




# Travel-log

Spring 1997

## The Canada-U.S. “Open Skies” Agreement: Are Canadian Carriers Doing Well?

by François Gendron

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On February 24, 1995, the governments of Canada and the United States signed the “Open Skies” Agreement allowing both Canadian and American airlines to establish direct links between any pair of cities located on either side of the border. This opening of air space comes within the scope of the general movement towards free trade with our main trading partner and will stimulate competition among North American air carriers for the largest transborder market in the world<sup>1</sup>. The outcome of the agreement on companies’ long-term share of the market remains to be seen. The agreement provides for a three-year transition period<sup>2</sup> to allow carriers to adjust to new market conditions. Although all the agreement’s provisions have not yet come into effect, changes in the industry are already noticeable.

Since it would be premature to draw conclusions about the impact of the agreement, we will focus first on the effect of the pact on the market share that American and Canadian companies have cornered after a year of “Open Skies”. Secondly, we will study the possible impact of the agreement on various stakeholders. This analysis uses data from Statistics Canada’s International Travel Survey (ITS).

<sup>1</sup> BALDWIN, Gordon J. and ROBINSON, Ed. “Measuring the Canada-United States Aviation Passenger Market: How High is Up?”, in *Transportation Research Forum*, 38th Annual Meeting Proceedings, San Antonio, Texas, 1996.

<sup>2</sup> GOVERNMENT OF CANADA, *Air Transport Agreement between the Government of Canada and the Government of the United States*, Ottawa, 1995.



### **Farewell, Pierre!**

On January 17, *Monsieur Pierre Hubert* bowed out after 34 years of service in the federal Public Service, of which nearly a third were devoted to tourism statistics.

It was in 1964, in the Department of Energy, Mines and Resources, that *Monsieur Hubert* got started in government. This first contact with the world of cartography led him to Statistics Canada’s Geography Division where he worked for more than 20 years. Then Pierre agreed to direct the Travel, Tourism and Recreation Section, at a time of great enthusiasm following the work of the National Task Force on Tourism. In 1992, he was also put in charge of the International Travel Section, and he retained these responsibilities until the day he retired.

Over the years, Pierre has, among other things, given his colleagues, collaborators and clients the benefit of his great expertise and his courtesy. With his departure, the sub-division loses an important member. Good luck with your future projects, *Monsieur Hubert*, and happy retirement.



### The "Open Skies" Agreement<sup>3</sup>

The pact immediately eliminates most restrictions on air service between the two countries – except for routes linking Vancouver, Toronto and Montreal – as well as the application of slot rules in certain American airports. Under the old agreement, which was substantially unchanged in 20 years, several major American and Canadian cities, including both capitals, were without nonstop service. The agreement restricted most routes to a single carrier from each country and each government had the right to monitor the rate schedules of companies.

The new pact contains specific terms which give U.S. and Canadian carriers unrestricted rights to transborder markets; however, new services to Montreal and Vancouver have been restricted until February 1997, and to Toronto until February 1998. In each of the first two years, the U.S. may add six carriers operating two weekly flights each to

Montreal and Vancouver. At Toronto, the U.S. may add two carriers operating two weekly flights each in each of the first two years, and four additional carriers operating two frequencies each in the third year.

Canadian airlines are subject to U.S. slot rules for the four high-density airports. Canadian carriers have received a total of 10 new slots at Chicago O'Hare and 14 at New York La Guardia. During the transition period, slots can be sold only to other Canadian carriers or traded for other times and will not be subject to use-or-lose rules. After the three-year transition period, normal slot rules will apply.

The pact provides open code sharing rights between U.S. and Canadian carriers for flights to all U.S., Canadian and third-country points, provided that they have the underlying authority. For the three-year transitional period, however, code sharing services to Toronto, Montreal and Vancouver may operate only a limited number of weekly flights.

The agreement provides for market-based pricing and the ability to adjust prices for services of countries other than Canada and the U.S.

<sup>3</sup> U.S. DEPARTMENT OF TRANSPORTATION, *Airport Report Express*, Volume 5, No. 17, Washington D.C., February 27, 1995.

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**Toll-free order service in Canada  
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### All prices exclude sales tax

*Price: Canada: \$13.00 per issue,  
\$42.00 annually*

*Outside Canada: US\$13.00 per issue,  
US\$42.00 annually*

*Periodicity: Quarterly ISSN 0713-2840*

The paper used in this publication meets the minimum requirements of American National Standard for Information Sciences – Permanence of Paper for Printed Library Materials, ANSI (Z39.48 – 1984.)



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### Note of appreciation

*Canada owes the success of its statistical system to a long-standing co-operation involving Statistics Canada, the citizens of Canada, its businesses and governments. Accurate and timely statistical information could not be produced without their continued co-operation and goodwill.*

## Methodology

### Data source

There are a number of methodologies and sources of data for measuring passenger air traffic between Canada and the United States. For the purposes of this analysis, we have chosen to use the "border count" method taken from Canada Customs returns. The advantage of this method is that it can be linked with the International Travel Survey (ITS). The ITS gathers information on expenditures and other characteristics of international travellers, by origin and destination. Canadian customs officers distribute questionnaires to a sample of travellers on arrival (non-residents) or on return (Canadians). Data are collected by length of stay and type of transportation.

### Universe

For the purposes of this paper, travel between Canada and the United States includes only travel by Canadian and American residents on scheduled or charter flights. Some Canadian and foreign residents pass through the United States to return to or come to Canada. These persons have been excluded since in many cases they are travelling on aircraft operated by foreign companies that are not directly affected by the "Open Skies" agreement. We should also point out that these passengers make up 15.3% of the transborder air travel market and are broken down as shown in Table 1 below.

During their transborder travel, Canadian residents and U.S. residents can use other than Canadian and/or American airlines or coupons that may be exchanged for free travel. This travel

has been excluded since it does not produce any revenue for American and Canadian air carriers. In 1995, these trips represented 5.5% of all travel on commercial airlines by Canadian and American residents between Canada and the United States, all lengths of stay included.

In other respects, the total of trips on commercial airlines is used, all lengths of stay included and regardless of the main trip purpose. The ITS will classify an aircraft as commercial when fares have been remitted to an airline.

### Variables

Quarterly questionnaire interviews provide a variety of data on passengers, such as the purpose of the trip, activities during the trip and, in particular, expenditures on international transportation by the carrier's country of residence. The paper presented here uses the data on the international component of transportation expenses for return air fares of all Canadian and American travellers who declared having used air travel to enter Canada. The cost of transportation reported may include fees paid to travel agencies, cruise taxes and charges. Since such costs are generally incurred by both Canadian and American carriers, there is no impact on the market share analysis. Lastly, for the purposes of this analysis, international transportation expenses paid to carriers will be considered as revenue to the company or as the amount of their sales on the market under review.

### Limitations

More than 90,000 questionnaires were completed by travellers for the ITS in 1995. This particular paper is based on more than 16,000 Canadian and American respondents in 1995, or about 4,000 for each quarter. For more information on the methodology and the definitions used in the ITS, please see the Statistics Canada publication, *International Travel*, catalogue 66-201-XPB.

Table 1

### Distribution of Travellers Between Canada and the United States, Direct and Via, by Main Trip Purpose, 1995

	Business		Non-business		Total	
	'000	%	'000	%	'000	%
<b>DIRECT:</b>						
Canadians returning from the United States and Americans visiting Canada	3,152	90.8	3,664	80.0	6,816	84.7
<b>VIA:</b>						
Canadians returning from a foreign country via the United States	105	3.0	362	7.9	467	5.8
Foreign residents entering Canada via the United States	214	6.2	552	12.1	766	9.5
Sub-Total	319	9.2	914	20.0	1,233	15.3
<b>TOTAL:</b>	<b>3,471</b>	<b>100.0</b>	<b>4,578</b>	<b>100.0</b>	<b>8,049</b>	<b>100.0</b>

Source : International Travel Survey

### The Largest Transborder Market in the World

According to International Civil Aviation Organization (ICAO) estimates, the transborder air passenger market between Canada and the United States was the largest of its kind in the world in 1994. Indeed, this market leads the group with 10.8 million passengers. The U.S.-Japan and United Kingdom-U.S. markets rank second with 10.7 million passengers each (Chart 1).

The ICAO estimates exclude travellers on regional carriers and only cover scheduled flights of major national carriers. Charter flights between Canada and the U.S., representing around 19% of the air traffic between the two countries in 1994<sup>4</sup> and 15% in 1995, are also excluded.

### Travellers...

#### Canadians Dominate the Market

In 1995, Canadians made up 56.9% of the Canada-U.S. air passenger market and Americans 43.1%. The figures are not all that surprising considering that Canadians visit the U.S. more often than Americans visit Canada.

Table 2 provides a distribution of all Canadian and American travellers covered in this paper, by main purpose of travel, whether for business or other reasons.

It will be noted that there were more Canadian passengers overall. However, it is in the category of non-business travel that Canadians largely dominate the market. In fact, in 1995 more than three out of five people travelling for reasons

other than business were Canadians. As for business travel, the number of Canadians was slightly higher than the number of Americans.

#### Growth in the Popularity of Air Travel

Although the preferred method of transportation between Canada and the United States is still the automobile, air travel has reached unprecedented levels since the signing of the "Open Skies" bilateral agreement. In 1995 Canadians made 7.0% of their trips, all means of transportation included, to the U.S. by air compared with 6.6% in 1994. For Americans travelling to Canada, 7.4% of the trips were by air in 1995 as compared with 7.1% in 1994.

While the total number of Canadians' trips to the U.S. decreased in 1995 for the fourth consecutive year, air travel increased by 2.6%.

In 1995, the number of trips made by Americans to Canada increased for the third consecutive year, reaching 37.3 million. The sharp increase in travel by Americans in 1995 was stronger in air travel (Chart 2) which recorded a 13.0% increase from the previous year.

### Carrier Revenue...

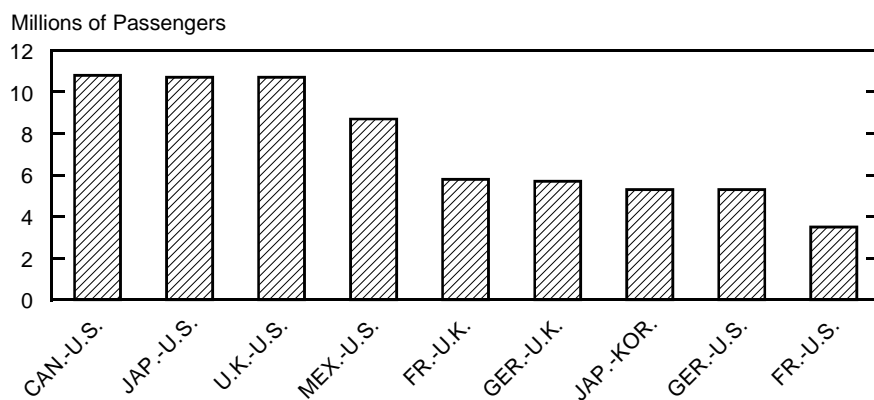
#### American Carriers Dominate the Market

In 1995, Canadian and American air carriers shared revenue (see Methodology) of close to \$3.7 billion. An analysis of this revenue shows that market share did not change very much between 1993 and 1995. Canadian companies earn 39.3% of total sales compared to the 60.7% for American carriers even though Canadian travellers make up the majority of the market group (Table 3). Thus, there is no doubt that American airlines dominated the market for the years under review.

In fact, the only noticeable variation in the Canadian and American market groups is in terms of distribution of travel by main purpose. Table 4 shows that Canadian companies expanded sales for customers travelling mainly for business.

<sup>4</sup> STATISTICS CANADA, Transportation Division, *Air Passenger Origin and Destination*, catalogue no. 51-205-XPB, Ottawa, November 1995.

Chart 1  
**Air Passenger Market Between Canada and the United States:  
One of the Largest in the World**



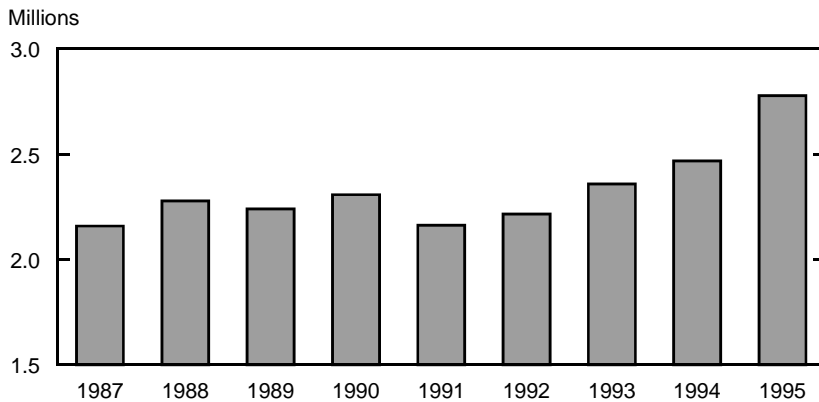
Source: International Civil Aviation Organization, 1994

Table 2  
**Distribution of Travellers by Main Trip Purpose and Origin, 1995**

	Total '000	Percentage of Total		
		Business %	Other %	Total %
Canadians returning from the United States	3,662	56.9	24.9	32.0
Americans travelling to Canada	2,777	43.1	23.1	20.0
<b>Total</b>	<b>6,439</b>	<b>100.0</b>	<b>48.0</b>	<b>52.0</b>

Source: International Travel Survey

Chart 2  
**In 1995, the Number of Trips by Air of Americans to Canada Reached an Unprecedented Level**



Source: International Travel Survey

Table 3  
**Revenue Shares of Air Carriers, 1993 to 1995**

	1993		1994		1995	
	Revenue \$ '000,000	Share %	Revenue \$ '000,000	Share %	Revenue \$ '000,000	Share %
<b>Canadian Carriers</b>	1,210	39.3	1,349	38.7	1,449	39.1
<b>American Carriers</b>	1,866	60.7	2,140	61.3	2,261	60.9
<b>Total</b>	<b>3,076</b>	<b>100.0</b>	<b>3,489</b>	<b>100.0</b>	<b>3,710</b>	<b>100.0</b>

Source: International Travel Survey

Table 4  
**Revenue Shares of Airline Carriers, 1993 to 1995**

	1993		1994		1995	
	Revenue \$ '000,000	Share %	Revenue \$ '000,000	Share %	Revenue \$ '000,000	Share %
<b>Canadian Carriers</b>						
Business	484	15.7	586	16.8	676	18.2
Non-business	726	23.6	763	21.9	773	20.8
<b>Total</b>	<b>1,210</b>	<b>39.3</b>	<b>1,349</b>	<b>38.7</b>	<b>1,449</b>	<b>39.1</b>
<b>American Carriers</b>						
Business	1,177	38.3	1,383	39.6	1,432	38.6
Non-business	689	22.4	757	21.7	829	22.3
<b>Total</b>	<b>1,866</b>	<b>60.7</b>	<b>2,140</b>	<b>61.3</b>	<b>2,261</b>	<b>60.9</b>
<b>Total</b>						
Business	1,662	54.0	1,969	56.4	2,108	56.8
Non-business	1,414	46.0	1,520	43.6	1,602	43.2
<b>Total</b>	<b>3,076</b>	<b>100.0</b>	<b>3,489</b>	<b>100.0</b>	<b>3,710</b>	<b>100.0</b>

Source: International Travel Survey

The stability in revenue distribution between 1993 and 1995 for Canadian and American companies might lead one to conclude that the agreement has had little effect upon distribution. A glance at some recent quarterly data, however, reveals interesting developments.

#### *Important Gains for Canadian Carriers in the First Half of 1996*

Since the ITS results are not yet available for all of 1996, the analysis will be limited to the first two quarters of the year, comparing them to the corresponding quarters of 1995. The quarterly data highlight a new trend that is more favourable to Canadian companies. While variations in carrier revenue shares are scarcely a percentage point higher when 1995 quarters are compared to the previous year, the results for the first two quarters of 1996 are impressive. In the first quarter of 1996, Canadian carriers secured 52% (table 5) of revenue originating from international fares paid for air travel between Canada and the United States. Moreover, preliminary results for the second quarter of 1996 show that the share of Canadian companies stood at 42% compared to 35% a year earlier. Although American carriers dominate the market, we can see that Canadian carriers are experiencing a share increase, at least during the first two quarters of 1996. If this trend were to continue through the rest of 1996, the revenue share for Canadian companies could certainly be higher than the 39% observed annually from 1993 to 1995.

#### *Distribution of Carrier Revenue Shares by Main Trip Purpose*

Chart 3 breaks down Canadian carrier revenue by main trip purpose as reported by the traveller. This reveals that revenue from travel mainly for business purposes grew significantly beginning in the second quarter of 1995. However, these gains were offset by a decrease in revenue from non-business travel. The overall picture shows no perceptible change for 1995. Indeed, it is only in the first quarter of 1996 that an increase is observed in revenue shares for Canadian companies, the result of simultaneous increases in

Table 5  
**Distribution of Air Carrier Revenue Shares, by Quarter**

	1995 Quarter				1996 Quarter	
	I	II	III	IV	I	II
	%				%	
<b>Canadian Carriers</b>						
Business	18	18	18	20	19	23
Non-business	29	17	16	21	33	19
<b>Total</b>	<b>47</b>	<b>35</b>	<b>34</b>	<b>41</b>	<b>52</b>	<b>42</b>
<b>American Carriers</b>						
Business	37	44	35	38	30	36
Non-business	16	21	31	21	18	22
<b>Total</b>	<b>53</b>	<b>65</b>	<b>66</b>	<b>59</b>	<b>48</b>	<b>58</b>
<b>Total</b>						
Business	55	61	53	58	49	59
Non-business	45	39	47	42	51	41
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: *International Travel Survey*

business and non-business travel. This trend continued in the next quarter. Indeed, the second quarter of 1996 sees Canadian companies consolidating their position in terms of the share of the number of travellers they served, experiencing an unprecedented increase (10.1%) in business travel over the same quarter a year earlier. Canadian companies will, therefore, close the second

quarter of 1996 by posting the strongest increase in their revenue share since the start of the review period.

**Average Revenues Lower for Canadian Carriers**

Quarterly changes in market share may reflect companies' short-term strategies to achieve long-term goals. Thus, changes may arise from changes in average

revenue per traveller or yet again from traveller volume.

Overall, from 1993 to 1995, Canadian companies attracted about 43% of all American and Canadian travellers and improved their position in the business travel sector at the expense of travel for non-business reasons. However, the fact that Canadian companies captured only 39% of total revenues indicates clearly that they received a lower amount on average for each trip than American companies.

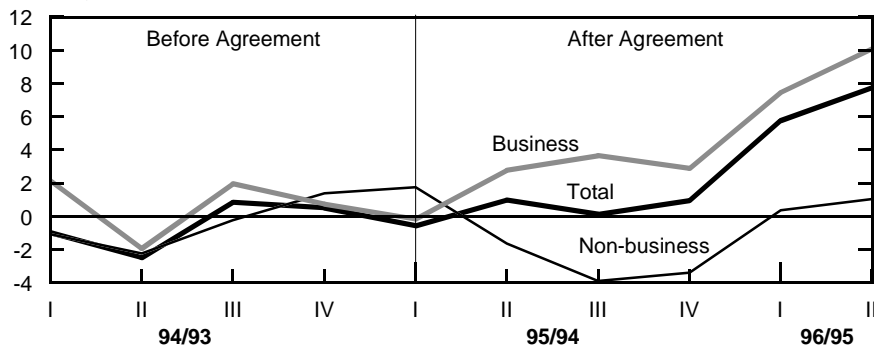
**Drop in Average Revenue Following the Signing of the Agreement**

From the second quarter of 1995 onward, Canadian companies experienced decreases in the percentage of revenue for non-business travel. This reversal coincides with a drop in average American companies' revenues per traveller (Chart 4). The drop results in part from an increase in the number of routes and the frequency of flights immediately after the signing of the pact<sup>5</sup>. This situation brought about an increase in the number of seats available on aircrafts, pushing American companies initially to lower their prices. It is thus probable that a number of travellers, especially those not travelling mainly for business, were attracted by the lower prices offered by American companies. Since the work schedules of business travellers do not always allow them to meet the conditions attached to reduced-fare flights, they probably did not benefit from the situation as much as other travellers.

Over the following two quarters, that is until the end of 1995, Canadian companies also experienced a decline in average revenue per traveller. This decline occurred just as Air Canada was establishing the majority of its new U.S. routes. Average revenue per traveller did not increase until early 1996, with Canadian companies getting a head start in this area on their American sister companies.

Chart 3  
**Canadian Carriers Increase Their Market Share in 1996**

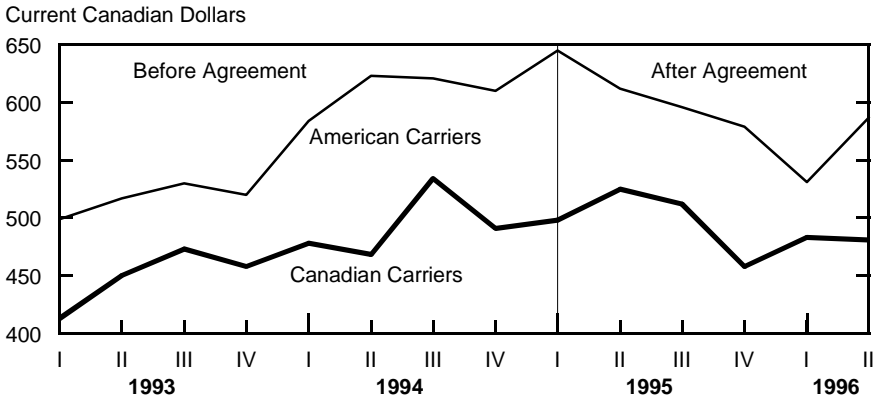
Percentage Point Change from the Same Quarter One Year Earlier



Source: *International Travel Survey*

<sup>5</sup> STATISTICS CANADA – AVIATION STATISTICS CENTRE, *Service Bulletin*, Figures 4.3 and 4.4, Ottawa, November 1996.

Chart 4  
**General Decline in Average Revenue Per Traveller After the Signing of the "Open Skies" Agreement**



Source: International Travel Survey

1996 that an upturn is evident in Americans buying from Canadian companies. The share of American market sales held by Canadian companies amounted to 28% compared to 24% a year earlier, a 4% gain. The second quarter of 1996 resulted in an equal gain of 4% (Chart 6).

**Who Benefits from the Outcome of the Pact? Travellers...**

It has been shown that Canadian as well as American travellers are benefitting from the general lowering of prices after the signing of the agreement. As is the case in other sectors of the economy, the low prices may only last a short time, at least until the major players in the market have decided on their long-term policy. Moreover, strategies of companies in the transborder travel market may have an impact on pricing policies in other markets, for example the domestic market. Research at Statistics Canada's Aviation Statistics Centre has shown that the average price of domestic travel, especially connecting smaller cities, has increased much more quickly than international travel. A study dealing with the trends of scheduled air travel fares in Canada<sup>6</sup> tells us, moreover, that the advantages to consumers depend more often than not on the supply of available airline seats. Thus, once companies have adjusted the frequency of flights on each of their routes in relation to their market group, some price stabilization is to be expected.

**Carriers...**

Changes in market share and fare levels about which we have previously spoken are short-term changes. Large airlines often adopt a longer-term strategy. This is the case, for example, when they place

<sup>6</sup> TRANSPORT CANADA, *Interim Report on the "Open Skies" Agreement*, Ottawa, March 28, 1996. Between the signing of the agreement and this date, 23 new routes had been established by Canadian carriers and 46 by American carriers. In addition, 33 Canadian charter flight routes were now being served by scheduled flights. See also figures 4.3 and 4.4 of the Aviation Statistics Centre's *Service Bulletin* of November 1996.

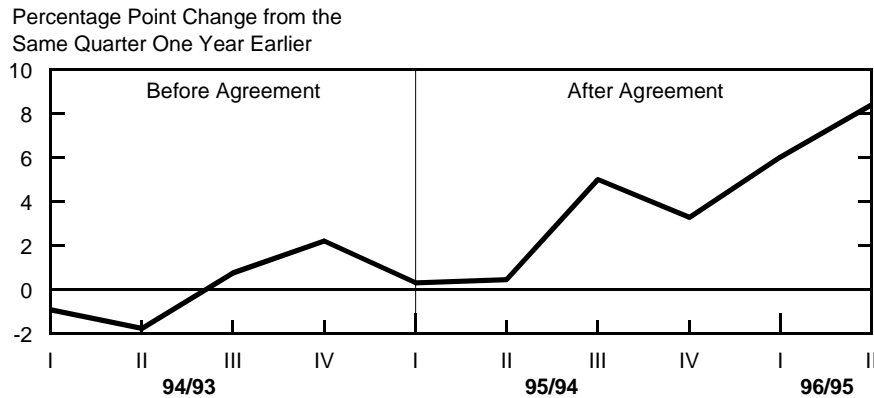
**More and More Canadians are 'Buying Canadian'**

As it was just noted, the "Open Skies" agreement was followed by a general decrease in the prices of air travel between Canada and the United States. Canadian and American travellers did not all benefit from this situation in the same way. In the first quarter of 1996, Canadians made 63% of their purchases from Canadian carriers compared to 57% for the first quarter of 1995. Gains for the second

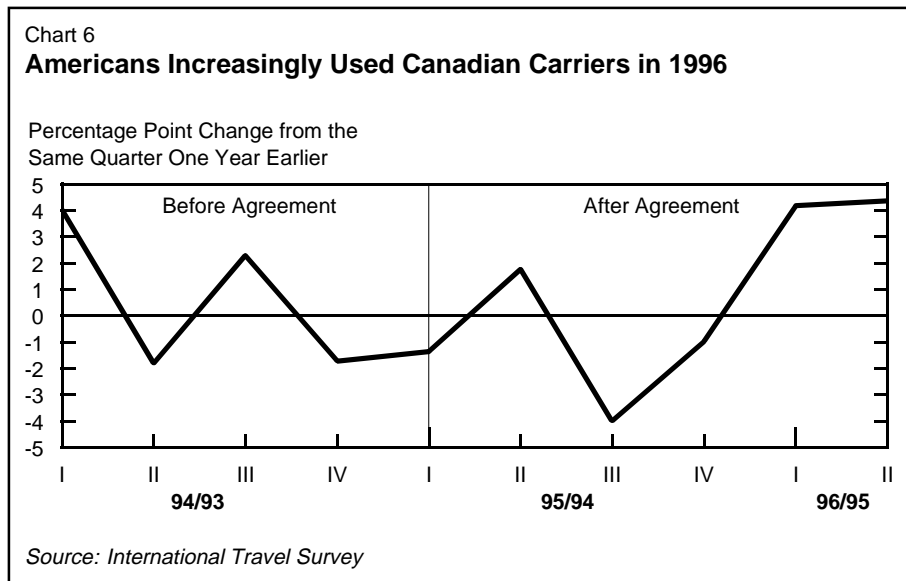
quarter of 1996 amounted to more than 8 percentage points (Chart 5), thus showing that Canadians are increasingly using Canadian carriers.

Canadian companies did not, however, succeed in increasing their sales to American travellers. Their gains in this market were rather weak even after the introduction of their new routes. American travellers used American companies proportionately more throughout most of 1995. It is not until the first quarter of

Chart 5  
**Canadians Increasingly Using Canadian Carriers Since the Signing of the Agreement**



Source: International Travel Survey



orders for aircraft with delivery schedules that can stretch over several years. Some companies may also put on pressure to lower prices over shorter or longer periods with a view to attracting a greater market share. When their objectives are met, they readjust their prices in terms of market conditions and the losses they have incurred. It should also be noted that competition between various companies in the marketplace may lead to substantial losses in profit for others. Lower prices lead to lower revenue and operating costs must be reduced accordingly. If a company does not manage to lower its costs and cannot bear repeated losses, it has to enter into alliances, restructure or declare bankruptcy. It is important to remember that the airline industry in Canada accounted for 50,000 jobs in 1995.<sup>7</sup>

Finally, due notice should be taken of the fact that the conditions of the agreement place restrictions on American air companies concerning their access to the three largest Canadian airports (Montreal, Vancouver and Toronto).

Although the pact allows existing routes to be maintained and new ones to be created to these airports, the number of routes and frequency of flights are limited during the transition phase of the agreement. It will not be until the complete lifting of these restrictions in 1998 that we will be able to draw more definitive conclusions on the actual impact of the agreement on various air companies.

#### ***Travellers Abroad...***

Lastly, it should be emphasized that by allowing new routes between any pair of Canadian and American cities, the "Open Skies" agreement is indirectly facilitating access to the large international hubs of the American Northeast and the Pacific. A Canadian travelling abroad or a resident of a country other than the United States who wishes to visit Canada, may now choose an itinerary that crosses the U.S. without having to suffer the inconvenience of multiple connections as was the case before the agreement was signed. These

travellers may also be attracted by more tempting prices on busier routes like New York-Paris or San Francisco-Tokyo. Although this segment of air traffic has not been covered in this paper, it could be that the signing of the "Open Skies" agreement partly explains the fact that business travellers on overseas trips are increasingly passing through the U.S. to get to Canada. The proportion of business travellers passing through the U.S. on their overseas trips (28% of overseas travellers in 1995) has increased since the second quarter of 1995. This segment of Canada-U.S. transborder traffic accounts for almost 15% of the total (see Table 1). While Canada is also developing its turnstile markets, as is the case in Vancouver for flights to Asia, there is a possibility that a considerable portion of the air travel market will shift to the south.

#### ***Conclusion***

What can be learned from this analysis a year after the signing of the "Open Skies" agreement between Canada and the United States is that air traffic has increased between both countries, thus consolidating this market as the largest in the world. The general decrease in prices that followed the signing of the agreement benefitted the travelling public and undoubtedly helped increase the economic balance sheet for the Canadian tourism industry. Although Canadian companies seemed to gain ground in the sales and passenger markets, it is still too soon to know if they can face stiff competition from the big North American carriers in this market of over \$3.7 billion. Only after restrictions have been completely lifted from American carrier routes at the three largest airports will it be known whether Canadian companies are doing well under the agreement!

<sup>7</sup> STATISTICS CANADA, *Canadian civil aviation, 1995*, catalogue no. 51-206, Ottawa, December 1996.





**Note to readers**

Summer is the third quarter of the year, (i.e., July, August and September).  
Data are not seasonally adjusted.  
Comparisons are made to the third quarter of previous years.

British Columbians made 612,000 of those 742,000 trips to the United States.

**Characteristics of International Travellers  
Third Quarter 1996**

Canadian travellers spent 46 million nights in other countries in the third quarter of 1996, up 2.8% from the previous summer. This was the first increase since the third quarter of 1991, when they stayed a record 53 million nights outside Canada. That summer, when the Canadian dollar was worth US\$0.87, overnight trips abroad by Canadians peaked at 7.8 million, compared with 6.1 million during the summer of 1996.

The decrease in the duration of trips overseas over the same period was even greater. During the summer of 1986, Canadians spent an average of 26 nights overseas as opposed to 22 nights in 1996.

**Canadians Stayed Closer to Home When Travelling in the United States Last Summer**

During the summer months, Canadians travelling in the United States chose to stay closer to their home province. In the third quarter of 1996, nine of the ten states bordering Canada were among those most visited by Canadians for at least one night.

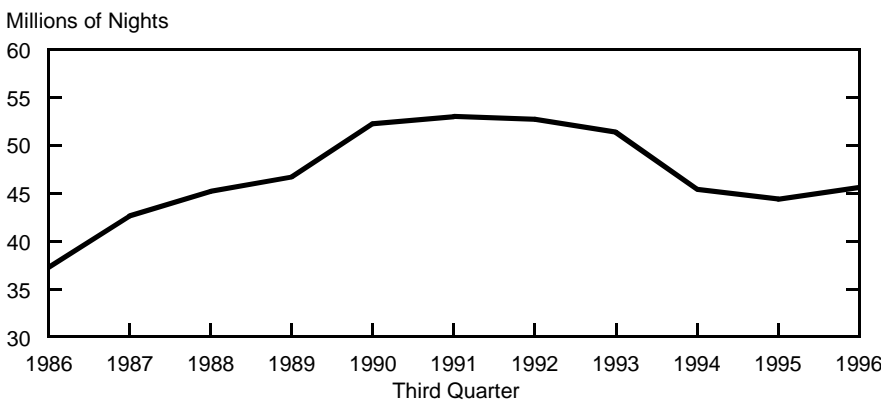
Almost 21% of overnight trips by Canadians to the United States (1.1 million) included a visit of one or more nights to New York State. Ontarians made more than 675,000 visits of at least

**Ten Most Visited States by Canadians**

Summer 1996

	Number of One or More Nights Visits
	'000
New York	1,064
Washington	742
Michigan	487
Maine	445
Vermont	333
Montana	269
Minnesota	254
Massachusetts	236
New Hampshire	225
North Dakota	218
	Number of Nights
	'000
New York	2,837
Washington	2,270
Florida	2,191
Michigan	1,513
California	1,489
Maine	1,451
Massachusetts	1,015
Vermont	975
Montana	779
New Jersey	752

**Canadians Spend Fewer Nights Abroad Than in the Early 1990's**



Over the last ten years, the length of one or more nights trips by Canadians outside the country during the summer has shortened. In 1996, one or more nights trips to the United States averaged 4.9 nights, compared with almost 5.5 nights in 1986.

one night to the neighbouring state of New York, twice as many as the residents of Quebec (336,000).

Meanwhile, an overnight stay in Washington State was on the itinerary of one in seven overnight trips Canadians made to the United States last summer.

Although Canadians made numerous overnight visits to bordering states, their stays were short (2.9 nights on average). In contrast, while Florida was 13th with 213,000 overnight summer visits, Canadians spent the 3rd largest number of nights there than in any other state.

### Canadians Made Fewer Trips Overseas Than to the United States but Stayed Longer

Canadians make fewer trips overseas than to the United States, mostly because of the greater distance and higher costs involved. In the summer of 1996, only 15% of the 6.1 million overnight trips Canadians made outside the country were to overseas destinations.

However, Canadians' overseas trips are longer than their overnight trips south of the border. During the summer of 1996, 94% of all trips overseas lasted at least one week, compared with 25% of all overnight trips to the United States. Overall, Canadian travellers spent 44% of their nights outside Canada in countries other than the United States during the summer of 1996.

Europe was by far the continent where Canadians spent most of their nights overseas (65%). The most popular country with Canadians (other than the United States) remained the United Kingdom. Canadians made 284,000 overnight visits to that country, the same number as during the previous summer. Overnight visits to France, which ranked second with 178,000, increased by 15% over the same period.

### International Travel Account

#### Year 1996 and Fourth Quarter 1996 (preliminary)

For the first time in four years, the international travel account deficit was up in 1996. Driven by increased spending by Canadians in the United States, the deficit rose to \$3.2 billion, 6.0% higher than in 1995.

The international travel account deficit peaked at \$6.4 billion in 1992, when the Canadian dollar averaged US\$0.83 (it was a dime less in 1996). At the time, that amount represented 25% of the current account deficit. It dropped to

20% in 1993 and 18% in 1994. But in 1995 (the most recent year for which the current account is available), that proportion jumped to 27%, as the current account deficit was halved to \$11 billion, from \$22 billion in 1994.

In 1996, spending by Canadians travelling abroad was fuelled by an increase in overnight trips. Spending jumped 8.6% from the previous year, to an unprecedented \$15.2 billion.

Foreign travellers made a record number of trips to Canada in 1996 and spent \$12.0 billion, up 9.3% from 1995.

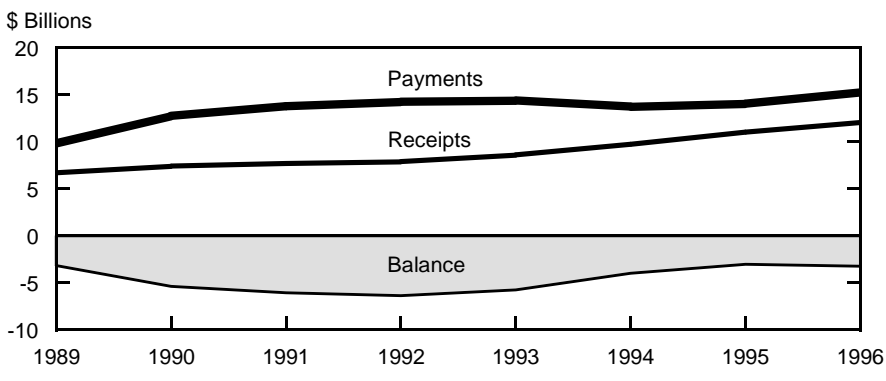
#### Note to readers

Unless otherwise stated, quarterly data used are seasonally adjusted. Amounts are in Canadian dollars and not adjusted for inflation.

Receipts represent spending by foreigners travelling in Canada, including education-related and medical-related spending. Payments represent spending by Canadians travelling abroad, including education-related and medical-related spending.

Overseas countries are countries other than the United States.

**Canada's International Travel Account Deficit Up for the First Time in Four Years**



### Record Surplus in Travel Account Between Canada and Overseas Countries

Receipts from overseas visitors exceeded payments by Canadians in overseas countries again in 1996. This surplus in the travel account between Canada and countries other than the United States reached a new high of \$271 million.

Residents of overseas countries spent a record \$5.5 billion in Canada in 1996, 11.1% more than in 1995. It was the third consecutive double-digit annual increase in receipts from overseas.

Overseas visitors have increasingly benefitted the Canadian economy. Spending by overseas visitors to Canada has more than doubled since 1989, when it

represented 38% of Canada's international travel receipts, to reach 46% in 1996.

Meanwhile, Canadians are increasingly travelling to countries other than the United States. The amount spent overseas by Canadian travellers in 1996 (\$5.3 billion) was the highest on record.

### Gap Between Payments to the United States and Receipts from Americans Grows

In 1996, Canadians travelling in the United States continued to outspend Americans visiting Canada. Spending by Canadian travellers in the United States jumped 9.6% from 1995 while spending

by American travellers in Canada rose 7.8%.

The net result was a larger gap between receipts from American visitors (\$6.5 billion) and payments by Canadian travellers to the United States (\$10.0 billion). Canada's travel account deficit with the United States was up 12.9%, to \$3.5 billion.

#### Fourth Quarter of 1996

In the fourth quarter of 1996, receipts in the international travel account rose to a

new high of \$3.1 billion. Meanwhile, spending abroad by Canadians was down slightly (0.7%) to \$3.8 billion. The resulting \$728 million difference between receipts and payments – the international travel account deficit – was 17.5% smaller than the deficit during the previous quarter.

Spending by American visitors to Canada was up marginally in the fourth quarter (0.7%), to \$1.6 billion, while Canadian travellers reduced their spending in the United States by 1.5% to \$2.5 billion. This brought the travel

account deficit with the United States down to \$887 million, a 5.3% improvement from the previous quarter.

Meanwhile, for the third consecutive quarter, overseas visitors spent more in Canada than Canadians travelling in countries other than the United States. The receipts of \$1.5 billion were 8.4% higher than the previous quarter and the payments of \$1.3 billion, 0.8% higher. This surplus in the travel account between Canada and overseas countries rose to a new high of \$159 million in the fourth quarter of 1996.

International Travel Account Receipts and Payments							
	Fourth Quarter 1995	First Quarter 1996 <sup>r</sup>	Second Quarter 1996 <sup>r</sup>	Third Quarter 1996 <sup>r</sup>	Fourth Quarter 1996 <sup>p</sup>	1995	1996
	Seasonally Adjusted <sup>1</sup> \$ Millions						
United States							
Receipts	1,536	1,656	1,644	1,586	1,597	6,013	6,483
Payments	2,375	2,591	2,369	2,522	2,484	9,099	9,968
Balance	-839	-935	-726	-937	-887	-3,086	-3,485
All other countries							
Receipts	1,360	1,294	1,378	1,373	1,489	4,984	5,535
Payments	1,222	1,321	1,293	1,319	1,330	4,929	5,263
Balance	138	-27	85	54	159	55	271
Total, all countries							
Receipts	2,896	2,950	3,022	2,959	3,087	10,997	12,017
Payments	3,597	3,912	3,663	3,841	3,815	14,028	15,231
Balance	-701	-962	-641	-882	-728	-3,031	-3,214
	Fourth Quarter 1995	First Quarter 1996 <sup>r</sup>	Second Quarter 1996 <sup>r</sup>	Third Quarter 1996 <sup>r</sup>	Fourth Quarter 1996 <sup>p</sup>	1995	1996
	Unadjusted <sup>1</sup> \$ Millions						
United States							
Receipts	1,035	859	1,699	2,843	1,082	6,013	6,483
Payments	1,909	2,985	2,581	2,404	1,998	9,099	9,968
Balance	-874	-2,126	-882	439	-916	-3,086	-3,485
All other countries							
Receipts	976	848	1,404	2,213	1,068	4,984	5,535
Payments	1,084	1,414	1,219	1,460	1,171	4,929	5,263
Balance	-108	-566	185	753	-103	55	271
Total, all countries							
Receipts	2,011	1,707	3,103	5,056	2,150	10,997	12,017
Payments	2,993	4,399	3,800	3,864	3,169	14,028	15,231
Balance	-982	-2,692	-697	1,192	-1,019	-3,031	-3,214

<sup>1</sup> Data may not add to totals due to rounding.

<sup>r</sup> Revised figures.

<sup>p</sup> Preliminary figures.

## Travel Price Index Year 1996 and Fourth Quarter 1996

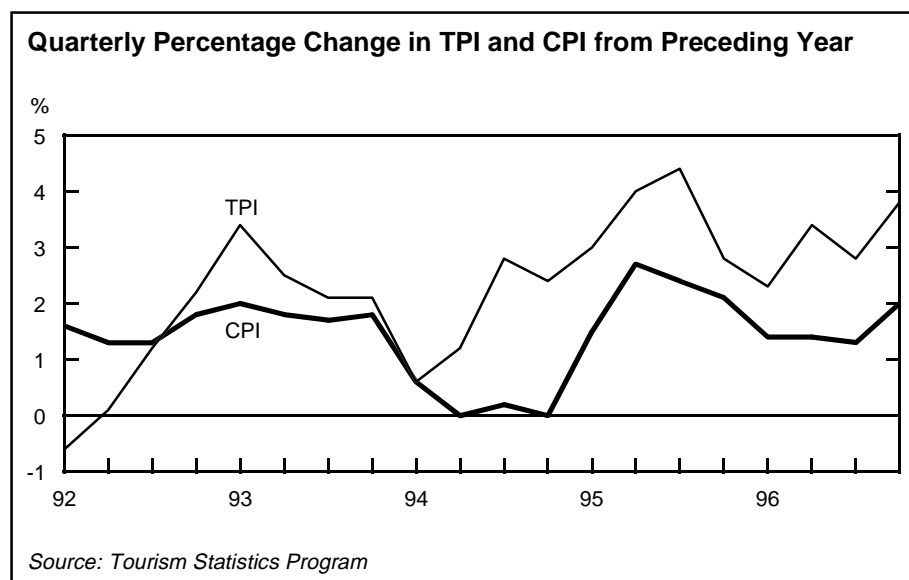
### Note to users

The Travel Price Index (TPI) is an aggregate index of goods and services used by travellers in Canada. Price movements are drawn from the detailed Consumer Price Index (CPI) series.

A technical report on the Travel Price Index is available from the Tourism Statistics Program at (613) 951-1673.

### TPI Increases 3.1% Between 1995 and 1996

The prices for almost all TPI components increased between 1995 and 1996 and the few decreases recorded were too weak to hold back the overall TPI advance. In comparison to the previous year, intercity



as well as local and commuter transportation saw the greatest increases, 7.8% and 7.3% respectively. In total, the TPI rose 3.1% between 1995 and 1996.

### TPI Up 3.8% Compared to the Same Period Last Year

Compared to the same quarter last year, consumers in the fourth quarter of 1996 saw an increase of 3.8% in the price of goods and services measured by the Travel Price Index. The primary factors influencing this were a 10.9% increase in intercity transportation costs and a 6.1% increase in the costs of local and commuter transportation. The cost of operating automotive vehicles also climbed 5.6%. On the other hand, travellers paid 2.2% less for automotive vehicle rental and leasing fees and 1.2% less for accommodation expenses.

By comparison, in the fourth quarter of 1996, the CPI edged up 1.9% over the same quarter last year.

### TPI Down 2.1% Compared to Last Quarter

During the fourth quarter of 1996, the Travel Price Index dropped 2.1% compared to the previous quarter. In comparison, the cost of all goods and services recorded by the Consumer Price Index rose 0.5% in the fourth quarter of 1996 (see Travel Indicators on page 14).

For the most part, the decline in the TPI between the third and fourth quarters of 1996 can be attributed to the 18.3% seasonal dip in the price of accommodation. However, consumers spent 3.0% more to use automotive vehicles and 2.4% more for intercity transportation.

### The Travel Price Index (TPI) and its Components,

(not seasonally adjusted, 1986 = 100)

Components of the TPI	Fourth Quarter 1996	Year 1996	% Change		
			Third Quarter 1996	Fourth Quarter 1995	Year 1996/1995
Inter-city transportation	167.4	160.6	2.4	10.9	7.8
Local and commuter transportation	176.5	173.1	0.1	6.1	7.3
Rental and leasing of automotive vehicles	136.2	135.0	0.2	-2.2	1.7
Operation of automotive vehicles	148.6	145.5	3.0	5.6	3.3
Traveller accommodation	132.4	137.6	-18.3	-1.2	1.5
Food	128.8	128.0	0.7	2.5	1.3
Alcoholic beverages	147.8	146.9	0.5	1.7	2.0
Clothing and footwear	131.5	131.3	0.5	0.3	-0.4
Medicinal and pharmaceutical products	152.8	153.0	-0.6	0.4	0.3
Personal care	132.1	131.4	0.7	1.1	0.3
Photographic equipment	108.0	110.4	-2.4	-1.7	0.7
Photographic services and supplies	115.6	116.4	0.3	-2.8	-1.1
Reading materials and other printed matter	172.8	170.1	0.9	4.3	4.6
Tobacco products and smokers' supplies	145.6	143.7	1.4	2.2	2.0
<b>Travel Price Index (TPI)</b>	<b>146.9</b>	<b>145.6</b>	<b>-2.1</b>	<b>3.8</b>	<b>3.1</b>
<b>Consumer Price Index (CPI)</b>	<b>136.4</b>	<b>135.6</b>	<b>0.5</b>	<b>1.9</b>	<b>1.6</b>

Sources: The Consumer Price Index, Cat. No. 62-001-XPB; and the Tourism Statistics Program

# National Tourism Indicators

## Third Quarter 1996

### Tourism Demand and Employment

In the third quarter of 1996, in terms of 1986 dollars, tourism demand in Canada held steady with respect to the previous quarter. Specifically, despite the decline

observed in the three other tourism goods and services sectors, growth in demand for transportation (which accounted for half of all tourism expenditures in the third quarter of 1996) caused overall demand to remain stable.

Furthermore, domestic demand grew by 1.1%, again fuelled by growth in the transportation industry since accommodation expenditures declined by 6.2%.

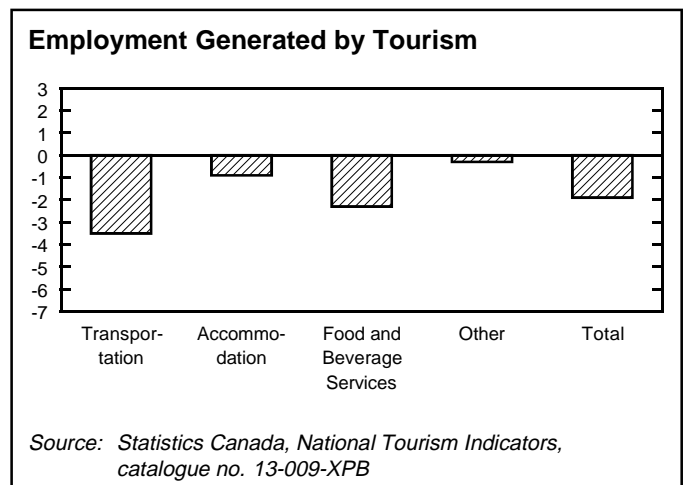
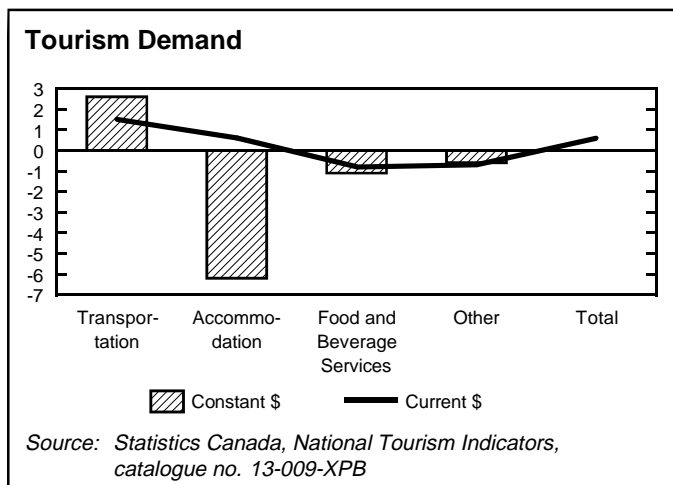
An overall 2.9% decrease in tourism exports reflected declining demand for goods and services produced in all four sectors.

Employment generated by direct sales to visitors in tourism-related industries declined by 1.9% between the second and third quarters of 1996. All sectors experienced a decline, particularly transportation where there was a 3.5% decrease.

**TOURISM DEMAND AND EMPLOYMENT**  
 Seasonally Adjusted, Current and Constant Dollars from 1986  
 Percent Change, Third Quarter from Previous Quarter of 1996

	Tourism Demand						Employment Generated by Tourism	
	IN CANADA		Domestic		Tourism Exports		TOTAL	
	Change in		Change in		Change in		Change	
	Constant \$	Current \$	Constant \$	Current \$	Constant \$	Current \$		
Transportation	2.6	1.5	3.8	2.6	-1.3	-1.8	Transportation	-3.5
Accommodation	-6.2	0.6	-6.2	0.7	-6.1	0.2	Accommodation	-0.9
Food & Beverage S.	-1.1	-0.8	0.1	0.4	-3.6	-3.2	Food & Beverage Services	-2.3
Other	-0.6	-0.7	0.2	0.2	-2.9	-3.5	Other	-0.3
<b>Total</b>	<b>0.0</b>	<b>0.6</b>	<b>1.1</b>	<b>1.6</b>	<b>-2.9</b>	<b>-2.0</b>	<b>Total</b>	<b>-1.9</b>

*Source: Statistics Canada, National Tourism Indicators, Cat. No. 13-009-XPB.*





	Fourth Quarter		% Change	Year		% Change
	1995	1996		1995	1996	
<b>VISITORS TO CANADA (000s)</b>						
From United States	7,430	7,697	3.6	37,330	38,471	3.1
Overnight visits	2,120	2,113	-0.3	13,005	12,951	-0.4
- By auto	1,315	1,288	-2.1	8,702	8,325	-4.3
From Overseas	739	806	9.0	4,327	4,785	10.6
Overnight visits	681	743	9.0	3,963	4,420	11.5
Top Seven Countries:						
United Kingdom	111	121	9.5	645	701	8.7
Japan	116	120	3.5	591	650	10.0
France	58	57	-0.8	434	461	6.3
Germany	59	57	-3.6	427	454	6.3
Hong Kong	33	36	10.5	174	201	15.3
South Korea	21	26	26.7	113	159	41.4
Australia	27	27	-0.2	143	150	5.4
<b>CANADIANS OUTSIDE CANADA (000s)</b>						
To United States:	11,827	11,650	-1.5	52,153	52,699	1.0
Overnight visits	2,974	2,960	-0.5	14,662	15,259	4.1
- By auto	1,780	1,676	-5.9	9,686	9,579	-1.1
To Overseas	701	734	4.8	3,543	3,672	3.6
<b>INDUSTRY</b>						
Airline passengers (Level I) (000s)	5,145	5,382	4.6	21,428	23,164	8.1
Airline passenger-km (Level I) (000,000s)	11,840	12,456	5.2	51,798	57,016	10.1
<b>PRICES</b>						
1986 = 100 (not s.a.)						
Travel Price Index	141.5	146.9	3.8	141.2	145.6	3.1
Consumer Price Index	133.9	136.6	2.0	133.5	135.6	1.6
- Restaurant meals	142.8	145.3	1.8	142.0	144.3	1.6
- Inter-city transportation	151.0	167.4	10.9	149.0	160.6	7.8
- Renting and leasing of automotive vehicles	139.3	136.2	-2.2	132.8	135.0	1.7
- Gasoline	120.5	130.3	8.1	122.4	127.9	4.5
<b>ECONOMIC</b>						
Gross Domestic Product, 1986 prices (s.a.) (000,000s)	543,084	557,407	2.6	542,004	550,734	1.6
- Amusement and recreation (000,000s)	5,174	5,482	5.9	5,113	5,356	4.8
- Accommodation and food services (000,000s)	11,878	11,981	0.9	11,937	11,916	-0.2
Personal disposable income per capita (s.a.)	17,165	17,134	-0.2	17,182	17,145	-0.2
<b>LABOUR (000s)</b>						
Labour force (s.a.)	14,960	15,248	1.9	14,929	15,147	1.5
Unemployed	1,410	1,514	7.4	1,422	1,468	3.2
Employed	13,550	13,734	1.4	13,508	13,680	1.3
- Accommodation and food services (not s.a.)	858	872	1.6	861	893	3.7
<b>EXCHANGE RATES (in Canadian dollars)</b>						
American Dollar	1.3560	1.3503	-0.4	1.3724	1.3635	-0.7
British Pound	2.1158	2.2119	4.5	2.1664	2.1295	-1.7
Japanese Yen	0.0134	0.0120	-10.5	0.0147	0.0125	-14.6
German Mark	0.9525	0.8822	-7.4	0.9589	0.9066	-5.5
French Franc	0.2753	0.2610	-5.2	0.2754	0.2666	-3.2
<i>(s.a.) seasonally adjusted.</i>						