



Tourism Intelligence Bulletin

Tourism Industry Braces for Further Declines

Issue 50: March 2009

*The Tourism Intelligence Bulletin monitors the tourism industry around the world.
This issue features tourism intelligence gathered in January and February 2009.*

Bulletin Highlights

Tourism Overview: North America

- **Canadian leisure travel demand continues to deteriorate:** Growing economic turbulence and weak consumer confidence is curbing Canadian leisure travel demand. The Tourism Leading Indicator Index suggests growth prospects for the domestic market will continue to weaken through the winter and into early spring, resulting in a decline in Canadian travel volumes over the near term. (See “Domestic Travel,” page 10.)
- Canadian vacation intentions are softening, according to the Conference Board’s latest Travel Intentions Survey. Only 59 per cent of Canadians polled in February 2009 intended to take a summer holiday, down from 62 per cent a year earlier. Trip intentions were down for domestic and U.S. holidays, although they were up slightly for other outbound destinations. (See “Growing economic turbulence stifling Canadian travel intentions,” page 4.)
- **U.S. vacation intentions still hovering near record low:** U.S. travel intentions are still very weak, according to the latest Consumer Confidence Survey report by the U.S. Conference Board, Inc., hovering near the record low hit last year. American consumer confidence plunged further in February, suggesting that Americans view economic conditions as increasingly dire. (See page 4.)
- **Americans expected to cut travel spending significantly this year:** A number of recent studies suggested the dismal state of the U.S. economy will lead to a severe cutback in U.S. leisure travel spending this year. A majority of Americans polled plan to reduce their spending on travel or forgo a vacation this year altogether. One forecast suggests U.S. leisure travel expenditures will decrease nearly 10 per cent in the second quarter of 2009, year-over-year. (See page 5.)
- **Canadian business travel poised to keep growing, but at a slower pace:** Although worsening economic conditions are dampening business travel demand, corporate travel is still expected to grow in

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Canada this year. However, to reduce costs, travellers are expected to reduce trip lengths, downgrade hotels choices, and seek hotel rates that include extras like Internet access and parking. (See page 6.)

- **Canadian air travel demand quickly deteriorating:** Canadian air travel has slowed substantially in recent months. Although WestJet posted an increase in passenger traffic in February, the pace of growth has slowed considerably. Meanwhile, Air Canada reported a sharp year-over-year decline in domestic passenger traffic that month. (See page 7.)
- **Canadian lodging demand declining at an increasing rate:** Falling business and leisure travel demand is cutting into the performance of the Canadian lodging industry. Daily room rates continue to edge up, but occupancy levels and room revenues are decreasing. (See page 8.)

Tourism Overview: International

- **U.K. travel demand showing signs of improvement:** Thomas Cook and TUI, the U.K.'s two largest travel companies, continue to report year-over-year declines in U.K. bookings, although selling prices are up. Both have substantially reduced their capacity in response to softer demand. Trends that have emerged in the U.K. market include a strong interest in medium-haul destinations outside the eurozone and a shift toward later booking patterns. Both companies have also reported a slight pickup in overall travel demand since the start of 2009. (See page 13.)
- **TUI expects French travel demand to stay weak through summer:** TUI recently reported that its winter bookings in France were down significantly from last year. The travel company expects the weaker demand environment to persist through the summer, although it has observed strong demand for medium-haul holiday destinations. (See page 15.)
- **German travel agencies report slump in sales:** Travel agency sales plunged by 13.5 per cent in January 2009, year-over-year, and advance bookings for travel up to the end of summer were behind by 4 per cent. Not surprisingly, many German travel agents were pessimistic about the short-term outlook, expecting demand to continue declining over the next six months. However, others view the current downturn as temporary, expecting bookings to start picking up once consumer uncertainty over the potential impact of the economic crisis begins to diminish. Nevertheless, German travellers are expected to be more price conscious and cut back on the number of holidays they take this year. (See page 18.)
- **Waning travel confidence keeping Japanese travellers closer to home:** The latest forecast by JTB Corp., Japan's largest travel agency, suggested Japanese overseas trips will decline by 4.4 per cent this year as worsening economic conditions continue to depress outbound travel demand. JTB expects climbing financial insecurity and the perceived indulgence of travel spending to erode Japanese travel demand this year, and keep those who do travel closer to home. However, the travel outlook could improve somewhat if airlines reduce their fuel surcharges, thereby reducing the cost of long-haul trips. (See page 21.)
- **Korean outbound travel still weakening:** The declining value of the Korean won and the economic slowdown continue to curb Korean outbound travel. Korean trips abroad declined in 2008 for the first time since 2003. Hana Tour, Korea's largest travel agency, posted an 11.3 per cent decrease in outbound bookings in 2008, citing high fuel surcharges, less favourable exchange rates, and waning consumer confidence as the main reasons for the decline. The agency expects the slump in overseas bookings to persist through the first half of 2009. (See page 22.)
- **Performance of Chinese airline industry improved in January:** The Chinese airline industry showed signs of a recovery in January, fuelled by a strong increase in domestic travel. Passengers on domestic

routes jumped 21.3 per cent over the previous year, although passengers on international routes continued to decline. Chinese airlines were able to post a collective net profit that month. (See page 23.)

■ **Australian outbound travel forecast to decline this year:** The latest forecast by Tourism Australia suggests Australian outbound travel volumes will decline 2.9 per cent this year, because of weak economic conditions and the lower value of the Australian dollar. The forecast noted that prospects for outbound travel have deteriorated significantly since the previous forecast in August 2008. Outbound trips slowed considerably last year, and decreased by an estimated 1.7 per cent in the fourth quarter of 2008. Long-haul destinations such as Europe are expected to see the largest decrease in Australian visitors this year because of the higher cost of travelling to these regions, while nearby holiday destinations will see a smaller decline. (See page 25.)

Tourism Leading Indicator Index – Summary Table

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

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

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

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

Growing economic turbulence stifling Canadian travel intentions: Growing economic turbulence in Canada is stifling leisure vacation intentions, according to the latest Travel Intentions Survey by The Conference Board of Canada. Results from the February 2009 survey revealed that 59.2 per cent of Canadians polled intend to take a summer holiday, down from 62.4 per cent in March 2008. Trip intentions were down for holidays to domestic and U.S. destinations; however, there was a small increase in the number of Canadians planning a summer trip to other international destinations.

Even though the value of the Canadian dollar has declined since last year, Canadians continue to travel outside the country, although growth in international travel has slowed. Weaker economic conditions around the globe have led to an abundance of discounts among travel suppliers to help stimulate demand.

Table 1: Summer (May–October) Vacation Intentions
(Per cent of Canadians surveyed)

	Mar. 2007	Mar. 2008	Feb. 2009
Summer Vacation Intentions (All Destinations)	65.0	62.4	59.2
Canada	43.1	42.8	39.2
United States	10.2	8.6	8.1
Other International	9.0	9.7	10.6
Do not know / refused	2.7	1.3	1.3

Source: The Conference Board of Canada.

For the last four months, Canadian consumer confidence has languished at its lowest level since the economic recession of 1981–82, according to the Conference Board's Index of Consumer Confidence. After a small gain in January, the index fell 1.4 points in February 2009 to 68.8 (2002 = 100), as consumer perceptions about household finances and the future job market continued to worsen. There was a small improvement in sentiment about buying big-ticket items, but the majority of Canadians still believe it is a bad time to make a major purchase.

Lower airfares could influence travel plans: A reduction in airfares could have a significant effect on leisure travel plans, according to a recent survey by Travelocity.ca. The vast majority of North American travellers polled (84%) said declining airfares would have the largest influence on their travel decisions in 2009. The online agency also noted that hotel rates are down at many destinations popular among Canadian travellers, including Las Vegas, where average rates are 28 per cent lower than a year ago.

U.S. vacation intentions still hovering near record low: U.S. travel intentions remain historically low, according to the latest Consumer Confidence Survey report by The Conference Board, Inc. in the United States. Preliminary results showed that in February 2009, 36.6 per cent of Americans polled planned to take a vacation within the next six months, down from 37.5 per cent in December 2008. This is still close to the historical low hit in June 2008 (36.2%). Results are adjusted to account for seasonal fluctuations in travel demand.

Overall U.S. consumer confidence continues to plunge, dropping to yet another all-time low in February. The Consumer Confidence Index fell to 25.0 (1985 = 100) in February, down from 37.4 a month earlier. The Present Situation Index decreased 8.5 points to 21.2, and the Expectations Index plummeted 15 points to 27.5. The index results suggest that American consumers believe economic conditions have grown increasingly dire and, moreover, do not expect conditions to improve any time soon.

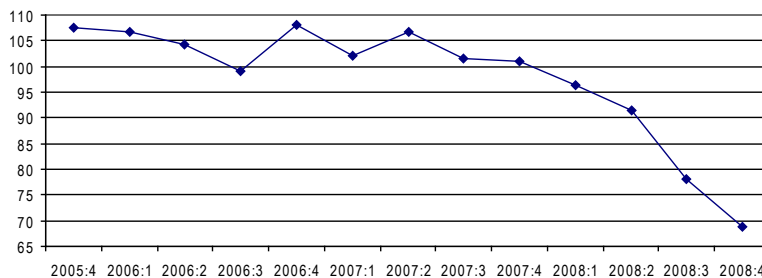
Americans expected to cut travel spending significantly this year: The dismal state of the U.S. economy is prompting a severe cutback in U.S. leisure travel spending this year, according to research reported by USA Today:

- A recent USA Today/Gallup Poll survey showed that 58 per cent of U.S. travellers intend to either cut back on their travel spending this year or forgo travel altogether.
- A recent forecast by D.K. Shifflet & Associates and IHS Global Insight suggests that U.S. leisure travel expenditures will decrease nearly 10 per cent in the second quarter of 2009 and 9 per cent in the third quarter of 2009 compared with a year earlier.

Business Travellers

Business confidence continues to weaken: Canadian business confidence declined again in the final quarter of 2008, according to the latest Business Confidence Index by The Conference Board of Canada. The index fell 9.1 points to 68.9 (2002 = 100), approaching the lows seen in the third quarter of 2001 and the recession of 1990–91. Survey results showed that business leaders were more pessimistic than they were in the previous quarter about short-run finances, profitability, and the timeliness of capital expenditures.

Chart 1: Index of Business Confidence—Quarterly
(2002 = 100)



Source: The Conference Board of Canada.

Canadian business travel poised to keep growing, but at a slower pace: Although worsening economic conditions are expected to dampen business travel demand, corporate travel is still expected to grow in Canada this year, according to a panel discussion at the Best Western Business Travel Summit in January 2009. A recent members' survey by the National Business Travel Association revealed that 70 per cent of members polled expected business travel to expand in 2009, albeit at a slower pace than in 2008. Still, other panellists suggested that business travellers will attempt to cut costs by reducing the length of business trips, downgrading their choice of hotels, and looking for "all-inclusive" hotel rates that include extras such as Internet access, breakfasts, and parking. Business travellers are also more interested in participating in airline, hotel, and car rental loyalty programs, so they can redeem the rewards when taking personal leisure trips.

In fact, a recent survey by the Hotel Association of Canada and Fleishman-Hillard Canada revealed that business travellers are significantly more interested in these types of programs than they were a year ago. About half of those polled said these programs were important to them when booking travel, up 13 per cent from the 2008 survey.

More corporate travellers aim to spend less: A members' survey by the Association of Corporate Travel Executives (ACTE) showed that 71 per cent of respondents expect to spend less on travel this year than they did in 2008. Conversely, only 8 per cent expect to spend more than last year. Another 21 per cent expect their expenditures to stay about the same. This is a significant change from the organization's previous survey in September 2008, when 33 per cent of members polled expected to spend less on travel in 2009. Also, 61 per cent of respondents reported having approached travel suppliers—hotels, in particular—to renegotiate contracts.

ACTE anticipates internal meetings to be hardest hit by the travel cutbacks, as companies reduce the number of non-revenue-producing meetings to curtail spending without sacrificing business interests. Members are also increasing their use of travel alternatives, such as web-conferencing, to reduce travel.

Moreover, media reports suggest that many companies are reluctant to spend money on business travel because they fear sparking a backlash against the perception of overly lavish corporate spending—especially in the financial sector. The media has labelled this the "AIG Effect," named for the insurance company that was widely criticized last fall for holding a luxury spa retreat after it received bailout funds from the U.S. government. In February, President Barack Obama warned companies receiving corporate bailout money that they could not go to Las Vegas "on the taxpayer's dime." According to the Financial Times, large hotel companies in the United States, including Marriott, Starwood, Hyatt, and Hilton are together lobbying the U.S. government to tone down its criticism of meetings and conferences, citing the "serious economic consequences" of a severe downturn in business travel.

Business travel demand falling off around the globe: The latest figures from the International Air Transport Association (IATA) reveal a steep drop-off in worldwide business travel. Premium class trips declined 13.3 per cent in December 2008 from the previous year, following an 11.5 per cent decline in November, because of an "extreme weakness" in business travel demand. Economy travel also decreased in December, falling 5.3 per cent compared with a year earlier. IATA expects these trends to continue over the short term.

Airlines

Waning demand hitting profitability of Canadian air industry: The rapid deterioration of economic conditions in recent months has severely affected the outlook for Canada's air transportation industry this year, according to the Conference Board's Canadian Industrial Outlook: Canada's Air Transportation Industry—Winter 2009. Although oil prices have fallen by more than half since their peak last summer, demand for domestic air travel is plummeting in tandem with consumer and business confidence levels. As a result, industry profits are expected to fall nearly 86 per cent this year to \$106 million, their lowest level since 2004.

Air Canada posted a net loss of \$727 million for the fourth quarter of 2008, bringing its losses for the full year to \$1.03 billion. This was a significant reversal from the \$35 million profit reported for the fourth quarter of 2007 and the \$429 million profit recorded for the full year of 2007. The airline blamed its losses on volatile fuel prices, significant fluctuations in foreign exchange, and a worsening global economy. In fact, losses from the declining value of the Canadian dollar accounted for a \$527 million deficit in the fourth quarter alone. Passenger revenues slipped 1 per cent in the fourth quarter, and passenger traffic decreased 5.3 per cent from the previous year. However, passenger yields (revenues per revenue passenger mile) rose 6.2 per cent, in part because of higher fares and fuel surcharges.

Looking ahead, Air Canada expects to keep facing “significant challenges throughout 2009,” as the economic recession continues to depress air travel demand. The airline expects the Canadian market to perform well relative to other markets, but has observed weakening demand in transatlantic markets, especially the United Kingdom. Air Canada plans to reduce its capacity between 9.5 and 10.5 per cent in the first quarter of 2009 compared with a year earlier, noting that bookings for the quarter are tracking in line with planned capacity levels. Air Canada expects its system-wide capacity to fall between 2.5 and 3.5 per cent in 2009, with a 3 to 4 per cent decrease in domestic capacity.

WestJet posted net earnings of \$40.8 million for the fourth quarter of 2008 and a net profit of \$178.1 million for the full year. Compared with the previous year, earnings dropped 45.9 per cent and 7.6 per cent, respectively. Although the airline cited economic uncertainty, volatile fuel prices, and financial turmoil as challenges, it noted that its financial performance was among the best in the global air industry. The company's overall revenues jumped 11.6 per cent in the fourth quarter, and passenger traffic grew 12.2 per cent over the previous year. However, passenger yields slipped 0.5 per cent, something the carrier attributed to the deterioration of economic conditions in the second half of 2008.

Looking ahead, WestJet plans to keep adding capacity to its network, increasing it between 6 and 7 per cent in the first quarter of 2009, and 5 per cent over the full year. The carrier also expects further reductions in passenger yields during the first quarter, based on “current booking and revenue trends” and the timing of the Easter holiday, which falls in the second quarter this year.

Canadian air travel demand quickly deteriorating: Canadian air travel demand has slowed substantially in recent months. Although WestJet registered an increase in passenger traffic in February, the pace of growth has slowed considerably. Air Canada reported a sharp year-over-year decline in domestic passenger traffic that month. In the first two months of the year, Air Canada's domestic traffic fell 7.9 per cent from the previous year. Air Canada and WestJet together account for more than 90 per cent of the domestic air market.

Air Canada's system-wide passenger traffic (measured in revenue passenger miles), including mainline and regional operations combined, fell 10.5 per cent in February from the previous year. Total capacity was down by 11 per cent, but the airline flew its planes an average of 79.6 per cent full, a 0.4 percentage point improvement from a year earlier. Traffic on domestic routes dropped 8.4 per cent, and traffic on transborder U.S. flights plunged 13.3 per cent. International traffic fell 10.6 per cent, overall, although traffic growth continued to increase on "Latin American and other" routes (+2.5%).

WestJet's passenger traffic increased 5.5 per cent in February 2009, and capacity expanded 5.7 per cent over the same month in 2007. WestJet noted that the pricing environment had not improved, and that it was facing "aggressive competitive pricing" in the market.

Table 2. Airline Revenue Passenger Miles (RPMs) and Capacity — February 2009

Airline	RPMs (in millions) February 2009	RPM change 2009 vs. 2008	Capacity 2009 vs. 2008
Air Canada mainline (includes Jetz & Tier 3)	3,130	-9.8%	-11.1%
Air Canada Regional (Jazz)	279	-17.7%	-9.7%
WestJet	1,116	+5.5%	+5.7%

U.S. air demand falling off dramatically: Air passenger demand—for business travel, in particular—is falling off dramatically in the United States. The latest airline statistics revealed a severe year-over-year decline in passenger traffic in February, including a 13.5 per cent drop for American Airlines, a 6 per cent decrease for Southwest Airlines, and an 11 per cent fall for Delta/Northwest. U.S. Airways, the U.S. carrier widely believed to be most at risk in the current downturn, registered a 9.3 per cent decline in traffic.

In response to the fall-off in demand, U.S. carriers have been slashing capacity and discounting their fares significantly, in hopes of stimulating business, according to media reports. Travelocity.com estimated that airfares for the 100 most popular U.S. domestic and international destinations are at a two-year low, and have fallen an average of 40 per cent from their peak last June. However, while lower airfares can help fuel leisure demand, the effect is not the same in the corporate travel segment, which is where airlines are seeing the most severe decline.

Hotels

Canadian lodging demand declining at an increasing rate: Business and leisure travel demand is declining at an increasing rate, cutting into the performance of the Canadian lodging industry. Although daily room rates continue to edge up, occupancy levels and room revenues are falling.

The latest *National Market Report* by PKF Consulting revealed that average daily rates in Canada rose 0.5 per cent in December 2008, year-over-year. Occupancy slipped 2.2 percentage points, and revenues per available room (RevPAR) decreased 4.2 per cent.

Demand for Canadian accommodations in December 2008 declined 4 per cent from the previous year, according to the latest *Canadian Lodging Outlook* by HVS International. For the full year of 2008, hotel demand slipped 0.2 per cent, year-over-year, while hotel room supply in Canada increased 1.4 per cent.

Canadian hotel operators are increasingly pessimistic in their outlook, according to Statistics Canada's latest Business Conditions Survey: Traveller Accommodation Industries. In fact, business sentiment among respondents fell to its lowest level since the survey began in 2005. Two-thirds expected room rates and occupancy levels to decline in the first quarter compared with a year earlier, and 65 per cent expected fewer corporate travellers. When asked about business impediments, 46 per cent of respondents cited economic conditions, while 40 per cent cited exchange rate fluctuations. The proportion of respondents reporting no difficulties fell to 15 per cent.

U.S. lodging demand declining at an accelerating rate: Lodging demand in the United States is declining at an accelerating pace as economic conditions continue to worsen. Hotels are reporting substantial declines in business and leisure travellers. Average U.S. occupancy plunged 10.7 per cent in January 2009 compared with a year earlier, according to Smith Travel Research, Inc. Average daily rates dropped 5.2 per cent, and nationwide RevPAR plummeted 15.3 per cent.

Travel Agents And Other Suppliers

CAA to close seven retail locations in April: The Canadian Automobile Association plans to close seven retail stores in southern Ontario at the end of April, according to the Canadian Press. Company officials cited the economic downturn and a change in the way people plan travel as the primary reasons for the closures. The CAA said its customers are moving towards a "more twenty-first century model" of booking travel over the Internet or by telephone rather than visiting a traditional bricks-and-mortar agency location.

Agency expects worldwide sales decline: Carlson Wagonlit Travel expects its worldwide agency sales to decline by "mid-single-digits" this year, according to Business Travel News. Declines in the United States are expected to hit closer to 10 per cent compared with 2008. The company noted that its business clients' growing use of technological alternatives to travel is one reason for the expected decline. Because of this, Carlson Wagonlit is considering a move into the "non-travel conferencing business."

Market share between online travel agencies and supplier sites has reached a balance: Now that the U.S. online travel market has matured, the competition for online travel bookings appears to have reached a balance between supplier websites and online travel agencies, according to the U.S. Online Travel Overview, Eighth Edition by PhoCusWright, Inc. In 2008, 61 per cent of bookings were made directly on travel supplier websites, while 39 per cent were made through online travel agencies such as Expedia. This balance is projected to hold steady over the next two years.

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)	
↓↓↓ (↓)	↔ (↔)	↓ (↓)	↓ (↔)	—

Note: the bracketed figures are from the previous (January 2009) Tourism Intelligence Bulletin.

Economic Trends:

- A retreat in virtually all major industrial sectors caused gross domestic product (GDP) in the Canadian economy to slip by 1 per cent in December 2008. In fact, only the public sector (education, health, and public administration) showed resilience in the face of a weakening U.S. economy. At the heart of the deterioration of the Canadian economy were pronounced declines in wholesale and retail trade, manufacturing, and construction. In fact, both the goods- and services-producing sectors posted significant monthly declines of 2 and 0.5 per cent, respectively.
- In January, employment fell by 129,000. The drop exceeded any monthly job losses incurred during the previous economic downturns of the 1980s and 1990s. During January, Ontario posted 71,000 job losses, the largest monthly provincial employment drop in over three decades. Manufacturing activity across Canada remains the Achilles heel of the goods-producing sector, as manufacturing GDP growth fell 3 per cent in December. The worst-performing industries were those that rely most on exports: manufacturing of motor vehicles and parts and of primary metal, chemical, and wood products all registered major losses.

- According to the Conference Board's Index of Consumer Confidence, confidence edged down slightly in February, falling 1.4 percentage points to 68.8 (2002 = 100). This dip cancelled out most of January's increase, and leaves the index value relatively unchanged for the past four months. Respondents continued to report that they expect unfavourable job conditions in their communities six months from now, and a continued deterioration in their families' financial situation. The lone bright spot for February's report was an improvement in the number of consumers who were considering making major purchases.

Traveller and Supplier Trends:

- Domestic air travel has slowed significantly since July and has posted negative year-over-year growth since September. Compared with the previous year, the number of domestic enplaned and deplaned passengers at Canada's top 30 airports declined by 4.5 and 3.8 per cent in November and December, respectively. Despite the slowing trend, the number of enplaned and deplaned domestic passengers for 2008 was still 1.6 per cent ahead of 2007.
- Canadian hotel occupancy rates continue to slip. According to PKF Consulting, average occupancy in December declined 2.2 percentage points in Canada, year-over-year. For the full year, the average occupancy rate in Canada during 2008 was 1.5 percentage points behind 2007. Still, average daily rates for the year increased 3 per cent, driven largely by stronger gains in Western Canada.
- On a slightly more positive note, gasoline prices in many Canadian communities have averaged around the \$0.80 to \$0.90 per litre range for the past few months. However, Canadian households are still vigilant about economizing wherever possible, and this will likely offset the boost lower gas prices may have on discretionary automobile travel over the near term.
- Together with an economy and a currency that are losing strength, Canadian travel to the U.S. continues to lose its lustre. The latest figures show that overnight travel to the United States in December declined 11.2 per cent over the previous year. However, overnight trips to international destinations still managed to increase 10.9 per cent in December.
- As carriers continue to adjust to the changing environment, direct air capacity for travel within Canada is now slated to decline 3.6 per cent over the second quarter of 2009 compared with the same period in 2008.

Overall, the Tourism Leading Indicator suggests growth prospects will continue to weaken through the winter and into early spring. Domestic travel volumes are likely to decline over the near term.

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 (January 2009) Tourism Intelligence Bulletin.

Economic Trends:

- Massive spending by the Federal Reserve and Treasury will eventually help turn the tide and lead to a recovery in the U.S. economy. However, it will take time for the stimulus to work. In the meantime, recent indicators have been uniformly grim. Real GDP contracted by 6.2 per cent in the final quarter of last year, the biggest decline since the first quarter of 1982. The American economy is now in the midst of one

of the deepest recessions in over three decades, as the problems in credit markets have spread widely throughout the economy.

- The Conference Board's leading economic index increased 0.4 per cent in January, but November and December values were revised down as new data became available. In the six months up to January, the leading index decreased at a 2.1 per cent annual rate. As well, the weaknesses among the leading indicators remained widespread.
- Aided by the fact that the Canadian dollar continues to slowly lose ground to the U.S. dollar, Canada's price competitiveness over the second quarter of 2009 is expected to receive a boost from lower average airfares to Canada.

Traveller and Supplier Trends:

- U.S. travel to Canada continues to decline. For 2008, overnight automobile travel to Canada dropped 7.5 per cent while overnight non-automobile travel dipped 6 per cent from a year earlier. Despite Canada's improving price competitiveness, travel to Canada is now being held back by the significant economic challenges facing many U.S. travellers.
- Direct air capacity between Canada and the United States is expected to decline by a slight 2 per cent over the second quarter of 2009.

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

U.K. air passenger traffic continues to decline: British Airways' passenger traffic (measured in revenue passenger kilometres—RPKs) decreased 8.3 per cent in February 2009 from the previous year. Premium traffic volumes (business and first-class) plunged 20.2 per cent, while non-premium traffic (economy) declined 5.5 per cent. Domestic and short-haul traffic within Europe decreased 9.4 per cent, and traffic to the Americas fell 7.2 per cent. Part of the decrease was due to having one fewer day during the month this year, as 2008 was a leap year. There were also numerous cancellations in early February because of bad weather. The airline stated that market conditions "remain challenging."

British Airways Chief Executive Willie Walsh recently said he expects market conditions to keep getting worse before they get better, in particular in the U.K., where the economy relies heavily on the financial services sector, according to *Travel and Hospitality Industry Digest*. Walsh does not anticipate the travel environment will improve for at least another 24 months.

The British Airport Authority's seven U.K. airports handled 9.4 million passengers in January 2009, a 6.3 per cent decline from the previous year. All markets experienced a decline in air passengers during the month, but the most dramatic declines were on U.K. domestic flights (–12%) and European charter flights (–9.3%). Traffic on North Atlantic routes fell 5.9 per cent.

Table 3. Percentage Change in Passengers Carried

Carrier	Feb. 2009 vs. Feb. 2008
British Airways	-10.1%
Ryanair	+7%
easyJet	+6.8%

U.K. travel demand showing signs of improvement: Thomas Cook and TUI, the U.K.'s two largest travel companies, continue to report year-over-year declines in U.K. bookings, although selling prices remain well ahead of last winter. Both have substantially reduced their capacity in response to softer demand. Trends that have emerged in the U.K. market include a strong interest in medium-haul destinations outside the eurozone, including Egypt and Mexico, and a shift toward later booking patterns. Both companies also reported an improvement in overall travel demand since the start of 2009.

Thomas Cook reported in early February that its U.K. winter bookings were down 7 per cent from the same time last year, although prices were up by an average of 7 per cent. Capacity for the winter season is 6 per cent lower than last year, keeping profit margins in line with the previous year. Looking ahead, Thomas Cook reported that its summer bookings were down 11 per cent from a year earlier, although average selling prices were up 9 per cent. The company has reduced its summer capacity by 11 per cent from last year, and plans to maintain its focus on medium-haul destinations, which continue to attract the strongest demand from the U.K. market.

In early February, TUI reported that its U.K. charter bookings for the winter season were down 12 per cent, although average selling prices were up 10 per cent, year-over-year. As a result, U.K. charter sales were down by only 3 per cent. Capacity for the winter season is 9 per cent lower than last year. Looking ahead, summer season bookings were down 19 per cent from the same time in 2008. TUI has cut its capacity for the upcoming summer season by 17 per cent and may reduce it further.

A TUI survey of past customers revealed a growing interest in package holidays for summer 2009. About 87 per cent of respondents planned to book an overseas summer holiday with TUI this year, the same proportion as in last year's survey. Of this group, 94 per cent said they planned to book a package holiday, up from 85 per cent in last year's survey. TUI noted that all-inclusive package bookings for the summer were already tracking well ahead of the previous year. The company attributed the stronger interest in package holidays to a growing demand for travel products that are financially protected by Air Travel Organisers' Licensing (ATOL).

The Co-operative Travel, a major independent U.K. travel agency, also reported an increase in package holiday sales. In the first five weeks of 2009, bookings for half-board vacation packages (including some but not all meals) were up by over 53.6 per cent and all-inclusive holiday bookings were 22.4 per cent ahead of the same period in 2008.

Fewer British consumers willing to cut back on travel: A February 2009 survey by PricewaterhouseCoopers UK (PWC) revealed that fewer British consumers are willing to cut back on their travel spending compared with six months ago. In July 2008, 21 per cent of respondents said they would take fewer holidays because of the credit crunch, but this number dropped to 17 per cent in the latest survey. Another 20 per cent said they would cut out travelling altogether when asked in July 2008, compared with 16 per cent in February 2009. Meanwhile, those who said they would not cut back their spending on holiday travel at all rose to 15 per cent in the latest survey, from 12 per cent six months earlier. PWC stated that interest rate cuts in the U.K. were starting to take effect, boosting discretionary income and increasing the amount of money available for travelling, despite the overall deterioration of the U.K. economy. PWC cautioned travel suppliers to “hold their nerve” and avoid cutting prices too soon, since many travellers were likely waiting for better deals before booking their summer vacation.

Still, a lack of available consumer credit and concerns about the economy are expected to hurt the U.K. market this year, resulting in a decline in overall travel volumes and spending. Numerous surveys reveal that many British residents are planning to scale back on their travel spending in 2009; for example:

- Nearly half (49%) of those polled by travelsupermarket.com, a travel search website, were reconsidering their travel plans for 2009 in light of the economic recession. The company expects an increase in all-inclusive trips and short breaks to destinations outside the costlier eurozone.
- Nearly half (47%) of the U.K. consumers polled by research firms eDigitalResearch and IMRG said they planned to spend less on their holidays this year.
- A survey commissioned by marketing firm BLM Horizon revealed that 40 per cent of British travellers plan to spend less on summer trips in 2009 than they did in 2008. To scale back their spending, 45 per cent said they would choose a cheaper destination. About 43 per cent plan to choose an all-inclusive holiday, and 27 per cent intend to shorten the length of their vacation. More than half of respondents (54%) planned to hold off on booking their summer holiday until April or later in anticipation of better deals.

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 (November 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for the U.K. declined 0.6 per cent in December. The six-month change in the leading index stood at -5.9 per cent (about a -11.5 per cent annual rate) in the six months up to December. In addition, real GDP declined at a 5.9 per cent annual rate in the fourth quarter of 2008, following a contraction of 2.5 per cent in the third quarter.
- While the British pound has continued to slip in value compared with the Canadian dollar, Canada's price competitiveness is expected to get a bit of a boost during the second quarter of 2009 because of dramatic declines in average airfares. As a result, the cost of a seven-night stay in Canada for U.K. travellers, including airfare, hotels, meals, and other items, is expected to increase a modest 1.3 per cent, year-over-year.

Traveller and Supplier Trends:

- The number of U.K. visitors to Canada declined by 13 per cent in December. Travel from the U.K. has been declining since April, with full-year arrivals down 6 per cent in 2008. Overall U.K. outbound travel is also retreating, with U.K. visits to North America between October and December down 6 per cent, according to the U.K. Office for National Statistics.
- Direct air capacity on scheduled flights from the U.K. to Canada is expected to shrink by 2 per cent during the second quarter of 2009, year-over-year, according to the latest data snapshot from BACK Aviation Solutions.

The Tourism Leading Indicator Index suggests that the continuing struggles associated with weaker economic conditions, declining outbound travel trends, and reduced direct air capacity will result in further year-over-year declines in U.K. travel to Canada over the near term.

France — Current Tourism Trends

Economic downturn hurting French air travel demand: Air France-KLM reported that its passenger traffic (measured in revenue passenger kilometres) fell 1.9 per cent in January 2009, year-over-year. The number of passengers carried during the month was down 6.1 per cent from the previous year. The airline noted that the economic crisis continued to restrain business travel. Traffic on its domestic and European routes fell 7.9 per cent, although this was partially due to cancellations arising from poor weather during the month. Traffic on North and South American routes grew 1.9 per cent.

In early February, Air France-KLM signed a memo of understanding with WestJet to develop a commercial relationship between the two airlines. This may involve a code-sharing agreement between the two airlines beginning in late 2009 or early 2010. This would allow each airline to sell tickets on the other's routes, allowing passengers to connect seamlessly between the two airline's route networks. In Canada, this arrangement would involve Calgary, Montréal, Toronto, and Vancouver, expanding air access between France and those cities.

Passenger numbers at airports serving Paris fell 7.8 per cent to 5.9 million in January 2009, according to the latest statement by the airports' administrative authority, Aéroports de Paris. The authority attributed the decline to adverse weather conditions, a national strike on January 29, 2009, and the downturn in the global economy. Domestic passenger numbers plunged by 12.4 per cent from a year earlier, and passengers on European routes decreased 9.5 per cent. Passengers on routes serving North America declined 6.4 per cent during the month.

TUI expects French travel demand to stay weak through summer: In a February 2009 trading statement, TUI reported that its French bookings for the winter period were down 11 per cent from the previous year. However, this is a slight improvement from its previous trading statement in November, when bookings were behind by 15 per cent. As of February, sales were down by only 4 per cent, with average selling prices up by 8 per cent over the previous year. TUI's capacity in the French market is 9 per cent lower than it was last winter.

Looking ahead to the summer season, TUI expects weaker demand overall, although demand has been strong for medium-haul trips. Prices for the summer are up by an average of 6 per cent, but advance bookings and sales are down by 16 per cent and 11 per cent, respectively, from a year earlier.

French consumer confidence still low: French consumer confidence declined again in February 2009, after a slight uptick in January, and remains low, according to the latest consumer confidence survey from INSEE, France's National Institute for Statistics and Economic Studies. The summary indicator slipped 1 point in February to -43 from -42 in January. All survey questions registered a decline in consumer sentiment—that is, current and future living standards, current and future finances, and the timeliness of major purchases. The summary indicator represents the difference between positive and negative responses, which are seasonally adjusted.

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 (January 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for France declined 1 per cent in December. Since June, the leading index has declined at a 10.7 per cent annual rate, and the weaknesses among the leading indicators have remained widespread. Real economic growth fell at 4.6 per cent annual rate in the fourth quarter, down from the -0.4 per cent average annual rate of growth witnessed over the second and third quarters of 2008. The recent behaviour of the leading economic index suggests continued weakness during the first half of 2009 with the potential that conditions could still deteriorate further.
- The Canadian dollar depreciated 8 per cent against the euro between February 2008 and February 2009. 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 8.2 per cent for French travellers during the second quarter of 2009.

Traveller and Supplier Trends:

- In December, visits from France decreased 2.9 per cent year-over-year. However, for the full year, growth in 2008 was an impressive 12.2 per cent. But travel to the U.S. grew at an even faster rate: the U.S. Office of Travel and Tourism Industries (OTTI) reported that French travel to the U.S. increased 26.2 per cent during the first 11 months of 2008.
- During the second quarter of 2009, direct air capacity between France and Canada is set to increase a slight 1 per cent compared with the second quarter of 2008.

Despite strengthening price competitiveness, the Tourism Leading Indicator Index suggests Canadian arrivals from France are likely to decline over the near term as economic challenges intensify and outbound travel trends cool further.

Germany — Current Tourism Trends

Weaker demand prompts German airlines to scale back capacity: Passenger traffic (measured in RPKs) among Lufthansa passenger airlines fell 6.2 per cent in January 2009, year-over-year. Passenger numbers were down 9.3 per cent from the previous year. Traffic on the company's European network declined 6.8 per cent, while traffic on routes to North and South America decreased 3.3 per cent. Lufthansa said it had expected demand to weaken in January and scaled back its capacity accordingly.

Tour operator volumes on German airlines were down by an estimated 25 per cent in January compared with a year earlier, according to fww, a travel trade magazine. In response, German airlines have reduced their capacity to many leisure travel destinations, including Vancouver. In addition, Air Berlin and Condor have revised their summer 2009 schedules, reducing capacity significantly on long-haul flights because of slower tour operator business. However, these airlines have the flexibility to expand capacity quickly if demand picks up.

Passenger numbers at Frankfurt Airport plunged 10.4 per cent in January, year-over-year, to 3.5 million. Although weak economic conditions were partly to blame, the airport also experienced hundreds of flight cancellations during the month because of strikes by Deutsche Lufthansa flight attendants, bad weather, and technical problems with German air traffic control. According to Reuters, passenger numbers at the airport are expected to keep declining over the coming months as the global economic crisis continues to curb travel demand.

TUI and Thomas Cook keeping tight rein on German capacity: In a February 2009 trading statement, TUI reported that its German bookings for the winter period were down 11 per cent from the previous year. Sales were down by 5 per cent, but average selling prices were up by 7 per cent over the previous year. TUI reduced its winter season capacity in the German market by 17 per cent compared with last year. For the upcoming summer season, TUI plans to keep a tight rein on capacity to maintain its profit margins, in response to weaker demand. TUI reported that average selling prices for the summer were down slightly (-1%), but advance bookings and sales were down significantly from a year earlier.

Thomas Cook was slightly more upbeat about the German market in its February trading statement. Its overall performance in the German market was generally in line with TUI's report, although Thomas Cook said it experienced a strong pickup in the pace of bookings in January. According to Thomas Cook, this pointed to "the resilience of demand within a later booking trend."

Travel agencies report slump in sales: Travel agency sales slumped by 13.5 per cent in January 2009, year-over-year, according to the latest TATS survey of German travel agents, reported by fww. Airline ticket sales plunged by 16.9 per cent, while holiday package sales fell 10.9 per cent from the previous year. Advance bookings for travel up to the end of October 2009 were behind by 4 per cent in January.

Not surprisingly, most German travel agents are pessimistic about the German travel market, according to a survey of travel agent sentiment by the consulting firm Dr. Fried & Partner. Nearly half of the agents polled in January expected travel demand to decline over the next six months, while only 15 per cent expected their sales to increase.

However, recent research suggests the current downturn in German travel demand is because travellers are waiting a little longer to book their 2009 holidays, according to fww. The travel industry hopes that consumer uncertainty over the potential impact of the economic crisis will gradually diminish over the next several months, allowing travel demand to pick up. Still, German travellers are expected to be more price conscious and cut back on the number of holidays they take this year. Some travellers may also decide to stay in Germany for their holiday, rather than travelling abroad.

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 (January 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Germany declined 1.9 per cent in December. Weakening consumer confidence and slowing new orders in investment goods contributed the most to the latest decline in the index. The leading index has declined at an 8.8 per cent annual rate since June, as the strengths and weaknesses among the leading indicators become slightly more balanced. Meanwhile, real economic growth declined at 8.2 per cent annual rate in the fourth quarter. The recent behaviour of the index suggests that the economy will remain weak for at least the first half of 2009, with risks that the contraction in economic activity may remain deep in the near term.
- Canada's price competitiveness for the German market is projected to improve during the second quarter of 2009, primarily because of the strength of the euro. The average cost of a seven-night stay in Canada, including airfare, hotels, meals, and other items, is expected to decline 9.4 per cent year-over-year for German visitors.

Traveller and Supplier Trends:

- Travel from Germany to Canada in 2008 fluctuated. Although visits declined in the first quarter of 2008, year-over-year, they increased during the second, third, and fourth quarters of the year. Full-year arrivals in 2008 increased 4.4 per cent compared with 2007. Meanwhile, the OTTI reported that German visits to the U.S. increased 18.2 per cent in the first 11 months of 2008.
- During the second quarter of 2009, direct air capacity between Germany and Canada is scheduled to expand by 4.3 per cent.

Considering the extent and duration of economic challenges facing German travellers, it is reassuring to see positive travel and supplier trends for Canada. Still, the Tourism Leading Indicator Index suggests that the growth potential of the German market will likely be modest at best, as economic conditions continue to weaken.

Mexico — Current Tourism Trends

Domestic air demand continues to weaken in Mexico: Domestic air travel demand continues to weaken in Mexico, according to recent media reports. Mexican airport authorities Grupo Aeroportuario del Pacífico (GAP) and Aeroportuario del Centro Norte, known as OMA, each reported a 15 per cent decrease in passenger numbers in January 2009—GAP airports saw a 20 per cent decline in domestic passengers that month, while OMA airports saw a 15 per cent decline in domestic passengers.

In February 2009, Grupo Aeroportuario del Sureste (ASUR), which includes Cancun airport in its portfolio, experienced its first drop in passenger numbers (–2.2%) in more than two years, despite a rise in international tourists to Cancun. Domestic passenger numbers at ASUR's nine airports fell 11 per cent that month, in part because of a reduction in domestic air services.

According to a commentary by Euromonitor International reported by travelmole.com, domestic air demand began trending downward in July 2008, when Mexican airlines raised fares in response to high oil prices. Rising economic uncertainty through the second half of 2008 compounded the negative effects on demand. Airlines reacted by introducing aggressive discount promotions during the Christmas holiday season, and these discounted fares are expected to last well into 2009. A number of Mexican low-cost carriers plan to offer substantial fare discounts this year in an effort to stimulate demand.

Growth in Latin American passenger traffic continues to slow: Latin American airlines saw their combined passenger traffic (measured by RPKs) increase 1.7 per cent in December 2008, year-over-year, according to the Latin American air transport association (ALTA). The number of passengers carried rose 1.2 per cent to 10.1 million. Year-to-date traffic among members was 9.1 per cent ahead of the previous year.

Table 4. ALTA Airlines*

Revenue Passenger Kilometres (RPKs) and Passengers Carried — Full Year 2008

Regional Destination	RPK change YTD 2008 vs. 2007	Passengers Carried YTD 2008 vs. 2007
Intra-Latin America (scheduled and charter)	9.0%	5.8%
Extra-Latin America (international)—total	9.3%	6.8%
North America	3.1%	3.0%
Europe	19.5%	23.0%
Asia-Pacific	10.2%	7.9%
Total	9.1%	7.9%

Source: Latin American air transport association (ALTA).

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

Economic concerns still eroding Mexican consumer confidence: Mexico's consumer confidence index fell again in February, as concerns about the economic slowdown continued to take their toll. According to INEGI, Mexico's national statistics agency, the index slipped 3 points to 78.9 in February 2009 from a month earlier. This reading represented a 21.9 point decline from the same month of 2008. The component that registered the largest year-over-year decline was the one measuring the propensity for big-ticket purchases—it was down by 46 points.

Sliding consumer confidence is having a huge impact on consumer spending in Mexico, especially for big-ticket items, according to the latest government data as reported by Reuters. To make matters worse, Mexican banks are pulling back on consumer lending, making consumer credit much more difficult to obtain.

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 (January 2009) Tourism Intelligence Bulletin.

Economic Trends:

The Conference Board of Canada's leading economic index for Mexico decreased by 2.6 per cent in December as falling oil prices continued to weigh down the index. During the six-month period ending in December, the leading index declined 15.5 per cent, or 28.7 per cent at an annual rate. In addition, the weaknesses among the leading indicators have remained widespread in recent months. The recent behaviour of the index suggests that economic activity is likely to stay weak over the near term, with increasing risks of further contraction going forward.

- Compared with the Mexican peso, the value of the Canadian dollar increased about 8 per cent between February 2009 and February 2008. Coupled with significant increases in airfares, the cost of a seven-night stay in Canada for Mexican travellers is expected to increase by 6.1 per cent during the second quarter, year-over-year. Fortunately, Canada's price competitiveness during the second quarter should improve because the cost of a similar trip to competitive destinations (U.S., Spain, and Italy) is expected to increase by an average of 20.4 per cent.

Traveller and Supplier Trends:

- Travel growth from the Mexican market was fairly solid throughout much of 2008. Still, despite year-end arrivals from Mexico being up 8.1 per cent, travel declined 4.7 per cent during the fourth quarter of the year. Mexican travel to the United States also weakened considerably from the strong growth at the beginning of 2008. According to the OTTI, Mexican arrivals to the U.S. interior (beyond the 40 kilometre U.S. border zone) during the first 11 months of 2008 were 6.8 per cent lower than they were during the same time in 2007.
- Direct air capacity between Canada and Mexico continues to expand rapidly and could help facilitate growth in travel between the two countries. Direct air capacity between Mexico and Canada is expected to grow by 38 per cent during the second quarter of 2009.

While supplier trends are still positive, the Tourism Leading Indicator Index suggests growing economic challenges and weakening travel trends will lead to ongoing declines in Mexican travel to Canada over the near term.

Japan — Current Tourism Trends

Japanese international air travel volumes continue to plunge: Passenger numbers at Tokyo's Narita International Airport fell 10 per cent, year-over-year, in January 2009. Japanese passengers on international flights declined 13 per cent, while passengers on domestic flights fell 5 per cent.

Japan Airlines reported an 18.7 per cent drop in international passenger traffic (measured in RPKs) in January 2009 from the previous year. Traffic on transpacific routes fell 14.2 per cent, and traffic on European routes plunged by 20.9 per cent. Traffic on domestic routes slipped by 2.8 per cent.

Japan's two major airlines, JAL and All Nippon Airways (ANA), reported substantial losses for their third fiscal quarters ended December 31, 2008, mainly because of weakening international travel demand. JAL posted a net loss of 38.5 billion yen (C\$501 million) for the period and ANA reported a net loss of 12.6 billion yen. Both carriers reported a sharp year-over-year decrease in international passengers for the quarter, especially on routes to the United States and Europe. JAL once again downgraded its forecast for its full fiscal year, citing the "severe" market conditions precipitated by the global economic slowdown.

Waning travel confidence keeping Japanese travellers closer to home: The latest forecast by JTB Corp., Japan's largest travel agency, suggested Japanese overseas trips will decline by 4.4 per cent this year, while spending on overseas travel falls by 6.9 per cent, as worsening economic conditions continue to depress outbound travel demand. This decline comes on top of an estimated 7.7 per cent year-over-year decrease in Japanese outbound trips in 2008.

JTB indicated that rising insecurity about personal finances and the perceived indulgence of travel spending during an economic downturn will lower Japanese travel confidence this year. The desire to spend less on travel will likely keep Japanese residents travelling closer to home—to domestic or close-by Asian destinations. However, the travel outlook could improve somewhat after an expected cut in airline fuel surcharges, which could significantly reduce the cost of long-haul air travel.

A recent survey of Japanese travel agents confirmed JTB's report. According to the Japan Association of Travel Agents, its latest members' survey revealed very strong demand for close destinations, such as Korea, Hong Kong, Guam, and Saipan, fuelled by the strengthening value of the yen. Tour package bookings for travel during the first quarter are up significantly over last year for these destinations. On the other hand, bookings for long-haul destinations are significantly down, because of the impact of the current economic crisis on long-haul travel demand. In particular, bookings for tour packages to Canada and the United States are showing double-digit decreases from last year.

JTB Corp. to focus on European and honeymoon trips: JTB will reduce the cost of its overseas tour packages by an average of 15 per cent in the first half of 2009, according to media reports. The strengthening yen and an expected reduction in airline fuel surcharges will help JTB cut costs. The firm hopes to increase its overseas package bookings in 2009 by 3 per cent over last year by focusing on European and honeymoon vacation packages.

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 (January 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Japan declined 4.7 per cent in December, the largest monthly decline since the index began in 1965. From June to December, the leading index fell 16.3 per cent (or 29.9 per cent at an annual rate) as the weaknesses among the leading indicators continued to be widespread. Meanwhile, real GDP continued on a downward trend, declining at a 12.7 per cent annual rate in the fourth quarter of 2008, the largest drop in 35 years. The recent behaviour of the index suggests the current contraction in economic activity will not end in the first half of 2009.
- Over the course of 2008 and so far into 2009, the Canadian dollar depreciated dramatically against the Japanese yen, a trend that is boosting Canada's price competitiveness for this market. In fact, between February 2008 and February 2009, the Japanese yen appreciated 43 per cent against the Canadian dollar. This has contributed to the estimated 27.8 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 second quarter of 2009.

Traveller and Supplier Trends:

- Unfortunately, visits from Japan to Canada continue to be very weak. For 2008, the year-end figures suggest visits from Japan were down by 16.4 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 by a more modest 7.6 per cent in the first 11 months of 2008.
- The most recent snapshot of air capacity suggests direct air capacity on scheduled flights from Japan will decline 16 per cent over the second quarter of 2009.

Economic conditions in Japan continue to deteriorate dramatically. Despite some reprieve in terms of price competitiveness, the Tourism Leading Indicator Index suggests Japanese arrivals to Canada will keep declining over the near term.

South Korea — Current Tourism Trends

International passenger numbers continue to fall: A weaker won combined with the effects of the economic slowdown caused Korean outbound travel to decline in 2008 for the first time in five years, according to recent media reports. Immigration statistics from Seoul's Incheon International Airport show that 9.3 million Koreans travelled abroad through the airport in 2008, an 11.4 per cent decrease from 2007.

Overall passenger numbers at Incheon Airport then continued to drop in January, declining 13.8 per cent from a year earlier, to 2.29 million. International passengers declined 13.6 per cent to 2.26 million.

Korean Air registered a decrease in international passengers in 2008, although the airline still managed to increase its revenues by 16 per cent. But it posted a net loss of 1.96 billion Korean won (C\$1.7 million) for the full year of 2008, compared with a net profit of 11.1 billion in 2007, mainly because of foreign exchange losses associated with the weaker Korean won. Korean Air plans to increase flights to Canada and the United States in 2009, in light of a recent open skies agreement with Canada and the expansion of the U.S. Visa Waiver Program to include Korea. The airline also intends to eliminate its fuel surcharge on international flights.

Korean outbound travel demand still weakening: Hana Tour, Korea's largest travel agency, recorded an 11.3 per cent decrease in outbound trip bookings in 2008, according to the Korea Times. It attributed the bookings decrease to high fuel surcharges, less favourable exchange rates, and waning consumer confidence. In December alone, Hana's bookings were down 47 per cent from a year earlier. The agency expects the slump in overseas bookings to continue through the first half of 2009.

In the fourth quarter of 2008, overseas credit card spending by Korean residents fell for the second-consecutive quarter because of declining outbound travel, according to the Bank of Korea. Overseas credit card spending fell 31.5 per cent in the fourth quarter, year-over-year, representing the worst quarterly decline since the third quarter of 2003.

The Korea Tourism Organization (KTO) aims to capitalize on the effects of the weaker won by aggressively promoting domestic tourism in Korea this year, according to a KTO commentary published in the Korea Times. The KTO plans to develop and promote "high-class domestic tourist products" such as golf tourism and school excursions targeted at those who may opt to take domestic trips rather than overseas ones.

Consumer mood registers small improvement: The Bank of Korea's consumer confidence index edged up one point in February 2009 to a reading of 85. Consumer pessimism has eased slightly since December 2008, when the index fell to 81, its lowest level since the Asian financial crisis in 1998. A reading of 100 indicates a balance between negative and positive assessments of the economy. The central bank said consumer sentiment received a small boost from the announcement of a government economic stimulus package, but warned that consumer confidence was not likely on any kind of sustained upward trend.

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 (January 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for South Korea declined 1.5 per cent in December, following the largest monthly decline in more than 10 years in November. With the December results, the six-month leading index had declined 10.4 per cent since June. As well, the weaknesses among the leading indicators remain widespread. Real GDP registered its sharpest decrease since 1998, declining at a 20.8 per cent annual rate in the fourth quarter. The behaviour of the leading index suggests the contraction in economic activity is likely to continue at least through the first half of 2009.
- Despite declining average fares, the average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase 9.3 per cent during the second quarter of 2009, year-over-year. Much of the increased costs will be due to the strength of the Canadian dollar, which appreciated 22.4 per cent against the Korean won between February 2008 and February 2009. Fortunately, Canada's price competitiveness during the second quarter should not decline, as the cost of a similar trip to competitive destinations (U.S., France, Germany, U.K., and Australia) is expected to increase by an average of 13.1 per cent during the quarter.

Traveller and Supplier Trends:

- Korean visits to Canada declined 32.1 per cent in December. Full-year arrivals in 2008 were down 7.5 per cent from the previous year. At the same time, travel from South Korea to the U.S. declined 4.7 per cent during the first 11 months of 2008, according to the OTTI.
- Fortunately, direct air capacity from South Korea to Canada is expected to increase 16 per cent during the second quarter of 2009.

Despite the strong growth expected in direct air capacity and slight improvement in Canada's price competitiveness, the Tourism Leading Indicator Index suggests growing economic challenges and weakening travel trends will keep visits from South Korea declining over the near term.

China — Current Tourism Trends

Performance of Chinese airline industry improved in January: The Chinese airline industry showed signs of a recovery in January, according to Air Transport World. Passengers on Chinese airlines jumped 17.6 per cent that month over the previous year, fuelled by a strong increase in domestic travel. Passengers on domestic routes jumped 21.3 per cent to 16.3 million; however, passengers on international routes fell 17 per cent to 1.2 million.

Chinese airlines were also able to post a collective net profit in January, according to the General Administration of Civil Aviation of China (CAAC), because of "favourable policies" the CAAC implemented in December to help boost air industry profits in 2009. These include a moratorium on new airlines until 2010, fee reductions, and infrastructure improvements. Analysts also expect lower fuel prices to have a positive effect on Chinese airline finances this year.

Monthly passenger numbers at Beijing Capital International Airport continue to post strong year-over-year growth, driven by large growth in domestic travel. In January 2009, passenger numbers jumped 19.2 per cent over the previous year, mainly because of a 26.6 per cent rise in passengers on domestic flights. However, international passenger numbers for the month slipped 1.7 per cent from the previous year. The airport reported that passengers flying on international airlines—accounting for about 60 per cent of all international passengers at the airport—slid 14.1 per cent.

Regulatory environment hampering Chinese corporate travel market: The use of technology and industry-accepted best practices for managing corporate travel is still low among Chinese businesses, according to a recent study by Amadeus and PhoCusWright. About 80 per cent of executives polled in China still relied on paper-based, manual processes to some degree for travel management, while only 27 per cent used an automated information technology system as part of their travel management program. Moreover, the strict regulatory regime imposed by the Chinese government makes it difficult for companies to improve the efficiency of corporate travel management processes. The study suggests that travel companies wanting to tap into the Chinese corporate travel market must be “willing to understand and respond to the unique circumstances that define this market.”

Chinese online travel market still showing solid growth: Despite the economic slowdown, Chinese online travel bookings continue to grow at a solid pace. The latest data by iResearch reported by hotelmarketing.com suggest online travel spending rose to 2.8 billion yuan (C\$524 million) in 2008, a 22.7 per cent increase over 2007. The number of Chinese who booked their travel online last year surpassed 6 million.

Ctrip, the largest online travel agency in China, reported strong growth in booking revenues in its latest financial statement. Package tour booking revenues rose 38 per cent in the fourth quarter of 2008 over the previous year. Revenues for air tickets and hotel reservations for the quarter each rose by 7 per cent. For the full year of 2008, package tour revenues rose 53 per cent over the previous year, while revenues for air tickets and hotel reservations rose 31 per cent and 13 per cent, respectively.

China now has the highest number of Internet users in the world, according to comScore World Metrix, an Internet audience measurement service. China is expected to remain the global leader for some time. The number of unique Internet visitors in China reached 179.7 million in December 2008, about 20 per cent of the country's overall population. The United States came in second at 163.3 million.

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 (November 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The slowdown in global demand continues to downgrade growth expectations for the Chinese economy. The latest Consensus Forecasts report (February 2009) projects real GDP growth will decelerate to 7 per cent in 2009 and 8.3 per cent in 2010. It has been reported that real GDP growth slowed to 6.8 per cent, on a year-over-year basis, during the fourth quarter of 2008, down from the 9 per cent reported in the third quarter. Recent reports suggest 20 million migrant workers have already lost their jobs because of weakening global demand. For 2009, Beijing is targeting real economic growth of at least 8 per cent to avoid social unrest.
- The Canadian dollar depreciated 23.5 per cent against the Chinese renminbi between February 2008 and February 2009. With 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 decrease 19.4 per cent during the second quarter of 2008 compared with last year.

Traveller and Supplier Trends:

- While Chinese arrivals to Canada grew 6.5 per cent for the full-year 2008, arrivals during the fourth quarter were ahead only a slight 1.4 per cent from last year. Between January and November 2008, travel from China (including Hong Kong) to the U.S. grew 17.8 per cent, according to the OTTI.
- Unfortunately, direct air capacity to Canada is expected to decline by 13.9 per cent during the second quarter of 2009.

Despite weaker economic conditions and slowing travel and supplier trends, the Tourism Leading Indicator Index for China suggests arrivals from this market should post slight growth over the near term.

Australia — Current Tourism Trends

Qantas reports decline in premium and international travel: Qantas Airways posted a net profit of A\$216 million (C\$179 million) for its first half ending December 31, 2008, a 65 per cent decrease from the same period in 2007. The airline said volatile fuel prices, a decline in the value of the Australian dollar, and waning demand for premium and international travel hurt its profitability for the period. Overall passenger traffic for the period decreased 2.4 per cent compared with the previous year. In response to the economic downturn, Qantas plans to increase its use of Jetstar, its low-cost subsidiary, on international routes in the Asia-Pacific region.

Passenger numbers among Qantas group airlines slipped 0.6 per cent in January 2009, according to the company's latest performance statistics. Passengers on Qantas International services fell 11.4 per cent during the month, but passenger number of Jetstar International jumped 35.1 per cent.

Qantas reduced its international fuel surcharges again on March 3, 2009. The surcharge on flights to Canada and the United States was dropped to A\$85 each way, down from A\$130.

Australian outbound travel forecast to decline this year: The latest forecast by Tourism Australia suggests the number of Australian outbound trips will decline 2.9 per cent to 5.6 million in 2009, because of weak economic conditions and the lower value of the Australian dollar. Of all travel segments, the outlook for outbound travel has changed the most since the previous forecast in August 2008.

After rising by 10.6 per cent in 2007, the pace of growth in outbound trips slowed down significantly in 2008, by an estimated 5.2 per cent to reach 5.7 million trips. By the fourth quarter of 2008, outbound trips were on a downward trend, falling by an estimated 1.7 per cent.

In 2009, the segment expected to decline the most is outbound business travel, which is forecast to fall 5.6 per cent from the previous year. Holiday travel is expected to decline 2.8 per cent. The Tourism Australia forecast noted that long-haul destinations such as Europe will register the largest decrease in Australian visitors because of the higher cost of travelling to these regions, while nearby holiday destinations will see a smaller decline.

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 (January 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Australia dipped 0.9 per cent in December, the fourth consecutive monthly decline. Between June and December, the leading index declined 2.3 per cent. Still, the strengths among the components remained slightly more widespread than the weaknesses in recent months. Meanwhile, in seasonally adjusted terms, real GDP decreased 0.5 per cent in the fourth quarter. The recent behaviour of the leading index suggests the economy will remain weak in the near term.
- The Canadian dollar appreciated 12.7 per cent against the Australian dollar between February 2008 and February 2009. Despite declines in average airfare, the depreciation of the Australian dollar is expected to increase the overall cost of travelling to Canada in the near term. For Australians, the average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase 5.4 per cent during the second quarter of 2009 over last year. But comparatively, on a more positive note for Canada, the average cost of a similar trip to competitive destinations is expected to increase 28.5 per cent.

Traveller and Supplier Trends:

- For most of 2008, Australian arrivals to Canada continued to grow at a respectable pace. However, fourth quarter arrivals were flat overall, with visits in December down 6.7 per cent. Still, for the full year, arrivals in 2008 were 8.7 per cent higher than during 2007. 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 4.1 per cent during the first 11 months of 2008.
- The level of direct air capacity between Canada and Australia over the second quarter of 2009 is expected to equal that witnessed during the same period in 2008.

Despite growing economic challenges and increasing travel costs, the Tourism Leading Indicator Index for Australia suggests that travel from Australia may not decline significantly over the near term and could, in fact, post visitor volumes that are about the same compared with a year earlier.

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.