

RESEARCH

Business Outlook Fall 2002

**Domestic, U.S. and Overseas
Travel to Canada**

**Research
Report
2002-1-3**

Discover our true nature

CANADIAN
TOURISM
COMMISSION



COMMISSION
CANADIENNE
DU TOURISME



The Conference Board of Canada
Insights You Can Count On



Domestic, U.S. and Overseas Travel to Canada

Business Outlook
Fall 2002

Prepared by

The Conference
Board of Canada

For the

Canadian Tourism Commission

October 2002

WHAT'S INSIDE

The purpose of this study is to provide a short-term outlook for domestic & international travel to Canada for Q4-2002 (October 2002 to December 2002) using readily available market intelligence in a timely and cost-efficient manner.

The short-term outlook for travel to and within Canada for Q4 2002 should be interpreted in the context of the uncertainty that is still surrounding world affairs. In this respect, the outlook is presented as being valid only under status quo conditions.

Table of Contents

Executive Summary.....	1
Highlights.....	1
Background	2
North America Markets	2
European Markets	4
Asia/Pacific.....	6
International Travel Statistics – Statistics Canada	8
Introduction	9
Economic Overview.....	11
World Outlook.....	11
North America.....	11
South America	11
Euroland.....	11
Asia–Pacific.....	12
Exchange Rates	12
Domestic (Canada) Travel Outlook, Q4 2002.....	13
Economic Overview	13
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO).....	13
Consumer Confidence and Travel Intentions, The Conference Board of Canada.....	14
Summary Outlook for Q4	15
U.S. Travel Outlook, Q4 2002.....	17
Economic Overview	17
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO).....	17
U.S. Consumer Confidence and Travel Intentions Survey, The Conference Board Inc.....	18
U.S.-to-Canada Air Capacity, OAG Worldwide	19
Summary Outlook for Q4	19
Mexico Travel Outlook, Q4 2002.....	21
Economic Overview	21
Tourism Trends	21
Market Overview.....	22
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO).....	22
Mexico-to-Canada Air Capacity, OAG Worldwide	23
Summary Outlook for Q4	23

Brazil Travel Outlook, Q4 200225

Economic Overview.....	25
Tourism Trends.....	25
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)	26
Brazil to Canada Air Capacity, OAG Worldwide	26
Summary Outlook for Q4.....	26

U.K. Travel Outlook, Q4 200227

Economic Overview.....	27
Tourism Trends.....	27
Market Overview	28
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)	28
U.K.-to-Canada Air Capacity, OAG Worldwide.....	29
Summary Outlook for Q4.....	29

France Travel Outlook, Q4 200231

Economic Overview.....	31
Travel Trends.....	31
Market Overview	31
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)	32
France-to-Canada Air Capacity, OAG Worldwide.....	32
Summary Outlook for Q4.....	32

Germany Travel Outlook, Q4 200233

Economic Overview.....	33
Tourism Trends.....	33
Market Overview	34
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)	34
Germany-to-Canada Air Capacity, OAG Worldwide	35
Summary Outlook for Q4.....	35

Italy Travel Outlook, Q4 200237

Economic Overview.....	37
Tourism Trends.....	37
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)	37
Italy-to-Canada Air Capacity, OAG Worldwide	38
Summary Outlook for Q4.....	38

Netherlands Outlook, Q4 2002.....	39
Economic Overview	39
Tourism Trends	39
Market Overview.....	39
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO).....	40
Netherlands-to-Canada Air Capacity, OAG Worldwide	40
Summary Outlook for Q4	40
Japan Travel Outlook, Q4 2002	41
Economic Overview	41
Tourism Trends	41
Market Overview.....	41
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO).....	42
Japan-to-Canada Air Capacity, OAG Worldwide	42
Summary Outlook for Q4	43
Taiwan Outlook, Q4 2002	45
Economic Overview	45
Tourism Trends	45
Market Overview.....	45
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO).....	46
Taiwan-to-Canada Air Capacity, OAG Worldwide.....	46
Summary Outlook for Q4	46
South Korea Travel Outlook, Q4 2002	47
Economic Overview	47
Travel Trends	47
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO).....	47
South Korea-to-Canada Air Capacity, OAG Worldwide.....	48
Summary Outlook for Q4	48
Hong Kong Outlook, Q4 2002	49
Economic Overview	49
Tourism Trends	49
Market Overview.....	49
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO).....	49
Hong Kong-to-Canada Air Capacity, OAG Worldwide.....	50
Summary Outlook for Q4	50

China Travel Outlook, Q4 2002	51
Economic Overview.....	51
Tourism Trends.....	51
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)	52
China to Canada Air Capacity, OAG Worldwide.....	52
Summary Outlook for Q4.....	52
Australia Travel Outlook, Q4 2002.....	53
Economic Overview.....	53
Tourism Trends.....	53
Market Overview	53
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)	53
Summary Outlook for Q4.....	54
New Zealand Travel Outlook, Q4 2002	55
Economic Overview.....	55
Tourism Trends.....	55
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)	55
Summary Outlook for Q4.....	56
Appendix 1: Medium-Term Travel Forecasts (CTRI)	57
Appendix II: Accuracy of Business Outlook	59

Executive Summary

Highlights

The short-term business outlook for the fall of 2002 draws comparisons for Q4 2002 with Q4 2001. In interpreting the results, it is important to bear in mind that Q4 2001 was severely depressed due to the events of September 11 in the United States. Large percentage increases must be viewed against artificially low volumes in the corresponding period in 2001.

- Domestic Leisure travel up 4 per cent overall, group travel increasing 4 per cent and independent (FIT) up 5 per cent;
- Domestic Business modestly increasing 2 per cent overall;
- United States Leisure up 4.5 per cent overall, with a 5 per cent increase in group travel and 4 per cent increase in FIT;
- United States Business up 4.5 per cent overall;
- Mexico up 3.5 per cent overall;
- Brazil up 3 to 4 per cent overall;
- United Kingdom up 12 per cent overall, with a 10 per cent increase in group travel and 15 per cent growth in FIT;
- France travel is expected to increase 16 per cent overall, with group travel increasing 10 per cent and the FIT segment jumping up 20 per cent;
- German visits to Canada will experience an overall increase of 21 per cent, with group travel increasing 15 per cent and the FIT soaring 26 per cent;
- Italy will increase overall by 10 per cent, with a 10 per cent increase in group travel and an increase of 11 per cent in FIT;
- Netherlands expected to increase 11 per cent overall; with group travel up a healthy 12 per cent and the FIT segment growing by 9 per cent;
- Japan expected to grow by 30 per cent overall; Japan group travel will expand by 30 per cent and FIT leisure travel will swell by 40 per cent. Business travel expected up 15 per cent;
- Taiwan to increase by 22 per cent overall; with group travel growing by 20 per cent and the FIT leading the way by increasing 25 per cent;
- South Korea to increase 15 per cent overall;
- Hong Kong up a healthy 16 per cent overall;
- China to increase 15 per cent overall;
- Australia up overall by 10 per cent, with a 7 per cent increase in group travel and 12 per cent growth in FIT;
- New Zealand up by 9 per cent overall.

Background

The goal of the short-term Business Outlook (BO) report is to assemble short-term performance scenarios for Canada's major travel markets. Advance bookings and market intelligence for Q4 2002 were derived through the *Destination Supplier/Receptive Agent Monitor*, developed by the Canadian Tourism Research Institute (CTRI), on behalf of the Canadian Tourism Commission (CTC). As well, quarterly (and weekly) staff reports and mini-surveys of key tour operators were developed by the CTC's foreign office. Medium-term forecasts, developed by CTRI, are integrated (when needed) to serve as a backdrop for transitions or discrepancies that might arise from the various sources used.

The short-term business outlook for the fall of 2002 draws comparisons for Q4 2002 with Q4 2001. In interpreting the results, it is important to bear in mind that Q4 2001 was severely depressed due to the events of September 11 in the United States. Large percentage increases must be viewed against artificially low volumes in the corresponding period in 2001.

North America Markets

Canada

Once again, domestic leisure travel is expected to continue to lead the recovery in domestic tourism. Generally, Canadians feel good economically, have money to spend on travel and want to travel, especially as a family or to visit family. The strongest growth expected in Q4 will once again be the independent FIT traveller—though not by much. Solid growth is also expected in the group leisure travel market. However, travellers will continue to prefer to have control over their transportation and will take their cars where feasible. Not only do Canadians increasingly view air travel as an inconvenience and a hassle, but also it is getting more expensive each month. This situation is not expected to change in the near future.

Business travellers are waiting to be wooed back by tourism suppliers—especially the airlines. Until significant fare structure changes occur, it is expected they will continue to prefer low cost airlines or alternatives to air travel. Other impediments to a full recovery in business travel include an uncertain economy, restrictive corporate travel budgets, increased costs and added inconvenience of air travel.

The responses by BO monitor participants indicate that total domestic bookings for Q4 2002 will be up, on average, 3 per cent compared with last Q4. Overall, domestic leisure travel is expected to increase 4 per cent. It was reported that group leisure travel is expected to be up 4 per cent while independent leisure travel (FIT) increases 5 per cent. BO monitor respondents indicated domestic business travel is expected to increase 2 per cent in Q4 2002, compared with last year.

U.S.

The U.S. economy is expected to expand by 2.5 per cent this year on the heels of a meagre 1.2 per cent gain in 2001. After a quick start in the first quarter of this year, the economic recovery in the United States has become a bit more fragile. Overall, U.S. consumer confidence continues to improve after the post-9/11 slump, although the Index still hasn't recovered from last fall's downturn. Households remain cautious about the outlook.

Even though the usual impediments to travel still exist, modest growth in leisure travel is expected this summer in the United States. Fortunately, D.K. Shifflet & Associates recently reported that 35 per cent of U.S. respondents would "very much" consider travelling to Canada in the next six months. It's also worth noting that Canada continues to outrank other countries in terms of safety.

The responses by BO monitor participants indicate that overnight travel from the U.S. is expected to be up 4.5 per cent this Q4 compared with last year. Both leisure travel and business travel are expected to post similar 4.5 per cent growth in Q4. Meanwhile, group leisure bookings are expected to increase by 5 per cent this Q4, compared with last year.

Mexico

Despite Mexico's strong ties with the powerful U.S. economy, the economy contracted in the first quarter of this year. This suggests that Mexico is lagging behind in the recovery compared with its two North American partners, the United States and Canada. Over the summer months, foreign tour operators noted that air capacity was a problem, especially to Western Canada. However, for Q4 2002, we expect that direct air capacity will increase 30 per cent, compared with last year.

The responses by BO monitor participants indicate that overnight travel from Mexico is expected to be up 3.5 per cent this Q4 compared with last year. Independent leisure travel (FIT) is expected to be the strongest segment (up 4%). A recent mini-survey conducted by the CTC's foreign office of key tour operators in Mexico reported Q4 bookings to Canada will increase 3 per cent on average.

Brazil

Brazil's economy has been issued the financial equivalent of a yellow card. A deepening crisis of confidence has resulted in rising yields on Brazil's publicly traded debt, downgraded credit ratings and a depreciating real. The problems are mainly a result of developments in the political arena. On a positive note, airports in Brazil are expected to receive a 125 per cent increase in funding to upgrade facilities this year. Meanwhile, air capacity to Canada during Q4 should not represent a problem as we expect an increase of 26 per cent compared with last Q4.

The responses by BO monitor participants indicate that overnight travel from Brazil is expected to be up 3 to 4 per cent this Q4 compared with last year. Independent leisure travel (FIT) is expected to be the strongest segment (up 4%).

European Markets

U.K.

Fortunately, the U.K. economy managed to avoid a recession last year as weak manufacturing activity—the result of a strong pound—was more than offset by strong consumer spending. On the other hand, the outlook for manufacturing is expected to improve in line with the recent depreciation of the pound against the euro. Since the beginning of the year the pound has fallen by more than 6 per cent.

Low cost carriers continue to succeed in the U.K. and keep reporting revenues, profits, volumes and capacities are up. The success of low-cost carriers is expected to continue in the short term. Unfortunately, air capacity to Canada is expected to represent a significant constraint during the second and third quarters of the year. However, direct air capacity planned for Q4 this year will be up 20.7 per cent compared with last year. The responses by BO monitor participants indicate that overnight travel from the U.K. is expected to be up 12 this Q4 compared with last year. In particular, the outlook for U.K. travel to Alberta/B.C. is for slightly weaker growth (10%) compared to that expected for Ontario/Quebec (up 15%).

France

The outlook for the French economy is generally positive, with real GDP growth of close to 1.5 per cent anticipated this year. Consumers have also been doing their part to boost the prospects for the economy. According to the CTC's foreign office, many tour operators report that air capacity remains a problem for travel to Canada. Fortunately, direct air capacity for Q4 2002 is expected to be up 16.3 per cent. Recently, Air France announced a profit for the year ending March 31, 2002, unlike many major airline carriers globally. French travel agencies, however, generally report revenues are still down, as are overall airline ticket sales. Meanwhile, package prices and airfares are increasing.

Our short-term outlook suggests travel from France this Q4 is expected to be up 16 per cent compared with last year. The outlook for French travel to Ontario/Quebec is expected to be stronger than for Alberta/BC.

Germany

The weak state of the German economy has had a negative impact on overall growth prospects for the euro area in 2002. The weak domestic economy is reflected in the country's rising unemployment rate. Unemployment increased by 60,000 in May and the unemployment rate is expected to remain in the 9.5-10 per cent range for the remainder of the year.

According to the CTC's foreign office, air capacity remains an issue. While Air Canada and Lufthansa have increased capacity to major centres, it is not enough to cover the loss attributed to the bankruptcy of Canada 3000. Fortunately, direct air capacity to Canada for Q4 2002 is expected to be up 6.8 per cent. Reporting tour operators in Germany indicate advance bookings to Canada for the upcoming Q4 season are up between 3 to 12 per cent compared with last year. BO monitor participants are even more optimistic for Q4, expecting overall German travel to increase 21 per cent compared with last year.

Italy

The labour market dominates economic news in Italy. The impasse between the trade unions and government underscores the difficulties in pursuing a range of reforms which could, if implemented, help stimulate growth. Still, business confidence picked up in Italy in May despite the strike. Growth forecast for GDP is 1.4 per cent for this year and 2.9 per cent for 2003.

According to the CTC's foreign office, Italian tour operators report that Mexico and South Africa are the most popular long-haul destinations this summer, while summer sales to Canada are generally down compared with last year. On a positive note, 16,000 Italians are still registered to attend the World Youth Day event in Toronto. BO monitor participants expect Italian travel to Canada to increase 10 per cent this Q4, compared with last year. BO monitor participants expect the Q4 Italian travel to Ontario/Quebec to increase 13 per cent, compared with last year.

Netherlands

The outlook for domestic demand in the Netherlands has weakened recently following softer retail sales which were down in the first quarter of this year compared with a year earlier. The Central Bureau of Statistics for the Netherlands cited a substantial increase in food prices as a major factor, echoing signs of rising inflation across the Euroland, which stem in part from high oil prices. In addition, consumer sentiment in April fell significantly and forecasts for consumer consumption have eased for this year.

According to the CTC's foreign office, tour operators in the Netherlands report an equal number of non-North American long-haul destinations for summer vacations this year as compared with last year. Since the U.S. was not a popular destination, operators were offering South Africa, Australia and Canada as alternatives. The overall impression from Dutch tour operators was that Q4 2002 bookings to Canada were up by 13 per cent compared with the same period last year. Unlike many other countries, neither air capacity or exchange rates were identified as having a negative influence on sales.

BO monitor participants expect travel from the Netherlands to increase 11 per cent this Q4, compared with last year. The strongest growth segment is expected to be the independent leisure traveller (FIT).

Asia/Pacific

Japan

Real GDP is expected to decline a further 0.5 per cent this year. According to the CTC's foreign office it appears middleaged and older Japanese people are now willing to travel overseas. However, it appears that China and other points in Asia represent the best potential for a fast recovery followed by Oceania and Europe. The consensus among Japan tour operators suggests that overall bookings to Canada for the Q4 season would increase 30 to 100 per cent compared with last year. The sharp increase is due in part to the severe declines witnessed after September 11th last year. Air capacity was mentioned as a constraint for some agents who did not have substantial block space on Air Canada.

Fortunately, we expect direct air capacity to increase 43 per cent during Q4 this year, compared with last year. The consensus among BO monitor participants was that travel from Japan would increase 30 per cent, compared with last year. The Ontario/Quebec and Alberta/B.C. regions were both expected to benefit equally from the growth.

Taiwan

Recent data showed signs of improvement for both industrial production and export sales. In addition, the labour market has begun to show signs of stabilizing and the unemployment rate is set to decline. The CTC's foreign office reports that China, Hong Kong, Japan and Thailand are still the most popular destinations for Taiwanese residents. Travel to the U.S. continued to weaken due to the terrorism alerts from the American government and the cancellation of 10 days spring break by the Taiwanese government.

The consensus among Taiwanese tour operators suggests that overall bookings to Canada were strong for Q4 2002 before the China Airlines crash on May 25. Since then consumers have cancelled trips or remain undecided. Operators also indicated that air capacity does represent a slight problem, especially for destinations beyond Vancouver. Still, bookings for Q4 2002 remain positive compared with last year and increases of 30 to 50 per cent are expected.

Meanwhile, BO monitor participants expect travel from Taiwan during Q4 will increase 22 per cent, compared with Q4 2001. The independent leisure traveller (FIT) is still expected to be the strongest growth segment.

South Korea

The South Korean government upgraded its official real GDP growth forecast from 4.0 per cent to 5.0 per cent for this year. Recent retail and wholesale trade data also suggests strong domestic demand thanks to an improving job market and strong consumer sentiment.

Travel from South Korea has fared well—even in the post-September 11th era. However, hosting the World Cup is expected to keep many Koreans at home during the summer months. Fortunately, planned air capacity to Canada this Q4 is expected to be up 15 per cent, compared with last year. In accordance, BO monitor participants expect travel from Taiwan during Q4 will increase 15 per cent, compared with Q4 2001.

Hong Kong

While recent economic data releases have been somewhat mixed, on balance they show a few signs of a rebound in economic activity. However, on a weaker note, a recent sharp drop in imports implies that domestic demand remains weak. Economic uncertainty, along with a record high unemployment rate, will probably constrain growth in retail spending.

According to the CTC's foreign office, Hong Kong tour operators suggest that overall bookings to Canada for the Q4 2002 season will increase by 10 per cent. The tour operators did not feel that air capacity or exchange rates negatively affected sales. Perhaps slightly troubling is that planned direct air capacity for Q4 2002 will decline 4.5 per cent below that available last year.

BO monitor participants expect travel from Hong Kong during Q4 will increase 16 per cent, compared with Q4 2001. In particular, travel to Alberta/B.C. is expected to increase 18 per cent.

China

The highest real GDP growth in the region (7.4 per cent in 2002) hides the fact that the communist government must contend with some serious issues in the short to medium term. The slowdown in the agriculture sector has led to a dramatic flow of workers from rural areas to the fringes of large cities, at a rate faster than they can be absorbed. Growth of 7 per cent is stellar among world economies, but it pales in comparison with growth recorded in the early 1990's.

The China National Tourism Administration reported that China's air passenger traffic increased 16 per cent last year making it the sixth highest in the world. Meanwhile, Air China recently announced it will spend CNY 270 million (CDN\$ 50 million) on a major safety upgrade in the wake of the Air China crash on April 15. The money will be spent on pilot training and jet-engine maintenance.

BO monitor participants expect travel from China during Q4 will increase 15 per cent, compared with Q4 2001.

Australia

Australia's economy is growing quickly and this trend is expected to continue with real GDP growth of around 4 per cent in both 2002 and 2003. The Australian dollar has appreciated against major world currencies since the beginning of this year and in June the dollar reached a 21 month high of U.S. \$0.5744. This has helped to keep inflation under control.

According to the CTC's foreign office, consumers have started inquiring about 2002/03 Canadian winter products and 2003 summer products but booking patterns still remain late. Canadian ski products are expected to fare well in part due to a favourable exchange rate. In addition, Canada ski products remain the number one destination featured in wholesaler brochures. The consensus among Australian tour operators surveyed was that overall bookings to Canada for Q4 2002 would be up 17 per cent compared with last year. Tour operators did mention air capacity as an impediment.

The consensus among BO monitor participants was that travel from Australia during Q4 will increase 10 per cent, compared with Q4 2001.

New Zealand

Air New Zealand recently announced business class on domestic routes will vanish and it will start up a new low-cost carrier. Accor announced it is the first major hotel group to enter the backpacker market. It will open three backpacker style accommodations in New Zealand.

The consensus among BO monitor participants was that travel from New Zealand during Q4 will increase 10 per cent, compared with Q4 2001. Once again, participants identified the independent leisure traveller (FIT) as the strongest growth segment.

International Travel Statistics – Statistics Canada

Overnight Travel to Canada, January-May, 2002

SOURCE	PERSON-TRIPS	CHANGE OVER 2001(%)
United States	4,534,490	0.6
Mexico	43,626	-2.20
Europe	1,122,806	-11.76
United Kingdom	2237,517	-11.85
France	86,822	-16.35
Germany	73,731	-18.52
Netherlands	27,363	8.98
Italy	18,346	-19.10
Asia	368,562	-7.62
Japan	121,738	-12.25
South Korea	47,603	7.42
Taiwan	35,377	-23.67
Hong Kong	39,259	-11.43
Oceania	60,316	-18.09
Australia	50,707	-18.35

Source: International Travel, Statistics Canada.

Introduction

The short-term outlook presented in this report for domestic and international travel to Canada for Q4 (October-December) 2002 involves a Business Outlook (BO) that is developed and administered by the Canadian Tourism Research Institute (CTRI). The BO integrates primary data of advance bookings along with pertinent market intelligence.

One source of advance bookings and market intelligence is *Destination Supplier–Receptive Agent Monitor*. The *Monitor* obtains advance international booking information from key destination suppliers and receptive agents in Canada. Another source of advance bookings and market intelligence for the BO comes from quarterly reports issued by the Canadian Tourism Commission (CTC) foreign posts. In order to provide more assistance to the BO, many of the quarterly reports have been enhanced with results from a trade questionnaire. The trade questionnaire is administered by the CTC foreign posts and obtains advance bookings and market intelligence from key foreign tour operators in each country.

The goal of the BO is to generate short-term performance indicators using readily available market intelligence in a timely and cost-effective manner. Success with this short-term outlook will be achieved if the initiative helps direct the efforts of the CTC and the industry at large more effectively for the upcoming tourism season.

All advance-booking data and market intelligence collected by the *Destination Supplier–Receptive Agent Monitor* is confidential and not included in the short-term outlook if any individual response can be singled out. All dissemination of *Monitor* responses, either in the form of a monthly report to participants or the short-term outlook report issued by the CTC, will involve consensus reporting. In this respect, there is no mention of individual participant responses.

While reviewing the outlook for the major international markets discussed in this report, the reader is reminded to refer to the Appendix 1: Medium-Term Travel Forecasts (CTRI) to get a quick perspective of how the short-term travel outlook corresponds to the latest medium-term forecast generated by the CTRI.

Unlike previous BO reports, this report includes references to actual and expected consensus bookings. The figures reported in the BO represent the *expected* outlook for certain travel markets relative to last year's actual travel volumes. Due to particularities of the reporting period covered in Q4 2002, specifically relative to the reporting period, Q4 2001, we focused more on the *expected* bookings (i.e. visitor volumes) rather than actual booking trends.

However, we used the actual booking trends to provide some insights into booking lead times. The differences in actual booking volumes (over and above the estimated visitor differences between Q4 2001 – assuming September 11th did not occur – and Q4 2002) can be primarily attributed to a later booking trend. While that was generally the case, we did note a few cases towards earlier bookings—or perhaps more appropriately—rescheduling of trips from Q4 2001 to Q4 2002.

Economic Overview

World Outlook

After dismal growth in 2001, the world economy is clearly on the road to recovery. Real growth of 1.4 per cent is anticipated this year, improving on last year's 1.2 per cent gain. The annual gain is somewhat deceiving since the world economy should be expanding at an annualized pace of close to 4 per cent by the end of the year. In 2003, strong real gross domestic product (GDP) growth of 3 per cent is anticipated. Most observers felt that the U.S. and Canadian economies were in recession in the second half of last year. However, recent revisions to fourth quarter data have revealed that the two countries never went through a recession (defined as two negative quarters). It now appears that during the second half of 2001, the U.S. economy grew by 1.4 per cent and Canada's by 2 per cent, mainly because of the strength of consumer spending.

In the current economic environment, the U.S. dollar will continue to hold up well despite the huge current account deficit. However, the euro should strengthen somewhat as the year unfolds but there is little hope for the yen, which is expected to continue on a downward trend. Positive news for Canada's economy is the expectation that the currencies of commodity-based economies will strengthen this year in line with higher world demand for natural resources.

North America

The rebound in U.S. economic activity this year has boosted the economic prospects for both Mexico and Canada. As a result, real GDP growth in this region will be 2.7 per cent on the heels of a 1.2 per cent gain last year. Renewed growth in the U.S. has dramatically improved the export prospects for Mexico and Canada. In 2003, real GDP in North America is expected to increase by 3.6 per cent.

South America

The outlook for South America this year remains very grim as real GDP is forecast to decline. The region is racked with a number of problems including the financial crisis in Argentina, which has spilled over into Brazil and Ecuador among others. Venezuela is faced with an ongoing political crisis that is having a negative impact on the country's currency and oil industry. Real GDP in Venezuela is expected to decline by close to 3 per cent this year. In 2003, prospects for South America will be better (real GDP growth of 3.2 per cent) as economic activity in Brazil and Chile rebound. Also, it is expected that the financial crisis in Argentina and the political difficulties in Venezuela will ease somewhat.

Euroland

The recovery in the euro area is turning out to be much weaker than anticipated at the beginning of this year. Economic recovery has been extremely uneven with Spain, France and Italy exhibiting the most promising prospects. The northern part of the region including Germany and the Netherlands is experiencing significant weakness mainly because their manufacturing sectors are in trouble. Overall, the euro area is expected to post real economic growth of 1.4 per cent this year and 2.7 per cent in 2003.

Against this backdrop of relatively weak growth, the European Central Bank (ECB) is faced with a policy dilemma. The pressure on the central bank to raise interest rates is increasing given the rise in energy prices and sticky wages. However, it is likely that the central bank will hold off given the fact that unemployment is still high and rising and that capacity utilization is low. The recent strength of the Euro will also help to keep inflation under control and leave the ECB with another reason to forego interest rate increases.

Asia-Pacific

As the world economy emerges from the doldrums, no part of the world has more at stake than the Asia/Pacific region, with its very open economies. This recovery will be very different as countries with large foreign sectors and high dependence on IT will not experience a strong surge in economic activity in the short term. While a recovery in trade will certainly be important, electronics exports will be much more subdued compared to the late 1990's. Indeed, those Asia/Pacific countries with a diversity of exports and large domestic economies will perform the best in the short term. In this regard, South Korea is expected to perform well. While the country possesses a fairly sizable electronics sector, it serves the large domestic consumer market as well as the international IT market.

Exchange Rates

Exchange Rate Comparison – June 2002 to June 2001

	PER CENT CHANGE IN EXCHANGE RATES BETWEEN SELECT COUNTRIES						
	CANADIAN DOLLAR	U.S. DOLLAR	BRITISH POUND	EURO	JAPANESE YEN	TAIWANESE DOLLAR	AUSTRALIAN DOLLAR
Canadian dollar	--	-0.5%	-5.9%	-11.2%	0.3%	-1.8%	-9.2%
U.S. dollar	0.5%	--	-5.5%	10.8%	0.7%	-1.3%	-8.8%
British pound	6.3%	5.8%	--	-5.6%	6.6%	4.5%	-3.5%
Euro	12.6%	12.1%	5.9%	--	12.9%	10.6%	2.2%
Japanese yen	-0.3%	-0.7%	-6.2%	-11.5%	--	-2.0%	-9.5%
Taiwanese dollar	1.8%	1.3%	-4.3%	-9.6%	2.1%	--	-7.6%
Australian dollar	10.2%	9.7%	3.6%	-2.1%	10.5%	8.3%	--

Source: The Conference Board of Canada.

Domestic (Canada) Travel Outlook, Q4 2002

Economic Overview

Consumers took advantage of low interest rates and strong income growth in the first three months of the year, snapping up new homes, furniture and appliances and automobiles at a furious pace. Canada's exporters capitalized on a concurrent resurgence in the U.S. economy, achieving sizzling growth in export shipments during the quarter. Consequently, real GDP growth for the first quarter surged to 6 per cent at annual rates. Activity was so strong that, despite massive inventory liquidation in the previous quarter, sellers were forced to dip even further into inventories in the January-March period. This dropped the economy-wide inventory-to-sales ratio to an all-time low, suggesting supply constraints that will fuel production growth in the coming months.

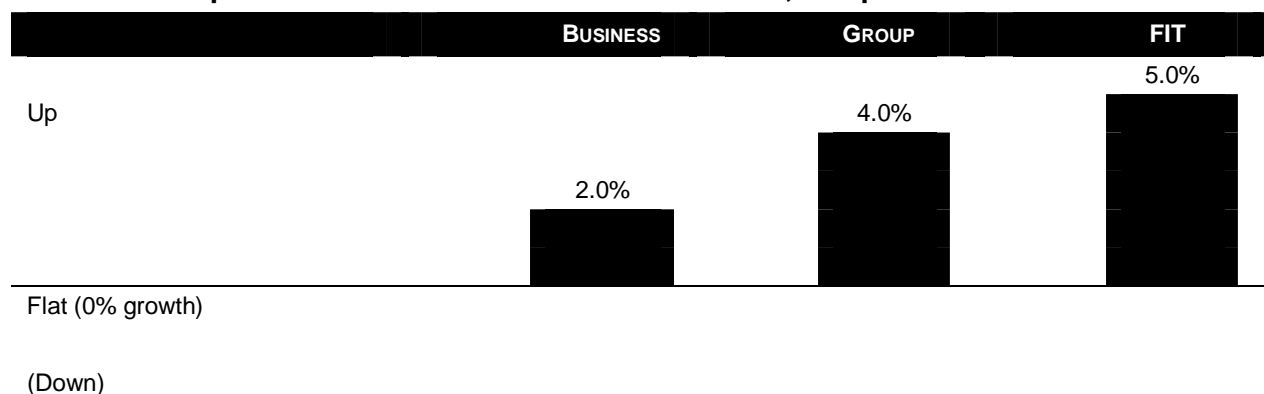
Firms went on a hiring binge during the first quarter of this year as they ramped up production to meet red-hot demand. Job creation continued through the second quarter at a slower but still respectable pace. While employment growth may be slowing, the income generated by job gains to date will power domestic demand throughout this year.

The resurgence of growth over the last few months has re-ignited consumer prices. Monthly gains in the CPI were alarmingly strong during the February-April period. However, as these gains came on the heels of a six-month stretch of extraordinary weakness, prices appear to be playing catch-up, returning to trend levels. As such, year-over-year increases in the all-items and core indexes remain reasonably close to the midpoint of the Bank of Canada's inflation target range.

Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The outlook—as indicated by Canadian travel suppliers and receptive agent bookings—suggests a decent 3 per cent growth in overall advance bookings for domestic travel for Q4 this year, compared to the previous year. Domestic leisure FIT bookings for the Q4 are 5 per cent ahead of that recorded for 2001. The Q4 outlook, as reported by BO monitor participants, for domestic group leisure travel is for slightly less (4 per cent) growth. Meanwhile Canadian business travel is expected to increase 2 per cent in Q4, compared with last year. Business growth is more modest as businesses are still limiting travel and will do so until the primary impediments to recovery are gone. Identified primary impediments include: the state of the economy, the cost and inconvenience of travel (in particular travel by air) and the preference shown by employers and employees alike for essential travel only. Of the three, concern regarding the economy is the major stumbling block. Business travellers will have to be wooed back into travelling by air and are increasingly searching out alternatives to travel. For example, when conducting routine meetings, video, web or phone conferences are increasingly being used. If they do have to travel, business travellers are not looking for perks from tourism suppliers as they did in the past but rather are seeking value. Because of this, it is still expected that business travel within North America will rebound more slowly (compared with leisure travel) over the short-term.

Domestic Travel Q4 2002
Expectations for Domestic Q4 travel in 2002, compared with last Q4



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

Consumer Confidence and Travel Intentions, The Conference Board of Canada

Canadian businesses have regained the confidence that faded after the September 11th terrorist attacks. Following a 25-point jump in the fourth quarter, the Conference Board's Business Confidence Index has climbed 24 more points. This is the first time in the history of the survey that there have been two consecutive gains of more than 20 points. This outstanding bounce-back in confidence bodes well for future investment expenditures. The overall index is being driven by firms' expectations of a stronger economy, an improved financial position, and expectations of greater profitability.

The Consumer Confidence Index (now generated on a monthly basis) has consistently increased every month this year. The index level in June now stands at 128.4, its highest level since 1988.

Consumer Confidence (1991=100 Index)

	2001:12	2002:4	2002:5	2002:6
Consumer Confidence Index	111.0	126.6	127.6	128.4

Source: The Conference Board of Canada.

According to the Conference Board of Canada's latest Winter 2002 Travel Intentions Survey, conducted in June 2002, 42 per cent of Canadians intend on taking a winter vacation this year. This figure is up 9 per cent from last year. The Winter 2002 Travel Intentions Survey suggests 49 per cent of Canadians plan to take a vacation within Canada—up slightly from last year. Meanwhile, the car remains the most favoured mode of transportation.

Winter Vacation Intentions (%)

	2002	2001
Vacation Intended	42	33
Canada	49	46
US	17	20
Other	34	33

Source: The Conference Board of Canada.

Winter Vacation transportation choice (%)

	2002
Car	77.6
Plane	11.1
Bus	4.8
Train	2.3
RV	1.3
Other	3.0

Source: The Conference Board of Canada.

Summary Outlook for Q4

Business travel will continue to be constrained but is expected to expand late this year. Increased airfares, concerns about the economy, lingering constrained corporate travel budgets and the general hassles surrounding air travel will limit stronger business travel growth at least in the short term. The bright spot remains domestic pleasure travel by auto as both FIT and group are expected to expand. In addition, the introduction of two new low-cost regional carriers could help spur domestic air travel. Atlantic Canada is expected to post the strongest growth regionally in the short term, followed by Alberta/British Columbia.

The short-term outlook reported by BO monitor participants indicate that total domestic bookings for Q4 2002 will be up 3 per cent compared with last Q4. Overall, domestic leisure travel is expected to increase 4 per cent, with group leisure travel up 4 per cent and independent leisure (FIT) travel up 5 per cent. Domestic business travel is expected to rebound by 2 per cent this Q4, compared with last year.

U.S. Travel Outlook, Q4 2002

Economic Overview

The U.S. economy is expected to expand by 2.5 per cent this year on the heels of a meager 1.2 per cent growth in 2001. In 2003, real GDP growth of 3.7 per cent is anticipated. Most of the strength in the economy is a result of solid growth in consumer spending as well as government spending. Investment spending will remain weak this year; however, in 2003 a recovery is expected as businesses spend on machinery and equipment as a result of higher corporate profitability. It is anticipated that the U.S. economy will continue to run large current account deficits and that the federal budget deficit will also remain in the red in part because of significantly higher military spending.

After a quick start in the first quarter of this year, the economic recovery in the United States has become a bit more fragile. Real GDP is expected to expand by only 2.4 per cent (annualized) in the second quarter, a sharp reduction from the close to 6 per cent growth established in the first quarter. While retail sales, industrial production, and incomes are advancing, growth has been uneven. Moreover, labour markets remain very weak. The economy only created 41,000 jobs in May in the wake of virtually no job gains at all in April. Also, initial claims for unemployment insurance remain stubbornly high. The recovery is also being negatively affected by higher office and warehouse vacancy rates as well as declining telecom equipment orders.

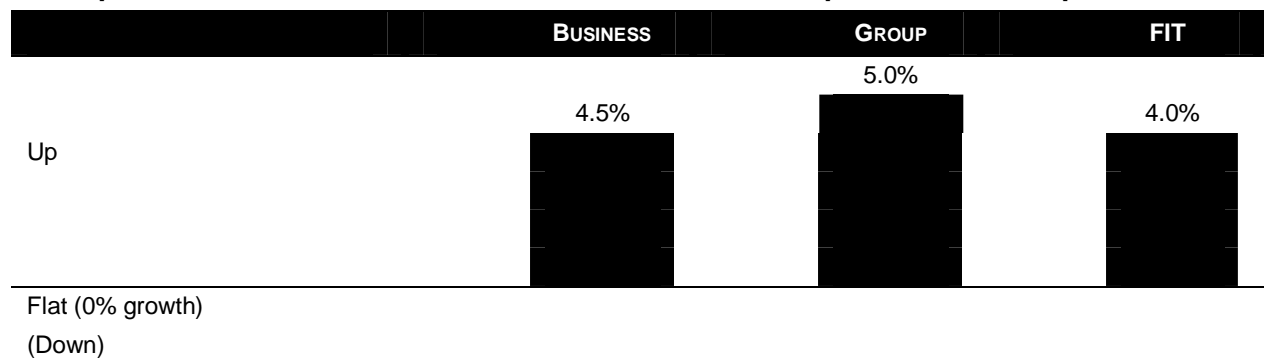
Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The outlook—as indicated by Canadian travel suppliers, Canadian receptive agent bookings and U.S. tour operators—for U.S. business travel in Q4 2002 is for a 4.5 per cent increase compared to last year's tough fourth quarter. Similarly, the outlook for U.S. group leisure travel in Q4 2002 suggests a 5 per cent increase. Independent leisure travel (FIT) is expected to increase by 4 per cent for Q4 2002, compared to last year.

The increase in bookings is driven by auto travel for both leisure and business travel. To a greater extent than in Canada, business travel will not pick up until the impediments to a full recovery are solidly in place. A survey by Yesawich, Pepperdine & Brown/Yankelovich Partners stated that, of all the impediments, the economy is by far the biggest concern. More managers in the U.S. are also viewing travel as a business investment decision and as such are starting to calculate return-on-investment (ROI) figures. In fact, a survey by the Association of Corporate Travel Executives (ACTE), BusinessWeek Research and GetThere reported 18 per cent of financial executives now use some measure of ROI for their company's travel.

U.S. Travel Q4 2002

Expectations for U.S. Q4 travel to Canada in 2002, compared with same period 2001



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

Meanwhile, the actual current bookings by BO monitor participants for Q4 this year were reported to be down an average of 8 per cent, compared with the same time last year. In this case, the consensus reported for actual bookings represents reduced visitor volume projections and not necessarily a later booking trend on the part of U.S. visitors to Canada during Q4 2002.

U.S. Consumer Confidence and Travel Intentions Survey, The Conference Board Inc.

Overall, U.S. consumer confidence continues to improve after the post-9/11 slump, although the Index still hasn't recovered from last fall's downturn. Households, however, remain cautious about the outlook. In May, there was a slight retreat in the expectations index (versus overall consumer confidence index), suggesting that the pace of activity is not expected to accelerate in the months ahead.

Consumer Confidence (1985=100 Index)

	FEB. 2002	MAR. 2002	APR. 2002 (R)	MAY 2002 (P)
Consumer Confidence Index	95.0	110.7	108.5	109.8
Present Situation	96.4	111.5	106.8	110.3
Expectations	94.0	110.2	109.6	109.4

Source: The Consumer Research Center, The Conference Board Inc. U.S.

The latest U.S. Vacation Travel Intentions survey by The Conference Board Inc. reported U.S. vacation intentions in April of 2002 were down 1.5 per cent compared with last April. The survey indicates that over the next six months, 44.7 per cent of Americans intend to take a vacation somewhere.

The survey also revealed that the percentage of Americans that intend to travel outside the U.S. declined. Domestic travel proved once again to be the most popular as 38.7 per cent of respondents reported they intend to take a vacation within the U.S. in the next six months. As is usually the case, the automobile is the preferred mode of transportation, followed by air travel.

Vacation Intentions (Seasonally adjusted)

(%)	DEC. 2001	FEB. 2002	APR. 2002
Vacation Intended	43.6	44.7	44.7
U.S.	35.6	38.1	38.7
Foreign	8.6	8.7	7.8

Source: The Consumer Research Center, The Conference Board Inc. U.S.

U.S.-to-Canada Air Capacity, OAG Worldwide

The level of air service offered between the U.S. and Canada was investigated because the ability to get to a destination is part of planning a trip. To accomplish this, a product from OAG Worldwide called OAG Max was used. Growth in the international travel market to Canada is highly dependent on improved air access—and OAG Max shows flights worldwide. Fortunately, transborder air capacity is expected to recover significantly during Q4 2002, compared to last year.

Seats Available for Travel from the U.S. to Canada (Q4 –October to December)

	2001 (DIRECT)	2002 EST. (DIRECT)
Non-stop seats available	3,638,994	3,872,161
Per cent change	N/A	6.4

Source: OAG Worldwide.

The number of seats available (as of June 2002) for direct U.S. to Canada air travel during Q4 2002 is 3,872,161. For 2001, direct air capacity was 3,638,994 seats. This planned increase of direct air capacity amounts to 6.4 per cent—a positive sign for transborder air travel.

Summary Outlook for Q4

In the next six months, according to DK Shifflet & Associates, 35 per cent of Americans surveyed indicated they would very much consider travelling to Canada and, to them, Canada still outranks other countries in terms of safety. Atlantic Canada and Ontario/Quebec can both expect to see most growth in terms of American visitors. Fortunately, direct air capacity from the U.S. is expected to increase 6.4 per cent this Q4, compared with last year.

Leading the growth in visitors from the U.S. this Q4 will be group leisure travellers. BO monitor participants suggest an increase of 5 per cent compared to last year. However, BO monitor participants indicate that FIT leisure travel is expected to be not far behind with 4.0 per cent growth. While economic concerns remain in the U.S., confidence is improving and it appears business travellers will start to fly again—albeit with some permanent changes such as seeking out low-cost carriers and less restrictive tickets. Supported by BO monitor participants, our current outlook suggests business travel from the U.S. will increase 4 to 5 per cent this Q4, compared with last year.

Mexico Travel Outlook, Q4 2002

Economic Overview

Despite Mexico's strong ties with the powerful U.S., its economy contracted in the first quarter of this year. This suggests that Mexico is lagging behind in the recovery compared to its two North American partners, the United States and Canada. The major problem lies within the maquiladora region situated close to the border with the United States. The strong peso and the removal of tariff and tax exemptions have hurt manufacturing in this part of Mexico. Also, foreign investors are shifting production and employment out of Mexico to cheaper, more cost-competitive locations in South America.

Looking ahead, there are some developments that should result in a rebound in economic activity later on this year and into 2003. First, the Mexican peso is expected to depreciate against the U.S. dollar in the short term. This will make exports more competitive and growth of 4 per cent is anticipated this year in the wake of a 5 per cent drop in real exports in 2001. In 2003, strong growth in exports of more than 10 per cent is expected. Higher oil prices will also help Mexico's economy. In the spring, oil and natural gas production started to increase and higher prices should help to shore up export revenues, which make up one-third of the total federal budget. Real GDP growth of 1.7 per cent is expected this year and much higher growth of 4.5 per cent is anticipated in 2003.

Tourism Trends

According to Statistics Canada, the number of Mexican visitors to Canada in March increased 87 per cent compared with last year. The timing of the Easter holiday might have something to do with this. During the World Cup Soccer matches, however, tour operators reported difficulties in promoting travel to Canada. Mexican airport operator Grupo Aeroportuario del Sureste reported that passenger traffic in Mexican airports decreased 8.8 per cent in May compared with a year earlier.

The CTC's foreign office reported that the lack of direct air flights to Canada, especially for Western Canada, is a major constraint to growth of the Mexican market. Several good connections previously existed via the United States but U.S. carriers have recently eliminated these. The Mexican government announced it will reinstate the sale of the nation's two largest airlines: AeroMexico SA and Compania Mexicana de Aviacion SA. Together the airlines control nearly 80 per cent of the domestic traffic and operate routes to the U.S., Canada, South America and Europe.

Members of Cancun's tourism industry signed a "civility" pact in June in an effort to get Spring break travellers to settle down and make the city more attractive to other types of tourism—such as golf tourism. Bars and discos will not distribute fliers advertising drink specials or alcohol prizes and will ban under-aged drinking. Approximately 74 per cent of Cancun's 3 million annual visitors are from international destinations.

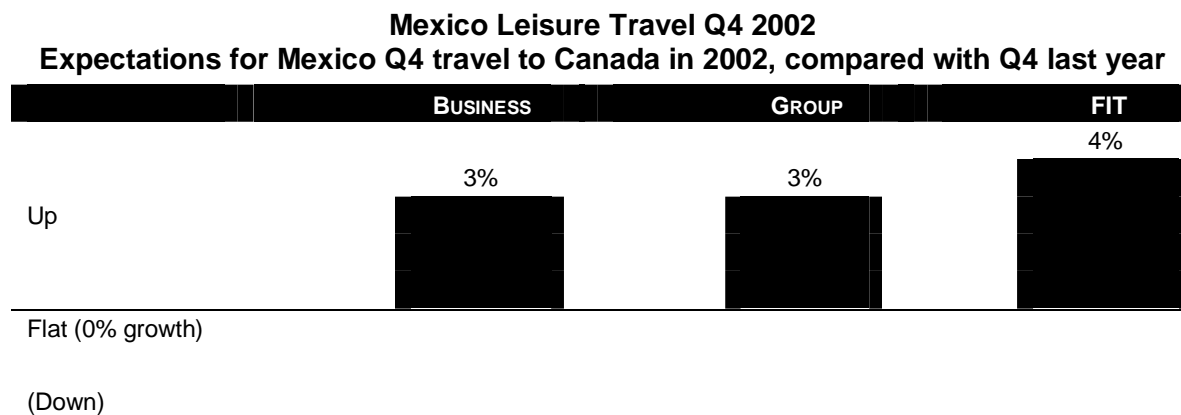
Market Overview

The consensus among Mexican tour operators surveyed suggests that overall bookings to Canada for the Q4 2002 season will be up by 3 *per cent* compared to a year ago. However, air capacity to Canada was identified as a problem. Fortunately, exchange rates were stated as having a positive influence to visit Canada.

Specific trends identified as selling well were package tours, including individual travel with a package, group with a package, and couples with packages. Interest was focused on B.C. (34%), Quebec (33%), Ontario (32%) and Alberta (9%). This is a slight switch from the Summer 2002 Business Outlook which saw Quebec as the leading region. For Q4, the cities/resorts product cluster is expected to be the number one product cluster for packages purchased followed by touring, culture/history, nature, outdoor/sports and winter. (Canadian Tourism Commission foreign office)

Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—for Mexican travel this Q4 indicates an overall 3.5 per cent increase compared to last year. Expectations are for a 3 per cent increase in group travel and a 4 per cent increase in independent (FIT) leisure travel. Business travel for Q4 2002 is expected to increase by 3 per cent.



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

Mexico-to-Canada Air Capacity, OAG Worldwide

Once again, air capacity does not appear to be a problem over the Q4 2002 period—based on comparing the direct air capacity available for the Q4 months of 2002 to 2001. In fact, direct air capacity is expected to be up 30.4 per cent. The potential problem for air capacity to Canada—as raised again by the foreign tour operators surveyed—might be with respect to air travel via Mexican branded airlines as residents might prefer their own national airlines.

Seats Available for Direct Travel from Mexico to Canada (Q4)

	2001	2002
Seats available	41,968	54,722
Per cent change	NA	30.4

Source: OAG Worldwide.

Summary Outlook for Q4

The recent mini-survey of key tour operators in Mexico, conducted by the CTC's foreign office, reported Q4 bookings to Canada are up by 3 per cent in line with what BO monitor participants indicated. Air capacity, while up 30.4 per cent overall, was reported by the CTC's foreign office as a potential problem in selling Canadian products. BO respondents reported leisure group and FIT travel as well as business travel are expected to increase 3 to 4 per cent this Q4.

Brazil Travel Outlook, Q4 2002

Economic Overview

Brazil's economy has been issued the financial equivalent of a yellow card. A deepening crisis of confidence has resulted in rising yields on Brazil's publicly traded debt, downgraded credit ratings and a depreciating real. The problems are mainly the result of developments in the political arena. Brazil will hold presidential elections in October and front runner, Luiz da Silva and his party, the left-leaning Workers Party have long opposed market-oriented economic reforms and have advocated repudiation of the country's foreign debt. The concern is that, if da Silva is elected, Brazil's fight against inflation would be abandoned and new spending initiatives would be implemented. An increase in government spending would threaten Brazil's budget surplus and harm the government's ability to service its debt.

The hope is that, regardless of the outcome of the election, Brazil's new government will have to rein in spending in order to avoid an Argentinean-type full-blown financial crisis. This should keep inflation under control and hopefully enable the central bank to reduce interest rates sometime in the second half of this year. Real GDP growth of 2 per cent is anticipated this year and even stronger growth of 3.4 per cent is forecast for 2003. At this point in time, growth prospects must be viewed as optimistic given the uncertain direction that a da Silva government would take with respect to the economy.

Tourism Trends

The Tourism Industry Association of America (TIA) reported demand for travellers' cheques in Japanese yen increased dramatically in Brazil during the lead-up to the World Cup finals. The increase surprised some experts who feared the long distance from Brazil and high-ticket prices would discourage Brazilians from attending the games.

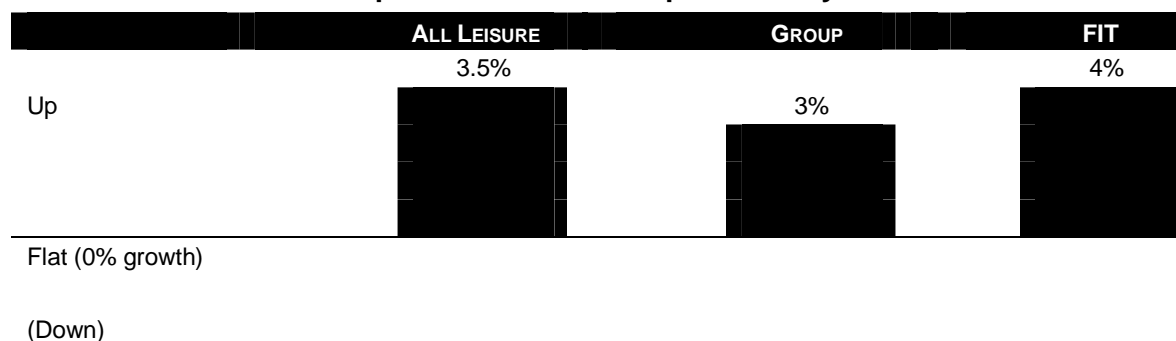
According to TIA, airports in Brazil are to receive approximately USD \$375 million (CDN\$ 571 million) during 2002 from the state airport administering body, Infrero. This marks a 125 per cent rise in budget spending over the previous year. Last year passenger volume in Brazil was 75 million, up 9 per cent from the year before.

Brazil's flagship airline Varig reported a net loss of USD\$ 203 million (CDN\$ 309 million) last year. This loss is 170 per cent higher than the one posted for 2000. Despite these losses, the airline plans to expand and is currently negotiating with China to open an office there. TAM, Varig's closest rival, posted a \$USD 24 million (CDN\$37 million) loss. Still, according to analysts such as Airline Capital Associates, airlines in Latin America will recover faster than their American counterparts because they tend to be smaller, offer better service, pay lower labour costs and face less competition.

Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The business outlook—as indicated by Canadian travel supplier and receptive agent bookings—for Brazil leisure travel this Q4 suggests an increase of 3 to 4 per cent, compared to last year. Both group leisure and FIT leisure travel are expected to be up 3 to 4 per cent. Unfortunately there were not enough responses for advance business bookings to ensure confidentiality.

Brazil Leisure Travel Q4 2002 Expectations for Brazil Q4 travel to Canada in 2002, compared with the same period last year.



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

Brazil to Canada Air Capacity, OAG Worldwide

Air capacity is not expected to cause concern over the Q4 2002 period—based on comparing the direct air capacity available for the Q4 months of 2002 compared to 2001. The number of direct seats available is expected to be up 25.8 per cent compared with last year.

Seats Available for Direct Travel from Brazil to Canada (Q4)

	2001	2002
Seats available	13,144	16,536
Per cent change	NA	25.8

Source: OAG Worldwide.

Summary Outlook for Q4

Outbound international traffic is expected to pick up slightly in the short term. With economic conditions improving—GDP is expected to increase by 2.2 per cent this year—growth in the tourism industry can be expected to modestly rebound. The FIT leisure travel market is expected to experience slightly more growth than group travel in the short term. Air capacity appears to be adequate with a 26 per cent increase planned for Q4 2002. Our short-term outlook suggests an increase of 3 to 4 per cent of Brazilian visitors to Canada for Q4 2002.

U.K. Travel Outlook, Q4 2002

Economic Overview

Fortunately, the U.K. economy managed to avoid a recession last year as weak manufacturing activity—the result of a strong pound—was more than offset by strong consumer spending. The consumer sector has remained strong because household wealth has increased dramatically in line with the rapid rise in housing prices. In the past twelve months, housing prices have increased by 15 per cent. On the other hand, the outlook for manufacturing is expected to improve in line with the recent depreciation of the pound against the euro. Since the beginning of the year the pound has fallen by more than 6 per cent. This trend is expected to continue in the near term and, as a result, manufacturing activity is expected to expand by close to 3 per cent in 2003.

The strength in consumer spending (real consumption is expected to expand by more than 3 per cent this year) combined with the upturn in manufacturing activity and exchange rate depreciation suggest that the Bank of England will tighten monetary policy as the year unfolds. The 3 month inter-bank rate is forecast to increase by more than 100 basis points over the next twelve months. The U.K. unemployment rate, which is much lower than rates in mainland Europe, will remain well below 4 per cent in the short term. The government is expected to continue to run healthy public sector surpluses (more than 10 billion pounds in 2002-2003). This year, real GDP is expected to expand by 1.8 per cent and a 2.8 per cent increase is forecast for 2003.

Tourism Trends

Low cost carriers continue to succeed in the U.K. and, in addition to record profits, are in the process of consolidation. EasyJet announced it is buying its rival Go for £374 million (CDN\$ 847 million) and has taken an option to acquire British Airways' loss-making German subsidiary Deutsche BA. British Airways announced its biggest pre-tax loss in May for the year ending March 31, 2002 since it was privatized 15 years ago.

Leisure travellers in the U.K. who responded to a poll in the Guardian newspaper picked New Zealand for the third year running as the best long-haul destination. Australia and Canada tied for 4th place after Nepal and Costa Rica.

Unfortunately, All Canada Travel & Holidays, a specialist tour operator to Canada, announced in June that it will not be operating a program in 2003 due to the fall-off in business after September 11th. Tour operator, First Choice, announced plans to turn around its Canadian operations by moving three planes to Canada for the upcoming winter season.

The Canadian Tourism Commission's (CTC) foreign office in the U.K. reported that major tour operators are planning substantial changes for the 2003 season in how tour packages are put together and priced. Elements of the traditional package will be broken out and available for purchase separately (for example, accommodation, flight, transfers, etc.).

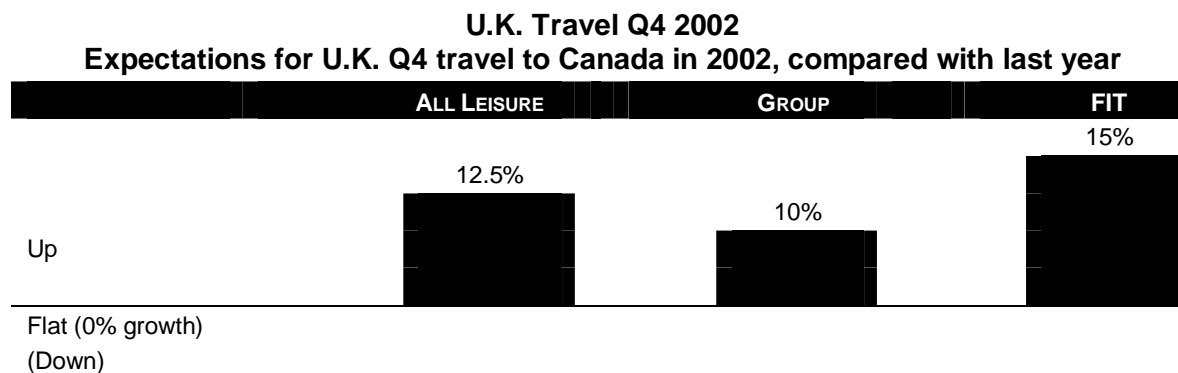
Market Overview

According to U.K. tour operators, advance bookings to Canada for the upcoming Q4 are down an average of 7 per cent. Tour operators agree air capacity is a problem. The exchange rate was not noted to have any effect on sales for the majority of the operators.

Unlike spring, when individual travel sold best, the strongest sales reported for the forthcoming Q4 were by couples purchasing tourism packages. B.C and Ontario now represent the bulk of Canadian destinations sold (31% and 30% respectively) with Alberta not far behind (26%). Quebec, the lead destination in the spring, represented only 6 per cent of sales in this round. Nature was noted as the most popular product cluster purchased by Q4 visitors followed by touring and then trips with a focus on culture/history. (Canadian Tourism Commission foreign office)

Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—for U.K. leisure travel this Q4 indicates an overall 12 per cent increase compared to last year. The outlook for group leisure travel shows an increase of 10 per cent while the independent (FIT) leisure travel segment is expected to rebound the most (15% growth). The outlook for U.K. travel to Alberta/BC is up 10 per cent and Ontario/Quebec is expected to increase 15 per cent.



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

Since visitor volumes are estimated to be up 4 per cent, advance bookings are running 12 per cent below the same period last year, the impact of a later booking trend.

U.K.-to-Canada Air Capacity, OAG Worldwide

Air capacity is not expected to be a problem for the Q4 2002 period— based on comparing the direct air capacity available for the Q4 months of 2002 to 2001. OAG Worldwide indicates that direct air capacity planned for Q4 2002 will increase 20.7 per cent compared to Q4 2001 which might help mitigate capacity concerns tour operators expressed to the CTC's foreign office staff.

Seats Available for Direct Travel from the U.K to Canada (Q4)

	2001	2002
Seats available	312,828	377,732
Per cent change	NA	20.7

Source: OAG Worldwide.

Summary Outlook for Q4

Low cost carriers continue to succeed in the U.K. and are expected to continue to report increased revenues, profits, volumes and capacities this Q4. However, consolidation is on the horizon as EasyJet gets set to buy rival Go and has taken an option to acquire a low cost German airline.

Our short-term outlook suggests overnight travel from the U.K. this Q4 will increase 12 per cent compared to Q4 last year. The outlook for U.K. travel to Alberta/B.C. is expected to be slightly weaker than for Ontario/Quebec, but with both regions still expected to post strong gains.

France Travel Outlook, Q4 2002

Economic Overview

The outlook for the French economy is generally positive, with real GDP growth of close to 1.5 per cent anticipated this year. Manufacturers have been increasing production in line with increased export demands. In the spring, the confidence of French manufacturers increased to a nine-month high. Consumers have also been doing their part to boost the prospects for the economy. Household spending picked up in the first half of this year buoyed by rising wages. In 2003, a combination of even faster household spending and a rebound in business investment will lead to real GDP growth of close to 3 per cent.

A potential problem area for the French economy remains the public sector deficit. The budget outlook is in jeopardy because the 2002 budget was originally put together with a growth forecast that was overly optimistic. Lower tax revenues this year will make it difficult for the government to cover new spending pledges. Moreover, President Chirac has promised significant tax cuts in 2002-2003. The deficit is expected to hit 30 billion euros in 2002 declining marginally to 28 billion euros in 2003. The high deficit may force the government to either cut spending or delay promised tax cuts.

Travel Trends

In May, Air France announced a profit of €153 million (CDN\$ 224 million) for the year ending March 31, 2002—down 64 per cent from a year ago. Air France credits its success to limited exposure to North Atlantic routes and the collapse of other airlines on some of its profitable African routes, notably Air Afrique, Swissair and Sabena.

The CTC's foreign office in France indicated that travel agencies in France reported a decrease of 4.8 per cent in the number of tickets sold for the fourth quarter of this year compared with last year, while their revenues are down 5.6 per cent for the same period. While the number of airline tickets sold decreased, the price of air tickets increased 4.5 per cent for the same period, as did the price of packages (up 9.3%). As of June 1st, the average Air Canada ticket price increased €100 (CDN\$ 147) due to tariff grid changes.

The CTC's foreign office also reported that France recently launched a major advertising campaign (€12.6 million; CDN\$ 18.6 million) in Europe, the USA, Canada and Japan entitled "J'aime la France".

Market Overview

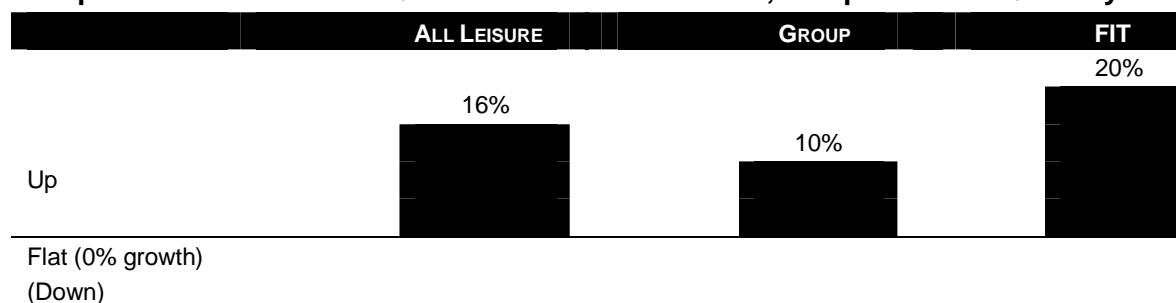
French tour operators are split regarding advance bookings to Canada for the upcoming Q4 season. Some operators report business being up or the same as last year but the majority stated that business is down from 5 to 20 per cent. The majority also agree that air capacity and unfavourable exchange rates remain a problem.

It was reported that Quebec still constitutes the bulk (75-100%) of Canadian destinations sold, with Ontario representing 10 per cent of the sales. Western Canada represented 5 per cent of sales and New Brunswick made it onto the chart with 5 per cent of sales. As was the case for the summer, New Brunswick was mentioned as being a potentially larger market for French travellers along with Western Canada. Nature was noted as the most popular product cluster purchased by Q4 visitors followed by culture/history and then trips to cities and resorts. (Canadian Tourism Commission foreign office)

Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—for French travel to Canada this Q4 2002 indicates that there will be an overall 16 per cent increase compared to last year. The outlook is less positive for group travel (up 10%) than for independent (FIT) leisure travel (up 20%). The increase in French travellers is expected to benefit the Ontario/Quebec (18% growth) region slightly more than Alberta/BC (10% growth)—the two regions of Canada specifically identified by participants.

France Travel Q4 2002
Expectations for France Q4 travel to Canada in 2002, compared with Q4 last year



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

Meanwhile, the actual current bookings for this Q4 by respondents are still down an average of 9 per cent compared with the same time last year. Of that, 2 per cent can be attributed to visitor volume declines, while the remaining 7 per cent can be attributed to a later booking trend.

France-to-Canada Air Capacity, OAG Worldwide

Even though direct air capacity for Q4 2002 is expected to be up 16.3 per cent compared to 2001, the majority of tour operators identified air capacity as a problem.

Seats Available for Direct Travel from France to Canada (Q4)

	2001	2002
Seats available	118,928	138,346
Per cent change	NA	16.3

Source: OAG Worldwide.

Summary Outlook for Q4

Unlike most major airline carriers globally, Air France managed to announce a profit for the year ending March 31, 2002. Airline tickets prices are increasing—on both national carriers and international carriers such as Air Canada—as are package prices. In fact, declining travel volumes for Q4 2002 are expected by the majority of French tour operators. However, according to BO participants, we expect overnight travel this Q4 to be up 16 per cent compared with last year.

Germany Travel Outlook, Q4 2002

Economic Overview

The German economy accounts for one-third of euro-output and its industries are a significant importer of intermediate components from across Europe. The weak state of the German economy has a negative impact on overall growth prospects for the euro area in 2002. In the first half of this year, there has been a dichotomy between the domestic and foreign sectors of the economy and this is expected to continue in the short term. The weak domestic economy is reflected in the country's rising unemployment rate. Unemployment increased by 60,000 in May and the unemployment rate shot up to 9.7 per cent. The rate is expected to remain in the 9.5-10 per cent range for the remainder of the year.

Fortunately, the foreign sector is expected to prop up the German economy in the short term and lead to stronger growth in 2003. German exports represent about one-third of total output and the recovery in world economic activity will eventually result in higher exports sales and a rebound in industrial production. Industrial production, which is expected to drop by 0.5 per cent this year, will increase by 3.6 per cent in 2003. The factor that could derail the economic recovery is a rapidly appreciating euro that would make German exports less competitive. At this point in time the euro is expected to appreciate modestly, however a more rapid appreciation cannot be ruled out given the precarious position of the U.S. dollar. Real GDP is expected to expand by 1 per cent this year before rebounding to increase by 2.5 per cent in 2003.

Tourism Trends

Recently, Lufthansa reported its smallest monthly decline in passengers since September 11th. It carried 5.7 per cent fewer passengers in May compared with a year earlier. While passengers to and from the U.S. decreased by 9.5 per cent, Asia/Pacific and Middle/East Africa routes increased 8.9 per cent and 4.2 per cent, respectively, compared with last year.

According to the CTC's foreign office, air capacity remains an issue. While Air Canada and Lufthansa have increased capacity to Toronto, Calgary and Vancouver, it is not enough to cover the loss of more than 75,000 seats with the bankruptcy of Canada 3000.

P&O Princess' German brand A'ROSA cancelled its Canada/New England itineraries planned for later this year as the German outbound market recovers slowly. The reluctance of German travellers to fly to the East Coast was cited as a reason for the cancellation.

According to the FVW, modular holidays, where the traveller puts together their own package from a range of options, are selling well in Germany this year. The West Coast of North America is generally selling better than the East Coast with rental cars and camper vans being popular items. Canada, backed by its "dollar light" marketing slogan is reported to be selling better than the U.S. for most operators.

The German National Tourist Board launched a marketing campaign for 2002 that focuses on ecotourism opportunities in Germany as part of the International Year of Ecotourism. A 60 page brochure, published in six languages, presents a number of sustainable tourism packages that are available.

Market Overview

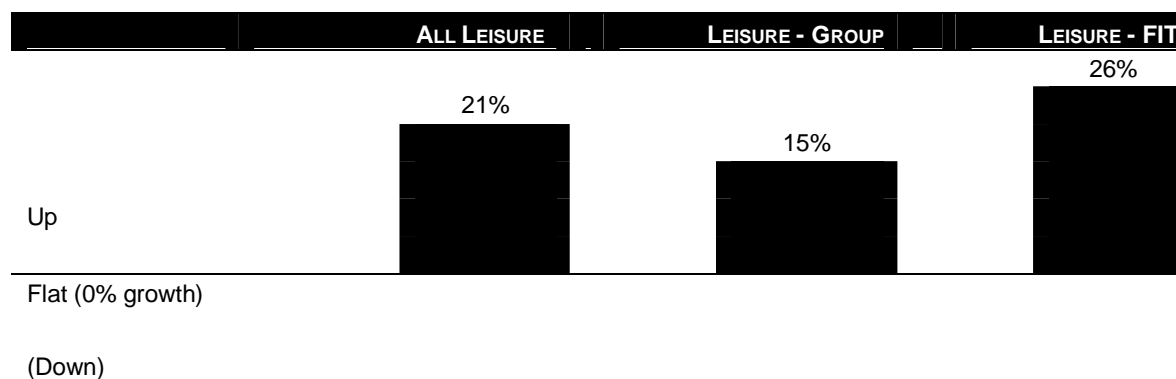
Most reporting tour operators in Germany indicated advance bookings to Canada for the upcoming Q4 season are up by 3 to 12 per cent compared to last Q4. However, most agree that air capacity and exchange rates remain a problem.

There was no clear sales trend among the operators—individuals, couples, groups, packages and no packages were all cited as selling. German tour operators found that B.C. and Alberta remain the most popular Canadian destinations (representing 50% of overall business), followed by Ontario. Regions representing potential for the German market include the Northwest Territories, Atlantic Canada and the Yukon. Nature and touring were noted as the most popular product clusters purchased by Q4 visitors. This was followed by trips to cities/resorts, nature and culture/history. (Canadian Tourism Commission foreign office)

Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The outlook—as indicated by BO monitor participants—for German travel to Canada this Q4 2002 is for leisure travel growth of 21 per cent compared to last year. German FIT is expected to post 26 per cent growth while group travel expands by 15 per cent. Travel to the Alberta/BC and Ontario/Quebec regions are expected to increase about the same (20% vs. 22%)—the two regions of Canada specifically identified by participants.

Germany Leisure Travel Q4 2002
Expectations for Germany Q4 travel to Canada in 2002,
compared with same period last year.



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

Meanwhile, the actual current bookings for Q4 this year were reported to be down an average of 9 per cent compared with the same time last year. Since visitor volume differences were calculated to be flat, the complete 9 per cent discrepancy can be attributed to a later booking trend.

Germany-to-Canada Air Capacity, OAG Worldwide

Air capacity from Germany is expected to increase 6.8 per cent for Q4 2002 compared to last year.

Seats Available for Direct Travel from Germany to Canada (Q4)

	2001	2002
Seats available	133,916	143,035
Per cent change	NA	6.8

Source: OAG Worldwide.

Summary Outlook for Q4

In response to competition from low cost carriers, Lufthansa is aggressively slashing airfares and its monthly operating statistics show that a turnaround in its financial situation is slowly taking place. According to tour operators, modular holidays that travellers put together from a range of options, are selling well.

For Q4 2002, BO monitor participants suggest that leisure travel from Germany to Canada will increase 21 per cent compared with Q4 last year. While it was noted that air capacity was a stumbling block for most of the year, the situation should improve for Q4.

Italy Travel Outlook, Q4 2002

Economic Overview

The labour market dominates economic news in Italy. A one-day general strike against the proposed changes in labour law occurred in April. The prime minister is seeking to restart negotiations with labour unions, promising to enhance unemployment benefits but new major strikes are anticipated during the summer. The impasse between the trade unions and government underscores the difficulties in pursuing a range of reforms which could, if implemented, help stimulate growth. Still, business confidence picked up in Italy in May despite the strike. Growth forecast for GDP this year is 1.4 per cent and 2.9 per cent for 2003.

Tourism Trends

In April, Alitalia reported a decline of 16.9 per cent in passenger traffic compared with a year earlier. Alitalia reported a first quarter loss of €103.4 million (CDN\$ 151.3 million) for the first quarter of this year, compared with losses of €199.8 million (CDN\$ 292.3 million) a year ago. This year's first quarter loss represents the airline's best quarterly result in four years.

The CTC's foreign office in Italy reported that of the 13 million Italians who took a holiday during the spring short breaks (Liberation Day April 25th and Labour Day May 1st), 86 per cent spent their holidays in Italy. The most popular destinations for the 14 per cent who went abroad were France and Spain.

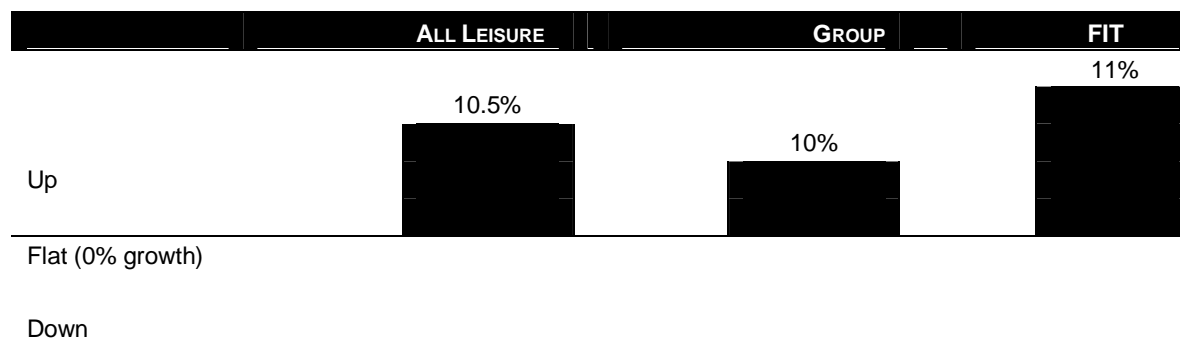
According to the CTC, tour operators report that Mexico and South Africa are the most popular long-haul destinations this summer. In addition, tour operators reported summer sales to Canada are down 10 to 20 per cent compared with last year. The most popular provinces to visit are: Ontario and Quebec followed by BC and Alberta.

The CTC further reported that the Australian Tourism Commission announced an increase in its advertising budget for Italy from €100,000 (CDN\$ 147,460) to €500,000 (CDN\$ 737,343) for 2002. As well, a manager for Italy has been appointed.

Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—for overall travel from Italy during Q4 2002 is for a 10 per cent increase compared to last year. The outlook appears to be about equal for group leisure travel (up 10 %) compared with independent (FIT) leisure travel (up 11%). The increase of Italian visitors this Q4 will most likely be felt in the Ontario/Quebec region (up 13%) compared to Alberta/BC (up 6%)—the only regions of Canada specifically identified by monitor participants.

Italy Leisure Travel Q4 2002
Expectations for Italy Q4 travel to Canada in 2002,
compared with same period last year.



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

Italy-to-Canada Air Capacity, OAG Worldwide

Air capacity from Italy to Canada should not represent much of a problem during the Q4 2002 period. The OAG Worldwide data suggests that the number of direct seats available to Canada will be up 8.8 per cent. This is welcomed since direct capacity is expected to drop a staggering 47.7 per cent over the summer 2002 compared with last year.

Seats Available for Direct Travel from Italy to Canada (Q4)

	2001	2002
Seats available	35,284	38,396
Per cent change	NA	8.8

Source: OAG Worldwide.

Summary Outlook for Q4

Italians overwhelmingly favour domestic holidays, with Mexico and South Africa the most popular long-haul destinations. BO monitor participants expect 10 per cent more visitors from Italy will travel to Canada this Q4. Ontario/Quebec will experience the largest growth from Italian visitors (up 13%) while Alberta/British Columbia can expect a 6 per cent increase in the number of Italians visiting in Q4 compared with last year. Direct air capacity is also improving after a tough summer season.

Netherlands Outlook, Q4 2002

Economic Overview

The outlook for domestic demand has weakened slightly following softer retail sales, which were down in the first quarter of this year, compared with a year earlier. The Central Bureau of Statistics for the Netherlands cited a substantial increase in food prices as a major factor, echoing signs of rising inflation across the Euroland, which stems in part from high oil prices. In addition, consumer sentiment in April fell significantly and forecasts for consumer consumption have eased for this year. This translates into limited signs of recovery for the Netherlands.

Tourism Trends

KLM Royal Dutch Airlines reported a 7 per cent decrease in passengers for the month of May, compared with a year earlier. KLM stated European, African and Indian routes performed well while North American routes remained depressed by 26 per cent, compared with a year ago.

KLM also reported a net loss in May of €108 million (CDN\$ 158 million) for the quarter ending March 31, 2001, compared to a loss of €88 million (CDN\$ 129 million) last year. The airline stated it will operate its two budget brands Buzz and Basiq Air under one name in the near future.

According to the CTC's foreign office, non-North American long haul destinations for summer vacations reported equal number of sales compared with last year. Further, tour operators reported that the U.S. is not a popular destination, and operators are offering South Africa, Australia and Canada as alternatives. The Trendreport Tourism and Recreation 2001/2002 reported an increase of 4.5 per cent in the number of holidays in 2001, compared with the previous year. The majority of this increase was attributed to a rise in domestic holidays rather than international destinations.

It is further reported that the Australian Tourism Commission has started an online training program for travel agents and expects tourism from the Netherlands to grow 5 to 10 per cent this year.

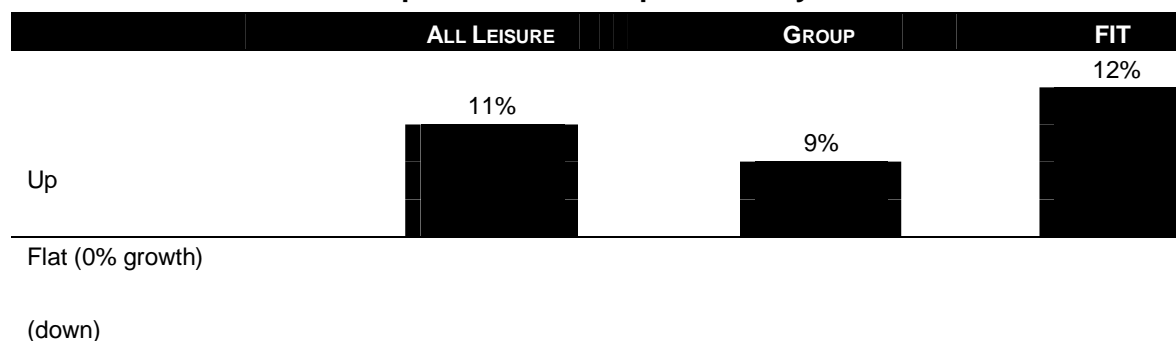
Market Overview

The overall impression from Dutch tour operators was that Q4 bookings to Canada would be up by 13 per cent compared with the same period last year. Unlike many other countries, air capacity was not identified as having a negative influence on sales. Likewise, the exchange rate had a neutral effect on sales. The current sales trend was for individuals with no package and couples with a package. B.C. represented 36 per cent of the sales to Canada, while Alberta comprised 33 per cent, Ontario 17 per cent and Quebec 11 per cent. Nature moved to the second best selling product cluster, bumped out of first place by touring products. They were both followed by cities and resorts and outdoor/sports. (Canadian Tourism Commission foreign office)

Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The outlook for leisure travel for Q4 2002 by BO monitor participants indicates an overall increase of 11 per cent. This overall leisure market increase is comprised of a 12 per cent increase in group leisure bookings and 9 per cent growth for independent (FIT) leisure travel. Visitation to Alberta/BC this Q4 is expected to increase by 15 per cent while Ontario/Quebec is expected to experience an 11 per cent increase, compared with last year.

Netherlands Leisure Travel Q4 2002 Expectations for Netherlands Q4 travel to Canada in 2002, compared with same period last year.



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

Netherlands-to-Canada Air Capacity, OAG Worldwide

Air capacity will improve greatly and should not represent a concern over the Q4 2002 period—based on comparing the direct air capacity available for the Q4 months of 2002 to 2001. The number of direct seats available is expected to increase by 42.4 per cent compared with last year. It is not surprising that tour operators did not identify capacity as a problem.

Seats Available for Direct Travel from the Netherlands to Canada (Q4)

	2001	2002
Seats available	72,255	102,891
Per cent change	NA	42.4

Source: OAG Worldwide.

Summary Outlook for Q4

KLM is gearing up to compete with low cost carriers by slashing airfares and operating its two budget brands under one name. Canada remains an alternative to travel to the U.S. and is expected to remain so—at least in the short term.

BO monitor participants suggest that travel from the Netherlands will increase 11 per cent this Q4. Fortunately, air capacity is not expected to represent a problem.

Japan Travel Outlook, Q4 2002

Economic Overview

Recent indicators reveal that deflation remains public enemy number one, as both consumer and corporate service prices continued to drop in the first quarter of this year. As well, real GDP is expected to decline a further 0.5 per cent this year. A revival in growth is possible in the second half of this year, thanks to the weakness of the yen and the economic recovery in the United States—Japan's most important export market. However, the strength of the economic rebound will be constrained by the structural problems plaguing Japan's banking system. According to the Bank of Japan, bank lending in February was down 4.6 per cent from a year earlier. The quantity of non-performing loans on the balance sheets of Japanese banks is immense, and the capital and collateral tied to those loans is unproductive. Until the problems in the banking system are resolved, the restrictions on credit will continue to undermine a strong recovery.

Tourism Trends

Skymark Airlines announced it will enter the international air travel market by launching charter flights between Tokyo and Seoul. This marks the first attempt by a newcomer in the Japanese marketplace to expand into international services. In June, Japan Airlines and Japan Air Systems received Fair Trade Commission approval for their merger after agreeing to a number of concessions.

Also in June, the Health, Labor and Welfare Ministry announced workers at major Japanese corporations will have an average 7.9 days off for summer vacation this year, down 1.1 days from a year earlier. Regular employees in Japan are allowed to take, on average, 18 paid holidays a year but generally only take about half the given days.

The Japanese Association of Travel Agents (JATA) announced that 52.6 per cent of respondents to a survey have made a decision to undertake travel based upon the information found in a website. When collecting information about overseas travel, the most commonly used method was travel agents' pamphlets (33.9%) followed by the Internet (23.8%) and guide books (14.1%).

According to the CTC's foreign office, JATA also released results of a survey indicating middle-aged and older Japanese people are now willing to travel overseas. However, China and other points in Asia show the fastest recovery followed by Oceania and Europe.

Japan has set a goal of eight million foreign visitors a year by 2007, up from 4.8 million in 2001 partly as a result of the FIFA World Cup soccer games.

Market Overview

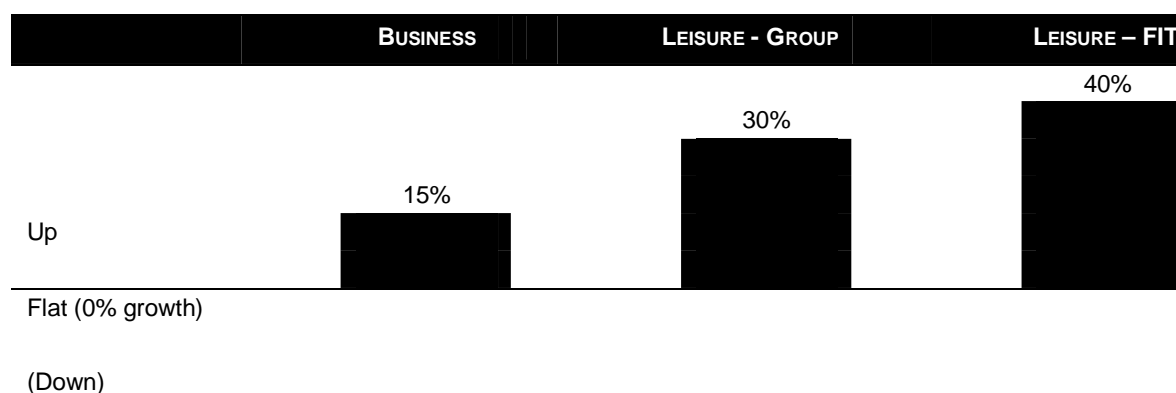
The consensus among Japan tour operators suggests that overall bookings to Canada for the Q4 season would increase 30 to 100 per cent compared with October – December last year. The sharp increase is due in part to the severe declines in visitation experienced after September 11th last year. Air capacity was mentioned as a constraint for some agents who did not have substantial block space on Air Canada. For the majority of tour operators, the exchange rate did not affect sales.

The most popular Canadian travel product sold by tour operators this Q4 was packages for couples. The destination with the greatest interest was B.C. (40%) followed by Ontario (30%), Alberta (20%) and then Quebec/Atlantic region (10%). The touring product cluster is the most popular package followed by cities/resorts and nature. (Canadian Tourism Commission foreign office)

Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The outlook—as indicated by Canadian travel supplier and receptive agents' bookings—for Japan travel in Q4 of this year indicates an overall 30 per cent increase. Independent (FIT) leisure travel will lead the rebound as it is expected to jump 40 per cent from last year. Meanwhile, group bookings are expected to increase 30 per cent compared to last year. Business travel is expected to rebound 15 per cent compared with last Q4. The overall increase for Japanese travel is expected to be the same for Alberta/B.C and Ontario/Quebec.

Japan Travel Q4 2002
Expectations for Japan Q4 travel to Canada in 2002,
compared with same period last year.



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

Meanwhile, actual current bookings for Q4 this year were reported to be down an average of 10 per cent compared with the same time last year. While visitor volume differences would account for a 22 per cent decline, the positive discrepancy could be attributed to either an early booking trend, or perhaps more appropriately, rebooked trips from last year.

Japan-to-Canada Air Capacity, OAG Worldwide

At present, overall direct air capacity does not appear to represent a problem over the Q4 2002 period. In fact, the number of seats available is expected to jump 43.3 per cent compared with last year.

Seats Available for Direct Travel from Japan to Canada (Q4)

	2001	2002
Seats available	92,220	132,112
Per cent change	NA	43.3

Source: OAG Worldwide.

Summary Outlook for Q4

Middle-aged and older Japanese people are now willing to travel overseas—though China and other destinations in Asia are registering the fastest recoveries for this segment in the short term. Air capacity should improve in the short term as 43 per cent more seats are expected to be available during Q4.

BO monitor participants suggest travel to Canada for Q4 2002 will increase 30 per cent overall, compared with last year.

Taiwan Outlook, Q4 2002

Economic Overview

Recent data releases in Taiwan suggest further evidence that the economic recovery is on track for this year. In March, data for industrial production and export sales both showed signs of improvement as the global economic revival has benefited Taiwan's industrial and export sectors substantially. Although construction and mining under-performed in March, manufacturing output increased significantly, led by an increase in output of IT-related products. Encouragingly, strong demand for traditional products means the recovery is not confined to the high-tech sector. Finally, the labour market has begun to show signs of stabilizing and the unemployment rate is set to decline.

Tourism Trends

EVA Airways announced a pretax loss of T\$ 287 million (CDN\$ 13 million) for the second quarter of this year. For the year, EVA Airways expects to break even due to improving business operations amid a gradual economic recovery. It is expected that Eva Airways will obtain the majority, if not all, flights to be added to the lucrative Taipei-Hong Kong route over China Airlines. An agreement between Hong Kong and Taiwan is soon expected to add 49 new passenger flights and 16 new cargo flights.

The CTC's foreign office reports that China, Hong Kong, Japan and Thailand are the most popular destinations for Taiwanese residents. Travel to the U.S. continued to weaken due to the terrorism alerts from the American government and the cancellation of 10 days spring break by the Taiwanese government.

Taiwan further opened its doors to tourists from China, agreeing to amend a law to allow Chinese passport holders who live in Hong Kong and Macau to visit the island. The new policy began May 10th. The government also dropped two unpopular requirements that have limited the number of Chinese tourists. Taiwanese officials will no longer impose a virtual curfew that kept tourists indoors at night and personal interviews will not be required with each tourist.

Market Overview

The consensus among Taiwanese tour operators suggests that overall bookings were strong to Canada for Q4 before the China Airlines crash on May 25. Since then consumers have cancelled trips or remain undecided. English as a second language (ESL) packages were selling well for both group and FIT but have declined since the crash. Still, bookings for Q4 remain positive compared with last year with increases of 30 to 50 per cent expected. It was stated that air capacity still represents a slight problem, especially for destinations beyond Vancouver.

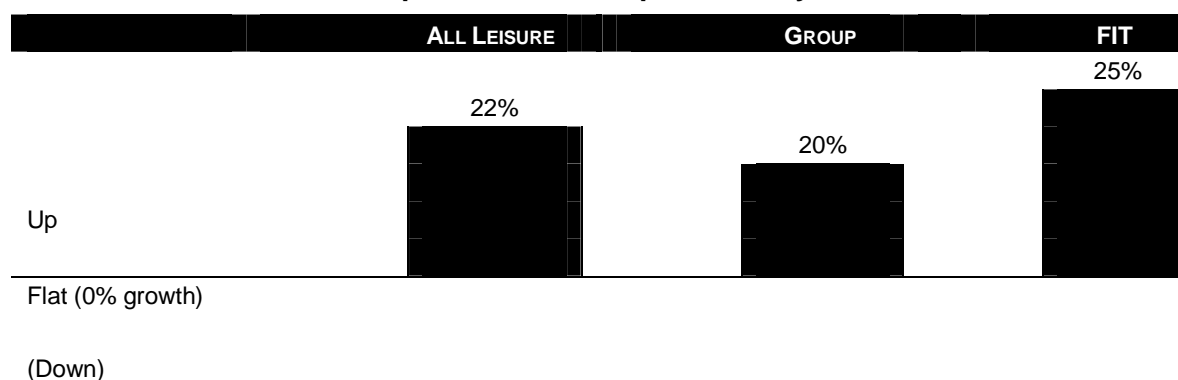
The majority of operators agree that sales for groups with packages is the best seller while individuals as part of a package continues to grow. The destinations with the greatest interest are B.C. and Alberta, representing 75 per cent of sales. Ontario, Quebec and/or Atlantic Canada do represent potential growth markets. Aurora viewing was mentioned as a potentially good winter business. In the summer, ESL products are the big sellers while shoulder seasons rely on fall foliage in Eastern Canada and salmon watching/Canadian Rockies in the west. (CTC's foreign office)

Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—for Taiwan leisure travel this Q4 indicates an overall 22 per cent increase, compared to last year. Monitor respondents were slightly more optimistic regarding expectations for independent (FIT) leisure travel (up 25%) than group leisure travel, which is expected to increase 20 per cent.

The overall increase for Taiwanese travel is expected to be slightly better for Alberta/B.C. (up 26%), compared with Ontario/Quebec (up 20%).

Taiwan Leisure Travel Q4 2002 Expectations for Taiwan Q4 travel to Canada in 2002, compared with same period last year.



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

Taiwan-to-Canada Air Capacity, OAG Worldwide

Air capacity does not appear to represent a concern over the Q4 2002 period. The number of direct seats available is expected to increase 43.8 per cent compared with last year.

Seats Available for Direct Travel from Taiwan to Canada (Q4)

	2001	2002
Seats available	54,228	77,964
Per cent change	NA	43.8

Source: OAG Worldwide.

Summary Outlook for Q4

Fortunately, recent data releases suggest that the economic recovery is on track for this year in Taiwan. BO monitor participants expect travel from Taiwan to Canada in Q4 2002 to increase 22 per cent, with FIT leisure bookings rebounding slightly faster than group leisure bookings.

South Korea Travel Outlook, Q4 2002

Economic Overview

The South Korean government, in response to an increasingly favourable growth outlook, upgraded its official real GDP growth forecast from 4 per cent to 5 per cent for this year. Driven by the belief that the economy is fast approaching its potential growth rate, the government has already ended temporary tax cuts on a range of consumption goods. Revisions to the growth forecast may signal a change in monetary policy and indeed, overnight call rates have risen. As economic recovery takes hold, inflation is poised to increase in the second half of this year due in part to strong oil and real estate prices. As well, the latest industrial production figures show an output rebound and retail and wholesale trade data also suggests domestic demand remains supportive of growth, thanks to an improving job market and strong consumer sentiment.

Travel Trends

Korean Air (KAL) announced a net profit of KRW29.1 billion (CDN\$ 36.7 million) for the first quarter of this year, compared with a loss of KRW230.8 billion (CDN\$ 291.3 million) for the same period a year ago. The airline said its efforts to focus on profitable routes and the upturn in air travel were responsible for the improvement. KAL was recently accepted back into the Skyteam Alliance after taking measures to overcome its previous poor safety record.

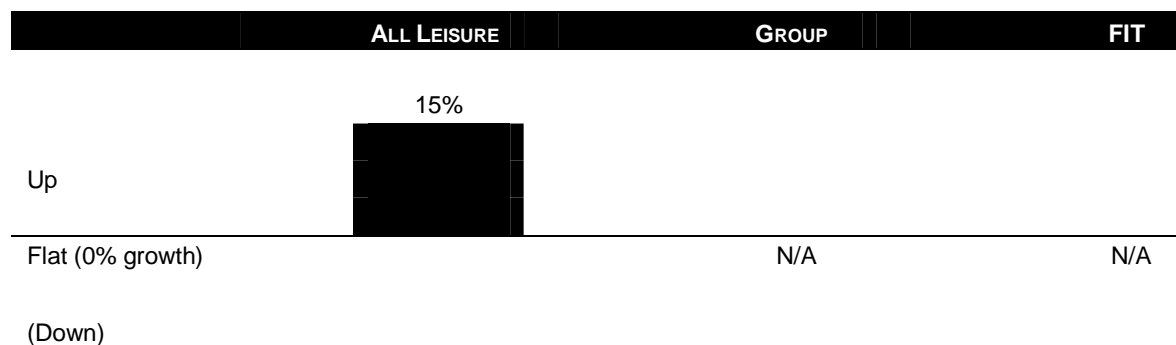
According to South Korean travel industry executives, China reduced the number of Chinese tourists allowed to travel to Korea for the World Cup soccer tournament. Instead of providing at least 100,000 spectators, at best 35,000 Chinese were expected to travel to the games. China is said to be wary of any World Cup mishap that could tarnish expectations about Beijing's Olympics in 2008.

South Korea has set a goal of 10 million visitors a year by 2011, compared with only 5.1 million last year, partly as a result of the FIFA World Cup soccer games. Before the games, the National Tourism Organization (NTO) went on a promotional roadshow through 15 countries that sent teams to play as well as bringing journalists into Korea to see the country's sights. The NTO also underwrote a USD\$ 1.6 million (CDN\$ 2.5 million) advertising campaign on CNN.

Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—for South Korean leisure travel this Q4 2002 expects a 15 per cent increase compared to last year. It is expected visits to the Alberta/B.C region will increase 18 per cent while visits to Ontario/Quebec will increase 14 per cent.

South Korea Leisure Travel Q4 2002
Expectations for South Korean Q4 travel to Canada in 2002,
compared with same period last year



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

South Korea-to-Canada Air Capacity, OAG Worldwide

Air capacity should not represent a concern over the Q4 2002 period—based on comparing the direct air capacity available for the Q4 months of 2002 compared to 2001. The number of direct seats available is expected to be up 14.7 per cent compared with last year.

Seats Available for Direct Travel from South Korea to Canada (Q4)

	2001	2002
Seats available	47,064	53,989
Per cent change	NA	14.7

Source: OAG Worldwide.

Summary Outlook for Q4

South Korea's economy is expected to recover well, in part because it possesses a diversified export market. BO monitor participants expect travel from Korea in Q4 2002 to increase 15 per cent, compared with last year.

Hong Kong Outlook, Q4 2002

Economic Overview

While recent economic data releases have been somewhat mixed, on balance they show a few signs of a rebound in economic activity. Trade data for March reported exports rising for the first time in thirteen months, due to a revival in both regional and global demand. The major export winners were for office and telecom equipment, while traditional exports did not fare as well. On a weaker note, the sharp drop in imports implies that domestic demand remains weak. For the first quarter, retail sales fell by 3.7 per cent, compared with the same period a year ago. Economic uncertainty, along with a record high unemployment rate, will probably constrain growth in retail spending. In fact, unemployment increased to 7 per cent during the first quarter of this year.

Tourism Trends

Cathay Pacific reported a 3.8 per cent decline in passenger traffic for the month of April, compared with a year ago. However, it announced it will restore services to pre-September 11th levels in August and bring all parked passenger aircraft into operation. As well, it announced plans to buy six new aircraft. The additional capacity will help the airline meet the expected increased demand.

In what is believed to be an airline industry first, USA residents aged 55 and over can now travel with Cathay Pacific through Hong Kong to one of nine South East Asian destinations without many of the ticket restrictions normally required. The Worry Free Fare initiative offers both flexibility and low fares on economy class transpacific flights.

The CTC's foreign office reported the Australian Tourism Commission has allocated US\$ 500,000 (CDN\$ 766,531) to promote business travel, such as incentive and conference travel, to Australia.

Market Overview

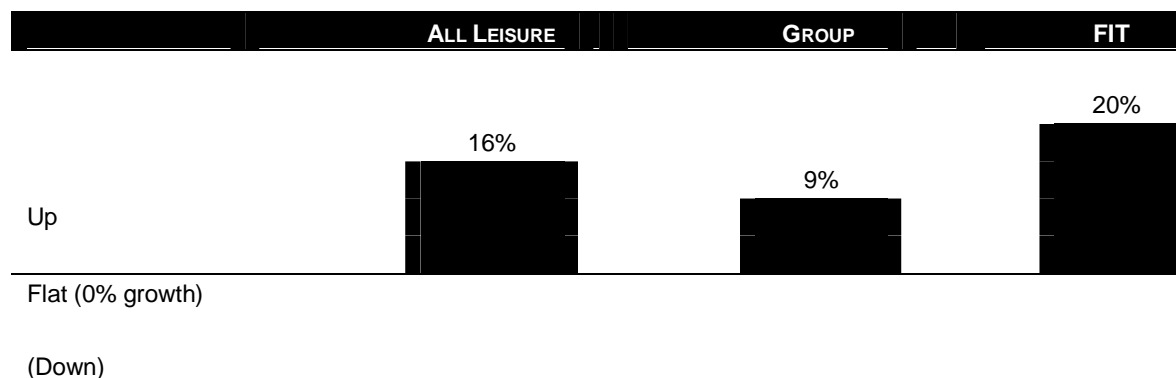
The consensus among Hong Kong tour operators surveyed suggest that overall bookings to Canada for the Q4 2002 season will increase by 10 per cent. The tour operators felt that neither air capacity nor exchange rates would stifle demand from increasing.

The most popular Q4 travel product identified was for couples and individuals as part of a package. The destination of choice is B.C. representing 47 per cent of the market, followed by Ontario with 13 per cent and Alberta with 8 per cent. The cities and resorts, as well as touring product cluster, were the most popular followed by nature and winter. (Canadian Tourism Commission foreign office)

Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The outlook for Hong Kong leisure travel to Canada—as reported by BO monitor participants—expects an increase of 16 per cent in overall leisure travel, with a 9 per cent increase noted for group travel and strong 20 per cent growth for independent (FIT) travel. The overall increase for Hong Kong travel is expected to be slightly better for Alberta/B.C. (up 18%) compared with Ontario/Quebec (up 14%).

Hong Kong Leisure Travel Q4 2002
Expectations for Hong Kong Q4 travel to Canada in 2002,
compared with same period last year.



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

Hong Kong-to-Canada Air Capacity, OAG Worldwide

We feel air capacity might represent a slight concern over the Q4 2002 period—based on comparing the direct air capacity available for the Q4 months of 2002 compared with 2001. The number of direct seats available is actually expected to decline 4.5 per cent compared with last year. Still, tour operators contacted by the CTC's foreign office in Hong Kong did not express concerns over air capacity.

Seats Available for Direct Travel from Hong Kong to Canada (Q4)

	2001	2002
Seats available	118,673	113,390
Per cent change	NA	-4.5

Source: OAG Worldwide.

Summary Outlook for Q4

Hong Kong will experience a mixed economic recovery this year. Our short-term outlook based on BO monitor participants suggests that travel from Hong Kong will increase 16 per cent in Q4 2002. The CTC's foreign office survey of tour operators also indicated that travel from Hong Kong is expected to increase in Q4. While tour operators did not report concerns regarding air capacity, capacity is expected to decline in Q4 2002, compared with last year.

China Travel Outlook, Q4 2002

Economic Overview

The highest real GDP growth in the region (7.4 per cent in 2002) hides the fact that the communist government must contend with some serious issues in the short to medium term. The slowdown in the agriculture sector has led to a dramatic flow of workers from rural areas to the fringes of large cities, at a rate faster than they can be absorbed. Growth of 7 per cent is stellar among world economies, but it pales in comparison with growth recorded in the early 1990s. The government has responded to public sentiment by announcing that it would continue to bolster growth by assisting the unemployed, pensioners and rural workers with another stimulus package worth CNY 150 billion (CDN\$ 27.5 billion) in 2002. As a result of this increase in spending, the budget deficit will explode by almost 20 per cent this year to CNY 310 billion (CDN\$ 56.9 billion).

Concern is increasing that the government may be unable to sustain such a large deficit. At the same time, the lack of progress on economic reforms could hurt China's ability to meet WTO requirements.

Tourism Trends

The China National Tourism Administration reported that China's air passenger traffic increased 16 per cent last year, making it the sixth highest in the world. The five countries ahead of China were the U.S., Japan, U.K., Germany and France. All experienced negative growth last year unlike China.

Air China reported its profit increased to CNY 50.3 million (CDN\$ 9.2 million) in May, compared with CNY 1.3 million (CDN\$ 239,000) a year earlier. The profit increase was attributed to an 8.2 per cent increase in passenger volume and increases in cargo and mail volumes.

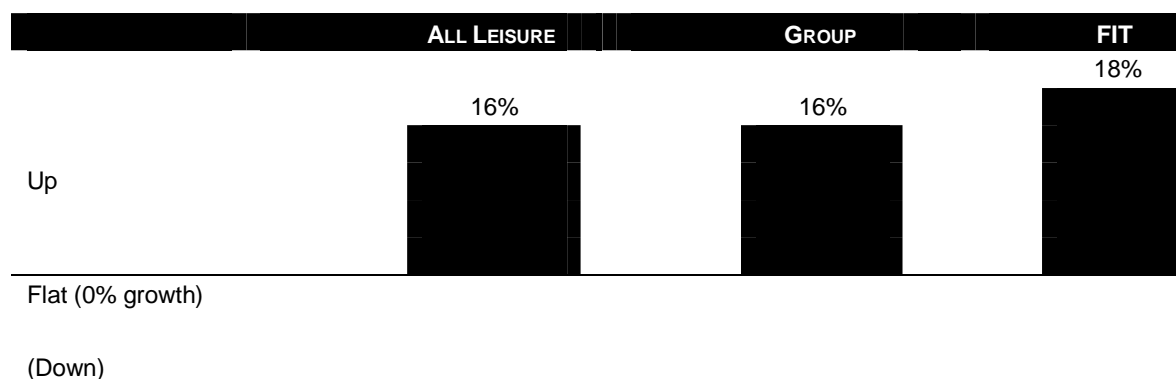
In June, Air China announced it will spend CNY 270 million (CDN\$ 50 million) on a major safety upgrade in the wake of an Air China crash on April 15. The money will be spent on pilot training and jet-engine maintenance. According to the Civil Aviation of China, despite the Air China crash and a China Northern Airlines crash in May, China is set to continue its planned reforms to domestic airlines. The long discussed reform involves the merger of 11 state-owned domestic airlines into three groups. China's State Council has set no firm date for the approval of the mergers.

The official Chinese news agency released a report detailing new regulation governing Chinese tourists abroad that went into effect on July 1st. The new regulation stipulates that foreign destination countries should be decided by China's tourism authorities with the approval of the State Council. About 20 destination countries have been selected. The rules also stipulate that travel agencies providing foreign tourism services should meet certain requirements. According to Canadian Immigration Minister Denis Coderre, the Canadian government is lobbying China for an agreement to allow one million Chinese tourists to come to Canada each year.

Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—for Chinese leisure travel this Q4 2002 expects a 16 per cent increase, compared with last year. BO monitor participants responses expect group leisure travel to increase 16 per cent and independent (FIT) leisure travel to increase 18 per cent. It is expected visits to Ontario/Quebec will be slightly stronger than visits to Alberta/B.C (18% growth versus 15% respectively), compared with last year.

China Leisure Travel Q4 2002 Expectations for China Q4 travel to Canada in 2002, compared with same period last year



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

China to Canada Air Capacity, OAG Worldwide

Air capacity should not present a problem for the Q4 2002 period. The number of direct seats available is expected to increase 33 per cent compared with last year.

Seats Available for Direct Travel from China to Canada (Q4)

	2001	2002
Seats available	41,100	54,660
Per cent change	NA	33

Source: OAG Worldwide.

Summary Outlook for Q4

The latest data releases from China indicate that the economy is set to maintain its momentum for the remainder of this year. In the wake of an Air China crash in April, Air China has pledged it will spend millions of yuans on safety upgrades.

The results from BO monitor participants suggest that travel from China during Q4 2002 will increase 16 per cent, with the FIT leisure travel segment leading the growth.

Australia Travel Outlook, Q4 2002

Economic Overview

Australia's economy is growing quickly and this trend is expected to continue with real GDP growth of around 4 per cent in both 2002 and 2003. Households have been the driving force behind the strong performance, as spending increased in the first half of this year at an annualized pace of 4 per cent. Business investment spending is expected to pick up later on this year and into 2003. The Australian dollar has appreciated against major world currencies since the beginning of this year and, in June, it reached a 21 month high of U.S. \$0.5744. This has helped to keep inflation under control. The loss of competitiveness of exports should not harm sales significantly in the 2002-2003 period since strong growth in the country's trading partners will likely offset the negative impact resulting from an appreciating currency.

Tourism Trends

In May, Qantas announced capacity increases on its Singapore and Europe routes. According to the CTC's foreign office, Qantas will boost its Los Angeles service to pre-September 11th levels in the next six months.

Qantas and Virgin Blue changed their advertising to show how much passengers must pay in extra charges and taxes on top of the basic ticket price. Both carriers came to the decision after talks with Australia's Competition authorities.

According to the CTC's foreign office, consumers have started inquiring about Canadian winter products and 2003 summer products but booking patterns still remain late. Canadian ski products continue to fare well in part due to a favourable exchange rate. In addition, Canada ski products remain the number one destination featured in wholesaler brochures. This summer, fly/drive programs continue to sell well and seniors groups are increasingly choosing soft adventure products.

Market Overview

The consensus among Australian tour operators surveyed suggests overall bookings to Canada for Q4 2002 will be up 17 per cent, compared with last year. Tour operators stated that air capacity was not a constraint for travel to Canada. The tour operators stated that the exchange rate had a positive effect on sales to Canada.

Three popular Q4 travel products were identified: individuals as part of a package, couples with a package and groups with a package. Interest is greatest to British Columbia (63%) followed by Alberta (35%). Winter was the most popular product cluster sold, followed by touring and nature. (Canadian Tourism Commission foreign office)

Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—for Australian leisure travel this Q4 2002 indicates a 10 per cent rebound. Group travel is expected to increase by 7 per cent while independent leisure travel (FIT) is expected to increase 12 per cent, compared with last year. Travel to the Alberta/BC region is expected to increase 12 per cent, while travel to Ontario/Quebec should increase by 9 per cent.

Australia Leisure Travel Q4 2002
Expectations for Australia Q4 travel to Canada in 2002,
compared with same period last year.



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

Summary Outlook for Q4

Qantas announced capacity increases in the next six months to North America, Asia and Europe. Canadian ski products for the Q4 season are selling well and product inquiries are starting regarding the 2003 summer season.

BO monitor respondents expect leisure travel from Australia to be up 10 per cent—slightly less than what Australian tour operators expect during Q4 2002, compared with last year.

New Zealand Travel Outlook, Q4 2002

Economic Overview

The central bank has raised interest rates twice this year due to strong household spending, residential construction and general housing market activity. The central bank noted that the sharp turnaround in net migration flows was contributing more to domestic demand than it was to the availability of labour, putting pressure on prices and wage costs. Despite an increase in migration, the first quarter of this year showed surprisingly strong employment growth, compared with a year earlier. In fact, it was the strongest quarter since the third quarter of 1996. Low interest rates, a weak exchange rate and modest fiscal expansion all helped the economy recover rapidly from last year's downturn. It is a remarkable recovery as approximately 30 per cent of the economy is directly or indirectly exposed to external developments and these have been less than favourable. It is felt that strong domestic growth, led by household consumption and construction, more than compensated for falling exports and tourism revenues.

Tourism Trends

Air New Zealand announced business class on domestic routes will vanish and it will start a new low cost service called Air New Zealand Express in October. Air New Zealand also announced it is experiencing a turnaround in its financial situation and instead of a predicted NZD\$63.4 million (CDN 47.6 million) loss, it may break even this year.

Tourism New Zealand's 10-metre mobile home finished off its tour of America's east coast. The mobile home, covered in 100% Pure New Zealand imagery, enabled seminars to be held in 60 cities during eight weeks. For the first time, the bus ventured north into Canada (Montreal and the Pontiac region). About 2,000 travel agents were expected to attend the seminars.

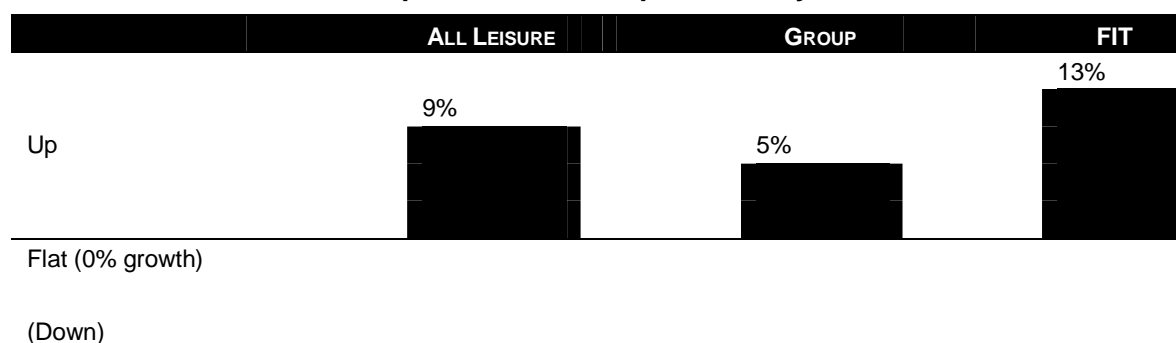
Tourism New Zealand announced the fern is to be the New Zealand tourism industry's new official mark of quality. Tourism New Zealand stated the fern will be the industry's way of directing visitors to products and services that meet or exceed their expectations. The mark will be available for all types of products and services from luxury hotels, backpacker accommodations, scenic flights or a horse trek.

Accor announced its debut in the backpacker market with the opening of three backpacker hostels in Auckland, Rotorua and Wellington. Other sites are under consideration in Australia and New Zealand. Accor is the first major hotel group to enter the backpacker market and aims to provide backpacker style accommodation but with more consistency and reliable operations.

Destination Supplier–Receptive Agent Monitor, Business Outlook (BO)

The outlook for New Zealand leisure travel to Canada—as indicated by BO monitor respondents—was positive (up 9%) this Q4 compared to last year. Monitor responses indicated group leisure travel is expected to grow by 5 per cent this Q4, while the independent (FIT) leisure segment will increase 13 per cent. Travellers from New Zealand are expected to increase their visits to the Ontario/Quebec region by 10 per cent, while Alberta/BC can expect an 8 per cent increase.

New Zealand Leisure Travel Q4 2002
Expectations for New Zealand Q4 travel to Canada in 2002,
compared with same period last year.



Source: Q4 2002 Business Outlook System, Canadian Tourism Research Institute.

Summary Outlook for Q4

Air New Zealand announced business class on domestic routes will vanish and it will start a new low cost carrier. It now hopes to break even this year. Accor announced it is the first major hotel group to enter the backpacker market.

BO monitor respondents estimate that Q4 leisure travel from New Zealand will increase 9 per cent compared to last year.

Appendix 1: Medium-Term Travel Forecasts (CTRI)

Background

Since 1991–1992, the Canadian Tourism Research Institute (CTRI) has used econometric models to forecast international travel both to and from Canada. The forecasts presented here represent an update to those included in the Summer 2002 Business Outlook. These forecasts (completed in June 2002) consider the magnitude of changes as a result of the economic and psychological fallout from the terrorist attacks. The forecast assumes a status quo scenario.

Travel Forecasts (Medium-Term)

Overnight Travel from Select International Countries to Canada— All Purposes (thousands of person-trips)

	2000	2001F	2002F
United States	15,225 0.3%	15,529 2.0%	15,886 2.3%
Mexico	143 12.2%	149 4.4%	153 2.7%
United Kingdom	866 10.9%	823 -5.0%	840 2.1%
France	404 -2.4%	355 -12.1%	359 1.0%
Germany	381 -1.9%	337 -12.4%	339 0.5%
Italy	109 -2.5%	90 -17.3%	94 4.2%
Switzerland	104 3.0%	96 -7.3%	99 3.4%
Netherlands	128 6.0%	116 -9.7%	119 2.8%
Japan	500 -3.1%	412 -17.7%	429 4.1%
Taiwan	160 3.0%	117 -26.8%	114 -2.5%
South Korea	134 35.4%	139 4.0%	151 8.4%
Hong Kong	137 2.2%	124 -9.5%	127 2.5%
China	72 13.7%	85 18.4%	91 6.6%
South East Asia	86 10.8%	87 0.6%	88 0.8%
Australia	173 13.2%	161 -6.5%	157 -2.6%

Sources: Canadian Tourism Research Institute; Statistics Canada.

Appendix II: Accuracy of Business Outlook

Winter 2002 (December 2001 to February 2002) *Business Outlook* expectations compared to Statistics Canada actual overnight tourists data.

COUNTRY	STATISTICS CANADA OVERNIGHT VISITORS – ACTUAL (DEC 2001 – FEBRUARY 2002)	WINTER 2002 BUSINESS OUTLOOK- PROJECTION
U.S.	-4.7%	-5.0%
Mexico	-1.3%	+10% to 20%
Brazil	-34.6%	N/A
U.K.	-9.4%	-9% to -10%
France	-13.0%	-10% to -15%
Germany	-9.3%	-10% to -12%
Italy	-23.9%	-12% to -14%
Netherlands	-12.8%	N/A
Japan	-21.9%	-9% to -15%
Taiwan	-10.9%	-20% to -30%
South Korea	15.0%	-5% to -10%
Hong Kong	-36.5%	N/A
China	4.4%	N/A
Australia	-13.8%	-6% to -10%
New Zealand	-24.5%	N/A

Note: Brazil, the Netherlands, Hong Kong, China and New Zealand were not separately identified on the input forms used by BO monitor participants to complete during the Winter 2002 Business Outlook.