

LKC
G
155
.C3
I57
1994

LKC
G 155 .C3 I57 1994
International travel forecasts ... update a
report

DATE DUE
DATE OF RECEIPT

INTERNATIONAL TRAVEL FORECASTS

WINTER UPDATE - 1994

A REPORT PREPARED

BY

THE CANADIAN TOURISM RESEARCH INSTITUTE

FOR

TOURISM CANADA

DECEMBER, 1993



INTERNATIONAL TRAVEL FORECASTS

WINTER UPDATE - 1994

A REPORT PREPARED

BY

THE CANADIAN TOURISM RESEARCH INSTITUTE

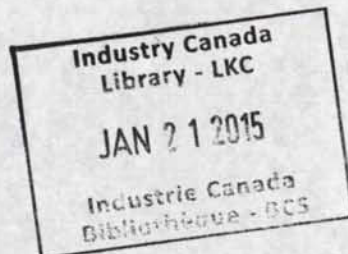
FOR

TOURISM CANADA

DECEMBER, 1993

Table of Contents

Executive Summary	
Background	1
Methodology	2
Inbound Travel Forecasts	3
Travel from the United States	4
Travel from the United States by Air	5
Travel from the United States by Other Modes	6
Travel from the United States by Region	7
Travel from the United Kingdom	10
Travel from France	11
Travel from Germany	12
Travel from Japan	14
Business and Pleasure Travel	15
Aggregate Travel Forecasts	17
Outbound Travel Forecasts	18
Travel to the United States	18
Travel to the United States by Air	19
Travel to the United States by Other Modes	20
Travel to European Destinations	21
Travel Receipts and Payments	24
Sensitivity Analysis	27



Executive Summary

- o The depreciation of the Canadian dollar resulted in a modest increase in U.S. travel to Canada in 1993. In 1994, growth of between 1 to 2 per cent is anticipated as the Canadian dollar is expected to trade in the U.S. 75 to 77 cents range.
- o Travel from the United States by air will continue to increase at a faster pace compared with travel by auto.
- o Despite weak economic activity, travel from France and Germany boomed in 1993 and strong growth is also expected in 1994. Canada remains an economic destination for visitors from these countries and we may have also benefited from the threat of terrorism in the Middle East and also crime problems in Florida.
- o Travel from Japan has been slow in 1993 and the trend is expected to continue in 1994. The poor state of the Japanese economy has resulted in Japanese travellers choosing vacation destinations closer to home.
- o In response to a less favourable exchange rate, travel from Canada to the United States declined in 1993 and a further drop is forecast for 1994.
- o The Canada-U.S. travel deficit is expected to gradually decline over the forecast period because a modest rebound in U.S. travel is anticipated and Canadian travel to the United States is expected to remain sluggish.
- o The Canada-U.S. travel deficit is very sensitive to currency fluctuations. If the Canadian dollar appreciated 10 per cent above the Conference Board's basecase forecast, the deficit would be \$7.4 billion compared with a basecase deficit of \$5.7 in 1997. Conversely if the dollar depreciated 10 per cent below the basecase forecast the deficit would be \$4.7 billion in 1997.
- o Overnight travel from Canada to the United States is also sensitive to alternative exchange rate scenarios. The basecase forecast assumes that 18.2 million Canadians will visit the United States in 1997. If the dollar appreciates 10 per cent above the basecase, thereby making trips less expensive, 20.3 million Canadians would travel to the United States.

1. Background

In 1991-92 the Conference Board of Canada/Canadian Tourism Research Institute built a model to forecast international travel both to and from Canada. The contract with Tourism Canada covered three different phases. Phase I of the project involved the development of a model to forecast international travel for the following markets.

Inbound trips from Major Markets to Canada

- o U.S.A.
- o U.K.
- o France
- o Germany
- o Italy
- o Japan

Outbound Trips from Canada to Major Markets

- o U.S.A.
- o U.K.
- o France
- o Germany
- o Italy
- o Netherlands

Travel Receipts and Payments

- o Receipts from the U.S.A.
- o Receipts from the rest of the world
- o Payments to the U.S.A.
- o Payments to the rest of the world

Phase I also included a forecast of the above travel markets based on the most recent economic and market intelligence that was available at the end of 1990.

Research on Phase II started in March of 1991 and it also included both a model development and forecasting component. On the model development side, Phase II expanded the model's ability to forecast trips between Canada and the United States. In Phase I, the model had the capability of forecasting overnight trips between the two countries for all modes of transportation. In Phase II, the model was adjusted to enable forecasts of travel between Canada and the United States to be split into different modes of transportation (air and all other modes). Also, a model was built to forecast overnight trips from nine U.S. census regions to Canada.

The final phase of the project expanded the model to include forecasts of trips from Europe, overseas (excluding U.S.A. and Europe) and total overseas to Canada. In addition, Phase III splits inbound travel from the five major markets (U.S., U.K., France, Germany and Japan) into business and pleasure components.

This report provides a new forecast for the markets developed in the three phases based on the most recent economic forecasts and the latest market intelligence. In addition, a sensitivity analysis concerning the impact of both a higher and lower valued Canadian dollar on the Canada-U.S. travel deficit and on overnight trips between the two countries is contained in this report.

2. Methodology

The model development work is based on econometric techniques. This type of model relates the historical movement of trips (referred to as the dependent variable) to economic variables that are statistically significant in explaining changes in the dependent variable (referred to as independent variables). The economic variables that have an impact on international travel include :

- o gross domestic product (GDP)
- o disposable income
- o consumer price index (CPI)
- o unemployment rate
- o exchange rate

Once a satisfactory relationship is developed between trips and the economic variables influencing trips, forecasts of the independent variables are fed into the model. The model is then simulated to produce forecasts.

Econometric models have a number of advantages over other forecasting techniques such as exponential smoothing, trend curve analysis, Gompertz and step-wise autoregressive. They can produce reliable forecasts for both the short (one year) to medium term. In addition, econometric models outperform other models at predicting turning points. This means that it is possible to forecast the direction of change of tourism activity with a fair degree of accuracy. This is a useful property of econometric models since it enables tourism analysts to plan for an increase or decrease in demand. Econometric models can also be simulated to examine the impact on travel of different economic scenarios. For instance, they can be simulated to ascertain the effect on travel of a severe recession or a depreciating currency.

The results from the econometric model were not the only source of information used to produce the forecasts. Econometric models explain changes in travel activity based on changes in economic variables. International travel is extremely volatile and there are many non-economic factors that have an important influence on travel behaviour. In some instances, the effect of non-economic factors can outweigh the impact of economic factors. Such non-economic factors include wars, threats of terrorism and special events (i.e Olympics, national celebrations).

To capture the effect of non-economic events, Institute staff held meetings with Tourism Canada staff from marketing and policy and product development directories. At these meetings adjustments to the econometric forecasts were made when it was felt that the model was not capturing important non-economic factors, which could influence travel activity.

3. Inbound Travel Forecasts

The economies of many of Canada's major travel markets have been in a slump throughout much of 1993 but this has not necessarily had a negative effect on travel to Canada. Travel from Japan has been slow, as was expected, given difficult economic circumstances. On the other hand, travel from France and Germany has been strong despite weak economies. The forecast for each of the major markets is analysed below in terms of the economic and non-economic factors having an effect on travel activity.

The economic variables used to explain travel from the U.S. to Canada include :

- o U.S. real disposable income
- o exchange rate

- o relative prices between the two countries
- o price of oil

The economic variables used to explain travel from other markets to Canada include :

- o home country GDP
- o exchange rate
- o relative prices between the two countries

a) Travel from the United States - Overnight Trips

Forecast:

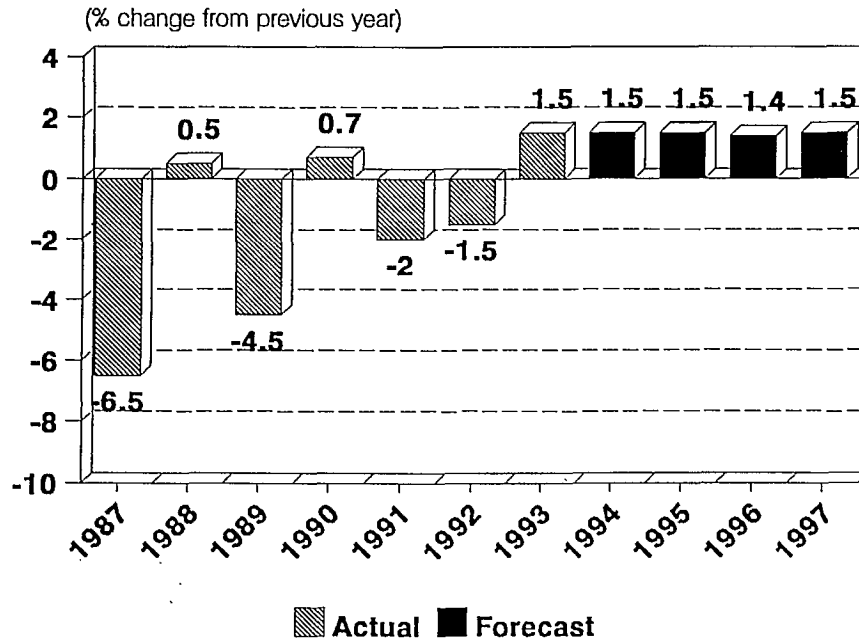
(volume in thousands, annual percentage change)

1993	1994	1995	1996	1997
11,998	12,178	12,361	12,534	12,722
(1.5)	(1.5)	(1.5)	(1.4)	(1.5)

In the fall 1992 forecast update, Tourism Canada, based on the adjusted CTRI model, anticipated no increase in travel growth to Canada from this market. The preliminary results for 1993 indicate that overnight travel increased by 1.5 per cent. In 1994, Tourism Canada, from the CTRI forecast model, expects another modest increase in overnight travel to Canada from this important market of 1.5 per cent. The Canadian dollar is expected to trade in the 77 cent U.S. range and this factor should make it attractive for Americans to consider a trip to Canada. The U.S. economy will grow by 2.6 per cent in 1994 on the heels of 2.4 per cent growth in 1993. The unemployment rate will decline next year from 7 to 6.5 per cent.

The reason that Tourism Canada is not more bullish about the U.S. market has to do with the nature of the economic recovery. As has been the situation in Canada, the U.S. economic recovery has been characterized by very weak employment growth and relatively low levels of consumer confidence. Consumers are worried about their jobs and their future financial positions. Consequently, even though the value of the Canadian dollar is very favourable for the U.S. visitor, these other factors will likely offset the positive benefits resulting from the exchange rate. In addition, there are other non-economic factors that are having an effect on this market. As has been reported in previous Tourism Canada forecast updates, the U.S. population has been shifting to the south at the same time as Americans have been taking shorter vacation trips. Cheaper airfares, a result of airline deregulation in the U.S., has vastly increased the international

Overnight Trips from the U.S. to Canada



NOTE: volume in 1986 was 13,608,000

travel choices for Americans and, as a result, Canada has been losing market share. Travel by U.S. residents to other foreign markets is forecast to increase faster than travel to Canada. Travel to overseas countries is expected to increase by 8 per cent in 1994 while travel to Mexico will likely increase by around 4 per cent.

In 1994, Tourism Canada's marketing budget for advertising in the United States will be reduced. However, it is felt that this will not have a negative effect on travel to this country because Canada's awareness factor in the United States is already very high.

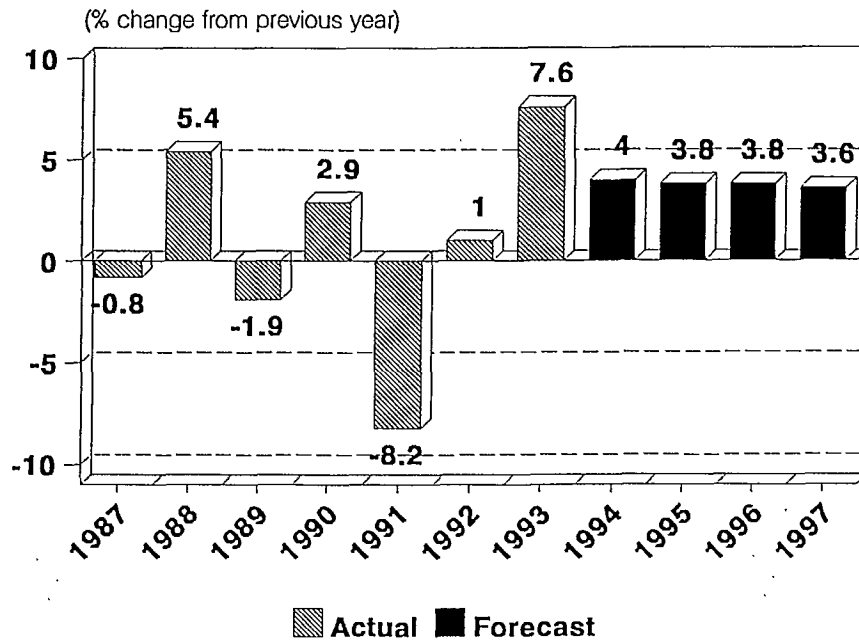
b) Travel from the United States by Air - Overnight Trips

Forecast:

(volume in thousands, annual percentage change)

1993	1994	1995	1996	1997
2,366	2,542	2,639	2,739	2,838
(7.6)	(4.0)	(3.8)	(3.8)	(3.6)

Overnight Trips from the U.S. to Canada by Air



NOTE: volume in 1986 was 2,258,928

In 1992 and again in 1993, overnight travel from the United States to Canada by air has been growing faster than travel by other modes (primarily auto). Tourism Canada expects this trend to continue over the forecast period. Travel by air appears to be less sensitive to the economic downturn and, in addition, air access to Canada from the southern states has improved in recent years. There are currently 6 flights a day to Toronto from Atlanta and Air Canada now has routes into Texas. It is crucial for Canada to have good air access to the southern states because the population of this region is increasing and the economy is growing faster than other U.S. regions.

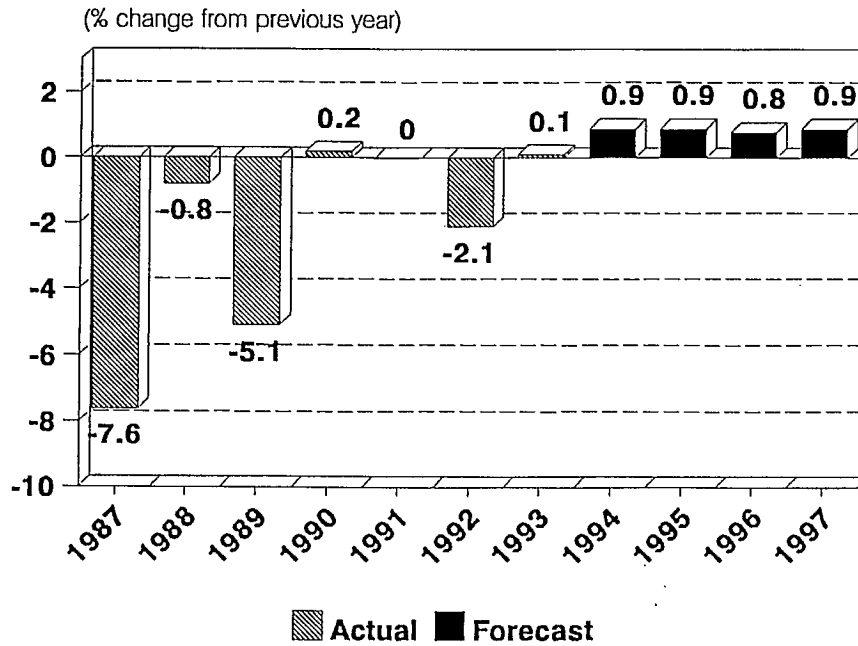
c) Travel from the United States by Other Modes - Overnight Trips

Forecast:

(volume in thousands, annual percentage change)

1993	1994	1995	1996	1997
9,634	9,721	9,808	9,887	9,976
(0.1)	(0.9)	(0.9)	(0.8)	(0.9)

Overnight Trips from the U.S. to Canada by Other Modes



NOTE: volume in 1986 was 11,349,072

Travel from the United States by other modes of transportation, primarily auto, is expected to grow at a much slower pace compared with travel by air. Travel by automobile is more sensitive to changes in the economy. As a result, when discretionary income is squeezed, travel by automobile to Canada is negatively affected.

d) Travel from the United States by Region - Overnight trips

Forecast:

(volume in thousands, annual percentage change)

	1993	1994	1995
New England	1,165 (0.0)	1,176 (1.0)	1,189 (1.1)
Middle Atlantic	2,874 (0.0)	2,903 (1.0)	2,929 (0.9)

South Atlantic	904 (1.0)	926 (2.5)	951 (2.6)
East North Central	3,014 (0.3)	3,059 (1.5)	3,102 (1.4)
West North Central	757 (0.5)	770 (1.7)	783 (1.7)
East South Central	174 (2.3)	178 (2.3)	182 (2.2)
West South Central	337 (2.0)	345 (2.5)	353 (2.4)
Mountain	452 (6.0)	483 (7.0)	517 (7.1)
Pacific	2,095 (-0.5)	2,095 (0.0)	2,097 (0.1)

Tourism Canada estimates that travel from the southern regions of the United States (South Atlantic, East South Central and West South Central) grew faster than most other regions of the country in 1993 and the trend is expected to continue in the 1994-95 period as well. Most of the regions in this part of the country will continue to outperform the rest of the country. For instance, GDP in the South Atlantic region is forecast to increase by 3.2 per cent in 1994 compared with national growth of 2.6 per cent. The unemployment rate will fall below 6 per cent (compared with national unemployment of 6.5 per cent) and employment will grow at an above average rate. Much the same situation will exist in the East South Central and West South Central regions of the United States.

These regions continue to attract business from other areas of the country because of a tradition of right-to-work laws and low taxes as well as aggressive economic development programs including infrastructure construction. Cheap housing and low living costs means that wages, though low by international standards, are high enough to attract businesses and workers. Florida's economy is improving from the relatively weak conditions that have prevailed over the past three years. Supporting Florida's recovery are stronger national economic conditions that have resulted in increased tourism and migration to the state.

Tourism Canada estimates that travel from the depressed Middle Atlantic and New England regions rebounded in 1993 following a decline in travel to Canada in 1992. In 1994, below average growth from these two regions is expected, although this should be

viewed in a positive light considering the dramatic declines in travel from this region that took place in the 1991-92 period. Although the outlook is somewhat brighter in this region, gross domestic product and employment will all increase at rates below the national level, a trend that has been underway since the decade began.

The region continues to be negatively affected by the cutbacks in the defence industry and consolidation in the health care sector of the economy. The financial services sector in New York and New Jersey is depressed because of pending layoffs a result of several large takeovers of medium-sized banks. New York continues to experience sluggish growth because of large manufacturing layoffs at companies such as IBM and Kodak. The Massachusetts economy is still on a shaky course, currently beset by consolidation in health services mostly in Boston hospitals.

It is expected that travel from the East and West North Central regions will experience average growth over the forecast period. The economy of the East North Central region will grow very close to the national average, while the West North Central region will grow at a faster rate than the rest of the country. A factor that could negatively affect travel from some of the key states in these regions is high unemployment. Michigan's employment growth has been modest since it emerged from the recession last year. The manufacturing sector continues to lose jobs because of the ongoing restructuring at General Motors. The automobile industry has been beset by two conflicting forces. On the positive side, auto sales are rising and will continue to rise over the next two years because of the growing national economy. Pent-up demand for autos also remains high because of the current age of the American auto fleet (approaching nine year). On the downside, General Motors is attempting to reduce operating expenses by closing plants and reducing the numbers of parts suppliers that it relies upon. This will hurt employment prospects in this region and, consequently, negatively affect travel prospects for Canada.

Tourism Canada estimates that travel from the Mountain region will experience the fastest growth in the 1994-95 period. While this is good news, it is important to note that this region provides less than 4 per cent of overnight trips to Canada. Most states in this region are growing faster than the eastern part of the country and this should leave residents in a better financial position to travel. The unemployment rate in the Mountain region is forecast to be almost a full percentage point below the national average in 1994. The Mountain states continue to be a magnet for disgruntled California firms that are seeking cheaper labour and land costs. Construction activity in states such as Nevada is strong due to the opening of new casinos and resorts.

The outlook is not as optimistic in the Pacific region mainly because of the economic difficulties in California. The economy received more bad news recently when NASA announced additional cutbacks in its space station program. Gross domestic product will likely decline by 0.1 per cent in 1993 and growth of only 1.2 per cent is expected in 1994. A forecast unemployment rate of 9.2 per cent in 1994 will be one of the highest in the

country. The key state of Washington will also experience below average growth in 1994 as well. Cutbacks at Boeing will continue to hurt the economy of this state.

e) Travel from the United Kingdom

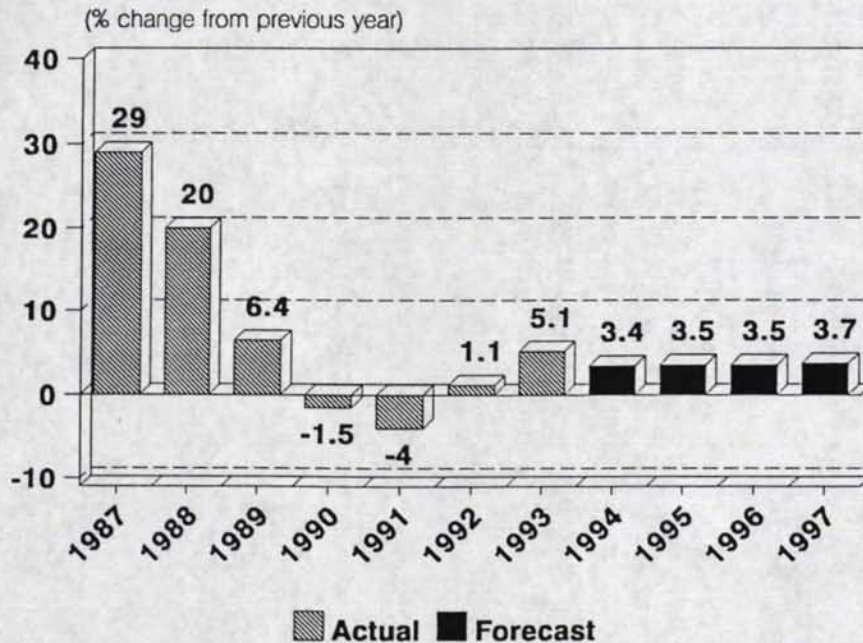
Forecast:

(volume in thousands, annual percentage change)

1993	1994	1995	1996	1997
566.3	585.6	606.1	627.3	650.5
(5.1)	(3.4)	(3.5)	(3.5)	(3.7)

For 1993, the preliminary results indicate that travel from the United Kingdom is up 5.1 per cent, higher than the growth of 0.6 per cent anticipated in the fall 1992 update. The higher growth was not attributable to a more favourable exchange rate. Between the summer of 1992 and the summer of 1993, the pound actually depreciated by around 12 per cent against the Canadian dollar. The economy did, however, revive somewhat. In the wake of negative growth in the 1991-92 period, the U.K. economy is expected to

Overnight Trips from the U.K. to Canada



NOTE: volume in 1986 was 399,500

grow by close to 2 per cent in 1993. Consumer spending will also increase following zero growth in 1992. In 1994, the economic recovery is expected to continue with GDP growth in the 2.5 per cent range anticipated. The unemployment rate will fall slightly although it will remain above 10 per cent and consumer spending will increase by about 2 per cent. Tourism Canada is forecasting a 3.4 per cent increase in travel to Canada in 1994 and similar growth is expected for the remainder of the forecast period.

It is interesting to note that the growth rate of travel from U.K. to the United States is higher than to Canada. The USITTA estimates that travel from this market will increase by 9 per cent this year and growth of 9 per cent is also expected in 1994. Cheaper airfares and higher expenditures on promotion are likely factors in explaining the divergent growth rates between Canada and the U.S. However, this forecast could be tempered with a negative reaction from the reports of tourist murders in Florida.

f) Travel from France

Forecast:

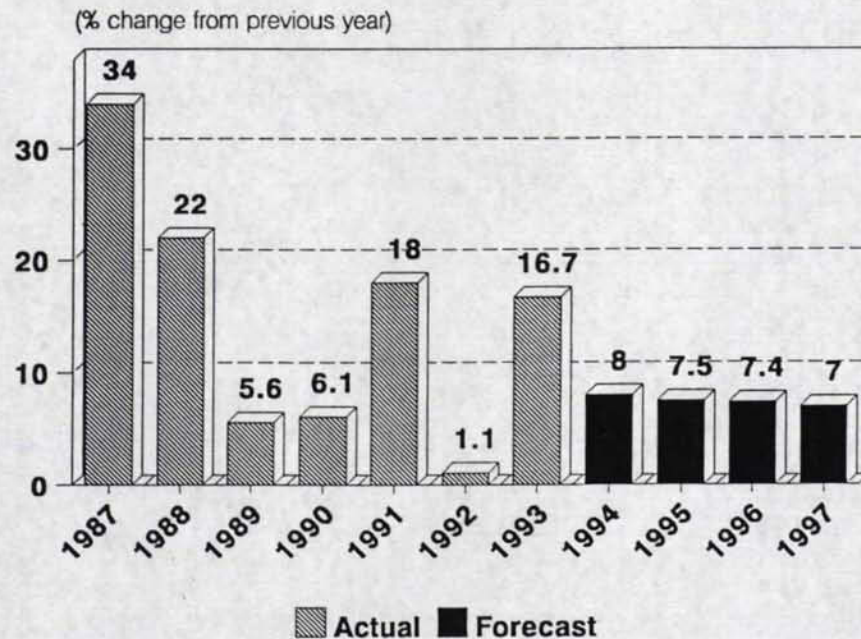
(volume in thousands, annual percentage change)

1993	1994	1995	1996	1997
362.1 (16.7)	391.1 (8.0)	420.4 (7.5)	451.5 (7.4)	483.1 (7.0)

The French travel market has been extremely difficult to forecast in the past few years. Last year Tourism Canada forecast weak growth of 2.5 per cent (in 1992 travel only increased by 1.1 per cent) based on the fact that the French economy was in trouble. Economists expect GDP to fall by 1.2 per cent this year and household consumption will record virtually zero growth. The unemployment rate ended the year at above 11 per cent. Despite the poor performance of the economy, preliminary results show an increase by 17 per cent for 1993. Exchange rate adjustments are not a likely explanation because the currency did not change much throughout 1993.

Despite the poor state of the French economy, Canada remains a relatively economic travel destination for French travellers. Exchange rate adjustments since 1991 imply that a \$100 hotel room in 1991 will cost about \$83 in the summer of 1994. There is also evidence that travel wholesalers have introduced dramatic price discounts in order to encourage French travellers to visit Canada. As well, charter routes from France to Canada have expanded. Previously, the destination of the majority of charter flights to Canada was Quebec. This has now been expanded to include all of Canada. Also, French travellers may be choosing Canada over popular destinations in North Africa and the Middle East because of renewed threats of terrorism.

Overnight Trips from France to Canada



NOTE: volume in 1986 was 140,300

In 1994, Tourism Canada feels that growth in travel from France will not equal the double digit levels experienced this year. Growth of 8 per cent is expected because it will be difficult for travel wholesalers to continue discounting the price of vacations in Canada. In addition, the French economy is still in trouble as the unemployment rate is forecast to increase from 11.5 per cent in 1993 to 12.2 per cent in 1994.

g) Travel from Germany

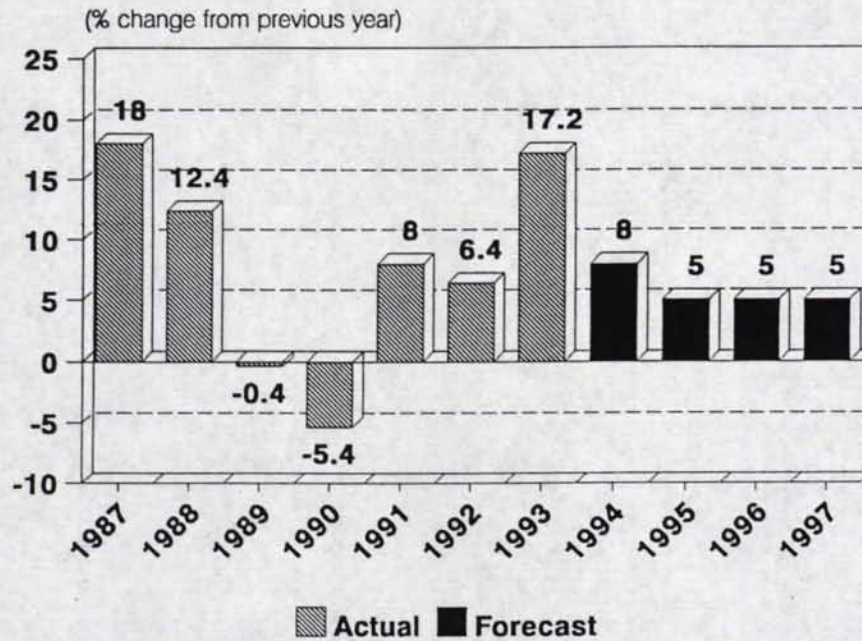
Forecast:

(volume in thousands, annual percentage change)

1993	1994	1995	1996	1997
338.8	365.9	384.2	403.4	423.6
(17.2)	(8.0)	(5.0)	(5.0)	(5.0)

Tourism Canada also did not expect to see the rapid growth in German travel in 1993, although in the fall of 1992 there was more optimism about this market compared with most others. The German economy is in serious trouble as forecasters expect GDP to

Overnight Trips from Germany to Canada



NOTE: volume in 1986 was 198,300

fall by 2.1 per cent in 1993 and only grow by 0.7 per cent in 1994. This is a drastic turnaround for an economy accustomed to economic growth in the 4 to 5 per cent range. The worst is not over for the German economy because the unemployment rate is forecast to reach 10.4 per cent in 1994. What has helped maintain the strength of German travel is the relatively high value of the German mark. The mark traded above 80 cents for most of the year and forecasters expect it to remain at this lofty level in the 1994-95 period.

As is the case for the French visitor, exchange rate adjustments imply that Canada is an inexpensive destination for the German vacationer. Also, Germans are increasing their investment in tourist destinations, especially in eastern Canada, and this has boosted travel to Canada. It is felt that, similar to the situation in France, travel will not continue to increase at a 20 per cent clip in 1994. Growth of 8 per cent is anticipated. It is possible that travel to Canada could also benefit from media reports concerning the violent situation in Florida. The United States has also experienced strong growth in this market. In 1993, growth of 15 per cent is expected and in 1994 even higher growth of 17 per cent is forecast.

h) Travel from Japan

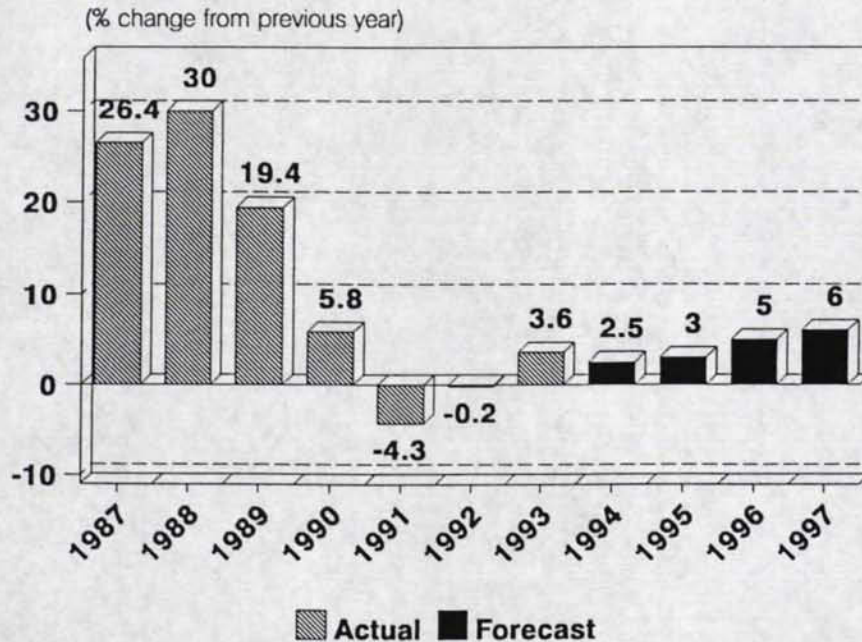
Forecast:

(volume in thousands, annual percentage change)

1993	1994	1995	1996	1997
400.0	410.0	422.3	443.4	470.0
(3.6)	(2.5)	(3.0)	(5.0)	(6.0)

In the fall 1992, Tourism Canada forecast growth of 5.3 per cent in overnight trips from Japan in 1993. The preliminary results show that this market generated a 3.6 per cent growth in 1993. The yen has been very strong versus the Canadian dollar (it appreciated by about 30 per cent in the summer of 1993 compared with the summer of 1992) and it is expected to appreciate even more in 1994. Canada should, therefore, be a bargain for Japanese visitors. However, the downturn in the Japanese economy has resulted in travellers seeking destinations closer to home. In 1993, the Japanese economy will grow by only 0.7 per cent and in 1994 GDP growth of 2.3 per cent is expected. Throughout 1989-91 period, the economy averaged around 4 per cent in GDP growth.

Overnight Trips from Japan to Canada



NOTE: volume in 1986 was 197,100

Australia has become a very popular destination for the Japanese and this factor may be causing Canada to lose market share. In 1992, there was a 24 per cent increase in travel from Japan to Australia and between 1988 to 1992 travel increased by 179 per cent. For the comparable period, travel from Japan to Canada grew by 20 per cent.

In 1994, Tourism Canada expects growth of 2.5 per cent in overnight trips from Japan. Although, the Japanese yen will remain strong, the Japanese economy will experience slow growth and, as a result, the trend towards travelling to countries closer to home will likely continue. The United States is also encountering difficulties in this market. The USTTA estimates that travel fell by 9 per cent this year and growth of only 3 per cent is forecast for 1994. What could boost travel from Japan in the 1996-97 period is the improvement in air linkages between the two countries.

4. Business and Pleasure Travel

Inbound Pleasure Travel

Forecast

(volume in thousands, annual percentage change)

United States

1993	1994	1995	1996	1997
6,843	6,980	7,112	7,254	7,421
(1.0)	(2.0)	(1.9)	(2.0)	(2.3)

United Kingdom

1993	1994	1995	1996	1997
242.0	251.2	261.0	271.4	282.6
(4.3)	(3.8)	(3.9)	(4.0)	(4.1)

France

1993	1994	1995	1996	1997
214.8	236.3	261.0	284.6	312.4
(20.0)	(10.0)	(10.5)	(9.0)	(9.8)

Germany

1993	1994	1995	1996	1997
209.1 (23.0)	230.0 (10.0)	246.1 (7.0)	264.6 (7.5)	284.4 (7.5)

Japan

1993	1994	1995	1996	1997
262.1 (3.2)	272.6 (4.0)	286.2 (5.0)	306.3 (7.0)	330.2 (7.8)

Inbound Business Travel**United States**

1993	1994	1995	1996	1997
1,809 (2.5)	1,864 (3.0)	1,929 (3.5)	1,998 (3.6)	2,066 (3.4)

United Kingdom

1993	1994	1995	1996	1997
54.6 (3.0)	56.0 (2.5)	57.2 (2.3)	58.7 (2.5)	60.1 (2.5)

France

1993	1994	1995	1996	1997
49.6 (10.3)	52.7 (6.2)	56.1 (6.5)	59.8 (6.5)	63.7 (6.6)

Germany

1993	1994	1995	1996	1997
38.0 (15.2)	40.7 (7.0)	43.6 (7.2)	46.6 (7.0)	49.9 (7.0)

Japan

1993	1994	1995	1996	1997
82.2 (0.2)	83.4 (1.5)	85.1 (2.0)	87.6 (3.0)	91.2 (4.1)

With the exception of the United States pleasure travel is forecast to grow faster than business travel in the major inbound markets. Business travel has been hit hard by the recession that has gripped North America and Europe. Corporate profits are low and, as a result, travel budgets have been curtailed. Companies have been sending fewer employees on business trips and have also been using new technologies such as teleconferencing in order to reduce travel. According to a survey of business travellers conducted by IATA, about one-third of respondents stated that their travel budgets have been cut in the past year. Close to 30 per cent of respondents planned to reduce the number of business trips in 1994 and about half of those indicated that developments in new technology would replace some of their business travel in the future.

Pleasure travel is expected to perform better than business travel mainly because of a favourable exchange rate. The exchange rate has a larger effect on pleasure travel compared with business travel because short-term fluctuations in currencies can dramatically impact the cost of a vacation. Business investment and the associated travel involved with it involves more long range considerations other than exchange rate fluctuations. As the Canadian dollar is forecast to be favourable for most of Canada's foreign markets, pleasure travel should grow faster.

For the United States, Tourism Canada expects that business travel will grow somewhat faster than pleasure travel. This reflects the fact that business travel will increase in response to the existing Canada-U.S. free trade agreement and the implementation of NAFTA.

5. Aggregate Travel Forecasts**a) Travel from Europe**

Forecast
(volume in thousands, annual percentage change)

1993	1994	1995	1996	1997
1,842 (10.0)	1,989 (8.0)	2,108 (6.0)	2,239 (6.2)	2,373 (6.0)

b) Travel from Overseas Destinations

1993	1994	1995	1996	1997
3,097 (6.0)	3,252 (5.0)	3,418 (5.1)	3,589 (5.0)	3,765 (4.9)

c) Travel from all International Destinations

1993	1994	1995	1996	1997
15,065 (2.2)	15,442 (2.5)	15,843 (2.6)	16,239 (2.5)	16,629 (2.4)

Tourism Canada anticipates modest growth in inbound travel from all foreign destinations of between 2 to 3 per cent. The growth reflects the fact that travel from the United States, which supplies around three quarters of Canada's overnight foreign travel, will be slow over the forecast period. In addition, growth in overnight travel from the important Japanese market will be restrained.

6. Outbound Travel Forecasts**a) Travel to the United States****Forecast:**

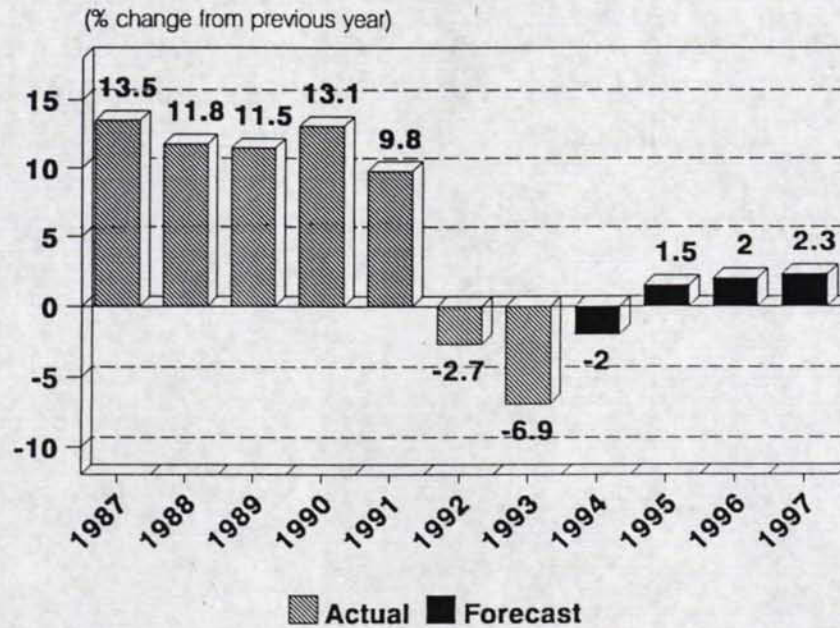
(volume in thousands, annual percentage change)

1993	1994	1995	1996	1997
17,315 (-6.9)	16,969 (-2.0)	17,224 (1.5)	17,568 (2.0)	17,972 (2.3)

The lower value of the Canadian dollar has reduced the popularity of travel to the United States. In 1993, overnight trips dropped by around 7 per cent and in 1994 the trend will continue, although the decline should not be as steep. This represents a different trend from the 1988-91 period when overnight travel increased at double digit levels due to a Canadian dollar trading in the 85 to 90 cents U.S. range and perceived lower prices.

Travel to the popular state of Florida will be down this winter because of four factors : a lower exchange rate, the increased cost of medical insurance, weak growth in disposable income and, to a lesser extent, media reports of attacks against tourists. Most observers feel that concerns over safety will mainly affect less frequent visitors to the state who

Overnight Trips from Canada to the U.S.



NOTE: volume in 1986 was 10,793,000

may not be as familiar with travelling in the state. According to CTRI's vacation travel intentions survey conducted in September of 1993, less than 13 per cent of Canadians plan a visit Florida in the winter. In the fall of 1992, 17 per cent intend to vacation in Florida.

b) Travel to the United States by Air

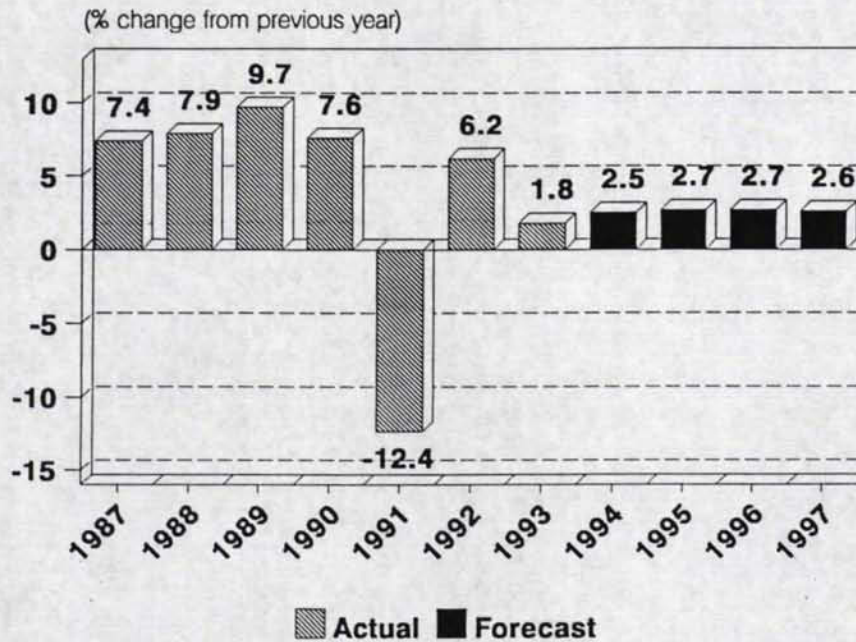
Forecast:

(volume in thousands, annual percentage change)

1993	1994	1995	1996	1997
3,876	3,973	4,080	4,190	4,299
(1.8)	(2.5)	(2.7)	(2.7)	(2.6)

Similar to the situation in the United States, travel by air to the United States is growing at a much faster rate compared with general travel. It appears that travel by air is not as sensitive to the exchange rate compared with other modes of transportation possibly because of competitive airfares. Over the forecast period, travel by air is expected to grow faster than other modes of transportation.

Overnight Trips from Canada to the U.S. by Air



NOTE: volume in 1986 was 2,961,591

c) Travel to the United States by Other Modes

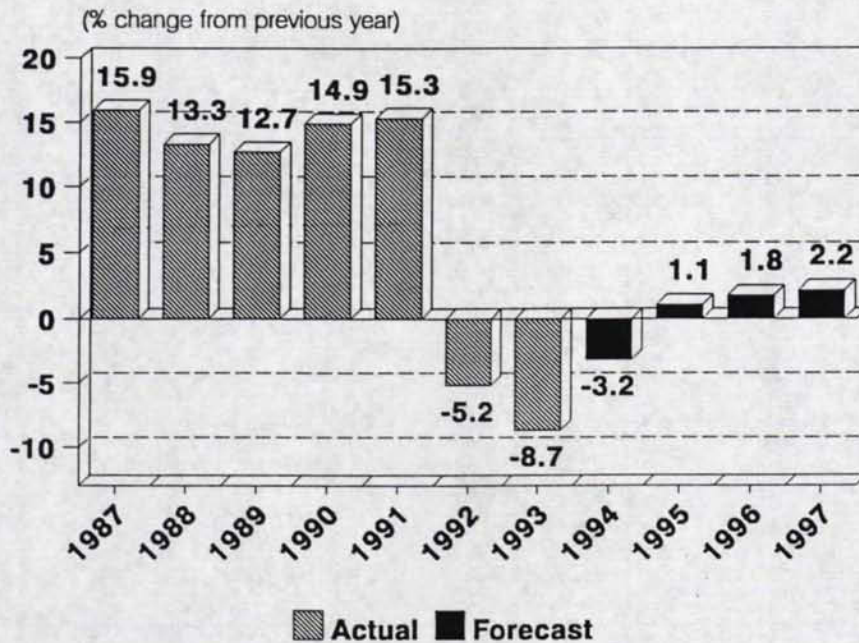
Forecast:

(volume in thousands, annual percentage change)

1993	1994	1995	1996	1997
13,503	13,070	13,214	13,452	13,747
(-8.7)	(-3.2)	(1.1)	(1.8)	(2.2)

This forecast primarily reflects travel to the U.S. by auto. The decline in 1993 is due to the depreciation of the dollar which made travel to the U.S. more expensive. This dramatically cut into the number of Canadians travelling to the U.S. on combined shopping and vacation trips. Tourism Canada feels that overnight travel will continue to fall in 1994 mainly because the dollar will trade in the 75 to 77 cents U.S. range. In 1995, the decline is expected to reverse itself as a slight increase in growth is anticipated.

Overnight Trips from Canada to the U.S. by Other Modes



NOTE: volume in 1986 was 7,827,921

d) Travel to European Destinations

Forecast:
(volume in thousands, annual percentage change)

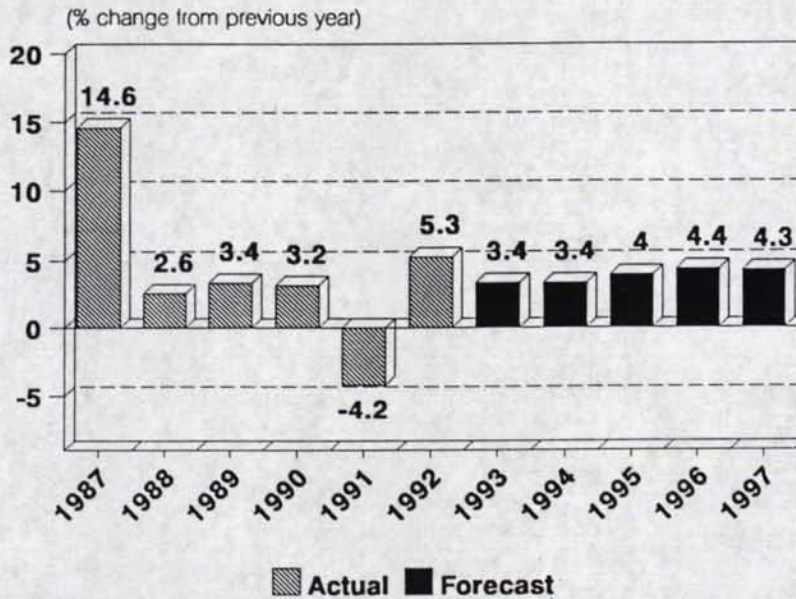
United Kingdom

1993	1994	1995	1996	1997
634.9	656.5	682.7	712.7	743.4
(3.4)	(3.4)	(4.0)	(4.4)	(4.3)

France

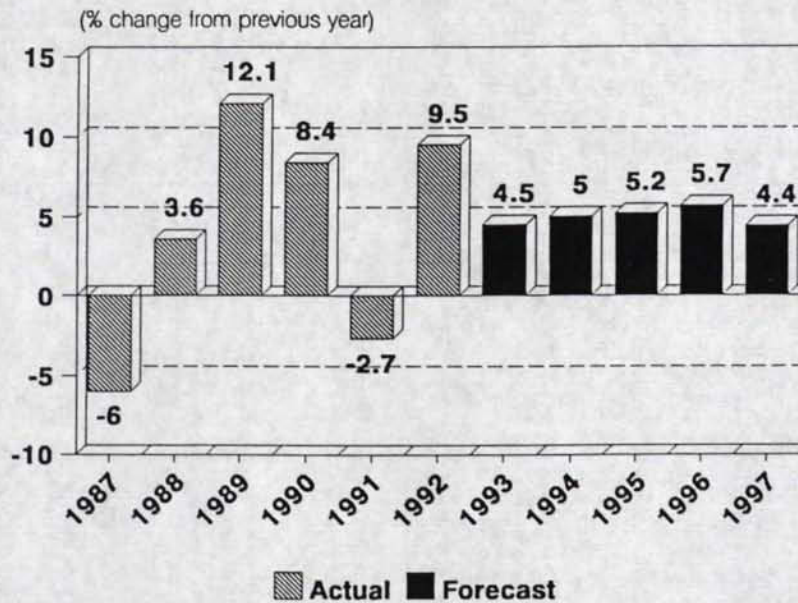
1993	1994	1995	1996	1997
374.1	392.8	413.2	436.8	456.0
(4.5)	(5.0)	(5.2)	(5.7)	(4.4)

Overnight Trips from Canada to the U.K.



NOTE: volume in 1986 was 526,000

Overnight Trips from Canada to France

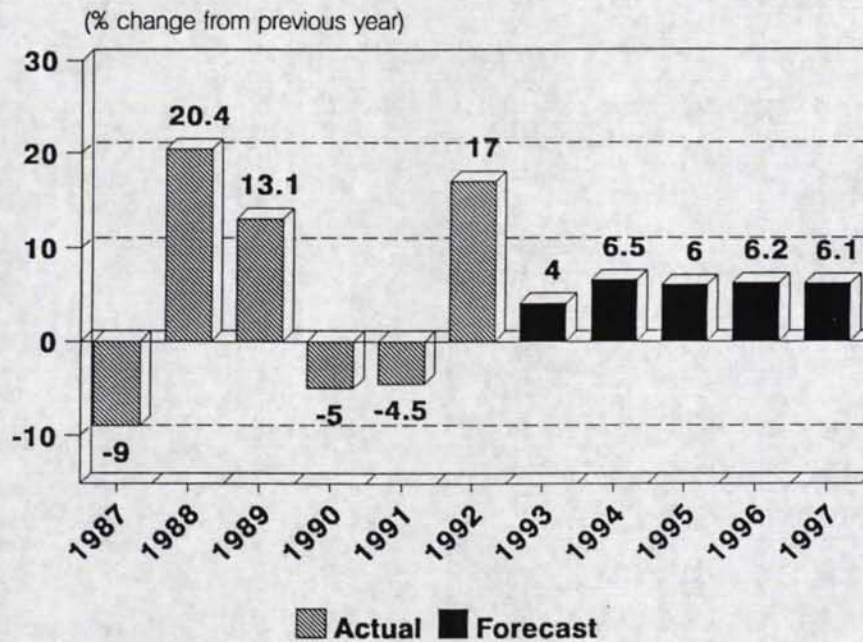


NOTE: volume in 1986 was 323,000

Germany

1993	1994	1995	1996	1997
265.2 (4.0)	282.4 (6.5)	299.4 (6.0)	317.9 (6.2)	337.3 (6.1)

Overnight Trips from Canada to Germany



NOTE: volume in 1986 was 216,000

Tourism Canada estimates that travel from Canada to major European destinations increased modestly in 1993 by around 4 per cent. In 1994, slightly stronger growth is anticipated mainly because the Canadian economy will rebound somewhat, therefore, leaving Canadians with more discretionary income to spend on travel. In addition, airfares should remain attractive for European travel and the Canadian dollar is not expected to change dramatically in 1994.

7. Travel Receipts and Payments

Forecast:

(volume in millions, annual percentage change)

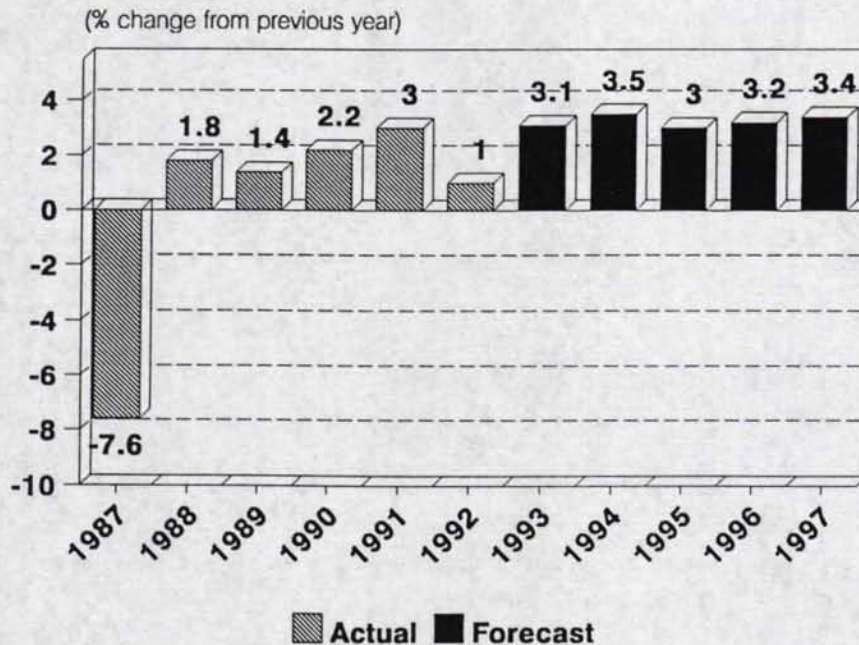
Travel Receipts - U.S.

1993	1994	1995	1996	1997
4,691	4,855	5,001	5,161	5,336
(3.1)	(3.5)	(3.0)	(3.2)	(3.4)

Travel Payments - U.S.

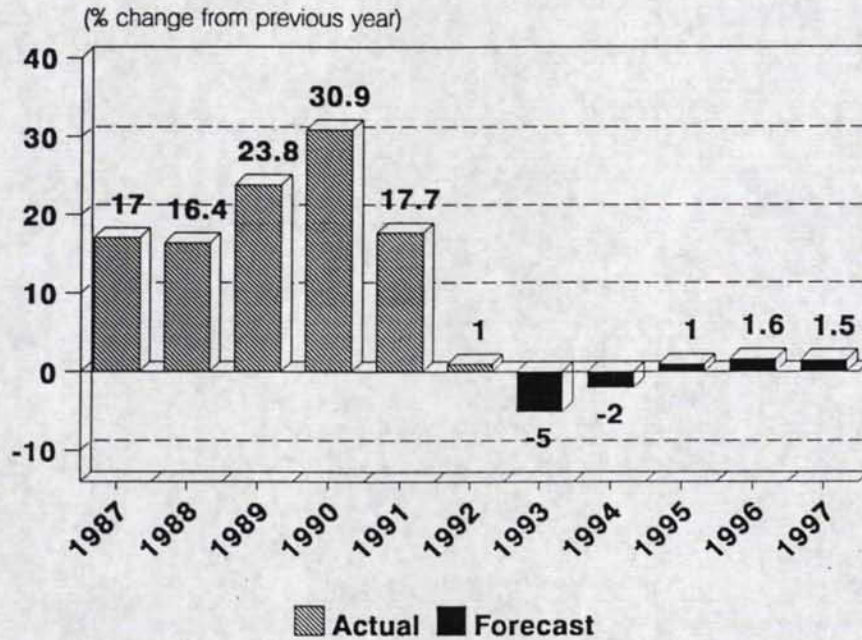
1993	1994	1995	1996	1997
10,467	10,287	10,390	10,557	10,715
(-5.0)	(-2.0)	(1.0)	(1.6)	(1.5)

Travel Receipts - U.S.



NOTE: volume in 1986 was 4,174,000,000

Travel Payments - U.S.



NOTE: volume in 1986 was 3,713,000,000

Travel Deficit - U.S.

1993	1994	1995	1996	1997
5,802	5,432	5,389	5,396	5,379

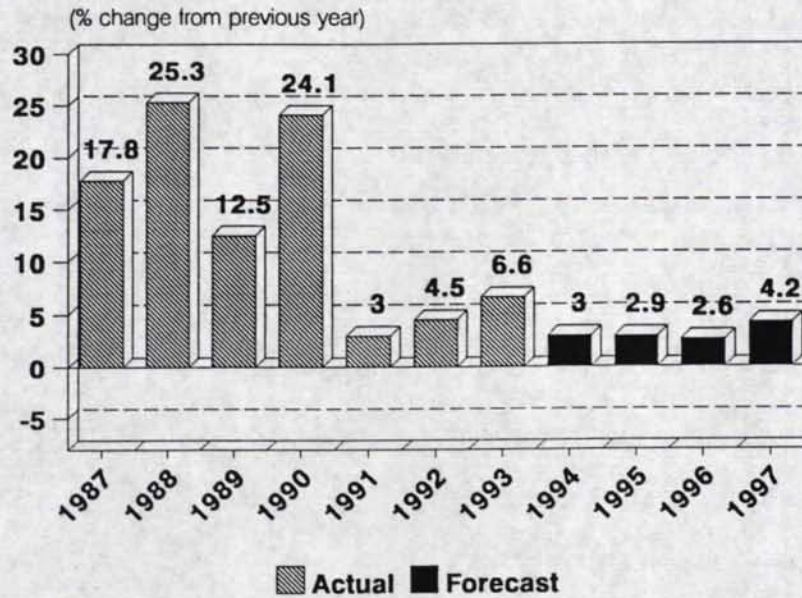
Travel Receipts - Rest of the World

1993	1994	1995	1996	1997
3,745	3,857	3,969	4,072	4,243
(6.6)	(3.0)	(2.9)	(2.6)	(4.2)

Travel Payments - Rest of the World

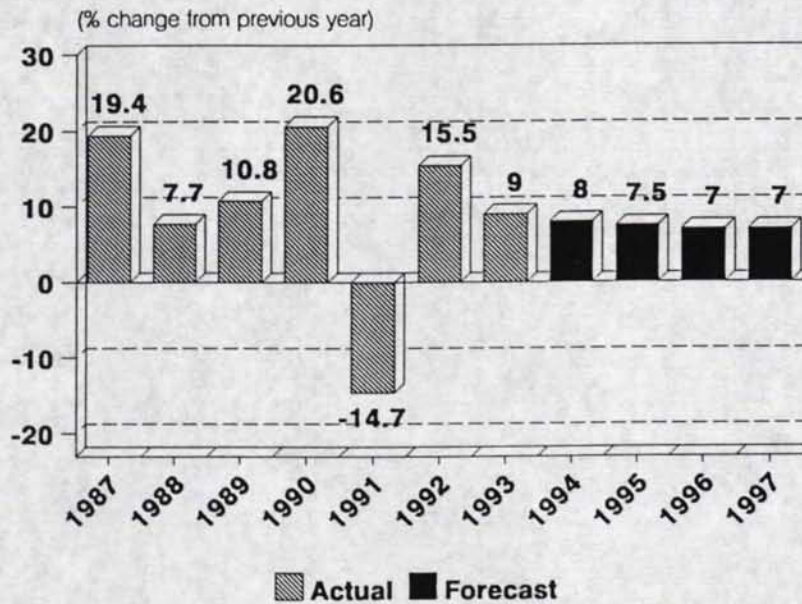
1993	1994	1995	1996	1997
5,665	6,118	6,577	7,037	7,530
(9.0)	(8.0)	(7.5)	(7.0)	(7.0)

Travel Receipts - Rest of the World



NOTE: volume in 1986 was 1,179,000,000

Travel Payments - Rest of the World



NOTE: volume in 1986 was 2,256,000,000



Travel Deficit with the U.S. - Sensitivity Analysis

	10% Deprec.	Basecase	10% Apprec.
1994	-4,102	-5,479	-7,230
1995	-4,198	-5,534	-7,247
1996	-4,333	-5,641	-7,337
1997	-4,661	-5,731	-7,444

The results show how sensitive the model is to alternative exchange rate assumptions. In the base case, where the dollar is valued between U.S. 75 to 77 cents, the travel deficit reaches \$5.7 billion by 1997. However, a higher valued dollar, which makes travel to the United States from Canada less expensive and travel from the United States to Canada more expensive, the deficit explodes to \$7.4 billion. Alternatively, a lower valued dollar results in a significantly lower travel deficit by 1997.

**Travel Payments
(millions)**

	10% Deprec.	Basecase	10% Apprec.
1993	10,345	10,345	10,345
1994	9,155	10,142	11,483
1995	9,292	10,243	11,552
1996	9,478	10,407	11,702
1997	9,857	10,564	11,866

**Travel Receipts
(millions)**

	10% Deprec.	Basecase	10% Apprec.
1993	4,594	4,594	4,594
1994	5,053	4,663	4,253
1995	5,094	4,709	4,305
1996	5,145	4,766	4,365
1997	5,196	4,833	4,422

It is interesting that the difference between the base case deficit and the alternative scenarios is greater in the case of the appreciating dollar. The difference is \$1.7 billion (\$7.4 - \$5.7) for the higher valued dollar and \$1.1 billion (\$5.7-\$4.7) for the lower valued dollar. The reason for the divergence relates to the fact that travel expenditures are more sensitive to the exchange rate compared with travel receipts. The elasticity of payments with respect to the exchange rate is 1.4 while that of receipts is 1.0.

When the dollar appreciates in 1994 the 11 per cent increase in travel payments worsens the deficit as Canadians increase their spending in the United states. However, when the dollar depreciates the 12 per cent reduction in spending by Canadians in the United States tends to dampen the effect on the travel deficit. Note that if the elasticities with respect to the exchange rate for both receipts and payments are equal then the results for the travel deficit would have been more asymmetrical. In other words, the difference between the travel deficit in the basecase and the travel deficit when the dollar appreciates would be close to the difference between the basecase deficit and the deficit when the dollar depreciates.

The effect of alternative exchange rate scenarios on overnight trips between the two countries was also tested.

Travel from Canada to the United States

	10% Deprec.	Basecase	10% Apprec.
1994	15,138,410	17,216,231	19,369,293
1995	15,532,008	17,474,474	19,659,832
1996	15,842,648	17,823,963	19,954,729
1997	16,175,343	18,233,914	20,293,959

Travel from the United States to Canada

	10% Deprec.	Basecase	10% Apprec.
1994	12,639,263	12,046,983	11,390,007
1995	12,828,851	12,227,687	11,549,467
1996	12,995,626	12,398,874	11,688,060
1997	13,203,556	12,584,857	11,828,316

As is the case with the travel deficit, trips between the two countries are also sensitive to alternative exchange rates. If the dollar appreciates by 10 per cent around 20 million Canadians would make overnight trips to the United States in 1997 versus 18 million in the basecase. This represents an increase of 11 per cent. Alternatively, a lower dollar would result in about 2 million fewer Canadians visiting the United States. Americans also change their travel behaviour in response to both a higher and lower dollar, although they do not react as quickly as Canadians do. The difference between the basecase number of trips and the alternative exchange rates is greater for Canadian travellers compared with Americans. This occurs because Canadians are more aware of the exchange rate than Americans and adjust their travel behaviour to a greater degree.

LKC
G 155 .C3 I57 1994
International travel forecasts ... update a
report

DATE DUE DATE DE RETOUR	

CARR McLEAN 38-296



