CTC Tourism Intelligence Bulletin – Issue 16: August 2003

The Tourism Intelligence Bulletin continues to monitor the tourism industry around the world. This issue reveals tourism intelligence gathered in July 2003.

Industry Rediscovers the Domestic Market

Executive Summary

- Nearly two years have passed since the September 11th terrorist attacks and the tourism industry is still questioning whether conditions will ever return to normal and whether traditional travel patterns will be restored. In the meantime, prudent suppliers are indeed focussing more of their energy on internal processes and sound business fundamentals to control costs while they wait for a recovery in demand.
- While discount airlines like Southwest and WestJet continue to expand, larger, more full-service carriers continue to downsize. And while discount carriers are boosting their in-flight amenities, many major airlines are cutting back on complimentary services. As a result, more and more passengers are questioning the value received in exchange for the premium fares paid. Unfortunately, in many cases, the premium fares are necessary to support non-competitive operating costs.
- Fortunately, successful business models do not always mean delivering the lowest price. Success always hinges on value for money.

Emerging Trends and Issues - Making the Most of the Domestic Market

- Domestic travel continues to represent the largest volume market for the Canadian tourism industry, a fact that is becoming more evident to the travel trade in the current environment. With travellers still concerned about world events and their wallets, last-minute deals to destinations closer to home are leading the way in vacation travel this summer. In fact, more travellers world-wide are exhibiting similar travel tendencies and are consequently reluctant to venture much farther than their own country's borders. For years now, retailers and tour operators have slowly directed more attention towards marketing Canadian travel products, but this summer's promotions reflect that focus more than ever.
- Various tourism organizations have also stepped up their efforts to stimulate domestic travel in this environment. Among various others, the Canadian Tourism Commission (CTC) created a "Can Do It" campaign, featuring a series of television and print ads encouraging Canadians to explore their own country. While making the most of the domestic market is important to achieve success this summer, employing the best ways to capitalise on this market will help Canada's tourism industry foster growth on a more permanent basis.

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Consumer (Traveller) Overview

- As concerns about the weakened economy continue, the financial well-being of corporations remains a major factor in determining at what point business travel spending will increase. According to a recent survey by the National Business Travel Association in the U.S., 74 per cent of corporate travel managers polled believed that the healthy financial well-being of their company is essential for the rebound of business travel. Fortunately, the latest business confidence survey by the U.S.-based Conference Board Inc. indicated that U.S. chief executives were feeling more optimistic about business conditions and corporate profits. However, the opposite trend appears to be taking shape in Canada. The latest Index of Business Confidence produced by the Conference Board of Canada dropped 20 points in the second quarter of 2003-the biggest decline since the September terrorist attacks almost two years ago.

- Meanwhile, Canadian travel intentions for the summer season continue to look promising, according to the latest Travel Intentions Survey by the Conference Board of Canada. Of the 2,000 Canadians polled in June, 62 per cent indicated that they would definitely or probably take a summer vacation trip somewhere between June and September of this year. Of the respondents who expect to travel this summer, 77 per cent intend to stay within Canada, while 11 per cent plan to holiday in the U.S. The appreciation of the Canadian currency (against the U.S. dollar) does appear to encourage travel to the U.S. but over the summer it appears to come at the expense of other international destinations. Unfortunately, travel intentions of U.S. residents are looking weaker, despite improving economic prospects. According to the latest U.S. Consumer Confidence Survey by the Conference Board Inc., U.S. travel intentions over the next six months dropped to 41.2 per cent in June-down 3.3 percentage points from June 2002.

Travel Supplier Overview

- Although concerns regarding the SARS outbreak and Iraqi war are easing and air passenger volumes are improving, discounted airfares continue to impede the financial recovery of the airline industry. According to IATA's Bank Settlement Plan (BSP), the average domestic airfare for Canadians declined 13 per cent in June, compared to last year. It was also reported that the average international airfare to both U.S. and non-U.S. destinations dropped 10 per cent over the same period. The Air Transport Association (ATA) reported that domestic airfares in the U.S. dropped 1.6 per cent over the same time.

- According to a recent report by KPMG, tourism expenditure losses in Toronto reached $260.6 million for the period of March 2 to June 21 of this year-a drop of 31.8 per cent compared with the same period in 2002. The report indicates that the largest category of revenue loss was the accommodation sector, which saw expenditures fall by $98 million compared with 2002. KPMG further warned that advance bookings for the traditionally leisure-oriented travel months were still looking weak.

- Meanwhile, U.S. hotel revenues improved during the last week of June and ended the second quarter of 2003 on a positive note. In fact, Marriott International Inc. reported second quarter earnings of US$126 million (CDN$177 million). Marriott stated that it was able to protect its profitability despite weaker global demand for lodging through the implementation of productivity improvements and specific action plans for each hotel.

Economic Overview

- The Canadian economy is expected to be in for a rough ride over the summer months. Real economic growth is forecast to slow markedly, averaging less than 1 per cent growth (on an annual basis) during the middle two quarters of the year. Fortunately, the expectation is that renewed U.S. economic growth and additional monetary stimulus will enable the Canadian economy to emerge from the doldrums by the final quarter of the year and post decent growth in 2004. The nervousness that has beset the U.S. economy since 9/11 was not helped by the outbreak of war and the speculation that preceded it. While the successful conclusion of the war with Iraq immediately boosted consumer confidence in the U.S., the economy has been slower to respond. However, there are signs that the long-awaited rebound is gathering steam.

- Unfortunately, economic growth in Europe is expected to be weak this year and only moderately better next year. However, on a more positive note, it is hoped the worst may be over for the German economy. The substantial job losses over the last two years are allowing the German government to more easily reform labour markets and introduce tax cuts. The fruits of the reforms resulted in lower unemployment figures in April and May. Meanwhile, the U.K. economy is performing relatively less well, compared to the last several years, and overall consumer confidence continues to fall.

- The rapid spread of the SARS virus across Asia has taken a heavy toll on the region's growth prospects for 2003. Fortunately, the major impact of SARS was felt in the second quarter of this year and economic activity is expected to pick up in the second half of this year in line with a pick-up in U.S. demand for electronic exports from this region. The hope is that economic conditions in Japan may also soon improve. According to a recent (June) study by AC Nielsen, the Japanese continue to spend on non-essentials, like cars, property, stocks/shares and high-priced electric appliances.

Opportunities

- The latest Travel Industry Association of America (TIA) Traveler Sentiment Index indicated that the confidence in travel safety now stands at a record high. This is good news for the air travel industry, which has suffered tremendously since the September 11, 2001 terrorist attacks. TIA reported that the second quarter Travel Safety Index was 128.3, up 28 per cent from fourth quarter 2001 when the TIA first started tracking this factor. The Conference Board of Canada's latest Travel Intentions Survey also revealed that Canadians are feeling more comfortable about flying. Specifically, the survey suggested that 21 per cent of Canadians plan on travelling by air for their domestic winter holiday this year compared to only 10 per cent last year.
- A new study from the TIA and Smithsonian Magazine revealed that U.S. travellers are increasing their interest in cultural, arts, historic and heritage activities. It was reported in TIA's Historic/Cultural Traveller 2003 Edition that 81 per cent of U.S. adults who travelled last year (118 million trips) included historical or cultural activities during their vacation-up 13 per cent from 1996. Travellers were also reported to spend more money on historical/cultural trips compared to the average U.S. vacation (US $623 compared with US $457, excluding transportation costs).

In Brief

As the second anniversary of the September 11th terrorist attacks approaches, the tourism industry still questions whether conditions will ever return to normal and whether traditional travel patterns will be restored. In the meantime, prudent suppliers are indeed focussing more of their energy on internal processes and sound business fundamentals while they wait for a rebound in international demand.

While discount airlines like Southwest and WestJet continue to expand, larger full-service carriers continue to downsize-desperately trying to achieve an efficient business model randomly rather than building up to it. And while discount carriers are boosting their in-flight amenities, many major airlines are cutting back on complimentary services. In the meantime, more and more passengers are questioning the value received in exchange for the premium fares paid. Unfortunately, in most cases, the premium fares are necessary to support non-competitive operating costs.

Fortunately, successful business models do not always mean delivering the lowest price. For example, Southwest Airlines offers less service for a much lower price than traditional airlines, while Midwest offers more service for about the same price as traditional airlines. While both business models could be considered successful, Midwest spends an average of $10 per passenger on meals, versus the 20 cents spent by Southwest. Therefore, offering the lowest price does not necessarily mean that the customer is being offered the best value.

A slowly recovering international travel market will undoubtedly once again test the operating efficiency of Canadian tourism suppliers this summer. While operators would be well advised to continue to enhance their internal strategies, they might also profit by formulating innovative courses of action to capitalize on the domestic market at their front door. This would not only to fill the void this summer but would also establish more stable market sources.

Emerging Trends and Issues

Making the Most of the Domestic Market

Domestic travel continues to represent the largest volume market for the Canadian tourism industry, a fact that is becoming more evident to the travel trade in the current environment. With travellers still concerned about world events and their wallets, last-minute deals to destinations closer to home are leading the way in vacation travel this summer. In fact, more travellers world-wide are exhibiting these travel tendencies and are consequently reluctant to venture much farther than their own country's borders. Capitalizing on the domestic market appears to be the only means to achieve success this summer in Canada. The tourism industry would definitely benefit from discovering the best means to exploit this market and thus foster growth on a more permanent basis in this sector.

Domestic Summer Travel Intentions Remain Strong

The Conference Board's June Travel Intentions Survey found that the number of Canadians likely to take a vacation at least 80 kilometres away from home this summer was still holding at 62.4 per cent, the same figure as the March 2003 survey. However, the June survey indicated that more travellers would choose Canadian and U.S. vacation destinations (up 1.4 and 0.8 percentage points, respectively) compared with March survey results.

Summer (May-Sept) Vacation Intentions - (%)

	2003 (survey from June 2003)	2003 (survey from March 2003)	2002 (survey from March 2002)
Vacation Intended	62.4	62.4	61.2
Canada	48.1	46.7	43.7
US	7.2	6.4	8.6
Other International	6.2	8.1	7.4
DNK/Refused	0.9	1.2	1.5

Source: The Conference Board of Canada

In the aftermath of the war in Iraq and the devastating SARS outbreak, it is encouraging to see that summer travel intentions are prevailing. However, it is not surprising to see that travel intentions to international destinations have dwindled and are veering towards more Canadian and U.S. trips. Growing economic concerns are convincing some travellers to stay closer to home while a more favourable exchange rate with the U.S. is undoubtedly enticing some to travel south-of-the-border.

Selling Canada-What Works and What Doesn't?

The apparent resilience of domestic travel intentions provides the tourism industry with an excellent opportunity to determine effective and less effective selling points that could entice Canadians to travel in their own country this summer season. For years now, retailers and tour operators have slowly directed more attention towards marketing Canadian travel products, but this summer's promotions reflect that focus more than ever. For example, Conquest Vacations has teamed up with Brewster, Ultimate Golf Vacations, White Point Vacations and Atlantic Gray Line to offer "Discover Canada" summer travel packages. Another tour operator, Horizon Holidays, is offering travel agents a significant commission for selling its "Discovering Maritime Heritage" tours that cover tourist sites throughout the Atlantic region.

Various tourism offices have also stepped up their efforts to stimulate domestic travel this summer. The Canadian Tourism Commission (CTC) created a "Can Do It" campaign, featuring a series of television and print ads encouraging Canadians to explore their own country. Tourism PEI recently launched a promotion to boost travel to its province, encouraging residents to call or e-mail friends and relatives in other parts of Canada and invite them to "Come Home to the Island." The promotion, aimed at last-minute summer travellers, offers both residents and visitors a chance to win prizes every time a response is elicited.

Considering the growing number of marketing packages and initiatives targeting the domestic market, and the upward trend of choosing Canadian destinations, it would appear the time is right for the tourism industry to determine what approaches will successfully capitalize on the domestic market. It is essential that the industry become aware of the techniques that succeeded in attracting leisure travellers and of those that failed to do so. What unique Canadian travel features or products have the greatest potential for broadening the domestic market? What are the key success factors for retailing domestic travel in the future? By homing in on this window of opportunity, the Canadian tourism industry can define key elements that will successfully sell travel to its key Canadian market, now and in the future.

Consumer overview - Canada and the United States

Business Travellers

As concerns about the weakened economy linger, the financial well-being of corporations remains a major factor in determining when business travel spending will increase. According to a recent survey by the National Business Travel Association in the U.S., 74 per cent of corporate travel managers polled believed that the healthy financial well-being of their company is essential for the rebound of business travel. Approximately 58 per cent reported a decrease in travel spending this year, compared with 2002. On a more positive note, 40 per cent of those polled expected to use more hotel rooms in 2003 than 2002, while 30 per cent indicated that their hotel room bookings would be about the same.

Meanwhile, respondents reported that their companies had implemented more restrictive travel policies to reduce spending. About 44 per cent of responding companies were requiring senior-level executives to fly coach class, 73 per cent were using discount airlines, and 78 per cent were choosing mid-priced over luxury-brand hotels.

However, the latest business confidence survey by the U.S.-based Conference Board Inc. indicated that top U.S. chief executives were feeling more optimistic about business conditions and corporate profits. The Conference Board's Measure of Business Confidence increased to 60 in the second quarter of 2003, up from 53 in the first quarter (a reading of more than 50 reflects more positive than negative responses). Respondents' assessment of current business conditions improved substantially from the first quarter as well, up 15 points to 55. Those reporting a better outlook for the next six months grew to 66, up from 60.

While optimism about the U. S. economy continues to grow, the opposite is occurring in Canada. The Conference Board of Canada's latest Index of Business Confidence dropped 20 points in the second quarter of 2003-the biggest decline since the September terrorist attacks almost two years ago-to the lowest level since the third quarter of 2001. It appears that pessimism over Canada's economic prospects increased as the number of senior executives who believe the economy will worsen rose 9.4 percentage points to 35 per cent, compared with the previous quarter.

Leisure Travellers

Meanwhile, domestic travel intentions for the summer season continue to look promising, according to the latest Travel Intentions Survey by the Conference Board of Canada. Of the 2,000 Canadians polled in June, 62 per cent indicate that they would definitely or probably take a summer vacation somewhere between June 18 and September 30, 2003, compared with 58 per cent in the previous survey conducted in May. Of the respondents who expect to travel this summer, 77 per cent intend to choose a Canadian destination, while 11 per cent plan to holiday in the U.S. The appreciation of the Canadian currency (against the U.S. dollar) is swaying some summer travel intentions south of the border but it appears that most of this diversion comes at the expense of other international destinations. The two uppermost reasons for not travelling this summer were travel costs (chosen by 41%) and concerns about the economy and the job market (38%).

Of the travellers staying in Canada, 79 per cent intend to travel by car, while 10 per cent intend to travel by air. The majority of these travellers (54%) report that the exchange rate had no effect on their decision to stay in Canada. Still, 22 per cent indicate that the exchange rate influenced or highly influenced their travel decisions. Meanwhile, of the travellers intending a U.S. vacation, 23 per cent reported their decision was influenced by the favourable exchange rate while 27 per cent indicated it had no influence at all.

This trend for domestic holidays was apparent at this year's Calgary Stampede, which only witnessed a minimal drop in attendance, compared to last year. The 10-day event in early July drew an attendance of 1,159,495 spectators, down marginally from last year's attendance of 1,164,933. While Tourism Calgary estimated international visitors to the Stampede declined 5 to 8 per cent compared with last year, the loss was all but made up by Canadian attendees.

Although economic prospects in the U.S. are improving, American travel intentions, particularly those to foreign destinations, appear to be weakening. According to the latest Consumer Confidence Survey by the Conference Board Inc., U.S. travel intentions have declined from October 2002, when 47.3 per cent of respondents indicated that they would take a vacation within the next 6 months. In June 2003, only 41.2 per cent said that they intend to travel. The June 2003 survey results also indicate that 35.8 per cent of respondents intend to travel within the U.S. while only 7.2 per cent intend on taking a foreign holiday.

Travel-supplier overview - Canada and the United States

Airlines - Canada

In June, Air Canada flew 3.28 billion revenue passenger miles (RPMs), a drop of 17.5 per cent compared with June 2002. Meanwhile, its capacity declined 17.3 per cent to 4.28 billion available seat miles, and as a result, its load factor fell 0.2 points to 76.7 per cent, compared with the same month last year. Traffic was down most significantly on Pacific routes, which declined 66.7 per cent in June compared with last year. However, by mid-July, Air Canada announced that it would reinstate flights on several Asian routes in July and August, in response to the re-emerging travel demand.

Meanwhile, Jazz, Air Canada's regional airline subsidiary, experienced a 3.5 increase in RPMs for the month of June compared with last year, while its capacity decreased 9.1 per cent. This resulted in a 7.8 point increase in load factor, to 64.5 per cent.

At the end of June, Air Canada finalized its labour agreement with the Air Canada Pilots Association, the last labour contract negotiation the carrier needed to complete in order to achieve its permanent cost reduction goal of $1.1 billion. The concessions ratified by the union included a 15 per cent wage cut for pilots and 317 layoffs.

In early July, the airline announced a tentative agreement with GE Capital Aviation Services (GECAS) for the restructuring of GECAS' financing totalling approximately $1.8 billion. This includes a secured loan of about $575 million for debt financing, to be extended to Air Canada upon the carrier's emergence from bankruptcy protection. GECAS also agreed to provide an additional $1.285 billion for financing up to 43 regional aircraft. Air Canada subsequently announced that is was soliciting a further $700 million in new equity investments which, together with the GECAS financing, would provide the necessary exit financing for the airline's emergence from bankruptcy protection targeted for later this year.

Meanwhile, WestJet reported that its revenue passenger miles (RPM)s rose to 402.1 million in June, an increase of 35.2 per cent compared with the same month last year. Year-to-date (January to June) RPMs increased 44 per cent, compared with the first half of 2002. Available seat miles grew to 562.6 million in June, a jump of 43.6 per cent over June 2002. The carrier's load factor for June was 71.5 per cent, down 4.4 per cent from the same month last year. Year-to-date, the load factor was 67.2 per cent, a 4.4 per cent drop from the same period in 2002.

For the month of June, Jetsgo reported a 67 per cent load factor, down from 76.3 in May. The year-old discount carrier flew 100.9 million RPMs in June, up from 97.6 million in May, on 150.6 million available seat miles.

Transport Canada announced that it would defer at least 10 per cent of airport rents for two years in an effort to provide short-term help to the struggling air travel industry. Larger deferrals may be granted, depending on the reduction in passenger levels at individual airports between April 2002 and April 2003. The airports would be obliged to repay the money over 10 years, with no interest. Transport Canada indicated that it expects airports to pass the cost savings on to both air carriers and passengers, to promote the overall health of the airline sector. Canada's largest airport, Toronto Pearson, is expected to save the most in rent deferrals, approximately $49.3 million. Vancouver will save about $15.3 million, Calgary about $5 million, Ottawa about $2.3 million and Montreal about $2.2 million.

Airlines - U.S.

Although concerns stemming from the SARS outbreak and Iraqi war are easing and passenger flows continued to rebuild through the month of June, discounted airfares offered by low-cost carriers continue to impede the financial recovery of the struggling U.S. airline industry. Because of significant cuts in capacity, many carriers reported vast improvements in June load factors. However, only the low-cost carriers are experiencing any growth in passenger traffic.

The Air Transport Association (ATA) reported that overall revenue passenger miles (RPMs) fell 3.6 per cent in the month of June, compared with a year earlier. Traffic on domestic routes was almost flat

(-0.8%), while Pacific routes saw a drop of 26.6 per cent compared with June 2002. Only Latin American routes saw an increase in traffic, up 8.3 per cent from the previous year.

In the first six-months of this year, the six largest U.S. carriers witnessed a 3.2 per cent drop in domestic traffic, compared with the first half of last year. Conversely, the top six low-cost airlines experienced a 17 per cent traffic increase for that same period. Low-cost carriers now account for approximately 26 per cent of the domestic market, up from 23 per cent in 2002.

Sabre Airline Solutions recently released a report indicating that declining passenger yields-the amount paid per mile travelled-accounts for two-thirds of the drop in airline revenues over the past two years. This is double the impact of decreasing passenger traffic, which accounts for about one-third of the revenue decrease. According to Sabre, the largest factor has been the 11 per cent decline in average walk-up fares, which traditionally make up a significant portion of airline revenue. In May 2001, the average walk-up fare was US$778 (CDN$1094) for a one-way ticket, while the same fare now averages US$695 (CDN$997).

Meanwhile, the holding company for United Airlines, UAL Corporation, filed its May Monthly Operating Report at the end of June, which reported a net profit of US$64 million (CDN$90 million). This is the company's first positive earnings report since filing for Chapter 11 bankruptcy. The company attributed part of the revenue improvement to capacity reductions and the implementation of its new collective bargaining agreements, which substantially reduced labour-related costs. United Airlines also confirmed plans to launch a new low-cost operation, tentatively named Starfish, using 40 of its current fleet of 500 aircraft. United stated that the new operation will target key leisure markets in the airline's route network.

The top four major airlines in the U.S. reported their second quarter earnings, which were largely boosted by government assistance packages for post-9/11 security costs. Continental, Delta and Northwest each reported a net profit, but excluding one-time items such as government aid, the three carriers would have lost a total of US$421 million (CDN $592 million). Executives cited high fuel costs, as well as the impact of SARS and the war in Iraq as detrimental factors affecting second quarter financial performance. Executives also warned that further losses were expected because of ongoing weakness in passenger revenue and ticket prices brought on by competition from discount airlines.

Southwest posted a second quarter profit as well, although its earnings were also bolstered by a hefty government aid grant. Regardless of the aid, Southwest's net profits were 23 per cent higher than the second quarter of last year, even when special items for both years were removed from the tally. The discount airline also announced that it would bring forward fleet expansion plans originally scheduled for 2005.

Table 1. Net Income

Airline	Net Income (Loss) Q2 2003 (in U.S. $)	Net Income (Loss) Q2 2002 (in U.S. $)
American Airlines	-$75 million	-$495 million
Continental Airlines	+$79 million	-$139 million
Delta Air Lines	+$184 million	-$186 million
Northwest Airlines	+$227 million	-$93 million
Southwest Airlines	+$246 million	+$102.3 million

Midwest Express Holdings, the parent company of Midwest Airlines avoided filing for bankruptcy protection in mid-July when all three of the carrier's union groups ratified agreements containing labour cost savings and productivity improvements. Midwest negotiated the new agreements, as well as renegotiating its aircraft financing agreements in an attempt to restructure the company's finances and save US $70 million (CDN$98 million). Reaching closure on these issues allowed the company to move forward in its efforts to obtain new financing.

Continental Airlines recently announced that they were deferring the delivery of 36 new aircraft because of continued weakness in the airline industry. The aircraft were originally scheduled for delivery over 2005, 2006 and 2007, but will now be held over until 2008 or later. The carrier's fleet has decreased from 377 aircraft in June 2001 to 358 in June 2003. Continental stated that its fleet is expected to shrink further over the next two years, down to 348 aircraft by June 2005.

Table 2. Airline Revenue per Available Passenger Mile (RPM) and Capacity

Airline	RPM; June 2003 vs. June 2002	Capacity; June 2003 vs. June 2002
American Airlines	-3.2%	-7.7%
ATA Airlines	+22.4%	+23.3%
Continental Airlines	-1.5%	-4.3%
Delta Air Lines	-5.3%	-9.1%
JetBlue Airways	+62.7%	+60.4%
Northwest Airlines	-10.2%	-10.5
Southwest Airlines	+5.2%	+3.7%
United Airlines	-9.8%	-14.2%
US Airways	-5.8%	-7.3%

Los Angeles International Airport recently unveiled an 11-year plan to update the ageing facility at a cost of US $9 billion (CDN $12.36 billion). The proposal involves revamping the airport's security procedures and expanding its annual capacity from the current level of 56 million passengers, up to 78 million per year. The proposal is pending approval by Los Angeles City Council.

According to the National Transportation Safety Board (NTSB), 2002 was the first year in the last two decades with no fatal U.S. airline accidents. Although 34 commercial airline accidents occurred last year, most were considered minor and none resulted in passenger or crew fatalities. The NTSB noted that the continuing trend of low accident levels over the last few years is due in part to advanced aircraft safety technology and more realistic training simulators.

In July, Hitwise released the top ten list of U.S. "Travel-Transport" web sites with the most internet traffic for the week ending July 5, 2003. In first, second and third places respectively were Southwest Airlines, Delta Airlines and American Airlines.

Hotels - Canada

According to a recent report by KPMG, tourism expenditure losses in Toronto reached $260.6 million for the period of March 2 to June 21 of this year, a drop of 31.8 per cent compared with the same period in 2002. The largest category of revenue loss was the accommodation sector, which saw expenditures fall by $98 million compared with 2002. KPMG further warned that advance bookings for the traditionally leisure-oriented travel months were also looking weak.

Pannel Kerr Forster Consulting Inc. (PKF) reported that the average daily room rate for Canadian hotels decreased in May by 3.3 per cent to $110.72 compared to last year. The most significant decrease was seen in Ontario, where it dropped 8.8 per cent. During the same period, the national occupancy rate declined 10.2 points to 57.4 per cent, and RevPAR decreased 13.1 per cent to $63.57.

On a more positive note, AFM Hospitality Corporation announced that its Canadian Franchise Division completed 31 new franchise applications in the first half of this year, representing an increase of 55 per cent over the same period last year. The franchise brands included Howard Johnson, Knights Inn, and Villager Lodge.

Hotels - U.S.

U.S. hotel revenues rose in the last week of June, ending the second quarter of 2003 on a positive note. According to Smith Travel Research, the revenue per available room (RevPAR) rose 3.4 per cent in the week ending June 28, compared with the same week a year earlier. In the same period, occupancy rose 2.6 per cent, and the average daily rate increased 0.7 per cent to US $82.89.

Marriott International Inc. reported second quarter earnings of US$126 million (CDN$177 million), virtually the same as the second quarter earnings of 2002. Marriott stated that it was able to protect its profitability despite weaker global demand for lodging through the implementation of productivity improvements and specific action plans for each hotel.

Lodging Econometrics (LE), the U.S. industry authority for hotel real estate, reported that the lagging economy and prolonged slowdown in corporate demand caused another downturn in the number of hotel developments for the second quarter of 2003. The number of current development projects in the second quarter of 2003 was down 5.2 per cent from the first quarter of 2003. This marks an all-time cyclical low of 53 per cent below the record high seen in the third quarter of 1998. LE stated that many developers were reluctant to advance current projects or announce new ones until a lodging industry recovery was confirmed.

Travel Agents

IATA's Bank Settlement Plan (BSP), the system of tracking airline tickets sold through Canadian travel agencies, reported that the average cost of domestic air travel for Canadians decreased 13 per cent in June compared with a year earlier. It was also reported that the average cost of international travel to both non-U.S. and U.S. destinations fell 10 per cent.

In the U.S., the Airline Reporting Corporation (ARC) reported total sales by travel agencies in June were 2 per cent below June 2002 results. The Air Transport Association (ATA) reported that the average domestic (U.S.) June airfare dropped 1.6 per cent compared with last year.

According to the most recent AAA Travel Barometer, overall June travel bookings were 3 per cent higher than the same month in 2002. While the latest Travel Barometer indicated that tour packages were tracking 14 per cent higher than last year, hotel bookings were still 6 per cent lower.

International overview - Overseas

United Kingdom and Ireland

In early July, British Airways (BA) announced that its traffic was gradually recovering from its lowest levels reached earlier this year, although this was largely due to an increase in economy traffic. The airline saw its discount passenger volume increase 7.3 per cent in June, while premium passenger volume fell 2.5 per cent compared with last year. In the second quarter ending in June, the airline registered a drop of 12 per cent in premium traffic, while economy traffic increased by 4.9 per cent compared with the same quarter last year. Overall, BA's passenger traffic increased 5.8 per cent in June and capacity rose 3.1 per cent compared with June 2002, resulting in a load factor increase of 2 points to 76.8 per cent. The airline reported that it was still experiencing weak yields because of pressure from low-cost carriers.

Although passenger volumes at EasyJet continued to grow, the discount airline posted a net loss for the first half of 2003, mostly as a result of the airline's practice of drastically cutting fares in order to fill its seats. EasyJet posted a net loss of £48.1 million (CDN $76.7 million), although the airline noted that its biggest revenue earning period is traditionally the summer months.

Overall, the number of passengers using BAA's seven U.K. airports rose 2.9 per cent in June compared with the previous year, which was good news for the U.K.'s airline industry. Passenger numbers on domestic flights rose 8.4 per cent and scheduled European traffic rose 10.1 per cent, although North American traffic dropped 1.6 per cent compared with the same period last year.

Table 3. Percentage change in passengers carried

Carrier	June 2003 vs. June 2002
British Airways	+5.8%
EasyJet	+82.7%
Ryanair	+47%

At a time when many airlines are reducing their premium-class capacity, UK carrier Virgin Airlines unveiled plans in July to invest £50 million (CDN $112.5 million) in state-of-the-art first-class seating to attract more business travellers. The upgrades will be completed in 2004 and feature the longest airline flatbed in the world. The airline also stated that it would charge business-class rates for its first-class service in an attempt to create stiff competition for British Airways' premium class services.

According to a recent survey by Carlson Wagonlit Travel, the direct cost of travel is more important than ever to U.K. companies. Of those polled, 100 per cent rated the direct cost of travel more important than it was two years ago, and 85 per cent voted against using first-class services while on a business trip. However, when asked if low-cost carriers were always better value than negotiated corporate airfares with traditional airlines, 95 per cent said no, and 80 per cent agreed that "dynamic pricing methods" used by conventional airlines were as competitive as low-cost carriers.

Meanwhile, the leisure travel market in the U.K. continues to look strong this summer, although the vast majority of travellers are planning to vacation in Britain. A recent survey by VisitBritain indicated that 23 per cent of the respondents were planning to take a holiday within a two-week period, although 70 per cent of those travellers were intending to holiday in England. Only 22 per cent of those taking a trip within a two-week period were planning to travel overseas.

France

Air France reported that improvements in advance bookings observed in May resulted in a strong upturn in operations in all networks in June, with passenger traffic basically returning to last year's levels. At the same time, capacity increased 0.8 per cent but its load factor fell 0.7 points to 77 per cent. Strikes by air traffic controllers in June had a negative impact of about one point on traffic for that month.

For the first time since March, the long-haul network, excluding Asia, posted positive results in June as traffic and capacity both increased 5.3 per cent. However, traffic on Asian routes was still down significantly (-23.2 % compared with June 2002) though it had recovered somewhat from May, when it was down 36.7 per cent. Meanwhile, North American routes experienced a 1.5 per cent increase in traffic on a capacity increase of 1.1 per cent. This enabled Air France's load factor to increase to 88.4 per cent, up 0.3 points from June 2002.

Although, the latest Australian Tourist Commission's (ATC) Market Report for France indicated that there is a more positive global outlook in France as the fear of SARS subsides, sales of tours to destinations outside of the country remain very slow. In fact, French retail travel agents have reported a 9 per cent decrease of sales since the beginning of this year.

Germany

Lufthansa announced that it increased capacity at the end of June in a "rapid response to emerging market opportunities," claiming that the airline industry's worst crisis had bottomed out. Overall, capacity was down 3.1 per cent for the month of June, compared with the previous year, and passenger traffic was down 3.7 per cent. For the first six months ending June 30, the airline flew 1.2 per cent more passenger miles than last year, and capacity was up 3.8 per cent, resulting in a load factor of 71.9 per cent, 1.9 points lower than the same period last year.

Munich Airport, the second busiest in Germany after Frankfurt, launched operations from its new Terminal 2 facility on June 29. The new terminal doubles the airport's capacity to 50 million passengers annually. The facility was built at the cost of EUR1.5 billion (CDN$2.39 billion) and represents a joint venture between Lufthansa and Munich Airport, the first-ever partnership of this type in Europe. Lufthansa considers the new terminal to be integral to the continuing development of Munich as a major hub in its international network, claiming that the new facility is now the most modern and convenient terminal in Europe.

According to the Australian Tourist Commission's (ATC) June Market Report for Germany, tour bookings were on the rise, particularly for North American destinations, as negative media coverage about SARS continued to fade. Tour operators were feeling more optimistic about bookings for the second half of this year and anticipated that year-end financial results would be on par with last year.

The Canadian Tourism Commission (CTC) conducted a Tourism Impact Survey in early June, which indicated that SARS still posed a problem for the German travel market at that time, although the overall sense was that the outbreak was under control and would eventually disappear. Travellers did not anticipate a long-term disincentive to travel to Canada and as a result indicated that the damage from the negative SARS coverage is not expected to be permanent.

Of the German travellers who intended to take a long-haul pleasure trip in the next six months, 5 per cent mentioned Canada as their preferred destination, ranking Canada eighth behind Europe (33%),

U.S. (19%), Asia (15%), tropical islands (8%) and Australia/New Zealand (6%). When asked whether the SARS outbreak would affect their likelihood of travelling to Canada, two-thirds of the long-haul pleasure travellers responded that it would unlikely, or not at all affect their decision.

Italy

In early July, Alitalia announced plans to reduce staff costs by EUR 15 million (CDN $24 million) through improved productivity measures, rather than cutting cabin crew numbers, as originally announced.

The Australian Tourist Commission reported in its latest Market Report for Italy that consumer watchdog associations have reported that a record number of Italians plan to stay at home this summer because of the rising cost of living. The fear of SARS seemed to be subsiding and consumer confidence in long-haul travel was growing. The report indicated that bookings to the U.S. were increasing, bolstered by the declining value of the U.S. dollar.

The Netherlands

KLM Royal Dutch Airlines reported that it flew 4.54 billion RPKs in June, a decrease of 9 per cent compared to the same period last year. Similarly, the airline's overall capacity was also down 9 per cent, compared to last year. Meanwhile, traffic on its Pacific routes was down 28 per cent due to SARS.

KLM also announced that it was considering a further 1,500 job cuts in addition to the 3,000 previously announced. The new cuts would bring the total job loss to 4,500 or 13 per cent of the airline's total workforce. The airline is seeking to reduce expenditures by EUR 650 million (CDN $1.03 billion) per year.

The Canadian Tourism Commission's (CTC) foreign office in the Netherlands reported that fall bookings to Canada were up by about 13 per cent in the second quarter of 2003, compared with last year. FIT packages were doing better than group packages, with British Columbia and Alberta the two most popular destinations.

Japan

Domestic airlines in Japan reported in mid-July that, as a result of the adverse effects of the SARS epidemic, international flight reservations for the peak summer season, between July 18 and August 17, were down 20 per cent compared with a year earlier. At the time of the report, the airlines held reservations for 684,000 passengers, a level that is one-third lower than the figures witnessed in 2001.

According to a recent survey by JTB Corp., Japan's top travel agency, the number of Japanese intending to travel overseas this summer has dropped by 24.7 per cent compared with a year earlier. This is the largest decline since the agency began conducting the survey in 1969. Meanwhile, the overall number of Japanese travelling this summer is expected to increase 0.3 per cent, with the number of travellers remaining in Japan up by 1.1 per cent.

The New Tokyo International Airport Authority recently announced that it expected the number of travellers using the airport this summer to drop by 20 per cent compared with last summer. The authority estimated that 2.87 million passengers would use the airport between July 18 and August 31, approximately 690,000 less than the same period in 2002.

The Japanese Diet recently enacted legislature privatizing the New Tokyo International Airport which hands responsibility of the airport over to a government-owned company that will be privatized in 2007. The legislation renamed the airport Narita International Airport. The terms of the privatization bill allow the new airport operator to diversify its business and operate commercial facilities and hotels.

The Canadian Tourism Commission's (CTC) foreign office in Japan reported that throughout the SARS outbreak, outbound travel from Japan declined nearly 50 per cent. Agents reported a slight increase in bookings for destinations that were considered SARS-free, and despite the implication of Canada in the SARS outbreak, it was expected that Japanese tourists would resume visiting Canada once they considered the outbreak to be eradicated..

According to a Tourism Impact Study conducted by the CTC in early June, SARS appeared to be posing a long-term deterrent for a substantial number of Japanese travellers in visiting Canada. Of the Japanese people polled, one in two (48%) considered it likely or very likely that their probability of travelling to Canada would be affected by the SARS outbreak. There also appeared to be a general sentiment that SARS was not totally under control, as only one-quarter of Japanese travellers somewhat or strongly agreed that Canada had succeeded in controlling the disease.

According to the Australian Tourist Commission's (ATC) Japan Market Report for June, SARS continued to negatively affect the entire overseas market, as many Japanese consumers were afraid to enter airport buildings, let alone board international aircraft. This was true even for destinations that were SARS-free. However, general news coverage on SARS was decreasing, and the beginning of sustainable recovery in the market was evident. Booking lead times were reported to be as short as one week. Consequently, it was quite difficult to make booking predictions. According to the Japan National Tourist Organization, the number of Japanese overseas travellers in April decreased 42 per cent to 720,000 compared to April 2002.

Korea

Korean Airlines reported that it had resumed normal operations on its network since the containment of SARS. As a result, the airline reported it has seen a recovery in traffic for all routes except China. In fact, business and leisure traffic in June was down only 0.9 per cent, compared with June 2002, although capacity was reduced by 10 per cent. The airline also stated that it was not forced to lay off any staff during the SARS outbreak and all new aircraft deliveries were on schedule.

Meanwhile, the Canadian Tourism Commission's foreign office in Korea reported that Korean visits to Canada dropped 5.6 per cent in the first four months of this year, compared with the same period a year earlier. Most of the decline was due to the SARS outbreak as visitor numbers in April alone dropped 28.6 per cent. Fortunately, tour bookings were recovering sharply in early June, boosted by cheaper group packages offered by tour operators and airlines in an attempt to stimulate a faster recovery for the tourism industry.

Still, the Australian Tourist Commission (ATC) reported in its latest Market Report for Korea that Korean departures fell 34.4 per cent in May, compared with 2002.

Hong Kong

Signalling a rebound from the damaging effects of the SARS outbreak, Cathay Pacific Airways reported that its June traffic rose by 88.4 per cent compared with May. However, RPKs were still 44.5 per cent lower than June 2002, on a capacity shortfall of 38.7 per cent. Meanwhile, Cathay Pacific announced it would shorten its staff's unpaid leave scheme from four weeks to three while it ramps up its operations in support of Hong Kong's recovering tourism industry.

Hong Kong's airport authority reported record net profits of HKD $502 million (CDN $90.5 million) for its fiscal year ended March 31, 2003. This marks the third consecutive year Chek Lap Kok Airport has posted a profit despite the mounting challenges of the world airline industry. The airport also announced that by the third week of July, daily passenger traffic had reached 80 per cent of pre-SARS levels, an indication that recovery was proceeding at an encouraging rate.

The Canadian Tourism Commission's foreign office in Hong Kong reported that since the travel advisory against Hong Kong was lifted in late May, the community has responded with many advertising and marketing campaigns aimed at revitalizing the tourism industry. The "We Love Hong Kong" campaign has focused on improving local tourism as well as outbound travel, involving organizations from all tourism sectors. Air Canada has joined the campaign, offering 500 tickets to Vancouver and Toronto for CDN $570 and CDN $755 respectively.

The Australian Tourist Commission (ATC) reported in its latest Market Report for Hong Kong that international outbound departures from Hong Kong to all regions continued to decline in May, down 23.8 per cent compared to the previous year. Travel to the U.S. dropped 52.1 per cent, 34.6 per cent to Europe and the Middle East, and declined 37.1 per cent to Japan/South Korea.

The ATC also reported that the direct impact of SARS on Hong Kong's tourism industry is estimated at CDN $1.8 billion and a direct loss of 27,340 jobs. In the April to June quarter of this year, the overall unemployment rate in Hong Kong surged to a record high of 8.6 per cent, with 300,000 people out of work.

Taiwan

EVA Airways unveiled its new "Premium Laurel" Business Class service in early July, featuring larger cabin spaces, state-of-the-art audio/video systems, and upgraded seats. The airline stated that the new service was the result of two years of planning, including studies of passenger preferences and a full evaluation of new technologies. EVA will launch this service on different international routes throughout July and August.

Since Taiwan was removed from the World Health Organization's list of SARS-affected regions (the last country to be removed), Taiwan's government has loosened the border restrictions it imposed in late April. The normal issuance of landing visas and visa-free privileges was resumed for visitors from Canada, Hong Kong and China, and the 10-day quarantine requirement for those travelling to Taiwan from those countries has been dropped. However, travellers are still required to fill out forms regarding their state of health and to have their temperature taken upon arrival in Taiwan.

The Canadian Tourism Commission's foreign office in Taiwan reported that airlines and travel agencies were offering many airfare and package specials in an effort to stimulate immediate outbound and domestic travel. For example, EVA Airways launched an intensive advertising campaign for summer family bookings to short and long-haul destinations including Canada, and China Airlines was expected to follow suit.

The Australian Tourist Commission's June Market Report for Taiwan reported that total outbound trips in May decreased 82.5 per cent compared with the same period a year earlier. For the first five months of 2003, total outbound travel had declined 35.8 per cent. However, in early June, consumer confidence began to lift slowly, stimulated by sales promotions in the retail and travel sectors. Low prices seemed to be the key stimulator in this post-SARS period. Advance bookings for July were picking up, with travel agents estimating that the overall outbound leisure market would improve in July, reaching 60 per cent of the booking levels seen in 2002.

Australia

In July, Qantas reported that its international traffic was picking up although it was still not ready to increase capacity. Capacity in the carrier's international network remains down by 20 per cent as a result of the SARS outbreak.

Meanwhile, Virgin Blue Airlines received approval from the Australian International Air Services Commission (AIASC) to launch its international services in October of this year. Although the routes are currently limited to New Zealand, Fiji and Vanuatu, the AIASC stated that Virgin's new routes signal the start of a new era in Australian aviation. Since the collapse of Ansett International in September 2001, Australia's sole flag carrier has been Qantas Airways. Since launching its domestic services, Virgin has captured 28 per cent of Australia's domestic market, up from 18 per cent a year ago.

Unfortunately, Sydney Airport recently announced plans to reduce its workforce by 40 per cent, or 160 jobs, over the next 12 months. The airport stated that "non-core" jobs such as maintenance, airfield lighting and baggage handling support would be contracted out. Following this announcement, the airport reported record profits for its fiscal year ended June 30, 2003 of AUD$376.3 million, a 19 per cent increase over the previous year. The airport noted that its earnings had been impacted by a 2.1 per cent downturn in international passenger numbers.

The Canadian Tourism Commission's foreign office in Australia reported that the real estate market in Australia continues to boom, encouraging many Australians to spend their money in that sector rather than travel. Still, a recent Roy Morgan survey found that 60 per cent of Australians intend to take a holiday either domestically or overseas in the next 12 months. It was reported that SARS and/or the war in Iraq did not affect the travel plans of the vast majority of travellers (84%), and most of the travellers who did change their plans because of world events, changed their destination rather than cancelling their trip.

New Zealand

Air New Zealand (ANZ) Chairman, John Palmer, recently reported that ANZ could become a purely domestic airline if competition authorities in New Zealand and Australia do not approve its proposed merger with Qantas Airways. According to Palmer, ANZ's domestic side is on sound footing but its international business, which accounts for three-quarters of its revenues and assets, is not. Palmer further stated that ANZ needed to find ways to expand its international business, which in his opinion, depended on the partnership with Qantas. Qantas is attempting to secure a 22.5 per cent stake in ANZ.

Meanwhile, Tourism New Zealand recently reported that international activity to and from New Zealand is expected to increase as post-SARS recovery of the airline industry progresses. The stronger New Zealand dollar was expected to improve the performance of the outbound market, which represents about 45 per cent of the international air traffic in and out of the country. The North American and UK/European markets were expected to benefit the most from the more favourable exchange rate.

The Australian Tourist Commission's latest Market Report for New Zealand indicated that the New Zealand outbound travel market remains strong. Overseas departures in the month of May were only down 0.7 per cent compared with last year. While departures to North America and Europe were up 9 per cent, Asian destinations were off by 49 per cent.

Economic overview

North America

The Canadian economy is expected to be in for a rough ride over the summer months. In fact, real economic growth is forecast to slow markedly, averaging less than 1 per cent growth (on an annual basis) during the middle two quarters of the year. In addition, the Canadian dollar has surged 14 per cent against its U.S. counterpart in the first half of the year. Fortunately, the expectation is that renewed U.S. economic growth and additional monetary stimulus will enable the Canadian economy to emerge from the doldrums by the final quarter of the year, and post decent growth in 2004. After reaching 3.3 per cent in 2002, GDP growth is slowing to 1.9 per cent this year before reaching 3.2 per cent in 2004.

The nervousness that has beset the U.S. economy since 9/11 was not helped by the outbreak of war and the speculation that preceded it. And while the successful conclusion of the war with Iraq immediately boosted confidence, the economy has been slower to respond. However, there are signs that the long-awaited rebound is gathering steam. In the meantime, consumption should be sustained by the most recent -and probably the last for some time- wave of mortgage refinancing. It is expected that the U.S. economy will continue to strengthen over the next year and post real GDP growth of 3.8 per cent in 2004.

Europe

Europe is expected to record weak economic growth of not much more than 1 per cent this year and 2 per cent next year. On a more positive note, the worst may be over for the German economy. The substantial job losses over the last two years are allowing the German government to more easily reform labour markets and introduce tax cuts. The fruits of the reforms resulted in lower unemployment figures in April and May. In addition, the European Commission's (EC) economic sentiment index in Germany increased by 0.4 in June, the largest gain in Europe. The latest data from the EC in June shows that consumer confidence in France seems to have (at least) stopped falling. The U.K. economy is performing relatively less well compared to the last several years. Overall consumer confidence in the U.K. continues to fall. According to June's consumer opinion survey by the EC, U.K. consumers are becoming less confident about making major purchases over the next twelve months.

Asia-Pacific

The rapid spread of the SARS virus across Asia has taken a heavy toll on the region's growth prospects for 2003. To date, SARS has been most virulent in countries like China, Hong Kong and Singapore. Real GDP in Singapore, for instance, has been reduced from 3.8 to 2.1 per cent. Fortunately, the major impact of SARS was felt in the second quarter of this year and economic activity is expected to pick up in the second half of 2003 in line with a pick-up in U.S. demand for electronic exports from this region. Overall, real GDP in the region is expected to expand by 2.3 per cent this year and by 2.5 per cent in 2004. Hopefully, economic conditions in Japan may soon improve. According to a recent (June) study by AC Nielsen, the Japanese continue to spend on non-essentials, like cars, property, stocks/shares and relatively high-priced electric appliances.

Opportunities

The latest Travel Industry Association of America (TIA) Traveler Sentiment Index indicated that travel safety confidence is now at a record high. This is good news for the air travel industry which has suffered tremendously since the September 11, 2001 terrorist attacks. TIA reported that the second quarter Travel Safety Index was 128.3, up 28 per cent from fourth quarter 2001 when the TIA first started tracking this factor. The Conference Board of Canada's latest Travel Intentions Survey also revealed that Canadians are feeling more comfortable about flying. Specifically, the survey suggests 21 per cent of Canadians plan on travelling by air for their domestic winter holiday this year, compared to only 10 per cent last year.

A new study from the TIA and Smithsonian Magazine showed that U.S. travellers are increasing their interest in cultural, arts, historic and heritage activities. Study results, reported in the TIA's Historic/Cultural Traveller 2003 Edition, indicate that 81 per cent of U.S. adults who travelled last year (i.e. 118 million people) included historical or cultural activities in their vacation, up 13 per cent from 1996. These travellers also spend more money on historical/cultural trips compared to the average U.S. vacation (US $623 compared with US $457, excluding transportation costs).

Summary

Nearly two years have passed since the September 11th terrorist attacks and the tourism industry is still questioning whether conditions will ever return to normal and whether traditional travel patterns will be restored. While discount airlines like Southwest and WestJet continue to expand, larger, full-service carriers continue to downsize. And while discount carriers are boosting their in-flight amenities, many major airlines are cutting back on complimentary services. Not surprisingly, the lines between no-frills and traditional air carriers have become blurred in the eyes of many travellers and left them to wonder if the value received is worth the premium paid. Unfortunately, premium fares are necessary to support the non-competitive cost structure of many major carriers.

Fortunately, successful business models do not always mean delivering the lowest price. In many instances, offering the lowest price does not necessarily mean that the customer is receiving the best value. However, customers need to clearly understand where businesses fit in in the competitive marketplace and, just as importantly, they must value the services offered.

A slowly recovering international travel market is expected to further test the operating efficiency of Canadian tourism suppliers this summer. While operators would be well-advised to continue to enhance their internal strategies, they might also profit by formulating innovative courses of action to capitalize on the domestic market at their front door. This would not only to fill the void this summer but would also establish more stable market sources.

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