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## CTC Tourism Intelligence Bulletin – Issue 6: April 2002

*The Tourism Intelligence Bulletin continues to monitor the impact of the events of September 11 on the tourism industry around the world. This issue reveals tourism intelligence gathered in March 2002.*

### **Monitoring the New Reality**

#### Executive Summary

- With the events of September 11 now six months behind us, it appears as though the tourism industry is starting to show new signs of life. This on the heels of a 7.4 per cent decline in travel-and-tourism demand last year. This statistic promises to change the industry in both the short and long term. Monitoring the tourism sector using current, reliable data has become essential as it allows the industry to both adjust to trends and to understand the implications of change.
- While things appear to be getting back to normal, the definition of normal has changed-and the industry must be prepared to adjust. Changes are everywhere. Travellers are booking later, a new Canadian security tax has been introduced and many North American carriers are not paying commissions to travel agents anymore. While a move to completely cut travel agent commissions represents a progression on commission reductions over the years, its impact on the industry is not yet clear. Like zero commissions, the security-tax issue has yet to be fully digested by both travellers and the industry. However, the impact of late bookings is already being felt.

#### **Emerging Trends and Issues -Late Booking**

- The new trend of late booking by travellers underscores the need to gather and monitor intelligence from many sources in order to make business decisions. Market share is at risk if no action is taken. Successful retention of market share can be seen in the Caribbean this past winter where suppliers who took action by launching marketing campaigns reported a busier than ever winter. In Canada, hotels are now working with overseas agents to figure out solutions to policies that require names and deposits from travellers 45 days before arrival as these policies are now being recognized as impediments to international travel.
- American Airlines and America West have chosen to use different approaches to deal with late bookers. American Airlines changed its advance-booking rules and is using financial incentives to motivate business travellers to book earlier. Under the new rules, the best fares are available seven days in advance of the travel date, up from three days. America West, however, reported it has simplified its fare structure resulting in significant reductions to walk-up fares. It remains to be seen how the two strategies will play out in the marketplace.
- Regardless of the approach an airline takes to deal with late bookers, most major North American airlines have moved to lower their distribution costs by eliminating commissions paid to travel agents. While it happened almost inadvertently, this change fits well with the trend of late booking. As travel agents implement service charges for issuing tickets (if they haven't done so already), more people will choose to buy their tickets over the Internet -a medium ideally suited to the late booker.

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**Consumer (traveller) response**

- While the method and mode of travel is changing, travel itself has emerged through all the chaos of the last few months as an essential part of life. According to a recent survey by Hilton Hotels and Yankelovich Partners in the U.S., 81 per cent of respondents view vacations as one of the best ways to rekindle a romance. Canadians too value their vacations. A recent Ipsos-Reid survey found 59 per cent of Canadians consider vacations or pleasure trips of high importance in their overall quality of life.
- All indications are that travellers this summer are planning to drive to their destinations at the expense of air travel. AAA Auto Club South reported that TripTik requests, a barometer for road travel, increased 14.6 per cent in February compared with a year ago. Conversely, sales of airline tickets decreased 29 per cent during the same period. Even business travellers are choosing autos over air when feasible. According to Runzheimer International, close to 75 per cent of the travel managers had either changed their corporate-travel policy since September 11 or planned to make changes in the first half of this year. One common change was to recommend car travel for shorter trips.

**Travel supplier response**

- In March, Air Canada, following the lead of major U.S. carriers (Delta, United, Continental, Northwest, American Airlines, US Airways and American Trans Air), announced that they will no longer pay base commissions on domestic and international tickets sold in Canada and the U.S. Without commission revenue, travel agents are expected to increase or add fees for their services. The reaction from travellers to the changes remains to be seen.
- Fortunately, the post holiday dip-that was reported on last month-appears to be fading, as air ticket sales in both Canada and the U.S. improved in February compared to January. However, domestic leisure and business air travel is still down compared to last year.
- PriceWaterhouseCoopers (PWC) expects the hotel industry in the U.S. to bounce back as early as the third quarter of 2002. PWC reported that the sharp decline in hotel demand during the fourth quarter of 2001 was primarily the result of concerns about the economy and not because people were scared to travel. Even with the expected hotel recovery and growing economy, Ernst & Young expects average occupancy rates for hotels in the U.S. to dip slightly this year compared to last year. Meanwhile, according to Pannell Kerr Forster (PKF), occupancy rates in Canada are poised to increase marginally this year.

**Economic Fallout**

- Consumers are credited with fueling the rebound in economic activity during the last quarter of 2001. Confidence has risen sharply in recent months and now sits well above the pre-September 11 level. Employment gains, along with lower interest rates and energy prices, are lifting real consumer spending in both Canada and the U.S.
- The Eurozone economy may grow more quickly in 2002 than economists had expected, as surveys reveal a strong rebound in business confidence. This gain is backed by hard data from surveys that indicate purchasing managers are looking to expand after using up their inventories. The relatively smooth introduction of Euro notes will also provide a lift for the economy this year.
- The economies in Asia-Pacific are on the mend. This year should see a revival in export growth, leading to growth in the economy. There are also signs the demand for electronic products is on the rise-a key part of the health of Asia-Pacific economies. A restoration in Japanese growth would also provide a lift for the region, however, this is unlikely to occur this year. Down under in the Pacific, Australia still sits on top of the world economic table as it posted a larger-than-expected rise in economic activity in the fourth quarter of last year.

**Opportunities**

- Canada will be the destination of choice for Canadians this summer. An Ipsos-Reid survey reported that 51 per cent of respondents surveyed in seven major Canadian cities said they planned to travel within Canada for their vacations this year, while 31 per cent said they would go to the U.S. As well our Summer 2002 Business Outlook confirms that Canadians want to travel within Canada this summer-leisure travel by independent travellers is projected to be up 5 to 6 per cent this summer over last.
- The Travel Industry Association of America (TIA) released results of the first national study of the current and potential geotourism consumer market. Urban Sophisticates represent a strong potential market for Canada as they were the most likely among all the groups to travel internationally and 86 per cent like to travel to places where they can spend time exploring historic and charming towns and locations.

## Overview

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With the events of September 11 now six months behind us, it appears that the tourism industry is starting to show new signs of life. This is on the heels of a 7.4 per cent decline in travel-and-tourism demand in 2001. Monitoring the tourism sector using current, reliable data has become essential as it allows the industry to both adjust to trends and to understand the implications of change.

In monitoring the industry six months after the attacks, we find that there is good news to report. Air capacities, load factors, travel volumes and revenues are all on the rise. Many suppliers report that they are now starting to see pre-September 11 numbers-in fact, many report that it is the economy, not travel angst caused by the terrorist attacks that is their main concern. And even the economy offers a glimmer of hope as it is rebounding faster than anticipated.

While things appear to be getting back to normal, the definition of normal has changed-and the industry must be prepared to adjust. One of the changes is the move toward late bookings by travellers. Two other issues that have emerged recently include the new security tax in Canada and the elimination of commissions that are paid to travel agents.

The security tax, while seemingly simple, is not. And while a move to cut travel agent commissions completely represents a progression on commission reductions over the years, its impact on the industry is not yet clear. Like zero commissions, the security-tax issue has yet to be fully digested by either travellers or the industry, while the impact of late bookings is already being felt. Only by continuing to monitor these trends closely will the tourism industry be able to react and continue to serve the modern traveller well.

## Emerging Trends and Issues

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### Late Booking

While travel volumes are starting to return to normal, the events of September 11 have sparked some changes in the industry that will likely be with us for some time. Late booking by travellers-a trend that was noted in the CTC's Summer 2002 Business Outlook-is one such change.

This phenomenon underscores the need for suppliers to have current information that will enable them to react quickly by adjusting supply and price as the market dictates. While this is easier said than done, the fact remains that this is the environment in which most suppliers will have to operate.

Some suppliers have found a way to get travellers to return to their previous travel habits, if not their booking habits. Caribbean resorts are a good case in point. Realizing the potential-and significant-loss of market share if they did nothing and the real gains that could be made if they moved quickly, Caribbean resorts went after business with a vengeance in the post September 11 days.

Great deals were announced where multi-million dollar advertising campaigns spoke of safe vacations that, for Americans at least, were close to home. Because of the late-booking trend, it wasn't immediately apparent that the campaigns were going to be successful-people were waiting until winter was in full swing before calling their agents. But the campaigns were successful. In March, travel to the Caribbean was only slightly lower than last year. While many low-end hotels experienced occupancy rates as low as 50 per cent in March, most high-end Caribbean resorts involved in the campaigns reported they were busier than ever.

Tourism suppliers in Canada will have to be just as aggressive as the Caribbean resorts in getting both domestic and American travellers to book for the upcoming summer season. The CTC's Summer 2002 Business Outlook confirms that changes in booking patterns are apparent. Like Caribbean resorts, Canadian suppliers are experiencing much less lead time than in the past, often having most of their bookings occur within the same month as the travel date.

Some suppliers are starting to take action to insure against market-share loss. For example, hotels in Canada recognize this shift in booking patterns and are working with overseas agents to figure out solutions. For instance, policies that requires names and deposits from travellers 45 days before arrival are now being recognized as impediments to international travel.

Many suppliers, feeling uneasy about the level of advance bookings currently in their systems, are encouraging travellers to book ahead, even if it risks losing some revenue. American Airlines, the world's largest airline carrier, changed its advance-booking rules in March. It is using financial incentives-or disincentives, depending on how you view them-to motivate the most common last-minute bookers: business travellers. They do this by encouraging these travellers to either plan further ahead or pay higher walk-up fees. Under the new rules, advance-purchase fares must be purchased seven days in advance to get the best fares-this is up from three days. Continental and America West matched the new rules in cities where they don't compete directly with American. American's new rules are one of the first major signs that travel, in particular business travel, is poised to finally rebound this spring and summer.

America West Airlines has acknowledged this new trend toward late booking and is taking a different approach that it believes will give it a strategic advantage. America West has announced it is simplifying its fare structure by eliminating Saturday-night stays and offering reduced one-way fares throughout the United States and Canada. It is also offering savings on tickets purchased less than 14 days in advance. The new pricing structure, says America West, will result in significant reductions to the airline's current unrestricted walk-up fares.

American Airlines and America West have chosen to use different approaches to deal with late bookers. It remains to be seen how the strategies will play out in the marketplace.

Regardless of their approaches, the airlines are moving on another front that will not only lower their distribution costs, but will also-and this happened almost inadvertently-cater to the late booker. In March, all the major U.S. airlines and Air Canada announced they would no longer pay commissions to travel agents for issuing U.S. and Canada airline tickets. But that money has to come from somewhere so most agents have started and will continue to add a service charge to the cost of the tickets they issue. And, rather than pay the extra cost, many people will choose to buy tickets on the Internet, a medium ideally suited to the late booker. For the airlines, it works all around. For the agents...that's another story.

The late booking trend reaches beyond North America. The Canadian Tourism Commission reports that late booking is a popular trend in Japan, as well. The reason is two fold; there is general uncertainty, of course, but some consumers are waiting to book because they think that better pricing might be available closer to their departure dates. To take advantage of this, Travelocity, along with 17 airlines, has launched a Web site in Japan to accommodate the Japanese traveller who prefers to book late.

The trend toward late bookings is likely to continue as it is well suited to the new tourism climate. More than ever, people are being cautious before committing to substantial purchases. Suppliers will have to work harder-and smarter-than ever to attract both domestic and international travellers this summer. To be successful, suppliers should gather intelligence from many sources-including their own experience and sentiment-to make business decisions about the delivery of their products and services.

## Consumer response - Canada and the United States

### **Business Travellers**

According to an annual business-travel manager survey by Runzheimer International, close to 75 per cent of the managers polled had either changed their corporate-travel policy since September 11 or planned to make changes in the first half of this year. One common change was to recommend car travel for shorter trips. As well, security concerns about terrorist attacks have prompted many firms to draft stronger policies requiring that employees book their flights through the corporate travel managers, making it easier for companies to keep track of employees.

Amex Canada reported that 92 per cent of companies surveyed said they plan to travel the same or more this year. However, just under one-quarter reported that their travel budgets had increased. The survey also reported that in 2001, less than 2 per cent of North American companies bought travel tickets on the Internet. In 2002, that number is 20 per cent.

According to a survey of business travellers by WorldCom, 30 per cent of respondents said personal safety or concerns expressed by a family member influenced their travel plans in recent months. Travellers with children were more likely to have reduced trips (one in three respondents). But the primary reason for reduced business travel remained smaller travel budgets due to the slowing economy (40 per cent) and not safety concerns. (WorldCom further reported that 33 per cent of travellers who reduced their travel in recent months used audio, video or web conferencing as a substitute for flying.)

### **Leisure Travellers**

AAA Auto Club South reported that hotel reservations increased 6 per cent in February compared with the previous year and TripTik requests, a barometer for road travel, increased 14.6 per cent compared with a year ago. Conversely, sales of airline tickets decreased 29 per cent during the same period. In January 2002, U.S. auto travel to Canada increased by 5.3 per cent compared with last year, while non-auto travel declined by 10.7 per cent.

The Travel Industry Association of America (TIA) released its Spring 2002 Travelometer that reported Americans will take 144.5 million pleasure trips during March, April and May, a decrease of 4 per cent compared to last spring. Family travel (spouses, children/grandchild) remained the most popular type of travel ahead of travelling with friends, other family members or solo.

Visa Canada reported in a new survey that 37 per cent of respondents stated they plan to increase their travel this year, while 19 per cent said they will travel less. The latest Active Traveler Survey in the U.S. reported that 85 per cent of active travellers—those who find visiting new destinations and outdoor sporting activity essential to their lives—will travel as much or more in 2002 as they did last year.

In the U.S., a study by Opinion Research Corporation found that 69 per cent of Americans plan some sort of domestic vacation travel in 2002—of these, 15 per cent plan to travel to Canada while 12 per cent will travel to Mexico. The study also found that Americans living in the Northeast, West and North Central regions were considerably more likely to travel to Canada in the coming year (21%, 19% and 18%, respectively) than those residing in the South (6%).

## Travel-supplier response - Canada and the United States

### **Airlines - Canada**

In March, Air Canada following the lead of carriers in the U.S., announced that they will no longer pay base commissions on domestic and international tickets sold in Canada and the U.S.

February statistics indicate Air Canada flew 2.9 per cent more revenue passenger miles, compared with the previous year. Air capacity declined 6.1 per cent, resulting in a load factor of 76.8 per cent, up 6.7 per cent from a year earlier. Increased traffic and strong demand resulted in the recall of 155 furloughed employees in March.

In February, the In-Transit Pre-clearance Program at Vancouver International Airport re-opened after being shut since September 11. Canada and the U.S. announced that the NEXUS program for low-risk travellers will be expanded to include three new land-border points between British Columbia and Washington. The expanded program will be operating by the summer of 2002.

With the collapse of Canada 3000, there were 9 per cent fewer seats available during the 2002 March break compared with one year ago. In direct response to the collapse of Canada 3000, My Airways, a western Canada-based charter airline will be launched in the summer of 2002, giving westerners another option when planning trips to Mexico and Hawaii.

Air Canada announced the completion of a consolidation process for its regional carriers AirBC, Air Nova, Air Ontario and Canadian Regional. The new consolidated regional carrier will operate under the name Air Canada Jazz and will provide close to 800 flights per day to 80 destinations in the U.S. and Canada.

The Air Transport Association of Canada asked the Minister of National Revenue for more time to work out the details of the new security tax. Stopovers and airline transfers are complicating the seemingly simple tax that was designed to cost \$12 for a one-way ticket or \$24 for a two-way trip within Canada.

The Canadian Taxpayers Federation (CTF) expressed concern about the security tax on behalf of its constituents saying that there should be an exemption for passengers flying to and from small, remote airports that have no security and detection equipment. As well, CTF states the tax amount was determined using static assumptions. Passenger numbers are recovering, it argues, and that presents the possibility that more than enough money will be raised.

In addition, the Tourism Industry Association of Canada stated that airline tickets purchased by non-Canadian residents will be exempt from the tax thus opening up the possibility of Canadians purchasing air tickets across the border. On top of all that, refunds for tickets purchased by non-interlining carriers will not be processed by the Canadian Customs and Revenue Agency because there is no provision in the legislation for this. Travel agents have responded by emphasizing that they will ensure travel purchased through them will be charged only once each way-even if non-interlining carriers are used.

### **Airlines - U.S.**

The Federal Aviation Administration (FAA) reported that in the five full months after September 11, the number of flights in the 31 major U.S. hub airports decreased 12.2 per cent from the corresponding period a year earlier. The FAA also announced it expects passenger traffic to recover in 2003 from the terrorist attacks.

In March, the Air Transport Association (ATA) released its State of the U.S. Airline Industry Report. According to the report, U.S. airlines lost U.S. \$7 billion (Can. \$11.1 billion) due to the attacks of September 11. Even before the attacks, the industry had expected to lose U.S. \$3 billion (Can. \$4.8 billion) in 2001 due to economic conditions. The ATA further reported that fourth-quarter capacity declined 15 per cent compared with the previous year, as some 350 aircraft were parked or retired.

Other declines reported by the ATA: the average domestic airfare declined 16.1 per cent in January compared with a year earlier and average international airfares declined 14 per cent during the same period. Passenger traffic was down 10.7 per cent in February compared with the previous year according to the ATA but this was a 2.3 per cent increase compared with January.

American Airlines estimates that passenger traffic and air capacity will increase 3.6 per cent and 2.3 per cent respectively in the first quarter of this year compared with a year ago. In March, Northwest Airlines announced passenger numbers increased 7 per cent since September 11 when capacity was cut by 20 per cent.

In March, Delta, Continental, Northwest, American Airlines, US Airways, American Trans Air (ATA) and United announced that they will no longer pay base commissions on domestic and international tickets sold in Canada and the U.S. Without commission revenue, travel agents are expected to increase or add fees for their services.

The trio of American Airlines, United Airlines and Delta Airlines has announced the formation of Equitime, a company that will provide war-risk insurance. The self-insurance company is expected to be launched as early as June and is expected to save participating airlines between U.S. 63 cents (Can. \$1.00) to U.S. 83 cents (Can. \$1.32) per passenger-or a total of U.S. \$417 million (Can. \$661.5 million) per year. Up until it expired on March 20, airlines had been using temporary, government-backed insurance. Until Equitime is operating however, airlines will use private insurance companies-at much higher rates.

And finally, for the first time ever, more travellers shuttled between New York and Washington from October to December on Amtrak than by way of air shuttle. The route is serviced by Amtrak's premier high-speed train. (Amtrak is suffering on other routes, however, and has asked the U.S. Congress for financial aid.)

## Hotels - Canada

According to the Hotel Association of Canada, hotel revenue plummeted about \$300 million last year compared with a year earlier. Although the industry was already sluggish before September 11, most of the decline came as a result of the attacks in the U.S. In response to the falling numbers, room rates have remained steady and business travellers are reporting a renewed sense of service as hotels vie for their business. For the most part, the inducements being offered have a high perceived value but low actual cost.

Four Seasons reported that net earnings for the quarter ended December 31, 2001 were \$9.3 million, compared with \$38.5 million a year earlier. For the year ended December 31, 2001, net earnings were \$86.5 million compared with \$103.1 million the previous year.

## Hotels - U.S.

PriceWaterhouseCoopers (PWC) reported that the sharp decline in hotel demand during the fourth quarter of 2001 was primarily the result of concerns about the economy and not because people were scared to travel. PWC expects the hotel industry to bounce back as early as the third quarter of 2002. According to Ernst & Young, hotels in the U.S. will have an average occupancy rate of 59.9 per cent in 2002, down from 60.1 per cent in the previous year.

Smith Travel Research reported that occupancy rates in the U.S. declined 5 per cent in February compared with the same month one year ago. Revenue per available room was down 9 per cent during the same period. For the week ending March 2nd, Hawaiian hotels reported their smallest decline in occupancy rates, 4.1 per cent compared with a year earlier, since September 11th.

Marriott announced that its room-revenue forecast for the current year is 3 per cent lower than last year. Arlington Hospitality announced a net income of U.S. \$755,100 (Can. \$1.2 million) for 2001, down from a net income of U.S. \$4 million (Can. \$6.3 million) a year before. Arlington owns 78 properties in 16 states.

According to the Hotel Electronic Distribution Network Association, hotel bookings through global distribution systems (GDSs) were down 4.2 per cent last year compared with the previous year. Still, last year was the second strongest year ever for hotel bookings through GDSs.

## Travel Agents

In Canada, IATA's Bank Settlement Plan reported in February 2002 that international leisure travel by air increased 19 per cent compared with a year ago. Fortunately, as reported on last month, the post holiday dip appears to be fading as air ticket sales in both Canada and the U.S. improved in February compared to January. Still, air ticket sales were down 24 per cent for leisure travel, while business travel declined 22 per cent compared with a year ago. Air travel to the U.S. also registered declines in both leisure travel (by 9%) and business travel (by 27%) for the month of February compared with the previous year.

For all air travel, Canadian travel agents saw a decrease in commission revenue of 45 per cent in February compared with a year earlier. In the U.S., the Airlines Reporting Corporation reports that travel agencies suffered commission losses of 31 per cent in February compared with a year earlier. This is up from the 28 per cent decline reported when measuring January 2001 against January 2000.

## Other Suppliers

Halifax Harbour reported that cruise-ship passenger traffic increased by 22 per cent last year compared with a year ago, signalling a banner year for the cruise market in Halifax. However, as a result of the negative impact on the cruise industry worldwide due to the events of September 11th, Lazard Freres reported that the cruise industry in the United States will experience negative yields until the fourth quarter of 2002. Supporting this outlook, Royal Caribbean announced that first quarter results for 2002 were between 7 and 8 per cent lower than a year ago.

## International response - Overseas

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### United Kingdom and Ireland

Ryanair, Ireland's discount airline, reported a 40 per cent increase in passenger traffic for February compared with the same period last year. Similarly, discount airline Go reported a 74 per cent increase in passenger numbers for February, compared with last year. EasyJet also benefited from the popularity of discount carriers as it reported 35.8 per cent more passengers in February, compared with a year earlier.

Meanwhile, British Airways announced a 2.5 per cent reduction in revenue-passenger kilometers for February, compared with one year ago, an improvement compared with every other month since September 11.

With respect to the number of passengers, British airport operator BBA announced an increase of 0.3 per cent in passenger traffic at its seven U.K. airports for February, compared with last year. This represents the first monthly increase since September 11.

American Express reported that nearly three-quarters of British executives say they have not cut back on travel since September 11. While they are continuing to travel, they are not flying business class as often. American Express states that in the last 12 months, 63 per cent flew economy and 60 per cent flew on a no-frills airline.

PricewaterhouseCoopers reported that average hotel-occupancy rates in London fell 9.7 per cent to 72.9 per cent last year, compared with the previous year. This is the first time in eight years that London occupancy rates have fallen below 80 per cent.

According to the Canadian Tourism Commission in the U.K., 47 per cent of consumers intend to book later than normal this year and the expectation of late-booking discounts is high. Long-haul destinations are not expected to be affected as much. According to a survey of U.K. operators, demand for travel to Canada is high right now—in fact, it sits at the same level as last year—with revenue-per-passenger higher than last year.

### France

In February, Air France reported its load factor increased 2.4 per cent, compared with a year ago, while overall passenger traffic in February was the same level as a year ago. For the summer of 2002, Air France expects capacity on North American routes to be down 13.8 per cent, compared with the same period last year.

In March, Air Liberté announced it was starting a new, low-cost airline modeled on the U.K.'s EasyJet. The new airline, Air Lib Express, will fly routes within France.

Accor announced better-than-expected results for 2001. Net income increased 6 per cent, compared with the previous year. The geographic balance and diversified nature of Accor helped offset the negative impact on luxury hotels.

### Germany

Lufthansa reported a decrease of 7.1 per cent in passenger traffic for February, compared with a year ago. The slump, however, was slightly less pronounced than in the months since September 11. For 2001, Lufthansa announced a net loss of €591 million (Can. \$828.7 million). Its operating profit plunged to €20 million (Can. \$27.8 million), down from €1.04 billion (Can. \$1.4 billion) the year before. Lufthansa also announced that its summer timetable will include 40 per cent more flights to the U.S. than it did immediately following September 11. Another good sign is that its hiring freeze on cabin and ground crew has been lifted.

Frankfurt Airport, Germany's largest airport, reported a drop of 3.2 per cent in passenger traffic in February, compared with a year earlier, the smallest gap registered since September 11.

The Canadian Tourism Commission (CTC) office in Germany reported that German outbound traffic is expected to be flat this year, compared with a year ago. European countries, especially Italy, Turkey, Bulgaria and Croatia, are likely to be the prime summer destinations for Germans.



## Italy

According to a survey by the European Hotel Manager's Association, 60 per cent of respondents chose Italy, along with Spain, as the European markets most likely to improve during 2002. Tour operators reported to the CTC in Italy that 61.2 per cent of consumers will travel within Europe for their summer holidays and 17.2 per cent cited North America as their destination.

Venere Net SpA, an Italian hotel reservation company, reported in March that reservations now exceed pre-September 11 levels.

## Netherlands

KLM announced that passenger volumes have recovered from those registered immediately following September 11. KLM will increase flight frequencies to Montreal and Vancouver during the traditionally busy summer season.

Schiphol Airport reported a 27 per cent increase in net profit for 2001 compared with the previous year. Lost income following September 11 amounted to €23 million (Can. \$32.3 million) as the number of passengers travelling through Amsterdam decreased 0.2 per cent last year, compared with a year ago.

## Japan

According to a recent survey by Japan's leading financial newspaper, 54 per cent of respondents said they would resume planning overseas trips that they had cancelled or postponed after September 11. Italy ranked as the top destination (26%), followed by Hawaii (24%), and the mainland U.S. (22%).

According to CTC's Japan office, a recent survey of female travellers reported that fear of terrorist attacks, not enough money and difficulty in taking a vacation were the main reasons for not travelling.

The CTC also reported that small-group travel is more popular than large-group travel. As the U.S. continues to be perceived as potentially dangerous, wholesalers are starting to offer Canada-only packages.

A proposed merger between Japan Airlines and Japan Air Systems has stalled after being labeled as anti-competitive by the government. If the merger is approved, the new airline would be the sixth largest in the world.

## Korea

The CTC in Korea reported that January was a stellar month for outbound tourism-it registered the highest number of monthly departures in its history. For Canada it meant 16.9 per cent more Koreans travelled to Canada in January compared with a year ago. Last year, Canada ranked 9th in top travel destinations for Koreans, while Japan was number one followed by China and then the U.S.

Recently, the Korean government announced that it will launch a "tourism police squad" (comprising police officers and officials from relevant government agencies) to clamp down on those who charge tourists excessive fees, dump waste illegally and generally undermine the country's tourism industry.

Airlines will start announcing their summer rates in newspapers in April. Airfares are expected to be slightly higher than last summer. Meanwhile, Korean Air (KAL) forecasted a U.S. \$77 million (Can. \$122.2 million) profit for 2002, following two years of losses. In January, it reported passenger numbers decreased 2 per cent, compared with the previous year.

## Hong Kong

According to the Hong Kong Tourism Board, tourists from mainland China overtook Americans as the tourists with the highest average receipts in 2001, spending an average of HK \$5,169 (Can. \$1,052). In January, the number of visitors from Canada increased 8.7 per cent, compared with a year ago.

Cathy Pacific's net profits took a nose dive last year plunging 87 per cent, compared with the previous year. This is in contrast to record profits in 2000. The airline stated that passengers are returning but yields remain weak as the lucrative first-class and business-class markets have yet to recover.

### **Taiwan**

According to the Canadian Tourism Commission (CTC) office in Taiwan, tourist visas to Canada were up 16 per cent in January over the previous year. China, Hong Kong, Japan and Thailand remain the top outbound destinations for Taiwanese travellers.

The CTC also reported that the Taiwanese domestic tourism market is strong due to the introduction of a TWD \$16,000 (Can. \$745) travel credit from the Taiwanese government for domestic, weekday travel.

### **Australia**

American Express in Australia expects corporate travel to recover in the second half of the year and a return to annual growth rates of 5 to 7 per cent next year.

Sydney Airport Corporation announced a 200 per cent increase in profits as they climbed to Aus. \$44.1 million (Can. \$36.7) for the months of July through December, up from Aus. \$14.7 million (Can. \$12.2) during the same period a year ago. The increase is attributed to the doubling of landing fees that helps compensate for a 10 per cent decrease in traffic numbers during the same period.

According to the CTC's Australian office, late bookings have become the norm. This has led to an increase in sales to Canada recently, with the cruise-rail and ski products being the most popular.

### **New Zealand**

Air New Zealand reported a half year (July to December 2001) pre-tax loss of N.Z. \$376 million (Can. \$260.5 million). For the same period a year earlier, Air New Zealand reported a profit of N.Z. \$12.7 million (Can. \$8.8 million). In January, it saw an increase of 5 per cent in passenger-load factor, compared with the previous year.

Tourism New Zealand reported that for the first time since September 11, international arrivals in January increased, compared with a year earlier. Visitors from the U.S. to New Zealand were up 38.5 per cent during this period.

## **Economic Fallout**

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### **North America**

Consumers fuelled the GDP rebound started in the last quarter of 2001 by increasing their spending in Canada by 1 per cent quarterly. This led to a drop in inventories, allowing production to increase. In February, 6,000 net new Canadian jobs were added to the economy—another signal that production has geared up. The U.S. also saw a rise in employment, the first gain since last July.

Confidence has risen sharply in recent months and now sits well above the pre-September 11 level. The employment gains, along with lower interest rates and energy prices, are lifting real consumer spending in both Canada and the U.S. Low interest rates have also created a housing boom. Housing starts soared in January, partly due to the unusually mild weather but remained strong in February. In the U.S., new-home construction grew by over 6 per cent in January compared with December, the largest growth spurt in nearly two years.

## Europe

The Eurozone economy may grow more quickly in 2002 than economists had expected, as surveys reveal a strong rebound in business confidence. This gain is backed by hard data from surveys that show that purchasing managers are looking at expansion after using up their inventories. With the inflation rate expected to fall in the coming months, real incomes should rise and that should boost consumer demand. Also helping boost consumer demand were the surprising unemployment figures for January. According to figures released by the Organization for Economic Cooperation and Development, the unemployment rate for January was 8.4 per cent, unchanged from the same month a year ago.

On March 1, 12 European nations said goodbye to their national currency notes and coins and adopted the euro as their sole legal tender. To date, the United Kingdom, Sweden and Denmark are not members of the Eurozone.

## Asia-Pacific

It appears that the economies in Asia-Pacific are on the mend. Korea reported domestic demand expanded at a faster rate than expected rate and exports are expected to recover soon. Japan's current-account surplus surged 224.3 per cent in January compared with a year earlier to ¥709 billion (Can. \$8.7 billion). While Japan is still struggling with a weak economy, there are signs of a turnaround. The Taiwan Institute of Economic Research expects economic recovery to come in the second half of 2002, while noting that unfavourable factors such as mounting bad loans and structural unemployment remain to be tackled. A survey by MasterCard International found that Taiwan's consumer confidence index jumped sharply from 23.8 per cent in the middle of the year to 46.2 by the end of the year.

New Zealand is expected to have its gross domestic product growth slow in the coming months due to lower-than-expected export growth and fewer tourist arrivals. Australia on the other hand, cemented its position at the top of the world economic table in March with a larger-than-expected rise in gross domestic product in the fourth quarter.

## Opportunities

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The late booking trend doesn't appear as if it will let up any time soon. But travel has emerged through all the chaos of the last few months as an essential part of life. According to a recent survey by Hilton Hotels and Yankelovich Partners, 72 per cent of Americans want to invest more time in personal relationships and 81 per cent view vacations as one of the best ways to rekindle a romance. For families, more than two-thirds (69%) believe that vacations are a prime source of quality time.

An Ipsos-Reid survey reported that 51 per cent of respondents surveyed in seven major Canadian cities said they planned to travel within Canada for their vacations this year, while 31 per cent said they would go to the U.S. The CTC's Summer 2002 Business Outlook confirms that Canadians want to travel within Canada this summer-leisure travel by independent travellers will be up a healthy 5 to 6 per cent this summer over last. Further evidence can be found in an Ipsos Reid survey that found that 59 per cent of Canadians consider vacations or pleasure trips of high importance in their overall quality of life.

The Travel Industry Association of America (TIA) released results of the first national study of the current and potential geotourism consumer market. The study examined the travel habits and attitudes of 55 million Americans now classified as sustainable or "geotourists."

Within the classification of geotourist, eight profiles have been created, some of which represent more opportunity for Canada than others. The segments possessing the highest income and the highest propensity to travel are the Geo Savvys (16.3 million travellers), Urban Sophisticates (21.2 million travellers) and Good Citizens (17.6 million travellers). Urban Sophisticates were the most likely among all the groups to travel internationally and 86 per cent like to travel to places where they can spend time exploring historic and charming towns and locations. More information about these segments and other geotourist segments can be found at TIA's Web site <[www.tia.org](http://www.tia.org)>.

It's expected that more Americans will be driving to their leisure-trip destinations as the summer approaches-airline sales were down while the AAA Travel Barometer reported that TripTik requests increased in February compared with a year ago. Our travel forecasts confirm this prediction.

This is especially good news for Canadian destinations within reasonable driving distance from the U.S. border because, according to TIA, to 73 per cent of Americans the Canadian border is not an international one, meaning they would be more likely to cross it than other international borders. The CTC's Summer 2002 Business Outlook confirms that more U.S. citizens will travel to Canada as independent travel is expected to be up 3 to 4 per cent this summer over last year.

## Summary

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More than six months after the attacks, the tourism industry in Canada and around the world is settling into a new reality. This new reality includes coping with uncertainty-the need to monitor the market using current intelligence has become even more critical.

Economic concerns are now the overriding question mark for most of the tourism industry. However, even without economic concerns, international travellers-especially Americans-are not going to bound across the border without some prompting. The Canadian tourism industry should look to the success of the Caribbean this past winter for hints on what to do to get Americans to come to Canada this summer. Tactics that show promise include the promotion of package discounts, clear pricing that shows value, campaigns that address safety concerns (for during travel and at the destination) and lots of advertising.

It seems as though it will be a good summer season for domestic travel. The CTC's Summer 2002 Business Outlook confirms that not only do Canadians want to travel within Canada this summer, but more U.S. citizens will visit Canada, as well. Visa Canada also brought good news reporting that more than one-third of respondents in its survey stated that they plan to increase their travel this year-and many of those will travel domestically, as we are our own largest market.

Like Americans, Canadians will most likely be driving, especially as domestic airfares continue to rise. Alternatively, Canadian travellers could be on motor coaches as several tour operators report that business is strong, especially as these vehicles are perceived as being safe.

But, no matter where they go or how they get there, you can bet that most travellers-Canadians and Americans alike-will wait until the last minute to book.

For additional research information, please see  
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