

Discover our true nature



CTC Tourism Intelligence Bulletin – Issue 4: February 2002

The Tourism Intelligence Bulletin continues to monitor the impact of the September 11th impact on tourism around the world. This February issue reveals tourism intelligence gathered in January, 2002.

Canadian Recovery on Track

Executive Summary

On the whole, the Canadian tourism industry is rebounding faster than its American counterpart. According to the Milken Institute, the U.S. will lose a total of 1.64 million tourism jobs by the end of the year as the U.S. unemployment rate climbs from 4.7 per cent in 2001 to 6.1 per cent in 2002. In contrast, Canada's unemployment rate is expected to rise by a much more modest 0.3 per cent—from 7.1 per cent in 2001 to 7.4 per cent in 2002.

While Canada has not been spared job losses as a result of September 11th, the tourism industry continues to see glimmers of hope. Travel intentions continue to climb as more Canadians consider taking a domestic leisure trip within the next 12 months. In addition, U.S. travel intentions to Canada remain strong as Canada is viewed as a safe, close-to-home destination for most Americans. While the outlook for Canada's other international markets is expected to improve slowly, potential bright spots include the U.K. and South Korea—which are poised to rebound quicker overall.

Consumer (traveller) response

- According to the latest (January) Ipsos-Reid survey, 93 per cent of Canadian travelers are planning to take an overnight trip in the next 12 months—up from 85 per cent in November. Of those, 42 per cent indicated they would take a pleasure trip (unchanged from the November survey), 35 per cent indicated their trip would involve visiting friends and family (down from 38% of respondents in November) and 15 per cent said their overnight trip would involve business—up from 12 per cent in November. The percentage of respondents who indicated they would very likely consider a trip within Canada during the next 12 months rose to 59 per cent from 52 per cent reported in November.
- While the latest travel intentions confirm that more Americans also want to take more trips in the next 12 months, they still remain hesitant to venture too far from home. This could be due to the fact that air safety concerns nearly doubled between November and January, despite increased security measures. Yesawich, Pepperdine and Brown, indicate that nearly one in five (18%) U.S. travellers state that their future leisure travel plans remain affected by the events of September 11th—only a slight decline from the 22 per cent reported in November. It appears the U.S. has a long way to go to convince travellers that air travel is safe.

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Travel supplier response

- Air Canada reported total passenger kilometres increased 10 per cent during November compared to October-regaining approximately half the passenger kilometres it had lost during September and October. For December, Air Canada reported total passenger kilometres was down only 2.5 per cent compared to 2000, while capacity was off 10.1 per cent. Meanwhile, the U.S. Air Transport Association reported overall U.S. air traffic was down 14.2 per cent in December.
- While September 11th has had a significant impact on the performance of the Canadian hotel industry, Pannell Kerr Forster's (PKF) Urban Markets Outlook reports that demand lost as a result of the terrorist attacks will be recovered in 2002. PKF's occupancy projections for 2002 call for a Canada-wide occupancy of 63 per cent-slightly above the 2001 actual (62%) occupancy rate. In contrast, the hotel occupancy rate for U.S. hotels is expected to fall below 60 per cent in 2002-the lowest rate since 1971.
- According to the International Air Transport Association's (IATA) Bank Settlement Plan (BSP) monthly report, Canadian ticket sales by travel agents are slowly improving. The BSP reported that in December ticket sales were down 15 per cent compared with the previous year. Previous monthly declines of 21 per cent and 25 per cent were reported for November and October, respectively. The Airlines Reporting Corporation (ARC) in the U.S. reports sales by travel agents to be lagging behind its Canadian counterparts. Compared to last year, ticket sales dropped 40 per cent in October, 31 per cent in November and still remained 21 per cent down in December.

Government response

- The Canadian Tourism Commission (CTC) continues to implement marketing campaigns across Canada and U.S. border-states to get Canadians and Americans travelling again. The Canadian 'Go Far, Stay Close' campaign will be publicized through television and print advertisements across the nation until April 2002. The U.S. leisure campaign 'Discover our true nature' includes a media mix of newspaper banners, magazines, direct mail and radio spots.
- Other Canadian and U.S. marketing initiatives recently announced include the Province of Ontario's CDN\$ 10 million multi-pronged tourism marketing strategy. The new marketing campaign consists of two parts-a U.S. initiative, 'Take a Break, Come Stay with Friends', and an Ontario initiative, 'Pride in Ontario', which is designed to encourage Ontario residents to travel in Ontario. Atlantic Canada has also recently announced a new CDN\$ 5 million tourism marketing campaign that is expected to translate into a further CDN\$ 50 million in revenues from Ontario, Quebec and New England visitors.
- Much of the recent U.S. government response has been focussed on security. Under new U.S. regulations, all checked luggage must be screened by hand, machine or bomb-sniffing dog. In addition, all airlines landing in U.S. are now required to provide passenger information to U.S. authorities. New FAA issued guidelines also allow airline flight crews to aggressively defend their planes in the case of a hijacking. The National Institute of Justice will report by February 17th on whether flight crews should have non-lethal weapons such as stun guns aboard.

Economic fallout

- The world economy experienced one of its weakest growth rates in the past two decades last year as recessions swept across the three largest economies – the U.S., Japan and Germany. While the September terrorist attacks wreaked further havoc on economic performance across the globe, the world's major economies have since responded with significant monetary and fiscal policies in an effort to bolster activity. For 2002, real economic growth is expected to reach 1.2 per cent with solid recovery slated to commence during the second half of this year.
- North America experienced a collapse in economic growth last year as the downturn in the United States spread to both sides of its borders. Real economic growth in 2001 grew by an estimated 1.1 per cent, a far cry from the 4.1 per cent gain witnessed in 2000. The outlook for 2002 is for renewed growth in all three North American countries. While the first half of the year will remain relatively weak, growth is expected to pick-up thereafter when the U.S. is expected to regain its economic footing.

Canadian Recovery on Track

- Economic growth will remain somewhat sluggish in Europe for 2002 given some of the hurdles Euroland will have to overcome. Despite improvements in business and consumer confidence, the unemployment rate in France, Italy and Germany continues to increase. For the Asia-Pacific region, a revival in export growth is expected to help drive higher economic growth for 2002. There are already some early signs that demand for electronic products is on the rise and low interest rates are helping stir domestic demand. Japan, however, will be the exception to recovery in the region with a recession likely for the second year in a row.

Opportunities

- Promoting Canada as a safe, close-to-home travel destination is the most effective message in motivating Canadian leisure travellers to travel domestically for their next vacation instead of going abroad. For the U.S., promoting a favourable exchange rate appears to be the most effective way to motivate U.S. travellers to visit Canada. Safety and the proximity of Canada is the second most effective message among American travellers.
- The U.S. conversion market (those travellers who would consider travelling to Canada instead of going to an overseas destination or travelling within the U.S. because of September 11th) rose slightly in January to represent 30 per cent of American travellers, virtually unchanged from November. It was also reported that repeat visitors from the U.S. are more likely to visit Canada over the next 12 months than first-time visitors.

Overview

On the whole, the Canadian tourism industry is rebounding faster than its American counterpart. The effects of the September 11th attacks continue to ripple through the U.S. economy. According to the Milken Institute, the U.S. will lose a total of 1.64 million tourism jobs by the end of the year as the U.S. unemployment rate climbs from 4.7 per cent in 2001 to 6.1 per cent in 2002. In contrast, Canada's unemployment rate is expected to rise by a much more modest 0.3 per cent—from 7.1 per cent in 2001 to 7.4 per cent in 2002.

Overall, the World Travel and Tourism Council estimates that 8.8 million jobs will be lost worldwide in the tourism sector by the end of 2002, spurring the International Labour Organization (ILO) to sit down recently and brainstorm ways to help tourism regain its footing. While Canada has not been spared in job losses as a result of September 11th, the tourism sector continues to see glimmers of hope. Travel intentions continue to climb as more Canadians seriously consider taking a domestic leisure trip within the next 12 months. As with recent operating results, the outlook for Canada's airline and accommodation industries remains more positive than their U.S. counterparts.

As in Canada, air travel in the U.S. has been improving, but still remains well below 2000 levels. Despite the fact that U.S. fares have significantly declined since September and December, the lowest in 12 years, it has still failed to spur a rebound enough vigorous to help the troubled U.S. airline industry.

Although the January U.S. travel intentions to Canada were down slightly from November, Canada continues to be the destination of choice above any other international country—remaining a safe, close-to-home destination for most U.S. travellers. European travel to Canada is expected to improve slowly throughout the year while travel from the Asia-Pacific region is generally expected to remain weak. Potential bright spots among Canada's major markets include the U.K. and South Korea—which are poised to rebound quicker overall.

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

According to the January 2002 Ipsos-Reid survey, 93 per cent of Canadians are planning to take an overnight trip in the next 12 months—up from 85 per cent in November. Of those travelers, 42 per cent indicated they would take a pleasure trip (unchanged from the November survey), 35 per cent indicated their trip would involve visiting friends and family (down from 38% of respondents in November) and 15 per cent said their overnight trip would involve business—up from 12 per cent in November. The percentage of respondents who indicated they would very likely consider a trip within Canada over the next 12 months rose to 59 per cent from 52 per cent reported in November.

Canadian Recovery on Track

While the latest travel intentions confirm that Americans travellers also want to take more trips in the next 12 months, they still remain hesitant to venture too far from home. Seventy-eight per cent of respondents in the latest Ipsos-Reid survey indicated they intend to travel within the U.S. on their next trip. The majority (69%) intend to travel domestically, with 10 per cent planning to stay within their home state. The survey indicated that 5 per cent of Americans were planning traveling to Canada for their next pleasure trip, while another 5 per cent plan on travelling to Europe. A January 2002 report by Yesawich, Pepperdine and Brown, indicates that nearly one in five (18%) U.S. travellers state that their future leisure travel plans remain affected by the events of September 11th-only a slight decline from 22 per cent of respondents in November.

D.K. Shifflet & Associates' latest USA Travel Recovery/Monitor reports that 35 per cent of Americans would consider taking a leisure trip to Canada in the next six months. While this is down slightly from the last report (38%), the percentage that would consider Canada still exceeds other international countries. According to the latest Ipsos-Reid survey, repeat visitors are more likely to visit Canada in the next 12 months (43%) compared to first-time visitors (13%).

U.S. travel intentions by air continue to be weak. The Conference Board Inc.'s December Consumer Confidence Survey reported that the percentage of Americans planning to travel by air in the next six months declined to 16 per cent from 18.4 per cent in October. D.K. Shifflet & Associates report one in six travellers still see air travel as unsafe. Yesawich, Pepperdine and Brown reports air safety concerns among recent respondents nearly doubled from 23 per cent in November to 45 per cent in January. Not helping matters is that the number of respondents indicating air travel is now too big of a hassle also rose from 14 per cent in November to 19 per cent in January.

The latest Statistics Canada figures on overnight travel from the U.S. to Canada seem to bear out the pitfalls of air travel, sometimes to the benefit of automobile travel. During November, the number of overnight U.S. travellers to Canada by non-automobile (primarily air travel) declined 18.5 per cent compared to 2000, while the number of overnight U.S. travellers to Canada arriving by automobile increased 7.4 per cent.

It appears that discounts are necessary to sway leery U.S. travellers. The Yesawich, Pepperdine and Brown survey reported that 57 per cent of U.S. travellers stated airline discounts would influence their decision to fly as part of their vacation for the upcoming year. Forty-five per cent indicated they would be influenced by discounts offered by hotels, while one-third indicated they would be influenced by special promotional offers by cruise lines (33%) or tour package companies (31%). Almost four in ten (39%) said it would take a discount of 50 per cent or more to motivate them to take a trip.

U.S. respondents to the latest Ipsos-Reid survey indicated that they would be more likely to visit Canada upon hearing a communication message promoting the favorable exchange rate. In a January survey conducted by the National Business Travel Association (NBTA), 74 per cent of travel managers are using new measures to reduce travel expenditures. Sixty per cent of travel managers said their corporations are reducing non-essential travel, while 52 per cent of companies are reducing the number of meetings at hotel sites. To cut air travel costs, 51 per cent of travel managers are booking flights on "discount" airlines, 61 per cent book more than a week in advance and 43 per cent use alternative airports. When asked which trends they thought would negatively affect business travel in 2002, travel managers listed consolidation in the airline industry (56%), increased discrepancies in leisure and business fares (46%) and a continued slide in the economy (41%).

Travel supplier response - Canada & U.S.

Airlines

Air Canada reported total passenger kilometres increased 10 per cent during November compared to October-regaining approximately half the passenger kilometres it had lost during September and October. For December, Air Canada reported total passenger kilometres was down only 2.5 per cent compared to 2000, while capacity was still off 10.1 per cent. For 2001, Air Canada is expected to report a loss of CDN\$ 1 billion.

Despite a drop in passengers during September and October, Air Transat's revenues for 2001 were still 10 per cent higher than the previous year. Unfortunately, Air Transat is expected to report a CDN\$ 99 million loss for the year. Winter bookings, while still 20-25 per cent lower than the previous year, have improved significantly from the 50 per cent drop recorded in September and October. WestJet shares continue to rise with news of an increase in profits and plans to expand its network.

Canadian Recovery on Track

For the U.S., the Air Transport Association (ATA) reported domestic passenger traffic was down 14.2 per cent in December. While overall passenger traffic continues to be down over last year, the 14.2 per cent decline represents a marked improvement from the 34.2 per cent decline reported in September, 23 per cent drop in October and 19.5 per cent dip in November.

In January, most major U.S. carriers reported steep fourth quarter losses. American Airlines alone reported a loss of US\$ 798 million (CDN\$ 1.3 billion). Despite a recent drop in oil prices, U.S. air carriers are expected to post a collective 2001 annual loss in the order of US\$ 7 billion (CDN\$ 11 billion) to US\$ 9 billion (CDN\$ 14.5 billion). These losses are despite the US\$ 5 billion (CDN\$ 8.0 billion) in federal grant bailouts. Analysts expect the downturn for the U.S. airline industry to continue into 2002 with further operating losses expected to total US\$ 2.4 billion (CDN\$ 3.9 billion).

Hotels

While September 11th has had a significant impact on the performance of the Canadian hotel industry, Pannell Kerr Forster's (PKF) Urban Markets Outlook reports that demand lost as a result of the terrorist attacks will be recovered in 2002. PKF's occupancy projections for 2002 call for a Canada-wide occupancy of 63 per cent—slightly above the 2001 actual (62%) occupancy rate. Toronto-based Fairmont Hotels and Resorts are so encouraged by the early signs of recovery that they are forecasting operating profit to improve in 2002.

On the whole, U.S. hotels are expected to continue to suffer negative ramifications as a result of September 11th and the delayed economic rebound. According to PricewaterhouseCoopers, hotel occupancy in the U.S. is expected to fall below 60 per cent in 2002—the lowest rate since 1971. Revenue per available room is also expected to drop 0.2 per cent this year, on the heels of a 6.7 per cent decline in 2001—the worst drop since the Great Depression. Total industry profits are expected to grow a weak 1.8 per cent in 2002 after plummeting 27 per cent in 2001. PricewaterhouseCoopers also expects lodging industry employment to fall this year for the first time since 1992—shedding a total of one per cent of its workforce.

Travel Agents

According to the monthly International Air Transport Association (IATA) Bank Settlement Plan (BSP) report, Canadian sales by travel agents are slowly improving. The BSP reported that in December ticket sales were down 15 per cent compared with the previous year. Previous monthly declines of 21 per cent and 25 per cent were reported for November and October, respectively.

The Airlines Reporting Corporation (ARC) in the U.S. reported that total sales are also improving, however, they still lag that of Canadian agents. Compared to last year, ticket sales dropped 43 per cent in September, 40 per cent drop in October and 31 per cent in November. The latest December 2001 figures suggested sales had improved but were still down 21 per cent compared to 2000. Annual ticket sales for 2001 by ARC accredited travel agents finished 16 per cent below 2000 figures. Year-end domestic fares and commissions were down 17 per cent and 27 per cent, respectively.

Government response - Canada & U.S.

Canada

The Canadian Tourism Commission (CTC) continues to implement marketing campaigns across Canada and the U.S. to get Canadians and Americans travelling again. As part of the CDN\$ 20 million set aside by the CTC and the federal government, the Canadian 'Go Far, Stay Close' campaign will be publicized through television and print advertisements across the nation until April 2002. The CTC has also produced a newspaper insert highlighting Canadian destinations and experiences for winter 2002 and has initiated a call for proposals for CTC and Canadian tourism industry marketing partnerships.

The CTC's U.S. leisure campaign 'Discover our true nature' includes a media mix of newspaper banners, magazines, direct mail and 60 second radio spots in New York, Boston, San Francisco, Chicago, Philadelphia, Washington and Orange County. The second phase of this campaign began in January 2002 with two more scheduled runs in May and November of this year.

Canadian Recovery on Track

This past November, the Ontario Finance Minister announced CDN\$ 10 million in new funding for an aggressive multi-pronged tourism marketing strategy. The new marketing campaign consists of two parts-the first 'Take a Break, Come Stay with Friends' is being aimed at U.S. markets, while the second 'Pride in Ontario' is designed to encourage Ontario residents to travel in Ontario. Toronto's own urban entertainment initiative, 'Mix N' Match', generated a significant increase in bookings over last year and helped increase hotel revenues in Toronto by an estimated CDN\$ 750,000.

In January, Atlantic Canada announced a new CDN\$ 5 million tourism marketing campaign. Federal funding will contribute CDN\$ 3.75 million to the campaign, while local Atlantic Canada partners will contribute CDN\$ 1.25 million. Officials hope that this new initiative will translate into a further CDN\$ 50 million in revenues from visitors from Ontario, Quebec and New England.

U.S.

Security efforts at U.S. airports were raised another notch on January 18, 2002. Under new U.S. regulations, all checked luggage must be screened by machine, hand or bomb-sniffing dog. The heightened security measures also include the provision that all airlines landing in U.S. are now required to provide passenger information to U.S. authorities. New FAA issued guidelines allow airline flight crews to aggressively defend their planes in the case of a hijacking. The National Institute of Justice will report by February 17th on whether flight crews should have non-lethal weapons such as stun guns aboard. Airlines will continue to be responsible for security until February 17th, when the federal government will take over.

As of February 1, 2002, the U.S. federal government will impose a US\$ 2.50 (CDN\$ 4.02) passenger security surcharge to help fund the new federal government screening program and a US\$ 1.00 (CDN\$ 1.61) airline security fee which will fund the balance of the costs associated with the new Transportation Security Administration.

International response - Overseas**United Kingdom and Ireland**

British Airways suffered a 10.4 per cent drop in passenger volumes in December, while capacity had been scaled back 12.5 per cent. Analysts are predicting full year losses for British Airways of approximately £ 750 million (CDN\$ 1.7 billion). To help boost business travel, British Airways announced in January it was spending £ 5.3 million (CDN\$ 12 million) on a campaign to get business travellers flying again. BA's marketing campaign, 'It's Better to Be There', offers a package of incentives including free parking at airports and free car rental to those who upgrade to business class. Members of the airlines executive club, who have not flown since the U.S. attacks, will be offered 5,000 free air miles if they travel between Jan 21 and March 31st.

Fortunately, British leisure travellers do seem anxious to travel again. In fact, a survey by ICM Research found that more U.K. travellers are planning to travel overseas than take vacations at home, despite the September 11th attacks. Fifty-one per cent of Britons said they planned to travel overseas in 2002 while 18 per cent prefer to stay in Britain-this compared to 48 per cent of Britons, who travelled abroad in 2001 and the 24 per cent that stayed at home. For 2002, Europe remained the most popular destination with 30 per cent of Britons planning to travel there. Surprisingly, the number of respondents intending to travel to the U.S. this year rose to 7 per cent, compared with 6 per cent in 2001.

In January, the British Tourist Authority unveiled a new £5.3 million (CDN\$ 12 million) marketing campaign, "UKOK", to lure international travellers to visit Britain. £1.1 million (CDN\$ 2.6 million) will be designated to the U.S. alone. The funds are expected to be spent between February and June 2002 on trade and consumer advertising, in newspaper ads and on radio spots in Canada, Belgium, France, Germany, Ireland, the Netherlands and the U.S. Tourism Ireland also announced plans to launch a three-month, IEP 5.4 million (CDN\$ 9.6 million) marketing effort, 'There's something of Ireland in all of us', to help boost visitor arrivals from the U.S.

Ryanair, the Irish low-cost air carrier, expects to carry over 10 million passengers in the current fiscal year ending March 31st, 2002. This would make it the 7th largest scheduled airline in Europe. Ryanair's new order of 150 new aircraft from Boeing will enable the carrier to increase traffic to over 40 million passengers per year.

France

Air France announced a 2.2 per cent drop in air traffic for December—a significant improvement over the 7.2 per cent drop in November, with load factors back to December 2000 levels and capacity down only 1.9 per cent. In December, capacity on the long-haul network grew 0.7 per cent as traffic also increased 0.4 per cent. On North American routes, capacity was still reduced 16.2 per cent, while passenger volumes declined 9 per cent. Routes to Asia, Latin America, and Africa Middle East sectors all experienced an increase in December.

A 9 million euros (CDN\$ 12.5 million) campaign aimed at promoting France as a tourist destination will begin on March 11, 2002. The campaign is meant to maintain France's position as the world's number one tourist destination. Tourism in France contributes 7.0 per cent to France's gross domestic product and is bigger than its auto and aerospace industries in terms of foreign currency revenues.

The French government announced plans to increase measures to help small travel companies weather the decline in travel. France's Tourism Minister promised a three-month extension for paying social and fiscal charges for travel agencies encountering cash flow problems.

Germany

Frankfurt Airport reported passenger volumes fell by 7.9 per cent in December—better than the 10.9 per cent drop in November and 13.9 per cent in October. For the year, passenger volumes were down 1.6 per cent compared to 2000.

Lufthansa reported a 12 per cent drop in passengers in December—an improvement from a 15.6 decline in passenger numbers in November. The sharp decline in demand toward the end of the year left Lufthansa's traffic for 2001 down almost 2 per cent from the previous year.

The CTC foreign office reports that the overall travel trends for Germany this year will include safe, known destinations, wellness tourism, domestic travel and late bookings. South Africa continues to be the favored long-haul destination.

Italy

The CTC foreign office reports that, despite the gloomy projections, there was an upswing in holiday travel bookings just prior to Christmas. Egypt, Mauritius, Maldives and the Caribbean islands were sold out for the New Year's holidays. According to the consumer association's Telefono Blu, 10 million more Italians took New Year's holidays in 2001 compared to 2000. However, 82 per cent of those who took holidays remained in Italy.

Alitalia continues to be hampered by employee strikes, passenger volume declines and scheduled layoffs. In January, passengers flying to and from Italy faced a day of delays and cancellations as pilots, flight crew and ground staff at Alitalia carried out their third strike in the last three months. Alitalia reported a decline of 31 per cent in passenger volume in November and announced plans to layoff 15 per cent of its workforce.

Netherlands

KLM Royal Dutch airlines saw December traffic pick up from November, although it was still 8 per cent down from 2000. In comparison to the 12 and 10 per cent declines in overall passengers for October and November respectively, December continued to show a relative improvement. Amsterdam's Schiphol airport announced in January that passenger volumes were only down 0.2 per cent compared to 2001.

KLM is offering a 25 per cent discount to Dutch travellers on flights to European destinations for flights through to the end of April. Furthermore, KLM and a large number of Dutch tour operators are offering attractively priced travel packages to European destinations and a 100 euros (CDN\$ 140) reduction on package travel to the US. With these offers, KLM and tour operators hope to stimulate travel in the normally quiet period of January through April. On a side note, KLM has imposed a 25 euros (CDN\$ 35) booking charge for paper-issue tickets, while on-line bookings remain free of charge.

Japan

The number of Japanese taking overseas trips in November reached new lows amid continued fear of future terrorist attacks. The 42 per cent decline in overseas travel reported in November was larger than the 36.1 per cent plunge recorded in February 1991 during the Persian Gulf War.

Fears of terrorist attacks also affected holiday travel—normally one of Japan's biggest travel seasons. Japanese travelling on domestically owned airlines between Dec 22 and Jan 6 was down 15.8 per cent compared to the previous year. According to the CTC foreign office, South Korea was the most popular New Year's destination for Japanese tourists, followed by Europe and Hawaii. Travel over this past New Year's is estimated to be down 36 per cent from the previous year.

All Nippon Airways reported a 27.4 per cent drop in international passenger numbers in December compared with a 40-plus per cent drop in October and November. Additionally, the airline is facing a decline in domestic travel. Passenger numbers were down 8.7 per cent in December after a fall of 7.4 per cent in November.

Korea

According to the CTC foreign office, outbound traffic from South Korea continues to rebound with strong demand for short-haul destinations in Southeast Asia, Australia and New Zealand. Airlines are adjusting capacity and schedules to meet growing demand. Tourist organizations around the world are enhancing promotions to capture a share of the Korean market. Despite the September 11th attacks, there was a 22.2 per cent increase in overseas travel in 2001 compared with 2000.

In January, South Korea and Hong Kong agreed to allow visitors to stay in each others countries for up to 90 days without obtaining visas for departures up to February 1st. Previously, leisure travellers could only stay in either country for a maximum of 30 days.

Hong Kong

Cathay Pacific announced that December passenger traffic fell 2.4 per cent from a year earlier—significantly better than the 13.8 per cent decline reported for November. Cathay Pacific saw a total decline of 5 per cent for 2001, primarily due to the impact of September 11th. While Cathay Pacific Holidays recorded a 10 per cent jump in sales for the Lunar New Year, average prices have fallen 10 to 15 per cent compared with 2001. In order to boost travel to Hong Kong this spring, Cathay Pacific has announced plans to give away 10,000 return air tickets. In the airlines latest promotion, Cathay will run a prize draw for participating residents. The lucky winners will then be able to offer friends and family living overseas free air tickets to visit Hong Kong between April 3rd and July 3rd .

The Travel Industry Council in Hong Kong reports that Hong Kong travellers are still reluctant to travel to the U.S. or Europe, despite fares to these areas falling 15 to 20 per cent. With the exception of Australia and South Africa, all long-haul markets continue to suffer. The Hong Kong Tourism Board anticipates substantial growth from mainland China in 2002 along with a strong demand from short-haul destinations like Japan, Korea and Taiwan.

Taiwan

According to a report by the Travel Quality Assurance Association, a global economic recession has weakened Taiwanese interest in overseas travel, while domestic tourism may enjoy a booming season during the Chinese New Year holidays. The report also indicates that prices of package tours to destinations in North Asia, Southeast Asia, New Zealand and Australia and Europe will be lower than in previous years. Domestic travel during the Lunar New Year Holidays is expected to be 20-50 per cent higher than last year.

According to the CTC foreign office, Japan and New Zealand are the most popular destinations for school winter break and the Chinese New Year. The Taiwanese government also plans to promote the Citizen Travel Card in 2002 to spur domestic travel. Under this new plan, public servants can obtain up to NTS 16,000 (CDN\$ 735) for domestic travel.

Taiwan's China Airlines reported its pre-tax profit for 2001 fell to NT\$ 1.63 billion (CDN\$ 74.2 million) from NT\$ 2.8 billion (CDN\$ 127 million) in 2000. Despite this 42 per cent drop in pre-tax profit, the results were well above the company's forecast of NT\$ 1.37 billion (CDN\$ 62.3 million). Eva Airlines is expected to forecast a 2001 net loss of NT\$ 3.2 billion (CDN\$ 145.5 million)-its worst result since 1994. In December, Taiwan approved an increase in the surcharge its airlines are imposing on international tickets to pay for the higher airline insurance costs incurred since September 11th.

Australia

The Australian Bureau of Statistics reported that arrivals were down 10.7 per cent in December-better than the 20.5 per cent decline in November. Inbound travel from Japan and New Zealand suffered the biggest declines of 29 per cent and 27 per cent respectively. In contrast, China recorded the largest increase at 38 per cent. Visitor arrivals from Germany, the U.K, Korea, China and Canada all rose in 2001.

In January, the Australian Tourist Commission launched three new marketing campaigns valued at AUD\$ 10 million (CDN\$ 8.3 million) to boost travel from the U.S. in 2002 as arrivals last year fell 7.5 per cent. The Australian Tourist Commission and Singapore Airlines also launched a new marketing campaign to boost visitor arrivals from across the Asia region. The 'Great Aussie Strike it Lucky' promotion is scheduled to be a 100 days AUD\$ 850,000 (CDN\$ 708,000) sweepstakes promotion, aimed at the Asian market.

The Australian Hotels Association (AHA) has joined the Tourism Task Force in calling the Australian government to re-think its domestic travel rebate following poor response from the public. The AUD\$ 150 (CDN\$ 125) rebate for domestic travellers had been utilized by only 10 per cent of Australian tourists who qualified, with the program ending in January. The failure of the holiday incentive program is being attributed to poor publicity, limitations on accessing the rebate and the requirement to use a travel agent.

New Zealand

Air New Zealand recently announced it would raise fares on its domestic routes. Domestic fares will increase by 5 per cent. Air New Zealand also announced that it will be closing its overseas call centres in London, Vancouver and Los Angeles and moving their operations to two existing local sites. Air New Zealand will maintain its sales, marketing and ticketing operations in the affected locations.

Economic Fallout

World

The world economy experienced one of its weakest growth rates in the past two decades last year as recessions swept across the three largest economies the U.S., Japan and Germany. While the September terrorist attacks wreaked further havoc on economic performance across the globe, the world's major economies have since responded with significant monetary and fiscal policies in an effort to bolster activity. For 2002, real economic growth is expected to reach 1.2 per cent, with solid recovery slated to commence during the second half of this year.

North America

North America experienced a collapse in economic growth last year as the downturn in the United States spread to both sides of its borders. Real GDP in 2001 grew by an estimated 1.1 per cent, a far cry from the 4.1 per cent gain witnessed in 2000. The outlook for 2002 is for renewed growth in all three North American countries. While the first half of the year will remain relatively weak, growth is expected to pick-up thereafter when the U.S. is expected to regain its economic footing.

Strong fundamentals (low interest rates, fiscal stimulus and a more stable job market) are expected to form a strong platform for growth through 2002. With consumer confidence on the mend, spending will likely continue as consumers take advantage of low interest rates to improve both their financial position and cash flow.

Europe

Economic growth will remain somewhat sluggish in Europe for 2002, given some of the hurdles Euroland will have to overcome. Despite improvements in business and consumer confidence, the unemployment rate in France, Italy and Germany continues to increase. Moreover, while consumer spending will continue to expand in 2002, growth will not be as strong as was the case last year due to sluggish wage gains and poor job prospects.

In addition, the European Central Bank (ECB) has not been able to provide the same degree of monetary stimulus for the economy as the Federal Reserve in the United States. The ECB must focus on the euro-zone as a whole and, therefore, cannot operate for the benefit of one member country. This has made stimulative efforts much more difficult and will delay the recovery. Overall, real economic growth is expected to be just less than 1.5 per cent for 2002.

Asia-Pacific

Real GDP in the Asia-Pacific region expanded by only 0.6 per cent in 2001. Underlying the weak performance was the plunge in demand for high technology products following the NASDAQ bubble burst and subsequent slash in investment spending. In 2002, a revival in export growth is expected to help drive higher real GDP growth. There are already some early signs that demand for electronic products is on the rise and low interest rates are helping stir domestic demand. Japan, however, will be the exception to recovery in the region, with a recession likely for the second year in a row.

Opportunities

According to Ipsos-Reid, promoting Canada as a safe travel destination that is close to home is the most effective message in motivating Canadian leisure travellers to select Canada as their next vacation instead to going abroad.

Ipsos-Reid also reports the U.S. conversion market (those travellers who would consider travelling to Canada instead of going to an overseas destination or travelling within the U.S. because of September 11th), rose slightly to represent 30 per cent of American travellers in January, virtually unchanged from November. It was also reported that there has been a slight increase in the proportion of travellers who are considering travelling to Canada instead of travelling to the U.S. (8% vs. 13%), while those substituting Canada for an overseas trip has remained about the same (29% vs. 26 %).

For the U.S., promoting a favourable exchange rate appears to be the most effective way to motivate U.S. travellers to visit Canada. Safety and the close proximity of Canada was seen as the second most effective message among potential American travellers. The survey also revealed that repeat visitors from the U.S. are more likely to visit Canada in the next year than first-time visitors.

The Ipsos-Reid survey suggested vacation package discounts could be effective in promoting tourism for Canada. For U.S. visitors, discount rates of 20 per cent and 40 per cent were shown to generate increased interest in visiting Canada by 21 per cent and 41 per cent, respectively. Companies undertaking this discount strategy will want to be more conservative with their expectations since messages regarding value will not reach everyone—case in point being the persistent lack of awareness of the favourable Canadian exchange rate.

Summary

Along with a more promising economic recovery compared to the U.S., Canada's tourism outlook may also be more hopeful than the U.S. for 2002. With marketing campaigns in place and a slow but steady rise in travel numbers, Canada's tourism sector continues to see glimmers of hope. Strong Canadian travel intentions and promising signs in the airline and hotel industry suggest Canada's recovery is on track-especially compared to our U.S. counterparts.

The road to recovery for the U.S. tourism industry still seems more like an uphill climb. Air travel remains well below 2000 levels as discounted airfares have not lured as many travellers back as originally hoped and air safety remains a big concern.

Fortunately, U.S. travel intentions to Canada remain strong as Canada is viewed as a safe, close-to-home destination for most Americans. While the outlook for Canada's other international markets is expected to improve slowly, potential bright spots include the U.K. and South Korea-which are poised to rebound quicker overall.