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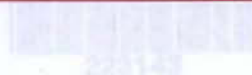
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Occasional Research Report

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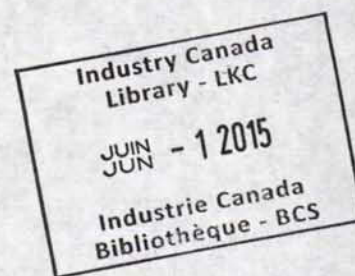
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Canada

The Evolution of Canada's Travel Account, 1980-1997¹

by

Nicolino Strizzi², Gerald Bailie³ and Anne-Marie Hince⁴



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Executive Summary

Canada's travel account deficit has decreased significantly since its peak in the early nineties. Preliminary estimates show that the travel deficit will drop dramatically in 1998. The deceleration in the growth of Canada's travel deficit is a positive sign in the right direction. But it should be recognized that Canada's travel account does not measure the financial health of its tourism industry.

Canada's travel account simply measures the difference between earnings from visitors travelling in Canada and spending by Canadian residents travelling abroad. It is therefore misleading to view Canada's persistent travel account deficits as an indication of poor performance by the tourism industry. In fact, Canada's travel account deficits provide clear evidence of the country's strong and sustained economic development, social progress as well as high standard of living. Nevertheless, year to year changes partly reflect Canada's marketing policies and initiatives to grow international tourism and reduce outbound tourism to the United States.

Keeping and winning new international visitors will get tougher. In the longer term, the ageing of populations in our major markets will become an increasingly important factor in influencing the direction, rate and magnitude of Canada's travel account deficit.

The Evolution of Canada's Travel Account, 1980-1997

Introduction

In the first three quarters of 1998, Canada's travel account deficit plummeted to roughly \$1.4 billion, down some 42 per cent from the same period in 1997.⁵ This decline should also continue in 1999 and next year given world slowdown pressures. The expected deceleration in the growth of Canada's travel deficit is a positive sign in the right direction. But it should be recognized that Canada's travel account does not measure the financial health of its tourism industry.

Canada's travel account simply measures the difference between earnings from visitors travelling in Canada and spending by Canadian residents travelling abroad. It is therefore misleading to view Canada's persistent travel account deficits as an indication of poor performance by the tourism industry. In fact, Canada's travel account deficits provide clear evidence of the country's strong and sustained economic development, social progress as well as high standard of living. Nonetheless, annual fluctuations are still worth watching as indicators of the impact of marketing programs and changes in economic conditions. Year to year changes in Canada's travel deficit partly reflect Canada's marketing policies and initiatives to grow international tourism and reduce outbound tourism to the United States.

Purpose of Study

The objective of this paper is to gain a better understanding of the nature and magnitude of Canada's travel account deficit during the 1980 to 1997 period. The paper first examines the trends and issues relating to Canada's travel account. This will be followed by a discussion of Canada's travel account with the United States and with other overseas markets. Next, to put Canada's travel account into a worldwide perspective, the travel account of selected countries will be briefly examined. The final section provides a conclusion and outlook.

Canada's Travel Receipts

Looking back, the growth in international travel receipts fluctuated noticeably in the first half of the 1980s (Table 1). Between 1981-1985, travel receipts rose by an average annual rate of almost 9.9 per cent. This increase in travel receipts was partly fuelled by generally favourable global economic conditions, lower gasoline costs in Canada and a stronger U.S. dollar relative to the Canadian dollar. In 1986, travel receipts surged by 24 per cent to almost \$6 billion, reflecting Expo 86 in Vancouver, a very strong U.S. dollar and rising concerns over terrorism activity in Europe. Travel receipts declined in 1987,

⁵ Throughout this paper, all figures are in Canadian dollars unless otherwise stated.

down 1.4 per cent, but then recovered strongly in 1988 by 8.7 per cent. In 1989, travel receipts totalled almost \$6.7 billion, a 6.2 per cent increase over the previous year.

After posting solid growth (almost 11 per cent) in 1990, Canada experienced slower growth in tourism receipts in the next two years. Not surprisingly, this was attributed mostly to the 1991-1992 economic downturn, a strengthening Canadian dollar against the U.S. dollar and the Gulf War's dampening impact on international tourism. This was followed by stronger growth in tourism receipts during the 1993-1996 period, namely brought about by the combination of robust global economic growth, a stronger U.S. dollar, the Open Skies Agreement and intensified and focused Canadian marketing efforts associated with the creation of the Canadian Tourism Commission (CTC). Growth in travel receipts, for instance, grew by an average annual rate of nearly 13 per cent during the four-year period. In 1997, tourism receipts increased by a modest 3.3 per cent, mostly reflecting the Asian currency and financial crises and declines in German and French tourist arrivals (Annex 1).

Canada's Travel Payments

Since 1968, when Canada recorded its last international travel account surplus, Canadian tourists travelling abroad have consistently spent more than international tourists in Canada. In 1981 and 1982, Canada's travel payments expanded at modest rates of 5.5 per cent and 3.8 per cent, respectively. But, as Table 1 illustrates, Canada's travel payments increased by a dramatic 22 percent in 1983, due largely to stronger economic growth in Canada and pent-up travel demand following the 1981-1982 economic recession. From 1984-1986, Canada's travel payments grew solidly, averaging annual growth rates of 7.6 per cent. Similarly, spending by Canadians on international travel experienced rapid growth between 1987 and 1989, reflecting solid economic growth in Canada and strong consumer confidence.

Entering the 1990s, travel payments ballooned, up some 30 per cent to almost \$13 billion in 1990, largely caused by a very strong Canadian dollar. In 1991, growth in travel payments slowed dramatically to 7.8 per cent and the slowdown continued over the next two years. This was attributed mainly to the 1991-1992 economic recession and the Gulf War. Growth in travel payments declined in 1994, down 4.7 per cent to around \$13.7 billion over 1993. This was mostly attributed to the weakening of the Canadian dollar against the U.S. dollar, changes in medical coverage of Canadians outside the country and growing concerns over rising criminal activity against foreign tourists in Florida. That made the United States a slightly less popular international tourist destination for Canadian travellers. Growth in travel payments recovered modestly in 1995, rising 2.1 per cent over 1994, and increased by 8.3 per cent in 1996. Travel payments grew by 3.5 per cent to over \$15.6 billion in 1997.

Canada's Travel Deficit

Table 1 shows that Canada's travel account has been in chronic deficit throughout the entire 1980-1997 period. However, the travel deficit remained under the one billion dollar mark during the first few years of the eighties. By 1983, Canada's travel deficit

nearly doubled, reaching over \$1.4 billion mostly due to a 22 per cent jump in travel payments. During the next four years, the travel deficit fluctuated widely. This was clearly evidenced in 1986 as Canada's travel deficit dropped sharply by some 59 per cent to \$541 million from around \$1.3 billion over the previous year. To a large extent, this reflected increased spending by international tourists in Canada during Expo 86 in Vancouver. In 1987, Canada's travel deficit soared by almost 218 per cent to over \$1.7 billion from 1986, attributed mainly to the fall off after Expo 86.

Table 1: Canada's Travel Account, 1980-1997 (\$ million)

| Year | Travel receipts | % change over previous year ¹ | Travel payments | % change over previous year ¹ | Travel balance | % change over previous year ¹ |
|------|-----------------|--|-----------------|--|----------------|--|
| 1980 | 2,971 | - | 3,850 | - | -879 | - |
| 1981 | 3,390 | 14.1 | 4,062 | 5.5 | -672 | -23.6 |
| 1982 | 3,471 | 2.4 | 4,218 | 3.8 | -747 | 11.2 |
| 1983 | 3,713 | 7.0 | 5,146 | 22.0 | -1,433 | 91.8 |
| 1984 | 4,218 | 13.6 | 5,507 | 7.0 | -1,289 | -10.0 |
| 1985 | 4,733 | 12.2 | 6,040 | 9.7 | -1,307 | 1.4 |
| 1986 | 5,868 | 24.0 | 6,409 | 6.1 | -541 | -58.6 |
| 1987 | 5,787 | -1.4 | 7,506 | 17.1 | -1,719 | 217.7 |
| 1988 | 6,292 | 8.7 | 8,445 | 12.5 | -2,153 | 25.3 |
| 1989 | 6,681 | 6.2 | 9,828 | 16.4 | -3,147 | 46.1 |
| 1990 | 7,398 | 10.7 | 12,756 | 29.8 | -5,358 | 70.3 |
| 1991 | 7,691 | 4.0 | 13,752 | 7.8 | -6,061 | 13.1 |
| 1992 | 7,897 | 2.7 | 14,254 | 3.7 | -6,357 | 4.9 |
| 1993 | 8,480 | 7.4 | 14,359 | 0.7 | -5,879 | -7.5 |
| 1994 | 9,558 | 12.7 | 13,678 | -4.7 | -4,120 | -29.9 |
| 1995 | 10,809 | 13.1 | 13,969 | 2.1 | -3,160 | -23.3 |
| 1996 | 11,759 | 8.8 | 15,122 | 8.3 | -3,363 | 6.4 |
| 1997 | 12,141 | 3.3 | 15,649 | 3.5 | -3,508 | 4.3 |

¹ Authors' calculations.

Source: Statistics Canada, Touriscope International Travel. Minister of Industry, Catalogue 66-201 annual, various years.

Canada's travel account deficit continued to increase strongly during the late 1980s and early 1990s. Canada's travel account deficit, at almost \$6.4 billion, reached a record high in 1992, but then declined noticeably in each of the next three years.⁶ In 1996 and 1997, the travel deficit rose by 6.4 per cent and 4.3 per cent to almost \$3.4 billion and \$3.5 billion, respectively. In the years ahead, fluctuations in Canada's travel account deficit will continue to be influenced by domestic and international economic and non-economic factors. Inter alia, these include: sustained economic growth, rising per capita incomes, exchange rate movements, rising consumer indebtedness, access to warmer destinations, declining travel costs, keener competitive pressures, intensified marketing efforts as well as environmental and political disturbances.

⁶ In 1995, following directives from the International Monetary Fund, Statistics Canada revised the travel account to include spending of international visitors, crews as well as medical and education expenses but exclude international travel fares. That caused the revised Canadian travel account deficits to be much lower than the unrevised figures. Nevertheless, the trends remained in the same direction.

Canada's Travel Balance as a Percentage Share of the Current and Services Accounts and GDP

Canada's travel account deficit as a share of the current account and service account deficits fluctuated considerably during the 1980-1997 period (Table 2). Canada's travel account deficit as a share of the current account deficit rose from over 12 per cent in 1980 to over 77 per cent in 1984, then dropped to roughly 10 per cent in 1987 and then steadily increased to some 74 per cent of the current account in 1996. In 1997, Canada's travel account deficit as a percentage of the current account deficit dropped sharply to more than 27 per cent from 1996. At the same time, Canada's travel account deficit as a percentage of the service account deficit dropped from over 23 per cent in 1980 to approximately 10 per cent in 1986, then increased sharply for five straight years, peaking at over 53 per cent in 1991, and then steadily declined to some 31 per cent in 1995. In 1996 and 1997, the travel deficit to service deficit ratio reached over 36 per cent and 40 per cent, respectively.

Table 2: Canada's Travel Balance as a Percentage Share of the Current and Services Accounts and GDP (\$ million)

| Year | Travel balance ¹ | Current account balance ² | Travel balance as a % of current account ¹ | Service account ² | Travel balance as a % of service account ¹ | GDP ² | Travel balance as a % of GDP ³ |
|------|-----------------------------|--------------------------------------|---|------------------------------|---|------------------|---|
| 1980 | -879 | -7,120 | 12.35 | -3,770 | 23.32 | 535,007 | 0.16 |
| 1981 | -672 | -14,994 | 4.48 | -4,278 | 15.71 | 551,305 | 0.12 |
| 1982 | -747 | 2,302 | 32.45 ⁴ | -4,400 | 16.98 | 535,113 | 0.14 |
| 1983 | -1,433 | -3,132 | 45.75 | -4,675 | 30.65 | 549,843 | 0.26 |
| 1984 | -1,289 | -1,673 | 77.05 | -5,025 | 25.65 | 581,038 | 0.22 |
| 1985 | -1,307 | -7,828 | 16.70 | -5,576 | 23.44 | 612,416 | 0.21 |
| 1986 | -541 | -15,514 | 3.49 | -5,644 | 9.59 | 628,575 | 0.09 |
| 1987 | -1,719 | -17,806 | 9.65 | -6,059 | 28.37 | 654,360 | 0.26 |
| 1988 | -2,154 | -18,328 | 11.75 | -6,597 | 32.65 | 686,176 | 0.31 |
| 1989 | -3,146 | -25,812 | 12.19 | -8,147 | 38.62 | 703,577 | 0.45 |
| 1990 | -5,358 | -23,135 | 23.16 | -10,637 | 50.37 | 705,464 | 0.76 |
| 1991 | -6,062 | -25,629 | 23.65 | -11,419 | 53.09 | 692,247 | 0.88 |
| 1992 | -6,357 | -25,360 | 25.07 | -12,123 | 52.44 | 698,544 | 0.91 |
| 1993 | -5,880 | -28,093 | 20.93 | -13,610 | 43.20 | 716,123 | 0.82 |
| 1994 | -4,120 | -17,730 | 23.24 | -11,663 | 35.33 | 744,220 | 0.55 |
| 1995 | -3,160 | -6,447 | 49.02 | -10,277 | 30.75 | 760,309 | 0.42 |
| 1996 | -3,363 | 4,530 | 74.24 ⁴ | -9,260 | 36.32 | 769,730 | 0.44 |
| 1997 | -3,508 | -12,815 | 27.37 | -8,744 | 40.12 | 798,183 | 0.44 |

¹ Statistics Canada, Touriscope International Travel. Minister of Industry, Catalogue 66-201 annual, various years.

² Bank of Canada, Bank of Canada Review. Autumn 1998, pp. S90, S100-S101; GDP refers to real gross domestic product.

³ Authors' calculations, absolute values.

⁴ Absolute value.

More importantly, Canada's travel account deficit, as a share of GDP, has not been worrisome during the period under review (Table 2). As a proportion of GDP, Canada's

travel account deficit was about 0.2 per cent in 1980, roughly levelled off until 1988 and then steadily increased for the next four years. After peaking at 0.91 per cent of GDP in 1992, the travel deficit to GDP ratio declined for the following three years. As a share of GDP, Canada's travel account deficit reached some 0.42 per cent in 1995 and then stabilized at 0.44 per cent of GDP in both 1996 and 1997.

U.S. Travel Receipts

During the 1980-1997 period, the United States remained Canada's major source of international travel receipts. With the exception of 1982, travel receipts from the United States grew strongly between 1981-1986, rising at an average annual growth rate of over 14 per cent. In 1987, travel receipts from the United States declined, partly due to the October stock market crash and the fall off after Expo 86, but then recovered slightly in 1988 and continued to grow thereafter at modest rates until 1992. The combination of weak economic growth, the steady appreciation of the Canadian dollar against the U.S. dollar and the implementation of the goods and services tax (although the influence of the latter was benign and softened by the tax rebate program for international tourists) were mainly responsible for the relatively small yearly increases in the U.S. receipts. Growth in travel receipts from the United States increased strongly during the 1993-1995 period, reflecting solid economic conditions south of the border and the weakening Canadian dollar against the U.S. dollar. However, growth in travel receipts from the United States slowed in each of the next two years, up 7.7 per cent and 6.4 per cent, respectively, in 1996 and 1997.

During the period under review, travel receipts generated by U.S. visitors accounted for a somewhat smaller share (56.8 per cent) of total travel receipts in 1997 compared to about two-thirds (66.5 per cent) in 1980. Even so, the United States will remain Canada's major source market and the most popular tourist destination for Canadian travellers in coming years.

U.S. Travel Payments

The United States was the major destination for Canadian travellers during the 1980-1997 period. With the exception of 1983, growth in travel payments by Canadians travelling to the United States increased steadily during the first half of the 1980s. As Table 3 shows, for instance, travel payments growth slowed in 1982 but then surged in 1983, up over 22 per cent from 1982. From 1984 to 1986, travel payments by Canadians visiting the United States grew mildly but then increased rapidly for five consecutive years, averaging almost 21 per cent per year. Canada's travel payments more than doubled from some \$4.1 billion in 1986 to a record high of over \$10.3 billion in 1991.

Travel payments to the United States increased slightly in 1992, up 0.1 per cent from 1991. Travel payments to the United States dropped in 1993 and 1994, down 2.6 per cent and 10.2 per cent, respectively. Changes in medical coverage in conjunction with growing concerns over crimes against international tourists in Florida in 1993 had a negative impact that lingered during the first half of 1994. Canadian spending in the United States experienced a rather slight recovery in 1995, up 0.1 per cent from 1994.

Travel payments to the United States increased by 9.0 per cent and 1.4 per cent to almost \$9.9 billion and \$10 billion in 1996 and 1997, respectively.

Travel payments by Canadians visiting the United States were equivalent to almost 64 per cent of Canada's total travel payments in 1997 compared to over two-thirds (68.2 per cent) in 1980. Nonetheless, the United States will most likely remain the most favourite destination for Canadian leisure and business travellers. The major factors underlying this development will include: long-standing cultural ties, geographic proximity, a common language, warmer climate and greater economic integration.

Table 3: Canada's Travel Account with the United States, 1980-1997 (\$ million)

| Year | Travel receipts | % change over previous year ¹ | Travel payments | % change over previous year ¹ | Travel balance | % change over previous year ¹ | Travel balance as a % of GDP ² |
|------|-----------------|--|-----------------|--|----------------|--|---|
| 1980 | 1,977 | - | 2,625 | - | -648 | - | 0.12 |
| 1981 | 2,294 | 16.0 | 2,863 | 9.1 | -569 | -12.2 | 0.10 |
| 1982 | 2,267 | -1.2 | 2,927 | 2.2 | -660 | 16.0 | 0.12 |
| 1983 | 2,551 | 12.5 | 3,582 | 22.4 | -1,031 | 56.2 | 0.19 |
| 1984 | 2,993 | 17.3 | 3,654 | 2.0 | -661 | -35.9 | 0.11 |
| 1985 | 3,505 | 17.1 | 3,820 | 4.5 | -315 | -52.3 | 0.05 |
| 1986 | 4,304 | 22.8 | 4,081 | 6.8 | 223 | -170.8 | 0.04 |
| 1987 | 3,977 | -7.6 | 4,734 | 16.0 | -757 | -439.5 | 0.12 |
| 1988 | 4,055 | 2.0 | 5,463 | 15.4 | -1,408 | 86.0 | 0.21 |
| 1989 | 4,118 | 1.6 | 6,732 | 23.2 | -2,614 | 85.7 | 0.37 |
| 1990 | 4,229 | 2.7 | 8,786 | 30.5 | -4,557 | 74.3 | 0.65 |
| 1991 | 4,367 | 3.3 | 10,347 | 17.8 | -5,980 | 31.2 | 0.86 |
| 1992 | 4,414 | 1.0 | 10,338 | 0.1 | -5,924 | -1.0 | 0.85 |
| 1993 | 4,878 | 10.5 | 10,068 | -2.6 | -5,190 | -12.4 | 0.73 |
| 1994 | 5,469 | 12.1 | 9,045 | -10.2 | -3,576 | -31.1 | 0.48 |
| 1995 | 6,020 | 10.0 | 9,055 | 0.1 | -3,035 | -15.1 | 0.39 |
| 1996 | 6,485 | 7.7 | 9,871 | 9.0 | -3,386 | 11.6 | 0.44 |
| 1997 | 6,901 | 6.4 | 10,012 | 1.4 | -3,110 | -8.2 | 0.39 |

¹ Authors' calculations.

² GDP refers to real gross domestic product; authors' calculations.

Source: Statistics Canada, Touriscope International Travel. Minister of Industry, Catalogue 66-201 annual, various years.

Canada-U.S. Travel Deficit

Table 3 shows that Canada's travel account deficit with the United States was under \$1.0 billion between 1980-1987, with the exception of 1983. In 1986, Canada registered its only travel surplus with the United States (\$223 million) during the period under review. Expo 86 in Vancouver, terrorism in some European airports and fear of radiation from the Chernobyl nuclear accident combined to make Canada an attractive, safe and clean vacation destination.

In 1987, Canada's travel account with the United States quickly went back into the red, plummeting almost 440 per cent from the preceding year. Canada's travel deficit with

the United States also ballooned during the late 1980s and early 1990s, registering average annual growth rates of over 81 per cent. Table 3 indicates that Canada's travel account deficit with the United States peaked at almost \$6.0 billion in 1991, up more than 31 per cent from the year before. From 1992 to 1995, this deficit began to narrow, dropping by nearly one half. In 1996, Canada's travel deficit with the United States rose by some 12 per cent to almost \$3.4 billion and decreased by 8.2 per cent to \$3.1 billion in the following year.

Since 1991, the reduction in Canada's travel account deficit with the United States was brought about by the combined effects of, among other things, the emergence of numerous new international tourist destinations, easier and more affordable air travel, a stronger valued U.S. dollar against the Canadian dollar and increased marketing efforts, particularly a new focused import-substitution based domestic marketing strategy.

Non-U.S. Travel Receipts

In the first half of the 1980s, the growth of travel receipts from non-U.S. overseas travellers to Canada varied noticeably (Table 5). Despite the economic recession, travel receipts from non-U.S. overseas travellers to Canada rose in both 1981 and 1982, up 10.4 per cent and 9.8 per cent, respectively. In 1983, growth in travel receipts dropped by 3.4 per cent to approximately \$1.2 billion. This was partly brought about by the global economic and financial turmoil that followed the Mexican debt crisis of 1982. However, growth in travel receipts quickly recovered in 1984, up 5.3 per cent over the year before, but then grew by a meagre 0.2 per cent in 1985.

From 1986 to 1990, travel receipts from non-U.S. overseas travellers grew rapidly, registering an average annual growth rate of over 21 per cent over the five-year period. Much of this growth was fuelled by rising numbers of European and Asian tourists visiting Canada, the increasing importance of international business travellers associated with expanding world trade and investment and cheaper air travel. Growth in travel receipts slowed markedly during the 1991-1993 period, mostly reflecting slower global economic expansion, the Gulf War and the currency realignments that occurred in Europe in 1992. Travel receipts, however, increased by almost 14 per cent in 1994 to around \$4.1 billion over the previous year. This was followed by sharp increases in travel receipts from non-U.S. overseas travellers in 1995 and 1996, up over 17 per cent and 10 per cent respectively, reflecting generally favourable global economic conditions.⁷ Travel receipts from non-U.S. overseas travellers edged down fractionally in 1997, declining 0.6 per cent to over \$5.2 billion from 1996.

Looking forward, non-U.S. overseas markets will likely become increasingly important for the Canadian tourism industry. In 1997, for instance, the United Kingdom, at 733,600 visitors, remained Canada's top non-U.S. overseas generator of visitors, with Japan

⁷ This growth took place despite the Mexican Peso crisis in 1994-1995 and the regional financial instability that ensued. But, this is not surprising since as a share of Canada's total visitors, Latin America accounted for just 1.7 per cent (261,000 visitors) in 1990 and almost 1.9 per cent (327,000 visitors) in 1997. For a discussion of tourism markets of opportunity in Latin America and Canada's ability to capture the region's anticipated growth in outbound tourism, see Nicolino Strizzi and Scott Meis, *An Analysis of Developments in Tourism Markets in Latin America and Caribbean Region*. Occasional Research Paper 1998-1, Canadian Tourism Commission, Ottawa, Canada.

(565,700) in second place and France (439,300) in third place, followed by Germany, Australia, Hong Kong, Taiwan, the Netherlands, Italy and Switzerland. Table 4 below shows total spending by Canada's top five non-U.S. overseas markets in 1980 and 1997. Nonetheless, it can be expected that the number of non-U.S. overseas visitors to Canada will decline in the next two to three years given deepening economic and financial problems in Asia, slowing European economies, the introduction of the single European currency (euro), growing economic volatility in Latin America and ongoing exchange rate volatility.

Table 4: Spending in Canada From Major Non-U.S. Overseas Markets, 1980 and 1997 (\$ million)

| 1980 | | 1997 | |
|----------------|-------|----------------|-------|
| United Kingdom | 162.5 | United Kingdom | 686.8 |
| Germany | 89.6 | Japan | 643.2 |
| Japan | 55.7 | France | 472.1 |
| France | 48.3 | Germany | 440.1 |
| Netherlands | 33.2 | Taiwan | 198.9 |

Source: Statistics Canada. Touriscope International Travel. Minister of Industry, Catalogue 66-201 annual, various years.

Non-U.S. Travel Payments

After decreasing in 1981, travel payments by Canadian travellers to non-U.S. overseas destinations grew strongly for nine straight years. Table 5, for example, shows that travel payments increased from over \$1.2 billion in 1980 to almost \$4.0 billion in 1990, up 224 per cent. The driving force behind this growth was the combination of generally healthy and stable domestic economic conditions, growing globalization and buoyant consumer confidence. In 1991, travel payments to non-U.S. tourist destinations dropped by over 14 per cent to approximately \$3.4 billion. This sharp decline can be partly explained by the dampening effects of the Gulf War on international travel and the economic recession.

In 1992, growth in travel payments quickly rebounded, up 15 per cent to over \$3.9 billion from 1991, but decelerated in the next three years. In 1996 and 1997, travel payments grew by 6.9 per cent and 7.4 per cent to almost \$5.3 billion and over \$5.6 billion, respectively. This growth mostly reflected expanding Canadian trade and investment relationships overseas, strong economic growth and intensified global competition from new tourist destinations.

Canada-Non-U.S. Travel Deficit

Table 5 also shows that Canada's non-U.S. travel deficit fluctuated widely during the 1980-1997 period. Even so, this deficit never surpassed the \$1 billion mark during the period under review. Canada's travel account deficit with non-U.S. destinations decreased by 56 per cent and almost 15 per cent in 1981 and 1982, respectively, but then soared in each of the next three years. Canada's non-U.S. travel deficit peaked in 1985,

reaching \$992 million compared to a travel deficit of \$628 million in 1984. Canada's travel account deficit with non-U.S. destinations decreased sharply by almost 23 per cent in 1986 to \$766 million over 1985. In 1987, the travel deficit once again expanded, up almost 26 per cent to \$962 million from the year before. In 1988 and 1989, Canada's travel account deficit with non-U.S. overseas markets posted double-digit rates of decline.

Table 5: Canada's Travel Account with Non-U.S. Overseas Markets, 1980-1997
(\$ million)

| Year | Travel receipts | % change over previous year ¹ | Travel payments | % change over previous year ¹ | Travel balance | % change over previous year ¹ | Travel balance as a % of GDP ² |
|------|-----------------|--|-----------------|--|----------------|--|---|
| 1980 | 994 | - | 1,226 | - | -232 | - | 0.04 |
| 1981 | 1,097 | 10.4 | 1,199 | -2.2 | -102 | -56.0 | 0.02 |
| 1982 | 1,204 | 9.8 | 1,291 | 7.7 | -87 | -14.7 | 0.02 |
| 1983 | 1,163 | -3.4 | 1,564 | 21.1 | -401 | 360.9 | 0.07 |
| 1984 | 1,225 | 5.3 | 1,853 | 18.5 | -628 | 56.6 | 0.11 |
| 1985 | 1,228 | 0.2 | 2,220 | 19.8 | -992 | 58.0 | 0.16 |
| 1986 | 1,563 | 27.3 | 2,329 | 4.9 | -766 | -22.8 | 0.12 |
| 1987 | 1,810 | 15.8 | 2,772 | 19.0 | -962 | 25.6 | 0.15 |
| 1988 | 2,237 | 23.6 | 2,982 | 7.6 | -745 | -22.6 | 0.11 |
| 1989 | 2,563 | 14.6 | 3,096 | 3.8 | -533 | -28.5 | 0.08 |
| 1990 | 3,169 | 23.6 | 3,970 | 28.2 | -801 | 50.3 | 0.11 |
| 1991 | 3,324 | 4.9 | 3,405 | -14.2 | -81 | -89.9 | 0.01 |
| 1992 | 3,483 | 4.8 | 3,916 | 15.0 | -433 | 434.6 | 0.06 |
| 1993 | 3,601 | 3.4 | 4,291 | 9.6 | -690 | -59.4 | 0.10 |
| 1994 | 4,089 | 13.6 | 4,634 | 8.0 | -545 | -21.0 | 0.07 |
| 1995 | 4,789 | 17.2 | 4,914 | 6.0 | -126 | -76.9 | 0.02 |
| 1996 | 5,273 | 10.1 | 5,251 | 6.9 | 23 | -118.6 | 0.00 |
| 1997 | 5,240 | -0.6 | 5,637 | 7.4 | -397 | -1,826.1 | 0.05 |

¹ Authors' calculations.

² GDP refers to real gross domestic product; authors' calculations.

Source: Statistics Canada, Touriscope International Travel. Minister of Industry, Catalogue 66-201 annual, various years.

Canada's travel account deficit with non-U.S. destinations rose sharply in 1990, up 50 per cent to \$801 million from the previous year. During the Gulf War, when travel spending by Canadians dropped by over 14 per cent, the travel deficit plummeted to \$81 million in 1991. In 1992 and 1993, Canada's travel account soared by 435 per cent and 59 per cent, respectively, to \$433 million and \$690 million. The travel account deficit decreased sharply in the following three years, and in 1996 Canada registered its only non-U.S. travel account surplus (\$23 million) during the period under review. By 1997, Canada's travel deficit with non-U.S. destinations was in the red once again.

Canada's Travel Account in a Worldwide Perspective

Top 10 travel deficit OECD countries

The latest available data show that Germany registered the highest travel deficits among member countries of the Organization for Economic Co-operation and Development (OECD) in 1980 and 1996. Germany's travel deficit more than doubled between 1980 and 1996, from over U.S. \$14 billion in 1980 to over U.S. \$33 billion in 1996. Japan and the United Kingdom registered the second and third largest travel deficits, respectively, during 1996. Japan experienced a dramatic rise in its travel deficit, starting from roughly U.S. \$4 billion in 1980 to almost U.S. \$33 billion in 1996. The sharp appreciation of the Japanese yen against the U.S. dollar starting in late 1985, strong economic and export growth, rising per capita incomes and wealth, booming stock and property markets, especially during the latter half of the 1980s, as well as official policy promotion of increased outbound travel to counter large and growing trade surpluses contributed to ever-increasing numbers of Japanese people travelling abroad.

Table 6: Top 10 Travel Deficit and Travel Surplus OECD Countries (U.S. \$ million)

| Top 10 travel deficit countries | | | | | Top 10 travel surplus countries | | | | | | |
|---------------------------------|------|--------------------|-----------------|----------------|---------------------------------|------|-----------------|-----------------|----------------|--------|--------|
| 1980 | 1996 | Travel receipts | Travel payments | Travel deficit | 1980 | 1996 | Travel receipts | Travel payments | Travel surplus | | |
| 1 | 1 | Germany | 17,567 | 50,815 | -33,248 | 2 | 1 | Spain | 27,654 | 4,916 | 22,738 |
| 2 | 2 | Japan | 4,078 | 37,040 | -32,962 | - | 2 | United States | 69,908 | 48,739 | 21,169 |
| - | 3 | United Kingdom | 19,296 | 25,445 | -6,149 | 1 | 3 | Italy | 30,018 | 15,516 | 14,502 |
| 3 | 4 | Netherlands | 6,256 | 11,370 | -5,114 | 4 | 4 | France | 28,357 | 17,746 | 10,611 |
| 4 | 5 | Belgium | 5,893 | 9,895 | -4,002 | 8 | 5 | Turkey | 5,962 | 1,265 | 4,697 |
| 10 | 6 | Sweden | 3,653 | 6,441 | -2,788 | - | 6 | Mexico | 6,934 | 3,387 | 3,547 |
| 5 | 7 | Canada | 8,868 | 11,090 | -2,222 | - | 7 | Australia | 8,811 | 5,322 | 3,489 |
| 7 | 8 | Norway | 2,404 | 4,509 | -2,105 | 5 | 8 | Greece | 3,723 | 1,209 | 2,514 |
| - | 9 | Korea, Republic of | 5,430 | 6,963 | -1,533 | 3 | 9 | Austria | 13,990 | 11,811 | 2,179 |
| 12 | 10 | Denmark | 3,425 | 4,142 | -717 | - | 10 | Poland | 8,400 | 6,240 | 2,160 |

Source: Table compiled from the World Tourism Organization, 1998 Yearbook of Tourism Statistics. Madrid, Spain, 1998, pp.13-14.

Meanwhile, the Netherlands registered a travel deficit of over \$5 billion in 1996, putting it in fourth position. Belgium went from fourth place in 1980 to fifth place in 1996, whereas Sweden climbed to sixth spot from tenth spot in 1980. At the same time, Canada went from fifth place in 1980 to seventh place in 1996. Norway, Korea and Denmark chalked up the eighth, ninth and tenth largest travel deficits, respectively, among OECD-member countries.

Table 6 shows that most of the top 10 travel deficit OECD-member countries in the 1996 ranking are located in generally northern, colder regions. In addition, they are highly industrialized, with some of the world's highest per capita incomes as well as leisure and paid-vacation time.

Top 10 travel surplus OECD countries

Spain posted the largest travel surplus among OECD-member countries in 1996. In that year, international tourists spent almost U.S. \$28 billion in Spain, while residents from Spain only spent U.S. \$4.9 billion abroad. Italy went from first place in 1980 down to third place in 1996 while the United States moved into second position in 1996 with a travel surplus of over U.S. \$21 billion. As well, the United States was the world's top tourism earner with receipts totalling U.S. \$70 billion in 1996.

At the same time, France stayed in fourth position in both 1980 and 1996 while Turkey climbed from eighth place to fifth place. Mexico ranked as the sixth largest tourism surplus OECD-member country in 1996, with a surplus of U.S. \$3.5 billion (Mexico joined the OECD in 1994). Australia was in seventh place (it held the sixth spot in 1980 as a deficit country). Greece registered the eighth largest travel surplus in 1996 compared to its fifth place showing in 1980. Meanwhile, Austria's ranking dropped sharply, going from third position in 1980 to ninth position in 1996. Finally, Poland ranked as the tenth largest surplus country.

Table 6 also shows that most travel surplus countries had, among other things, abundant natural endowments (including sand, sea and sun) and rich historical and cultural heritages. These factors made the travel surplus countries favourite destinations among international travellers, particularly among residents of Northern Europe, North America and Japan.

Conclusion and Outlook

Canada's chronic travel deficit is not a good aggregate indicator of the financial health and competitiveness of its tourism industry. In fact, it more clearly reflects Canada's political, economic and social developments as well as its geography. Nevertheless, year to year changes in the travel deficit partly reflect Canada's marketing policies and initiatives to grow international tourism and reduce outbound tourism to the United States.

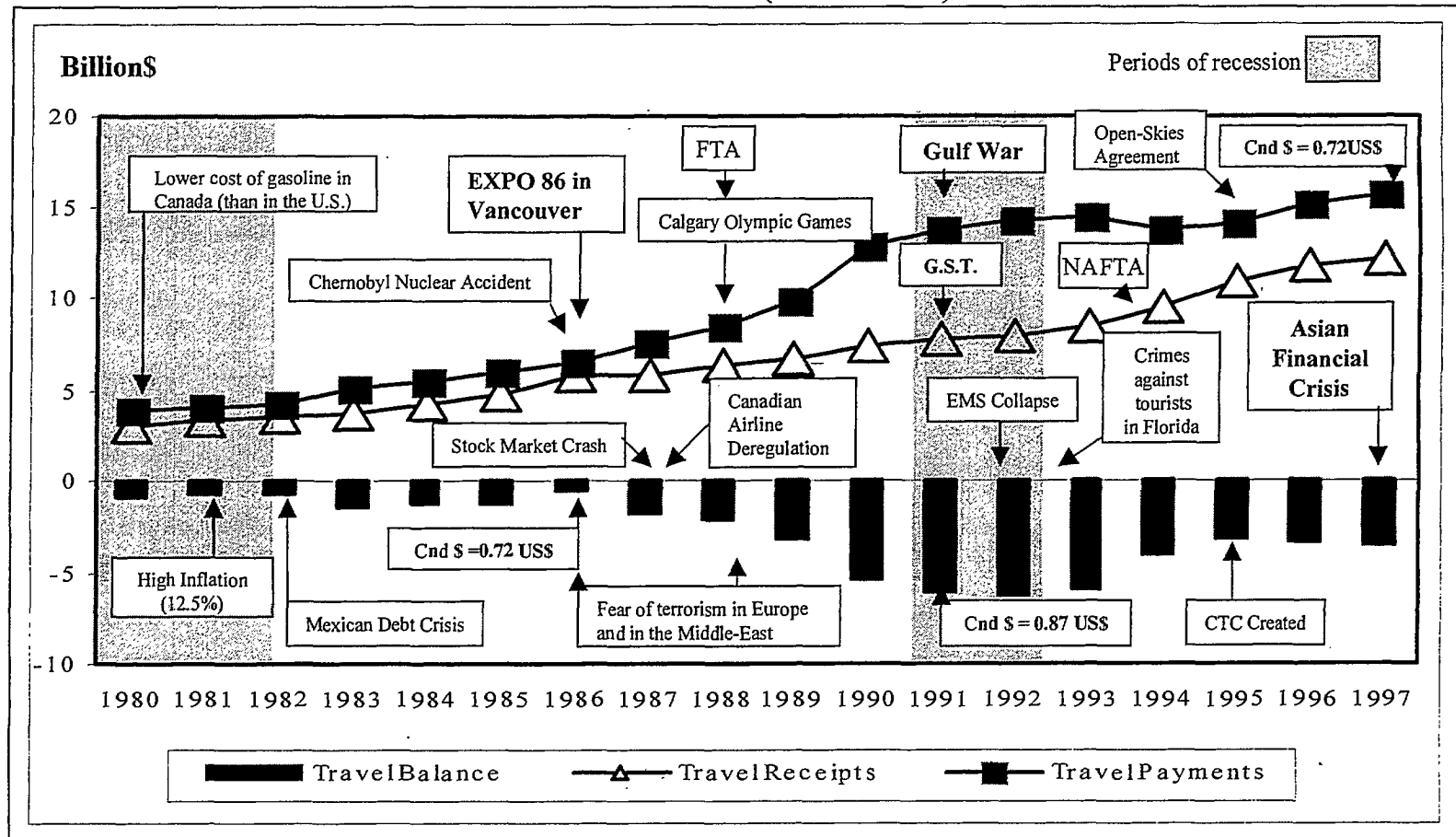
Canada's travel account deficit has decreased significantly since its peak in the early nineties. Even with the prospect of a slowing economy, the United States will remain Canada's major source market and the most popular tourist destination for Canadian travellers. The numbers of non-U.S. visitors travelling to Canada will continue to be adversely affected by the deepening and protracted economic and financial problems in Asia, slower growth in Europe, growing economic volatility in Latin America and continued foreign exchange rate instability in the next two to three years. Keeping and winning new international visitors from these regions will get tougher. In the longer term, the ageing of the populations of our major markets will become an increasingly important factor in influencing the direction, rate and magnitude of Canada's travel

account deficit.⁸

⁸ For a discussion of the impact of the ageing baby boomers on domestic travel trends in Canada see, Laurie McDougall, "Aging Baby Boomers and What it Means for Domestic Travel in the 21st Century." Travel-log, Volume 17, Number 3 (Summer 1998), Statistics Canada, Catalogue no. 87-003-XPB: 1-9.

Annex

Annex 1: Trends in Canada's Travel Account (1980-1997)



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