



Tourism Intelligence Bulletin

Global Travel Demand Continues to Deteriorate

Issue 49: January 2009

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

Bulletin Highlights

Tourism Overview: North America

■ **Prospects for domestic travel are deteriorating:** Growth prospects for the domestic travel market continue to deteriorate as economic conditions worsen. Although gasoline prices have fallen dramatically in recent months, Canadian households are increasingly gloomy about their financial situation, which is curbing travel demand. Canadian consumer confidence fell in December for the third consecutive month, to its lowest level since the recession of 1981–82, according to the Conference Board’s latest Index of Consumer Confidence. (See “Domestic Travel,” page 9.)

■ **U.S. vacation intentions still hovering near record low:** U.S. travel intentions remain historically low, according to the latest Consumer Confidence Survey report by the U.S. Conference Board, Inc. Also, overall American consumer confidence slid again in December to a new low, which was attributed to the rapid deterioration of economic conditions during the fourth quarter of 2008.

However, recent research suggests that travel demand among more affluent American households is holding up. One survey suggests holiday travel plans increased this Christmas among upper-income earners. (See page 4.)

■ **Decline in U.S. travel over Christmas holiday:** A number of recent surveys suggested economic concerns would prompt more Americans to stay home over the Christmas holidays. The American Automobile Association (AAA) projected a 2.1 per cent decline in U.S. travel volumes over the Christmas holiday period compared with a year ago. Auto travel was expected to fall 1.2 per cent, and air travel was expected to decline 8.5 per cent. (See page 5.)

■ **Cost-cutting measures to stay in place for now:** Travel management companies anticipate a decline in corporate travel spending in 2009. The cost-cutting measures that companies recently implemented in response to the economic downturn are expected to

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remain in place for the first half of 2009, at least. These include travel reductions and freezes, as well as greater use of videoconferencing. (See page 5.)

- **Canadian airlines still positive, despite weakening demand:** Although challenging economic conditions continue to weigh on Canadian air passenger demand, Canada's two largest airlines remain relatively optimistic about their near-term performance. Air Canada reported a small decline in domestic passenger traffic in November; however, it noted that its load factor for the month was one of the best in North America, something the airline attributed to a "more robust Canadian market relative to that of the U.S." WestJet continues to report strong growth in its passenger traffic and capacity; it recently suggested there was a "healthy balance" between supply and demand in the Canadian air travel market. (See page 6.)
- **Canadian daily rates still edging up, despite slowing lodging demand:** Slowing business and leisure travel demand continues to erode occupancy levels at Canadian hotels. However, daily rates are still edging upwards, keeping room revenues comparable to the previous year. (See page 7.)

Tourism Overview: International

- **Travel remains a spending priority for U.K. consumers:** British consumers continue to prioritize their annual vacation trips over most other types of spending, according to a recent survey. When asked about their top spending priority for 2009, respondents ranked their main annual holiday second, just behind debt repayments. However, short breaks were much less of a priority than they were earlier in the year. The survey suggests that U.K. travellers will take fewer short getaways throughout the year, saving their money for one longer annual holiday. (See page 12.)
- **French consumers cutting back on vacation and leisure spending:** A recent poll suggested economic uncertainty has prompted many French consumers to reduce their spending in recent months. About half of respondents said they have been spending less on vacations and leisure activities. The French government reported that consumer confidence rose slightly in November because of easing inflation in France. (See page 13.)
- **German tour operators enjoy strong growth in 2008, but outlook is uncertain:** German tour operators reported strong revenue growth for 2008, especially for long-haul packages. However, growth was mainly driven by higher prices and fuel surcharges, as bookings were up only 0.4 per cent over the previous year. Growth prospects for 2009 are uncertain, and most operators were reluctant to make predictions until January, when German families typically begin booking their summer holidays. (See page 14.)
- **Weak demand hitting Mexican domestic air market:** Weak demand is hurting the domestic air travel market in Mexico, causing some low-cost carriers to steeply reduce or suspend operations, according to a recent Reuters report. Airport passenger numbers in the Pacific region declined 15 per cent in November, year-over-year, because of a significant reduction in domestic low-cost flights, while passengers in the central north region fell 13.3 per cent. (See page 15.)
- **Decline in Japanese holiday travel intentions:** Japanese overseas travel was expected to decline 5 per cent, year-over-year, during the New Year holiday, according to a recent travel intentions survey by JTB Corp. Weakening global economic conditions have hit Japanese firms hard, reducing year-end employee bonuses for the first time in six years, and hurting travel demand. Still, the recent increase in the value of the Japanese yen compared with many other currencies helped accelerate the pace of bookings for overseas trips in the final quarter of 2008. (See page 18.)
- **Dramatic decline in South Korean won dampens overseas travel:** The lower won is stifling South Korean outbound travel demand, while fuelling inbound travel to the country, according to media reports.

Outbound bookings at Hana Tour, Korea's largest travel agency, fell 40 per cent in November, year-over-year, and a similar decline was expected for December. (See page 19.)

- **Weak economic conditions continue to curb Chinese air travel demand:** Slowing domestic and international air travel demand recently prompted Chinese airlines to reduce their flight services. The Chinese airline industry does not expect domestic demand to pick up until the second half of 2009, and anticipates international demand will stay weak until 2010. (See page 20.)
- **Qantas cuts international services in response to falling demand:** The current economic downturn has hurt international passenger demand, especially for business travel, according to Qantas Airways. The airline recently reduced its international flight capacity by the equivalent of grounding 10 aircraft. Over the next six months, the airline's overall capacity will be 4 per cent lower than in the previous year. Qantas has also reduced its full-year profit forecast by 64 per cent. (See page 22.)

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	↓↓	↑	↑	↑	0
Mexico	↓	↔	↑	↑↑	+
Japan	↓↓	↑↑	↓↓	↓↓	– –
South 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). 0 represents no change.

Full details about the index for each market begin on page 9. For more information about the methodology used to construct the index, please refer to the Appendix of this report.

Tourism Overview – North America (Canada and the United States)

Leisure travellers

Canadian consumer confidence at its lowest level in decades: Despite the rapid fall in gasoline prices across the country in recent months, Canadian consumers remain gloomy about their financial situation, according to The Conference Board of Canada's latest Index of Consumer Confidence. Consumer confidence stumbled for the third consecutive month in December 2008, falling 3.3 points to 67.7 (2002 = 100)—its lowest level since the recession of 1981–82. The one bright spot in the December survey was a slight improvement in the component measuring the propensity to make big-ticket purchases. Regional responses indicated that consumer confidence fell in all Canadian regions, ranging from a small decrease in the western provinces, to a sharp decline in Atlantic Canada.

U.S. vacation intentions still hovering near record low: U.S. travel intentions remain historically low, according to the latest Consumer Confidence Survey report by The Conference Board, Inc. in the United States. Preliminary results showed that in December 2008, 37 per cent of Americans polled planned to take a vacation within the next six months, up only slightly from the record low hit in June (36.2%). Results are adjusted to account for seasonal fluctuations in travel demand.

Overall U.S. consumer confidence fell to a new low in December. The Consumer Confidence Index fell to 38.0 (1985 = 100), down from 44.7 in November. The Present Situation Index plunged to 29.4 from 42.3 in the previous month, and the Expectations Index dropped 2.4 points to 46.2. The Conference Board noted that the continued decline in U.S. consumer sentiment “reflects the rapid and steep deterioration of economic conditions that occurred in the fourth quarter of 2008.”

The latest “travelhorizons” survey by the Travel Industry Association (TIA) and YPartnership suggested that U.S. travel intentions were at about the same level this fall as they were the previous year. About 71 per cent of the U.S. adults polled in October 2008 said they were planning to take a leisure trip sometime in the next six months, about the same percentage as in the October 2007 survey. However, demand will mainly be driven by more affluent travellers, according to the survey results, as 82 per cent of those with an annual household income of more than US\$75,000 intend to take a leisure trip in the near term. Overall, 48 per cent of respondents said they would not change any future travel plans in response to the current financial crisis, which suggests that 52 per cent may.

A survey by Maritz Research also suggested that higher-income Americans would not cut back on their holiday travel. Although travel plans appeared to be down among households with an annual income below US\$100,000, 33 per cent of those earning between US\$100,000 and US\$249,000 planned to take a leisure trip during the Christmas holiday season, up from 28 per cent a year earlier. Plans among those earning above US\$249,000 were at the same level as last year, at 36 per cent.

Decline in U.S. travel over Christmas holiday: A number of pre-Christmas surveys suggested economic concerns would prompt more Americans to stay home over the holidays.

In mid-December, the American Automobile Association (AAA) projected a 2.1 per cent decline in U.S. travel volumes over the Christmas holiday period compared with a year ago. Auto travel was expected to fall 1.2 per cent, and air travel was expected to decline 8.5 per cent. In terms of travel prices, AAA forecast a 16 per cent decline in average U.S. hotel rates for the holiday period and a 3 per cent increase in average airfares compared with a year earlier.

A survey by Opinion Research Corporation released in late November suggested that 72 per cent of Americans were planning to stay home over the Christmas holiday. Of those staying home, nearly 25 per cent said they had cancelled their holiday plans because of current economic conditions.

A recent survey by Deloitte suggested that 40 per cent of Americans would not take a leisure trip between U.S. Thanksgiving and January 2009, while another 25 per cent planned to reduce their leisure travel compared with the same period last year. The top three reasons for cutting back were economic concerns (cited by 51% of those reducing travel or not travelling at all), lack of money (50%), and higher travel prices (46%).

However, the Deloitte survey also suggested environmental concerns are still a priority for many travellers, despite their concerns about personal finances. Nearly half of the Americans polled (48%) said they try to be green when travelling, up from 41 per cent a year earlier. When staying at a hotel, a majority of U.S. travellers expect the hotel to recycle (80%), use energy-efficient lighting (75%), have energy-efficient windows (60%), and use environmentally friendly cleaning products (57%).

Business travellers

Additional cost-cutting measures to stay in place for now: Travel management companies are bracing themselves for a decline in travel spending among their corporate clients in 2009, according to a recent article in Business Travel News. The cost-cutting measures that companies recently implemented in response to the economic downturn are expected to remain in place for the first half of 2009, at least. These include reductions and freezes in meetings and travel, as well as an increase in videoconferencing.

HRG North America reported that all companies were “being prudent on their budgets.” BCD Travel reported that its revenues for October and November 2008 were down by 3 per cent. BCD noted that companies replacing business trips with videoconferencing events had reduced their business trip volumes by about 10 to 20 per cent, on average. FCm Travel Solutions said it expected corporate travel demand to weaken further in the short term, particularly in the United States, and not stabilize until later in the year.

U.S. companies restricting policies to limit travel spending: Many U.S. travel managers expect their travel costs to increase in 2009, and will make their travel programs more restrictive to rein in spending.

The U.S.-based National Business Travel Association (NBTA) recently released its 2009 forecast, which suggests that travel managers will face a 5 to 8 per cent increase in travel costs this year. As a result, business travel growth will continue to slow, as companies increase their efforts to contain costs. These include reducing non-essential travel, increasing travel policy restrictions, and enhancing the monitoring of policy compliance. The NBTA stated that weak economic conditions were forcing companies to re-evaluate their reasons for travelling, and that travel was no longer viewed as a perk. It also noted that the spending cutbacks were having a devastating effect on travel suppliers.

The International Travel Management Study 2008, recently released by the travel payments management company AirPlus International, revealed that 68 per cent of the U.S. companies polled expected their travel costs to rise in 2009. Of the companies that monitor travel policy compliance, 47 per cent plan to increase their level of restrictions, up from 39 per cent a year earlier.

Airlines

Canadian airlines still positive, despite weakening demand: Although challenging economic conditions continue to affect Canadian air passenger demand, Canada's two largest airlines remain relatively optimistic about their near-term performance. Air Canada reported a small decline in domestic passenger traffic in November; however, it noted that its load factor for the month was one of the best in North America, something the airline attributed to a "more robust Canadian market relative to that of the U.S." WestJet continues to report strong growth in its passenger traffic and capacity; it recently suggested there was a "healthy balance" between supply and demand in the Canadian air travel market.

In November 2008, Air Canada's system-wide passenger traffic (measured in revenue passenger miles), including mainline and regional operations combined, fell 5.2 per cent from the previous year. Total capacity was down by 7.5 per cent, but the airline flew its planes an average of 77.6 per cent full, a 1.9 percentage point improvement from a year earlier. Traffic on domestic routes slipped 2.3 per cent, and traffic on transborder U.S. flights plunged 13.4 per cent. International traffic dropped 4.1 per cent, overall, although traffic growth continued to be strong on "Latin American and other" routes (+12.9%).

WestJet's passenger traffic increased 14.4 per cent in November 2008, and capacity expanded 13.5 per cent over the same month in 2007. In late December, WestJet announced it had signed a code-sharing agreement with low-cost carrier Southwest Airlines, the largest domestic passenger airline in the United States. The agreement will come into effect later this year. This will allow the two low-cost carriers to book passengers on each other's flights, expanding the level of flight services offered by each carrier.

Table 1. Airline Revenue Passenger Miles (RPMs) and Capacity — November 2008

Airline	RPMs (in millions) September 2008	RPM change 2008 vs. 2007	Capacity 2008 vs. 2007
Air Canada mainline (includes Jetz & Tier 3)	2,929	-4.4%	-7.3%
Air Canada Regional (Jazz)	288	-12.7%	-9.4%
WestJet	1,056	+14.4%	+13.5%

Canada and E.U. sign new air services agreement: Canada signed a new bilateral air services agreement with the European Union in early December, loosening air travel restrictions on routes between Canada and E.U. countries. Canadian and E.U. airlines are now free to operate direct flights between Canada and the E.U., with no restrictions on routes, prices, or frequency. The new agreement also included a provision for freer foreign investment in each other's airlines. The European Commission noted that the new agreement with Canada went further than the U.S.–E.U. open skies agreement.

U.S. air travel demand continues to soften, but prices are stable: U.S. airlines are expecting a sustained period of weak air travel demand in the United States, but aggressive cutbacks in domestic capacity have allowed airlines to keep airfares stable. As a result, most analysts expect the U.S. airline industry to improve its profitability in 2009, as long as fuel costs stay relatively low.

The Air Transport Association (ATA) projected a 9 per cent year-over-year decline in the number of passengers travelling on U.S. airlines over the Christmas and New Year holiday season between December 18, 2008, and January 7, 2009. It attributed the decline to the “extremely fragile economy” and weakening global travel demand. The ATA also projected a 9 per cent decrease in the number of available seats during the period. The ATA expects further capacity cuts in 2009, as air passenger demand continues to weaken because of worsening economic conditions.

Hotels

Canadian daily rates still edging up, despite slowing lodging demand: Slowing business and leisure travel demand continues to erode occupancy levels at Canadian hotels. However, daily room rates are still edging upwards, keeping room revenues comparable to the previous year.

The latest *National Market Report* by PKF Consulting revealed that average daily rates in Canada rose 2.4 per cent in October 2008, year-over-year. Occupancy slipped 1.9 percentage points, while revenues per available room (RevPAR) were about the same as last year (–0.4%). Between January and October 2008, occupancy was down 1.2 percentage points from the same period in 2007, but daily rates and revenues were ahead by 3.2 per cent and 1.3 per cent, respectively.

Demand for Canadian accommodations in October 2008 was on par with a year earlier, according to the latest *Canadian Lodging Outlook* by HVS International. Between January and October 2008, hotel demand was 0.4 per cent ahead of the previous year, while hotel room supply in Canada increased 1.4 per cent.

U.S. lodging demand rapidly deteriorating: Lodging demand in the United States has deteriorated significantly in recent months, dampened by the downturn in the global economy. In November 2008, average U.S. occupancy plunged 10.6 per cent compared with a year earlier, according to Smith Travel Research, Inc. (STR). Average daily rates slipped 2.5 per cent, and nationwide RevPAR plummeted 12.9 per cent. Travelocity.com reported in mid-November that it was experiencing the “biggest hotel sale in the history of the company,” with thousands of properties offering widespread, deep discounts, according to *Travel Weekly*. Looking ahead, STR does not expect market conditions to begin improving until sometime during the second half of 2009.

Travel agents and other suppliers

Transat posts a steep loss: Transat A.T. Inc. posted a net loss of \$78.1 million in its fourth quarter ended October 31, 2008, down from a net profit of \$6.6 million a year earlier. The loss was mainly due to a number of non-operating accounting items related to fuel hedging and foreign exchange losses. The company's revenues for the quarter were up 16.2 per cent, year-over-year. Looking ahead, Transat said its North American bookings were tracking ahead of the pace set a year earlier, although weaker economic conditions and expanding market capacity to Mexico and the Caribbean were hurting its profit margins.

Advance ski bookings fall further behind: Advance lodging reservations at western U.S. and Canadian ski resorts were down by 22.4 per cent in October 2008, according to a tracking service by Mountain Travel, reported in *Travel Weekly*. Total advance bookings for ski trips through March 2009 were behind by 13 per cent, year-over-year. Mountain Travel said economic concerns appeared to be causing some potential travellers to defer their travel decisions, while prompting others to cancel their bookings. The company added that resorts may have to increase discounts to attract guests and focus more on closer, "one-tank" markets.

Tourism Whistler has forecast a 12 per cent decline in bookings this winter because of the global economic downturn, according recent media reports. In anticipation of visitor declines this winter, Intrawest has reduced its workforce at a number of its North American resorts, including Whistler-Blackcomb.

U.S. tourism spending declined sharply in third quarter: Real spending on travel and tourism in the United States fell 8.1 per cent year-over-year during the third quarter of 2008, according to the U.S. Commerce Department. This was the largest quarterly decline since the fourth quarter of 2001. Spending on air travel led the decline, falling 20.4 per cent from the previous year.

Growth in U.S. online travel market quickly decelerating: U.S. online travel spending grew by an estimated 9 per cent in 2008, year-over-year, according to the *U.S. Online Travel Overview, Eighth Edition* by PhoCusWright, Inc. This represents the first time since PhoCusWright began tracking the industry in 1998 that online travel spending failed to achieve double-digit growth. However, online travel spending in the United States continues to outpace growth in the overall travel market, which expanded by only an estimated 4 per cent in 2008. In 2009, growth in online travel spending is expected to slow further, rising by 7 per cent, while overall travel spending in the United States edges up by 2 per cent.

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.

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). 0 represents no change.

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)	
↓ (↔)	↔ (↔)	↓ (↔)	↔ (↔)	—

Note: the bracketed figures are from the previous (November 2008) Tourism Intelligence Bulletin.

Economic Trends:

- Real economic growth in Canada slipped 0.1 per cent in October. Weakness in wholesale trade, manufacturing, and real estate agent and broker activity contributed the most to dragging down economic performance that month. Residential construction and retail trade also posted negative growth for the month.
- Employment fell by 70,600 jobs in November, nudging the unemployment rate up 0.1 percentage points to 6.3 per cent. The drop—which followed a modest gain in October—was shared between full- and part-time employment. Most of the declines were concentrated in Ontario (–66,000)—and more particularly in the manufacturing sector (–38,000). In total, employment increased by 133,000 positions in the first 11 months of 2008—less than half the pace in 2007.
- Wage growth in Canada continues to be strong. Average hourly wages in November rose 4.6 per cent over November 2007, well ahead of the 2.6 per cent increase in the all-items Consumer Price Index over the same period. Year-over-year wage gains have been at or above 4 per cent since August 2007.
- According to the Conference Board's Index of Consumer Confidence, Canadian consumer confidence is now significantly lower than in the recession of the early 1990s. In fact, the only time lower levels were reported was during the recession of 1981–82. The survey also showed that respondents continue to view the job situation in their communities negatively.

Traveller and Supplier Trends:

- Domestic air travel slowed significantly over the past two reported months. Compared with the previous year, the number of enplaned and deplaned passengers at Canada's top 30 airports declined by 1.6 and 1.5 per cent in October and August, respectively. Despite the slowing trend, the number of enplaned and deplaned domestic passengers from January to October was still 2.7 per cent ahead of the same time last year.
- Canadian hotel occupancy rates continue to slip. According to PKF Consulting, average occupancy in October declined 1.9 percentage points in Canada, year-over-year. In the first eight months of 2008, the

average occupancy rate was 1.2 percentage points behind the previous year. Still, average daily rates continue to increase, driven largely by stronger gains in Western Canada. Between January and October, Canada's average daily rates increased 3.2 per cent over the previous year.

- Fortunately, gasoline prices have declined dramatically lately and now hover around \$0.70 per litre in many Canadian communities. However, Canadian households remain vigilant about economizing wherever possible, and this is likely to minimize any boost lower gas prices may have on discretionary automobile travel.
- Together with an economy and a currency that are losing strength, Canadian outbound travel has also lost some lustre, particularly to the United States. The latest figures show that overnight travel to the United States in October declined 5.1 per cent over the previous year. While overnight trips to international destinations still managed to increase 5.2 per cent in October, growth has slowed from previous months.

Overall, the Tourism Leading Indicator reveals growth prospects through the winter are deteriorating and now suggests that domestic travel volumes are likely to decline 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)	
↓↓↓ (↓↓↓)	↔ (↓)	↓↓↓ (↓↓↓)	↔ (↔)	--

Note: the bracketed figures are from the previous (November 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The U.S. economy shrank at an annual rate of 0.5 per cent in the third quarter of 2008, a far cry from the 2.8 per cent growth posted in the second quarter. Among other factors, the decline in real economic output reflected weakness in personal consumption spending on durable and non-durable goods. Actual prices were up: even excluding food and energy prices, consumer prices increased 3.1 per cent in the third quarter, up from the 2.2 per cent increase during the second quarter.
- The Conference Board's leading economic index decreased 0.4 per cent in November. In the six months up to November, the leading index decreased at a 5.6 per cent annual rate. As well, the weaknesses among the leading indicators remained widespread.
- Although the Canadian dollar has recently stabilized at a significantly lower value than U.S. travellers faced last year, Canada's price competitiveness remains under pressure, particularly because of rising airfares.

Traveller and Supplier Trends:

- U.S. travel to Canada continues to decline. Between January and October, overnight automobile travel to Canada dropped 7.1 per cent from a year earlier. During the same period, same-day automobile travel fell by a staggering 20 per cent. It is likely that the decline in travel to Canada now primarily reflects the significant economic challenges facing many U.S. travellers.
- Direct air capacity between Canada and the United States is expected to decline by a slight 1 per cent over the first two months of 2009.

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

Tourism Overview – International

United Kingdom – Current tourism trends

U.K. air passenger demand continues to fall: British Airways' passenger traffic (measured in revenue passenger kilometres—RPKs) fell 5.9 per cent in November 2008 from the previous year. Premium traffic volumes (business and first-class) were down by 10.8 per cent, while non-premium traffic (economy) declined 4.8 per cent. Domestic and short-haul traffic within Europe decreased 4.8 per cent, and traffic to the Americas fell 7.2 per cent. The airline noted that market conditions remained “broadly unchanged.”

Table 2. Percentage Change in Passengers Carried

Carrier	Nov. 2008 vs. Nov. 2007
British Airways	-7.8%
Ryanair	+11%
easyJet	+3.4%

In mid-December, British Airways substantially reduced its fuel surcharges for all fare classes in response to lower oil prices and waning air travel demand. For long-haul economy tickets, fuel surcharges were reduced by GBP60 to GBP132 (C\$232) for flights over nine hours, and by GBP30 to GBP106 on flights of less than nine hours.

The British Airport Authority's seven U.K. airports handled 9.8 million passengers in November 2008, an 8.9 per cent drop from the previous year. All markets experienced a decline in air passengers during the month, but the most dramatic declines were on European charter flights (-17%) and U.K. domestic flights (-12.7). Traffic on North Atlantic routes fell 9.2 per cent.

Weaker pound dampens interest in U.S. destinations: Worsening economic conditions and the weaker value of the British pound compared with the U.S. dollar have dampened interest in U.K. trips to the United States, according to two separate travel websites. Skyscanner.net, a flight search engine, said that searches for U.K.-U.S. flights were down by about 15 per cent this fall, compared with last year. Cheapflights.co.uk, a price comparison website, reported that searches for flights from the U.K. to New York and Orlando, the two most popular U.S. destinations, were down by 21 per cent in October and November compared with the same two months of 2007. Cheapflights noted that the British pound was 25 per cent lower in value against the U.S. dollar compared with this time last year.

Travel bookings down but average prices still rising: Thomas Cook and TUI, the U.K.'s two largest travel companies, continue to report declines in their U.K. bookings, as weak economic conditions continue to hamper travel demand. However, both companies have substantially reduced their winter season capacity from last year, allowing them to raise prices and keep their profit margins up.

Thomas Cook reported in early December that its U.K. winter bookings were down 4 per cent from the same time last year, although prices were up by an average of 4 per cent. Capacity for the winter season is 6 per cent lower than last year, resulting in higher profit margins, overall. Thomas Cook said it was concentrating on medium-haul resort destinations outside the euro zone, which are in higher demand because they allow travellers to avoid the effects of the strong euro.

At the end of November, TUI reported that its U.K. bookings for the winter season were down 9 per cent from a year earlier, although average selling prices were up 10 per cent. As a result, the company's sales were at the same level as the previous year.

Travel remains a spending priority: British consumers continue to prioritize their annual vacation trips over most other types of spending, according to a November 2008 survey by PricewaterhouseCoopers. When respondents were asked about their top spending priority for 2009, main holidays came in second (16 per cent of those polled), right after debt repayments on loans and credit cards (20 per cent).

In the previous survey in April 2008, main holidays were ranked first, followed by short breaks. However, in the November survey, short breaks fell to eighth place. The firm said it expects the popularity of shorter getaways to fall during the economic downturn, as more U.K. travellers give up taking short getaways throughout the year, and take one longer holiday instead.

United Kingdom – Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↓ (↓)	↓ (↓)	↓↓ (↓)	↓↓ (↓↓)	—

Note: the bracketed figures are from the previous (November 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for the U.K. declined 1.7 per cent in October. The six-month change in the leading index stood at -5.7 per cent (about a -11.1 per cent annual rate) in the six months up to October. Meanwhile, for the first time since the early 1990s, real gross domestic product (GDP) contracted (at a 2.1% annual rate) in the third quarter.
- Since the start of 2008, the British pound has been an average of 9 per cent weaker than the Canadian dollar than in 2007. As a result, Canada's price competitiveness is expected to keep struggling over the near term. During the first quarter of 2009, the cost of a seven-night stay in Canada for U.K. travellers, including airfare, hotels, meals, and other items, is expected to increase 6.9 per cent, year-over-year.

Traveller and Supplier Trends:

- The number of U.K. visitors to Canada declined by 18.9 per cent in October. Travel from the U.K. has been declining since April, with year-to-date arrivals down 5.3 per cent in October. Overall U.K. outbound travel also retreated recently, with U.K. visits to North America between August and October down 23 per cent, according to the U.K. Office for National Statistics.
- Direct air capacity on scheduled flights from the U.K. to Canada is expected to shrink by 13 per cent during the first two months of 2009, year-over-year, according to the latest data snapshot from BACK Aviation Solutions.

The continuing struggles associated with Canada's price competitiveness, combined with weaker economic conditions and reduced direct air capacity, suggest that U.K. travel to Canada will likely keep posting year-over-year declines over the near term.

France – Current tourism trends

Pilots' strike curtails air travel: Air France-KLM reported that its passenger traffic (measured in revenue passenger kilometres) slipped 0.8 per cent in November 2008, year-over-year. The decline was blamed on a pilots' strike from November 14 to 17, 2008, which forced the airline to cancel about one-third of its flights during those days. Still, traffic on its long-haul routes increased 0.4 per cent overall during the month. But traffic on North and South American routes fell 0.4 per cent, and traffic on domestic and European routes fell 5.8 per cent.

At the end of November, Air France-KLM reported a 96 per cent decline in net profits to 28 million euros (C\$47 million) for its second quarter ended September 30, 2008. However, most of that decline was attributed to a one-off currency and fuel options charge. Revenues for the quarter declined 3.2 per cent from the previous year. Air France-KLM noted that its operating environment continued to be challenged by deteriorating economic conditions and volatile currency exchanges rates.

Consequently, the airline plans to limit capacity growth over the winter season. According to *Air Transport World*, the airline's overall capacity will increase only 1.7 per cent over last year's winter schedule, with a 2.6 per cent increase on long-haul routes and a 1.4 per cent reduction on medium-haul routes.

Passenger numbers at airports serving Paris fell 4.8 per cent to 6.2 million in November 2008, according to the latest statement by the airports' administrative authority, Aéroports de Paris. About half of that decrease was attributed to the pilot strike at Air France-KLM. Domestic passenger numbers plunged by 11.6 per cent from a year earlier, and passengers on European routes decreased 5.4 per cent. Passengers on routes serving North and South America declined 3.8 per cent during the month.

TUI cuts capacity because of weaker demand: As in many of its European markets, TUI Travel scaled back its capacity significantly in the French market, in anticipation of weaker travel demand over the winter travel season. At the end of November, TUI reported that its French bookings for the winter period were down 15 per cent from the previous year, while sales were behind by 6 per cent. However, TUI had cut back its capacity in the French market by 8 per cent, overall, helping the company to boost its average selling prices in France by 11 per cent over the previous year. As a result, TUI has largely managed to maintain its profit margins, in spite of weakening demand.

French consumers cutting back on vacation and leisure spending: A recent poll by TNS and Sofres, reported by *Market News International*, suggested economic uncertainty has prompted many French consumers to reduce their spending in recent months. About half of those polled said they have reined in their spending on vacations and leisure activities. Nearly two-thirds of respondents believed their economy is heading for a long recession, although many were uncertain about the effects of the recession on their personal finances.

French consumer confidence up slightly: French consumer confidence improved slightly in November but remains low overall, according to the latest consumer confidence reading from INSEE, France's National Institute for Statistics and Economic Studies. Consumer sentiment rose 3 points in November 2008, to -43 from -46 in October. The reading represents the difference between positive and negative responses, which are seasonally adjusted. Households were less pessimistic about living standards, as well as current and future finances. Analysts attributed this improvement to the recent easing of inflation in France.

France — Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↓ (↓)	↑ (↑)	↑↑ (↑↑)	↓↓ (↓)	+

Note: the bracketed figures are from the previous (November 2008) Tourism Intelligence Bulletin.

Economic Trends:

■ The Conference Board's leading economic index for France declined 1.9 per cent in October, the largest decline since 1973. Since April, the leading index has declined at an 8.7 per cent annual rate, and the weaknesses among the leading indicators have become more widespread. Real economic growth fell at a 0.6 per cent annual rate in the third quarter, well below the 1.5 per cent annual rate of growth over the

last quarter of 2007 and the first quarter of 2008. The recent behaviour of the leading economic index suggests continued weakness in the first half of 2009.

- The Canadian dollar depreciated 13.9 per cent against the euro between December 2007 and December 2008. The Canadian dollar was 6 per cent lower, on average, in 2008 than in 2007. As a result of the strong euro, the average cost of a seven-night stay in Canada, including airfare, hotels, meals, and other items, is expected to decrease 2.9 per cent for French travellers during the first quarter of 2009.

Traveller and Supplier Trends:

- French visits to Canada continue to grow. In October, visits from France increased 10.2 per cent year-over-year, and year-to-date growth was 14.2 per cent. Meanwhile, the U.S. Office of Travel and Tourism Industries (OTTI) reported that French travel to the U.S. increased 28.1 per cent during the first nine months of 2008.
- Unfortunately, looking ahead, direct air capacity between France and Canada is set to decline. The planned direct air capacity from France to Canada over the first two months of 2009 is expected to drop by 9.2 per cent.

Despite persistent economic challenges and air capacity issues, the strength of France's outbound market still suggests travel to Canada can increase slightly over the near term.

Germany – Current tourism trends

Deteriorating economic conditions affecting air travel demand: Passenger traffic (measured in RPKs) among Lufthansa passenger airlines grew 3.8 per cent in November 2008 compared with a year earlier. Traffic on the company's European network declined 2.3 per cent, while traffic on routes to North and South America edged up 0.2 per cent. Lufthansa noted that market conditions continued to worsen over the month, prompting the airline to limit its capacity growth.

Passenger numbers at Frankfurt Airport decreased 7 per cent from a year earlier in November to 3.9 million. Intercontinental passenger numbers declined the least that month, falling by 3.1 per cent. The airport authority said deteriorating economic conditions were affecting worldwide passenger demand.

Travel agency sales slump: Travel agency sales fell more than 10 per cent in November, year-over-year, according to the latest TATS survey of German travel agents, reported by *fvw*, a German travel journal. Airline ticket sales plunged by 17.2 per cent that month, while holiday package sales slipped 2.5 per cent from the previous year. However, in the first 11 months of 2008, overall revenues were ahead of the previous year by 7.7 per cent because of strong sales in the first half of 2008.

German tour operators enjoy strong growth in 2008, but outlook is uncertain: German tour operators reported strong results for their fiscal year ending October 31, 2008, with revenue growth reaching an average of 5.9 per cent, according to an annual survey by *fvw*. The long-haul package holiday segment achieved the highest revenue growth, at 5.5 per cent, while revenues from short- and medium-haul packages grew 3 per cent. However, growth was mainly driven by higher prices and fuel surcharges, as overall bookings rose only 0.4 per cent over 2007.

Germany – Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↓↓↓ (↓)	↓ (↔)	↑ (↑)	↑ (↑↑)	0

Note: the bracketed figures are from the previous (November 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Germany declined 2.6 per cent in October, the largest decline since January 1987. Weakening stock prices and slowing new orders and investment contributed the most to the latest decline in the index. The leading index has declined at a 13.1 per cent annual rate since April, and the weaknesses among the leading indicators remain widespread. The recent behaviour of the index suggests that the economy will remain weak early in 2009, with risks that the contraction in economic activity may deepen over the near term.
- Canada's price competitiveness for the German market is projected to improve during the first quarter of 2009, primarily because of the strength of the euro. The average cost of a seven-night stay in Canada, including airfare, hotels, meals, and other items, is expected to decline 5.4 per cent year-over-year for German visitors.

Traveller and Supplier Trends:

- Travel from Germany to Canada in 2008 fluctuated. Although visits declined by 2.9 per cent in the first quarter of 2008, year-over-year, they increased 5.9 per cent in the second quarter and 3.6 per cent in the third quarter. The most recent figures indicate visits from Germany increased 15 per cent in October. Meanwhile, the OTTI reported that German visits to the U.S. increased 19.8 per cent in the first nine months of 2008.
- In the first two months of 2009, direct air capacity between Germany and Canada is scheduled to expand by a solid 8.9 per cent.

Considering the extent and duration of economic challenges facing German travellers, it is reassuring to see positive travel and supplier trends for Canada. Looking forward, the growth potential of the German market will likely be more modest, as economic conditions continue to weaken.

Mexico – Current tourism trends

Weak demand hitting Mexican domestic air market: Weak demand is hurting the domestic air travel market in Mexico, causing some Mexican low-cost carriers to steeply reduce or cease operations, according to a recent Reuters report. Mexican airport authority Grupo Aeroportuario del Pacifico reported a 15 per cent year-over-year decline in passenger numbers in November 2008, mainly because of a significant reduction in low-cost flight schedules. The authority for airports in central and northern Mexico, Grupo Aeroportuario del Centro Norte (OMA), reported a 13.3 per cent drop in passengers for the same month.

Growth in Latin American passenger traffic slows considerably: Latin American airlines saw their combined passenger traffic (measured by RPKs) increase 3.9 per cent in October 2008, year-over-year, according to the Latin American air transport association (ALTA). The number of passengers carried rose 1.5 per cent to 9.6 million. That growth was considerably slower than the double-digit monthly growth figures reported for Latin American airlines over the last two years. Year-to-date traffic among members was 10.9 per cent ahead of the previous year.

Table 3. ALTA Airlines*

Revenue Passenger Kilometres (RPKs) and Passengers Carried — January to October 2008

Regional Destination	RPK change YTD 2008 vs. 2007	Passengers Carried YTD 2008 vs. 2007
Intra-Latin America (scheduled and charter)	3.0%	1.2%
Extra-Latin America (international)—total	5.5%	3.2%
North America	4.4%	0.9%
Europe	6.5%	10.6%
Asia-Pacific	9.0%	3.3%
Total	10.9%	7.1%

Source: Latin American air transport association (ALTA).

*ALTA members include 37 airlines serving the Latin American region.

United States looking to forge open skies agreements in Latin America: At an ALTA Airline Leaders Forum in Mexico in November, John Byerly, Deputy Assistant Secretary for Transportation Affairs with the U.S. Department of State, said his government was very interested in pursuing expansive, bilateral open skies agreements in Latin America, according to Air Transport World. Byerly stated that a lack of liberalization was hampering the development of the region's aviation market, particularly in Mexico. However, a number of Latin American airline CEOs responded that this would be difficult to accomplish, as the region's aviation market is "closed, regulated, and protected."

Still, at the same forum, two Mexican airlines announced plans to expand their international services. Volaris, a Mexican low-cost carrier, plans to launch its first flight to the United States in the fourth quarter of 2009, and expand to nearly a dozen more U.S. destinations over the next three to five years. This would give Volaris coverage in the U.S. market comparable to AeroMexico and Mexicana, the country's two major carriers. Meanwhile, Mexicana plans to launch direct services to the U.K. and Spain in early 2009.

A few weeks later, AeroMexico announced it will expand its North American services in February 2009, with new flights to Toronto and Denver. The airline said it was "capitalizing on growth opportunities that have arisen due to shifts in service by other carriers and increased market demand."

Economic concerns keep consumer confidence low: Mexico's consumer confidence index edged up in November, but remains low because of concerns about the economic slowdown and the turmoil in the global financial markets, according to INEGI, Mexico's national statistics agency. The index rose 1.9 points to 83.9 in November 2008—still 20 points lower than a year earlier. Mexican consumers were slightly more confident about the economic outlook and about purchasing big-ticket items. Many analysts believe Mexico will follow the United States into a recession in 2009.

Mexico — Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↓ (↔)	↔ (↔)	↑ (↑)	↑↑ (↑↑)	+

Note: the bracketed figures are from the previous (November 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board of Canada's leading economic index for Mexico decreased by a dramatic 5.7 per cent in October, largely the result of falling oil and stock prices. As a result, the six-month growth trend of the leading index has reversed course, and now is declining at a 2.3 per cent annual rate. In addition, the weaknesses among the leading indicators have become very widespread in recent months. The recent behaviour of the index suggests that economic activity is likely to remain weak over the near term, with increasing risks of further contraction going forward.
- Compared with the Mexican peso, the value of the Canadian dollar was about the same in December 2008 as in December 2007. But significant increases in airfares are expected to help boost the cost of a seven-night stay in Canada by 9.5 per cent during the first quarter, year-over-year. Fortunately, Canada's price competitiveness should improve slightly because the cost of a similar trip to competitive destinations (U.S., Spain, and Italy) is expected to increase by an average of 28.8 per cent.

Traveller and Supplier Trends:

- Travel growth from the Mexican market was fairly solid throughout 2008. Still, despite year-to-date arrivals from Mexico being up 10.8 per cent over the first 10 months of 2008, the growth witnessed in October was a slightly more modest 8.5 per cent. Meanwhile, Mexican travel to the United States has weakened considerably from the strong growth at the beginning of 2008. According to the OTTI, Mexican arrivals to the U.S. interior (beyond the 40 kilometre U.S. border zone) during the first nine months of 2008 were 6.4 per cent lower than they were during the same time in 2007.
- Direct air capacity between Canada and Mexico continues to expand rapidly and should help facilitate growth in travel between the two countries. Direct air capacity between Mexico and Canada is expected to grow by 25 per cent in the first two months of 2009.

While economic challenges are intensifying, positive travel and supplier trends suggest there is still potential for growth in Mexican travel to Canada over the near term.

Japan — Current tourism trends

Japanese international air demand continues to fall: Passenger numbers at Tokyo's Narita International Airport fell 11 per cent, year-over-year, in November 2008. Japanese passengers on international flights declined 13 per cent, while passengers on domestic flights fell 9 per cent. Between January and November 2008, Japanese passengers on international and domestic flights were each behind by 8 per cent from the previous year.

Japan Airlines reported a 14.1 per cent drop in international passenger traffic (measured in RPKs) in October 2008 from the previous year. Traffic on transpacific routes fell 9.6 per cent, and traffic on European routes plunged by 20.5 per cent. But traffic on domestic routes climbed 4.2 per cent.

In mid-December, Japan Airlines announced it expected a 6.6 per cent year-over-year drop in passengers on international flights over the Japanese New Year vacation period, from December 26, 2008, to January 4, 2009. The airline blamed the current economic downturn for the decrease in international travellers. Passengers on transpacific flights were expected to decline by 8.1 per cent. However, Japan Airlines expected a small increase (2.2%) in passengers on Southeast Asian routes.

Meanwhile, All Nippon Airways, Japan's other major carrier, recently downgraded its full-year profit forecast in response to worsening economic conditions and waning air travel demand. It previously expected a profit of 27 billion yen (C\$359 million) for its full year ending March 31, 2009, but has now downgraded that figure to 17 billion yen.

Decline in Japanese holiday travel intentions: In line with the forecast from Japan Airlines, the latest travel intentions survey by JTB Corp., Japan's largest travel agency, suggested Japanese overseas travel would decline by nearly 5 per cent over the New Year holiday. JTB estimated that departures to North America would decline by 10.5 per cent, with a 25 per cent plunge in visits to Canada. Visits to the United States during the holiday period were expected to fall nearly 8 per cent. However, many short-haul destinations in Southeast Asia were expected to experience growth in Japanese visits compared with a year earlier.

JTB said the crisis in global financial markets had hit Japanese firms hard, resulting in a reduction in year-end employee bonuses for the first time in six years, and hurting travel demand. More than 40 per cent of Japanese residents polled said an increase in their salary or year-end bonus would increase their interest in travelling. Still, the recent increase in the value of the Japanese yen compared with many other currencies has helped accelerate the pace of bookings for overseas trips since October.

Japan — Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↓ ↓ (↓ ↓ ↓)	↑ ↑ (↑)	↓ ↓ (↓ ↓ ↓)	↓ ↓ (↓ ↓ ↓)	— —

Note: the bracketed figures are from the previous (November 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Japan declined 2.5 per cent in October, the largest monthly decline since 1975. From April to October, the leading index fell 5.8 per cent, as the weaknesses among the leading indicators continued to be widespread. Meanwhile, real GDP continued on a downward trend, declining at a 0.4 per cent annual rate in the third quarter of 2008. This marked the first time since the second half of 2001 that real economic growth has declined in consecutive quarters. The recent behaviour of the index suggests the risks for further economic weakness remain elevated over the near term.
- Over the course of 2008, the Canadian dollar depreciated dramatically against the Japanese yen, a trend that is boosting Canada's price competitiveness for this market. In fact, between December 2007 and December 2008, the Japanese yen appreciated 34 per cent against the Canadian dollar. This has contributed to the estimated 19 per cent year-over-year reduction in the average cost of a 10-night stay in Canada (including airfare, hotels, meals, and other items) for Japanese travellers in the first quarter of 2009.

Traveller and Supplier Trends:

- Unfortunately, visits from Japan to Canada continue to be weak. From January to October, visits from Japan were down by 15.2 per cent compared with a year earlier. OTTI figures show that Japanese travel to the U.S. is also on a declining trend, although visits decreased only 6.1 per cent in the first nine months of 2008.
- The most recent snapshot of air capacity suggests direct air capacity on scheduled flights from Japan will decline 27 per cent over the first two months of 2009.

Economic conditions in Japan appear to be deteriorating once again. Despite some reprieve in terms of price competitiveness, the Tourism Leading Indicator Index suggests Japanese arrivals to Canada will continue to decline over the near term.

South Korea — Current tourism trends

Dramatic decline in South Korean won dampens overseas travel: A dramatic fall in the value of the South Korean won led to Korean Air's worst quarterly loss in 14 years, according to *Air Transport World*. The airline reported a net loss of 684.1 billion Korean won (C\$627 million) for the third quarter of 2008, a steep fall from the 129.6 billion won profit reported for the same quarter of 2007, despite a 16 per cent rise in revenues. International passenger traffic for the quarter was on par with the previous year, although passenger yields (revenues per passenger kilometre flown) on these routes fell 14.1 per cent. Moreover, the airline noted that Korean outbound travel demand during the quarter was down by 15 per cent from a year earlier.

The won lost about a third of its value in the last year compared with the U.S. dollar, dampening overseas travel demand, as well as raising the airline's fuel prices and boosting currency charges. Looking ahead, Korea Air expects air demand to keep slowing over the near term, given current economic conditions. However, it expects a solid increase in transpacific travel demand in 2009, because Korea was added to the U.S. visa waiver program in November. The airline expects a 10 per cent increase in Korean trips to the United States in 2009, and will therefore increase its transpacific capacity for the year by 5 to 7 per cent.

Meanwhile, passenger numbers at Seoul's Incheon International Airport declined 15.8 per cent from a year earlier in November to 2.1 million. International passengers declined 15.8 per cent and domestic passengers fell 10.3 per cent.

The lower won is stifling Korean outbound travel demand, while fuelling inbound travel to Korea, according to a JoongAng Daily, a Korean newspaper. Hana Tour, Korea's largest travel agency, reported that its outbound package bookings declined 40 per cent in November 2008 from the previous year, and the agency expected a similar decline in December bookings. Meanwhile, Korea has experienced growth in visits from many Asian markets in recent months.

Airlines sharply reduce international fuel surcharges: Korean Air and Asiana Airlines, South Korea's two major carriers, cut their fuel surcharges by up to 70 per cent on international routes as of January 1, 2009, because of the recent fall in oil prices, according to Reuters. Fuel surcharges on long-haul flights have been reduced from US\$141 to US\$41.

Korean consumer confidence at a 10-year low: The Bank of Korea's consumer confidence index dropped 3 points in December 2008 to a reading of 81, its lowest level since the Asian financial crisis in 1998. Consumer sentiment has been declining since September, when the index dropped below 100 for the first time that year. A reading of 100 indicates a balance between negative and positive assessments of the economy. The central bank said worsening economic conditions have led to declining income levels and unstable job conditions in Korea, fuelling pessimism among Korean consumers.

South Korea — Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↓ (↓)	↓↓ (↓↓)	↓↓ (↓)	↔ (↓↓)	—

Note: the bracketed figures are from the previous (November 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for South Korea dropped 2.9 per cent in October, its largest monthly decline since early 1998. With the October results, the six-month leading index had declined 7.6 per cent since April. As well, the weaknesses among the leading indicators remain very

widespread. Real gross domestic product (GDP) slowed to a 2.1 per cent annual rate in the third quarter, and the behaviour of the leading index suggests economic growth is likely to remain sluggish over the near term.

- The Canadian dollar appreciated 19.2 per cent against the Korean won between December 2007 and December 2008, worsening Canada's price competitiveness. For South Korean travellers, the average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase 19.3 per cent during the first quarter of 2009, year-over-year.

Traveller and Supplier Trends:

- Korean visits to Canada declined 21.3 per cent in October. Year-to-date arrivals were down 4.5 per cent from the previous year. At the same time, travel from South Korea to the U.S. declined 2.4 per cent during the first nine months of 2008, according to the OTTI.
- Direct air capacity from South Korea to Canada is expected to remain unchanged over the first two months of 2009.

Growing economic and price competitiveness challenges appear to be significantly weakening South Korean traveller trends. The Tourism Leading Indicator Index suggests visits from South Korea will keep declining over the near term.

China — Current tourism trends

Weak economic conditions continue to curb Chinese air travel demand: Slowing demand has prompted China Southern Airlines and China Eastern to reduce their flight schedules, according to *Air Transport World*. The General Administration of Civil Aviation of China (CAAC) reported that flight schedules declined 2.1 per cent in October, year-over-year, as the global economic slowdown dampened demand for domestic and international air travel. The Chinese airline industry does not expect domestic demand to pick up until the second half of 2009, and anticipates international demand will stay weak until 2010.

China's three largest carriers—China Southern Airlines, China Eastern Airlines, and Air China—have all requested financial aid from the Chinese government to stay afloat during the downturn, according to *Air Transport World*. So far, only China Southern has confirmed it has been granted government aid, but all three airlines are expected to receive financial assistance. In December, the Chinese government reduced domestic fuel prices by 32 per cent, which is also expected to boost the airlines' finances.

Still, monthly passenger numbers at Beijing Capital International Airport have been registering strong year-over-year growth in recent months. In November 2008, passenger numbers jumped 20 per cent over the previous year, driven by a 26.1 per cent rise in passengers on domestic flights. International passenger numbers for the month were up slightly (1.6%) from the previous year. Passengers flying on international airlines—which make up about 60 per cent of all international passengers at the airport—slipped 5 per cent.

Between January and November 2008, passenger numbers at the airport were up 3 per cent over the previous year. International passenger numbers were ahead by 5.1 per cent, and domestic passenger numbers were up 2.3 per cent.

Chinese government to upgrade aviation infrastructure: The CAAC announced it will spend 400 billion yuan (C\$71 billion) over the next two years to refurbish existing airports in the country and to launch new airport projects, according to Reuters. Capital Airports, the airport authority that runs Beijing airport, expects the government to build a second international airport in Beijing.

U.S. still waiting for influx of Chinese tourists: Although it has already been a year since the U.S. government signed an approved destination status agreement with China, growth in Chinese visits to the United States has not been as strong as many U.S. tourism businesses expected, according to a recent article by *Travel Weekly*. Chinese tourism experts interviewed for the article indicated that initial growth expectations were “inflated by hype” and that it would take some time to properly market U.S. destinations to potential Chinese tourists. There will be a learning curve for tourism suppliers in China and in the United States. Moreover, although U.S. tourist visas are now available in China, the visa application process can still be onerous. One market expert noted that the U.S. embassy in China has planned for an annual increase in visas of only 10 to 11 per cent. The U.S. Department of Commerce had projected a 45 per cent increase in Chinese visits to the United States between 2007 and 2011.

China — Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↑ (↑↑)	↑ (↔)	↑ (↑)	↓↓ (↓↓)	+

Note: the bracketed figures are from the previous (November 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The slowdown in global demand continues to downgrade growth expectations for the Chinese economy. The latest Consensus Forecasts report (December 2008) projects real GDP growth will reach 9.3 per cent in 2008 and 7.8 per cent in 2009. Rising concerns over slower growth led the People’s Bank of China to reduce its benchmark one-year lending rate by over 100 basis points to 5.58 per cent. The decision to reduce borrowing costs comes on the heels of a massive fiscal stimulus package that was announced in November. At the same time, inflation concerns have been significantly reduced.
- The Canadian dollar depreciated 24.4 per cent against the Chinese renminbi between December 2007 and December 2008. With the rapid depreciation, the average cost of a 10-night stay in Canada—including airfare, hotels, meals, and other items—for Chinese travellers is expected to decrease 13.3 per cent during the first quarter of 2008 compared with last year.

Traveller and Supplier Trends:

- While Chinese arrivals to Canada grew 7.2 per cent between January and October 2008, arrivals in October were only ahead a slight 0.7 per cent from last year. Between January and September 2008, travel from China (including Hong Kong) to the U.S. grew 20.8 per cent, according to the OTTI.
- Unfortunately, direct air capacity to Canada is expected to decline by 25 per cent in the first two months of 2009.

Despite weaker economic conditions and slowing travel trends, the Tourism Leading Indicator Index for China suggests arrivals from this market should post slight growth over the near term.

Australia — Current tourism trends

Qantas cuts international services in response to falling demand: The current economic downturn has dampened passenger demand, according to Qantas Airways. Lower demand has been especially apparent in the carrier's international operations, because of weakening business travel demand. Qantas announced in late November that it would implement further capacity cuts to its international services equivalent to grounding 10 aircraft. Over the next six months, the airline's overall capacity will be 4 per cent lower than in the previous year. Qantas has also reduced its full-year profit forecast by 64 per cent.

Passenger numbers among Qantas group airlines edged up 0.3 per cent in October 2008, according to the company's latest performance statistics. However, passengers on the airline's international services fell 6.4 per cent during the month.

Qantas reduced its international and domestic fuel surcharges as of December 22, 2008, for the third time in recent months. The surcharge on flights to Canada and the United States was dropped to A\$130 (C\$111) each way, down from A\$150.

Qantas offers optimistic outlook for Australian travel demand: Despite deteriorating economic conditions, Qantas is optimistic about the resiliency of Australian travel demand, according to Travelmole.com. Qantas' chief economist said in a recent conference presentation that Australian outbound and domestic passenger numbers are "very, very resilient to recession" and have only registered negative growth when affected by non-economic external shocks, such as terrorist events. He said travel is a part of Australian culture that Australians are less likely to give up during periods of economic distress. On the other hand, he warned that inbound travel to Australia has historically been very sensitive to global economic conditions.

According to the Australian Bureau of Statistics, Australian residents took nearly 490,000 outbound trips in October 2008, a 4.5 per cent increase over October 2007.

Older travellers a growing segment of Australian market: The proportion of Australian travellers aged 50 and older has been rising steadily, according to a recent report by Roy Morgan Research, an Australian market research firm. This age group accounted for 41 per cent of Australians who took a holiday in the year ending September 2008, up from 36 per cent in 2001. The firm attributed the shift to Australia's aging population and to a growing propensity for travel among Australian residents in this age group.

Australia — Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↔ (↔)	↓ (↓↓)	↑ (↑)	↓ (↑↑)	+

Note: the bracketed figures are from the previous (November 2008) Tourism Intelligence Bulletin.

Economic Trends:

■ The Conference Board's leading economic index for Australia dipped 0.5 per cent in October, the second consecutive monthly decline. Between April and October, the leading index declined 0.2 per cent. Still, the strengths and weaknesses among the leading indicators have remained balanced. Meanwhile, real GDP slowed to a 0.3 per cent annual rate in the third quarter of 2008, down sharply from the 1.9 per cent annual rate posted in the first half of 2008. The recent behaviour of the leading index suggests slow economic growth is likely to continue over the near term.

- The Canadian dollar appreciated 5.6 per cent against the Australian dollar between December 2007 and December 2008. Unfortunately, this is expected to increase the cost of travelling to Canada over the near term. For Australians, the average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase 12.6 per cent during the first quarter of 2009 over last year. But comparatively, on a somewhat positive note, the average cost of a similar trip to competitive destinations is expected to increase 26.8 per cent.

Traveller and Supplier Trends:

- Australian arrivals in Canada continue to grow at a respectable pace. In October, visits to Canada increased by 6.8 per cent over the previous year; between January and October, arrivals were up 10.6 per cent. This growth compares favourably with data from the United States. According to the OTTI, travel from Australia to the U.S. increased by a more modest 6.1 per cent during the first nine months of 2008.
- Unfortunately, direct air capacity between Canada and Australia over the first two months of 2009 is expected to decrease 18.1 per cent over the same period in 2008.

Despite increasing travel costs and reductions in direct air capacity, the Tourism Leading Indicator Index for Australia suggests continued growth from the Australian market is still possible over the near term.

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 obtained 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:

Ratings Used for the Tourism Leading Indicator Index

Symbol	Interpretation
+++	Significant improvement
++	Moderate improvement
+	Slight improvement
0	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). It also includes a general assessment of economic conditions, such as GDP growth, employment, and changes in the U.S. Conference Board's leading economic index. Ultimately, the rating provided should represent 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 considered in the assessment include gas prices, fuel surcharges, security-related charges or other costs that affect Canada's price competitiveness compared with 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. A key indicator for this component is the availability of direct air capacity to Canada from each source market.

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

Travel Market	Economic		Non-Economic	
	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.