



# Tourism Intelligence Bulletin

## *Vulnerable Tourism Industry Is Dealt Another Blow*

Issue 51: May 2009

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

### **Bulletin Highlights**

#### **Tourism Overview: North America**

■ **Fears of a potential flu pandemic could severely impact travel over the short term:** The tourism industry is on high alert over the H1N1 “swine” flu outbreak that health officials warn could have the potential of developing into a pandemic if it is not contained. The World Health Organization has advised countries not to implement any travel restrictions yet, and so far, airlines have not reported any significant reductions in travel demand, aside from travel to Mexico. Yet this situation calls to mind the SARS crisis of 2003—it also began in the spring and severely dampened summer travel volumes that year. Concerns about the H1N1 flu outbreak threaten to exacerbate the weak demand conditions already facing the tourism industry. (See “Leisure Travel,” page 5, and “Domestic Travel,” page 11.)

A survey conducted before the flu outbreak suggests Canadians domestic vacation intentions are up significantly since last summer, according to The Conference Board of Canada. However, travellers will likely take more short breaks and trips to see family and friends this summer, rather than taking long vacations. Moreover, concerns about personal finances and the Canadian economy will likely prompt many travellers to keep a tight rein on their travel spending. (See “Canadian domestic travel intentions up from last year,” page 5.)

■ **U.S. vacation intentions dropped to a new low in April:** U.S. travel intentions hit a new low in April, according to the latest Consumer Confidence Survey report by the U.S. Conference Board, Inc., falling below the previous record low hit in June 2008. Fortunately, U.S. consumer confidence halted its four-month slide that month. The results suggest Americans believe the economy could begin turning around sometime in the next six months. (See page 6.)

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- **Americans perceive travel as more affordable, but still plan to cut spending:** American perceptions of the affordability of travel have risen substantially since last fall, according to the U.S. Travel Association and Ypartnership. Still, the majority of U.S. travellers are planning to take shorter trips this year and reduce their travel spending. (See page 6.)
- **Global business travel volumes continue to plummet:** Worldwide business travel volumes continue to fall at a dramatic rate, according to the International Air Transport Association (IATA). Premium class passengers fell 21 per cent in February 2009, and revenues from this segment declined 30 per cent, year-over-year. A slower decline in economy class travel suggests that a significant number of business travellers are downgrading their seats. (See page 7.)
- **Canadian air travel volumes are down:** Air Canada and WestJet continue to see a substantial slowdown in passenger traffic. In the first quarter of 2009, Air Canada's domestic traffic fell 8.3 per cent from the previous year, while WestJet's traffic growth eased to 5.1 per cent. (See page 8.)
- **Weakening travel demand cutting deeply into Canadian lodging revenues:** Weakening travel demand continues to erode the performance of the Canadian hotel industry, cutting deeply into lodging revenues. Falling occupancy and room rates in February 2009 drove down revenues per available room by 7.9 per cent, according to PKF Consulting. (See page 9.)

## Tourism Overview: International

- **U.K. travel companies report uptick in business:** Thomas Cook and TUI, the U.K.'s two largest travel companies, were more upbeat about the U.K. market in their latest trading updates. Although softer demand has led to a substantial reduction in capacity this year, selling prices remain well ahead. Both companies witnessed a solid pickup in travel demand in late February and early March, for last-minute winter trips and advance bookings for the summer. (See page 14.)
- **Many U.K. travellers putting off vacations:** Mintel's latest British Lifestyles report said that 35 per cent of British residents polled had put off taking a major holiday because of worries over the economy. Mintel suggests the "traditional mid-market family" travel segment will perform poorly this year, and that the U.K. domestic holiday market will grow. (See page 14.)
- **French air travel demand still deteriorating:** Air France-KLM reported that market conditions continued to deteriorate in March. Sharply declining demand, especially on domestic, North American, and Asian routes, prompted the airline to deepen its summer capacity reductions. Still, Air France plans to increase flight frequencies on several long-haul routes that have not experienced a noticeable decline in demand, including Paris–Montreal. (See page 15.)
- **German travel agencies see improving sales trends in March:** Packaged holiday sales at German travel agencies stabilized in March after two months of significant year-over-year declines, according to the latest TATS survey. There was also a dramatic jump in advance bookings for the summer travel period that month. Agents report they are seeing a later booking trend emerge. (See page 18.)
- **Japanese cancelling overseas travel plans over flu fears:** In a stark turnaround from recent trends, the Japanese travel industry expected a jump in Japanese trips overseas during the Golden Week holiday in early May. Recent airline fuel surcharge reductions and the strengthening value of the Japanese yen against many other currencies are making overseas travel much more affordable. However, media reports at the end of April indicated many Japanese were cancelling or postponing their overseas holiday plans because of fears over the flu outbreak. (See page 22.)

- **Korean outbound travel demand appears to be stabilizing:** Recent media reports suggest that recent gains in the value of the Korean won have given outbound travel demand a slight, but much needed, boost. However, it has mainly fuelled demand for trips to nearby Southeast Asian destinations. The Korean tourism industry does not expect a significant pickup in outbound travel demand until prospects for the Korean economy improve. **(See page 23.)**
- **Chinese outbound trips forecast to post solid growth this year:** The Chinese government released a forecast projecting a solid rise in Chinese outbound trips this year, despite the negative effects of the economic slowdown. However, media reports suggest many Chinese are concerned about the economy and the effects of the slowdown on their personal finances. As a result, the Chinese tourism industry anticipates an increase in domestic and short- to medium-haul outbound trips this year, and fewer long-haul holidays to the United States and Europe. **(See page 25.)**
- **Australia's flagship carrier seeing rapid deterioration in air travel demand:** Australia's flagship carrier, Qantas Airways Ltd., downgraded its profit forecast by 60 to 80 per cent in April because of a "rapid and significant deterioration in market conditions" over the previous few weeks. It said its international passenger services, especially in premium classes, were bearing the brunt of the global economic slowdown. **(See page 26.)**

## 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.

\* The overall tourism leading indicator for Mexico will likely become more negative.

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

**Fears of a potential flu pandemic could severely impact travel over the short term:** The tourism industry is on high alert over the H1N1 “swine” flu outbreak that health officials warn could have the potential of developing into a pandemic if it is not contained. As of May 1, the virus was suspected of causing up to 152 deaths in Mexico, its epicentre, and of infecting thousands more there. According to the World Health Organization (WHO), 141 cases were confirmed in the United States, 156 were confirmed in Mexico, 34 cases in Canada, and numerous other cases continued to crop up around the world. Fortunately, most of those affected outside Mexico have so far suffered relatively mild symptoms and have either recovered or are recovering.

The looming question for the tourism industry is how greatly traveller concerns over the flu outbreak will affect global travel patterns. The WHO made a point of advising countries not to implement any travel restrictions or border closures because of this flu outbreak. So far, airlines have not reported any significant reductions in travel demand, aside from travel to Mexico. Yet, the current situation calls to mind the severe acute respiratory syndrome (SARS) crisis of 2003—it also began in the spring and severely dampened travel volumes over the summer that year. If concerns about the H1N1 flu outbreak continue to grow, the tourism industry could suffer the brunt of them. These concerns threaten to exacerbate the weak demand conditions already facing the tourism industry.

**Canadian domestic travel intentions up from last year:** A growing number of Canadians are planning to stay closer to home this summer, according to the latest Travel Intentions Survey by The Conference Board of Canada. An online panel conducted in April 2009 revealed that 79.2 per cent of Canadian respondents intended to take a summer holiday, which was similar to the results of an online panel conducted a year earlier. However, the number of Canadians planning to stay in Canada for their longest summer vacation this year was significantly higher than in last year’s survey. Conversely, trip intentions for holidays to the United States and international destinations registered a sharp decline.

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

	February 2008	April 2009
Summer Vacation Intentions (All Destinations)	78.4	79.2
Canada	42.2	53.7
United States	17.0	12.8
Other International/do not know	19.2	12.7

Source: The Conference Board of Canada.

\* Note: Both the February 2008 survey and the April 2009 survey were conducted through an online panel, while surveys reported here previously were conducted by telephone. As a result, these figures are different from the results reported in previous issues.

However, while Canadian summer vacation intentions appeared close to the same level as they were a year earlier, travellers will likely take more short breaks and trips to see family and friends this summer, rather than taking long vacations. In a separate survey conducted at the end of January 2009, the Conference Board asked Canadians about the kinds of trips they were planning to take this summer. The results suggested there would be an increase in the number of short breaks and trips to see family and friends, while trip intentions for summer vacations of a week or longer purely for pleasure were noticeably lower. Moreover, concerns about personal finances and the Canadian economy will likely prompt many travellers to keep a tight rein on their travel spending this year.

**U.S. vacation intentions dropped to a new low in April:** U.S. travel intentions hit a new record low in April, according to the latest Consumer Confidence Survey report by The Conference Board, Inc. in the United States. Preliminary results showed that 33.9 per cent of Americans polled planned to take a vacation within the next six months, down from 37.3 per cent in February 2009. The previous low (36.2%) was hit in June 2008. Results are adjusted to account for seasonal fluctuations in travel demand.

Overall U.S. consumer confidence finally halted its four-month slide in April. The Consumer Confidence Index rose to 39.2 (1985 = 100), up from 26.9 a month earlier. The Present Situation Index edged up 1.8 points to 23.7, and the Expectations Index leaped up 19.3 points to 49.5. The index results suggest that American consumers believe economic conditions are nearing bottom, and could begin turning around sometime in the next six months.

**Americans perceive travel as more affordable, but still plan to cut spending:** There has been a strong improvement in U.S. travellers' perceptions of the affordability of travel since last fall, according to the latest U.S. Traveler Sentiment Index by the U.S. Travel Association and Ypartnership. The overall index rose to 90.2 in February 2009, up from 78.2 in October 2008, mainly because of a 97 per cent rise in the indicator measuring consumer perceptions about travel affordability. This appears to be a reflection of the widespread use of discounts in recent months among travel providers to counteract the downturn in travel demand.

However, their February survey also revealed that the majority of U.S. travellers are planning to take shorter trips this year and reduce their travel spending. When respondents were asked if they planned to change their travel behaviour in the months ahead, most said they would "book a package to save money" (87%) and "spend less overall" (84%). About two-thirds planned to shop for deals online and take more day trips, while 51 per cent said they would stay fewer nights. Ypartnership stated that the greatest challenge for travel marketers this year was not to increase travel volumes, but to extend travellers' length of stay.

The latest Consumer Travel Report by PhoCusWright suggests that baby boomers—those at the younger end of the segment, at least—are the group most likely to reduce their travel spending this year. Americans aged 45 to 54 years old spent the least of any age group per household on travel in 2008 and have been hardest hit by the economic downturn. Conversely, younger travellers, especially those aged 25 to 34, are most likely to increase their travel spending this year. Consumers in this age group have a high propensity to travel, tend to spend money freely, have fewer high fixed expenses, and are least likely to have suffered significant investment losses in the market downturn.

## Business Travellers

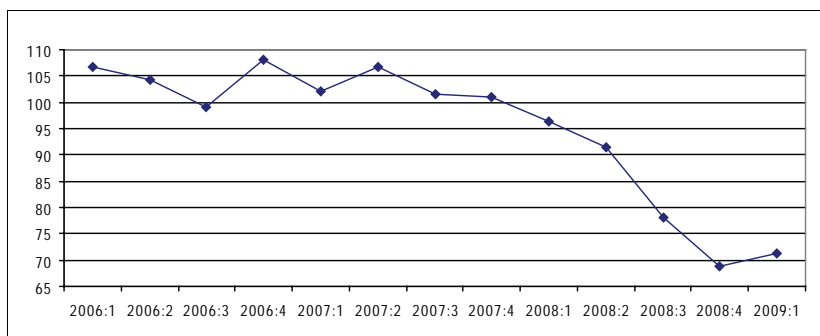
**Canadian business confidence still weak:** Canadian business confidence registered a slight increase in the first quarter of 2009, according to the latest Business Confidence Index by The Conference Board of Canada. The index edged up 2.4 points to 71.3 (2002 = 100), which was a welcome change from the 22.6 point decrease registered in the second half of 2008. Still, overall business confidence remains weak, comparable to the lows seen in the third quarter of 2001 and the recession of 1990–91. The survey results suggest that business leaders are still pessimistic about their profitability over the short term and will continue to curtail their spending.

**Business travel prices declining under pressure from weak demand:** The latest American Express Business Travel Monitor suggests weaker economic conditions heavily curtailed average prices paid for business travel in Canada and the United States during the first quarter of 2009. Average airfares began sliding in the final quarter of 2008, then declined sharply in the first quarter of 2009. Domestic airfares in the first quarter were down by an average of 9 per cent from the previous year, and international airfares were down by an average of 12 per cent. Hotel rates for both domestic and international stays also declined by an average of 12 per cent each in the first quarter of 2009.

Moreover, the proportion of international business class bookings fell from 50 per cent of all air bookings to only 39 per cent, while the proportion of economy class bookings jumped from 43 per cent of all air bookings to 56 per cent. American Express stated that these figures point to the negative effects of the weaker economy, which has curbed travel demand, bringing down travel rates across the board.

## Chart 1: Index of Business Confidence—Quarterly

(2002 = 100)



Source: The Conference Board of Canada.

**Most U.S. companies have cut travel spending since last fall:** Most U.S. companies have reduced their travel spending since last fall as part of their overall efforts to cut expenses during the economic downturn, according to a March 2009 survey by the National Business Travel Association (NBTA). Of the companies polled, 85 per cent had decreased their travel spending since October 2008, and more than 70 expected further reductions through 2009. The most common cost-cutting initiatives were reducing overall travel budgets, reducing air travel, sending fewer employees to meetings and conventions, purchasing airfares in advance, and enforcing travel policies more strongly.

**Worsening declines forecast for U.S. business travel:** The U.S. Travel Association recently downgraded its business travel forecast for 2009. It now expects U.S. business travel volumes to decline up to 5.6 per cent in 2009, down from the 3.5 per cent decrease forecast at the end of 2008. The association said the “sagging economy, coupled with political demonization of business meetings, events, and incentive travel,” was causing the downward trend in U.S. business travel to worsen.

**Global business travel volumes continue to plummet:** Worldwide business travel volumes continue to fall at a dramatic rate, according to the latest figures from the International Air Transport Association (IATA). Premium class passenger numbers declined 21 per cent in February 2009, and revenues from this segment declined 30 per cent from the previous year. A slower decline in economy class travel suggests that a significant number of business travellers are downgrading their fare class to travel more cheaply.



## Airlines

**Canadian air travel volumes are down:** Air Canada and WestJet continue to see a substantial slowdown in passenger traffic, reflecting a weakening trend in Canadian air travel demand. In the first quarter of 2009, Air Canada's domestic traffic fell 8.3 per cent from the previous year, while WestJet's traffic growth eased to 5.1 per cent—considerably less than the double-digit growth it recorded throughout 2008. Air Canada and WestJet together account for more than 90 per cent of the domestic air market.

In March 2009, Air Canada's system-wide passenger traffic (measured in revenue passenger miles), including mainline and regional operations combined, fell 13.5 per cent from the previous year. However, this was partially due to unfavourable year-over-year comparisons arising from the change in the timing of the Easter holiday, which was in April this year but in March in 2008. Traffic on domestic routes fell 9.1 per cent, and traffic on transborder U.S. flights plummeted 15.2 per cent. International traffic decreased 15.3 per cent.

WestJet's passenger traffic in March was on par with the previous year, edging up only slightly (0.6%), while capacity increased 6.3 per cent. In its press release, WestJet said that lower fuel prices were helping to boost its overall profitability, despite a 10 to 12 per cent decrease in revenues per available seat mile projected for the first quarter of 2009. At a recent Toronto industry conference, WestJet chief financial officer reported that low ticket prices in the air travel market were a problem for the airline, according to a Reuters news item.

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

Airline	RPMs (in millions) March 2009	RPM change 2009 vs. 2008	Capacity 2009 vs. 2008
Air Canada mainline (includes Jetz & Tier 3)	3,555	-13.1%	-11.3%
Air Canada Regional (Jazz)	307	-17.5%	-9.1%
WestJet	1,246	+0.6%	+6.3%

**U.S. air travel demand continues to sag:** U.S. air passenger demand continues to decline sharply, in particular for business travel. The Air Transport Association of America recently reported that softening air travel demand caused passenger traffic on U.S. airlines to fall 10 per cent in March 2009 from a year earlier. Even worse, passenger revenues declined again in March for the fifth consecutive month, decreasing 23 per cent from a year earlier. The association said the U.S. air industry's negative performance in the first quarter was a reflection of the "adverse conditions impacting the broader economy." It added that the outlook for the summer season was uncertain.

In its latest annual forecast, the Federal Aviation Administration (FAA) said it expected air capacity on U.S. airlines to decrease 6.7 per cent overall this year, with a 9.5 per cent reduction on mainline routes. The FAA said this represented the largest decrease in domestic mainline capacity since the U.S. airline industry was deregulated in 1978. U.S. domestic passenger enplanements are expected to drop 7.8 per cent this year, while passenger enplanements on international flights operated by U.S. carriers decrease 2.5 per cent.



## Hotels

**Weakening travel demand cutting deeply into Canadian lodging revenues:** Weakening business and leisure travel demand continues to erode the performance of the Canadian hotel industry, cutting deeply into lodging revenues. The latest *National Market Report* by PKF Consulting revealed that average daily rates in Canada slipped 1 per cent in February 2009 from a year earlier. Occupancy fell 4.2 percentage points, and revenues per available room (RevPAR) plunged 7.9 per cent.

Demand for Canadian accommodations in February 2009 declined 4.4 per cent from the previous year, according to the latest *Canadian Lodging Outlook* by HVS International. In the first two months of the year, hotel demand was down by 4 per cent, year-over-year, while hotel room supply in Canada increased 1.5 per cent.

**Decline in U.S. lodging demand still accelerating:** The decline in U.S. lodging demand continues to accelerate, according to the latest figures from Smith Travel Research, Inc. Average U.S. occupancy plunged 11.6 per cent in March 2009 from a year earlier, and average daily rates were down 9.6 per cent. As a result, nationwide RevPAR plummeted 20 per cent.

In late April, STR revised its 2009 full-year forecast for the U.S. lodging industry, projecting a much deeper decline in lodging revenues than previous forecast in October 2008. Average revenues per available room are forecast to fall 9.8 per cent this year, compared with the 2.5 per cent decline previously forecast. The firm also expects a 6.5 per cent decline in average occupancy and a 3.6 per cent decline in average daily rates. STR said U.S. hotels are discounting their rates by more than the firm had expected, something that is taking a significant bite out of lodging revenues.

## Travel Agents And Other Suppliers

**Conquest shuts operations, then files for bankruptcy:** Conquest Vacations, one of Canada's oldest travel companies, ceased operations on April 15, 2009, after 37 years in business. The company said it was forced out of business by "overcapacity and price war[s] among the major tour operators, unrealistic and unreasonable demands by the credit card processing companies, [the] credit squeeze and economic turmoil." Thousands of Canadian vacationers were left in the lurch, many of whom were already in the middle of their holidays when the company closed down. In some cases, resorts asked Conquest guests to pay the resort directly for their stay, even though the guests had already paid Conquest for their vacation in full, revealing problems with outstanding supplier payments not received from Conquest.

On April 27, 2009, Conquest announced it had filed for bankruptcy protection. A notice on the company's website said that a major objective of the filing was to "facilitate members of the public claiming refunds for trips booked but not received." Industry analysts are speculating about other Canadian tour operators that may be facing financial difficulties and that may also be forced out of business because of tough market conditions.

**Intense competition cuts into Transat's profitability during the first quarter:** Transat A.T. Inc. posted a net loss of \$11.8 million for its first quarter ended January 31, 2009, a sharp turnaround from the \$3.4 million profit earned in the same quarter a year earlier. The company attributed the loss to intense competition and excess supply in the Canadian market, which hurt its profit margins on Canadian holiday packages. The company noted that Canadian demand for sun destinations was solid, despite weak economic conditions, but that market conditions for Canadian tour operators remained challenging because of intense competition and high costs.

**Economic recession severely hurting ski lodging demand:** The current economic recession has had a greater negative impact on ski lodge demand this year than the September 11, 2001 terrorist attacks, according to *Travel Weekly*. Although sales of daily lift tickets held up well, stays at western U.S. ski lodges over the 2008–2009 ski season were down by double digits, year-over-year. As of February 28, occupancy levels at U.S. ski lodges in Colorado, Utah, and California for the November 2008 – April 2009 ski season were down by 16 per cent, and average daily rates were down by 9 per cent from the previous year, according to Mountain Travel Research.

## 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 (March 2009) Tourism Intelligence Bulletin.*

### Economic Trends:

- Real gross domestic product (GDP) in the Canadian economy slipped 0.1 per cent in February 2009. Still, despite solid growth in motor vehicle and associated parts manufacturing, overall economic activity retracted as a result of strong declines in construction and in mining activities (excluding oil and gas).
- In February, employment fell 79,600. Since October 2008, employment has declined by 2 per cent, or 296,000. February's largest decline was in manufacturing—particularly transportation equipment, fabricated metal, machinery, food manufacturing, and wood products.
- According to the Conference Board's Index of Consumer Confidence, confidence edged up slightly in April, increasing 3.7 points to 75.2 (2002 = 100). While responses suggest that consumers remain concerned about their current financial situation, they are increasingly gaining confidence about future financial and employment conditions. Also, for the seventh consecutive month, the percentage of respondents who said they felt that now was a good time to make a major purchase rose.

### Traveller and Supplier Trends:

- Domestic air travel has slowed significantly since July 2008 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 7.5 and 9.1 per cent in January and February 2009, respectively.
- Canadian hotel occupancy rates continue to slip. According to PKF Consulting, average occupancy in February declined 4.2 percentage points in Canada, year-over-year. For the first two months of 2009, the average occupancy rate was 3.7 percentage points behind 2008. Meanwhile, the average daily room rate for hotels in Canada slipped 0.6 per cent over the first two months of the year.
- On a slightly more positive note, gasoline prices in many Canadian communities continue to average around the \$0.80 to \$0.90 per litre range. But Canadian households have remained fairly vigilant about economizing wherever possible, and this is likely to continue to offset some of potential boost that lower gas prices could have on discretionary automobile travel in 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 February declined 8.9 per cent over the previous year. However, overnight trips to international destinations still managed to increase 2.9 per cent in February.
- As carriers continue to adjust to the changing environment, direct air capacity for travel within Canada is now slated to decline 2.7 per cent over the third quarter of 2009 compared with the same period in 2008.

Overall, the Tourism Leading Indicator suggests growth prospects will continue to weaken heading into the summer. As a result, domestic travel volumes are likely to keep declining 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 (March 2009) Tourism Intelligence Bulletin.*

### Economic Trends:

- The Conference Board's leading economic index for the U.S. declined a further 0.3 per cent in March. The largest contributors to the recent decline in the index came from building permits and stock prices. In the six months through March, the index fell 2.5 per cent (about a -4.9 per cent annual rate). As well, the weaknesses among the leading indicators remained widespread. The recent behaviour of the leading economic index suggests that the economic recession that started in December 2007 will continue in the near term, but that the contraction in activity could become less severe in upcoming months.
- 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 the first two months of 2009, overnight automobile travel to Canada declined 4.5 per cent while overnight non-automobile travel dipped 10.5 per cent from a year earlier. Despite Canada's improving price competitiveness, travel to Canada is firmly 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 6.6 per cent over the third 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 fall:** British Airways' passenger traffic (measured in revenue passenger kilometres—RPKs) decreased 7.3 per cent in March 2009 from the previous year. Premium traffic volumes (business and first-class) dropped 13 per cent, while non-premium traffic (economy) declined 6 per cent. However, the airline noted that year-over-year comparisons were skewed because the Easter holiday fell in March last year, boosting non-premium traffic and reducing premium traffic for that month. The airline stated it would not achieve its revenue targets for its fiscal year ended April 30, 2009, because of weak passenger demand, particularly in U.S. traffic.

The British Airport Authority's seven U.K. airports handled 10.6 million passengers in March 2009. Traffic for the month was 11.3 per cent lower than a year earlier, although part of this decrease was due to the timing of the Easter holiday. All markets continued to see a decrease in air passengers during the month, but the most dramatic declines were on European charter flights (–30.7%). Traffic on North Atlantic routes fell 17.6 per cent.

**Table 3. Percentage Change in Passengers Carried**

Carrier	Mar. 2009 vs. Mar. 2008
British Airways	–8.2%
Ryanair	+5%
easyJet	–6.3%

The latest edition of the OAG Frequency and Capacity Trend Statistics report revealed that U.K. flight schedules are at their lowest levels since 2001, illustrating the degree to which air services have been affected by the economic recession. In April 2009, air capacity on U.K. domestic flights was down 14 per cent from a year earlier, and the number of seats on flights to and from the U.K. was down by 9 per cent.

**Many British travellers stayed closer to home for Easter:** Many British travellers opted to stay closer to home over the Easter holiday this year, choosing domestic holiday destinations over trips abroad. Thetrainline.com, an independent retailer of rail tickets in the U.K., experienced a 40 per cent year-over-year increase in rail bookings for the Easter holiday this year, according to travelmole.com. The website attributed the increase to a significant rise in the number of British residents staying in the U.K. for the Easter break to save money, rather than travelling abroad.

The Association of British Travel Agents (ABTA) described domestic holidays as “the trendsetter for this spring” in a statement released in early April. It confirmed that domestic tour operators were seeing strong year-over-year growth in bookings for U.K. destinations at Easter. Still, the ABTA also expected steady demand for overseas travel over Easter, indicating there had been a surge in last-minute bookings for outbound trips. The organization said booking windows were shorter this year, because financial worries had left consumers reluctant to book too far in advance; however, as the Easter holiday approached, the pace of bookings picked up.

**Visa Europe registers decline in Q1 holiday sales in U.K.:** Visa Europe reported that Visa card spending at travel agencies and tour operators in the U.K. fell by 2 per cent in the U.K. during the first quarter of 2009, year-over-year. The number of Visa transactions in this category was about the same as the previous year. The company said it usually sees a “sharp jump” in holiday bookings in the U.K. in January and February, something that failed to happen this year. It suggested that more British travellers were either waiting until the last minute to book their trips this year or choosing a domestic vacation over a trip abroad.

**U.K. travel companies report uptick in business:** Thomas Cook and TUI, the U.K.’s two largest travel companies, were considerably more upbeat about the U.K. market in their latest trading updates than in their previous reports in February. Although both companies have substantially reduced their capacity this year because of softer demand, selling prices remain well ahead of last year. Both companies also witnessed a solid pickup in travel demand in the four weeks leading up to their mid-March statements, for last-minute winter trips as well as advance summer holiday bookings.

TUI reported that it had seen a strong improvement in U.K. travel demand in recent weeks. Last-minute bookings for late winter trips were higher than they were in the same period a year earlier, and average selling prices were up by 11 per cent. As of March 15, overall bookings for the winter 2008–09 season were down by 11 per cent from the previous year, but sales were only behind by 2 per cent. TUI also reported a strong pickup in the pace of advance bookings for the summer season, although overall bookings were down by 18 per cent compared with a year earlier. However, TUI said demand was significantly higher for non-euro destinations and for all-inclusive holidays.

In its March trading statement, Thomas Cook said its U.K. business was “performing strongly,” despite the “challenging trading environment.” Bookings for winter packages were “in line with capacity reductions,” and average selling prices were up by an average of 7 per cent. Moreover, the company described its advance sales for summer bookings as “robust.” It had sold more than half of its summer capacity by March 15, while increasing average selling prices by 9 per cent over last year. Thomas Cook noted strong demand for all-inclusive packages and medium-haul destinations such as Turkey.

Kuoni Group, a Swiss tour operator with major U.K. operations, also reported an uptick in last-minute winter bookings in March, according to *Travel and Hospitality Industry Digest*. Kuoni attributed this pickup in bookings to “a growing tendency among consumers to book later and at shorter notice.”

**Many U.K. travellers putting off vacations:** The vast majority of British consumers have cut back their spending because of the economic downturn, even though fewer than half have actually been directly affected by the recession, according to the latest British Lifestyles report by Mintel. Because of these economic worries, 35 per cent of British residents polled said they had decided not to take a major holiday over the next six months. The report suggests the “traditional mid-market family” travel segment will perform poorly this year, and that domestic holidays will account for a growing proportion of the U.K. travel market.

Overall, 71 per cent of those polled for the study said worries about the economy had prompted them to reduce their personal spending, although only 43 per cent said they had been personally affected by the downturn. According to Mintel, this reveals how “fear alone can cause major spending adjustments.”

**Movie locations can influence U.K. travel choices:** The location of a popular movie can have a significant influence on the destination U.K. travellers choose for their holidays, according to a recent poll by travelsupermarket.com. Of the British travellers polled, 34 per cent had been inspired to visit a destination after seeing it in a movie. This influence appears to have the strongest effect among younger travellers: 50 per cent of those under the age of 30 said that a movie had inspired them to visit a destination. Examples of films that have attracted travellers to a specific destination include *Slumdog Millionaire* (India), *Australia* (Australia), *Hideous Kinky* (Morocco), and *Ocean's Eleven* (Las Vegas).

## 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 (March 2009) Tourism Intelligence Bulletin.*

### Economic Trends:

- The Conference Board's leading economic index for the U.K. dipped a further 0.6 per cent in February, the 16th consecutive monthly decline. The six-month change in the leading index stood at -6.3 per cent (about a -12.2 per cent annual rate) in February. In addition, the weaknesses among the leading indicators have remained weak in recent months.
- 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 20.7 per cent in February. Travel from the U.K. has been declining since April of last year, with year-to-date arrivals down 17.7 per cent in the first two months of 2009. Overall U.K. outbound travel is also retreating, with U.K. visits to North America between October and December of 2008 down 6 per cent, according to the latest figures from the U.K. Office for National Statistics.
- Direct air capacity on scheduled flights from the U.K. to Canada is expected to shrink by 7.1 per cent during the third 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

**French air travel demand still deteriorating:** Air France-KLM reported that market conditions continued to deteriorate through the month of March. Passenger traffic (measured in revenue passenger kilometres) fell 9.4 per cent in March, and the number of passengers carried was down 9.8 per cent, year-over-year. Traffic on its domestic and European routes decreased 9.8 per cent, and traffic on North and South American routes fell 6.9 per cent.



In early March, Air France-KLM announced it would deepen its planned capacity reductions for the summer season (March 29 to October 25, 2009) because of “the sharp decline in demand caused by the unprecedented global economic crisis.” It said routes to North America and Asia, as well as domestic routes, have been most affected by the downturn. Capacity on Air France flights, specifically, will be reduced by 2.5 per cent on long-haul flights and by 3.1 per cent on short- and medium-haul flights. Still, Air France plans to increase flight frequencies on several long-haul routes that have not experienced a noticeable decline in demand, including Paris–Montreal.

Passenger numbers at airports serving Paris fell 9.8 per cent to 6.5 million in March 2009, according to the latest statement by the airports’ administrative authority, Aéroports de Paris. Domestic passenger numbers decreased 7.2 per cent from a year earlier, and passengers on European routes fell 12.9 per cent. Passengers on routes serving North America plunged 11.2 per cent during the month. In its latest financial statement, the airport authority said it expected passenger numbers to decline between 2.5 and 4.5 per cent in 2009.

**TUI reports French travellers avoiding some key destinations:** In a March 2009 trading statement, TUI reported that its French bookings for the winter period were down 13 per cent from the previous year. The company said demand for its holiday packages had weakened considerably since the previous trading statement in February, mainly because of civil unrest in Guadeloupe, Martinique, and Madagascar, three key leisure destinations for the French market. However, average selling prices for the winter were up over last year by an average of 7 per cent. TUI expects these trends to continue through the summer season, severely hurting the profitability of its French business.

**French consumers still pessimistic:** French consumer confidence has stabilized at a very low level, reflecting widespread pessimism over economic conditions in France, according to the latest consumer confidence survey from INSEE, France’s National Institute for Statistics and Economic Studies. The summary indicator recorded an overall reading of –43 in March 2009, the same as in February. This reading represents the difference between positive and negative responses, which are seasonally adjusted.

The lone bright spot was a 4-point improvement in the indicator measuring the propensity for big-ticket purchases, which analysts attributed to slowing inflation and fiscal incentives for new car purchases. However, the deepening economic recession in France has severely affected consumer sentiment about national living standards and job prospects.

**French travellers most likely to be influenced by hotel website:** A recent survey of travellers around the globe suggests French travellers are most likely to base their choice of hotel on their assessment of the hotel’s website. Of the French travellers polled, 55 per cent said this was their main method of assessing and choosing a hotel, as opposed to other methods such as researching review sites or obtaining recommendations from friends and relatives. The proportion of travellers who relied on this method was highest in France, while the average among all countries polled for this study was much lower, at 29 per cent. Synovate, the market research firm that conducted the survey, said this revealed the “vital nature of an impressive online presence” for hotel companies.

## France — Tourism Leading Indicator Index

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

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

### Economic Trends:

- The Conference Board's leading economic index for France declined 0.7 per cent in February. Since August, the leading index has declined at an 11.7 per cent annual rate, and the weaknesses among the leading indicators have remained widespread. The decline in the leading economic index for France has been the deepest since the downturn in 1974–75. The recent behaviour of the leading economic index suggests continued weakness through the first half of 2009, with the potential that conditions could still deteriorate further.
- The Canadian dollar depreciated 6 per cent against the euro between March 2008 and March 2009. Partly because of the strengthening 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 February, visits from France decreased 2.1 per cent year-over-year. Visits for the first two months of the year were 2.7 per cent below 2008. Travel to the U.S. has also experienced declining travel volumes from France: the U.S. Office of Travel and Tourism Industries (OTTI) reported that French travel to the U.S. declined 3.3 per cent during January 2009.
- During the third quarter of 2009, direct air capacity between France and Canada is set to increase a slight 0.4 per cent compared with the third 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

**Declines in air passenger numbers expected to worsen:** Deutsche Lufthansa AG reported that passenger traffic (measured in RPKs) among Lufthansa group airlines declined 5 per cent in March 2009 from a year earlier. Passenger traffic on European routes, including Germany, fell 3.3 per cent, while traffic on routes to North and South America decreased 8 per cent. In the first quarter of 2009, passenger traffic on Lufthansa group airlines was down 6.2 per cent from the previous year.

In March, Lufthansa Group reported a net profit of 599 million euro (C\$943 million) for the full year of 2008, a 63.8 per cent drop from 2007. The airline anticipates a further reduction in profits for 2009, as weaker demand constrains its passenger numbers and operating revenues. To help counteract the downturn, Lufthansa plans to reduce its overall capacity this summer by 0.5 per cent, and will reconfigure some aircraft to reduce the number of business class seats.

Passenger numbers at Frankfurt Airport dropped 9.2 per cent in March to 4.03 million. In the first quarter of 2009, passenger numbers were down 10.9 per cent. According to Reuters, Germany's main airports anticipate a larger collective decline in passenger numbers this year than the 3 per cent decrease forecast by the German airports association (ADV).

**TUI and Thomas Cook forced to lower prices:** Thomas Cook reported its German bookings for winter packages had picked up in February and early March, something it attributed to a "pronounced" late booking trend. Although bookings for the winter season were down 9 per cent overall, bookings in the four weeks leading up to March 15 were up 6 per cent, year-over-year. This late booking trend was also hurting Thomas Cook's advance bookings for the summer season, which were behind by 18 per cent in mid-March compared with the same time last year. However, that was still an improvement from the previous month: the company had recently renegotiated its hotel rates with suppliers to lower its summer product prices, which in turn had helped boost bookings in the four weeks to mid-March.

In March, TUI reported that its German business remain unchanged from the previous trading statement released in February. Bookings for the winter travel season were down 11 per cent, and sales were down by 5 per cent, but average selling prices were up by 7 per cent over the previous year. In response to weaker demand, TUI reduced its capacity for the summer season by 15 per cent from last year. It also reduced its summer product prices to boost customer demand.

**German travel agencies see improving sales trends in March:** Packaged holiday sales at German travel agencies stabilized in March after two months of significant year-over-year declines, according to the latest TATS survey of 2,400 German travel agents, reported by fww. Overall travel agency revenues were down by 1.6 per cent in March, with a 4.1 per cent decline in airline ticket sales and a minimal decrease (-0.1%) in holiday package sales.

Moreover, March saw a dramatic recovery in advance bookings for summer travel. Advance bookings for summer travel up to the end of October 2009 surged by 16 per cent that month, and revenues from these bookings grew by 8.2 per cent over the previous year.

Another recent survey published by fww confirmed an uptick in travel agency bookings in March. A boom in demand for last-minute winter holidays fuelled a 16.2 per cent year-over-year increase in winter holiday package sales that month among the 1,200 travel agents polled. The survey was conducted by GfK, a market research firm. According to fww, the results were a reflection of the late booking trend that is becoming more evident in the German market.

## Germany — Tourism Leading Indicator Index

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

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

### Economic Trends:

- The Conference Board's leading economic index for Germany declined 1.8 per cent in February. Weakening consumer confidence, lower stock prices, and slowing new orders in investment goods contributed the most to the latest decline in the index. The leading index has declined at a 23.2 per cent annual rate since August, as the weaknesses among the leading indicators remain widespread. The recent behaviour of the index suggests that the economic downturn is unlikely to end soon and 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:

- Monthly travel volumes from Germany to Canada continue to fluctuate. While arrivals in January surged 19.3 per cent compared with last year, February figures were up by a more modest 2.3 per cent, year-over-year. Meanwhile, the OTTI reported that German visits to the U.S. declined 9.6 per cent in January of 2009.
- During the third quarter of 2009, direct air capacity between Germany and Canada is scheduled to remain largely unchanged (−0.1%).

Considering the extent and duration of economic challenges facing German travellers, it is reassuring not to see negative travel and supplier trends for Canada. Still, the Tourism Leading Indicator Index suggests that the growth potential of the German market will remain modest at best as economic conditions continue to weaken.

## Mexico — Current Tourism Trends

**Concerns about swine flu keep Mexicans at home:** Mexico's tourism industry has sustained a severe blow from growing concerns over the H1N1 flu outbreak emerging in the nation. As of May 1, 2009, there were 156 confirmed cases in Mexico of people suffering from the virus, but officials suspected it had infected thousands more, causing up to 152 deaths. On Friday, April 24, the Mexican government declared a health emergency in Mexico City, closing schools, museums, historical sites, restaurants, and other public places there in an attempt to contain the flu outbreak. According to the New York Times, the Mexico City Hotel Association reported a 20 per cent drop in domestic tourists to the city over that weekend.

**Economic slowdown continued to dampen domestic air travel in March:** Even before the flu outbreak, domestic air travel demand had been weakening 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 large declines in passenger numbers in March 2009—GAP airports saw a 20 per cent decline in domestic passengers that month, while OMA airports saw a 22.5 per cent decline in domestic passengers. Grupo Aeroportuario del Sureste (ASUR), which includes Cancun airport in its portfolio, also reported a drop in passenger numbers that month, albeit a smaller one (–8.7%). The switch in timing of the Easter holiday to April in 2009 from March in 2008 contributed to the year-over-year decrease, as Easter is a peak holiday demand period for Mexicans. But airport officials also blamed the sharp downturn in domestic air travel demand triggered by the economic slowdown.

**Latin American passenger traffic on downward trend:** Latin American airlines saw their combined passenger traffic (measured by RPKs) fall by 1.7 per cent in February 2009, year-over-year, according to the Latin American air transport association (ALTA). The number of passengers carried dropped 3.5 per cent to 8.7 million. Year-to-date traffic among members was up minimally in February (0.9%) over the previous year.

Table 4. ALTA Airlines\*

Revenue Passenger Kilometres (RPKs) and Passengers Carried — February 2009

Regional Destination	RPK change 2009 vs. 2008	Passengers Carried 2009 vs. 2008
Intra-Latin America (scheduled and charter)	–0.6%	–2.7%
Extra-Latin America (international)—total	–3.6%	–8.1%
North America	0.3%	–2.7%
Europe	–5.4%	–12.0%
Asia-Pacific	–7.0%	–9.1%
<b>Total</b>	<b>–1.7%</b>	<b>–3.5%</b>

Source: Latin American air transport association (ALTA).

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

**Mexican consumer confidence still near record low:** Mexico's consumer confidence edged up slightly in March, but is still close to a record low, reflecting consumers' serious concerns about their financial situation. According to INEGI, Mexico's national statistics agency, the index rose to 79.4 in March 2009, up from 78.9 in February—a level that is substantially down from the 102.7 reading in March 2008. Mexico has followed the United States into a deep recession, which has triggered substantial job losses in the country and severely affected consumer spending.

## Mexico — Tourism Leading Indicator Index

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

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

*\* There is significant potential for these readings to deteriorate further in the coming weeks.*

### Economic Trends:

- The Conference Board of Canada's leading economic index for Mexico decreased by 1.3 per cent in January, its sixth consecutive decrease, as falling stock prices, the real exchange rate, and construction weighed down the index. During the six-month period ending in January, the leading index declined 17.2 per cent, or 31.4 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 keep contracting over the near term, and the risks of further deterioration remain very high.
- Compared with the Mexican peso, the value of the Canadian dollar increased about 7 per cent between March 2009 and March 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 declined 4.7 per cent over the fourth quarter of 2008 and has continued to decline over the first two months of 2009. In February, visits from Mexico decreased 9.2 per cent year-over-year. Meanwhile, Mexican arrivals to the U.S. interior (beyond the 40 kilometre U.S. border zone) also weakened during 2008 and, according to the OTTI, were 4.2 per cent lower in January 2009 than they were during the same month in 2008.
- Just prior to the swine flu outbreak, direct air capacity between Canada and Mexico was projected to expand 11.4 per cent during the third quarter of 2009. However, capacity reductions are expected to be implemented as airlines adjust their flight schedules to accommodate the latest travel advisories.

Even before the swine flu outbreak, the traditional determinants of the Tourism Leading Indicator Index suggested that growing economic challenges and weakening travel trends would lead to ongoing declines for Mexican travel to Canada over the near term. However, this downward trend will likely worsen because of the negative impact of the swine flu outbreak on travel to and from Mexico.

## Japan — Current Tourism Trends

**Japanese international air travel volumes continued to fall during first quarter:** Passenger numbers at Tokyo's Narita International Airport fell 9 per cent in March 2009, year-over-year. Japanese passengers on international flights declined 7 per cent, while passengers on domestic flights slipped 1 per cent. In the first quarter of 2009, Japanese passengers on international flights were down by 9 per cent from the same quarter of 2008.

Japan Airlines (JAL) reported a 17.3 per cent drop in international passenger traffic (measured in RPKs) in February 2009 from the previous year. Traffic on transpacific routes fell 12.4 per cent, and traffic on European routes decreased 13.6 per cent. Traffic on domestic routes dropped 13.5 per cent.

Japanese outbound travel demand worsened in the first quarter of 2009, according to the latest market trend report by the Japanese Association of Travel Agents. Deteriorating economic conditions prompted companies and individual consumers to rein in their spending, taking a significant toll on leisure and business travel. The only leisure segment that held up during the quarter was honeymoon travel. Looking ahead to the second quarter, the association expected a solid pickup in some leisure segments, including honeymoon, family, and senior travel. A slight lift in business travel demand was also expected.

**Japanese overseas travel plans cancelled over flu fears:** In a stark turnaround from recent trends, the Japanese travel industry expected a significant increase in Japanese trips overseas during the Golden Week holiday between April 28 and May 6, 2009. In early April, JTB Corp., Japan's largest travel agency, forecast a 10.1 per cent increase in Japanese leisure trips abroad during the Golden Week holiday. Recent reductions in airline fuel surcharges and the strengthening value of the Japanese yen against many other currencies are making overseas trips much more affordable than they were a year ago. As of April 1, the fuel surcharge for flights to North America dropped from 22,000 yen each way to 3,500 yen (C\$42).

However, media reports at the end of April indicated many Japanese travellers had cancelled or postponed their Golden Week holiday plans because of fears over the H1N1 swine flu outbreak. Travel agencies cancelled all tours to Mexico, but continued to run their tours to Canada and the United States. Still, the Canadian Tourism Commission's overseas office in Japan reported that all long-haul outbound travel had been negatively affected by travellers' concerns about the flu outbreak.

Meanwhile, a March survey of Japanese residents by JTB revealed that visiting their ancestral home and family was the top reason for travelling during Golden Week; this reason was cited by 21.8 per cent of those taking a trip this year. Other reasons for travelling included relaxing at hot springs or resorts (16.9%), enjoying time with family (12.9%), and enjoying nature and scenery (11.6%).

Among the Japanese residents not taking a trip during Golden Week this year, the main reason for not travelling was to avoid crowds, cited by 37.5 per cent of respondents. Other reasons included preferring to enjoy the holiday at home (25.2%), cutting back because of concerns over the Japanese economy (22.4%), and avoiding the high cost of travelling during Golden Week (21.7%). Insufficient household finances was ranked quite a bit lower, in eighth place, cited by 14.1 per cent of those polled.

## Japan — Tourism Leading Indicator Index

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

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

### Economic Trends:

- The Conference Board's leading economic index for Japan declined a further 5.4 per cent in February. Between August and February, the leading index fell 25.3 per cent (or 44.2 per cent at an annual rate), the largest six-month decline in the 44-year history of the index. Moreover, the weaknesses among the leading indicators continue to be widespread. The recent behaviour of the index suggests the current contraction in economic activity will continue through the first half of 2009 and may remain deep in the near term.



- Over the course of 2008 and so far into 2009, the Canadian dollar has depreciated dramatically against the Japanese yen, a trend that is boosting Canada's price competitiveness for this market. In fact, between March 2008 and March 2009, the Japanese yen appreciated 30 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 16.6 per cent compared with a year earlier. During the first two months of 2009, visits from Japan were down 24.9 per cent, compared with last year. OTTI figures show that Japanese travel to the U.S. is also on a declining trend, although visits decreased by a slightly more modest 13 per cent in the first month of 2009.
- The most recent snapshot of air capacity suggests direct air capacity on scheduled flights from Japan will decline 11.1 per cent during the third 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 air travel continued to decline in March:** Korean outbound travel volumes continued to decline in March 2009. The latest statistics from Seoul's Incheon International Airport show that overall passenger numbers were down 10.1 per cent that month to 2.25 million. International passenger numbers declined 10.2 per cent to 2.22 million, and domestic passengers declined 6.6 per cent to just under 29,000.

**Korean outbound travel demand appears to be stabilizing:** Recent media reports suggest that gains in the value of the Korean won in recent weeks have given outbound travel demand a much needed boost, albeit a small one. Hana Tour, Korea's largest travel agency, said bookings for travel abroad in April were about the same as they were a year ago, after registering sharp year-over-year declines earlier this year, according to the Korea Times. However, demand is strongest for destinations close to Korea, in Southeast Asia. Furthermore, the Korean tourism industry does not expect a significant pickup in outbound demand until prospects for the Korean economy improve. Still, travel agencies expect any further gains in the value of the Korean won to have a positive effect on their sales for overseas trips.

**Consumer mood registers small improvement:** The Bank of Korea's consumer confidence index slipped one point in March 2009 to a reading of 84, staying close to the 20-year low of 81 hit in December 2008. A reading of 100 indicates a balance between negative and positive assessments of the economy. The central bank said consumers remained "concerned about the economic slump," despite the recent announcement of a government economic stimulus package.

## South Korea — Tourism Leading Indicator Index

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

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

### Economic Trends:

- The Conference Board's leading economic index for South Korea rebounded 0.5 per cent in February, the first increase in the past seven months. Despite February's increase, the six-month leading index has declined 10 per cent since August. Fortunately, the weaknesses among the leading indicators have become somewhat less widespread during the last six months. While the behaviour of the leading index suggests that economic conditions will remain weak in the near term, it also suggests that the current contraction may become somewhat less severe.
- 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 14.6 per cent against the Korean won between March 2008 and March 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 30.5 per cent in February. For the first two months of 2009 arrivals from South Korea were down 25 per cent, compared with 2008. For January 2009, travel from South Korea to the U.S. declined 17.1 per cent, according to the OTTI.
- Unfortunately, direct air capacity from South Korea to Canada is expected to decrease 25 per cent during the third quarter of 2009.

Despite a slight reprieve in the rate of decline in the leading economic indicators for South Korea and Canada's price competitiveness, sagging travel and supplier trends suggest visits from South Korea will continue to decline over the near term.

## China — Current Tourism Trends

**Strong rebound in domestic air travel demand boosts Chinese airlines:** After posting substantial losses for 2008, Chinese airlines are expected to return to a profit this year, mainly because of a strong rebound in domestic air travel demand, according to recent media reports. The country's three largest carriers—China Eastern, China Southern, and Air China—posted losses for 2008 that collectively reached nearly 28 billion yuan (C\$5 billion). Weak domestic travel demand, high fuel prices, and the effects of the global economic slowdown were the main reasons given for the deep financial losses.

However, all three airlines have said they expect to achieve a profit this year, after seeing a strong improvement in domestic air travel demand in the first quarter of 2009. Lower fuel prices have also helped reduce the airlines' operational costs. According to *Air Transport World*, domestic passenger numbers in China rose 21.3 per cent in January, 17 per cent in February and 15.8 per cent in March. The aggressive economic stimulus plan announced by the Chinese government has been credited with boosting consumer confidence and domestic travel demand. On the other hand, international passenger numbers have continued to register year-over-year declines.

Monthly passenger numbers at Beijing Capital International Airport continue to post strong year-over-year growth, driven by large growth in domestic travel. In March 2009, passenger numbers rose 18.7 per cent over the previous year, bolstered by a 27.4 per cent rise in passengers on domestic flights. International passenger numbers for the month slid 5.2 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—dropped by 11.9 per cent.

**Chinese outbound trips forecast to post solid growth this year:** Outbound travel originating from the Chinese mainland is expected to rise 6 per cent this year to 48.55 million trips, despite the negative effects of the global economic slowdown, according to a statement released by the Chinese Ministry of Commerce. A forecast by Ivy Alliance Tourism Consulting Co., commissioned by the Chinese government, projected a 2 to 3 per cent rise in Chinese visits to Europe and a 6 per cent increase in Chinese visits to Southeast Asian destinations this year. In 2010, growth in outbound travel from China is expected to accelerate to 10 per cent.

However, many Chinese travellers are expected to take fewer trips or stay closer to home this year because of financial worries arising from the slowdown in the Chinese economy, according to a recent article in *China Business Weekly*. A senior editor from Traveler, a Chinese magazine affiliated with *National Geographic*, expects Chinese visits to domestic and Southeast Asian destinations to grow this year at the expense of long-haul holidays to the United States and Europe. Demand for U.S. and European holiday packages has weakened, despite the fact that Chinese travel agents have cut prices substantially to help stimulate demand, according to one Beijing travel agent. Moreover, the Chinese government is promoting domestic tourism to Chinese residents as a way of helping to stimulate the Chinese economy.

## China — Tourism Leading Indicator Index

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

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

### Economic Trends:

- The slowdown in global demand continues to drag down China's export sector and, with it, overall economic growth expectations for the country. The latest Consensus Forecasts report (March 2009) projects real GDP growth will decelerate to 7 per cent in 2009 and 8.3 per cent in 2010. However, the recent 21.3 per cent year-over-year surge in loans reported by lending banks has spurred optimism for a solid rebound in economy activity. In addition, the significant government stimulus package announced last November is also expected to help prop up economic activity.
- The Canadian dollar depreciated 23.4 per cent against the Chinese renminbi between March 2008 and March 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:**

- Chinese arrivals to Canada grew 5.1 per cent for the full year of 2008, and posted further growth of 13.8 per cent in the first two months of 2009. In January 2009, travel from China (including Hong Kong) to the U.S. grew 27.6 per cent, according to the OTTI.
- Unfortunately, direct air capacity to Canada is expected to decline by 8.1 per cent during the third quarter of 2009.

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

**Australia — Current Tourism Trends**

**Qantas seeing rapid deterioration in air travel demand:** Passenger numbers among Qantas group airlines plunged 8.4 per cent in February 2009, according to the company's latest performance statistics. Passengers on Qantas International services fell 16.8 per cent during the month. The airline noted, however, that February 2008 included an extra day because it was a leap year, which made year-over-year comparisons less favourable for February 2009.

In mid-April, Qantas announced it had downgraded its profit forecast for its current fiscal year by between 60 and 80 per cent, because of a "rapid and significant deterioration" in market conditions over the previous few weeks. The airline said its international passenger and cargo services were bearing the brunt of the global economic slowdown. Weaker air travel demand, particularly for premium classes, has forced the airline to implement deep airfare discounts—up to 50 per cent, in some cases. The airline said it would reduce international and domestic seat capacity by another 5 per cent, overall, and employ other cost-cutting measures to weather the downturn.

According to *Air Transport World*, Qantas is facing intense competition from Singapore Airlines on its international routes. At the beginning of April, Singapore Airlines slashed its fares on 82 international routes by up to 50 per cent.

**Australia lags behind most countries in vacation time usage:** A growing number of Australians are neglecting to use their vacation time allotment, making them nearly as vacation-deprived as Japanese and Americans, according to Expedia's latest Vacation Deprivation survey. Of the Australians polled for this year's study, 44 per cent admitted they did not take all of the vacation time provided by their workplace, up from 38 per cent in last year's survey.

Overall, Australians take an average of 15 vacation days a year—the third-lowest number after Americans, at 10 days, and Japanese, at 8 days. Last year, Australians left an average of 3 days of vacation time unused. Tourism Australia has a "No Leave, No Life" program that encourages Australians to take all their holiday time and to take more domestic vacations.

## Australia — Tourism Leading Indicator Index

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

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

### Economic Trends:

- The Conference Board's leading economic index for Australia increased 0.2 per cent in February, the first increase in six months. Still, despite the most recent gain, between August 2008 and February 2009, the leading index declined 3.9 per cent. However, the strengths and weaknesses among the components have stayed somewhat balanced in recent months. Unfortunately, the recent behaviour of the leading index still suggests the economy will remain weak in the near term.
- The Canadian dollar appreciated 9.8 per cent against the Australian dollar between March 2008 and March 2009. Despite declines in average airfares, 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:

- While Australian arrivals to Canada continued to grow at a respectable pace during much of 2008, visits late in the year were tracking downward. For the first two months of 2009, arrivals from Australia were down 6.3 per cent, compared with 2008. The rate of decline in visits to Canada has, so far, been slightly less negative than to the United States. According to the OTTI, travel from Australia to the U.S. decreased 14.7 per cent during January 2009.
- The level of direct air capacity between Canada and Australia over the third quarter of 2009 is expected the same as what it was during the same period in 2008.

Despite some recent easing in the extent of economic challenges, the Tourism Leading Indicator Index suggests that weakening travel trends will likely result in year-over-year declines in Australian travel to Canada 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.