tourism Overview: International

- **Strengthening euro boosts appeal of other long-haul destinations:** The decreasing value of the British pound is increasing the cost of U.K. travel to the eurozone, nudging U.K. travellers toward other long-haul destinations, according to the latest Post Office Holiday Costs Barometer. The survey results suggest British travellers will be more cost conscious when choosing a summer holiday destination this year. (See page 11.)
- **U.K. travel demand rising, despite slowing economy:** Although overall consumer spending in the U.K. has been slowing in recent months, demand for leisure travel products shows no signs of abating. Bookings among the websites and travel agencies tracked by Multicom, a travel technology firm, were up 40 per cent in the first quarter of 2008 over the previous year. Many Brits view international travel as a necessity rather than a luxury, and the firm believes the U.K. travel industry will be less vulnerable to an economic slowdown than previously thought. (See page 12.)
- **French air passenger traffic growing modestly:** Passenger numbers at airports serving Paris grew 2.2 per cent in March. Domestic passengers fell 7.3 per cent, while passengers on European flights rose 5.7 per cent. Passengers on transatlantic flights climbed 3.9 per cent. (See page 13.)
- **German travel agents report robust growth for January and February:** German travel agency sales grew robustly in the first two months of 2008, jumping 12.6 per cent over the previous year, according to the latest TATS survey. Another poll by GfK confirmed that advance bookings for summer 2008 registered strong growth in late 2007 and early 2008. However, the pace of sales appeared to cool slightly in March. (See page 15.)
- **"Golden Week" holiday losing its lustre:** The outlook for overseas travel during Japan's Golden Week holiday from April 25 to May 6, 2008, was not looking positive. Weaker outbound travel demand combined with the unfavourable timing of the holiday this year is severely limiting growth expectations. The national holidays that make up Golden Week are staggered this year, resulting in shorter blocks of days off and less time for vacations. JTB Corp. expected Golden Week outbound trip volumes to be at their lowest level since the 2003 SARS outbreak. (See page 17.)
- **Weaker won curbing outbound travel:** After years of robust growth, Korean travel demand appears to be weakening, mainly because of the depreciation of the Korean won. Growth in overseas travel spending has slowed significantly since November, when the value of the won started to slide. (See page 18.)
- **Chinese international air travel slows:** Growth in Chinese air travel eased in the first quarter of 2008, mainly because of a slowdown in international travel. International passengers on Chinese airlines grew a respectable 9.6 per cent during the quarter, but this was a stark drop from the 23.9 per cent growth achieved in the first quarter of 2007. The slowdown was attributed to the weaker U.S. dollar. (See "International travel continues to grow, but at a slower pace," page 20.)

- **Interest rate hikes expected to have little impact on Australian holiday spending:** Rising interest rates are curbing many big-ticket purchases in Australia, but vacations remain a priority, according to a recent survey. All the Australians polled said rising interest rates would cause them to adjust their personal budgets; however, less than 4.5 per cent said they would sacrifice holidays. Close to 30 per cent said they would delay buying a home, and 20 per cent would put off buying a car. Higher interest rates are expected to curb Australian travel demand temporarily, as overall consumer spending slows; but holiday spending is typically quick to rebound, because it is a lifestyle priority for many Australians. (See page 21.)

Tourism Leading Indicator Index - Summary Table

The Tourism Leading Indicator Index provides insights into the near-term outlook for the tourism industry, by tracking the progress of the economic and non-economic factors that affect travel demand from Canada's key tourism markets, including the domestic market.

The rating for each component of the index indicates how that component is expected to affect travel from the source market over the near term. The overall rating indicates the expected performance of the source market in the near term, relative to the same time period in the previous year.

Travel Market	Economic Factors		Non-Economic Factors		Overall Tourism Leading Indicator
	General Economic Trends	Price Competitiveness	Traveller Trends (to/within Canada)	Supplier Trends (to/within Canada)	For Travel to/within Canada
Domestic	↔	↓	↑	↑	+
U.S.	↓↓↓	↓↓↓	↓↓↓	↑	- -
U.K.	↔	↓↓↓	↔	↓	0
France	↑	↓	↑	↑↑	+
Germany	↔	↓↓↓	↔	↑↑	0
Mexico	↑	↓	↑↑	↑↑	++
Japan	↓↓↓	↓↓↓	↓↓↓	↓	- -
South Korea	↑	↓↓↓	↑	↓↓↓	+
China	↑↑	↓	↑↑	↑	++
Australia	↑	↓	↑↑	↑↑	+

Ratings Key:

Economic Factors and Non-Economic Factors:

Range from ↑↑↑ (significantly adds to demand) to ↓↓↓↓ (significantly impedes demand).

↔ represents neutral effect on demand.

Overall Tourism Leading Indicator:

Ranges from +++ (significantly improving) to --- (significantly deteriorating). 0 represents no change.

Full details about the index for each market begin on page 9. For more information about the methodology used to construct the index, please refer to the Appendix of this report.

Tourism Overview - North America (Canada and the United States)

Leisure Travellers

Canadian summer travel intentions down from last year: The latest Canadian Travel Intentions Survey by The Conference Board of Canada suggests that growing economic concerns are beginning to take their toll on Canadian travel intentions, resulting in a modest decrease in summer vacation plans compared with a year ago. Just over 62 per cent of Canadians polled in March 2008 said they were planning a leisure trip between May and September 2008, down from 65 per cent in March 2007. Vacation plans for destinations in Canada and the United States declined, while intentions for overseas travel stayed close to the same level as last year.

Table 1: Summer (May to September) Vacation Intentions
(per cent of Canadians polled)

	March 2007	March 2008
Summer Vacation Intentions (All Destinations)	65.0	62.4
Canada	43.1	42.8
United States	10.2	8.6
Other international	9.0	9.7
Do not know/refused	2.7	1.3

Source: The Conference Board of Canada.

The strong Canadian dollar continues to fuel demand for outbound travel and reduce the price competitiveness of domestic travel destinations. Skyrocketing gas prices will also curb domestic auto travel over the near term. According to a recent Canadian Press article, analysts predict Canadian fuel prices could soar to nearly \$1.50 per litre this summer.

WHTI deadline for land and sea borders finally confirmed: The U.S. Department of Homeland Security finally confirmed the implementation date for the final phase of the Western Hemisphere Travel Initiative (WHTI): on June 1, 2009, passports (or other approved secure documents) will be required for all travellers entering the United States at land and sea border crossings. The department said it would conduct information campaigns over the next 14 months to ensure U.S. and Canadian citizens are aware of the new border rule, focusing on border communities, in particular.

The U.S. State Department said it anticipates passport demand will reach a new high again this summer. To avoid the backlogs in passport applications that occurred last summer, the department said it would open additional processing facilities.

U.S. vacation intentions weakening: U.S. travel intentions softened further in April, dropping to a 30-year low, according to the latest Consumer Confidence Survey report by The Conference Board, Inc. in the United States. Preliminary results showed that in April 2008, 39.6 per cent of U.S. consumers polled said they planned to take a vacation within the next six months, down from 43 per cent in the February poll.

Results are adjusted to account for seasonal fluctuations in travel demand.

After a sharp drop in March, the monthly U.S. consumer confidence index continued to deteriorate in April, declining 3.6 points to 62.3 (1985 = 100). Consumer sentiment about present and future economic conditions continues to worsen, as Americans grow more pessimistic about business and job conditions. The Conference Board suggested that rising gasoline prices were also contributing to the downward spiral in consumer confidence.

Soaring gas prices expected to curb U.S. auto travel: The average price of gasoline in the United States soared above US\$3.50 per gallon in late April, hitting a new record high, according to *The New York Times*. The American Automobile Association noted that gas prices were 22 per cent higher than the same time last year. Many analysts believe average gas prices will peak at close to \$4.00 per gallon this summer, cutting into U.S. auto travel demand. A forecast from the Energy Information Administration suggests that U.S. demand for gasoline will register a year-over-year decline in 2008 for the first time in 17 years, because of rising gas prices and the slowing U.S. economy.

Personal financial concerns prompt reduction in U.S. travel plans: A recent survey suggests U.S. travellers are reducing but not cancelling their travel plans as a result of worsening economic conditions. A poll conducted by Ypartnership and the Travel Industry Association revealed that two-thirds of respondents had downsized their trips in the last six months because of personal financial concerns. Among those who downsized their travel, 29 per cent had taken fewer trips, 16 per cent chose less expensive lodging, 12 per cent stayed fewer nights, and 11 per cent drove a shorter distance. Ypartnership referred to this as "trading down, not out" and expected the trend to continue over the near term.

More Americans choosing "green": Americans have become significantly "greener" in their purchasing habits, fuelled by a growing awareness of environmental issues, according to Mintel, a market research firm. A recent survey revealed that 36 per cent of U.S. adults regularly buy green products, up from 12 per cent in a survey conducted only 16 months earlier. Conversely, those who reported never buying green products fell to 10 per cent of respondents, from 20 per cent in the previous survey. The firm attributed the change to a rapid increase in the number of young adults aged 18 to 24 who regularly buy environmentally friendly goods.

Business Travellers

Companies curbing costs, but still travelling: Although there have not yet been any definite signs of a slowdown in North American business travel, media reports continue to suggest that growing economic concerns are leading companies to increase efforts to curb travel spending.

Kevin Maguire, president of the National Business Travel Association (NBTA), recently told the participants of a business travel forum that corporate travel managers are continuing to contain travel costs for their companies; however, he has seen no signs of a significant cutback in the incidence of travel. The NBTA expects business travel volumes to keep growing this year, albeit at a slower pace.

According to a recent *New York Times* article, American Express Travel and Carlson Wagonlit Travel have both reported their clients are becoming increasingly price sensitive. For example, travel managers are encouraging employees to book air tickets earlier to obtain lower fares, and to rein in their spending on meals. Nevertheless, travel managers report that their companies must keep travelling to operate in today's global economy.

Smaller, more creative meetings a growing trend: According to PricewaterhouseCoopers, there is a growing trend toward smaller meeting sizes. The firm recently told *The New York Times* that companies are increasingly choosing less traditional meeting spaces, such as a hotel rooftop or pool, or teepees at some Canadian resorts. The trend is fuelled in part by the need to keep younger generations interested in

meetings by holding them in offbeat locations and customizing the agenda to suit attendees' particular needs. It also allows national companies to reduce costs by localizing meetings by holding several events across the country rather than having large numbers of staff gather at a single location.

Pricing data reveals significant increases in hotel and car rates: North American business travellers paid about the same for domestic air tickets in 2007 as they did in 2006, but significantly more for hotels, car rentals, and international flights, according to the 2007 Business Travel Monitor by American Express. The average domestic airfare paid by Amex clients last year slipped by US\$1 to US\$230, while international airfares increased by 7.6 per cent to US\$1,836. Domestic and international hotel rates jumped 11.3 per cent and 7.6 per cent, respectively, and car rental rates grew by 4.4 per cent.

Airlines

Economic uncertainty has not curtailed Canadian air travel: Economic uncertainty does not appear to be cutting into Canadian air travel demand—at least, not yet. Air Canada and WestJet both reported solid growth in passenger traffic in the first quarter of 2008, and continue to expand their domestic capacity. The carriers are also optimistic about summer bookings.

However, soaring jet fuel prices continue to be a challenge, and so the two airlines have begun increasing their fares to cover rising operational costs. An airfare analysis by Raymond James Ltd., reported in the *Globe and Mail*, revealed that Air Canada's fares rose by an average of 9 per cent in the first quarter, year-over-year. WestJet's airfares jumped by an average of 15 per cent over the same period. A separate analysis showed that fares on select domestic routes for summer travel were about 10 per cent higher, on average, than last year. But some analysts believe further fare increases may cause air travel demand to falter, potentially triggering a reduction in airfares back to around 2007 levels by the start of the summer travel season.

Air Canada will charge a \$25 fee for a second piece of checked baggage on domestic and U.S. flights starting July 15, 2008, to help offset "record high and unrelenting fuel costs." Following the example of several U.S. airlines, Air Canada will apply the new fee to economy-class seats in its two lowest fare categories, Tango and Tango Plus. WestJet is reportedly considering a similar move and has also mentioned the possibility of introducing a fuel surcharge.

Air Canada's system-wide passenger traffic (measured in revenue passenger miles), including mainline and regional operations combined, was 3.7 per cent higher in March 2008 than it was in March 2007. Total capacity expanded by 3.9 per cent, resulting in a slight decrease (-0.1 percentage points) in the airline's average load factor. Traffic on domestic routes grew 3 per cent, while traffic on transborder U.S. flights slipped 1.6 per cent. International traffic jumped 6.3 per cent, as the airline continued to see substantial growth on its "Latin American and other" routes (18%).

For the first quarter of 2008, Air Canada's system-wide passenger traffic grew 4.4 per cent over the previous year. Traffic on domestic routes was up by 4.9 per cent, and traffic on international routes was ahead by 6.1 per cent. Traffic on transborder U.S. flights was down slightly (-0.6%) from the previous year.

WestJet reported a 21.7 per cent rise in passenger traffic and a 19.6 per cent expansion in capacity in March 2008, compared with a year earlier. The average load factor for the month was 86.6 per cent, representing the carrier's 15th consecutive month of record-high load factors. In the first quarter of 2008, WestJet's passenger traffic was ahead by 19.1 per cent, year-over-year.

Table 2. Airline Revenue Passenger Miles (RPMs) and Capacity - March 2008

Airline	RPMs (in millions) March 2008	RPM change 2008 vs. 2007	Capacity 2008 vs. 2007
Air Canada mainline (includes Jetz & Tier 3)	4,092	+3.6%	+3.9%
Air Canada Regional (Jazz)	372	+4.8%	+4.1%
WestJet	1,239	+21.7%	+19.6%

U.S. airline industry hit by heavy turbulence: The U.S. airline industry is going through a period of heavy turbulence, triggered by rising fuel prices and the weakening U.S. economy. In April, four U.S. airlines-ATA Airlines, Skybus Airlines, Aloha Airgroup, and Eos Airlines-ceased operating, and Frontier Airlines filed for bankruptcy protection. All cited surging fuel costs as a key reason for their financial woes.

The latest figures from the Air Transport Association revealed that the price of jet fuel was up by 46 per cent in February, year-over-year. The Associated Press recently quoted the CEO of Delta Air Lines as saying that U.S. airlines would have to raise their domestic fares between 15 and 20 per cent to break even at current fuel prices.

Delta Air Lines and Northwest Airlines announced plans to merge, creating the world's largest airline under the name of Delta. The merger is subject to shareholder and regulatory approval, which is expected to take six to eight months. The press announcement noted that record-high fuel prices had "fundamentally changed the economics of the airline industry" and eroded the cost-cutting benefits both airlines had achieved while under bankruptcy protection last year. Many analysts believe further consolidation of the U.S. airline industry is imminent.

Meanwhile, a number of U.S. airlines have increased airfares and fuel surcharges to help offset fuel costs and have introduced new fees, such as charging for a second piece of checked luggage. Some airlines have also reintroduced a Saturday night stay-over requirement to shift airfare increases from leisure to business travellers. Many analysts believe rising fares and fees will eventually cut into demand, especially since there are signs that overall U.S. travel trends are beginning to weaken. However, air travel demand still appears healthy, with carriers reporting strong advance bookings for the summer.

Hotels

Substantial decline expected in Canadian hotel industry profits this year: Although domestic travel demand remains healthy, the continued decline in American visitors will hamper the profitability of Canadian hotels this year, according to The Conference Board of Canada's latest *Canadian Industrial Outlook: Canada's Accommodation Industry* report. Industry-wide profits are expected to decline by almost 26 per cent in 2008 to \$822 million. In addition to other issues facing the U.S. travel market, the ongoing strength of the Canadian dollar is constraining growth in U.S. overnight and international visits, while fuelling stronger growth in Canadian outbound travel. Labour shortages are also impeding the industry's profitability, as tight labour markets continue to push up wages and increase operational costs.

Canadian daily rates and revenues continue to climb: Solid demand for Canadian accommodations combined with a tight supply of available hotel rooms helped drive the continued growth of average daily room rates and revenues in January and February. The latest *National Market Report* by PKF Consulting reveals that average daily rates in Canada rose 4.5 per cent in the first two months of 2008, year-over-year. Occupancy edged up 0.3 percentage points, and revenues per available room (RevPAR) jumped 5 per cent.

Demand for Canadian accommodations expanded 4.5 per cent in the first two months of this year compared with the same period of 2007, according to the latest *Canadian Lodging Outlook* by HVS International. Hotel room supply for the same period increased only 1.5 per cent.

U.S. lodging revenues dampened by weaker travel demand: Weakening U.S. travel trends hampered the growth of U.S. lodging revenues in the first quarter of 2008, although hotel companies retained enough pricing power to keep raising their daily rates. Between January and March, average U.S. occupancy decreased 2.7 per cent compared with a year earlier, according to Smith Travel Research, Inc. (STR). However, average daily rates jumped 4.7 per cent, allowing average RevPAR to rise by 1.9 per cent.

STR reported in a recent conference presentation that American hoteliers are reacting to the current slowdown in travel demand much differently than they have in the past, according to *Business Travel News*. Instead of offering discounts to stimulate demand, they continue to increase rates, especially in upscale and luxury tiers and in high-demand markets. Weak increases in new hotel supply are also helping to keep rates stable. According to a recent report by Ernst & Young, strong growth in the number of international visitors, lured by the weaker U.S. dollar, has also bolstered the pricing power of U.S. hotels.

Travel Agents and Other Suppliers

Competitive pressures curb Transat's profitability: Transat A.T. Inc. posted a net loss of \$10.1 million in its first quarter ended January 31, 2008, a substantial drop from the \$2 million net profit posted in the same quarter a year earlier. The company attributed the decline to lower margins on packages to southern destinations sold in Canada, and a loss in its financial holdings. The company noted that additional Canadian market capacity kept a downward pressure on product prices in Canada. However, revenues for the period increased 10 per cent, thanks to expanded business activities in North America and Europe. Strong growth in the company's French operations, which include Look Voyages, Vacances Transat, and the recently acquired Amplitude Internationale, helped boost European revenues by 21.2 per cent.

Canadian cruise industry sails to strong growth: The Canadian cruise industry expanded significantly in the last four years, according to a recent study commissioned by the NorthWest CruiseShip Association and conducted by Business Research and Economic Advisors. In 2007, about 1,000 cruise ships calls were made at Canadian cruise ports. This generated close to 2 million passenger arrivals during the six-month cruise season, a 24 per cent increase in passenger calls over 2003, when the last study was conducted. The international cruise industry generated an estimated \$1.1 billion in direct cruise-related spending in Canada in 2007, a 16 per cent increase over 2003.

However, overall North American cruise capacity is expected to grow only 1.9 per cent in 2008, well below the 7 to 8 per cent historical average, according to a UBS investment research report cited by *Travel Weekly*. The report notes that demand for cruises has weakened this year.

A recent members survey by the U.S. Tour Operators Association cited the following tour package features as being the most important to travellers:

- **Flexibility:** Travellers want a balance of structured sightseeing and free time when they can pursue their own activities.
- **Customization:** Independent, customizable packages were cited as the highest growth area among members.
- **Authentic experiences:** Travellers are increasingly asking for experiential vacation packages that involve "authentic experiences, cultural enrichment, and in-depth discoveries," where they can meet locals and explore local culture. Examples included Nile cruises that combine visits to archaeological sites with stops to see how rural Egyptian life is lived, and going to see Aboriginal communities while visiting Australia's Great Barrier Reef.

Canadian agents push to delay e-ticketing: The Association of Canadian Travel Agencies (ACTA) and the Canadian Standard Travel Agent Registry (CSTAR) have petitioned the federal Competition Bureau to investigate and delay the 100 per cent e-ticket policy to be implemented by the International Air Transport Association (IATA). As of June 1, 2008, IATA will no longer process paper tickets through its bank settlement plan, a move that ACTA and CSTAR argue will place Canadian travel agents at a competitive disadvantage. U.S. agencies and airlines will not be affected by the new rule, because they settle tickets through the Airline Reporting Corporation, which will continue to support paper tickets. Some global airlines still use paper ticketing for certain types of bookings, and some smaller airlines do not offer e-tickets. In addition, not all interline agreements between carriers have been updated to accommodate e-ticketing.

Tourism Leading Indicator Index

Because of the constantly evolving nature of today's travel environment, it is increasingly important to be able to anticipate fluctuations in travel demand, in order to make better business decisions. The Tourism Leading Indicator Index provides insights into the near-term outlook for the Canadian tourism industry, by tracking the progress of the economic and non-economic factors that affect travel demand.

The rating for each component of the index indicates how that component is expected to affect travel from the source market over the near term. Meanwhile, the overall rating indicates the expected performance of the source market in the near term, relative to the same time period in the previous year.

Ratings Key:

Economic Factors and Non-Economic Factors:

Range from ↑↑↑ (significantly adds to demand) to ↓↓↓ (significantly impedes demand).

↔ represents neutral effect on demand.

Overall Tourism Leading Indicator:

Ranges from +++ (significantly improving) to --- (significantly deteriorating). 0 represents no change.

Domestic Travel

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (Domestic)	Supplier Trends (Domestic)	
↔ (↑)	↓ (↓)	↑ (↑)	↑ (↑)	+

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- Canada's economy rebounded from a 0.7 per cent decline in December to grow by 0.6 per cent in January. Consumer spending in January stayed fairly strong, as retail sales climbed 1.5 per cent to \$35.8 billion. Meanwhile, inflation grew by only 1.8 per cent in February, the lowest increase in the previous six months.

- However, scant employment growth of 15,000 new jobs in March interrupted a string of strong monthly gains. And, with more people entering the labour force-the participation rate reached a new high of 68 per cent-the unemployment rate increased to 6 per cent in March. A weaker job market may also have been responsible for the drop in consumer confidence in March, which fell 2 points from the previous month.
- Rising gasoline prices could spell trouble for domestic automobile travel this summer. In addition, the high value of the Canadian dollar continues to spur growth in outbound travel and is reducing Canada's price competitiveness compared with other destinations.

Traveller and Supplier Trends:

- Domestic air travel (as measured by the number of enplaned and deplaned passengers at Canada's top 30 airports) continued to post solid gains in February, expanding by 8.1 per cent. However, accounting for the fact that 2008 was a leap year, year-over-year growth was likely closer to 4.5 per cent.
- Average Canadian hotel occupancy rates are starting to stabilize. According to PKF Consulting, year-to-date occupancy rates in February rose by 0.3 percentage points over the previous year. At the same time, strong gains in average daily rates in Western Canada are still pushing up rates for Canada as a whole. Canada's average daily rate rose 4.5 per cent in January and February compared with last year.
- The strong dollar and a harsh winter contributed to another stellar increase in the number of Canadians travelling outside the country. Year-over-year growth in overnight travel to the United States reached 23.9 per cent in February; meanwhile, growth to other international destinations reached 16.2 per cent.

Overall, the Tourism Leading Indicator for domestic travel suggests the market should continue to post slight growth over the near term; however, growth is expected to slow as summer approaches.

United States (To Canada)

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (to Canada)	Supplier Trends (U.S. to Canada)	
↓↓↓ (↓)	↓↓↓ (↓)	↓↓↓ (↔)	↑ (↓)	- -

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- Concerns over the health of the U.S. economy continued in March as manufacturing activity slumped, consumer confidence and employment tumbled, and retail sales declined. The Conference Board's leading indicator index fell 1.6 per cent over the past six months, including the slight increase (0.1 per cent) in March. The leading index now stands at 102 (2004 = 100), and the weakness among many of its components remains widespread.
- Canada's price competitiveness for U.S. travellers continues to deteriorate, hampered by the strong Canadian dollar as well as rising transportation and accommodation costs.

Traveller and Supplier Trends:

- In February, overnight U.S. travel to Canada declined by 2.5 per cent compared with the previous year. Visits by air failed to rebound from last year's implementation of the WHTI passport requirement for air travel, and declined another 3.5 per cent. The high value of the dollar, rising gasoline prices, and the widening economic slowdown are expected to keep dampening travel to Canada.

- On a positive note, planned air capacity between Canada and the United States continues to increase. In the second quarter of 2008, the number of direct seats available for air travel from the United States is expected to increase 4.1 per cent over the same period last year. During the third quarter, growth is expected to increase to 5.3 per cent, year-over-year.

Overall, the Tourism Leading Indicator for U.S. travel to Canada suggests U.S. visits will continue to decline over the near term.

Tourism Overview - International

United Kingdom - Current Tourism Trends

Problems at Heathrow affect March air passenger figures: British Airways' passenger traffic (measured in revenue passenger kilometres-RPKs) fell 2.8 per cent in March 2008 from the previous year. Premium traffic volumes (business and first class) dropped 5 per cent, and non-premium traffic (economy) declined by 2.3 per cent. However, the airline noted that year-over-year comparisons were "complicated" by the timing of the Easter holiday in March this year. Passenger figures were also affected by the disastrous launch of British Airways' Terminal 5 at Heathrow airport on March 27; numerous operational problems at the airport led to the cancellation of about 300 short-haul flights over several days. British Airways estimated that the disruptions cost the airline GBP£16 million (CAD\$32 million).

The British Airport Authority's seven U.K. airports handled 12 million passengers in March 2008, a 1.2 per cent increase from a year earlier. Passenger numbers on North Atlantic routes edged up 0.8 per cent, while traffic on other long-haul routes grew 1.9 per cent. Passenger numbers on scheduled routes to Europe rose 3 per cent. Domestic passengers fell 6 per cent in March, mainly because it was the segment most severely affected by the chaotic opening of Heathrow airport's new terminal.

Table 3. Percentage change in passengers carried

Carrier	March 2008 vs. March 2007
British Airways	-2.8%
Ryanair	+19%
easyJet	+13.7%

Strengthening euro boosts appeal of other long-haul destinations: The decreasing value of the British pound is making European trips more expensive while increasing the appeal of trips to other long-haul destinations, according to the latest Post Office Holiday Costs Barometer by the Royal Mail Group Ltd. The recent increase in the value of the euro vis-à-vis the British pound has resulted in a sharp rise in the cost of trips to the eurozone, and Royal Mail predicts British travellers will be more cost conscious when choosing a summer holiday destination this year.

The report notes that the British pound is still strong against the U.S. dollar; in fact, the cost of a trip to the United States has become less expensive than trips to many traditional European destinations. Unfortunately, the report also indicates that Canada remains a more expensive destination.

Travel demand rising, despite slowing economy: Although overall consumer spending in the U.K. has been slowing in recent months, demand for leisure travel products continues to grow strongly. Multicom, a travel technology firm, recently reported that bookings among the websites and travel agencies it tracks were up 40 per cent in the first quarter of 2008 over the previous year. The company believes that consumers increasingly see international travel as a necessity rather than a luxury, and that the British travel industry will be less vulnerable to an economic slowdown than previously thought.

TUI Travel recently reported its bookings remain strong, in particular for long-haul trips, despite growing concerns about economic conditions. Sales for summer 2008 are 9 per cent ahead of this time last year, and long-haul sales are up by 23 per cent. Michael Frenzel, the company's chairman, said in a recent presentation that British consumers are cutting back on other big-ticket expenditures, such as cars, but do not appear to be cutting back on travel spending, according to an article on e-tid.com.

In a recent trading statement, Thomas Cook Group reported its summer bookings in the U.K. market were "selling well." Although bookings for summer 2008 are down by 3 per cent compared with this time last year, this decline was expected, as the company has slashed its capacity by 10 per cent since then. Average selling prices are ahead by 2 per cent.

However, increasing concerns about personal finances may start hitting the travel industry in the near future. The latest British Lifestyles Survey by Mintel revealed that 57 per cent of U.K. consumers recently cancelled their spending plans because of growing uncertainty over their financial situation. Of this group, 20 per cent had delayed a family holiday. Another 16 per cent cancelled home renovations, while 11 per cent cut back on their personal savings.

U.K. business travel to keep growing this year: Fears of an economic slowdown are not deterring British business travellers, according to the latest annual Barclaycard Business Travel Survey. The majority of U.K. business travellers polled expected their trip frequency to either increase (33%) or stay the same (44%) this year, compared with 2007.

However, with trip expenditures under closer scrutiny, corporate travellers are increasing their use of economy-class airfares this year: 55 per cent of respondents said they were more likely to fly economy class when travelling for business, up from 46 per cent last year. Consequently, U.K. business travellers continue to increase their use of low-cost carriers such as easyJet and Ryanair.

United Kingdom - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↔ (↔)	↓↓ (↓)	↔ (↑)	↓ (↓)	0

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for the U.K. declined 0.3 per cent in February, the seventh decrease in the past eight months. Falling consumer confidence and widening weaknesses among many leading indicators contributed to the decline. Economic growth in the U.K. is now forecast to grow at its slowest pace in the past five years.

- Between March 2007 and March 2008, the Canadian dollar appreciated 13.4 per cent against the British pound. As a result, Canada's price competitiveness will likely keep eroding. In the second quarter, the cost of a seven-night stay in Canada for U.K. travellers, including airfare, hotels, meals, and other items, is expected to increase 18.7 per cent, year-over-year. Meanwhile, the average cost of a similar trip to competitive destinations (United States, China, South Africa, sub-Saharan Africa, Brazil, and Mexico) is expected to increase just 3.4 per cent.

Traveller and Supplier Trends:

- Travel from the U.K. has been softening over the last few months. Growth in U.K. visits was 3 per cent in December, 1.4 per cent in January, and only 0.7 per cent in February. At the same time, overall U.K. outbound travel rose 2 per cent in February over the previous year, including a 3 per cent rise in visits to North America, according to the U.K. Office for National Statistics.
- Looking ahead, direct air capacity on scheduled flights from the U.K. to Canada is expected to decline 5.1 per cent during the second quarter of 2008 and 9.1 per cent during the third quarter of 2008, year-over-year.

The continued deterioration in Canada's price competitiveness combined with softer economic conditions and a decline in direct air capacity suggests little to no growth in U.K. travel to Canada over the near term.

France - Current Tourism Trends

Air passenger traffic continues to grow modestly in March: Air France-KLM reported that its passenger traffic (measured in revenue passenger kilometres) grew 3.2 per cent in March 2008, year-over-year. Traffic on North and South American routes combined rose 2.5 per cent during the period, and traffic on domestic and European routes was down slightly (0.1%).

On April 21, 2008, Air France-KLM formally withdrew its bid to acquire Italy's flagship carrier, Alitalia. Although the acquisition had been approved by Alitalia's board of directors, Air France was unable to reach an agreement with Alitalia's labour unions over terms for the merger. The Italian airline is hemorrhaging a reported \$1.6 million every day, making prospects for its continued operation increasingly dim.

Passenger numbers at airports serving Paris grew 2.2 per cent to 7.2 million in March 2008, according to the latest statement by the airports' administrative authority, Aéroports de Paris. Although domestic passenger numbers decreased 7.3 per cent that month, passengers on European routes grew 5.7 per cent. Passengers on routes serving North and South America climbed 3.9 per cent.

The head of easyJet's French subsidiary, François Bacchetta, recently said at a news conference that he expects high oil prices to start driving Europe's low-cost carriers into mergers or completely out of business, according to Reuters. To offset soaring jet-fuel prices, as larger carriers have done by adding fuel surcharges, discount carriers would have to raise their prices too high, thus dampening demand. Bacchetta believes the number of low-cost carriers in Europe will drop sharply in the coming years, from nearly 50 down to only a few.

"Nature" is magic word for attracting French tourists: Experiencing nature is the aspect of travelling to Canada that most appeals to French tourists, Dominique Albouy told the Canadian Tourism Commission. In fact, Albouy, a product manager for French tour operator Grand Nord Grand Large called "nature" the magic word for marketing Canada to the French market. Nature-based activities have been the foundation of her firm's product offerings for trips to Quebec, and are now the theme of new products her firm is developing for Western Canada. Although French travellers tend to seek out destinations where they can speak their native language, Albouy is finding that French is spoken in a growing number of Western Canadian destinations. She noted that aboriginal-themed trips are also becoming more popular.

France - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↑ (↑)	↓ (↓)	↑ (↔)	↑↑ (↑↑)	+

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading indicator index for France declined 0.3 per cent in February, the fifth consecutive month of declines, because of the weak job market and the poor performance of the stock market. Since reaching a high in the middle of 2007, the leading index has been on a general downtrend, and weakness among the indicators has become widespread. The current behaviour of the leading index suggests economic growth will be moderate over the near term.
- Between March 2007 and March 2008, the Canadian dollar depreciated 0.5 per cent against the euro; however, since January, it has appreciated 4.5 per cent, which may erode Canada's price competitiveness. The average cost of a seven-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase an estimated 5.3 per cent for French travellers during the second quarter of 2008. Meanwhile, the average cost of a similar trip to competitive destinations (United States, China, sub-Saharan Africa, and Brazil) is expected to drop by 3.7 per cent.

Traveller and Supplier Trends:

- French visits to Canada have been on an upward trend over the past few months. Year-over-year visits from France increased by 1.7 per cent in December, 4.9 per cent in January, and 7.3 per cent in February. Meanwhile, the U.S. Office of Travel and Tourism Industries (OTTI) reported that travel from France to the U.S. increased 15.1 per cent in January 2008.
- Looking ahead, direct air capacity between France and Canada will continue to improve. Direct air capacity from France to Canada is expected to increase by 12.9 per cent in the second quarter and by 15.1 per cent in the third quarter of 2008. This could help stimulate French travel to Canada over the important summer months.

A softer economy and growing price competitiveness issues will likely moderate growth in French outbound travel. However, encouraging travel and supplier trends suggest there is some potential for growth in French travel to Canada over the near term.

Germany - Current Tourism Trends

German air passenger figures grow more modestly in March: In March 2008, passenger traffic (measured in RPKs) among Lufthansa passenger airlines grew 1.9 per cent compared with a year earlier. Traffic on the company's European network surged by 25.8 per cent, and traffic on routes to North and South America grew 26.1 per cent, although these two year-over-year comparisons were not adjusted to account for the acquisition of Swiss International Airlines.

Lufthansa is optimistic about growth prospects this year, despite concerns of a global slowdown in air travel, according to *Air Transport World*. The airline group announced it would expand its route network this summer to include 15 new destinations, mainly on long-haul routes to Asia and to North and South America. Overall capacity for the summer will increase more than 7 per cent compared with last year, according to a Reuters news report.

Passenger numbers at Frankfurt Airport decreased slightly in March 2008, falling 0.2 per cent, year-over-year, to 4.4 million. Passengers on intercontinental routes rose 1.9 per cent during the month. Overseas numbers were boosted by a 36.9 per cent increase in the number of passengers to South America, fuelled by a broad expansion of flights to that region. The press statement noted that warning strikes by public service workers and adverse weather conditions resulted in about 300 flight cancellations during the month, hurting overall passenger growth.

Travel agents report robust growth for January and February: German travel agency sales grew robustly in February 2008, jumping 14.8 per cent over the previous year, according to the latest TATS survey of German travel agencies. Sales of package holidays and other leisure travel products grew 5 per cent, and airline ticket sales soared 26.8 per cent compared with a year earlier. In the first two months of 2008, overall sales were ahead by 12.6 per cent, year-over-year.

A recent survey by GfK, a market research firm, indicated that advance bookings for summer 2008 have registered strong growth, according to *FVW*, a German travel trade journal. Between September 2007 and February 2008, bookings for summer departures were 7.2 per cent ahead of the same period in the previous year. However, another study by *FVW* and Dr. Fried & Partner suggested that the pace of tourism sales cooled slightly in March, after registering strong growth in late 2007 and early 2008.

Germany - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↔ (↔)	↓↓ (↓↓)	↔ (↔)	↑↑ (↑↑)	0

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Germany declined 0.9 per cent in February as a result of a weak stock market and sagging consumer confidence. The leading index has fallen sharply in the past seven months. At the same time, real gross domestic product (GDP) growth slowed to an annualized rate of 1.1 per cent in the fourth quarter of 2007, down from an annualized rate of 1.7 per cent in the second and third quarters. The recent behaviour of the leading index continues to suggest the German economy will keep growing slowly in the near term.
- During the second quarter, the average cost of a seven-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase by 6.1 per cent for German visitors, year-over-year. Meanwhile, the average cost of a similar trip to competitive destinations (U.S., China, South Africa, Brazil, and Mexico) is expected to decrease 5.2 per cent.

Traveller and Supplier Trends:

- Visits from Germany to Canada continue to be up and down. Visits declined by 3.4 per cent in December and 5.1 per cent in January, year-over-year, and then posted a 1.2 per cent gain in February. Meanwhile, the OTTI reported travel from Germany to the U.S. increased 13.4 per cent in January 2008.
- In the second quarter of 2008, direct air capacity between Germany and Canada is scheduled to expand by a solid 14.4 per cent, year-over-year. In the third quarter, it is expected to rise by 6.1 per cent.

The growth potential of the German market seems limited, given the decline in price competitiveness and the softening of economic conditions. Overall, the index suggests little to no growth in German travel to Canada over the near term.

Mexico - Current Tourism Trends

Substantial growth forecast for Mexican airlines: Growth in Mexico's tourism sector and overall economy will fuel substantial capacity growth in the Mexican airline industry, according to a recent forecast by aircraft producer Airbus, reported by Reuters. The country's airline industry will require 500 new planes with more than 100 seats over the next 20 years, which will account for a third of the total demand for new aircraft in the Latin American region over that period. Even after taking fleet replacement into account, this would triple the industry's fleet of aircraft with more than 100 seats, from 233 in 2006 to 680 in 2026. Mexican airlines carried 27.4 million domestic passengers in 2007, a 24 per cent increase over 2006.

Mexican consumer confidence rises slightly in March: The Mexican consumer confidence index climbed 1.6 points in March 2008 to an overall reading of 102.7, compared with the previous month, according to INEGI, Mexico's national statistics agency. Concerns about the effect of deteriorating economic conditions in the United States on Mexico's economy have been weighing on consumer confidence, according to a Dow Jones report. Compared with a year earlier, consumer sentiment was down in all categories except consumers' views on current economic conditions.

However, a report by *Business Monitor International* revealed that recent indicators of consumer spending have been more positive than consumer confidence readings would suggest. Total retail sales increased 3.9 per cent in January 2008 and 12.3 per cent in February 2008, year-over-year. February's increase was the highest since December 2006. The report suggests that retail sales will remain robust this year, especially if an expected cut in interest rates is implemented by the central bank.

Mexico - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↑ (↑↑)	↓ (↓)	↑↑ (↑↑)	↑↑ (↑)	++

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Mexico increased by 1.1 per cent in February after three consecutive months of declines. Between August 2007 and February 2008, the leading index grew 2 per cent. The recent behaviour of the leading and coincident indexes suggests that slow to moderate economic growth will continue in the near term.
- Between March 2007 and March 2008, the Canadian dollar appreciated 12.6 per cent against the Mexican peso. However, since January, the dollar has gained only 0.7 per cent. The average cost of a seven-night stay in Canada during the second quarter, including airfare, hotels, meals, and other items, is expected to increase 11.4 per cent for Mexican travellers, year-over-year. The cost of a similar trip to competitive destinations (U.S., Spain, and Italy) is expected to increase by an average of 7.9 per cent.

Traveller and Supplier Trends:

- Visits from Mexico continue to increase at a stellar pace. Mexican visits to Canada grew by 15.8 per cent in December, 23.4 per cent in January, and 20.8 per cent in February. Meanwhile, the OTTI reported that Mexican arrivals to the U.S. interior (beyond the 40 kilometre U.S. border zone) increased 13.1 per cent in January 2008.
- Strong growth in direct air capacity between Canada and Mexico will continue to foster travel between the two countries. Year-over-year growth in direct air capacity between Mexico and Canada is scheduled to reach 10.9 per cent during the second quarter and 20.3 per cent in the third quarter of 2008.

Strong travel and supplier trends are expected to offset a slightly weaker economic outlook and deteriorating price competitiveness. As a result, the Tourism Leading Indicator Index points to continued growth in Mexican arrivals to Canada.

Japan - Current Tourism Trends

Japanese outbound travel volumes continue to drop: Japan Airlines reported that its international passenger traffic (measured in revenue passenger kilometres) declined 1.7 per cent in February 2008, year-over-year, mainly because of a decrease in traffic to China, Guam, and Oceania. Transpacific traffic increased 2.8 per cent during the month.

The number of passengers travelling through Narita International Airport in Tokyo in March 2008 was down 5 per cent from the previous year, according to the airport's latest traffic statistics. The number of Japanese residents travelling on international flights declined by 8 per cent. Meanwhile, the number of domestic passengers slipped 9 per cent. Measured quarterly, Japanese passengers on international flights fell by 5 per cent in the first quarter of 2008 compared with the same quarter of 2007.

"Golden Week" holiday losing its lustre: The outlook for overseas travel during Japan's Golden Week holiday from April 25 to May 6, 2008, was not looking very positive, by all accounts. The combination of weaker outbound travel demand combined with the unfavourable timing of the holiday this year is severely limiting growth expectations for the normally popular travel period. The national holidays that make up Golden Week are actually staggered over two weeks this year, resulting in shorter blocks of days off and fewer opportunities for medium- or long-haul trips.

Japan Airlines expected a 6.7 per cent drop in international passengers during this year's Golden Week holiday, mainly because of substantial decreases on long-haul routes including transpacific (-15.8%) and European (-15%) ones. Routes to many closer destinations, such as South Korea and Taiwan, were expected to see large increases in passengers.

According to the *Honolulu Advertiser*, projections by JTB Corp. indicate that only 458,000 Japanese will travel abroad during Golden Week, the lowest number since the 2003 SARS outbreak. Visits to many popular destinations are expected to see a substantial drop in Japanese arrivals during the period, including the United States (-23.1%), Europe (-18.8%), and China (-20.2%). The article also suggests that Japanese workers are increasingly choosing to travel at other times than the three traditional holidays of New Year's, Golden Week and Obon (in August).

Japan - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↓↓ (↓)	↓↓ (↓)	↓↓ (↓↓)	↓ (↔)	- -

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Japan decreased by 0.2 per cent in February because of poor stock market performance, weak productivity, and low business confidence. Between August 2007 and February 2008, the leading index fell 2.9 per cent, and it is now 5.2 per cent below its most recent peak in December 2006. The current behaviour of the leading index suggests that the strong economic activity from the fourth quarter is unlikely to persist in the near term and that risks for further economic weakness are increasing.
- Between March 2007 and March 2008, the Canadian dollar appreciated 0.3 per cent against the Japanese yen. However, the dollar has gained 5.9 per cent against the yen since January, worsening Canada's price competitiveness. During the second quarter, the average cost of a 10-night stay in Canada for Japanese travellers (including airfare, hotels, meals, and other items) is expected to increase by 3.1 per cent compared with last year. Meanwhile, the average cost of travel to competing destinations is expected to decrease 3.5 per cent.

Traveller and Supplier Trends:

- Year-over-year visits from Japan declined by 20.3 per cent in January and by 17.8 per cent in February 2008. OTTI figures show that Japanese travel to the U.S. also dropped in January, but only by a modest 2.9 per cent.
- Direct air capacity between Japan and Canada reflects these latest trends. Although direct air capacity between the two countries is expected to grow by 4.2 per cent in the second quarter, it is expected to shrink by 9.3 per cent in the third quarter.

Overall, weakening economic, travel, and supplier trends for the Japanese market continue to push down the leading indicator, which suggests Japanese visits to Canada will decline over the near term.

South Korea - Current Tourism Trends

Korean Air raises fuel surcharge twice: Korean Air announced two separate increases to its fuel surcharge, one in April and another in May 2008. With the May increase, the fuel surcharge on all long-haul flights, including North American and European routes, is US\$140 each way, adding US\$280 to the cost of a round-trip ticket.

Weaker won curbing outbound travel: After years of robust growth, Korean travel demand appears to be weakening, mainly because of the depreciation of the Korean won, according to *JoongAng Daily*. The Bank of Korea reported that growth in overseas travel expenditures has slowed significantly since November, ranging between 3.6 and 6.2 per cent per month. Prior to that, overseas travel expenditures were recording double-digit growth. At the same time, the Korean won has been declining in value vis-à-vis the U.S. dollar since the latter part of 2007.

Slower growth in overseas travel spending has also led to reductions in the country's travel account deficit for four consecutive months. The Bank of Korea stated that the last time the travel deficit shrank for four straight months was in 1998.

The central bank believes the weaker Korean currency is responsible for the decline in overseas spending, although growing concerns over Korea's economic outlook could also be a factor. The bank noted that the Korean won has been the second-worst performer among Asian currencies this year.

Yet the latest statistics from the Ministry of Knowledge Economy suggest that economic concerns are not affecting demand for luxury goods in Korea, according to *The Korea Herald*. In March, the top three department stores in Korea recorded a 24.1 per cent increase in sales of luxury brands and a 6.7 per cent increase in overall sales, year-over-year. Buoyant luxury sales were attributed to steady income growth and a wider awareness of luxury goods stemming from the exposure to foreign goods during overseas trips.

South Korea - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↑ (↑)	↓↓ (↓↓)	↑ (↑)	↓↓ (↓)	+

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Korea declined by 1.3 per cent in February. The index peaked in October 2007, but has been on a downward trend over the past four months because of widespread weakness among its components. Between August 2007 and February 2008, the growth rate of the leading index slowed to 0.9 per cent. The recent behaviour of the leading index suggests that economic activity will keep increasing in the near term, albeit at a more moderate rate.
- Between March 2007 and March 2008, the Canadian dollar appreciated 21.3 per cent against the Korean won. Fortunately, since January, the dollar has depreciated 4.8 per cent against the won. Still, the significant appreciation during the past year has worsened Canada's price competitiveness. For South Korean travellers, the average cost of a 10-night stay in Canada during the second quarter of 2008, including airfare, hotels, meals, and other items, is expected to increase 16.9 per cent compared with last year. Meanwhile, the average cost of a similar trip to competitive destinations (U.S., U.K., France, Germany, and Australia) is expected to increase by just 5.5 per cent.

Traveller and Supplier Trends:

- After Korean arrivals to Canada declined by 4.1 per cent in January year-over-year, they rebounded in February by 5.9 per cent. Meanwhile, the OTTI reported that travel from South Korea to the U.S. increased 2 per cent in January 2008.
- Unfortunately, direct air capacity from South Korea to Canada is expected to slip 2.2 per cent during the second quarter and 7.8 per cent during the third quarter, compared with last year.

The strength of the indicators supporting growth out of the Korean market is moderating, and Canada's price competitiveness continues to deteriorate. However, solid travel trends are keeping the leading indicator index in positive territory, suggesting there is modest potential for growth in Korean visits over the near term.

China - Current Tourism Trends

International travel continues to grow, but at a slower pace: The number of passengers through Beijing Capital International Airport rose 3.1 per cent in February 2008, year-over-year, according to the airport's latest operational statistics. International passenger numbers increased 16 per cent, while domestic passengers slipped 0.6 per cent during the month.

Growth in Chinese air travel eased in the first quarter of 2008, mainly because of a slowdown in international travel, according to government statistics cited by *Air Transport World*. Chinese airlines carried 45.7 million passengers during the quarter, an 11 per cent increase over the same period in 2007. However, that growth was slower than the 15.9 per cent growth reached in the previous year's first quarter. International passenger numbers increased 9.6 per cent in the first quarter of 2008, but that was a stark drop from the 23.9 per cent growth achieved in the first quarter of 2007. Industry analysts attributed the slowdown in international travel to the depreciation of the U.S. dollar.

Strong potential for explosive growth in corporate travel services: Although China's corporate travel services market is already expanding at a stellar pace, recording annual growth of 20 to 30 per cent, the market's potential is not even close to peaking, according to Expedia Corporate Travel. The online travel agency recently told Reuters that fewer than 20 per cent of Chinese companies use a travel management company, which means there is still huge potential for explosive growth. Expedia is establishing a corporate travel service in China in cooperation with eLong.com, a Chinese online travel agency partly owned by Expedia. Reuters noted that American Express recently estimated China's business travel market to be worth US\$10 billion, making it the fourth largest in the world.

U.S. to begin receiving Chinese leisure groups as early as July: With its approved destination status agreement nearly completed, the United States is expected to begin receiving Chinese leisure tour groups as early as July, according to the *Hong Kong Economic Times*. Many Chinese travel agencies are already accepting bookings for U.S. package tours. Ten tour itineraries have been established so far, each for trips of 10 to 12 days, at an average cost of 20,000 yuan (C\$2,900). Destinations include the East and West U.S. coasts, as well Hawaii.

China - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↑↑ (↑↑)	↓ (↓)	↑↑ (↑)	↑ (↑↑)	++

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- Increasing woes in the U.S. economy have caused a slight downgrade in economic growth projections for China this year. While robust Chinese domestic demand continues to fuel the economy, high inflation is strengthening the case for higher interest rates, which in turn would slow the pace of domestic demand. Still, the latest Consensus Forecasts report (March 2008) projects real GDP growth will once again top the double-digit mark and reach 10.2 per cent this year.
- Between March 2007 and March 2008, the Canadian dollar appreciated 6.6 per cent against the Chinese renminbi, including a 1.4 per cent gain since January. For Chinese travellers, the average cost of a 10-night stay in Canada during the second quarter of 2008, including airfare, hotels, meals, and other

items, is expected to increase 10.3 per cent compared with last year. Meanwhile, the average cost of a similar trip to competitive destinations (U.S., U.K., France, Germany, and Australia) is expected to increase by only 1.4 per cent.

Traveller and Supplier Trends:

- Chinese travel started the year off with a bang. Arrivals to Canada increased by 15 per cent in January and by 21.1 per cent in February, compared with a year ago. Meanwhile, the OTTI reported that travel from China (including Hong Kong) to the U.S. recorded an even stronger increase (25.8%) in January 2008.
- Direct air capacity to Canada is scheduled to expand 7.7 per cent in the second quarter of 2008, and increase 5 per cent in the third quarter, year-over-year.

The index suggests that ongoing strength in the economy and strong travel trends will continue to support solid growth in Chinese arrivals over the near term.

Australia - Current Tourism Trends

Qantas reports strong increase in international passengers on low-cost routes: Qantas reported a 4.3 per cent system-wide increase in passenger traffic (measured in RPKs) in January, compared with the previous year. Traffic on its mainline routes with Qantas International dropped 2.3 per cent, while traffic on Jetstar International, its low-cost subsidiary, surged by 76.1 per cent. Passenger yields on international routes grew 6.5 per cent that month. The airline plans to increase fares on its mainline routes by 3 to 3.5 per cent in May to offset rising fuel costs.

New details released on V Australia: Richard Branson recently released further details about his newest Australian airline, V Australia, which he will launch in December 2008. The airline, a subsidiary of Virgin Blue, will operate daily services between Australia and the United States. In February 2008, Australia signed an open-skies agreement with the United States, removing restrictions on the number of airlines and flights that can operate between the two countries.

Interest rate hikes expected to have little impact on holiday spending: Rising interest rates are curbing many big-ticket purchases in Australia, but vacations remain a top priority, according to a survey by lastminute.com.au reported by Travelmole.com. One hundred per cent of the 1,013 Australians polled said rising interest rates would prompt them to adjust their personal budgets; however, less than 4.5 per cent said this would involve sacrificing holidays. Close to 30 per cent said they would delay buying a home, and 20 per cent would put off buying a car.

The article quoted some members of the tourism industry who expect rising interest rates to have a temporary impact on Australian travel demand, as consumer spending slows overall. But holiday spending is typically quick to rebound, because it is a lifestyle priority that ranks highly among Australians.

Australia moving towards net export of tourists: Australia is quickly approaching the point where it will be a net exporter of tourists, as strong growth in outbound travel continues to outpace inbound arrivals, according to figures from the Australian Bureau of Statistics, reported by Travel New Wire. In the first two months of 2008, arrivals to Australia edged up 1.7 per cent, while outbound travel jumped 14.5 per cent over the previous year. For the full year of 2007, visitor arrivals grew by a meagre 2 per cent to 5.6 million, while outbound trips jumped 10.6 per cent to 5.4 million.

A market briefing by Jones Lang LaSalle Hotels suggests that Australian outbound travel could overtake inbound arrivals as early as this year. However, rising interest rates may encourage more Australians to choose domestic vacations over international ones in an effort to save money. The briefing notes that

Australian outbound travellers are favouring Asian destinations, encouraged by the growing availability of discount flights and the rapid expansion of the region's tourism infrastructure, including luxury hotels. In particular, Japan, China, India, and Southeast Asian countries are all experiencing double-digit growth in Australian arrivals.

Australia - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↑ (↑↑)	↓ (↓)	↑↑ (↑↑)	↑↑ (↑↑)	+

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Australia declined 0.2 per cent in February. This was the third consecutive monthly decline, mainly because of weaknesses in building intentions and in the stock market. As a result, the six-month growth rate of the index slowed to 1.8 per cent. In addition, the strengths among the leading indicators have become less widespread in recent months. The current behaviour of the index suggests that a more moderate pace of economic growth is expected in the near term.
- Between March 2007 and March 2008, the Canadian dollar largely maintained its value against the Australian dollar. However, since January, the loonie has gained value, appreciating by 3.8 per cent. For Australian travellers, the average cost of a 10-night stay in Canada during the second quarter of 2008, including airfare, hotels, meals, and other items, is expected to increase 3.5 per cent compared with last year. Meanwhile, the average cost of a similar trip to competitive destinations is expected to decline by 6.9 per cent.

Traveller and Supplier Trends:

- Growth in Australian visits to Canada continues to be very strong. Arrivals surged by 19.7 per cent in December 2007 and by 20.4 per cent in January 2008, year-over-year, then grew 10.7 per cent in February 2008. In stark contrast, the OTTI reported that travel from Australia to the U.S. increased only 6.8 per cent in January 2008.
- Air access between Canada and Australia continues to improve. For the second quarter of 2008, air capacity to Canada (including flights with one stop) is expected to surge by more than 118 per cent. Third quarter capacity is expected to rise 86 per cent over the same period in 2007.

Price competitiveness issues are likely to restrict the growth of Australian arrivals to Canada, and weakening economic conditions suggest that the strong growth of Australian outbound travel is unlikely to persist. Still, the index suggests Australian arrivals to Canada will continue to grow over the near term.

Tourism Leading Indicator Index - Methodology

The Tourism Leading Indicator Index provides tourism stakeholders with insights into the near-term outlook for the Canadian tourism industry, by tracking the progress of the economic and non-economic factors that affect travel demand.

To derive the overall Tourism Leading Indicator Index, the various component indices representing economic and non-economic motivating factors are weighted to reflect their relative importance in the travel decision-making process. The ratings used to assess the component indices of the overall index identify the degree to which each component provides added stimulus or, alternatively, provides an added impediment to visiting Canada over the near term. The specific rating gradients used to assess the various component indices of the Tourism Leading Indicator are as follows:

Ratings Used for the Component Indices of the Tourism Leading Indicator

Symbol	Interpretation
↑↑↑	Significant stimulus to demand
↑↑	Moderate stimulus to demand
↑	Slight stimulus to demand
↔	No (or little) added stimulus to demand
↓	Slight impediment to demand
↓↓	Moderate impediment to demand
↓↓↓	Significant impediment to demand

Meanwhile, the overall index rating obtained for each source market indicates the expected performance of the source market in the near term, relative to the same time period in the previous year. The specific rating gradients used to assess the Tourism Leading Indicator Index are as follows:

Ratings Used for the Tourism Leading Indicator Index

Symbol	Interpretation
+++	Significant improvement
++	Moderate improvement
+	Slight improvement
0	No change (or little change)
-	Slight deterioration
--	Moderate deterioration
---	Significant deterioration

Leading indicators have been established for Canada's domestic travel market and for each of Canada's key international markets: United States, United Kingdom, France, Germany, Mexico, Japan, South Korea, China and Australia.

Methodology used to develop the Tourism Leading Indicator for each source market:

Economic Factors

A) General Economic Trend: The specific assessment of the general economic conditions for each source travel market is derived from the degree to which economic conditions are changing (becoming more favourable or less favourable). It also includes a general assessment of economic conditions, such as GDP growth, employment, and changes in the U.S. Conference Board's leading economic index. Ultimately, the rating provided should represent the degree of positive push (stimulus) or negative pull (impediment) affecting decisions to visit Canada over the near term due to economic conditions in each source market.

B) Price Competitiveness: Exchange rates between markets play a significant role in price competitiveness. Other factors considered in the assessment include gas prices, fuel surcharges, security-related charges or other costs that affect Canada's price competitiveness compared with other competing destinations.

Non-Economic Factors

A) Traveller Trends: The assessment of traveller trends to and within Canada considers the source market's level of consumer confidence, regulations, current travel trends and travel intentions.

B) Supplier Trends: Supplier trends indicate the degree to which suppliers are increasing (or decreasing) their product offerings to facilitate travel from the source market to and within Canada. The result of changes in supply can increase (or decrease) growth potential. A key indicator for this component is the availability of direct air capacity to Canada from each source market.

The following table identifies the weighting used for each component of the Tourism Leading Indicator for each source market.

Travel Market	Economic		Non-Economic	
	General Economic Trend	Price Competitiveness	Traveller Trends (to/within Canada)	Supplier Trends (to/within Canada)
Domestic & U.S.	40%	10%	40%	10%
All others	30%	10%	50%	10%

A higher weight on economic factors is given to domestic and U.S. travel because a higher percentage of the travel that occurs in these markets is for non-leisure purposes, which tend to be more closely linked to economic motivations. In addition, the prevalence of shorter, more frequent automobile travel also tends to be more highly correlated with economic factors. On the other hand, the longer average distance and trip duration of overseas trips suggests that non-economic factors tend to play a bigger part in the decision-making process for these trips.