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INTERNATIONAL TRAVEL FORECASTS

WINTER 1995 UPDATE

FEBRUARY 1995



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**INTERNATIONAL TRAVEL FORECASTS
WINTER 1995 UPDATE**

**A REPORT PREPARED
BY
THE CANADIAN TOURISM RESEARCH INSTITUTE
FOR
TOURISM CANADA**

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Executive Summary

- Travel from the United States rebounded in 1994 and growth of 5 per cent over 1993 is expected, the largest annual increase since 1986. The low value of the Canadian dollar and the renewed strength of the U.S. economy are primarily responsible for the better outlook.
- In the period 1996-2000, growth in overnight trips from the United States will slow down (2-3 per cent) because the Canadian dollar is expected to appreciate during this period.
- Growth in travel from the New England and Middle Atlantic regions will be below average in the 1995-97 period because of a relatively weak economic outlook. Travel from the Mountain region will be strong due to a booming economy.
- Of Canada's major overseas markets, Japan and France will be Canada's fastest growing overseas markets in the 1996-2000 period because of an improving economic outlook and a strong currency. Travel from Japan will also benefit from the opening up of a new airport in Osaka.
- On the heels of a 15 per cent decline in overnight travel from Canada to the United States in 1994, zero growth is expected in 1995. The gradual appreciation of the Canadian dollar and the fact that Canadians are becoming used to the exchange rate are expected to reverse the declines in travel to the United States.
- The Canada-U.S. travel deficit is expected to decline from \$4.4 billion in 1994 to \$3.7 billion by the year 2000. The decline is attributable to the low value of the Canadian dollar, which has resulted in higher growth in spending from the United States, and reduced spending in the United States on the part of Canadians. Canada's overall travel deficit is forecast to decline from \$6 billion in 1995 to \$5.8 billion by the year 2000.
- Pleasure travel will continue to grow at a faster pace than business travel for all of Canada's major travel markets. This is due to the fact that pleasure travel is more sensitive to the exchange rate and the Canadian dollar will remain favourable to foreign visitors over the next few years.
- Business travel, while expected to grow slower than pleasure travel, is on the rebound because the improving world economy has resulted in a better outlook for corporate profitability. The NAFTA and GATT agreements are also expected to result in more opportunities for business travel.
- Japan and France will lead the way in terms of growth in spending over the forecast period.
- Japan is Canada's highest yield market followed closely by Germany and France. Forecasts of yields from the U.K. market are not as high (\$1,194 for Japan versus \$792 for the U.K. in 1995) because of the high VFR traffic in this market.

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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:

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

Outbound Trips from Canada to Major Markets:

- U.S.A.
- U.K.
- France
- Germany

Travel Receipts and Payments:

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

2. Improvements and Additions to the 1995 Edition

This forecast update includes, for the first time, inbound forecasts of expenditures and yields for the United Kingdom, France, Germany and Japan. In addition, forecasts of U.S. expenditures and yields for pleasure and business travel are included. Forecasts for these markets are provided in both constant and current dollars. Also, with the exception of the U.S. regional travel forecasts, all of the forecasts in this report have been extended to the year 2000. In March 1995 a supplement to this report will include forecasts of overnight inbound travel from six new markets, Brazil, Taiwan, Mexico, South Korea, Italy and Switzerland.

3. 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:

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

The methodology for the new markets, overnight expenditures and yields, differs somewhat from the trips forecasts. The expenditure equations are still based on econometric techniques, however, overnight travel was included as an independent variable in addition to the usual economic indicators. The addition of trips as an independent variable improved the statistical results for the expenditure equations. The yield forecasts are based on identities. They were derived by dividing the forecasts of overnight expenditures by overnight trips.

Once a satisfactory relationship is developed between the dependent and independent variables, 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 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.

4. Definitions

When interpreting the forecasts in this report it is important to note that:

- All forecasts of inbound person-trips and outbound visits refer to overnight travel.
- Pleasure travel excludes Visiting Friends and Relatives (VFR) travel.
- Forecasts of expenditures represent in-country spending of tourists (overnight travellers), i.e., exclude payments to Canadian and foreign carriers and crew spending.
- Forecasts of receipts and payments and the travel balance include the in-country spending of all same-day visitors and tourists (overnight travellers), payments to Canadian and foreign carriers, and crew spending.

5. Inbound Travel Forecasts

The economies of many of Canada's major travel markets recovered in 1994 and, in most cases, this has resulted in strong growth in travel and spending to Canada. The weakness of the Canadian dollar has also boosted travel to Canada especially from the United States, France and Japan. The forecast for each of the major markets is analyzed 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 United States to Canada include:

- U.S. real disposable income
- exchange rate
- relative prices between the two countries
- price of oil

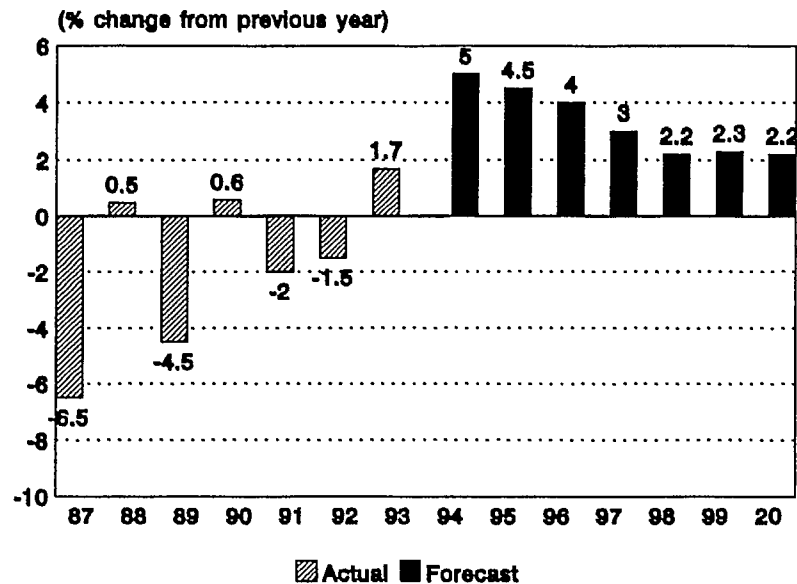
The economic variables used to explain travel from the other markets to Canada include:

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

a) Forecast of Overnight Travel from the United States (volume in thousands and annual percentage change)

1994	1995	1996	1997	1998	1999	2000
12,625	13,193	13,721	14,132	14,442	14,776	15,101
(5.0)	(4.5)	(4.0)	(3.0)	(2.2)	(2.3)	(2.2)

Overnight Trips from the U.S. to Canada



Note: volume in 1988 was 13,808,000

In 1993, Tourism Canada forecast growth of 1.5 per cent in overnight travel from the United States. Growth was even faster than expected as Tourism Canada is projecting a 5 per cent increase in U.S. travel in 1994. The main reason for the higher than expected growth last year was the low value of the Canadian dollar. Throughout much of 1994 the dollar traded in the U.S. 72 cents range (the fall 1993 update was based on a U.S. 75-76 cents) and the slight rebound in the dollar last fall, a result of the better than expected showing of the liberals in the provincial election, came after the crucial summer months ended. Canada has also benefitted from the fact that the U.S. dollar has depreciated against the major European currencies and this has made Canada a relatively inexpensive alternative.

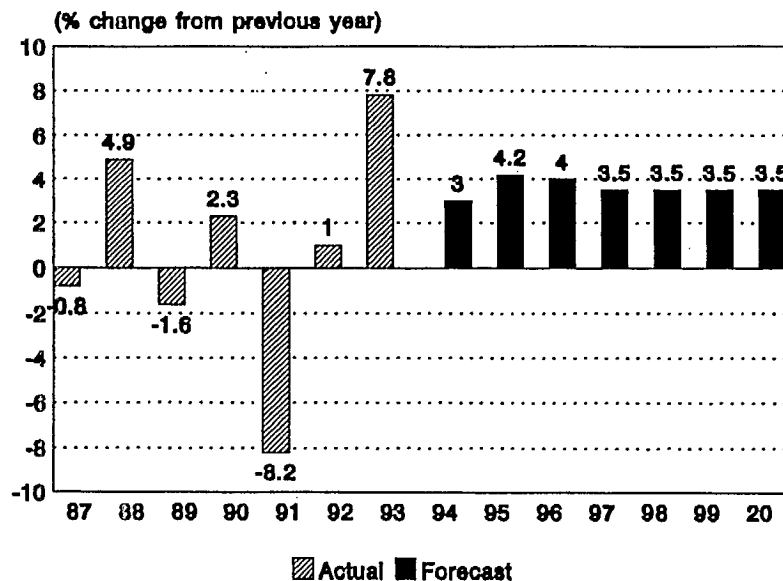
In the 1995-97 period, Tourism Canada expects that travel from the United States will continue to grow but at a slower rate mainly because the Canadian dollar is forecast to appreciate somewhat. In the summer of 1994 the dollar traded at around U.S. 72 cents due to investor uncertainty about the provincial election in Quebec. The Conference Board forecasts the dollar to trade at U.S. 73 to 74 cents in the summer of 1995. Another factor that will boost travel during this period is pent-up demand. In the early 1990s many Americans did not travel to Canada because of the high value of the Canadian dollar and the weak economy. Now that the dollar is more favourable, Americans are expected to return to this destination. In 1998-2000, much slower growth is forecast mainly because the dollar is expected to appreciate to its natural level (U.S. 78-80 cents)

b) **Forecast of Overnight Travel from the United States by Air**
(volume in thousands and annual percentage change)

1994	1995	1996	1997	1998	1999	2000
2,459 (3.7)	2,562 (4.2)	2,665 (4.0)	2,758 (3.5)	2,855 (3.5)	2,954 (3.5)	3,058 (3.5)

In 1994, travel by air from the United States will likely increase at a slightly slower pace compared with general travel. This differs from the 1992-93 period when growth in travel by air exceeded that of travel by other modes. Despite this change in growth patterns, Tourism Canada feels that, in the forecast period, air travel will grow faster than other modes in part due to better air access. In general, it is felt that travel by air is less sensitive to economic conditions such as changes in the exchange rate and GDP. In 1996, new routes will be added (mainly short-haul routes such as Ottawa to Baltimore) and this factor will benefit growth in air travel. Most air travel to Canada is for business and the outlook for this type of travel is good because of renewed economic growth in Canada and the United States and the NAFTA agreement.

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



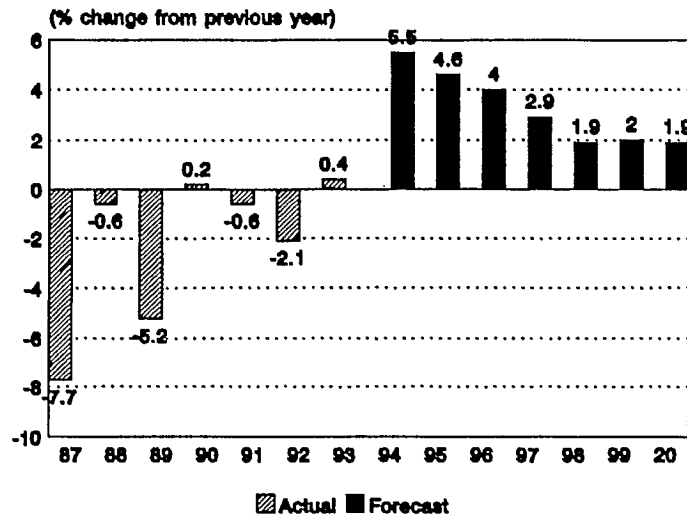
Note: volume in 1986 was 2,258,928

c) **Forecast of Overnight Travel from the United States by Other Modes**
(volume in thousands and annual percentage change)

1994	1995	1996	1997	1998	1999	2000
10,166 (5.5)	10,634 (4.6)	11,059 (4.0)	11,375 (2.9)	11,596 (1.9)	11,828 (2.0)	12,052 (1.9)

Growth in travel from the United States by other modes of transportation (primarily auto) is forecast to gradually decline over the forecast period. Travel by auto is more sensitive to the economy compared with air travel and, as the exchange rate gradually appreciates, this type of travel is expected to slow down.

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



Note: volume in 1986 was 11,849,072

d) Forecast of Overnight Travel from the United States by Region (volume in thousands and annual percentage change)

	1994	1995	1996	1997
New England	1,271 (0.0)	1,297 (2.1)	1,317 (1.5)	1,325 (0.6)
Middle Atlantic	2,932 (2.0)	3,026 (3.2)	3,108 (2.7)	3,163 (1.8)
South Atlantic	992 (8.5)	1,056 (6.5)	1,119 (5.9)	1,172 (4.8)
East North Central	3,269 (5.3)	3,423 (4.7)	3,573 (4.4)	3,698 (3.5)
West North Central	785 (7.0)	823 (4.8)	860 (4.5)	891 (3.6)
East South Central	164 (5.0)	171 (4.5)	178 (4.1)	184 (3.0)
West South Central	379 (7.5)	402 (6.2)	425 (5.5)	444 (4.6)
Mountain	502 (9.2)	543 (8.1)	583 (7.5)	621 (6.5)
Pacific	2,155 (4.5)	2,254 (4.6)	2,349 (4.2)	2,426 (3.3)

Tourism Canada estimates that travel from the south (including the regions South Atlantic, East South Central and West South Central) will grow at above average rates during the forecast period. Gross state product in the key South Atlantic region, which includes the large state of Florida, will grow by 3.5 per cent compared with national growth of 2.5 per cent in 1995. Also employment growth of 2.6 per cent will outstrip national growth of 2.1 per cent in 1995. Much the same pattern is anticipated in the 1996-97 period as well. The states of Florida, Georgia and North Carolina will all be among the top ten states in terms of employment growth. The region continues to benefit from increases in immigration and the ability to attract new manufacturing plants because of the relatively low cost of labour and land in the area. The southern region is also expected to have positive net migration from other areas of the country and this will add an additional boost to domestic demand.

In 1993, overnight travel from the northeastern United States increased by 3 per cent based mainly on economic revival in the New England region. It is somewhat surprising that growth in 1994 and for the remainder of the forecast period will be below average. The lack of growth in travel from the northeast is unusual given the fact that the region showed steady expansion with year-over-year employment growth of 1.9 per cent as of the summer of 1994. The retail, construction and service sector continue to lead the way in recovery. What is likely behind the travel picture in this part of the country is the fact that, while recovery is evident, the region still lags behind the rest of the country. For instance, GSP in the New England and Middle Atlantic regions will grow by 2.8 per cent compared with national growth of 3.6 per cent in 1994. As economic growth is expected to be below average throughout the forecast period, Tourism Canada remains relatively pessimistic about the prospects for travel from the Middle Atlantic and New England regions to Canada.

States in the East North Central and West North Central regions of the country are experiencing a dramatic revival and the upturn appears to be translating into higher travel growth to Canada. Tourism Canada estimates that travel will increase by more than 5 per cent in 1994 and fairly solid growth is anticipated in the remainder of the forecast period. Capacity utilization among manufacturers in the region stands at 87 per cent, well above the 72 per cent of three years ago. The high level of production at Midwest auto plants and their myriad of suppliers throughout the region is responsible for a large part of this rise. Capacity limits have hindered the ability of the auto industry to meet the current high level of demand. That demand is near its peak, but continued strong levels of capital investment and stronger export performance will keep Midwest manufacturing humming through 1995. These factors will help lower unemployment in East North Central and West North Central states and provide a boost to travel to Canada.

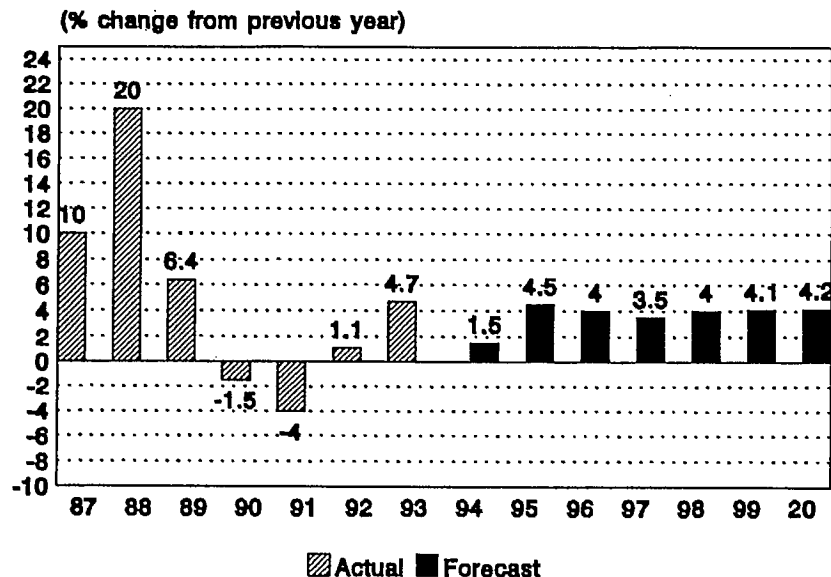
Travel from the Mountain region will lead in travel growth to Canada over the forecast period mainly because the economy continues to be strong and unemployment very low. States in the Mountain region continue their enviable economic performance with four of the top five fastest growing states in the nation located there. Moreover, job growth in Arizona and New Mexico is accelerating. The Mountain region has benefitted from a huge surge in corporate relocation, particularly from California and the country's lowest business costs and high quality of life. It is important to note that while travel expectations from this region are optimistic, it only contributes 3.8 per cent of total overnight trips to Canada. Tourism Canada expects average growth from the important Pacific region. Although northern states in this region are doing well, the key state of California, while on the rebound, is still feeling the effects of the economic downturn in the early 1990s.

e) **Forecast of Overnight Travel from the United Kingdom**
(volume in thousands and annual percentage change)

1994	1995	1996	1997	1998	1999	2000
570.4 (1.5)	596.1 (4.5)	619.9 (4.0)	641.6 (3.5)	667.3 (4.0)	694.7 (4.1)	723.8 (4.2)

Travel from the United Kingdom in 1994 has not grown as quickly as Tourism Canada expected last fall. At that time growth of 3.4 per cent was expected and it looks like growth of less than 2 per cent will take place in 1994. The U.K. economy has experienced solid growth this year (3 per cent, the highest since the 1980s) and consumer spending has also been strong. The English pound appreciated by close to 7 per cent against the dollar last summer, making travel to Canada relatively less expensive. In the summer of 1993 it cost Can. \$1.96 to purchase a pound and this increased to Can. \$2.12 last summer. A factor that may have restrained travel to Canada in 1994 was the fact that, despite the upbeat economy, the unemployment rate remained stuck above 9 per cent. Also, preliminary evidence indicates that U.K. residents are travelling closer to home and, as a result, travel to Europe is up at the expense of North America.

Overnight Trips from the U.K. to Canada



Note: volume in 1988 was 399,500

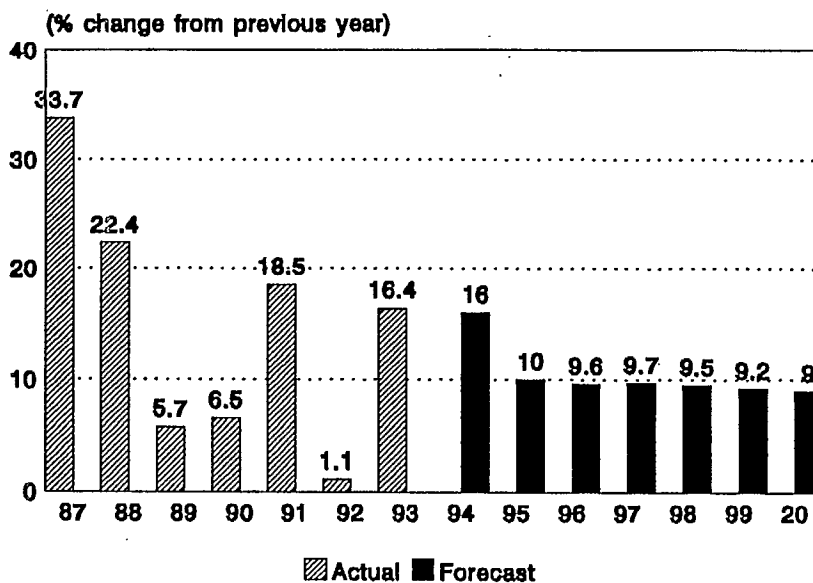
In 1995 and for the remainder of the forecast period, travel will increase by around 4 per cent annually. Both GDP and consumer expenditure growth will be solid and the pound should retain its value against the Canadian dollar. Unemployment will continue to be a problem as will be the case across much of Europe.

f) Forecast of Overnight Travel from France
(volume in thousands and annual percentage change)

1994	1995	1996	1997	1998	1999	2000
418.8 (16.0)	460.6 (10.0)	504.8 (9.6)	553.8 (9.7)	606.4 (9.5)	662.2 (9.2)	721.8 (9.0)

The booming French travel market has continued in 1994 as double digit growth of 16 per cent is expected in 1994. There is still a tremendous amount of discounting taking place amongst travel wholesalers selling to the Canadian market. This factor in conjunction with a favourable exchange rate and cheap airfares means that travel to Canada now appeals to the mass market of lower and middle class French travellers as opposed to just the higher income group. The product offered by wholesalers has not really changed much in the past few years but the effect of discounting and the favourable exchange rate imply that the price of a typical hotel in Canada has declined by 15 to 20 per cent since the beginning of the 1990s. In 1989, the franc was worth Can. 19 cents and next year it is forecast to trade at around Can. 25 cents, an appreciation of about 30 per cent.

Overnight Trips from France to Canada



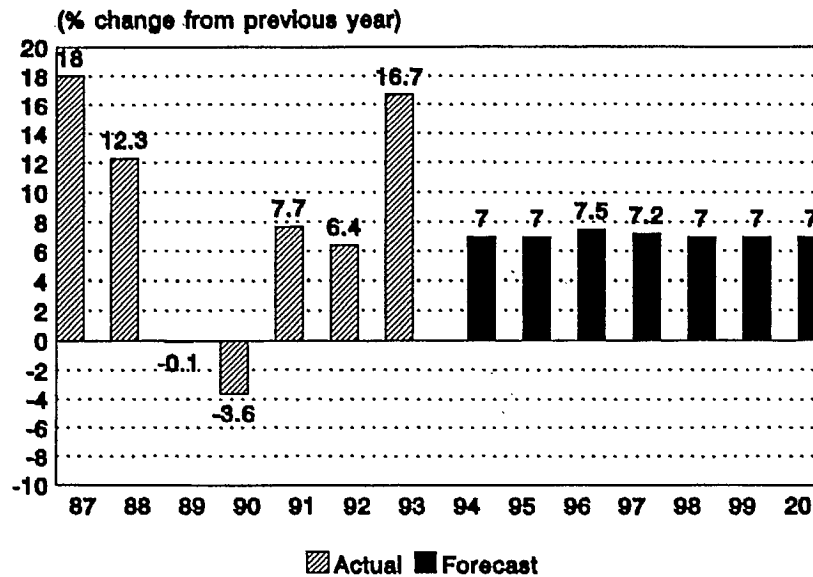
Note: volume in 1986 was 140,300

In 1995, Tourism Canada feels that growth in travel from France will slow down slightly although it should still remain in the double digits. It will be difficult to maintain the close to 20 per cent growth experienced in the 1993-94 period. Gross domestic product will increase from 1.7 per cent in 1994 to 2.7 per cent in 1995 and household consumption will grow as well. The franc will also remain favourable in terms of travel to Canada.

g) **Forecast of Overnight Travel from Germany**
(volume in thousands and annual percentage change)

1994	1995	1996	1997	1998	1999	2000
362.7 (7.0)	388.1 (7.0)	417.2 (7.5)	447.3 (7.2)	478.6 (7.0)	512.1 (7.0)	547.9 (7.0)

Overnight Trips from Germany to Canada



Note: volume in 1985 was 198,300

As Tourism Canada expected last fall, overnight travel from Germany has slowed down from the 17 per cent growth recorded in 1993. Growth this year will be very close to the 8 per cent forecast in the fall of 1993. For the remainder of the forecast period, Tourism Canada expects that travel from Germany will grow by a solid 7 per cent. The German economy emerged from the doldrums in 1994 as GDP will likely increase by around 2 per cent. In 1993, the economy contracted by 1.2 per cent because of the negative effect of high interest rates. An increase in GDP of 2.7 per cent is anticipated in 1995 as the manufacturing sector is forecast to lead the economy. The value of the German mark will support outbound travel to Canada. The mark will trade in the Can .88 cents range in 1995 up from Can .77 cents in 1993. The mark continues to be a strong world currency because German interest rates remain relatively high as the central bank attempts to keep inflation in check. A negative factor for German outbound travel to Canada and other countries is the fact that renewed economic growth has not cut into high unemployment. The unemployment rate actually increased in 1994 to 9.9 per cent from 9 per cent in 1993. In 1995, unemployment of 9.9 per cent is, once again, expected.

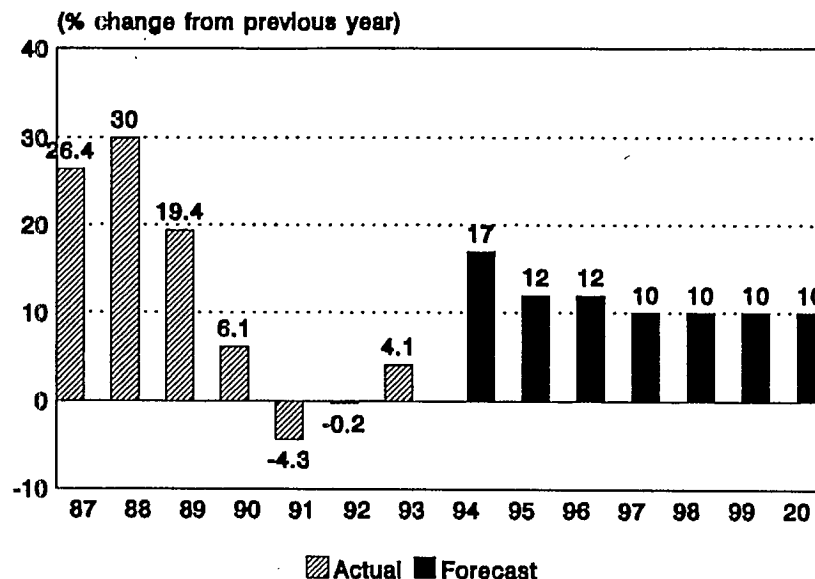
The increase in travel from Germany and France may also be attributable to the fact that residents of these countries are avoiding traditional destinations in the Mediterranean for personal safety.

h) Forecast of Overnight Travel from Japan
(volume in thousands and annual percentage change)

1994	1995	1996	1997	1998	1999	2000
477.9	535.3	599.5	659.4	725.4	797.9	877.7
(17.0)	(12.0)	(12.0)	(10.0)	(10.0)	(10.0)	(10.0)

Travel from Japan will grow at a much stronger pace compared with what Tourism Canada anticipated in the fall of 1993. There are a number of factors behind the significant turnaround in this important market. First, the Japanese yen has continued to appreciate against the dollar, thereby making travel to Canada more affordable. Due to exchange rate changes and plunging air-fare prices, it costs less to fly to Hong Kong, Paris or Vancouver from Tokyo than to Okinawa. This implies that it is now less expensive for some Japanese to travel to a country like Canada as opposed to taking a domestic vacation. Economic activity has also been a factor as the Japanese economy will expand by 0.7 per cent in 1994 on the heels of virtually no growth at all in 1993. In 1995, GDP growth of 1.7 per cent is forecast and consumer spending will increase by more than 2 per cent, a welcome change from the 1 per cent recorded in 1993.

Overnight Trips from Japan to Canada



Note: volume in 1996 was 197,100

The government recently cut taxes and this left potential travellers with higher disposable income. The Japanese Ministry of Transport launched a "Two-Way Tourism 21" program to encourage outbound travel. Because only about 10 per cent of the Japanese population currently travels overseas, strong growth in outbound travel is expected to continue for the next several years. The number of Japanese travelling overseas is expected to increase from 12 million in 1993 to 20 million by the year 2000.

Tourism Canada feels that travel to Canada will receive a boost in the forecast period for a variety of reasons. First, Air Canada began servicing Kansai International Airport in Osaka in September 1994. By June 1995, daily service to Osaka will begin. The new service should spark travel to Canada among residents of Kansai and outlying areas who have been deterred from international travel in the past due to poor connections in Tokyo. Furthermore, travel industries of Japan and Canada have agreed to work together to triple Japanese arrivals to Canada by the year 2000. Enhanced marketing programs, as well as produce and service development plans will be put in place to reach this objective. These plans target emerging customer segments in addition to traditional ones. The student market is an example of a growth market where we see some movements in 1995. To meet its objective of increasing Japanese students' understanding of different cultures, the Japanese government will also subsidize student travel. Canada may also be picking up Japanese travellers who will cancel plans to travel to California because of the threat of violence.

6. Outbound Travel Forecasts

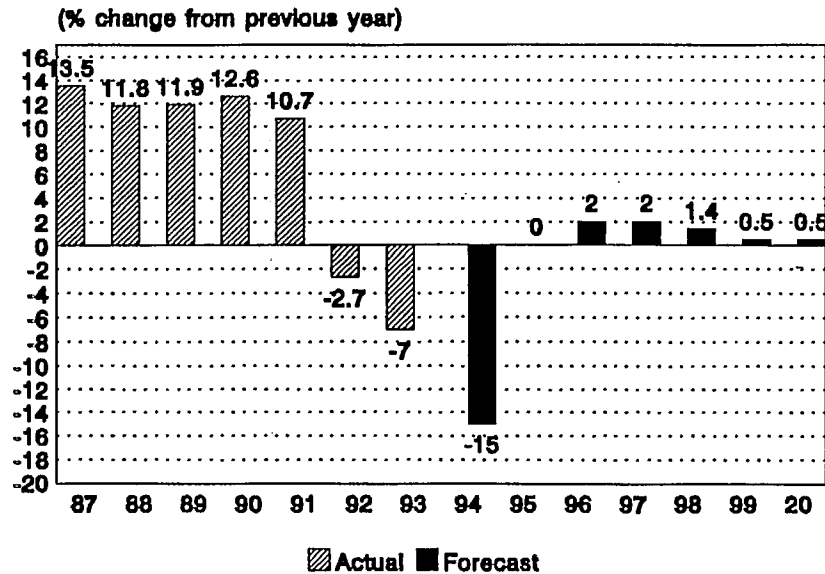
Outbound travel from Canada to the United States differed significantly compared with outbound travel to European destinations. The lower valued Canadian dollar has resulted in a dramatic decline in travel to the United States. However, growth in travel from Canada to Europe has remained positive. The economic variables used to explain outbound travel include the exchange rate, relative prices and Canada's real disposable income.

a) Forecast of Overnight Travel to the United States (volume in thousands and annual percentage change)

1994	1995	1996	1997	1998	1999	2000
15,037	15,037	15,338	15,644	15,864	15,943	16,023
(-15.0)	(0.0)	(2.0)	(2.0)	(1.4)	(0.5)	(0.5)

The lower value of the Canadian dollar has dramatically reduced the popularity of travel to the United States. In 1993, overnight trips dropped by around 7 per cent and in 1994 the decline will be about 15 per cent. Tourism Canada feels that the situation will turn around in 1995, however. The dollar will be slightly higher and this will make travel to the United States a less expensive alternative. Also, there is a feeling that Canadians will have become used to the exchange rate and will, therefore, be more willing to vacation south of the border. Beyond 1997, it is felt that renewed growth in travel will slow down somewhat because the exchange rate will stabilize and, in addition, a program developed by Tourism Canada encouraging Canadians to travel at home will take effect.

Overnight Trips from Canada to the U.S.



Note: volume in 1988 was 10,793,000

b) Forecast of Overnight Travel to the United States by Air (volume in thousands and annual percentage change)

1994	1995	1996	1997	1998	1999	2000
3,673	3,765	3,901	4,062	4,223	4,312	4,398
(-5.0)	(2.5)	(3.6)	(4.1)	(4.0)	(2.1)	(2.0)

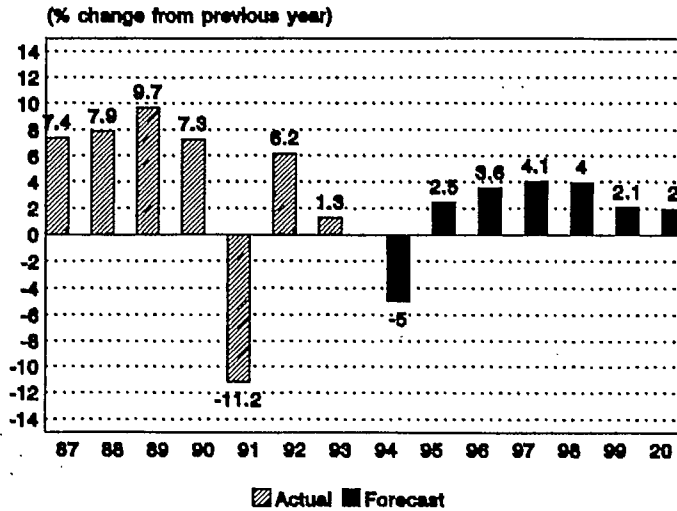
Similar to the situation in the United States, Tourism Canada expects that travel by air to the United States will grow at a faster rate compared with general travel. Air travel is not as sensitive to the exchange rate compared with auto travel. In 1994, for instance, travel by all modes to the United States will drop by 15 per cent while air travel will decline by about 5 per cent. Improved air access between Canada and the U.S. and the renewed strength of both economies will result in solid growth in business travel (primarily by air) and the pleasure travel market is also showing some signs of strength following declines in growth in the early 1990s.

c) Forecast of Overnight Travel to the United States by Other Modes (volume in thousands and annual percentage change)

1994	1995	1996	1997	1998	1999	2000
11,364	11,272	11,437	11,582	11,641	11,631	11,625
(-15.5)	(-0.8)	(1.5)	(1.3)	(0.5)	(0.08)	(-0.05)

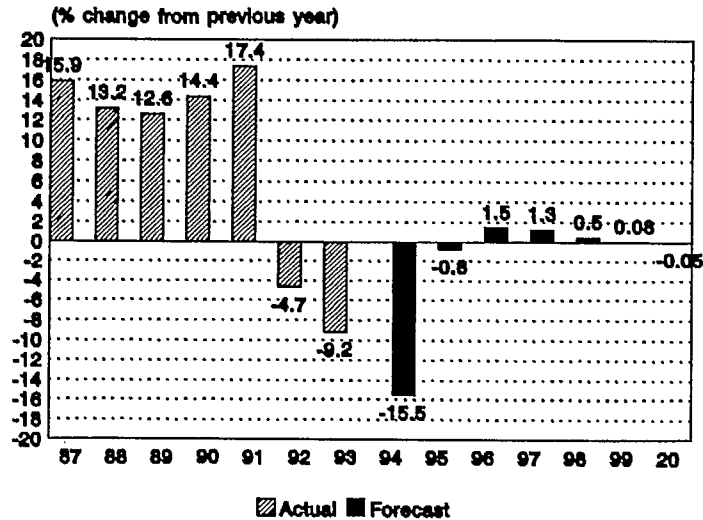
This forecast primarily reflects travel to the United States by auto. The decline in 1994 is due to the depreciation of the dollar which has made travel to the United States more expensive. Tourism Canada feels that overnight travel will continue to fall in 1995, however, the drop will be very modest as the exchange rate stabilizes to a certain extent and Canadians become used to the much lower value of the Canadian dollar. Minimal growth in travel by other modes is anticipated for the remainder of the travel period. As was discussed above, growth in travel by air will be the strongest over the forecast period.

Overnight Trips from Canada to the United States by Air



Note: volume in 1986 was 2,961,501

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



Note: volume in 1986 was 7,827,921

d) Forecast of Overnight Travel to European Destinations
(volume in thousands and annual percentage change)

United Kingdom

1994	1995	1996	1997	1998	1999	2000
673.1 (6.0)	708.1 (5.2)	740.7 (4.6)	773.3 (4.4)	806.5 (4.3)	842.0 (4.4)	879.9 (4.5)

France

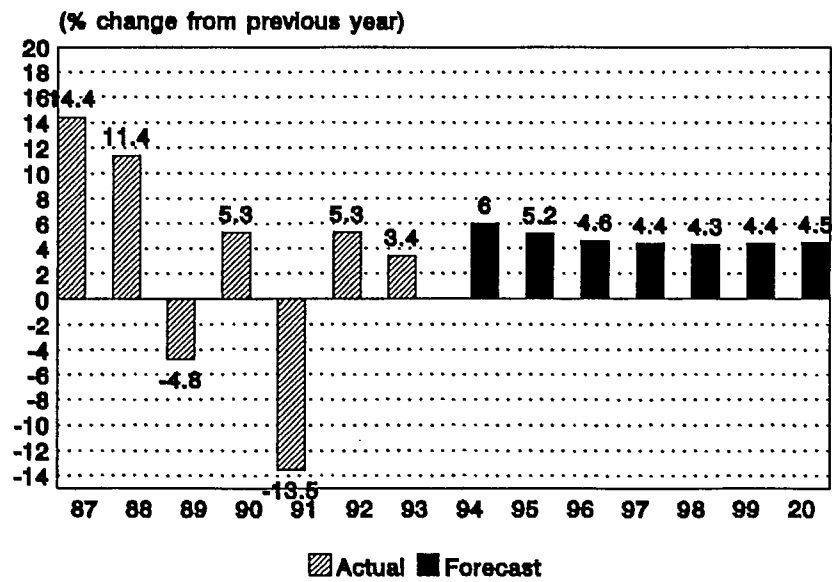
1994	1995	1996	1997	1998	1999	2000
399.6 (6.0)	420.4 (5.2)	439.7 (4.6)	459.1 (4.4)	478.8 (4.3)	499.9 (4.4)	522.4 (4.5)

Germany

1994	1995	1996	1997	1998	1999	2000
256.7 (5.2)	269.8 (5.1)	283.3 (5.0)	298.0 (5.2)	316.2 (6.1)	335.8 (6.2)	355.9 (6.0)

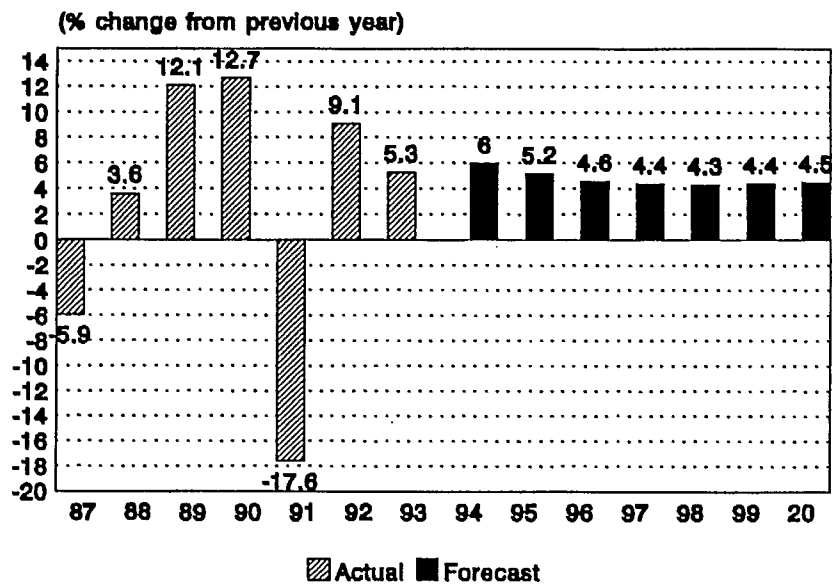
Despite the fall in the value of the Canadian dollar against most of the major European currencies, growth in travel to Europe has been strong this year. Year-to-date figures indicate that, through October, ticket sales for both pleasure and business travel to Europe increased by 10 and 11 per cent respectively. Higher growth in pleasure travel is likely due to competitive airfares and the revival in the discretionary income that Canadians have to spend on international travel. These factors have offset the potential disincentive to European travel created by the depreciating Canadian dollar. Growth in business travel to Europe is attributable to the higher levels of economic activity in both Canada and Europe. Tourism Canada believes that the prospects for travel to Europe for the remainder of the forecast period are also good because the Canadian dollar is expected to stabilize against most European currencies and the economic expansion in Canada will leave most Canadians with higher disposable incomes.

Overnight Trips from Canada to the U.K.



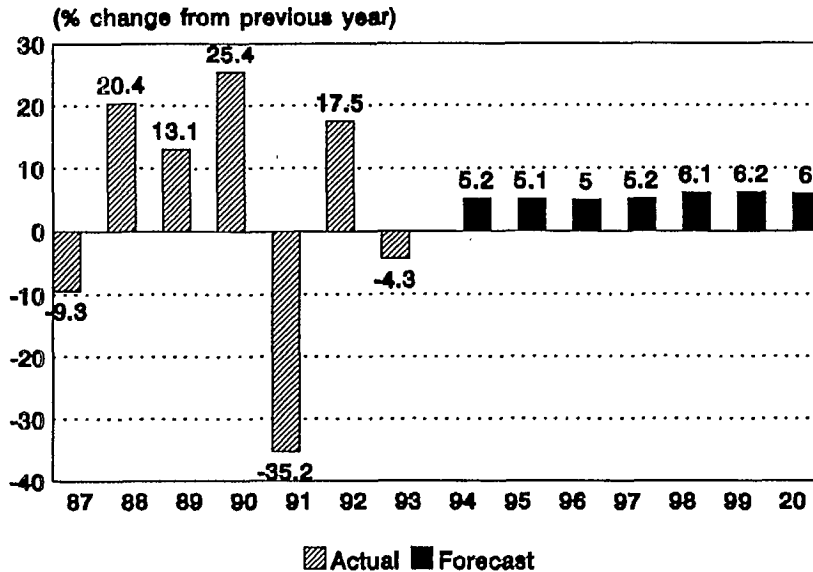
Note: volume in 1986 was 526,000

Overnight Trips from Canada to France



Note: volume in 1986 was 323,000

Overnight Trips from Canada to Germany



Note: volume in 1996 was 216,000

7. Forecast of Travel Receipts, Payments and Deficit

Canada's total travel deficit will decline over the forecast period mainly because Canadians will spend less on travel to the United States and foreign visitors, especially from Japan and France, will spend more in Canada. The forecast of U.S. receipts is based on the exchange rate, U.S. disposable income and the U.S. unemployment rate. Canadian unemployment and income as well as the exchange rate are used for the U.S. payments forecast. Forecasts of receipts and payments for the rest of the world are derived by subtracting the Conference Board's forecast of total receipts and payments from the U.S. receipts and payments forecasts.

(volume in millions and annual percentage change)

Travel Receipts - U.S.

1994	1995	1996	1997	1998	1999	2000
5,688	6,286	6,851	7,399	7,932	8,519	9,132
(12.0)	(10.5)	(9.0)	(8.0)	(7.2)	(7.4)	(7.2)

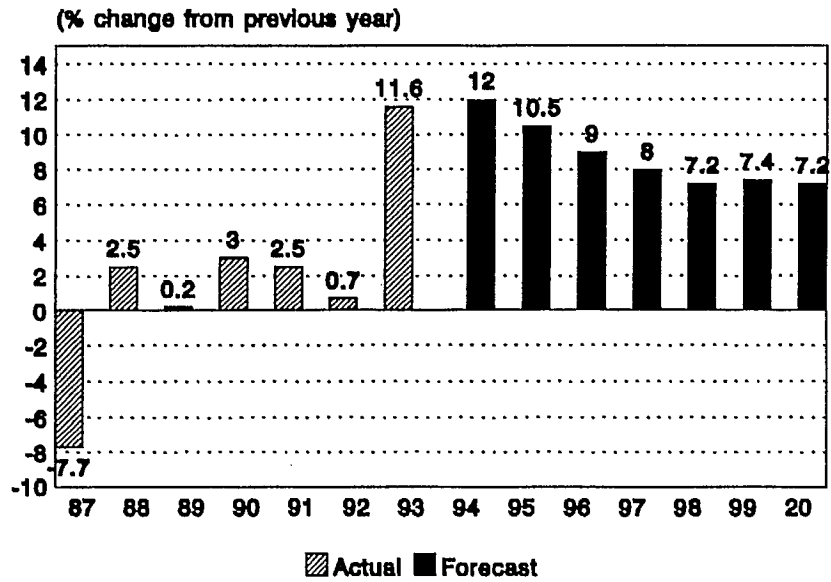
Travel Payments - U.S.

1994	1995	1996	1997	1998	1999	2000
10,122	10,375	10,894	11,438	11,919	12,372	12,867
(-7.0)	(2.5)	(5.0)	(5.0)	(4.2)	(3.8)	(4.0)

Travel Deficit - U.S.

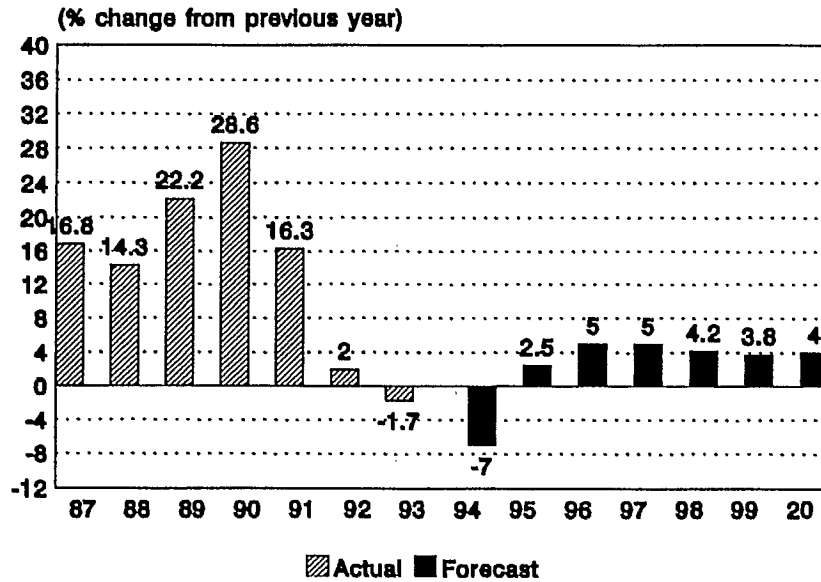
1994	1995	1996	1997	1998	1999	2000
4,434	4,090	4,043	4,039	3,987	3,853	3,735
(-23.0)	(-7.7)	(-1.1)	(-0.1)	(-1.3)	(-3.4)	(-3.1)

Travel Receipts - U.S.



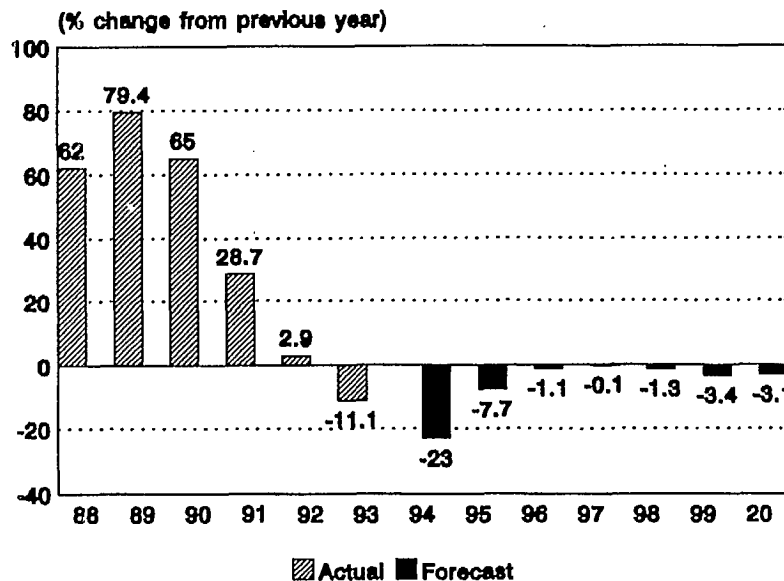
Note: volume in 1986 was \$4,506 million

Travel Payments - U.S.



Note: volume in 1986 was \$4,429 million

Travel Deficit - U.S.



Note: deficit in 1987 was \$1,014 million

Travel Receipts - Rest of the World

1994	1995	1996	1997	1998	1999	2000
4,172	4,560	4,934	5,279	5,601	5,948	6,311
(12.0)	(9.3)	(8.2)	(7.0)	(6.1)	(6.2)	(6.1)

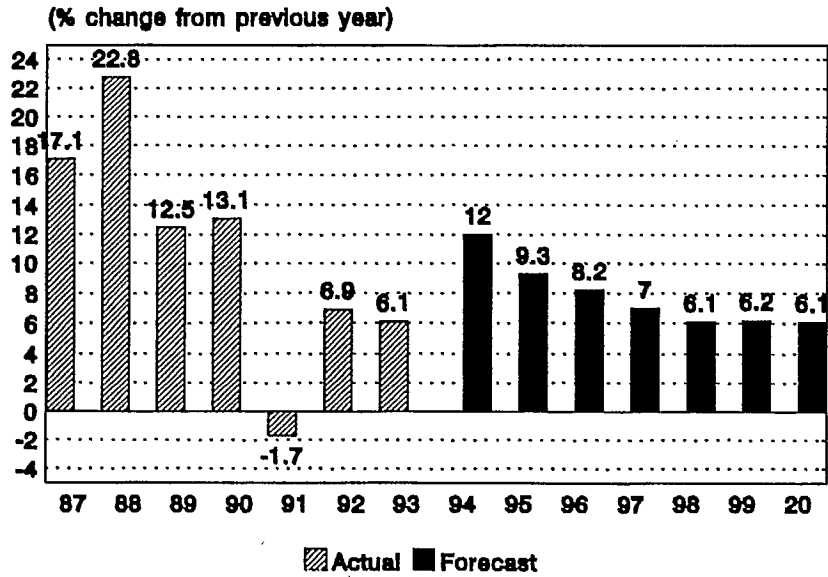
Travel Payments - Rest of the World

1994	1995	1996	1997	1998	1999	2000
6,171	6,480	6,804	7,164	7,551	7,959	8,365
(5.5)	(5.0)	(5.0)	(5.3)	(5.4)	(5.4)	(5.1)

Travel Deficit - Rest of the World

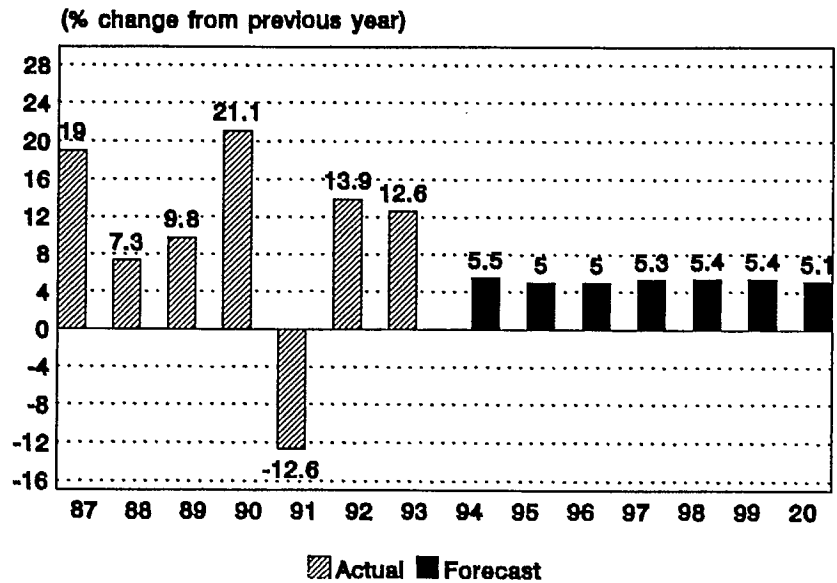
1994	1995	1996	1997	1998	1999	2000
1,999	1,920	1,870	1,885	1,950	2,011	2,054
(-6.0)	(-4.0)	(-2.6)	(0.8)	(3.4)	(3.1)	(2.1)

Travel Receipts - Rest of the World



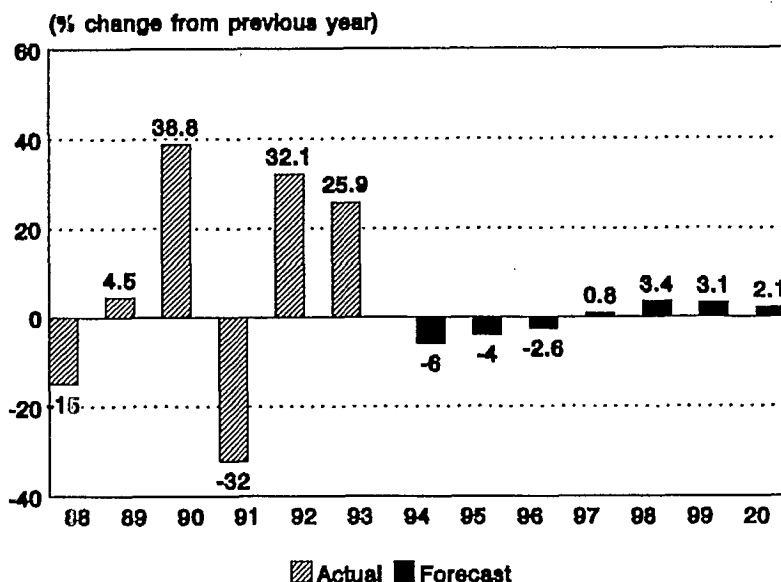
Note: volume in 1986 was \$1,827 million

Travel Payments - Rest of the World



Note: volume in 1986 was \$3,070 million

Travel Deficit - Rest of the World



Note: deficit in 1987 was \$1,515 million

Travel Receipts - Total

1994	1995	1996	1997	1998	1999	2000
9,860	10,846	11,785	12,678	13,533	14,467	15,433
(12.0)	(10.0)	(8.6)	(7.6)	(6.7)	(6.9)	(6.7)

Travel Payments - Total

1994	1995	1996	1997	1998	1999	2000
16,293	16,855	17,698	18,602	19,470	20,331	21,232
(-2.5)	(3.4)	(5.0)	(5.1)	(4.7)	(4.4)	(4.4)

Travel Deficit - Total

1994	1995	1996	1997	1998	1999	2000
6,433	6,009	5,913	5,924	5,937	5,864	5,799
(-18.6)	(-6.6)	(-1.6)	(0.2)	(0.2)	(-1.2)	(-1.1)

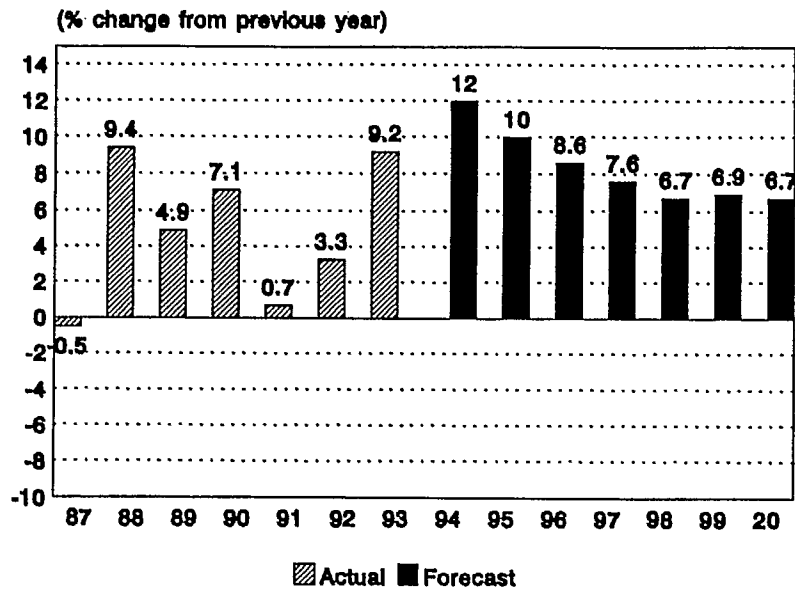
Tourism Canada expects that Canada's travel deficit with the United States will decline dramatically over the forecast period from \$4.4 billion in 1994 to \$3.7 billion in the year 2000. The decline is mainly attributable to a reversal in travel trends between the two countries. In the early 1990s, travel to Canada was stagnant because of the high value of the Canadian dollar and the weak U.S. economy. Travel to the United States from Canada was strong mainly because of the overvalued Canadian dollar. The trends have been reversed as the dollar is now

trading in the low to mid U.S. 70 cents range. Travel spending in Canada is forecast to increase at a solid rate over the forecast period while slow growth is forecast for Canadian travel spending in the United States. Deficit projections primarily hinge on the future path of the Canadian dollar. The Conference Board feels that the dollar should be trading in the U.S. 78-80 cents range based on the difference in inflation between United States and Canada. If the dollar eventually appreciates to its natural level, Canadians will have more incentive to travel to the United States and the deficit could worsen. Alternatively, political uncertainty in Canada could put downward pressure on the dollar, thereby leading to a lower dollar and a reduction in the travel deficit with the United States.

The travel deficit with the rest of the world will gradually decrease in the 1995-97 period. In 1997-2000, Tourism Canada is forecasting a gradual increase in the deficit because strong growth in receipts from the rest of the world will slow down somewhat while Canadians will continue to vacation in non-U.S. countries at a rate of growth of about 5 per cent a year. Tourism Canada is forecasting a travel deficit with the rest of the world of \$2.0 billion by the year 2000.

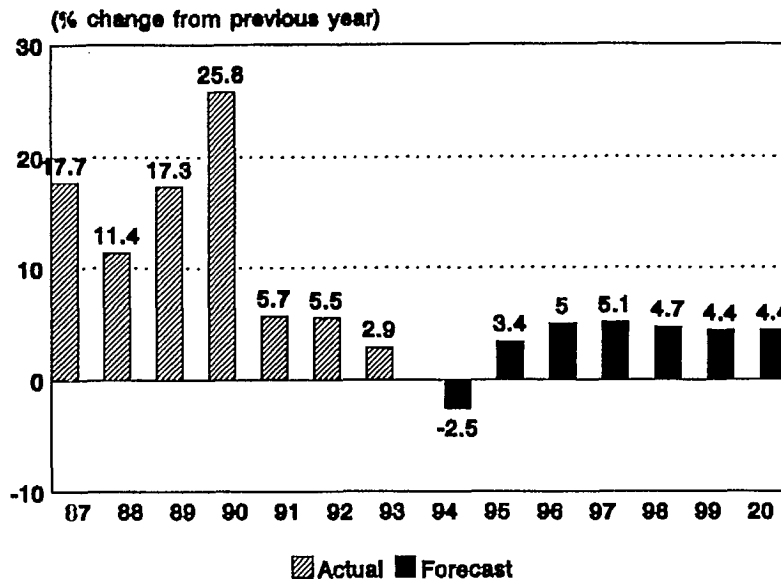
The outlook for Canada's total travel deficit is very optimistic. Tourism Canada expects that the total deficit will drop from \$6.4 billion in 1994 to \$5.8 billion by the year 2000. This 10 per cent decline over the forecast period is welcome news for an industry that saw the travel deficit peak at \$8.2 billion in 1992. As discussed above the decline in the deficit is primarily a result of the low value of the Canadian dollar which has led to higher growth in travel receipts and slower growth in travel payments.

Travel Receipts - Total



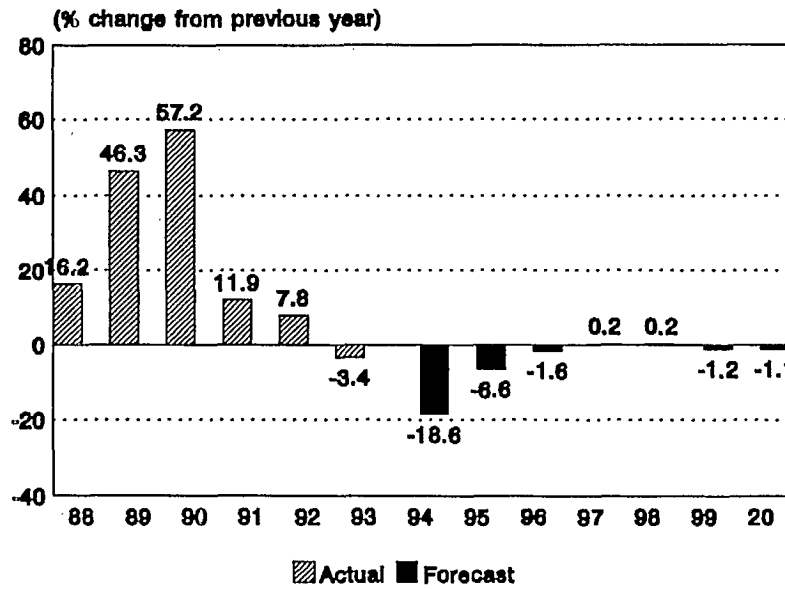
Note: volume in 1986 was \$6,333 million

Travel Payments - Total



Note: volume in 1986 was \$3,828 million

Travel Deficit - Total



Note: deficit in 1987 was \$2,529 million

8. Forecast of Inbound Business and Pleasure Travel

Inbound Pleasure Travel

(volume in thousands and annual percentage change)

United States

1994	1995	1996	1997	1998	1999	2000
7,182 (6.0)	7,584 (5.6)	7,971 (5.1)	8,282 (3.9)	8,555 (3.3)	8,846 (3.4)	9,138 (3.3)

United Kingdom

1994	1995	1996	1997	1998	1999	2000
260.3 (2.5)	275.9 (6.0)	291.1 (5.5)	304.2 (4.5)	319.8 (5.1)	336.7 (5.3)	354.2 (5.2)

France

1994	1995	1996	1997	1998	1999	2000
280.8 (18.0)	314.5 (12.0)	350.7 (11.5)	391.0 (11.5)	435.6 (11.4)	484.4 (11.2)	537.7 (11.0)

Germany

1994	1995	1996	1997	1998	1999	2000
233.3 (9.0)	254.0 (8.9)	278.1 (9.5)	303.5 (9.1)	330.8 (9.0)	360.5 (9.0)	393.0 (9.0)

Japan

1994	1995	1996	1997	1998	1999	2000
283.2 (20.0)	326.2 (15.2)	375.2 (15.0)	426.9 (13.8)	487.1 (14.1)	555.4 (14.0)	633.1 (14.0)

Inbound Business Travel

(volume in thousands and annual percentage change)

United States

1994	1995	1996	1997	1998	1999	2000
1,873 (3.2)	1,929 (3.0)	1,987 (3.0)	2,037 (2.5)	2,067 (1.5)	2,102 (1.7)	2,136 (1.6)

United Kingdom

1994	1995	1996	1997	1998	1999	2000
59.6 (1.0)	61.7 (3.5)	63.4 (2.8)	64.9 (2.4)	66.9 (3.0)	68.9 (3.0)	71.0 (3.1)

France

1994	1995	1996	1997	1998	1999	2000
43.3 (14.0)	46.7 (7.9)	50.2 (7.5)	54.1 (7.6)	58.1 (7.5)	62.2 (7.1)	66.6 (7.0)

Germany

1994	1995	1996	1997	1998	1999	2000
32.6 (5.1)	34.2 (5.0)	36.1 (5.4)	38.0 (5.3)	39.8 (4.8)	41.8 (5.0)	43.9 (5.0)

Japan

1994	1995	1996	1997	1998	1999	2000
106.0 (14.0)	116.7 (10.1)	128.2 (9.9)	138.5 (8.0)	149.7 (8.1)	161.7 (8.0)	174.6 (8.0)

Tourism Canada expects pleasure travel to grow at a slightly faster rate compared with business travel for the major inbound markets to Canada. However, compared with earlier forecasts, the divergence in growth between the two types of travel has lessened as business travel has recovered, somewhat, from the recession. During the recession companies sent fewer employees on business trips and they have also been using new technologies such as teleconferencing in order to reduce travel. Travel expenses are one of the most controllable items available to corporations. The decline in corporate profitability during the recession resulted in significant cuts in travel expenses and a marked reduction in business travel. The economic recovery underway in Europe and North America has led to a rebound in corporate profitability and, as a result, a slight loosening of corporate purse strings. Also, higher economic growth leads to more business opportunities and the necessity to undertake more business travel. Business travel will also benefit from the general move towards free trade in the world economy. The NAFTA and the pending signing of the GATT agreement have reduced trade barriers and resulted in more business opportunities.

Pleasure travel is forecast to perform better than business travel mainly because the Canadian dollar is not expected to appreciate dramatically against the major world currencies. 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 associated with it involves more long range considerations other than exchange rate fluctuations. Pleasure travel will also benefit from less expensive airfares between North America and Europe.

9. Forecast of Overnight Travel Expenditures

The forecasts of travel expenditures from the six major markets are provided in both current and constant dollars. The current dollar forecasts for overseas markets are based on forecasts of the exchange rate, GDP and overnight trips. The U.S. expenditure forecast for pleasure travel is based on forecasts of the exchange rate, income and pleasure trips. Forecasts of gross domestic product, the Canadian unemployment rate are used to derive U.S. business expenditure forecasts. Constant dollar forecasts are calculated by deflating the current dollar forecasts by the Canadian consumer price index (1986=100).

a) Current Dollar Expenditure Forecasts

(volume in millions of \$ and annual percentage change)

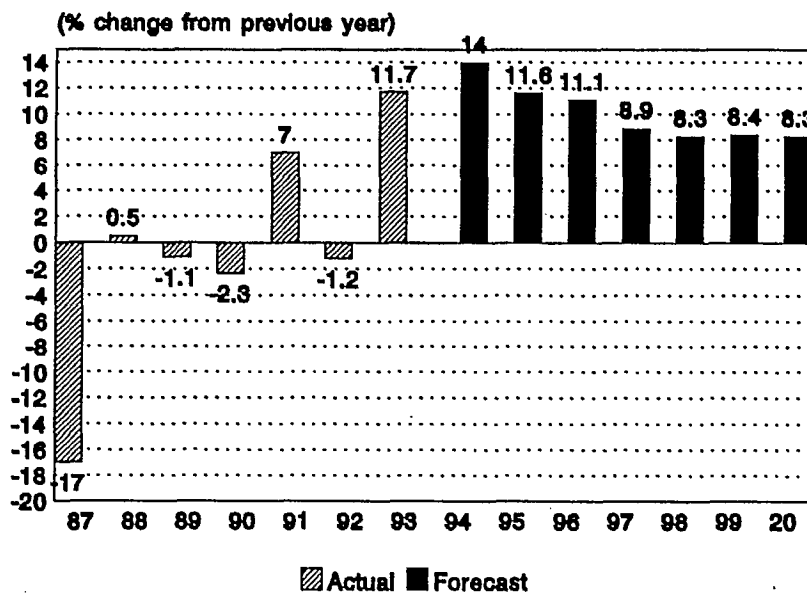
United States - Pleasure

1994	1995	1996	1997	1998	1999	2000
2,741 (14.0)	3,059 (11.6)	3,398 (11.1)	3,701 (8.9)	4,008 (8.3)	4,345 (8.4)	4,705 (8.3)

United States - Business

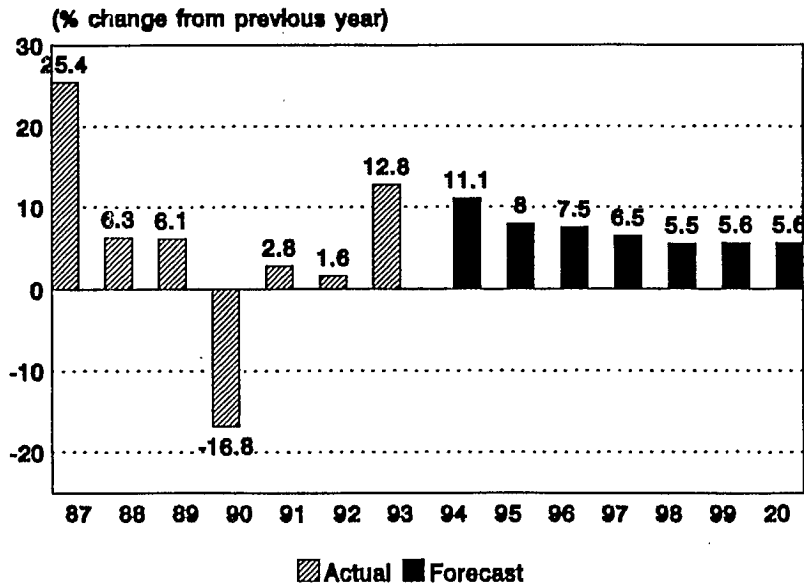
1994	1995	1996	1997	1998	1999	2000
1,092 (11.1)	1,179 (8.0)	1,267 (7.5)	1,350 (6.5)	1,424 (5.5)	1,504 (5.6)	1,588 (5.6)

Overnight Expenditures from the U.S. to Canada - Pleasure



Note: volume in 1986 was \$2,525 million

Overnight Expenditures from the U.S. to Canada - Business



Note: value in 1988 was \$709.8 million

United Kingdom

1994	1995	1996	1997	1998	1999	2000
430.9 (6.5)	471.8 (9.5)	511.9 (8.5)	550.3 (7.5)	594.4 (8.0)	641.9 (8.0)	693.9 (8.1)

France

1994	1995	1996	1997	1998	1999	2000
414.8 (21.0)	479.1 (15.5)	549.0 (14.6)	629.7 (14.7)	721.0 (14.5)	822.7 (14.1)	937.9 (14.0)

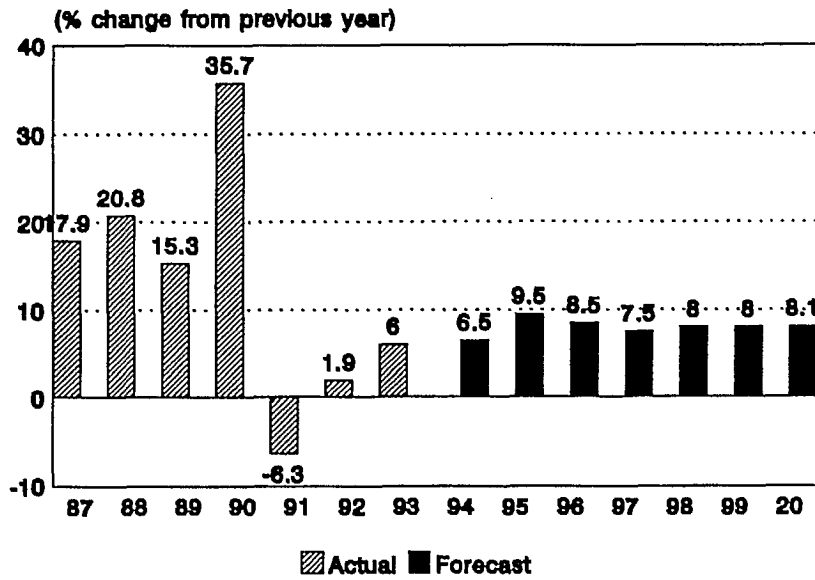
Germany

1994	1995	1996	1997	1998	1999	2000
369.7 (13.0)	415.9 (12.5)	467.9 (12.5)	525.0 (12.2)	588.0 (12.0)	658.6 (12.0)	737.6 (12.0)

Japan

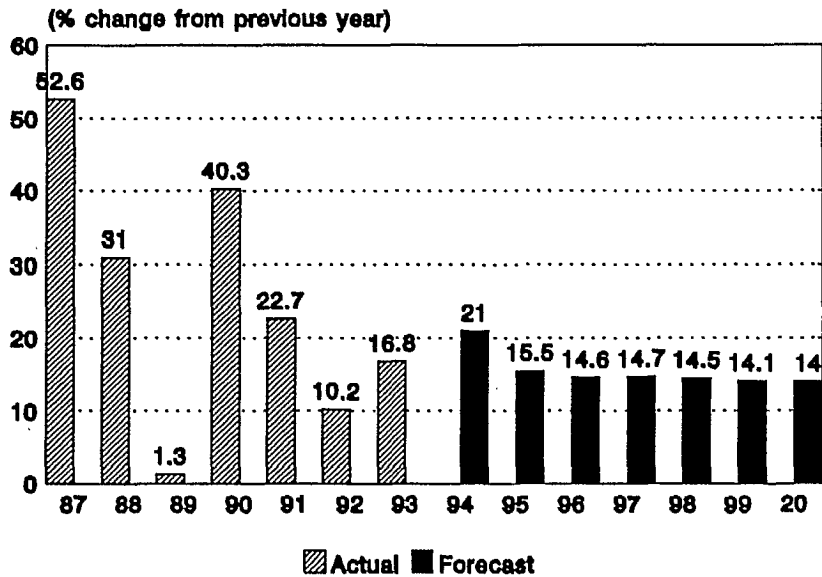
1994	1995	1996	1997	1998	1999	2000
545.6 (21.0)	639.4 (17.2)	748.1 (17.0)	856.6 (14.5)	980.0 (14.4)	1,117 (14.0)	1,273 (14.0)

Overnight Expenditures from the U.K. to Canada



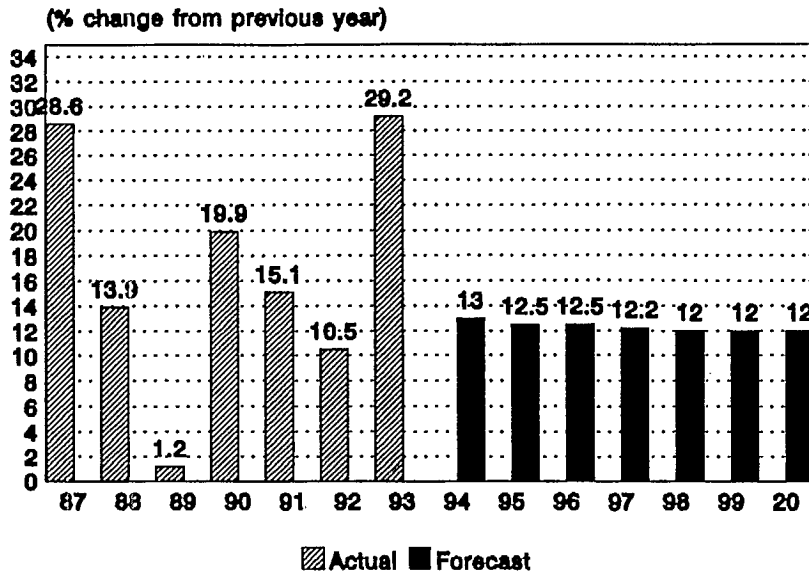
Note: volume in 1986 was \$181.1 million

Overnight Expenditures from France to Canada



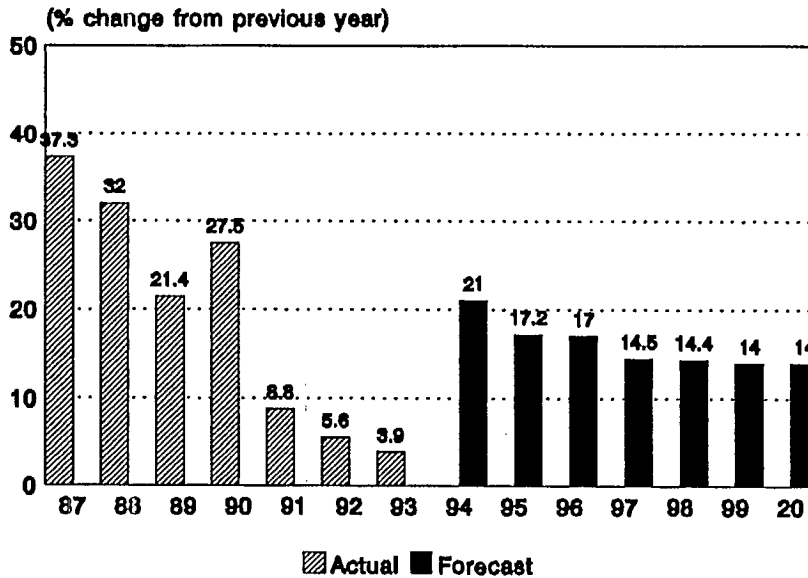
Note: volume in 1986 was \$78.8 million

Overnight Expenditures from Germany to Canada



Note: volume in 1986 was \$113.1 million

Overnight Expenditures from Japan to Canada



Note: volume in 1986 was \$135.9 million

b) **Constant Dollar Expenditure Forecasts**

(volume in millions of 86\$ and annual percentage change)

United States - Pleasure

1994	1995	1996	1997	1998	1999	2000
2,062 (13.6)	2,256 (9.4)	2,458 (9.0)	2,630 (7.0)	2,802 (6.5)	2,986 (6.6)	3,189 (6.8)

United States - Business

1994	1995	1996	1997	1998	1999	2000
809 (10.7)	856 (5.8)	903 (5.5)	945 (4.7)	981 (3.8)	1,019 (3.9)	1,060 (4.0)

United Kingdom

1994	1995	1996	1997	1998	1999	2000
329.5 (6.1)	353.8 (7.4)	376.5 (6.4)	397.4 (5.6)	422.2 (6.2)	448.9 (6.3)	478.0 (6.5)

France

1994	1995	1996	1997	1998	1999	2000
317.3 (20.6)	359.1 (13.2)	403.7 (12.4)	455.2 (12.8)	512.4 (12.6)	575.5 (12.3)	646.0 (12.2)

Germany

1994	1995	1996	1997	1998	1999	2000
282.9 (12.8)	311.8 (10.2)	344.1 (10.3)	379.3 (10.2)	417.9 (10.2)	460.8 (10.3)	508.3 (10.3)

Japan

1994	1995	1996	1997	1998	1999	2000
417.4 (20.7)	479.0 (14.7)	550.0 (14.8)	619.2 (12.6)	696.5 (12.5)	781.1 (12.1)	876.7 (12.2)

The forecasts of expenditures for the United States and the major inbound overseas markets generally follow the same pattern as the overnight trips forecasts. Spending on overnight pleasure trips from the United States will grow at a faster clip compared with business travel. Japan and France are expected to experience the fastest growth in expenditures in both constant and current dollars. Travel spending from Germany and the United Kingdom will grow somewhat slower over the forecast period and this reflects the fact that growth in overnight trips will not be as high compared with the French and Japanese markets.

10. Forecast of Yields

Forecasts of yields are derived by dividing the outlook for overnight travel expenditures by overnight trips. They are provided in both current and constant dollars.

a) Current Dollar Yields Forecast

(volume in millions of \$ and annual percentage change)

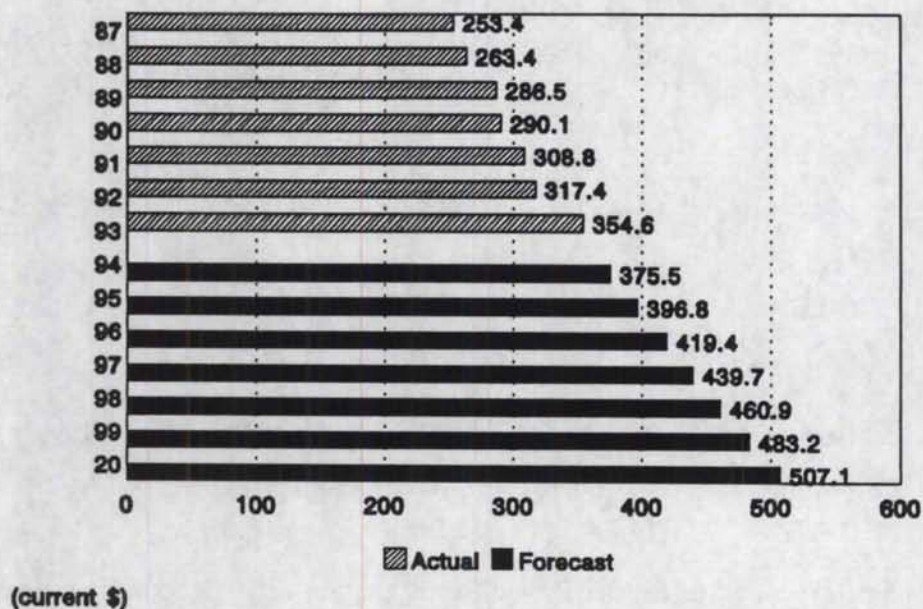
United States - Pleasure

1994	1995	1996	1997	1998	1999	2000
375.5	396.8	419.4	439.7	460.9	483.2	507.1
(5.9)	(5.7)	(5.7)	(4.8)	(4.8)	(4.8)	(4.9)

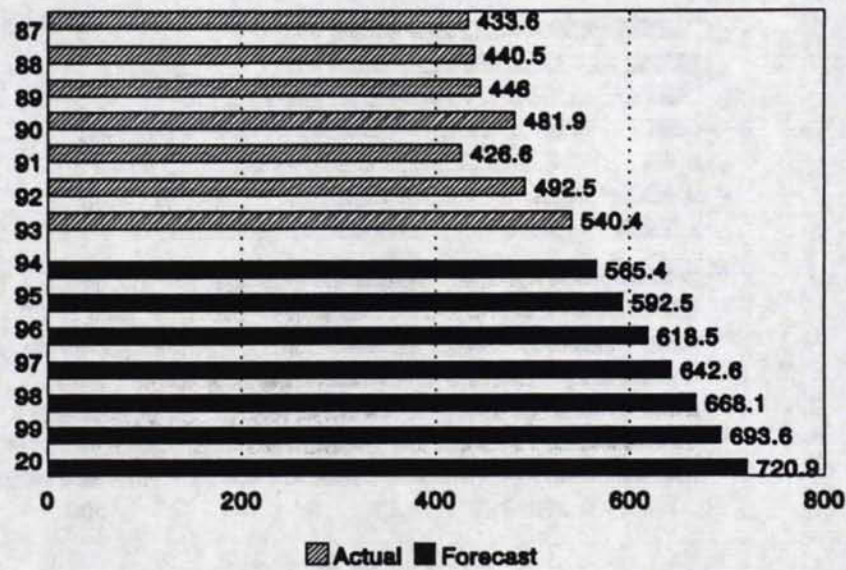
United States - Business

1994	1995	1996	1997	1998	1999	2000
565.4	592.5	618.5	642.6	668.1	693.6	720.9
(4.8)	(4.4)	(3.9)	(4.0)	(3.8)	(3.8)	(3.9)

Yields - U.S. Pleasure



Yields - U.S. Business



(current \$)

United Kingdom

1994	1995	1996	1997	1998	1999	2000
756.1 (4.9)	791.9 (4.7)	825.8 (4.3)	856.7 (3.7)	890.5 (3.9)	923.7 (3.7)	958.6 (3.8)

France

1994	1995	1996	1997	1998	1999	2000
990.5 (4.2)	1,039 (4.9)	1,087 (4.6)	1,137 (4.6)	1,190 (4.6)	1,243 (4.5)	1,299 (4.5)

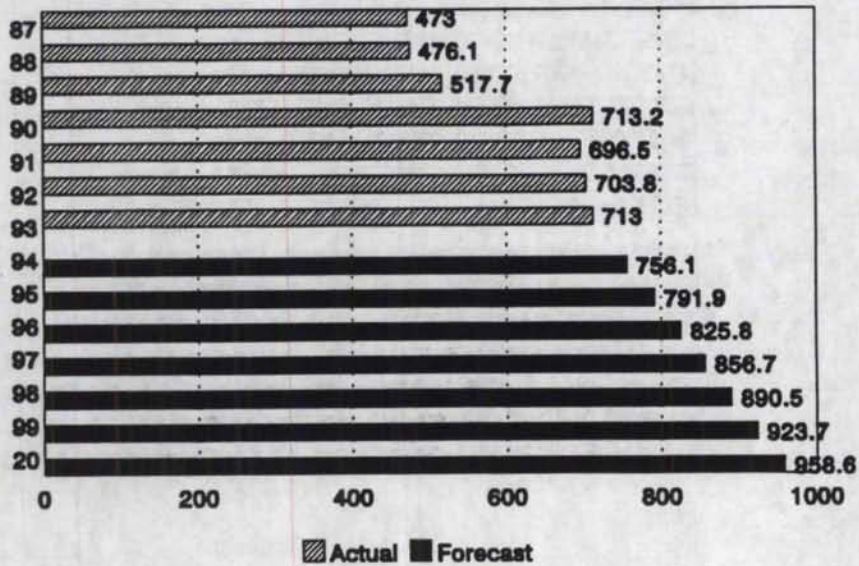
Germany

1994	1995	1996	1997	1998	1999	2000
1,019 (5.7)	1,072 (5.2)	1,122 (4.7)	1,174 (4.6)	1,227 (4.5)	1,287 (4.8)	1,346 (4.6)

Japan

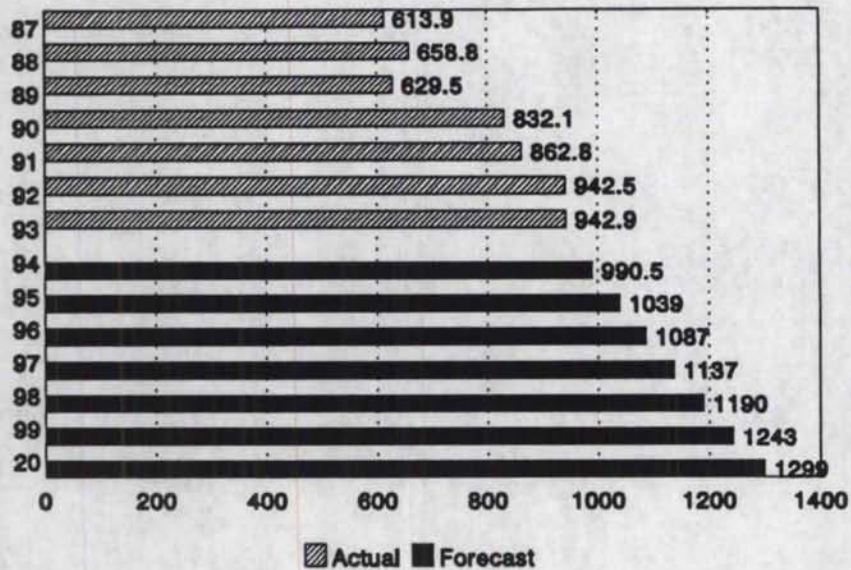
1994	1995	1996	1997	1998	1999	2000
1,142 (3.6)	1,194 (4.6)	1,249 (4.5)	1,300 (4.1)	1,352 (3.9)	1,400 (3.5)	1,450 (3.6)

Yields - U.K.



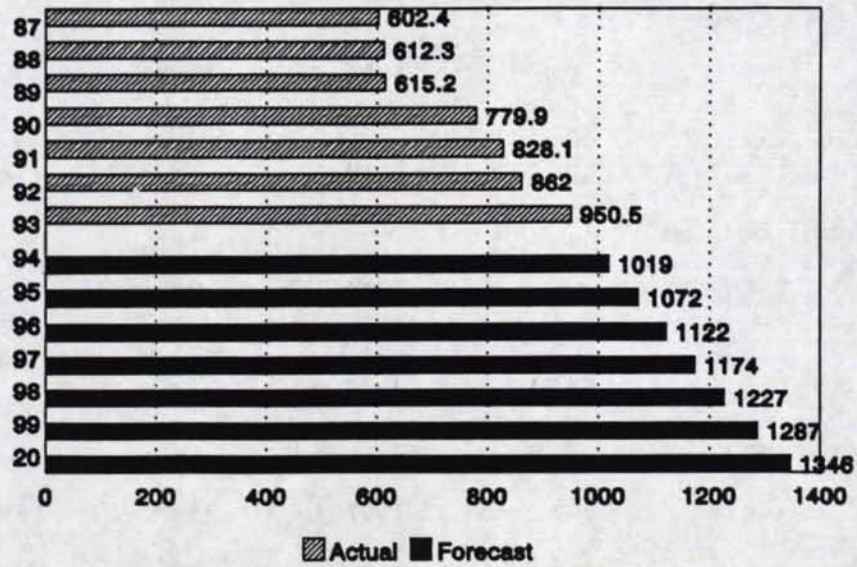
(current \$)

Yields - France



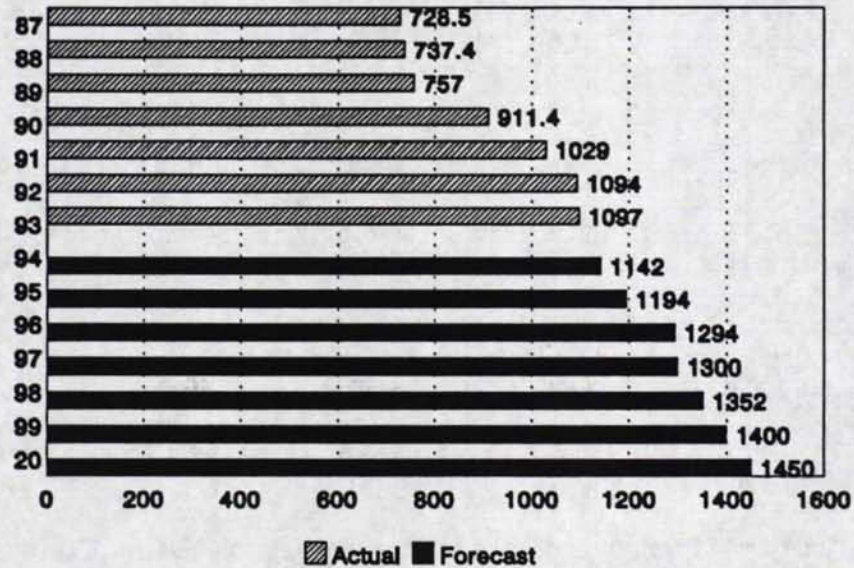
(current \$)

Yields - Germany



(current \$)

Yields - Japan



(current \$)

b) Constant Dollar Yield Forecasts

(volume in millions of 86\$ and annual percentage change)

United States - Pleasure

1994	1995	1996	1997	1998	1999	2000
287.0 (5.6)	297.4 (3.6)	308.4 (3.7)	317.7 (3.0)	327.6 (3.1)	337.9 (3.1)	349.2 (3.4)

United States - Business

1994	1995	1996	1997	1998	1999	2000
432.3 (7.3)	444.3 (2.7)	454.8 (2.4)	464.3 (2.1)	474.8 (2.3)	485.0 (2.1)	496.5 (2.4)

United Kingdom

1994	1995	1996	1997	1998	1999	2000
578.1 (4.6)	593.7 (2.7)	607.2 (2.3)	619.0 (1.9)	632.9 (2.2)	646.0 (2.0)	660.2 (2.2)

France

1994	1995	1996	1997	1998	1999	2000
757.2 (3.9)	778.9 (2.9)	799.4 (2.6)	821.7 (2.8)	845.6 (2.9)	869.4 (2.8)	894.7 (2.9)

Germany

1994	1995	1996	1997	1998	1999	2000
779.3 (5.3)	803.7 (3.1)	825.2 (2.7)	848.6 (2.8)	872.5 (2.8)	900.1 (3.2)	927.5 (3.0)

Japan

1994	1995	1996	1997	1998	1999	2000
873.3 (3.3)	895.3 (2.5)	918.2 (2.5)	939.6 (2.3)	960.7 (2.2)	978.8 (1.9)	998.5 (2.0)

In both constant and current dollars, the highest yielding markets for Canada are Japan, Germany and France with Japan leading the way. Yields from the important U.K. market are lower because of the high portion of VFR traffic. Visitors on these types of trips spend less than pleasure travellers. In the United States, the yield from business trips is higher than the yield on pleasure trips. This reflects the fact that business travellers generally spend more on accommodation compared with pleasure travellers.

11. Aggregate Travel Forecasts

The aggregate travel forecasts are a weighted average of the individual country forecasts. For instance, the forecast for Europe is derived by weighing together the forecasts of the United Kingdom, France and Germany. The forecasts are then adjusted based on travel trends in some of the other major European markets (i.e. Switzerland, Italy).

a) Forecast of Overnight Travel from Europe (volume in thousands, annual percentage change)

1994	1995	1996	1997	1998	1999	2000
1,936 (7.0)	2,073 (7.1)	2,208 (6.5)	2,351 (6.5)	2,506 (6.6)	2,659 (6.1)	2,819 (6.0)

b) Forecast of Overnight Travel from Overseas Destinations (volume in thousands, annual percentage change)

1994	1995	1996	1997	1998	1999	2000
3,334 (8.2)	3,600 (8.0)	3,881 (7.8)	4,172 (7.5)	4,489 (7.6)	4,826 (7.5)	5,188 (7.5)

c) Forecast of Overnight Travel from all International Destinations (volume in thousands, annual percentage change)

1994	1995	1996	1997	1998	1999	2000
15,959 (5.6)	16,793 (5.0)	17,602 (4.2)	18,304 (3.8)	18,931 (3.5)	19,602 (3.5)	20,289 (3.3)

In 1995, travel from all foreign destinations will be a solid 5 per cent mainly because of strength of the Japanese and French travel markets. For the remainder of the forecast period, growth will slow down and in the year 2000 growth of 3.3 per cent is anticipated. The declining trend reflects the fact that growth in travel from the United States will moderate as the Canadian dollar appreciates to its more natural level.

