



Tourism Intelligence Bulletin

Financial and Flu Concerns Curbing Global Travel Demand

Issue 52: July 2009

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

Bulletin Highlights

Tourism Overview: North America

■ **Financial worries continue to dampen Canadian travel demand:** The outlook for the domestic travel market is still relatively subdued, despite some recent improvements in Canadian economic conditions. A recent survey by The Conference Board of Canada revealed that financial worries continue to highly influence Canadians' summer vacation plans. Consequently, domestic travel is expected to stay weak over the near term.

On a positive note, few Canadian travel plans appeared to be affected by concerns about the influenza A(H1N1) epidemic. A Conference Board survey conducted about two weeks after the outbreak was first announced showed that only a small number of Canadian respondents not planning a summer vacation said the flu outbreak had influenced their decision not to travel. Moreover, half of this small group said they had planned to stay home this summer anyway. (See "Leisure Travel," page 5, and "Domestic Travel," page 11.)

■ **U.S. vacation intentions edged up slightly in June from their record low:** U.S. travel intentions edged up slightly in June from the record low hit in April, according to the latest Consumer Confidence Survey report by the U.S. Conference Board, Inc. However, U.S. consumer confidence retreated again that month after two months of solid gains, suggesting Americans are still pessimistic about economic conditions. (See page 6.)

■ **U.S. travellers expected to take fewer trips and stay closer to home this summer:** Two recent forecasts suggest Americans will take fewer leisure trips this summer than last year. And while substantially lower travel prices are helping to encourage U.S. domestic travel, Americans are expected to cut back on their travel spending by choosing more affordable options and staying closer to home. (See "U.S. travel forecast to decline this summer," and "Economic worries continue to affect U.S. travel decisions," page 6.)

In this issue

Bulletin Highlights	1
Tourism Overview: North America.....	5
Tourism Leading Indicator Index.....	11
Tourism Overview: International	13
Appendix: TLI Index Methodology	28



- **International companies have significantly reduced travel spending:** The vast majority of international companies polled have significantly reduced their travel budgets for 2009, according to a recent study. Nearly half of those polled had reduced their budgets by at least 10 per cent. In addition, most respondents said they were prioritizing travel related to business development and maintaining client relationships. (See page 7.)
- **Economic weakness and flu concerns reduced passenger traffic in May:** Canadian air travel demand continued to decline in May, reflecting the ongoing weakness in the Canadian economy and the effects of the influenza A(H1N1) epidemic on international travel. Weak market conditions and rising competitive pressures among Canadian airlines also continue to keep airfares dramatically lower. (See page 9.)
- **Canadian lodging revenues down sharply:** Slumping demand for business and leisure travel is leading to sharp losses in Canadian lodging revenues. Occupancy and room rates continued to slide in April 2009, driving down revenues per available room by 14.3 per cent from a year earlier, according to PKF Consulting. (See page 9.)

Tourism Overview: International

- **H1N1 flu caused severe drop in U.K. travel to Mexico and the U.S.:** The H1N1 flu outbreak had a catastrophic effect on U.K. bookings to Mexico, and also hurt U.K. bookings to the United States, according to media reports. In the week ending May 2, 2009, bookings to Mexico plunged 83 per cent while bookings to the United States fell 36 per cent from a year earlier. (See page 14.)
- **Interest in U.K. domestic holidays continues to rise:** Meanwhile, U.K. travellers appear increasingly interested in vacationing closer to home. Weather forecasts predicting a hot summer for Britain, combined with consumers' ongoing concerns about the economy, are fuelling expectations for a boom in U.K. domestic travel. (See page 14.)
- **French air travel still declining:** French air travel demand continues to decline, stifled by weak economic conditions. Aéroports de Paris recently downgraded its full-year passenger forecast for Paris airports this year because of deteriorating air travel trends. (See page 16.)
- **Sales at German travel agencies dropped sharply in May:** Sales at German travel agencies dropped sharply in May, largely because of a 26 per cent plunge in revenues from air-only bookings, according to the latest TATS survey. However, advance bookings for the summer travel period increased that month. Still, sales trends have been volatile since the beginning of this year, and prospects for the German travel market remain uncertain. (See page 18.)
- **Mexican tourism devastated by H1N1 influenza epidemic:** Mexico's tourism industry was devastated by the H1N1 flu epidemic that swept through the country in April and May. The government declared a health emergency in Mexico City, closing nearly all public places in an attempt to contain the virus, while hotel occupancy shrank to about 15 per cent. Passenger traffic on Mexican carriers plummeted by 40 per cent in May from a year earlier. (See page 19.)

- **Japanese travel to North America severely dampened by flu concerns:** The large exodus of Japanese travellers expected to head overseas for the Golden Week holiday in early May did not materialize this year, mainly because of concerns about the H1N1 flu outbreak. Government-issued travel warnings led to mass cancellations of trips to North America, including Canada. Still, bookings for overseas package tours departing in September have risen dramatically over last year, suggesting many Japanese travellers are only delaying their vacation plans. **(See page 21.)**
- **Korean and Chinese international travel demand hit by flu fears:** Korean and Chinese international travel plunged in May 2009, as travellers cancelled or postponed their travel because of concerns related to the H1N1 flu outbreak. Media reports suggested that in Korea, travel demand for U.S. destinations was most affected by these concerns. In China, the impact on outbound travel was more widespread, hurting travel demand to all of North America, as well as Europe and Japan. **(See page 23.)**
- **Economic downturn eroding Australian travel confidence:** Weak economic conditions have eroded Australian travel confidence this year, reducing outbound travel demand. In June, air travel bookings at Australian travel agencies were down by 12 per cent, with substantial decreases in bookings to North America and Europe, according to Amadeus. Moreover, bookings for business travel were down 36 per cent from the previous year. **(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 10. 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

Concerns about influenza A(H1N1) had little effect on Canadian vacation plans: It appeared that relatively few potential summer travel plans were negatively affected by concerns about the outbreak of influenza A(H1N1)—the virus that was originally referred to as “swine flu.” The Conference Board commissioned an online survey in the first week of May—about two weeks after news of the outbreak began dominating media headlines—to gauge the impact of the flu outbreak on Canadian travel plans. Among the Canadians respondents not planning a summer vacation this year, only 16.5 per cent said that the flu outbreak had highly influenced their decision not to travel. And of this small proportion of respondents, half indicated they had planned to stay home this summer anyway.

Similar to survey results seen earlier this year, financial concerns continue to have a high influence on summer travel plans. Among those not planning a summer vacation of a week or more this year, the high cost of travel and concerns about the economy and their jobs were rated as the top reasons for staying home.

Table 1: Reasons for Not Taking a Summer Vacation
(Per cent of Canadians not planning to take a leisure trip this summer;
respondents could choose more than one reason)

Factors that highly influenced the decision not to take a summer vacation this year:	May 2009
High cost of travel	39.8
Concerns about the economy/job	37.8
Concerns about H1N1 “swine” flu outbreak	15.1
Possible failure of airline or tour operator	19.2
Fear of flying	13.6

Source: The Conference Board of Canada

A similar survey of the U.S. market by Visa Inc. revealed similar results. Of the 1,000 Americans polled, only 7 per cent said that concerns about influenza A(H1N1) had affected their travel plans for 2009. The vast majority of respondents (84%) said the flu outbreak had not affected their intentions to travel.

Canadians are increasingly vacation deprived: The latest vacation deprivation survey conducted by Expedia.ca revealed that many employed Canadians continue to be reluctant to take all of their vacation time. In fact, more Canadians reported feeling vacation deprived this year (42% in 2009) than in last year’s survey (33% in 2008). About 24 per cent of Canadian employees said they would not use all their vacation days this year, leaving an average of two unused vacation days. Nearly a third (30%) of all respondents reported feeling guilty about taking time off work.

Hotel website a crucial factor in Canadians' lodging decisions: A recent survey by Synovate, a market research firm, suggests hotel websites have the highest influence on Canadian travellers' hotel choices. Of the Canadians polled, 44 per cent said looking at hotel websites was their primary method of researching accommodation options, followed by browsing hotel review sites (19%). Less than 1 per cent said they relied on advice from friends and colleagues. Canadian respondents were also more adventurous in choosing accommodations than people in most other countries polled for the study. Half of the Canadians polled (50%) said they would be open to trying a new hotel, while only 40 per cent of the Americans polled felt the same way.

U.S. vacation intentions edged up slightly in June from their record low: U.S. travel intentions edged up slightly in June, after dropping to a 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 37 per cent of Americans polled planned to take a vacation within the next six months, up from 34.6 per cent in April 2009. Results are adjusted to account for seasonal fluctuations in travel demand.

Overall U.S. consumer confidence retreated again in June, after recording solid improvements in the previous two months. The Consumer Confidence Index fell to 49.3 in June (1985 = 100), down from 54.8 in May. The Present Situation Index dropped 4.9 points to 24.8, and the Expectations Index slipped 6 points to 65.5. The index results suggest that American consumers still view economic conditions as weak, yet not as dire as earlier this year.

U.S. travel forecast to decline this summer: Two recent forecasts suggest Americans will take fewer leisure trips this summer than they did last summer. The U.S. Travel Association expects a 2.2 per cent decline in U.S. domestic travel volumes this summer, according to its latest forecast.

Americans were expected to take 1.9 per cent fewer trips over the July 4 holiday weekend this year compared with 2008, according to the latest forecast by the American Automobile Association (AAA). Auto travel over that weekend was expected to fall 2.6 per cent. Trips by air were expected to rise 4.9 per cent, but air travel will account for only about 5 per cent of all leisure travel that weekend.

AAA said economic concerns and a recent jump in gasoline prices were curbing travel plans, overall, but that cheaper airfares were helping to fuel growth in air travel demand. According to AAA's Leisure Travel Index, airfares for the holiday weekend were expected to fall by 16 per cent, and rates for mid-range hotels were expected to be an average of 12 per cent lower than last year.

Economic worries continue to affect U.S. travel decisions: Many Americans are still planning a leisure trip in 2009, but most travellers say they will reduce their travel spending by choosing more affordable travel options and staying closer to home. A recent survey by the United States Tour Operators Association (USTOA) revealed that over 40 per cent of Americans polled intended to stay closer to home while travelling this year. Nearly 40 per cent of respondents said they would avoid expensive areas while travelling. Only about 25 per cent said they would not take a leisure trip at all.

A May survey by Harris Interactive revealed that 46 per cent of Americans polled were planning to reduce their travel spending this summer. Cost-cutting strategies included choosing cheaper meal options and activities (60%), choosing less expensive lodging (52%), vacationing closer to home (50%), and staying with friends or family (39%). Another 35 per cent of respondents intended to reduce the length of their summer vacations this year, compared with 2008.

Nearly two-thirds (64%) of the Americans polled in an April survey by Deloitte planned to take a summer vacation this year, although half of this group said financial concerns were affecting their travel plans. To save money, 50 per cent of travellers said they would spend less on meals and accommodations, 46 per cent said they would take fewer trips, and 45 per cent said they would reduce the length of their trips.

Moreover, the majority of Americans believe it will be more expensive to travel this summer than it was in 2008. A recent survey by hotels.com revealed that 60 per cent of respondents anticipate a rise in travel costs this summer, while 22 per cent believe prices will be about the same. Only 18 per cent expect travel costs to be lower than they were last year.

Business Travellers

International companies have significantly reduced travel spending: The vast majority of international companies polled have significantly reduced their travel budgets for 2009, according to a study by American Express and CFO Research Services, reported by *Business Travel News*. Of the senior finance executives polled, 87 per cent said their companies had reduced their travel expenditures this year, and 44 per cent said their budgets had been cut by at least 10 per cent.

The survey also revealed that most companies were prioritizing spending for travel related to business development and maintaining client relationships. Of the companies polled, about two-thirds said they would maintain or increase trips to meet with clients, and 82 per cent said they would maintain or increase travel geared toward winning new business.

U.S. meeting planners expect event numbers to decline in 2009 and 2010: Most U.S. meeting planners expect the number of events they arrange in 2009 and 2010 to either decline or stay on par with 2008, according to a recent survey by Ypartnership, the Professional Convention Management Association, and American Express. Of the meeting planners polled, 44 per cent said they expected to plan fewer off-site meetings in 2009 and 2010 than last year, while 47 per cent expected their event numbers to stay about the same.

When asked about the main reasons why some companies were cutting back on events, nearly all of the respondents expecting a decrease (90%) blamed the cutbacks on the economic downturn. Over a third of this group (35%) also cited the negative publicity associated with corporate spending on meetings and conventions during the economic downturn. As a result, more than half of the meeting planners polled expected to reduce their use of “upper upscale and luxury” accommodations over the next two years. Respondents also planned to increase their use of travel alternatives, such as webinars (54% of respondents), teleconferencing (48%), and video-conferencing (30%).

Airlines

Weaker demand cut into first-quarter profits of Canadian airlines: Air Canada and WestJet both reported reduced profits for the first quarter of 2009, compared with a year earlier. Lower fuel prices helped cut the airlines’ operational costs, but this was not enough to overcome the negative effects of weak economic conditions and declining passenger demand, which, in turn, forced the carriers to drop their fares. Moreover, Easter fell in the second quarter this year, after falling in the first quarter last year, which made year-over-year comparisons even less favourable.

Air Canada recorded a net loss of \$400 million for the first quarter of 2009, widening the \$288 million loss reported for the same quarter of 2008. Passenger revenues decreased 13 per cent, largely because of a 10.9 per cent decline in traffic (measured in revenue passenger miles) and a 2.3 per cent reduction in passenger yields (the average price paid per RPM, excluding taxes). The airline said it continued to face a “very difficult economic environment,” which is expected to persist through the rest of this year. In response to weaker passenger demand, the airline plans to increase its system-wide capacity reductions in 2009 to between 4 and 5 per cent, with a 3 to 4 per cent reduction on domestic routes.

WestJet posted a net profit of \$37.4 million for the first quarter of 2009, a 28.7 per cent drop in earnings from a year earlier. Revenues for the quarter dipped 3.3 per cent from the previous year, hurt in part by the 8.1 per cent drop in passenger yields, even though passenger traffic grew 5.1 per cent during the period. The airline blamed softening passenger demand and “aggressive competitor pricing” for its decrease in quarterly revenues. WestJet also adjusted its capacity plans in response to weaker demand, reducing its second-quarter capacity growth to between 1 and 2 per cent.

Economic weakness and flu epidemic reduced passenger traffic in May: Canadian air travel demand continued to decline in May, reflecting the ongoing weakness in the Canadian economy as well as the effects of the influenza A(H1N1) epidemic on international travel. Both airlines suspended flight services to Mexican vacation destinations in response to a government-issued travel warning about the flu outbreak in Mexico.

Weaker passenger demand also continues to restrain airfares, intensifying competitive pressures for Canadian airlines. According to a research note issued at the end of May by investment firm Raymond James, the lowest available fares for travel six weeks away were down “dramatically” on nearly all of Air Canada’s and WestJet’s domestic routes. In a subsequent note issued in June, the firm stated there was “too much capacity in the domestic market for the current economic environment and fuel price reality.”

In May 2009, Air Canada’s system-wide passenger traffic (measured in revenue passenger miles), including mainline and regional operations combined, fell 10.3 per cent from the previous year. Traffic on domestic routes fell 10.6 per cent, and traffic on transborder U.S. flights slid 11.8 per cent. International traffic decreased 9.6 per cent, overall, with a 17 per cent plunge in traffic to Latin America.

WestJet’s passenger traffic slipped 5.8 per cent in May from a year earlier, while capacity grew 1.2 per cent. In its press release, WestJet said the “weakened economy and aggressive pricing” were bringing down airfares, cutting into the airline’s revenues for the second quarter. The airline expected its revenues per available passenger mile for the quarter to be down by as much as 18 per cent, year-over-year.

WestJet announced at the end of May that Southwest Airlines had decided to delay its codeshare agreement with WestJet for at least a year, in light of the poor market conditions facing the current market. The codeshare agreement, which was originally slated to go into effect at the end of 2009, would have allowed the airlines to begin selling seats on each other’s flights, expanding Canada–U.S. transborder market opportunities for both carriers.

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

Airline	RPMs (in millions) May 2009	RPM change 2009 vs. 2008	Capacity 2009 vs. 2008
Air Canada mainline (includes Jetz & Tier 3)	3,546	-10.4%	-6.7%
Air Canada Regional (Jazz)	317	-9.2%	+0.2%
WestJet	1,064	-5.8%	+1.2%

U.S. air travel demand continues to slump: U.S. air travel demand is still falling, as weak economic conditions continue to take their toll on travel demand, according to the latest figures from the Air Transport Association of America (ATA). The number of passengers travelling on U.S. airlines fell 9.5 per cent in May 2009 from a year earlier. Moreover, passenger revenues declined in May for the seventh consecutive month, plummeting 26 per cent from a year earlier. At the same time, average prices paid by passengers dropped 17.6 per cent. The ATA attributed the negative performance to a combination of the weak global economy and the effects of the H1N1 flu epidemic on international travel demand.

The ATA also forecast a significant decline in U.S. air travellers this summer. It expects a 7 per cent decrease in passengers travelling on U.S. carriers between June 1 and August 31, 2009, compared with a year earlier. Domestic passengers are expected to fall 7 per cent, and international passengers are expected to slip 6 per cent during the period.

Hotels

Canadian lodging revenues down sharply because of slumping travel demand: Deteriorating business and leisure travel demand is leading to sharp losses in Canadian lodging revenues. The latest *National Market Report* by PKF Consulting revealed that average daily rates in Canada slipped 3.5 per cent in April 2009 from a year earlier. Occupancy fell 7 percentage points, and revenues per available room (RevPAR) plummeted 14.3 per cent.

Demand for Canadian accommodations dropped 8.6 per cent in April from the previous year, according to the latest *Canadian Lodging Outlook* by HVS International. In the first four months of the year, hotel demand was down by 5.6 per cent, year-over-year, while hotel room supply in Canada increased 1.4 per cent.

Canadian hotel operators growing more pessimistic: Canadian hotel operators are growing increasingly pessimistic in their short-term outlook, according to the latest Business Conditions Survey of the traveller accommodation industries by Statistics Canada. Of the hotel operators polled in March and April 2009, 78 per cent expected their bookings and occupancy rates to fall in the second quarter of 2009 compared with a year earlier. Nearly the same number (73%) expected fewer corporate travellers.

Furthermore, the number of hotel operators reporting business impediments continued to rise. The most frequently cited business impediments were regional economic conditions (54%), excess room supply (36%), and exchange rate fluctuations (28%).

U.S. lodging demand still on a downward spiral: U.S. lodging demand continues to spiral down, according to the latest figures from Smith Travel Research, Inc. Average U.S. occupancy slid 11.8 per cent in May 2009 from a year earlier, and average daily rates were down 9.8 per cent. As a result, nationwide RevPAR plummeted 20.4 per cent. Although the deterioration in demand appeared to be stabilizing, Smith Travel Research said it was becoming “increasingly alarmed at the accelerating decline in average room rates.”

Travel Agents And Other Suppliers

Growth in Canadian bookings helps boost Transat's profitability: Transat A.T. Inc. posted a net profit of \$42.2 million for its second quarter ended April 30, 2009, a slight increase from the \$ 41.7 million profit earned in the same quarter a year earlier. Revenues for the quarter were up 5 per cent, boosted by an increase in Canadian travellers and the strength of the euro. However, the company continued to face intense competition in the sun destination market, reducing its profit margin to 3.5 per cent, down from 6.6 per cent a year earlier.

Looking ahead to the third quarter, Transat reported that Canadian bookings for travel to sun destinations and to Europe were on par with the previous year. However, bookings to Canada originating in Europe were slightly behind. It also reported that competition on transatlantic routes was rising, increasing the downward pressure on prices.

Tourism spending in Canada decreased during the first quarter: Tourism spending in Canada fell 3.1 per cent in the first quarter of 2009 compared with the same quarter of 2008, according to the latest figures from Statistics Canada. Spending on transportation declined 7.5 per cent, while spending on accommodation slipped 1.5 per cent. Canadians spent 1.8 per cent less on tourism goods and services during the quarter, while spending by international visitors dropped 9 per cent.

U.S. tour operators dropping their prices as demand wanes: Prices among U.S. tour operators have fallen by an average of 20 per cent from last summer because of softer demand and the strengthening value of the U.S. dollar, according to the United States Tour Operators Association. To stimulate demand, tour operators are offering discounts for summer tour packages ranging from 10 to 50 per cent.

U.S. tour operators expect a 17 per cent decline in sales this year, according to a new study of the U.S. tour package market by the American Society of Travel Agents and PhoCusWright. However, growth is expected to return next year, with a 2 per cent increase in sales projected for 2010.

The study also revealed that U.S. travel agents accounted for 69 per cent of package tour sales in the United States in 2008. The remainder of bookings were made directly by consumers. Operators of package tours and fully independent tours accounted for 68 per cent of the overall market, while escorted tour operators accounted for 24 per cent, and group specialists made up 8 per cent. Looking ahead, 62 per cent of tour operators expected to expand their sales via direct online bookings, while 34 per cent expected to expand their sales via travel agencies.

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 (May 2009) Tourism Intelligence Bulletin.

Economic Trends:

- Real gross domestic product (GDP) in the Canadian economy slipped a further 0.1 per cent in April 2009, the ninth consecutive monthly decline. Year-over-year, Canada's economy declined 3 per cent in April. Over the past year, the largest declines in economic activity have been in manufacturing and wholesale trade; however, few sectors of the economy have been immune to the effects of the global economic crisis.
- Employment continued to fall in May, shrinking by 42,000 jobs. Since October 2008, employment in Canada has declined by 363,000. May's largest job losses occurred in manufacturing—with many of those jobs lost in Ontario.
- According to the Conference Board's Index of Consumer Confidence, confidence edged up in June for the fourth consecutive month, increasing 0.7 points from May to 82.1 (2002 = 100). Since February, the index has increased 13.3 points. Responses indicate that consumers are feeling increasingly confident about their current and future financial situation. However, the indicator measuring consumer attitudes about major purchases decreased in June, breaking a string of seven consecutive months of improvement on that particular question.

Traveller and Supplier Trends:

- Domestic air travel has slowed significantly since July 2008 and has posted negative year-over-year growth since September. The number of domestic enplaned and deplaned passengers at Canada's top 30 airports declined by 7.1 per cent in April 2009 from a year earlier.
- Canadian hotel occupancy rates also continue to slip. According to PKF Consulting, average occupancy in April declined 7 percentage points in Canada, year-over-year. For the first four months of 2009, the average occupancy rate was 4.6 percentage points behind 2008. Meanwhile, the average daily room rate for hotels in Canada slipped 1.8 per cent over the first four months of the year.
- On a slightly more positive note, gasoline prices in many Canadian communities remain lower than last year, averaging around the \$0.90 to \$1.00 per litre range. But Canadian households continue to be vigilant about economizing wherever possible, likely offsetting some of potential boost that lower gas prices could have on discretionary automobile travel in the near term.
- In line with more modest economic means and a weaker currency, Canadian travel to the U.S. continued to cool. The latest figures show that overnight travel to the United States in April dipped 0.9 per cent over the previous year. Meanwhile, overnight trips to international destinations still managed to increase 4.7 per cent in April.
- As carriers continue to adjust to the changing environment, direct air capacity for travel within Canada is now slated to decline 1.3 per cent over the third quarter of 2009 compared with the same period in 2008.

Overall, the Tourism Leading Indicator suggests that, despite some improvement in economic conditions, domestic growth prospects will remain weak over 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 (May 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for the U.S. increased 1.2 per cent in May, the second consecutive increase. In the six months through May, the index increased 1.2 per cent (about a 2.4 per cent annual rate). This marks the first time since July 2007 that the six-month rate of change in the index has not been negative. In addition, the strengths and weaknesses among the leading indicators have become more balanced in recent months. The recent behaviour of the leading economic index suggests that the economic recession is likely to ease in the near term.
- While the Canadian dollar has recently started to appreciate on a year-over-year basis, the Canadian dollar was still 13 per cent weaker in May 2009 than in May 2008. As a result, Canada's price competitiveness for U.S. travellers is expected to receive a boost over the third quarter of 2009 from both a weaker currency and lower average airfares to Canada.

Traveller and Supplier Trends:

- Aided by a stronger U.S. dollar, overnight U.S. travel to Canada increased 5.1 per cent in April, compared with the previous year. During this month, overnight automobile travel to Canada soared 17.6 per cent but overnight non-automobile travel declined 11.2 per cent from a year earlier. While this is a positive sign overall, for the first four months of 2009, overnight travel from the U.S. remained down 4 per cent compared with 2008.
- Unfortunately, direct air capacity between Canada and the United States is expected to decline by 8.5 per cent over the third quarter of 2009.

Excluding the potential effect of new passport rules under the June 1, 2009, Western Hemisphere Travel Initiative (WHTI) implementation date for travellers returning to the U.S. by land or water, the traditional determinants of the Tourism Leading Indicator Index would suggest that weak economic conditions and weak supplier trends will result in modest declines in U.S. travel to Canada over the near term. Considering the WHTI implementation for land and water border crossings is now active, the Tourism Leading Indicator for U.S. travel to Canada suggests U.S. visits are likely to post more significant declines 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) fell 6.5 per cent in May 2009 from the previous year. Premium traffic volumes (business and first-class) plunged 17.2 per cent, while non-premium traffic (economy) declined 4.2 per cent. The airline noted that market conditions remained “unchanged” from previous reports.

In May, British Airways released its financial results for the full year ended March 31, 2009, posting a record net loss of GBP358 million (C\$686 million)—a severe decline from the GBP726 million net profit reported for the previous year. The airline blamed the loss on the “bleak trading environment,” characterized by high fuel costs in 2008 and weak demand. The airline's chief executive said current market conditions were the “harshest trading environment” the airline had ever faced, with no improvement expected over the short term. Looking ahead, the airline plans to cut its capacity for the winter season by 4 per cent from the previous year.

The British Airport Authority's seven U.K. airports handled 11.8 million passengers in May 2009, a 7.3 per cent decrease from the previous year. All markets continued to see a decrease in air passengers during the month. Passengers on European charter and scheduled flights were down 20.5 per cent and 5.2 per cent, respectively, and traffic on North Atlantic routes was down by 9.1 per cent. An article in the *Guardian* stated that if traffic at British airports registers a collective decrease again this year, following the decline in 2008, it would be the first time since the Second World War that passenger traffic has decreased for two consecutive years.

Table 3. Percentage Change in Passengers Carried

Carrier	May 2009 vs. May 2008
British Airways	-7.3%
Ryanair	+9%
easyJet	+1.8%

H1N1 flu caused severe drop in U.K. travel to Mexico and U.S.: The H1N1 flu outbreak had a catastrophic effect on U.K. bookings to Mexico, and also hurt U.K. bookings to the United States, according to media reports. Statistics from Gfk Ascent-MI, a market research firm, revealed that U.K. bookings to Mexico plunged by 83 per cent, year-over-year, in the week ending May 2, 2009, during the height of the media coverage of the flu outbreak. In that same week, bookings to the United States fell by 36 per cent. In the weeks prior to the outbreak, bookings to Mexico had been up by about 12 per cent, while bookings to the United States had been down by about 6 per cent.

Fewer British residents travelled abroad during May bank holiday: The Association of British Travel Agents (ABTA) expected fewer British travellers to travel outside the country during the holiday long weekend at the end of May. About 1.8 million British residents were expected to take a trip abroad between May 22 and 25, down from 1.9 million a year earlier.

Interest in domestic holidays continues to rise: Meanwhile, recent research suggests U.K. travellers are increasingly interested in taking holidays closer to home. Weather forecasts predicting a hot summer for Britain, combined with consumers' ongoing concerns about the economy, are leading the industry to expect a boom in U.K. domestic travel this summer.

- Hotels.com reported in May that searches for many popular British resort areas had more than doubled in recent months compared with a year earlier. The press release on the website noted that British hotel rates have dropped since last year, helping to boost interest in domestic destinations.
- Another survey by Travelodge, a global hotel chain, suggests the percentage of British residents planning an outbound holiday in 2009 has dropped to 27 per cent, down from 33 per cent in 2008. Travelodge expects a boom in U.K. domestic travel this summer.
- A recent survey by holiday-rentals.co.uk revealed that 67 per cent of British families polled intended to spend less on their main holiday this year than they did two years ago. Families polled intended to spend an average of GBP2,092 on their main summer holiday, which was GBP259 less than two years ago. Staying in the U.K. for their summer vacation was the most popular strategy among respondents for cutting back on holiday spending.
- A survey by Tesco Travel Money suggested that 34 per cent of British travellers will spend less on their summer vacation this year than they did in 2008, with 12 per cent spending "significantly less."

U.K. travel companies report uptick in business: Thomas Cook and TUI, the U.K.'s two largest travel companies, continued to present an upbeat picture of their performance in the British travel market in their latest trading statements. Despite the economic downturn, both companies have been able to maintain large increases in average selling prices for the summer season, mainly because of the sharp reduction in capacity from last year. However, overall bookings are still tracking well below last year's levels, and financial uncertainty continues to affect travel confidence, resulting in later booking patterns. In addition, Thomas Cook and TUI reported a severe drop in bookings to Mexico because of concerns over the H1N1 flu outbreak.

Thomas Cook reported its U.K. sales were "robust" despite "tough economic conditions," with average selling prices up significantly over last year. In the three weeks leading up to its May update, the company's U.K. bookings—to all destination except Mexico—were down 10 per cent from a year earlier, but average selling prices were up 15 per cent. Thomas Cook said it continued to see strong demand for all-inclusive packages and medium-haul destinations outside the eurozone.

TUI reported its average selling prices for the summer were up by 10 per cent over last year. In the eight weeks leading up to its May update, bookings were behind by 11 per cent. TUI experienced an upsurge in long-haul bookings during that period, despite the effects of the flu outbreak on travel to Mexico.

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 (May 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for the U.K. increased 0.9 per cent in April, the first increase since October 2007. Meanwhile, the six-month change in the leading index stood at -3 per cent (about a -6 per cent annual rate) in April. 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.
- Since the fall of 2008, the British pound has continued to slip in value compared with the Canadian dollar. As a result, the cost of a seven-night stay in Canada during the third quarter of 2009 for U.K. travellers, including airfare, hotels, meals, and other items, is expected to increase 12.6 per cent, year-over-year. However, compared with the 16.6 per cent increase in travel prices expected for U.K. travellers to other competitive destinations, Canada's price competitiveness could get a bit of a boost during the third quarter of 2009.

Traveller and Supplier Trends:

- The number of U.K. visitors to Canada increased a slight 1.4 per cent in April. However, travel from the U.K. had been declining since April of last year, and so year-to-date arrivals were still down 17.5 per cent in the first four months of 2009. Overall U.K. outbound travel is also retreating, with U.K. visits to North America between February and April 2009 down 22 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.
- Direct air capacity on scheduled flights from the U.K. to Canada is expected to shrink by 11.9 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 still declining: Air France-KLM posted a net loss of 814 million euros (C\$1.3 billion) for its fiscal year ended March 31, 2009—a stark contrast from the net profit of 756 million euros earned a year earlier. The airline said the economic downturn in the second half of its fiscal year wiped out the “resilient performance” of its first half, in particular for business travel and cargo demand. Looking ahead, the airline said the outlook remained very uncertain, although it had recently seen “some signs of stabilization.”

The airline continued to experience a decline in passenger traffic in May, although part of this decrease from last year was attributed to an extra public holiday that fell in May this year. Passenger traffic (measured in revenue passenger kilometres) dropped 8.1 per cent in May, and the number of passengers carried fell 7.8 per cent, year-over-year. Traffic on its domestic and European routes decreased 7.4 per cent, and traffic on North and South American routes fell 9.8 per cent.

In late May, Air France-KLM and Delta Air Lines announced a joint venture to integrate their transatlantic flight services, sharing the revenues and costs of their transatlantic operations. Together, the two airlines will operate 200 transatlantic daily flights with a capacity of 50,000 seats, accounting for about 25 per cent of the transatlantic air travel market.

Passenger numbers at airports serving Paris fell 6.3 per cent to 7.2 million in March 2009, according to the latest statement by the airports’ administrative authority, Aéroports de Paris. Domestic passenger numbers decreased 4.9 per cent from a year earlier, and passengers on European routes fell 7.2 per cent. Passengers on routes serving North America plunged 8.1 per cent during the month.

The airport authority reduced its full-year forecast again, because of the deterioration in passenger demand since the beginning of the year and the weak global economic outlook. It now expects passenger numbers to fall between 4.5 per cent and 6.5 per cent in 2009, year-over-year. Previously, it expected a decrease of 2.5 to 4.5 per cent.

French consumer confidence rising, but very slowly: French consumer confidence has been edging up since February 2009, mainly because of a steady—albeit sluggish—improvement in consumers’ outlook regarding personal finances, according to the latest consumer confidence survey from INSEE, France’s National Institute for Statistics and Economic Studies. However, it still remains very low. The summary indicator recorded an overall reading of –40 in May 2009, an increase of one percentage point from the previous month. This reading represents the difference between positive and negative responses, which are seasonally adjusted.

The indicator measuring consumers’ propensity for big-ticket purchases also registered a slight uptick. Analysts expect consumer spending in France to increase slightly in the second quarter of 2009, although mounting job losses in the country continue to weigh heavily on consumer sentiment overall.

French consumers highly influenced by brands: A recent study suggests French consumers are more likely than consumers in other markets to be influenced by branding when making purchasing decisions. As a result, many international brands have developed more comprehensive brand strategies for the French market, according to *France Online: Where Brand Matters*, a report by emarketer.com.

The report quoted a study by Market Audit, a market research firm, that revealed brand marketing tools such as loyalty cards, websites, and advertising had the highest influence on the purchasing behaviour of French Internet users. In contrast, social networking strategies such as user reviews, online forums, and blogs had a much lower influence.

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 (May 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for France increased 0.6 per cent in April. Since October 2008, the leading index has declined at a 6.3 per cent annual rate, and the weaknesses among the leading indicators have remained widespread. The recent six-month rate of decline is a slight improvement from the -8.5 per cent annual rate of decline over the previous six-month period. Still, the recent behaviour of the leading economic index suggests that economic weakness is likely to continue over the near term.
- While the Canadian dollar has recently strengthened against the euro, it is still slightly weaker than it was a year ago. As a result, the average cost of a seven-night stay in Canada, including airfare, hotels, meals, and other items, is expected to decrease 3.1 per cent for French travellers during the third quarter of 2009.

Traveller and Supplier Trends:

- In April, visits from France increased 7.1 per cent year-over-year. Overall, visits for the first four months of 2009 were only up a modest 0.6 per cent from 2008. Travel to the U.S. has also experienced modest gains in travel from France: the U.S. Office of Travel and Tourism Industries (OTTI) reported that French travel to the U.S. increased 1.1 per cent during the first three months of 2009.
- During the third quarter of 2009, direct air capacity between France and Canada is set to increase 2.2 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 remain flat or decline slightly over the near term as economic challenges continue and outbound travel trends remain relatively subdued.

Germany — Current Tourism Trends

German air travel demand still deteriorating: Deutsche Lufthansa AG reported that passenger demand continued to weaken through May 2009, in particular on routes to North and South America. Passenger traffic (measured in RPKs) among Lufthansa group airlines decreased 6.9 per cent in May from a year earlier. Traffic on European routes, including Germany, fell 2.4 per cent, while traffic on routes to North and South America plunged 13.1 per cent.

In June, Lufthansa announced its financial outlook for the current fiscal year had worsened because of "persistently weak" passenger and cargo demand, changes in travel behaviour, and rapidly rising fuel prices. While demand for economy travel has stabilized, demand for premium classes continues to fall. To help bolster its finances, the company plans to heighten its focus on cost-saving measures this year. According to *Air Transport World*, Lufthansa's chairman and CEO recently said he expected a 10 per cent decrease in passenger numbers this year and a 20 per cent reduction in revenues.

Passenger numbers at Frankfurt Airport dropped 6.3 per cent in May to 4.4 million. Passengers on domestic and European routes fell 10.4 per cent and 7.2 per cent, respectively, while passengers on routes to North America plunged 12.6 per cent.

TUI and Thomas Cook continue to see later booking patterns in Germany: In their latest trading statements released in mid-May, TUI and Thomas Cook both noted that the trend toward later bookings continued to persist in the German travel market. Thomas Cook reported its German bookings for the summer travel season had picked up in the previous three weeks, tracking at a pace that was down by 5 per cent from a year earlier. However, selling prices were up by 1 per cent. Air-only bookings performed better during that period (–2%), with yields that were “up significantly” from last year.

TUI reported that its German bookings for the summer season were down 10 per cent and sales were down by 12 per cent, with a 1 per cent decline in average selling prices. However, TUI noted that proportionately more of its customers were choosing luxury products: the share of bookings for four- and five-star accommodations had increased by 3 percentage points from a year earlier.

Sales at German travel agency dropped sharply in May: Sales at German travel agencies were still down significantly in May, year-over-year, although advance bookings were up, according to the latest TATS survey of 2,400 German travel agents, reported by *fww*, a travel industry journal. Overall travel agency revenues were down by 17.9 per cent in May, largely because of a 25.5 per cent decrease in air-only sales. Holiday package sales were down by 8.5 per cent.

In contrast, advance bookings for summer travel up to the end of October 2009 grew by 5.8 per cent in May, year-over-year. Still, revenues from advance bookings were down by 3.9 per cent, which suggests tour operators have been dropping their prices to stimulate business.

According to *fww*, prospects for the German travel industry this year are “much worse than last year.” Rewe, the leading travel agency in Germany by sales, forecast a contraction in the German travel market this year, in particular for business travel. In 2008, revenues among all travel agencies in Germany grew 2.1 per cent, with a 3.5 per cent increase in leisure sales and a slight drop (–0.8%) in business travel sales from the previous year. The journal noted that travel agents are “hoping for a wave of late bookings to save the summer season.”

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 (May 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Germany increased 0.4 per cent in April, the first monthly increase since October 2007. The slight gain in the index was attributed primarily to increasing stock prices, which more than offset negative contributions from weaker consumer confidence. However, the leading index has declined at a 20.5 per cent annual rate since October, and the weaknesses among the leading indicators remain widespread. While the recent behaviour of the index suggests that the economic downturn is unlikely to end soon, the pace of contraction may moderate over the near term.
- Canada's price competitiveness for the German market is projected to improve during the third quarter of 2009, aided by the relative 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 4.8 per cent year-over-year for German visitors.

Traveller and Supplier Trends:

- Although German arrivals to Canada in April surged 10.6 per cent compared with last year, the year-to-date arrivals were up by a more modest 6.2 per cent, year-over-year. Meanwhile, the OTTI reported that German visits to the U.S. declined 14.7 per cent over the first three months of 2009.
- During the third quarter of 2009, direct air capacity between Germany and Canada is scheduled to stay on par with the same quarter of 2008.

Despite some progress in price competitiveness, the Tourism Leading Indicator Index suggests that the growth potential of the German market for Canada will remain modest as economic conditions continue to dampen outbound travel intentions.

Mexico — Current Tourism Trends

Mexican tourism devastated by H1N1 influenza epidemic: Mexico's tourism industry has been devastated by the H1N1 "swine" influenza epidemic that swept through the country in April and May. The government declared a health emergency in Mexico City, where the highest concentration of infections were found, closing schools, museums, historical sites, restaurants, and other public places in an attempt to contain the virus. According to *El País*, a Spanish newspaper, hotel occupancy in the city plummeted to about 15 per cent during the first weekend of May. The Associated Press reported that the shutdown of public places cost the country's economy an estimated US\$2.2 billion in the first 10 days after the outbreak was announced. In addition, the International Air Transport Association reported that Mexican carriers suffered a 40 per cent drop in passenger traffic in May, year-over-year.

The Mexican government expects the effects of the flu epidemic to reduce the country's GDP by as much as 1 per cent this year. Part of the projected impact stems from the aggressive actions some countries took in response to the outbreak, including suspending all flights to and from Mexico and banning Mexican pork products. In addition, government officials have criticized some countries for unfairly discriminating against Mexican citizens travelling abroad, suggesting these actions have hurt Mexico's diplomatic relations with these countries. In contrast, Mexican officials praised the governments of the United States and Canada for their appropriate responses to the flu outbreak.

Latin American passenger traffic increased in April Latin American airlines saw their combined passenger traffic (measured by RPKs) rise by 3.3 per cent in April 2009, year-over-year, according to the Latin American air transport association (ALTA). The number of passengers edged up 0.4 per cent to nearly 9.4 million. Year-to-date traffic among members increased marginally that month (0.7%) over the previous year. The timing of the Easter holiday this year likely contributed to the growth in April.

Table 4. ALTA Airlines*

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

Regional Destination	RPK change 2009 vs. 2008	Passengers Carried 2009 vs. 2008
Intra-Latin America (scheduled and charter)	-5.0%	-0.5%
Extra-Latin America (international)—total	20.6%	6.9%
North America	39.8%	9.8%
Europe	4.7%	10.0%
Asia-Pacific	-0.7%	2.1%
Total	3.3%	0.4%

Source: Latin American air transport association (ALTA).

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

Mexican consumer confidence plunged to record low in May: Mexico's consumer confidence plunged in May to a record low, hurt by the negative effects of the H1N1 flu outbreak and rapidly deteriorating economic conditions, according to Dow Jones International News. INEGI, Mexico's national statistics agency, said the consumer confidence index fell to 78.3 in May 2009, down from 82.1 a month earlier.

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 (May 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board of Canada's leading economic index for Mexico increased 2.9 per cent in April. Gains in the real effective exchange rate, stock prices, and the price of oil all made significant positive contributions to the index. However, during the six-month period ending in April, the leading index declined 5.5 per cent, or 10.6 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 the economy is likely to keep shrinking over the near term but that the pace of contraction may moderate.
- Compared with the Mexican peso, the value of the Canadian dollar increased nearly 10 per cent between May 2008 and May 2009. However, coupled with significant declines in average airfares, the cost of a seven-night stay in Canada for Mexican travellers is expected to increase by only a modest 0.9 per cent during the third 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 7.7 per cent.

Traveller and Supplier Trends:

- Prior to the height of the H1N1 flu outbreak, travel from the Mexican market had increased 30.2 per cent in April. Over the first four months of 2009, travel from Mexico fell 7.8 per cent compared with the same period in 2008. Meanwhile, Mexican arrivals to the U.S. interior (beyond the 40 kilometre U.S. border zone) have weakened considerably. According to the OTTI, arrivals were 26.3 per cent lower in the first three months of 2009 than they were during the same months in 2008.

- Direct air capacity between Canada and Mexico is projected to decline 5.7 per cent during the third quarter of 2009. Further changes to air capacity are still likely as airlines adjust their flight schedules to accommodate the latest travel concerns related to the H1N1 flu.

Even excluding the effects of the H1N1 flu on travel, the traditional determinants of the Tourism Leading Indicator Index would suggest that weaker economic conditions and weaker travel trends will pose a significant challenge for Mexican travel to Canada over the near term. It is likely that this downward trend will persist, in part because of the continuing negative impact of the H1N1 flu on travel to and from Mexico.

Japan — Current Tourism Trends

Japanese airlines record huge profit losses: Japan Airlines (JAL) and All Nippon Airways (ANA) both reported large profit losses for their fiscal year ending April 30, 2009, citing poor economic conditions and weak air travel demand as the main reasons for their financial woes. Both airlines expect these difficult conditions to persist throughout their current fiscal year.

ANA recorded its first full-year loss in six years, posting a net deficit of 4.2 billion yen (C\$51 million) for the year, compared with a net profit of 64.1 billion yen a year earlier. ANA said that passenger revenues for the year dropped 6 per cent, noting that business travel demand on European and North American routes plummeted by more than 25 per cent during its final quarter.

JAL posted a net loss of 63.1 billion yen for its 2008–09 fiscal year, compared with a net profit of 16.9 billion yen in 2007–08. The airline's revenues for international and domestic routes fell 6.7 per cent and 1.6 per cent, respectively. In early June, the Japanese government announced it had arranged for the airline to receive an emergency loan of about 100 billion yen.

Passenger numbers at Tokyo's Narita International Airport dropped by 13 per cent in May 2009 from a year earlier. Japanese passengers on international flights plunged 17 per cent, while passengers on domestic flights fell 4 per cent.

Japanese travel to North America severely dampened by flu concerns: The large exodus of Japanese travellers expected to head overseas for the Golden Week holiday, from April 28 to May 6, 2009, did not materialize this year, largely because of travellers' concerns about the H1N1 flu outbreak. Before the flu outbreak, the Japanese travel industry had expected strong growth in outbound holidays during Golden Week, fuelled by the strengthening value of the Japanese yen and recent reductions in airline fuel surcharges.

Japan Airlines saw only a small increase in passengers during Golden Week, although it had projected double-digit growth in travel volumes before the flu outbreak occurred. Passengers on international flights rose 3.9 per cent, year-over-year, with strong growth on routes to China (20.4%), Hawaii (12.5%), and Southeast Asia (9.5%). But passengers on transpacific routes plunged 8.2 per cent, as Japanese travellers avoided North American destinations. Domestic passengers edged up 0.8 per cent.

According to *Dow Jones International News*, 10 major Japanese travel agencies cancelled all tours to Mexico after news broke of the flu outbreak there. Some Japanese travellers also cancelled trips to other affected areas, including Canada and the United States, after the Japanese government issued a warning about travelling to countries where flu cases had been reported. JTB Corp., Japan's largest travel agency, said its cancellation rate for overseas bookings for the holiday was 7 per cent this year, up from the typical average of about 1 per cent.

Still, many Japanese tourists carried through with their plans to travel abroad during Golden Week. Nikkei Weekly reported that JTB Corp. saw a 4 per cent year-over-year rise in the number of tour package clients heading overseas during the holiday. Kinki Nippon Tourist Co. and Hankyu Travel International Co. also reported growth for the period.

Unfortunately, concerns about the flu outbreak appeared to gain momentum through the month of May, resulting in a severe decline in overseas package bookings for travel over the short term. JTB Corp. and Nippon Travel Agency Co. are suffering double-digit decreases in travel package sales for overseas trips departing in July and August, according to *Nikkei Report*. Bookings for travel to North America, in particular, have fallen by as much as 70 per cent.

However, many travellers appear to be only delaying their overseas travel plans until later in the season. In mid-June, JTB and Nippon reported their bookings for overseas package tours departing in September had risen dramatically over last year, jumping by 72 per cent and 90 per cent, respectively.

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 (May 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Japan declined a further 2.9 per cent in April. Between October and April, the leading index fell 25.9 per cent (or 45.1 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 very widespread. Still, while the recent behaviour of the index suggests the current contraction in economic activity will continue, it will probably ease over 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 May 2008 and May 2009, the Japanese yen appreciated 24 per cent against the Canadian dollar. This has contributed to the estimated 23 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 third quarter of 2009.

Traveller and Supplier Trends:

- Unfortunately, visits from Japan to Canada continue to be weak. During the first four months of 2009, visits from Japan were down 21.6 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 10.7 per cent in the first three months of 2009.
- The most recent snapshot of air capacity suggests direct air capacity on scheduled flights from Japan will decline 13.6 per cent during the third quarter of 2009.

Economic conditions in Japan remain quite weak. Despite solid gains in price competitiveness, the Tourism Leading Indicator Index suggests Japanese arrivals to Canada will likely keep declining over the near term.

South Korea — Current Tourism Trends

Korean airlines reported substantial losses for first quarter: Korean Air and Asiana Airlines, South Korea's two major carriers, both posted significant losses for the first quarter of 2009. Korean Air reported a net loss of 526 billion won (C\$475 million) for the quarter, recording its sixth consecutive quarterly loss. The airline blamed deteriorating global economic conditions, the weaker value of the won, and declining travel demand for its poor financial report. International passenger traffic (measured in RPKs) slid 3.1 per cent during the quarter, while domestic passenger traffic plummeted 18.5 per cent from a year earlier. Meanwhile, *Air Transport World* reported that Asiana posted a loss of 227 billion won for the quarter, down from a 106.3 billion profit a year earlier.

In June, both airlines announced they were raising their international airfares to help bolster their struggling finances, according to *JoongAng Daily*, a Korean newspaper. Korean Air was to raise fares on some international routes as of July 1, 2009, including a 10 per cent increase on fares to the United States. The airline noted that it had seen a recent improvement in overseas travel demand. Asiana raised its international fares by between 5 and 15 per cent on June 1. This is the first time since 2006 that either airline has raised its international fares.

Korean international air travel demand hit by flu fears: Korean international travel volumes plunged in May 2009, as concerns about the H1N1 flu outbreak squelched travel demand. The latest statistics from Seoul's Incheon International Airport show that overall passenger numbers plummeted 15.1 per cent that month to 2.19 million. International passenger numbers declined 15.4 per cent to 2.1 million, and domestic passengers declined 2.8 per cent to just over 43,000.

Media reports indicated that Korea's inbound and outbound travel markets have been hurt severely by travel concerns related to the H1N1 flu outbreak. *Korea Travel Times* cited the example of one Korean travel agency that saw most of its clients with reservations for travel in May either cancel or postpone their trips until after June. Plans for trips to the United States were hit the hardest by these concerns, but other destinations reporting flu cases have also been affected.

The combination of uncertain economic conditions and concerns about the flu outbreak has also reduced booking windows for overseas travel. Hana Tour told *Korea Travel Times* that the average number of days between outbound bookings and departures fell in April to 14.4 days, down from 17.6 days a year earlier.

Consumer mood registers small improvement: The Bank of Korea's consumer confidence index has improved recently, as Koreans have grown increasingly optimistic about economic prospects, even though current conditions remain uncertain. The index rose to 106 in June, up from 105 in May. A reading of 100 indicates a balance between negative and positive assessments of the economy.

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 (May 2009) *Tourism Intelligence Bulletin*.

Economic Trends:

- The Conference Board's leading economic index for South Korea increased 2.1 per cent in April, the third consecutive monthly gain. But despite these increases, the six-month growth rate in the leading index

has declined 3.6 per cent since October. Fortunately, the strengths and weaknesses among the leading indicators have become more balanced recently. While the behaviour of the leading index suggests that the economic contraction may have stabilized, economic growth is likely to remain weak in the near term.

- Despite declining average airfares, the average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase 2 per cent for South Koreans during the third quarter of 2009, year-over-year. Much of the increase in costs will be due to the strength of the Canadian dollar, which appreciated 5.3 per cent against the Korean won between May 2008 and May 2009. Unfortunately, Canada's price competitiveness during the third quarter is expected to decline slightly as the cost of a similar trip to competitive destinations (U.S., France, Germany, U.K., and Australia) declines by an average of 1.6 per cent during the quarter.

Traveller and Supplier Trends:

- Korean visits to Canada declined 27.2 per cent in April. For the first four months of 2009, arrivals from South Korea were down 23 per cent, compared with 2008. For the first three months of 2009, travel from South Korea to the U.S. declined 19.6 per cent, according to the OTTI.
- Unfortunately, direct air capacity from South Korea to Canada is expected to decrease 17 per cent during the third quarter of 2009.

Despite some improvement in economic conditions, sagging travel and supplier trends suggest visits from South Korea will continue to decline over the near term.

China — Current Tourism Trends

Chinese outbound travel fell sharply in wake of flu outbreak: The H1N1 flu epidemic has dealt a serious blow to the Chinese outbound travel market, according to recent media reports. News website China Economic Net reported that tour operators catering to the Chinese market have seen a sharp drop in bookings for outbound destinations, especially those reporting cases of the swine flu, such as North America, Europe, and Japan. Concerns about the epidemic are expected to stifle Chinese overseas travel over the short term.

In fact, some major travel agencies in Beijing suspended tours to the United States after the China National Tourism Administration issued a travel warning cautioning against travel to flu-affected areas, according to *Travel Daily News*. One travel agency said it would continue its U.S. tours if demand was there, but noted that it would be vigilant in advising its clients to take health precautions while travelling in the United States.

The flu epidemic has also hurt the Chinese meetings, conventions, and incentive travel market, according to the *Los Angeles Times*. It cited a number of examples of large corporate groups booked for incentive travel tours to California that cancelled their trips after hearing reports of H1N1 flu cases in the United States. The article noted that tour operators in China were very worried about the prospects for outbound travel over the short term.

The Canadian Tourism Commission's overseas office in China reported that concerns about the flu outbreak have also hurt Chinese visits to Canada. It said travel agencies in China have reported large numbers of cancellations for trips to the United States and Canada.

Chinese government announces new rules for outbound travel packages: Meanwhile, the Chinese government released a new set of regulations in May governing the practices of outbound tour operators. The rules were developed to protect Chinese travellers from so-called “shopping tours,” which involve selling underpriced tour packages to travellers who are then coerced into shopping excursions that earn the tour operators hefty commissions. The new rules state, among other things, that tours cannot be sold below cost and that clients cannot be forced to participate in shopping excursions or any other activities that require additional payment.

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 (May 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The slowdown in global demand continues to affect 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 reach 7.5 per cent in 2009 and 8.4 per cent in 2010. Recent indicators suggest that domestic demand remains solid while deflationary concerns have started to ease slightly. In addition, investment has increased dramatically on a year-over-year basis, aided in large part by significant government spending.
- The Canadian dollar depreciated 15 per cent against the Chinese renminbi between May 2008 and May 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 22.6 per cent during the third quarter of 2008 compared with last year.

Traveller and Supplier Trends:

- Chinese arrivals to Canada grew 13.3 per cent in the first four months of 2009. In contrast, over the first three months of 2009, travel from China (including Hong Kong) to the U.S. increased a slight 0.5 per cent, according to the OTTI.
- Unfortunately, direct air capacity to Canada is expected to decline by 7.6 per cent during the third quarter of 2009.

Despite weaker supplier trends, the Tourism Leading Indicator Index for China suggests arrivals from this market should post solid growth over the near term. However, a significant concern for Chinese outbound travel is the perception of the severity and prevalence of the H1N1 flu, particularly among those influencing travellers—tour operators and travel agents.

Australia — Current Tourism Trends

Qantas describes market conditions as worst seen in over two decades: Qantas Airways issued a statement at the end of May saying market conditions were the worst it had seen in over two decades. The airline said demand for its premium class seats had slumped, and that it had been forced to offer substantial airfare discounts, in particular on international routes. The company plans to deepen recent capacity cuts and reduce its workforce in response to flagging passenger demand.

Passenger traffic (measured in RPKs) among Qantas group airlines fell 2.7 per cent in April 2009, according to the company's latest performance statistics, although passenger numbers edged up 0.2 per cent. Passengers on Qantas International services fell 10.1 per cent during the month.

Economic downturn hurting Australian travel confidence: Weak economic conditions have been weighing on Australian travel confidence this year, hurting outbound travel demand. Amadeus, a travel distribution company, reported in June that domestic and outbound air bookings at Australian travel agencies were 12 per cent lower than they were a year earlier. Bookings to Europe and North America appeared to be hit the worst, registering decreases of 25 per cent and 22 per cent, respectively. Africa and the Middle East were the only long-haul destination that recorded an increase in Australian bookings. Moreover, business travel bookings were down 36 per cent from the previous year. Amadeus stated that the financial crisis and its effect on consumer confidence was having "a significant impact on Australians' willingness to travel."

Tourism Australia's May 2009 Global Market Monitor also reported that Australian travel demand had been hurt by the downturn in the economy. It said there was a growing tendency for consumers to book their travel as late as possible to secure a bargain. However, travel discounts were having a positive influence on demand.

The Canadian Tourism Commission's overseas office in Australia reported that Australian travellers have been staying closer to home, tending to choose short-haul travel destinations over long-haul ones. Furthermore, those still taking long-haul trips have been booking their travel much closer to departure and seeking out the cheapest deals. Interest in Canadian destinations is still strong, but competition for the Australian travel market is intensifying.

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 (May 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Australia increased 0.7 per cent in April, the third consecutive monthly increase. Still, despite the most recent gain, between October 2008 and April 2009, the leading index declined 1 per cent. In addition, the weaknesses have remained more widespread than the strengths in recent months. The recent behaviour of the leading index suggests the economy will likely remain weak in the near term.
- The Canadian dollar appreciated 7.7 per cent against the Australian dollar between May 2008 and May 2009. Despite the depreciation of the Australian dollar, significant declines in average airfares are expected to reduce 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 decrease 15 per cent during the third quarter of 2009 over last year. Meanwhile, the average cost of a similar trip to competitive destinations is expected to increase 8.9 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. In the first four months of 2009, arrivals from Australia were down 6.9 per cent, compared with 2008. The rate of decline in visits to Canada has, so far, been slightly less negative than the drop in visits to the United States. According to the OTTI, travel from Australia to the U.S. decreased 15.6 per cent during the first four months of 2009.
- The level of direct air capacity between Canada and Australia over the third quarter of 2009 is expected to stay the same as it was during the same period in 2008.

Despite slight economic improvements and gains to Canada's price competitiveness, the Tourism Leading Indicator Index suggests that weaker travel trends will result in continued 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.