Canadian Tourism Commission
Commission canadienne du tourisme

Tourism Intelligence Bulletin

Retreating Oil Prices Offer Travellers Little Relief

Issue 47: September 2008

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

Bulletin Highlights

Tourism Overview: North America

- **Domestic travel may decline slightly this fall**: Near-term growth prospects for the domestic travel market are marginal at best, as high gasoline prices continue to dampen Canadian travel demand. Gasoline prices have retreated from their peak in July, but Canadian households are still coping with higher costs for many consumer goods and services, leaving less money left over for discretionary items. And, although the value of the Canadian dollar has cooled, it continues to fuel strong growth in outbound travel. Overall, the domestic travel market is not expected to grow over the short term and may even decline. **(See "Domestic Travel," page 9.)**

- **U.S. vacation intentions improved slightly in August**: U.S. travel intentions registered a meagre increase in August after hitting a record low in June, according to the latest Consumer Confidence Survey report by the U.S. Conference Board, Inc. American consumer confidence also began a modest recovery over the summer. Consumer sentiment about present conditions continued to deteriorate, but expectations for the U.S. economy improved. **(See page 4.)**

- **Americans concerned about the affordability of travel**: Travel sentiment in the United States continues to deteriorate, mainly because of ongoing concerns about the rising cost of travel. The Traveler Sentiment Index by the Travel Industry Association of America (TIA) and YPartnership fell 4.1 points in July, with significant decreases in the components measuring perceptions of the affordability of travel and perceptions of having the money available to travel. The overall index has been declining since February. **(See page 4.)**

- **Slowdown in corporate travel becoming more widespread**: The slowdown in corporate travel has become more widespread recently because of rising travel prices, higher fuel costs, and weaker economic conditions. Many travel managers have cut spending significantly–by up to 20 per cent in some cases. To reduce the need for travel, some companies are using travel alternatives more, such as remote conferencing. **(See page 5.)**

Contents

The Conference Board of Canada
Insights You Can Count On

Canada

- **Canadian air travel demand is weakening**: Rising airfares and weaker economic conditions in Canada are beginning to dampen domestic air travel demand. Air Canada and WestJet both acknowledged that domestic demand began softening in the second quarter, and Air Canada's passenger traffic for July recorded a year-over-year decline. Air Canada said air demand in North America had softened in response to recent increases in airfares. **(See "Air Canada and WestJet weathering the storm," page 6.)**

- **Canadian daily rates and revenues still on upward trend**: Slowing domestic travel demand and the ongoing decline in U.S. visitors have weakened demand for Canadian accommodations in recent months. U.S. overnight arrivals to Canada were down by a staggering 12.6 per cent in June 2008 compared with a year earlier, and were behind by 6.8 per cent in the first half of this year. Still, daily room rates continue to register solid year-over-year increases, keeping room revenues growing. **(See page 7.)**

Tourism Overview: International

- **U.K. summer travellers more cost-conscious**: Travel agency bookings in the U.K. were up slightly this summer, but travellers appeared to be more cost-conscious, according to the Association of British Travel Agents. Demand appeared to be stronger for destinations outside the eurozone, because the strong euro is making eurozone destinations more expensive. There was also an increase in more affordable vacations, such as all-inclusive packages and camping and caravanning holidays, as well as an increase in domestic holidays. **(See page 12.)**

- **Outlook bright for U.K. ski market**: U.K. demand for ski holidays is strong for the upcoming season, according to Crystal Ski, a British ski tour operator. The operator cited Whistler as one of several "hot resorts" for the British market in the upcoming season. **(See page 13.)**

- **Economic concerns prompted cutback in French summer travel plans**: Rising travel prices and weaker economic conditions prompted some French residents to reduce their travel spending this summer, while others cut out their summer holiday altogether, according to recent reports. In addition, French cafés and restaurants experienced a downturn in summer business. **(See page 14.)**

- **German travel agencies optimistic about fall travel season**: Advance bookings for the fall have been very strong, boosting the short-term outlook among German travel agents. Advance bookings for October have been especially strong, when many regions in Germany have a half-term school holiday. **(See page 16.)**

- **Japanese outbound summer trips declined sharply**: In July, JTB Corp. estimated that Japanese trips abroad this summer were declining sharply because of mounting economic and financial concerns among Japanese consumers. Luxury travel was the only segment expected to register any growth. JTB noted that exorbitant fuel surcharges on overseas flights prompted some travellers to switch to domestic vacation destinations. **(See page 19.)**

- **Korean outbound travel has slowed considerably**: Slower economic growth, high oil prices, and a weaker won have triggered a significant slowdown in Korean outbound travel this year. A weaker economy has left Koreans with less disposable income, and a weaker currency has eroded Koreans' purchasing power while travelling abroad. In the first five months of 2008, outbound trips increased only 2.9 per cent over the previous year–a stark contrast from the double-digit growth seen from 2004 to 2007. **(See page 20.)**

- **Beijing Olympic Games precipitated a severe drop in outbound travel**: A combination of Olympic fever and deep discounts on domestic tour packages kept Chinese travellers closer to home this summer. Instead of travelling abroad during the peak summer period, many Chinese residents opted to volunteer for the Beijing Games or stay home to watch events on television. There was also a reduction in available air access out of the country because airlines had set aside capacity for air traffic for the Olympics. As a result, outbound leisure travel declined by an estimated 20 to 30 per cent in August, after a meagre increase in July. **(See page 22.)**

- **Prospects for Australian outbound travel bright**: Outbound travel is expected to keep growing at a robust rate, fuelled by the strong Australian dollar and the expansion of international air capacity. The latest forecast by Tourism Australia suggests outbound travel volumes will rise 9.9 per cent this year and another 8 per cent in 2009. The strong domestic economy is also helping to fuel travel demand. **(See page 23.)**

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	⇔	⇩	⇔	⇔	0
U.S.	⇩⇩	⇩	⇩⇩	⇔	- -
U.K.	⇩	⇩⇩	⇩	⇩⇩	-
France	⇔	⇔	⇧	⇧	+
Germany	⇩	⇩	⇧	⇧⇧	0
Mexico	⇧	⇩	⇧	⇧⇧	+
Japan	⇩⇩	⇔	⇩⇩	⇩	-
South Korea	⇔	⇩⇩	⇔	⇩⇩	0
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

High gasoline prices a chief concern among Canadians: High gasoline prices continue to squeeze Canadian household budgets and domestic travel plans. A June survey by Harris/Decima for Investors Group revealed that 44 per cent of Canadians polled felt compelled to reconsider their summer holiday plans because of rising gas prices, according to the Associated Press. In fact, the majority of Canadians (63%) reported they were economizing in many areas of their household budgets to cope with recent increases in energy and food costs.

High gas prices have also prompted many Canadians to re-evaluate their driving habits, according to a survey by the Strategic Council on behalf of the Federation of Canadian Municipalities and the Canadian Urban Transit Association. High gas prices have encouraged 60 per cent of Canadians polled to reconsider their mode of transportation. Almost a quarter (23%) said they were driving less, and 20 per cent said they had switched or were considering a switch to public transportation. The vast majority of Canadians (80%) believe high gas prices are here to stay.

The decline in auto travel has been apparent in Canadian gas consumption trends. Total gas consumption in Canada dropped 3 per cent in July 2008 from the same month of 2007, according to the latest figures from Statistics Canada. MJ Ervin & Associates reported that gasoline prices hit their peak in July at an average of $1.362 per litre, a stark increase from the average price of $1.058 recorded a year earlier, according to *The Globe and Mail*.

U.S. vacation intentions improved slightly in August: U.S. travel intentions improved slightly in August, after hitting a record low in June, according to the latest Consumer Confidence Survey report by The Conference Board, Inc. in the United States. Preliminary results showed that in August 2008, 37.4 per cent of Americans polled planned to take a vacation within the next six months, up from 36.2 per cent in June. Results are adjusted to account for seasonal fluctuations in travel demand.

U.S. consumer confidence began a modest recovery in July that continued in August. The Consumer Confidence Index edged up to 56.9 in August (1985 = 100), a 5 point rise from July. Consumer sentiment about present economic conditions continued to deteriorate, but the expectations index registered a strong improvement. The results suggest that consumers are still gloomy about current economic conditions but are beginning to see some small signs of better times ahead.

U.S. Labour Day holiday travel expected to have fallen: The American Automobile Association (AAA) forecast a slight (0.9%) year-over-year decline in American travel volumes over the Labour Day weekend this year. This was the third consecutive holiday period in which AAA expected a decrease in volumes. Trips by auto were expected to decline 1.1 per cent, and trips by air were projected to fall 4.5 per cent. However, travel by other modes, including train and bus, was expected to jump 12.5 per cent over the previous year. AAA noted that in addition to higher fuel prices, holiday travellers faced a 15 per cent year-over-year increase in airfares.

Americans concerned about the affordability of travel: The Traveler Sentiment Index by TIA and YPartnership continues to deteriorate, mainly because of ongoing concerns among Americans about the rising cost of travel. The index fell to 78.3 in July, a drop of 4.1 points from the previous reading in April. There was a significant decrease in the components measuring perceptions of the affordability of travel and perceptions of having the money available to travel. The results suggest that U.S. travel demand has been declining since February.

U.S. auto travel down for eighth consecutive month: High gasoline prices are clearly dampening U.S. auto travel, according to the latest statistics from the U.S. Department of Transportation. Americans drove their cars 12.2 billion fewer miles in June 2008, a 4.7 per cent decrease from June 2007– the eighth consecutive monthly decline. In the eight months leading to June 2008, Americans drove 53.2 billion fewer miles than in the same period a year earlier. The department noted that this tops the total decline of 49.3 billion miles recorded for the entire decade of the 1970s, a period that also saw a run-up in oil prices.

Gas rebates an effective online travel incentive: Offering to pay for travellers' gas could be an effective way of winning online travel bookings, according to a recent U.S. survey by Prospectiv, an e-commerce consulting firm. When asked about the type of online travel promotion that would be most enticing, almost half of those polled (48%) cited gas rebates. The next most popular discounts were for accommodation (cited by 31%) and for restaurants, stores, or attractions (14%).

Business Travellers

Slowdown in corporate travel becoming more widespread: The slowdown in corporate travel has become more widespread recently because of rising travel prices, higher fuel costs, and weaker economic conditions, according to a recent report by *Business Travel News*. As a result, many travel managers are being forced to make significant cuts to their 2008 budgets–up to 20 per cent in some cases. To reduce the need for travel, some companies are enhancing their use of travel alternatives, such as remote conferencing, where possible.

A major contributor to rising travel prices has been corporate airfares. American Express Business Travel recently reported that domestic fares paid by their North American clients jumped by an average of 10 per cent in the second quarter of 2008, year-over-year. There was also a noticeable increase in the number of advance fares purchased, as companies tried to take advantage of advance purchase discounts. International fares rose by an average of 11 per cent.

These airfare increases appear to have added to the downward pressure on corporate air travel demand. In fact, some of the major U.S. airlines acknowledged a moderation of corporate traffic growth in their second-quarter financial statements, according to *Business Travel News*. In addition, the International Air Transport Association (IATA) recently reported that growth in global business traffic and first-class traffic slowed in the first half of 2008. In June, traffic in these segments grew 3 per cent, year-over-year, down from the 4.5 per cent growth rate recorded in the first five months of 2008. In 2007, traffic in those segments grew 5.1 per cent over the previous year.

Outlook for 2009 becoming more cautious: These softening demand trends are contributing to a cautious outlook for business travel in 2009. A recent survey by Topaz International for *Business Travel News* revealed that 36 per cent of North American travel buyers polled said they expected their companies to take fewer business trips next year. Another 29 per cent expected their trip volumes to stay about the same as 2008, while 34 per cent expected an increase in corporate trips.

Significantly more respondents (42%) expected their budgets to increase next year because of rising travel costs. A recent forecast by Carlson Wagonlit Travel suggested that corporate hotel rates in the United States will rise modestly next year, by around 2 to 3 per cent, but corporate airfare increases are expected to be much higher. U.S. domestic airfares are projected to rise by 12 per cent while international airfares soar by 16 to 20 per cent.

A recent survey of global clients by BCD Travel suggested that less than half of its respondents expected an increase in corporate travel demand in North America next year. Demand is also expected to soften in many mature European markets. The outlook for business travel demand in emerging countries in Europe and Asia is much more positive.

Major study highlights contribution of Canadian meetings industry: Canada's meetings sector contributes substantially to the Canadian economy, according to a recent study by The Conference Board of Canada and Maritz Research for Meeting Professionals International Foundation Canada. Meetings and events held in Canada in 2006 hosted 70.2 million participants, generated $32.2 billion in direct spending, and accounted for 235,500 full-year jobs. The sector also generated more than 27 million domestic visitor arrivals and 2.4 million international arrivals for the tourism sector.

Airlines

High-flying fuel costs ground Zoom Airlines: Transatlantic low-cost carrier Zoom Airlines abruptly ceased operations on August 29, 2008, launching bankruptcy proceedings with its Canadian and U.K. subsidiaries. The airline's sudden shutdown left about 4,500 passengers stranded across its network and more than 600 employees out of work. About 40,000 tickets for flights in the future were left outstanding, as well. According to a statement released by the airline, the carrier had been profitable in 2007 but was unable to absorb the unprecedented rise in high fuel prices this year. Various media reports say the airline's demise was set into motion two days earlier, when Zoom aircraft at Glasgow and Calgary airports were grounded for non-payment of air traffic control charges.

Zoom operated flights between a number of cities in Canada and the U.K., as well as Paris, Rome, Bermuda, and several U.S. cities. The loss of Zoom services is not expected to have a significant impact on domestic or cross-border U.S. markets, but it may impede air access on transatlantic routes over the near term.

Air Canada and WestJet weathering the storm: Sky-high oil prices and weakening economic conditions are hammering airlines worldwide, but Canada's two largest airlines appear to be weathering the storm better than most. In fact, IATA recently predicted that Air Canada and WestJet would be among the few airlines in the world to post a profit this year, according to the Canadian Press. Both airlines have relatively young–and therefore fuel efficient–fleets, and they also benefit from Canada's relatively solid domestic market.

Still, rising airfares and weaker economic conditions here in Canada are beginning to dampen domestic air travel demand. Both airlines acknowledged that domestic demand began softening in the second quarter, and Air Canada's passenger traffic for July recorded a year-over-year decline. Air Canada said air demand in North America had softened in response to recent increases in airfares. The weaker U.S. economy was also a factor in the declines seen on the airline's cross-border U.S. routes.

A domestic fare analysis by Raymond James Ltd. revealed a solid increase in fares for summer travel compared with last year, according to The Globe and Mail. Airfares booked in mid-July for travel at the end of August were 10 per cent higher at WestJet and 3 per cent higher at Air Canada.

Second quarter was profitable despite slowing demand: Air Canada posted a net profit of $122 million in the second quarter of 2008, a 21 per cent decline in earnings from the same quarter of 2007. Passenger traffic rose 2.4 per cent during the quarter, and passenger revenues jumped 5 per cent, boosted by fare hikes, new fuel surcharges, and a "resilient" domestic market. The airline described its financial performance as solid given the "difficult industry environment created by unrelentingly high fuel prices." Looking ahead, the airline indicated that high fuel costs would force it to raise fares even higher, inevitably dampening air travel demand even further.

In July, Air Canada's system-wide passenger traffic (measured in revenue passenger miles), including mainline and regional operations combined, was down slightly (-0.6%) from the previous year. Total capacity was down by 2 per cent, and the airline flew its planes an average of 83 per cent full, a 1.2 percentage point improvement from a year earlier. Traffic on domestic routes fell 3.5 per cent, and traffic on transborder

U.S. flights dropped 7.9 per cent. International traffic climbed 3.2 per cent, with a substantial increase on "Latin American and other" routes (24.2%).

WestJet posted a net profit of $30.2 million in the second quarter of 2008, up from $11.5 million in the same quarter of 2007. Passenger traffic rose 19.3 per cent, and passenger revenues jumped 24 per cent. The airline said its low-cost structure has been a major factor behind its ability to withstand the impact of high oil prices and softer demand. The airline proceeded with its expansion plans during the second quarter, increasing its capacity 21 per cent over the previous year. In July, WestJet reported that it held a 37 per cent share of the domestic air market.

Table 1. Airline Revenue Passenger Miles (RPMs) and Capacity – July 2008

Airline	RPMs (in millions) July 2008	RPM change 2008 vs. 2007	Capacity 2008 vs. 2007
Air Canada mainline (includes Jetz & Tier 3)	4,653	-0.1%	-1.8%
Air Canada Regional (Jazz)	367	7.1%	4.3%
WestJet	1,242	+18.3%	+22.7%

U.S. air travel demand faltering under steep airfare hikes: U.S. air travel demand has been faltering under the intense pressure of high fuel prices and weak economic conditions. The Air Transport Association (ATA) forecast a slump in U.S. air travel over the Labour Day weekend because of rising airfares, airline capacity cuts, and high oil prices. Domestic air travel was expected to fall 6.5 per cent, and international air travel was projected to decrease 1 per cent compared with a year earlier. The ATA said that high oil prices had driven up airfares and taken a toll on consumer finances, resulting in weaker air travel demand.

Although oil prices have retreated somewhat from their peak high in July, the average price of jet fuel over the summer was about 79 per cent higher than last year. For the full year of 2008, the ATA expects fuel costs for the U.S. airline industry to be 50 per cent higher than 2007. To overcome this increase, U.S. carriers raised domestic airfares by an average of 12 to 15 per cent this summer, according to airfare studies commissioned by *USA Today*.

Analysts believe U.S. airlines will have to keep raising airfares and other ancillary fees, and cut more domestic capacity, to withstand higher fuel costs. In fact, OAG recently reported that U.S. domestic air capacity is expected to shrink by 9 per cent over the winter, reducing the U.S. market to its smallest size in over 10 years. At the same time, airfares are expected to rise steeply: in August, Farecast.com reported that U.S. domestic airfares for travel around American Thanksgiving had risen by an average of 35 per cent, year-over-year. Fares for travel over the Christmas holiday period were 31 per cent higher.

Hôtels

Canadian daily rates and revenues still on upward trend: Slowing domestic travel demand and the ongoing decline in U.S. visitors have weakened demand for Canadian accommodations in recent months. U.S. overnight arrivals to Canada were down by a staggering 12.6 per cent in June 2008 compared with a year earlier, and were behind by 6.8 per cent in the first half of this year. Still, daily room rates continue to register solid year-over-year increases, keeping room revenues growing.

The latest *National Market Report* by PKF Consulting reveals that average daily rates in Canada rose 4 per cent in June 2008, year-over-year. Occupancy slipped 1.4 percentage points, but revenues per available room (RevPAR) climbed 1.7 per cent. In the first half of 2008, occupancy was down slightly (-0.7%) from the same period of 2007, but daily rates and revenues were ahead by 4.3 per cent and 3.2 per cent, respectively.

Demand for Canadian accommodations decreased slightly in June, but was ahead by 1.7 per cent in the first half of 2008, according to the latest *Canadian Lodging Outlook* by HVS International. Hotel room supply in the first six months of the year increased 1.6 per cent.

Canadian hotels expected a drop in third-quarter business: Canadian hotel operators reported diminished expectations for the third quarter of 2008, according to the latest Business Conditions Survey for Traveller Accommodation Industries by Statistics Canada. The majority of hoteliers polled expected a drop in bookings compared with a year earlier, and nearly half (42%) anticipated a decline in corporate travel volumes. Exchange rates, excess room supply, and labour shortages were the business challenges most frequently cited by respondents.

U.S. lodging demand continues to soften: Although demand for accommodations is still relatively strong in the top U.S. markets, overall U.S. lodging demand continues to weaken. Average U.S. occupancy decreased 2.1 per cent in July compared with a year earlier, according to Smith Travel Research, Inc. (STR). Average daily rates increased 2.5 per cent, while nationwide RevPAR stayed about the same as the previous year (up 0.4%). Marriott International and Starwood Hotels and Resorts, two of the largest U.S. hotel chains, both reported in their latest financial statements that U.S. market conditions had deteriorated significantly in the second quarter of 2008. Marriott said it expected weak economic growth and soft U.S. lodging demand to persist into next year.

Travel agents and other suppliers

Travellers hitting the rails: Travellers are showing a much greater interest in rail travel, according to the latest operational figures from VIA Rail. The company reported a 9.7 per cent rise in passengers during the first half of 2008 over the previous year. The biggest increase occurred on routes in the Québec City–Windsor corridor, where passenger numbers were up by 10.3 per cent.

Travelocity reports changes in summer booking trends: Travelocity recently reported several changes in summer booking trends that highlighted some ways in which travellers were adjusting to higher prices. For example, the average length of stay for summer trips booked through Travelocity decreased to six days this year, down from seven days in 2007. As well, there was a slight increase in the length of time between booking and departure dates. Moreover, less expensive destinations were more popular among international travellers, while interest in western Europe waned. Travelocity data showed that the proportion of overall international bookings increased for Mexico (up 31%), South America (up 8%), and eastern Europe (up 13%), while the share of western European bookings fell by 15 per cent.

Expedia records strong growth in Q2 bookings: Expedia, Inc., the largest U.S. online travel agency, posted a net profit of US$96.1 million for the second quarter of 2008, about the same as the second quarter of 2007. Total worldwide bookings during the quarter grew 16 per cent over the previous year. North American bookings increased 10 per cent, while European bookings were up 30 per cent. The company said it achieved a 32 per cent market share of all global online travel bookings in the second quarter, up from 28 per cent a year earlier.

Media and referral websites play larger role in online market: Media and referral websites account for a substantial proportion of travel-related Internet visits, according to a study recently released by PhoCusWright and Hitwise. The results show that in February 2008, over 43 per cent of visits to the top 200 travel sites were to media and referral sites, which offer traveller-generated reviews and maps, and

meta-search capabilities. Just over half of the visits (53.3%) were to booking websites, including online travel agencies and supplier sites. The study suggests that search and shopping sites are playing a substantial role in online travel research and bookings, especially now that economic concerns are prompting travellers to step up their efforts to find travel deals.

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.

For more information on the specific weighting and methodology used to produce the index, please refer to the **Tourism Leading Indicator Index – Methodology** section at the end of this report.

Domestic Travel

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (Domestic)	Supplier Trends (Domestic)	
⇔ (⇔)	⇩ (⇩)	⇔ (⇔)	⇔ (⇔)	0

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

Economic Trends:

- The Canadian economy posted slight growth (0.1%) during the second quarter of 2008, following a small decline of 0.2 per cent during the first quarter. While domestic demand in the second quarter grew by 0.5 per cent, exports registered their fourth consecutive decline.
- Following moderate employment gains throughout the first half of 2008, July saw 55,200 job cuts as Central Canada weathered a trade-induced slowdown. Employment then edged up again in August, but only by 15,000 jobs. Between January and August, employment grew by a modest 0.5 per cent, a much smaller increase than the 1.3 per cent growth in the first eight months of 2007.

- Despite weakness in job creation, wage growth continues unabated. Average hourly wages have risen by 4 per cent since July 2007, well ahead of the 3.1 per cent increase in the all-items Consumer Price Index over the same period. Year-over-year wage gains have registered at or above 4 per cent since August 2007. This trend will not likely continue for long, as private sector job creation–which has been responsible for most of the wage growth–is softening.
- After stabilizing in July, the Conference Board's Index of Consumer Confidence edged up 2.2 points in August to 83.2 (2002 = 100). Consumers indicated that they were feeling more optimistic about their future financial situations and about the prospects of making a major purchase. Respondents also indicated that they expected the job situation in their communities to improve in the next six months. Opinions of the current financial situation remained unchanged.

Traveller and Supplier Trends:

- Domestic air travel continues to expand, albeit at a more modest pace. Compared with the previous year, the number of enplaned and deplaned passengers at Canada's top 30 airports grew by 3.7 per cent in June. Between January and April, enplaned and deplaned domestic passengers grew 4.8 per cent. Although the ceasing of operations by Zoom Airlines on August 28, 2008, is unlikely to have any significant impact on domestic air capacity over the short term, it is likely to hurt outbound demand in many regional centres.
- Canadian hotel occupancy rates continue to slip. According to PKF Consulting, average occupancy in June declined 1.7 percentage points in Canada, year-over-year. In the first half of 2008, the average occupancy rate was 0.7 percentage points behind the previous year. Occupancy declines are widespread across the country, with only British Columbia, Saskatchewan, and Newfoundland registering positive growth. Still, average daily rates continue to rise, driven largely by strong gains in Western Canada. Between January and June, Canada's average daily rate increased 4.3 per cent over the previous year.
- High gasoline prices are expected to keep hampering Canadian domestic travel this fall. Although gas prices have dipped from their peak, which hit nearly $1.50 per litre in some markets, Canadian households are still coping with higher prices for many consumer goods and services, prompting them to continue to economize on automobile travel.
- Although the value of the Canadian dollar has recently cooled, it still provides a stimulus for Canadian travel outside the country. Between January and June, overnight travel to the United States increased 16.5 per cent over the previous year, and trips to international destinations grew 11 per cent.

Overall, the Tourism Leading Indicator for domestic travel suggests the market will not grow and may even decline slightly over the near term. Growth prospects through the fall and early winter are marginal at best.

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 (July 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The U.S. economy continued to expand in the second quarter of this year. A positive trade outlook negated, to a certain extent, the ongoing slump in housing markets. However, retail sales slumped in June, and high energy and food prices led to a sharp increase in headline inflation. Economic growth is expected to stay sluggish for the rest of this year because of weak consumer and investment spending.
- The Conference Board's leading economic index decreased 0.7 per cent in July. In the six months up to July, the leading index decreased at a 1.8 per cent annual rate, an improvement from the 4.4 per cent rate of decline at the end of the first quarter. However, the weaknesses among the leading indicators are still widespread.
- Canada's price competitiveness for U.S. travellers is still deteriorating, primarily because of rising transportation costs.

Traveller and Supplier Trends:

- U.S. travel to Canada continues to decline. Between January and June, overnight automobile travel to Canada dropped 6.8 per cent from a year earlier. During the same period, same-day automobile travel fell by a staggering 21.3 per cent. The ongoing decline in U.S. travel to Canada reflects the economic weakness in the U.S., the relatively high value of the Canadian dollar, and high gasoline prices.
- Air capacity between Canada and the United States is expected to increase by 3.1 per cent in the fourth quarter of 2008. The cessation of services by Zoom Airlines is unlikely to have a significant impact on air capacity to the United States over the near term.

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

British Airways sees market conditions worsening: British Airways' passenger traffic (measured in revenue passenger kilometres–RPKs) fell 3.5 per cent in July 2008 from the previous year. Premium traffic volumes (business and first-class) edged up 0.4 per cent, while non-premium traffic (economy) fell by 4.1 per cent. Domestic and short-haul traffic within Europe was up by 2.3 per cent, but traffic to the Americas was down by 3.2 per cent. The airline stated that high fuel costs and a weak economic environment were causing market conditions to worsen.

In fact, in its latest quarterly financial statement, British Airways described current market conditions as "the worst trading environment the industry has ever faced." British Airways posted a 90.1 per cent year-over-year decline in net profits for its first quarter ended June 30, 2008. The airline attributed the steep decline to "unprecedented oil prices, an economic slowdown and weaker consumer confidence," in particular in the U.K. and the United States. However, the airline's premium (business and first-class) traffic was strong over the quarter, helping to boost passenger revenues by 2.9 per cent. To cope with increasing financial pressures, British Airways plans to cut overall seat capacity this winter by 3.1 per cent, year-over-year, including a 3.9 per cent decrease on long-haul routes.

The British Airport Authority's seven U.K. airports handled 14.8 million passengers in May 2008, a 1.7 per cent drop from a year earlier. The organization reported that weaker economic conditions, rising airfares, and airline capacity reductions all contributed to the decline. Passenger decreases were recorded on U.K.

domestic routes (-4.5%), scheduled routes to Europe (-0.4%), and European charters (-6.3%) during the month. Traffic on North Atlantic routes stayed about the same as the previous year (up 0.6%), while traffic on other long-haul routes slid 1.7 per cent.

Table 2. Percentage change in passengers carried

Carrier	July 2008 vs. July 2007
British Airways	-3%
Ryanair	+19%
easyJet	+20%

U.K. summer travellers more cost-conscious: Travel agency bookings in the U.K. were up slightly this summer, but travellers appeared to be more cost-conscious, according to the Association of British Travel Agents (ABTA). At the end of June, summer bookings among ABTA members were up by an average of 1 per cent over the previous year. Demand appeared to be stronger for destinations outside the eurozone, because the higher value of the euro is making eurozone destinations more expensive. One beneficiary of this trend was the United States, where the exchange rate is comparatively better.

The association also reported that weaker economic conditions appeared to lead more British families to choose more affordable vacations this summer. Bookings for all-inclusive packages and for camping and caravanning holidays all increased over last year.

Economic uncertainties also encouraged more U.K. travellers to choose domestic holidays rather than trips abroad this summer, according to a number of reports from domestic tour operators. Bookings were significantly higher at many traditional domestic holiday resorts.

Thomas Cook and My Travel report strong sales trends: In early August, Thomas Cook and My Travel, the two largest travel companies in the U.K., each reported strong sales trends for summer 2008. Although booking numbers were down, both companies reported a significant increase in product prices over last year, helped by large capacity cuts that reduced the level of competitiveness in the market. Moreover, both companies said they had not seen any signs of U.K. consumers cutting back on holidays or holiday spending this summer despite the economic slowdown.

TUI said its prices for summer products were up by an average of 15 per cent in the U.K., partly because customers were choosing more expensive holiday packages. TUI's sales were ahead by 5 per cent. Although customer numbers had dropped 9 per cent, capacity had been cut back by 13 per cent. TUI described sales as "buoyant, despite the challenging economic conditions." Looking ahead, TUI's bookings for the winter 2008-09 season were behind by 10 per cent, while sales and selling prices were up by 2 per cent and 13 per cent, respectively. TUI's capacity for the winter is expected to be significantly lower (-21%) than it was the previous year.

Thomas Cook reported that its summer product prices in the U.K. were up by 6 per cent over last year. The company's bookings were down by 9 per cent, although capacity had been cut by 10 per cent. Compared with a year ago, the company had 14 per cent fewer holidays left to sell, significantly reducing the incidence of last-minute discounting. As a result, the company's profit margins were much further ahead. For the upcoming winter season, bookings and selling prices were slightly ahead of the previous year.

Outlook bright for U.K. ski market: Despite rising prices, demand for ski holidays during the 2008-09 season is strong, according to Crystal Ski, a British ski tour operator. Prices at eurozone resorts have increased by an average of 7 to 8 per cent, while price increases at U.S. resorts have been slightly less. The operator cited Whistler as one of several "hot resorts" for the British market in the upcoming season.

United Kingdom – 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 (July 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for the U.K. declined 1 per cent in June, the eighth consecutive monthly decline. The six-month change in the leading index stood at -3 per cent (about a -6 per cent annual rate) in the six months up to June. Consumer confidence and stock prices contributed to the sharp decline in recent months, as weakness in the leading indicators remains widespread.
- The Canadian dollar appreciated 6.4 per cent against the British pound between July 2007 and July 2008. As a result, Canada's price competitiveness continued to erode. In the fourth quarter of this year, the cost of a seven-night stay in Canada for U.K. travellers, including airfare, hotels, meals, and other items, is expected to increase 14.6 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 6.9 per cent.

Traveller and Supplier Trends:

- The number of U.K. visitors to Canada declined by 3.3 per cent in June. In general, travel from the U.K. has been weak this year, with year-to-date arrivals down 0.8 per cent in June. In the three months ending in June, overall U.K. outbound travel increased a modest 1 per cent compared with the previous year, while visits to North America rose 6 per cent, according to the U.K. Office for National Statistics.
- Planned direct air capacity on scheduled flights from the U.K. to Canada was expected to increase 6.7 per cent during the fourth quarter of 2008, but the recent shutdown of Zoom Airlines will likely reduce air capacity from the U.K. significantly over the near term. In 2007, Zoom Airlines provided about 10 per cent of the total direct air capacity on scheduled flights from the U.K. to Canada.

The continued deterioration in Canada's price competitiveness combined with softer economic conditions and a possible reduction in direct air capacity suggests that U.K. travel to Canada over the near term is likely to remain weak and continue to post year-over-year declines.

France – Current Tourism Trends

Slower economy affecting air passenger traffic in France: Air France–KLM reported that its passenger traffic (measured in revenue passenger kilometres) grew 1.8 per cent in July 2008, year-over-year. The airline posted a solid rise in passenger revenues during the month, driven by growth in the business travel segment. Traffic on North and South American routes combined rose 4.2 per cent, and traffic on domestic and European routes declined slightly (-0.4%).

Air France–KLM posted a net profit of 168 million euros (C$255 million) for its first quarter ended June 30, 2008, a 59 per cent decrease from the previous year. The airline cited higher oil prices and weaker economic conditions for the decline. Yet passenger traffic during the quarter increased 3.7 per cent, despite a slower economy and the airfare hikes that were implemented to help cover fuel costs.

Passenger numbers at airports serving Paris declined 0.5 per cent to 8.5 million in July 2008, according to the latest statement by the airports' administrative authority, Aéroports de Paris. Domestic passenger numbers continued to shrink, falling 3.7 per cent from a year earlier. Passengers on European routes slipped 1.4 per cent. The airport authority attributed these declines to the economic slowdown in Europe, and increased competition from the French rail market. Meanwhile, passengers on routes serving North and South America climbed 7 per cent during the month.

Economic concerns prompted cutback in French summer travel plans: Rising travel prices, higher fuel costs, and weakening economic conditions hurt summer travel plans in France this year. Some French residents cut back on their travel spending, while others decided to forgo summer holidays altogether this year, according to a recent article by the Associated Press. The article quotes a recent survey by the IFOP agency for L'Humanité, which revealed that 42 per cent of French residents had planned to stay home this summer instead of taking a traditional August holiday. This was a 3 percentage point increase over last year, and a 10 point increase over 2005–a yearly decline that may point to a longer-term trend. In addition, there has been a 20 to 30 per cent drop in customers at French cafés and restaurants.

Moderately optimistic reports from travel suppliers in France: August trading updates from TUI Travel and Thomas Cook Group offered a moderately optimistic view of how the French market is performing.

TUI described the French market as stable, with bookings in the second quarter of 2008 up slightly over the previous year. For summer 2008, average selling prices increased 8 per cent, helping to offset a 10 per cent decline in bookings. Still, sales were down 3 per cent from the previous year. The company noted increased demand for flight-only products.

Thomas Cook described its French business as very strong, with bookings and average selling prices "well ahead" of the previous year. However, the company's proportion of business in France is lower than in other European markets.

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 (July 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for France declined slightly (0.2%) in June, the eighth consecutive monthly decline. Since December, the leading index has declined at a 3.7 per cent annual rate, and the weaknesses among the leading indicators are still widespread. The recent behaviour of the index suggests that economic growth will remain weak in the near term.

- The Canadian dollar depreciated 9.6 per cent against the euro between July 2007 and July 2008; however, it has remained relatively stable since January. The average cost of a seven-night stay in Canada, including airfare, hotels, meals, and other items, is expected to decrease by 0.6 per cent for French travellers during the fourth 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 0.8 per cent.

Traveller and Supplier Trends:

- French visits to Canada continue to trend upward. In June, visits from France increased 6.6 per cent year-over-year, and year-to-date growth was 7.8 per cent. Meanwhile, the U.S. Office of Travel and Tourism Industries (OTTI) reported that French travel to the U.S. increased 25.3 per cent during the first five months of 2008.
- Looking ahead, direct air capacity between France and Canada will likely continue to expand. Direct air capacity from France to Canada had been expected to grow by 6.5 per cent in the fourth quarter; however, the recent announcement of Zoom Airlines ceasing operations places nearly 7 per cent of the annual direct capacity between the two countries at risk.

A weakening economy and air capacity issues will likely moderate growth in French outbound travel to Canada over the near term. Still, French travel trends remain positive and, as a result, the leading indicator suggests that slight growth to Canada is possible over the near term.

Germany – Current Tourism Trends

Lufthansa strikes impede air travel growth in July: Passenger traffic (measured in RPKs) among Lufthansa passenger airlines grew 4.2 per cent in July 2008 compared with a year earlier. Traffic on the company's European network dropped slightly (-0.6%), while traffic on routes to North and South America grew 9.7 per cent. Strikes by ground staff and cabin crew in the last week of July and a separate walkout by regional pilots earlier in the month caused hundreds of flights cancellations, impeding passenger growth in July.

Lufthansa is bracing for a downturn in demand during the winter 2008-09 season, according to a recent article by *Air Transport World*. The airline said it faces "heavy headwinds" and will consider cutting capacity in its winter schedule if demand weakens. A priority for the airline is to ensure passenger revenue yields are sufficient to cover the increase in fuel prices.

In July 2008, passenger numbers at Frankfurt Airport decreased 2.4 per cent, year-over-year, to 5.1 million. The decline was mainly because of the hundreds of flights cancelled during strikes at Lufthansa and its regional airlines.

Thomas Cook and TUI report positive sales trends for summer 2008: In early August, Thomas Cook and TUI AG both reported improvements in revenues and profits for their German business this summer. Thomas Cook's bookings in continental Europe were on par with the previous year, but average selling prices were up by 4 per cent. In Germany–Thomas Cook's largest market in continental Europe–better capacity management left the company with significantly fewer holidays left to sell than a year earlier, keeping last-minute discounts to a minimum. The company also said advance bookings for the winter season have been selling well.

Meanwhile, TUI AG reported that although its summer bookings were down 4 per cent in Germany, sales and average selling prices were up 1 per cent and 5 per cent, respectively. As a result, profit margins were higher than they were last summer.

German travel agencies optimistic about fall travel season: Advance bookings for the fall travel season have been proceeding at a strong pace, significantly improving the short-term outlook among German travel agents, according FVW, a German travel journal. The latest TATS survey of German travel agents revealed that leisure travel sales increased 11 per cent in July, year-over-year, with much of this growth attributed to strong advance bookings for autumn travel. Another July survey by GfK showed that holiday bookings for travel during October 2008 were up more than 11 per cent over the previous year. October is a month when many regions in Germany have a half-term school holiday.

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 (July 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Germany dropped 1.1 per cent in June, the eighth consecutive monthly decline. Plunging stock prices were one of the reasons for the latest decline in the index. During the first half of 2008, the leading index declined at a 10.1 per cent annual rate, and the weakness among the leading indicators remained widespread. In addition, real gross domestic product (GDP) in Germany declined at a 2 per cent annual rate during the second quarter. The recent behaviour of the index suggests that economic growth will be sluggish in the near term and risks for further weakness remain elevated.
- Canada's price competitiveness for German travellers is projected to slip slightly during the fourth quarter. The average cost of a seven-night stay in Canada, including airfare, hotels, meals, and other items, is expected to decline 2.5 per cent year-over-year for German visitors; however, the average cost of a similar trip to competitive destinations (U.S., China, South Africa, Brazil, and Mexico) is expected to decrease even more–by 5.9 per cent.

Traveller and Supplier Trends:

- Visits from Germany to Canada continue fluctuate. Visits declined by 2.9 per cent in the first quarter of 2008, but they increased 5.9 per cent during the second quarter, year-over-year. Meanwhile, the OTTI reported that German visits to the U.S. increased 19.9 per cent in the first five months of 2008.
- In the fourth quarter of 2008, direct air capacity between Germany and Canada is scheduled to expand by a solid 15.9 per cent, with most of the increase going to Ontario and British Columbia.

Despite improvements in traveller trends and less weakness associated with price competitiveness, the growth potential of the German market remains modest. Economic conditions are poised to weaken, and could weigh heavily on the index.

Mexico – Current Tourism Trends

Mexican carriers cutting capacity to cope with high fuel costs: Two Mexican airlines recently suspended services on a total of 11 low-profit routes because of higher fuel costs, according to a recent Reuters news item. Aeromexico, one of the country's two major airlines, cancelled flights on eight routes, three of which were to American destinations (Los Angeles, Phoenix, and Austin). Aviacsa, a low-cost

carrier, has cancelled services on three domestic routes. Aviacsa said fuel costs now account for 45 per cent of all operational costs, up from 35 per cent last year.

The article noted that Mexican airlines are reluctant to pass on higher fuel costs to consumers by raising airfares because they are afraid higher fares will cut into Mexican air travel demand. The Mexican airline industry recently introduced a modest surcharge to air tickets, and many carriers are trying to increase operational efficiencies, but this has not been enough to offset the financial impact of soaring fuel prices.

Latin American passenger traffic grew robustly in June: Latin American airlines saw their combined passenger traffic (measured by RPKs) increase 10.1 per cent in June 2008, year-over-year, according to the Latin American air transport association (ALTA). Year-to-date traffic among members was 12.2 per cent ahead of the previous year. Between January and June 2008, traffic to Europe and the Asia-Pacific region registered very strong growth, helping to boost overall international traffic by 13.4 per cent over the period. RPKs on routes within Latin American grew 11.5 per cent compared with the previous year.

Table 3. ALTA Airlines*
Revenue Passenger Kilometres (RPKs) and Passengers Carried – January to June 2008

Regional Destination	RPK change YTD 2008 vs. 2007	Passengers Carried YTD 2008 vs. 2007
Intra–Latin America (scheduled and charter)	11.5%	6.8%
International–total	13.4%	11.9%
North America	5.6%	7.7%
Europe	27.2%	31.3%
Asia-Pacific	10.7%	9.9%

Source: Latin American Air Transport Association (ALTA).
**ALTA members include 37 airlines serving the Latin American region.*

Mexican consumer confidence drops to record low: Mexico's consumer confidence index dropped to an all-time low in July 2008, according to INEGI, Mexico's national statistics agency. The index slipped 2.3 points to 88.4, its lowest level since the index was launched in April 2001. All five components of the index–measuring consumer sentiment about personal finances and prospects, national economic conditions and prospects, and the purchase of big-ticket items–fell. This was the 11th consecutive monthly decline for the index.

Consumer confidence continues to fall because of slower economic growth and a pickup in the rate of inflation, according to Reuters. At the end of August, Mexico's central bank raised interest rates once again to help dampen inflation growth. Analysts expect consumer spending in the third quarter of 2008 to register little growth.

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 (July 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board of Canada's leading economic index for Mexico increased 0.4 per cent in June, after sharply declining the previous month. The leading index rose a solid 4.1 per cent in the six months up to June, although the strengths among the leading indicators have not been widespread. Still, the recent behaviour of the index suggests that the economy should continue to expand at a moderate pace over the near term.
- Compared with the Mexican peso, the value of the Canadian dollar was only slightly weaker (1.5%) in July 2008 than in July 2007. Because of significant increases in airfares, the average cost of a seven-night stay in Canada is expected to increase by 8.6 per cent during the fourth quarter for Mexican travellers, year-over-year. Meanwhile, the cost of a similar trip to competitive destinations (U.S., Spain, and Italy) is expected to increase by an average of 10.3 per cent.

Traveller and Supplier Trends:

- Travel growth from the Mexican market has been solid this year, particularly during the first quarter. Despite some weakness reported in April–possibly the result of the Easter holidays occurring in March this year rather than April–Mexican arrivals in the first half of 2008 were 7.8 per cent ahead of last year. Mexicans are also travelling more to the United States. According to the OTTI, Mexican arrivals to the U.S. interior (beyond the 40 kilometre U.S. border zone) increased 4.2 per cent during the first five months of 2008.
- Air capacity between Canada and Mexico continues to expand rapidly and should continue to foster growth in travel between the two countries. Direct air capacity between Mexico and Canada is expected to grow by 13.7 per cent in the fourth quarter.

While the higher cost of travelling appears to be weighing on Mexican travel to Canada, other positive indicators, when combined, continue to point the Tourism Leading Indicator Index toward growth. Overall, the index suggests slight growth should continue over the near term.

Japan – Current Tourism Trends

Japanese outbound travel still trending down: Japan Airlines reported a significant decline in international passengers over the peak summer holiday period of August 8 to 17, 2008. Passenger numbers on international flights fell 9.6 per cent from the previous year, with decreases registered on nearly all international routes. Transpacific traffic fell 10 per cent during the period. The exceptions were routes to China and Southeast Asia, which saw slight increases in passenger numbers. There was also a very modest increase (0.3%) in domestic passengers over the period.

Looking ahead, Japan Airlines plans to begin implementing major changes to its overall network in October to cut costs and adjust for changes in demand. It will suspend services on three international routes deemed unprofitable, including the Osaka–London route in March 2009, while increasing capacity on four

high-demand routes to destinations in China and Korea. The airline will also focus more on the business travel segment by introducing a new "premium economy" service on four European routes.

The number of passengers travelling through Narita International Airport in Tokyo in July 2008 was down 6 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, while the number of domestic passengers slipped 6 per cent. Between January and July, Japanese passengers on international flights were down by 6 per cent compared with the same period in 2007.

Japanese outbound summer trips forecast to decline sharply: JTB Corp., Japan's largest travel agency, released a forecast in July predicting a 7 per cent decline in summer outbound leisure trips by Japanese residents this year. Although rising travel prices and growth in the luxury segment were expected to boost the average amount spent per trip by 3.4 per cent over last year, total overseas travel expenditures were forecast to fall by 3.8 per cent.

Trips to Asian destinations were expected to decline 12 per cent, and trips to Europe were expected to dip 1.9 per cent. JTB forecast a 3 per cent increase in travel to the United States, but a modest decrease (2.3%) in trips to Canada.

Economic concerns were cited as the dominant factor behind the projected decline in trips abroad. Rising consumer prices and soaring fuel costs have hurt consumer confidence in Japan, leading potential travellers to rein in travel spending. In addition, exorbitant fuel surcharges on overseas flights have prompted some travellers to switch to domestic vacation destinations. In a recent JTB survey, 35 per cent of summer travellers polled intended to spend less on their summer vacation this year, up from 27 per cent in 2007. Only 13 per cent intended to spend more, down from almost 20 per cent in 2008.

Luxury shopping trips losing their appeal: Luxury shopping trips to major cities, traditionally a favourite travel activity among Japanese women, are waning in popularity, according to a recent article by The Straits Times, a Singapore newspaper. Instead, more women–and younger Japanese of both genders–are embracing culturally themed travel to more exotic destinations, such as Cambodia and Vietnam. One inspiration for this trend has been a best-selling travel book, *Midnight Express*, by Kotaro Sawaki, a popular Japanese writer. The book is about the author's year-long overland trip through Asia and Europe. As a result, Singapore and other shopping destinations traditionally popular with the Japanese market have experienced a downward trend in Japanese arrivals over the last decade.

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 (July 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Japan declined 1.3 per cent in June. From December to June, the leading index fell 4.2 per cent, about the same as the rate of decline as during the second half of 2007. In addition, the weaknesses among the leading indicators continue to be widespread. The recent behaviour of the index suggests that economic growth is likely to be slow in the near term and that risks for further weakness are increasing.

- Since the beginning of this year, the Canadian dollar has depreciated against the Japanese yen, a trend that is slightly boosting Canada's price competitiveness. Between July 2007 and July 2008. the dollar depreciated 8.7 per cent against the yen. Partly because of a more favourable exchange rate, the average cost of a 10-night stay in Canada for Japanese travellers (including airfare, hotels, meals, and other items) is expected to decrease by 3 per cent in the fourth quarter compared with last year. Meanwhile, the average cost of travel to competing destinations is expected to increase 3.8 per cent.

Traveller and Supplier Trends:

- Visits from Japan continue to drop dramatically. In June, Japanese visits fell a further 12.2 per cent, the 27th month of consecutive declines. From January to June, visits were down by 17.8 per cent compared with a year earlier. OTTI figures show that Japanese travel to the U.S. is also on a declining trend, although visits decreased only 3.1 per cent in the first five months of 2008.
- The ongoing decline in Japanese arrivals is causing airlines to cut capacity. Direct air capacity between Japan and Canada is expected to shrink by 7.3 per cent in the fourth quarter.

Travel and supplier trends continue to weigh down the Tourism Leading Indicator Index for Japan. Although the economy seemed poised to turn the corner earlier this year, economic conditions appear, once again, to be deteriorating. As a result, the Tourism Leading Indicator Index continues to point toward a decline in arrivals from the Japanese market over the near term.

South Korea – Current Tourism Trends

Fuel costs and a weaker currency hamper Korean Air's profitability: Soaring fuel costs and a decline in the value of the Korean won continued to hinder Korean Air's profitability in the second quarter of 2008. The airline's financial performance during the quarter was its worst in five years, leading to a net loss of 288.9 billion won (C$275 million) for the period. The declining value of the won vis-à-vis the U.S. dollar has intensified the negative impact of higher oil prices, resulting in an 80 per cent rise in fuel costs in the second quarter over the same quarter of 2007.

In addition, weaker economic conditions dampened travel demand over the quarter, hurting the airline's domestic and international passenger traffic. Growth in total international passenger traffic slowed to 2.1 per cent, while domestic passenger traffic declined 2.5 per cent, year-over-year.

Korean outbound travel has slowed considerably: Slower economic growth, high oil prices, and a weaker won have precipitated a significant slowdown in outbound travel from Korea this year. A weaker economy has left Koreans with less disposable income, and a weaker currency has eroded Koreans' purchasing power while travelling abroad. The latest statistics from the Korea Tourism Organization showed a slight decline (-0.7%) in Korean outbound trips in May, the second monthly decline recorded this year. In the first five months of 2008, outbound trips had increased only 2.9 per cent over the previous year. This was a stark contrast from the double-digit growth seen from 2004 to 2007.

The *Maeil Business Newspaper* reported in early July that summer bookings at Korean travel agencies were down by an average of 30 per cent from the same time last year. Analysts expect agency bookings for the third quarter to register a 15 per cent decrease from the previous year, according to *The Korea Herald*. The Korea Tourism Organization expects these weakening travel trends to continue through to the end of the year.

To cope with the downturn in travel, Korean travel agencies are cutting costs and reorganizing their operations. For example, Hana Tour, Korea's largest travel agency, has transferred some staff to the sales department in an effort to boost business.

Korean consumer confidence sinks to eight-year low: Weakening economic conditions and rising inflation have continued to dampen Korean consumer confidence, which fell to its lowest level in nearly eight years in July, according to Yonhap News. The Bank of Korea's consumer confidence index measured 84.6 in July, a decline of 2.2 points from June. A reading of 100 indicates a balance between optimism and pessimism.

South Korea – 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 (July 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for South Korea decreased 1 per cent in June, continuing a downward trend that started in the last quarter of 2007. With the June results, the six-month leading index had declined 2.8 per cent since December. As well, the weaknesses among the leading indicators continue to be widespread. Although real GDP increased at a 3.4 per cent annual rate in the second quarter, the behaviour of the leading index suggests economic growth is likely to be slow over the near term.
- The Canadian dollar appreciated 15.1 per cent against the Korean won between July 2007 and July 2008. Since January, the dollar has appreciated nearly 8 per cent against the won, worsening Canada's price competitiveness. For South Korean travellers, the average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase 16.7 per cent during the fourth quarter of 2008 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 22.9 per cent.

Traveller and Supplier Trends:

- Korean visits to Canada declined a slight 0.5 per cent in June. Meanwhile, January-to-June arrivals were up 0.6 per cent from the previous year. At the same time, travel from South Korea to the U.S. increased 2.5 per cent during the first five months of 2008, according to OTTI statistics.
- Direct air capacity from South Korea to Canada is expected to decline by 9.9 per cent during the fourth quarter.

While Canada's overall price competitiveness has improved, it remains well behind other countries, notably the United States. In addition, economic trends continue to weaken. As a result, the Tourism Leading Indicator Index for South Korea suggests there will likely be no growth from this market over the near term.

China – Current Tourism Trends

Chinese air travel demand weakening: Chinese airlines posted a collective net profit of 3.7 billion yuan in the first half of 2008, a 23 per cent decrease from the net earnings recorded in the first half of 2007, according to the Civil Aviation Administration of China. Slower economic growth and the negative effects of the earthquake in Sichuan in May were the two main reasons given for the decline in profits. China Southern Airlines released a statement saying that the airline industry was facing a "long, severe winter" because of weakening travel demand, high oil prices, and increasing competition. Air China added that a softer global economy was also contributing to the gloomier outlook.

Weakening demand for air travel in China was apparent in the July traffic statistics for China's major airlines. China Southern Airlines reported a 4.2 per cent decline in passenger traffic for July (measured in RPKs), while Air China's passenger traffic declined 8.4 per cent. Heightened security measures for the Beijing Olympics significantly impeded international passenger traffic that month. In addition, domestic and international fuel surcharges were raised in early July.

Beijing Olympic Games precipitated a severe drop in outbound travel: A combination of Olympic fever and deep discounts on domestic tour packages kept Chinese travellers closer to home this summer, according China Daily. Instead of travelling abroad during the peak summer period, many Chinese residents opted to volunteer for the Beijing Games or stay home to watch events on television. There was also a reduction in available air access out of the country because airlines had set aside capacity for air traffic for the Olympics. As a result, outbound leisure travel declined by an estimated 20 to 30 per cent in August, after a meagre increase in July, according to the China International Travel Service.

Moreover, domestic tour operators slashed product prices just before and during the Olympics to help stimulate domestic travel demand. Airfare discounts ranging from 10 to 30 per cent could be found on the day the games opened. In the following week, discounts of up to 60 per cent were being offered. The article noted that domestic demand in China has been down since the Sichuan earthquake.

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 (July 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The slowdown in global demand has resulted in a slight downgrade in growth expectations for the Chinese economy this year. As well, risks to the growth outlook now appear to be increasingly on the downside. Still, the latest Consensus Forecasts report (August 2008) projects real GDP growth will reach 9.9 per cent this year and 9.2 per cent in 2009. Although inflation has slowed from its peak reported in February, it was increasing at a 7.1 per cent annual rate in June.
- The Canadian dollar depreciated 6.1 per cent against the Chinese renminbi between July 2007 and July 2008. Still, for Chinese travellers, the average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase 5.1 per cent during the fourth quarter of 2008 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 a more modest 2.6 per cent.

Traveller and Supplier Trends:

- Overall, Chinese travel to Canada continues to increase at a solid pace. Chinese arrivals increased by a modest 4.8 per cent in June, compared with last year, and the year-to-date growth in arrivals in June was 11.1 per cent. The Olympics likely kept many Chinese travellers closer to home this summer. During the first five months of 2008, the OTTI reported that travel from China (including Hong Kong) to the U.S. increased 26.1 per cent.
- Direct air capacity to Canada is expected to decline by 13.3 per cent in the fourth quarter of this year.

Despite weaker supplier trends, the Tourism Leading Indicator Index for China suggests that arrivals from this market will continue to grow over the near term.

Australia – Current Tourism Trends

Qantas bucks financial trends in global airline industry: Qantas posted a net profit of A$970 million (C$837 million) for its fiscal year ended June 30, 2008, an impressive 44 per cent increase over the previous year. The airline attributed its financial success to aggressive fuel hedging practices, a more favourable exchange rate, a strong domestic economy, and improved operational efficiencies. The airline also reported strong demand in domestic and international passenger demand during the year.

However, the airline's overall performance was mainly due to stellar growth in its first half; the airline's net profits for its second half were 2.5 per cent lower than the previous year, because of higher fuel costs and softer demand in some markets. In response to higher fuel costs and weaker global economic conditions, the airline cancelled the 8 per cent increase in capacity it had planned for the current fiscal year.

Prospects for Australian outbound travel bright: Outbound travel is expected to keep growing at a robust rate in 2008 and 2009, fuelled by the strong Australian dollar and the expansion of international air capacity, especially in the low-cost market. The latest forecast by Tourism Australia suggests outbound travel volumes will rise 9.9 per cent this year to 6 million, and grow another 8 per cent to 6.5 million in 2009. Between 2007 and 2017, outbound departures are expected to grow at an average annual rate of 5.4 per cent. The strong domestic economy is also helping to fuel travel demand.

On the other hand, the Australian domestic travel market is expected to grow at a much slower rate over the next two years, expanding by 2 per cent in 2008 and another 3.5 per cent in 2009. Higher fuel prices are expected to hurt the domestic air and automobile travel markets.

Internet access expanding dramatically: Broadband Internet access in Australia is growing at rapidly in Australia, according to a recent report by eMarketer.com. Statistics from the Australian Communications and Media Authority show that the number of broadband subscriptions in Australia jumped from 3.16 million in June 2006 to 4.33 million in June 2007, an increase of nearly 32 per cent in one year. In 2007, 55.1 per cent of Australian households had broadband access, according to estimates by eMarketer.com, and this figure is expected to rise to 63.4 per cent in 2008.

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 (July 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Australia decreased a slight 0.5 per cent in June, the fifth decrease in the index this year. Between December and June, the leading index dropped 1.3 per cent, compared with growth of 2.8 per cent in the second half of 2007. The recent behaviour of the leading index suggests that economic growth is likely to slow further in the near term.

- The Canadian dollar depreciated 6.6 per cent against the Australian dollar between July 2007 and July 2008; however, this has not helped Canada's price competitiveness with other destinations competing for Australian travellers. For Australians, the average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase 5.3 per cent during the fourth quarter of 2008 compared with last year. Meanwhile, the average cost of a similar trip to competitive destinations is expected to decline by 1.9 per cent.

Traveller and Supplier Trends:

- Australian arrivals in Canada continue to grow at a solid pace. In June, visits to Canada increased by 6.3 per cent over the previous year; between January and June, arrivals were up 8.2 per cent. This growth compares favourably with data from the United States. According to the OTTI, travel from Australia to the U.S. increased by 4.8 per cent during the first five months of 2008.
- Air capacity (including one stop) between Canada and Australia over the fourth quarter is expected to increase 64.2 per cent over the previous year, thanks to the abundance of extra capacity to Ontario.

Despite growing economic pressures and challenges regarding price competitiveness, the Tourism Leading Indicator Index for Australia suggests continued growth from the Australian market 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.

	Economic		Non-Economic	
Travel Market	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.