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International Travel Forecasts

Spring 1996 Update

Canada

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International Travel Forecasts

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INTERNATIONAL TRAVEL FORECASTS

SPRING 1996 UPDATE

A REPORT PREPARED

BY

THE CANADIAN TOURISM RESEARCH INSTITUTE

FOR

THE CANADIAN TOURISM COMMISSION

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Executive Summary

- o The forecast is based on an econometric model that relates economic variables to the historical movements of trips. The forecast output is then adjusted to take into account non-economic factors that have an impact on travel behaviour. Some aspects of the Canadian Tourism Commission's marketing activities are factored in during the adjustment process. However, the resulting forecast should not be mistaken with the marketing targets of the different marketing directorates of the CTC.
- o Travel from the United States will increase by 2.2 per cent this year, a lower increase than the 3.1 per cent that occurred in 1995. A slightly higher valued dollar and weaker economic conditions are the main factors behind the CTC's outlook.
- o In the period 1996-2000, growth in overnight trips from the United States by air will increase at a faster pace than auto travel because the Open Skies agreement has significantly increased the options for American visitors to Canada.
- o Growth in travel from the Middle Atlantic region will be below average in the 1996-97 period because of a relatively weak economic outlook. Travel from the Mountain, Pacific and South Atlantic regions will be strong due to excellent economic prospects.
- o Of Canada's major overseas markets, Japan and Germany will be Canada's fastest growing overseas markets in the 1996-2000 period because of an improving economic outlook and strong currencies. In 1995, growth in French travel declined because of the threat of terrorism in Paris. As these threats subside the CTC expects travel from France to rebound.
- o Strong economic growth and the easing of travel restrictions resulted in tremendous travel growth from Taiwan and South Korea in 1995 (56 and 44 per cent, respectively). While the CTC does not expect this type of growth to persist, the relatively untapped potential in these countries should result in growth in the 20 per cent range in the 1996-2000 period.
- o The decline in travel from Canada to the United States bottomed out in 1995 as a drop of only 2.2 per cent took place. Canadians have become more accustomed to the lower dollar and, consequently, it is not as much of a deterrent. In 1996, positive growth of 0.8 per cent to the United States is anticipated.
- o The Canada-U.S. travel deficit is expected to decline from \$3.6 billion in 1995 to \$2.9 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 \$4.9 billion in 1995 to \$4.7 billion by the year 2000.

- o 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.
- o The optimistic outlook for inbound travel will translate into strong spending growth in the double digit range from France, Germany and Japan. Spending per trip from U.S. pleasure visitors will increase because a greater number of higher yielding air travellers are expected due to Open Skies.
- o Germany is Canada's highest yield market followed closely by Japan and France. Forecasts of yields from the U.K. market are not as high (\$1,221 for Germany versus \$895 for the U.K. in 1996) because of the high VFR traffic in this market.

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 the former 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 Japan

Outbound Trips from Canada to Major Markets

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

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.

The forecast update in 1995 contained some additional new markets including inbound forecasts of expenditures and yields for U.S. pleasure and business, the United Kingdom, France, Germany and Japan. In addition a supplementary report, which was published in February of 1995, included inbound forecasts of overnight trips from Italy, Switzerland, Brazil, Mexico, Taiwan and South Korea.

This update includes, for the first time, a forecast of outbound travel from Canada to Japan. The governments of Canada and Japan have entered into an agreement increase travel between both countries and, given the fact that the Canadian Tourism Commission (CTC) already forecasts travel from Japan to Canada, it became important to gain a greater insight into travel in the other direction.

This report provides a forecast update for the markets developed in the three phases as well as the new trip and expenditure forecasts developed last year. The projections are based on the most recent economic forecasts and the latest market intelligence.

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

The methodology for the new markets, overnight expenditures and yields, differ 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 CTC staff from marketing directorate. 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.

Some aspects of the marketing activity of the CTC are factored in the adjustment to the outputs of the econometric model. However, marketing activities are not yet included in the forecasting model parameters, as a data series of reliable marketing expenditures on each market are not available at this point in time.

The resulting forecast should not be mistaken with the marketing targets of the Canadian Tourism Commission. Each marketing directorate, in light of the conditions in the markets and the marketing activities planned, set targets or goals above the anticipated visitation levels for each of the markets. These objectives are informed by but different from the CTC's annual forecast volumes and should not be confused with them.

3. Definitions

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

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

4. Inbound Travel Forecasts

The economies of many of Canada's major travel markets experienced modest growth in 1995 and, in most cases, this has resulted in strong growth in travel and spending to Canada. The weakness of the Canadian dollar has also been an important factor influencing inbound travel. The forecast for each of the 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 United States 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 the other markets to Canada include:

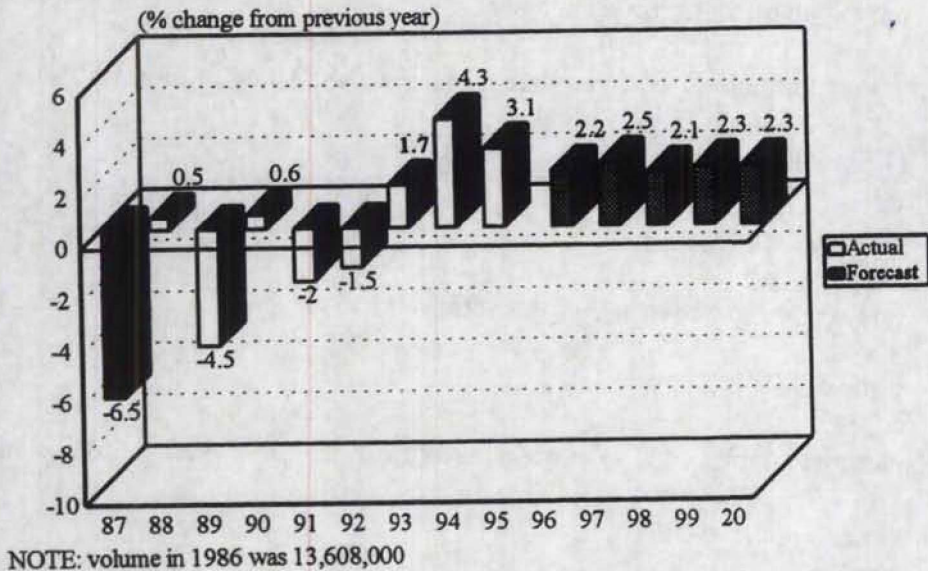
- o home country GDP
- o exchange rate
- o relative prices between the two countries

Note that the exchange rate is not a variable in explaining travel from Brazil to Canada. The introduction of numerous new currencies in this country, a result of hyper-inflation, makes a statistical analysis of the Brazilian currency virtually impossible.

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

1995	1996	1997	1998	1999	2000
12,930	13,215	13,546	13,830	14,148	14,474
(3.1)	(2.2)	(2.5)	(2.1)	(2.3)	(2.3)

Overnight Trips from the U.S. to Canada



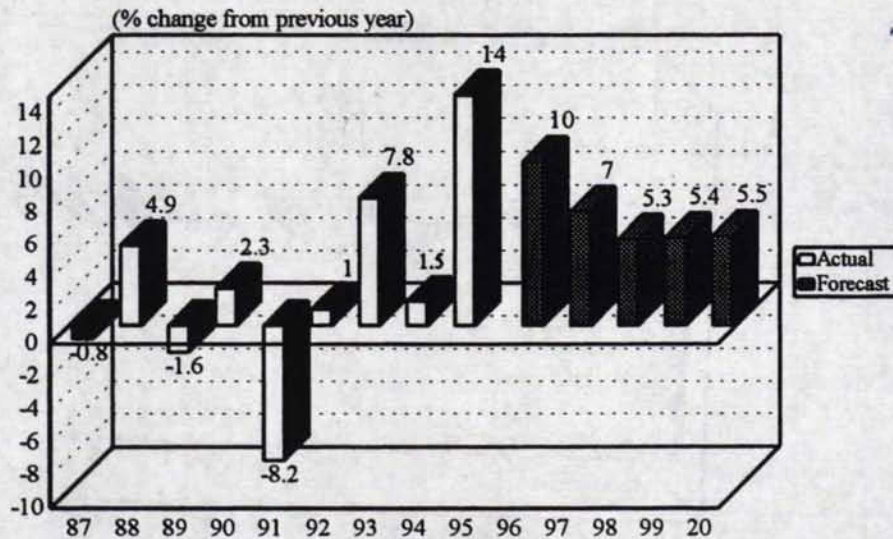
In 1995, U.S. travel to Canada increased by 3.1 per cent, down from the 4.3 per cent increase recorded in 1994. Slower economic growth and a stabilized Canadian dollar account for the slightly slower growth. In 1996, growth in travel from this major market is expected to slowdown to 2.2 per cent. The dollar is forecast to appreciate slightly in 1996 and this factor, combined with slower GDP growth (1.8 per cent in 1996 compared with 2.1 per cent in 1995), should result in slightly less travel growth. The CTC feels that, even though the Canadian dollar has stabilized in the low U.S. 70 cents range, there is still enough momentum in this market to maintain growth of above 2 per cent for the forecast period. In addition, a recession is not anticipated over the forecast horizon.

The other factor to consider when analysing the U.S. market is the impact of new marketing resources. This year, the CTC will spend \$23.5 million in the U.S. market versus \$10.5 million in 1995. Additionally, CTC partners plan to spend \$19 million and this will result in a \$42.5 million U.S. travel marketing program in 1996.

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

1995	1996	1997	1998	1999	2000
2,743	3,017	3,228	3,399	3,583	3,780
(14.0)	(10.0)	(7.0)	(5.3)	(5.4)	(5.5)

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



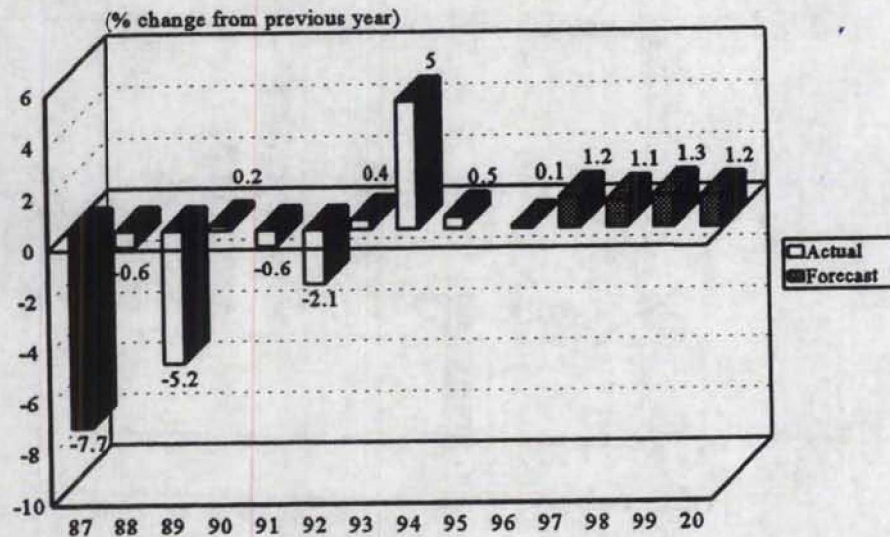
In the fall of 1994 the CTC expected air travel from the United States to increase at a faster rate than other modes of travel (4.6 per cent). Travel by air is less sensitive to general economic conditions such as the exchange rate and GDP. Last year's surge in travel (14 per cent growth) was attributable to the Open Skies agreement. Airlines on both sides of the border have responded to the agreement by opening up new routes especially in the short and medium distance markets. The CTC is actively promoting some of these new routes.

For the remainder of the forecast period, travel by air is expected to grow at a much faster rate than travel by other modes. However, the impact of Open Skies will gradually peter out and, as a result, air travel growth will decline to 10 per cent in 1996 and to around 5 per cent by the end of the decade.

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

1995	1996	1997	1998	1999	2000
10,187	10,197	10,319	10,433	10,569	10,695
(0.5)	(0.1)	(1.2)	(1.1)	(1.3)	(1.2)

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



NOTE: volume in 1986 was 11,349,072

Growth in travel from the United States by other modes of transportation (primarily auto) will increase at a much slower rate compared with air travel. The growth rate in the auto market has been declining for a number of years and, although the projection does not anticipate further declines over the forecast period, a major revival in travel from this market is not expected.

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

	1995	1996	1997	1998
New England	1,364 (3.5)	1,394 (2.2)	1,429 (2.5)	1,457 (2.0)
Middle Atlantic	2,772 (-2.0)	2,744 (-1.0)	2,744 (0.0)	2,758 (0.5)
South Atlantic	1,035 (10.0)	1,078 (4.2)	1,127 (4.5)	1,173 (4.1)
East North Central	3,355 (0.0)	3,422 (2.0)	3,497 (2.2)	3,567 (2.0)

West North Central	809 (6.0)	829 (2.5)	850 (2.5)	868 (2.2)
East South Central	186 (-12.0)	186 (0.0)	186 (0.2)	186 (0.1)
West South Central	361 (16.0)	397 (10.0)	429 (8.0)	463 (8.0)
Mountain	565 (4.0)	583 (3.2)	603 (3.5)	622 (3.1)
Pacific	2,357 (9.0)	2,436 (3.4)	2,526 (3.7)	2,615 (3.5)

Table 1 shows the GDP forecast for the nine U.S. regions in 1996.

Table 1

GDP Forecast for U.S. Regions
(1996, per cent change)

New England	2.3
Middle Atlantic	2.0
South Atlantic	2.6
East North Central	2.4
East South Central	2.9
West North Central	2.3
West South Central	2.9
Mountain	3.7

Pacific	2.9
U.S.A.	2.3

The forecasts of overnight travel from the nine regions to Canada generally reflect the economic circumstances in the different regions. The Middle Atlantic region recorded the slowest economic growth in 1995 and this pattern is expected to continue this year as well. Restructuring in the finance, telecommunications, and hospital industries continues to place negative short-term pressure on employment. The travel data reflects the economic difficulties as in 1995 a decline in growth to Canada from the Middle Atlantic region of 2 per cent occurred and a drop is forecast in 1996. Economic prospects in the New England region are somewhat better and the travel forecasts reflect this optimism. This region has also been the target of significant marketing efforts on the part of the governments of Quebec and the Atlantic provinces.

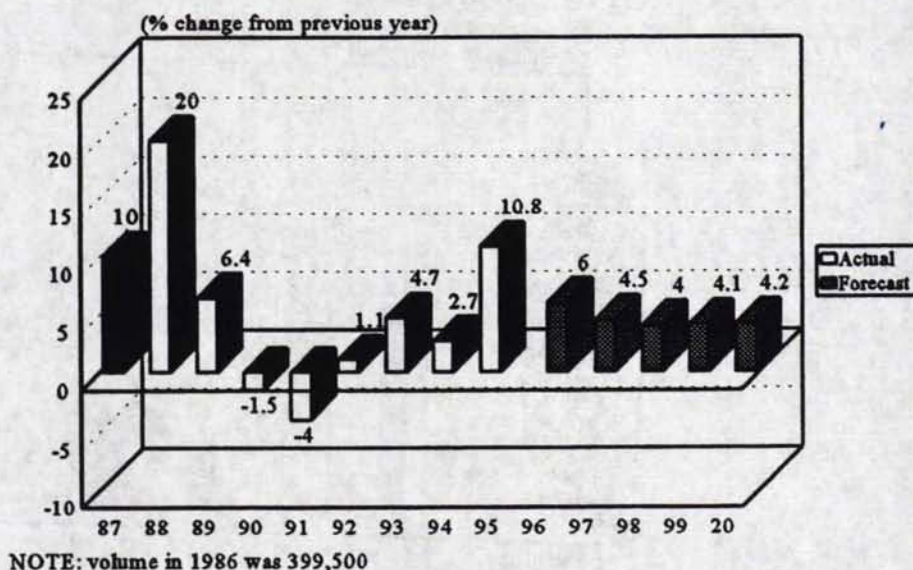
Prospects for travel from the southern states are optimistic mainly because the region will record fairly solid economic growth and experience below average unemployment. The exception to this trend is the East South Central region, where below average growth in travel to Canada is anticipated over the forecast period. This region does not have many large cities and, as a result, air access to Canada is limited. Consequently, the region has been excluded from the increase in air travel to Canada that has taken place due to Open Skies.

Above average growth is forecast for the Pacific and Mountain regions mainly because of promising economic growth and low unemployment. The rebound in the California economy is welcome news for the Canadian travel industry especially in western Canada. The continued strong demand for high-technology products world-wide is supporting high-tech activity throughout the state and offsetting some of the damage caused by the downturn in the government sector. Domestically, real spending on high-tech equipment has grown at an annualized rate of 15 per cent in the 1993-95 period.

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

1995	1996	1997	1998	1999	2000
639.3	677.7	708.2	736.5	766.7	798.9
(10.8)	(6.0)	(4.5)	(4.0)	(4.1)	(4.2)

Overnight Trips from the U.K. to Canada



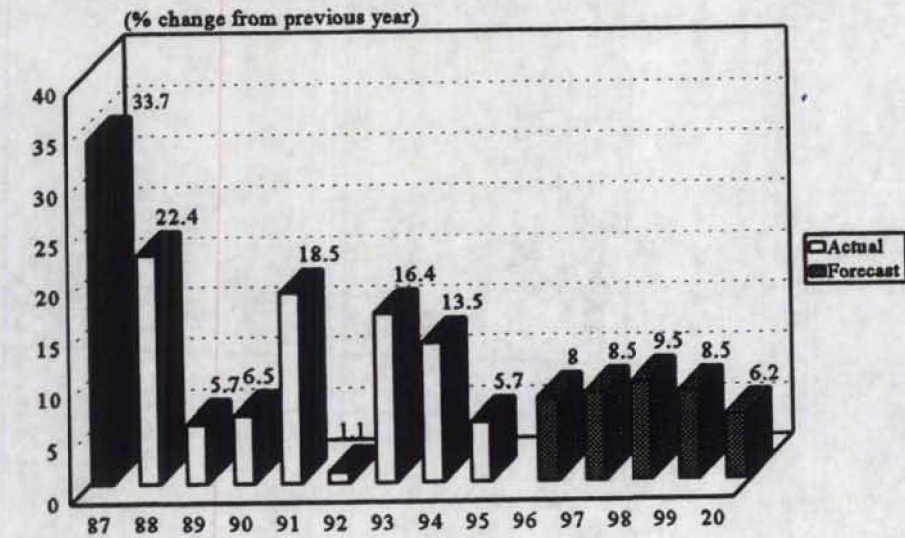
In the fall of 1994, the CTC anticipated fairly solid growth in overnight travel from the United Kingdom (4.5 per cent). Growth was much stronger than expected (10.8 per cent) and there appears to be three factors behind the high growth. First, the decline in economic activity in the United Kingdom has bottomed out and a gradual improvement in the economy is expected. GDP grew by 2.6 per cent last year and growth of 2.3 and 2.9 per cent is forecast for 1996 and 1997 respectively. Second, the appreciation of the pound against the Canadian dollar over the past few years has made travel to Canada a bargain. In 1993 it cost U.K. residents .51 of a pound to buy one Canadian dollar while in 1995 the comparable cost was .45. The third factor has to do with marketing. The CTC has targeted a younger age group in the United Kingdom and the strategy has been successful in boosting travel to Canada.

In 1996, the impact of the marketing program is expected to gradually peter out. As a result, growth will decline to 6 per cent. The moderation in growth over the forecast period is also attributable to the fact that the pound is expected to stabilize against the dollar and, consequently additional depreciation is not anticipated over the forecast period. This will make travel to Canada slightly less attractive.

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

1995	1996	1997	1998	1999	2000
433.3	468.0	507.8	556.0	603.3	640.7
(5.7)	(8.0)	(8.5)	(9.5)	(8.5)	(6.2)

Overnight Trips from France to Canada



NOTE: volume in 1986 was 140,300

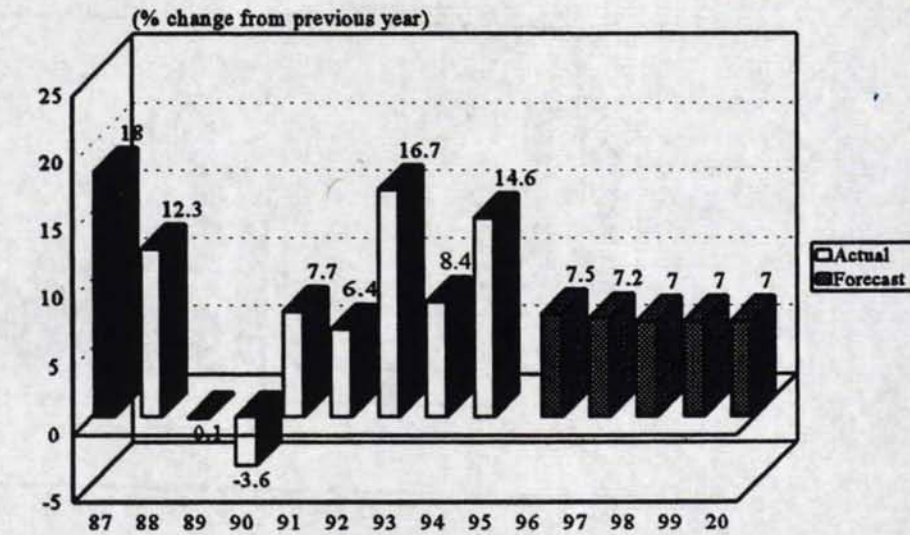
The CTC expected higher growth in travel from France in 1995 given the fact that double digit growth occurred in 1993-94. Last year, the franc remained at a level that made travel to Canada very attractive and the economy, while certainly not booming, experienced fairly solid growth of 2.5 per cent. The reason for the decline in growth appears to be related to non-economic factors. Specifically, the threat of terrorism resulting from the problems stemming from Islamic fundamentalists in Algeria caused some potential international travellers to Canada to forego their trips. Terrorist attacks in Paris, which is the focal point of most international flights from France, were certainly a major factor. Also, last year was an election year in France and, historically, the French tend to stay at home during these periods.

In 1996, the CTC expects travel growth will rebound to 8 per cent because it is assumed that the threat of terrorism will begin to subside. By 1998, even higher growth is anticipated (9.5 per cent) as some of the social and labour unrest, which currently afflicts the French economy, will also come to an end. The French franc is forecast to remain at a very competitive level vis-à-vis the Canadian dollar for the remainder of the forecast period.

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

1995	1996	1997	1998	1999	2000
420.6	452.1	484.7	518.6	554.9	593.8
(14.6)	(7.5)	(7.2)	(7.0)	(7.0)	(7.0)

Overnight Trips from Germany to Canada



NOTE: volume in 1986 was 198,300

Travel growth of 14.6 per cent in 1995 surpassed the expectations of the CTC. Last year growth in the 7 per cent range was expected. It is interesting that the strong growth took place despite the fact that the German economy only grew by 1.5 per cent in 1995. Clearly, the high value of the German mark has made Canada a very inexpensive destination for the German traveller and they will continue to travel to Canada even though economic growth has been stagnant (this year GDP growth of only 1.1 per cent is expected).

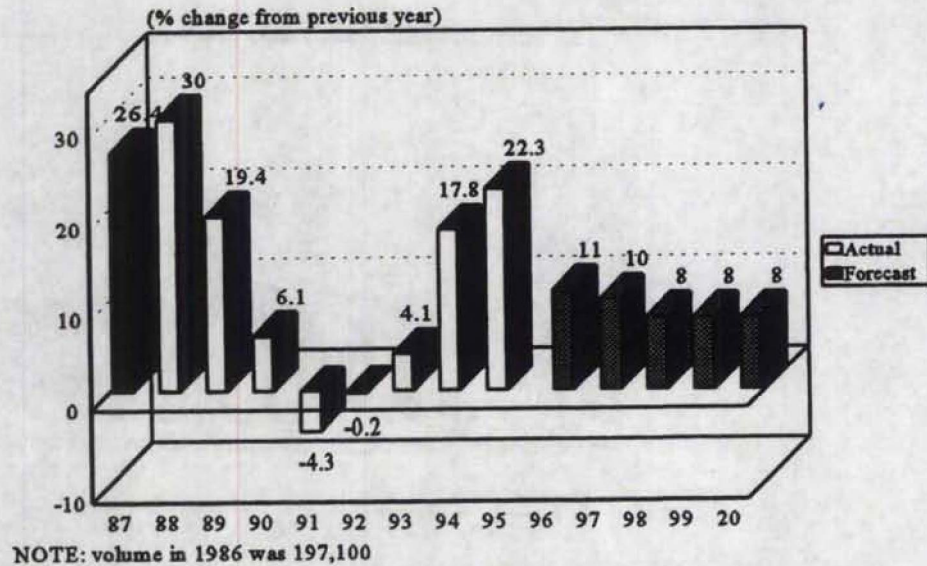
The other factor that could explain the surge in growth last year has to do with the ski market. Travel to Canada in the off-peak winter season was excellent in 1995 due to a combination of CTC marketing initiatives and the poor ski season in Europe, which resulted in more Germans skiing in Canada. In 1996 and for the remainder of the forecast period, the impact of this marketing initiative is expected to level off and growth will return to the 7 per cent range. Also, the depreciation of the Canadian dollar against the mark will gradually subside, thereby making travel to Canada more expensive.

h) Forecast of Overnight Travel from Japan

(volume in thousands and annual percentage change)

1995	1996	1997	1998	1999	2000
588.3	653.0	718.3	775.7	837.8	904.8
(22.3)	(11.0)	(10.0)	(8.0)	(8.0)	(8.0)

Overnight Trips from Japan to Canada



In 1995, overnight travel from Japan surpassed the rosy projection made by the CTC in the fall of 1994. At that time strong growth of 12 per cent was expected which was about 100 per cent less than the almost 23 per cent growth that transpired in 1995. Some of the factors responsible for the dramatic growth included a revival in economic activity in Japan, the high value of the yen, the opening up of the Kansai airport and the joint agreement between the Canadian and Japanese governments to significantly increase two-way travel between the two countries. Other notable factors were the low cost of tour packages, which are popular among Japanese travellers, and the fact that Canada has been stealing market share from the United States, a result of the widespread media reports of violence particularly in Florida. A combination of these economic and non-economic factors were responsible for the higher than expected growth.

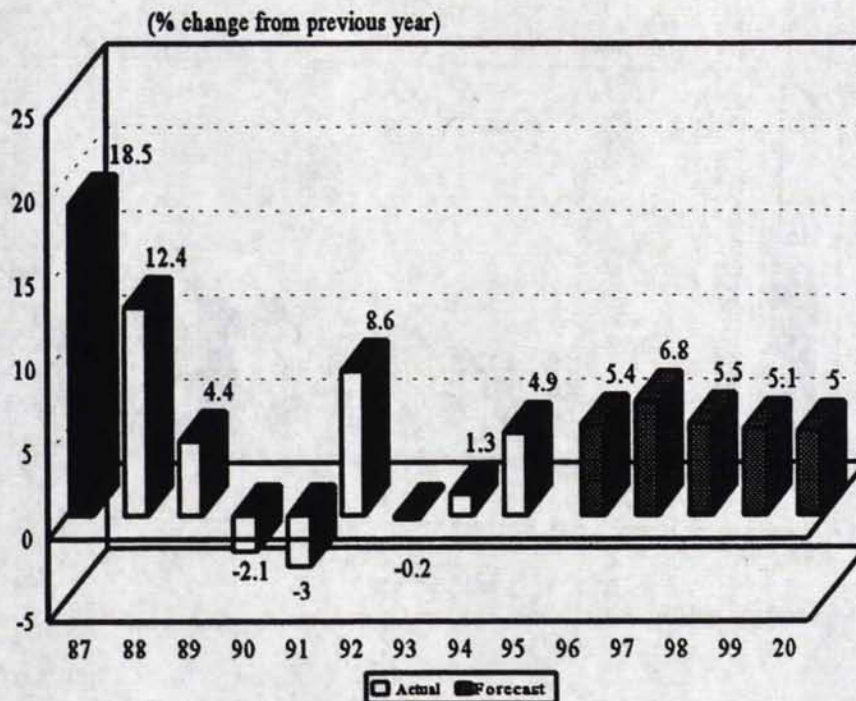
This year and for the remainder of the forecast period, growth is expected to slowdown from the 22.3 per cent recorded in 1995. The CTC feels that increased competition from Europe, a result of the new trans-Siberian air routes will cut into Japanese travel to Canada. In addition, the yen, which has been appreciating dramatically against the Canadian dollar, is expected to stabilize in 1996 and beyond.

i) Forecast of Overnight Travel from Italy

(volume in thousands and annual percentage change)

1995	1996	1997	1998	1999	2000
100.7	106.1	113.3	119.6	125.7	132.0
(4.9)	(5.4)	(6.8)	(5.5)	(5.1)	(5.0)

Overnight Trips from Italy to Canada



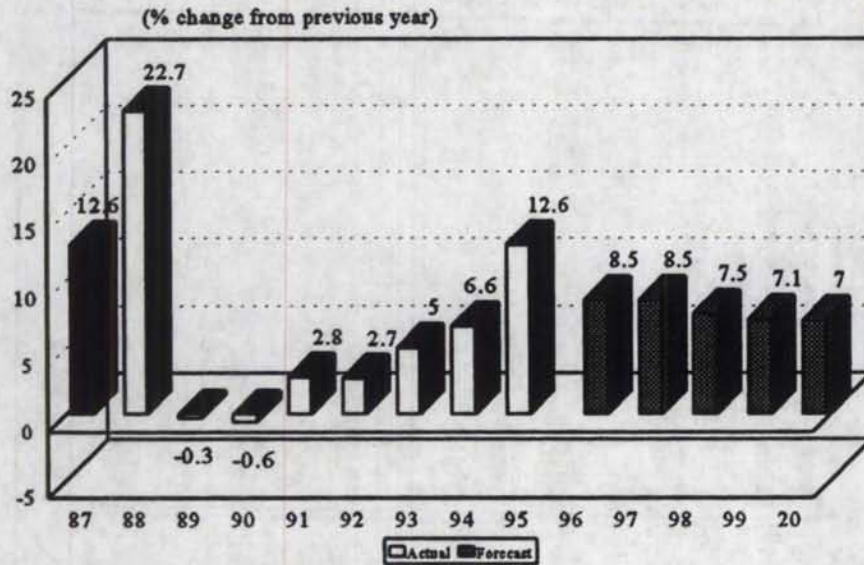
Note: volume in 1986 was 66,759

Travel from Italy to Canada has not grown as dramatically as the growth recorded in some of the other European markets. The Italian lira is one of Europe's weaker currencies and, consequently, the lira hasn't appreciated against the Canadian dollar as much as, for instance, the mark or pound has. As a result, for the Italian visitor travel to Canada is not as much of a bargain. Over the forecast period travel from Italy is forecast to increase in the 5 per cent range. This year GDP in Italy will increase by 2.4 per cent and in 1997 growth of 2.3 per cent is expected.

j) Forecast of Overnight Travel from Switzerland (volume in thousands and annual percentage change)

1995	1996	1997	1998	1999	2000
101.8	110.4	119.8	128.8	138.0	147.6
(12.6)	(8.5)	(8.5)	(7.5)	(7.1)	(7.0)

Overnight Trips from Switzerland to Canada

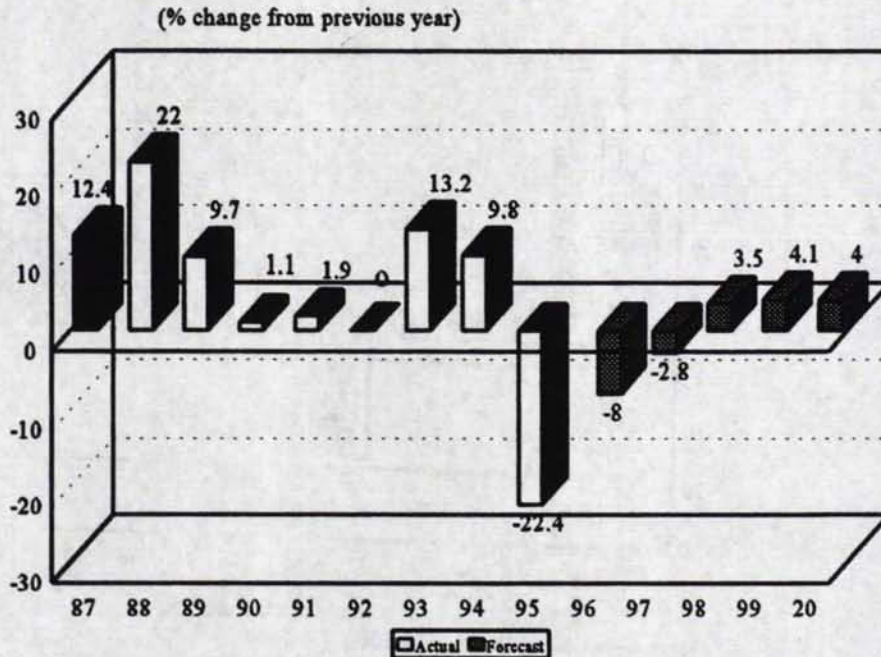


Overnight travel from Switzerland grew by 12.6 per cent in 1995 as the high value of the Swiss franc, much like the German mark, makes travel to Canada a very attractive option for Swiss travellers. Growth is expected to decline marginally for the remainder of the forecast period as the Canadian dollar levels off against the franc. However, growth is still expected to be strong and this reflects a development with respect to air access which will benefit Canada, particularly Quebec. Currently, Swiss Air does not fly to Montreal because of the expenses involved with maintaining two offices in both Mirabel and Dorval. The closing of Mirabel to passenger traffic implies that there is a reasonable chance that Swiss Air will resume direct flights to Dorval. This will boost travel from the French Swiss segment of the population. It is likely that easier air access will encourage the French Swiss to visit Quebec.

k) Forecast of Overnight Travel from Mexico (volume in thousands and annual percentage change)

1995	1996	1997	1998	1999	2000
66.1	61.2	59.5	61.6	64.1	66.7
(-22.4)	(-8.0)	(-2.8)	(3.5)	(4.1)	(4.0)

Overnight Trips from Mexico to Canada

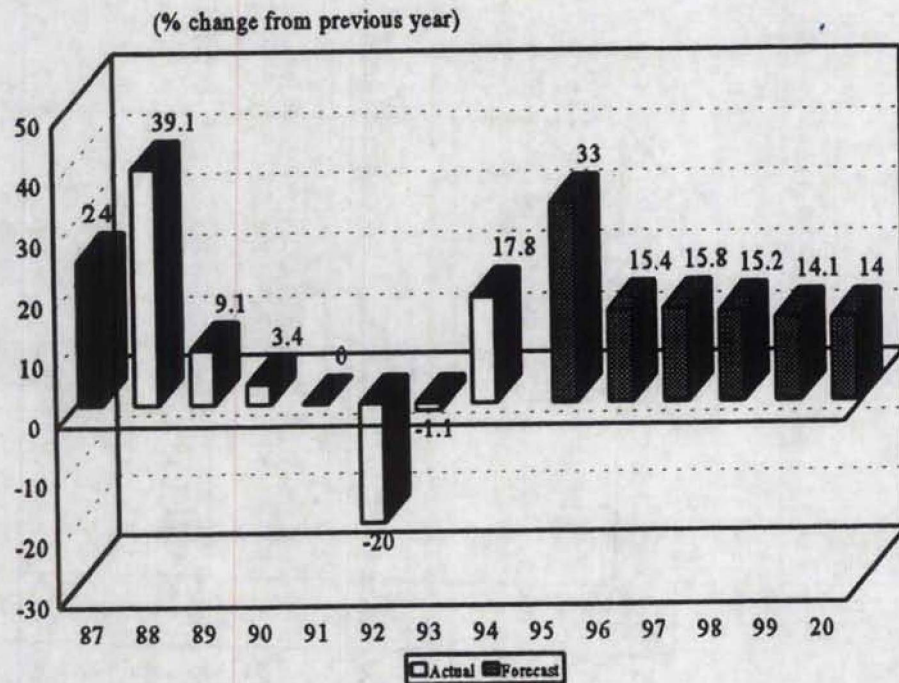


Declining economic growth and a weak currency resulted in a dramatic 22.4 per cent decline in travel from Mexico to Canada in 1995. The negative trend is forecast to continue in 1996-97 because the Mexican peso, while on the rebound, will remain well below the level attained before the 1994 crisis. Economic growth will also be constrained. The CTC expects that it will take until 1998 before positive growth in travel to Canada will take place. Given the volatility that exists in the Mexican economy, there could well be some downside risk with respect to this projection.

l) Forecast of Overnight Travel from Brazil (volume in thousands and annual percentage change)

1995	1996	1997	1998	1999	2000
41.5	47.9	55.5	63.9	72.9	83.1
(33.0)	(15.4)	(15.8)	(15.2)	(14.1)	(14.0)

Overnight Trips from Brazil to Canada



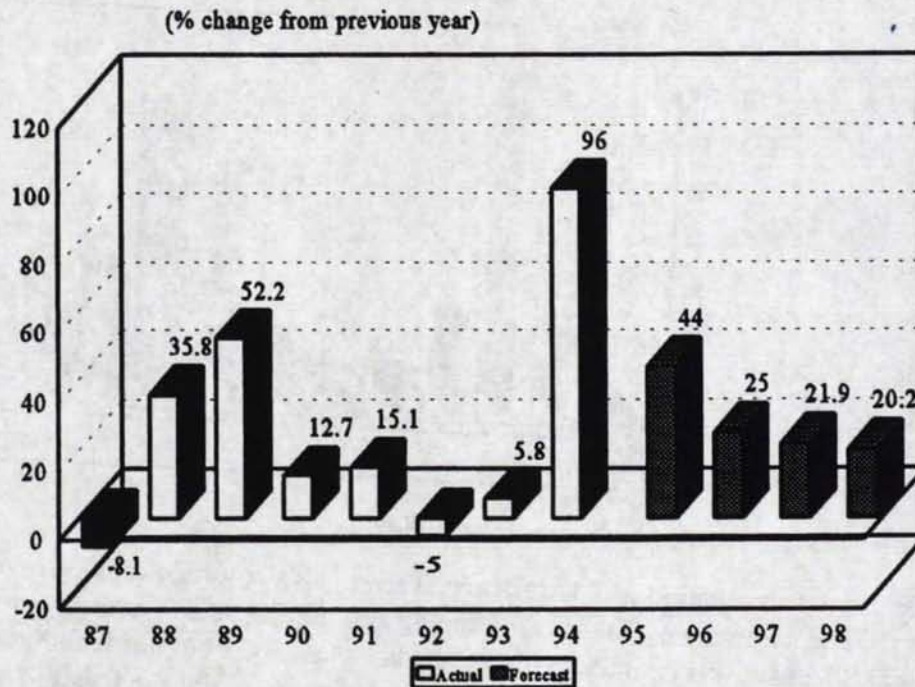
Note: volume in 1986 was 17,100

Overnight travel from Brazil increased by 33 per cent in 1995 in part because the Brazil economy has managed to bring the rate of inflation down to more manageable levels. This has enabled the economy to grow at fairly solid rates and also created a climate for greater exchange rate stability. The CTC does not expect travel growth to continue at the pace recorded in 1995. Nevertheless, high growth in the 15 per cent range is anticipated over the forecast period. As the Brazil economy continues to improve more Brazilians will be in a position to consider international travel.

m) Forecast of Overnight Travel from South Korea (volume in thousands and annual percentage change)

1995	1996	1997	1998
123.2	154.0	187.8	225.7
(44.0)	(25.0)	(21.9)	(20.2)

Overnight Trips from South Korea to Canada



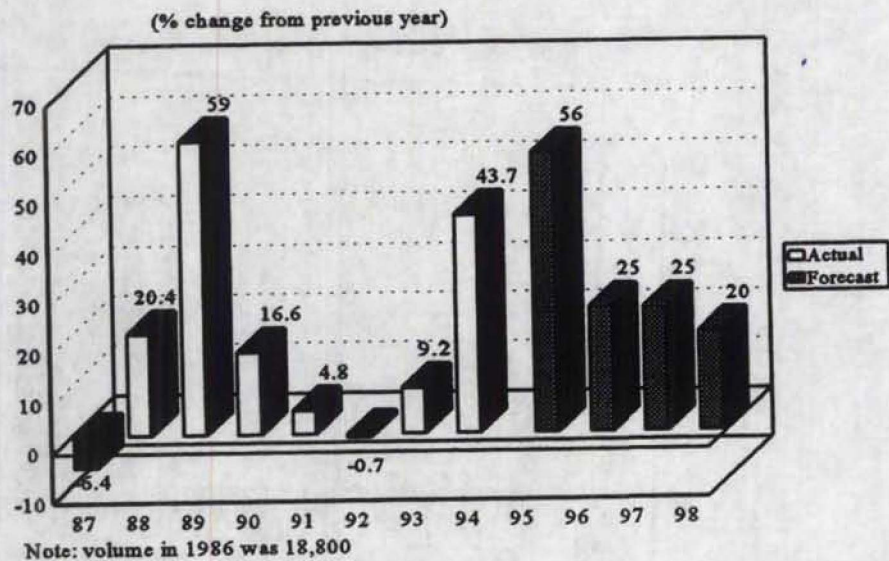
Note: volume in 1986 was 16,100

A combination of rapid economic growth, Air Canada's new route to Seoul and the waving of visa requirements resulted in explosive overnight growth of 44 per cent to Canada from South Korea in 1995. For the remainder of the forecast period, the CTC does not believe that this type of growth can be maintained. It is felt that the effect of waving the visa requirement will gradually taper off. However, growth of more than 20 per cent is expected as the economy continues to record GDP growth in 6-8 per cent range. In addition, Air Canada is exploring the possibility of obtaining more capacity.

n) Forecast of Overnight Travel from Taiwan (volume in thousands and annual percentage change)

1995	1996	1997	1998
106.0	132.6	165.7	198.8
(56.0)	(25.0)	(25.0)	(20.0)

Overnight Trips from Taiwan to Canada



Similar to the situation in South Korea, Taiwan also recorded rapid growth in 1995 of 56 per cent. The economy of Taiwan is booming and the Canadian government has made it much easier for residents of this country to visit Canada. The CTC does not feel that the 56 per cent growth experienced in 1995 can be maintained for the remainder of the forecast period. Growth of between 20 to 25 per cent is expected. The one negative factor that could affect travel from Taiwan is the relationship with mainland China. To the extent that the difficulties persist and cut into Taiwan's economic growth, a lower volume of visitors to Canada could occur.

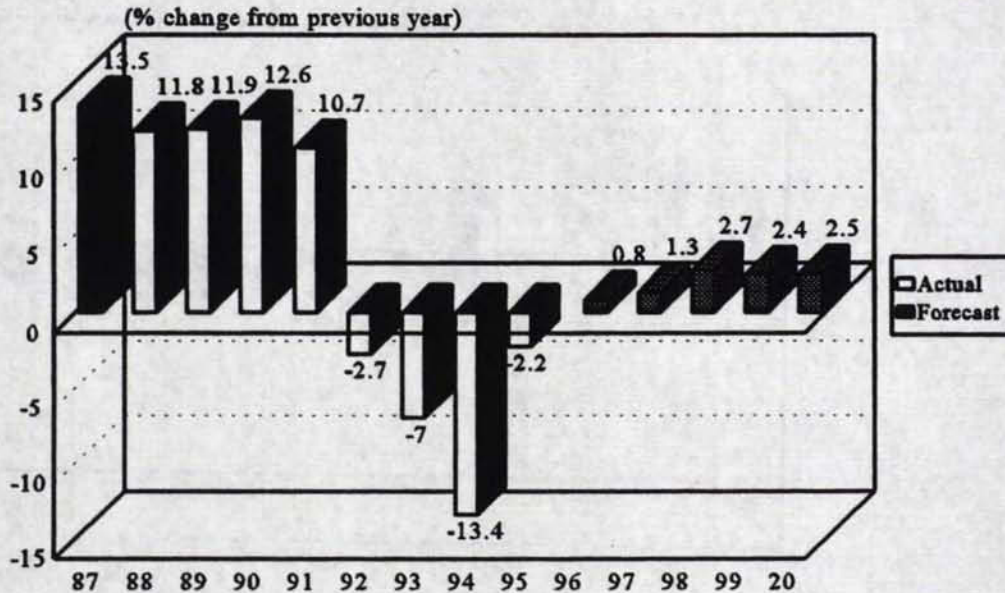
5. Outbound Travel Forecasts

The outbound travel forecasts are based on the exchange rate and Canada's real disposable income. As the dollar depreciates Canadian are inclined to make fewer visits to both the United States and Japan. Similarly, a decline in the growth of real disposable income will result in fewer international visits as Canadians cut back on discretionary spending.

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

1995	1996	1997	1998	1999	2000
14,648	14,765	14,957	15,360	15,729	16,123
(-2.2)	(0.8)	(1.3)	(2.7)	(2.4)	(2.5)

Overnight Trips from Canada to the U.S.



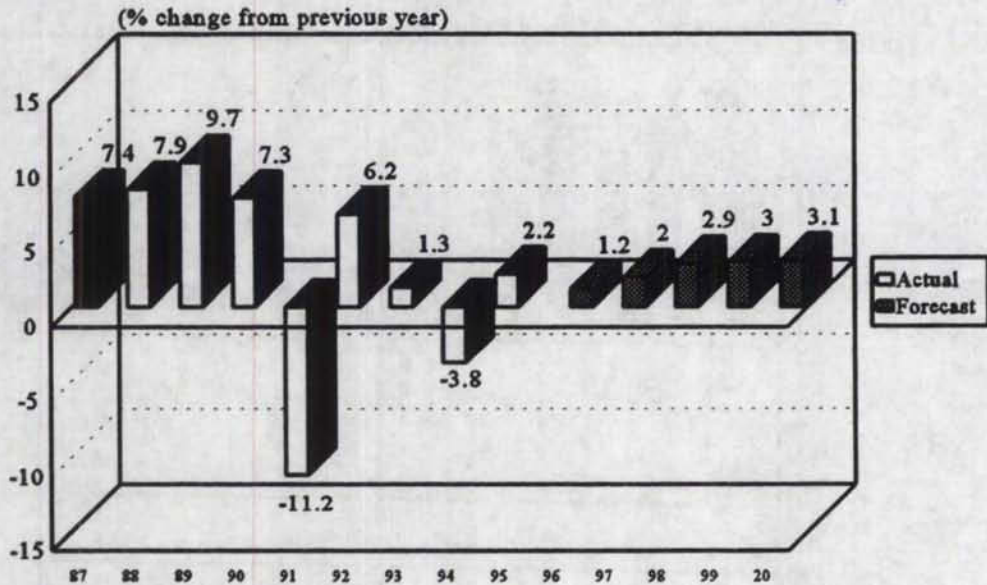
NOTE: volume in 1986 was 10,793,000

In the last forecast, update the CTC expected the decline in outbound travel would stop in 1995 as zero growth was expected. Overnight trips actually declined in 1995 but the drop of 2.5 per cent was far less than the double digit decline experienced in 1994. This year, the CTC is forecasting growth of 0.8 per cent and this growth rate is expected to increase to above 2 per cent by the year 2000. The main factor influencing travel to the United States is the exchange rate. The Conference Board expects the Canadian dollar to gradually appreciate until the year 2000 and this factor will make travel to the United States less expensive. In 1996, the dollar will trade at around U.S. 73 cents and by the year 2000 a rate of about U.S. 74 cents is anticipated. The other factor influencing travel to the United States is the fact that Canadians have become accustomed to the low dollar and its low value is not as much of a deterrent as it was in the 1993-94 period.

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

1995	1996	1997	1998	1999	2000
3,792	3,837	3,914	4,027	4,148	4,277
(2.2)	(1.2)	(2.0)	(2.9)	(3.0)	(3.1)

Overnight Trips from Canada to the United States by Air



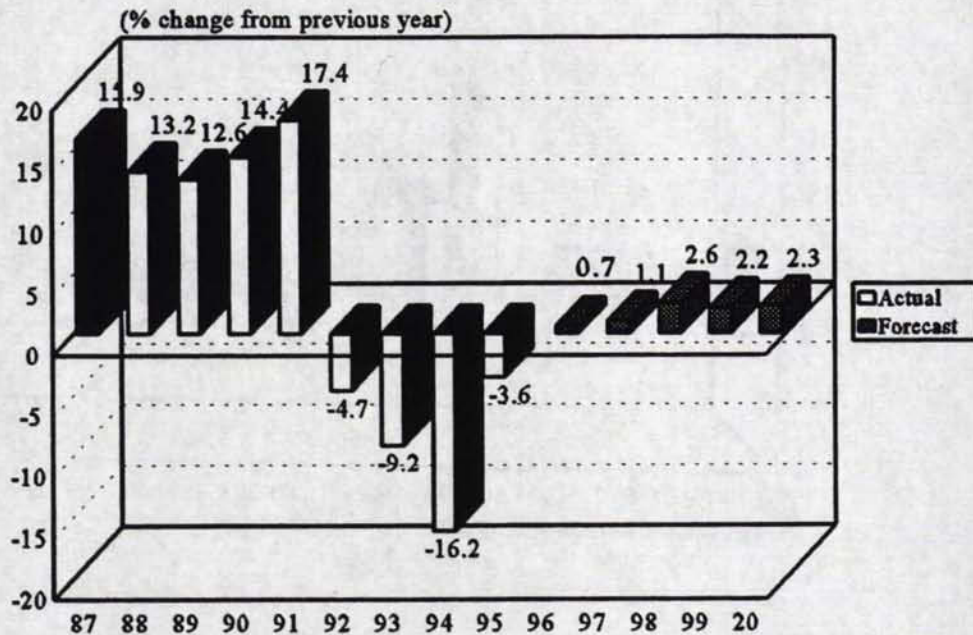
The Open Skies agreement has not had the same impact on Canadian travel to the United States by air as has been the case with air travel going in the other direction. This is because popular destinations in the United States that attracts Canadians already have excellent air access and, as a result, there has not been as much room for growth in this market. The CTC expects that travel by air will grow at a slightly faster rate than travel by other modes over the forecast period mainly because air travel is less sensitive to general economic conditions and exchange rate fluctuations.

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

1995	1996	1997	1998	1999	2000
10,856	10,932	11,052	11,339	11,589	11,856
(-3.6)	(0.7)	(1.1)	(2.6)	(2.2)	(2.3)

This forecast primarily reflects travel to the United States by auto. The decline of 3.6 per cent in 1995 is due to the fact that travel by auto is more sensitive to the low value of the Canadian dollar compared with air travel. Over the forecast period, the gradual appreciation of the dollar will result in modest growth in the auto market.

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



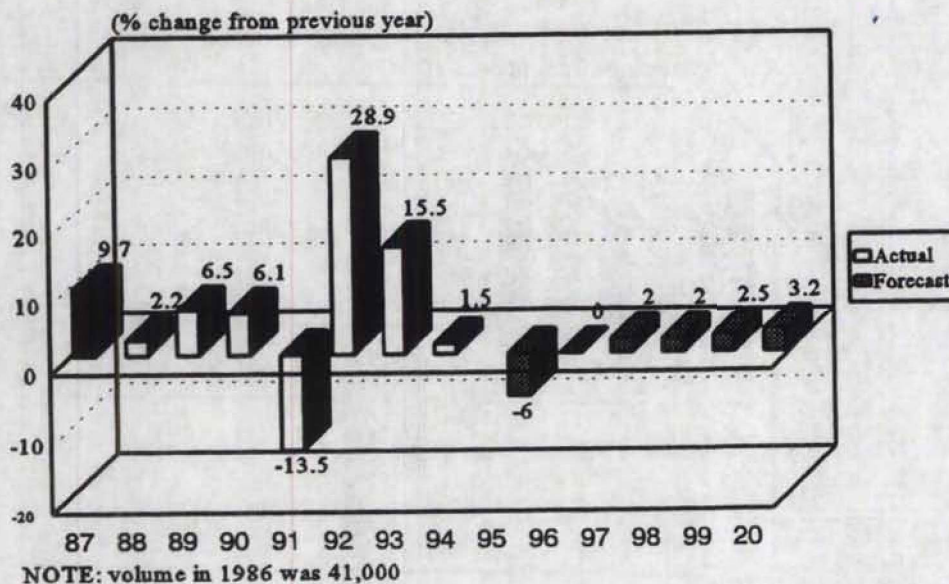
NOTE: volume in 1986 was 7,827,921

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

1995	1996	1997	1998	1999	2000
64.2	64.2	65.4	66.7	68.4	70.6
(-6.0)	(0.0)	(2.0)	(2.0)	(2.5)	(3.2)

In 1995, travel to Japan declined by 6 per cent mainly because the high value of the Japanese yen discouraged Canadians from visiting this country. As the Canadian dollar stabilizes against the yen during the remainder of the forecast period, modest growth in travel to Japan is forecast. Growth will not be strong because, even though the yen is not expected to appreciate dramatically, its present level will continue to deter visits from Canada. Note that travel from Canada to Germany as well as other countries with appreciating exchange rates also declined in 1995.

Overnight Trips from Canada to Japan



6. Travel Receipts, Payments and Deficit

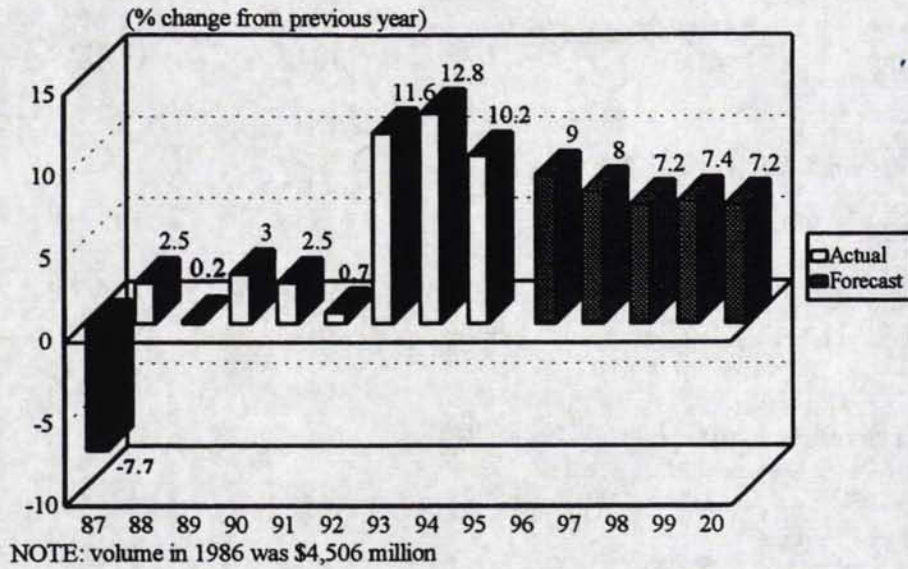
Canada's total travel deficit will decline over the forecast period because Canadians will spend less on travel to the United States and Europe while foreign visitors, especially from Japan and Germany, will spend more in Canada. The forecast of U.S. receipts is based on the exchange rate, U.S. disposable 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 U.S. receipts and payments forecasts from the Conference Board's forecast of total receipts and payments.

Forecast of Travel Receipts, Payments and Deficit (volume in millions and annual percentage change)

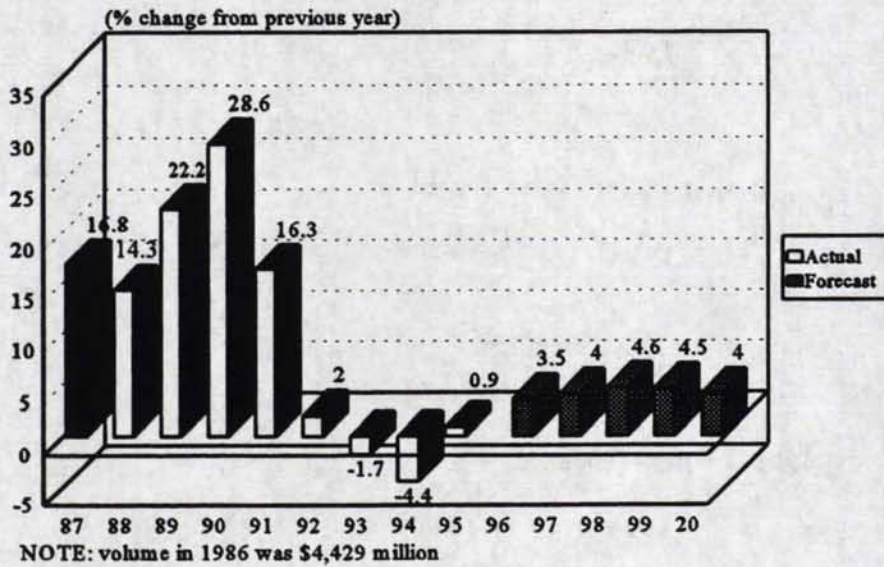
Travel Receipts - U.S.

1995	1996	1997	1998	1999	2000
6,320	6,889	7,440	7,976	8,566	9,183
(10.2)	(9.0)	(8.0)	(7.2)	(7.4)	(7.2)

Travel Receipts - U.S.



Travel Payments - U.S.



Travel Payments - U.S.

1995	1996	1997	1998	1999	2000
9,914 (0.9)	10,261 (3.5)	10,671 (4.0)	11,162 (4.6)	11,665 (4.5)	12,131 (4.0)

Travel Deficit - U.S.

1995	1996	1997	1998	1999	2000
3,594 (-12.1)	3,372 (-6.2)	3,231 (-4.2)	3,186 (-1.4)	3,099 (-2.7)	2,948 (-4.9)

Travel Receipts - Rest of the World

1995	1996	1997	1998	1999	2000
5,359 (20.1)	5,895 (10.0)	6,396 (8.5)	6,895 (7.8)	7,391 (7.2)	7,938 (7.4)

Travel Payments - Rest of the World

1995	1996	1997	1998	1999	2000
6,628 (8.2)	7,284 (9.9)	7,750 (6.4)	8,254 (6.5)	8,873 (7.5)	9,663 (8.9)

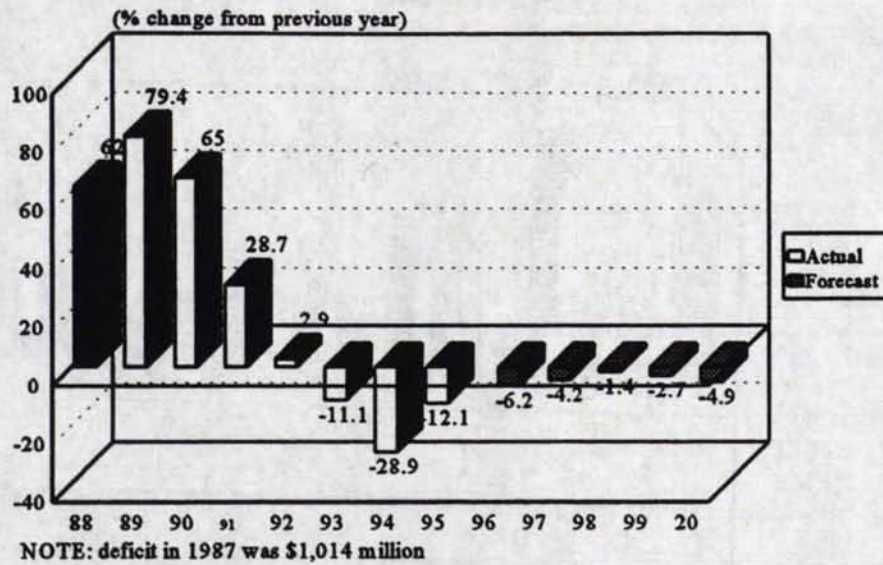
Travel Deficit - Rest of the World

1995	1996	1997	1998	1999	2000
1,269 (-23.8)	1,389 (9.9)	1,354 (-2.4)	1,359 (0.4)	1,482 (9.2)	1,725 (16.1)

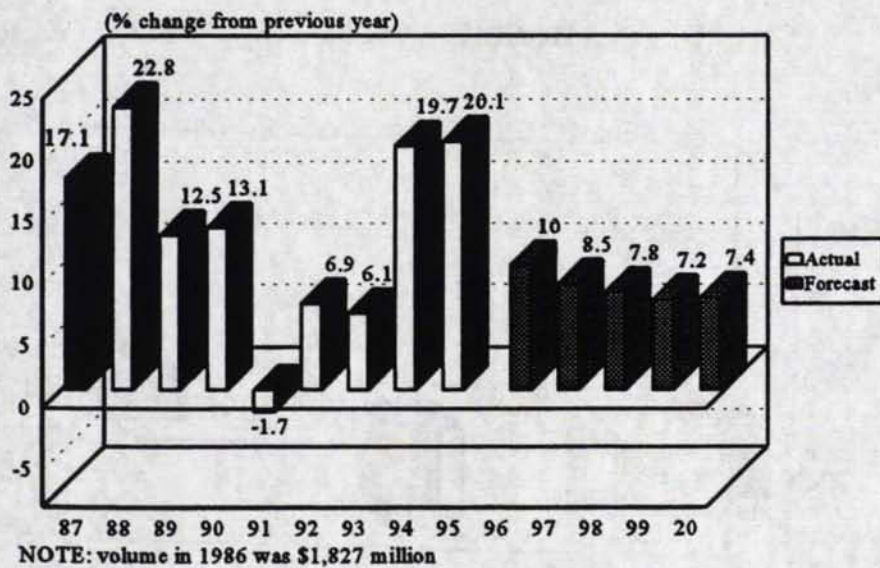
Travel Receipts - Total

1995	1996	1997	1998	1999	2000
11,679 (14.6)	12,784 (9.5)	13,836 (8.2)	14,871 (7.5)	15,957 (7.3)	17,121 (7.3)

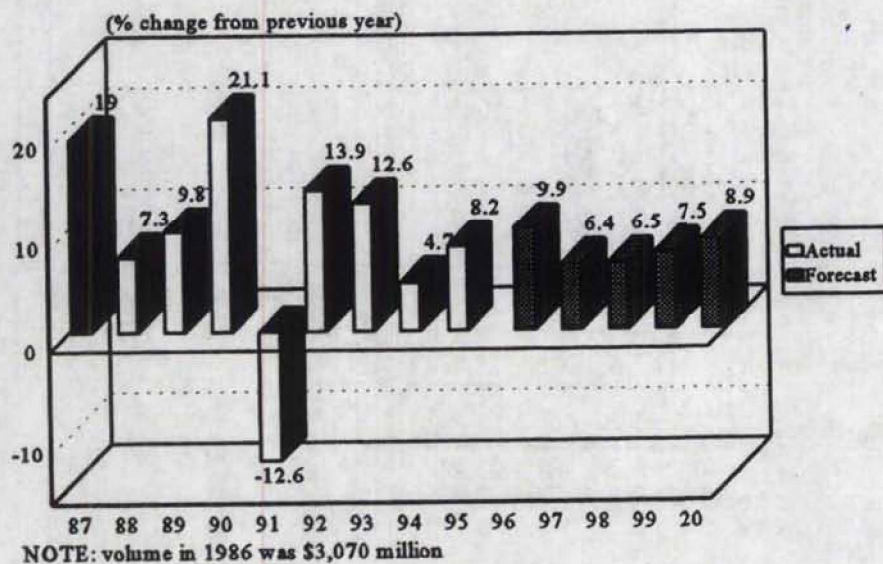
Travel Deficit - U.S.



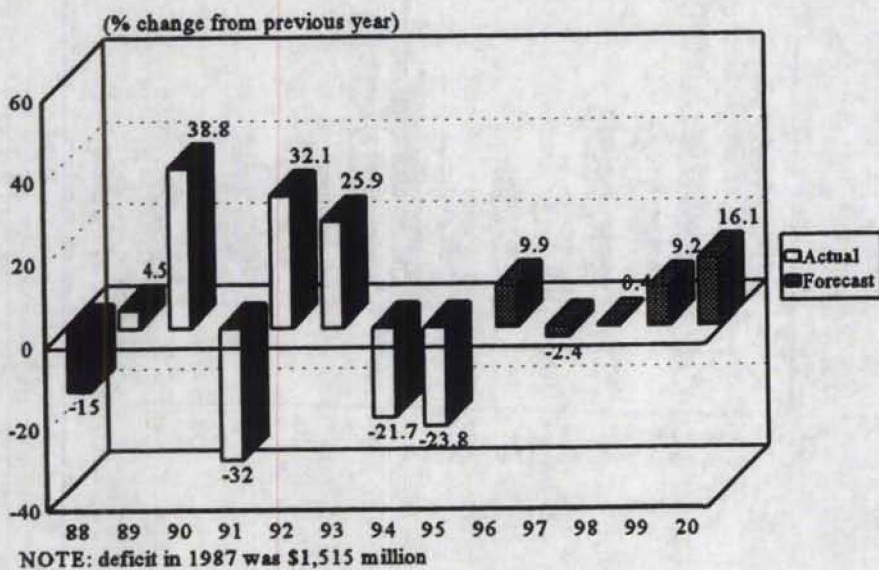
Travel Receipts - Rest of the World



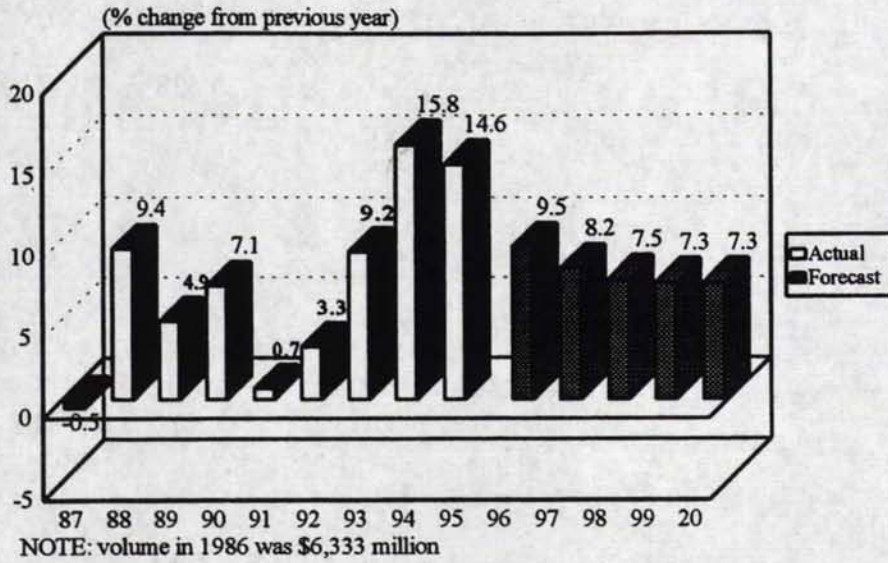
Travel Payments - Rest of the World



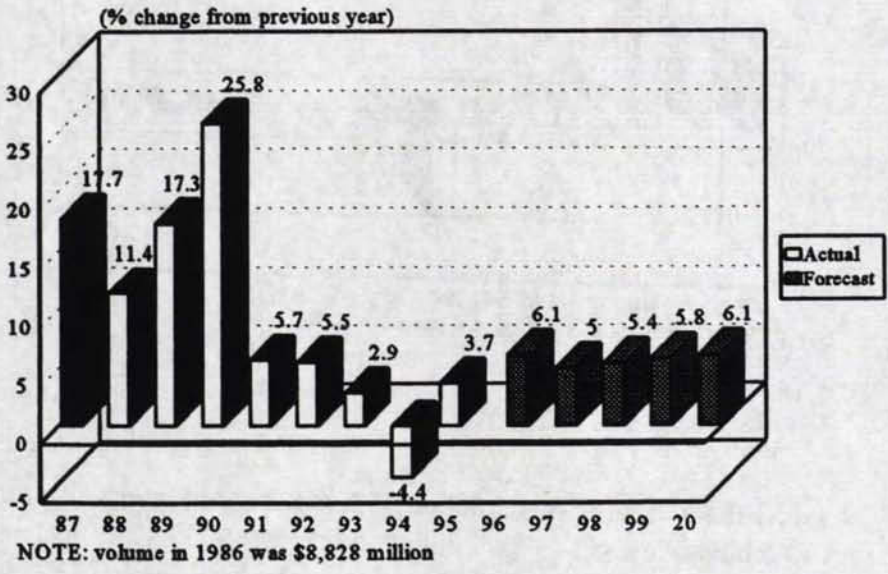
Travel Deficit - Rest of the World



Travel Receipts - Total



Travel Payments - Total



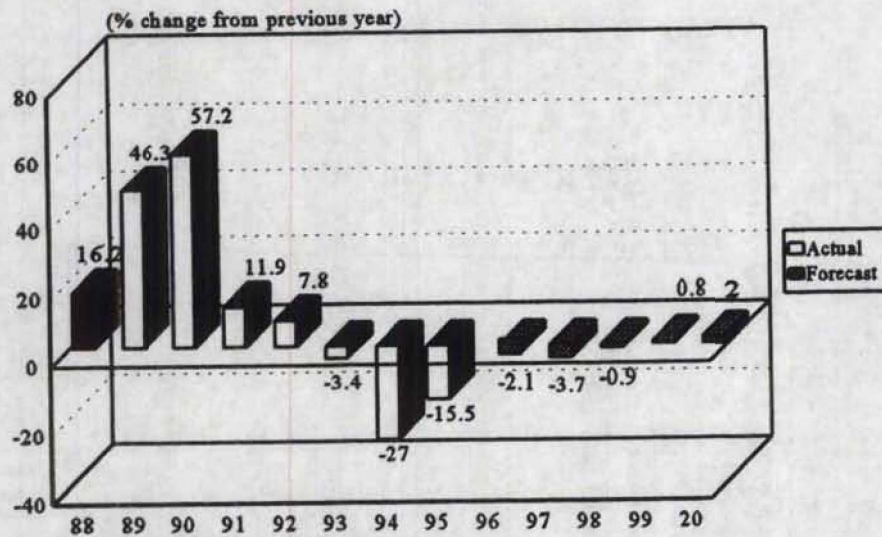
Travel Payments - Total

1995	1996	1997	1998	1999	2000
16,542	17,545	18,421	19,416	20,538	21,794'
(3.7)	(6.1)	(5.0)	(5.4)	(5.8)	(6.1)

Travel Deficit - Total

1995	1996	1997	1998	1999	2000
4,863	4,761	4,585	4,545	4,581	4,673
(-15.5)	(-2.1)	(-3.7)	(-0.9)	(0.8)	(2.0)

Travel Deficit - Total



The CTC expects that Canada's travel deficit with the United States will decline over the forecast period from \$3.6 billion in 1995 to \$2.9 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 U.S. 73 cents range. The other factor that will contribute to the declining deficit is the fact that U.S. spending per trip in Canada will increase as more Americans take advantage of the Open Skies agreement and fly to Canada. Air travellers spend more per trip compared with U.S. auto travellers.

It is important to note that deficit projections primarily hinge on the future path of the Canadian dollar. As the dollar is one of the most difficult economic variables to project, there could be either upside or downside risk to the above deficit forecasts. The Conference Board feels that the dollar should be trading in the U.S. 78-80 cents range based on the difference in inflation and debt levels 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 resulting in declining travel to the United States and an even greater reduction in the travel deficit. Evidence of the impact of uncertainty on currencies was apparent during the referendum vote in the fall of 1995.

The travel deficit with the rest of the world will increase slightly over the forecast period because the strong growth in travel receipts from the rest of the world will slowdown somewhat. At the same time, Canadians will increase their travel spending in non-U.S. countries at a rate of growth of about 6-7 per cent a year. The stabilization of the dollar against the major world currencies will slightly diminish the attractiveness of Canada as a destination. The CTC is forecasting a travel deficit with the rest of the world of \$1.7 billion by the year 2000.

The outlook for Canada's total travel deficit is very optimistic. The CTC expects that the total deficit will drop from \$4.9 billion in 1995 to \$4.7 billion by the year 2000. This 4 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 the Canadian government grapples with international debt obligations, the lower overall travel deficit eases the burdens of our overseas commitments significantly.

7. Business and Pleasure Travel

Forecast of Overnight Inbound Pleasure Travel (volume in thousands and annual percentage change)

United States

1995	1996	1997	1998	1999	2000
7,561	7,796	8,053	8,311	8,585	8,877
(4.8)	(3.1)	(3.3)	(3.2)	(3.3)	(3.4)

United Kingdom

1995	1996	1997	1998	1999	2000
322.7 (16.5)	355.0 (10.0)	388.3 (9.4)	423.3 (9.0)	462.2 (9.2)	506.1 (9.5)

France

1995	1996	1997	1998	1999	2000
270.9 (3.0)	292.6 (8.0)	318.9 (9.0)	351.4 (10.2)	384.8 (9.5)	417.1 (8.4)

Germany

1995	1996	1997	1998	1999	2000
270.3 (15.0)	291.6 (7.9)	313.2 (7.4)	335.4 (7.1)	359.6 (7.2)	384.7 (7.0)

Japan

1995	1996	1997	1998	1999	2000
356.6 (26.0)	410.1 (15.0)	469.5 (14.5)	526.3 (12.1)	589.5 (112.0)	661.4 (12.2)

Forecast of Overnight Inbound Business Travel
(volume in thousands and annual percentage change)**United States**

1995	1996	1997	1998	1999	2000
1,868 (4.2)	1,915 (2.5)	1,965 (2.6)	2,018 (2.7)	2,060 (2.1)	2,106 (2.2)

United Kingdom

1995	1996	1997	1998	1999	2000
61.2 (9.3)	64.3 (5.1)	66.6 (3.5)	68.6 (3.1)	70.7 (3.0)	73.0 (3.3)

France

1995	1996	1997	1998	1999	2000
49.3 (2.8)	51.4 (4.2)	54.1 (5.2)	57.1 (5.5)	60.3 (5.7)	63.7 (5.6)

Germany

1995	1996	1997	1998	1999	2000
49.1 (26.0)	53.6 (9.0)	57.3 (7.0)	61.0 (6.5)	65.1 (6.6)	69.3 (6.5)

Japan

1995	1996	1997	1998	1999	2000
134.4 (12.0)	143.8 (7.0)	152.7 (6.2)	159.6 (4.5)	166.9 (4.6)	174.5 (4.5)

Over the forecast period pleasure travel is expected to increase at a faster rate than business travel from Canada's five major international markets. Pleasure travel is very sensitive to the exchange rate and, as the Canadian dollar has depreciated against the world's major currencies, pleasure travellers, especially from Germany, the United Kingdom and Japan, have found Canada a relatively inexpensive vacation spot. Table 2 shows the change in the value of the dollar against major international currencies.

Table 2

(Can./foreign currencies)

	1991	1995	per cent depreciation
U.S. dollar	1.167	1.372	17.6
U.K. pound	2.03	2.15	5.9
French franc	.20	.27	35.0
German mark	.69	.96	39.1
Japanese yen	.0085	.0147	72.9

The currency changes are very significant especially with respect to the yen, mark and franc. From the perspective of visitors from these countries, accommodation, transportation and food and beverage costs are much cheaper in Canada in 1995 compared with 1991.

Business travel is not as sensitive to the exchange rate compared with pleasure travel. Companies invest and expand for longer term considerations other than short-term fluctuations in the exchange rate. Changes in economic conditions such as GDP are a more relevant indicator of growth in business travel. While business travel will not grow at the same rate as pleasure travel, it will show steady improvement compared with the situation in the early 1990s when most industrialized countries were mired in a recession. At that time, companies cut back on both domestic and international business travel as falling corporate profitability forced corporations to curtail business travel expenses. Now that the economies of Canada's major markets are growing at modest paces, we can expect to see business travel on the upswing.

8. Travel Receipts

The forecasts of travel receipts from the six major markets are provided in current dollars. The receipts forecasts for overseas markets are based on forecasts of the exchange rate, GDP and overnight trips. The U.S. receipts forecast for pleasure travel is based on the exchange rate, income and pleasure trips. Forecasts of gross domestic product and the Canadian unemployment rate are used to derive U.S. business receipts forecasts.

Forecast of Overnight Travel Receipts
(volume in millions of \$ and annual percentage change)

a) Current Dollar Receipts Forecasts

United States - Pleasure

1995	1996	1997	1998	1999	2000
2,854 (12.5)	3,139 (10.0)	3,391 (8.0)	3,658 (7.9)	3,962 (8.3)	4,287 (8.2)

United States - Business

1995	1996	1997	1998	1999	2000
1,059 (5.0)	1,112 (5.0)	1,162 (4.5)	1,216 (4.6)	1,271 (4.5)	1,326 (4.4)

United Kingdom

1995	1996	1997	1998	1999	2000
551.8 (14.0)	606.9 (10.0)	662.2 (9.1)	715.1 (8.0)	775.9 (8.5)	842.6 (8.6)

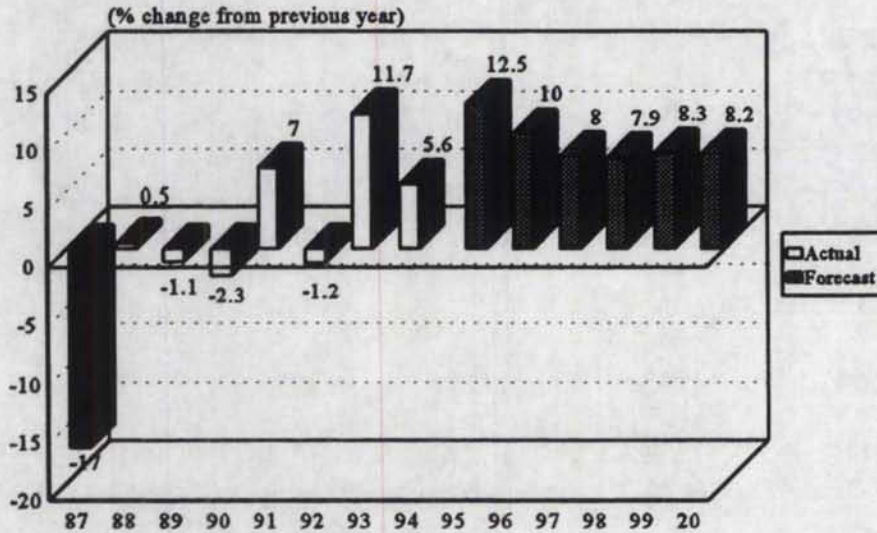
France

1995	1996	1997	1998	1999	2000
453.2 (10.0)	507.6 (12.0)	570.0 (12.3)	645.8 (13.3)	724.6 (12.2)	802.9 (10.8)

Germany

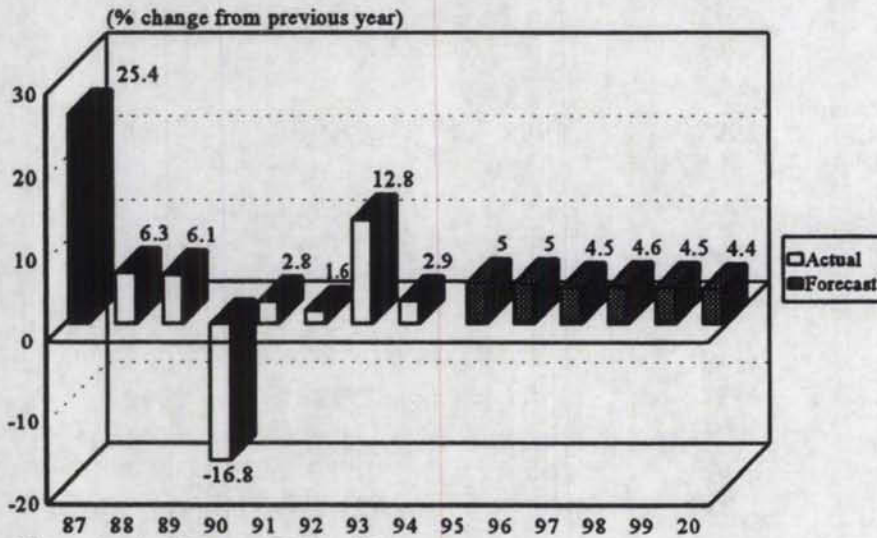
1995	1996	1997	1998	1999	2000
490.1 (26.0)	552.4 (12.7)	620.9 (12.4)	695.4 (12.0)	780.2 (12.2)	869.9 (11.5)

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



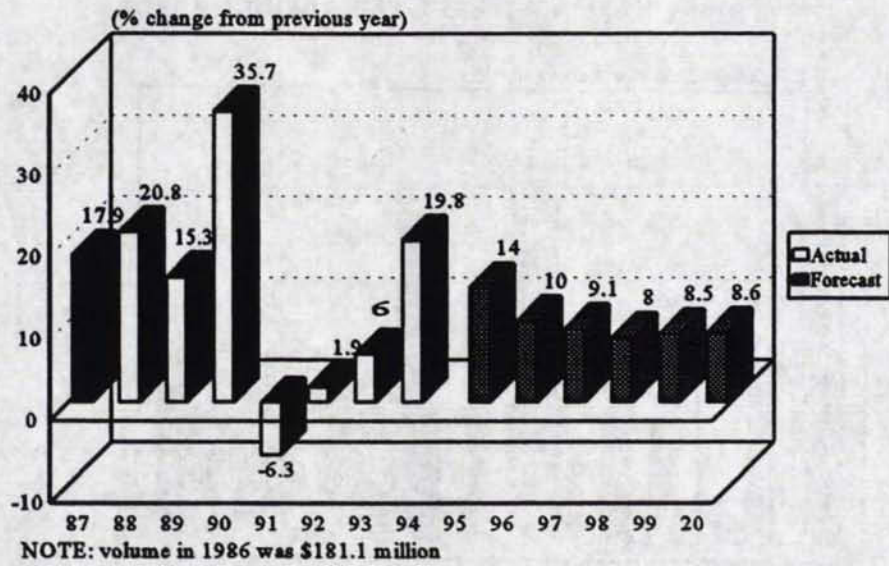
NOTE: volume in 1986 was \$2,525 million

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

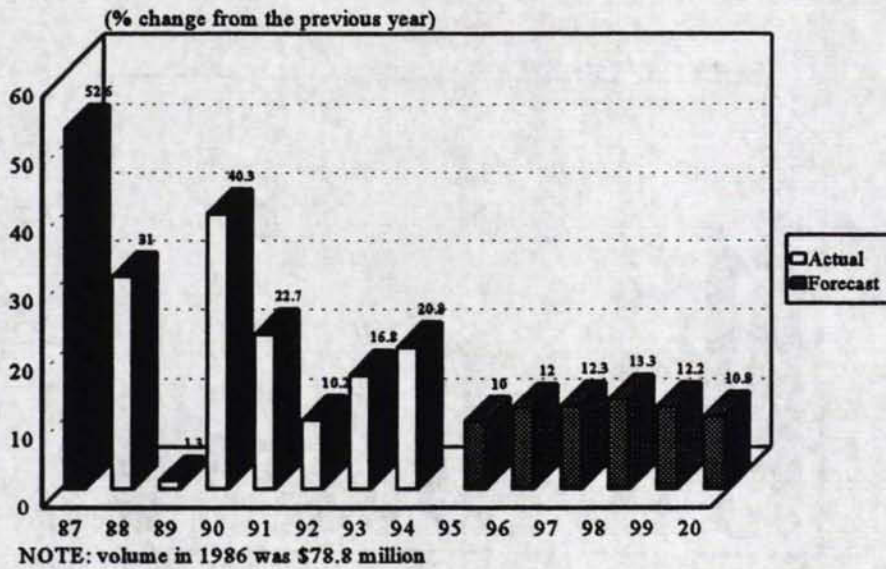


Note: value in 1986 was \$709.8 million

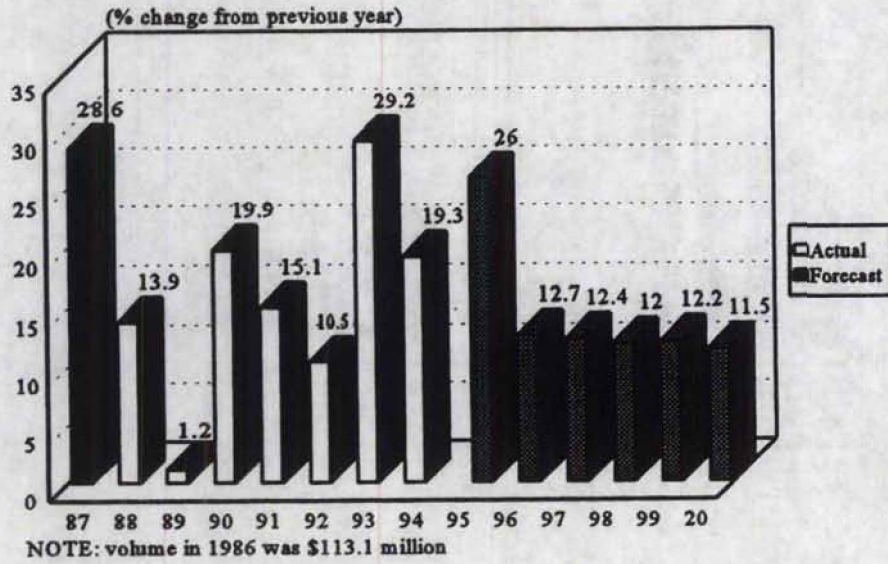
Overnight Receipts from the U.K. to Canada



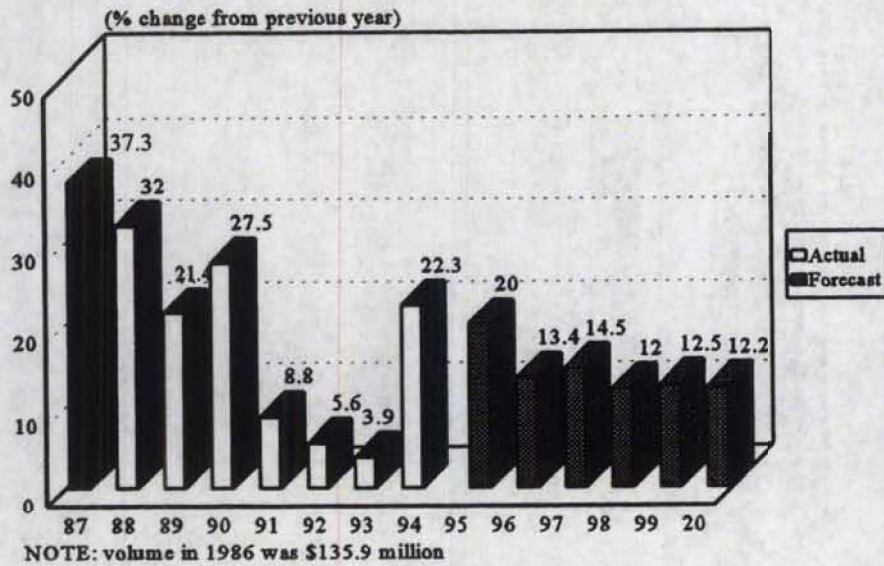
Overnight Receipts from France to Canada



Overnight Receipts from Germany to Canada



Overnight Receipts from Japan to Canada



Japan

1995	1996	1997	1998	1999	2000
658.8 (20.0)	747.1 (13.4)	855.4 (14.5)	958.1 (12.0)	1,078 (12.5)	1,209 (12.2)

The forecasts of receipts 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. As noted earlier, over the forecast period the portion of higher spending air travellers is expected to increase at the expense of auto travel. Japan and Germany are expected to experience the fastest growth in receipts. Travel spending from France and the United Kingdom will grow somewhat slower and this reflects the fact that growth in overnight trips will not be as high compared with the German and Japanese markets.

9. Yields

Forecasts of yields are derived by dividing the outlook for overnight travel receipts by overnight trips.

Forecast of Yields

a) Yield Forecasts (current \$)

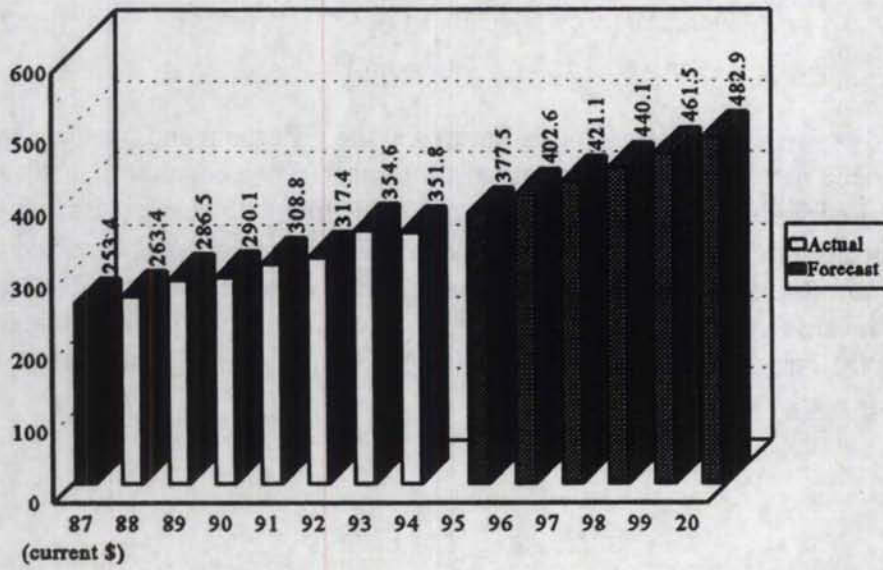
United States - Pleasure

1995	1996	1997	1998	1999	2000
377.5 (7.3)	402.6 (6.7)	421.1 (4.6)	440.1 (4.5)	461.5 (4.8)	482.9 (4.6)

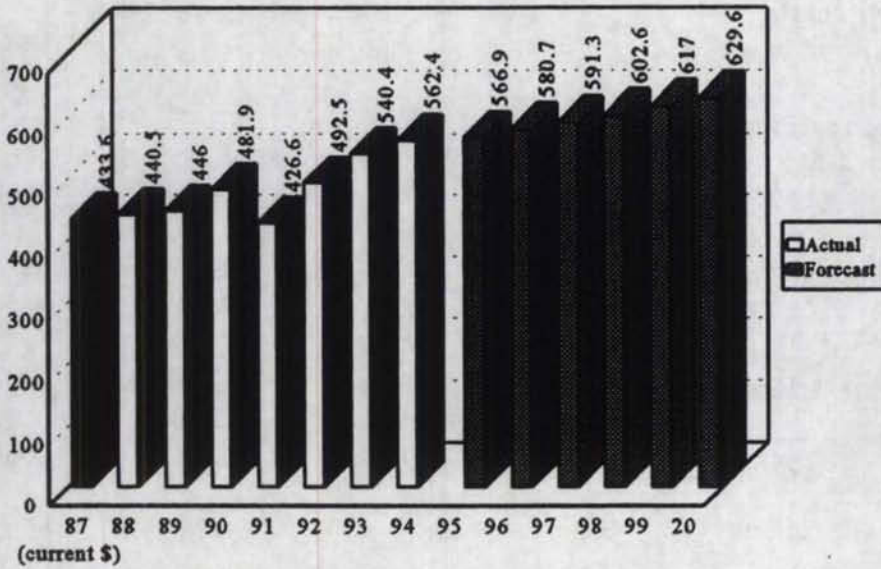
United States - Business

1995	1996	1997	1998	1999	2000
566.9 (0.8)	580.7 (2.4)	591.3 (1.8)	602.6 (1.9)	617.0 (2.4)	629.6 (2.0)

Yields - U.S. Pleasure



Yields - U.S. Business



United Kingdom

1995	1996	1997	1998	1999	2000
862.2 (2.8)	895.3 (3.8)	935.0 (4.4)	971.5 (3.9)	1,011 (4.1)	1,055 (4.3)

France

1995	1996	1997	1998	1999	2000
1,046 (4.1)	1,083 (3.6)	1,122 (3.6)	1,160 (3.4)	1,202 (3.6)	1,253 (4.2)

Germany

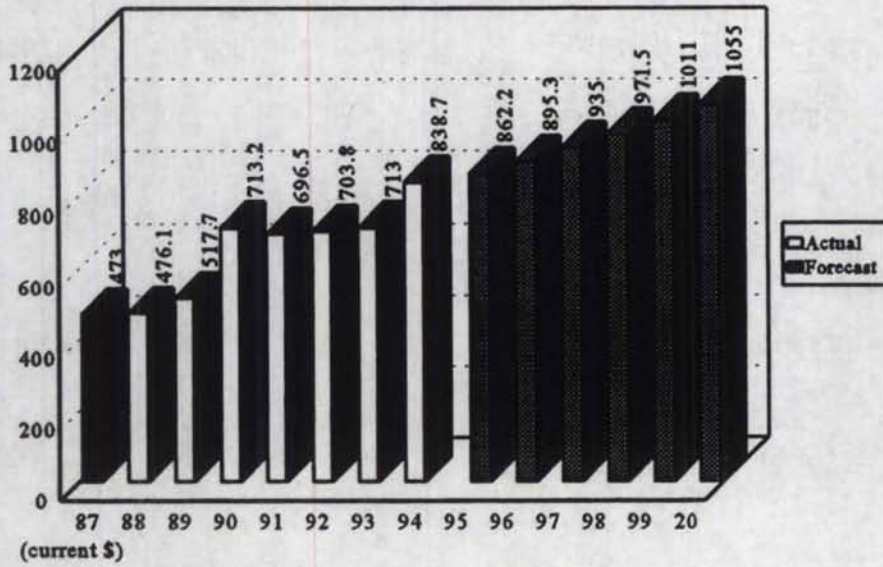
1995	1996	1997	1998	1999	2000
1,164 (9.8)	1,221 (4.9)	1,280 (4.8)	1,339 (4.6)	1,405 (4.9)	1,465 (4.2)

Japan

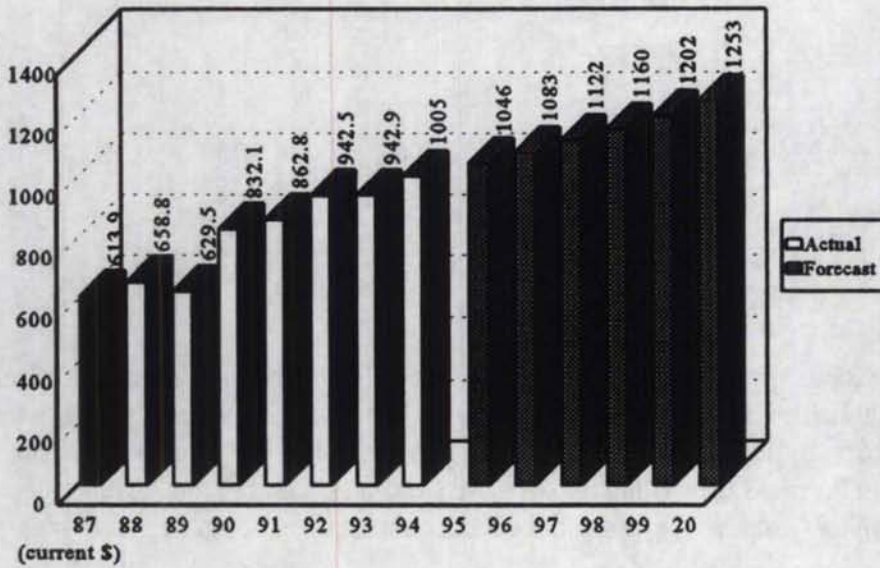
1995	1996	1997	1998	1999	2000
1,121 (-1.8)	1,144 (2.1)	1,192 (4.1)	1,234 (3.7)	1,286 (4.2)	1,336 (3.8)

The highest yielding markets for Canada are Japan, Germany and France with Germany 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.

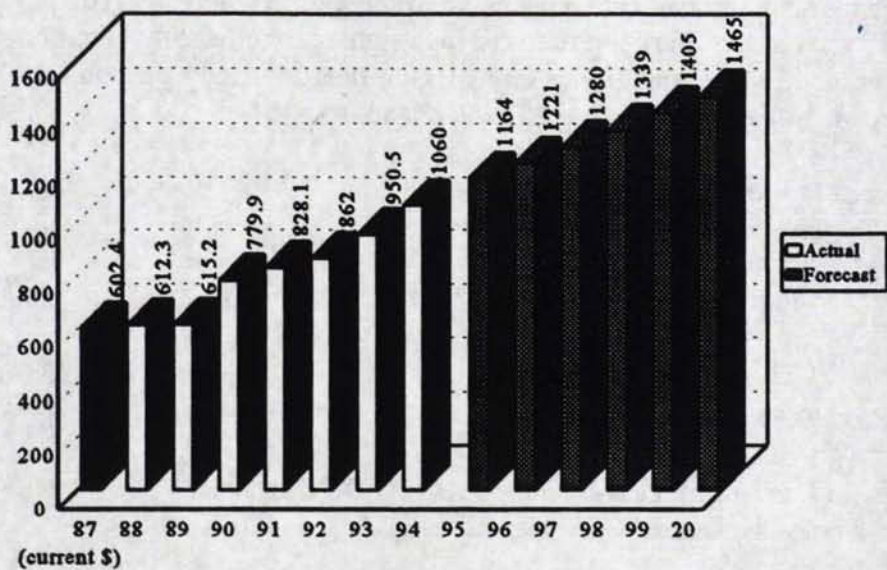
Yields - U.K.



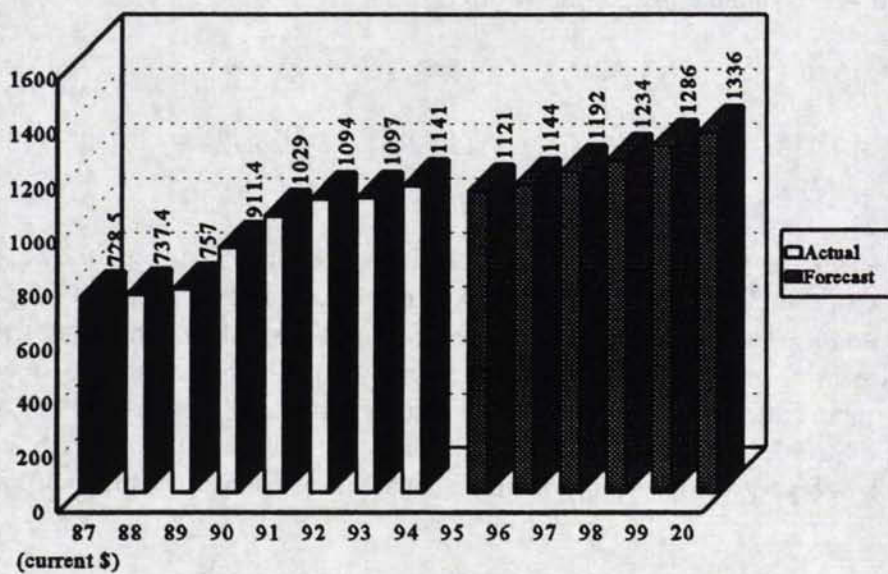
Yields - France



Yields - Germany



Yields - Japan



10. 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)

1995	1996	1997	1998	1999	2000
2,141	2,344	2,555	2,785	3,049	3,336
(10.6)	(9.5)	(9.0)	(9.0)	(9.5)	(9.4)

b) Forecast of Overnight Travel from Overseas Destinations

(volume in thousands, annual percentage change)

1995	1996	1997	1998	1999	2000
3,963	4,518	5,128	5,794	6,576	7,438
(15.6)	(14.0)	(13.5)	(13.0)	(13.5)	(13.1)

c) Forecast of Overnight Travel from all International Destinations

(volume in thousands, annual percentage change)

1995	1996	1997	1998	1999	2000
16,893	17,733	18,674	19,624	20,724	21,912
(5.8)	(4.9)	(5.3)	(5.1)	(5.6)	(5.7)

In 1995, travel from all foreign destinations including the United States grew by 5.8 per cent mainly because of double digit increases from key markets such as the United Kingdom, Japan and Germany and the explosive growth in some of Canada's secondary markets such as South Korea and Taiwan. The CTC expects the rate of growth to slowdown slightly over the forecast period as the depreciation of the Canadian dollar comes to a halt. Nevertheless, growth of close to 6 per cent in the year 2000 is extremely impressive given the fact that the U.S. market, which represents almost 80 per cent of total overnight trips, will expand by less than 3 per cent.

APPENDIX 1

The model development as explained in the methodology section is based on econometric techniques. The model relates historical movements of trips to economic variables that are statistically significant in explaining international travel, such as gross domestic product, disposable income, consumer price index, exchange rate and unemployment rate.

Only economic variables for which forecasts are available are included in the model. Other variables which may have an impact on travel behaviour, like the marketing efforts in each of the markets are not included in the model at this point simply because they are difficult to quantify and no reliable historical series of expenditures yet exists.

International travel however, is extremely volatile and is influenced by non economic factors such as wars, terrorism, special events (Olympics, world fairs etc.), regulations like visa requirements, capacity etc. Sometimes these non-economic factors exert more influence on travel behaviour than the economic factors included in the model.

To capture the effect of the non-economic factors, the Institute staff hold meetings with the Canadian Tourism Commission marketing directorates staff to discuss the impact of the non-economic factors and make adjustments to the econometric forecasts when it is felt that the model is not capturing these non-economic factors which influence travel activity.

The table on the following page shows the results of the econometric forecasts as well as the adjusted forecasts which came out of the discussions between the Institute and CTC staff.

Econometric forecast vs adjusted forecast 1996

	Econometric forecast -1996	Adjusted forecast - 1996
U.S. to Canada	1.7	2.2
U.S. to Canada by air	5.3	10.0
U.K. to Canada	3.6	6.0
France to Canada	6.5	8.0
Germany to Canada	5.7	7.5
Japan to Canada	8.4	11.0
Italy to Canada	5.4	5.4
Switzerland to Canada	7.5	8.5
Mexico to Canada	-8.0	-8.0
Brazil to Canada	15.4	15.4
South Korea to Canada	15.4	25.0
Taiwan to Canada	16.4	25.0
Canada to the U.S.	0.8	0.8
Canada to the U.S. by air	1.2	1.2
Travel Receipts - U.S.	6.5	9.0
Travel Payments - U.S.	3.5	3.5

APPENDIX 2

The following table compares the 1995 forecast, which was completed in November 1994 with the actual visitation levels recorded in 1995.

For some markets, differences can be attributable to economic factors such as a better than forecast economic performance in markets like Japan, United Kingdom, Brazil, South Korea and Taiwan. For other markets, the value of the national currency in comparison with the Canadian dollar has made Canada a very inexpensive destination; for example: Germany, Switzerland, United Kingdom and Japan.

As discussed in the previous appendix and throughout the report, some non-economic factors such as the open skies agreement with the U.S., the waving of visas requirements in South Korea, the poor ski season in Europe and the threat of terrorism in France have also had an impact, positive in some cases, negative in others, on travel behaviour in the forecast markets.

Comparison between last forecast update and actual

	Forecast 1995	Actual - 1995	Difference
U.S. to Canada	4.5	3.1	-2.4
U.S. to Canada by air	4.6	13.6	+9.0
U.S to Canada by other modes	4.6	0.5	-4.1
U.K. to Canada	4.5	10.8	+6.3
France to Canada	10.0	5.7	-4.3
Germany to Canada	7.0	14.6	+7.6
Japan to Canada	12.0	22.3	+10.3
Italy to Canada	4.0	4.9	+0.9
Switzerland to Canada	6.5	12.6	+6.1
Mexico to Canada	-12.2	-22.4	-10.2
Brazil to Canada	10.9	33.0	+22.1
South Korea to Canada	16.8	44.0	+27.2
Taiwan to Canada	18.0	56.0	+38.0
Canada to the U.S.	0.0	-2.2	-2.2
Canada to the U.S. by air	2.5	2.2	-0.3
Canada to the U.S. by other modes	-0.8	-3.6	-2.8
Travel Receipts - U.S.	10.5	10.2	-0.3
Travel Payments - U.S.	2.5	0.9	-1.6

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