CTC Tourism Intelligence Bulletin – Issue 12: March 2003

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

Uncertain Climate Demands New Business Approach

Executive Summary

- Uncertainty is taking a toll on North American consumer confidence. In the U.S., the latest (February 2003) Consumer Confidence Index of the Conference Board plummeted to its lowest level since October 1993. A key reason for the decline was economic and political uncertainty-particularly as they relate to the threat of war. While consumer confidence in Canada has also been in decline since the middle of 2002, it is far less dramatic than the pattern witnessed south of the border.
- Meanwhile, in the face of growing uncertainty, most tourism suppliers are actively preparing their game plan. Not surprisingly, the most financially secure tourism businesses today were the ones that successfully put in place both the infrastructure and products that suited changing consumer preferences and travel patterns after September 11th. These include low cost airlines and online travel service providers.
- Alternatively, for companies whose hands were tied or were slow to react to change, the short-term outlook remains uncertain. Many traditional airlines in North America fall into this category. Despite some success in the past year with changes to branding and marketing, the core problem of high costs remain. Unfortunately, as we ride out the current period of uncertainty, many of these businesses will once again be aiming for survival rather than profitability.

Emerging Trends and Issues - Online Travel Providers Expand Their Reach

- Although many industries have struggled to gain a foothold in the e-commerce world, travel products have sold well online almost from the start. Today, consumers are a lot more Internet-savvy and probing websites searching for savings seems to have become second-nature for many travellers. This, in turn, has led to a significant increase in demand for a broader range of travel products. Where previously travellers may have gone online to purchase an airline ticket or book a hotel room, they are now looking for complete, pre-paid vacation packages.
- Clearly then, it was necessary for online tourism providers to develop new business models. Because airline tickets were no longer as profitable, due in part to commission cuts, they have become loss leaders. While consumers continue to visit the websites looking for air travel, providers have started to develop more higher-margin travel products such as pre-paid travel packages.

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- Where these packages are available, they are selling well. And it means there is still plenty of room for online service providers to grow as it is expected these packages will continue to grow by offering more local destinations, activities and attractions-a traditionally under-serviced area of the Internet travel market. For local suppliers seeking visibility beyond their own company website and their traditional customers, they will need to determine the players with whom they develop relationships in order to maximize their exposure and booking potential.

Consumer (Traveller) Overview

- Business travel is not likely to pick up much this year after reaching its lowest level in 10 years in 2002. According to a survey conducted by Meeting Professionals International (MPI) and American Express, meeting planners in the U.S., Canada and Europe project an average budget decrease of 1.1 per cent in 2003 compared with 2002. Canadian meeting planners surveyed tend to have the lowest average annual budget of all the groups surveyed (CDN$ 2.4 million) but expect the highest growth in the number of meetings they will plan (3.8%) in 2003.
- The Canadian Tourism Commission's foreign offices in the U.S. reported that leisure travellers continue to take a cautious, wait-and-see attitude, resulting in consumers booking close to their date of departure. Travellers are increasingly interested in cancellation insurance and are ready to change destinations should the need arise. Incentives, when offered, are helping drive the market.

Travel Supplier Overview

- During 2003, many challenges are expected to plague the U.S. airline industry. In response to high fuel costs, escalating security and insurance premiums as well as an uncertain geo-political climate, traditional carriers are implementing measures designed to boost their financial bottom lines. These are badly needed. In Canada, Air Canada also reported a full-year 2002 loss, though it did manage to improve considerably compared with 2001. Meanwhile, low cost carriers in North America continued their financial success trend, posting profits for 2002.
- While the Canadian hotel industry did not perform as strongly in 2002 as many in the industry had hoped for, results were still mainly positive. Overall room supply, occupied room nights, average daily rates and revenue per available room (RevPAR) all improved compared to 2001 levels. For 2003, Pannel Kerr Forster Consulting Inc. (PKF) anticipates these components will grow even more, with RevPAR expected to increase the most (+2.9%). Unfortunately the U.S. experienced a decline of 2.6 per cent in RevPAR nationwide in 2002, making it the toughest year for the U.S. hotel industry in 20 years.
- The cost to Canadians of domestic and international air travel, including destinations to the U.S., dropped in January. For the same month, U.S. residents continued to experience declines in the average domestic airfare paid, though international airfares saw increases. Fortunately, travel agents in the U.S. are generally managing to survive in the changing business environment, as 38 per cent of respondents to a U.S. travel agents survey reported that their businesses were profitable, while 34 per cent indicated they were breaking even. However, the remainder, 28 per cent, reported showing a loss.

Economic Overview

- The North American economy is slowly moving forward. As the possibility of war in Iraq lingers, the impacts of the uncertainty are spilling over from the stock market into the economy. Until the uncertainty concerning Iraq is resolved, the growth in the North American economy as well as the world economy will be delayed. Caution has forced U.S. companies to do more with less, producing greater productivity but with fewer jobs. Fortunately, in contrast to the U.S., the Canadian economy still has a lot of momentum.
- Present economic growth in Europe is stagnant. The near-term prospects for improvement are also difficult to visualize. Unemployment is on the rise and consumer sentiment is down. In fact, consumer sentiment in France and Italy recently hit five-year lows. The level of unemployment in Germany has been increasing for eight consecutive quarters. Fortunately, the U.K. economy is doing relatively well.
- Economic growth in the Asia-Pacific region is currently mixed. Australia, China and South Korea are doing relatively well economically while Japan and the rest of South East Asia are struggling. Strong job growth and historically low interest rates are supporting a robust Australian economy.

Opportunities

- According to Business Travel News' Top U.S. Hotel Chain Survey, enhancing a hotel's appeal is key to future growth and survival. Separate marketing strategies should be devised for as many market segments as possible including transient, group business, extended stay and leisure travel. For existing hotels, this often means renovations are required to meet the needs of the different market segments.
- Don't forget about the Swiss. According to TIA, Switzerland has the highest Gross Domestic Product (GDP) per capita in Europe and the Swiss spend an average of US$ 834 (CDN$ 1,244) per leisure trip and US$ 1,194 (CDN$ 1,780) per business trip. Furthermore, the stability of the Swiss franc encourages outbound travel. When they travel, Swiss travellers place great value on landscape and nature.
- Closer to home, the seniors' market offers long-term growth potential. According to the Canadian Association for the 50 Plus (CARP 50 Plus), travellers age 50 and older spend 74 per cent more on a typical vacation than people aged 18 to 49. Moreover, people in their 50's already spend 40 per cent more time on vacations than those in their 40's. According to Statistics Canada, 29 per cent of the population in 2001 were aged 50 or older. By 2021, this group will likely represent 40 per cent of the population.

In Brief

Uncertainty is taking a toll on North American consumer confidence. In the U.S., the latest (February 2003) Consumer Confidence Index of the Conference Board plummeted to its lowest level since October 1993. A key reason for the decline was economic and political uncertainty-particularly as they relate to the threat of war. While consumer confidence in Canada has also been in decline since the middle of 2002, it is far less dramatic than the pattern witnessed south of the border. In fact, recent economic sentiment may be rather upbeat on the heels of an announced big spending federal budget. While Canadians still enjoy an edge in consumer optimism, it is quite possible the sharp decline in U.S. sentiment will find ways to trickle north of the border.

Meanwhile, in the calm before the potential storm, tourism suppliers are actively preparing their game plan. Companies that are in a better position to face the growing uncertainty are the ones that quickly initiated new plays shortly after September 11th when it became clear that survival, rather than profitability, was a more realistic objective. During the past year, some tourism suppliers were able to recover more quickly because they put in place both the infrastructure and products that suited changing consumer preferences and travel patterns. Alternatively, for companies whose hands were tied or were slow to react to change, the short-term outlook remains uneasy.

Unfortunately, many traditional airlines in North America fall into this category. Despite some success in the past year with changes to branding and marketing, the core problem of high costs remain. What this means is, that as we ride out the current period of uncertainty, many of these businesses will once again be aiming for survival rather than profitability.

Conversely, timing and solid business fundamentals appear to have come together for some suppliers, like low cost airlines and online travel service providers. In fact, heading into the potential storm, these segments appear to represent some of the strongest players in the tourism industry. Profitability last year and proactive growth strategies this year imply these businesses are not only expecting to survive a storm but emerge stronger.

Emerging Trends and Issues

One-stop shopping: Online travel providers expand their reach

Although many sectors and industries have struggled to gain a foothold in the e-commerce world, travel products have sold well online almost from the start. However, like everything else, the industry has seen-and continues to see-its share of change. For those online travel suppliers, who want to remain profitable, it is critical that they both recognize the changes and act to meet them.

Why then has online travel continued to grow? For one thing, consumers are a lot more Internet-savvy. Exploring websites searching for savings seems to have become second nature for many travellers. This has led to a significant increase in demand for a broader range of travel products. Where previously travellers may have gone online to purchase an airline ticket or book a hotel room, they are now looking for complete, pre-paid vacation packages.

It was therefore obvious that online tourism providers needed to develop new business models. While hotels and airlines may have initially viewed the Internet as an instrument to unload distressed inventory, they quickly realized that it offered far greater potential. At this same time, rates not meant for general consumption began appearing online and these suppliers realized that they were losing control of their own products.

In an effort to regain some of that control, suppliers cut commissions, offered fewer products and applied more stringent rules and conditions governing the substantial discount rates. In order for online tourism providers to continue making money, they had to offer core products such as airline seats while dealing with consumers who were increasingly comfortable with online buying and who were also looking for a total travel experience. Because airline tickets were no longer as profitable, they became loss leaders. People continued to visit the websites looking for a ticket while providers started to develop more higher-margin travel products such as pre-paid travel packages.

Expedia Canada is one online travel provider that has reacted quickly to the changing business environment where people want an all inclusive pre-paid travel experience. This does not mean abandoning airline tickets and hotel rooms entirely, since these items can continue to provide value to the customer. Instead, online travel providers will likely focus on diversification and meeting the growing need consumers have for customized packages. This will include offering more local destinations, activities and attractions, traditionally an under-serviced area of the Internet travel market.

Where they are available, packages are selling well. In fact, Expedia reports that packages are the fastest growing area of their business, one that is expected to keep them busy and profitable for the foreseeable future. The reason for this success is that these packages include extras such as tours, tickets for attractions and travel insurance. Consumers can choose every aspect of their trip and pay for it all in advance. Moreover, unlike many traditional packages, online travel providers' packages offer flexible holiday timing and duration. These aspects further increase the value to the consumer by meeting their need to make travel decisions at the last minute.

However, in order to offer local and international destination packages, online travel providers need to increase the number of accommodations, attractions and activity suppliers with whom they deal. Certainly, both the online tourism provider and the smaller niche player should benefit by gaining more exposure and exceeding the goals they could reach or afford separately.

However the world of online travel providers is, by no extent, perfect. Core products such as airline tickets have become (in essence) loss leaders to many online travel providers. To protect their profits the majority of providers have introduced service fees for a variety of items such as purchasing an airline ticket and cancelling a reservation. For the most part, these fees remain below those charged by traditional bricks-and-mortar travel agencies. And at least so far, industry analysts do not expect that these fees will derail the future growth of online travel purchases.

The current overall outlook for online travel providers does remain optimistic. There is still plenty of room to grow, starting with the local leisure-package market. For local suppliers seeking visibility beyond their own company website and their traditional customers, the determining factor will be the players with whom they develop relationships in order to maximize their exposure and booking potential.

With ever changing travel patterns and increasingly sophisticated Internet users, travel providers should not ignore this growing market. Consumers will increasingly search and book via the Internet, for both their extended holidays and short getaways. As is consistent in business, the successful companies will be those that recognize and give consumers what they want. Increasingly, pre-paid holidays that maximize choice and flexibility appear to be the products most in demand.

Consumer overview - Canada and the United States

Business Travellers

According to a survey of corporate travel managers by Runzheimer International, business travel spending in the U.S. dropped to its lowest level in 10 years in 2002. When asked why travel expenditures had fallen, 82 per cent of respondents cited fewer trips while 54 per cent said there were fewer people travelling. Also contributing to the dip, were declines in international travel and in the average length of business trips.

Unfortunately, the situation in 2003 is not likely to improve greatly. According to a survey conducted by Meeting Professionals International (MPI) and American Express, meeting planners in the U.S., Canada and Europe project an average budget decrease of 1.1 per cent in 2003 compared with 2002. However, meeting planners do expect a 1 per cent increase in the number of meetings they will plan. On a more positive note, business travel suppliers (hotels, airlines and other services) project a 6 per cent increase in both meeting revenue and the number of meetings they will host. Unfortunately, the survey does not explain the gap between growth projections by suppliers and meeting planners.

MPI and American Express further reported that Canadian meeting planners tend to have the lowest average annual budget of all the groups surveyed (CDN$ 2.4 million) but expect the highest growth in the number of meetings they will plan (3.8%). Meanwhile, the average U.S. meeting planner surveyed controlled a budget of US$3.3 million (CDN$ 4.9 million) but projected an average 1.7 per cent decline in the number of meetings they will plan this year. Like their meeting planning counterparts, meeting suppliers in Canada were also the most optimistic regarding meeting revenue growth. In particular, they expect meeting revenue to grow by 8.3 per cent in 2003. In the U.S., meeting suppliers expect a more modest 5.8 per cent growth. Again, the gap between growth projections by suppliers and meeting planners is not explained.

This same survey goes on to report that U.S. hotels are offering generous discounts and terms to planners and corporations in an effort to attract that particular market. These deals are being offered mostly because of weak corporate spending and also because of the uncertainty of the impact war may have on business. When corporations do commit to holding meetings, they are booking closer to the meeting date and are expecting flexible cancellation and attrition clauses.

These flexible policies might be needed in the event of war. According to a study released by the Association of Corporate Travel Executives, 82 per cent of U.S. travel managers surveyed reported their companies would reduce or restrict travel outside the U.S. in the case of international conflict, and 35 per cent said they would reduce travel within the country. As well, 32 per cent responded that the impending Middle East conflict has already caused reductions in international travel.

In a related survey, the National Business Travel Association (NBTA) reported 62 per cent of travel managers surveyed indicated they were already evaluating trips on a case-by-case basis and 49 per cent are restricting travel to high-risk areas. However, over 60 per cent of respondents said their companies had no immediate plans to reduce travel in light of recent national security alerts.

The Canadian Tourism Commission's foreign office in the U.S. reported that corporate travel is still operating under the business-as-usual mantra and is reacting more to economic tensions rather than political tensions. In the association market, attendance at conventions remains lower than normal. This is expected to continue throughout 2003. In the incentive market, trips are being made closer to home and for smaller groups. Still, Canada is well positioned to benefit in 2003 since it is viewed as a safe, close to home destination. It also continues to represent good value as a result of the favourable exchange rate.

Leisure Travellers

The Canadian Tourism Commission's foreign office in the U.S. reported that leisure travellers are taking a cautious, wait-and-see attitude, resulting in consumers booking close to their date of departure. Travellers are increasingly interested in cancellation insurance and are ready to change destinations should the need arise. Incentives, when offered, are helping drive the market. Canada generally has a positive reputation, though tour operators continue to react unfavourably towards price increases by airlines.

According to a new report by the Travel Industry Association (TIA), entitled "Travel Through the Life Stages", the largest share of trips taken by Americans during 2001 were by Middle-Aged (34-54) Parent households. This is not surprising considering this segment represents the largest population base. The TIA report divides travellers into three core life stage groups-Singles, Couples and Parents-and then combines these with three age demographics, Young (age 18-34), Middle (age 34-54) and Older (age 55 or older). Some segments were also segregated by employment status.

However, the Young (age 18-34) Couple, Older (age 55 and older) Working Couple and Middle-Aged Couple groups have a higher propensity to travel than Middle-Aged Parent households. In fact, according to the TIA study, Older Retired Single and Older Retired Couple households have a much higher propensity to travel for leisure purposes than U.S. households do in general. In the current climate of uncertainty, it is particularly useful to note that the group most likely to take short getaways were Young Singles.

Travel-supplier overview - Canada and the United States

Airlines - Canada

Air Canada reported a full year 2002 net loss of $218 million. This loss still represents an improvement of $887 million from 2001. Unfortunately, during the last quarter of 2002, Air Canada recorded a net loss of $364 million. This compares with a net loss of $277 million during the same quarter in 2001. Air Canada noted that during this time, passenger traffic increased 5 per cent on a 3 per cent increase in seat capacity. While 2002 represents encouraging progress under increasingly challenging circumstances, these financial results clearly demonstrate that the existing full-service network airline model is not sustainable without continued fundamental change.

Meanwhile, Westjet reported a net income of $51.8 million for 2002, an improvement of 41.1 per cent compared with 2001. Operating revenues during the year jumped 42.7 per cent. However, net income during the last quarter of 2002 was a rather modest $9.3 million. Westjet stated that rising fuel prices and a drop in demand dampened profitability during the quarter. Westjet stressed that it is concentrating on building the airline and capacity rather than driving profitability in each quarter.

For 2002, Transat A.T. recorded a net income of $7.8 million compared with a net loss of $88 million in 2001. In 2001, an after-tax charge of $94.8 million was taken to write-off certain assets and other unusual expenses as a result of the events of September 11th. Transat A.T. noted that it responded to the uncertain climate during 2002 by decreasing capacity, reducing employment and tightening all other expenditures. For the fourth quarter of 2002, Transat A.T. reported a net income of $4.8 million compared to a net loss of $25.8 million in 2001. Still, Transat A.T. expects 2003 to be a challenging year. In January of this year, bookings were ahead of last year but still lagged behind 2001 levels.

For January, Jetsgo reported a load factor of 69 per cent and noted all six of its planes are now fully deployed.

For financial reasons, Air Canada is considering the sale of its regional airline subsidiary, Jazz. Air Canada is also expected to sell up to 49 per cent of Air Canada Technical Services and a significant stake in its Airport Ground Handling Services. In January of this year, Air Canada announced the sale of 35 per cent of its Aeroplan loyalty program to Onex Corporation.

After introducing a fuel surcharge, Westjet announced it would introduce some fee increases on services such as flight and name changes, flight cancellation and kennel handling.

The Federal government recently announced, in its 2003 Budget, that it will reduce the air travellers' security charge on domestic travel from $12 to $7 for one-way travel and from $24 to $14 for round-trip travel, effective March 1, 2003. However, there was no change announced to the security charge for air travel to the U.S. or other international destinations.

Airlines - U.S.

During 2003, many challenges are expected to plague the U.S. airline industry as airlines, especially the traditional carriers, look to survive rather than grow. In response to high fuel costs, escalating security and insurance premiums as well as an uncertain geo-political climate, traditional carriers are implementing measures designed to boost their financial bottom lines. These measures are badly needed as 2002 was yet another record breaking year, in terms of financial losses. All the major U.S carriers combined lost US $11.4 billion (CDN$ 17.0 billion) in 2002.

Industry analysts have identified war as one challenge that may plague the airlines in 2003. Other challenges include depleting cash reserves, increasing debt levels (if a carrier can still get access to capital), and labour disputes as managements seek concessions. Analysts believe 2003 may also bring more cutbacks in large-jet capacity, more experimentation with airfares as well as lobbying of the federal government for tax relief and help in covering increased security costs.

Traditional carriers are searching for profits by implementing cost-cutting measures and rethinking their corporate structures. Recently, America West and Northwest tested selling food on flights where food service had been eliminated. Other carriers are considering similar moves. Other measures include the elimination of child discounts, introducing or increasing service charges and further cuts to services.

In January, American Airlines reported the worst full-year loss in aviation history. The airline reported a net loss of US$ 3.51 billion (CDN $5.24 billion), almost double that of 2001. American Airlines, like the majority of traditional carriers, attributed its results to a sluggish economy, high fuel prices, lingering concerns over terrorism and the possibility of war in the Middle East. It is contemplating launching a low-fare carrier, similar to plans already announced by Delta and United.

Table 1. Net Income, Year-End 2002

Company	Net Income (Loss)2002 (in U.S. $)	Net Income (Loss)2001 (in U.S. $)
Air Tran Airways	+$10.7 million	-$2.8 million
America West	-$430.2 million	-$147.9 million
American Airlines	-$3.51 billion	-$1.76 billion
American Trans Air	-$175 million	-$81.9 million
Continental Airlines	-$451 million	-$95 million
Delta Airlines	-$1.3 billion	-$1.2 billion
JetBlue	+$54.9 million	+$38.5 million
Midwest Express	-$10.6 million	-$14.9 million
Northwest Airlines	-$798 million	-$423 million
Southwest Airlines	+$241 million	+$511.1 million
US Airways	-$1.65 billion	-$2.12 billion

Table 2. Net Income, Q4 2002

Company	Net Income (Loss) Q4 2002 (in U.S. $)	Net Income (Loss)Q4 2001 (in U.S. $)
Air Tran Airways	+$7.5 million	-$14.2 million
America West	-$32.5 million	-$60.9 million
American Airlines	-$529 million	-$734 million
American Trans Air	-$57.6 million	-$81.3 million
Continental Airlines	-$109 million	-$149 million
Delta Airlines	-$363 million	-$734 million
Frontier Airlines (3rd quarter)	-$6.2 million	+$0.9 million
JetBlue	+$15.2 million	+11.1 million
Mesa Air Group (3rd quarter)	-$0.6 million	+$3.7 million
Midwest Express	-$6.7 million	-$2.1 million
Northwest Airlines	-$488 million	-$216 million
Southwest Airlines	+$42.4 million	+63.5 million
US Airways	-$794 million	-$1.15 billion

Table 3. January Airline Revenue per Available Passenger Mile (RPM) and Capacity

Airline	RPM; Jan 2003 vs. Jan. 2002	Capacity, Jan 2003 vs. Jan 2002
American Airlines	+4.9%	+3.2%
Continental Airlines	-0.9%	+2.1%
JetBlue Airways	+93.2%	+80.4%
Southwest	+7.8%	+6.1%

In February, U.S. airlines called upon the government to tap into the Strategic Petroleum Reserve (SPR) to moderate the adverse impact of high fuel costs. After Northwest Airlines thwarted a US$ 10 (CDN $15) single way fare increase, a smaller $US 3 (CDN $4.48) fuel surcharge was added by American Trans Air. It was later increased to US$ 10 (CDN $15) and matched by other carriers as well as Northwest Airlines.

For the second time only since it was established in 1951, the U.S. Department of Defence (DOD) activated Stage 1 of the Civil Reserve Air Fleet to request civil transport aircraft for military airlift duties. DOD stated the call-up was necessary due to increased operations associated with the build-up of U.S. forces in the Persian Gulf region. Most major airlines in the U.S. are involved in the call-up but the carriers expect the activation will have little or no impact on scheduled operations.

Hotels - Canada

The Canadian hotel industry did not perform as strongly in 2002 as many in the industry had hoped for at the beginning of the year. However, many results were still positive. Overall room supply, occupied room nights, average daily rates and revenue per available room (RevPAR) all improved compared to 2001 levels. For 2003, Pannel Kerr Forster Consulting Inc. (PKF) anticipates these components will grow even more, with RevPAR expected to increase the most (+2.9%).

According to PKF, the average daily room rate for Canadian hotels in December of last year increased 2.9 per cent to $107.32 compared with 2001. The most significant rate increases were witnessed in the Yukon (+12%), Whistler Resort Area (+9.5%) and Edmonton (+8.5%). On a national level, RevPAR increased 3.2 per cent while occupancy levels increased by a marginal 0.3 per cent, compared with last year.

Fairmont Hotels recently reported positive fourth-quarter and year-end 2002 results. Fairmont noted that their hotel portfolio continues to benefit from a balanced customer mix and geographical diversity. Further, their strength in the leisure market has helped mitigate the effect of prolonged weakness in corporate demand. Fairmont also noted that their Canadian properties accounted for approximately half of their 2002 annual earnings.

Similarly, Legacy Hotels Real Estate Investment Trust (REIT) noted in its fourth quarter and year-end report that a well-diversified Canadian portfolio helped contribute to its positive results.

Table 4. Hotel RevPAR and Net Income Q4

Company	Revenue per available room (RevPAR), Q4 2002 vs. Q4 2001	Net Income (Loss)Q4 2002 (in U.S. $)	Net Income (Loss)Q4 2001 (in U.S. $)
CHIP REIT	+3.1%	+$ 11.2 million	+$ 9.9 million
Fairmont Hotels and Resorts	+12.6%	US$ 11.0 million (CDN $16.4 million)	US$ 49.6 million (CDN$ 73.9 million)
Four Seasons Hotels	+11.8%	US$ 7.6 million (CDN 11.3 million)	US$ 9.3 million (CDN$ 13.8 million)
Legacy Hotels REIT	+5.7%	+$ 7.6 million	+$ 8.3 million

Table 5. Hotel RevPAR and Net Income, Year-End 2002

Company	Revenue per available room (RevPAR), 2002 vs. 2001	Net Income (Loss)2002 (in U.S. $)	Net Income (Loss)2001 (in U.S. $)
CHIP REIT	+2.1%	+$ 48.3 million	+ $45.5 million
Fairmont Hotels and Resorts	-1.3%	US$ 92.5 million (CDN$ 137.8 million)	- US$ 28.2 million (-CDN$ 42 million)
Four Seasons Hotels	-1.9%	US$ 21.2 million (CDN$ 31.5 million)	US$ 86.5 million (CDN 128.4 million)
Legacy Hotels REIT	+3.4%	$ 55.1 million	$ 53.7 million

Colliers International reported total transaction volume for hotel sales in 2002 reached an estimated $540 million with the completion of 48 hotel sales over $1 million. This was a decline of 18 per cent from 2001. The majority (63%) of hotel trades in 2002 involved properties of less than 100 rooms with transaction prices under $5 million.

Hotels - U.S.

With a decline of 2.6 per cent in RevPAR nationwide, 2002 was the toughest year for the U.S. hotel industry in 20 years. Some key gateway cities like as Chicago, Boston and New York saw their RevPAR fall by 48.4 per cent, 36.5 per cent and 13.7 per cent respectively compared with previous years. The combination of the effects of the terrorist attacks, the war on terrorism, the drop in the stock market and reductions in corporate travel were the main factors recognized to have wreaked havoc on lodging prices and occupancy rates. While a significant recovery is not expected until 2004, 2003 should generate increases in both room rates and occupancy levels. In addition, due to operational cuts made in 2002, hotels should be even more profitable when the recovery does come, since break-even levels have dropped.

PricewaterhouseCoopers (PWC) reported the hotel industry's average break-even occupancy reached a record low of 47.4 per cent in 2002. (Until 1995, hotels needed to fill 60 per cent of their rooms to break even) This result has been achieved mainly through reduced sales and marketing budgets, elimination of front office manager and assistant manager positions, and reducing the hours of operations for services and facilities such as fitness rooms and room service. Unfortunately, keeping the record-low, break-even occupancy point may be difficult in 2003 as PWC expects many hotel expenses to increase.

While fourth quarter earnings in 2002 were generally negative, RevPAR increased. However, most analysts and companies expect RevPAR to be flat for 2003. Because of the flat RevPAR and continued pressure from insurance and medical benefits cost, profit margins in 2003 could fall one or two percentage points. These estimates exclude any war impacts.

Table 6. Hotel RevPAR and net income, Q4

Hotel	Revenue per available room (RevPAR), Q4 2002 vs. Q4 2001	Net Income (Loss) Q4 2002 (in U.S. $)	Net Income (Loss) Q4 2001 (in U.S. $)
FelCor Lodging Trust	+5.2%	-$178 million	-$29 million
Host Marriott	+10.6%	-$3.0 million	-$23 million
Jameson Inns, Inc.	+0.1%	-$0.6 million	-$2.9 million
Marriott International	+7.4%	-$37 million	-$116 million
Prime Hospitality	-5.0%	-$2.9 million	+$4.8 million
Starwood Hotels	+9.4%	+$45 million	-$2.0 million
WestCoast Hospitality	+2.0%	-$2 million	-$0.6 million

Table 7. Hotel RevPAR and net income, 2002

Hotel	Revenue per available room (RevPAR), 2002 vs. 2001	Net Income (Loss) 2002 (in U.S. $)	Net Income (Loss) 2001 (in U.S. $)
Arlington Hospitality	-3.7%	+$0.7 million	-$3.1 million
FelCor Lodging Trust	-8.1%	-$178 million	-$39 million
Host Marriott	-5.1%	-$16 million	+$51 million
Marriott International	-5.7%	+$277 million	+$236 million
Prime Hospitality	-9.2%	-$3.9 million	+$40 million
Starwood Hotels	-5.9%	+$201 million	+$205 million
WestCoast Hospitality	-5.4%	+$8.0 million	+$7.6 million

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 declined 2 per cent in January compared with a year earlier. It was also reported that the average cost of international travel to non-U.S. destinations fell 3 per cent, while average airfares to the U.S. experienced a small 1 per cent decline.

In the U.S., the Air Transport Association (ATA) reported that the average domestic (U.S.) airfare paid in January fell 3.8 per cent compared with the same period last year, while the average international airfare paid increased 3.4 per cent.

According to a survey by Travel Weekly, 38 per cent of the U.S. travel agents surveyed reported that their businesses were profitable, while 34 per cent indicated they were breaking even and 28 per cent reported showing a loss. In the survey, the majority of respondents stated that they had reduced costs in the last year as a way of coping with economic pressures in addition to raising fees charged to clients.

Expedia Inc. reported its fourth quarter 2002 net income was up 320 per cent to US$ 21 million (CDN$ 31.3 million) compared with a year earlier. For the full year, net income was US$ 66 million (CDN$ 98.4 million), compared with a loss of US$ 21 million (CDN$ 31.3 million) for 2001. Expedia stated that results for the full year and fourth quarter were strong evidence that their strategy of focusing on the whole trip, rather than a single component is bearing fruit.

International overview - Overseas

United Kingdom and Ireland

For both British Airways and Ryanair the period from October - December 2002 was profitable. British Airways cited significant cost reduction initiatives and improved cargo business as reasons for its strong turnaround performance compared with a year earlier. British Airways expects the 2002-03 full financial year to be profitable. Meanwhile, low-cost carrier Ryanair announced record traffic and a significant increase in profits for its third quarter ending December 31, 2002. As a result of the strong third quarter, Ryanair has raised its full-year profit expectations.

Table 8. Net Income, October - December 2002

Company	Net Income (Loss) Oct - Dec 2002	Net Income (Loss) Oct - Dec 2001
British Airways (3rd quarter fiscal)	£13 million (CDN$ 30.8 million)	-£144 million (- CDN$ 340.7 million)
Ryanair (3rd quarter fiscal)	EUR 43.2 million (CDN$ 69.5 million)	EUR 28.8 million (CDN$ 46.3 million)

Table 9. Number and Percentage change in the number of passengers in January 2003

Carrier	Passenger Numbers	Jan 2003 vs. Jan 2002
EasyJet and Go	1,500,000	+43.5%
Ryanair	1,251,641	+55.0%
British Airways	2,743,000	+1.98%

Ryanair announced in January that it will buy smaller rival Buzz from KLM Royal Dutch Airlines for EUR 23.9 million (CDN$ 38.5 million). Ryanair stated the deal would allow it to expand further at Stansted Airport. On a side note, Ryanair admitted to maintaining the airport charges and taxes of passengers who miss their flights.

Bmi and its budget subsidiary bmibaby announced that together they carried a total of 7.8 million passengers during 2002, an increase of 11 per cent compared with 2001. The company attributed the positive results to passengers returning to the air after the events of September 11th as well as new fare structures introduced in 2002 that abolished Saturday night and minimum stay requirements.

Meanwhile, British airport operator, BAA, reported a 1.1 per cent increase in profit to £446 million (CDN$ 1.1 billion) for the nine month period to December 31, 2002 compared with the same period a year earlier. Retail income and airport charges increases were able to offset increases in security and insurance costs.

According to the Guardian newspaper and a survey by Advantage Travel Centres, summer 2003 holiday sales are well down because of the threat of war. In fact, 24 per cent of respondents stated that their plans have been affected by the threat of military action. The survey further found that families are the most likely to have changed their plans. As a consequence, the family summer package market is currently down by an estimated 20 to 25 per cent. To prepare for a tough year and the threat of war, the Association of British Travel Agents (ABTA) has advised operators to drop unprofitable products and specialize in order to secure their survival.

The Canadian Tourism Commission's foreign office in the U.K. reported that Winter 2002/03 has been a good one for Canada, even though bookings in early January were slow. January sales were reported to be the worst in terms of bookings since the Gulf War. However, some segments such as the independent traveller are performing much better than others, such as the escorted groups market. As well, due to the uncertainty surrounding the potential war, travellers who normally take an overseas leisure trip have delayed their decisions, rather than cancel their plans.

France

Air France announced it achieved satisfactory performance in January. Traffic rose 4.9 per cent to 8 billion RPKs on a 4.6 per cent capacity increase. Long-haul traffic increased 7.5 per cent on a capacity increase of 6.8 per cent. Meanwhile, international medium-haul routes experienced declining traffic while domestic routes were added to reflect Air Lib's shutdown.

Air Lib was grounded in February after its operating license expired when the French commercial aviation authority declined a further extension to France's second-largest scheduled airline. However, Air Lib Chairman Jean-Claude Corbet said the expired license will not automatically lead to bankruptcy and that an interested buyer, IMCA, has not walked away from negotiations.

According to Nielsen/NetRatings, travel websites reached 33 per cent of the active Internet audience in France during December 2002. This was the deepest penetration of all 12 markets (including the US, Hong Kong, Germany, UK, Australia and Brazil) monitored during the busy holiday season. Nielsen/NetRatings further stated that two French websites drew nearly a million unique visitors in December, out of nine and a half million active users overall. In Europe, it was also noted that there is less reliance on portals but increased usage of niche sites such as mappy.com and voyages-sncf.com.

Accor reported sales (hotels, services and other businesses) for 2002 were down 2.1 per cent compared with 2001. Hotel revenues declined only 0.3 per cent due to stable sales in the fourth quarter.

The Canadian Tourism Commission's foreign office in France reported that potential travellers are asking agencies about cancellation policies in the event of war. Should war be declared, it is expected travel to major European cities will suffer. For now, tour operators are concentrating on promoting safe destinations such as Canada.

Germany

Lufthansa reported a decrease of 12.7 per cent in passenger numbers for January 2003 compared with January 2002. European and North/South American routes experienced the largest declines. Overall, sales declined 7.6 per cent while load factor improved 3.5 per cent to 70.8 per cent.

In February, Lufthansa announced that as a result of the further deterioration in the global environment, it was implementing a hiring freeze as well as reducing capacity by another 10 aircraft in the European market. This is in addition to the withdrawal of nine aircraft in January.

Also in February, British Airways Deutsche BA, Germany's second largest airline, announced weak demand is forcing it to cut 500 flights from its schedule in February and March. If demand does not improve, the airline stated the capacity cuts would be permanent.

According to the German travel and tourism magazine, Fvw, and the BAT German tourism analysis survey, the same number of Germans who travelled last year plan to travel this year, despite the threat of conflict in the Middle East and economic problems at home. In the survey, 47 per cent of respondents indicated they are definitely planning a holiday this year, the same proportion as in 2002. The number definitely not planning a holiday rose just 2 per cent to 26 per cent. Additionally, the trend to shorter holidays (5-13 days) will continue at the expense of the traditional two-week holiday. It is also expected more consumers will switch to car, rail and ship-based travel as opposed to air travel.

Fvw further reported that German low-cost carriers are expanding their summer 2003 flights. As well, Fvw noted that travel agents in Germany are optimistic that sales will pick up this year and that as many as 57 per cent of agents believe business will improve over the next six months. For early summer bookings, 31 per cent of agents reported growth.

The Canadian Tourism Commission's foreign office in Germany reported that travellers are not focusing on the potential war. However, should war be declared, similar reactions to the events of September 11th are expected-that is, cancellations for most destinations and a trend towards domestic travel. In the event of war, it is felt Canada should market itself as a safe destination. In the meanwhile, long-haul destinations including Canada (due in part to a favourable exchange rate) are selling well.

Italy

Alitalia is expected to report a net profit for 2002. However, Alitalia's president did note its accounts were slightly negative for January of this year. Alitalia also announced that it will cut the commissions paid to travel agencies as part of cost-cutting preparations in the event of war. Alitalia is also aiming to cut other distribution costs, including commissions paid on credit card transactions.

The Australian Tourist Commission reported in its Global Roundup Report released in January that, according to tour operators and agents in Italy, most international travel right now is short to medium-haul although there are positive signs for improvement in the long-haul market. As well, last minute bookings remain popular and as a result, a number of Italian wholesalers are employing early booking incentives (discounts) for all destinations, with modest success.

The Canadian Tourism Commission's foreign office in Italy reported that there is a general feeling of uneasiness among travellers. Should war be declared, it is felt that Italians will seek out safe destinations and stay closer to home. In the event of war, Canada would be well advised to emphasize its safety as well as promote its natural splendors. On a positive note, 2002 was a great year for Canada's visibility in Italy due to the Pope's visit and World Youth Day.

The Netherlands

For the third quarter ending December 31, 2002, KLM reported a net loss of EUR 66 million (-CDN$ 106.2 million) compared with a net loss of EUR 94 million (-CDN$ 151.3 million) a year earlier. KLM attributed the negative results to lower than expected average airfares, continuing weak global demand and geo-political instability. In addition, KLM stated it expects to post a full-year fiscal 2002-2003 loss.

Meanwhile, KLM posted a 9 per cent increase in passenger traffic during January 2003 compared with the same month a year earlier. Passenger capacity increased 9 per cent as well. As a result, passenger load factor was virtually the same as last year at 76.2 per cent. KLM noted traffic on North American routes increased by 20 per cent on a capacity increase of 23 per cent.

As part of its efforts to cut costs and become profitable, KLM agreed to sell its low-cost carrier Buzz to Ryanair due to low passenger volumes. KLM also announced that it would reduce its summer capacity. Some capacity will be trimmed by using smaller aircraft or reducing flight frequencies. Other aircraft will be grounded. KLM's summer schedule starts March 30. In February KLM also increased the special insurance and security surcharges on tickets by US$ 3 (CDN$ 4.47).

The Canadian Tourism Commission's foreign office in the Netherlands reported that travellers are generally waiting longer to book their trips or are choosing to book a trip closer to home. It is expected that this trend would continue should war be declared. For now however, war does not appear to be a hot topic of discussion among operators.

Japan

Japan Airlines System Corp and All Nippon Airways (ANA) are considering raising fares on almost all domestic flights to reflect higher airport landing fees. ANA further announced the recent rise in oil prices will have little impact on the airline's 2002/03 earnings since it has hedged jet-fuel demand for the period up to March at a level much lower than current prices. However, it will cut 1,200 jobs over the next three years in an effort to boost profitability.

According to the recently released "3rd Japanese Association of Travel Agents (JATA) Survey on Travel Market Trends", overall demand for overseas travel has been recovering steadily but many travel agents are still concerned that the travel market may take a downward turn due to unstable international events. The survey was conducted from October - December 2002. In addition, recovery of travel demand to the U.S. and Canada is slow. Instead, Asian countries, such as China and Vietnam, perceived as safer destinations are being chosen.

JATA also reported that according to a recent survey, overseas package tour sales for 2002 did not reach year 2000 levels. However, reservations for trips to the U.S. and Canada during the months of January, February and March 2003 were up 192.7 per cent, 192.1 per cent and 202.5 per cent, respectively, from reservations for the same months in 2002.

Japanese tour operator JTB released its bi-annual Japanese Honeymoon Market survey for the period of October to December 2002. The survey stated that in spite of poor economic conditions, Japanese honeymoon couples spent an average of 526,000 yen (CDN$ 6,655). This represents a 13 per cent increase compared with 2001 and the first such increase in the last 12 years. JTB attributes the increase to the awareness that a honeymoon is a journey to remember. Hawaii remained the top honeymoon destination, as it has since 1998.

The Canadian Tourism Commission's foreign office in Japan reported that Japanese travellers are taking a wait-and-see approach, though concern about war is not high. It is felt that Japanese travellers are becoming more accustomed to the threat of terrorism and increased security at airports. However, should war be declared, similar impacts on overseas travel as experienced during the Gulf War are anticipated. At that time, there was an initial drop off in overseas travel but the previous levels were resumed within three months. The overall attitude towards Canada is increasingly positive as a gradual distinction between the U.S. and Canada occurs.

Korea

Both Korean Air (KAL) and Asiana reported dramatic improvements for 2002 compared to 2001. KAL posted a KRW 111.9 billion (CDN$ 140.5 million) net profit compared with a loss of KRW 589.4 billion (-CDN$ 740.1 million) in 2001. Meanwhile, Asiana posted a KRW 194.1 billion (CDN$ 243.7 million) profit for 2002 compared with a loss of KRW 384.7 billion (-CDN$ 483 million) the previous year. KAL cited improvements brought about by cost cutting and a re-organization of its routes for the positive results. Asiana said expansion on profitable routes, cargo handling and favourable foreign exchange rates were the reasons for its sharp turnaround.

Korea's second largest carrier, Asiana, announced it joined the global Star Alliance on March 1st. The Seoul based airline will become the 15th member of the international alliance. Asiana noted that by joining Star, it is able to provide better service and offer more routes. Effective immediately, Asiana will start code sharing with fellow Star member United Airlines.

The Australian Tourist Commission reported in its latest Global Roundup Report for Korea that overall growth in Korean departures was up 20 per cent in November 2002 compared with the previous year. It was reported that year-to-date departures increased 11 per cent, compared to the first 11 months of 2001.

Hong Kong

Cathay Pacific stated its January 2003 passenger figures were up 12.9 per cent compared with a year earlier. Its load factor during this month was 78.2 per cent, up 2.4 per cent. However, Cathay Pacific noted that first and business class loads remained depressed.

Dragonair reported a record three million passengers carried last year. In December 2002, passenger figures were up 25.8 per cent compared with a year earlier. Dragonair stated increases in business travellers accounted for about half the growth during that month.

Canada and Hong Kong have agreed to further liberalize their air transport agreement. The modifications to the agreement include the addition of liberal code-share rights that will allow Canadian airlines in the future to code share with other airlines to, from and beyond Hong Kong.

According to the Australian Tourist Commission's latest Global Roundup Report for Hong Kong, overall outbound travel increased 6 per cent in November 2002 compared with a year earlier. However, November is traditionally a low season. Meanwhile, the year-to-date figures indicate that the number of outbound travellers up to November had decreased 4 per cent.

Taiwan

For January 2003, China Airlines saw its revenues increase 5.2 per cent to NT$ 6.15 billion (CDN$ 264.7 million) compared with a year earlier. Just previously, the months of December 2002 and November 2002 experienced increases of 2.7 per cent and 12.2 per cent respectively, compared to the previous year.

Meanwhile, EVA Airways reported sales increased 33.1 per cent in January compared with a year earlier. This follows increased sales of 19.3 per cent and 43.3 per cent for December 2002 and November 2002, respectively, compared with the same months in 2001.

For the full year 2002, EVA Airways reported total revenues grew 23 per cent compared to 2001 to register NT$ 64.6 billion (CDN$ 2.8 billion)-the highest since the airline's launch in 1991. EVA Airways also stated it expects revenue to grow a further 5 per cent in 2003, but net profit is likely to be flat. The conservative outlook is due to concerns that fuel prices will rise. It is estimated fuel costs account for roughly 20 per cent of the airline's total costs.

According to the Australian Tourist Commission's latest Global Roundup Report for Taiwan, the number of outbound visitors from Taiwan increased 16 per cent in October and 10 per cent in November 2002 compared with a year earlier. Due to the Bali bombings, outbound numbers to Southeast Asian destinations suffered during this period while Hong Kong and Japan showed strong growth. Travel agent feedback suggested that consumers switched destinations because of safety considerations.

Australia

Qantas announced a net profit of AUS$ 352.5 million (CDN$ 317.7 million) for the six months to December 31, 2002-an increase of 130 per cent compared with the same period a year earlier. In light of the challenges and difficulties in the global aviation industry, Qantas said its performance was a tribute to the efforts of staff and management. While all areas of the business had contributed to the result, the improvement in the international operations stood out. However, in February Qantas did caution that forward bookings for the next 16 weeks have slowed considerably due to heightened tensions surrounding Iraq and the threat of terrorism.

Qantas is actively preparing for a possible war in the Middle East as it unveiled an arsenal of initiatives designed to maintain a tight rein on operating costs. Beginning in March, services on selected overseas and domestic routes will be reduced, a freeze on discretionary expenditures will be introduced and employees will be encouraged to take annual and long-service leaves. Then in April it will introduce a one per cent surcharge on credit card transactions.

Meanwhile, Virgin Blue is pushing ahead with its expansion plans. The no-frills carrier, which was named the world's best low-cost airline by TravelQuality.com in January of this year, is buying 10 Boeing 737-800s planes with an option to buy an additional 40 over the next 10 years. The new planes will pave the way for the commencement of international services by Virgin Blue.

The Canadian Tourism Commission's foreign office in Australia reported that there is a sense of tentativeness in the market along with a slowdown in long-haul travel bookings. Should war be declared, it is felt that non-essential travel will initially come to a halt. However, since it is felt that many Australians have an inborn passion for travel, the slowdown would be temporary and even if the war were prolonged, long-haul travel would prevail. On another positive note, Canada is perceived as a safe destination and in that respect is viewed to be quite different than the U.S.

New Zealand

Air New Zealand (ANZ) announced a fiscal half-year profit of NZ$ 94 million (CDN$ 77.9 million) for the six months ending December 31. It remains confident that its full-year profit target will be attained. For January, it stated its revenue passenger kilometers (RPK) increased 7.2 per cent compared with a year earlier. ANZ reported that it was the strength of international RPKs that contributed strongly to the positive results by rising 8.0 per cent while domestic RPK only increased 1.5 per cent. Overall, international traffic increased 14.5 per cent for the month while international capacity increased 5.9 per cent.

Tourism New Zealand announced six international airlines are increasing their capacity on six long-haul routes to and from New Zealand for the summer 2003 season. The result will be 5,000 extra seats per week for both inbound and outbound overseas travel. Two of the capacity route increases are to North America.

Economic overview

North America

The North American economy is slowly moving forward. As the possibility of war in Iraq lingers, the impacts of the uncertainty are spilling over from the stock market into the economy. Until the uncertainty concerning Iraq is resolved, the growth in the North American economy as well as the world economy will be delayed. Caution has forced U.S. companies to do more with less, producing greater productivity but with fewer jobs. The lack of any new substantial job gains is not going unnoticed by consumers. In the U.S., the latest (February 2003) Consumer Confidence Index of the Conference Board declined to its lowest level since October 1993.

Fortunately, in contrast to the U.S., the Canadian economy still has a lot of momentum. Strong employment gains and low interest rates should continue to support stalwart consumption growth in 2003. Moreover, the 2003 Federal Budget is expected to add 0.5 per cent to GDP growth this year. A potential risk is that, in the future, prolonged weakness in the U.S. economy will begin to affect the Canadian economy.

Europe

Present economic growth in Europe is stagnant. The near-term prospects for improvement are also difficult to visualize. Unemployment is on the rise and consumer sentiment is down. In fact, consumer sentiment in France and Italy recently hit five-year lows. The level of unemployment in Germany has been increasing for eight consecutive quarters.

In contrast to much of continental Europe, the U.K. economy is doing relatively well. Low interest rates, healthy housing markets, and strong employment gains are supporting solid consumption growth. However, the U.K. is not immune to the economic malaise present in the eurozone. In response to the slow growth in many parts of Europe, which is already beginning to weigh on British manufacturers, and despite rising inflation, the Bank of England recently cut interest rates by 25 basis points.

Asia-Pacific

Economic growth in the Asia-Pacific region is currently mixed. Australia, China and Korea are doing relatively well economically while Japan and the rest of South East Asia are struggling. Strong job growth and historically low interest rates are supporting a robust Australian economy. According to Economy.com, China's ongoing modernization and enormous inflows of foreign direct investment are complementing income gains to drive a robust domestic economy that will withstand a near-term slackening of its export markets. However, the export oriented economies of Singapore, Thailand, Malaysia, Indonesia and the Philippines will continue to suffer by a further slowdown in the global economy. Similarly, the economic outlook for Japan continues to be pessimistic as the unemployment rate is at an all-time high and industrial output has fallen over the past four months up to December.

Opportunities

According to Business Travel News' Top U.S. Hotel Chain Survey, enhancing a hotel's appeal is key to future growth and survival. Separate marketing strategies should be devised for as many market segments as possible including transient, group business, extended stay and leisure travel. For existing hotels, this often means renovations are required to meet the needs of the different market segments.

Don't forget about the Swiss. According to TIA, Switzerland has the highest Gross Domestic Product (GDP) per capita in Europe and the Swiss spend an average of US$ 834 (CDN$ 1,244) per leisure trip and US$ 1,194 (CDN$ 1,780) per business trip. Furthermore, the stability of the Swiss franc encourages outbound travel. When they travel, Swiss travellers place great value on landscape and nature. In addition, sports holidays and health and wellness holidays have become increasingly popular in recent years.

Closer to home, the seniors' market offers long-term growth potential. According to the Canadian Association for the 50 Plus (CARP 50 Plus), travellers age 50 and older spend 74 per cent more on a typical vacation than people aged 18 to 49. Moreover, people in their 50's already spend 40 per cent more time on vacations than those in their 40's. According to Statistics Canada, 29 per cent of the population in 2001 were aged 50 or older. By 2021, this group will likely represent 40 per cent of the population.

Some marketers suggest that the mature market is best divided into three segments. The age 50-to-64 market is where the front end of the baby boom is going to be and offers lots of potential. The 65-to-74 year old market is perhaps less attractive because while many of them were born in the 1930s and tend to be wealthy, they are few in number. The 75-plus market is again more attractive due to the large number of people born in the 1920's. For each of the CARP 50 Plus market segments, travel ranked quite high, only behind health and personal finance.

Fuel prices are likely to dominate travellers' minds in the coming months, whether they are flying or driving. According to the Automobile Association of America (AAA), fuel prices in February 2003 were the highest ever recorded for that month. As well, fuel surcharges on airline tickets are being added by airlines in the U.S. and Canada. In light of this, travellers, especially leisure travellers, will now factor in the cost of transportation as well as the distance involved when deciding whether or not to take a trip. To maintain momentum among travellers, suppliers will need to strongly emphasize the value of their products as well as the overall tourism experience, regardless of rising fuel costs.

Summary

Early into 2003, travellers are increasingly anxious about a potential military conflict with Iraq and the chances of further retaliatory terrorist acts. Clearly, since September 11th, economic and psychological uncertainty has hurt long-haul travel. As it stands now, a strong rebound in international long-haul travel to North America is probably not possible before the important summer season.

Meanwhile, in the calm before the potential storm, tourism suppliers are actively preparing their game plan. During the past year, some tourism suppliers-like low-cost carriers and online travel service providers-were able to recover more quickly because they put in place both the infrastructure and products that suited changing consumer preferences and travel patterns. A combination of timing and solid business fundamentals appear to have come together over the past year to establish these suppliers as possibly the most financially fit players in the industry as they head into increasingly uncertain times. In fact, pro-active growth strategies imply these businesses not only expect to survive a storm but to emerge even stronger.

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