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Canada

CTC Tourism Intelligence Bulletin – Issue 11: January 2003

The Tourism Intelligence Bulletin continues to monitor the tourism industry around the world. This issue reveals tourism intelligence gathered in November and December 2002.

Focus on Personal and National Security

Executive Summary

- Economic uncertainty and increasing political tensions, including a potential war with Iraq have mired the attitude of travellers worldwide. On a positive note, the World Tourism Organization (WTO) has suggested that in spite of recent terrorist attacks, the world tourism industry is continuing to move forward with its recovery and is expected to continue to do even if a war with Iraq will transpire. Still, according to the WTO, a war will likely cause many travellers' destinations and perhaps the timing of their trips to change.
- While most supplies agree that a war would be damaging to the recovery process, recently introduced tighter security measures at airports around the world are also expected to dampen the strength of recovery. Even though these tighter security measures are designed to increase personal security, they have the potential to further increase traveller inconvenience as well as costs- two things the travelling public does not want more of.

Emerging Trends and Issues - The Burden of Security

- Finding a reasonable balance between travel security and convenience has become more difficult, particularly in the U.S. Since December 31, 2002, air travellers at many airports in the U.S. have had to cope with earlier arrival times and longer waiting periods as each bag is searched. Meanwhile, in Canada, security measures adopted by Parliament continue to evolve as the newly formed Canadian Air Transport Security Authority sets out its priorities. It is increasingly evident that striking a balance between travel security and convenience is essential in providing an atmosphere conducive to growth in the tourism industry worldwide.
- In November, the U.S. Transportation Security Administration (TSA) reached an important goal by completing the hiring, training and deployment of more than 30,000 passenger screeners at airports throughout the U.S. The real test came with the December 31, 2002 deadline to screen all checked baggage and, at some airports, to initiate explosive detection procedures. By most accounts, the heightened security procedures in the U.S. went fairly well. However, it remains to be seen whether or not travellers, especially business travellers, will continue to be patient with the enhanced screening procedures.

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- Transport Canada announced that enhancements to airport security will include the development of a "National Pass System" allowing employees to work at different airports without the need for multiple identification passes. According to the Air Line Pilots Association this represents a major step toward providing needed improvements to security at Canada's airports by addressing Canadian travellers' concerns about gaps in security measures.

Consumer (Traveller) Overview

- Unfortunately, many corporate travel managers in the U.S. do not anticipate a full recovery of business travel before 2004. They also expect that business meetings held in 2003 will be shorter in duration, be arranged with less lead-time, attract fewer attendees and generally involve less fanfare than previous years. In addition, they expect the cost-cutting trends of 2002 to continue. These included travelling less by air as well as increased use of low cost airlines.
- According to the Canadian Tourism Research Institute's (CTRI), December 2002 Winter Travel Intentions survey, 60 per cent of travellers expect to spend the majority of their winter vacation nights in Canada. This is up from the 46 per cent reported in September and is at its highest level since the CTRI began the seasonal travel intentions survey in 1990. Apparently, even the potential of a war in Iraq is enough to change many Canadians' travel plans this winter. Compared to September, respondents in the December survey were also found to be less likely to continue their planned vacation trip if a war broke out.

Travel Supplier Overview

- Financial uncertainty continues to plague the U.S. airline industry. In December, United Airlines filed for bankruptcy and announced cuts to capacity, employees and airfares. It is expected that American Airlines and Northwest Airlines will benefit the most from United Airline's capacity cuts because they, respectively, share hubs or overlap many routes with United Airlines. In a reversal of policy, low-cost Canadian carrier Westjet has indicated it will now implement a fuel surcharge to cover increases in the cost of fuel. The carrier recently announced that it is unlikely to meet analysts' expectations regarding its fourth-quarter profit targets. Despite this, WestJet did not reduce its growth plans for 2003 and still expects to increase capacity by 40-45 per cent.
- The Canadian hotel industry continues to post increased occupancy levels, average daily rates (ADR) and revenue per available room (RevPAR). In October, budget priced hotels continued to experience the greatest increases in ADR, but upscale/luxury properties are showing signs of improvement, especially properties located in Western Canada. Properties in the U.S. finally reported considerable improvement in terms of RevPAR and net income during the last four months of 2002. Many investors feel that depressed hotel markets, including Washington, D.C., New York and Los Angeles have now bottomed out.
- The cost of domestic air travel for Canadians remained stable in November and actually declined for international travel, including travel to the U.S. For the same month, U.S. residents witnessed a continued decline in the cost of domestic air travel but saw international airfares increase. A poll by the Travel Industry of America (TIA), reported that during 2002 the percentage of Americans who used a travel agent to book either business or leisure flights, hotel rooms, rental cars or tours decreased 6 per cent compared with 1999.

Economic Overview

- The North American economy has been resilient over the last year. Despite sliding stock markets, consumers have been confident enough to keep the economy afloat. Canada has been decidedly stronger than the U.S. In 2002, employment growth in Canada is expected to be the strongest it has been in nine years. Meanwhile, in the U.S., personal consumption was satisfactory but business investment stood still. Fortunately, U.S. stock markets began recovering in the latter half of 2002 and should continue to improve in 2003.
- European economies struggled during 2002. In fact, European stock markets were hit harder than North American ones. This hurt business investment and employment which in turn weighed down business and consumer confidence. As a consequence, the economic outlook for 2003 is increasingly uncertain.

- The terrorist attack in Bali has had a profound affect on the economic outlook for Indonesia. It is also weighing on prospects for neighboring countries in South East Asia. While the South Korean economy has been relatively strong, the growing uncertainty concerning North Korea is clouding their outlook in 2003. Meanwhile, the Japanese economy is only expected to marginally improve. Consumers and businesses remain cautious and there does not seem to be many reasons for their moods to change any time soon.

Opportunities

- While investment in Internet technology can be expensive, it is becoming imperative as travellers' use of the Internet continues to increase, particularly for booking purposes. According to the TIA, over 39 million people booked travel using the Internet during 2002, up 25 per cent from the previous year. Conversely, other more traditional ways to book trips, such as calls or visits to travel agents or travel companies, experienced declines. Is was reported that travellers using the Internet value its enhanced accessibility of last minute specials and perceived low prices.
- Meanwhile, consumers continue to seek and demand value from tourism suppliers. Hotels, particularly, need to consider introducing programs that reassure corporate buyers that their negotiated rates are not being undercut. Without that assurance, it is difficult for hotels to retain their share of corporate account room nights as buyers become irate when negotiated rates exceed market rates.
- According to the latest Travel Intentions Survey by the CTRI, more Canadians are choosing to travel domestically this winter rather than internationally. To a large degree, the shift towards domestic travel comes as a result of growing uncertainty regarding a potential war in Iraq. Even if a war does occur, it is expected that overnight automobile travel from the U.S. will remain strong as Americans continue to seek safe, English speaking and close-to-home destinations, like Canada.

In Brief

Economic uncertainty and increasing political tensions, including a potential war with Iraq have mired the attitude of travellers worldwide. However, on a more positive note, the WTO recently announced that the world tourism industry is recovering and moving forward in spite of the terrorist attacks in Bali and Kenya that have temporarily set back its pace and scale. While the WTO might be considered bold to suggest the continuing recovery of the industry if a war in Iraq is declared, it is anticipated that many travellers would only change their destinations or postpone their travel plans rather than eliminate travel plans altogether.

A weaker than expected global economic recovery, combined with traveller inconvenience, lack of confidence in airline security measures, increased air travel surcharges, and further air carrier bankruptcy filings all hinder a full-scale tourism recovery. However, the risk of war and further terrorist attacks might pose the biggest threat of all to a full recovery. The International Air Transport Association (IATA) states that a war with Iraq would not only cause a drop in the number of passengers (especially international travellers) but it would significantly increase security measures at airports. This will further increase the level of inconvenience and likely costs to travellers, which are things the travelling public does not want.

As of December 31st, countries worldwide such as Spain, Italy and the U.S. have implemented tougher screening procedures for baggage checking at their airports. While the initial crunch of passengers was processed without major problems in the U.S., it remains to be seen whether or not passengers will continue to be patient.

To prepare for financial losses brought on by war or even the risk of war, tourism suppliers are actively implementing contingency plans. One of the best tactics to mitigate financial risk is to entice travellers to book as early as possible. This is not an easy task in today's wait-and-see travel climate. Customers will require suppliers to offer products/services that are not only perceived as a good deal financially but are also flexible should conditions change down the road.

Emerging Trends and Issues

The Burden of Security

Finding a reasonable balance between travel security and convenience has become more difficult, especially in the U.S. Since December 31, 2002, air travellers at many airports in the U.S. have had to cope with earlier arrival times and longer waiting periods as each bag is searched. In Canada, security measures adopted by Parliament continue to evolve as the newly formed Canadian Air Transport Security Authority sets out its priorities. Business and leisure travellers alike will have to adapt to new security measures, forcing them to re-evaluate, when, where and how they will take a trip. Travellers desire the necessary security measures but the tourism industry has a difficult task in finding a workable balance between convenience and safety. This balance is absolutely critical in order to help make the world's economic recovery, including that of tourism suppliers, as robust as possible.

December 31st Deadline Passes

The U.S. is presently overhauling its airport security measures to the tune of US$ 6 billion (CDN$ 9.4 billion). In November, the U.S. Transportation Security Administration (TSA) reached an important goal by completing the hiring, training and deployment of more than 30,000 passenger screeners at airports throughout the U.S. A bigger challenge was the December 31, 2002 deadline to screen all checked baggage with explosives detection technology. However, neither goal addresses a glaring loophole in the system-having no policies in place to screen airline cargo.

By most accounts, luggage screening after December 31st went fairly well, however, passengers during the first travel crunch weekend arrived well in advance of their flight times. It remains to be seen whether or not travellers, especially business travellers, will continue to be patient with the enhanced screening procedures, particularly if it involves arriving up to 90 minutes before a domestic flight. Reports were received that crowding and confusion was worse at the U.S. airports that used a technology called Trace detection. At those airports, sensors checked for explosives' residue on a swab that a screener applies to a bag or its contents. While this technology is fairly accurate, it is very time-consuming and labour intensive.

It should be noted that some U.S. airports were granted compliance extensions on the December 31st deadline of up to one year, provided back-up measures were in place. While no more than 5 per cent of U.S. airports received extensions, these were mostly facilities with a high volume of passengers such as Dallas-Fort Worth International Airport. Those airport managers had warned that resulting delays could wreak havoc for unprepared and late arriving travellers with these cumbersome and time-consuming search methods.

Canada Steps Up Security

While Canada has yet to implement a concrete deadline, it too is heading towards the implementation of scanners for all baggage. In addition, Transport Canada announced that enhancements to airport security will include the development of a "National Pass System" allowing employees to work at different airports without the need for multiple identification passes. According to the Air Line Pilots Association this represents a major step toward providing needed improvements to security at Canada's airports by addressing Canadian travellers' concerns about gaps in security measures. Before these measures were announced, many in the aviation community, including travellers, felt security measures since September 11th focused too much on procedure rather than on people. The new system should help restore travellers' confidence in safety measures to a degree.

However, in Canada, safety does come at a cost. Meanwhile, the Canadian government feels that there is no proof that the air security tax has had an adverse effect on airlines, even though the security charge is by far the highest in the world. It does acknowledge that WestJet has reduced the number of short-haul flights it operates. As well, Air Canada's regional carrier (Jazz) has experienced declining profits, even though its mainline operation (including Tango) has posted profits. The government's quandary is where it will find the funding for the $2.2 billion it plans to spend on security.

Not surprisingly, additional costs are not what travellers want. Travellers want confidence in security measures and a hassle-free trip. Finding the balance between these two is elusive but not unattainable. It requires travellers, suppliers and governments to work together and devise common goals. Without a successful balance, it is unlikely that travellers' desire for air travel will increase significantly in the short-term. Barring that, the financial state for many tourism suppliers will remain fragile.

Consumer Overview - Canada and the United States

Business Travellers

Heading into 2003, corporations are becoming much more image-conscious. Companies are dealing with major ethic issues and as a result, do not want to be associated with any sort of lavish spending. In fact, many expect that business meetings in 2003 will attract fewer attendees, be shorter in duration, be arranged with less lead-time and generally involve less fanfare than in 2002.

According to the National Business Travel Association (NBTA), corporate travel managers do not anticipate a full recovery of business travel before 2004. As well, the NBTA released its 2003 business travel costs forecast, predicting costs will increase an average of 5 per cent compared with 2002 as airfares, hotel room rates and corporate car rental rates are all expected to rise. Overall, 38 per cent of responding companies expect to decrease their travel and entertainment budgets in 2003, partly in response to increasing costs.

The International Air Travel Association (IATA)'s Corporate Air Travel Survey 2002 reported that one third of all business travellers had used a "no frills/low cost" airline in the past 12 months mainly to save money. The survey goes on to report that 37 per cent of business travellers had also used video conferencing to save travel time and money. The Travel Industry of America (TIA) announced in its latest Air Travel Survey that during the last 12 months, 30 per cent of all air business travellers reported travelling less by air, compared with 21 per cent who said they had increased their travel.

Leisure Travellers

According to the Conference Board of Canada's latest Winter 2002 Travel Intentions Survey, conducted in December 2002, 41 per cent of Canadians intend on taking a winter vacation this year (defined as a an overnight trip taken between November 1, 2002 and April 30, 2003). This figure is basically unchanged from the September survey findings but is up compared with the 38 per cent of those who planned to take a winter vacation when the survey was conducted in December 2001.

The biggest change from the September 2002 survey is seen in domestic travel intentions. In fact, domestic winter travel intentions are now at their highest level since The Conference Board of Canada initiated its seasonal Travel Intentions survey in 1990. Specifically, the December survey indicates that, of those who intend to take a winter vacation, 60 per cent intend to spend the majority of their vacation nights in Canada. This is up from the 46 per cent of respondents who had indicated the same intent this past September. Apparently, the potential for a war in Iraq is enough to change many Canadians' travel plans this winter. Compared to September, respondents in the December survey were also found less likely to continue their planned vacation trip if a war broke out in Iraq.

According to a recent poll by Travelocity.ca, over 51 per cent of members expect to travel domestically this winter, up 6.3 per cent from last year. Of those not planning to travel, the primary reason for not going was the high cost of travel. A recent poll by Ipsos-Reid found the majority of Canadians with Internet access prefer the Web to a travel agent when it comes to collecting travel information. Yet, the poll indicates only slightly more than half actually books their tickets online.

According to the Travel Industry of America (TIA), time pressures and financial worries are taking an even greater toll on Americans travel plans, especially with residents in the south and northeast parts of the U.S. According to TIA's Traveller Sentiment Index, residents in these regions expressed the greatest hesitation to travel in the most recent 2002 fourth quarter survey.

Overall, TIA's, Traveller Sentiment Index continued to decline during the fourth quarter of 2002 to an all-time low of 93.7. While all five components of the index declined from the third quarter, consumer concerns about not having enough time to travel and about their financial ability to travel fell to their lowest points on record.

TIA also recently reported that 64 per cent of travellers in 2002 planned at least one leisure trip at the last minute (within two weeks of taking their trip). Among those last minute travellers, 26 per cent planned all their past year leisure trips at the last minute. The most popular reason for taking a last minute trip is to visit friends or relatives (39%). Most last minute trips are close to home and short in duration with the majority (69%) less than 500 miles, one-way, to the destination. A large number (70%) of last minute travellers drove their own car and 15 per cent used air transportation. Nearly half (45%) stayed in a hotel, motel or bed and breakfast on their most recent trip and 35 per cent stayed with friends or family.

According to a Travel Holiday magazine survey of U.S. travellers and tour operators, 73 per cent of travellers expect to spend more on their 2003 vacations than they did in 2002. Conversely, a slight majority (53 %) of United States Tour Operators Association (USTOA) members, expect to see a small increase in tour and vacation packages sold in 2003. When asked what aspects of an escorted tour appealed most to travellers, both travellers and suppliers agreed that convenience and price are the top two elements.

Travel-Supplier Overview - Canada and the United States

Airlines - Canada

Air Canada reported it flew 2.69 billion revenue passenger miles (RPMs) in November of 2002, an increase of 0.5 per cent compared with a year earlier. Capacity also increased 1.6 per cent while load factor dropped 0.7 per cent. Air Canada noted that in comparison to November 2000, RPMs were still off 7.9 per cent while capacity was down 14.9 per cent. In contrast, load factor had improved 5.1 per cent compared with November 2000.

Westjet reported a 50.9 per cent increase in revenue passenger miles (RPMs) in December compared with a year earlier. Full year RPMs increased 52.3 per cent. Increases in RPMs were attributed to large expansions in capacity during 2002. As a result of increased capacity, in December, Westjet saw its load factor drop 3.2 per cent and for the entire year of 2002, load factor decreased 1.5 per cent compared with 2001.

Despite this, WestJet did not reduce its growth plans for 2003 and still expects capacity to increase 40-45 per cent. It did announce that it is unlikely to meet analysts' expectations regarding its fourth-quarter profit targets, but still expects to post fourth-quarter profits. Westjet also announced that it will begin charging passengers a fuel surcharge in January to cover increases in the price of fuel.

Air Canada announced that it will launch another carrier called Elite sometime in mid-2003. Elite will cater to the luxury travel market segment. Robert Milton, chief executive officer of Air Canada, stated he would like to see the number of business travellers increase a little bit more before committing to a precise date. In December, he also warned that Air Canada will intensify its cost reduction efforts to try and avoid layoffs and wage cuts.

Air Canada also announced it reached a three-year deal with the Quebec government to provide low-cost fares throughout the province using Air Canada's regional operation (Jazz). In return, the Quebec government has agreed to buy $2.5 million of additional tickets every year for the government and its agencies. Jetsgo had subsequently filed a complaint with the Competition Bureau arguing that government money is subsidizing an Air Canada quasi-monopoly but the Competition Bureau dismissed the complaint.

The Air Transport Association of Canada (ATAC) released new guidelines for Canada's airlines regarding advertising fares. After January, 2003 airlines have agreed to prohibit advertising one-way tickets when they sell only round-trip tickets. In addition, WestJet will inform customers in its advertising, how much of a security surcharge they will pay.

Airlines - U.S.

United Airlines, the second largest airline in the U.S., filed for bankruptcy in December of 2002 after the federal Air Transportation Stabilization Board rejected its bid for US$ 1.8 billion (CDN$ 2.8 billion) in loan guarantees. In the short term, United Airlines and its Star Alliance partners stated it is business as usual even though further capacity cuts are expected in 2003. Prior to filing, United Airlines had announced further furloughs for 352 of its pilots and 2,700 flight attendants starting in 2003 due to capacity cuts as well as pay cuts for top executives.

It is expected United Airlines' restructuring will be long and painful, as the airline depleted much of its cash reserve as it attempted to stay out of bankruptcy. Some analysts feel United Airlines will use the bankruptcy process to slash its costs, giving it an approximately 20 per cent cost advantage over other traditional major airlines. Late in December, 2002 United Airlines announced domestic leisure fare cuts of up to 40 per cent off.

As United Airlines cuts capacity, it is expected that American Airlines and Northwest stand the most to gain in terms of passenger numbers and market share. American Airlines shares a hub with United Airlines in Chicago while much of Northwest's route system overlaps with United Airlines. It is estimated that United Airlines will eliminate as much as 12 per cent of its capacity. Meanwhile, American Airlines announced it is offering job-sharing or voluntary leave as it trims capacity by a more modest 3.2 per cent during the first quarter of 2003. US Airways, already in bankruptcy protection, announced it will furlough 2,500 additional employees over the first quarter of 2003 as it also tries to cut costs.

Passengers continue to flock to low-cost carriers. In response to mounting pressure from low-cost carriers, Delta announced it will launch its own low-cost operation in 2003. The subsidiary will start with 36 Boeing 737 jets. Delta also expanded its test of lower business class fares to 11 more cities while American Airlines introduced its test version of a simplified business fare structure in November 2002. United Airlines announced it too was testing different business and leisure fare gaps in certain markets even after the bankruptcy filing.

In a reversal of policy, United Airlines recently announced that it decided not to impose a US$ 100 (CDN$ 156) change fee for passengers taking standby flights on the same day as their scheduled flights. To date, only Delta Airlines has followed suit.

Table 1. Airline Revenue per Available Passenger Mile (RPM) and Capacity

Airline	RPM; Dec 2002 vs. Dec. 2001	Capacity, Dec 2002 vs. Dec 2001
American Airlines	+14%	+4.6%
Continental Airlines	+7%	+5%
Delta Airlines	+14.2%	+1.7%
Northwest Airlines	+12.3%	+5.5%

Hotels - Canada

The Canadian hotel industry continues to post increased occupancy levels, average daily rates (ADR) and revenue per available room (RevPAR) in October compared with last year. In October, budget price level hotels continued to experience the greatest increases in ADR (3.0%). Upscale/luxury properties also posted gains with an ADR increase of 1.7 per cent. Regionally, upscale properties in Western Canada did best, while those in Atlantic Canada actually saw their ADR decline 1.7 per cent.

According to Pannell Kerr Forster Consulting Inc. (PKF), the average daily room rate for Canadian hotels in October increased 2.7 per cent to $112.87 compared with last year. The most significant rate increases were experienced in Price Edward Island (12.7%), Newfoundland (10.3%) and Quebec (6.4%). On a national level, RevPAR increased 8.1 per cent as occupancy levels climbed 5.2 per cent, compared with last year.

In November, a few Canadian hotel chains reported their third-quarter earnings. Unfortunately, Four Seasons Hotels reported a loss during the quarter and subsequently reduced its full-year profit forecast to between $17 million and $18.2 million, although it cautioned that further acts of terrorism or war could throw off those projections.

In CHIP REIT's portfolio, the strongest performing region for the third quarter of 2002 was Quebec, though all regions recorded RevPAR growth. Meanwhile, Royal Host REIT recorded improvements in its average daily rate and RevPAR for the third quarter 2002 compared to last year. However, occupancy levels slipped 0.8 per cent, to 75.5 per cent, compared with last year.

Table 2. Earnings, Q3

Company	2002	2001
Four Seasons Hotels Inc.	$ -12.3 million	$ +86.4 million
Royal Host REIT	$ +15.6 million	$ +14.9 million
CHIP REIT	$ +18.7 million	$ +16.8 million

Hotels - U.S.

The last four months of 2002 showed considerable improvement in terms of RevPar and net income compared with a year earlier. This is not surprising given the impact of 9/11 in 2001. In the short-term, luxury hotels are expected to remain at the bottom end of the performance ladder but by the end of the year are expected to post improvement due to slowly returning corporate travel accounts. Investors feel some hotel markets have now touched bottom, especially in New York, Los Angeles and Washington, D.C. and are positioned for an early upturn.

According to Business Travel News, hotel buyers confirmed that 2003 rate negotiations focussed on market share. With business volumes down, market share was the main focus of hotels and they were willing to move on rates in order to maximize their share. Hotels in some city centres also had to adjust to some large corporations participating in reverse auctions. In a reverse auction corporations invite hotels to bid the price of an account down. The online event generally lasts about two hours.

In November, several more U.S. hotels reported third quarter earnings. Overall, the companies noted that the premium business and group travellers continue to return at a slower rate than expected, while the leisure traveller continues to spearhead the recovery.

Table 3. Hotel RevPAR and net income

Hotel	Revenue per available room (RevPAR), Q3 2003 vs. Q3 2001	Net Income Q3 2003 (in U.S. $)	Net Income Q3 2001 (in U.S. $)
Wyndham International	-1.5%	$ -77.1 million	$ -83.3 million
Candlewood Hotel Inc.	-3.6%	$ -3.5 million	$ -2.5 million
Jameson Inns, Inc.	-1.7%	$ +0.86 million	$ -0.38 million
Arlington Hospitality	+5.6%	$ +0.75 million	$ +1.9 million
La Quita Corp.	-3.7%	$ -21.0 million	$ -11.0 million

Travel Agents

IATA's Bank Settlement Plan (BSP), the system of tracking airline tickets sold through Canadian travel agencies, reported that the cost of domestic air travel for Canadians remained stable in November compared with a year earlier. It was reported that the cost of international travel to non-U.S. destinations dropped 6 per cent. Airfares to the U.S. also decreased by an average of 4 per cent.

Meanwhile, the Air Transport Association (ATA) reported that the average domestic (U.S.) airfare paid in November fell 4.2 per cent compared with the same period last year, while the average international airfare paid increased 1.3 per cent.

According to the latest Travel Poll by The Travel Industry of America (TIA), only 26 per cent of Americans said they have used a travel agent to book at least one business or leisure flight, hotel room, rental car, or tour in the past three years. This compares with the 32 per cent reported in 1999.

In December, 2002 Travelocity and Expedia both announced the implementation of a US$ 5 (CDN$ 7.80) booking fee on airline tickets purchased through them. While Travelocity announced the fee will apply to all tickets purchased in North America, to date Expedia is only charging the fee on its U.S website.

International overview - Overseas

United Kingdom and Ireland

In November, Ryanair posted the strongest performance among U.K. airlines in terms of passenger growth, though British Airways and EasyJet (combined with Go) carried more passengers in absolute numbers. Ryanair also reported that the proportion of tickets sold over its Internet site reached 94 per cent in November, up 5 per cent from November 2001.

Table 4. Number and Percentage change in the number of passengers

Carrier	Passenger Numbers	Nov 2003 vs. Nov 2001
EasyJet and Go	1,482,272	+38%
Ryanair	1,249,186	+43%
bmi british midland	702,178	+39%
British Airways	2,900,000	+3.5%

EasyJet reported a pre-tax profit of £71.6 million (CDN$ 180.2 million) for the financial year ending September 30th, 2002; a 78 per cent jump compared with the previous year. According to EasyJet, market demand remained strong throughout the year, but fares were down an average of 4 per cent compared to last year. Risks for 2002/03 include the threat of war, terrorist activities and the consumer environment.

Ryanair also reported positive results as its earnings climbed 71 per cent to EUR 150.9 million (CDN$ 379.8 million) for the six months ending September 30th, compared with a year earlier. As a result, Ryanair raised its full year profit expectations by EUR 30 million (CDN$ 75.5 million) to EUR 230 million (CDN$ 578.9 million). Ryanair attributed the results to an increase in passengers and lowered operating costs.

British Airways also reported strong profits. For the three months ending September 30th, pre-tax profits were £245 million (CDN$ 616.7 million) compared with £5 million (CDN$ 12.6 million) for the same quarter last year. The results were mainly attributed to cost cutting.

British airport operator, BAA, reported North Atlantic air traffic surged 21.4 per cent in November compared with a year earlier, but still remained 10.3 per cent below November 2000 levels. Of BAA's seven airports, Stansted continued to reap the benefits of low cost carriers' expansions.

According to TIA and British tour operators, in an effort to thwart the last-minute booking trend, many UK tour operators are offering major discounts for overseas packages for early bookings. Still, winter bookings are reportedly struggling despite the availability of cheap packages. Consumers appear to still prefer to keep their options open by not committing to travel purchases too far in advance. Fortunately, compared to winter, summer 2003 bookings are reportedly performing well.

The Canadian Tourism Commission (CTC) reported that direct-to-operator bookings are growing in popularity, at least according to data from U.K. tour operators. In 1990, 78 per cent of travellers purchased their package holidays via a travel agent while only 19 per cent went directly to the tour operator. In 2002, it was reported that 36 per cent of travellers had booked through a tour operator.

France

Air France Group reported pre-tax profits of EUR 113 million (CDN$ 184.8 million) for its fiscal second quarter ending September 30th, an increase of 28 per cent compared with the same period a year earlier. According to Air France, the increase was primarily due to the resilience of scheduled passenger traffic and a significant growth in cargo traffic.

The Australian Tourism Commission (ATC) released a Market Profile for French travellers that noted the French are generally last minute planners who prefer a short lead time between booking and departure. Overall, French travellers still prefer to use a retail agent to make vacation plans although, increasingly, travellers are driven by airline deals and a growing number are booking directly through airlines.

According to the Canadian Tourism Commission foreign office in France, fear of terrorism cost French tour operators EUR 5 billion (CDN$ 8.1 billion) in 2002. As well, French tour operators indicated they believe French travellers will continue the trend of taking short holidays in 2003.

Germany

Lufthansa reported a decrease of 3.8 per cent in passenger numbers from January - December 2002 compared with 2001. Available capacity was 5.2 per cent below 2001 levels and sales decreased 2.0 per cent. Still, Lufthansa saw its passenger load factor rise by 2.4 per cent compared with 2001, which is only marginally behind year 2000 results.

The Australian Tourism Commission (ATC) released a German Market Profile in which it was noted that German travellers are careful planners who seek detailed information from a range of sources. As in other markets, while the lead time for booking is extensive due to the amount of pre-planning, the trend is towards shorter lead times.

According to the German travel and tourism magazine, Fvw, price cuts continue to dominate the German tourism market for summer 2003 as tour operators attempt to generate more business. Faced with a sluggish economy, rising unemployment, falling consumer confidence, and the rapid growth of no-frills carriers, tour operators are putting pressure on hoteliers and other suppliers to reduce rates. According to the TIA, this is necessary for tour operators to survive as the German market is known to be very price-conscious and tends to choose self-organized travel when package prices rise excessively.

The CTC and Fvw report that tour operators are also using other methods to entice customers. Thomas Cook's mass-market brand, Neckermann Reisen and TUI have all launched pay for your vacation by installment options. Meanwhile, study tours operator, Studiosus, is offering travellers the chance to re-book to an alternate destination up to two weeks before departure should safety fears become an issue.

Italy

Alitalia reported an operating profit of EUR58 million (CDN$ 94.9 million) for the third quarter ending September 30th, 2002, a 5.5 per cent increase compared with the same period a year earlier. Alitalia attributed the result to the effectiveness of network restructuring as well as a drop in the price of fuel and other external costs.

Alitalia recently reduced commissions paid to travel agents to 4 per cent. Alitalia is also expected to receive EUR250 million (CDN$ 408.8 million) from KLM as compensation for KLM breaking off a joint venture with Alitalia in April 2000. However, Alitalia must pay KLM EUR100 million

(CDN$ 163.6 million) to cover the development KLM undertook at Milan Mapensa airport.

The Australian Tourism Commission (ATC) released a Market Profile for Italian travellers that notes Italian travellers are slowly moving away from the traditional August - September holiday period, although it still remains the most popular time for long haul-travel. The ATC also reported that consumers, while satisfied to conduct research over the Internet, prefer to book through their travel agent. When choosing a destination, Italians are influenced by recommendations from their relatives, though for long-haul travel, safety is also a big concern.

According to the UIC (Italian Currency Office), between January - September 2002, Italians spent 7.8 per cent more on outbound travel than during 2001. It appears Italians saved money on air travel because low-cost carriers represent 15 per cent of the Italian air travel marketplace, the highest in continental Europe.

ENIT, Italy's tourism board expected some 8 million Italians to travel domestically between December 8th and the end of 2002. More than half are expected to return to their families' hometowns with fewer travellers than normal opting to go overseas. However, in the event of a war in Iraq, the European Tour Operators Association (ETOA) reported that a 38 per cent decrease in travel abroad would occur. Tour operators contacted by the CTC concur that travellers are waiting to see what happens with regards to world politics before booking their winter trips, although those who are booking show a growing interest in snowmobiling.

The Netherlands

KLM posted a 16 per cent increase in passenger traffic during November 2002 compared with the same month a year earlier. Capacity also increased 13 per cent. KLM noted that all routes, except the mid and south Atlantic, reported increased traffic.

The Australian Tourism Commission released a Market Profile for the Netherlands in which it was noted that Dutch travellers tend to research a destination in depth prior to departure. In many instances they will purchase the air-only portion of their trip before departure and arrange the land content upon arrival at their destination.

The CTC foreign office in the Netherlands reported that winter bookings to Canada from the Netherlands are up over 60 per cent compared with last year, while summer bookings are down slightly.

For the first time, according to research by GartnerG2, Europeans, including Dutch residents, will buy more goods and services online this winter than Americans. Sectors expected to benefit from increased purchases around Christmas include travel, entertainment tickets, clothing, and toy merchandise.

Japan

All three major Japanese airlines posted mid-year revenue decreases. All Nippon Airways (ANA) reported a net loss of JPY 8.1 billion (CDN$ 106.5 million) for the period of April - September 2002, down from a JPY 16.83 billion (CDN$ 221.3 million) profit for the same period a year earlier. ANA attributed the disappointing results to price wars with rival airlines, lower corporate demand, lingering effects of the terror attacks, and Japan's prolonged economic slump.

Newly merged Japan Airlines and Japan Air System reported consolidated revenues were down 1.5 per cent for the April - September fiscal first half compared with the same period last year. International travel registered the largest declines.

Low-cost airline Skymark Airlines reported a full-year loss of JPY 1.1 billion (CDN$ 14.5 million) for the year ending October 31st despite increased sales of more than 14 per cent. Last year, losses were JPY 896 million (CDN$ 11.8 million).

According to the recently released "2nd Japanese Association of Travel Agents (JATA) Survey on Travel Market Trends", overall demand for overseas travel is showing signs of recovery. The survey was conducted from July to September with results released in December. A highlight of the survey included a sharp increase in the number of Japanese travellers visiting Canada rather than the U.S. Instead of choosing the usual sightseeing tours, an increasing number of Japanese prefer trips with a specific purpose such as studying the manners and customs of the destination country. Of all market segments surveyed, the honeymoon travel market segment showed the greatest improvement compared with the same period a year earlier. Lagging behind in recovery were the "business", "family" and "young women" travel market segments.

The CTC foreign office in Japan reported that while package tour holiday bookings are decreasing, the independent (FIT) market is growing. For suppliers, this phenomenon means more last minute bookers. Unfortunately, the CTC reported ski holidays are moving slowly due to Canada's warm winter and subsequent shortage of snow. Northern lights bookings were also reported to be slow.

Meanwhile, JATA released data showing overseas travel booked for December 2002 was 1.4 per cent higher than December 2001. Markets such as Canada and the U.S. will need more time to fully recover and it is expected that China will receive much of that increase. JTB Corp also reported increases for the holiday period. During the last period of the year and New Year's, JTB expects 33 per cent more international travellers compared with the same period a year earlier.

Korea

Korean Airlines (KAL) reported strong third quarter profits of KRW 86.5 billion (CDN$ 113.7 million), compared with a net loss of KRW 103 billion (CDN$ 135.4 million) a year earlier. The positive results were attributed to steadily increasing traffic as well as the cancellation of unprofitable domestic routes in favour of boosted capacity on more lucrative routes.

Asiana Airlines reported October 2002 revenues increased 26 per cent compared with last year to KRW 130.3 billion (CDN$ 171.2 million), mainly due to higher demand on Asian and Australian routes. Revenue passenger miles for October increased 13.7 per cent.

Both KAL and Asiana Airlines are looking for ways to alleviate the heavy burden that frequent flier miles are causing for the two airlines. It is hoped that flier miles being accepted by more hotels as well being used as payment for extra baggage and increasing the minimum mileage needed for farther routes such as Europe will encourage members to use up their accumulated flier miles as quickly as possible.

According to the Bank of Korea, overseas credit card usage by Koreans set a new record in the third quarter of 2002 by increasing 27.7 per cent compared with the same period a year earlier. During this period, the number of Koreans travelling overseas increased 14.2 per cent from last year. The average overseas trip expenditure was US$ 551 (CDN$ 861), up US $50 (CDN$ 78) from a year earlier.

Hong Kong

Cathay Pacific reported a 24 per cent increase in passenger numbers for November 2002 compared with a year ago. Capacity increased 18.5 per cent during the same period. Cathay Pacific noted business travel has yet to fully recover. Meanwhile, Dragonair reported October passenger figures rose 31 per cent compared with last year, with the bulk of that increase resulting from increases in business traffic.

According to the Travel Industry Association of America (TIA) and Pacific Asia Travel Association (PATA), travel insurance is becoming more common among Hong Kong leisure travellers, even for short-haul travel. For the 2002 holiday season, travel insurance purchases were up 10 per cent compared with last year.

According to the South China Morning Post, the tour operator industry in Hong Kong is struggling through massive lay-offs, downsizing due to poor economic conditions and a sharp fall in long-haul travel since the terrorist attacks. Major tour operators are resorting to undercutting competitors. For instance, packages that used to sell for HK$8,000 (CDN$ 1,602) can now be had for as little as HK$ 3,000 (CDN$ 601).

Taiwan

In December, China Airlines once again raised its 2003 pre-tax profit target by 31 per cent to NT$ 2.91 billion (CDN$ 131.5 million). The change was made primarily due to stronger than expected cargo business. Meanwhile EVA Airways also raised its pretax profit forecast for 2003 by another 65 per cent to NT$ 2.32 billion (CDN$ 104.8 million). This change was made primarily because of lower operating costs and interest expenses.

For the month of October, EVA Airways revenues hit a record high of NT$ 6.17 billion (CDN$ 278.8 million), up 46 per cent from October 2001. EVA Airways attributed the results to growing passenger and cargo revenues.

According to the CTC foreign office in Taiwan, while overall outbound travel increased 3 per cent from January - September 2002 compared with a year earlier, the number of Taiwanese visitors to Canada decreased 17 per cent during the same period. However, during September and October, the number of tourist visas issued climbed 60 per cent and 116 per cent respectively, corresponding to tour operators' reports of increased bookings for the fall period. Overall, suppliers report a strong leisure travel market while the business, visiting friends and relatives (VFR), and immigration travel markets have decreased.

Australia

In December, the Australian government announced new security measures that will tighten security substantially at Australian airports. Part of the new measures includes upgrading passenger and baggage screening procedures. By the end of 2004, checked bags at international and domestic terminals must be screened. Presently only carry-on baggage for departing international flights is routinely screened.

According to the Australian Financial Review and Tourism Futures, overseas business trips by Australians declined about 5 per cent in July and August compared with the same period a year earlier. The Review attributed the decline to fears related to terrorism, the weak Australian dollar and the threat of war. As well, Australian business travel is shifting from international to domestic, New Zealand or Pacific Islands destinations.

The Australian Bureau of Statistics reported outbound travel by Australians for the quarter ended June 30, 2002 increased 18.8 per cent compared with the same period a year earlier. The median length of stay during this period was also up 12.2 per cent.

In November, Qantas announced plans to invest NZ$ 550 million (CDN$ 456.8 million) for a 22.5 per cent stake in Air New Zealand as part of a wide-ranging alliance between the two carriers. The deal is subject to government approval.

New Zealand

Air New Zealand (ANZ) reported its revenue passenger kilometers (RPK) increased 13.9 per cent in October compared with a year earlier. This was on the strength of international RPKs, which rose 17.2 per cent while domestic RPK dropped 8.1 per cent.

The Canadian Tourism Commission foreign office in New Zealand reported New Zealanders on their way to Europe are increasingly using Canada as a stopover destination. Since Canada is perceived as a safe location, it is chosen as an alternative to Asia and the U.S.

According to the Australian Financial Review and Tourism Futures, overseas business trips by New Zealanders declined about 8.5 per cent for the first nine months of 2002 compared with the same period a year earlier.

The Australian Tourism Commission reported New Zealand's travel industry is dynamic and fiercely competitive. As a result the consumers have become savvier and expect deals, discounts and value add-ons as standard items when booking. With younger generations, there is a trend towards direct bookings, particularly in established getaway destinations.

Economic Overview

North America

The North American economy has been resilient over the last year. Despite sliding stock markets, consumers have been confident enough to keep the economy afloat. Canada has been decidedly stronger than the U.S. In 2002, employment growth in Canada should be the strongest it has been in nine years. This strong employment growth and slowly shrinking unemployment rate is supporting solid (real) income gains. The momentum of these gains bode well for Canada in 2003.

The U.S. economy has done less well. Personal consumption has been satisfactory but business investment stood still in 2002. Fortunately, U.S. stock markets began recovering in the latter half of

2002 and should continue to improve in 2003. Assuming a positive resolution to the situation in Iraq, U.S. business investment should recover in 2003.

Europe

European economies struggled in 2002. Both business and consumer confidence have been lackluster. In 2002, continental European stock markets were hit harder than North American ones, hurting business investment and employment. According to Consensus Economics survey participants - including over 30 major banks and consulting companies - the outlook for 2003 is increasingly uncertain. Yet, following a dismal 2002, the consensus does suggest modest real economic growth of 1.5 per cent for 2003.

In the U.K., growth in consumption and government spending is supporting the economy. During 2003, real GDP growth should pick-up in line with a rebound in growth in the United States, the UK's largest trading partner. Meanwhile, the French economy has turned the corner and is beginning a modest recovery as the prospects of tax cuts are lifting income expectations. Unfortunately, the German economy continues to be hurt by declining confidence among businesses, poor labour market conditions and a weak global recovery.

Asia-Pacific

The terrorist attack in Bali has had a profound affect on the economic outlook for Indonesia. It will also weigh on prospects for neighboring countries in South East Asia. While the South Korean economy has been relatively strong, the growing uncertainty concerning North Korea's nuclear program is hurting their outlook in 2003.

With the rest of Asia reeling, the forecast for the Japanese economy does not look much better. Consumers and businesses remain cautious and there are not many, if any reasons for their moods to change. Following a dismal performance in 2002, the consensus is that the economy should increase by a mild 0.4 per cent in 2003. The government is considering devaluing the yen, in an effort to stimulate exports and revive their weak economy.

Opportunities

While investment in Internet technology can be expensive, it is becoming imperative as travellers' use of the Internet continues to increase, particularly for booking purposes. In 2002, according to TIA, over 39 million people actually booked travel using the Internet, up 25 per cent from a year earlier. Conversely, other more traditional ways to plan and book trips, such as calls or visits to travel agents or travel companies declined. According to the TIA, travellers using the Internet value its enhanced accessibility of last minute specials and perceived low prices. Airline tickets continued to be the most frequently purchased travel product, followed by accommodations and then rental cars. However, purchases of travel packages increased by 8 per cent and now represent 21 per cent of all online travel purchases.

According to a study by Orbiscom, a key to increasing online sales is to use more substitute card number technology or other technology that protects consumers' credit card numbers. The study revealed that when substitute card technology is used (whereby a unique card number for each online purchase is generated so the actual credit card number is never revealed), online shoppers spend two to four times more. A survey done in the U.S. by NFO Plog and Forrester Research backs up these findings, as nearly 80 per cent of respondents stated they still do not trust that their personal information-including credit card numbers-will be protected from access by other parties.

Leisure travel may still be experiencing a stronger recovery than business travel, but suppliers need to choose their leisure travel niches carefully. IPK International released data predicting how the family travel market will change dramatically in the next two decades due to evolving demographics. In 2001, Europeans took 4 per cent less family trips than they did in 2000, the first decline since the Gulf War. As the overall population ages in Europe and North America, it is expected that this trend will continue.

Consumers continue to seek and demand value from tourism suppliers. Hotels, particularly, need to consider introducing programs that reassure corporate buyers that their negotiated rates are not being undercut. Without that assurance, it is difficult for hotels to retain their share of corporate account room nights as buyers become irate at negotiated rates that exceed market rates. Hotels such as the Marriott, have begun adjusting corporate rates based on market conditions. When market conditions are lower than the negotiated rate, the traveller is billed a lower rate. Market rates are determined by a nightly computer check. Hotels need to develop consumer trust because buyers admit it is difficult to verify if discounts should be applicable.

Summary

With a potential war on the horizon and lingering economic uncertainty causing travellers to wait longer than usual to book, suppliers are becoming creative in their methods to get travellers to book early in order to minimize their financial risk. Successful tactics include offering incentives such as price guarantees, financing options or providing alternate destinations as needed.

Travellers worldwide are shifting towards trips to domestic or neighbouring destinations that are perceived safe and where the use of an automobile is feasible. This is in part due to a reluctance to face the hassles of air travel, which is expected to get worse in the U.S. and many other countries in 2003. War or further terrorist acts will only increase the inconvenience of air travel and increase the incidence of last minute, short-haul car trips for both leisure and business travellers.

For Canada, this translates into more domestic auto travel in the short term. According to the latest Travel Intentions Survey by the Canadian Tourism Research Institute and advance booking from the Canadian Tourism Commission's Business Outlook, Canada can expect a shift from Canadians taking outbound trips to taking domestic trips for the first half of 2003. This should result in even stronger growth compared with last year. U.S. travel to Canada is also expected to fare well if world political tensions rise and U.S. travellers seek perceived safe countries such as Canada.

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