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International Travel Forecasts

Spring 1998 Update

*Research Report
1998-2*

Canada

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Appendix 1

Appendix 2

Executive Summary

Travel from the United States will increase by 2.8 per cent this year down from the 3.4 per cent recorded in 1997. The slower growth is largely attributable to slower economic growth in the United States. Air travel will continue to grow at a faster pace than auto travel.

Travel to Canada from the New England region will be above average due to improved economic prospects. Despite strong economic growth prospects, the South Atlantic region will be below average because this part of the country receives little in the way of marketing resources.

Overnight travel from the key markets of France and Germany declined in 1997 because of high unemployment and weak currencies. A slight recovery is anticipated in France this year (growth of 1 per cent) but the German market will continue to falter as travelers look for less expensive, and closer, destinations to visit.

Visits from Asian countries, and closer, notably Japan and South Korea, declined in 1997 as well. For Japan and South Korea stagnant economic growth and falling currency values were the main factors responsible for the drop. The CTC expects the Japanese to travel to Europe and the southwestern United States at the expense of Canada. The economic situation in South Korea has deteriorated to the point where long-haul travel to Canada may no longer be an option for most Koreans. The CTC does not expect a recovery in Asia until at least the year 2000.

Overnight travel from Canada to the United States declined by 1.1 per cent in 1997 as Canadians decided to either travel within Canada or visit overseas destinations. Negative growth is also forecast for this year as well mainly because the Canadian dollar will remain weak. Once the Canadian dollar starts to appreciate in 2000, travel to the United States will rebound.

The Canada-U.S. travel deficit is expected to decrease to \$3.0 billion in 1998 as a result of a continuing decline in trips from Canada to the United States. However, once the Canadian dollar rises in value, the deficit will deteriorate. By 2002, the CTC expects the deficit to be \$4.5 billion. Canada's overall travel deficit will reach \$6.0 billion by 2002.

Pleasure travel from all of Canada's major overseas markets including the United Kingdom fell last year while business travel surged. Business travel is less sensitive to the exchange rate and as long as the Canadian economy continues to grow, this market will do very well. The CTC expects business travel from all markets to grow faster than pleasure travel over the forecast period.

U.S. business travel will also grow at a faster rate than pleasure travel. Rising business confidence, solid economic prospects in both countries as well as the Open Skies and NAFTA agreements are responsible for this trend. Pleasure travel is dominated by the auto market which has been in a slump for a number of years.

Germany and Japan are Canada's highest yield markets followed closely by France. In the United States, the yield on business trips is higher than that for pleasure trips because business travelers generally spend more on accommodation compared with pleasure travelers.

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 Canadian Tourism Commission (CTC) 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 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 the U.S.A. and Europe) and total overseas to Canada. In addition, Phase III splits inbound travel from the five major markets (U.S.A., 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 U.K., 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. In 1996, a forecast of outbound travel from Canada to Japan was included. The governments of Canada and Japan have entered into an agreement to 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 better insight into travel in the other direction.

In 1997, forecasts of visits from Australia, Hong Kong and the Netherlands were added. In addition, a sensitivity analysis of the U.S. travel deficit with respect to the exchange rate was added. The current update also contains a sensitivity analysis of the U.S. travel deficit and, in addition, a sensitivity analysis of Japanese travel spending.

This report provides a forecast update for all the markets developed for the CTC over the past six years. 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 some of the newer 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 and national celebrations).

To capture the effect of non-economic events, Institute staff held meetings with CTC 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.

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 travelers), 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 travelers and crew spending but exclude payments to Canadian and foreign carriers.

4. Inbound Travel Forecasts

There was a dramatic change in international travel to Canada in 1997. Travel from some of Canada's key markets, including Germany, France and Japan, collapsed due to weak economic conditions and depreciating currencies. Overnight trips from Hong Kong and South Korea also plunged. A major rebound from these markets is not expected this year. On the positive side, the outlook for travel from the United States and the United Kingdom is relatively optimistic.

In 1999, some European countries are scheduled to implement a common currency referred to as the euro. Participating countries included in this forecast update are Germany, France, Italy and the Netherlands. Initially, member countries will fix their currencies against the euro. In two years the euro will replace the mark, franc, lira, and other currencies from European Union members. At this point in time, there is a considerable amount of debate regarding the future success of the common currency. Some economists contend that the euro will be strong and rival the U.S. dollar for global supremacy. Others feel that member countries won't be able to coordinate their macroeconomic policies to the degree required to ensure successful monetary integration. This forecast update assumes that the euro will go ahead as planned. The Canadian dollar will gradually appreciate against the European currency especially after the year 2000 when it is assumed that the "no" side will win another referendum on Quebec independence.

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:

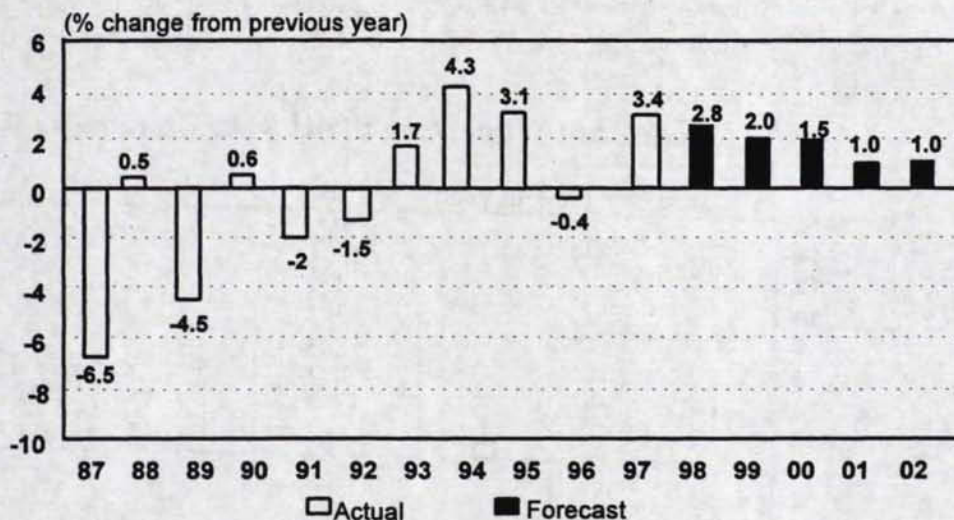
- o home country GDP
- o exchange rate
- o relative prices between the two countries

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 extremely difficult.

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

1997	1998	1999	2000	2001	2002
13,342	13,716	13,990	14,200	14,342	14,485
(3.4)	(2.8)	(2.0)	(1.5)	(1.0)	(1.0)

Overnight Trips from the U.S. to Canada



In 1997, overnight travel from the United States rebounded from the decline experienced in 1996 and expanded by 3.4 per cent. The CTC anticipated the renewed growth mainly because it was assumed that the absence of an event like the Olympic games in Atlanta

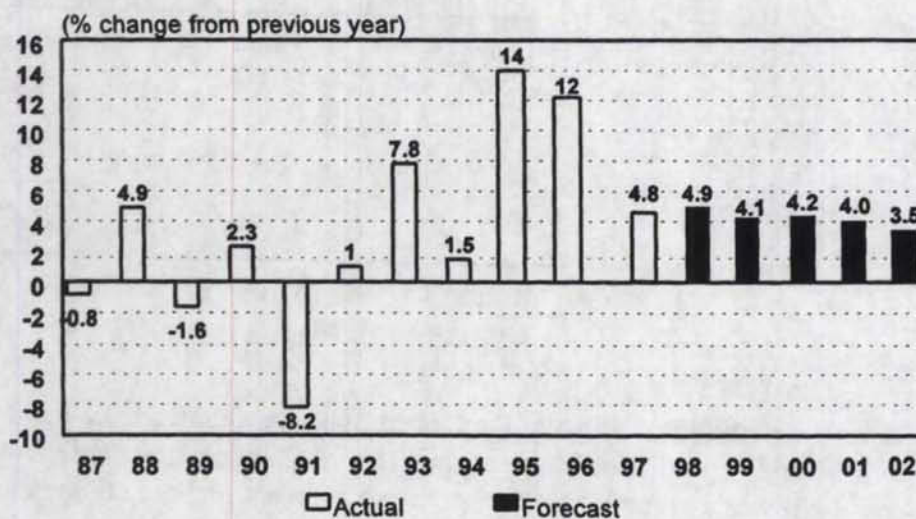
would have a positive impact on Canada. In fact, travel growth of 3.4 per cent exceeded the CTC projection of 1.5 per cent made in last year's forecast update. Higher than expected growth was due to the exceptional performance of the U.S. economy and difficulties that the Canadian dollar experienced last year, mainly as a result of the Asian crisis. The U.S. economy grew by 3.8 per cent and the unemployment rate actually fell below 5 per cent in 1997.

This year, the CTC is forecasting travel growth of 2.8 per cent. The slowdown is a result of a slightly stronger Canadian dollar and a slower growing U.S. economy. U.S. GDP will increase by 2.8 per cent, a solid performance but, nevertheless, a decline from 1997 due to the impact of the Asian economic crisis on the U.S. trade balance. Growth in overnight trips slows down even more after the year 2000. It is assumed that the "no" side will win another referendum on Quebec independence and that the dollar will begin to appreciate to the U.S. 75 cents range. This will make it more expensive to travel to Canada. Currently, the Conference Board of Canada feels that the underlying economic fundamentals of the Canadian economy support a U.S. 80 cents dollar. The absence of political uncertainty in Canada would send the dollar to a higher level. A factor that will boost U.S. travel to Canada and possibly offset the impact of a rising currency is the CTC's plan to implement a more focused marketing plan. It is expected that this new strategy will make more marketing dollars available for this key market.

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

1997	1998	1999	2000	2001	2002
3,249	3,408	3,548	3,697	3,845	3,979
(4.8)	(4.9)	(4.1)	(4.2)	(4.0)	(3.5)

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

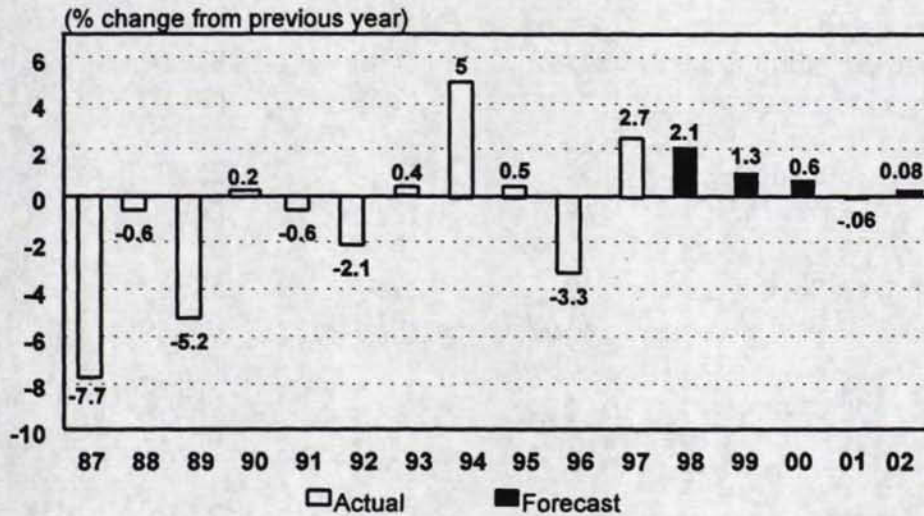


The CTC expects that travel by air will continue to increase at a faster pace compared with other modes of travel, primarily auto. The majority of air travel to Canada is for business. This type of travel is not as sensitive to the exchange rate as auto travel. Business travel will continue to grow as long as the U.S. and Canadian economies remain recession free. The current outlook calls for solid economic growth during the forecast period and this factor combined with the NAFTA agreement will benefit business travel to Canada. Another factor that will boost air travel to Canada is the inclusion of Pearson Airport in the final phase of the Open Skies agreement this year.

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

1997	1998	1999	2000	2001	2002 ¹
10,093	10,305	10,439	10,502	10,496	10,504
(2.7)	(2.1)	(1.3)	(0.6)	(-0.06)	(0.08)

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



In contrast to air travel, travel by other modes (primarily auto) will be sluggish over the forecast period. Auto travel is much more sensitive to the exchange rate compared with air travel and, as the Canadian dollar gradually appreciates, fewer Americans are expected to travel to Canada by car. The decline in growth is more pronounced after 1999 because the outlook assumes that the Canadian dollar will begin to appreciate to the U.S. 75 cents level. This will make travel to Canada more expensive.

¹ Throughout the report, multiplication of the levels by their respective growth rates does not always produce the exact result due to rounding.

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

	1997	1998	1999	2000
New England	1,428 (9.2)	1,485 (4.0)	1,515 (2.0)	1,545 (2.0)
Middle Atlantic	2,736 (0.0)	2,791 (2.0)	2,841 (1.8)	2,884 (1.5)
South Atlantic	1,126 (1.2)	1,160 (3.0)	1,184 (2.1)	1,203 (1.6)
East North Central	3,306 (0.0)	3,398 (2.8)	3,463 (1.9)	3,515 (1.5)
West North Central	843 (1.8)	864 (2.5)	879 (1.7)	888 (1.0)
East South Central	242 (25.0)	249 (2.9)	254 (2.0)	258 (1.6)
West South Central	463 (20.0)	509 (9.9)	535 (5.1)	559 (4.5)
Mountain	625 (15.0)	656 (5.0)	684 (4.3)	711 (3.9)
Pacific	2,395 (0.0)	2,467 (3.0)	2,516 (2.0)	2,559 (1.7)

Table 1 shows the GDP forecast for the nine U.S. regions in 1998.

Table 1

GDP Forecast for U.S. Regions
(1998, per cent change)

New England	3.3
Middle Atlantic	2.5
South Atlantic	3.6
East North Central	2.9
East South Central	2.7
West North Central	2.7
West South Central	3.8
Mountain	4.0
Pacific	4.2
U.S.A.	2.8

Source : Regional Financial Associates.

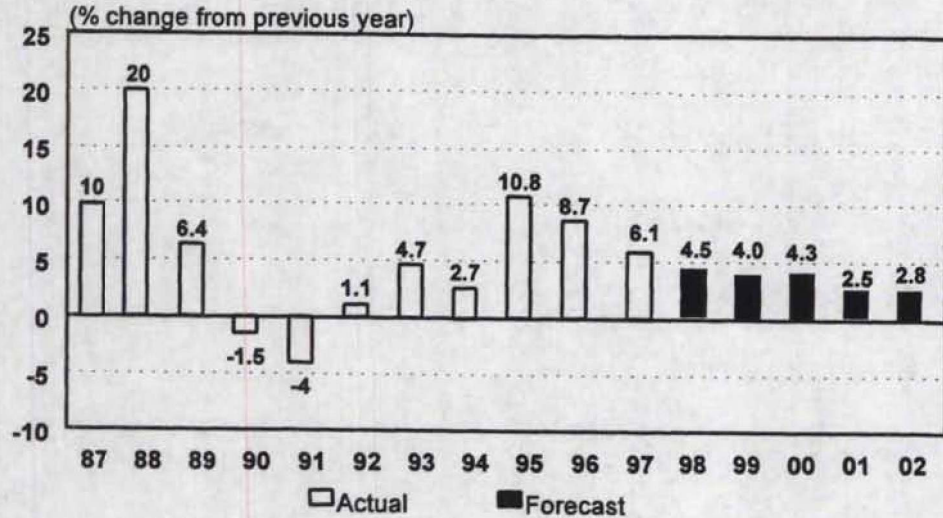
The forecasts of overnight travel from the nine regions to Canada generally reflect the economic circumstances in the different regions. One notable change from the last forecast update is the rebound in travel growth from the New England region. In 1997, it is estimated that overnight travel from this region to Canada grew by close to 10 per cent. This year higher than average growth is expected mainly because the region will experience economic growth of 3.3 per cent. Only average or slightly below average travel growth is anticipated from the West North Central and East North Central regions, areas that contain many border states. This could be attributable to the CTC's view that auto travel will experience sluggish growth over the forecast period as a result of a higher valued Canadian dollar and a lack of marketing dollars aimed at the border states.

Travel from the South Atlantic region slumped in 1997 and a significant rebound is not anticipated in 1998. Despite solid economic performance and greater air access due to the Open Skies agreement, travel growth from this region is not expected to match economic growth. This is largely attributable to a lack of awareness resulting from insufficient marketing.

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

1997	1998	1999	2000	2001	2002
743.7	777.2	808.3	843.0	864.1	888.3
(6.1)	(4.5)	(4.0)	(4.3)	(2.5)	(2.8)

Overnight Trips from the U.K. to Canada

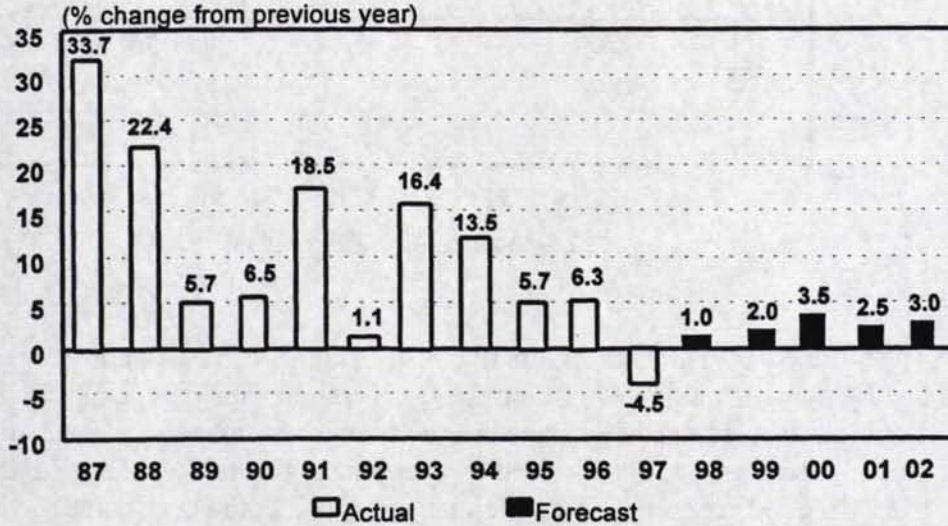


While travel from the rest of Europe dropped last year, visits from the United Kingdom expanded by 6.1 per cent. Unlike most European countries, the U.K. economy is in relatively good shape and the travel numbers reflect this situation. GDP grew by 3.5 per cent in 1997 and the unemployment rate was 4.8 per cent, a rate unheard of in the rest of Europe. The strength of the British economy resulted in the pound appreciating against the Canadian dollar by around 10 per cent in 1997. This year, growth in overnight travel will slow down mainly because higher interest rates will cause GDP growth to decline to 2.4 per cent. However, travel growth will still be a strong 4.5 per cent, well above the rest of Europe. Growth will taper off after 2000 because the Canadian dollar is expected to appreciate against all of the major currencies including the British pound. Note that the United Kingdom will not participate in the euro until at least 2002. As a result, the economy could avoid the economic fallout that may hit Europe once monetary integration proceeds.

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

1997	1998	1999	2000	2001	2002
440.2	444.6	453.5	469.4	481.1	495.5
(-4.5)	(1.0)	(2.0)	(3.5)	(2.5)	(3.0)

Overnight Trips from France to Canada

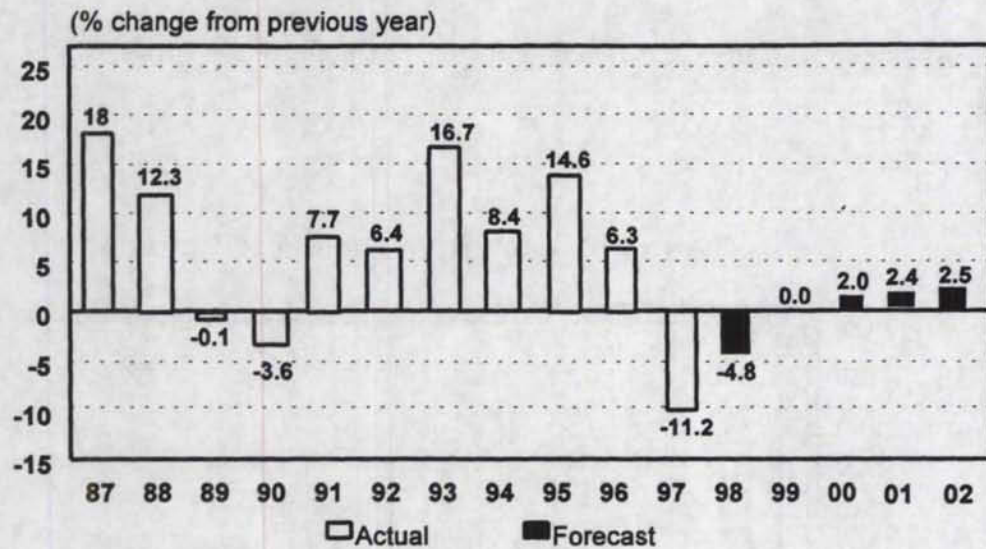


In 1997, a combination of high unemployment and a weak franc resulted in a 4.5 per cent decline in overnight travel to Canada. Economic difficulties caused French travelers to choose cheaper destinations closer to home at the expense of Canada. North African countries, such as Tunisia, benefitted from this trend. In 1998, a slight turnaround in travel from France is expected by the CTC. Economic growth will be higher and the unemployment rate will drop slightly. In addition, the French franc is not expected to depreciate against the Canadian dollar to the same degree that took place in 1997. Towards the end of 1997, the French market started to rebound and the CTC is confident that positive growth will occur for the remainder of the forecast period. The CTC's marketing efforts in France will continue with its emphasis on the youth market and Canada's outdoors.

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

1997	1998	1999	2000	2001	2002
403.0	383.8	383.8	391.5	400.9	410.9
(-11.2)	(-4.8)	(0.0)	(2.0)	(2.4)	(2.5)

Overnight Trips from Germany to Canada



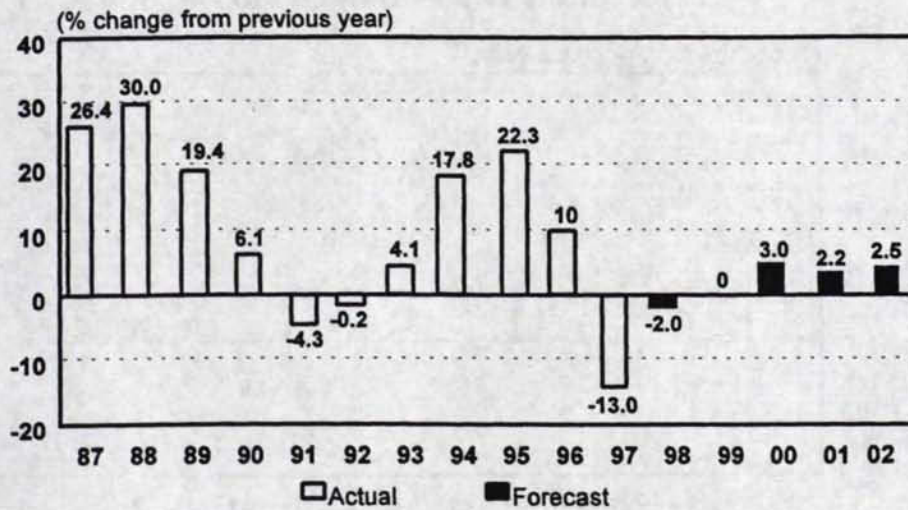
The same combination of factors that plagued France, a weak currency and high unemployment, also affected Germany. Overnight trips plunged by 11.2 per cent as the Germans decided to forego Canada and travel to less expensive destinations closer to home. Germans also economized by dropping a visit to Canada on their North American trips. In good economic times, Germans included both Canada and the United States in their visits to North America. However, as the price of visiting Canada increased, due to a falling mark, tour wholesalers simply dropped Canada from the overall tour package. As a result, travel to Canada from Germany via the United States dropped significantly last year.

Unlike the situation in France, the CTC does not expect a turnaround to positive growth from this market until 2000. The travel numbers did not show any signs of rebounding throughout 1997 and consumer confidence in Germany remains very weak. Overnight visits are forecast to drop by almost 5 per cent this year and zero growth is anticipated in 1999.

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

1997	1998	1999	2000	2001	2002
565.9	554.8	554.8	571.4	584.0	598.6
(-13.0)	(-2.0)	(0.0)	(3.0)	(2.2)	(2.5)

Overnight Trips from Japan to Canada



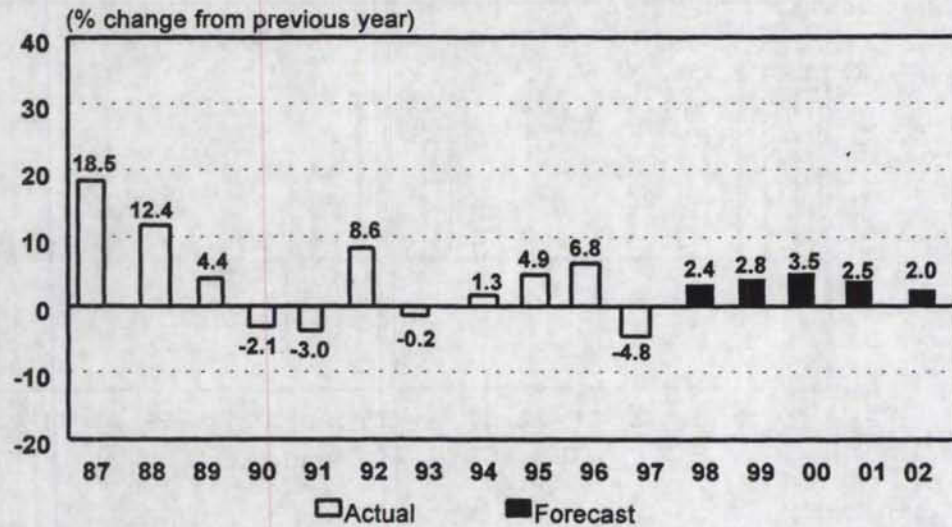
Overnight travel from Japan declined by an incredible 13 per cent in 1997. There were a number of factors that led to this drop. The Japanese economy experienced very weak growth and the yen depreciated by around 10 per cent against the dollar over the course of 1997. In addition, cheaper air travel to Europe has made the price of tour packages very comparable to Canadian tour packages and this has resulted in the Japanese increasing their travel to Europe at the expense of Canada. Also, destinations like Las Vegas and Disneyworld in southern California, are attracting increasing numbers of Japanese tourists. Similar to the situation in Germany, travel to Canada via the United States fell dramatically last year. Once again, tour wholesalers dropped Canada as a destination because two-country destination packages are usually more expensive than single-country destination packages.

The CTC does not expect this important market to turnaround in 1998, although the decline will not be as large as the one recorded in 1997. The Japanese economy is in a recession with no end in sight. The Japanese will still travel but economic problems will cause them to visit less expensive destinations in Asia. These destinations will be very attractive because of the massive devaluations of many of the currencies in this part of the world. In response to the difficulties being experienced in this important market, the CTC will increase its marketing presence in Japan.

i) Forecast of Overnight Travel from Italy (volume in thousands and annual percentage change)

1997	1998	1999	2000	2001	2002
103.1	105.6	108.5	112.3	115.1	117.4
(-4.8)	(2.4)	(2.8)	(3.5)	(2.5)	(2.0)

Overnight Trips from Italy to Canada



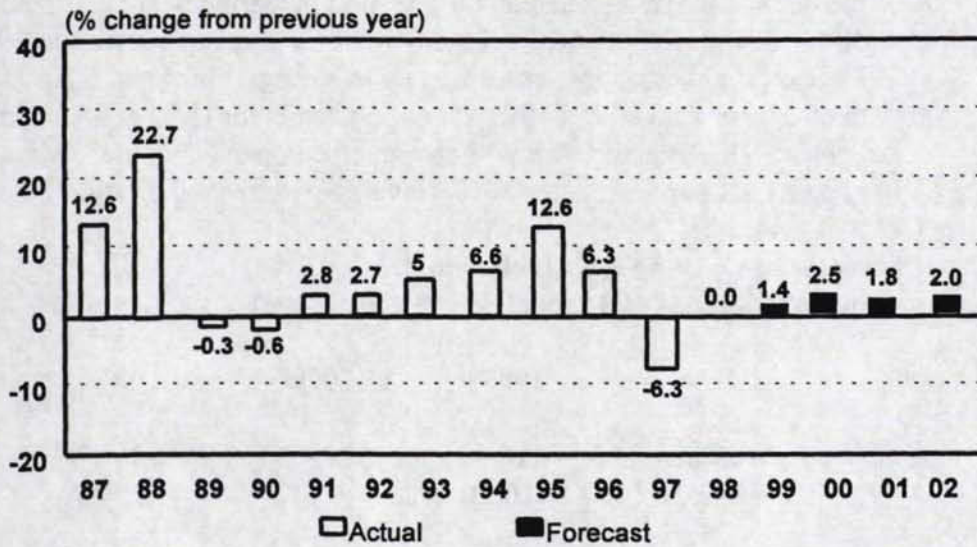
Travel from Italy to Canada declined by 4.8 per cent in 1997 mainly because the lira fell in value against the Canadian dollar and this made visits to Canada more expensive. Unlike the situation in Germany and Japan, the CTC expects this market to turnaround this year and growth in overnight trips of 2.4 per cent is expected. Both business and consumer confidence are on the increase and it is anticipated that new CTC marketing initiatives, which began in 1997, will start to have an impact this year.

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

1997	1998	1999	2000	2001	2002
101.0	101.0	102.4	105.0	106.9	109.0
(-6.3)	(0.0)	(1.4)	(2.5)	(1.8)	(2.0)

Sluggish economic growth of less than 1 per cent likely resulted in a drop of 6.3 per cent in overnight travel to Canada in 1997. The CTC does not expect a significant rebound in this market until at least 2000. The CTC does not anticipate any new marketing initiatives for Switzerland. In both 1998 and 1999 weak GDP growth of around 2 per cent is anticipated and this factor will constrain travel growth to Canada.

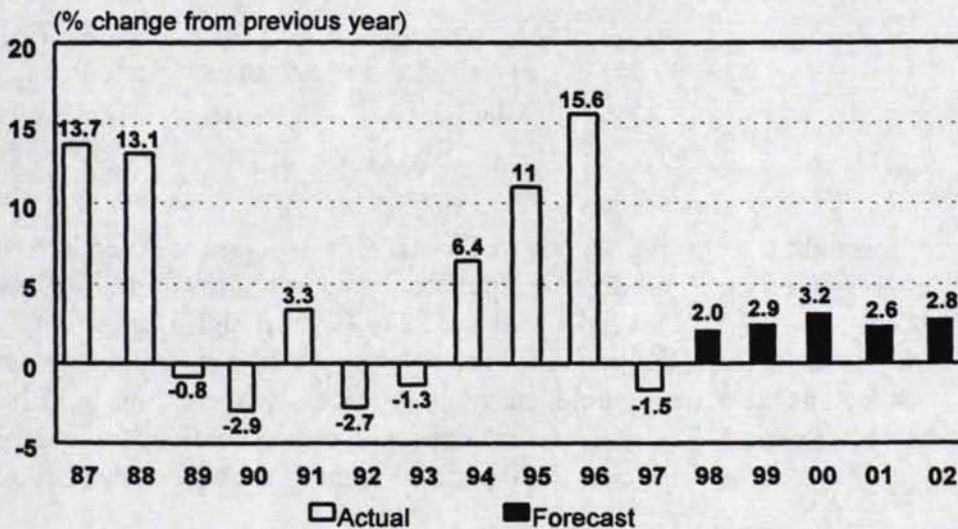
Overnight Trips from Switzerland to Canada



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

1997	1998	1999	2000	2001	2002
115.0	117.3	120.7	124.6	127.8	131.4
(-1.5)	(2.0)	(2.9)	(3.2)	(2.6)	(2.8)

Overnight Trips from the Netherlands

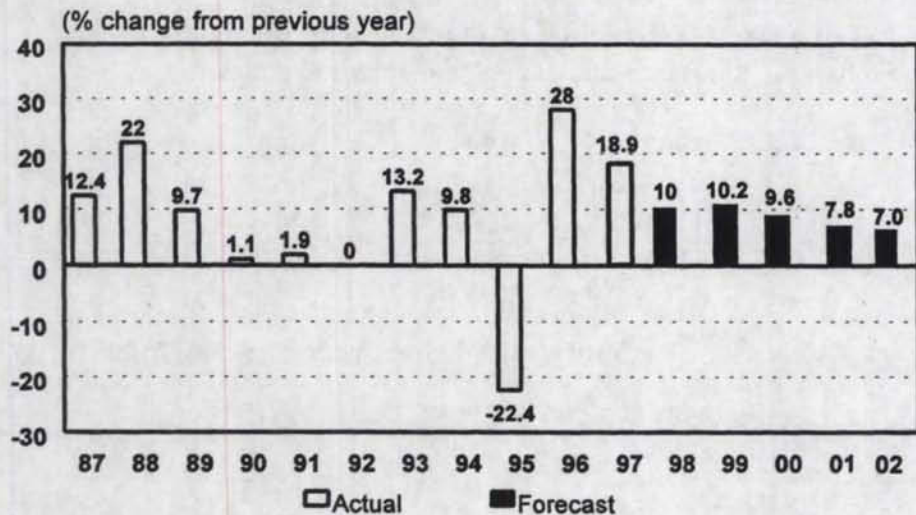


While overnight trips to Canada from the Netherlands dropped by 1.5 per cent last year, at least the decline was not as bad as the situation in Germany and Switzerland. This is likely because the Netherlands' economy performed relatively well in 1997. GDP grew by 3.1 per cent and consumer confidence was strong. This year, the CTC anticipates growth of 2.0 per cent and in 1999 the outlook calls for close to 3 per cent growth in overnight travel. As is the case with the other European countries, when the Canadian dollar begins to appreciate after 2000, travel growth from the Netherlands tails off.

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

1997	1998	1999	2000	2001	2002
95.6	105.2	115.9	127.0	136.9	146.5
(18.9)	(10.0)	(10.2)	(9.6)	(7.8)	(7.0)

Overnight Trips from Mexico to Canada

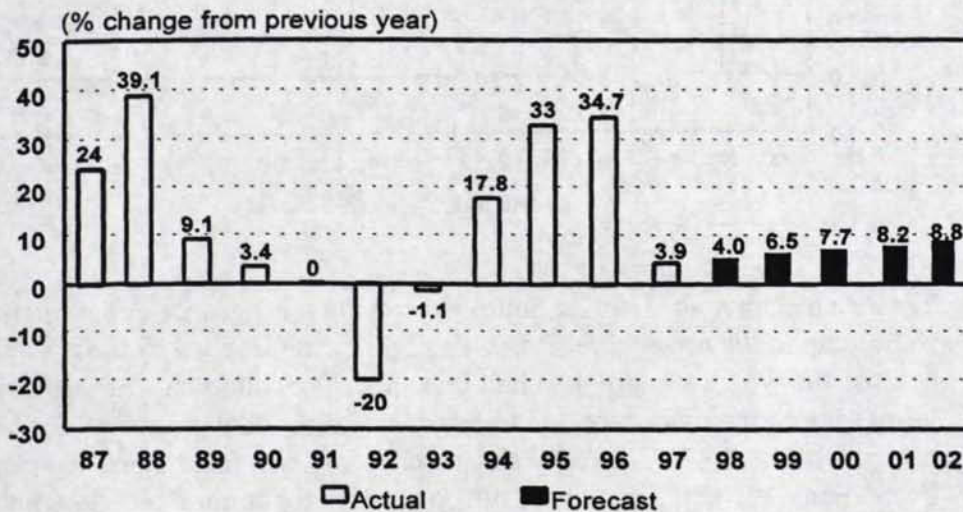


Overnight travel from Mexico to Canada grew by close to 20 per cent in 1997 as the Mexican economy continued to put the peso crisis of the mid 1990s behind it. Last year, GDP grew by a robust 5 per cent and in 1998, even higher growth of 7 per cent is forecast. To date, the peso has been able to avoid the currency problems facing Asia and as long as the currency holds its value, Mexicans will continue to visit Canada over the forecast period. The CTC doesn't expect growth to continue in the 20 per cent range, however. Growth in the 7 to 10 per cent range is anticipated until 2002.

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

1997	1998	1999	2000	2001	2002
57.4	59.7	63.6	68.5	74.1	80.6
(3.9)	(4.0)	(6.5)	(7.7)	(8.2)	(8.8)

Overnight Trips from Brazil to Canada

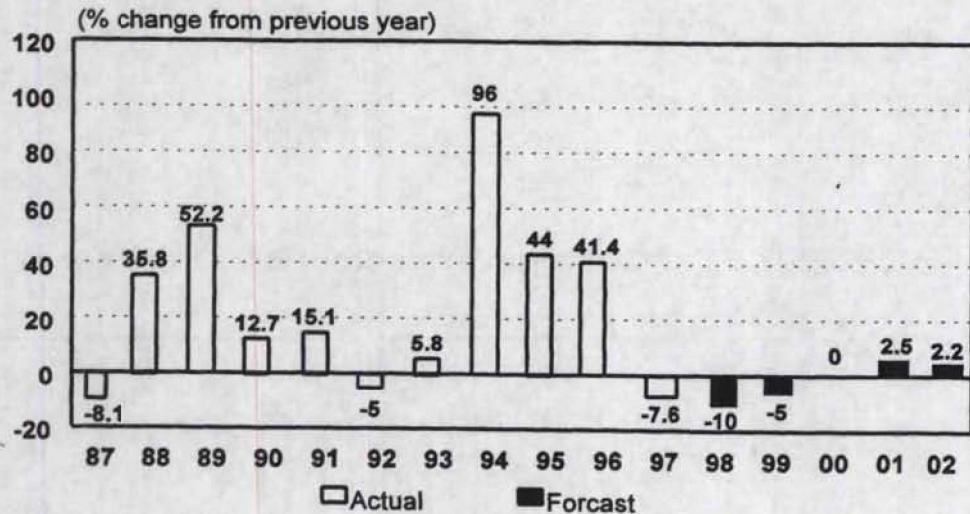


Growth in overnight travel from Brazil did not reach the 20 per cent mark expected in the 1997 forecast update. This was likely because GDP growth slipped from the 5 to 6 per cent range to 3 per cent. The Brazilian currency has been under intense pressure lately as the Asian crisis spreads to other countries that are thought to be vulnerable. The government has had to raise interest rates considerably in order to defend the currency. GDP is forecast to increase by only 3.2 per cent this year and 1.2 per cent in 1999. As a result, the CTC has made a downward revision to its travel forecast for this market. The CTC does not have a significant marketing presence in this country.

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

1997	1998	1999	2000	2001	2002
147.1	133.7	127.3	127.3	130.5	133.4
(-7.6)	(-10.0)	(-5.0)	(0.0)	(2.5)	(2.2)

Overnight Trips from South Korea to Canada



The Asian economic crisis hit South Korea with a vengeance last year and it certainly showed up in the travel numbers. Overnight travel dropped by close to 8 per cent mainly because the won lost more than half its value. The full impact of the crisis will be felt this year as the economy is expected to record negative GDP growth on the heels of 5.7 per cent growth in 1997. The badly shaken economy will force many Koreans to put their international travel plans on hold due to worries about more pressing matters, such as job security. The CTC feels that the situation in this country will not begin to turn around until at least 2000. Marketing initiatives have been put on hold in South Korea until the economy improves. The CTC will focus marketing dollars on more promising markets at the expense of South Korea.

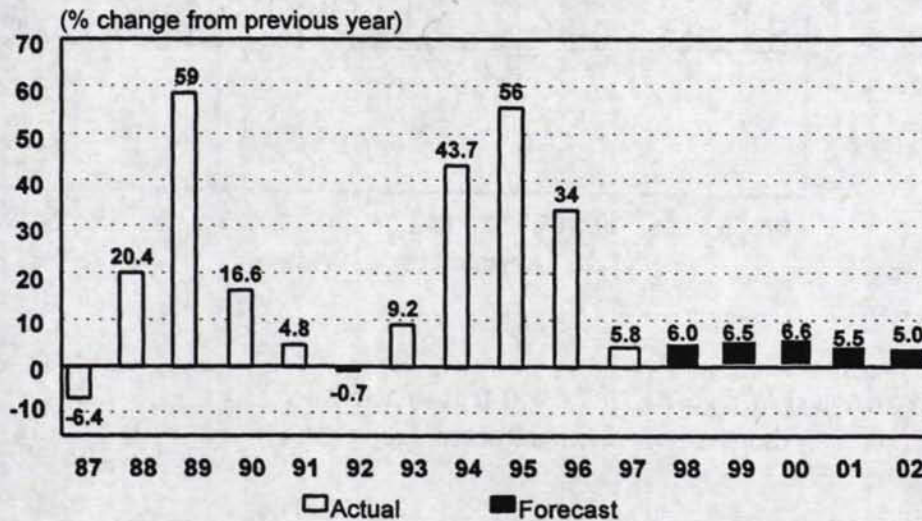
o) Forecast of Overnight Travel from Taiwan (volume in thousands and annual percentage change)

1997	1998	1999	2000	2001	2002
143.2	151.8	161.7	172.3	181.8	190.9
(5.8)	(6.0)	(6.5)	(6.6)	(5.5)	(5.0)

With a large supply of foreign reserves at its disposal, the Taiwan government was able to withstand the attack of currency speculators that affected South Korea and other Asian economies. As a result, its currency did not depreciate to the extent experienced by other Asian countries and residents of the country continued to travel to Canada. Overnight travel grew by 5.8 per cent and much the same type of growth is anticipated until 2002. This year, GDP growth of 6.0 per cent will leave Taiwan with one of the fastest-growing economies in the region. The fact that travel growth to Canada slowed down from the 20 per cent range experienced in 1996 may partly be attributable to the doubling of the price

of a visa to \$120, starting on January 1, 1997. This likely had a negative impact on travel to Canada because many of the trips from Taiwan involve two or more country visits. Close to 50 per cent of total travel to Canada comes via the United States. Visitors from Taiwan may have decided to remain in the United States and not bother to visit Canada because of the steeper visa price.

Overnight Trips from Taiwan to Canada

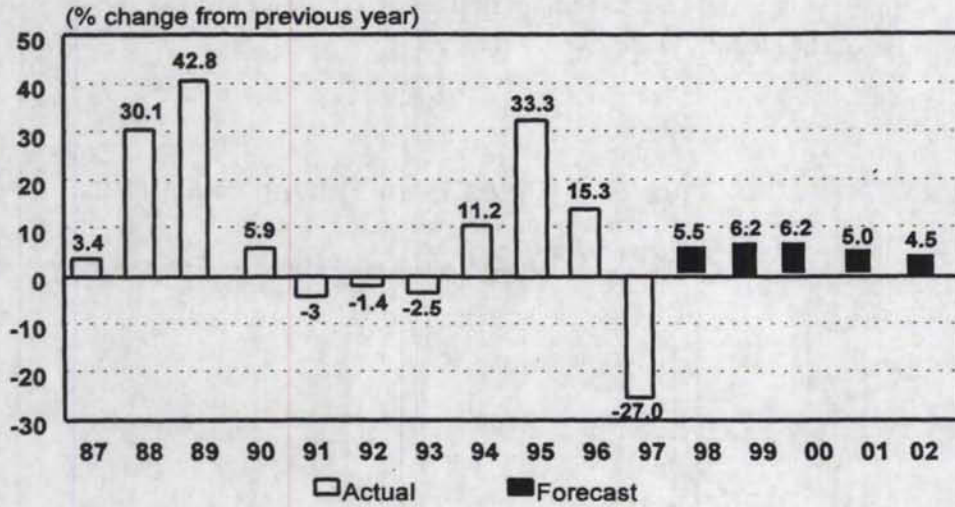


p) Forecast of Overnight Travel from Hong Kong
(volume in thousands and annual percentage change)

1997	1998	1999	2000	2001	2002
146.9	155.0	164.6	174.8	183.5	191.8
(-27.0)	(5.5)	(6.2)	(6.2)	(5.0)	(4.5)

The CTC anticipated a drop in travel from Hong Kong as a result of reunification with mainland China. However, the extent of the decline in growth, 27 per cent, was not expected. A large portion of trips from Hong Kong to Canada involve personal business. Hong Kong residents travel to Canada in order to maintain contacts with their many business interests, especially in Vancouver. The drop in the Vancouver real estate market combined with the dramatic decline in the Hong Kong stock market likely resulted in a decline in the need for these types of trips. In addition, the economic difficulties in Hong Kong likely caused some families to pull their children out of Canadian schools. Therefore, travel to visit relatives in Canada naturally fell. The CTC feels that the effect of the Asian economic crisis on personal business travel by Hong Kong residents has bottomed out and that growth in overnight travel in the 5 to 6 per cent range is being anticipated over the forecast period.

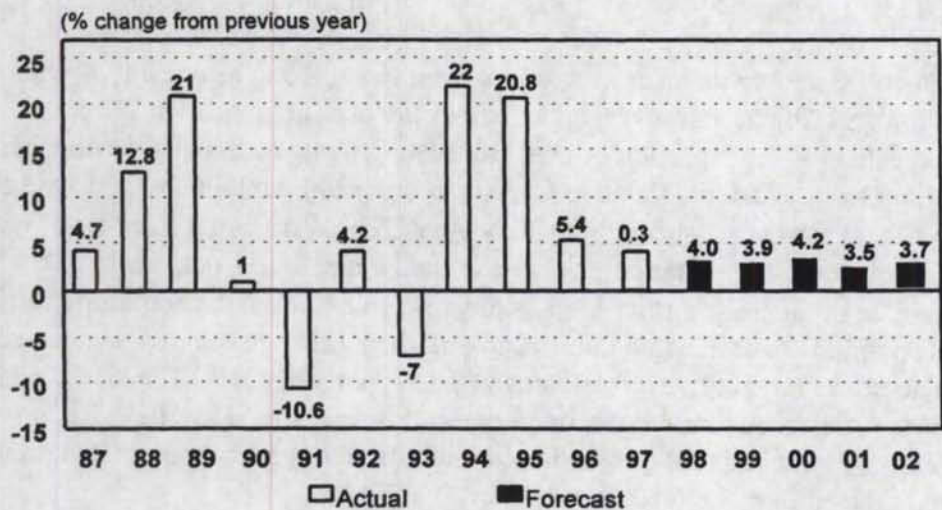
Overnight Trips from Hong Kong to Canada



q) Forecast of Overnight Travel from Australia (volume in thousands and annual percentage change)

1997	1998	1999	2000	2001	2002
149.5	155.5	161.5	168.3	174.2	180.7
(0.3)	(4.0)	(3.9)	(4.2)	(3.5)	(3.7)

Overnight Trips from Australia to Canada



Due to the long distances involved in traveling from Australia to Canada, many of the economic factors that impact shorter haul markets, such as GDP and the exchange rate, are not as important for this country. Trips to Canada often are part of an itinerary that includes stops in Asia, Europe and the United States. The decline in growth last year to 0.3 per cent may be attributable to the fact that the dramatic drop in currency values in Asia made visits to this part of the world an attractive option for the very price conscious Australian traveler. Since Australia is a market that is doing relatively well compared with other regional countries, the CTC plans to increase its marketing efforts in this country.

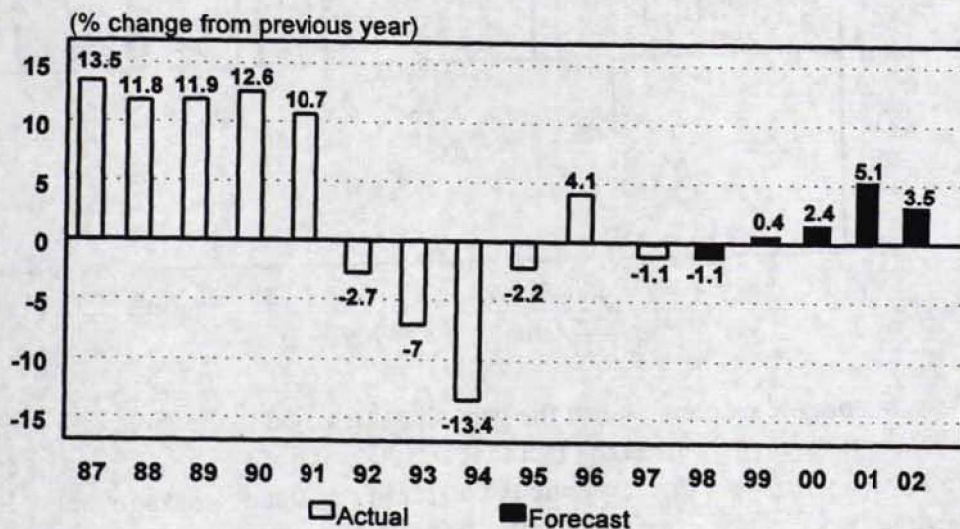
5. Outbound Travel Forecasts

The outbound travel forecasts are based on the exchange rate and Canada's real disposable income. As the dollar depreciates, Canadians 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)

1997	1998	1999	2000	2001	2002
15,130	14,965	15,025	15,386	16,171	16,736
(-1.1)	(-1.1)	(0.4)	(2.4)	(5.1)	(3.5)

Overnight Trips from Canada to the U.S.

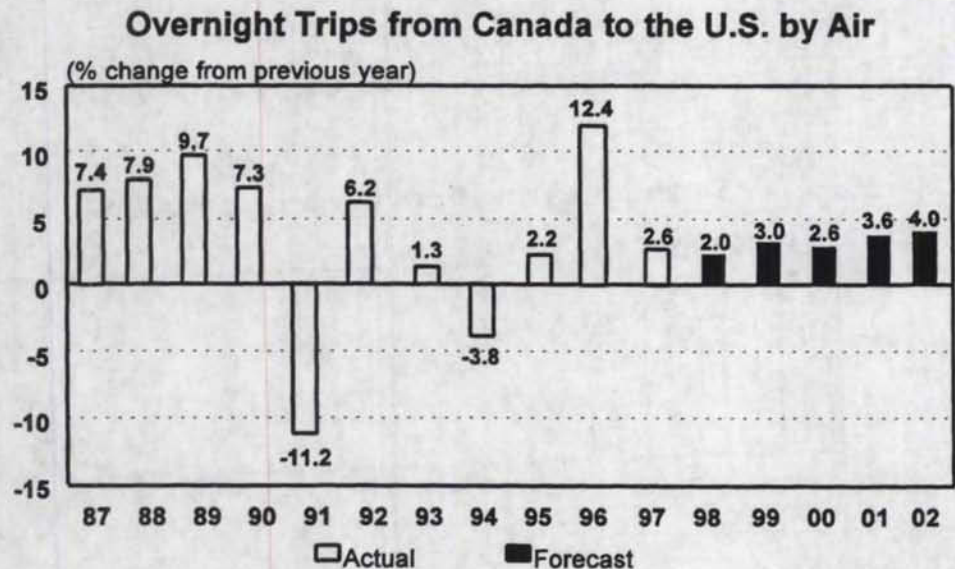


The weak Canadian dollar resulted in a 1.1 per cent decline in overnight travel from Canada to the United States in 1997 as Canadians decided to either travel within Canada

or visit overseas destinations. As the Canadian dollar is not expected to appreciate significantly in 1998, another drop in travel of 1.1 per cent is forecast for this year as well. Another factor that may cause more Canadians to forego a visit to the United States for a vacation in Canada is a CTC marketing initiative. This program targets Canadians, who regularly visit the United States, but could be convinced to travel within Canada instead. If the initiative is successful, growth in overnight trips to the United States should slowdown even under the scenario of a higher valued Canadian dollar. Beyond 1998, the CTC predicts that Canadians will gradually increase the number of trips to the United States in response to a higher valued Canadian dollar. Travel growth will peak at 5.1 per cent in 2001. The absence of any economic downturns over the forecast period will also contribute to a rebound in overnight visits to the United States.

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

1997	1998	1999	2000	2001	2002
3,901	3,979	4,098	4,205	4,356	4,531
(2.6)	(2.0)	(3.0)	(2.6)	(3.6)	(4.0)

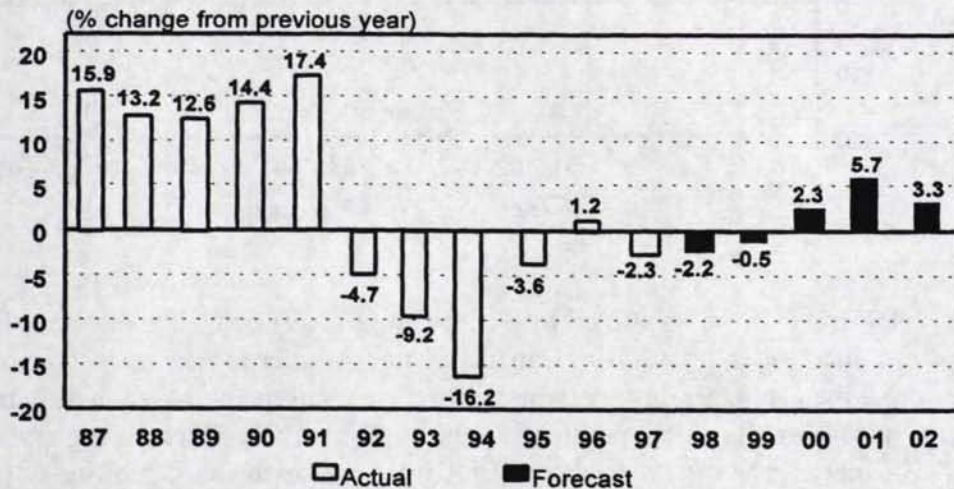


Two factors are responsible for the growth in air travel to the United States: the Open Skies agreement as well as the fact that air travel is not as sensitive to the exchange rate compared with auto travel. While the effect of the Open Skies agreement is starting to lessen, the CTC still expects air travel to grow at a faster pace compared with travel by other modes. As new destinations continue to emerge, Canadians should be able to obtain bargains on ticket prices and this factor should sustain air travel to the United States over the forecast period.

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

1997	1998	1999	2000	2001	2002
11,229	10,986	10,927	11,181	11,815	12,207
(-2.3)	(-2.2)	(-0.5)	(2.3)	(5.7)	(3.3)

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

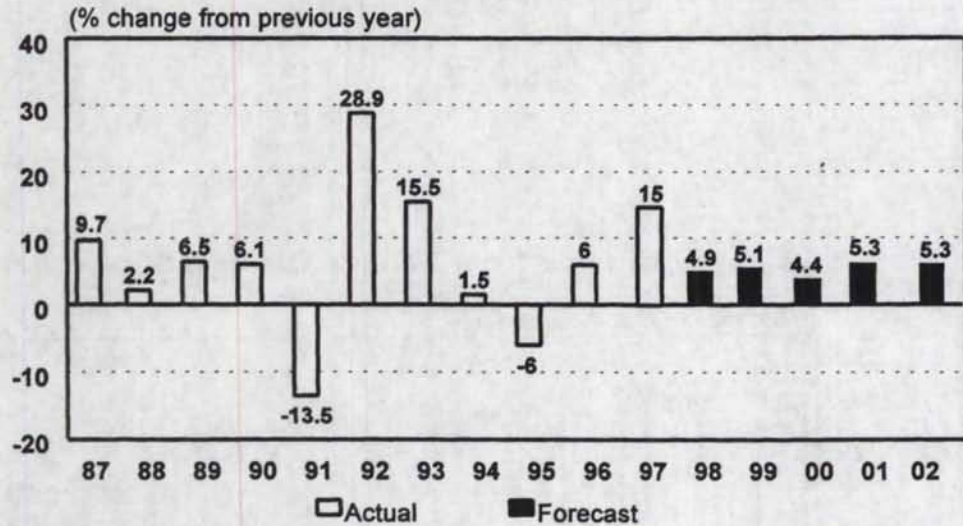


This forecast primarily reflects travel to the United States by auto, which is very sensitive to the exchange rate. In 1998 and 1999 travel will decline because of the weak Canadian dollar. However, growth picks up in the year 2000 once the Canadian dollar starts to appreciate.

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

1997	1998	1999	2000	2001	2002
69.5	72.9	76.6	80.0	84.2	88.7
(15.0)	(4.9)	(5.1)	(4.4)	(5.3)	(5.3)

Overnight Trips from Canada to Japan



In 1997, travel to Japan surged by an estimated 15 per cent. The increase likely reflects a general increase in travel from Canada to Asia in order to take advantage of the high value of the Canadian dollar against most Asian currencies. Also, higher travel to Japan may have been due to the preparation for the Winter Olympics in Nagano. This year, the CTC expects growth to return to around 5 per cent as the impact of the Olympic games on travel dissipates.

6. Travel Receipts, Payments and Deficit

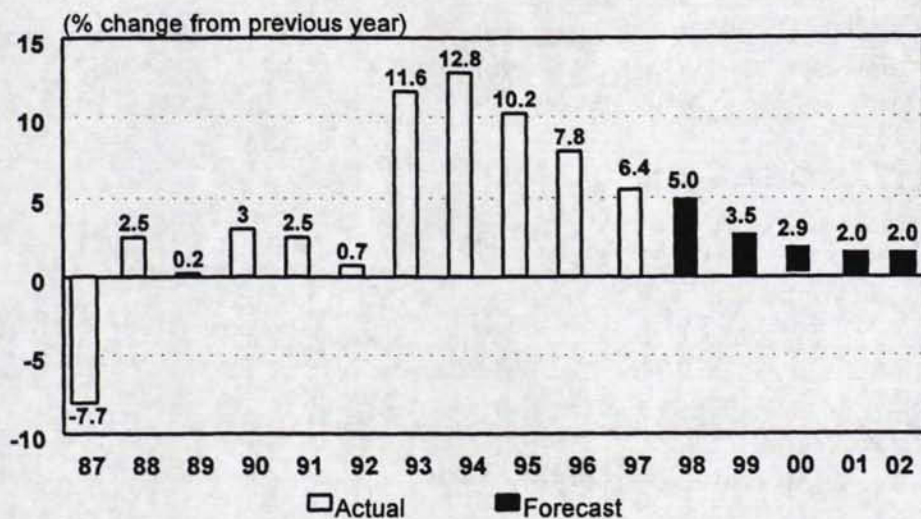
Canada's total travel deficit will increase mainly because Canadians will travel and spend more money in the United States and other countries. The forecast of U.S. receipts is based on the exchange rate, U.S. disposable income and the U.S. unemployment rate. Canadian unemployment and income as well as the exchange rate are used for the Canadian 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.

a) Forecast of Travel Receipts, Payments and Deficit (millions of current \$ and annual percentage change)

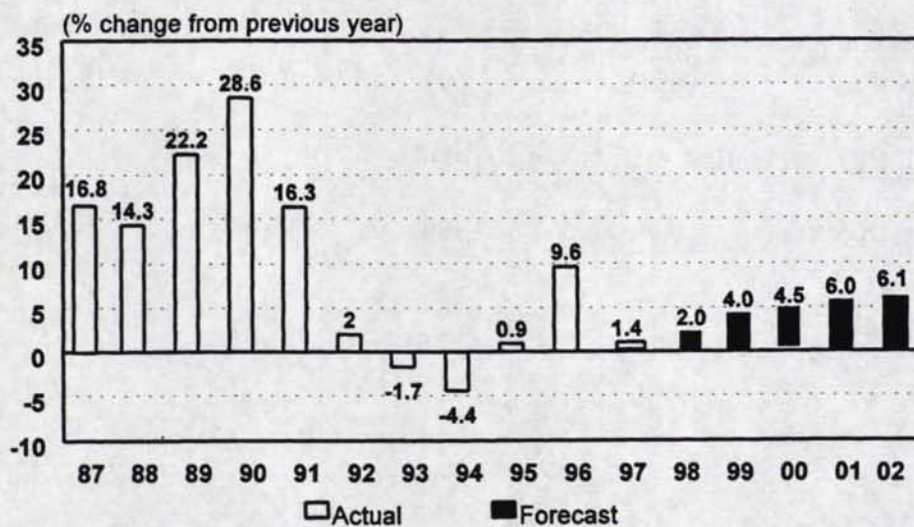
Travel Receipts - U.S.

1997	1998	1999	2000	2001	2002
6,901	7,246	7,500	7,718	7,872	8,029
(6.4)	(5.0)	(3.5)	(2.9)	(2.0)	(2.0)

Travel Receipts - U.S.



Travel Payments - U.S.



Travel Payments - U.S.

1997	1998	1999	2000	2001	2002
10,012	10,212	10,621	11,099	11,765	12,483
(1.4)	(2.0)	(4.0)	(4.5)	(6.0)	(6.1)

Travel Deficit - U.S.

1997	1998	1999	2000	2001	2002
3,111	2,966	3,121	3,381	3,893	4,454
(-8.2)	(-4.7)	(5.2)	(8.3)	(15.1)	(14.4)

Travel Receipts - Rest of the World

1997	1998	1999	2000	2001	2002
5,240	5,240	5,397	5,586	5,720	5,846
(-0.6)	(0.0)	(3.0)	(3.5)	(2.4)	(2.2)

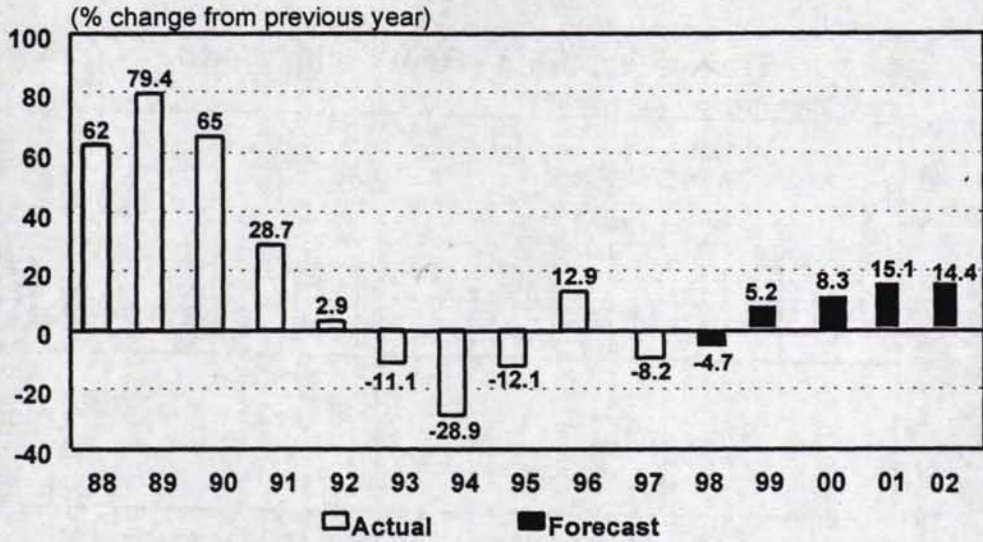
Travel Payments - Rest of the World

1997	1998	1999	2000	2001	2002
5,637	5,919	6,215	6,557	6,950	7,381
(7.4)	(5.0)	(5.0)	(5.5)	(6.0)	(6.2)

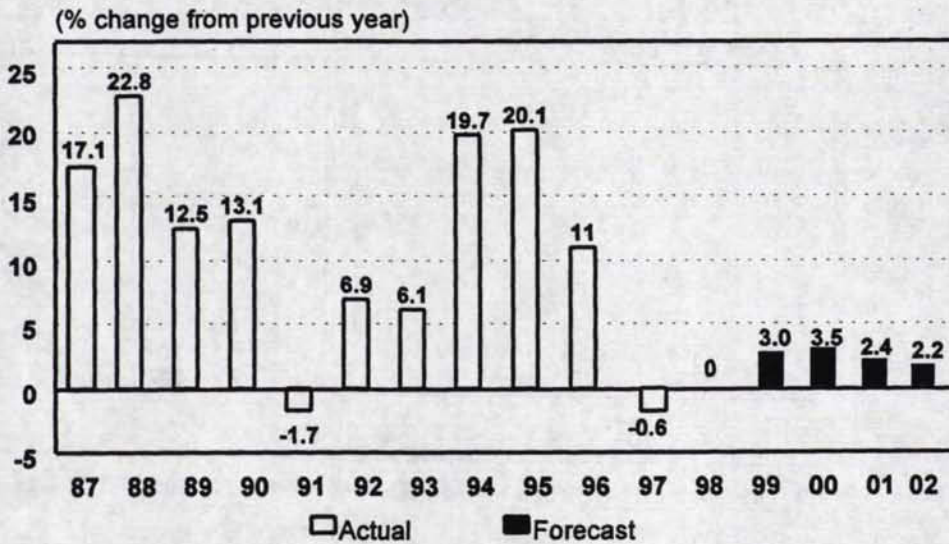
Travel Deficit - Rest of the World

1997	1998	1999	2000	2001	2002
397	679	818	971	1,230	1,535
(-1,826.1)	(71.0)	(20.5)	(18.7)	(26.7)	(24.8)

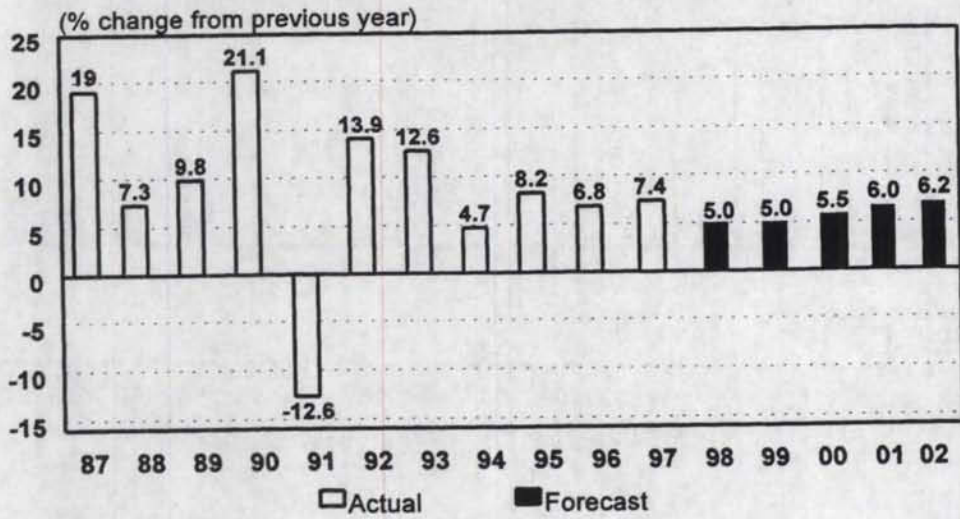
Travel Deficit - U.S.



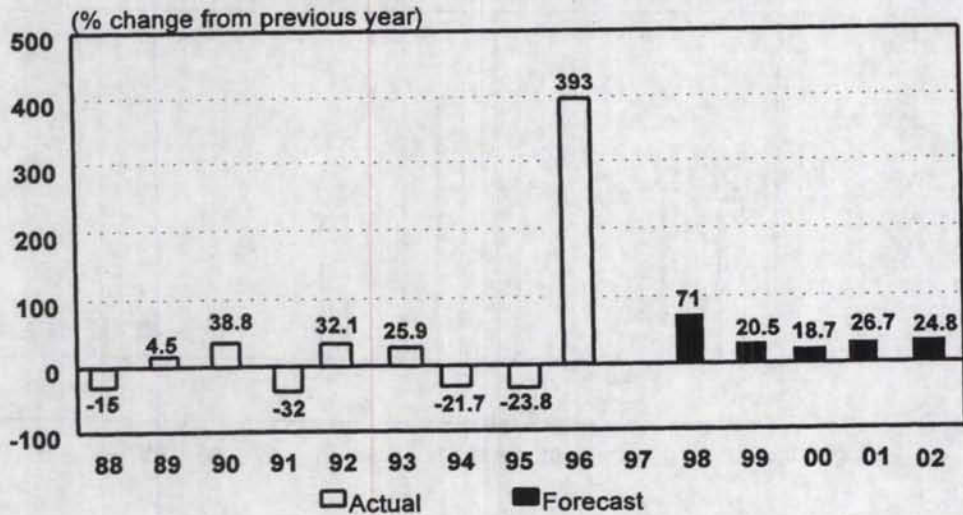
Travel Receipts - Rest of the World



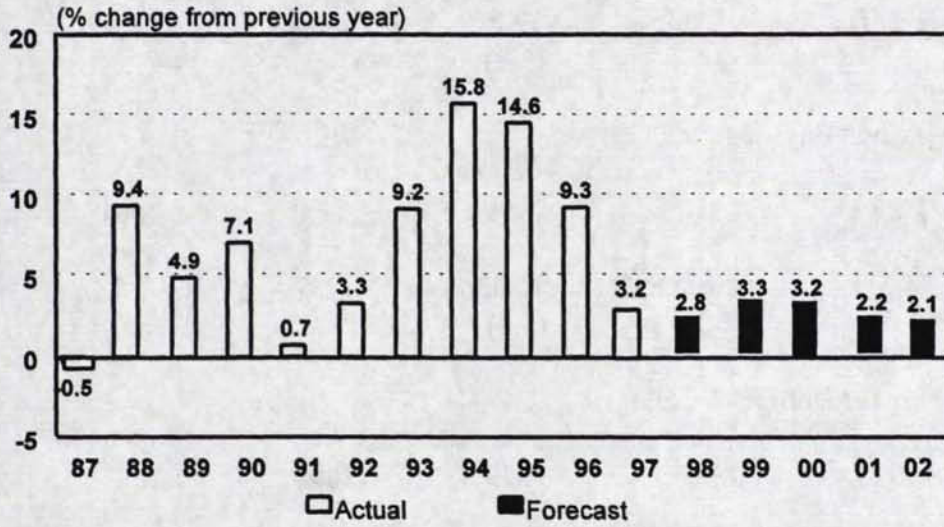
Travel Payments - Rest of the World



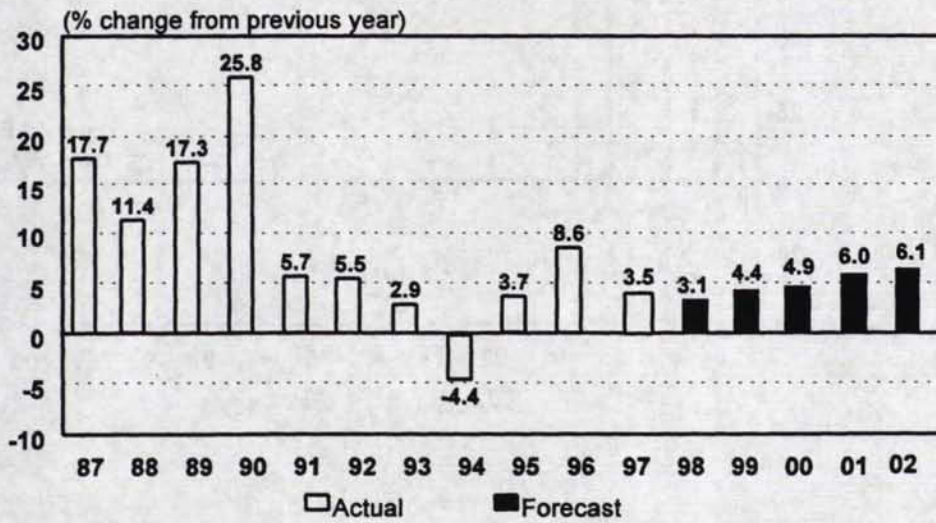
Travel Balance - Rest of the World



Travel Receipts - Total



Travel Payments - Total



Travel Receipts - Total

1997	1998	1999	2000	2001	2002
12,141	12,486	12,897	13,304	13,592	13,875
(3.2)	(2.8)	(3.3)	(3.2)	(2.2)	(2.1)

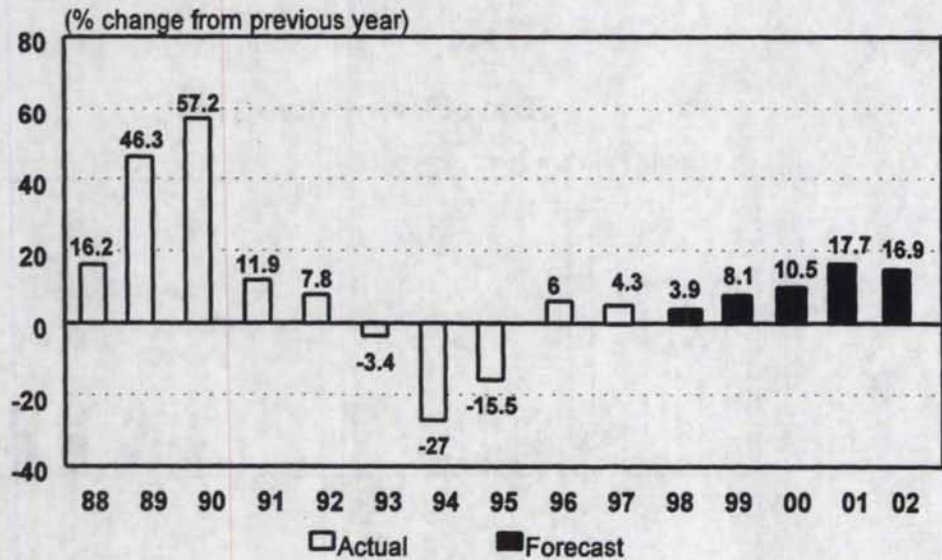
Travel Payments - Total

1997	1998	1999	2000	2001	2002
15,649	16,131	16,836	17,656	18,715	19,864
(3.5)	(3.1)	(4.4)	(4.9)	(6.0)	(6.1)

Travel Deficit - Total

1997	1998	1999	2000	2001	2002
3,508	3,645	3,939	4,352	5,123	5,989
(4.3)	(3.9)	(8.1)	(10.5)	(17.7)	(16.9)

Travel deficit - Total



Canada's travel deficit with the United States declined in 1997 and is also expected to drop this year as well. The low value of the Canadian dollar resulted in a decline in visits to the United States and a small increase in spending by Canadians in the United States last year. This year, with the dollar forecast to trade in the U.S. 70 to 72 cents range, Canadians will once again cut their travel to the United States. Spending is expected to increase by only 2 per cent on the heels of a 1 per cent gain in 1997. In 1999, the U.S. travel deficit will begin to increase because an appreciating Canadian dollar will result in more travel and spending in the United States. Conversely, the higher valued Canadian dollar will discourage travel to Canada from the United States. By 2002, the CTC expects the U.S. travel deficit to reach \$4.4 billion. Note that the deficit would even be worse if it were not for the fact that air travel from the United States is increasing at a faster rate than auto travel. Air travellers spend more per trip compared with auto visitors and, as a result, U.S. travel spending in Canada will remain positive even when the Canadian dollar appreciates.

In 1996, strong growth in overseas travel to Canada resulted in a travel surplus with the rest of the world. Last year, the surplus became a deficit of \$397 million as overseas travel and spending from the key markets of Japan, Germany and France collapsed. At the same time, Canadians increased their spending in overseas countries due to a healthy economy and a rising currency. Over the forecast period, the travel balance with the rest of the world is expected to deteriorate because a recovery in spending from Asia as well as Europe will take some time. Canadians will continue to take overseas vacations because of solid economic conditions and rising discretionary income. In 2002, the travel deficit with the rest of the world will be \$1.5 billion. In the same year Canada's total travel deficit will reach \$6.0 billion.

b) Sensitivity Analysis

The forecast of the travel deficit, especially with respect to the United States, is very sensitive to the value of the Canadian dollar. In the early 1990s, when the dollar traded in the mid U.S. 80 cents range, the travel deficit ballooned to over \$6 billion as the high Canadian dollar led to a surge in travel to the United States. The dollar is probably the most difficult variable to forecast because it is influenced not only by economic factors, such as relative inflation rates, but also by non-economic factors, such as political uncertainty. Evidence of the impact of uncertainty on currencies was apparent during the referendum vote in the fall of 1995. 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 productivity levels between Canada and the United States.

Recently, the Asian crisis has caused the Canadian dollar to slide in value mainly because resource prices have weakened due to a lack of demand in Asia. By the end of 1997, the dollar actually fell below U.S 69 cents. In the spring, the Canadian dollar rebounded somewhat but there is still a lot of volatility in foreign exchange rate markets. To test the sensitivity of the U.S. travel deficit to different exchange rate scenarios, the econometric

model was simulated with a dollar 10 per cent below the base case forecast. The simulations started in 1998. Table 2 shows the different values of the dollar for the simulation.

Table 2
Exchange Rate Scenarios
(U.S./Can., cents)

	10% Depreciation	Base case
1998	64.2	70.6
1999	65.1	71.6
2000	65.2	71.7
2001	67.6	74.4
2002	69.0	75.9

In the base case, the Canadian dollar gradually appreciates in value to U.S. 76 cents by 2002. It is assumed that the "no" side will win another referendum in Quebec and this explains the jump in the currency in 2001. In the alternative scenario, the dollar remains below U.S. 70 cents for the entire period of the simulation.

Table 3
U.S. Travel Deficit - Alternative Scenarios
(millions of current \$)

	10% Depreciation	Base case
1998	1,986	2,966
1999	2,194	3,121
2000	2,469	3,381
2001	2,983	3,893
2002	3,535	4,454

In the base case scenario the U.S. travel deficit reaches \$4.5 billion by 2002. A Canadian dollar valued at less than U.S. 70 cents in the alternative scenario results in less travel and spending in the United States and, alternatively, more spending by Americans in Canada. The deficit in 2002 drops by \$919 million compared with the base case.

Analysis of U.S. Travel Balance - 1997

It is interesting to look back at the key projection of the 1997 travel balance with the United States that was made in the fall of 1997. Table 4 compares the projections of receipts and payments and compares them with the actual.

Table 4
U.S. Travel Balance (\$millions)

	Receipts	Payments	Balance
Projection	7,002	10,915	-3,913
Actual	6,901	10,012	-3,111

The travel deficit was less than originally anticipated in the spring of 1997. Both travel receipts and payments were lower than forecasted. The dollar averaged U.S. 72 cents in 1997 about what was anticipated in the last update. Therefore, the reason that the projection differs from the actual was not a result of an error in the exchange rate forecast. Instead, it resulted from the drop in air travel and spending that transpired last year. The impact of Open Skies petered out sooner than expected and this resulted in lower receipts and payments. Travel payments were 8.3 per cent below the projection while receipts were 1.4 per cent lower. As payments fell more than receipts, the travel deficit improved.

7. Business and Pleasure Travel

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

United States

1997	1998	1999	2000	2001	2002
7,392	7,525	7,638	7,714	7,776	7,838
(2.4)	(1.8)	(1.5)	(1.0)	(0.8)	(0.8)

United Kingdom

1997	1998	1999	2000	2001	2002
350.0	346.5	353.5	364.8	375.0	385.1
(-3.8)	(-1.0)	(2.0)	(3.2)	(2.8)	(2.7)

France

1997	1998	1999	2000	2001	2002
262.3	249.8	249.8	256.5	262.7	268.5
(-10.0)	(-4.8)	(0.0)	(2.7)	(2.4)	(2.2)

Germany

1997	1998	1999	2000	2001	2002
249.5 (-20.0)	226.8 (-9.1)	222.4 (-1.9)	222.4 (0.0)	227.3 (2.2)	231.3 (1.8)

Japan

1997	1998	1999	2000	2001	2002
329.2 (-28.0)	286.3 (-13.0)	294.8 (3.0)	304.9 (3.4)	314.3 (3.1)	323.1 (2.8)

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

1997	1998	1999	2000	2001	2002
1,969 (6.1)	2,077 (5.5)	2,181 (5.0)	2,268 (4.0)	2,359 (4.0)	2,453 (4.0)

United Kingdom

1997	1998	1999	2000	2001	2002
88.0 (30.6)	101.2 (15.0)	111.3 (10.0)	119.7 (7.5)	128.0 (6.9)	137.0 (7.0)

France

1997	1998	1999	2000	2001	2002
52.1 (6.7)	55.2 (6.0)	58.6 (6.2)	61.6 (5.1)	64.3 (4.4)	67.1 (4.4)

Germany

1997	1998	1999	2000	2001	2002
45.3 (12.8)	48.9 (7.9)	52.5 (7.4)	55.8 (6.3)	59.1 (5.9)	62.6 (5.9)

Japan

1997	1998	1999	2000	2001	2002
151.2 (16.3)	166.3 (10.0)	180.0 (8.2)	192.9 (7.2)	204.7 (6.1)	215.7 (5.4)

In 1997, there was a significant change in the growth rates of overseas pleasure and business travel to Canada. In the 1995-96 period, pleasure travel from the key overseas markets soared mainly in response to a weak Canadian dollar. Business travel also grew but not to the same extent as pleasure travel. Last year, the situation changed as a combination of a rising Canadian dollar (in countries other than the United States) and poor economic conditions led to a plunge in pleasure trips to Canada. Pleasure visits from Japan, Germany and France plummeted by double digit amounts while overnight pleasure trips from the United Kingdom fell by a modest 4 per cent. Alternatively, business travel from these overseas markets expanded. Business travel is not as sensitive to the exchange rate compared with pleasure travel. As long as the Canadian economy continues to grow and profitability levels remain high, foreign companies will continue to look for business opportunities in this country. Over the forecast period, it is assumed that the divergence between the growth rates of business and pleasure travel from overseas countries will diminish. A gradual recovery of the mark, franc and yen will make pleasure travel to Canada a more attractive option.

In 1997, both business and pleasure trips from the United States increased. Growth in business travel was faster mainly because the Open Skies agreement has increased U.S. business travelers flight options. Also, the NAFTA agreement and the fact that both economies are growing have contributed to the boom in business travel. The CTC expects that business travel will continue to grow at a faster rate than pleasure travel over the forecast period.

8. Travel Expenditures

The forecasts of travel expenditures from the six major markets are provided in current dollars. The expenditure 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 the exchange rate, income and pleasure trips. Forecasts of gross domestic product and the Canadian unemployment rate are used to derive U.S. business expenditure forecasts.

Forecast of Overnight Travel Expenditures
(millions of \$ and annual percentage change)

a) Current Dollar Expenditure Forecasts

United States - Pleasure

1997	1998	1999	2000	2001	2002
3,032	3,093	3,154	3,214	3,272	3,328
(2.2)	(2.0)	(2.0)	(1.9)	(1.8)	(1.7)

United States - Business

1997	1998	1999	2000	2001	2002
1,292	1,357	1,422	1,481	1,544	1,607
(4.3)	(5.0)	(4.8)	(4.2)	(4.3)	(4.1)

United Kingdom

1997	1998	1999	2000	2001	2002
568.6	597.0	624.5	652.0	674.8	698.4
(6.7)	(5.0)	(4.6)	(4.4)	(3.5)	(3.5)

France

1997	1998	1999	2000	2001	2002
474.6	484.1	503.9	531.6	550.8	571.7
(-5.0)	(2.0)	(4.1)	(5.5)	(3.6)	(3.8)

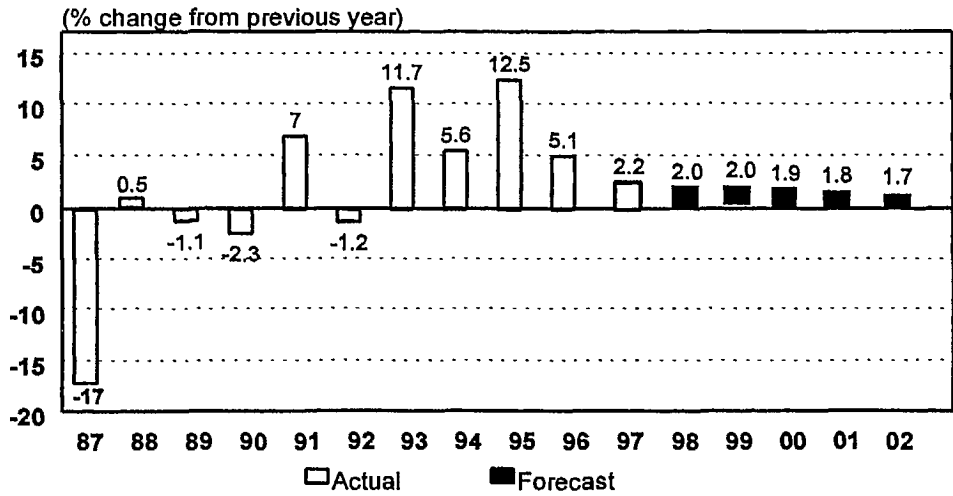
Germany

1997	1998	1999	2000	2001	2002
446.0	437.3	446.9	465.2	483.8	501.7
(-14.0)	(-2.0)	(2.2)	(4.1)	(4.0)	(3.7)

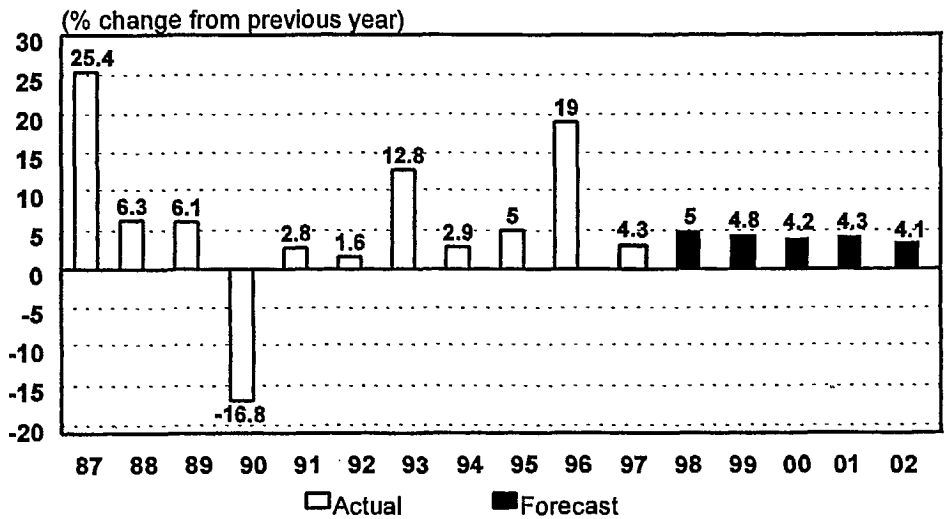
Japan

1997	1998	1999	2000	2001	2002
644.6	658.8	681.8	709.1	736.0	764.8
(-7.0)	(2.2)	(3.5)	(4.0)	(3.8)	(3.9)

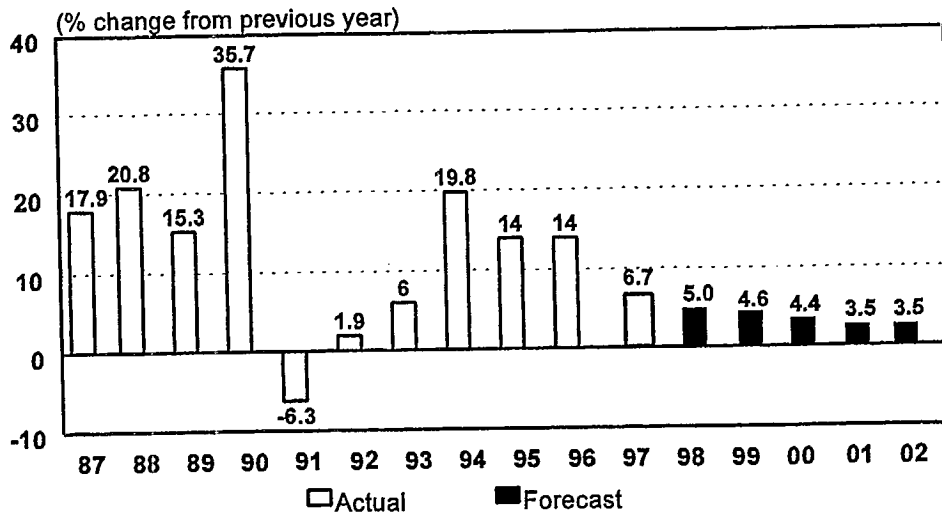
Overnight Expenditures from the U.S. to Canada - Pleasure



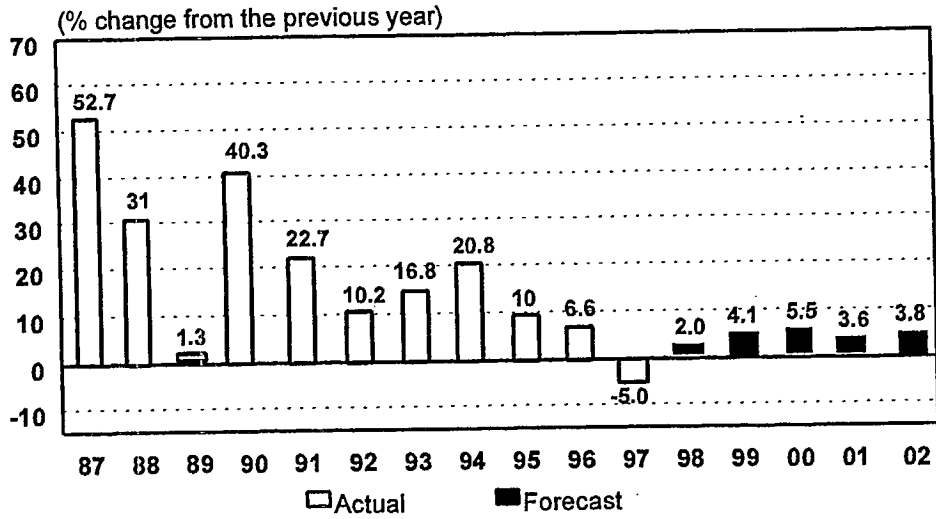
Overnight Expenditures from the U.S. to Canada - Business



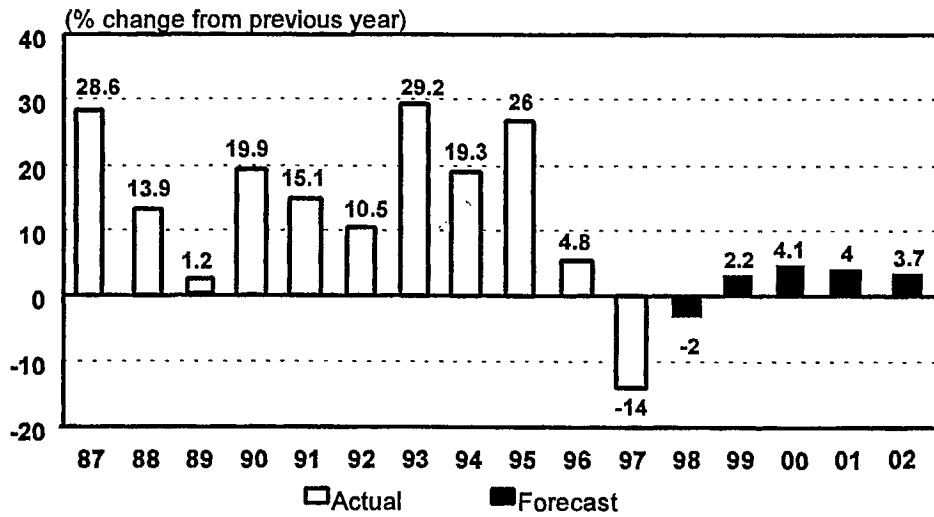
Overnight Expenditures from the U.K. to Canada



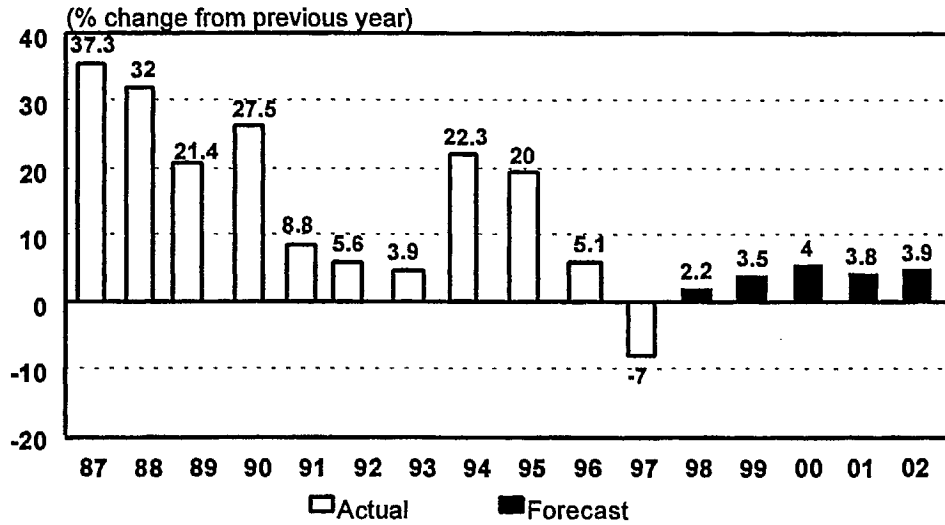
Overnight Expenditures from France to Canada



Overnight Expenditures from Germany to Canada



Overnight Expenditures from Japan to Canada



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 business trips from the United States will grow at a faster clip compared with pleasure travel. This is because of the view that rising business confidence combined with the NAFTA and Open Skies agreements will spur spending on business travel. Spending from France, Germany and Japan declined last year mainly because there were fewer visitors from these markets. Growth in spending is expected to gradually recover over the forecast period.

Sensitivity of Japanese Travel Spending in Canada
(millions of \$)

	10% Dep.	Base case	10% App.
1998	684.3	658.8	635.7
1999	708.2	681.8	658.9
2000	737.4	709.1	685.0
2001	765.4	736.0	711.1
2002	795.6	764.7	738.4

Due to the importance of Japan to Canada's travel market and the volatility of exchange rates in Asia, a sensitivity analysis of Japanese spending in Canada was conducted. The econometric model was simulated with the Canadian dollar valued at a rate 10 per cent higher and lower than the basecase value. Japanese visitors respond to the exchange rate changes accordingly. With a lower valued Canadian dollar spending increases to \$796 million by 2002. Conversely, a higher valued Canadian dollar vis a vis the yen leads to reduced spending of \$738 million compared with the basecase level of \$765 million in 2002.

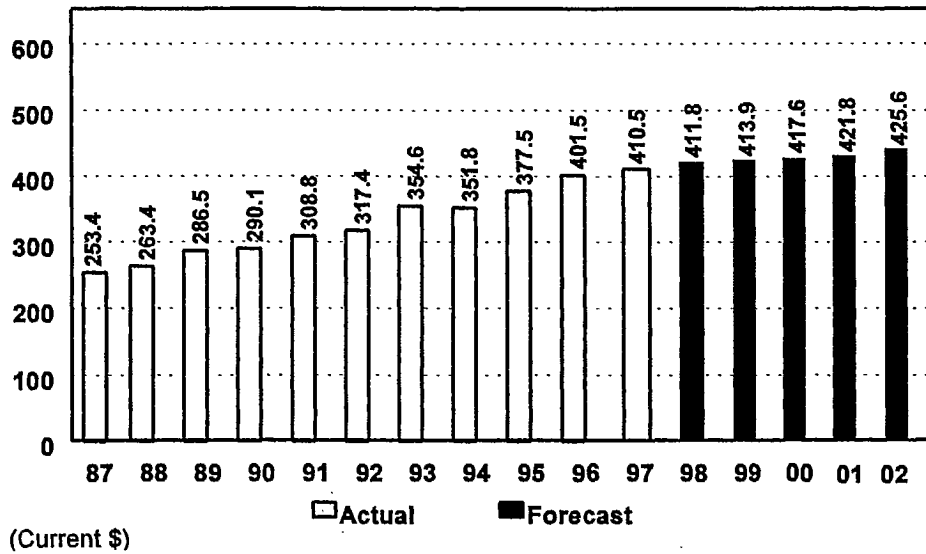
9. Yields

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

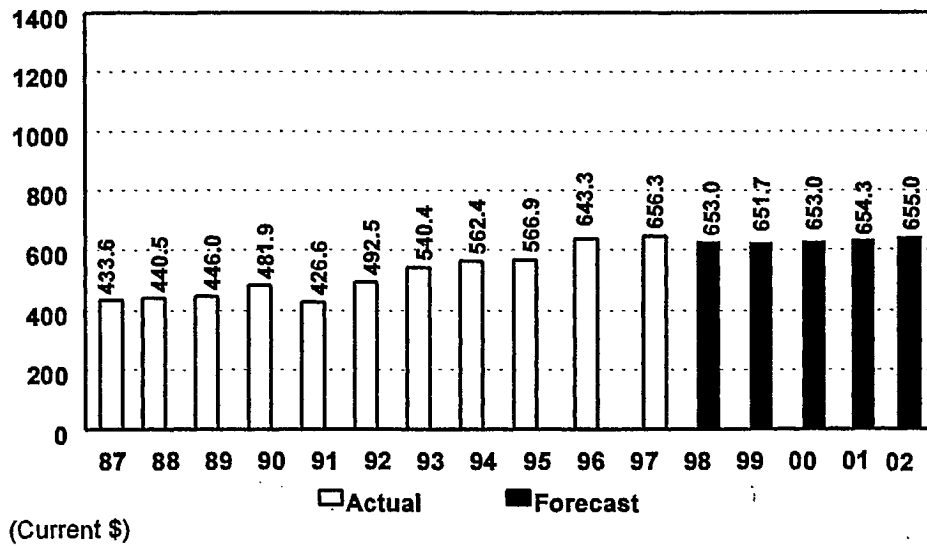
Forecast of Yields

a) Yield Forecasts (current \$)

Yields - U.S. Pleasure



Yields - U.S. Business



United States - Pleasure

1997	1998	1999	2000	2001	2002
410.2	411.8	413.9	417.6	421.8	425.6
(2.2)	(0.4)	(0.5)	(0.9)	(1.0)	(0.9)

United States - Business

1997	1998	1999	2000	2001	2002
656.3	653.0	651.7	653.0	654.3	655.0
(2.0)	(-0.5)	(-0.2)	(0.2)	(0.2)	(0.1)

United Kingdom

1997	1998	1999	2000	2001	2002
932.6	937.3	943.8	943.8	954.2	960.9
(0.8)	(0.5)	(0.7)	(0.0)	(1.1)	(0.7)

France

1997	1998	1999	2000	2001	2002
1,078	1,090	1,111	1,133	1,144	1,154
(0.4)	(1.1)	(1.9)	(2.0)	(1.0)	(0.9)

Germany

1997	1998	1999	2000	2001	2002
1,109	1,144	1,170	1,193	1,213	1,228
(-5.0)	(3.2)	(2.3)	(2.0)	(1.7)	(1.2)

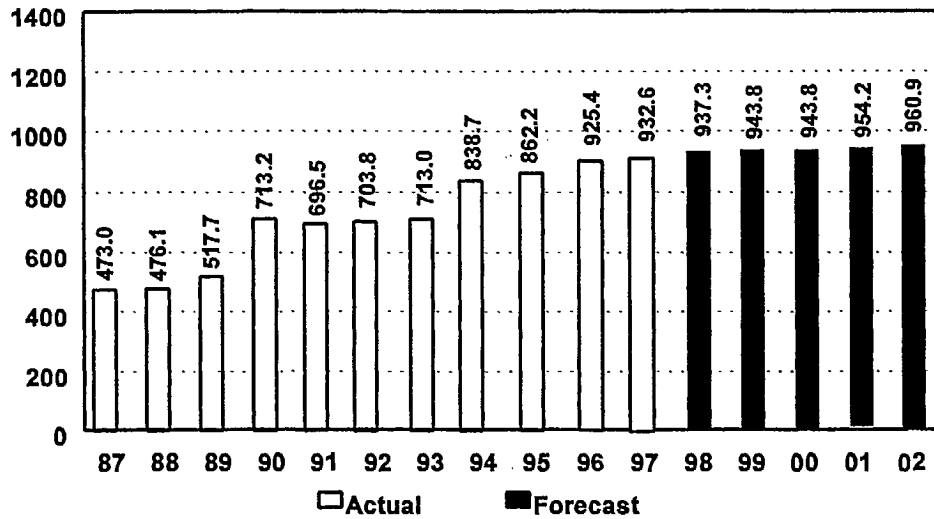
Japan

1997	1998	1999	2000	2001	2002
1,125	1,196	1,238	1,251	1,270	1,289
(4.9)	(6.3)	(3.5)	(1.1)	(1.5)	(1.5)

Germany and Japan remain Canada's two highest yield markets. Yields from the United Kingdom are not as high because a large portion of the trips are VFR, where spending on accommodation and food is not as high. In the United States, the yield from business trips

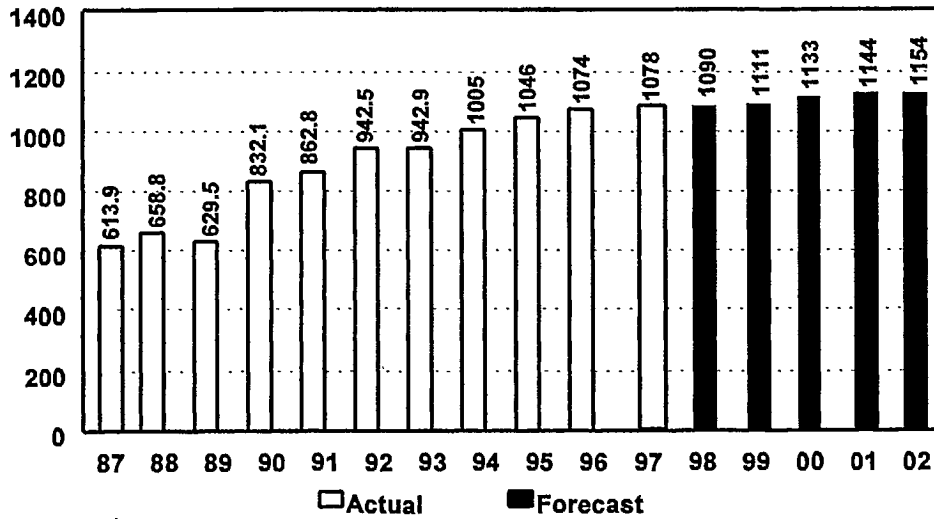
is higher than the yield on pleasure trips. This is because business travelers generally spend more on accommodation compared with pleasure travelers.

Yields - U.K.



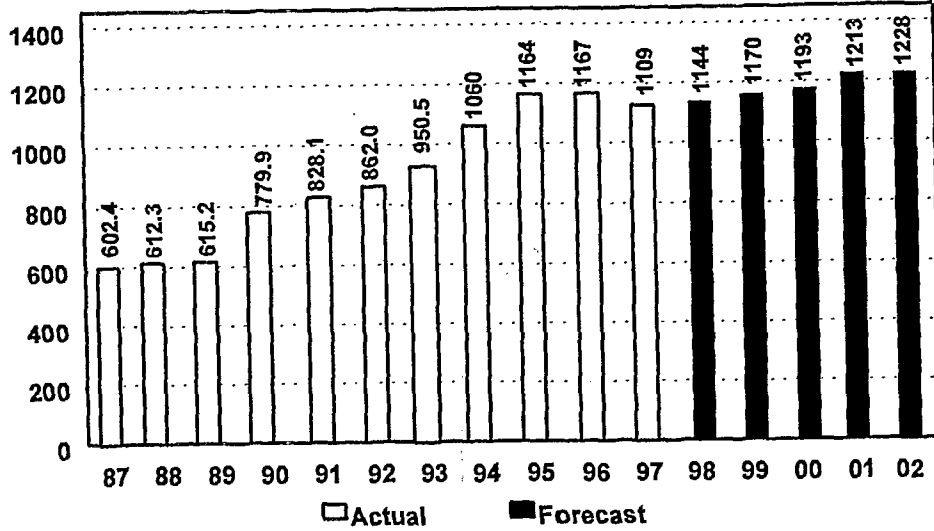
(Current \$)

Yields - France



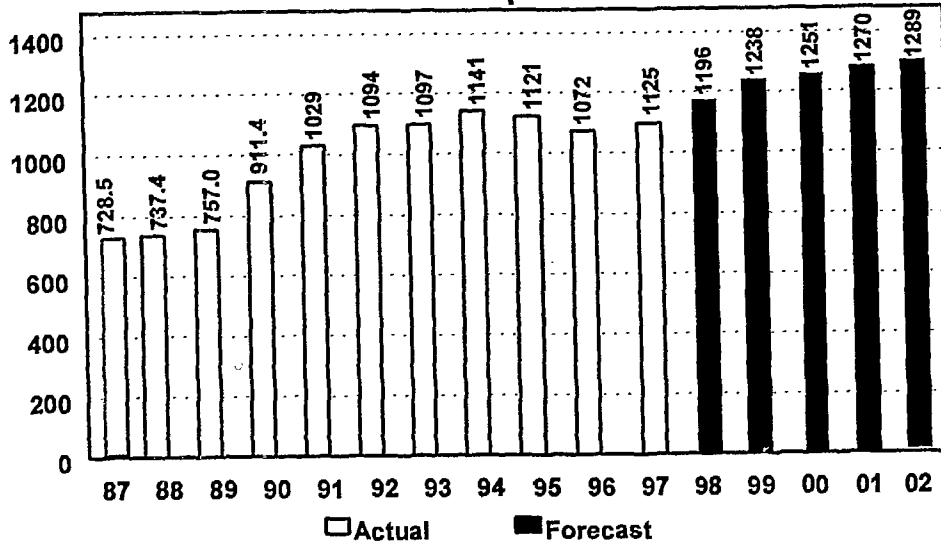
(Current \$)

Yields - Germany



(Current \$)

Yields - Japan



(Current \$)

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, Germany, Italy, the Netherlands and Switzerland. The forecasts are then adjusted based on travel trends in some of the other European markets (i.e. Belgium, Austria).

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

1997	1998	1999	2000	2001	2002
2,280	2,326	2,384	2,455	2,519	2,587
(-1.6)	(2.0)	(2.5)	(3.0)	(2.6)	(2.7)

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

1997	1998	1999	2000	2001	2002
4,267	4,331	4,413	4,528	4,632	4,743
(-3.4)	(1.5)	(1.9)	(2.6)	(2.3)	(2.4)

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

1997	1998	1999	2000	2001	2002
17,609	18,049	18,410	18,742	18,985	19,232
(1.6)	(2.5)	(2.0)	(1.8)	(1.3)	(1.3)

In 1997, travel growth from all foreign destinations, including the United States, slowed down to 1.6 per cent (2.1 per cent in 1996) because of the decline in overnight travel from Asia and Europe. Positive growth in overnight trips from the United States was a major bright spot for Canada. A recovery is expected in 1998 mainly because it is assumed that there will be a slight revival in visits from both Europe and Asia. Nevertheless, the overall travel forecast is not as optimistic compared with the last update in the spring of 1997. A combination of the Asian crisis and continuing economic difficulties in the key markets of France and Germany has led the CTC to make a downward revision to the inbound travel forecasts.

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.), regulation like visa requirements and capacity. 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 holds meetings with the Canadian Tourism Commission (CTC) 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 - 1998

	Econometric forecast - 1998	Adjusted forecast - 1998
U.S. to Canada	2.8	2.8
U.S. to Canada by air	4.9	4.9
U.K. to Canada	3.5	4.5
France to Canada	1.0	1.0
Germany to Canada	0.0	-5.0
Japan to Canada	-2.0	-2.0
Italy to Canada	2.4	2.4
Switzerland to Canada	0.0	0.0
Mexico to Canada	10.0	10.0
Brazil to Canada	4.0	4.0
South Korea to Canada	-10.0	-10.0
Taiwan to Canada	6.0	6.0
Hong Kong to Canada	5.5	5.5
Australia to Canada	4.0	4.0
Netherlands to Canada	2.0	2.0
Canada to the U.S.	-1.1	-1.1
Canada to the U.S. by air	1.5	2.0
Canada to Japan	5.0	5.0

Appendix 2

The following table compares the 1997 forecast, which was completed in March 1997 with the actual visitation levels recorded in 1997.

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

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 visa requirements in South Korea and the poor ski season in Europe, 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 Result

	Forecast 1997	Actual - 1997	Difference
U.S. to Canada	1.5	3.4	1.9
U.S. to Canada by air	9.0	4.8	-4.2
U.S. to Canada by other modes	-0.9	2.7	3.6
U.K. to Canada	7.5	6.1	-1.4
France to Canada	6.5	-4.5	-11.0
Germany to Canada	6.5	-11.2	-17.7
Japan to Canada	9.0	-13.0	-22.0
Italy to Canada	5.8	-4.8	-10.6
Switzerland to Canada	6.0	-6.3	-12.3
Netherlands to Canada	7.0	-1.5	-8.5
Mexico to Canada	11.8	18.9	7.1
Brazil to Canada	20.0	3.9	-16.1
South Korea to Canada	25.0	-7.6	-32.6
Taiwan to Canada	22.0	5.8	-16.2
Hong Kong to Canada	10.4	-27.0	-37.4
Australia to Canada	5.5	0.3	-5.2
Canada to the U.S.	4.0	-1.1	-5.1
Canada to the U.S. by air	8.0	2.6	-5.4
Canada to the U.S. by other modes	2.4	-2.3	-4.7
Canada to Japan	2.0	15.0	13.0
Travel receipts - U.S.	7.5	6.4	-1.1
Travel payments - U.S.	9.5	1.4	-8.1

Canadian Tourism Commission

International Travel Forecast Spring 1998 Update

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4. Is there other related information which you believe should be included in this publication? Please describe:

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Thanks for your help!

