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## CTC Tourism Intelligence Bulletin – Issue 15: July 2003

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

# Lagging Economic Growth Hinders Full Recovery

## Executive Summary

- After all the negative SARS media coverage, the Canadian tourism industry now appears eager to present the world with much more tourism-friendly images of Canada. The recent June 21st SARS benefit concert in Toronto and the upcoming star-studded concert event, headlined by the Rolling Stones are sure to gain positive world-wide media attention. While most agree that the SARS benefit concerts themselves will not be sufficient to offset the tourism losses attributed to SARS, it is encouraging to see promotional efforts aimed at events that can demand a global audience.
- While North American travel intentions remain upbeat as the industry heads into the summer season, lingering economic and geopolitical concerns are prompting leisure travellers to stay close to home. This summer, perhaps even more so than last year, the bread and butter market for many Canadian travel suppliers will be that of domestic travel. Fortunately, those suppliers covered in the expanded domestic product offerings of the travel trade are well poised to succeed in this environment.
- Unfortunately, economic challenges are expected to intensify for Canadian travellers this summer. While the U.S. economy has recently started showing signs of improvement, the opposite is taking place within the Canadian economy. The appreciating dollar is not only taking a toll on economic growth but is also making some international destinations more financially appealing.

## Emerging Trends and Issues - Thriftier Traveller Attitudes Influence Tourism Recovery

- As economic uncertainty lingers, cost consciousness among travellers is causing travel trends to sway further away from traditional patterns into a new paradigm of thriftiness that is not likely to change anytime soon. In fact, the current corporate climate of budget restraints and concerns about profitability is a significant driver of this move towards less extravagant modes of travel. Executives want to show that they are practising what they preach by downgrading their travel options from the luxurious levels that once were the norm.
- In this era of corporate cost cutting, low-cost carriers are reaping the benefits of the thriftier travel market. In fact, the competition among discount airlines has become so fierce that many are distinguishing their brand by offering passengers the types of amenities previously found only on major carriers. And while discount carriers are boosting their in-flight amenities, many major airlines are cutting back on free services in a desperate attempt to cut operational costs. The lines between no-frills and traditional air travel have blurred so much that some industry experts believe that first-class service is on a permanent decline.

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## Consumer (Traveller) Overview

- On both sides of the border, economic uncertainty continues to impact decisions for business travellers. Pent-up demand for business travel remains steadfast. However, concerns about the economy are driving corporations to further tighten travel budgets. According to a recent survey by Accenture of 1,600 Canadian and U.S. business travellers, 81 per cent of respondents expected their business travel to increase or remain the same over the next six months. However, the vast majority of travellers will use low-cost carriers and mid-range or budget-priced hotels. When Canadian respondents were asked what factors will affect corporate travel plans over the next six months, the largest group (42%) selected the economy, while much smaller groups chose geopolitical issues and health concerns, including SARS (16% and 18% respectively).
- According to a recent Ipsos-Reid survey conducted for MasterCard Canada, four out of ten Canadians polled (42%) will take a summer vacation this year, with most of these travellers (80%) choosing a Canadian destination. Recent survey data from Travelocity.ca also suggest strong Canadian travel intentions this summer. The May poll of members indicated that 79 per cent of its members expect to travel this summer, up from 77 per cent last year. Meanwhile, in the U.S., travel intentions continue to improve. Results from the fourth wave of the Travel Industry Association of America's (TIA) War Impact Survey indicated that 80 per cent of respondents intend to take at least one leisure trip this summer. Of those not travelling, economic concerns (34%) and lack of time (30%) were still the primary reasons to not take a trip. According to the TIA, travel safety, terrorism and SARS were rarely mentioned by respondents as reasons not to travel.

## Travel Supplier Overview

- Air Canada's May revenue was down more than \$200 million compared to May 2002, indicating that the SARS outbreak continues to significantly impact on the airline's performance. President and CEO Robert Milton said that he expects a comparable shortfall in June, with no meaningful recovery until the fourth quarter of 2004. The airline is predicting a 2003 year-over-year revenue shortfall of more than \$1 billion. After bottoming out in March and April, passenger traffic displayed a modest increase in May, perhaps indicating a slight turnaround in the airline industry. In fact, many airlines reported that advance bookings are beginning to rally and revenues are starting to move in an upward direction.
- According to a report by KPMG commissioned by The Hotel Association of Canada, Toronto's tourism industry lost approximately \$190 million in tourism expenditures as a result of the SARS outbreak for the eight weeks commencing April 6th, 2003. The report estimates that the accommodation sector accounted for the largest portion of this loss, approximately 38%, or \$70 million. The report also states that the biggest revenue shortfalls for tourism businesses came in the month of April.
- According to IATA's Bank Settlement Plan (BSP), the average cost of domestic air travel for Canadians decreased 14 per cent in May compared with a year earlier. It was also reported that the average international airfare to both U.S. and non-U.S. destinations fell 12 per cent over the same period. Meanwhile, in the U.S., the Air Transport Association (ATA) reported that domestic (U.S.) airfares dropped 4.3 per cent in May, compared with last year, but international airfares rose 3.8 per cent.

## Economic Overview

- Growth forecasts for the Canadian economy this year have been revised, predicting slower economic growth—due in part to weaker employment growth and retail sales. The appreciation of the Canadian dollar, particularly against the U.S. currency, is hurting Canadian exports. While the Conference Board of Canada expects the dollar to stabilize at around 70 cents (U.S.) by the end of this year, stronger growth in the U.S. economy should provide a lift for the Canadian economy later this year and into 2004.
- Meanwhile, the outlook for Europe's major economies remains gloomy. Confidence is still down as unemployment increases. Aggravating matters is the appreciation of the euro versus the U.S. dollar. The appreciation is hurting eurozone exports. The silver lining is that these hard times are making structural changes among European economies easier to swallow. Politicians across the eurozone are pushing deregulation from labour markets to investments. According to Consensus Forecasts, the eurozone economies will grow by an average of 1 per cent this year and 2 per cent in 2004. Fortunately, the United Kingdom economy is expected to perform slightly better.

*Lagging Economic Growth Hinders Full Recovery*

- The economies of Southeast Asia are expected to rebound following a drop in domestic consumption in the second quarter. The SARS epidemic kept shoppers across the region from frequenting crowded shopping areas. The good news is that Beijing and Hong Kong are now (late June) both off of WHO's travel blacklist. Meanwhile, the Australian economy has been hurt by drought and a 20 per cent appreciation of its dollar versus the U.S. dollar. Nevertheless, Australia's economy remains solid and should post a growth of 3 per cent this year and 3.6 per cent in 2004. Unfortunately, Japan's economy remains lacklustre and is only expected to expand by 0.8 per cent this year and next. While this is far from ideal, it does represent a slight improvement compared with the growth recorded over the past few years.

**Opportunities**

- Results of a recent survey by Global Sources Ltd., a magazine and web site geared towards world-wide trade, indicate that half of the global volume buyers it polled were eager to resume travelling to countries previously affected by SARS, once the World Health Organization (WHO) rescinded its travel bans. According to survey results, 50 per cent of the buyers polled were prepared to resume business travel to SARS-affected countries within one month of the removal of WHO travel advisories to those areas.
- According to the MPI Foundation/George P. Johnson Event Trends Report for 2003, compared with 2002, 47 per cent of North American companies will increase their use of events, such as tradeshow and seminars, as a marketing medium this year. Among the companies surveyed, return of investment (ROI) was cited as a major factor in spending decisions for such events. In fact, 51 per cent of respondents who experienced successful ROI confirmed they would increase event budgets. Some of the industries that are expected to witness a sharp increase in the number of major events planned for 2003 include the automotive sector (47 events this year versus 18 in 2002) and the healthcare sector (41 events in 2003 versus 18 last year).

**In Brief**

After all the negative SARS media coverage, the Canadian tourism industry now appears eager to present the world with much more tourism-friendly images of Canada. Building on the recent June 21st SARS benefit concert in Toronto, the financial commitments are now in place to have the Rolling Stones headline a star-studded SARS benefit concert on July 30th that is sure to gain world-wide media attention. While most agree that the SARS benefit concerts themselves will not be sufficient to offset the tourism losses attributed to SARS, it is encouraging to see promotional efforts aimed at events that can demand a global audience.

While North American travel intentions remain upbeat as the industry heads into the summer season, lingering economic and geopolitical concerns are prompting leisure travellers to stay close to home. This summer, perhaps even more so than last year, the bread and butter market for many Canadian travel suppliers will be that of domestic travel. Fortunately, those suppliers covered in the expanded domestic product offerings of the travel trade are well poised to succeed in this environment. While many in the industry eagerly await the return of the high-yield overseas travellers, prudent operators will recognize the opportunity to capitalize on the domestic market this summer and even further down the road.

Unfortunately, economic challenges are expected to intensify for Canadian leisure travellers this summer. While the U.S. economy has recently started showing signs of improvement, the opposite is taking place within the Canadian economy. The appreciating dollar is not only taking a toll on economic growth but it is also making some international destinations, particularly the U.S., financially more appealing.

On both sides of the border, economic uncertainty continues to impact travel decisions for business travellers. Pent-up demand for business travel remains steadfast. However, concerns about the economy are driving corporations to further tighten travel budgets, thus reinforcing a change in traditional travel patterns that is looking more and more permanent.

## Emerging Trends and Issues

### **Thrifter Traveller Attitudes Influence Tourism Recovery**

Business and leisure travel may be on a modest rebound, but consumer concerns about the economy continue to cast a shadow over the recovery efforts of the battle-worn tourism industry. As economic uncertainty lingers, cost consciousness among travellers is causing travel trends to sway further away from traditional patterns into a new paradigm of thriftiness that is not likely to change anytime soon.

This attitude was very apparent in Accenture's May survey of Canadian companies on their business travel intentions. While four out of five respondents expect their business travel to increase or remain the same over the next six months, the vast majority of Canadian business travellers will use mid-range or budget hotels (90%) and low-cost carriers (62%) during this period. Almost two-thirds of those polled reported that their company had implemented more restrictive travel policies for their employees, including limiting the use of business or first-class air travel and luxury hotels.

In fact, the current corporate climate of budget restraints and concerns about profitability is a significant driver of this move towards less extravagant modes of travel. Executives want to show that they are practicing what they preach by downgrading their travel options from the luxurious levels that once were the norm.

### **Low-Cost Carriers Thrive in an Arid Environment**

In this era of corporate cost cutting, low-cost carriers are reaping the benefits of the thrifter travel market. Since airfare makes up the largest proportion of travel expenditures, it makes sense that air travel would be an expense travel planners are most driven to reduce. While major airlines around the world continue to suffer through crippling financial losses and diminished passenger traffic, the smaller, more agile low-fare airlines have thrived, structured to offer short-haul domestic flights at a fraction of the cost.

In fact, competition among discount airlines has become so fierce that many are distinguishing their brand by offering passengers the types of amenities previously found only on major carriers. JetBlue, for example, offers in-flight entertainment via digital screens mounted on the back of the seats, offering 24 channels of live television to passengers for free. Song, Delta Air Lines' low-cost subsidiary, will install a similar audio-video entertainment system on their aircraft this fall. AirTran, another U.S. discount carrier, offers a U.S. \$35 (CDN \$46.74) "business-class upgrade" option to its passengers, which includes more leg room and leather seats, as well as free alcoholic beverages and snacks.

And while discount carriers are boosting their in-flight amenities, many major airlines are cutting back on free services in a desperate attempt to cut operational costs. US Airways and America West recently stopped providing free meals to its passengers, a concept that Delta, United and Northwest Airlines are mulling over as well. The lines between no-frills and traditional air travel have blurred so much that some industry experts believe that first-class service is on a permanent decline. Due to lack of demand, British Airways, a long-time bastion of luxury travel, recently announced that they would remove first-class seating from some of their aircraft.

The race among airlines to win and maintain clientele through loyalty programs has also intensified. United Airlines launched a "buy three (business-fare flights) get one free" promotion in June, which was quickly matched by six other major airlines across the U.S.

### **Hotels cultivate client loyalty**

"Frequent-user" loyalty programs are proliferating within the hotel sector as well, in its up-hill battle to stimulate business. With room rates for many hotel chains at rock-bottom prices, cultivating the loyalty of regular clients has become the top priority for many lodging companies. For example, Choice Hotels Canada launched its Choice Club Plus program that rewards frequent clients with free hotel stays and gift certificates for partner companies like Sears, Esso and VIA Rail. The company recognized that it had to boost its calibre of client rewards beyond well-established freebies like room and meal upgrades in order to maintain its share within this very competitive market.

## Lagging Economic Growth Hinders Full Recovery

The good news for travel suppliers is that spending on air travel and hotel accommodations is expected to increase over the next year. However, low-cost carriers and mid-range hotels are likely to benefit the most from this spending hike, as economic pressures continue to encourage thrifty attitudes.

## Consumer overview - Canada and the United States

### Business Travellers

Business travel is finally showing signs of growth, according to a June survey of 1,600 Canadian and U.S. business travellers by Accenture, a management consulting and technology services firm. Of those polled, 81% per cent expected their business travel to increase or remain the same over the next six months. The survey also suggested that the economy is having a greater impact on business travel plans than are geopolitical or health concerns. When Canadian respondents were asked what factors would affect corporate travel plans over the next six months, the largest group (42%) selected the economy, while much smaller groups chose geopolitical issues and health concerns, including SARS (16% and 18% respectively).

The survey further suggested that price remains a high concern for business travellers. Of Canadian respondents, 62 per cent said they have used low-cost carriers for business trips in the last six months. Of that group, 70 per cent indicated that their use of low-cost carriers would increase (29%) or stay the same (41%). The vast majority of Canadian respondents (90%) expected to use mid-range or budget priced hotels for business trips in the next six months, and only 4 per cent said that they would stay in luxury chain or boutique hotels. Approximately two-thirds of those polled reported that their company had implemented more restrictive travel policies for their employees, including limiting the use of business or first-class air travel and luxury hotels.

Fortunately, the outlook for business travel spending in 2004 appears more promising. In its annual report, *Survey and Analysis of Business Travel Policies & Costs*, Runzheimer International expects companies will increase their travel budgets by an average of 6.5 per cent next year. Air travel spending is expected to rise by 10 per cent and hotel spending by a more modest 5 per cent, although the report indicates that low-cost airlines and mid-range hotels will benefit the most from this increase.

This drive towards cost cutting has prompted more and more corporations to book their business travel arrangements on-line. In its 2003 Annual GetThere Corporate Benchmark Survey, involving more than 100 global corporations, GetThere reported that on-line bookings accounted for more than half (53%) of the total booking made by survey respondents. According to GetThere, this is the first time in its annual survey that business travel bookings made on-line have outnumbered those made by telephone, now making it the primary method of booking corporate travel.

For the third year in a row, companies reported significant cost savings as the main reason for increasing their on-line bookings. In the 2003 survey, 95 per cent of the respondents reported average savings of 15 per cent on airfares booked on-line, and more than 80 per cent reported average savings of 46 per cent on agency fees.

### Leisure Travellers

Travel intentions continue to look promising for the summer season, although more travellers are staying closer to home. According to a recent Ipsos-Reid survey conducted for MasterCard Canada, four out of ten Canadians polled (42%) will take a vacation this summer between June and September. Of these vacationers, most (40%) will take a one week holiday while one quarter (27%) will take two weeks. The survey also reports that eighty per cent of these travellers will stay in Canada for their vacation, spending an average of \$1,983 per trip.

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Travelocity.ca suggests that Canadian travel intentions for summer 2003 are up from last year's season. A May travel poll indicated that 79 per cent of its members expect to travel this summer, up from 77 per cent last year. Of those not travelling this summer, the largest group (31.2%) have just returned from a trip, or are planning to travel later in the year. One out of five respondents choosing not to take a vacation cited the high cost of travelling as the main reason for not taking a trip.

In the U.S., travel intentions continue to improve. Results from the fourth wave of the Travel Industry Association of America's (TIA) War Impact Survey indicated that 80 per cent of respondents intend to take at least one leisure trip this summer. Of those not travelling, economic concerns (34%) and lack of time (30%) were still the primary reasons why that group will not take a trip. According to the TIA, respondents rarely mentioned travel safety, terrorism and SARS as reasons not to travel.

In fact, AAA estimated that 37.4 million Americans will travel on the July Fourth weekend, 2 per cent more than last year's, representing the greatest number of travellers for that holiday in nine years. Compared with 2002, 2 per cent more are expected to travel by car while 2 per cent less will travel by air. Once again, these findings suggest that more travellers plan to stay closer to home. Priceline.com reported its 50 top destinations booked for the July Fourth weekend, listing Chicago and Orlando's Disney World as first and second choices. Canadian cities appearing on the list were Vancouver (#9), Montreal (#18), and downtown Toronto (#38).

The continuing trend of choosing destinations closer to home was reinforced by a poll released in June by Yesawich, Pepperdine, Brown and Russell. Results of this survey indicated that forty per cent of American leisure travellers expected to take at least one vacation with children this summer. Of those travellers, 13 per cent will take their vacation outside of the United States, although over half of the respondents (54%) indicated that, compared to last year, they were less likely to choose a destination outside of their country this summer. Only three out of ten American leisure travellers said that they expect to spend more this year than last on their summer vacation.

Statistics Canada released April visitor numbers in June, indicating that overnight travel to Canada during April plunged 16.3 per cent, compared to last April. Overnight U.S. travel was down even further in April, by 17.7 per cent, marking a third consecutive monthly decrease in the number of U.S. visitors. The magnitude of the decrease in international arrivals may not be that surprising considering April was the month the World Health Organization announced its devastating travel advisory against Toronto. On a more positive note, European visits to Canada during April were up 1.5 per cent, compared with last year, buoyed by a 17.1 per cent increase of U.K. travellers.

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

### **Airlines - Canada**

Air Canada's May revenue was down more than \$200 million compared to May 2002. President and CEO Robert Milton said that he expects a comparable shortfall in June, with no meaningful recovery until the fourth quarter of 2004. The airline is predicting a 2003 year-over-year revenue shortfall of more than \$1 billion. Milton added that the devastating effects of the SARS epidemic were continuing to impact the airline's Asian network as well as its main hub in Toronto.

In May, Air Canada's revenue passenger miles (RPMs) decreased by 26.4 per cent compared with May 2002 as capacity fell 21.5 per cent. As a result, its load factor also suffered a 4.8 point drop to 71.6 per cent. Meanwhile, Jazz, Air Canada's regional airline subsidiary, experienced a 9.5 per cent drop in RPMs for the month of May compared with last year, while its capacity decreased 18.1 per cent. This resulted in a 5.8 point increase in load factor, to 60.6 per cent.

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In late May and early June, Air Canada took significant steps forward in its plan to slash \$770 million from its labour costs when it reached agreements with several of its unions and further shaved its workforce. In accordance with the airline's restructuring under the Companies' Creditors Arrangement Act, the airline inked agreements with almost all of its unions, thus avoiding a court order to shut down its operations. However, the planned layoffs include 2,000 flight attendants, 1,400 technical and ground service personnel, 800 customer service agents, and 317 pilots. According to union officials, the airline's goal was to reduce its 39,000-member workforce by 10,700.

Meanwhile, WestJet reported that its RPMs rose by 43.4% in May compared with the same month last year. The carrier's load factor for May was 72.2 per cent, 2.9 points down from the same period a year ago.

Transat A.T. Inc. announced a net profit of \$15.4 million for its second quarter operating results, a level virtually unchanged from the same period in 2002. Meanwhile, gross revenues were 15 per cent higher than those of the corresponding period last year. President and CEO Jean-Marc Eustache stated in the company's press release that SARS was continuing to have a negative impact on Air Transat's summer bookings, particularly with respect to its French market. However, he noted that overall fourth-quarter bookings were shifting upwards.

For the month of May, Jetsgo reported a 76.3 per cent load factor, up from 72.6 per cent in April. This figure included almost 3,000 free return trips to Toronto that Jetsgo gave away during that period as part of a Toronto tourism promotion. However, despite those free trips, Jetsgo would still have registered a load factor of 74.9 per cent. The year-old low-cost carrier marked its first anniversary in June by announcing plans to expand its fleet by 50 per cent, up to a total of 12 aircraft.

**Airlines - U.S.**

After bottoming out in March and April, passenger traffic displayed a modest increase in May, perhaps indicating a slight turnaround in the airline industry. Airlines reported that advance bookings are beginning to rally and revenues are starting to move in an upward direction.

For example, although Continental Airlines' revenue passenger miles (RPMs) fell by 6.3 per cent in May over the same period last year, its estimated revenue per available seat mile rose at least one per cent, the first increase since January. US Airways also estimated that its revenue per available seat mile climbed very slightly, from 1 to 1.5 per cent, even though it registered an almost 12 per cent drop in RPMs for the same period over last year.

For the month of May, the ATA reported Revenue Passenger Miles fell 6.4 per cent compared with a year earlier. In the first week of May, trans-Pacific flights were down 36.6 per cent and trans-Atlantic flights were down 16.9 per cent compared with the same week in 2002.

United Airlines filed its April Monthly Operating Report at the end of May, reporting a net loss of US\$375 million (CDN\$509.9 million) for the month of April. The SARS epidemic and the war in Iraq had the greatest financial impact on the airline during that time period, resulting in a higher loss than the one registered in March. However, despite the huge deficit, the airline met the financial targets set by its lenders, who are overseeing the carrier's restructuring while it is under bankruptcy protection.

Delta announced details of a US\$2.5 billion (CDN\$3.4 billion) cost-saving program it will implement to cut non-fuel unit costs by 15 per cent by the end of 2005. Sixteen separate initiatives were revealed including decreasing the salaries of cockpit crew, eliminating raises, restructuring schedules and expanding its low-fare operation, Song.

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

Airline	RPM; May 2003 vs. May 2002	Capacity; May 2003 vs. May 2002
American Airlines	-4.8%	-10.1%
ATA Airlines	+31.1%	+33.1%
Continental Airlines	-6.3%	-9.2%
Delta Air Lines	-9.4%	-12.5%
JetBlue Airways	+74.1%	+69.3%
Northwest Airlines	-12.8%	-8.9%
Southwest Airlines	+3.2%	+3.9%
United Airlines	-13.8	-18.3%
US Airways	-11.7%	-11.8%

### Hotels - Canada

According to a report by KPMG commissioned by The Hotel Association of Canada, Toronto's tourism industry lost approximately \$190 million in tourism expenditures as a result of the SARS outbreak for the eight weeks commencing April 6th, 2003. The report estimates that the accommodation sector accounted for the largest portion of this loss, approximately 38 per cent, or \$70 million. The greatest declines came in the month of April when expenditures fell 45 per cent compared to the previous year, representing a loss of \$97 million. Vancouver tourism was the second-hardest hit market, with an estimated loss of \$39.4 million during the month of April, a 22.1 per cent drop from a year earlier.

In addition, Pannel Kerr Forster Consulting Inc. (PKF) reported that the average daily room rate for Canadian hotels decreased in April by 3.6 per cent to \$104.67 compared to last year.

### Hotels - U.S.

According to Smith Travel Research, the occupancy rate for the month of April declined 4.1 percentage points to 59 per cent, compared with April 2002. As well, it was reported that the average daily rate decreased 2 per cent to US \$83.22 (CDN \$113.14) and revenue per available room (RevPAR) decreased 6 per cent to US \$49.07 (CDN \$66.71).

PricewaterhouseCoopers also forecasted that RevPAR will continue its downturn trend through this year. While they expect RevPAR will grow 1.3 per cent in the second half of 2003, it will still not be enough of a gain to offset the 2.1 per cent decrease witnessed in the first six months of this year. Overall, RevPAR for 2003 is expected to be down 0.4 per cent compared to 2002. This will be the first time that RevPAR has decreased for 3 consecutive years since the early sixties, when the U.S. hotel industry experienced RevPAR declines from 1961 to 1963.

### 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 14 per cent in May 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 12 per cent.

In the U.S., the Airline Reporting Corporation (ARC) reported total sales by travel agencies in May were 7 per cent below May 2002 results. The Air Transport Association (ATA) reported that the average domestic (U.S.) airfare paid in May dropped 4.3 per cent compared with last year. Meanwhile, international airfares increased by 3.8 per cent.

According to the most recent AAA Travel Barometer (May 26-June 1), overall travel bookings have returned to 2002 levels. While the latest Travel Barometer indicates that tour packages are tracking 12 per cent higher than last year, hotel bookings are still 9 per cent lower.



## International overview - Overseas

### United Kingdom and Ireland

Despite the devastating blow dealt by SARS to the world airline industry this spring, flights to and from the UK continue to grow steadily. According to the third OAG Quarterly Report on global airline schedules, flights in early June increased by 4 per cent compared with the same time period in 2002. The OAG attributes this increase to "healthy growth in the low-cost sector" with no-frills flights to and from the UK up by 36 per cent.

Irish low-cost carrier Ryanair posted a net profit of EUR239.4 million (CDN\$374.5 million) for its financial year ending March 31, 2003, up 59 per cent from the previous year. However, the carrier's average fare dropped by 6 per cent over the same period, resulting partially from the growing strength of the Euro over British sterling and US dollars. For its last fiscal year, Ryanair states that passenger numbers rose by 42 per cent to 15.7 million. The airline attributes much of its success to the consistent maintenance of the lowest airfares and the lowest costs of any European airline.

EasyJet lost its title to Ryanair in June as Europe's largest low-cost carrier when it announced May passenger numbers of 1.75 million, 70,000 less than Ryanair. Still, this figure represents an increase of almost 96 per cent compared with May 2002, mostly because of acquisitions made in the last year.

British Airways (BA) registered a much more modest 2.1 per cent overall increase in passenger traffic in May, compared to the same month in 2002. However, BA noted a 7.7 per cent increase in traffic on North American routes, and a 4 per cent increase on European routes over the same period last year. BA attributed the increase to post-war pent-up demand and promotional campaigns but warned that airfares continued to receive strong pressure from price discounting.

**Table 2. Percentage change in passenger numbers**

Carrier	May 2003 vs. May 2002
British Airways	+2.1%
EasyJet	+96%
Ryanair	+53%

Meanwhile, in an attempt to reduce costs by £100 million (CDN \$226 million), British Midland (BMI), Britain's second largest full service airline, announced in June that it plans to lay off a third of its workforce, up to 1,500 workers, through natural attrition over the next four years. BMI further warned travel agents that the company aims to reduce its sales and distribution costs and increase internet bookings.

According to a recent survey commissioned by YouGov on behalf of KPMG, the strong Euro and safety concerns about travelling overseas will likely keep more British travellers in the UK this summer. While 66 per cent of British leisure travellers were not altering their summer travel plans because of the SARS epidemic, fears about terrorism or their own job security, almost half believed that taking a foreign trip was more risky than a UK holiday. The survey also indicated that only one in seven summer travellers (14%) planned to book their vacation through a travel agent, with 50 per cent opting to make their own bookings.

Despite the apparent departure from making holiday arrangements through travel agents, the Association of British Travel Agents announced that bookings for summer travel rose 16 per cent across the industry in May, compared with May 2002. Total summer bookings for 2003 are already 5 per cent higher than 2002, at which time bookings were down 6 per cent from 2001.

First Choice Holidays PLC released its half-year results for the period ending April 30, 2003. The tour operator reduced its losses over last year's first two quarters by 11 per cent, bringing its pre-tax deficit down to £44.1 million (CDN \$99.7 million). First Choice attributed part of its loss reduction to a turnaround of its Canadian operations, which saw a profit of £4.1 million (CDN \$9.3 million).

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According to the Australian Tourist Commission's latest U.K. Market Report, the lull in long-haul bookings and enquiries continued through the beginning of May, with many travellers choosing to postpone, re-route or cancel trips because of the SARS outbreak and geopolitical concerns. However, as the month progressed, tour operators reported a steady increase in call volume and bookings.

**France**

Air France reported that passenger traffic dropped 8.9 per cent in May compared with a year earlier, partially because of a two-day strike by air traffic controllers and the continuing effects of the SARS epidemic. According to the airline, the strike itself accounted for 1.4 per cent of the overall decline in traffic, and severely impacted medium-haul international and domestic traffic. France's airline industry was affected by two more public sector strikes in early June, although the disruptions to air service were not as serious.

Air France ended its commercial Concorde service on May 31, when the last New York-Paris flight touched down at Charles de Gaulle airport, marking the end of an era in luxury travel. Air France decided to retire the aircraft earlier this year as demand dwindled and losses mounted. British Airways will retire its seven Concorde aircraft in October.

According to the Australian Tourist Commission's (ATC) latest France Market Report, concerns about SARS and perceived security threats continued to significantly affect bookings to Canada and the U.S. throughout the month of May. ATC cited a Europ Assistance survey by Ifop, a global market research firm, which indicated that 65 per cent of French people intend to take a holiday this summer (8% less than last year), but only 16 per cent of these travellers will take their trip outside of Europe. More than half of the respondents (59%) said that the SARS situation had affected their travel plans and 41 per cent indicated that their plans had been impinged by the Iraqi conflict.

**Germany**

Lufthansa announced an increase in passenger traffic in May, declaring that the decline in demand as a result of the Iraq war and SARS had stabilized, at least with respect to passenger numbers. Overall, the airline carried 3.8 million passengers in May, an increase of 0.1 per cent over the same month in 2002. Lufthansa said that it was able to increase passenger traffic in all regions except Asia/Pacific, where air travel remains severely impacted by SARS.

This fall, Lufthansa will turn its attention towards improving its corporate travel market by offering upgraded Business Class services, including new sleeper seats. The airline also announced plans to invest EUR30 million (CDN \$47 million) into future premium-class upgrades, such as on-board internet access and better designed transfer lounges with wireless LAN technology.

German-based TUI Group, the largest tour operator in Europe, announced that its summer bookings shortfall was turning around, moving up from a 15.2 per cent shortfall in May to 10.7 per cent below last year's bookings in June. Since the late-booking trend is expected to continue into the summer season, TUI expects its booking recovery to be ongoing.

According to the Australian Tourist Commission's (ATC) latest Germany Market Report, there was a noticeable decrease in SARS media coverage during the month of May, and tour operators experienced a steady increase of bookings for summer trips. However, overall bookings remain below last year's levels as a consequence of the slow economy, concerns about SARS and the lingering effects of the conflict in Iraq.

The ATC cited a recent survey by EMNID, indicating that 64 per cent of German people are planning to take a leisure trip this summer, although 41 per cent of these travellers will stay within their own country. International destinations will account for approximately 14 per cent of summer trips taken by German travellers. According to figures released by DRV (German Travel Agents and Tour Operators Association), the percentage of German consumers booking travel arrangements within eight weeks of departure has increased to 60 per cent.

*Lagging Economic Growth Hinders Full Recovery***Italy**

In mid-June, Alitalia announced plans to sell 80 per cent of its charter subsidiary, Eurofly, in a continuing attempt to cut operational costs. The carrier also suffered through strike action in early June as cabin crews protested against the airline's planned workforce reductions. The wildcat strikes forced Alitalia to cancel approximately 200 domestic and international flights.

The Canadian Tourism Commission's (CTC) foreign office in Italy reported that SARS has taken a huge toll on the travel industry there, fuelled by heavy media coverage of the outbreak. ASTOI, an association of Italian tour operators, estimated that the effects of SARS were responsible for its members losing EUR 33.1 million (CDN \$51.8 million) through the months of March and April. Losses through May and June are expected to bring the total to EUR 67 million (CDN \$104.8 million).

The Australian Tourist Commission reported in its latest Italy Market Report that fears about the SARS epidemic continued to impact Italian travel intentions throughout the month of May. Tour operators expected that Italians would focus their summer travel plans on domestic locations and destinations perceived as safe, although many consumers had not yet made up their minds as to where to go. According to a survey by Touring Club Italiano, 4.5 million Italians will travel internationally this summer, down from 4.8 million in 2002, and most trips will be to countries close to Italy, such as France and Spain.

**The Netherlands**

KLM announced that it flew 4.25 billion RPKs in May, a decrease of 10 per cent compared to the same period last year. The airline's overall capacity was down by 5 per cent, and load factors (i.e. the percentage of filled seats) dropped 3.5 points to 73.7 per cent. The airline's Chief Executive, Leo van Wijk, described the airline's performance as "lousy," declaring that the SARS epidemic had reduced its passenger traffic on key Asian routes by more than a third (35%). This drop was particularly devastating, considering that of all European carriers, KLM has the largest exposure to Asian destinations.

The Canadian Tourism Commission's (CTC) foreign office in the Netherlands reported that 76 per cent of the Dutch were planning to take a trip this summer, but travel intentions were shifting towards closer-to-home destinations. France and Spain were the top locations chosen (at 23% and 12%, respectively) with U.S./Canada much lower on the list (3%).

**Japan**

According to statistics released in June, Japan Airlines System Corporation reported that it carried only 698,000 passengers on international routes in April, a 39.9 per cent decrease from the same period the year before. Domestic flights carried 3.4 million passengers, virtually the same as the year before. In early June, Japan Airlines announced that it would encourage employees to take leave without pay, as one way of implementing operational cutbacks required as a result of the SARS epidemic and the war in Iraq.

All Nippon Airways (ANA) also experienced a huge drop in passenger traffic in April. The airline transported 179,000 passengers during that period, 29.8 per cent less than the year before. Domestic passengers numbered almost 3.2 million, a decrease of 7.6 per cent over the previous year.

According to the Australian Tourist Commission (ATC) Japan Market Report for May, Japanese travellers have been showing a reluctance to fly, whether domestically or internationally. This was due to a common perception that air travel, or even entering an airport, dramatically increased the probability of contracting SARS. In fact, Sabre Airline Solutions reported that traffic at Tokyo's Narita Airport dropped by nearly half in April, and remained at one third less than usual in May, even though there had not been a single reported case of SARS in Japan throughout that period.

Japan's Ministry of Health, Labour and Welfare released a survey indicating that, on average, Japanese workers will take 8.7 days of vacation time this summer, up 0.9 days from last year. Employees at manufacturing companies will average 9.9 vacation days while workers in other sectors will take 7.2 days.

## *Lagging Economic Growth Hinders Full Recovery*

The Ministry of Public Management, Home Affairs, Posts and Telecommunications announced that Japan's average household spending fell to 316,132 yen (CDN \$3,644) in April, 1.2 per cent lower than a year earlier, marking the sixth consecutive monthly decline. According to Ministry officials, the drop was led by a 22.8 per cent decrease on package tour spending in the wake of the Iraqi conflict.

### **Korea**

Korean Air and Asiana Airlines reported in June that passenger demand was slowly picking up, spurred on by signs that the worst of the SARS epidemic was over. The carriers both stated they would begin restoring flights to Asian destinations that had been suspended during the peak of the SARS outbreak.

The Australian Tourist Commission reported in its latest Market Report for Korea that Korean departures fell 41 per cent in April compared with 2002, with holiday departures down even further (62.5%). For the first time in the country's history, the Korean government arranged short-term loans for local outbound travel firms that were financially devastated by the SARS situation.

### **Hong Kong**

Cathay Pacific Airways reported that its May passenger numbers had dropped to 243,976, only one-quarter of what the traffic levels were in May 2002. The airline reduced its schedule by 45 per cent in May, leaving 22 aircraft unused by the end of that month. RPKs decreased by 67.5 per cent, and capacity dropped 41.6 per cent during that period. The airline's load factor (i.e. the percentage of available seats filled) plummeted 32.9 percentage points to a meagre 41.4 per cent.

However, Cathay Pacific anticipates a significant rise in demand by July and will restore about 170 flights to its network at that time, including several flights to Vancouver and Toronto. The additions will bring the total number of weekly flights to 700, prompting the airline to recall 13 of its 22 parked aircraft to service. Since the World Health Organization lifted its Hong Kong Travel advisory at the end of May, the airline has seen some increase in passenger traffic, although it reports that it is still carrying only about a third of the travellers as it was the same time last year. The airline also announced that it would give away 10,000 free tickets to help support the recovery of Hong Kong's devastated tourism trade.

The OAG Quarterly Report on global airline schedules showed that in the period between June 9 - 15, flights between Hong Kong and the US and Canada were down by more than two-thirds (69%), compared with the same week in 2002. In total, scheduled flights to and from Hong Kong were down 50 per cent, a drop equivalent to almost half a million seats.

Hong Kong's airport authority announced in June that it would reduce aircraft landing fees by up to 50 per cent for the next six months to assist the struggling airlines in the wake of the SARS outbreak. Since the disease first appeared, the airport's traffic has dropped by 30 per cent as a result of capacity cuts and flight cancellations by airlines.

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 substantially in April, compared to the previous year. The desire among consumers to travel was at rock-bottom levels, compounded by negative perceptions about the safety of air travel. The Hong Kong Tourism Authority recorded a drop of 3.5 per cent in total departures for January to March 2003, compared with the same period last year.

### **Taiwan**

In mid-June, when the World Health Organization lifted its travel advisory against Taiwan, the Taiwanese government announced it would inject up to (US \$8.65 million) into the ailing tourism industry, as part of a (US\$1.44 billion) SARS-relief fund set up for the country. It is estimated that the SARS outbreak caused an 85 per cent drop in revenue for Taiwan's travel industry. The tourism assistance plan included local media advertising, overseas publicity campaigns and free tours for foreign visitors. However, the government said it intends to rejuvenate its domestic tourism market before reaching out to international visitors.

## *Lagging Economic Growth Hinders Full Recovery*

The Australian Tourist Commission's latest Market Report for Taiwan reported total outbound trips in April decreased 64.5 per cent compared with the same period a year earlier. For the first four months of 2003, total outbound travel declined 23.4 per cent.

### **Australia**

On May 30, Qantas released its March passenger figures, which reflected the effects of the war in Iraq and the onset of SARS. These figures indicate that international traffic fell by almost 11 per cent, compared with the previous year, while capacity remained stable. As a consequence, the load factor on overseas routes dropped 9.3 points to 74.1 per cent.

However, passenger traffic for the March year-to-date period grew by 7 per cent compared with last year as capacity increased 5.9 per cent. Meanwhile, international yields (i.e. the average fare paid), excluding the impact of exchange rates, increased 3.1 per cent as domestic yields fell 5.5 per cent.

### **New Zealand**

Although Air New Zealand (ANZ) has been forced to cut capacity in its international network, it recently announced that its domestic bookings rose by 8.7 per cent in March. The airline attributes the growth in its domestic market to increasing uncertainties regarding world events.

The Australian Tourist Commission's latest Market Report for New Zealand revealed that the business travel market has suffered more from the SARS outbreak than the leisure travel market. Corporate bookings have declined 20 to 30 per cent since the outbreak, with business travellers particularly reluctant to travel to Asian and European destinations.

## Economic overview

### **North America**

Forecasts for the North American economy have been significantly revised. The recovery in business investment spending and employment gains following the end of the war in Iraq has yet to take place. U.S. employment growth has declined for nine consecutive quarters. A weaker labour market is driving U.S. inflation lower. Inflation is so low that Federal Reserve chairman Allan Greenspan has publicly expressed concern about the prospects of deflation. The prospect of deflation raises the possibility of a further reduction in U.S. interest rates. The consensus is that the U.S. economy will begin to turn around in the second half of this year. Low interest rates, a recent boost from fiscal policy (tax cuts) and blossoming consumer confidence support these stronger growth predictions.

The Bank of Canada and private forecasters have recently revised Canada's outlook, predicting slower economic growth. Both employment growth and retail sales have slowed. Since January 2002, the Canadian dollar has appreciated by 21 per cent to reach a high of 75 cents versus the U.S. dollar. The Canadian dollar's appreciation is hurting Canadian exports. The Conference Board of Canada is forecasting that the Canadian dollar will stabilise at about 70 cents (U.S.) by the end of this year. The Conference Board of Canada is also forecasting that the Canadian and U.S. economies will post growths of 1.9 and 2.3 per cent this year and of 3.2 and 3.8 per cent next year, respectively.

## Europe

The outlook for growth in most of Europe's major economies remains less than optimistic. Confidence is still down and unemployment is up. Aggravating matters is the appreciation of the euro versus the U.S. dollar. The appreciation is hurting eurozone exports. Germany, the Netherlands, Norway, and Switzerland are all in recession. The silver lining is that these hard times are making structural change among European economies easier to swallow. Politicians across the eurozone are pushing deregulation from labour markets to investment. According to Consensus Forecasts, the eurozone economies should grow by an average of 1 per cent this year and 2 per cent in 2004. Overall, the United Kingdom economy is expected to perform slightly better, posting a growth of 2 per cent this year and 2.4 per cent in 2004.

## Asia-Pacific

The economies of Southeast Asia are expected to rebound following a drop in domestic consumption in the second quarter. The SARS epidemic kept shoppers across the region from frequenting crowded shopping areas. The good news is that Beijing and Hong Kong are now (late June) both off of the WHO's travel blacklist. According to its central bank, China's economy is growing too fast, in spite of the SARS outbreak. The Chinese central bank said that it would "flexibly pursue many kinds of monetary policy tools and increase the strength of open market operations" to control money supply and effectively temper the economy. Meanwhile, the Australian economy has been hurt by drought and a 20 per cent appreciation of its dollar versus the U.S. dollar. Nevertheless, Australia's economy remains solid and should post a growth of 3 per cent this year and 3.6 per cent in 2004. According to Consensus Forecasts, the economies of the Asia-Pacific region should grow by an average of 2.3 per cent this year and 2.6 per cent in 2004. However, Japan's economy remains lackluster and is only expected to expand by 0.8 per cent this year and next. While this is far from ideal, it does represent a slight improvement over the growth recorded during the past few years.

## Opportunities

Results of a recent survey by Global Sources Ltd., a magazine and web site geared towards world-wide trade, indicate that half of the global volume buyers it polled were eager to resume travelling to countries previously affected by SARS, once the World Health Organization (WHO) rescinded its travel bans. According to survey results, 50 per cent of the buyers polled were prepared to resume business travel to SARS-affected countries within one month of the removal of WHO travel advisories to those areas. The survey was conducted in early June among 510 buyers from 85 different countries.

According to the MPI Foundation/George P. Johnson Event Trends Report for 2003, compared with 2002, 47 per cent of North American companies will increase their use of events, such as tradeshow and seminars, as a marketing medium this year. Among the companies surveyed, return of investment (ROI) was cited as a major factor in spending decisions for such events. In fact, 51 per cent of respondents who experienced successful ROI confirmed they would increase event budgets. Some industries indicated a sharp increase in the number of major events planned for 2003 compared to 2002, most notably the automotive sector (47 events this year versus 18 in 2002) and the healthcare sector (41 events in 2003 versus 18 last year).

According to a consumer research study by Witeck-Combs Communications and Harris Interactive, gay, lesbian and bisexual (GLB) business travellers take an average of seven business trips per year, five more than their non-gay counterparts. Witeck-Combs attributes part of this difference to the fact that only 20 per cent of GLB have children, resulting in fewer travel conflicts. According to the survey, one in five GLB consumers (22%) indicated that a respectful and welcoming environment was one of three top criteria in choosing a hotel.

## Summary

Significant world events, from September 11th to SARS, have amplified the "wait and see" attitude among travellers, particularly when it comes to finalizing travel plans. Increasingly, perception has become reality. Unfortunately, the reality for Canada's tourism industry is that SARS is still impacting travellers' perceptions. To combat these lingering concerns, Canada's tourism industry now appears eager to present the world much more tourism friendly images. It is hoped that the recent June 21st SARS benefit concert in Toronto and the upcoming star-studded concert event, headlined by the Rolling Stones, will transmit these perceptions to a world-wide audience. While the SARS benefit concerts are not expected to single-handedly offset the tourism losses attributed to SARS, it is encouraging to see marketing efforts that have the potential to sway global perceptions.

Unfortunately, economic challenges are expected to intensify in Canada over the summer. In addition, the appreciation of our dollar not only hampers economic growth but also makes some international destinations more financially appealing. This summer, perhaps even more so than last year, the bread and butter market for many Canadian travel suppliers will be that of domestic travel. Fortunately, those suppliers with strong relationships to the travel trade-particularly those expanding their domestic product offerings-are well poised to succeed in this environment.

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