



## Travel Trends Tempered by Mounting Economic Concerns

Issue 43: January 2008

*The Tourism Intelligence Bulletin monitors the tourism industry around the world.  
This issue features tourism intelligence gathered in November 2007,  
December 2007, and early January 2008.*

### Bulletin Highlights

#### Tourism Overview: United States & Canada

- U.S. vacation intentions still soft: The latest Consumer Confidence Survey report by the U.S. Conference Board, Inc. suggests that U.S. travel intentions slipped in December and remain softer than they were a year ago. Consumer confidence picked up slightly in December, but consumers still have a largely negative overall view of the economy. (See page 4.)
- Higher fares and gasoline prices were expected to curb U.S. travel volumes over the holiday season, according to the American Automobile Association. Trips by automobile were expected to rise only slightly, while trips by air declined, keeping overall travel volumes on par with the previous year. (See "AAA anticipated minimal rise in holiday travel in U.S.," page 5.)
- Online bookings surpass off-line bookings in U.S.: In 2007, more travel bookings were made online in the United States than off-line, according to a recent consumer trends survey by PhoCusWright Inc. Online bookings accounted for 51 per cent of the travel purchases made last year, and are forecast to account for 56 per cent in 2008. (See page 5.)
- Domestic travel expected to grow modestly: The latest travel indicators suggest the domestic travel market will expand at a modest pace over the near term. However, the strong Canadian dollar continues to fuel outbound travel demand and reduce the price competitiveness of domestic travel destinations. In addition, the recent hike in gasoline prices will likely curtail domestic automobile travel during the winter and early spring. (See "Domestic Travel," page 13.)
- Canadians appear more cautious about big-ticket purchases: The Conference Board's Index of Consumer Confidence slipped 4 points in December 2007, suggesting that Canadians were feeling more cautious about economic conditions. Respondents were less optimistic about current and future household finances, as well as future job market conditions, but the most significant decline in consumer confidence was related to major purchases. (See page 4.)

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- Healthy economy helped fuel domestic air travel and lodging demand this fall: Healthy economic conditions helped fuel continued growth in domestic air travel and a slight pickup in lodging demand this fall:
  - Solid demand for domestic air travel continued to boost growth in air passenger traffic for Canada's two largest airlines. The strong Canadian dollar has helped shield the airlines from the financial impact of rising oil prices, thereby keeping a lid on potential airfare increases. (See "Airlines - Canada," page 6.)
  - Average daily rates in Canada rose 4.7 per cent in October 2007, year-over-year, while occupancy gained 1.6 percentage points. As a result, revenues per available room rose 7.2 per cent over the previous year. Sentiments among Canadian hotel operators improved as well. (See "Hotels - Canada," page 7.)

### Tourism Overview: International

- U.K. overseas holiday travel predicted to reach record high: A record-high number of U.K. residents were expected to travel abroad during the holiday season, according to the Association of British Travel Agents. Good early snow conditions in France, Austria, and Italy have driven an increase in trip sales to those ski destinations, but ski trips to Canada and the United States were also selling well, spurred by the favourable exchange rate. (See page 9.)
- Bullish outlook for U.K. outbound travel: British tour operators and travel agents are bullish in their outlook for 2008, following a year of lacklustre growth in 2007. Cruises were cited as one of the fastest-growing outbound markets in the U.K. right now. (See page 9.)
- Strong growth in international passengers at Paris airports: Passenger numbers at airports serving Paris grew 5.3 per cent in November 2007. Domestic passenger numbers decreased 1.7 per cent, while passengers on European routes grew 6.4 per cent. Passengers on routes between France and North America climbed 7.1 per cent. The airport authority plans to raise user fees by 3.8 per cent at Paris-Charles de Gaulle and Paris-Orly airports in April, largely because of strong passenger demand. (See page 10.)
- German tour operators optimistic about 2008: German tour operators expect sales and bookings to increase 5 per cent and 4.5 per cent, respectively, this year. Early booking discounts have helped boost winter bookings, although the pace of growth is expected to slow once the discounts expire. Long-haul holidays, cruises, and city trips are expected to be key drivers of growth. (See page 10.)
- Japan Airlines reports increase in transpacific travel over New Year holiday: Japan Airlines reported solid growth in passenger numbers on transpacific routes over the holiday travel season. Overall, domestic and international travel volumes over the holidays were expected to edge up slightly over last year, and travel package sales were expected to increase 1.9 per cent. Although economic conditions in Japan are becoming more uncertain, media reports suggest that this is not having a significant effect on outbound travel volumes, since many overseas leisure trips are taken by retiring baby boomers who are less affected by fluctuations in the economy. (See page 11.)
- Surging demand for Korean outbound travel during New Year holiday period: Korean travel agencies are reporting robust demand for travel packages during Korea's Lunar New Year holiday in February, with many popular destinations sold out months in advance. Media reports suggest that many Koreans travelling abroad are visiting children studying in the United States and in Europe. Overseas study tours to learn and practise English are also very popular. (See page 11.)
- China reverts to previous national holiday system: The Chinese government will revert back to its previous national holiday system of one-day national holidays scattered throughout the year, rather than

continuing with three designated "golden week" holidays. The government wants Chinese workers to stagger their holidays instead of taking them at set times, in an effort to ease passenger congestion on the country's overtaxed transportation systems. (See page 12.)

- Study reveals potential of Australian market: Many Australian travellers are interested in visiting Canada, although other destinations tend to be top of mind, according to a recent Canadian Tourism Commission study. More than a third of Australian long-haul travellers polled said they were interested in visiting Canada over the next two years; however, Canada ranked 10th as a travel destination priority. Australians' ideal trip to Canada would include staying at a mid-priced resort or lodge, by a lake, or in the mountains. Preferred activities included sightseeing in the mountains, visiting historical sites, and enjoying "untouched nature." (See page 12.)

### Tourism Leading Indicator Index - Summary Table

The Tourism Leading Indicator Index provides insights into the near-term outlook for the tourism industry, by tracking the progress of the economic and non-economic factors that affect travel demand from Canada's key tourism markets, including the domestic market.

The rating for each component of the index indicates how that component is expected to affect travel from the source market over the near term. The overall rating indicates the expected performance of the source market in the near term, relative to the same time period in the previous year.

Travel Market	Economic Factors		Non-Economic Factors		Overall Tourism Leading Indicator
	General Economic Trends	Price Competitiveness	Traveller Trends (to/within Canada)	Supplier Trends (to/within Canada)	For travel to/within Canada
Domestic	▲	▼	▲	▲	+
U.S.	▼	▼	◆	▼	-
U.K.	◆	▼	▲	◆	+
France	▲	▼	◆	▲	+
Germany	◆	▼	◆	▲	●
Mexico	▲▲	▼	▲▲	▲	++
Japan	◆	▼	▼▼	▼	-
Korea	▲▲	▼▼	▲	▼	+
China	▲▲	▼	▲	▲▲	+
Australia	▲▲	▼	▲▲	▲▲	++

**Ratings Key:**

**Economic Factors and Non-Economic Factors:** Range from ▲▲▲ (significantly adds to demand) to ▼▼▼ (significantly impedes demand). ◆ represents neutral effect on demand.

**Overall Tourism Leading Indicator:** Ranges from +++ (significantly improving) to --- (significantly deteriorating). ● represents no change.

Full details about the index for each market begin on page 13. For more information about the methodology used to construct the index, please refer to the Appendix of this report.

## Tourism Overview - Canada and the United States

### Leisure travellers

Canadians more cautious about big-ticket purchases: After registering an uptick in November, the Conference Board's Index of Consumer Confidence slipped 4 points in December 2007, suggesting that Canadian consumers were feeling more cautious about economic conditions. Respondents were less optimistic about current and future household finances, as well as future job market conditions, but the most significant decline in consumer confidence was related to major purchases. Fewer than half of the Canadians polled (48.9%) said that now was a good time to purchase a big-ticket item, a 4.4 percentage point decrease from the previous month.

**Table 1: Canadian Consumer Confidence (2002 = 100 Index)**

	2007 : 09	2007 : 10	2007 : 11	2007 : 12
Consumer Confidence Index	99.9	98.2	100.2	96.2

Source: The Conference Board of Canada.

**Canadian travellers influenced by environmental concerns:** Many Canadian travellers are concerned about global warming and the loss of natural habitats and ecosystems, and are willing to consider these issues when planning their vacations, according to a recent study by TNS Canadian Facts, a market research firm. Nearly two-thirds of respondents cited these issues as a concern, and one-third said they would switch their holiday destination to one that supported sustainable tourism. About 40 per cent said they would like to use a travel agency that "adheres to environmentally sensitive guidelines," and 28 per cent said they would pay more for an "ethical and sustainable" vacation.

Interestingly, most Canadian travellers put the onus of environmentally friendly tourism on travel suppliers rather than consumers. Three-quarters said tourism businesses and mass media should ensure that travellers have access to sustainable tourism information and products. Fewer (64%) believed that the travelling public should take primary responsibility for planning trips that involve sustainable tourism.

**U.S. Congress delays passport rule until 2009:** The U.S. House of Representatives passed a bill on December 19, 2007, delaying the requirement for passports (or other approved documents) at land border crossings until June 1, 2009. However, as of January 31, 2008, all travellers will require proof of citizenship plus a piece of government-issued identification when entering the United States at land and sea ports of entry. Oral declarations of citizenship will no longer be accepted.

**U.S. vacation intentions still soft:** U.S. travel intentions waned in December and remain softer than they were a year ago, according to the latest Consumer Confidence Survey report by The Conference Board, Inc. in the United States. Preliminary results showed that in December 2007, 43.8 per cent of U.S. consumers polled said they planned to take a vacation within the next six months, down from 45.8 per cent in the October 2007 poll. Results are adjusted to account for seasonal fluctuations in travel demand.

The monthly U.S. consumer confidence index picked up slightly in December, increasing 0.8 points in December to 88.6 (1985 = 100). The Conference Board reported that the increase was due to a marginal increase in consumer optimism about the short-term outlook for the U.S. economy. But persistent declines in the present situation index suggest consumers still have a largely negative view of economic conditions in the United States.

**AAA anticipated minimal rise in holiday travel in U.S.:** Higher fares and gasoline prices were expected

to curb growth in travel over the Christmas and New Year's holidays, according to the American Automobile Association (AAA). Trips by automobile were expected to rise 0.9 per cent over the previous year, while trips by air were expected to decline by 0.3 per cent. The association noted that holiday airfares had jumped by an average of 16 per cent over last Christmas.

**Gas prices the largest frustration for U.S. travellers:** The cost of gasoline is the top frustration among American travellers, according to the fourth-quarter Traveler Frustration Index by Access America and Ipsos Public Affairs. More than three-quarters (78%) of the U.S. leisure travellers polled cited this as a travel frustration-the same as in the previous quarter.

Other significant frustrations among travellers were airline service (mentioned by 55% of respondents), the cost of airline, cruise, or train tickets (49%), the cost of lodging and attractions (44%), and Homeland Security issues, such as airport security, passport rules, and border crossings (41%).

**Online bookings surpass off-line bookings in U.S.:** In 2007, more travel bookings were made online in the United States than off-line, according to a recent consumer trends survey by PhoCusWright Inc. Online bookings accounted for 51 per cent of the travel purchases made last year, and are forecast to account for 56 per cent in 2008.

Another recent PhoCusWright study revealed that 75 per cent of U.S. travellers visit between two and five websites when shopping for travel online, primarily to compare prices. However, another 20 per cent visit six or more sites to read travellers reviews, research destinations, and purchase event and attraction tickets. Travellers in this group tend to be highly influenced in their travel decisions by interactive web technology such as social networking, podcasts, and videos.

## Business travellers

**Canadian business travel costs to rise in 2008:** The latest forecast by American Express (Amex) Business Travel suggests that growing business travel demand, rising fuel costs, and limited capacity increases will continue to push up air, hotel, and car rental rates this year. Fares for domestic flights are expected to rise 2 to 5 per cent, while international airfares jump by 7 to 10 per cent. Hotel rates are expected to rise 5 to 7 per cent for mid-range rooms and 6 to 8 per cent for upper-range rooms. Amex noted that increases in hotel room supply have not kept pace with the growth in corporate hotel demand.

A recent forecast by NBTA Canada, a regional affiliate of the U.S.-based National Business Travel Association, suggests that Canadian business travel volumes will register modest growth in 2008 over 2007. Close to half of the corporate travel managers polled (42%) said they expect their company's travellers to take more trips this year.

## Airlines - Canada

**Healthy economic conditions continue to buoy domestic air demand:** Healthy economic conditions in Canada supported the continued growth of air passenger traffic for Canada's two largest airlines in December. The strong Canadian dollar has helped shield the airlines from the financial impact of rising oil prices, thereby keeping a lid on potential airfare increases. A recent analysis by the Globe and Mail suggested that fares had increased only modestly for air travel over the near term.

Air Canada's system-wide passenger traffic (measured in revenue passenger miles), including mainline and regional operations, grew 2.4 per cent overall in December 2007 compared with the same month in 2006. Total capacity edged up 1.6 per cent, resulting in a slight increase (0.6 points) in the airline's average load factor. Traffic on domestic routes grew 2.4 per cent, while traffic on transborder U.S. routes fell 1.9 per cent. International traffic rose 4 per cent, driven by solid growth on transatlantic routes (4.8%) and on "Latin

American and other" routes (8.5%).

Meanwhile, WestJet reported a 17.1 per cent rise in passenger traffic and a 15.2 per cent expansion in capacity in December 2007, compared with a year earlier. Looking ahead, the carrier expects to increase its overall seat capacity (measured by available seat miles) by 16 per cent in 2008.

**Table 2. Airline Revenue Passenger Miles (RPMs) and Capacity - December 2007**

Airline	RPMs (in millions) December 2007	RPM change 2007 vs. 2006	Capacity 2007 vs. 2006
Air Canada mainline (includes Jetz & Tier 3)	3661	+ 2,3 %	+ 1,6 %
Air Canada Regional (Jazz)	332	+ 3,8 %	+ 2,5 %
WestJet	1049	+ 17,1 %	+ 15,2 %

Canada negotiates open skies agreement with EU: Canada launched negotiations with the European Union in November 2007 for an open skies agreement that would open up competition on transatlantic routes. According to Transport Canada, the negotiations may lead to a framework allowing European airlines to fly to Canada from any airport in the European Union, potentially increasing air travel volumes and lowering airfares between the two regions.

Transport Canada also announced amendments to its bilateral air services agreement with Mexico. According to the announcement press release, the amendments provide Canadian and Mexican airlines with greater market access and pricing flexibility for air services between the two countries.

## Airlines - U.S.

**U.S. air demand strong over holiday travel period:** Weaker economic conditions and rising airfares did not appear to deter U.S. air travellers over the Christmas and New Year's holiday season. The Air Transport Association (ATA) estimated that 47 million Americans would take a trip by air over that period, about the same number as last year.

Travelocity reported that airfares in December were up an average of 10 per cent compared with a year earlier, according to its domestic and international airfare booking data. An analysis by USA Today and Sabre Airline Solutions revealed that domestic airfares were 5.8 per cent higher in December than they were the previous year, and 13.8 per cent higher than they were two years before.

However, despite the continued strength of air travel demand, the U.S. airline industry is concerned about rising fuel costs and the effect of the slowing U.S. economy on air travel demand this year. As a result, many airlines are cutting back on their domestic capacity to help keep an upward pressure on airfares. USA Today reported that the six major U.S. carriers (American, United, Delta, Continental, Northwest, and US Airways) cut their capacity on domestic routes by a collective 4.4 per cent in January 2008, year-over-year. Many airlines have also reported downward revisions to their capacity expansion plans for this year.

Looking ahead, the ATA forecast another profitable year for the U.S. airline industry in 2008, for the third consecutive year. The forecast suggests that ongoing passenger and cargo demand, in particular for international routes, will help offset rising fuel and operational costs, enabling the industry to post a collective net profit of US\$3.5 billion to US\$4.5 billion for the year.

## Hotels - Canada

**Healthy economy fuelled slight pickup in lodging demand:** Healthy economic conditions helped fuel a slight pickup in demand for Canadian accommodations in September and October, supporting a solid increase in average daily room rates and revenues over the period. The latest National Market Report by PKF Consulting reveals that average daily rates in Canada rose 4.2 per cent in September 2007 and 4.7 per cent in October 2007, year-over-year. Occupancy fell marginally in September, compared with a year earlier, and then gained 1.6 percentage points in October. Consequently, revenues per available room (RevPAR) in each month advanced 3.6 per cent and 7.2 per cent, respectively.

Demand for Canadian accommodations was up by 2.4 per cent between January and October 2007 compared with the same period in 2006, according to the latest Canadian Lodging Outlook by HVS International. Hotel room supply increased 0.9 per cent during the period.

**Modest improvement in sentiment among Canadian hotel operators:** Sentiments among Canadian hotel operators improved modestly in the fourth quarter of 2007, over the previous quarter, according to Statistics Canada's latest Business Conditions Survey for the Travel Accommodation Industry. Respondents expected increases in bookings, average room rates, occupancy rates, and business travel volumes.

However, the number of respondents reporting business impediments continued to rise. Those citing the exchange rate as a challenge jumped to 45 per cent of all respondents, up from 38 per cent in the previous survey. In addition, more respondents mentioned shortages in unskilled labour (39%) and skilled labour (34%) as significant challenges. Only 19 per cent of respondents said they were facing no impediments at all.

## Hotels - U.S.

**Healthy demand continues to boost U.S. room rates and revenues:** Although the pace of growth in U.S. lodging demand has slowed, average daily rates in the United States continue to rise, supporting solid growth in average room revenues. In November 2007, occupancy levels dipped slightly (-1%) from a year earlier, yet average daily rates jumped 5.9 per cent, helping to boost average RevPAR by 4.8 per cent, according to Smith Travel Research, Inc. Between January and November 2007, occupancy was on par with the same period of 2006, but average room rates and revenues were each ahead by 5.9 per cent.

In 2008, the U.S. accommodations industry will continue to be a sellers' market, according to the latest forecast by PricewaterhouseCoopers, despite the uncertain outlook for the U.S. economy. Although occupancy for the year is projected to fall slightly overall, demand in major markets is expected to remain strong. Average daily rates are expected to rise by 5.6 per cent this year, driving a 5.1 per cent increase in average RevPAR.

## Travel agents and other suppliers

**Transat reports decline in fourth-quarter profits:** Transat A.T. Inc. reported a net profit of \$7.7 million for its fourth quarter ended October 31, 2007, a 23 per cent decline from the net earnings posted a year earlier. Overall revenues increased 9.8 per cent over the period, boosted by revenue growth in the company's Canadian tour operators and by the expansion of its French operations.

The company also reported that its bookings for winter travel were slightly ahead of where they were at the same time last year, although excess supply and last-minute bookings in its North American operations were weighing down prices and operating margins. It also noted there was "tremendous price pressure" on routes between Canada and the U.K. because of increased market capacity and additional passenger taxes on U.K. departures.

**Kayak and SideStep to merge:** In December, meta-search website Kayak.com announced it was acquiring competitor Sidestep.com, to create the fifth-largest online travel business in the world. However, each brand will continue to operate separately.

**Weaker U.S. dollar hurting European package sales:** The weaker U.S. dollar has had a negative effect on U.S. bookings for packages to the U.K. and other European destinations, according to a recent survey of U.S. Tour Operators Association members. The majority of members polled (57.6%) experienced a decline in bookings for U.K. and European packages in 2007, mainly because of the less favourable exchange rate. Nearly as many (54.5%) expect their 2008 bookings to be affected as well. About 60 per cent of those expecting an increase believe it will range between 5 and 15 per cent.

## Tourism Overview - International

### Europe

**Solid growth in air passengers between the U.K. and North America in December:** The British Airport Authority's seven U.K. airports handled 10.9 million passengers in December 2007, a 0.7 per cent increase over December 2006. Passenger numbers on North Atlantic routes climbed 6.3 per cent, while traffic on other long-haul routes grew 2.5 per cent. Passenger numbers on scheduled routes to Europe were on par with the previous year, while domestic numbers fell 3.5 per cent.

**U.K. overseas holiday travel predicted to reach record high:** A record-high 3.5 million U.K. residents were expected to travel abroad during the Christmas holidays, according to the Association of British Travel Agents. While good early snow conditions in France, Austria, and Italy have driven an increase in trip sales to those ski destinations, the association also reported that ski trips to Canada and the United States were selling well, spurred by the favourable exchange rate.

Reports from individual U.K. travel companies provided a similar outlook for winter travel demand:

- Co-operative Travel, the U.K.'s largest independent travel agency, reported that its bookings for Christmas vacations abroad were up 11 per cent over last year's holiday season. Canada, in particular, has been selling well, largely because of the poor snowfall at European resorts last winter. The agency experienced strong growth in sales for trips to exotic sun destinations such as Cyprus, Egypt, and India, driven in part by the lack of good weather in the U.K. this past summer.
- TUI Travel reported strong consumer demand for overseas leisure travel, partly because of the poor weather last summer. But the company has been forced to cut capacity on short-haul travel products for this winter and next summer. By December 2, 2007, winter bookings for all destinations were down by 5 per cent, year-over-year, but sales were up 5 per cent. Looking ahead, TUI's bookings for summer 2008 were 4 per cent ahead, while sales were up 11 per cent.
- As of mid-December, winter bookings for MyTravel/Thomas Cook were down 2 per cent from last year, although average prices had increased slightly. The company noted that demand has picked up considerably in recent weeks. Looking ahead, summer 2008 bookings and prices were ahead of what they were at the same time last year. The company said in a recent trading statement that its long-term strategy involved a greater focus on independent travel products and online travel sales.

**Bullish outlook for U.K. outbound travel:** British tour operators and travel agents are bullish in their outlook for 2008, following the industry's lacklustre performance in 2007, according to an industry survey by Travelmole.com and BGB, a public relations firm. Most outbound operators polled expected modest (58%) or strong (22%) increases in overall sales this year.

Tour operators reported that long-haul vacation packages make up the bulk of their sales (45%) because they are not as easy for individual travellers to book independently, and there is a greater price advantage to booking with an operator. Respondents also suggested that the short-break outbound market is reaching saturation because of increased airport security and "immigration hassles." Meanwhile, cruises were cited as one of the fastest-growing outbound markets.

**Nostalgia an important driver of U.K. travel decisions:** Ninety per cent of U.K. travellers choose a holiday destination based on sentimental associations, rather than choosing somewhere new, according to a recent study by Expedia.co.uk and University College London. By far, the top two reasons for revisiting a vacation destination were because travellers had enjoyed a memorable holiday there in their youth (27.7%)

or had lived there previously (21.5%).

**Strong international air passenger demand at Paris airports:** Passenger numbers at airports serving Paris grew 5.3 per cent to 6.5 million in November 2007, according to the latest statement by the airports' administrative authority, Aéroports de Paris. Domestic passenger numbers decreased 1.7 per cent that month, while passengers on European routes grew 6.4 per cent. Passengers on routes between France and North America climbed 7.1 per cent.

The airport authority plans to raise user fees by 3.8 per cent at Paris-Charles de Gaulle and Paris-Orly airports on April 1, 2008, largely because of strong passenger demand. Fees were raised by 4.25 per cent in 2007.

**German tour operators optimistic about 2008:** The German packaged-holiday market grew by 3 per cent in the year ended October 31, 2007, according to a recent report by the German Travel Association reported by FWW. Sales for charter holidays increased 2 per cent, long-haul holidays were up 7 per cent, and cruise holidays increased by 9 per cent. Long-haul destinations experiencing strong growth included Canada and the United States, as well as the United Arab Emirates and Thailand. The association expects German spending on holiday packages to increase another 4 per cent in 2008.

However, German tour operators are even more optimistic, expecting sales and bookings to increase 5 per cent and 4.5 per cent this year, according to a market outlook by FWW. So far, early booking discounts have helped boost winter bookings, although the pace of growth was expected to slow once the discounts expired. The report cited long-haul holidays, cruises, and city trips among the key drivers of growth in 2008.

TUI AG, Germany's largest tour operator, recently described German leisure travel demand as healthy, buoyed by the strong economy, improving employment conditions, and rising disposable income. It reported strong booking trends for the current winter season and for next summer.

## Mexico

**Competition intense in Mexico's domestic air travel market:** The domestic market share of Mexico's two major carriers, AeroMexico and Mexicana, has decreased considerably since 2000, according to a recent conference presentation by Mexicana chairman Gaston Azcarraga, reported in Air Transport World. The two carriers account for 50 per cent of the domestic market, down from 84 per cent in 2000. Competition for air passengers in Mexico is intense, with 14 airlines, many of which are low-cost carriers, serving the domestic market. Azcarraga stated that consolidation would be necessary for Mexico's air industry to become profitable. His airline made a bid for AeroMexico in October, but the move was rejected by Mexico's competition regulator.

**Mexican tour operators report strong booking trends:** The latest quarterly market report by the Canadian Tourism Commission foreign office in Mexico noted there has been significant growth in Mexico's meetings, conference, and incentive travel market. The report suggests this market offers an excellent opportunity for increasing visits to Canada during low season and trip durations. Overall, this market was described as offering great potential.

## Asia-Pacific

**Japan Airlines reports increase in transpacific travel over New Year holiday:** Japan Airlines reported that passenger numbers on transpacific routes increased 6.2 per cent during the New Year vacation period between December 28, 2007, and January 6, 2008 compared with a year earlier. Routes to many popular Asian destinations such as Indonesia, Thailand, and Vietnam experienced solid growth as well. Overall,

passenger numbers on international routes fell 3.3 per cent during the period, due to a substantial decrease in passengers on routes to Oceania and to Guam and Saipan. Meanwhile, passenger numbers on domestic routes were down 5.5 per cent compared with a year earlier.

JTB Corp., Japan's largest travel agency expected a 0.2 per cent uptick in domestic and international holiday travel volumes between December 23, 2007, and January 3, 2008, compared with the same period a year earlier, according to a news item by Japan Times. Japanese spending on domestic and outbound travel packages for that period was expected to grow by 1.9 per cent. The article noted that although economic conditions in Japan were becoming more uncertain, this did not seem to be hurting outbound travel demand, since demand for outbound leisure travel is led primarily by retiring baby boomers who are less affected by fluctuations in the economy.

**Japanese travellers growing more independent:** More and more Japanese travellers prefer to travel independently, or with flexible tours, and are seeking out more adventurous travel experiences, according to a recent Japanese market study by the Canadian Tourism Commission. Hiking, fishing, and kayaking are increasingly popular travel activities, as are visiting nature resorts, touring historic sites, and exploring destinations by car. The study notes that Japanese travellers are becoming more interested in spending longer periods of time in one region, participating in local activities and experiencing the local way of life.

**Korean Air to launch low-cost carrier:** Korean Air has won approval from its board to launch a new low-cost carrier in May 2008, tentatively called Air Korea. The discount airline will be based out of Incheon International Airport in Seoul, serving routes to China, Japan, Thailand and Malaysia—countries with which Korea has already established open skies agreements. The airline plans to gradually widen its network to a number of other short- and mid-haul destinations.

In a separate announcement, Korean Air said it would double its fuel surcharge on international flights in January 2008, because of soaring fuel prices. On long-distance flights, the fee will rise to US\$140, up from US\$52.

**Surging demand for Korean outbound travel during New Year holiday period:** Korean travel agencies are reporting robust demand for travel packages during Korea's Lunar New Year holiday on February 6-8, 2008, according to recent media reports. Major travel agencies such as Hana Tour and Freedom Tour are experiencing strong growth in travel sales for the period, with many popular destinations sold out up to three months in advance. Media reports suggest that many Koreans travelling abroad during the New Year holiday are visiting children studying in the United States and in Europe. Holiday study tours abroad to learn and practise English are also very popular.

The country's two major airlines, Korean Air and Asiana Airlines, have reported that seat capacity during the holiday period is tight. A news item in the Chosun Ilbo stated that airlines have not been able to keep up with air travel demand over the holiday period, despite the fact that airfares are about 20 per cent more expensive during peak holiday times. In fact, Koreans are advised to book their overseas trips months in advance. Korean travellers will start booking air tickets for the summer peak period as early as March.

**China reverts to previous national holiday system:** The Chinese government announced in December it would revert back to its previous national holiday system of one-day national holidays scattered throughout the year, rather than continuing with three designated "golden week" holidays. The government wants to encourage Chinese residents to stagger their holidays, letting workers take paid vacations on their own schedules rather than at set times, in an effort to ease passenger congestion on planes, trains, and other transportation systems. The golden week holiday periods were created in 1999 to encourage growth in domestic leisure travel, but huge increases in Chinese travel volumes since then have strained the country's transportation infrastructure.

**China experts tout luxury market:** There is a great deal of potential for selling luxury travel products to the

Chinese outbound market, according to presentations made at the World Travel Market's China Contact forum in London in November 2007, reported by Travel Daily News. Presenters suggested that some destinations catering to the Chinese market have been misinformed about the appeal of luxury travel packages, believing that Chinese travellers were only looking for low-cost tours. This has opened the door to unscrupulous tour operators who sell cheap tours, supplemented by commission shopping schemes.

However, destinations that have focused on the top end of the Chinese consumer market have successfully attracted wealthy Chinese from the larger cities who already travel frequently and "enjoy the finer things in life." In fact, most Chinese travellers favour quality, high-end accommodations and seek vacation packages that are comfortable and luxurious. Destination marketers were advised to study niche travel markets in China and to develop marketing campaigns that cater to these markets.

**China grants approved destination status to the U.S.:** The U.S. Department of Commerce announced in December that the Chinese government had signed an agreement granting approved destination status to the United States. The agreement is expected to be implemented sometime this spring.

**Study reveals potential of Australian market:** Many Australian travellers are interested in visiting Canada, although other destinations tend to be top of mind, according to a recent Canadian Tourism Commission study of the Australian market. More than a third of Australian long-haul travellers polled said they were interested in visiting Canada over the next two years; however, Canada ranked 10th as a travel destination priority.

When respondents were asked what the ideal trip to Canada would entail, responses suggested it would be an independent trip during the summer, as part of a larger trip that included the United States or Europe. The preferred type of accommodation was a lakeside or mountain resort or lodge, in a mid-priced range. Preferred activities included sightseeing in the mountains, visiting historical sites, and enjoying "untouched nature."

**Australian outbound travel to continue outpacing domestic travel:** Australian outbound tourism is projected to keep growing at a faster pace than domestic tourism over the long term, according to the latest forecast by Tourism Australia. Outbound departures increased by an estimated 7 per cent in 2007 over 2006, and are forecast to rise another 5 per cent in 2008. Over the long term, outbound departures are expected to grow at an average annual rate of 5.2 per cent.

The optimistic outlook for Australian outbound travel is supported by Australians' increasing propensity to travel abroad, the growth of low-cost seat capacity to outbound destinations, and the continued expansion of overall international air access. Outbound travel to the United States and Europe is expected to register a sharp rise in 2009 because of the large increases in air capacity anticipated on those routes. In addition, the strength of the Australian dollar continues to make overseas travel more affordable, especially to the United States.

## **Tourism Leading Indicator Index**

Because of the constantly evolving nature of today's travel environment, it is increasingly important to be able to anticipate fluctuations in travel demand, in order to make better business decisions. The Tourism Leading Indicator Index provides insights into the near-term outlook for the Canadian tourism industry, by tracking the progress of the economic and non-economic factors that affect travel demand.

The rating for each component of the index indicates how that component is expected to affect travel from the source market over the near term. Meanwhile, the overall rating indicates the expected performance of the source market in the near term, relative to the same time period in the previous year.

For more information on the specific weighting and methodology used to produce the index, please refer to the Tourism Leading Indicator Index - Methodology section at the end of this report.

## Domestic travel

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (Domestic)	Supplier Trends (Domestic)	
▲(▲)	▼(▼)	▲(▲)	▲(▲)	+

**Ratings Key:**  
**Economic Factors and Non-Economic Factors:** Range from ▲▲▲(significantly adds to demand) to ▼▼▼(significantly impedes demand). ◆ represents neutral effect on demand.  
**Overall Tourism Leading Indicator:** Ranges from +++ (significantly improving) to --- (significantly deteriorating). ● represents no change.

Note: the bracketed figures are from the previous (November 2007) *Tourism Intelligence Bulletin*.

### Economic Trends:

- The Canadian economy advanced by a healthy 0.7 per cent in the third quarter of 2007, after a 0.9 per cent increase in real gross domestic product (GDP) in the second quarter. However, recent labour force figures indicate the Canadian economy shed 18,700 jobs in December 2007. The December results were well below expectations. Still, the job losses come on the heels of seven consecutive monthly gains. And on a positive note, the Canadian unemployment rate held steady at 5.9 per cent.
- The strength of the Canadian dollar continues to reduce the price competitiveness of domestic travel while spurring growth in outbound travel. In addition, the recent rise in gas prices is likely to dampen domestic automobile travel during the winter and early spring.

### Traveller and Supplier Trends:

- Year-over-year, domestic air travel (as measured by the number of enplaned and deplaned passengers at Canada's top 30 airports) increased 6.4 per cent in October, according to Transport Canada. Meanwhile, average Canadian hotel occupancy rates increased by a solid 1.6 percentage points in October, according to PKF Consulting. The latest year-to-date hotel occupancy figures Canada are reported to be 0.6 percentage points ahead of last year.
- The latest outbound travel statistics (from October 2007) suggest the strong Canadian dollar contributed to surging demand (up 17.9% year-over-year) in overnight travel to the United States. During that same month, growth in travel to other international countries remained strong (up 10.5%).

Overall, the Tourism Leading Indicator for domestic travel suggests the market should continue to post modest growth over the near term.

## United States (to Canada)

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (to Canada)	Supplier Trends (U.S. to Canada)	
▼(◆)	▼(▼)	◆(◆)	▼(▼)	-

**Ratings Key:**  
**Economic Factors and Non-Economic Factors:** Range from ▲▲▲(significantly adds to demand) to ▼▼▼(significantly impedes demand). ◆ represents neutral effect on demand.  
**Overall Tourism Leading Indicator:** Ranges from +++ (significantly improving) to --- (significantly deteriorating). ● represents no change.

Note: the bracketed figures are from the previous (November 2007) Tourism Intelligence Bulletin.

### Economic Trends:

- The new year brought with it grim news about the overall health of the U.S. economy. Manufacturing activity slumped in December, labour markets stumbled, and oil prices broke through the \$100 per barrel market to start the year. However, households continued to spend over the holiday season, albeit at a pace below expectations. The Conference Board's leading economic index for the U.S. decreased 0.4 per cent in November, dragging down the six-month growth rate of the index to a -2.4 per cent annual rate—the weakest in six years. Meanwhile, the Conference Board's consumer confidence index increased to 88.6 (1985 = 100) in December, up slightly from November.
- Unfortunately, recent analysis by the Canadian Tourism Research Institute indicated that Canada's price competitiveness for U.S. travellers will continue to decrease during the first quarter of 2008.

### Traveller and Supplier Trends:

- On a positive note, overnight trips from the United States to Canada increased 1.8 per cent in October 2007, compared with October 2006, according to Statistics Canada. Still, the year-to-date figures indicated that overnight travel by automobile and other modes (primarily air travel) were down 4 per cent and 1.1 per cent, respectively, over 2006. High gas prices, a weaker economy, and the high value of the Canadian dollar are likely to keep dampening demand in the price-sensitive automobile travel segment during the winter and early spring.
- Unfortunately, the number of direct seats available for air travel from the United States to Canada is expected to decrease 1.4 per cent during the first quarter of 2008, year-over-year.

Overall, the Tourism Leading Indicator for U.S. travel to Canada suggests U.S. visits will decline slightly over the near term.

## United Kingdom

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
◆(◆)	▼(▲)	▲(◆)	◆(▲)	+

**Ratings Key:**  
**Economic Factors and Non-Economic Factors:** Range from ▲▲▲(significantly adds to demand) to ▼▼▼(significantly impedes demand). ◆ represents neutral effect on demand.  
**Overall Tourism Leading Indicator:** Ranges from +++ (significantly improving) to --- (significantly deteriorating). ● represents no change.

Note: the bracketed figures are from the previous (November 2007) Tourism Intelligence Bulletin.

### Economic Trends:

- The Conference Board's leading economic index for the U.K. declined slightly (0.3%) in November, the fourth decrease in the past six months. In addition, the weaknesses among the leading indicators have become slightly more widespread than the strengths in recent months. The current behaviour of the leading economic index suggests economic growth is likely to continue in the near term, but possibly at a slower pace.
- In the first quarter of 2008, Canada's price competitiveness for U.K. travellers is expected to decline against all competitive markets. The largest anticipated decline will be against the United States. Canadian Tourism Research Institute analysis suggests that the cost of a seven-night stay in Canada for U.K. travellers, including airfare, hotels, meals, and other items, will increase 10 per cent, year-over-year. Meanwhile, the cost of a similar trip to competitive destinations (United States, China, South Africa, sub-Saharan Africa, Brazil, and Mexico) is expected to decrease slightly (-0.3%).

### Traveller and Supplier Trends:

- Visits from the U.K. increased 11.9 per cent in October, according to Statistics Canada. Overall, January to October visits from the U.K. were 5 per cent ahead of the same period in 2006. On a year-over-year basis, the U.K. Office for National Statistics reported that U.K. travel abroad increased 1 per cent, as did travel to North America, between August and October 2007.
- Looking ahead, direct air capacity on scheduled flights from the U.K. to Canada is expected to increase 0.5 per cent during the first quarter of 2008, compared with last year.

On balance, Canada's declining price competitiveness combined with marginal growth in direct air capacity suggest only limited growth potential for U.K. travel to Canada over the near term, despite some slight pickup in recent travel trends.

## France

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (to Canada)	Supplier Trends (U.S. to Canada)	
▲(◆)	▼(▼)	◆(▲)	▲(▲)	+
<b>Ratings Key:</b> <b>Economic Factors and Non-Economic Factors:</b> Range from ▲▲▲(significantly adds to demand) to ▼▼▼(significantly impedes demand). ◆ represents neutral effect on demand. <b>Overall Tourism Leading Indicator:</b> Ranges from +++ (significantly improving) to --- (significantly deteriorating). ● represents no change.				

Note: the bracketed figures are from the previous (November 2007) Tourism Intelligence Bulletin.

### Economic Trends:

- The Conference Board's leading economic index for France increased 0.3 per cent in October. With the latest increase, the six-month growth rate of the index has picked up to a 1.9 per cent annual rate. The recent behaviour of the leading index suggests moderate economic growth is likely to continue over the near term.
- Unfortunately, Canada's price competitiveness for travel from France is expected to decline during the first quarter of 2008. The average cost of a seven-night stay in Canada, including airfare, hotels, meals, and other items, will increase an estimated 6.6 per cent for French travellers, year-over-year. Meanwhile, the average cost of a similar trip to competitive destinations (United States, China, sub-Saharan Africa, and Brazil) is expected to drop by 2.3 per cent.

### Traveller and Supplier Trends:

- Visits from France decreased 6.6 per cent in October 2007, year-over-year, dragging down the growth in year-to-date arrivals to 1.1 per cent, according to Statistics Canada. Meanwhile, the U.S. Office of Travel and Tourism Industries (OTTI) reported that travel from France to the U.S. increased 28.2 per cent between January and September 2007.
- Looking ahead, French arrivals to Canada should receive a slight boost from the estimated 4.7 per cent increase in direct air capacity scheduled for the first quarter of 2008, compared with last year.

Despite growing price competitiveness issues, the Tourism Leading Index suggests there is slight growth potential in French travel to Canada over the near term.

## Germany

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (to Canada)	Supplier Trends (U.S. to Canada)	
◆(◆)	▼(▼)	◆(◆)	▲(▲)	●
<b>Ratings Key:</b> <b>Economic Factors and Non-Economic Factors:</b> Range from ▲▲▲(significantly adds to demand) to ▼▼▼(significantly impedes demand). ◆ represents neutral effect on demand. <b>Overall Tourism Leading Indicator:</b> Ranges from +++ (significantly improving) to --- (significantly deteriorating). ● represents no change.				

Note: the bracketed figures are from the previous (November 2007) Tourism Intelligence Bulletin.

### Economic Trends:

- The Conference Board's leading economic index for Germany increased 0.6 per cent in October. As a result, the six-month growth rate of the index slowed to a 0.8 per cent annual rate, down from the 2.7 per cent annual rate achieved in the previous six-month period. However, the behaviour of the leading index suggests that slow to moderate economic growth should continue in the near term.
- Unfortunately, Canada's price competitiveness for German travellers is expected to decline against most competitive markets during the first quarter of 2008. The average cost of a seven-night stay in Canada, including airfare, hotels, meals, and other items, will increase an anticipated 7.1 per cent for German visitors during the first quarter. Meanwhile, the average cost of a similar trip to competitive destinations (U.S., China, South Africa, Brazil, and Mexico) in the same quarter will decrease 4.4 per cent, year-over-year.

### Traveller and Supplier Trends:

- Visits from Germany decreased 4.5 per cent in October, reducing the growth of year-to-date arrivals to 2 per cent, compared with the same period in 2006, according to Statistics Canada. Meanwhile, the OTTI reported that travel from Germany to the U.S. increased 8.5 per cent during the first nine months of 2007.
- Over the first quarter of 2008, the level of direct air capacity scheduled between Germany and Canada is expected to increase by a solid 8 per cent.

Overall, softening economic conditions and declining price competitiveness suggest there is little to no growth potential for German travel to Canada over the near term, despite the growth in air access.

## Mexico

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (to Canada)	Supplier Trends (U.S. to Canada)	
▲▲(▲)	▼(▼)	▲▲(▲▲)	▲(◆)	++
<b>Ratings Key:</b> <b>Economic Factors and Non-Economic Factors:</b> Range from ▲▲▲(significantly adds to demand) to ▼▼▼(significantly impedes demand). ◆ represents neutral effect on demand. <b>Overall Tourism Leading Indicator:</b> Ranges from +++ (significantly improving) to --- (significantly deteriorating). ● represents no change.				

Note: the bracketed figures are from the previous (November 2007) Tourism Intelligence Bulletin.

### Economic Trends:

- The Conference Board's leading economic index for Mexico increased a sharp 1.3 per cent in October. With this increase, the growth rate of the six-month index increased to a 9.8 per cent annual pace. Despite short-term volatility, the behaviour of the leading index suggests moderate to strong economic growth is likely over the near term.
- Despite declining average airfares from Mexico, Canada's price competitiveness is expected to fall during the first quarter of 2008. The average cost of a seven-night stay in Canada during the first quarter, including airfare, hotels, meals, and other items, will increase 10.4 per cent for Mexican travellers, year-over-year. Meanwhile, the cost of a similar trip to other competitive destinations (U.S. and Spain) is expected to decline by an average of 1.2 per cent.

### Traveller and Supplier Trends:

- Visits from Mexico jumped 12.7 per cent in October, according to Statistics Canada. Overall, January to October visits from the U.K. were 16.6 per cent ahead of the same period in 2006. Meanwhile, the OTTI reported that Mexican arrivals to the U.S. interior (beyond the 40 kilometre U.S. border zone) increased 17.5 per cent during the first nine months of 2007.
- Direct air capacity between Mexico and Canada is scheduled to increase by a solid 15.8 per cent over the first quarter of 2008, compared with a year earlier.

The Tourism Leading Indicator Index suggests strengthening economic trends should offset some of the concerns over price competitiveness. As a result, Mexican arrivals to Canada are expected to continue to post solid growth over the near term.

## Japan

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (to Canada)	Supplier Trends (U.S. to Canada)	
◆(◆)	▼(▼)	▼▼(▼▼)	▼(▼▼)	-

### Ratings Key:

**Economic Factors and Non-Economic Factors:** Range from ▲▲▲(significantly adds to demand) to ▼▼▼(significantly impedes demand). ◆ represents neutral effect on demand.

**Overall Tourism Leading Indicator:** Ranges from +++ (significantly improving) to --- (significantly deteriorating). ● represents no change.

Note: the bracketed figures are from the previous (November 2007) Tourism Intelligence Bulletin.

### Economic Trends:

- Following four consecutive declines, the Conference Board's leading economic index for Japan remained unchanged in November. However, the six-month index still slowed to a -2.2 per cent annual rate. Fortunately, the strengths and weaknesses among the leading indicators continue to be somewhat balanced. The current behaviour of the leading index suggests the economy is likely to grow at a sluggish pace in the near term.
- Unfortunately, Canada's price competitiveness is expected to decline over the first quarter of 2008. During this period, the average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, will increase 13.4 per cent over last year for Japanese travellers. Meanwhile, the average cost of travel to the five main long-haul destinations competing for Japanese travellers is expected to increase 8.8 per cent, year-over-year.

### Traveller and Supplier Trends:

- Over the first 10 months of 2007, Japanese arrivals to Canada were down 14.8 per cent from 2006. Travel from Japan to the U.S. also declined, according to the OTTI, but by only 4.1 per cent during the first nine months of 2007.
- Looking ahead, direct air capacity from Japan to Canada in the first quarter of 2008 is expected to be 6.4 per cent lower than the previous year.

Overall, the Tourism Leading Indicator suggests Japanese arrivals to Canada will continue to decline over the near term.

## South Korea

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (to Canada)	Supplier Trends (U.S. to Canada)	
▲▲(▲)	▼▼(▼)	▲(▲)	▼(◆)	-
<b>Ratings Key:</b> <b>Economic Factors and Non-Economic Factors:</b> Range from ▲▲▲(significantly adds to demand) to ▼▼▼(significantly impedes demand). ◆ represents neutral effect on demand. <b>Overall Tourism Leading Indicator:</b> Ranges from +++ (significantly improving) to --- (significantly deteriorating). ● represents no change.				

Note: the bracketed figures are from the previous (November 2007) *Tourism Intelligence Bulletin*.

### Economic Trends:

- Following a large gain in September, the Conference Board's overall leading economic index for South Korea increased 2.3 per cent in October. With October's gain, the growth of the six-month index picked up to an annual rate of 10.5 per cent. The recent behaviour of the leading index suggests economic growth is likely to continue at a moderate to strong pace in the near term.
- Unfortunately, the cost of travel to Canada continues to climb as the Korean won depreciates against the Canadian dollar. The average cost of a 10-night stay in Canada during the first quarter of 2008, including airfare, hotels, meals, and other items, will increase 17.3 per cent for South Korean travellers compared with last year. Meanwhile, the average cost of a similar trip to competitive destinations (U.S., U.K., France, Germany, and Australia) in the first quarter is expected to increase by a much lower 2.5 per cent, year-over-year.

### Traveller and Supplier Trends:

- Korean arrivals to Canada increased 3.3 per cent during October, contributing to year-to-date arrivals being 6 per cent ahead of the previous year, according to Statistics Canada. Similarly, the OTTI reported that travel from South Korea to the U.S. increased 7.7 per cent during the first nine months of 2007.
- Unfortunately, direct air capacity from South Korea to Canada is scheduled to slip 2.3 per cent during the first quarter of 2008, compared with last year.

Overall, the Tourism Leading Indicator Index suggests Korean arrivals to Canada should continue to increase over the near term.

## China

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (to Canada)	Supplier Trends (U.S. to Canada)	
▲▲(▲▲▲)	▼(▲)	▲(▲▲)	▲▲(▲▲)	+
<b>Ratings Key:</b> <b>Economic Factors and Non-Economic Factors:</b> Range from ▲▲▲(significantly adds to demand) to ▼▼▼(significantly impedes demand). ◆ represents neutral effect on demand. <b>Overall Tourism Leading Indicator:</b> Ranges from +++ (significantly improving) to --- (significantly deteriorating). ● represents no change.				

Note: the bracketed figures are from the previous (November 2007) Tourism Intelligence Bulletin.

### Economic Trends:

- The most recent indicators suggest that economic growth in China moderated slightly in the third quarter of 2007. As well, September's annual inflation rate of 6.2 per cent continues to be a big concern for Chinese authorities; as a result, most analysts expect further interest rate hikes before too long. Still, the latest Consensus Forecasts report (November 2007) projects a 10.5 per cent increase in China's real GDP for 2008.
- Over the first quarter of 2008, Canada's price competitiveness is expected to worsen against all key competitive markets for Chinese travellers. The average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, will increase 15 per cent in the first quarter compared with last year. Meanwhile, the cost of a similar trip to competitive destinations (U.S., U.K., France, Germany, and Australia) is expected to increase by an average of 8.5 per cent, year-over-year.

### Traveller and Supplier Trends:

- In October, Chinese arrivals to Canada declined 1 per cent, according to Statistics Canada. Still, year-to-date arrivals were up 5.7 per cent over 2006. Meanwhile, the OTTI reported that travel from China (including Hong Kong) to the U.S. increased 18.8 per cent in the first nine months of 2007.
- Looking ahead, direct air capacity to Canada is scheduled to expand by 28.2 per cent in the first quarter of 2008, compared with the previous year.

The Tourism Leading Indicator Index suggests strength in economic and travel trends should overcome challenges with respect to price competitiveness to support modest growth in Chinese travel to Canada over the near term.

## Australia

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (to Canada)	Supplier Trends (U.S. to Canada)	
▲▲(▲▲)	▼(▲)	▲▲(▲▲)	▲▲(▲)	++
<b>Ratings Key:</b> <b>Economic Factors and Non-Economic Factors:</b> Range from ▲▲▲(significantly adds to demand) to ▼▼▼(significantly impedes demand). ◆ represents neutral effect on demand. <b>Overall Tourism Leading Indicator:</b> Ranges from +++ (significantly improving) to --- (significantly deteriorating). ● represents no change.				

Note: the bracketed figures are from the previous (November 2007) Tourism Intelligence Bulletin.

### Economic Trends:

- The Conference Board's overall leading economic index for Australia increased 0.9 per cent in October. With this gain, the growth of the six-month index picked up to an annual rate of 4.6 per cent. However, the strengths and weaknesses among the leading indicators have become more balanced in recent months. Still, behaviour of the leading index suggests that moderate to strong economic growth will likely continue in the near term.
- Canada's price competitiveness is expected to decline against all competitive markets during the first quarter of 2008. The average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, will increase 5.8 per cent for Australian travellers compared with a year earlier. Meanwhile, the average cost of a similar trip to competitive destinations in the first quarter is expected to decline 3.5 per cent, year-over-year.

### Traveller and Supplier Trends:

- According to Statistics Canada, Australian arrivals to Canada increased 12.6 per cent in October. This growth helped boosted year-to-date arrivals from Australia up 9.4 per cent, compared with 2006 figures. Similarly, the OTTI reported that travel from Australia to the U.S. increased 10 per cent during the first nine months of 2007.
- For the first quarter of 2008, air capacity to Canada (including flights with one stop) is expected to surge by over 150 per cent compared with the same period in 2007.

The Tourism Leading Indicator suggests that, despite challenges with price competitiveness, Australian travel to Canada will likely keep posting moderate to strong growth over the near term.

## Appendix: Tourism Leading Indicator Index - Methodology

- The Tourism Leading Indicator Index provides tourism stakeholders with insights into the near-term outlook for the Canadian tourism industry, by tracking the progress of the economic and non-economic factors that affect travel demand.
- To derive the overall Tourism Leading Indicator Index, the various component indexes representing economic and non-economic motivating factors are weighted to reflect their relative importance in the travel decision-making process. The ratings used to assess the component indexes of the overall index identify the degree to which each component provides added stimulus or, alternatively, provides an added impediment to visiting Canada over the near term. The specific rating gradients used to assess the various component indexes of the Tourism Leading Indicator are as follows:

### Ratings Used for the Component Indexes of the Tourism Leading Indicator

Symbol	Interpretation
▲▲▲	Significant stimulus to demand
▲▲	Moderate stimulus to demand
▲	Slight stimulus to demand
◆	No (or little) added stimulus to demand
▼	Slight impediment to demand
▼▼	Moderate impediment to demand
▼▼▼	Significant impediment to demand

Meanwhile, the overall index rating for each source market indicates the expected performance of the source market in the near term, relative to the same time period in the previous year. The specific rating gradients used to assess the Tourism Leading Indicator Index are as follows:

## Methodology Used to Develop the Tourism Leading Indicator for Each Source Market:

Symbol	Interpretation
+++	Significant improvement
++	Moderate improvement
+	Slight improvement
•	No change (or little change)
-	Slight deterioration
--	Moderate deterioration
---	Significant deterioration

Leading indicators have been established for Canada's domestic travel market and for each of Canada's key international markets: United States, United Kingdom, France, Germany, Mexico, Japan, South Korea, China, and Australia.

## Methodology Used to Develop the Tourism Leading Indicator for Each Source Market:

### Economic Factors

- A) General Economic Trend: The specific assessment of the general economic conditions for each source travel market is derived from the degree to which economic conditions are changing (becoming more favourable or less favourable) as well as a general assessment of economic conditions. Ultimately, the rating provided represents the degree of positive push (stimulus) or negative pull (impediment) affecting decisions to visit Canada over the near term due to economic conditions in each source market.
- B) Price Competitiveness: Exchange rates between markets play a significant role in price competitiveness. Other factors used to assess overall price competitiveness include how gas prices, fuel surcharges, security-related charges, or other costs are making Canada either more or less price competitive than other competing destinations.

### Non-Economic Factors

- A) Traveller Trends: The assessment of traveller trends to and within Canada considers the source market's level of consumer confidence, regulations, current travel trends, and travel intentions.
- B) Supplier Trends: Supplier trends indicate the degree to which suppliers are increasing (or decreasing) their product offerings to facilitate travel from the source market to and within Canada. The result of changes in supply can increase (or decrease) growth potential.

The following table identifies the weighting used for each component of the Tourism Leading Indicator for each source market.

Economic			Non-Economic	
Travel Market	General Economic Trend	Price Competitiveness	Traveller Trends (to/within Canada)	Supplier Trends (to/within Canada)
Domestic & U.S.	40%	10%	40%	10%
All others	30%	10%	50%	10%

- A higher weight on economic factors is given to domestic and U.S. travel because a higher percentage of the travel that occurs in these markets is for non-leisure purposes, which tend to be more closely linked to economic motivations. In addition, the prevalence of shorter, more frequent automobile travel also tends to be more highly correlated with economic factors. On the other hand, the longer average distance and trip duration of overseas trips suggests that non-economic factors tend to play a bigger part in the decision-making process for these trips.