

Domestic, U.S. and Overseas Travel to Canada

Short-Term Markets Outlook Third Quarter 2007 / Executive Summary

Prepared for:
The Canadian Tourism Commission (CTC)

By:

The Conference Board of Canada
Insights You Can Count On



May 2007



Background

The *Short-Term Markets Outlook* provides performance scenarios for Canada's major travel markets. A quarterly outlook of advance bookings and market intelligence is derived from the Destination Supplier/Receptive Agent Business Outlook Survey. This survey was developed by the Canadian Tourism Research Institute, a division of The Conference Board of Canada, on behalf of the Canadian Tourism Commission (CTC). To bolster the quality of this report, quarterly staff reports and surveys of key tour operators, administered by the CTC's foreign offices, are also incorporated.

Please note that, since the outlook's scope is restricted to the third quarter of 2007, all growth comparisons are reported on a year-over-year basis compared with the third quarter of 2006.

Highlights

The outlook for Canada's key markets for the third quarter of 2007 (relative to the third quarter of 2006) according to the results of the Business Outlook Survey is summarized as follows:

Q3 2007 Short-Term Outlook for Canada's Key Markets (per cent change over Q3 2006)

Country	Market Segment				
	Leisure— Group	Leisure—FIT**	Leisure— Overall	Business	Total— Overall
Canada	5.6%	3.4%	3.7%	2.2%	3.2%
United States	-2.7	-1.1%	-1.5%	1.0%	-1.1%
Mexico	6.5%	8.5%	7.6%	*	7.2%
United Kingdom	6.0%	3.2%	3.9%	3.1%	3.7%
France	1.6%	2.2%	1.9%	*	2.0%
Germany	5.2%	4.4%	4.7%	*	4.6%
Japan	0.6%	1.8%	0.9%	-2.0%	0.5%
South Korea	*	*	*	*	5.5%
China	6.0%	9.2%	7.0%	*	7.0%
Australia	1.8%	3.0%	2.4%	*	2.4%

* Not enough responses to ensure confidentiality

** Fully independent travel

North American Markets

Canada

The Canadian domestic travel market is poised to do well this summer, in large part because of the continued strength of the Canadian economy. The low unemployment rate, healthy income growth and still-low interest rates all point to another year of stellar growth in consumer spending. In addition, the latest Canadian Travel Intentions Survey by The Conference Board of Canada suggests that enthusiasm for summer vacation plans is holding strong. However, climbing gasoline prices are a growing concern, adding a potential risk to the domestic market outlook.

Business Outlook Survey participants anticipate overall domestic travel will expand 3.2 per cent in the third quarter of 2007, year-over-year. Growth in group travel is expected to continue outpacing other segments, rising 5.6 per cent, while fully independent travel (FIT) grows 3.4 per cent. As a result, overall leisure travel is expected to increase by 3.7 per cent. Respondents anticipate a somewhat slower pace of growth (2.2%) for domestic business travel volumes during the quarter.

U.S.

The sombre outlook for Canada's U.S. travel market is not expected to change in the near term. The economic slowdown in the United States, although not as bad as originally anticipated, is nevertheless eroding consumer sentiment. Moreover, gasoline prices have soared in recent months, and will undoubtedly have a negative influence on summer travel decisions. The one aspect of the U.S. market that has been slowly improving is Canada's price competitiveness for U.S. travellers. Although the cost of travelling to Canada is still rising, cost increases within the United States are rising faster.

Business Outlook Survey participants expect overall U.S. visits to slide 1.1 per cent during the third quarter of 2007 compared with a year earlier. Group leisure travel is expected to fall 2.7 per cent, while fully independent travel slips 1.1 per cent. As a result, overall leisure travel is expected to decline 1.5 per cent during the period. Meanwhile, U.S. business travel to Canada continues to be the only segment expected to register growth in the third quarter (1%). Respondents noted that lingering confusion over the revised terms of the GST/HST rebate program remains an issue, in addition to the other persistent challenges with this market.

Mexico

The outlook for Mexican travel to Canada this summer remains vibrant. In the third quarter of 2007, Business Outlook Survey participants expect Mexican visits to Canada

will increase 7.2 per cent over the same quarter of 2006. Fully independent travel is expected to jump 8.5 per cent, while group visits rise 6.5 per cent. Mexican tour operators are even more optimistic, expecting strong growth in summer bookings to Canada this year. Moreover, Canada's price competitiveness for Mexican travellers is expected to improve this summer compared with other destinations. The only real challenge for this market is the lack of direct air capacity between Mexico and Canada. Direct air capacity is expected to shrink more than 6 per cent this summer compared with last year, and has become a growing concern for Mexican tour operators.

European Markets

U.K.

The outlook for British travel to Canada in the third quarter has brightened, bolstered by a significant improvement in Canada's price competitiveness for the U.K. market. A substantial increase in direct air capacity combined with a sharp drop in average fares should help expand the growth potential of U.K. visits considerably. While the average cost of travelling from the U.K. to Canada this summer is expected to decrease, travel costs to other competing markets are increasing, enhancing Canada's competitive advantage.

Business Outlook Survey respondents anticipate a 3.7 per cent increase in travel from the U.K. to Canada in the third quarter of 2007, compared with a year earlier. Group leisure travel is expected to jump 6 per cent, while FIT visits climb 3.2 per cent, boosting overall leisure travel by 3.9 per cent during the period. The outlook for growth in U.K. business travel to Canada is similarly optimistic (3.1%). Reports from British tour operators—many of whom expect solid growth in bookings to Canada during the summer quarter—support this positive outlook.

France

Prospects for the French travel market have been gradually improving since the beginning of this year. Reports from the French travel trade suggest that travel demand is recovering, allowing prices to stabilize and achieve some growth. However, the tendency towards fully independent bookings is gaining further traction in the market, resulting in a disparity between the sales of independent versus packaged travel products. Direct air capacity between France and Canada is scheduled to expand by more than 15 per cent during the quarter, which should ensure there is plenty of air access to accommodate French travellers this summer. At the same time, Canada's price competitiveness for French travellers may improve slightly during the third quarter, contributing to the growth potential of this market.

Business Outlook Survey participants anticipate a 2 per cent increase in French visits to Canada in the third quarter of 2007 compared with a year earlier. Group leisure travel is expected to edge up 1.6 per cent, and fully independent travel is expected to grow 2.2 per cent.

Germany

The outlook for the German travel market has picked up considerably in recent months. Despite the increase in Germany's value-added tax in January, which was expected to hurt travel demand in the short-term, bookings for the summer travel season have been advancing at a steady pace, although the tendency towards shorter trips continues to grow—a trend that goes hand-in-hand with choosing destinations that are closer to home. For the summer travel period, German tour operators expect solid growth in bookings to Canada; however, some continue to cite the inadequate availability of direct air capacity as an ongoing concern.

Business Outlook Survey participants anticipate overall German travel to Canada will expand by 4.6 per cent in the third quarter of 2007 compared with a year earlier. Respondents expect group leisure travel to jump by 5.2 per cent and FIT visits to grow 4.4 per cent during the period. As a result, overall leisure travel to Canada is expected to rise 4.7 per cent compared with the same quarter of 2006.

Asia-Pacific Markets

Japan

The outlook for Canada's Japanese travel market suggests there is little potential for growth in the near term. Business Outlook Survey participants expect Japanese visits in the third quarter to remain on par with the same quarter of 2006, increasing by less than 1 per cent. Fully independent travel is expected to climb 1.8 per cent, while group leisure travel edges up only 0.6 per cent. As a result, overall leisure travel is expected to advance by only 0.9 per cent. Business travel from Japan during the third quarter is expected to slip by 2 per cent compared with the previous year.

Although Japanese outbound travel is growing moderately overall, arrivals to Canada and many other traditionally popular long-haul destinations continue to decline. Instead, travellers are flocking to short-haul Asian destinations that are increasingly accessible due to the rapid expansion of Asia's low-cost airline network. Meanwhile, the strength of the Canadian dollar and the soaring cost of airfares to Canada are two of the main factors stifling demand for Canadian vacations. Although Canada's price competitiveness for the Japanese market is improving, it is the less expensive, short-haul destinations that are attracting more Japanese travellers.

South Korea

Business Outlook Survey participants expect solid growth in South Korean visits over the summer quarter, anticipating a 5.5 per cent increase in visits compared with last year. Korean-based tour operators remain very optimistic about their bookings to Canada, expecting strong growth in their sales of Canadian travel packages throughout the rest of this year. However, a sizable reduction in direct air capacity to Canada is planned for the third quarter, something that could potentially curb the growth of arrivals during this period. In particular, securing air access for the peak period between late July and early August has been a considerable challenge for tour operators. Furthermore, Canada's price competitiveness for Korean travellers has lost some ground in recent months. However, in light of the strong demand for outbound travel, these troublesome issues should not detract significantly from the overall growth potential of the Korean market.

China

Despite the fact that there has been no further progress in obtaining approved destination status, the outlook for Canada's Chinese travel market remains buoyant. The appreciation of the Chinese yuan is adding further fuel to the robust demand for outbound travel, and is making overseas travel more affordable. Also contributing to the healthy outlook is a substantial improvement in Canada's price competitiveness for Chinese travellers since last summer, as well as the continual expansion of direct air access. Business Outlook Survey participants expect Chinese visits to Canada will expand 7 per cent during the third quarter of 2007 compared with the previous year. Fully independent leisure travel is expected to jump 9.2 per cent during this period, while group leisure travel climbs 6 per cent.

Australia

Market conditions for Australian travel to Canada have recently become much more favourable. The recent surge in the value of the Australian dollar combined with the booming labour market and still-low interest rates is supporting a rebound in consumer spending and bolstering growth in outbound travel demand. The improving exchange rate has also enhanced the price competitiveness of Canadian travel destinations, resulting in a slight decline in travel costs this summer compared with last year. In fact, many Australian tour operators have raised their growth expectations for near-term bookings to Canada. In addition, air capacity between the two countries is scheduled to increase 11 per cent during the third quarter. All told, the Australian market exhibits potential for moderate growth this summer.

However, Business Outlook Survey participants are somewhat more cautious. During the third quarter of 2007, respondents expect overall visits to expand 2.4 per cent over the previous year. Group leisure travel is expected to edge up 1.8 per cent, and FIT visits are expected to grow 3 per cent.

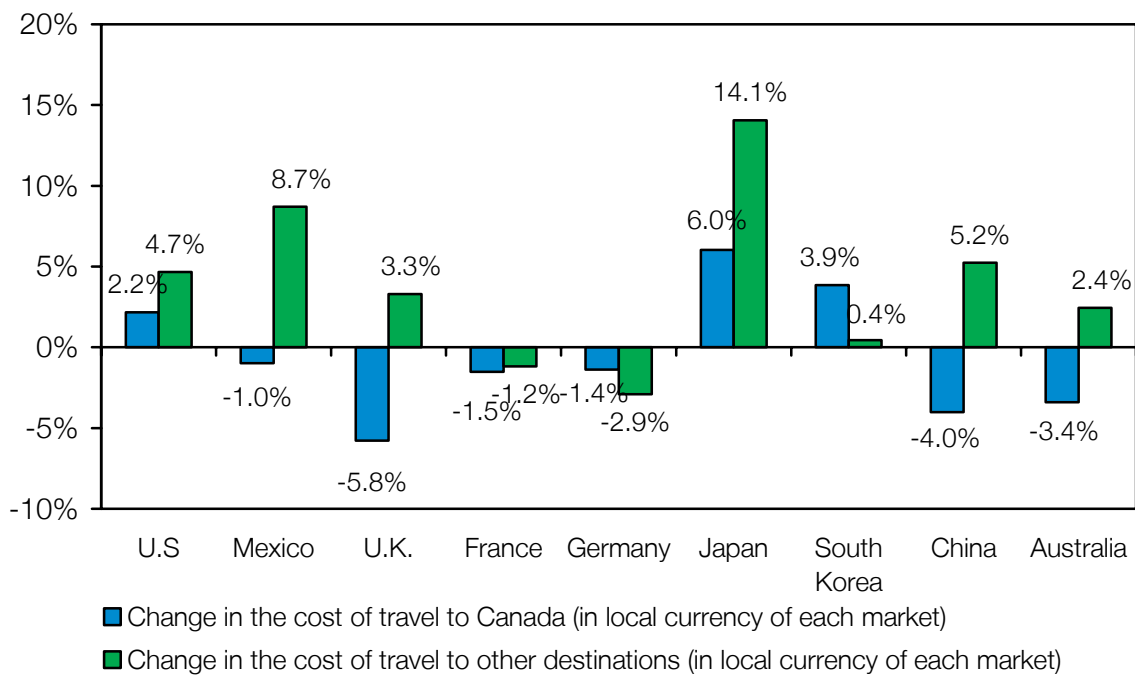
Competitive Price Index—Summary

One important aspect of Canada’s global competitiveness as a tourism destination is the price of Canadian travel products relative to that of its key international competitors. The competitive price index tracks product pricing trends in key markets and monitors Canada’s relative price competitiveness.

The competitive price index is calculated based on a potential traveller’s expected spending on fares, hotels, meals and other costs for travel to Canada, compared with the costs for travelling to competing destinations.

The following summarizes the results of the competitive price index for the third quarter of 2007. The chart represents a snapshot of the year-over-year difference in the average cost of travelling to Canada from each origin market (the first bar) and the difference in the average cost of travelling to key competitive markets (the second bar).

Changes in the Cost of Travel to Canada vs. Competitive Markets (Q3 2007 vs. Q3 2006)



Sources: The Conference Board of Canada; U.S. General Services Administration; World Bank; Expedia; SideStep; FareCompare.

Canada's price competitiveness is expected to improve against many competing destinations in the third quarter of 2007. In contrast to the negative trends reported last year, the continued progress in Canada's price competitiveness this year is welcome news. In fact, the latest competitive price analysis suggests that the overall cost of travelling to Canada will decline, year-over-year, for many markets. For details, please see the competitive price index found in each country section of the full *Short-Term Markets Outlook*.

To obtain the full *Short-Term Markets Outlook* report, please contact the Research Unit by telephone (604) 638-8300 or email research-recherche@ctc-cct.ca.