



Tourism Intelligence Bulletin

Economic Downturn Dampens Global Tourism Demand

Issue 48: November 2008

*The Tourism Intelligence Bulletin monitors the tourism industry around the world.
This issue features tourism intelligence gathered in September and October 2008.*

Bulletin Highlights

Tourism Overview: North America

■ **Prospects for domestic travel remain slim:** Growth prospects for the domestic travel market remain slim as economic worries continue to rise. The global credit crunch and major stock market declines have left Canadian households uncertain about their financial situation. Canadian consumer confidence fell in October to its lowest level in more than a quarter-century, according to the Conference Board's latest Index of Consumer Confidence. (See "Domestic Travel," page 10.)

Canadian leisure travel intentions also plunged in October, according to the Conference Board's Travel Intentions Survey. Only 39.1 per cent of the Canadians polled intended to take a winter vacation this year, down from 47.5 per cent a year ago. The most substantial drop was in U.S. and international trip intentions; however, plans for domestic holidays also fell. (See "Worsening economic conditions dampen Canadian leisure travel plans," page 4)

■ **U.S. vacation intentions still hovering near record low:** U.S. travel intentions stayed weak in October, hovering near the record low hit in June, according to the latest Consumer Confidence Survey report by the U.S. Conference Board, Inc. To make matters worse, American consumer confidence plunged again in October to a new low. U.S. consumers were much more pessimistic about current and future economic conditions. (See page 4.)

■ **Forecasts suggest U.S. travel on a declining trend:** Two recent forecasts suggest that worsening economic conditions will hamper growth in U.S. leisure travel over the medium term. One forecast suggests that the focus on value is greater than ever, with more U.S. travellers choosing lower-cost hotels and destinations, as well as shortening their trips to save money. (See page 5.)

■ **Economic downturn dampens business travel outlook:** The latest forecast by American Express Business Travel suggests the financial market downturn has dampened growth expectations for

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North American business travel next year, as companies are increasing travel restrictions to cut costs. The firm believes that slowing business travel demand may also lead to a decrease in corporate air fares in 2009. (See page 6.)

- **Canadian air travel demand continues to slow:** The recent retreat in oil prices has enhanced the profitability of Canada's airline industry; however this operational boost has been at least partially offset by the slowing domestic economy and the deepening financial crisis in the United States. Economic uncertainty continues to dampen Canadian air passenger demand. (See page 6.)
- **Canadian daily rates and revenues still increasing, despite weakening demand:** Slowing domestic travel demand, precipitated by worsening economic conditions, continues to chip away at Canadian occupancy levels. Still, daily room rates continue to rise, supporting growth in room revenues in most regions of Canada. (See page 8.)

Tourism Overview: International

- **U.K. tour operators benefit from XL collapse:** The financial collapse of XL Leisure Group, the U.K.'s third-largest tour operator, has resulted in significantly lower capacity—and competition—in the U.K. travel market. It has also helped offset the negative effects of the downturn in the financial markets and the economic slowdown. In September, the U.K.'s two largest tour operators, TUI and Thomas Cook, both said they had fewer last-minute trips to sell, significantly reducing the incidence of last-minute discounting. However, TUI reported that XL's collapse left many consumers uneasy about purchasing travel. (See page 12.)
- **Economic concerns may keep British travellers closer to home:** Economic concerns could influence the travel decisions of many British travellers, keeping them closer to home next year, according to a recent survey. U.K. travellers will be more likely to choose shorter-haul destinations, such as Spain and Italy, than long-haul destinations such as the United States. Still, overall U.K. travel intentions appeared to be holding steady. (See page 13.)
- **Worsening economic conditions dampen air travel demand in France:** Passenger numbers at Paris airports fell 3.6 per cent in September 2008. The airport authority attributed the decline to the deterioration of global economic conditions. At the end of October, Air France-KLM said it was cutting capacity in response to falling demand. The airline's business-class bookings on North American and Asian flights were 10 per cent lower in October than a year earlier. (See page 15.)
- **TUI offers positive outlook for winter, but is uncertain about 2009:** TUI AG, the largest travel company in Germany, is optimistic about its growth prospects for the upcoming winter travel season. However, higher product prices and fuel surcharges have hurt demand for some long-haul destinations. The company anticipates these trends will persist, so it has a much more cautious outlook for 2009. (See page 16.)
- **Japanese airlines to reduce fuel surcharges in first quarter of 2009:** Falling oil prices and the strengthening value of the yen will allow Japanese Airlines and All Nippon Airways to reduce their fuel surcharges in January. The Japanese travel industry hopes that lower fuel surcharges will help revive Japanese outbound travel, which continues to decline. The Japan National Tourist Organization reported that Japanese trips abroad fell 9.7 per cent in September 2008, compared with a year earlier. (See page 19.)
- **Falling value of the Korean won compounds ill effects of economic downturn:** South Korean outbound travel declined 20 per cent in September 2008, year-over-year, according to the Korea National Tourism Organization. This was the third consecutive month of double-digit decreases, according to the

agency. Outbound travel demand has been hampered by the weakening Korean won and deteriorating economic conditions. (See page 21.)

■ **Chinese tourism demand expected to weather global economic downturn:** Although the downturn in the global economy is expected to have some impact on Chinese travel demand, prospects for Chinese outbound tourism are still relatively rosy. The strengthening Chinese renminbi, together with the likely increase in travel deals over the next several months, is expected to bolster outbound demand over the near term. Chinese travel abroad increased 9 per cent in September, and 14.8 per cent in the first nine months of 2008, year-over-year. (See page 22.)

■ **Financial concerns affecting a minority of Australian travellers:** Financial concerns have prompted about one-third of Australian travellers to change their short-term travel plans, according to a recent survey. Still, two-thirds of those polled did not intend to change their holiday plans. Survey respondents ranked travel as their highest spending priority after essential expenses such as housing and groceries. (See page 24.)

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	↓	↓ ↓	↓	↓ ↓	—
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

Worsening economic conditions dampen Canadian leisure travel plans: Canadian leisure travel intentions have fallen dramatically this fall, according to the latest Travel Intentions Survey by The Conference Board of Canada. Results from the October 2008 survey suggest that just 39.1 per cent of the Canadians polled intend to take a winter holiday, down from 47.5 per cent in the October 2007 survey. The most substantial declines in trip intentions were for holidays to U.S. and international destinations; however, there was also a decrease in the number of Canadians planning a domestic holiday this winter.

Growing economic uncertainty in Canada has clearly dampened Canadian travel demand in recent weeks, offsetting the positive effect of declining gasoline prices. The global credit crunch and major stock market declines have left Canadian households feeling very uncertain about their financial situation. In fact, Canadian consumer confidence fell in October to its lowest level in more than a quarter-century, according to the Conference Board's latest Index of Consumer Confidence. In addition, the weaker value of the Canadian dollar will likely tarnish the appeal of winter holidays to U.S. and overseas destinations.

Table 1: Winter (November–April) Vacation Intentions
(Per cent of Canadians surveyed)

	Oct. 2006	Oct. 2007	Oct. 2008
Winter Vacation Intentions (All Destinations)	46.7	47.5	39.1
Canada	20.0	15.3	14.2
United States	12.2	12.9	10.1
Other international	14.0	17.4	13.8
Do not know/refused	0.5	1.9	1.1

Source: The Conference Board of Canada.

U.S. vacation intentions still hovering near record low: U.S. travel intentions continue to hover near record lows, according to the latest Consumer Confidence Survey report by The Conference Board, Inc. in the United States. Preliminary results showed that in October 2008, 38.7 per cent of Americans polled planned to take a vacation within the next six months, up only slightly from the record low hit in June. Results are adjusted to account for seasonal fluctuations in travel demand.

Overall U.S. consumer confidence fell to an all-time low in October. The Consumer Confidence Index plunged to 38.0 (1985 = 100), down from 61.4 in September. This 23.4 point drop was the third-largest monthly decline in the history of the index. The Present Situation Index and the Expectations Index each dropped dramatically, suggesting that the financial market crisis in the United States has left Americans feeling much more pessimistic about the U.S. economy.

The U.S. Traveler Sentiment Index by the Travel Industry Association (TIA) and YPartnership stayed low in October, registering the same index reading as in July (78). There was a slight increase in three components of the index: the safety of travel, the quality of service, and the affordability of travel, which was attributed to the recent increase in promotional discounts. However, these small increases were offset by slight decreases in components measuring time availability, the availability of money to travel, and interest in taking a trip. YPartnership suggests that attractive offers could stimulate demand, as long as the offers are built around the weekend, because Americans generally plan vacations around weekends.

Forecasts suggest U.S. travel on a declining trend: Two recent surveys suggest that worsening economic conditions will hamper growth in U.S. leisure travel in 2008 and 2009:

- TIA recently forecast a 0.2 per cent decline in U.S. travel volumes in 2008 and another 1.3 per cent decrease in 2009. The association suggests that the emphasis on value is greater than ever, with travellers looking to save money by shortening trips, as well as choosing lower-cost hotels and destinations. TIA also noted that leisure travel demand appeared to be more resilient than business travel, which was projected to fall even further. (See “TIA forecasts decline in U.S. business travel” below.)
- The latest forecast by Global Insight and D.K. Shifflet & Associates suggests U.S. domestic leisure travel will eke out slight growth of 0.5 per cent in 2008, although fourth quarter travel volumes will slip 0.3 per cent from the same quarter of 2007. U.S. domestic leisure trips are projected to dip by 0.5 per cent in 2009.

Affluent Americans not cutting back on travel spending: The top 10 per cent of America’s wealthiest households are cutting back spending in some areas, but not on travel, according to the latest Annual Survey of Affluence and Wealth in America, by American Express Publishing and Harrison Group. Although affluent Americans are spending less on personal items, such as jewellery and fashion, the survey shows that luxury spending for the family, including spending on travel, has been trending upward over the course of this year. The report suggests that even in tough economic times, affluent consumers are less willing to cut back on luxury items that benefit their families.

“NEXTgen” travellers an emerging market: A new study by PhoCusWright and YPartnership suggests that tech-savvy travellers represent a growing and lucrative travel market. These travellers are active users of the latest technology, are affluent, and have a zest for travel. They also rely heavily on the latest technology when planning and purchasing their travel, therefore reaching this market requires an approach geared to their media consumption habits.

Business travellers

Canadian companies stepping up cost-cutting measures: Business travel volumes among Canadian businesses are expected to remain steady in 2009, but cost-cutting measures will become an even higher priority, according to the latest annual Canadian Business Travel Outlook by the Association of Business Travel Associates (ACTE) and The Conference Board of Canada.

More than a third of the travel managers polled in July and August 2008 (34%) expected an increase in the number of business trips next year, while nearly half (46%) expected their business travel volumes to stay the same as in 2008. A smaller group (21%) expected a decrease in business travel in 2009. However, the survey was conducted before the sharp downturn in financial markets in September.

The survey results also suggested that many Canadian companies continue to tighten their financial belts. Of the organizations polled, less than half (48%) expected their corporate travel spending to increase next year. Another 23 per cent expected their travel budgets to remain the same. Nearly one-third of respondents (30%) are expecting their organization to spend less on business travel in 2009.

Among those expecting to increase their spending, 91 per cent said that higher travel prices were a reason for the budget hike. Other reasons included an expected increase in the number of international trips to destinations other than the United States (38%) and an expected rise in domestic travel (33%).

On the other hand, most of those expecting their travel budgets to shrink next year (75%) cited the increased use of travel alternatives, such as telephone, web, or video conferencing, as a main reason for the decline. This was a stark change from last year's survey, when no respondents mentioned the use of travel alternatives as a reason for a decline in travel spending. Improved compliance with travel policies and savings from using online booking systems were also mentioned as reasons for reducing their travel budgets.

U.S. companies also cutting costs: A recent survey by the National Business Travel Association revealed that more than half of the U.S. corporate travel managers surveyed had introduced new cost-cutting measures for their travel programs during the third quarter of 2008. About 60 per cent of respondents said they were emphasizing the advance purchase of air tickets. More than half said they were encouraging staff to travel less, sending fewer employees to conferences, and stepping up the enforcement of travel policies. In addition, nearly 40 per cent of respondents reduced meetings and 9 per cent said they had set up a temporary travel freeze in response to deteriorating economic conditions.

Economic downturn dampens North American business travel outlook: The latest forecast by American Express Business Travel, released in October 2008, suggests that the financial market downturn has dampened growth expectations for North American business travel next year, as companies are increasing travel restrictions to cut costs. The firm believes that slowing business travel demand may even lead to a decrease in corporate air fares in 2009.

In Canada, changes in domestic economy fares are projected to range from a drop of 3 per cent to an increase of 5 per cent, while international business class fares are expected to increase by between 3 and 8 per cent. Growth in hotel rates will also be moderated by the slowdown in demand, ranging from 2 to 7 per cent for mid-range properties, and 1 to 5 per cent for upper-range properties. Rates for car rentals are expected to grow between 0 and 3 per cent. Travel price increases in the United States are expected to be slightly lower than in Canada.

TIA forecasts decline in U.S. business travel: Business travel volumes in the United States are projected to fall 4 per cent in 2008 and 2.7 per cent in 2009, according to the latest forecast by the TIA. The association expects the business travel market to turn around in 2010, as the U.S. economy emerges from its recession.

Airlines

Canadian air travel demand continues to slow: The recent retreat in oil prices has enhanced the profitability of Canada's airline industry; however, this operational boost has been at least partially offset by the slowing domestic economy and the deepening financial crisis in the United States. Economic uncertainty continues to dampen Canadian air passenger demand.

In September 2008, Air Canada's system-wide passenger traffic (measured in revenue passenger miles), including mainline and regional operations combined, fell 5 per cent from the previous year. Total capacity was down by 6.4 per cent, but the airline flew its planes an average of 79.9 per cent full, a 1.2 percentage point improvement from a year earlier. Traffic on domestic routes fell 5.8 per cent, and traffic on transborder U.S. flights plunged 15.7 per cent. International traffic slipped 1.6 per cent, overall, although growth on "Latin American and other" routes stayed strong (+7.2%).

According to the *Globe and Mail*, Air Canada said that September's capacity reductions reflected adjustment plans that were made earlier this year. Air Canada noted that the 7 per cent reduction in winter capacity announced in June 2008 will take effect in November.

WestJet's passenger traffic increased 11 per cent in September 2008, and capacity expanded 15.8 per cent over the same month in 2007. WestJet's bookings dipped in October, something the airline attributed to growing economic concerns. However, bookings for November and December appeared to be holding strong, according to a Reuters news item. The airline does not intend to change its capacity expansion plans for 2009, despite worsening prospects for the domestic and global economies. WestJet is on track for capacity growth of 18 per cent in 2008 and a further 8 per cent in 2009.

Lower fuel prices prompted Air Canada and WestJet to change their fuel surcharge policies in September. WestJet completely eliminated its fuel surcharge, while Air Canada said it would begin incorporating fuel charges into base fares for North American flights. Air Canada also eliminated its fee for second pieces of checked baggage.

Table 2. Airline Revenue Passenger Miles (RPMs) and Capacity — September 2008

Airline	RPMs (in millions) September 2008	RPM change 2008 vs. 2007	Capacity 2008 vs. 2007
Air Canada mainline (includes Jetz & Tier 3)	3,928	-4.8%	-6.9%
Air Canada Regional (Jazz)	331	-7.3%	-1.6%
WestJet	1,069	+11.0%	+15.8%

U.S. air travel demand weakening: Sharp increases in airfares among U.S. carriers and worsening economic conditions have dampened U.S. air travel demand in recent months. Many industry analysts expect these unfavourable trends to continue through the Thanksgiving and Christmas holidays this year. In anticipation of weaker demand, U.S. airlines have substantially cut back their capacity for the winter season.

OAG reported in October that U.S. domestic capacity is expected to shrink by 9 per cent in the fourth quarter of 2008. Transatlantic and transpacific capacity from the United States is scheduled to fall by 2.9 per cent and 3.1 per cent, respectively.

By the end of October, many airlines had initiated seat sales for the holiday season to help stimulate demand. In fact, Farecompare.com reported the sale as the most broad-based U.S. seat sale it had tracked in more than 18 months, according to the Associated Press.

Delta and Northwest complete merger: Delta Air Lines and Northwest Airlines completed their merger on October 29, 2008, creating the world's largest airline by passenger traffic. Northwest is now a fully owned subsidiary of Delta, and will fall under the Delta brand once the two airlines are fully integrated. The carriers' schedules, websites and loyalty programs will be integrated sometime next year.

Hotels

Canadian daily rates and revenues still increasing, despite weakening demand: Slowing demand precipitated by worsening economic conditions continues to chip away at occupancy levels among Canadian hotels. Still, daily room rates continue to rise, supporting growth in room revenues in most regions of Canada.

The latest *National Market Report* by PKF Consulting revealed that average daily rates in Canada rose 2.2 per cent in August 2008, year-over-year. Occupancy slipped 0.4 percentage points, but revenues per available room (RevPAR) climbed 1.6 per cent. In the first eight months of 2008, occupancy was down slightly (-0.9%) from the same period in 2007, but daily rates and revenues were ahead by 3.5 per cent and 2 per cent, respectively.

Demand for Canadian accommodations increased slightly in August (0.9%) and was ahead by 1.2 per cent between January and August 2008, according to the latest *Canadian Lodging Outlook* by HVS International. Hotel room supply in Canada increased 1.5 per cent in the first eight months of 2008.

Canadian hotels still less optimistic about short-term outlook: Canadian hotel operators continued to be less optimistic in their short-term outlook in the latest Business Conditions Survey for Traveller Accommodation Industries by Statistics Canada. Nearly half (47%) of the hotel operators polled expected a year-over-year decline in bookings for the fourth quarter of 2008, and more than one-third (36%) anticipated a decline in corporate travel volumes. Fluctuating exchange rates were by far the most frequently cited business challenge (46% of respondents), followed by labour shortages, excess room supply, and regional economic conditions.

U.S. lodging demand falling off at an accelerating rate: Market conditions continue to worsen for the U.S. lodging industry. In September 2008, average U.S. occupancy slid 5.9 per cent compared with a year earlier, according to Smith Travel Research, Inc. (STR). Average daily rates increased 3 per cent, but nationwide RevPAR decreased 3.1 per cent.

For the full third quarter of 2008, occupancy and RevPAR dropped 3.7 per cent and 1.1 per cent respectively, even though average daily rates were ahead by 2.7 per cent. STR stated that the third quarter was challenging for the U.S. hotel industry, with RevPAR growth dropping into negative territory for the first time since 1993. The firm expects the "difficult operating environment" to continue through the final quarter of 2008, as deteriorating economic conditions continue to drive down demand.

Travel agents and other suppliers

Volatile fuel prices hurt Transat's profitability: Transat A.T. Inc. posted a net loss of \$2.4 million in its third quarter ended July 31, 2008, a sharp downturn from a year earlier when the company posted a net profit of \$16.1 million. Transat attributed the loss to the rapid increase in fuel prices during the quarter; the company's Canadian tour operators were unable to pass higher fuel costs on to customers through higher product prices, because market competition was too high. Transat's revenues for the quarter jumped 15.9 per cent over the previous year. Looking ahead, the company anticipates lower profit margins in its North American operations in its final quarter because of intense competition and price sensitivity, but higher margins in its European operations.

Advance ski bookings down in September: Advance lodging reservations at western U.S. and Canadian ski resorts were down by 19.8 per cent in September 2008, according to a tracking service by Mountain Travel, reported in *Travel Weekly*. Mountain Travel said ski bookings typically begin to accelerate after Labour Day, but this has not happened yet, likely because of the recent downturn in consumer confidence. Total advance bookings for ski trips through March 2009 were behind by 8.9 per cent, year-over-year. In addition, rates were down by an average of 2 per cent, representing the first rate decrease since 2004.

European sales boost Expedia's third quarter results: Expedia, Inc., the largest U.S. online travel agency, posted a net profit of US\$94.8 million for the third quarter of 2008, a 5 per cent decrease from the third quarter of 2007. Total worldwide bookings during the quarter grew 7 per cent over the previous year. North American bookings edged up 1 per cent, while European bookings jumped 18 per cent.

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 (September 2008) Tourism Intelligence Bulletin.

Economic Trends:

- Real economic growth in Canada slipped 0.3 per cent in August. Weakness in wholesale trade, manufacturing, rail and truck transportation, and the energy sector all contributed to drag down economic performance that month.
- Following a decline in July and a small gain in August, Canadian employment rose by 107,000 positions in September. However, virtually all of the September employment increase—some 97,000 jobs—was in part-time work. Despite the solid growth in employment, the unemployment rate held steady at 6.1 per cent alongside an increase in the labour force participation rate.
- Wage growth in Canada remains strong. Average hourly wages in September rose 4.6 per cent over September 2007, well ahead of the 3.4 per cent increase in the all-items Consumer Price Index over the same period. Year-over-year wage gains have been at or above 4 per cent since August 2007. However,

this trend may change soon as private sector job creation—which has been responsible for most of the wage growth—softens.

- After three consecutive months of increases, Canadian consumer confidence fell in October to its lowest level in more than a quarter-century, according to the Conference Board's Index of Consumer Confidence. All components of the index declined in October as respondents said it was not a good time to make a major purchase and their view about their current and future financial situations deteriorated. Consumers were also less optimistic about future employment prospects for the fifth time in six months, and the October decline was the largest this year.

Traveller and Supplier Trends:

- Domestic air travel continues to expand, albeit at a very modest pace. Compared with the previous year, the number of enplaned and deplaned passengers at Canada's top 30 airports grew 1 per cent in August. Between January and August, enplaned and deplaned domestic passengers grew 3.5 per cent.
- Canadian hotel occupancy rates continue to slip. According to PKF Consulting, average occupancy in August declined 0.4 percentage points in Canada, year-over-year. In the first eight months of 2008, the average occupancy rate was 0.9 percentage points behind the previous year. Still, average daily rates continue to increase, driven largely by stronger gains in Western Canada. Between January and August, Canada's average daily rate increased 3.5 per cent over the previous year.
- Fortunately, gasoline prices have declined dramatically lately and are now under \$0.90 per litre in many Canadian communities. However, Canadian households are coping with higher prices for many consumer goods and services, and are therefore still vigilant about economizing wherever possible on discretionary automobile travel.
- Although the value of the Canadian dollar has slipped, Canadians continue to travel outside the country. Between January and August, overnight travel to the United States increased 13.6 per cent over the previous year, and trips to international destinations grew 10.6 per cent.

Overall, the Tourism Leading Indicator for domestic travel suggests growth prospects through the late fall and early winter appear to be slim or 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 (September 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The U.S. economy shrank at an annual rate of 0.3 per cent in the third quarter of 2008, a far cry from the 2.8 per cent growth posted in the second quarter. Among other factors, the decline in real economic output reflected weakness from personal consumption spending on durable and non-durable goods. Actual prices were up: even excluding food and energy prices, consumer prices increased 3.1 per cent in the third quarter, up from the 2.2 per cent increase witnessed during the second quarter.

- The Conference Board's leading economic index posted a slight increase of 0.3 per cent in September. Still, in the six months up to September, the leading index decreased at a 2.5 per cent annual rate. As well, the weaknesses among the leading indicators remain widespread.
- Although the Canadian dollar has depreciated significantly vis-à-vis the U.S. dollar recently, Canada's price competitiveness for U.S. travellers remains under pressure, particularly because of rising airfares.

Traveller and Supplier Trends:

- U.S. travel to Canada continues to decline. Between January and August, overnight automobile travel to Canada dropped 6.4 per cent from a year earlier. During the same period, same-day automobile travel fell by a staggering 20 per cent. At present, it is likely that the decline in travel to Canada primarily reflects the economic challenges facing U.S. travellers.
- Air capacity between Canada and the United States is expected to increase by a slight 3.1 per cent in the fourth quarter of 2008.

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) slipped 4.8 per cent in September 2008 from the previous year. Premium traffic volumes (business and first-class) fell by 8.6 per cent, while non-premium traffic (economy) declined 4.1 per cent. Domestic and short-haul traffic within Europe was down by 1.2 per cent, and traffic to the Americas decreased by 2.7 per cent.

Table 3. Percentage Change in Passengers Carried

Carrier	Sept. 2008 vs. Sept. 2007
British Airways	-5.6%
Ryanair	+20%
easyJet	+22.1%

The airline noted that market conditions continued to be challenging, with forward bookings down because of the financial market crisis and the uncertain economic outlook. In mid-October, British Airways lowered its fuel surcharge slightly on its two international economy fare categories.

The British Airport Authority's seven U.K. airports handled 13.3 million passengers in September 2008, a 5 per cent decrease from a year earlier. All markets experienced a decline in air passengers during the month. The most dramatic decreases were on European charter flights, which saw 12.6 per cent fewer passenger, largely because of the closure of XL Leisure Group (see below). Passenger numbers declined 6 per cent on U.K. domestic routes and slipped 2.2 per cent on scheduled routes to Europe. Traffic on North Atlantic routes fell 6.8 per cent from the previous year.

Major U.K. tour operator collapses under spiralling fuel costs: XL Leisure Group PLC, the U.K.'s third-largest tour operator, ceased operations and entered administration, a form of bankruptcy, on September 12, 2008. The closure left an estimated 85,000 travellers stranded abroad, and 200,000 more with worthless advance bookings, resulting in what the U.K.'s Civil Aviation Authority called "probably the biggest holiday operator failure of the past 20 years." The company blamed its failure on spiralling fuel costs and deteriorating economic conditions. XL operated a number of travel brands, including XL Airways, and offered flights and vacation packages to destinations in the Mediterranean, the Caribbean, and Florida. It also had subsidiaries in France and Germany.

U.K. tour operators benefit from XL collapse: Overall, XL's closure benefited other tour operators, by significantly cutting back the level of available capacity—and competition—in the U.K. travel market. It has also helped offset the negative effects of the downturn in the financial markets and the economic slowdown. In September, the U.K.'s two largest tour operators, TUI and Thomas Cook, both said they had fewer last-minute trips to sell, significantly reducing the incidence of last-minute discounting.

However, TUI said that XL's collapse has affected travel confidence, leaving consumers uneasy about purchasing travel. TUI launched an advertising campaign at the end of September to reassure British consumers about the security of booking with TUI.

TUI reported that its average selling price for the 2008 summer season was up 18 per cent over last year. Although bookings were down 10 per cent, capacity was 13 per cent lower than it was in 2007. For the upcoming winter season, TUI said its pace of sales was ahead of the same time last year, with a 7 per cent increase in average selling prices, and 6 per cent less capacity.

Thomas Cook stated at the end of September that it had 24 per cent fewer holidays left to sell than it did at the same time last year, with selling prices up by an average of 7 per cent over 2007. Although bookings were down 9 per cent, capacity had been cut by 10 per cent, resulting in a significant improvement in profit margins. The company added that the market for packaged holiday sales remained "resilient." For the upcoming winter season, bookings in September were up 2 per cent, year-over-year, and average selling prices were up 3 per cent. Thomas Cook pared back its winter product capacity by 8 per cent compared with last year.

Economic concerns may keep British travellers closer to home: Concerns about the economy will influence the travel decisions of many British travellers, keeping them closer to home next year, according to a recent survey by TripVision, reported by travelmole.com. More than half of the British adults polled said the current economic climate has or will influence their travel choices for their main vacation in 2009. The survey suggested that British travellers will be more likely to choose shorter-haul destinations, such as Spain and Italy, than long-haul destinations such as the United States. Still, overall travel intentions in the U.K. appeared to be holding steady.

British travellers turning to more adventurous holiday destinations: Economic concerns aside, British travellers are interested in more adventurous mid- and long-haul holiday destinations, according to a recent trend report by Opodo.co.uk, a British online travel agency. The company said that U.K. travellers appear to be increasingly avoiding eurozone destinations, because of the stronger value of the euro. Instead, travellers are becoming more interested in adventurous destinations that are farther away but cheaper once they arrive, such as Jordan, Egypt, Bulgaria, and Turkey. Other "up and coming" destinations include Peru and South Korea.

U.K. cultural travel market poised to expand: The cultural and sightseeing holiday market is poised for significant expansion over the next several years, according to a recent survey by YouGov and TUI Travel. The study suggests British residents will take 13.4 million cultural/sightseeing trips over the next three years, a 17 per cent increase over the estimated 11.5 million trips taken in the past three years. Small group holidays and touring holidays are expected to increase as well. The survey also pinpointed a number of smaller niche markets that are poised for rapid growth over the medium term, including ethical holidays, safaris, and eco-friendly holidays.

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 (September 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for the U.K. dropped 0.6 per cent in August, the 10th consecutive monthly decline. The six-month change in the leading index stood at -3.8 per cent (about a -7.4 per cent annual rate) in the six months up to August. Sagging consumer confidence was a significant contributor to the sharp decline in the index in recent months, and weakness among the leading indicators remains widespread.
- Although the value of the Canadian dollar has dipped recently, the British pound has been an average of 9 cent weaker than the loonie since the start of the year. As a result, Canada's price competitiveness is expected to continue struggling over the near term. During the fourth quarter of 2008, 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.

Traveller and Supplier Trends:

- The number of U.K. visitors to Canada declined by 7.3 per cent in August. Travel from the U.K. has been declining since April, with year-to-date arrivals down 3 per cent in August. But, overall U.K. outbound travel has been stable, and U.K. visits to North America between June and August were up 9 per cent, according to the U.K. Office for National Statistics—suggesting visits to the U.S. registered considerably more growth than visits to Canada.
- According to the latest data snapshot from BACK Aviation Solutions, direct air capacity on scheduled flights from the U.K. to Canada is expected to shrink by 16 per cent during the last two months of 2008, year-over-year. Zoom Airlines' closure left 10 per cent of the annual direct capacity between the two countries at risk.

The continuing struggles associated with Canada's price competitiveness, combined with weaker economic conditions and reduced direct air capacity, suggest that U.K. travel to Canada will likely keep posting year-over-year declines.

France — Current tourism trends

Worsening economic conditions dampen air travel demand in France: Air France-KLM reported that its passenger traffic (measured in revenue passenger kilometres) edged up 0.5 per cent in September 2008, year-over-year. The airline noted that traffic during the period was negatively affected by the Muslim religious observance of Ramadan, as well as an unfavourable comparison with September 2007, when passenger traffic was boosted by the Rugby World Cup tournament. Traffic on North and South American routes combined rose 3.2 per cent, and traffic on domestic and European routes declined 2 per cent. In early October, Air France-KLM reduced its fuel surcharge on all flights, lowering the fee on long-haul flights by 15 euros.

At the end of October, Air France-KLM told its unions it was cancelling flights and scaling back its capacity in response to the downturn in the global economy, according to a Reuters news item. The airline added that it expected zero capacity growth in 2009 and 2010. The airline's bookings for business-class fares on North American and Asian routes in early October were down 10 per cent, year-over-year, according to Reuters.

Passenger numbers at airports serving Paris fell 3.6 per cent to 7.4 million in September 2008, according to the latest statement by the airports' administrative authority, Aéroports de Paris. Domestic passenger numbers continued to fall, slipping 5.9 per cent from a year earlier. Passengers on European routes decreased 2.8 per cent. The airport authority said the deterioration of global economic conditions continued to dampen air passenger traffic. Meanwhile, passengers on routes serving North and South America climbed 1.6 per cent during the month.

French travellers like to mix business with pleasure: Many French business travellers are interested in adding a leisure component to business trips, according to a survey of global business travellers by Egencia, a subsidiary of Expedia.com, and Strategy One, a market research firm. The study showed that 44 per cent of the French corporate travellers polled are "experience-hungry" and try to schedule as much free time as possible while travelling for business so they can explore destinations. More French travellers fell into this category than travellers from any other country surveyed for this study, which included Germany, the U.K., the United States, and Canada.

French consumer confidence remains stable, for now: French consumer confidence has not yet bowed under the pressure of worsening economic conditions in France, according to the latest consumer confidence reading from INSEE, France's National Institute for Statistics and Economic Studies. Consumer sentiment registered a slight uptick in September 2008, to -44 from -47 in the previous survey taken in July. The reading represents the difference between positive and negative responses, which are then seasonally adjusted. Households were more optimistic about living standards than they were in the previous survey, and more confident about their current and future finances.

Analysts attributed the improvement to the recent decline in oil prices, which has eased inflation in France. However, the slight improvement in consumer mood will likely be short-lived: the survey was conducted before the steep drop in global financial markets at the end of September, which is expected to lead to a substantial decline in October's survey results.

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 (September 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for France declined slightly (by 0.3%) in August, the 10th consecutive monthly drop. Since February, the leading index has declined at a 5.1 per cent annual rate, and the weaknesses among the leading indicators are still widespread. Real economic growth fell at a 1.3 per cent annual rate in the second quarter, the first decline in five years. The recent behaviour of the leading economic index suggests continued weakness over the near term.
- The Canadian dollar depreciated 11.5 per cent against the euro between October 2007 and October 2008. Since the start of the year, the Canadian dollar has been 5 per cent lower, on average, than in 2007. As a result of the strong euro, the average cost of a seven-night stay in Canada, including airfare, hotels, meals, and other items, is expected to decrease 0.6 per cent for French travellers during the fourth quarter of 2008.

Traveller and Supplier Trends:

- French visits to Canada continue to trend upward. In August, visits from France jumped 30.7 per cent year-over-year, and year-to-date growth was 14.5 per cent. Meanwhile, the U.S. Office of Travel and Tourism Industries (OTTI) reported that French travel to the U.S. increased 26.6 per cent during the first seven months of 2008.
- Looking ahead, direct air capacity between France and Canada is set to decline. The planned direct air capacity from France to Canada over the last two months of 2008 is expected to decline by just under 11 per cent. When Zoom Airlines shut down, 7 per cent of the annual direct capacity between the two countries was put at risk.

Despite persistent economic challenges and air capacity issues, the strength of France's outbound market still suggests travel to Canada can increase over the near term.

Germany — Current tourism trends

Global economic slowdown affecting air travel demand: Passenger traffic (measured in RPKs) among Lufthansa passenger airlines grew 4.2 per cent in September 2008 compared with a year earlier. Traffic on the company's European network edged up 0.8 per cent, while traffic on routes to North and South America jumped 8.5 per cent. But Lufthansa also reported that the worsening outlook for the global economy had prompted it to scale back its capacity expansion plans for the winter 2008–09 season. It will now limit capacity growth to 2.4 per cent.

In September 2008, passenger numbers at Frankfurt Airport decreased 3.9 per cent, year-over-year, to 4.8 million. The airport authority said high fuel costs and a slowdown in the global economy had hurt passenger demand that month.

TUI offers positive outlook for winter, but is uncertain about 2009: TUI AG, the largest travel company in Germany, is optimistic about its growth prospects for the upcoming winter travel season; however, its outlook for 2009 is much less certain, according to a report by *fww*, a German travel journal. TUI's sales for winter trips started off on a strong note, with a larger proportion of early bookings than last year. Still, higher product prices and fuel surcharges have hurt demand for some long-haul destinations, limiting the company's profit margins this year.

Looking ahead to next year, the company expects flight and hotel costs to increase, pushing up holiday package prices. Consequently, TUI plans to be "cautious and conservative" in capacity planning for 2009.

German cruise market poised for robust growth: Although the cruise market is still relatively small in Germany, it is expected to grow rapidly over the next five years, outpacing the average growth rate for Europe's overall cruise market, according to a forecast by Royal Caribbean International presented at a recent German travel conference. The German cruise market is expected to grow 11 per cent per year between 2008 and 2012, a rate that is slightly higher than the 10.3 per cent annual rate of growth anticipated for Europe overall.

According to *fww*, AIDA Cruises, the leading cruise company in Germany, plans to expand its passenger capacity aggressively over the next five years, aiming for an annual growth rate of 30 per cent. TUI AG, the largest travel company in Germany, plans to enter the cruise market in 2009, with a target of 45,000 passengers in its first year.

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 (September 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Germany dipped 0.2 per cent in August, the 10th consecutive monthly decline. Weakening consumer confidence was the most significant contributor to the latest decline in the index. Since February, the leading index has declined at an 8.5 per cent annual rate, and the weaknesses among the leading indicators remains widespread. The recent behaviour of the index suggests that risks for further economic weakness remain elevated.
- Canada's price competitiveness for the German market is projected to slip slightly during the fourth quarter compared with other destinations. Still, the strength of the euro is helping to offset the higher price of travelling to Canada. As a result, 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.

Traveller and Supplier Trends:

- Visits from Germany to Canada continue to fluctuate. Although visits declined by 2.9 per cent in the first quarter of 2008, year-over-year, they increased 5.9 per cent in the second quarter and were up 1.7 per cent during July and August. Meanwhile, the OTTI reported that German visits to the U.S. increased 19.7 per cent in the first seven months of 2008.
- In the last two months of 2008, direct air capacity between Germany and Canada is scheduled to expand by a solid 19.4 per cent.

Considering the extent and duration of economic challenges facing German travellers, it is somewhat reassuring to see positive travel and supplier trends. Looking forward, the growth potential of the German market will likely be more modest, as economic conditions continue to weaken.

Mexico — Current tourism trends

Mexican airport authority downgrades forecast: High fuel prices and worsening economic conditions prompted Mexican airport authority Grupo Aeroportuario del Pacífico (GAP) to downgrade its full-year forecast again in October, after an initial downward revision in July. The company now expects passenger traffic among its 12 airports to decline between 3.5 and 5.5 per cent in 2008. GAP originally projected growth of between 5 and 7 per cent this year, but revised its forecast to zero growth in July 2008.

Latin American passenger traffic continues to expand rapidly: Latin American airlines saw their combined passenger traffic (measured by RPKs) increase 14.3 per cent in August 2008, year-over-year, according to the Latin American air transport association (ALTA). Year-to-date traffic among members was 12.1 per cent ahead of the previous year. Between January and August 2008, traffic to Europe and the Asia-Pacific region registered strong growth, helping to drive a 12.5 per cent rise in international traffic. RPKs on routes within Latin American grew 11.9 per cent compared with the previous year.

Table 4. ALTA Airlines*

Revenue Passenger Kilometres (RPKs) and Passengers Carried — January to August 2008

Regional Destination	RPK change YTD 2008 vs. 2007	Passengers Carried YTD 2008 vs. 2007
Intra-Latin America (scheduled and charter)	11.9%	7.7%
Extra-Latin America (international)—total	12.5%	9.9%
North America	4.0%	5.5%
Europe	27.1%	30.8%
Asia-Pacific	13.1%	10.9%

Source: Latin American air transport association (ALTA).

*ALTA members include 37 airlines serving the Latin American region.

Mexican consumer confidence hovering at record low: Mexico's consumer confidence index continues to hover around the all-time low recorded in July 2008, according to INEGI, Mexico's national statistics agency. After a small recovery in August, the index slipped to 88.6 in September 2008, just barely above the record low of 88.4 registered in July, which was the lowest the index had fallen since its launch in 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—remain low. According to Reuters, high inflation sparked by spiralling food costs and the slowdown in the U.S. economy have weakened consumer sentiment in Mexico.

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 (September 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board of Canada's leading economic index for Mexico decreased by a dramatic 0.9 per cent in August, largely the result of falling oil and stock prices. As a result, the six-month growth trend of the leading index has slowed to a 4.1 per cent annual rate, while the strengths and weaknesses

of the leading indicators remain balanced. The recent behaviour of the index suggests that slow economic growth is likely to continue over the near term.

- Compared with the Mexican peso, the value of the Canadian dollar was slightly weaker (3.6%) in October 2008 than in October 2007. But, significant increases in fares are expected to help boost the cost of a seven-night stay in Canada by 8.6 per cent during the fourth quarter, year-over-year. Fortunately, Canada's price competitiveness should improve slightly since 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. While year-to-date arrivals from Mexico were up 11.2 per cent over the first eight months of 2008, the growth witnessed in August was a more modest 4.4 per cent. Meanwhile, Mexican travel to the United States has weakened considerably from the strong growth also witnessed at the beginning of the year. According to the OTTI, Mexican arrivals to the U.S. interior (beyond the 40 kilometre U.S. border zone) during the first seven months of 2008 were 3.3 per cent lower than they were during the same time in 2007.
- Direct air capacity between Canada and Mexico continues to expand rapidly and should keep fostering growth in travel between the two countries. Direct air capacity between Mexico and Canada is expected to grow by over 29 per cent in the last two months of 2008.

While economic challenges appear to be intensifying, positive travel and supplier trends suggest there is still potential for growth in Mexican travel to Canada over the near term.

Japan — Current tourism trends

Japanese outbound travel continues to slide: Japan Airlines reported a 13.4 per cent drop in international passenger traffic (measured in RPKs) in August 2008 from the previous year. Traffic on transpacific routes and European routes each declined by 12.4 per cent. Traffic on domestic routes edged up 0.7 per cent.

The number of passengers travelling through Narita International Airport in Tokyo in August 2008 was down 7 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 10 per cent, and the number of domestic passengers also fell 10 per cent. Between January and August, Japanese passengers on international flights were down by 7 per cent compared with the same period in 2007.

Japanese airlines to reduce fuel surcharges in first quarter of 2009: Falling oil prices and the strengthening value of the yen has brought down the price of jet fuel for Japanese airlines, allowing them to reduce fuel surcharges in the first quarter of 2009, according to *The Japan Times*. The carriers have to wait until the first quarter because the surcharges are set in three-month intervals and have to be approved in advance by the Japanese government. Japanese Airlines and All Nippon Airways have both confirmed they will reduce their fuel surcharges in January.

The Japan Times noted that lower fuel surcharges will benefit Japanese travel agencies, because flights typically account for 60 to 70 per cent of holiday package prices. H.I.S. Co., a major Japanese travel agency, has said that the combination of lower air travel prices and the strengthening value of the yen may allow the agency to offer better deals on outbound travel packages. JTB Corp. also said it may consider lowering its package prices, if the value of the yen remains strong.

The Japanese travel industry hopes that lower fuel surcharges will help revive the Japanese outbound travel market. Data from the Japan National Tourist Organization showed that overseas travel from Japan declined 9.7 per cent in September 2008, compared with a year earlier.

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 (September 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Japan declined 0.6 per cent in August. From February to August, the leading index fell 2.5 per cent, the largest decline since late 2001. In addition, the weaknesses among the leading indicators continue to be widespread. The recent behaviour of the index suggests the risks for further economic weakness remain elevated in the near term.
- Since the beginning of this year, the Canadian dollar has depreciated dramatically against the Japanese yen, a trend that is boosting Canada's price competitiveness for this market. Between October 2007 and October 2008, the Canadian dollar depreciated 28.4 per cent against the yen. This has contributed to a 3 per cent year-over-year reduction in the average cost of a 10-night stay in Canada (including airfare, hotels, meals, and other items) for Japanese travellers in the fourth quarter.

Traveller and Supplier Trends:

- Unfortunately, visits from Japan to Canada continue to be weak. From January to August, visits from Japan were down by 15.3 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 3.9 per cent in the first seven months of 2008.
- The most recent snapshot of air capacity suggests direct air capacity on scheduled flights from Japan will decline 28 per cent over the last two months of 2008. Unlike last year, airlines are not offering any direct flights to Toronto, Ontario during this period.

The economy seemed poised to turn the corner earlier this year, but economic conditions appear to be deteriorating once again. The Tourism Leading Indicator Index suggests that Japanese arrivals to Canada will continue to decline over the near term.

South Korea — Current tourism trends

Deteriorating economic conditions prompt Korean Air to reduce capacity: The sagging global economy and the weakening won have prompted Korean Air to reduce its international capacity for the winter, even though this is typically a high-demand period for the airline. Reuters reported that the airline has scaled back capacity on more than a dozen international routes, including services to Las Vegas and Europe. The airline said the fluctuating value of the Korean won has been a greater challenge for its operations than high oil prices. In October, the Korean won was about 35 per cent lower in value against the U.S. dollar compared with a year earlier.

Falling value of the Korean won compounds ill effects of economic downturn: South Korean outbound travel declined 20 per cent in September 2008, year-over-year, according to the Korea National Tourism Organization. This was the third consecutive month of double-digit decreases, according to the agency. Outbound travel demand has been hampered by the weakening Korean won and deteriorating economic conditions.

Chuseok, a major Korean holiday, was in September this year, but travel over the three-day holiday was down considerably from last year. Moreover, the holiday fell on a weekend this year, which left Koreans with fewer days off than last year. Hana Tour, a major Korean travel agency, said its foreign tour package bookings for this year's holiday were down about 50 per cent from last year, according to a news item by Agence France-Presse. Hana Tour's overall bookings for the month of September were about 27 per cent lower.

To make matters worse, some Korean travel agencies have begun adding a "currency surcharge" to the price of overseas packages to help offset the effects of currency fluctuations, according to various media reports. This is expected to further hinder outbound travel demand over the near term.

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 (September 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for South Korea dropped 2.3 per cent in August, continuing a downward trend that started in the last quarter of 2007. With the August results, the six-month leading index had declined 4 per cent since February. As well, the weaknesses among the leading indicators continued to be widespread. Although real gross domestic product (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 remain slow over the near term.
- The Canadian dollar appreciated 19.8 per cent against the Korean won between October 2007 and October 2008. Since January, the dollar has appreciated nearly 18 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, year-over-year.

Traveller and Supplier Trends:

- Korean visits to Canada declined 6.6 per cent in August. Year-to-date arrivals were down 2 per cent from the previous year. At the same time, travel from South Korea to the U.S. declined 0.5 per cent during the first seven months of 2008, according to the OTTI.
- Direct air capacity from South Korea to Canada is expected to decline by 7 per cent during the last two months of 2008.

Growing economic and price competitiveness challenges have already weakened South Korean traveller trends. The Tourism Leading Indicator Index suggests visits from South Korea will likely continue declining over the near term.

China — Current tourism trends

Weaker air travel demand hurts Chinese airline profits: Slower growth in China's domestic economy and the faltering global economy have dented Chinese air travel demand, according to a recent Reuters report. Consequently, the Chinese airline industry is expected to post a net loss for 2008. Air demand did not pick up in September and October as much as expected after the August Olympic Games ended, according to an official from China Eastern Airlines. Analysts expect Chinese air travel demand will keep weakening through the rest of 2008, and some believe it will not recover until the second half of 2009.

Air Transport World reported that China's three major carriers—China Southern Airlines, Air China, and China Eastern Airlines—are working with the country's civil aviation authority to obtain financial assistance from the Chinese government. All three carriers posted a substantial third quarter loss in profits this year.

Growth in passenger numbers at Beijing Capital International Airport resumed in September 2008, following a declining trend that lasted four months. Passenger numbers at the airport jumped 11.2 per cent over the previous year, driven by a 15.1 per cent rise in passengers flying on domestic flights. International passenger numbers for the month were down slightly (–0.4%) from the previous year. Between January and September 2008, passenger numbers were behind by 1.2 per cent. International passenger numbers were ahead by 4.8 per cent, and domestic passenger numbers were down 3 per cent, year-over-year.

Chinese tourism demand expected to weather global economic downturn: Although the downturn in the global economy is expected to affect Chinese travel demand, analysts still view prospects for Chinese domestic and outbound tourism as relatively rosy, according to *Travel Daily News*. The Chinese National Tourism Administration reported that Chinese outbound travel increased 9 per cent in September 2008 and 14.8 per cent in the first nine months of 2008, year-over-year. The strengthening value of the Chinese renminbi against other world currencies, together with the likely increase in travel deals over the next several months, is expected to bolster outbound travel demand over the near term.

The outlook for Chinese domestic tourism is even better. During the National Holiday week in October 2008, the China National Tourism Administration (CNTA) estimated that domestic travel volumes were up 22.1 per cent over the previous year. Industry analysts believe that the plethora of relatively low-cost tourism products and the tremendous market potential of China's large population will keep domestic tourism humming.

Luxury items increasingly popular among Chinese travellers: Many Chinese travellers purchase luxury goods when travelling abroad, according to the latest Nielsen China Outbound Travel Monitor, produced in association with the Pacific Asia Travel Association. The report indicates that Chinese consumers are increasingly informed and sophisticated, seeking out luxury brands for the quality and social status they offer. More than half (56%) of Chinese travellers purchase luxury-branded goods when travelling to North America, and Chinese travellers spend an average of US\$900 on luxury items per overseas trip. The main types of luxury items sought are fragrance and cosmetics, followed by fashion and accessories. Souvenirs and confectionery items are also popular.

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 (September 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The slowdown in global demand continues to downgrade growth expectations for the Chinese economy this year. The latest Consensus Forecasts report (September 2008) projects real GDP growth will reach 9.9 per cent this year and 9.1 per cent in 2009. Even though the economy expanded at an annual rate of 10.1 per cent during the second quarter, it was the fourth straight quarter that economic growth has slowed. Although inflation has also slowed from its peak reported in February, it was still increasing at a 7.1 per cent annual rate in June.
- The Canadian dollar depreciated 24.7 per cent against the Chinese renminbi between October 2007 and October 2008. Despite the rapid depreciation, the average cost of a 10-night stay in Canada— including airfare, hotels, meals, and other items—for Chinese travellers is expected to increase 5.1 per cent during the fourth quarter of 2008 compared with last year.

Traveller and Supplier Trends:

- While Chinese arrivals grew 8.9 per cent between January and August 2008, arrivals in August dipped 0.4 per cent from last year. The Olympics likely kept many Chinese travellers closer to home during the summer and early fall. Between January and July 2008, travel from China (including Hong Kong) to the U.S. grew 22.1 per cent, according to the OTTI.
- Direct air capacity to Canada is expected to decline by nearly 12 per cent in the last two months of 2008.

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

Australia — Current tourism trends

Qantas reports declining demand in all classes: Qantas reported in late October that passenger demand had fallen in all travel classes, according to a Reuters news item. The airline noted, however, that it was holding up under the stress of deteriorating economic conditions better than most global airlines.

Passenger numbers among Qantas group airlines decreased 0.8 per cent in August 2008, according to the company's latest performance statistics. The traffic report said bookings fell off during the four weeks leading up to the report release, particularly in international markets, because of waning consumer confidence and volatile currency exchange rates. The decline in bookings has negated the positive effects of lower oil prices on the airline's finances.

Still, the airline reduced its international fuel surcharge in early October in response to the falling price of oil. The surcharge on flights to Canada and the United States was dropped to A\$150 each way, down from A\$165.

Financial concerns affecting a minority of Australian travellers: A recent survey on Australian consumer confidence revealed that concerns about the economy have prompted about one-third of Australian travellers to change their short-term travel plans, according to Travelmole.com. The poll, conducted by realholidays.com.au, suggests that 12 per cent of Australian travellers have recently cancelled their travel plans for the Australian summer season. Still, 67 per cent of Australians said they were not deterred from carrying out their holiday plans. Respondents ranked travel as the highest spending priority after essential expenses such as housing and groceries.

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 (September 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Australia increased 0.4 per cent in August, the sixth consecutive monthly increase. Between February and August, the leading index increased 3.5 per cent. Still, the strengths among the leading indicators have been only slightly more widespread than the weaknesses over the past six months. The recent behaviour of the leading index suggests that economic growth is likely to be slow over the near term.
- The Canadian dollar appreciated 8.2 per cent against the Australian dollar between October 2007 and October 2008. Unfortunately, this hurt 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 August, visits to Canada increased by 19.5 per cent over the previous year; between January and August, arrivals were up 10.1 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 a more modest 5.4 per cent during the first seven months of 2008.
- Direct air capacity between Canada and Australia over the last two months of 2008 is expected to increase 26.1 per cent over the previous year, thanks to the abundance of extra capacity to Ontario.

Despite persistent 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 indexes 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 indexes 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 indexes of the Tourism Leading Indicator are as follows:

Ratings Used for the Component Indexes 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.