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CTC Tourism Intelligence Bulletin – Issue 5: March 2002

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

Pent Up Demand Spurs Rebound

Executive Summary

In Canada, the pent up demand for outbound travel, which had been building since September 11th, was finally released in January. According to IATA's Bank Settlement Plan (BSP), international pleasure travel by air increased 13 per cent compared to the previous year. Hot spots, including the South Pacific, Caribbean and Asia registered increases of 52 per cent, 40 per cent and 27 per cent, respectively, over January last year. After significant declines from September, outbound travel to the U.S. also benefited from pent up demand.

Meanwhile, domestic air travel within both Canada and the United States suffered a bit of a post holiday lull. In Canada, the BSP reported a 36 per cent drop in domestic air travel ticket sales in January, compared to the previous year. These same sales figures were down only 25 per cent in December. Likewise in the U.S., the Airlines Reporting Corporation (ARC) stated air ticket sales dropped 23 per cent in January, compared to the same month a year ago. In contrast, ticket sales this past December were only off 15 per cent compared to the previous year.

Emerging Trends and Issues -Air Travel Security

- In February, airport security continued to be a top priority for the tourism industry. Members of the International Civil Aviation Organization (ICAO) recently met in Montreal to organize an international airport security audit. As well, the newly appointed Transportation Security Administration (TSA) officially took over responsibility for monitoring U.S. baggage handling.
- A recent survey of 1,000 U.S. travel agents indicated fear of flying has once again surfaced as the primary reason for avoiding air travel (29%), followed by recessionary concerns (21%). In fact, safety concerns in the U.S. nearly doubled between November and January. This was most likely in response to apparent lapses in security and the arrest of 'shoe bomber', Richard Reid.

Consumer (traveller) response

- Overnight travellers from the U.S. increased 3.8 per cent in December compared to the previous year. Although down from 2000, overnight visits from seven of Canada's top 12 overseas markets also showed significant progress between November to December of 2001. These visitor numbers suggest the recovery in inbound travel to Canada is still on track.

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Pent Up Demand Spurs Rebound

- Statistics Canada reports that Canada's international travel deficit—the difference between what Canadians spend abroad and what foreigners spend in Canada—fell to CDN\$ 85 million in the fourth quarter of 2001, its lowest level since 1986. Statistics Canada attributes the favourable result in part to the depreciation of the Canadian dollar and the events of September 11th.

Travel supplier response

- The BSP confirms that average airfares paid by Canadians to travel domestically are on the rise. In January, the average fare for leisure travel increased by 24 per cent compared to a year ago, while average business airfares rose 18 per cent. Canada's airline industry, already battling the downturn from September 11th and the new airport security fees, warned travellers of even higher ticket prices as the federal government announced plans to increase airport rents in 2003.
- According to Salomon Smith Barney, air capacity on the largest U.S. airlines will remain about 13 per cent lower for the first three months of 2002 compared with last year. On a positive note, American Airlines announced the largest service resumption of any U.S. carrier since September 11th. As of February 8th, 41 new roundtrip flights to 37 destinations will be added from its Dallas-Ft. Worth hub. American Airlines is currently flying 85 per cent of its pre-September 11th schedule and plans to be back to 91 per cent by March 2, 2002.
- Four Seasons Hotels and Resorts reported that fourth-quarter profits for 2001 dropped more than 75 per cent. The good news is it expects profits from its Canadian operations to grow 8 per cent in 2002. On the other hand, Ernst and Young's 2002 National Lodging Forecast reports that the U.S. hotel industry is in one of its worst financial slumps in the last 20 years. While D.K. Shifflet & Associates reports that the U.S. hotel industry will see some recovery in the second half of 2002, it will not be enough to offset declines in the first six months of 2002.

Economic Fallout

- Canada's economy beat growth expectations in the fourth quarter of 2001, climbing 2 per cent on an annual basis and avoided falling into a technical recession. The U.S. Department of Commerce also released better than expected data and reported that fourth quarter growth was 1.4 per cent. This growth allowed the U.S. to sidestep a technical recession as well.
- The economic outlook in Europe remains unchanged from the previous month, with continued downside risk contributing to the region's sluggish outlook. Business confidence showed signs of improvement in line with the expected pick-up in the U.S. economy. However, consumer confidence has remained fragile.
- There are many positive signs that the economic downturn in the Asia-Pacific region may have begun to bottom-out. The outlook for Japan, however, has deteriorated further. The Japanese government has already warned that structural economic reforms will mean weak growth over the next few years.

Opportunities

- The post holiday dip recently noted in domestic tourism is expected to represent only a slight blip on the road to recovery in the industry. The marketing key, according to the Strategic Council, is to focus on the travel experience and how it enhances a traveller's life. A recent survey by Expedia Canada and Ipsos-Reid identified how important Canadians consider their travel experiences to be. The findings suggest 81 per cent of Canadians surveyed in seven major markets consider vacations a very important part of their overall quality of life.
- The Expedia Canada and Ipsos-Reid survey goes on to report that Canadians desire choice, flexibility and timeliness of information when making travel arrangements. U.S. travellers also respond to tourism products that offer flexibility and timeliness. D.K. Shifflet & Associates reports that U.S. travellers are most interested in companies that promote flexibility with no penalty for changing or canceling plans, offer a lowest price assurance, and value friendly, fast service with limited hassle.
- As winter rolls into spring, the post holiday dip in domestic travel is expected to flatten out as the Canadian tourism industry moves forward on the road to recovery. Encouraging signs are on the increase—the latest CTC Business Outlook (BO) reports strong advance bookings for the spring, economic indicators are stronger than expected and enhanced security measures are currently being implemented. All of this suggests Canada is well positioned for a strong recovery.

Overview

In Canada, the pent up demand for outbound travel which has been building since September 11th was finally released in January. According to IATA's Bank Settlement Plan (BSP), international pleasure travel by air increased 13 per cent compared to the previous year. Hot spots, including the South Pacific, Caribbean and Asia registered increases of 52 per cent, 40 per cent and 27 per cent respectively over January last year. After significant declines from September, outbound travel to the U.S. also benefited from pent up demand. While this takes Canadians outside the country, segments of the Canadian tourism industry, such as travel agents and airlines, will welcome this recent surge.

Meanwhile, domestic air travel within both Canada and the United States suffered a bit of a post holiday lull. In Canada, the BSP reported a 36 per cent drop in domestic leisure travel ticket sales in January, compared to the previous year. These same sales figures were down only 25 per cent in December. Likewise in the U.S., the Airlines Reporting Corporation (ARC) stated air ticket sales dropped 23 per cent in January, compared to the same month a year ago. In contrast, ticket sales this past December only dropped 15 per cent, compared to the previous year. Although the BSP and ARC monitor only ticket sales by travel agents and do not include on-line bookings, this evidence suggests the road to recovery in the domestic tourism industry for both Canada and the U.S. might first have to ride out some post-holiday blahs.

Air ticket sales may have also been hindered by emerging issues surrounding air travel security. The road to recovery will require that confidence in air travel is fully restored. This may not happen until new safety policies and procedures are in place and perceived to be working. To explore this issue further, we have introduced a new section in the Tourism Intelligence Bulletin entitled "Emerging Trends and Issues". For this issue, we will look at the new age of airport security in the drive towards restoring public confidence in air travel.

Emerging Trends and Issues

New Age of Security

In February, airport security continued to be a top priority for the airline industry. Members of the International Civil Aviation Organization (ICAO) recently met in Montreal to organize an international airport security audit. As well, the newly appointed Transportation Security Administration (TSA) officially took over responsibility for monitoring U.S. baggage handling.

As the Tourism Intelligence Bulletin reported in its previous issue, safety concerns in the U.S. nearly doubled between November (23%) and January (45%). A recent survey of 1,000 U.S. travel agents indicated fear of flying has once again surfaced as the primary reason for avoiding air travel (29%), followed by recessionary concerns (21%). This was most likely in response to apparent lapses in security and the arrest of 'shoe bomber', Richard Reid.

Up until September 11th, most airports saw security as a burdensome expense. Now, in order to win back public confidence and get people flying again, U.S. airport security has become the number one issue facing the U.S. government and airlines as they work to make the skies safer without it becoming a burdensome experience. The Transportation Security Administration (TSA) announced in February that it would study security procedures at 15 U.S. airports during February and March as it works to develop improvements that can be implemented at the nation's 429 commercial airports. These studies will provide an important tool to enhance airport security systems nationwide.

Yet, efforts to beef up security have also created a host of other issues-namely privacy and ease of travel. Privacy issues are being closely examined as the TSA is developing a complex computer system that would connect government databases with airline reservation systems. Discussion has also taken place regarding linking this system with driver's license bureaus across the country and tapping into credit history reports of passengers. The TSA is currently looking at a number of airport security technologies that will essentially strip people of their clothing. The Holographic Imaging System will generate fully nude 3D images of people who pass through the device.

Pent Up Demand Spurs Rebound

Ease of travel is concerning groups such as the National Business Travel Association and the Air Transport Association, who are advocating user-friendly travel for frequent fliers through the introduction of the "trusted traveler" card. It is believed this card, which has been used by other countries around the world, would reduce security lineups by 25 per cent or more. The trusted traveler card would be given to those travellers who would voluntarily subject themselves to a FBI background check. In turn, they would be able to ease through security checkpoints at crowded airports.

However, the newly created TSA is cautious about the cards saying that "sleeper" terrorists who reside in the U.S. years before committing a terrorist act could qualify for the cards and undermine the system. The TSA also feels it has other, more pressing issues to deal with-taking over airport security, hiring 40,00 federal baggage screeners and dealing with the apparent lapses in airport security in a time of heightened anxieties. Between October 30 and December 31st, 2001, the FAA ordered 30 airport terminals or concourses evacuated due to security breaches. This resulted in 1,180 delayed flights, 464 cancelled flights and 15 flights being diverted. Those numbers rose once again in February as a man walked away from airport security in San Francisco with explosive residue on his shoes.

Airport security also appears to be a hot issue in Canada. Although a Canadian federal government poll conducted by Earncliffe Research in November indicated economic concerns superceded security concerns, a recent survey conducted by the Strategic Counsel indicates that 70 per cent of Canadians believe another plane hijacking will occur.

According to a January Ipsos-Reid poll, 74 per cent of travellers support paying CDN\$ 24 more per ticket for increased security of air travel, including 47 per cent who strongly agree with the additional fee. At the same time, the costs of setting up the new Canadian Air Transport Security Authority (CATSA) have been called into question as the new authority announced it would still allow airports to contract out security services. CATSA defended its position saying it will still retain responsibility for the standards and certification of all security staff.

While consumers seem to support the airport security tax, the industry has expressed some apprehension. In a presentation to the House of Commons Standing Committee on Finance, the Tourism Industry Association of Canada (TIAC) outlined key concerns surrounding the new security tax. Concerns included increasing the cost of travel during industry and economic recovery, the tax becoming a competitive barrier for short-haul, regional and low-cost carriers, and implementing more surcharges on the base ticket price.

It is evident that the issue of airport security-which has been prevalent since September 11th-will not go away anytime soon and may affect air travel for years to come.

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

According to Statistics Canada, international travel to Canada increased 0.1 per cent in December, 2001 compared to the same month last year and 5.1 per cent compared to the previous month. Overnight travellers from the U.S. increased 3.8 per cent in December compared to the previous year.

Although down from 2000, overnight visits from seven of Canada's top 12 overseas markets showed significant progress between November to December of 2001. These visitor numbers suggest the recovery in inbound international travel to Canada is on track.

Statistics Canada reports that Canada's international travel deficit-the difference between what Canadians spend abroad and what foreigners spend in Canada-fell to CDN\$ 85 million in the fourth quarter of 2001, its lowest level since 1986. Statistics Canada attributes the favourable result for Canada to less spending by Canadian travellers outside the country as a result of the depreciation of the Canadian dollar against many currencies and the events of September 11th.

The latest survey by Yesawich, Pepperdine and Brown reported that 57 per cent of U.S. business travellers will now drive rather than fly whenever possible. This is down from 69 per cent reported in November. Additionally, 41 per cent stated they would take fewer international trips after September 11th, down from over half in November. The most frequent reason given for the change in travel habits was concern about the safety of travel (32%). D.K. Shifflet and Associates reported that business travellers are willing to drive an average of five hours by land in order to avoid flying.

Travel supplier response - Canada & U.S.

Airlines

Canada

Air Canada and WestJet reported that revenue passenger kilometers were up 10 per cent in January, compared with last year. However, Air Canada expects its capacity to be 5-6 per cent lower in the current fiscal quarter than last year, forecasting it will operate a 67 per cent load factor until May. In February, Westjet reported 2001 earnings of CDN\$ 37.2 million-a 23 per cent increase from the previous year. This is in stark contrast to the CDN\$ 1.25 billion annual (CDN\$ 3.4 million day) loss Air Canada posted for 2001.

The BSP confirms that average airfares paid by Canadians to travel domestically are on the rise. In January, the average fare for leisure travel increased by 24 per cent compared to a year ago while the average business airfare rose 18 per cent. In December, domestic leisure airfares increased 17 per cent from the previous year and domestic business airfares climbed 11 per cent.

Canada's airline industry, already battling the downturn from September 11th and the new airport security fees, warned travellers of even higher ticket prices as the federal government announced plans to increase airport rents in 2003. Rent increases will also affect prices at airport restaurants, car rental businesses and existing airport fees already paid by travellers.

U.S.

According to Salomon Smith Barney, air capacity on the largest U.S. airlines will remain about 13 per cent lower for the first three months of 2002 compared with last year. Northwest forecasts first quarter capacity down by approximately 14 per cent from a year earlier, with the second quarter down 12.5 per cent. Continental expects capacity to be down 13 per cent in the first quarter and 11 per cent in the second quarter. United Airlines, reeling from a 2001 full year loss of \$2.1 billion, expects first quarter capacity to be off by 19 per cent.

In February, American Airlines announced the largest service resumption of any U.S. carrier since September 11th. As of February 8th, 41 new roundtrip flights to 37 destinations will be added from its Dallas-Ft. Worth hub. American Airlines is currently flying 85 per cent of its pre-September 11th schedule and plans to be back to 91 per cent by March 2, 2002.

Hotels

Canada

Canadian Hotel Income Properties Real Estate Investment Trust (CHIP REIT) reported operating revenues for the fourth quarter of 2001 decreased by 2.3 per cent, including a decline in revenue per available room of 4.1 per cent. Occupancy declined by 3.8 percentage points to 55.9 per cent, while average daily room rates increased by 2.4 per cent.

CHIP REIT's Atlantic Canada properties turned in the strongest performance for the fourth quarter with revenue per available room growth of 2.6 per cent. Only slight decreases in revenue per available room were experienced in Alberta (-0.5%), Saskatchewan/Manitoba (-1.6%) and Quebec (-2.9%). Weak performers for the fourth quarter were Ontario (-13.4%) and British Columbia (-21.9%). Generally speaking, larger markets more dependent on international air travel were affected more dramatically by the U.S. terrorist attacks.

By the end of November, CHIP REIT's occupancies for the year were down to 64.3 per cent compared to 66.8 per cent a year ago. Despite the shrinking number of visitors, hotel owners and operators have lifted the bar on room rates. Hotel rates were up to \$114.72 a night at the end of November-a 2.7 per cent increase from the \$111.70 for the same period a year earlier. Toronto remains the most expensive place to find a hotel room at an average of \$158.37 per night.

Four Seasons Hotels reported in February that fourth-quarter profits dropped more than 75 per cent. The company also warned that it sees first quarter earnings dropping 60 per cent from the same time a year ago. Yet, the good news is Four Seasons forecasts profits growing 8 per cent in 2002.

*Pent Up Demand Spurs Rebound***U.S.**

Ernst and Young's 2002 National Lodging Forecast reports that the U.S. hotel industry is in one of its worst financial slumps in the last 20 years. According to the report, hotels in Hawaii, New York and San Francisco may take up to 14 months to bounce back.

According to Smith Travel Research, hotel occupancy in Hawaii fell nearly seven percentage points to 70 percent in 2001 from 2000 levels. From September 11th to December 31st, hotel occupancy was off 20 to 30 per cent compared with the same period in 2000. Hotel occupancy rates around Kennedy, La Guardia and Newark airports averaged 93 per cent on September 10th but plummeted to an average of 66 per cent from September 11 to January 19. Average room rates over the same period dropped from US\$ 145 to US\$ 120 (CDN\$ 231 to CDN\$ 191).

Wyndham International reported revenue per available room declined 23 per cent during the fourth quarter of 2001. This decline was comprised of a 9.8 per cent drop in room rate and 10 per cent decline in occupancy. Wyndham reported a net loss of US\$ 56 million (CDN\$ 89.1 million) for the fourth quarter.

Starwood Hotels and Resorts reported fourth quarter 2001 revenue was down 21 per cent compared to a year earlier. Revenue per available room for the quarter was off 24.3 per cent worldwide. For the year ending December 31st, total revenue was US\$ 380 million (CDN\$ 604.7 million) less than in 2000.

Hilton Hotel's 2001 net income fell 94 per cent from 2000. Hilton's rates dropped by 11.5 per cent to an average of US\$124.64 (CDN\$ 198.30) a night, but sold fewer than 60 per cent of available room nights. Revenue per available room decreased 22.8 per cent on an occupancy decline of 8.7 points to 59.7 per cent. Fourth quarter revenue was down 24 per cent from the corresponding 2000 period. Hilton reported San Francisco, Hawaii and Washington D.C. hotels suffered most.

Marriott International swung into a fourth quarter net loss of \$US 116 million with a 25 per cent decline in revenue per available room from a year earlier. While this represents a huge loss for Marriott, it is better than the 35 per cent decline originally expected after the terrorist attacks.

D.K. Shifflet & Associates reports that the U.S. hotel industry can expect to see some recovery in the second half of 2002 but not enough to offset declines in the first six months of 2002. Demand growth in 2003 looks to be more promising and by 2004 room demand is expected to exceed 2000 levels.

Travel Agents

The Travel Industry Council of Ontario (TICO) reported a 50 per cent reduction in the number of applications to start a travel agency since September 11th. Additionally, 115 retail travel agencies have closed their doors in Ontario since the terrorist attacks.

The Airlines Reporting Corporation (ARC) reported 1.7 per cent fewer U.S. retail agency applications in January 2002 compared to a year ago. It was also reported that there were 8.9 per cent fewer authorized retail locations in January 2002 compared with January 2001.

International response - Overseas

United Kingdom and Ireland

The Office for National Statistics confirmed that 2001 was a dismal year for the British tourism industry. Figures released showed that inbound tourism lost £2 billion (CDN\$ 4.6 billion) in 2001 compared to the previous year.

British Airways reported a fourth quarter operating loss of £187 million (CDN\$ 425 million) and were forced to shed a further 5,800 jobs, in addition to the 7,200 job cuts announced earlier.

Pent Up Demand Spurs Rebound

British airport operator BAA PLC reported traffic at major British airports improved in January—although it was still down 3.9 per cent from a year earlier. The 3.9 per cent decline in January represented an improvement from the 11 per cent decline reported in November and a 6 per cent decline in December.

Statistics Canada reported the number of United Kingdom residents travelling to Canada last year was down 3.4 per cent compared to 2000. Ireland, on the other hand, had 7.6 per cent more residents travel to Canada last year compared to 2000.

France

According to the World Tourism Organization, France kept its status as the world's top tourist destination, as international tourist arrivals increased 1.2 per cent last year despite a downturn after the September 11th terrorist attacks. France has an estimated 11.1 per cent of the international tourism market.

Air France is experiencing a faster than expected recovery. In fact, January 2002 traffic has already reached January 2001 levels. Impressively, traffic even recovered on the long-haul routes, rising 1.8 per cent on a 0.9 per cent capacity increase. For all routes, traffic increased by 0.4 per cent on a modest capacity decline of 0.1 per cent.

The latest American Express European Corporate Travel Index reports that fares to North America from France increased sharply in 2001 compared to 2000. Economy and business class fares increased by 25.5 per cent and 7.3 per cent, respectively.

France launched a EUR 12.6 million (CDN\$ 17.6 million) tourism campaign that uses celebrities such as Celine Dion in television commercials. Both the TV and print ads use the slogan "J'aime la France" and appear in Europe, Japan, the United States and Canada.

Statistics Canada reported travel from France declined 10.8 per cent last year over 2000.

Germany

The German CTC office reports that fear of flying among Germans continues to decline. According to a recent survey, only 14 per cent of Germans will alter their overall travel plans as a result of September 11th compared to 29 per cent in November.

However, the latest American Express European Corporate Travel Index for 2001 reports that economy and business class fares from Germany to North America sharply increased by 8.4 per cent and 9.4 per cent, respectively, compared to 2000.

Year end figures report 11.9 per cent fewer Germans travelled to Canada last year compared to 2000.

Italy

Alitalia's December 2001 figures showed a 26.8 per cent decline in passenger traffic compared to the same month in 2000. Load factors decreased by 5.4 per cent. The North Atlantic routes registered the biggest reductions in traffic (down 38%) in December.

The latest American Express European Corporate Travel Index reports that economy and business class fares from Italy to North America last year increased by 5.5 per cent and 3.8 per cent, respectively.

According to Statistics Canada, 16.3 per cent fewer Italian residents visited Canada in 2001 compared to 2000.

Netherlands

KLM recently announced a EUR94 million (CDN\$ 130.3 million) third quarter loss, largely attributed to the fall in traffic since the September 11th terrorist attacks. KLM cut 1,200 jobs in the third quarter and chopped capacity by 11 per cent. However, KLM reports signs of optimism as the negative impact on the bottom line was less than initially forecasted.

The latest American Express European Corporate Travel Index reports that last year economy and business class fares rose by 7.1 per cent and 7.3 per cent, respectively, compared to 2000.

Statistics Canada reported 9.8 per cent fewer residents travelling to Canada in 2001 compared to 2000.

*Pent Up Demand Spurs Rebound***Japan**

According to a recent survey by The Japanese Association of Travel Agents (JATA), demand for travel to the U.S. and Canada was at an all time low from October through December 2001. In fact, North America ranked below all other world destinations. In an effort to simulate demand, U.S. President George W. Bush, in a 30 second TV commercial aired in the Kanto region, invited the people of Japan to visit the United States. The commercial, according to the Japanese branch of the Travel Industry of America, ran for 20 days after President Bush started a three-day visit to Japan.

The Japanese government has announced it will relax visa requirements for business travellers from Hong Kong. Employees of recognized companies, such as those listed on the Hong Kong Stock Exchange, will be eligible to apply for five-year, multiple-entry visas for short-term business visits.

According to Statistics Canada, Japan had 17.6 per cent fewer residents visiting Canada in 2001 compared to 2000.

Korea

Korean Air (KAL) reported that passenger traffic nearly returned to pre-September 11th levels in January and expects to be profitable in 2002. For 2001, KAL reported an 8 per cent drop in revenues compared with the previous year.

In February, South Korea's second ranked Asiana Airlines announced that its 2001 net loss would be KRW 266.3 billion (CDN\$ 322.2 million), up from KRW 156 billion (CDN\$ 188.8 million) in 2000.

According to Statistics Canada, there was a 6.8 per cent increase in the number of South Koreans visiting Canada in 2001 compared to 2000.

Hong Kong

Cathay Pacific reported that passenger traffic declined 3.1 per cent in January compared to a year ago—slightly better than the 3.3 per cent decline reported in December 2001. The Hong Kong Airport Authority reported an 11.8 per cent decrease in passenger traffic in January 2002, compared to a year earlier.

The Hong Kong Tourism Board (HKTB) reports that average hotel occupancy rates dropped to 79 per cent in 2001, down 4 per cent from a year earlier. Occupancy rates for luxury hotels were affected the most by the events of September 11th, declining to 74 per cent in 2001 from 82 per cent in 2000.

According to the Travel Industry Council of Hong Kong, a record 100,000 package tourists from mainland China travelled to Hong Kong over the Lunar New Year holiday in February 2002, giving the tourism industry a US\$ 480 million (CDN\$ 764.4 million) windfall. The figure represents a 67 per cent leap on the 60,000 mainlanders who joined tour groups this time last year. The surge is attributed to the elimination of the quota system in January, which had restricted mainland visitors to an average of 1,500 per day.

The CTC's foreign office in Hong Kong reported that ski packages, mainly to Whistler and Banff, sold well for both the Chinese New Year and the month of March, with ski bookings increasing 50 per cent from last year.

Statistics Canada reported the number of Hong Kong residents travelling to Canada in 2001 was down 10.4 per cent, compared to 2000.

Taiwan

In February, red banners greeted the first group of Chinese tourists to visit Taiwan since the Taiwan government relaxed a five-decade ban on mainland tourists. The tourists symbolized Taiwan's recent efforts to cautiously open up to China. The new regulations only allow tour group visits by mainlanders with permanent residency rights in another country.

The CTC's office in Taiwan reports that traffic to the U.S. is returning slowly, while tourism to Canada is expected to benefit from the school winter break and Chinese New Year. Japan was the hottest destination during these events, followed by Australia and New Zealand, Korea and Bali.

Statistics Canada reported the number of Taiwan residents travelling to Canada in 2001 was down 28.6 per cent, compared to 2000.

Pent Up Demand Spurs Rebound

Australia

The CTC's foreign office in Australia reports that Australians still plan to travel. In fact, approximately 7 million Australians intend to fly within the next 12 months. Furthermore, 83 per cent of Australians expect to travel about the same amount this year as they did before September 11th.

Qantas Airlines announced a AUD\$ 153.5 million (CDN \$ 126.1 million) after tax profit for the period of July - December 2001. This is down 44.5 per cent from the previous year. Unfortunately, Ansett Airlines made its last flight on March 4, 2002 after a rescue deal failed.

A survey of 100 managers in January by Sweeney Research found almost half of Australian businesses have restricted travel as a result of cost-saving measures, security concerns and the collapse of Ansett. One-third of the respondents stated the amount spent on travel by their company had been cut by between 25 and 50 per cent. Cost savings (82%) was the most common reason given for reducing international and domestic air travel, while security fears were cited by 47 per cent of respondents.

According to Statistics Canada, 5.3 per cent fewer Australian residents visited Canada in 2001 compared to 2000.

New Zealand

The Tourism Research Council New Zealand (TRCNZ) reports that New Zealand's outbound travel increased by 0.3 per cent in 2001, compared to 2000. Travel to Fiji increased 35.8 per cent, while travel to the U.S. and Europe decreased by 12.8 per cent and 13.4 per cent, respectively.

Statistics Canada reported the number of New Zealand residents travelling to Canada in 2001 was down 11.5 per cent, compared to 2000.

Economic Fallout

North America

Canada's economy beat growth expectations in the fourth quarter of 2001, climbing 2 per cent on an annual basis and avoided falling into a technical recession. The U.S. Department of Commerce also released better than expected data and reported that fourth quarter growth was 1.4 per cent. This growth allowed the U.S. to sidestep a technical recession as well.

Unfortunately, in the first quarter of 2002, labour markets are expected to be sluggish and income growth weak in Canada. This will result in real consumer spending being uncharacteristically soft in 2002—well below the average of the last four years. A rebound in employment growth in the second half of the year will result in consumer spending increasing at an annualized rate above 4 per cent by the fourth quarter.

In the U.S. cautious consumers increased their savings rate by 0.7 per cent to 3.3 per cent in the aftermath of the September attacks. However, as the economy slowly recovers and uncertainty eases, consumers will divert less of their discretionary income to savings. Overall, the personal savings rate—estimated at 3.7 per cent in 2001—will increase to 4.4 per cent in 2002 before easing back to 3.7 in 2003.

Europe

The economic outlook in Europe remains unchanged from the previous month, with continued downside risk contributing to the region's sluggish outlook. Business confidence showed signs of improvement in line with the expected pick-up in the U.S., but consumer confidence has remained fragile. According to the latest European Commission consumer survey, confidence declined in January following an increase in December. While expectations with regard to the general economic situation improved further in January, this was more than offset by a decline in household expectations with regard to their own financial situation and their ability to save. In fact, weak employment conditions continue to linger in the eurozone, as the unemployment rate remained unchanged at 8.5 per cent in December.

Asia-Pacific

There are many positive signs that the economic downturn in the Asia-Pacific region may have begun to bottom-out. Domestic demand conditions are helping to ride out the stall in global demand and the synchronized inventory adjustment in IT related goods worldwide is coming to an end. The outlook for Japan, however, has deteriorated further. The government has warned that structural economic reforms will mean weak growth conditions over the next few years. Record high unemployment rates and near zero interest rates in a deflationary environment will prove to be a challenge and intensify Japan's economic woes, as the savings rate climbs and stalls gains in domestic demand.

Opportunities

The post holiday dip in domestic tourism represents a slight blip on the road to recovery in the industry. Pannell Kerr Forster (PKF) is forecasting a 1 per cent increase in hotel occupancy rates for Canada in 2002. As well, the Spring (April - June) Business Outlook (BO), which looks at advance bookings as reported by travel suppliers, reported that domestic leisure travel bookings are up 3-4 per cent over spring 2001-indicating a strong summer for domestic tourism.

The key, according to the Strategic Council, to increasing domestic and international bookings is to focus on the travel experience and how it enhances a traveller's life. A survey by Expedia Canada and Ipsos-Reid reinforces how important Canadians consider their travel experiences to be. The findings suggest 81 per cent of Canadians surveyed in seven major markets consider vacations a very important part of their overall quality of life. The survey goes on to report that Canadians desire choice, flexibility and timeliness of information when making travel arrangements. By focusing on the travel experience and packaging that message with products that offer choice, flexibility and timeliness, travel suppliers will be back on the road to recovery sooner rather than later.

U.S. travellers also respond to tourism products that offer flexibility and timeliness. D.K. Shifflet & Associates reports that U.S. travellers are most interested in companies that promote flexibility with no penalty for changing or canceling plans, offer a lowest price assurance, show people like themselves having fun at bargain prices and value friendly, fast service with limited hassle.

Summary

As winter rolls into spring, the post holiday dip is expected to flatten out and the Canadian tourism industry will move forward on the road to recovery. Encouraging signs are on the increase-the BO reports strong spring bookings, international air ticket sales are up, security measures are being put into place and economic indicators are stronger than expected. All of this signifies Canada is well positioned for a strong recovery.

The tourism industry in the U.S. is in a slower but none the less steady climb towards recovery with leisure travel leading the way out. However, over the short term, business travel is expected to remain sluggish.

For additional research information, please see
www.canadatourism.com