Canadian Tourism Commission
Commission canadienne du tourisme

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Tourism Intelligence Bulletin

New and Ongoing Challenges Stifle Summer Travel

Issue 53: September 2009

The Tourism Intelligence Bulletin monitors the tourism industry around the world. This issue features tourism intelligence gathered in July and August 2009.

Bulletin Highlights

Tourism Overview: North America

- **Short-term outlook for domestic travel still weak:** Domestic travel is expected to remain weak through the rest of the summer and into fall. Economic conditions are still generally poor, although there are some signs of light at the end of the tunnel. The latest Travel Intentions Survey by The Conference Board of Canada revealed some potential for growth in Canadian travel over the winter, but mainly for international destinations. Canadian travel confidence is still low, so it will take some time before the domestic market begins turning around. **(See "Leisure Travel," page 5, and "Domestic Travel," page 11.)**

- **U.S. arrivals plummeted after latest phase of WHTI:** U.S. travel to Canada dropped off sharply in June after the final phase of the Western Hemisphere Travel Initiative went into effect. The latest phase requires travellers to show a passport or other secure document when entering or returning to the United States by land or sea. Overnight trips to Canada by automobile fell 10.6 per cent in June, year-over-year, and same-day visits plummeted 28 per cent—significantly more than the declines recorded in previous months. **(See page 5.)**

- **U.S. vacation intentions improved in August:** U.S. travel intentions rose in August to their highest level since October 2008, according to the latest Consumer Confidence Survey report by the U.S. Conference Board, Inc. Consumer confidence also perked up, suggesting Americans are beginning to feel more optimistic about an economic recovery. **(See page 6.)**

- **Satisfaction with online channels decreasing:** U.S. travellers are becoming less satisfied with the online travel market, according to recent research. Less than half (46%) of U.S. online travellers enjoy the experience of shopping for travel over the Internet, and this number has slipped in the last year. Only about one-third believe travel websites present their content clearly and meaningfully. The research suggests travel websites need to focus less on price and more on other criteria that travellers value. **(See page 6.)**

In this issue

Canada

The Conference Board of Canada
Insights You Can Count On

- **Canadian business confidence rebounded in the second quarter of 2009:** Optimism among Canadian business leaders registered a strong uptick in the second quarter of 2009, according to The Conference Board of Canada's latest business confidence survey. After a modest increase in the first quarter, the Index of Business Confidence jumped more than 10 points in the second quarter, to its highest level in a year. The results suggest that Canadian businesses have become much more optimistic about prospects for the Canadian economy. **(See page 7.)**

- **Low demand and high competition continue to vex Canadian airlines:** Weak demand and intense market competition are still eroding the performance of Canadian airlines. As a result, Air Canada and WestJet cut their capacity even further during the summer, their peak travel period. The carriers do not expect conditions to improve before the end of the year. **(See page 8.)**

- **Canadian lodging revenue losses accelerating:** Revenue losses at Canadian hotels continue to mount, under pressure from weak business and leisure travel demand. Occupancy and room rates continued to decrease in June 2009, leading to a 19.2 per cent plunge in revenues per available room, according to PKF Consulting. **(See page 9.)**

Tourism Overview: International

- **U.K. overseas travel volumes continue to decline:** British outbound travel over the past year has declined 10 per cent from a year earlier, according to the latest government statistics. At the same time, U.K. travel agencies continued to report strong demand for domestic vacations over the summer. During the August bank holiday weekend, U.K. travel volumes were expected to stay the same as the previous year, overall, but domestic trips were expected to rise at the expense of trips abroad. One research report suggests British travellers are taking fewer short breaks abroad this year so that they can take a single "premium" holiday for their annual vacation. **(See page 14.)**

- **French air travel still declining, but at a slower pace:** French air travel demand continues to decline, but at a slower pace, according to the latest passenger figures from Air France-KLM and Aéroports de Paris. Air France-KLM said it believed air travel demand was beginning to stabilize. **(See page 15.)**

- **Sales trends still volatile among German travel agencies:** Sales at German travel agencies declined again in July, after a surge in last-minute summer bookings in June, according to the latest TATS survey. Average prices, in particular for airfares, are down from last year, and the pace of bookings is lagging behind. Agencies also continue to report a higher proportion of last-minute bookings over last year. Destinations benefiting from this late booking trend include Egypt, Italy and the United States, as well as the German domestic market. **(See page 17.)**

- **Mexican travel market hit by new visa requirement:** The Canadian government implemented a new visa requirement for Mexican citizens in July. Before leaving their country, Mexican visitors must now obtain a Temporary Resident Visa, which can only be obtained from the Canadian consulate in Mexico City. Media reports suggest this new requirement has drastically reduced the number of Mexican visitors to Canada this summer. **(See page 18.)**

- **Surge in Japanese overseas trips expected for September:** A string of national holidays in September were helping to fuel a surge in overseas travel bookings for that month, following months of sluggish demand. The Japanese Association of Travel Agents reported that in early July, bookings for trips to Canada and the United States in September were up 4.5 per cent, year-over-year, after decreasing dramatically in the previous four months. **(See page 21.)**

- **Korean Air expands air capacity to Canada:** Korean Air announced an expansion of its seat capacity on routes to Vancouver and Toronto beginning in August, in response to the new open skies agreement between Korea and Canada. The carrier expects the new agreement to help boost the "growth and popularity" of travel between the two countries. **(See page 22.)**

- **Internet is top travel information source for Chinese leisure market:** The Internet has become the most important source of travel information for Chinese leisure travellers, according to recent research. However, Internet advertising accounts for only a small fraction of destination marketing spending in China, and most of that spending is done by other Asian-Pacific destinations. **(See page 24.)**

- **Australian outbound demand appears relatively resilient:** Australia's outbound travel market is expected to stay relatively resilient this year, weathering the effects of weaker economic conditions, according to the latest forecast by Tourism Australia. The organization expects only a slight decrease in Australian outbound travel volumes in 2009, as lower airfares help to stimulate outbound demand. Meanwhile, domestic travel is expected to fall 3.2 per cent. **(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.

	Economic Factors		Non-Economic Factors		Overall Tourism Leading Indicator
Travel Market	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	⇩	⇧	⇔	⇧	0
Germany	⇩	⇧	⇩	⇧	–
Mexico	⇩	⇧	⇩⇩	⇧⇧	– –
Japan	⇩	⇧⇧	⇩⇩	⇧	–
South Korea	⇧	⇩	⇩⇩	⇧	–
China	⇧⇧	⇔	⇩	⇧	+
Australia	⇔	⇧⇧	⇩	⇔	–

Ratings Key:

Economic Factors and Non-Economic Factors: Range from ⇧⇧⇧ (significantly adds to demand) to ⇩⇩⇩ (significantly impedes demand). ⇔ represents neutral effect on demand.

Overall Tourism Leading Indicator: Ranges from +++ (significantly improving) to – – – (significantly deteriorating). 0 represents no change.

* 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

Survey reveals potential for growth in Canadian winter travel: There is potential for growth in Canadian travel volumes this winter, but mainly for outbound travel, according to the latest Travel Intentions Survey by The Conference Board of Canada. Of the Canadians polled in August 2009, nearly 50 per cent said they had taken a winter vacation between November 2008 and April 2009. Yet the number of respondents who may take a winter vacation this year jumped to 58 per cent—38 per cent said they would definitely take a trip, and 20 per cent said they would likely do so.

More than 22 per cent of respondents said they would definitely or probably plan a trip to an international destination other than the United States. This was a solid increase from the 17 per cent who said they had taken an international trip (not including to the U.S.) during the previous winter. Meanwhile, the number of those who said they would definitely or likely take their longest winter vacation within Canada stayed close to the number who reported having taken a domestic vacation the previous winter. Still, it is important to note that about 20 per cent of Canadians polled had not yet made definite travel plans, and could still be open to changing their minds about a winter destination.

Table 1: Destination of Longest Winter Vacation

(Per cent of Canadians who took a winter vacation in 2008–09 vs. those definitely or likely taking a winter vacation in 2009–10)

Destination of Longest Vacation	Winter 2008–09 (actual)	Winter 2009–10 (planned*)
All Destinations	49.7	58.3
Canada	16.0	16.4
United States	16.6	15.2
Other International	17.1	22.6
Do not know	n/a	4.1

**Note: this category comprises those who answered “yes” or “probably” when asked if they were planning to take a winter vacation in 2009–10.*
Source: The Conference Board of Canada.

U.S. arrivals plummeted after latest phase of WHTI: Early indications suggest that U.S. travel to Canada dropped off sharply after the final phase of the Western Hemisphere Travel Initiative went into effect on June 1, 2009. The latest phase of the WHTI requires travellers to show a passport or other secure document when entering or returning to the United States at land and water border crossings.

In June, U.S. trips to Canada plunged 16 per cent overall from a year earlier, according to preliminary figures from Statistics Canada. U.S. visits by automobile plummeted by 28.1 per cent, including a 10.6 per cent drop in overnight arrivals by auto. U.S. visits by air decreased 11.5 per cent. These decreases were significantly worse than the single-digit declines seen in previous months. In addition, numerous media reports suggested that Canadian tourism businesses saw a dramatic drop-off in U.S. tourists in June.

U.S. vacation intentions improved in August: U.S. travel intentions improved in August to a level not seen since October 2008, according to the latest Consumer Confidence Survey report by The Conference Board, Inc. in the United States. Preliminary results showed that 39 per cent of Americans polled planned to take a vacation within the next six months, up from 37.1 per cent in June 2009. Results are adjusted to account for seasonal fluctuations in travel demand.

Overall U.S. consumer confidence bounced back in August, after two consecutive months of declines. The Consumer Confidence Index rose to 54.1 in August (1985 = 100), up from 47.4 in July. The Present Situation Index edged up 1.6 points to 24.9, and the Expectations Index jumped a full 10 points to 73.5, its highest level since December 2007. The index results suggest that American consumers are more upbeat in their outlook for the economy.

The latest travelhorizons survey by Ypartnership and the U.S. Travel Association also registered a small improvement in U.S. travel intentions. Almost two-thirds (63%) of Americans polled in July said they were planning a leisure trip within the next six months, up from 61 per cent a year earlier. However, the majority of respondents said they were planning to spend less on travel services this year than in 2008.

AAA forecast sharp decline in U.S. travel over Labour Day holiday: U.S. travel volumes over the Labour Day holiday weekend were expected to drop 13.3 per cent compared with a year earlier, according to a forecast by the American Automobile Association (AAA). However, the primary reason for the large decrease was the unfavourable timing of the holiday, rather than the weak economy. Labour Day fell a week later than usual this year, after many children start school, making it more difficult for families to get away.

According to AAA's Leisure Travel Index, U.S. travellers could expect a significant drop in airfares and accommodation prices for that weekend compared with a year earlier. Published fares for air travel over the holiday were down by 17 per cent, and rates for mid-range hotels were down by 12 per cent. On the other hand, car rental rates rose by an average of 7 per cent.

Concerns about value influencing the lodging choices of U.S. travellers: U.S. leisure travellers are less apt to seek out a chain-affiliated hotel and are increasingly concerned about value for the price when choosing accommodations, according to the latest National Travel Monitor by Ypartnership, a market research firm. When selecting a hotel, the three top priorities among American leisure travellers are value for the price, location, and room rate. Of those three, value for the price showed the greatest increase over last year's survey; it was cited by 88 per cent of respondents in 2009, up from 82 per cent in 2008. Contributing to the perception of value is a complimentary breakfast, which jumped from 51 per cent in 2008 to 58 per cent in 2009.

In addition, while most U.S. travellers still prefer a chain-affiliated hotel, the number citing that preference fell from 84 per cent in 2008 to 80 per cent in 2009. Conversely, those who prefer an independent hotel rose from 16 per cent in 2008 to 20 per cent in 2009. According to Ypartnership, a growing number of Americans are interested in the "novelty" and "special character" of independent lodging, and are more motivated to evaluate lodging alternatives in the search for better value.

Satisfaction with online channels decreasing: U.S. travellers are becoming increasingly dissatisfied with online options when shopping for travel, according to recent research reported by *Travel Weekly*. "Using Digital Channels to Calm the Angry Traveler," a report released in August by Forrester Research, states that less than half (46%) of U.S. online travellers enjoy the experience of shopping for travel on the Internet. An even smaller number (34%) believe that the content on travel websites is presented clearly and meaningfully. Satisfaction with online channels slipped from a year earlier, when 49 per cent said they enjoyed shopping for travel online. The report praised a number of travel companies, including fly.com and Pan Pacific Hotels and Resorts, for structuring their websites in a way that shifts purchase decisions "away from price, and toward other important criteria that travelers value."

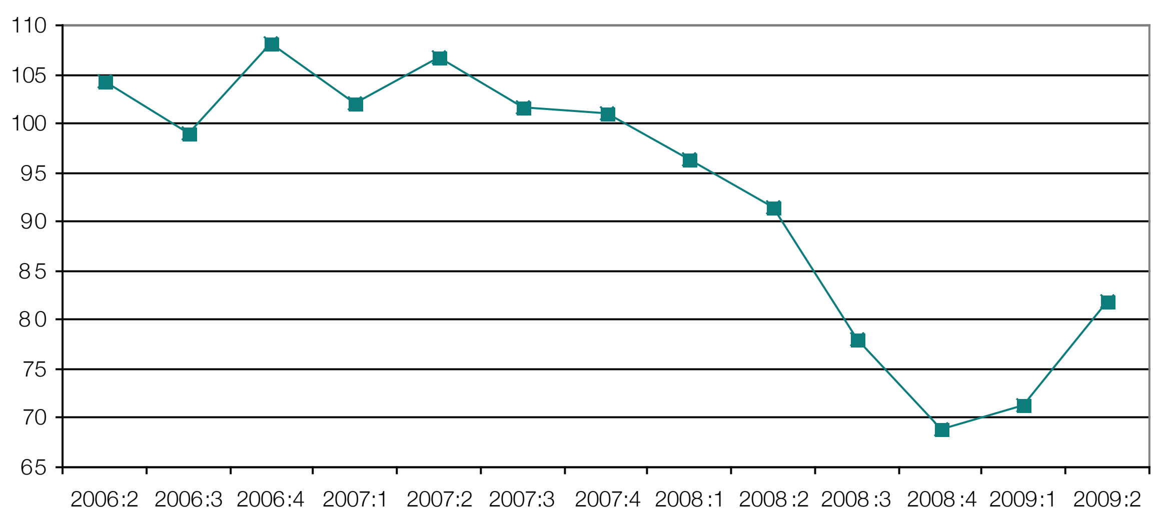
Business Travellers

Canadian business confidence rebounded in the second quarter of 2009: Optimism among Canadian business leaders registered a strong uptick in the second quarter of 2009, according to the latest results of The Conference Board of Canada's business confidence survey. After a modest increase in the first quarter, the Index of Business Confidence jumped more than 10 points to 81.9 (2002 = 100). This was its highest reading since the second quarter of 2008. The indicator measuring sentiments about the economic outlook rebounded strongly, swinging from –20 in the first quarter to +22 in the second quarter. The results suggest that Canadian businesses have become much more optimistic about an improvement in the economy over the next six months.

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%).

Chart 1: Index of Business Confidence: Up to Q2 2009 (2002 = 100)



Source: The Conference Board of Canada.

Business travel prices down significantly: A significant downturn in demand led to a sizable reduction in North American business travel prices during the second quarter of 2009, according to the latest Business Travel Monitor by American Express. Airfares registered the greatest decline by far, as airlines lowered their fares to stimulate demand and companies reduced their use of business class seats. Average domestic and international fares paid by American Express clients fell 18 per cent and 19 per cent, respectively. The report noted that in the second quarter of 2009, 36 per cent of booked air travel was for business class, down from 50 per cent a year earlier. Meanwhile, rates for domestic hotel rooms booked through American Express fell by an average of 2 per cent during the quarter, and car rental rates slipped 3 per cent from a year earlier.

U.S. managed travel to contract sharply: Weak economic conditions and the public scrutiny of corporate travel and entertainment spending are curbing U.S. business travel demand, leading to a 15 per cent reduction in the U.S. managed business travel market this year, according to the latest forecast by PhoCusWright Inc. The firm said that historically, managed corporate travel has accounted for about 40 per cent of total business and leisure travel spending in the United States. However, the drop-off in demand is expected to reduce the proportion of managed corporate spending to only 35 per cent of the overall U.S. travel market by 2010.

Outlook for unmanaged segment much more positive: Travel volumes for the unmanaged, or fully independent, business travel segment in the fall of 2009 are expected to stay about the same as in the fall of 2008, according to a recent report by the Best Western Diamond 100 Advisory Board. The group's report, "Taking the Pulse of Unmanaged Business Travelers," states that this segment, which makes up about 56 per cent of all North American corporate travellers, will continue to travel as usual this fall, despite the economic recession. The report notes that the short-term outlook for this segment is much more positive than the outlook for the managed corporate travel segment.

Airlines

Weak demand and high competition erode airline profits: Weak demand and intense market competition continued to erode Canadian airline profits during the second quarter of 2009. Lower demand has prompted Air Canada and WestJet to further reduce their capacity for the third quarter, which is normally the peak period for air travel. Unfortunately, neither carrier expects conditions to improve before the end of the year.

Air Canada posted net earnings of $155 million for the second quarter of 2009, up from a net profit of $122 million a year earlier. However, the carrier's net earnings were elevated by a foreign exchange gain of $355 million, which kept the airline from recording a net loss. Meanwhile, passenger revenues for the quarter fell 16 per cent from a year earlier. The carrier said its operating results were adversely affected by lower demand, especially for premium segments, as well as intense market competition and the effects of the H1N1 influenza outbreak. Passenger traffic during the period declined 7.9 per cent from a year earlier. The carrier said it would further reduce its capacity for the third quarter of 2009 in response to weak demand.

In July 2009, Air Canada's system-wide passenger traffic (measured in revenue passenger miles), including mainline and regional operations combined, fell 3.3 per cent from the previous year. Traffic on domestic routes edged up 0.6 per cent, and traffic on transborder U.S. flights decreased 9.3 per cent. On international routes, traffic on transatlantic flights jumped 6.6 per cent, while traffic on transpacific and Latin American routes plunged 17.2 per cent and 10.5 per cent, respectively.

WestJet posted a net profit of $9.2 million for the first quarter of 2009, a 66 per cent drop from a year earlier. Revenues for the quarter declined 13.8 per cent, and passenger traffic slipped 2.4 per cent. The airline said that similar to the first quarter, weak economic conditions and aggressive competition hurt its performance during the second quarter. WestJet also reported it was scaling back its capacity plans even further because of weak demand. The carrier's capacity will decline by between 1 and 2 per cent during the third quarter of 2009, lowering its full-year capacity growth to somewhere between 2 and 3 per cent.

In July, WestJet's passenger traffic slipped 4.5 per cent from a year earlier. Capacity during the month was on par with the previous year.

On July 16, WestJet announced it had signed an interline agreement with Air France-KLM that will allow the European airline to offer its passengers itineraries that include WestJet flight connections. The agreement was effective immediately, for flights connecting through Calgary and Vancouver, destined for Calgary, Vancouver, or Edmonton. WestJet said this was a first step in a strategic partnership that it hoped would expand to include WestJet's entire Canadian network.

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

Airline	RPMs (in millions) July 2009	RPM change 2009 vs. 2008	Capacity 2009 vs. 2008
Air Canada – consolidated traffic (all airlines)	4,852	–3.3%	–4.1%
WestJet	1,186	–4.5%	–0.4%

U.S. air travel demand stayed weak over summer: U.S. air travel demand stayed weak over the peak summer travel season, although it began to show some signs of stabilizing, according to the latest figures from the Air Transport Association of America (ATA). The number of passengers travelling on U.S. airlines fell 4 per cent in July 2009 from a year earlier, registering a much smaller decline than in previous months. Still, this decline occurred despite a dramatic reduction in U.S. airfares. The average price of flying one mile in July was 18 per cent lower than in the same month in 2008, causing overall passenger revenues among U.S. carriers to plunge 21 per cent that month.

The ATA expected the number of passengers travelling on U.S. carriers to fall 3.5 per cent during the Labour Day holiday travel period, September 2–9, 2009. It projected a 3.5 per cent decrease in domestic passengers, and a 3 per cent slide in international passengers. Looking ahead, the ATA said it expected a large cutback in U.S. domestic air capacity in the final quarter of 2009. The latest filings for the fourth quarter revealed a 22 per cent reduction in domestic departures compared with a year earlier.

Hotels

Canadian lodging revenue losses mounting: Revenue losses at Canadian hotels continue to accelerate, under pressure from weak demand for business and leisure travel. The latest *National Market Report* by PKF Consulting revealed that average daily rates in Canada dropped 8.8 per cent in June 2009 from a year earlier. Occupancy fell 8.2 percentage points, leading to a 19.2 per cent fall in revenues per available room (RevPAR) that month.

The latest *Canadian Lodging Outlook* by HVS International reported demand for Canadian accommodations dropped 9.3 per cent in June from the previous year. Between January and June, hotel demand was down by 7.2 per cent, year-over-year, while hotel room supply in Canada increased 1.4 per cent.

Looking ahead, PKF Consulting said it expected Canadian lodging demand to contract 6.5 per cent this year, on the heels of a 0.5 per cent decrease in 2008. The firm's latest market forecast notes that the effects of the terrorist attacks on September 11, 2001, and the outbreak of severe acute respiratory syndrome in 2003 "pale in comparison to the erosion of demand caused by the current recession."

Canadian hotel operators remain pessimistic: Canadian hotel operators continue to be pessimistic about the short-term outlook for their business, according to the latest Business Conditions Survey of the traveller accommodation industries by Statistics Canada. More than three-quarters (76%) of the hotel operators polled in June and July 2009 expected their bookings and occupancy rates to be lower in the third quarter of 2009 than they were a year earlier. Nearly the same number (74%) expected fewer corporate travellers.

Furthermore, the number of hotel operators reporting business impediments continued to rise. Regional economic conditions were the challenge cited most frequently (66%), followed by excess room supply (37%) and exchange rate fluctuations (34%).

U.S. lodging demand still on a downward spiral: The U.S. hotel industry also continues to face challenging market conditions, according to the latest figures from Smith Travel Research, Inc. In the second quarter of 2009, revenue per available room (RevPAR) in the United States plunged by an average of 19.5 per cent from a year earlier, as average room rates slid 9.7 per cent and occupancy fell 7.1 percentage points. Although the firm believes the industry's performance has bottomed out, it expects conditions to remain harsh through the second half of 2009.

Travel Agents And Other Suppliers

VIA derailed by engineer's strike: Passenger services at VIA Rail Canada ground to a halt for two day in July, as 343 engineers walked off the job because of a labour dispute. The strike disrupted the travel plans of about 24,000 passengers during the height of the peak tourism season, according to the Canadian Press. Within two days, a mediator convinced the union representing the engineers to enter into binding arbitration, allowing the engineers to return to work. Immediately following the strike, VIA launched a special promotion offering a 60 per cent discount for economy class tickets across its network, as well business class tickets for the Windsor–Quebec corridor, to help win back customers. The promotion lasted five days and was applicable for travel up to the middle of December.

Travelocity reports sharp drop in hotel rates: Travelocity's published hotel rates fell by an average of 12 per cent this summer compared with a year earlier, according to its Labor Day Travel Report. Moreover, decreases in hotel rates widened as the summer progressed: average rates for the U.S. Memorial Day holiday in May were down by 12 per cent, while rates for the July 4th holiday fell 13 per cent from a year earlier. Average hotel rates decreased even further over the Labour Day holiday, falling by an average of 15 per cent. Domestic airfares also fell to their lowest levels of the summer travel season over the Labour Day holiday

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 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 (July 2009) Tourism Intelligence Bulletin.

Economic Trends:

- Canada's real gross domestic product (GDP) increased 0.1 per cent in June, the first monthly increase since July 2008. But despite this increase, real GDP decreased 0.9 per cent during the second quarter of 2009 overall. During the second quarter, output from goods-producing industries continued to be hardest hit, declining a further 3.6 per cent on a seasonally adjusted basis. Meanwhile, the services sector rebounded by growing 0.3 per cent, following two consecutive quarterly declines.

- While employment increased 27,000 in August, the growth was primarily attributed to part-time work. Despite the increase in employment, Canada's unemployment rate edged up 0.1 percentage points as more people looked for work.

- On a more positive note, consumer confidence increased for a sixth consecutive month in August, climbing 5.5 points to 88.4 (2002 = 100), according to the Conference Board's Index of Consumer Confidence. The index has risen by 18.2 points since the beginning of this year, which may indicate consumers believe the worst of the recession has passed. In the latest survey, respondents viewed both their current and future financial situations in a better light. They also expected employment conditions to improve over the following six months.

Traveller and Supplier Trends:

- The number of domestic enplaned and deplaned passengers at Canada's top 30 airports declined by 9.4 per cent in May 2009 from a year earlier. Domestic air travel has slowed significantly since July 2008 and has posted negative year-over-year growth since September.
- Meanwhile, Canadian hotel occupancy rates continue to slip. According to PKF Consulting, average occupancy in June declined 8.2 percentage points in Canada, year-over-year. For the first half of 2009, the average occupancy rate was 5.8 percentage points behind 2008. During this same period, the average daily room rate for hotels in Canada slipped 4 per cent compared with last year.
- On a slightly more positive note, gasoline prices in many Canadian communities remain lower than last year, averaging around $0.90 to $1.00 per litre.
- In line with a waning economy and a weaker currency, Canadian travel to the U.S. continued to decline in June. The latest figures show that overnight travel to the United States dropped 13.4 per cent in June from the previous year, and overnight trips to international destinations declined 4.1 per cent.
- As carriers continue to adjust to the changing environment, direct air capacity for travel within Canada is now slated to decline 0.3 per cent over the fourth quarter of 2009 compared with the same period in 2008.

Overall, the Tourism Leading Indicator suggests that, despite some improvement in economic conditions and supplier trends, domestic growth prospects will remain weak through the end of summer and into fall. 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 (July 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for the U.S. increased 0.6 per cent in July, rising for the fourth consecutive month. In the six months through July, the index increased 3 per cent (about a 6.2 per cent annual rate). In addition, the strengths among the leading indicators have become more widespread in recent months. The recent behaviour of the leading economic index suggests that the economic recession has likely bottomed out and that economic activity should begin recovering soon.
- While the Canadian dollar has generally been appreciating since April, the loonie was still 3 per cent weaker in August 2009 than in August 2008. Canada's price competitiveness for U.S. travellers is expected to increase during the fourth quarter of 2009, because of Canada's slightly weaker currency and a decrease in average airfares from the United States to Canada.

Traveller and Supplier Trends:

- Dragged down by the final phase of the Western Hemisphere Travel Initiative (WHTI) that took effect June 1, 2009, overnight U.S. travel to Canada dropped 10.4 per cent in June, compared with the previous year. Overnight automobile travel to Canada declined 10.6 per cent while overnight non-automobile travel declined 10.2 per cent from a year earlier. Same-day automobile travel from the U.S. declined 28.1 per cent that month.

- Direct air capacity between Canada and the United States is expected to decline by 2.7 per cent over the fourth quarter of 2009 from the same quarter of 2008.

Excluding the effects of the new WHTI travel regulations on U.S. visits, the traditional determinants of the Tourism Leading Indicator Index would suggest that weak economic conditions and weak supplier trends would lead to modest declines in U.S. travel to Canada over the near term. However, now that the final phase of the WHTI has taken effect, the Tourism Leading Indicator for U.S. travel to Canada suggests U.S. visits will decline more sharply over the near term.

Tourism Overview — International

United Kingdom – Current Tourism Trends)

U.K. air passenger trends appear to be stabilizing: British Airways' passenger traffic (measured in revenue passenger kilometres—RPKs) edged up 1 per cent in July 2009 from the previous year. Premium traffic volumes (business and first-class) dropped 11 per cent, while non-premium traffic (economy) rose 3.5 per cent.

The airline reported that market conditions remained "very challenging" with "no visible signs of improvement." Still, it noted that passenger traffic volumes had stabilized during the quarter and were expected to improve during the peak summer travel period. The airline reduced its capacity for the summer season by 3.5 per cent from last year, and intends to cut its capacity for the upcoming winter season by 5 per cent.

Passenger numbers at the British Airport Authority's seven U.K. airports continued to decline in July 2009, although the organization noted that passenger trends appeared to be stabilizing. The airports accommodated 14.5 million passengers that month, a 2.4 per cent decrease from the same month in 2008. Two markets returned to growth in July, as passengers on European scheduled flights grew 1.2 per cent, and passengers on long-haul routes excluding the North Atlantic rose 4.8 per cent. On the other hand, U.K. domestic passengers fell 4.8 per cent, and North Atlantic passengers were down 8 per cent. European charter passengers plummeted 18.6 per cent from the previous year.

British Airways struggling financially, while low-cost carriers prosper: In July, British Airways, Ryanair and easyJet released their financial reports for the quarter ended June 30, 2009, with very different results. British Airways posted a significant financial loss, while Ryanair and easyJet, the U.K.'s two largest low-cost carriers, reported much stronger performances.

British Airways reported a net loss of GBP106 million (C$191 million) for its first fiscal quarter ended June 30, 2009, a sharp downturn from the GBP27 million net profit reported for the same quarter of 2008. Passenger revenues fell 12.5 per cent, in part because of significant declines in average airfares for the period and a shift in sales toward lower fare classes.

Meanwhile, easyJet reported a 10.9 per cent jump in passenger revenues per available seat for the quarter ended June 30 and a 2.9 per cent rise in passengers carried. However, part of this growth was attributed to the switch in the timing of the Easter holiday from the first quarter in 2008 to the second quarter in 2009. The airline did not release any profit figures for the quarter, but indicated it was on track to achieve a solid profit for its full year ending in September 2009.

Table 3. Percentage Change in Passengers Carried

Carrier	July 2009 vs. July 2008
British Airways	–1.2%
Ryanair	+19%
easyJet	+4.3%

U.K. overseas travel volumes continue to decline: Nearly one-third (29%) of British residents were expected to take a leisure trip over the last bank holiday weekend of the summer season, August 29–31, 2009, according to VisitEngland's August Bank Holiday Trip Tracker. This was about the same level as in 2008, but slightly up from 2007, when about 25 per cent took a leisure trip over that holiday weekend. However, the proportion of domestic trips taken during the August holiday has increased incrementally since 2007, while overseas trip volumes for that holiday have fallen by about 10 per cent.

Outbound trip volumes decreased 10 per cent in the 12 months ending in June 2009, compared with the previous year, according to the Office for National Statistics. Trips to North America declined 15 per cent during that period.

In its latest Currency Index, American Express Global Foreign Exchange Services reported a decline in demand for currencies linked to popular European destinations in the first half of 2009. During that period, demand appeared to shift toward long-haul destinations such as Thailand, Kenya and the Caribbean. The company believes the switch was caused by British travellers taking fewer short breaks abroad so that they can take a single "premium" trip for their annual vacation.

Meanwhile, U.K. travel agencies continue to report strong demand for domestic vacations. Hoseasons, a domestic operator, saw a 20 per cent rise in domestic bookings in the first seven months of 2009 over the previous year. It attributed its strong growth to consumers' efforts to cut back on their travel spending this summer, as well as the less favourable exchange rate offered by eurozone destinations.

The latest Travel Navigator survey by Arkenford, a market research firm, revealed that 73 per cent of the British residents polled said they were interested in taking a domestic holiday this year. About 20 per cent of respondents said they had already planned to take more short breaks within the U.K. in 2009. In addition, 73 per cent said they intended to reduce their spending on vacations this year.

U.K. travel companies cautious about winter season: Thomas Cook and TUI, the U.K.'s two largest travel companies, presented a cautious outlook for the upcoming winter season. As of early August, advance bookings for winter packages were off to a very slow start, although assertive reductions in capacity were helping to keep prices above last year's levels. Both companies expected the later booking trend in the U.K. market to continue into next year.

Thomas Cook reported its average selling prices for the winter season were up 4 per cent; however, its bookings were down by 13 per cent compared with the same time a year earlier. The company has reduced its winter capacity in the U.K. market by 6 per cent, and is prepared to expand those reductions if demand stays weak.

Similarly, TUI reported its average selling prices in the U.K. for winter packages were up by 9 per cent over last year, while its U.K. bookings were down by 21 per cent. The company said it was taking a "cautious approach" in its capacity planning for the winter season, as winter holidays tended to be more discretionary than summer vacations.

United Kingdom — Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
⇔ (⇩)	⇧ (⇔)	⇩⇩ (⇩⇩)	⇔(⇩)	–

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

Economic Trends:

- The Conference Board's leading economic index for the U.K. increased 1 per cent in June, the third consecutive monthly increase. Meanwhile, the six-month change in the leading index stood at –0.4 per cent (about a –0.9 per cent annual rate) in June. Fortunately, the strengths among the leading indicators have become slightly more widespread than the weaknesses in recent months.

- Since the fall of 2008, the British pound has generally continued to slip in value compared with the Canadian dollar. This should help to limit price increases in the average cost of a seven-night stay in Canada for the fourth quarter of 2009 for U.K. travellers, including airfare, hotels, meals, and other items, to 2.8 per cent, year-over-year. In comparison, the cost of U.K. travel to other competitive destinations is expected to rise 19.8 per cent, resulting in a boost in Canada's price competitiveness for the fourth quarter of 2009.

Traveller and Supplier Trends:

- Unfortunately, the number of U.K. visitors to Canada dropped 17 per cent per cent in June. Travel from the U.K. has been on a declining trend since April of last year, and so far year-to-date arrivals are down 18.1 per cent in the first half of 2009. Overall U.K. outbound travel is also retreating, with U.K. visits to North America between April and June 2009 down 24 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 increase by 3.8 per cent during the fourth quarter of 2009, year-over-year, according to the latest data snapshot from BACK Aviation Solutions.

The Tourism Leading Indicator Index suggests that despite some improvement in economic conditions, price competitiveness, and travel supplier trends, deteriorating outbound travel trends will likely 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, but at a slower pace: Air France-KLM reported a sharp drop in profitability for its first quarter ended June 30, 2009, with a net loss of 431 million euros (C$679 million) compared with a net profit of 132 million euros earned a year earlier. The airline stated that "unprecedented low levels" of global economic activity were hurting demand, leading to a sharp decline in air travel volumes and revenues—in particular for premium classes. Overall passenger traffic for the quarter was down 5.8 per cent, year-over-year. Looking ahead, the airline said it expected to record further decreases in passenger business for the current quarter, although the decline in demand appeared to be slowing. It plans to reduce its capacity for the winter season by another 5 per cent.

In July, Air France-KLM reported a 3.3 per cent decline in passenger traffic, while the number of passengers carried fell 4.5 per cent, year-over-year. Traffic on its domestic and European routes decreased 4.8 per cent, and traffic on North and South American routes fell 4.3 per cent. The carrier noted that the year-over-year decreases in passenger traffic were getting smaller, suggesting that demand was stabilizing.

Passenger numbers at airports serving Paris fell 3.1 per cent to 8.2 million in July 2009, according to the latest statement by the airports' administrative authority, Aéroports de Paris. Domestic passenger numbers decreased 4.8 per cent from a year earlier, and passengers on European routes fell 3.6 per cent. Passengers on routes serving North America decreased 4.6 per cent during the month.

French consumer confidence rising, but very slowly: French consumers continue to be pessimistic about economic conditions, keeping consumer confidence levels low, 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 –39 in July 2009, a drop of two points from a month earlier. French households were particularly gloomy about their current and future living standards.

France — Tourism Leading Indicator Index

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

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

Economic Trends:

- The Conference Board's leading economic index for France increased 0.9 per cent in June. Since December 2008, the leading index had increased at a 1 per cent annual rate. While the strengths among the leading indicators have grown more widespread recently, the weaknesses have still exceeded them over the last six months. On a more positive note, real GDP increased at a 1.4 per cent annual rate during the second quarter of 2009, the first quarterly increase since early in 2008. The recent behaviour of the leading economic index suggests the economy is moving closer to recovery.
- While the Canadian dollar has been gaining some strength against the euro since the start of 2009, it still remains slightly weaker than it was a year ago. Overall, the average cost of a seven-night stay in Canada, including airfare, hotels, meals, and other items, is expected to decrease 2.1 per cent for French travellers during the fourth quarter of 2009.

Traveller and Supplier Trends:

- In June, visits from France still managed to increase 0.2 per cent, year-over-year. Overall, visits for the first six months of 2009 were only down a slight 0.7 per cent from 2008. Travel to the U.S. has also held up reasonably well: 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 five months of 2009.
- During the third quarter of 2009, direct air capacity between France and Canada is set to increase 7.9 per cent compared with the fourth quarter of 2008.

Although supplier trends and Canada's price competitiveness are improving, the Tourism Leading Indicator Index suggests French visits to Canada will likely remain flat or decline slightly over the near term as economic challenges persist.

Germany — Current Tourism Trends

German air travel trends improving slowly: Deutsche Lufthansa AG posted a net loss of 216 million euros for its first half ended June 30, 2009, a sharp reversal from the net profit of 381 million euros reported a year earlier. The airline said that weak travel demand and a marked shift in business travel bookings toward lower fare classes led to a steep slide in revenues during the period. In a separate release, the company reported a 6.1 per cent decline in passengers during the first half of 2009 from a year earlier. Passenger traffic (measured in RPKs) during the period fell 6.4 per cent.

Lufthansa reported a slight improvement in passenger demand for the month of July, with a 0.8 per cent increase in passenger traffic over the same month in 2008. Passenger traffic on routes to North and South America fell 2.3 per cent. July traffic figures for domestic and European routes were not comparable to the previous year, as they included British Midlands, a U.K. airline that Lufthansa acquired on July 1, 2009.

Passenger numbers at Frankfurt Airport continued to decline in July, but at a much slower rate than in previous months. A total of 4.9 million passengers travelled through the airport that month, a 3.3 per cent decrease from the previous year. In the first half of 2009, passenger numbers at Frankfurt Airport sank by 8 per cent, year-over-year.

Because of the ongoing weakness in global economic conditions, the airport anticipates passenger numbers for the full year of 2009 will be 6 to 9 per cent lower than they were in 2008. It also cautioned that a potential resurgence of H1N1 flu cases this fall could dampen global travel demand even further, adding another risk to its full-year forecast.

German travel sales dropped in July after surging in June: Following a surge in last-minute bookings in June, sales at German travel agencies weakened again in July, according to the latest TATS survey of 2,600 German travel agents, reported by fvw, a travel industry journal. Overall travel agency revenues were down by 12 per cent in July 2009, with a 15.3 per cent decrease in air-only sales and a 9.3 per cent decline in holiday package sales from a year earlier.

Advance bookings for the whole tourism year, from November 2008 to October 2009, were down by 1.9 per cent in July, while revenues from those bookings fell 5.5 per cent. The report noted that average prices—in particular for airfares—have fallen from last year, contributing to the large decrease in revenues.

A late booking trend was also apparent in a monthly survey of 1,200 German travel agencies conducted by GfK, a market research firm, according to fvw. The results showed that nearly 40 per cent of the holiday packages sold in June and July 2009 were for departures within four weeks. Domestic destinations in Germany have benefited from this late booking trend, as have Egypt, Italy and the United States. GfK said it expected the proportion of last-minute bookings for the current tourism year to end up significantly higher than the previous year.

New report highlights importance of 65-plus German travel market: The expanding size of the 65-and-older travel market in Germany offers great growth potential for the tourism industry, according to the 2009 ADAC Reisemonitor report, released at the ITB Berlin trade show. The report revealed that 42 per cent of Germans aged 65 and older travel either domestically or internationally, and this segment of the population is expected to grow quickly over the next 10 years.

Understanding the preferences of this market is important for targeting this group, according to the report. For example, beach holidays are less attractive to travellers in this age group, who tend to prefer cultural and study trips, as well as city tours. They tend to seek out travel experiences that offer “attractive landscapes, art and culture,” as well as health and wellness options. Exclusive accommodations are also important to this market.

According to *fvw*, 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	
⇩ (⇩)	⇧ (⇧)	⇩ (⇧)	⇧ (⇧)	–

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

Economic Trends:

- The Conference Board’s leading economic index for Germany increased 1.1 per cent in June, the third consecutive monthly increase. The latest gain in the index was attributed primarily to increasing consumer confidence and new orders. However, the leading index has declined at a 6.7 per cent annual rate since December, and the weaknesses among the leading indicators have consistently exceeded the strengths over this time. But although the recent behaviour of the index suggests that the economic downturn is likely to continue in the near term, economic conditions are poised to improve in the months ahead.

- Canada’s price competitiveness for the German market is projected to improve during the fourth quarter of 2009, aided by both cheaper airfares and 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 8.1 per cent year-over-year for German visitors.

Traveller and Supplier Trends:

- Although the growth in German arrivals to Canada was tracking positive earlier this year, arrivals in June were down 9.6 per cent from last year. The latest year-to-date figures show that arrivals during the first half of 2009 were down 3.9 per cent over 2008. Meanwhile, the OTTI reported that German visits to the U.S. declined 7.5 per cent over the first five months of 2009.

- During the fourth quarter of 2009, direct air capacity between Germany and Canada is scheduled to increase 4.4 per cent compared with the same quarter of 2008.

Despite some improvement in economic conditions and in price competitiveness, the Tourism Leading Indicator Index suggests that weak travel trends are likely to result in year-over-year declines in travel from Germany over the near term.

Mexico — Current Tourism Trends

Canadian government imposes new visa requirement: On July 13, 2009, Citizen and Immigration Canada announced a new visa requirement for Mexican citizens travelling to Canada, effective immediately. For the next two days, Mexican visitors were allowed to apply for a visa upon arrival in Canada, but after that, Mexican citizens intending to travel to Canada had to obtain a Temporary Resident Visa before leaving their country. Since then, media reports have suggested that the new requirement has drastically reduced the number of Mexican visitors to Canada this summer.

Latin American passenger traffic decreased in first half of 2009: Latin American airlines saw their combined passenger traffic (measured by RPKs) decrease by 2.7 per cent in June 2009, year-over-year, according to the Latin American air transport association (ALTA). The number of passengers slipped 2.2 per cent to about 9.2 million. In the first half the year, traffic was down by 2 per cent from the previous year.

Table 4. ALTA Airlines*

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

Regional Destination	RPK change 2009 vs. 2008	Passengers Carried 2009 vs. 2008
Intra–Latin America (scheduled and charter)	–1.2%	–0.6%
Extra–Latin America (international)—total	–5.3%	–11.6%
North America	–3.8%	–8.3%
Europe	1.4%	6.5%
Asia-Pacific	–19.3%	–15.1%
Total	**–2.7%**	**–2.2%**

Source: Latin American air transport association (ALTA).
**ALTA members include 37 airlines serving the Latin American region.*

H1N1 influenza epidemic continues to devastate Mexican tourism industry: Tourism demand in Mexico has been devastated by the H1N1 influenza epidemic, especially when combined with the effects of the global economic slowdown. Recent estimates suggest the flu outbreak has already cost the Mexican economy between US$200 million and $300 million, with the tourism sector bearing much of this impact, according to the World Travel and Tourism Council. The council's latest forecast suggests Mexico's travel and tourism sector will contract by 9 per cent this year, a decline that is significantly worse than the 6.5 per cent contraction forecast for the Mexican economy as a whole. The sharp drop in foreign visitors to Mexico since the flu broke out is largely to blame, although domestic tourism spending and investment is also expected to decline.

Mexican consumer confidence plunged to record low in May: Mexican consumers had a more optimistic outlook for their household finances and the economy in July, lifting consumer confidence that month to its highest level in 2009, according to Dow Jones International News. The consumer confidence index by INEGI, Mexico's national statistics agency, increased to 85.4 in July, up from 81 in June. However, consumers were still pessimistic about making big-ticket purchases.

Mexico — Tourism Leading Indicator Index

Economic		Non-Economic*		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
⇩ (⇩)	⇧ (⇧)	⇩⇩ (⇩)	⇧⇧ (⇩)	— —

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

Economic Trends:

- The Conference Board of Canada's leading economic index for Mexico increased 2.3 per cent in June, the fourth consecutive monthly increase. Gains in the price of oil and construction activity more than offset negative contributions from a weaker exchange rate. During the six-month period ending in June, the leading index gained 7 per cent, or 14.5 per cent at an annual rate. In addition, the strengths among the leading indicators have remained widespread in recent months. However, real GDP declined at a 4.4

per cent annual rate over the second quarter. The recent behaviour of the index suggests the economic downturn should ease in the months ahead.

- Compared with the Mexican peso, the value of the Canadian dollar increased nearly 20 per cent between August 2008 and August 2009. As a result, despite slight declines in average airfares, the cost of a seven-night stay in Canada for Mexican travellers is expected to increase by 8.8 per cent during the fourth quarter, year-over-year. Fortunately, Canada's price competitiveness during the fourth 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 19.8 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. However, with significant declines in May and June, Mexican arrivals over the first half of 2009 were down 16.8 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 also been weak. According to the OTTI, arrivals were 15.7 per cent lower in the first five months of 2009 than they were in the same months in 2008.

- Direct air capacity between Canada and Mexico is projected to increase 18.4 per cent during the fourth quarter of 2009.

Even excluding the new visa requirement, the traditional determinants of the Tourism Leading Indicator Index would suggest that weak economic conditions and even weaker travel trends would pose a significant challenge for the Mexican travel market. In light of all the challenges facing this market, it is very likely that the downward trend in Mexican visits to Canada will persist over the short term.

Japan — Current Tourism Trends

Japanese airlines continue to report steep profit losses: JJapan Airlines (JAL) and All Nippon Airways (ANA) continued to report steep profit losses in their latest financial statements. Both carriers said that poor economic conditions and fears of an H1N1 influenza pandemic had drastically reduced passenger demand during the April to June quarter. However, leisure travel demand was expected to improve in the current quarter, as concerns about the H1N1 virus began to recede.

JAL posted a net loss of 99 billion yen (C$1.2 billion) for its first quarter ended June 30, 2009, compared with a net loss of 3.4 billion yen a year earlier. Although the airline had trimmed its international capacity for the quarter by 10.4 per cent because of weak economic conditions, it was not nearly enough to offset the sharp fall-off in demand that followed the outbreak of the H1N1 virus, especially for leisure travel. JAL's international traffic during the period fell 18.6 per cent from a year earlier, while revenues from this segment plunged 46.1 per cent.

ANA reported a net loss of 29.2 billion yen for the same quarter, down from the net profit of 6.6 billion yen it achieved a year earlier. ANA said that demand during the period had fallen to levels "not seen before" and described the quarter as "tough in the extreme." The carrier's domestic and international passenger traffic fell by 13.2 per cent and 12.5 per cent, respectively.

Both carriers announced they would reinstate their fuel surcharges for international flights as of October 1, 2009, because of the recent hike in oil prices, after a reprieve of only three months. The fee for long-haul flights to North America and Europe will be 7,000 yen each way (C$83).

Meanwhile, the latest figures from Tokyo's Narita International Airport showed that passenger numbers in June dropped by 15 per cent from a year earlier. Japanese passengers on international flights plummeted by 24 per cent, while passengers on domestic flights fell 7 per cent. In the first half of 2009, Japanese passengers on international flights were down 11 per cent from a year earlier.

Carriers suffer decline in air passengers during peak summer period: JAL and ANA both experienced a year-over-year decrease in passengers over the peak summer vacation period, August 7 to 16, 2009, which is based around the annual Obon holiday. JAL saw a 4.5 per cent decrease in international passengers, year-over-year, with an 11.7 per cent plunge in passenger numbers on transpacific routes. The carrier's domestic passenger numbers were down by 7.6 per cent. At ANA, overall passenger numbers for the holiday fell 8 per cent from the previous year.

Surge in overseas leisure trips expected for September: JTravel demand dropped off precipitously in the wake of the H1N1 flu outbreak, causing a sharp decrease in Japanese travel bookings during the late spring and summer. However, bookings for September appeared very strong. A string of national holidays in September are helping to fuel a surge in overseas travel bookings for that month, following months of sluggish demand, according to reports from the Japanese travel trade.

The Japan Association of Travel Agents (JATA) reported in early July that bookings for overseas package tours in September were up by more than 50 per cent over last year, registering a dramatic turnaround after a slow summer. Even bookings to Canada and the United States were up 4.5 per cent for September departures, following four months of drastic declines.

JATA also reported a steep drop-off in overseas package bookings during the second quarter of 2009, as fears about the H1N1 flu virus took hold. Bookings in April, before the outbreak was announced, were up 24.4 per cent over the previous year, but the growth in bookings then decelerated to 2.8 per cent in May. By June, overseas package bookings had plunged by nearly 21 per cent compared with the same month in 2008. Bookings to Canada and the United States in June plummeted more than 68 per cent.

JTB Corp., Japan's largest travel agency, presented a similar travel outlook in a report released in mid-July. The company expected a 1.7 per cent decline in travel volumes during July and August, year-over-year, with a 5.8 per cent drop in trips abroad and a 1.6 per cent slide in domestic trips. Trips to Canada and the United States were expected to fall 10.5 per cent and 9.6 per cent, respectively. Moreover, JTB expected a substantial decrease in the average amount spent per trip: down 14.1 per cent for overseas vacations and down 7.5 per cent for domestic ones.

The report said travel demand was recovering as concerns about the H1N1 virus receded, although consumers were still worried about the economy and their personal finances, keeping market conditions "far from favourable." Nevertheless, JTB also said it was seeing strong growth in bookings for travel in September.

Japan — Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
⇩ (⇩⇩⇩)	⇧⇧ (⇧⇧)	⇩⇩ (⇩⇩)	⇧ (⇩⇩)	–

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

Economic Trends:

- The Conference Board's leading economic index for Japan increased 1 per cent in June, only the second monthly increase since June 2007. Still, between December and June, the leading index fell 16.4 per cent (or 30.1 per cent at an annual rate). On a slightly positive note, during this six-month span, the weaknesses among the leading indicators became slightly less widespread. While the recent behaviour of the index suggests the current contraction in economic activity is likely to continue, it also suggests that it will probably become less severe over the near term.

- Over the course of 2008 and 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 August 2008 and August 2009, the Japanese yen appreciated 19 per cent against the Canadian dollar. This has contributed to the estimated 29 per cent year-over-year reduction in the average cost of a 10-night stay in Canada (including airfare, hotels, meals, and other items) for Japanese travellers in the fourth quarter of 2009.

Traveller and Supplier Trends:

- Unfortunately, visits from Japan to Canada continue to be weak. During the first half of 2009, visits from Japan were down 34.3 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 13.9 per cent in the first five months of 2009.

- The most recent snapshot of air capacity suggests direct air capacity on scheduled flights from Japan will increase 4.8 per cent during the fourth quarter of 2009.

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

South Korea — Current Tourism Trends

Weak economy and flu fears eroded air travel demand: Korean Air reported that its second-quarter performance was hurt by weak economic conditions and concerns about the H1N1 virus. The airline posted a net profit of 78.5 billion won (C$70 million) for the second quarter of 2009, a sharp reduction from the 288.9 billion won profit reported for the same quarter of 2008. International passenger traffic (measured in RPKs) dropped 6.8 per cent during the period, while domestic passenger traffic plummeted 21.5 per cent from a year earlier. Looking ahead, the airline said it expected outbound travel demand to improve as fears about the H1N1 virus diminished and the value of the Korean won stabilized.

In August, Korean Air reported that reservations on international flights for September were up 21 per cent over the previous year, according to *Air Transport World*. The largest increases were for routes to Japan (59%), the Americas (12%) and Europe (10%). The carrier's international passenger numbers also grew in July (5%) and August (9%).

Korean Air expands air capacity to Canada: In July, Korean Air announced plans to increase its seat capacity on routes to Vancouver and Toronto beginning in August, in light of the new open skies agreement between Korea and Canada. The carrier said it expected the new agreement to help boost the "growth and popularity" of travel between the two countries. The open skies agreement came into effect on July 15, 2009.

Outbound travel demand plunged in first half of 2009: The Korea Tourism Organization (KTO) reported that Korean outbound travel volumes plunged 39.1 per cent in the first half of 2009 compared with a year earlier, according to the *Korea Travel Times*. Outbound tour operators saw their bookings fall by 44.3 per cent, and air ticket sales dropped 30.5 per cent, year-over-year. The global financial crisis and fears about a possible H1N1 flu pandemic were the two main reasons cited for the decline.

Koreans taking more domestic trips: In August, the KTO reported that Koreans were taking more domestic trips and fewer overseas trips for their summer vacations, according to *Korea Times*. Growth in business has been strong for domestic travel agencies in Korea. Meanwhile, bookings at agencies specializing in overseas packages have fallen by double-digit rates from last year. Hana Tour, Korea's largest travel agency in Korea, reported it had experienced a 14 per cent drop in overseas bookings for departures in August, traditionally the peak period for Korean vacations. The KTO said a decrease in the value of the won, high oil prices, and ongoing fears about the H1N1 virus were all weighing down Korean travel confidence, keeping Korean travellers closer to home over the summer.

Consumer confidence on an upswing: The Bank of Korea's consumer confidence index continues to improve, reaching a seven-year high in August. The index rose to 114 in August, up from 109 in July. A reading of 100 indicates a balance between negative and positive assessments of the economy. The results suggest Korean consumers are growing more optimistic about an economic recovery.

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 (July 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for South Korea increased 1.5 per cent in June, the fifth consecutive monthly gain. With the latest gain, the six-month growth rate in the leading index had increased 4 per cent since December. In addition, the strengths among the leading indicators have been widespread during this period. Meanwhile, real GDP grew at a 9.7 per cent annual rate in the second quarter of 2009. The behaviour of the leading index suggests that economic activity is likely to keep improving over the next few months.

- Compared with the South Korean won, the value of the Canadian dollar increased nearly 13 per cent between August 2008 and August 2009. However, thanks to significant declines in airfares (down 37%), the average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, is expected to decrease 5.9 per cent for South Koreans during the fourth quarter of 2009, year-over-year. As a result, Canada's price competitiveness during the fourth quarter is expected to increase, 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 4.4 per cent during the quarter.

Traveller and Supplier Trends:

- Korean visits to Canada declined 29.1 per cent in June. For the first six months of 2009, arrivals from South Korea were down 27.2 per cent compared with 2008. For the first five months of 2009, travel from South Korea to the U.S. declined 17.8 per cent, according to the OTTI.

- Fortunately, direct air capacity from South Korea to Canada is expected to increase 6.7 per cent during the fourth quarter of 2009.

Although there has been some improvement in economic conditions, supplier trends, and Canada's price competitiveness for this market, weak travel trends suggest visits from South Korea will continue to decline over the near term.

China — Current Tourism Trends

Chinese airlines achieve growth in first-half profits: China's airlines increased their profitability in the first half of 2009 over the previous year, because of lower fuel prices and the elimination of a civil aviation tax, according to *Air Transport World*. The General Administration of Civil Aviation of China (CAAC) reported that the country's airlines achieved a collective net profit of just under 3.9 billion yen (C$630 million) in the first half of the year, a 4.1 per cent increase over the previous year. Passenger numbers rose 16.4 per cent to 107 million, boosted by a 20.4 per cent rise in domestic passengers during the period. However, international passengers dropped 16.8 per cent.

Looking ahead, the CAAC anticipates an improvement in the airlines' collective performance for the second half of 2009. *Air Transport World* reported that the government plans to help stimulate international travel demand by subsidizing long-haul routes.

The number of passengers travelling through Beijing Capital International Airport jumped 18.2 per cent in the first half of 2009. Domestic passengers rose 25 per cent, while international passengers slipped 1.8 per cent from a year earlier.

Chinese corporate travel market to lead global growth: China is expected to lead the world in business travel spending growth over the next five years, according to a global business travel forecast recently released by the National Business Travel Association and Egencia. At US$93.8 billion, Chinese spending accounted for 10 per cent of worldwide corporate travel spending in 2008, and had tripled in size since 1998. Over the next five years, Chinese business travel spending is expected to grow at an average annual rate of 6.5 per cent, which is the highest growth rate projected for any country. In contrast, U.S. business travel spending is only expected to grow at an average rate of 0.3 per cent per year.

Internet is top travel information source for Chinese leisure market: The Internet has become the most popular source of travel information for Chinese leisure travellers, making it the most important medium for targeting the Chinese travel market, according to the latest Nielsen China Outbound Travel Monitor. The report states that 61 per cent of Chinese leisure trips begin with a web search for conventional destination information, and nearly half (48%) involve a pre-departure consultation with online travel discussion forums.

However, Nielsen estimates that only 1.6 per cent of all destination media expenditures in China last year were for Internet advertising, and most of that spending was done by Asian-Pacific destinations. Conversely, most travel advertising spending in China by European destinations was done through newspapers and magazines.

China — Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
⇧⇧ (⇧⇧)	⇔ (⇧⇧)	⇩ (⇧⇧)	⇧ (⇩)	+

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

Economic Trends:

- China's fiscal stimulus package lifted the country's real GDP growth in the second quarter to 7.9 per cent at an annual rate and boosted the latest Consensus Forecasts report (August 2009) projections for real GDP growth to 8.3 per cent in 2009 and 9.3 per cent in 2010. Recent indicators suggest that the worst of the downturn appears to be over and that as the economy continues to expand, inflationary concerns could emerge.

- The Canadian dollar appreciated 3.5 per cent against the Chinese renminbi between August 2008 and August 2009. Despite the slight 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 14.6 per cent during the fourth quarter of 2008 compared with last year. However, Canada's price competitiveness may remain unchanged, as the cost of a similar trip to competitive destinations (U.S., France, Germany, U.K., and Australia) is expected to decrease by an average of 14.5 per cent during the quarter.

Traveller and Supplier Trends:

- Chinese arrivals to Canada declined 8.7 per cent in June, but remain 3.5 per cent ahead of last year over the first six months of 2009. In contrast, over the first five months of 2009, travel from China (including Hong Kong) to the U.S. decreased 6.8 per cent, according to the OTTI.

- Fortunately, direct air capacity to Canada is expected to increase 6.2 per cent during the fourth quarter of 2009.

Despite improving economic conditions and supplier trends, the Tourism Leading Indicator Index suggests the weakness in travel trends will continue to limit the growth potential of Chinese visits over the near term. Concerns about the severity and prevalence of the H1N1 virus flu persist, particularly among those influencing Chinese travellers—tour operators and travel agents.

Australia — Current Tourism Trends

Qantas suffers loss for second half of its fiscal year: Qantas Airways posted a net profit of A$123 million (C$114 million) for its full year ended June 30, 2009, an 87 per cent drop in earnings compared with a year earlier. However, it was only able to stay in the black because of a strong first half—the carrier posted a net loss of A$107 million for its second half, when weakening economic conditions and the outbreak of the H1N1 virus dampened air travel demand. Qantas said it "suffered rapid revenue declines" in business and premium segments in the second half of its fiscal year. Passenger traffic (measured in RPKs) for the year was down by 3.2 per cent compared with a year earlier.

Looking ahead, Qantas said it was reluctant to provide a profit guidance for the current fiscal year because conditions remained uncertain. However, it did say there were signs that passenger demand was improving and that passenger yields (revenues per RPK) had stabilized.

Strong competition driving down transpacific airfares: Competition on the lucrative transpacific routes between Australia and the United States has ratcheted up in recent months, keeping airfares close to historically low levels, according to an Agence France-Presse news item. Delta Air Lines and Virgin's V Australia entered the market earlier this year, substantially increasing capacity on those routes. Since then, fares for those routes have dropped by up to 50 per cent from last year, because of increasing competition and the effects of the global economic downturn. Qantas accounts for about half of the seat capacity in that market.

Australian outbound travel demand appears relatively resilient: Although weaker economic conditions have hurt travel confidence in Australia, the country's outbound market is expected to remain relatively resilient this year, according to the latest forecast by Tourism Australia. The organization expects a 1 per cent drop in Australian outbound travel volumes in 2009 compared with 2008, noting that "cheap airfares" are helping to fuel outbound demand.

On the other hand, Australians are expected to take fewer domestic trips this year, and stay fewer nights when they do take a domestic vacation. Domestic travel volumes in Australia are expected to fall 3.2 per cent in 2009, and the total number of domestic visitor nights is expected to decrease by nearly 4 per cent from the previous year.

Australia — Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
⇔ (⇔)	⇧⇧ (⇧)	⇩ (⇩)	⇧ (⇔)	—

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

Economic Trends:

- The Conference Board's leading economic index for Australia increased 0.9 per cent in June, the fifth consecutive monthly increase. With the latest gain, between December 2008 and June 2009, the leading index increased 1.3 per cent. In addition, the strengths among the leading indicators have remained widespread. Still, some recent volatility in the leading index suggests the economy will likely remain weak in the near term.

- The Canadian dollar depreciated 1.9 per cent against the Australian dollar between August 2008 and August 2009. This depreciation, combined with significant declines in average airfares, is expected to lead to a decline in the overall cost of travelling to Canada. For Australians, the average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, is expected to decrease 12.6 per cent during the fourth quarter of 2009 over last year. Meanwhile, the average cost of a similar trip to competitive destinations is expected to increase 4.7 per cent.

Traveller and Supplier Trends:

- Although Australian arrivals to Canada grew at a respectable pace during much of 2008, visits late in the year were tracking downward. In the first six months of 2009, arrivals from Australia were down 14.7 per cent compared with 2008. The rate of decline in visits to Canada has, so far, been slightly worse than the drop in visits to the United States. According to the OTTI, travel from Australia to the U.S. decreased 7.1 per cent during the first five months of 2009.

- The level of direct air capacity between Canada and Australia over the fourth quarter of 2009 is expected to increase 9.5 per cent compared with the same quarter in 2008.

Economic trends have strengthened slightly and Canada's price competitiveness for the Australian market has improved. However, the Tourism Leading Indicator Index suggests that weaker travel trends will result in continued year-over-year declines in Australian visits 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.

	Economic		Non-Economic	
Travel Market	General Economic Trend	Price Competitiveness	Traveller Trends (to/within Canada)	Supplier Trends (to/within Canada)
Domestic & U.S.	40%	10%	40%	10%
All others	30%	10%	50%	10%

A higher weight on economic factors is given to domestic and U.S. travel because a higher percentage of the travel that occurs in these markets is for non-leisure purposes, which tend to be more closely linked to economic motivations. In addition, the prevalence of shorter, more frequent automobile travel also tends to be more highly correlated with economic factors. On the other hand, the longer average distance and trip duration of overseas trips suggests that non-economic factors tend to play a bigger part in the decision-making process for these trips.