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CTC Tourism Intelligence Bulletin – Issue 2: November 2001

*The monthly **Tourism Intelligence Bulletin** represents one of many initiatives by the Canadian Tourism Commission (CTC) to update and inform the Canadian tourism industry on the current state of travel following the September 11th terrorist attacks. This second issue focuses on a broader world perspective.*

Travellers' concerns expand – but North American market outlooks offer early relief

Executive Summary

Since September 11th, the overriding concern regarding travel has been further terrorist acts. While travellers remain concerned about safety, travel inconveniences ranging from long delays and security lineups to being stranded by bankrupt airlines now represent new obstacles for the travel industry. The persistent economic fallout of September 11th may represent a greater impediment to travellers than it did immediately following the attacks as job security and financial well-being now appear more vulnerable.

With the war in Afghanistan making significant progress and no major terrorist acts occurring since September 11th, travel is slowly rebounding. Air travel continues to be down, yet fears about further terrorist attacks appear to have subsided. The reality of collapsed airlines such as Canada 3000, Ansett Airlines and Sabena leaving travellers temporarily stranded around the world has now sparked a new fear for travellers.

The September results from Statistics Canada International Travel Survey shows the initial impact of the September 11th tragedies in the U.S., where international travel to Canada plummeted significantly by 19.3 per cent over the same period last year, the greatest decline in 25 years. Travel from the U.S. to Canada was mostly affected, declining by 18.2 per cent or a loss of approximately 285,000 person-trips compared to September 2000. Overseas travel was also hit hard, with a significant decline of 22.3 per cent or a loss of approximately 125,000 person-trips.

Consumer (traveller) response

- The weakened state of the economy is emerging to be an even more significant factor in the decision to travel. A November Ipsos Reid poll indicates 41 per cent of Americans and 28 per cent of Canadians agree that the downturn in the economy has had more of an impact on their travel behavior than September 11th.
- The Canadian Tourism Research Institute reports that 38 per cent of Canadians are still planning on taking a winter vacation. Of those Canadians travellers, 51 per cent are choosing to travel within Canada for their winter vacation. Yet, two thirds of Canadian respondents to a recent Ipsos-Reid survey worry that an airline they plan to use might go bankrupt.

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Travellers' concerns expand – but North American market outlooks offer early relief

- On the whole, North Americans still seem willing to travel, but are more likely to take trips closer to home by car. 61 per cent of U.S. travelers and 59 per cent of Canadian respondents to a November Ipsos Reid survey agree that they will be taking trips closer to home in the near term, with 88 per cent of Americans and 66 per cent of Canadians saying they would rather drive than fly to these destinations.
- The Travel Industry Association of American (TIA) is forecasting a 12 per cent decrease in business travel in the fourth quarter of 2001. A recent report by Yesawich Pepperdine and Brown indicate that one in five (19%) business travelers say their future travel plans would be affected by the terrorist attacks.

Travel supplier response

- In the third quarter, U.S. airlines lost a collective \$2.4 billion. American Airlines alone has been losing approximately 10 million dollars a day while the parent company of United Airlines, America's second largest airline, reported a \$1.2 billion loss in the third quarter, the worst quarterly deficit in the company's 75-year history. Airlines are now projecting their operating losses will be worse in the fourth quarter. To date, the declining revenues have resulted in 100,000 layoffs in the U.S. airline industry.
- In Canada, VIA Rail's capacity was up in November on the long haul Eastern corridor as it picked up traffic from Canada 3000. Passenger volumes on the Montreal-Toronto-Ottawa lines were still up 9 per cent in November over last year and many first-class seats sold out. The Western corridor was also up 4 per cent as increased passengers from the United States made up for the loss of international tourists.
- Hotels around the world that rely on business or international travellers have responded by cutting room rates in the short-term. Even high-end hotels such as the Savoy in London are offering low-rate packages over Christmas. Hoping to attract the more lucrative weekend traveler, Starwood Hotels and Resorts in Asia is also offering steep discounts to attract business within Asia.
- Globally, travel agencies and tour operators have responded to the change in travel trends by putting together weekend "getaway" or ski packages and promoting local tourism. Countries that rely on U.S. travellers have already begun to initiate promotional packages aimed at luring the American traveller for 2002.

Economic fallout (of the September 11, 2001 tragedy)

- The economic outlook is becoming increasingly more pessimistic. The persistent economic fallout has further eroded business sentiment. A consensus survey of American and Canadian economic forecasters in November found that the North American economic slowdown would now continue into early 2002, with a rebound not expected until the later part of 2002.
- Job losses continued to mount and now include the collapse of Canada 3000 within the tourism sector. The October unemployment rate in Canada stood at 7.3 per cent, while the U.S. unemployment increased to 5.4 per cent. The increasing unemployment rate has been undermining consumer confidence, even as fears of future terrorist attacks begin to ease and the U.S. appears to be making significant progress in Afghanistan.
- Economic growth projections for Europe have been downgraded as consumer and business confidence declines and export growth weakens. European business confidence was weak before the terrorist attacks and will likely weaken further in the next few months. Asian countries are more vulnerable to the decline in the world economy, particularly with demand for exports of their IT products. As a result, real economic growth in the Asia-Pacific region is expected to expand by a marginal 0.9 per cent this year before rebounding to 2 per cent growth in 2002.

Government response

- The CTC, the U.S. and tourism authorities in Australia, New Zealand, Hong Kong and the U.K. are actively promoting domestic and short-haul destinations. Many countries that rely on travel from the U.S. have already initiated marketing campaigns targeting the U.S. traveller. Industry leaders, and more dramatically, the Governor of Hawaii, have also appealed to Japanese travel representatives to try and stimulate Japanese travel.
- The Canadian and U.S. governments have introduced new legislation designed to increase airport security. Canadian legislation is expected to focus on taking the responsibility for passenger and baggage screening out of the airlines hands and

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giving it either to local airport authorities or creating a non-profit Crown corporation. In the U.S., legislation includes putting airport screening under federal control, inspection of all checked bags, fortifying cockpit doors and increasing the use of air marshals on flights.

- The Canadian, U.S., New Zealand and Korean governments have committed financial aid to airlines experiencing financial difficulty directly related to the September 11th attacks. Lufthansa has made a formal appeal to the German government and workers at Alitalia in Italy are putting pressure on the Italian government to intervene.

Opportunities

- The latest Business Outlook (BO) findings suggest there are some opportunities for the Canadian tourism industry this winter based on advance booking data and associated market intelligence. Specifically, the BO reports that overall domestic bookings for winter 2001/2002 are up 1 per cent compared with last winter. More encouragingly, domestic group travel is expected to increase 3 per cent and independent leisure travel (FIT) up 4 per cent. BO results for U.S. travel to Canada are also encouraging considering the outlook for many other international markets remains bleak for the winter period. Canada appears well positioned to benefit from diverted overseas travel that Americans are changing to reflect "closer to home" destinations.
- A November Ipsos-Reid survey indicated that 33 per cent of Americans and 26 per cent of Canadians would most likely use the Internet to plan their next trip. The trend of travel planning and booking using Internet is also growing in Europe. Although the latest Ipsos Reid survey indicates that 41 per cent of Americans are very unlikely to visit Canada in the next 12 months, 58 per cent said that the reason there weren't expecting to visit Canada was because they needed more ideas on where to go and what to see. In response, we see an opportunity for Canada to benefit by addressing some of these apparent information gaps.

Overview

With the war in Afghanistan making significant progress and no major terrorist acts occurring since September 11th, travel is slowly rebounding. Air travel continues to be down, especially on international flights, yet fears about further terrorist attacks appear to have subsided. An unfolding aversion to air travel seems to be directed at hassles and delays now expected at airports. A decrease in airport staff and an increase in security measures have caused long lines at check-in counters and security checkpoints which tack on extra time waiting in airports.

Fears of being stranded far from home have also become a key concern in the travellers' psyche. By mid-November, international bookings around the world were down 12-15 per cent, on average, from last year. The reality of collapsed airlines such as Canada 3000, Ansett Airlines and Sabena leaving travellers temporarily stranded around the world will dampen some renewed enthusiasm towards air travel.

The weakened state of the economy is also emerging to be a significant factor in the decision to travel. Economic trends around the world are impacting people's decisions about their discretionary income. Concerns regarding job security and future personal wealth are more likely to be considerations in travel spending. Air travel, particularly international travel, has declined significantly. As a result, economical weekend getaways and traveling to destinations closer to home is becoming more popular than long-haul travel.

Travelers who are now seeking short-haul "safe" destinations are giving a boost to low-cost and regional airlines. Larger airlines have adapted by reducing capacity, re-routing flights to more popular locations and, in some instances, slashing prices to selected destinations.

Consumer (traveller) response – Canada & U.S.

In another recent Ipsos Reid survey, 41 per cent of Americans and 28 per cent of Canadians agree that a downturn in the economy has had more of an impact on their travel behaviour than September 11th. This corresponds with the Travel Industry Association of America's survey indicating 42 per cent of consumers cited the softening economy as the primary reason for curtailing travel plans.

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While fears of more terrorist acts have somewhat subsided, a bigger deterrent for air travel now seems to be related to the upheaval in the airline industry. A November Ipsos-Reid poll suggests that turmoil in the airline industry has hurt confidence in air travel more than risk of hijacking. Two thirds of respondents worry an airline they plan to use will go bankrupt, leaving them stranded, as was the case with Canada 3000. 86 per cent of those surveyed said they had no problem flying to a Canadian destination, yet 44 per cent worry about being on flights bound for the U.S.

North Americans still seem willing to travel, however, they are more likely to stay closer to home and travel by car. A November Ipsos Reid survey indicates that 61 per cent of U.S. and 59 per cent of Canadian respondents agree that they will be taking trips closer to home in the near term. 88 per cent of

Americans and 66 per cent of Canadians in this survey say they would rather drive than fly to these destinations.

According to the Canadian Tourism Research Institute's Winter Travel Intentions Survey, 38 per cent of Canadians are still planning on taking a winter vacation trip. Of those planning to take a trip this winter, 51 per cent have chosen to remain in Canada. This represents an estimated 4.4 million domestic vacation trips for the winter 2001/2002 season. Mont. Tremblant reports that season ski pass revenue is running 27 per cent ahead of last year.

The desire for Americans to stay closer to home is also helping destinations like Las Vegas, Orlando, Florida and US ski regions. U.S. ski industry executives have reported that resorts where guests arrive primarily by car will weather the travel slump. The American Skiing Company, the largest operator of ski resorts in the U.S., reports that lodging reservations are currently down eight per cent over last year. However, bookings at resorts that traditionally cater to the drive-in market – Vermont, Maine, New Hampshire – are up eight per cent. Sale of ski passes, typically bought by people who live close to resorts are also up 12 per cent over last year.

According to the results of the first two waves of the USA Recovery/Monitor by DK Shifflet, American travelers have an equal and high level of concern over the US economy and terrorism. Over the next six months travel volume is expected to be down 10% in total person-trips compared to the same time last year. Expected declines in business travel are stronger than leisure travel. Among leisure travelers, 62% expect to take the same number of trips over the next six months compared to the same period last year while approximately 10% expect to take fewer trips. A growing number of leisure air travelers expect to take fewer trips by air. One-third of travelers would consider taking one or more leisure trips to Canada in the next six months. Canada continues to be seen as the safest country/region tested – even higher than the US overall.

Short-haul trips to see family and friends and "pleasure/leisure" trips surfaced as the most popular types of vacations. A recent survey from the Travel Industry Association of America indicates almost two thirds of respondents (63%) feel that leisure travel is a good way to take their minds off stressful times. According to Spa Finder, an Internet database of spas around the world, there has been a recent upsurge in travelers seeking the rest and renewal of spa vacations. Interestingly, more travelers are requesting information on spa packages that don't involve flying – even if it takes twice as much time.

While rebounding somewhat, business travel continues to be significantly down. In the fourth quarter of 2001, the Travel Industry Association of America is forecasting a 12 per cent decrease in business travel over last year. A recent report by Yesawich Pepperdine and Brown indicate that one in five (19%) business travelers say their future travel plans would be affected by the terrorist attacks. Among those who said their future plans would be affected by the terrorist attacks, 69 per cent said they would rather drive than fly – up from 53 per cent from the week of October 8th. More than half indicate they will take fewer international business trips.

Travel supplier response – Canada & U.S.

Airlines

With North Americans shunning air travel, the continent's top airlines have been scrambling. With the fall in demand, it is estimated that the September 11th terrorist attacks cut Canadian airline revenues by approximately 30 per cent. Canada 3000, which went into bankruptcy in November, had reported a 30 per cent drop in business after the attacks. Air Canada reported a 17.9 per cent drop in traffic in October compared with last year. Domestic travel fell by 16.4 per cent and by 18.6 per cent on cross border and international flights. Capacity declined 16.7 per cent as Air Canada began grounding planes and using smaller aircraft on selected routes. Canada's national carrier reported a \$57 million operating loss in the third quarter.

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According to the U.S. Air Transport Association, airline industry revenues in the U.S. were down 38 per cent in October while passenger traffic was off by 23 per cent. Most airlines in the United States are still flying with only 40 per cent load factors. This situation has forced the major carriers to cut fares by an average of 19 per cent and reduce capacity by 20 per cent.

In the third quarter, U.S. airlines lost a collective \$2.4 billion. AMR Corp., parent company of American Airlines and TWA lost a record \$414 million. American alone has been losing approximately 10 million dollars a day, and has been forced to cut 20,000 jobs. The parent company of United Airlines, America's second largest airline, reported a \$1.2 billion loss in the third quarter, the worst quarterly deficit in the company's 75-year history. The airline predicts its operating losses will be worse in the fourth quarter. With its planes half full, UAL moved to cut costs by reducing 30 per cent of its flights. To date, the declining revenues have resulted in 100,000 layoffs in the U.S. airline industry.

Meanwhile, as the bigger carriers suffer, low-fare, or regional airlines appear to be weathering the storm. Air Canada is expanding Tango's flight routes in the east and is forging ahead on plans for a western-based discount carrier which is set to rival Calgary's WestJet. WestJet announced a 42 per cent increase in passenger revenue miles for October. On the whole, U.S. discount carriers, such as Southwest and JetBlue are faring better than other airlines. Regional carriers such as Spirit Airlines which links Midwestern U.S. cities to popular destinations in South Carolina, California and the Caribbean announced a growth in all traffic figures for October and anticipates a further increase over the holidays. Hawaiian Airlines posted a third quarter profit of \$12 million and Alaska Air Group, parent of Alaska Airlines and Horizon Air posted a \$25.3 million profit.

To try and lure the business traveller back to the skies, Air Canada has recently introduced two new fare options for business travellers who are able to book in advance. The new fares offer savings of up to 50 per cent off full economy class fares on the airlines' extensive U.S. transborder route network through December 31st. United, American and Continental have responded to the dramatic drop in business travel with a 25-50 per cent drop in business fares.

Other Transportation Suppliers

With the trend toward ground transportation growing, VIA Rail's capacity was up 4 per cent in November on the long haul Eastern corridor as it picked up traffic from Canada 3000. The Montreal-Toronto-Ottawa lines are still doing well with a 9 per cent volume increase in November over last year. The Western corridor is also up by 4 per cent with increased passengers from the United States making up for the loss of international tours. In the U.S., Amtrak added 75,000 seats across its national network of trains to meet U.S. Thanksgiving holiday demands. Greyhound saw a 20 per cent increase in advance ticket sales and a nine per cent increase in "long-haul" travel over 1,000 miles for the Thanksgiving weekend. RV rentals have also benefited from the trend, with rentals up between 30-42 per cent over last year.

Taubman Centers, owners of some of the best known shopping centres in the U.S., has developed a "Drive and Shop" travel package that will be available at its centers across the country. The drive and shop package offers affordable accommodations, retail savings and other special vacation options in the all-inclusive package.

While most travel agents have suffered significantly during this downturn in travel, it is interesting to note that on-line travel sites such as Travelocity, Expedia and Priceline have all reported profits in the third quarter. Continued growth is expected for the fourth quarter. Orbitz booked a record-volume day the last week of October.

Hotels

According to Smith Travel Research, American hotel room revenues were down 13.7 per cent from a year ago for the week ending November 10th. This decline represents a significant improvement over an 18.8 per cent decline the week before – a sign that people are beginning to travel again. Upscale hotels, which typically cater to business travellers, conventions and long-haul travellers continue to suffer the most. Hotels rely on weekend/roadside vacationers are rebounding quicker.

On the whole, room rates have been cut to meet the decline in demand, but hotels have been reluctant to commit to maintaining room rates that are too low. It is expected that the negotiated rates for 2002 will not change much from 2001.

Government response – Canada & U.S.

In November, the Canadian Tourism Commission launched a \$20 million advertising campaign to encourage Canadians to travel within Canada as well as increase support to the tourism industry. The campaign will feature a series of television and print media advertisements and employ Internet and e-marketing tools. This national campaign is complemented by a similar effort directed at potential U.S. travelers in near-border states. A total of \$8 million will be spent in Canada, with the remaining \$12 million to reach travellers in the United States.

President Bush has also appeared in his first-ever advertisement encouraging Americans to start travelling again and see America as part of a projected \$20 million domestic and international advertising campaign. International versions of the advertising campaign will appear in Canada, Japan and the U.K.

The Prime Minister has also recently lent his support to a campaign to get Canadians to visit New York City in a "Canada loves New York" rally planned for December 1. Prime Minister Chretien is among other Canadian dignitaries and celebrities in a television commercial promoting the rally that ended with the closing line "and after you are fully recovered, come visits us in Canada".

A bill currently before the House of Representatives is targeting the creation of a U.S. national tourist office and calls for "substantial federal funding" to stimulate travel. The bill, looking for \$75 million a year in federal aid, is to be matched with funds from the private sector.

The Canadian federal government has contributed \$160 million in direct aid to the airlines for lost business immediately after the terrorist attacks. However, with a slumping economy squeezing federal revenues, more government aid is unlikely. Ottawa has maintained that they are looking to the private sector to fill the void in competition in the airline industry.

The Canadian government has also introduced new anti-terror legislation to bring airport security screeners under control of the government. The bill is intended to shift responsibility for passenger and baggage screening from the airlines to either a non-profit Crown corporation or to local airport authorities. A new security airport fee would likely be introduced to offset the cost of implementing the bill.

In the United States, the federal government has committed to providing more than \$15 billion in loans and loan guarantees to the major airlines. By mid-November, the U.S. Treasury Department gave carriers such as United, American Airlines and Delta a two-month postponement on roughly \$2 billion in taxes, providing the industry with much needed cash for daily operations while travel demand remains in a slump.

President Bush has recently signed legislation to tighten airport security. Legislation includes putting airport screening under federal control, inspection of all checked bags, and fortifying cockpit doors. The government is also committed to assigning more air marshals to flights and increasing the National Guard at many U.S. airports.

International response – Overseas

Europe

A European Union report released in November stated that September 11th terrorist attacks were still being felt across Europe with the 15 nation block seeing a 30 per cent decline in American and Japanese travelers. Luxury hotels and resorts were the worst hit areas according to the report. Hotel occupancies in major European cities dropped 20-30 per cent in October. High-end hotels were reporting vacancy rates close to 50 per cent. The EU will support new campaigns promoting European tourist destinations, but has not committed to subsidies or compensation through a reduction of taxes to the travel industry.

The Association of European Airlines, which represents 29 major air carriers, estimated its members will lose at least US\$2 billion up to the end of December and will have to ground 108 aircraft, putting 20,000 jobs in jeopardy. Traffic dropped 17 per cent on Asian and Australia routes and by 35 per cent on American routes since September 11th.

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According to the OAG, the number of flights to the U.S. has been cut by approximately 17 per cent since September 11th. The biggest cuts in services were from Paris's Charles de Gaulle and London's Gatwick airports, where the airlines cut connections back by 20 and 22 per cent respectively. Amsterdam Schiphol lost 11 per cent of its U.S. services and London Heathrow was down 11 per cent. On the whole, international flights to the U.S. declined 16 per cent, while flights within Europe declined by a modest 3 per cent from pre-September 11th plans.

The European Travel Commission is planning a three million dollar recovery marketing program for an early 2002 targeting of U.S. travelers. Italy is also launching its own "Operation America" public relations campaign.

The on-line travel segment in Europe is also showing a significant increase. Already 126 million people are online across Europe with travel and leisure accounting for 26 per cent of the total e-commerce market. Analysts forecast that on-line travel sales will grow from 4.5 billion Euros to as high as 38.7 billion by 2006. New European Internet travel services such as Opedo, are currently being launched in Germany with plans to expand in the U.K. and France next year.

United Kingdom

Travel and Trade Gazette U.K. and Ireland reports that visits to the U.S. by U.K. residents fell by 21 per cent in September, compared to last year. Overall, travel to Europe from the U.K. rose almost 2 per cent over last September. Travel plans for U.K. travelers in 2002 seem to be on hold. In a survey conducted by NOP in the U.K., one in three U.K. residents now feel less safe traveling on a plane. If U.K. travelers do travel, they are expected to travel within the U.K. and Europe, rather than long-haul destinations such as the U.S., Middle East and Asia. France and Spain continue to be among the most popular destinations.

In response to the growing demand for travel within the U.K. and Europe, BritRail announced they will freeze railpass prices at 2001 rates for the 2002 season and will launch a short-stay product in the new year.

Low-fare air couriers such as Go (U.K) and Ryanair (Ireland) have made sizable profits traveling to destinations within Europe and the U.K. Transatlantic airlines have seen traffic plummet by 35 per cent. In response, they have reduced fares by as much as 20-25 per cent and cut back on flights. British Airways has cut 190 routes as domestic travel dropped 16.4 per cent and European travel was down 11.2 per cent. As a result of the drastic decline in demand, British Airways cut 7,000 jobs and reduced seat capacity by 15 per cent in October. Some financial analysts predict that British Airways could lose as much as 775 million pounds (\$1.79 billion Cdn) this year.

According to a recent Andersen Hotel Industry Benchmark Survey, hotel occupancy levels in regional U.K. are faring better than London (a decline of 5.4% as opposed to 22.5%) for the first time since 1996. This trend is expected to continue as British consumers opt for domestic vacations rather than travel abroad. To attract customers, hoteliers such as the Savoy in London are offering low-rate packages over Christmas. London hotels, restaurants and theaters stand to lose 2.1 billion dollars in the wake of the September 11th attacks.

According to the Daily Telegraph, Telegraph Travel has reported remarkable discounts and offers such as half-price cruises, slashed rates at Caribbean hotels and Egyptian holidays at less than the cost of a weekend break in Britain. Tour operators have also dramatically cut prices of winter tour packages.

According to the Association of British Travel Agents, travel from Britain is forecast to grow by 14.7 per cent over the next five years, rather than the 22.2 per cent previously expected prior to the U.S. terrorist attacks. Research conducted by the Centre for Economics and Business Research (CEBR) indicates the economic downturn in the U.K. from the attacks and the global recession will alone contribute to a reduction in travel from the U.K. by 1.5 per cent for 2002. In combining that with the economic impact from reduced confidence, the CEBR estimates the total loss will more likely be 5 per cent.

The London Tourist Action Group (made up of the London Tourist Board, BAA, the British Hospitality Association, the British Tourist Authority and the English Tourism Council) announced a budget of four million pounds to spend on encouraging U.K. tourists to London.

France

French travelers are continuing to stay closer to home. In response, French tour operators are developing French winter ski packages to meet demand. The Mediterranean resort sector is also expected to fare well. Air France has however cut its seat capacity from Paris to

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European destinations by 3.5 per cent from last year. Domestic capacity has also been scaled back by 6 per cent. CETO (Centre des tours operateurs) announced that French tour operators have registered a decline of 30 per cent in business since September 11th .

Air France's long-haul capacity this winter is expected to be unchanged from last year, rather than the 7 per cent growth originally anticipated. According to the CTC foreign offices, the current destinations of choice outside of France are the French West Indies (28%), Southern Europe (26%) and Oceania/South Pacific (16%). Australia was also noted as gaining visibility, while South Africa, the Dominican Republic and Senegal were doing well. Air France is planning to bolster routes where demand is still strong, namely Africa and the Caribbean, and has announced it will boost capacity 50 per cent between Paris and Beijing. However, Air France has decided to cut back its daily flights to North America and the Middle East.

According to the Andersen Hotel Benchmark Survey, Paris saw revenue per available room plunge 38.4 per cent as room occupancy declined by 29.3 per cent and average room rates fell 13 per cent.

France, which drew 75 million tourists last year, registered a 20 per cent drop in visitation the last few weeks of October.

Germany

German air carrier Lufthansa has announced that 4,000 employees will be laid off, 43 aircraft taken out of service and overall capacity trimmed 20 per cent as a result of the 13.3 per cent drop in passenger volumes in October. The German carrier announced earnings fell 90 per cent for the first nine months of 2001 and that its business had been "gravely affected" by the September 11th terrorist attacks and the sluggish world economy. It expects air travel to continue to be down by approximately 22 per cent through December.

The reduction in travelers has prompted Lufthansa to formally ask the German government for 70 million Euros compensation for the losses incurred since September 11th. Lufthansa plans to divert some services away from its more unprofitable Trans-Atlantic routes to more profitable ones such as South America and Asia. The airline recently announced the launch of three extra weekly flights to Hong Kong. South Africa is expected to be the next hotspot for German tourists over the next few years.

In contrast, Ryanair out of Ireland has recently announced that it will open a new European hub in Frankfurt. It plans to have more than 30 flights a day from Frankfurt to destinations in Britain, Ireland, France, Italy, and Norway.

According to Travel Alberta, the leading German tour operators report a 30 per cent drop to U.S. destinations. New outbound bookings are picking up, but are still down 30 per cent for this time of year. After September 11th , demand decreased on North Atlantic flights by 36.2 per cent while Asia and Australia fell by 14.8 per cent.

In Frankfurt, hotels seemed to have fared better due to their annual Book Fair which attracts over half a million visitors per year. However, revenue per available room still dropped 7.3 per cent in October 2001.

CTC foreign offices report that summer inquires for Canada have increased slightly while winter continues to be weak. The loss of Canada 3000 flight capacity is expected to have an impact on travel to Canada.

Italy

Alitalia has decided to cut 3,500 jobs as part of its plan to deal with reduced travel following the September 11th terrorist attacks. It is asking the government to come up with between US\$1.3 billion and US\$1.8 billion in aid. The carrier posted a 31.5 per cent drop in passenger volumes in October, compared to last year. Alitalia will now focus on domestic air travel and keep only "selected" intercontinental routes. Alitalia reports it has seen a 60 per cent drop in passenger traffic over the North Atlantic.

According to Euro RSGG Worldwide, 21 per cent of Italians are refusing work assignments that require travel, compared to 10 per cent of Europeans overall. According to the CTC foreign offices, the outlook for Italian tourists bound for the U.S. this year is for a decline of 19 per cent. Germany and the Netherlands will also see a drop in Italian travelers of 25 per cent and 23.6 per cent respectively.

The Italian tourism industry organized a demonstration on November 7th to pressure the government to help the industry survive. On November 22nd, trade unions at Alitalia announced they would go ahead with plans for a nationwide strike on December 3rd. The unions said they would accept job cuts as long as Alitalia received funding to ensure a turn around.

*Travellers' concerns expand – but North American market outlooks offer early relief***Netherlands**

In a recent survey by Euro RSCG Worldwide, only 4 per cent of Dutch travellers stated they will cancel their holiday plans versus 12 per cent of Europeans overall. The CTC foreign offices indicates that the loss of Canada 3000 may significantly impact air capacity from the Netherlands to Canada. Amsterdam hotels recently saw a drop of 12.1 per cent in revenue per available room. Amsterdam's Van Gogh museum is reporting a 20 per cent drop in ticket sales.

Japan

Normally, the number of outbound travelers from Japan is three times the number of inbound travelers. Yet, due to continued travel fears, the Japanese are still choosing to stay closer to home. The dramatic drop in travelers is sending shock waves throughout the tourism industry, prompting tourism officials around the world to contact Japanese travel representatives and lament over the drop in tourists. Most dramatically, Hawaiian Governor Benjamin J. Cayetano made a recent visit to Japan, convening a Japan/Hawaii Emergency Tourism Summit to address the issue of the drop in tourism numbers to Hawaii. Hawaii is currently experiencing a 40 per cent drop in Japanese tourists. This translates into a (\$US) 4 million dollar loss in tourism revenue each day for Hawaii.

The Japan Association of Travel Agents estimates approximately 750,000 outbound bookings between September and November have been cancelled. Nippon Travel Agency reports outbound bookings for the last quarter of 2001 are down 30 per cent. Reservations for flights to Europe are down 10-20 per cent with bookings for flights to the U.K. especially low. In response, Japanese travel agencies are offering steep discounts on their overseas tour packages.

The Japan Association of Travel Agents feels that the decline in Japanese travelers has sent Japan's travel industry into a "state of crisis". The terrorist attacks, coupled with the deteriorating economy led to the cancellation of 25 per cent of overseas tours, with 40-50 per cent of those cancellations made for the December to March period.

The Japanese airlines are being dramatically affected by the downturn in travel. In response, JAL and All Nippon have curbed flights to the U.S. and Europe. Japan Airlines and Japan Air System recently announced a merger which will cut their workforce by nearly 5,000 workers (or 10% of total workers) over the next five years. The merger would allow JAL and JAS to control 47 per cent of the domestic market. JAL reported a 61 per cent fall in profit for the first half of the fiscal year and forecast a loss of 327 million dollars this year. The three Japanese carriers, on average, suffered a 36 per cent drop in international flights last month. All Nippon Airways interim net profit plunged 47 per cent from last year, citing flight cancellations and the global economic downturn.

Also battling a downturn in tourism, Starwood Hotels and Resorts in the Asia-Pacific region have decided to offer big discounts to attract travelers. A promotion entitled "Star Friends" has been introduced with steep price reductions for Starwood business partners including airlines, tour agents and travel media. This strategy was adapted to lure the domestic traveler who normally finds it too expensive to travel within Japan. The Tsuraya Hotel in the spa town of Atami, South of Tokyo – which had in the past welcomed senior politicians and hosted corporate junkets – was forced to close the first week of November. In contrast, hoteliers in Hokkaido, home to a number of popular ski resorts, report a 10 per cent increase in winter bookings over last year. According to CTC foreign offices, domestic travel in Japan has increased 20 per cent in recent months.

Korea

Instead of going ahead with scheduled layoffs for the end of the year, Korean Airlines recently announced it will institute a mandatory one month unpaid leave for most of its 17,000 employees beginning in January. Asian Airlines, the country's #2 carrier anticipates a 20 per cent drop in the number of passengers to the U.S. for the remainder of the year.

The Korean Transportation Ministry announced that South Korea will offer over \$440 Cdn million in financial aid to the nation's top two airlines in an effort to help tide them over the financial crises resulting from rising security and insurance costs in the wake of the September 11th attacks.

The Korean National Tourism office indicates the volume of Korean travelers going to and from Europe has grown in recent months and it expected to continue to grow for both business and leisure travel. Air France specifically saw its Seoul/Paris flight increase by 39 per cent in October over last year.

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However, U.S visa requests have dropped by 50 per cent. In response, CTC foreign offices report that airlines within Korea are offering a 30-60 per cent discount on airfares, especially to U.S. cities. Christmas bookings for Canada are doing well, although there still seems to be a preference for short distance travel within Asia. Australia and New Zealand are seen as the "safe" long-haul destinations. Koreans are expected to take in the Canadian spring ski season once their own ski season ends in February. Some upcoming student travel is expected to be diverted from the U.S. to Canada.

Hong Kong

Hong Kong travelers have once again resumed canceling flights to the U.S. and Canada in response to the latest American Airlines crash in New York. This, after the industry was showing some signs of a recovery after the September 11th attacks. The drastic decline in demand for U.S. flights is being offset by an increase in traffic to short-haul destinations such as Vietnam, Cambodia, and mainland China. Travel to Thailand and Australia is also up 20 and 15 per cent respectively. German airline Lufthansa announced in November that it was doubling its flights from Hong Kong to Munich. Korea witnessed a strong 22.5 per cent increase in Hong Kong tourists last month. Korea's two national airlines also announced they are expanding routes and developing tour programs targeting the Chinese. Flights to the U.K. were down for about 40 days after September 11th, but are now gaining momentum.

The Hong Kong Tourist Association, working in conjunction with the Hong Kong government's plan to speed up visas for Taiwan tourists, is planning to team up with Hong Kong travel agents to provide a series of preferential travel programs to attract more Taiwan tourists. This in response to a decrease in Taiwan tourists since the September 11th terrorist attacks.

Cathay Pacific announced that it would not pay staff its traditional 13th month bonus and has implemented unpaid leave for cabin crews, citing cost cutting measures amid the world economic slowdown and a sharp slump in travel following September 11th. In October, passenger traffic on Cathay fell 16.6 per cent compared last year. On November 20th, Cathay Pacific launched a new fare promotion aimed at enticing passengers back on long-haul routes following the American terrorist attacks.

The Hong Kong Tourism Board has recently launched a three month, 8 million dollar "CLP Lights Up Hong Kong" campaign which hopes to attract visitors from mainland China, Taiwan and Southeast Asia over the upcoming holidays. The Tourism Board has also invited 200 industry leaders from around the world to the launch and various activities during the three month campaign.

Taiwan

The majority of Taiwan consumers are expected to stay at home through December. Domestic travel is rebounding with interest in day spas, hot springs, and gourmet dining.

Eva Air reduced scheduled passenger service from its Taipei hub to destinations in the U.S. and Southeast Asia by 17 flights per week.

In November, the Taiwan government lifted a ban on Chinese tourists (originally imposed in 1949 during the Chinese civil war) in order to stimulate travel to the country and boost a faltering economy. The new regulations will now allow a quota of 1,000 visitors a day. However, tourists will still not be able to visit as individuals, but rather as part of a group organized by designated travel agencies. Currently, Chinese are restricted to visiting relatives on the island or to cover news for cultural and educational exchanges.

Australia

Overall, there has been a 13 per cent drop in international bookings to Australia and new holiday bookings are down 23 per cent from last year. 6 in 10 Australian tour operators expect a fall in international forward bookings for the next three months. The collapse of Ansett Airlines is affecting both domestic and inbound travel to Australia.

Since September 11th, Qantas has experienced an 11 per cent drop in capacity and has noted a significant downturn in travel to and from Europe, Southeast Asia and Japan. Bookings from the U.K. and Japan are down 23 per cent and 25 per cent respectively. In response, the Australian carrier has announced a 1,500-2,000 cut in its workforce in November, with more job cuts planned by the end of the year. Qantas also announced it will be cutting back on international flights and withdrawing its New York flight service.

In November, the Australian Tourist Commission (ATC) unveiled a 1.5 million dollar (SAUS) campaign to market Australia to Malaysia, Hong Kong, Korea and China and four new initiatives costing 3 million dollars (SAUS) aimed specifically at Japan. To meet anticipated

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demand, Qantas has begun a new service to Japan, adding 1,600 seats per week. The ATC has expects visitation from Asia to increase 40 per cent by 2010.

The Australian government has announced a 5 million dollar (\$AUS) holiday incentive program to encourage Australians to take a domestic holiday. As of November 22nd, the first 33,000 domestic travelers will receive a \$150 rebate. Since the announcement, there have been a "surge" in domestic bookings. Rail and drive markets are also booming in Australia.

According to the CTC foreign offices, the majority of Australians (83%) still intend to travel despite the terrorist attacks. Almost 7 million Australians intend to fly within the next 12 months.

New Zealand

Air New Zealand faces subdued traveler demand and market uncertainty as it seeks to rebuild after its near collapse. In response, the New Zealand government is committed to providing support of more than NZ\$1billion. The carrier announced in October that 800 of its 9,000 workers will be laid off and its senior management team cut in half. Passenger bookings from the U.S. and Europe are down 10 per cent from December to February while Japanese bookings are down 20 per cent. However, as of November 15th, Air New Zealand expanded its service into Asia to meet demand for additional capacity.

The New Zealand tourism industry is forecasting a 5 per cent decline in international arrivals in 2001 – a more optimistic projection than the 10 – 15 per cent decline projected last month. According to asmal.com, New Zealand outbound travel in October declined 8 per cent compared to last year. Holiday travel declined 5 per cent and business departures were down 10 per cent. Holiday travel specifically to North America declined 42 per cent in October, with departures to Europe down 20 per cent. Meanwhile, Asia and Australia were down 8 per cent and 1 per cent respectively. Conversely, departures to Thailand increased 20 per cent.

The CTC foreign offices indicated that there is an increased interest in visiting Canada by New Zealanders. Winter products remain strong, although there is a continued strong interest in short-haul destinations such as Australia and the Pacific Islands. Air Pacific is set to increase seat capacity between New Zealand and Fiji by 20 per cent. Tourism New Zealand is currently looking at a strong tactical campaign into Australia for December and January, a combined media campaign with the Australian Tourist Commission into 12 cities across the United States, and a media and advertising campaign in Japan.

International Travel to Canada – Statistics Canada (September)

Global

The latest international travel figures released by Statistics Canada for September reconfirms the impact that September 11th had on the Canadian tourism industry. The figures reveal that total overnight international travel to Canada during September declined 19.3 per cent compared to September last year, the greatest decline in 25 years.

Exacerbated by the events of September 11th, overseas travel to Canada in September declined for the eighth consecutive month by 22.3 per cent and a loss of approximately 125,000 person-trips and an estimated loss of revenues of approximately \$147 million. Asia and South America travel to Canada were down most significantly.

U.S.

Travel from the United States to Canada was the market most affected. The September figures reveal that 286,060 fewer overnight U.S. tourists arrived in Canada compared to last year, representing a loss in revenues of approximately \$140 million. U.S. travel by auto was down 15.9 per cent while non-auto travel (including air) declined 21.8 per cent.

*Travellers' concerns expand – but North American market outlooks offer early relief***Europe**

Overnight travel from Europe was down 18.1 per cent in September compared to last year. In particular, travel from the U.K was down 11.2 per cent while France and Germany were down 22.9 and 25 per cent respectively.

Asia/Pacific

Overnight travel from Asia was down 32.3 per cent in September compared with last year. In particular, travel from Japan plunged 50.2 per cent while Taiwan and Hong Kong dropped 46.3 and 29.4 per cent respectively. Overnight travel from Oceania declined 12.4 per cent in September compared with last year.

Economic fallout

World

The U.S. recession will lead to slower global growth, expected to expand at only 1.2 per cent, the slowest growth recorded since the early 1980's. Since the terrorist attacks, world investors have become much more risk averse and, as a result currency and equity markets in high-debt countries such as Brazil have plummeted. Governments have had to increase interest rates to defend falling currencies.

North America

The economic outlook is becoming increasingly more pessimistic, and the consequences of the attacks of September 11 have further eroded public sentiment. A November survey of American and Canadian economic forecasters concluded that the continent's economic slowdown would continue into early 2002, with a rebound not expected until the later part of 2002. The U.S. will experience a mild recession in the third and fourth quarters of this year.

The Conference Board of Canada expects U.S. economic growth to slow to 1.2 per cent this year and to remain weak at 1.4 per cent in 2002. GDP growth in Canada is expected to expand by a modest 1.5 per cent in 2001 and 1.2 per cent in 2002. Job losses, particularly within the tourism sector, continue to mount and now include the collapse of Canada 3000. The October unemployment rate in Canada stood at 7.3 per cent, while U.S. unemployment increased to 5.4 per cent. The increasing unemployment rate has been undermining consumer confidence, even as fears of future terrorist attacks begin to ease and the U.S. appears to be making significant progress in Afghanistan.

Europe

This year, economic growth projections for Europe have been downgraded as consumer and business confidence continues to decline and export growth weakens. Demand for European exports to the U.S. have fallen substantially. Overall European exports to the United States accounts for 2.2 per cent of the European Union's GDP. Since Europe is a major oil importer, the decline in oil prices in the past few weeks represents a positive development for Europe's economic prospects. If this trend continues, inflation should remain under control in 2002.

European business confidence was weak before the terrorist attacks and will likely weaken further in the next few months. Airlines and other travel related services are cutting back the most, yet almost every type of industry has scaled back its operations.

The Conference Board of Canada's short-term outlook projects European economic growth of 1.5 per cent this year, down from the 3 per cent anticipated at the beginning of the year. Next year GDP is still only expected to post marginal growth of 2 per cent.

Asia-Pacific

Asian countries are more vulnerable to the decline in the world economy, particularly with demand for exports of their IT products. U.S. high technology imports from Asia-Pacific fell by almost 40 per cent in the first eight months of this year. This has a significant

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effect on this part of the world, as it is the dominant supplier of semiconductor chips and components for PC and telecommunications equipment.

Since exports constitute a large portion of GDP for Asia-Pacific countries, the slump in the world economy will undermine demand, restrict income creation and lead to additional job cuts in these countries. In particular, Singapore, Hong Kong, Thailand, South Korea and the Philippines represent a group of countries for which exports represents a third or more of GDP. Real GDP in the Asia-Pacific region is expected to expand by only 0.9 per cent this year before rebounding to 2 per cent in 2002.

Opportunities

The latest Business Outlook (BO) findings suggest there are some opportunities for the Canadian tourism industry this winter based on advance booking data and associated market intelligence. Specifically, the BO reports that overall domestic bookings for winter 2001/2002 are up 1 per cent compared with last winter. More encouragingly, domestic group travel is expected to increase 3 per cent and independent leisure travel (FIT) up 4 per cent. BO results for U.S. travel to Canada are also encouraging considering the outlook for many other international markets remains bleak for the winter period. Canada appears well positioned to benefit from diverted overseas travel that Americans are changing to reflect "closer to home" destinations.

Although the latest Ipsos Reid survey conducted in November indicates that 41 per cent of Americans are very unlikely to visit Canada in the next year, 58 per cent said that the reason there weren't traveling to Canada was because they needed more ideas on where to go and what to see. With international trips by U.S. travelers down, Canada could gain market share with heavy promotional campaigns, especially to U.S. travelers who have been to Canada in the past.

Marketing short-haul domestic, or weekend getaways to Canadians still seems like the best bet. According to a recent Ipsos Reid survey, 49 per cent of Canadian respondents also indicated that they need more ideas on where to go and what to see in Canada. Albertans have traveled the most over the last twelve months and also more likely (57%) than those from Ontario (43%) or Quebec (38%) to travel out of province or to other parts of Canada over the next 12 months. However, they are most likely to drive and least likely to fly on their trip. Younger (18-34) male Canadians have the greatest potential to travel within the next 12 months.

Trip planning and booking patterns are changing dramatically. In a recent Ipsos Reid survey, 33 per cent of Americans and 26 per cent of Canadians would most likely use the Internet to plan their next trip. The trend of using the Internet for travel plans is also expanding across Europe. While, this may not be good news for the already hampered travel agent, it may provide insight into potential growth areas.

Summary

In the immediate aftermath of September 11th, the overriding concern regarding travel was further terrorist acts. While travellers remain concerned about safety, travel inconveniences ranging from long delays and security lineups to being stranded by bankrupt airlines now represent new obstacles for the travel industry. The persistent economic fallout of September 11th may represent a greater impediment to travellers than it did immediately following the attacks as job security and financial well-being now appear more vulnerable.

Job losses, particularly within the tourism sector, continued to mount and now include the collapse of Canada 3000. The October unemployment rate in Canada stood at 7.3 per cent, while U.S. unemployment increased to 5.4 per cent. The increasing unemployment rate has been undermining consumer confidence, even as fears of future terrorist attacks begin to ease and the U.S. appears to be making significant progress in Afghanistan.

As a result of expanding travel concerns, the trend is for travelers to remain closer to home and turn to short-haul "safe" destinations and weekend "getaway" packages. This redirected demand for the Canadian domestic and U.S. cross border markets generates a relatively positive short-term winter outlook for these two markets compared with a darker background of general losses in other markets and throughout the North American tourist sector.