Industry Trends

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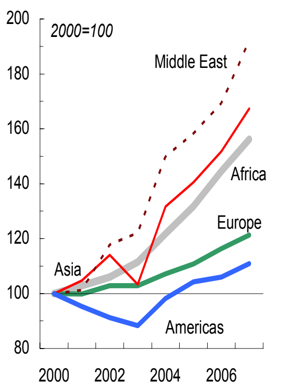
International Travel & Tourism

Travel and tourism has been one of the most dynamic sectors of the global economy in recent years. Building on strong gains averaging 5½% in 2005 and 2006, international leisure and business tourist arrivals increased a further 6% last year to a record of almost 900 million. This marked the strongest annual increase since 2004, when the industry was rebounding from a multi-year slump following the September 11th terrorist attacks, the Iraq invasion, and the global SARS scare.

Global travel and tourism flows are still relatively small compared to global trade in goods. International travel receipts, estimated to have totalled a little over US$800 billion in 2007, represent just a fraction of the more than US$13 trillion in worldwide merchandise exports. Nonetheless, this industry is an important contributor to output growth and employment for many nations, and generates significant domestic spinoffs. In Canada, for example, tourism spending, including domestic travel, accounts for 4½% of GDP and more than 650,000 jobs.

Tourist Arrivals to Developing World Accelerate



It is also a high growth industry. International tourist arrivals have risen over 40% since the beginning of the decade, or an average of 4½% annually. Average growth in international travel receipts (in U.S. dollar terms) has been even stronger at almost 8% over this period, reflecting in part rising tourism-related inflation, but also higher average expenditures and the currency-adjustment impact of a weaker U.S. dollar.

Mirroring trends in global trade flows, the fastest growing travel and tourism regions are, for the most part, in emerging or non-traditional markets. Leading the pack is the Middle East, which has seen a 10% average annual increase in tourist arrivals since 2000. Saudi Arabia and Egypt, in particular, are emerging as major resort destinations while the United Arab Emirates is attracting a growing number of leisure and business travelers.

Not far behind, travel and tourist arrivals to Asia-Pacific have increased an average of 8% annually since 2000, supported by the region's rapid economic expansion, increased marketing efforts and improved transportation infrastructure. While China has been a major beneficiary, a surge in outbound travel from China is underpinning strong tourism growth across the region. African tourism demand is also up sharply, with international arrivals increasing an average of 6% annually between 2000 and 2007, led by interest in adventure tourism.

Within emerging markets, Latin America and the Caribbean have lagged, with international arrivals up just 3% annually since 2000. Strong travel and tourism growth in many Central and South

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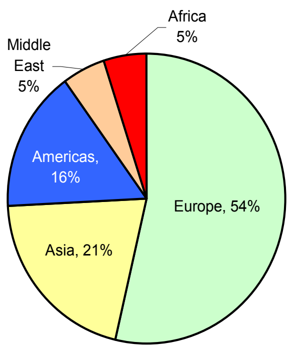
American nations has been tempered by weak demand in the more mature destinations of the Caribbean and Mexico. The latter markets have been most affected by the sharp decline in the U.S. dollar over the past six years, the subsequent softening in U.S. travel abroad, and, more recently, stricter U.S. border entry requirements.

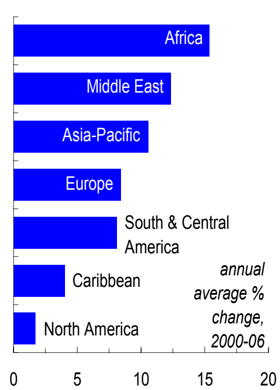
Share of Tourist Arrivals, 2007



Growth in international travel and tourism to the developed economies of North America and Europe remains relatively modest at an annualized 1% and 3%, respectively, from 2000 to 2007. These mature travel markets are still by far the globe's largest destination regions, but their dominance is waning. Europe, Canada and the United States together accounted for just under 62% of international arrivals last year, down from over 69% at the start of the decade.

The 'globalization' of international travel and tourism reflects a number of factors. Rising disposable incomes, including in populous emerging markets, the ease of internet-based travel research and bookings, and the proliferation of low cost airlines with expanded routes and fewer restrictions are encouraging leisure travelers to consider increasingly exotic destinations. Meanwhile, business travel demand is being underpinned by the significant growth in international trade flows, foreign direct investment and cross-border mergers and acquisitions in recent years.

Developing Markets Lead Growth in Tourism Receipts



Looking ahead, a number of developments threaten to slow the sector's momentum. The U.S. housing-led slowdown in global economic activity now underway will likely lead to greater belt-tightening by both households and businesses as employment, personal income and corporate profit growth slow. Rising fuel and food costs, which weigh relatively large in travel-related goods and services such as airfares and restaurant meals, will further sap discretionary purchasing power. Heightened financial market volatility and tighter credit availability in the wake of the U.S. sub-prime mortgage crisis add another restraining factor.

Yet, we still expect positive growth overall for the industry in 2008-2009, with developing nations continuing to outperform.

Notwithstanding the deepening U.S. slowdown, economic growth in emerging markets is expected to remain strong, bolstering incomes and travel intentions in these regions. Surging outbound travel from China will provide important support to global tourism, especially as more countries obtain "approved destination status". A number of major upcoming international events will spotlight developing or non-traditional tourism destinations on a global scale, including the 2008 Summer Olympics in Beijing, and 2010 World's Fair in Shanghai, the 2010 Commonwealth Games in Delhi, India and the 2010 FIFA Soccer World Cup in South Africa. The recently signed 'open skies' agreement between the European Union and the United States is another positive development for the industry, offering the potential for lower prices and more passenger choice on transatlantic flights.

With the U.S. dollar expected to remain under downward pressure, currency trends continue to favour travel to the United States, Asia and Latin America and weigh against travel to Canada as well as from the United States. Canada, Mexico and the Caribbean are particularly exposed to a more substantial weakening in U.S. international travel intentions as a result of the softening American economy and/or heightened border security. The final phase of the U.S. Western Hemisphere Travel Initiative, requiring a passport or equivalent at all U.S. land and sea entry points, is scheduled to take effect in June 2009.

In general, leisure-related tourism should hold up better than business travel. Business travel is typically more cyclically sensitive, with firms quick to cut back discretionary expenditures as earnings growth slows. Nevertheless, business and professional travel account for only about 15% of international arrivals (though likely a greater share of revenues), with leisure and other travel (e.g. for health or religious purposes) making up the vast majority of trips.

Longer term, the international travel and tourism industry's prospects appear bright. The World Tourism Organization predicts global tourism arrivals will rise to 1.6 billion by 2020, with the strongest growth in emerging markets and in long-haul trips. At the same time, competition among competing destinations can be expected to intensify.