



Tourism Intelligence Bulletin

Frosty Outlook for Winter Travel

Issue 54: November 2009

The Tourism Intelligence Bulletin monitors the tourism industry around the world. This issue features tourism intelligence gathered in September, October, and early November 2009.

Bulletin Highlights

Tourism Overview: North America

- **Prospects for domestic travel this winter still subdued:** The outlook for Canada's domestic travel market this winter remains subdued. While there are some signs that the decline in travel demand has stabilized, domestic travel volumes are expected to stay below last year's levels over the short term. The October 2009 Travel Intentions Survey by The Conference Board of Canada suggests there continues to be some potential for growth in Canadian travel over the winter, but solely for outbound destinations. (See "Leisure Travellers," page 5, and "Domestic Travel," page 11.)
- **U.S. vacation intentions retreated in October:** U.S. travel intentions pulled back in October, reversing the increase seen two months earlier, according to the latest Consumer Confidence Survey report by the U.S. Conference Board, Inc. Consumer confidence also declined in October for the second consecutive month, as negative news about the U.S. labour market helped stoke consumers' pessimism about economic conditions. (See page 5.)
- **U.S. travel plans vulnerable to rise in H1N1 flu cases:** Americans' short-term travel plans are vulnerable to the potential growth of H1N1 flu cases, according to recent research. More than a third of U.S. travellers planning a trip within the next six months said a widespread outbreak of the H1N1 flu at their intended destination would cause them to alter their plans by delaying their trip, changing their travel destination, or cancelling their trip altogether. (See page 6.)
- **Canadian business confidence rises:** Optimism among Canadian business leaders rose again in the third quarter of 2009, according to the Conference Board's Index of Business Confidence survey. Following a sharp increase in the second quarter, the index ascended another 15.9 points to its highest level since 2007. Indicators measuring the outlook for economic conditions and firms' financial prospects each made substantial gains. (See 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	26



- **Canadian business travel may slide further in 2010:** Business travel demand in Canada has softened substantially since the fall of 2008, and it may continue to slide next year, despite hopes of an economic recovery, according to the 2010 *Canadian Business Travel Outlook*. The report suggests Canadian organizations expect fewer business trips will be taken next year compared with 2009. They also plan to reduce their travel spending. (See page 7.)
- **Canadian airlines still grappling with weak demand and high competition:** The profitability of Canadian airlines continues to suffer from weaker travel demand and intense market competition. Although Air Canada and WestJet recently reported that the decline in air travel appears to be levelling off, the outlook for the airline industry remains highly uncertain. (See page 8.)
- **Canadian hotel indicators continue to decline:** Weak demand in all travel segments continues to dampen Canadian hotel occupancy levels, leading to rate discounting and significant revenue losses for the industry. PFK Consulting reported that occupancy and room rates continued to decline in August 2009, leading to a 12.7 per cent fall in revenue per available room. (See page 9.)

Tourism Overview: International

- **Latest data confirms U.K. “staycation” trend:** U.K. domestic travel increased significantly over the summer, while outbound travel continued to decline, bolstering claims that many British travellers opted to stay closer to home this year. Moreover, many of those who did travel abroad for their summer vacation booked their trip at the last minute. This pronounced late-booking trend is expected to continue through the winter. (See page 13.)
- **Transat reports decline in French bookings:** Transat A.T.’s bookings in France were down, year-over-year, during its third fiscal quarter ending in July. Long-haul bookings during the period were particularly weak. Looking ahead to its fourth quarter, Transat said that French bookings to medium-haul destinations were tracking ahead of the previous year, while long-haul bookings continued to lag behind. (See page 15.)
- **Winter bookings off to a slow start in Germany:** Sales for winter leisure trips have been off to a slow start in Germany. Still, travel agents hope the pronounced late-booking trend that has emerged in the German market this year will lead to a flurry of last-minute bookings. Tour operators are also optimistic about their bookings for U.S. destinations. German demand for U.S. travel has been stoked by a better exchange rate, a more favourable view of the country, and the increased efforts of U.S. suppliers to attract German tourists. (See page 17.)
- **Mexican tourism industry struggling:** Mexico’s tourism industry continues to struggle with the effects of the H1N1 influenza epidemic, the economic downturn, and widespread media coverage of the country’s drug wars. To counteract the sharp decline in international visitors since April, tourism offices have ramped up efforts to stimulate domestic travel. (See page 18.)
- **Japanese travel agents reporting drop-off in demand for New Year holiday travel:** Although overseas bookings for the fall shoulder-season were strong this year, Japanese travel agents have reported a drop-off in travel demand for the peak New Year holiday period, except for short- and medium-haul Asian destinations. Reports suggest that Japanese travellers have become more frugal and prefer to avoid the high prices charged for peak travel periods. In addition, the timing of public holidays during the New Year travel season is less favourable than it was last year, giving workers fewer consecutive days off. (See page 20.)

- **Flu fears hit Korean travel demand:** Media reports suggest that news of H1N1-related deaths in South Korea has devastated overseas and domestic travel demand since the middle of August. Still, travel industry analysts are optimistic that travel demand will begin recovering soon, as flu concerns recede and as the strengthening Korean won increases the affordability of overseas trips. **(See page 22.)**
- **Chinese business travel spending decelerating but not declining:** Spending on corporate travel and entertainment has grown more slowly in China this year, but it is not expected to decline, according to a recent survey by American Express. Chinese companies have increased their focus on travel policy compliance and expense control. **(See page 23.)**
- **Australians still travelling overseas in droves:** The Australian outbound market continues to expand, fuelled by the strengthening Australian dollar and low international airfares. Australian overseas travel hit a record high in the year leading up to September 2009, surpassing 6 million outbound trips, according to the Australian Bureau of Statistics. **(See page 25.)**

Tourism Leading Indicator Index — Summary Table

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

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

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

Ratings Key:

Economic Factors and Non-Economic Factors: Range from ↑↑↑ (significantly adds to demand) to ↓↓↓ (significantly impedes demand). ↔ represents neutral effect on demand.

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

Full details about the index for each market begin on page 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 continues to be some potential for growth in the Canadian travel market this winter, but mainly for outbound travel, according to the latest Travel Intentions Survey by The Conference Board of Canada. The results were similar to the previous survey in August 2009, which also suggested that the greatest potential for growth in the Canadian travel market this winter was for outbound travel.

Of the Canadians polled in October 2009, nearly 50 per cent said they had taken a vacation last winter between November 2008 and April 2009. The number of respondents who may take a winter vacation this year jumped to 58 per cent: just over 39 per cent said they would definitely take a trip, and 18 per cent said they would likely do so.

More than 24 per cent of respondents said they would definitely or probably plan a trip to an international destination other than the United States, up from 20 per cent who said they had taken an international trip (not including to the U.S.) last winter. Meanwhile, the number of those who said they would definitely or likely take their longest winter vacation within Canada dipped slightly from the number who reported having taken their longest winter vacation in Canada the previous winter.

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	49.3	58.3
<i>Canada</i>	13.3	12.3
<i>United States</i>	16.0	17.3
<i>Other International</i>	20.0	24.3
<i>Do not know</i>	n/a	2.7

**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. vacation intentions retreated in October: U.S. travel intentions pulled back in October 2009, reversing the improvement seen two months earlier, according to the latest Consumer Confidence Survey report by The Conference Board, Inc. in the United States. Preliminary results showed that 37.4 per cent of Americans polled planned to take a vacation within the next six months, down from 38.9 per cent in August 2009. Results are adjusted to account for seasonal fluctuations in travel demand.

Overall U.S. consumer confidence declined in October for the second consecutive month. The Consumer Confidence Index slipped 5.7 points to 47.7 (1985 = 100), with a 2.3-point loss in the Present Situation Index and an 8-point loss in the Expectations Index. The decrease was largely because of the recent deterioration in U.S. labour market conditions, according to the Conference Board.

U.S. travel plans vulnerable to growth of H1N1 flu cases: Americans' short-term travel plans are vulnerable to the potential growth of H1N1 flu cases, according to the latest travelhorizons survey by the U.S. Travel Association and Ypartnership, a market research firm. More than a third of U.S. travellers planning a trip within the next six months said that a widespread outbreak of the H1N1 flu virus at their intended destination would cause them to alter their travel plans. When asked how they would change their travel plans, nearly half (45%) said they would delay their trip until after the outbreak. A third of the respondents said they would change travel destinations, and nearly a third (31%) said they would cancel their trip altogether.

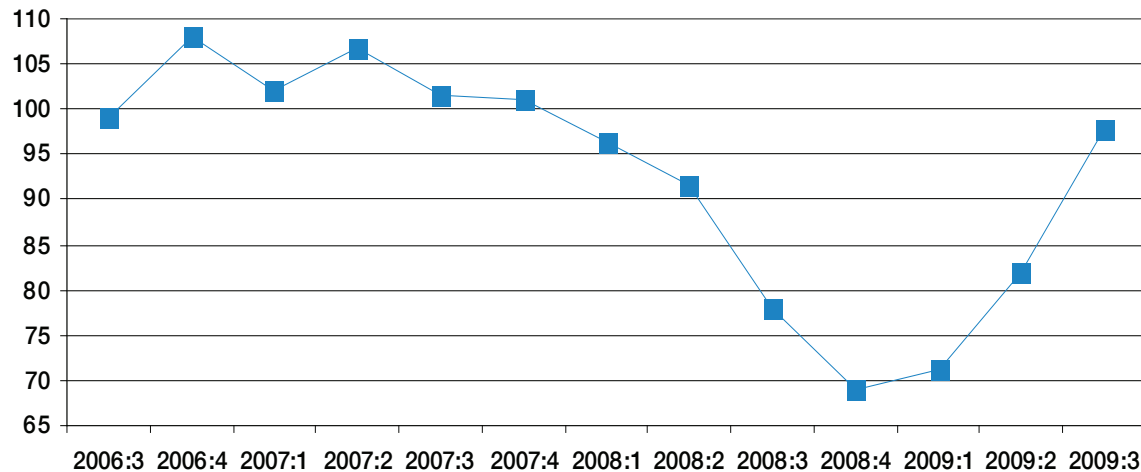
Affluent Americans most likely to increase their travel spending: U.S. consumers remain cautious about spending, according to the recently launched American Express Spending and Saving Tracker. Only 10 per cent of the Americans polled in late August said they intended to increase their spending over the following 30 days compared with the previous month, while 40 per cent said they intended to cut back on their spending. Young professionals appeared most likely to increase their spending (24% of this segment) compared with affluent Americans (14%) or the general population overall (10%). However, affluent Americans were the most likely to apply their spending increase to travel; 56 per cent of affluent Americans who intended to spend more over the next month said they would spend it on travel. Young professionals intending to increase their overall spending were most likely to spend more on clothes (65%), followed by dining out (54%) and travel (53%).

Still, vacations have become a lower spending priority among U.S. consumers, overall. Only 7 per cent of respondents named vacations as a high spending priority, compared with 25 per cent in a similar survey a year earlier.

Business Travellers

Canadian business confidence continued to rise in third quarter of 2009: Optimism among Canadian business leaders strengthened again in the third quarter of 2009, according to the latest business confidence survey by The Conference Board of Canada. Following a sharp rise in the second quarter, the Index of Business Confidence ascended another 15.9 points to 97.8 (2002 = 100). This was its highest reading since 2007. The economic outlook indicator jumped more than 30 points, and the financial prospects indicator shot up 20 points.

Chart 1: Index of Business Confidence: Up to Q3 2009
(2002 = 100)



Source: The Conference Board of Canada.

Canadian business travel demand may continue to slide in 2010: Business travel demand in Canada has softened substantially since the fall of 2008, yet demand may continue to slide next year, according to the 2010 *Canadian Business Travel Outlook* by The Conference Board of Canada and the Association of Corporate Travel Executives. The report suggests Canadian organizations expect fewer business trips will be taken next year compared with 2009. They also plan to reduce their travel spending by an average of 2.6 per cent. The main reasons given for the budgetary cutbacks were the economic downturn and the growing use of audio and video communication tools.

The report also suggests that average prices paid by Canadian companies next year will increase for air tickets but continue to decrease for hotel accommodations. Car rental rates are expected to stay about the same as they were in 2009. The study is based on a survey of Canadian organizations that account for a total of more than \$400 million in annual corporate travel expenditures in Canada.

Two other recent travel forecasts present a similar outlook for corporate travel prices in 2010:

- The latest forecast by Egencia, Expedia's corporate travel subsidiary, suggests corporate travel demand in North America will pick up next year, fuelling a 5 to 10 per cent rise in average air ticket prices. However, hotel prices will decrease by up to 5 per cent in most key North American markets.
- The latest forecast by American Express Business Travel suggests average fares in North America next year will rise between 2 and 7 per cent for domestic and short-haul flights, and between 1 and 6 per cent for international and long-haul flights. Hotel rates are projected to fall between 1 and 4 per cent for mid-range hotels and decrease between 3 and 6 per cent for upper-range hotels. Meanwhile, American Express believes business travel in Canada will grow by 15 per cent in 2010 over 2009. U.S. business travel is expected to edge up only 1 per cent next year.

New research points to high return on investment for business travel: A new study by Oxford Economics and the U.S. Travel Association suggests there is a substantial return on investment for business travel spending. The report suggests that every dollar spent on corporate travel generates \$12.50 in corporate revenues and \$3.80 in corporate profits. It suggests that 40 per cent of prospective clients are converted to new clients through in-person meetings versus only 16 per cent without a personal meeting. Customer meetings were cited as generating a higher return on business travel investment than conferences and trade shows.

Airlines

Canadian airlines still grappling with weak demand and high competition: The profitability of Canadian airlines continues to suffer from weaker travel demand and intense market competition. And while the decline in air travel appears to be levelling off, the outlook for the airline industry remains highly uncertain.

Air Canada posted a net profit of \$277 million for the third quarter of 2009. Although this was up from a net loss of \$132 million in the same quarter of 2008, it was boosted by a foreign exchange gain of \$295 million in the carrier's third-quarter income. Passenger revenues for the quarter slid by 13 per cent from a year earlier, mainly because of a reduction in traffic and "competitive pricing initiatives to stimulate demand." Revenues from premium fares decreased 16 per cent, although this was an improvement from the 30 per cent decrease seen in the previous quarter. Passenger traffic for the quarter fell 2.1 per cent from a year earlier.

The airline said its top two priorities for mitigating the effects of the economic downturn were to reduce costs and to continue expanding its international network. In the fourth quarter of 2009, the airline plans to increase its overall capacity between 1 and 2 per cent, year-over-year.

Air Canada's system-wide passenger traffic (measured in revenue passenger miles), including mainline and regional operations combined, slipped 1.3 per cent in October 2009 from the previous year. Traffic on domestic routes climbed 1.8 per cent, and traffic on transborder U.S. flights fell 7.3 per cent. On international routes, traffic on transatlantic flights rose 3.9 per cent, and traffic on Latin American routes grew 9.6 per cent, while traffic on transpacific routes decreased 7.4 per cent.

In late October, Air Canada's chief commercial officer, Ben Smith, told the Financial Post that the airline was beginning to see "glimmers of hope" that air demand was beginning to improve, although a full recovery was still a long way off.

WestJet posted a net profit of \$31.4 million for the third quarter of 2009, down from \$59.7 million a year earlier. Revenues for the quarter fell 16.4 per cent, and passenger traffic slid 3.2 per cent. The carrier said Canadian travellers remained price-sensitive during the quarter, which continued to push airlines to offer aggressive airfare discounts. The carrier plans to increase its capacity on transborder U.S. and international routes during the fourth quarter of 2009, leading to a system-wide capacity increase of 2 to 3 per cent over the previous year.

In October, WestJet's passenger traffic edged up 0.3 per cent from a year earlier. The airline reported it was beginning to see an improvement in business and sun destination bookings, and that revenue declines had begun to level off.

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

Airline	RPMs (in millions) October 2009	RPM change 2009 vs. 2008	Capacity 2009 vs. 2008
Air Canada – consolidated traffic (all airlines)	3,850	–1.3%	–0.5%
WestJet	1,093	+0.3%	–1.8%

Declines in U.S. air travel showing signs of stabilizing: U.S. air travel demand is still weak, although the decline in demand appears to be slowing, according to the latest figures from the Air Transport Association of America (ATA). Still, average airfares remain far below year-ago levels.

The number of passengers travelling on U.S. airlines fell 2 per cent in September 2009 from a year earlier, while the average price of flying one mile plunged 18 per cent. Consequently, passenger revenues among U.S. carriers dropped 19 per cent that month.

The ATA expected a 4 per cent decrease in the number of passengers travelling on U.S. carriers during the Thanksgiving holiday travel period, November 20–December 1, 2009. Still, it expects airlines to keep their load factors high over the period through capacity reductions and deep discounts. Domestic seat capacity is expected to fall nearly 7 per cent in 2009, which would represent the largest reduction in domestic air capacity since 1942, when the United States entered World War II.

Hotels

Canadian hotel indicators continue to register substantial declines: Weak demand in all travel segments continued to dampen Canadian hotel occupancy levels in August, leading to rate discounting and significant revenue losses for the Canadian lodging industry. The latest *National Market Report* by PKF Consulting revealed that average daily rates in Canada dropped 5.6 per cent in August 2009, year-over-year. Occupancy fell 5.8 percentage points, leading to a 12.7 per cent drop in revenue per available room (RevPAR) from a year earlier.

The latest *Canadian Lodging Outlook* by HVS International reported demand for Canadian accommodations dropped 5.3 per cent in August compared with the previous year. Between January and August, hotel demand was down by 6.6 per cent, year-over-year, while hotel room supply in Canada grew 1.4 per cent.

Canadian hotel operators still pessimistic: Canadian hotel operators continue to be relatively pessimistic about the short-term outlook for their business, according to Statistics Canada's Business Conditions Survey of the traveller accommodation industries for the fourth quarter of 2009. Still, there was some improvement in sentiment from the previous survey. About 64 per cent of the hotel operators polled expected their bookings to be lower in the fourth quarter than they were a year earlier, while 65 per cent expected lower occupancy levels. However, this was a slight improvement from the previous survey, when 76 per cent of respondents expected lower bookings and occupancy levels over the short term.

There was also a slight reduction in the number of respondents reporting business impediments, particularly the impediments cited most frequently. Regional economic conditions were a problem for 64 per cent of respondents in the latest survey, down from 66 per cent in the previous survey. About 36 per cent said that excess room supply was an issue (down from 37% previously), while 27 per cent mentioned exchange rate fluctuations as an issue (down from 34% previously).

Rate of decline in U.S. hotel demand slowed in the third quarter: U.S. hotel demand also continues to decline, although the rate of decline appears to be slowing, according to the latest figures from Smith Travel Research, Inc. During the third quarter of 2009, RevPAR levels in the United States plunged by an average of 16.9 per cent from a year earlier, as average room rates fell 9.8 per cent and occupancy decreased 7.9 percentage points. Still, these declines were less steep than in the first and second quarters of this year.

For the full year of 2009, the firm expects average occupancy to slide 8.4 per cent, and average daily rates to fall 9.7 per cent from 2008. Average RevPAR levels for the year are projected to be 17.1 per cent lower than they were a year earlier. U.S. hotel demand is expected to pick up again next year, but all three key hotel indicators—occupancy, rates, and RevPAR—are still expected to keep declining.

Travel Agents And Other Suppliers

Transat describes tourism market as relatively resilient: Transat A.T. Inc. posted a net profit of \$31 million for its third quarter ended July 31, 2009, compared with a net loss of \$0.9 million in the same quarter of 2008. The improvement in profitability was mainly due to a fuel hedge gain. The company described the tourism market as “relatively resilient” despite weak economic conditions, abundant market capacity, and concerns about the H1N1 flu virus.

Revenues from Transat’s North American subsidiaries decreased 6.2 per cent, because of lower selling prices and a 6.5 per cent drop in bookings—mainly for travel from Europe to Canada. Revenues from its European subsidiaries slipped 2.6 per cent, even though bookings grew by 4.7 per cent. Strong bookings at Canadian Air, its U.K. subsidiary, offset the decline in bookings in France, where bookings for long-haul travel were especially weak.

Looking ahead, Transat presented a mixed outlook for travel between Canada and Europe—an important segment of its fourth quarter business. Bookings originating in Canada for the period were ahead of the previous year, while bookings originating in Europe were trailing. Transat noted that in France, bookings to medium-haul destinations were ahead of last year, while bookings to long-haul destinations continued to lag behind. Meanwhile, bookings to sun destinations for the fourth quarter were on par with the previous year. Prices were down for all segments, but lower fuel costs were helping to offset the effects of lower prices.

Canada retains second-place position in global brand rankings: Canada held on to its second-place position in the list of top nation brands, according to the latest Country Brand Index by FutureBrand, a brand marketing firm. The index is based on a survey that asks 3,000 travellers in nine countries about where they would most like to do business and travel. The United States won the top spot in the index, something the firm attributed to the widespread popularity of President Obama. Australia, last year’s top-ranked country brand, slipped to third place. Within the index, Canada ranked first in the categories for families, resort and lodging options, safety, political freedom, and the best place to live.

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 (September 2009) Tourism Intelligence Bulletin.

Economic Trends:

- According to Statistics Canada's Labour Force Survey, employment in Canada dropped by 43,000 in October, after posting two months of moderate growth. The unemployment rate also edged up 0.2 percentage points to 8.6 per cent. All of the decline in employment was in part-time work (down 59,700), while the number of full-time jobs increased 16,500.
- Canada's real gross domestic product (GDP) edged down 0.1 per cent in August. Further setbacks in the performance of the goods-producing sector of the economy offset gains in Canada's services-producing sector.
- Unfortunately, the recent upward trend in consumer confidence came to an end in October, as the Consumer Confidence Index slipped 0.8 points to 84.7 (2002 = 100). This dip ended a streak of seven consecutive monthly increases and was primarily driven by a decrease in the share of respondents who felt now was good time to make a major purchase.

Traveller and Supplier Trends:

- The number of domestic enplaned and deplaned passengers at Canada's top 30 airports declined by 4.2 per cent in August 2009 from a year earlier. Domestic air travel is significantly weaker than it was a year ago and has posted negative year-over-year growth since September 2008.
- Canadian hotel occupancy rates also continued to slip. According to PKF Consulting, average occupancy in August declined 5.8 percentage points in Canada, year-over-year. In the first eight months of 2009, the average occupancy rate was 5.6 percentage points lower, year-over-year, and the average daily room rate for Canada fell 4.7 per cent.
- In line with a more modest economic environment, Canadian travel to the United States continued to decline in August. The latest figures show that overnight travel to the United States declined 5.7 per cent in August from the previous year, while overnight trips to other international destinations dipped 1.5 per cent.
- Canadian airlines continue to adjust to the changing environment. The latest data snapshot from BACK Aviation Solutions indicates direct air capacity for travel within Canada is now slated to increase 2.8 per cent in the first quarter of 2010, year-over-year.

Overall, the Tourism Leading Indicator suggests that, despite some improvement in supplier trends, growth prospects for domestic travel remain subdued. 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 (September 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for the U.S. increased 1 per cent in September, rising for the sixth consecutive month. In the six months through September, the index increased 5.7 per cent (about an 11.8 per cent annual rate). In addition, the strengths among the leading indicators have remained widespread in recent months. The recent behaviour of the leading economic index suggests that the economic recession has likely bottomed out and that economic conditions should begin improving soon.
- With the Canadian dollar appreciating since April, the loonie was 12 per cent stronger in October 2009 than in August 2008. Unfortunately, Canada's price competitiveness for U.S. travellers is expected to decline during the first quarter of 2010, largely because of Canada's stronger currency and a significant increase 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 declined 12.7 per cent in August, compared with the previous year. During August, overnight automobile travel to Canada declined 14.6 per cent while overnight non-automobile travel declined 9.3 per cent, year-over-year. Meanwhile, same-day automobile travel from the United States declined 22.3 per cent that month.

- Direct air capacity between Canada and the United States is expected to decline 0.6 per cent in the first quarter of 2010 from the same quarter of 2009.

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, declining price competitiveness, and weak traveller 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 continue to decline sharply over the near term.

Tourism Overview — International

United Kingdom – Current Tourism Trends)

Declining trend in U.K. air travel appears to have stabilized: British Airways' passenger traffic (measured in revenue passenger kilometres—RPKs) slipped 0.8 per cent in September 2009 from the previous year. Premium traffic volumes (business and first-class) fell 7.9 per cent, while non-premium traffic (economy) edged up less than 1 per cent.

The airline's chief executive officer, Willie Walsh, told a Swiss newspaper that air travel demand had reached its lowest point and was stabilizing, although there were still no signs of a recovery. Walsh said he expected U.K. air travel demand to remain sluggish until the middle of 2010, despite predictions that the U.K. economy will start recovering by the end of this year. Walsh noted that turnarounds in the airline sector typically lag behind upturns in the overall economy.

Passenger numbers at the British Airport Authority's seven U.K. airports continued to decline in September 2009, decreasing 2.6 per cent from the same month in 2008. But although traffic levels were still lower than they were a year ago, the rate of decline has been slowing. The number of U.K. domestic passengers fell 4.8 per cent, and passengers on European scheduled flights slid 0.8 per cent. North Atlantic passengers were down 4.7 per cent, while passengers on other long-haul routes rose 5 per cent that month.

Table 3. Percentage Change in Passengers Carried

Carrier	Sept. 2009 vs. Sept. 2008
British Airways	-1.7%
Ryanair	+17%
easyJet	+5.3%

U.K. raises its air passenger duty on long-haul flights: As of November 1, 2009, the U.K. government changed the fee structure of the duty paid by all air passengers departing from U.K. airports. The change included an increase in the fee charged for long-haul flights and a reduction of the fee charged for flights to European destinations. The duty on flights to Canada was raised by between GBP5 and GBP15, depending on the airfare class and distance flown. The U.K. government last raised its air passenger duty in February 2007, and has scheduled another increase for November 2010.

Latest data confirms U.K. "staycation" trend: U.K. domestic travel was up significantly this year, according to VisitEngland, bolstering claims that many British travellers opted to stay closer to home over the summer. The latest figures from the United Kingdom Tourism Survey suggested that U.K. domestic trips rose 20.3 per cent in July 2009, year-over-year. In the first seven months of 2009, U.K. domestic trips were up 4.3 per cent over the same period in 2008.

Meanwhile, the latest figures from the U.K. Office for National Statistics revealed a continued decline in U.K. outbound travel. U.K. residents took 13 per cent fewer trips abroad in the 12 months leading up to August 2009, year-over-year. Trips to Europe during the period dipped 13 per cent, and trips to North America plunged 22 per cent. Seasonally adjusted figures showed that U.K. outbound travel fell 3 per cent between June and August 2009 from the previous three months.

Major U.K. tourist attractions benefitted from British travellers staying closer to home over the summer. Members of the Association of Leading Visitor Attractions in the U.K. reported a 3.4 per cent rise in attendance between May and August 2009 over the previous year. The association attributed the increase to the “staycation” trend that emerged in the U.K. during the summer.

Thomas Cook and TUI maintain conservative outlook for winter season: Thomas Cook and TUI, the U.K.’s two largest travel companies, maintained a conservative outlook for the upcoming winter season in their latest trading statements. As of early September, advance bookings for winter vacations were down significantly from a year earlier, although both companies noted an improvement in the pace of bookings since the previous trading statement. Both companies anticipate the pronounced late-booking trend in the U.K. market will continue next year.

U.K. cruise market continues to expand: U.K. cruise passenger numbers are expected to grow 5 per cent in 2009, year-over-year, to nearly 1.6 million, according to the Passenger Shipping Association. Passengers are projected to rise another 6.5 per cent in 2010. The association said new passenger ships and new destinations are helping to fuel British consumers’ interest in cruising.

Research reveals continued growth of learning holiday market: British vacationers continue to turn away from “fly and flop” beach holidays, while growing more interested in novel travel activities such as learning a new skill, according to recent research by Mintel reported by *Travel and Hospitality Industry Digest* (e-tid.com). Of the British adults polled, 20 per cent said they enjoy learning new skills while on holiday, including photography, cooking, and dancing, which are the three fastest-growing types of learning holidays. Mintel believes this trend is being fuelled by the expanding specialist holiday segment, a growing interest in active holidays, the Internet, and the availability of low-cost air travel.

United Kingdom — Tourism Leading Indicator Index

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

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

Economic Trends:

- The Conference Board’s leading economic index for the U.K. increased 0.9 per cent in August. Meanwhile, the six-month change in the leading index increased 3.6 per cent (about a 7.4 per cent annual rate) in August. The strengths among the leading indicators have also become more widespread than the weaknesses in recent months.
- Compared against the Canadian dollar, the British pound depreciated 14.4 per cent between October 2008 and October 2009. Unfortunately, the depreciation of the British pound is expected to increase the average cost for U.K. travellers of a seven-night stay in Canada — including airfare, hotels, meals, and other items — by 11.1 per cent in the first quarter of 2010, year-over-year. In comparison, the cost of U.K. travel to other competitive destinations is expected to increase 8.9 per cent, resulting in a slight decline in Canada’s price competitiveness for the first quarter of 2010.

Traveller and Supplier Trends:

- The number of U.K. visitors to Canada dropped 18.4 per cent per cent in August. Travel from the U.K. has been on a declining trend since April of last year, and year-to-date arrivals in the first eight months of 2009 were down 18.5 per cent, year-over-year. Overall U.K. outbound travel is also sliding, with U.K. visits to North America between June and August 2009 down 30 per cent, according to the U.K. Office for National Statistics.
- Direct air capacity on scheduled flights from the U.K. to Canada is expected to increase by 5.2 per cent during the first quarter of 2010, 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 and travel supplier trends, deteriorating price competitiveness and weak outbound travel trends will dampen U.K. travel to Canada over the near term. Consequently, U.K. arrivals are expected to continue declining.

France — Current Tourism Trends

Air France-KLM to cut capacity further: Air France-KLM reported a 3.7 per cent decrease in passenger traffic (measured in RPKs) in September 2009, year-over-year, and a 5.3 drop in the number of passengers flying on its network that month. Traffic on its domestic and European routes fell 5.6 per cent, and traffic on North and South American routes fell 3.9 per cent.

In late September, the carrier announced plans to reduce its capacity over the winter travel season by 2 per cent, year-over-year, because of lower air travel demand, in particular for premium classes. Long-haul capacity will be cut by 1.7 per cent, including a 3.7 reduction on North American routes. The carrier noted that compared with two years ago, capacity to North America will be down by 5.7 per cent this winter.

Passenger numbers at airports serving Paris fell 4 per cent to 7.1 million in September 2009, according to the airports' administrative authority, Aéroports de Paris. Passengers on routes serving North America decreased 4.5 per cent from a year earlier, while French domestic passengers decreased 3.6 per cent. Passengers on European routes fell 5.7 per cent.

Bookings among French tour operators down during the summer: Tour operator bookings were down significantly in France this summer, according to data published in the European Travel Commission's *Trends and Prospects* report for the third quarter of 2009. Between May and August 2009, bookings among members of CETO, the French tour operators' association, fell 11 per cent from the previous year. Bookings for tour packages were down by 6 per cent. The association noted an increase in French leisure travel demand for some Mediterranean destinations during the period, particularly those in North Africa.

French consumer confidence registered small improvement: French consumer confidence has risen slightly over the past three months, although it remains well below its historical average, 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 -35 in October 2009, edging up one point from a month earlier. Overall, French consumers continue to be very pessimistic about current and future economic conditions.

France — Tourism Leading Indicator Index

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

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

Economic Trends:

- The Conference Board's leading economic index for France increased 0.9 per cent in August. Since February 2009, the leading index had increased at a 7.1 per cent annual rate. In addition, the strengths among the leading indicators have remained more widespread than the weaknesses in recent months. The recent behaviour of the leading economic index suggests the economy is likely to improve in the months ahead.
- Although the Canadian dollar has been gaining some strength against the euro since the start of 2009, it was still slightly weaker in October 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 3.5 per cent for French travellers during the first quarter of 2010. Unfortunately, Canada's price competitiveness could slip, because the cost to travel to competitive destinations is expected to drop by an average of 11.3 per cent during this same period.

Traveller and Supplier Trends:

- In August, visits from France declined 7 per cent, year-over-year. Overall, visits for the first eight months of 2009 were down 3.3 per cent from 2008. Travel to the U.S. has held up slightly better: the U.S. Office of Travel and Tourism Industries (OTTI) reported that French travel to the U.S. decreased a slight 1.1 per cent during the first seven months of 2009.
- During the first quarter of 2010, direct air capacity between France and Canada is set to increase 6.3 per cent over the first quarter of 2009.

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

Germany — Current Tourism Trends

German air travel trends remain “persistently weak”: Deutsche Lufthansa AG posted a net profit of 184 million euros (C\$290 million) for its third quarter ended September 30, 2009. This was a higher profit than the airline earned a year earlier, although the acquisition of two new airlines since then skewed year-over-year comparisons. Lufthansa said its third-quarter performance had suffered from a decline in air travel demand, in particular for business class segments. It noted that the downturn in the economy had led to increased price-sensitivity among passengers in all booking classes.

Lufthansa reported that its passenger traffic remained “persistently weak” in September 2009, with a 2.8 per cent decrease in passenger traffic (measured in RPKs) from the previous year. Passenger traffic on routes to North and South America edged up 0.4 per cent. September traffic figures for domestic and European routes were not comparable to the previous year, as they included bmi and Austrian Airlines, two airlines that Lufthansa has acquired in recent months.

The decline of passenger numbers at Frankfurt Airport continued to slow in September 2009, falling 4.7 per cent to 4.6 million passengers compared with a year earlier. The airport authority noted this was considerably better than the double-digit decreases seen at the beginning of 2009. Passenger numbers on intercontinental flights have been improving the most, helping to stabilize overall passenger counts for the airport. In the first nine months of 2009, passenger numbers at Frankfurt Airport were down by 6.1 per cent from the previous year.

Looking ahead, the airport said it expected a 2 per cent decrease in flights this winter, although seat capacity was expected to stay about the same as last winter. Intercontinental flights departing from Frankfurt are scheduled to rise 2.5 per cent this winter.

Advance bookings for winter leisure travel off to a slow start in Germany: Leisure travel sales among German travel agencies fell 8.3 per cent in September 2009, year-over-year, according to the latest TATS survey of 2,600 German travel agents, reported by *fww*, a travel industry journal. Leisure travel sales for the first nine months of 2009 were down by 7.5 per cent from the same period in 2008. The survey also revealed that advance bookings for the winter season started off very slowly—they were behind by 19.7 per cent in September compared with a year earlier.

The sluggish pace of winter bookings was also apparent in a monthly survey of 1,200 German travel agencies conducted by GfK, a market research firm, according to *fww*. The results showed that winter bookings among respondents were behind by 18 per cent in September, on average, compared with a year earlier. Still, agents are hopeful that the pronounced late-booking trend that has emerged in the German market this year will continue this winter, leading to a surge in last-minute winter travel bookings.

In addition, *fww* reported that German tour operators are optimistic about their prospects for bookings to the United States. After rising 16 per cent in 2008, German visits to the United States have not dropped that much this year, keeping visitor numbers above 2007 levels. Factors that have helped bolster German bookings for U.S. destinations include a more favourable exchange rate, an improvement in German sentiment towards the United States, and the flexibility of U.S. suppliers, who increased efforts to attract international visitors as domestic travel declined. Many German tour operators, including Canusa Touristik and TUI, anticipate growth in bookings to the United States in 2010.

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 (September 2009) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Germany increased 1.3 per cent in August, the fifth consecutive monthly increase. The latest gain in the index was attributed primarily to increasing stock prices and new orders. The leading index has increased at an 8.7 per cent annual rate since February, and the strengths among the leading indicators have become more widespread in recent months. The recent behaviour of the index suggests that the economic downturn is easing and economic conditions should improve in the months ahead.
- Canada's price competitiveness for the German market is projected to improve slightly during the first quarter of 2010, 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 6.9 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 August were down 3.1 per cent from last year. The latest year-to-date figures show that arrivals during the first eight months of 2009 were down 3.8 per cent over 2008. Meanwhile, the OTTI reported that German visits to the U.S. declined 7.5 per cent over the first seven months of 2009.

- During the first quarter of 2010, direct air capacity between Germany and Canada is scheduled to increase 15.7 per cent compared with the same quarter of 2009.

Although there has been some improvement in German economic conditions and in Canada's price competitiveness for the German market, weak travel trends are hindering the short-term outlook for German travel to Canada. The Tourism Leading Indicator Index suggests that German arrivals will continue to register year-over-year declines over the near term.

Mexico — Current Tourism Trends

Mexican tourism industry still struggling with weak demand: Mexico's tourism industry continues to struggle with weak demand, as a result of the H1N1 influenza epidemic, the global economic downturn, and the extensive media coverage of the country's internal drug wars. To counteract the sharp decline in international visitors since April 2009, Mexican tourism offices have ramped up marketing efforts to stimulate domestic demand, according to *USA Today*.

Mexicana Airlines and AeroMexico, the country's two major international carriers, have been hit hard by the downturn in demand this year. Mexicana, which has the largest share of international traffic of all Mexican airlines, expects its passenger numbers to decrease between 10 per cent and 12 per cent this year compared with 2008, according to *Dow Jones Business News*. Various media reports suggest the two airlines have been discussing a merger, which many analysts believe would be the best way for the two carriers to weather the current downturn.

Latin American passenger traffic up slightly in August 2009: Passenger traffic (measured in RPKs) among Latin American airlines rose 2.6 per cent in August 2009, year-over-year, according to the Latin American air transport association (ALTA). The number of passengers carried grew 2.7 per cent to nearly 10.7 million. In the first eight months of the year, traffic was down slightly (–0.6%) from the previous year.

Table 4. ALTA Airlines*

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

Regional Destination	RPK change 2009 vs. 2008	Passengers Carried 2009 vs. 2008
Intra-Latin America (scheduled and charter)	3.1%	3.7%
Extra-Latin America (international)—total	1.8%	–2.8%
North America	9.5%	–2.2%
Europe	–6.1%	10.7%
Asia-Pacific	–3.9%	–0.7%
Total	2.6%	2.7%

Source: Latin American air transport association (ALTA).

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

Mexican consumer confidence continues to plunge: 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 consumer confidence fell again in October 2009 to its lowest level on record, despite the fact that Mexico's economy has been showing some signs of improvement, according to Dow Jones Newswires. INEGI, Mexico's national statistics agency, said its consumer confidence index slid to 77 in October, down from 81.9 a month earlier. Consumers were very negative about current economic conditions and their ability to purchase big-ticket items.

Mexico — Tourism Leading Indicator Index

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

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

Economic Trends:

- The Conference Board of Canada's leading economic index for Mexico increased 1.1 per cent in August, the sixth consecutive monthly increase. During the six months ending in August, the leading index gained 11.7 per cent (about a 24.9 per cent annual rate). In addition, the strengths among the leading indicators have remained widespread in recent months. The recent behaviour of the index suggests that economic activity will begin to recover soon.
- Compared with the Mexican peso, the value of the Canadian dollar increased 17.6 per cent between October 2008 and October 2009. As a result, the cost of a seven-night stay in Canada for Mexican travellers is expected to increase by 3.3 per cent during the first quarter of 2010, year-over-year, despite a significant decrease in average airfares. Unfortunately, Canada's price competitiveness during the first quarter is likely to slip, as the cost of a similar trip to competitive destinations (U.S., Spain, and Italy) is expected to decrease by an average of only 1.9 per cent.

Traveller and Supplier Trends:

- Travel from Mexico to Canada surged in the first four months of 2009, prior to the H1N1 flu outbreak and the new Canadian visa requirement for Mexican travellers. However, Mexican arrivals have declined significantly since then, resulting in a 28.8 per cent year-over-year decrease in Mexican visits to Canada in the first eight months of 2009. Mexican visits to the U.S. interior (beyond the 40 kilometre U.S. border zone) have also been weak. According to the OTTI, arrivals were 9.9 per cent lower in the first seven months of 2009 than they were a year earlier.
- Direct air capacity between Canada and Mexico is projected to increase 28.1 per cent during the first quarter of 2010 over the previous year.

Even excluding the new visa requirement, the traditional determinants of the Tourism Leading Indicator Index would suggest that subdued economic conditions and weak travel trends would pose a challenge for the Mexican travel market. In light of all the difficulties now facing travellers from this market, it is likely the downward trend in Mexican arrivals to Canada will continue over the short term.

Japan — Current Tourism Trends

Japanese airlines projecting substantial losses because of weak demand: Japan Airlines (JAL) and All Nippon Airways (ANA) have both projected substantial losses for their current fiscal year ending March 2010 because of slumping air travel demand. ANA forecast a full-year loss of 28 billion yen (C\$328 million), after projecting a profit of 3 billion yen earlier this year. Meanwhile, analysts have projected a full-year loss of up to 500 billion yen for JAL, according to Reuters. JAL is seeking another government bailout loan after having received one in June, although the Japanese government is not convinced a loan would be enough to keep the carrier afloat, according to Air Transport World.

JAL recently announced a series of new capacity cuts to its international network to be implemented over the next several quarters. The cuts included a reduction in services between Tokyo and Vancouver, starting in January 2010.

Meanwhile, the latest figures from Tokyo's Narita International Airport showed that passenger numbers were up by 6 per cent in September 2009 over the previous year. Japanese passengers on international flights increased 11 per cent, while passengers on domestic flights jumped by 26 per cent. In the first nine months of 2009, Japanese passengers on international flights were down 7 per cent from a year earlier.

Demand for overseas package tours rebounded in September: A string of consecutive holidays in September and a brief reprieve from high fuel surcharges helped boost strong growth in overseas package tours in the third quarter of 2009, according to the Japan Association of Travel Agents (JATA). A survey of JATA members revealed that on average, July bookings rose 9.3 per cent, August bookings rose 16.2 per cent, and September bookings jumped 39.8 per cent over the previous year. JATA said concerns about the H1N1 flu epidemic had faded greatly by September, leading to a flurry of last-minute bookings.

However, Japanese travellers continue to favour Asian destinations, because they are less expensive and closer to home. Overseas package tours to Canada and the United States declined significantly in July and August, year-over-year, but then increased by 10 per cent in September. Still, package tours to Europe registered very strong growth in September, jumping 35.1 per cent over the previous year.

Outlook for fourth quarter is less rosy: The Japanese travel industry is not as optimistic in its outlook for the fourth quarter of 2009. Although overseas package bookings among JATA members have registered some growth, overall outbound travel demand for the peak holiday period in December is still relatively low, except for short- and medium-haul Asian destinations. Bookings for package tours to the United States and Canada in December are behind by about 43 per cent, year-over-year.

According to *Nikkei Report*, Japan's major travel agencies are seeing strong growth in bookings for departures in October and November, but low demand for departures during the peak New Year holiday period of December 19, 2009 to January 7, 2010. The article suggests that corporate bonus cuts and a growing desire to avoid the higher prices charged during peak travel periods are the main factors behind this trend. In addition, the timing of public holidays during the New Year vacation period this year is less favourable than it was last year, giving workers fewer consecutive days off.

Older consumers gaining substantial market power in Japan: Middle-aged and older consumers are becoming an increasingly important segment of the Japanese population, swaying consumer trends in many sectors, including tourism and travel, according to a recent article in *Nikkei Weekly*, a Japanese business journal. In 2008, travellers over the age of 40 accounted for nearly 55 per cent of the Japanese overseas travel market, an increase of 9 percentage points compared with 10 years earlier.

JTB Corp. has catered to senior travellers with a specialized subsidiary since 2005, with skyrocketing sales. The travel firm noted that senior travellers tend to travel abroad more often, and often choose to travel during the off-season, which helps to fuel company sales during off-peak periods.

The *Nikkei Weekly* article quotes a statistic from the Japanese Research Institute indicating that Japanese households where the head of the house is aged 60 or older are expected to account for 40 per cent of all consumption in 2009. The size of this market is expected to expand by 30 per cent between 2000 and 2025. Moreover, Japanese consumers in this segment are much more focused on the pursuit of happiness than consumers in their 20s, who tend to be focused on material wealth.

Japan — Tourism Leading Indicator Index

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

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

Economic Trends:

- The Conference Board's leading economic index for Japan increased 2.9 per cent in August, the sixth consecutive monthly increase. Between February and August, the leading index increased 18.1 per cent (a 39.5 per cent annual rate). In addition, the strengths have become more widespread than the weaknesses in recent months. The recent behaviour of the index suggests that economic activity is likely to improve at a modest pace in the near term.
- Over most of 2008 and 2009, the Canadian dollar depreciated against the Japanese yen, a trend that has helped improve Canada's price competitiveness for this market. The average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, is expected to decline 14.7 per cent year-over-year for Japanese visitors in the first quarter of 2010. Meanwhile, the cost of a similar trip to competitive destinations (U.S., France, Germany, Italy, and Australia) is expected to decrease by an average of 9.1 per cent.

Traveller and Supplier Trends:

- Unfortunately, visits from Japan to Canada continue to be weak. During the first eight months of 2009, visits from Japan were down 33.4 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 17.6 per cent in the first seven months of 2009.
- The most recent snapshot of air capacity suggests direct air capacity on scheduled flights from Japan will increase 14.7 per cent during the first quarter of 2010.

Despite some improvement, economic conditions in Japan remain weak. While we do expect slight gains in price competitiveness and improvement in 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

Korean Air expects a quick recovery in demand: Cho Yang-ho, the chief executive of Korean Air, indicated in a recent press conference that he was optimistic about the short-term prospects for his airline, according to Reuters. He expects Korean Air to rebound quickly from the current downturn, aided by the strengthening Korean won, stable oil prices, and a recovery in travel demand. However, he noted that concerns about the H1N1 virus continued to add an element of uncertainty to the travel outlook.

Flu fears hit Korean travel demand in September: Various media reports suggest that news of H1N1-related deaths in South Korea has had a devastating effect on travel bookings since the middle of August. Mode Tour and Hana Tour, two of the largest travel agencies in South Korea, both saw their overseas travel bookings plunge by about 50 per cent in September, according to reports by *Korea Times* and *JoongAng Daily*. Moreover, Hana Tour reduced its employees' work week from five days to four days because of the drop-off in business. Hotels and resorts in South Korea are also struggling because of low demand. Still, travel industry analysts are optimistic that travel demand will begin recovering soon. Concerns about the H1N1 flu virus have been receding in recent weeks, and the strengthening Korean won is helping to boost the affordability of overseas trips.

Consumer confidence at a seven-year high: The latest results from the Bank of Korea's consumer confidence index suggest Korean consumer sentiment is at its highest level in over seven years. The index rose to 114 in October, up three points from September. A reading of 100 indicates a balance between negative and positive assessments of the economy. Korean consumer confidence has been improving steadily since March.

South Korea — Tourism Leading Indicator Index

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

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

Economic Trends:

- The Conference Board's leading economic index for South Korea decreased 0.3 per cent in August, the first decline following six consecutive monthly gains. Despite the latest monthly decline, the six-month growth rate in the leading index had increased 5.4 per cent since February. In addition, the strengths among the leading indicators were widespread during this period. 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 decreased 0.5 per cent between October 2008 and October 2009. Aided by significant declines in airfares (down 35%), the average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, is expected to decrease 15.5 per cent for South Koreans during the first quarter of 2010, year-over-year. As a result, Canada's price competitiveness during the first quarter of 2010 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 decrease by a more modest 8.6 per cent during the quarter.

Traveller and Supplier Trends:

- Korean visits to Canada declined 31.6 per cent in August. For the first eight months of 2009, arrivals from South Korea were down 27.2 per cent compared with 2008. For the first seven months of 2009, travel from South Korea to the United States declined 12.1 per cent, according to the OTTI.

- Fortunately, direct air capacity from South Korea to Canada is expected to increase 9.3 per cent during the first quarter of 2010 over the previous year.

Although supplier trends and Canada's price competitiveness has improved, weak travel trends and modest economic conditions suggest visits from South Korea will continue to decline over the near term.

China — Current Tourism Trends

Chinese airlines improve their profitability in the third quarter: China's three largest airlines—Air China, China Eastern Airlines, and China Southern Airlines—all achieved a solid profit in the third quarter of 2009, reversing the losses reported in the same quarter of 2008, according to *Air Transport World*. The airlines' finances received a boost from a strong recovery in domestic travel and gains from fuel hedges.

The General Administration of Civil Aviation of China (CAAC) reported that passenger numbers among all Chinese airlines rose 20 per cent during the third quarter, year-over-year. In September, passenger numbers grew 17.3 per cent overall: 17.5 per cent on domestic routes, and 14.1 per cent on international routes.

Still, industry analysts believe Chinese airlines continue to grapple with market overcapacity and inefficiencies, according to *Air Transport World*. Although domestic demand has improved, airfares continue to fall. In addition, demand on international routes has been hurt by concerns about the H1N1 flu. Analysts do not expect Chinese airlines' fourth-quarter financial reports to be nearly as positive as they were for the third quarter.

Chinese online travel market offers significant untapped potential: The Chinese online travel market is expected to keep growing this year, despite a projected decrease in overall travel spending in China, according to PhoCusWright's *Asia Pacific Online Travel Overview*. Online spending is expected to account for 14 per cent of China's overall travel market this year, up from 11 per cent in 2008. Another PhoCusWright report, *Emerging Online Travel Marketplace in China*, projects a 19 per cent increase in online travel revenues this year over 2008.

PhoCusWright suggests the sheer size of the Chinese market, combined with its skew toward the use of online travel intermediaries means there are "billions of dollars to be made online." In 2008, 63 per cent of Chinese online travel bookings were made through intermediary websites, such as online travel agencies, while only 36 per cent were made through supplier websites. However, parts of the Chinese online travel market are still in varying stages of deregulation, restricting access to the market.

Business travel spending decelerating but not declining: Spending on business travel and entertainment has grown more slowly in China this year, but it is not expected to decline, according to the latest annual China Business Travel Survey by American Express. Of the Chinese companies polled, 29 per cent said they had increased their travel and entertainment spending this year, while 55 per cent said they had kept their spending about the same as in 2008. Only 16 per cent said they were spending less.

Still, respondents were more subdued about their travel and entertainment plans this year than in the 2008 survey, when 43 per cent said they had increased their travel and entertainment spending. This year's survey also revealed a heightened focus on travel policy compliance and expense controls.

China — Tourism Leading Indicator Index

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

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

Economic Trends:

- China's fiscal stimulus package was successful at boosting economic activity during the second quarter of 2009. However, recent signs of more moderate economic activity suggest the stimulus may be now beginning to fade. Still, the latest Consensus Forecasts report (September 2009) projects real GDP growth for China will be 8.3 per cent in 2009 and 9.4 per cent in 2010.
- The Canadian dollar appreciated 11.9 per cent against the Chinese renminbi between October 2008 and October 2009. Despite the appreciation of the Canadian dollar, the average cost of a 10-night stay in Canada—including airfare, hotels, meals, and other items—for Chinese travellers is expected to decrease 4.9 per cent during the first quarter of 2010 compared with the same period in 2009. However, Canada's price competitiveness may remain virtually 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 2.3 per cent during the quarter.

Traveller and Supplier Trends:

- Chinese arrivals to Canada increased 11.8 per cent in August. This surge in arrivals helped to prop up year-to-date arrivals from China by 0.6 per cent ahead of last year over the same eight month period. In contrast, over the first seven months of 2009, travel from China (including Hong Kong) to the U.S. decreased 10.4 per cent, according to the OTTI.
- Fortunately, direct air capacity to Canada is expected to increase 27 per cent during the first quarter of 2010.

With improvements in travel trends, economic conditions, and supplier trends, the Tourism Leading Indicator Index suggests travel from China should continue to grow moderately over the near term. However, persistent concerns about the severity and prevalence of the H1N1 flu continue to add an element of uncertainty to the short-term outlook for Chinese visits to Canada.

Australia — Current Tourism Trends

Qantas reports severe drop-off in passenger yields in third quarter: Qantas Airways reported a slight decrease in passenger traffic (measured in RPKs) in the third quarter of 2009, and a 5.7 per cent rise in passenger numbers over the previous year. However, passenger yields (revenues per RPK) decreased dramatically from a year earlier. Yields from the airline's domestic operations fell 12 per cent, and yields from its international operations plunged by 24.2 per cent. The airline attributed the severe decline in yields to a significant decrease in corporate travel and airfare reductions arising from intense competition on key routes.

In late October, Qantas Chairman Leigh Clifford stated in a shareholders meeting that the airline was seeing some encouraging signs of a recovery, and that conditions appeared to have stabilized, according to AdelaideNow.com.au. However, he tempered his positive comments by cautioning that global economic conditions remained uncertain.

Australians still travelling overseas in droves: The Australian outbound market continues to expand, fuelled by the strengthening Australian dollar and the growing availability of low international airfares. Australian overseas travel hit a record high in the year leading up to September 2009, surpassing 6 million outbound trips, according to the Australian Bureau of Statistics.

Conversely, recent gains in the value of the Australian dollar are hurting Australia's inbound and domestic travel markets, according to various media reports. Many Australian travel destinations are grappling with low demand, and job losses in the country's tourism sector have risen quickly in recent months.

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 1.8 per cent in August. With the latest gain, between February 2009 and August 2009, the leading index increased 5.7 per cent. In addition, the strengths among the leading indicators have remained widespread. The recent behaviour of the leading index suggests the economy will continue to expand at a relatively slow pace over the near term.
- The Canadian dollar depreciated 15.1 per cent against the Australian dollar between October 2008 and October 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 20 per cent during the first quarter of 2010 over 2009. But the average cost of a similar trip to competitive destinations is expected to decrease 27.1 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 eight 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 worse than the drop in visits to the United States. According to the OTTI, travel from Australia to the U.S. decreased 2.7 per cent during the first seven months of 2009.
- Fortunately, the level of direct air capacity between Canada and Australia over the first quarter of 2010 is expected to increase 7.1 per cent compared with the same quarter in 2009.

Economic conditions continue to strengthen, and supplier trends have improved. Still, the Tourism Leading Indicator Index suggests that weakness in travel trends to Canada could persist and 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.

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.