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CTC Tourism Intelligence Bulletin – Issue 13: May 2003

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

The Struggle Continues & Intensifies

Executive Summary

- While the tourism industry has managed to survive the military battles in Iraq, a potentially bigger challenge for the industry has emerged in the battle for the containment of the Severe Acute Respiratory Syndrome (SARS). Although it has since been rescinded, the recent travel advisory issued by the World Health Organization (WHO) for non-essential travel to Toronto, whether warranted or not, is expected to intensify the negative impact that SARS is presently having on not only Canada's tourism industry but the economy at large.
- It seems that most of the headline news over the past 18 months has focussed on world events. Individually, these events could be threatening to the tourism industry. Fortunately, the global tourism industry has become much more resilient after September 11. In fact, the World Tourism Organization remains optimistic on the premise that the tourism industry's resilience will prove instrumental in establishing a recovery in the latter part of 2003.
- Whenever the recovery process begins, it will likely be very uneven for Canada. The short-lived WHO travel advisory could threaten Canada's reputation as a safe destination. Some international travellers could view Toronto, and potentially Canada, as an unsafe destination from a health perspective. Unfortunately, since September 11, travellers' perceptions are increasingly dictating the business reality for the tourism sector.

Emerging Trends and Issues - Increasingly Perception is Reality

- The positive signs for summer 2003 are that Canadian travellers continue to express a strong willingness to travel and, by and large, still have the financial means to do so. In fact, the Canadian Tourism Research Institute's (CTRI) latest Summer (May 1 - September 30) Travel Intentions Survey conducted in March 2003 revealed that 62.4 per cent of Canadians were likely or very likely to take a summer vacation this year-up compared to last year and 2001. It is therefore not surprising that an overwhelming percentage of travellers are choosing to stay within Canada (74.8 per cent).
- The one caveat to maintaining these strong travel intentions is geopolitical tensions and/or health concerns need to be perceived as easing. According to the latest CTRI Travel Intentions Survey, this was evident during the first few days of the war in Iraq, a time when everything was perceived to be going smoothly. While travel intentions are likely to have declined recently to coincide with heightened concerns regarding SARS, the belief is that they will rebound as these concerns ease. Until then, we expect health-related concerns will likely affect when, where and if a vacation will take place.

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Consumer (Traveller) Overview

- Business travel is expected to decrease even more due to lingering concerns about geopolitical events, weaker than expected economic growth and SARS. The Business Travel Coalition (BTC) latest survey regarding SARS stated 61 per cent of companies in the U.S. have banned travel to Asia. However, the degree of decline in business travel will vary by destination and travel segment. In its latest Survey and Analysis of Business Travel Policies and Costs, Runzheimer noted that business travellers are increasingly becoming smart travellers. Among other methods, smart business travellers contained costs by combining multiple trips into one, planned ahead to take advantage of lower airfares and used fewer taxis.
- The outlook for domestic leisure travel, which had led the rebound after September 11th, remains positive but the rate of growth is expected to slow and will depend on the perceived safety of a destination. In both Canada and the U.S., travel intentions for the summer of 2003 remain stable or up from last year. However, destination choices are in flux, depending upon travellers' sentiment regarding the destination and anxiety about air travel.

Travel Supplier Overview

- Air Canada filed for protection under the Companies' Creditors Arrangement Act (CCAA) in order to facilitate its operational, commercial, financial and corporate restructuring in April. It also announced it had secured \$1.05 billion in financing. All of its operations are affected by the filing, though for now, it is still business as usual. In the U.S., the airline industry is going through the worst crisis in its history. U.S. carriers have been adversely affected by the war in Iraq, weak economic growth as well as the SARS outbreak and most have responded by cutting capacity and jobs.
- For the week ending April 6th, the most current data available indicates that overall airline traffic in the U.S. was off 17.4 per cent compared to the previous year. While air traffic declined in every region of the U.S. during this week, the biggest drops were registered on Pacific routes. It is reported that the primary reason for this was related to the SARS epidemic and specifically to the travel warnings issued by the WHO. With that in mind, the short-lived WHO travel advisory for Toronto is expected to further squelch air traffic in and out of Toronto.
- According to HVS International, downtown Toronto hotels were running at 46 per cent occupancy levels for the week ending April 12th-down 34.6 per cent compared with last year. In addition to suffering from a rash of cancellations due to SARS, hotels are also reporting very weak forward bookings. The short-lived WHO travel advisory is expected to make this situation even worse. While U.S. hotels do not appear to be affected as much by SARS, the situation remains unfavourable. Even before the war started, Smith Travel Research reported revenue per available room (RevPAR) in the U.S. was down 5 per cent in 2003, compared with the previous year. Once the war started, RevPAR plummeted even further.

Economic Overview

- With the war in Iraq over, the North American economy should be poised for a rebound. Canadian employment growth continues to be strong through the first part of 2003 and the economy is still accelerating fast enough that inflation remains a concern with the Bank of Canada. Besides the drop in oil prices, the argument for growth in the United States is further helped by low interest rates and significant federal tax cuts.
- European economic growth is also expected to benefit from lower oil prices. Unfortunately, Europe has significant structural problems, especially in its labour markets, which are dragging down economic growth. Interest rates are not low enough to stimulate economic activity and government deficit restrictions (because of the monetary union) are causing governments to raise taxes and cut spending, just at a time when fiscal stimulus is most needed. The end result of all of these pressures is that European consumers (especially those on the continent) are feeling less than optimistic, and their spending correspondingly reflects this mood.
- SARS is dominating the outlook for Asian economies. The impact of SARS has been dramatic, especially in Hong Kong where retail sales fell by over 50 per cent in March. Based on a 60 per cent reduction in tourism in the region, analysts at Morgan Stanley have revised downward projections for economic growth in Asia this year from 5 per cent to 4.6 per cent. Economists at J.P. Morgan are predicting recession-like conditions in the first half of this year in Hong Kong and are revising forecasts downward for both Singapore as well as the region's economic juggernaut, China.

Opportunities

- A study by Cornell University's School of Hotel Administration suggests discounting room rates during slow times may not be the best approach to increase revenues. While the prevailing wisdom is that reducing room rates entices new customers to book rooms, the study argues that this approach doesn't work in an era of proliferating room discounts and web-based travel deals. Hotels are therefore encouraged to find other methods to keep or increase their room revenues without resorting to price discounting. One tactic that has proven to be successful is to offer packages that emphasize the value of services received.
- Value will be uppermost in the minds of American travellers this summer—at least according to the recent survey by Travelocity. According to the survey, respondents stated that they are monitoring international destinations, including Canada, for travel values. Travelocity states that the activities American travellers are most interested in doing on their vacation in the coming year are: spending time with family and friends, beach vacations, camping/outdoors/nature trips, adventure vacations, amusement/theme parks, cultural experiences, architectural/historical sites, romantic time/honeymoon, cruise and fishing.
- In an era of essential-travel-only, knowing which travel segments are still travelling is of key importance. According to an April 7th survey by the Business Travel Coalition, only 22 per cent of colleges and universities are banning travel to destinations known to have cases of SARS, compared with 58 per cent of corporations.

In Brief

Though the U.S.-led war with Iraq is over, the battle over the containment of Severe Acute Respiratory Syndrome (SARS) is still very much in the forefront. Although it has since been rescinded, the recent travel advisory issued by the World Health Organization (WHO) for non-essential travel to Toronto, whether warranted or not, is expected to intensify the negative impact that SARS is presently having not only on Canada's tourism industry but on the economy at large.

Over the past 18 months, most of the headline news has focussed on world events. Individually, these events could be threatening to the tourism industry. Fortunately, the tourism industry has become much more resilient after September 11. In fact, the World Tourism Organization remains optimistic on the premise that the tourism industry's resilience will prove instrumental in establishing a recovery in the latter part of 2003.

However, it is once again likely that the recovery process will be uneven. Specific destinations and segments of the tourism industry have been, and are expected to continue to be affected to different degrees, by the war in Iraq, weak global economic growth, the troubled state of the airline industry and SARS. While Canada appears to have retained its reputation as a safe destination in terms of any war-related reprisals, concerns about SARS, particularly in the Toronto region, are increasing.

In the short term, safety-related concerns will undoubtedly continue to dominate people's decisions to travel. Fortunately, recent travel intentions surveys suggest that a strong desire for leisure travel still exists, particularly for domestic trips. As in past years, these surveys indicate that the cost of travel, the uncertain economy as well as the exchange rate are the primary reasons for not planning a leisure trip this summer. However, in view of the recent concerns regarding the SARS epidemic, travellers' perceptions will increasingly play a key role in determining the business reality of the tourism industry.

Emerging Trends and Issues

Increasingly Perception is Reality

The positive signs for summer 2003 are that Canadian travellers continue to express a strong willingness to travel and, by and large, still have the financial means to do so. In fact, the Canadian Tourism Research Institute's (CTRI) latest Summer (May 1 - September 30) Travel Intentions Survey conducted in March 2003 revealed 62.4 per cent of Canadians were likely or very likely to take a summer vacation this year-up compared to last year and 2001. Not surprisingly, an overwhelming percentage of travellers are choosing to stay within Canada (74.8 per cent). The key caveat to maintaining these strong travel intentions is geopolitical tensions and/or health related concerns need to be perceived as easing.

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

	2003	2002	2001
Vacations Intended	62.4	61.2	60.5
Canada	46.7	43.7	47.1
US	6.4	8.6	6.8
Other International	8.1	7.4	5.7
Do Not Know/Refused	1.2	1.5	0.9

Source: The Conference Board of Canada.

In fact, according to the latest CTRI Travel Intentions Survey, during the first few days of the war in Iraq, when it appeared everything was going smoothly, intentions to visit other international destinations escalated. Not only did some of these gains come at the expense of relatively riskier destinations like the U.S., but they also impacted negatively on safe destinations like Canada. While overall Canadian travel intentions are likely to have declined since the survey was completed, due to heightened concerns regarding SARS, the belief is that they will rebound as these concerns ease. In fact, the province of Ontario and the City of Toronto have already dedicated \$15 million toward international marketing in an effort to woo the world back to Toronto once SARS is officially contained in Canada.

What does it all mean?

Increasingly, travellers' perceptions will dictate the business reality for the tourism industry. For most, money is not the main obstacle preventing travel decisions. The Canadian economy remains strong and continued growth is foreseen. However, travellers' perceptions regarding possible fallout from the war in Iraq, the state of the airlines as well as health-related concerns are more likely to influence when, where and if a vacation will take place.

While Canada is still viewed as a safe destination in terms of any war-related reprisals, its reputation as a safe destination from a health perspective has suffered because of the SARS outbreak. Undoubtedly, SARS has (and will continue) to impact negatively on domestic and international travel to and from Canada this summer.

International travel perceptions regarding the health safety of Canada have not only suffered a tremendous setback from the WHO travel advisory but also from individual countries issuing travel warnings to its citizens wanting to travel to Toronto. Among those countries that have advised against non-essential travel to Toronto are some of Canada's important inbound markets including: Australia, France, Ireland, Italy, Malaysia, New Zealand, Singapore, South Korea, Spain and the United Kingdom.

Consumer overview - Canada and the United States

Business Travellers

Business travel is expected to decrease even more due to lingering worries about geopolitical events and SARS. However, losses will vary according to destination and travel segment. In its latest Survey and Analysis of Business Travel Policies and Costs, Runzheimer noted that business travellers are increasingly becoming smart travellers. Tactics used by business travellers and companies to contain costs included: combining multiple trips into one, providing per diems for meals (instead of cost reimbursement), planning ahead to take advantage of lower airfares and using less expensive hotels as well as fewer taxis.

Based on the findings in its latest survey, Runzheimer reported that the average length of a U.S. business trip was 3 days, reported by 56 per cent of respondents in 2002 compared with 45 per cent in 2000. Respondents also reported an 8 per cent decline in the number of one and two-day trips, which may reflect improved traveller planning and combining more prospects or clients in one trip.

Travel costs for U.S. businesses are increasing only modestly. In 2002, respondents to Runzheimer's survey reported the average airline ticket cost and hotel rate increased 2.6 per cent to US\$ 472 (CDN\$ 687) and 5.5 per cent to US\$ 116 (CDN\$ 169) respectively in 2002 compared with 2000. Meanwhile, the average car rental fare fell 2.3 per cent to US\$ 42 (CDN\$ 61) in 2002 compared with 2000.

In Canada, BTI Canada announced the results of its 2002 Benchmark study. It noted that the average ticket price for airfares remained equal to that of 2001. While the average length of a domestic trip decreased, transborder and international trips saw their average length increase by 4 per cent and 14 per cent respectively. Similar to the trend in the U.S., Canadian business travellers are combining trips as well as accomplishing more in one trip.

Results from the Travel Industry Association of America's (TIA) Spring 2003 Travelometer found that business travel is once again expected to decline in volume and that these declines will exceed those projected for leisure travel. According to TIA, 52.6 million business trips will be taken this spring, down 2.5 per cent from last year. More significantly, this figure is down 13 per cent compared with 2001. According to a survey by USA Today, many business trips will be reduced due to war and terrorism concerns. The survey revealed that more than 30 per cent of respondents cited these two factors as the primary reason for reducing international travel in the coming months, and about a quarter cited war and terrorism fears as the reason to reduce domestic travel. Other factors affecting reduced travel included: the weak economy (18%), the desire to be close to family (17%) and the ability to use alternatives to travel (13%).

Destinations that are perceived as risky will likely continue to experience greater reductions in the number of business travellers. Travellers to destinations viewed as hazardous will likely resort to modes of transportation other than air travel. The International Air Transport Association estimates bookings to Asia were down 30 per cent to 40 per cent in early April due to worries about SARS. The latest survey (April 17) by the Business Travel Coalition (BTC) regarding SARS stated corporate travel policy changes stabilized in mid-April with 61 per cent of companies in the U.S. banning travel to Asia. This is up marginally from 58 per cent on April 7th and 27 per cent on April 1st. Instead of meeting suppliers face-to-face at trade shows and conferences, buyers are requesting that samples be mailed or that photos be e-mailed after participating in video conferences, teleconferences and Webcasts.

Toronto suffered cancellations from business travellers and conferences due to worries about SARS. As well, according to the BTC survey, several companies have identified Toronto as a banned or essential travel only destination. This situation will undoubtedly worsen as a result of the now- rescinded WHO travel advisory.

Leisure Travellers

The outlook for domestic leisure travel, which led the rebound after September 11, remains positive but the rate of growth is expected to be slow and will depend on the perceived safety of a destination. In both Canada and the U.S., travel intentions for the summer of 2003 remain stable or up from last year. However, destination choices are in flux, depending upon travellers' sentiment regarding the destination.

According to the Canadian Tourism Research Institute (CTRI), Canadians' 2003 summer travel intentions are up 1.2 percentage points to 62.4 per cent when compared to last year. Seasonal travel patterns are still expected to prevail with the majority of travel this summer being domestic trips (74.8% of total trips taken). The survey also suggests that travel to non-U.S. international destinations will be more popular than trips to the U.S. (13.0% versus 10.3%).

A survey by Yesawich, Pepperdine, Brown and Russell, stated that only 7 per cent of leisure travellers in the U.S. cancelled a trip because of the war in Iraq. It is not surprising that 58 per cent of these cancellations were air travel trips. Less than one out of every four cancellations were from trips by car-good news for Canadian suppliers located within driving distance of U.S. travellers. Nevertheless, almost half (46%) of the cancellations were for international trips. While 75 per cent indicated the war would not influence their future leisure travel plans, 72 per cent of those who would change their plans said they would take fewer international trips and 65 per cent said they would drive rather than fly.

According to a survey by Travelocity, traditional vacation patterns-seeing the country and spending time with family and friends-will once again be significant. Specifically, 88 per cent of respondents plan to travel more than 200 miles from their home within the U.S., up from 82 per cent in a similar survey done in December 2002. As well, more travellers now plan to spend their vacation with family and friends, up to 42 per cent from 28 per cent in December. However, the survey also revealed 24 per cent plan to travel to a destination in Canada, Central or South America, up from 21 per cent in December.

Based on TIA's latest (Spring 2003) Travelometer forecast, leisure travel will begin to wane after growing steadily over the past two years. In the spring of 2003, Americans plan to take 171.2 million leisure trips, down 1.6 per cent from 2002.

A survey by the Travel Industry Association of America (TIA) stated that Americans will continue to travel despite the war in Iraq-though most likely not to overseas destinations. Seventy-one per cent of respondents to a War Impact Study by TIA indicated that they will not be going overseas this spring and summer. A significant exception was the strong attractiveness rating for travel to Canada, though the survey was conducted before SARS worries intensified. Furthermore, similar to other surveys in Canada and the U.S., the TIA survey indicated that the economy is a greater deterrent to travel than the threat of terrorism or war itself. Several post September 11th trends are even more prevalent. Travellers indicated an increased likelihood to travel by car, to take shorter getaway trips, travel closer to home and to delay travel planning.

The Canadian Tourism Commission's (CTC) foreign office in the U.S. reported tour operators' bookings have declined significantly. The bookings that do materialize tend to be for weekend getaways, one-day trips or for trips that will take place around mid to late summer. New bookings have also been negligible. U.S. travellers are increasingly looking for value, as the economy remains the major factor affecting the market.

A survey by Ipsos-Reid on behalf of the CTC indicated that the vast majority of Americans' outlook on travel to Canada has not been affected by Canada's position on the war in Iraq. Approximately 63 per cent of Americans who were aware of Canada's position on the war stated that it had no impact on their likelihood to travel to Canada in the next 6 to 12 months. Meanwhile, 30 per cent indicated they would be less likely to travel to Canada.

Travel-supplier overview - Canada and the United States

Airlines - Canada

Air Canada filed for protection under the Companies' Creditors Arrangement Act (CCAA) in order to facilitate its operational, commercial, financial and corporate restructuring in April. It also announced it had secured \$1.05 billion in financing. Although all of its operations are affected by the filing, for now, it remains business as usual.

Air Canada was the first major network airline in North America to identify and respond to the economic downturn in late 2000 when the premium corporate and business travel market started to evaporate. This put it in a better relative position in 2001 and 2002 than its counterparts in the U.S. However, despite many cost-saving initiatives, it was unable to reduce its costs enough to match the reduction in revenues it was experiencing. Major stumbling blocks included a limited ability to lay off staff or reduce labour costs as well as an effectively fixed airline fleet cost. Industry problems such as high insurance costs, high fuel costs, growth of low-cost competition, and lower demand have also played a role in bankruptcy filing.

At the onset of the war in Iraq, Air Canada announced that it would reduce employment by 3,600 jobs. Both non- and unionized employees were affected at all rank levels. The decision was also made to cut air capacity by 15 per cent during April and May.

For the month of March, Air Canada flew 10.1 per cent fewer revenue passenger miles (RPMs) on its mainline operations compared with March 2002. Air Canada attributed the results to the war in Iraq and the SARS outbreak in Toronto. During this same period, Jazz, which is not part of the mainline operation, flew 0.8 per cent more RPMs.

NAV Canada announced that air traffic figures for December 2002 and January 2003 remain below those of pre-September 11th, 2001 levels. NAV Canada noted that while traffic is up over the last fiscal year (2001/02), there is still a substantial gap compared with 2000/01.

Transat A.T. reported a loss of \$7.0 million for the first quarter of 2003 compared with a loss of \$17.0 million for the same period a year earlier. This came despite the fact that Transat A.T. managed to increase revenues by 20 per cent. Unfortunately, it also announced the loss of 240 jobs due to the slowdown in leisure travel. The airline reiterated that the current global situation has had a sustained unfavourable impact on tourism.

Meanwhile, Jetsgo reported a 73.6 per cent load factor in March, up from 72 per cent and 69 per cent in February and January respectively. March was also the first month that Jetsgo posted available seat miles over 100 million (112,797,920) due to expansion to new destinations.

On the other hand, Westjet passenger load factor fell to 66.8 per cent in March from 70.8 per cent a year earlier. However, due to an aggressive expansion plan, its revenue passenger miles rose 49.4 per cent during the same period.

Canjet announced plans to increase capacity by 40 per cent this summer. The increase will be attained through a combination of new and increased service to various Eastern Canada destinations.

Airlines - U.S.

The airline industry is going through the worst crisis in its history. U.S. carriers have been adversely affected by the war in Iraq and SARS and most have responded not only with decreased air capacity but also with staff cuts. For the week ending April 6th, airline traffic in the U.S. fell 17.4 per cent, compared to the previous year. While air travel fell in every region of the U.S., the biggest drops were registered on Pacific routes. The reason for this was the impact of SARS and the travel warnings issued from the World Health Organization. While system-wide air traffic for the week ended April 13 was somewhat better (down 10.6 per cent compared with the same week a year earlier), Pacific route traffic plunged 35.7 per cent.

The Struggle Continues & Intensifies

Unfortunately, the situation is not expected to improve much in the near future. In March, the ATA reported domestic travel bookings were still down more than 20 per cent while some international regions were down over 40 per cent. For the month of March, the ATA reported revenue passenger miles (RPMs) decreased 5 per cent compared with last year, with international RPMs more negative than domestic RPMs.

In response to the onset of the war in Iraq, U.S. airlines relaxed rules regarding ticket changes and cancellations. United, American, America West, Continental and US Airways allowed changes on all flights while Delta and Northwest chose to allow changes on international flights only.

In April, President Bush signed a US\$ 3.5 billion (CDN\$ 5.1 billion) emergency supplemental appropriations bill for aid to the airline industry. US\$ 2.9 billion (CDN\$ 4.2 billion) was allocated to reimburse airlines for security costs and to extend unemployment benefits for airline and other workers.

According to the Federal Aviation Authority's latest forecast, U.S. air traffic is not expected to return to pre-September 11th levels until 2006. Domestic capacity for U.S. carriers is expected to decline 1 per cent in 2003 but will increase slightly in the following years. The forecast was prepared prior to the outbreak of the war in Iraq and the SARS epidemic.

For the month of April, American Airlines announced a reduction of 6 per cent in its international capacity as a first step in response to the war in Iraq. May flight capacity will be cut an additional 13 per cent for international flights and 2 per cent for domestic flights. While American has avoided filing for bankruptcy, due in part to deals reached with its unions, it must continue to cut costs in order to return to profitability.

In response to dismal March and first quarter results, Continental announced the elimination of at least 1,200 jobs and cut capacity on certain transatlantic and Pacific routes. It is anticipated these flights will be reinstated June 2.

In March, Delta announced that it would cut capacity by 12 per cent, reducing both domestic and international service. The cuts will remain in effect until at least the end of April. Meanwhile, Song, Delta's new low-cost service, commenced operations in April. It currently flies between cities in the Northeast, Florida, Atlanta and Las Vegas.

Northwest Airlines announced in March that it would lay off 4,900 employees and trim its capacity by 12 per cent. Northwest Airlines is more exposed than other U.S. carriers to transpacific routes and is therefore more susceptible to a slowdown in demand due to SARS.

As a result of the war in Iraq, United stated that its international bookings dropped 40 per cent in March. United further announced it would eliminate 900 jobs and cut capacity by 8 per cent during April and an additional 4 per cent in May.

Eight months after it entered bankruptcy, US Airways emerged from bankruptcy at the end of March. However, before emerging from bankruptcy, the airline announced a 5 per cent wage cut across its entire workforce due to sagging revenues and the war in Iraq. US Airways also cut capacity by 4 per cent in April in response to lower bookings. Upon its exit from bankruptcy, US Airways had 36 per cent fewer employees, 30 per cent fewer available seats, 25 per cent fewer flights and annual cost savings of US\$ 1.9 billion (CDN\$ 2.8 billion).

In April, the U.S. Transportation Department gave its approval to a marketing partnership between Continental Airlines, Delta Air Lines and Northwest Airlines after the carriers proposed a compromise intended to make the arrangement more competitive. The agreement, called a code-sharing alliance, will be the largest in the industry and will allow each airline to sell tickets on one another's flights and let passengers use the other airlines' airport lounges.

*The Struggle Continues & Intensifies***Table 1. Net Income, Q1 2003-2**

Airline	Net Income (Loss) Q1 2003 (in U.S. \$)	Net Income (Loss) Q1 2002 (in U.S. \$)
Continental Airlines	-\$221 million	-\$166 million
Delta Airlines	-\$466 million	-\$397 million
Northwest Airlines	-\$396 million	-\$171 million

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

Airline	RPM; Mar 2003 vs. Mar 2002	Capacity, Mar 2003 vs. Mar 2002
Continental Airlines	Pacific: -16%, Transatlantic -10%	+0.7%
Delta Air Lines	-8.1%	-3.2%
United Airlines	-5.7%	-0.8%

Hotels - Canada

According to HVS International, downtown Toronto hotels were running at 46 per cent occupancy levels for the week ending April 12th-down 34.6 per cent compared with last year. In addition to suffering from a rash of cancellations due to SARS, hotels are also reporting very weak forward bookings. The now-rescinded WHO travel advisory is expected to make this situation even worse.

Previously, Pannel Kerr Forster Consulting Inc. (PKF) reported that the average daily room rate for Canadian hotels in February increased 1.9 per cent to \$110.57 compared with the same month a year earlier. On a national level during this time, the occupancy rate increased 0.8 per cent to 56.7 per cent. Meanwhile, RevPAR increased 2.7 per cent to \$62.65. The most significant RevPAR increases during February were witnessed out west, on Vancouver Island and in Kamloops.

Fairmont announced positive earnings for the first quarter of 2003 even though RevPAR was flat compared with last year. Fairmont noted their portfolio benefited from their strength in the leisure market and a considerable Canadian component. Favourable exchange rates also helped achieve the positive results. Meanwhile, Legacy Hotels REIT attributed its first quarter loss to higher financing and amortization costs related to hotels acquired in 2002.

Due to terrorism warnings, Starwood Hotels initiated new training programs which review parking procedures, security staffing, package handling, emergency equipment inventory, entrance and exit restrictions, luggage storage and vendor verification.

Table 3. Hotel RevPAR and Net Income Q1

Company	Revenue per available room (RevPAR), Q4 2002 vs. Q4 2001	Net Income (Loss) Q1 2003	Net Income (Loss) Q1 2002
Fairmont Hotels and Resorts	+0.5%	US\$ 12.5 million (CDN \$18.1 million)	US\$ 13.6 million (CDN\$ 19.7 million)
Legacy Hotels REIT	-2.5%	-\$21.4 million	-\$15.6 million

Hotels - U.S.

While U.S. hotels do not appear to be affected as much by SARS, the situation remains unfavourable. Even before the war started, Smith Travel Research reported revenue per available room (RevPAR) was down 5 per cent in 2003 compared with last year. Once the war started, RevPAR plummeted. In order to cope with the war and health concerns such as SARS, hotels are trying many tactics to both cut costs and entice travellers. These tactics include eliminating penalties for cancellations, cutting services in restaurants and health clubs, reducing staff if necessary, closing sections of the hotels and delaying planned advertising campaigns.

PricewaterhouseCoopers (PwC) estimates that declines in both leisure and business travel during the war with Iraq will cause RevPAR to decline by 3.1 per cent in the second quarter of 2003, after a flat first quarter, compared with the same periods last year. RevPAR is expected to increase by only 0.5 per cent in 2003-on the condition that the U.S. is not a target of any major or specific terrorist attacks.

PwC further estimates demand will decline by 1.8 per cent during the second quarter of 2003 while the average daily rate (ADR) will increase 0.8 per cent compared with 2002. Unfortunately, the increase in ADR will not make up for the declines of 1 per cent and 1.6 per cent witnessed in 2001 and 2002 respectively.

According to a survey conducted by PwC just days into the war, more than 20 per cent of booked rooms were cancelled for stays over the next seven days in key U.S. cities. Smith Travel Research also encountered negative results due to the war. By the end of the first week of war, RevPAR had dropped 8.4 per cent while average room rates declined 3.8 per cent, both compared with last year. Luxury and urban hotels were hardest hit.

Marriott International reported on March 3rd that it set a single-day company record in bookings on its web site, generating more than US\$ 4.8 million (CDN\$ 7.0 million) in gross sales- the highest since the site was launched in 1996.

Travel Agents

In the U.S., the Airline Reporting Corporation (ARC) reported total sales by travel agencies in February were 7 per cent below February 2002 results. The Air Transport Association (ATA) reported that the average domestic (U.S.) airfare paid in February dropped 5.3 per cent compared with last year. Meanwhile, international airfares rose 4.2 per cent.

PhoCusWright Research reported that although the travel industry experienced a 5 per cent decline in total bookings during 2002 compared with 2001, the online segment grew 37 per cent. In fact, they estimate that online travel purchases accounted for 15 per cent of all travel bookings in 2002. PhoCusWright attributes the success of online agencies to more people going online to buy airline tickets, rent cars, book hotel rooms and create vacation packages.

International overview - Overseas**United Kingdom and Ireland**

British Airways announced that it will reduce capacity in April and May by 4 per cent and accelerate the 13,000 job cuts already announced. British Airways stated that revenues and forward bookings have been significantly impacted by the war in Iraq. As well, British Airways and Air France announced that they will both retire their Concorde fleets as of October 31.

EasyJet warned its profits have been damaged in the last six months due to low fares. The no-frills carrier stated that while lower fares have resulted in a 40 per cent growth in passenger numbers, average fares fell 10 per cent compared with the same six months last year.

The Struggle Continues & Intensifies

EasyJet announced that, although 93 per cent of its passengers book through its website, it will further discourage telephone bookings by allowing telephone sales only for passengers departing in the following seven days. EasyJet also announced that it will not buy the no-frills subsidiary of British Airways, dba, an option it was offered last year.

The latest UK no-frills airline, Now, was launched in March. The airline is based out of Luton and promises all passengers will pay the same fare on every flight. It will service seven destinations in Europe.

Table 4. Percentage change in passenger numbers, March 2003 compared with March 2002

Carrier	March 2003 vs. March 2002
EasyJet	+32.2%
Ryanair	+39.0%
British Airways	-11.4%

British airport operator, BAA, reported a 4.7 per cent increase in traffic at its seven airports for its full year to March 31, 2003. However, growth was not even. Heathrow suffered the biggest losses, as traffic fell by 8 per cent. In contrast, Stansted, due to its expanding budget airlines base, registered increases of 18.9 per cent for the same period.

The Canadian Tourism Commission's foreign office in the U.K. reported that operators are cutting the cost of packages up to 70 per cent in order to stimulate sales. Although the war in Iraq is over, consumers remain uncertain and tend to collect information while delaying travel decisions. With regards to Canada, bookings are still being made, though some consumers are transferring bookings to later departure dates or looking at alternatives. The Association of British Travel Agents (ABTA) noted that capacity cuts do represent an impediment to travel.

In March, a survey for the ABTA found that 79 per cent of respondents who had taken a trip by plane in the last two years had either booked or intended to book an overseas holiday this year. Of these, 33 per cent had already booked while 29 per cent said they intended to book and that the war would have no impact on their plans. Meanwhile, 17 per cent intended to take a holiday but would delay their decision due to the war and the threat of terrorism.

A survey by Morgan Stanley of U.K. residents revealed that 42 per cent of respondents were planning a vacation this summer. When asked about destinations, only 6 per cent indicated they intended to visit North America.

According to a survey by the Institute of Travel Management, less than 50 per cent of British companies would allow the war in Iraq to prevent them from doing business and travelling overseas. The survey also found that 73 per cent of companies have or are now reviewing plans to repatriate workers in the event of an emergency.

France

After posting a 1.9 per cent decline in passenger traffic in March, compared with a year ago, Air France announced capacity cuts of 7 per cent in April as a result of the war in Iraq and the SARS epidemic. However, service to all destinations was maintained. It also postponed delivery of seven aircraft and re-launched its stringent cost-cutting program put in place after September 11.

Because of the war, Air France implemented a policy that allows customers to postpone flight reservations until November 30 without penalty fees.

The Paris-based carrier Air Jet entered receivership after filing for bankruptcy in March. Air Jet flew charter services and code-shared flights with Air France.

The Struggle Continues & Intensifies

According to the Australian Tourist Commission's latest France Market Report, the overall mood of the French traveller is one of wait-and-see with regards to world political events, rather than actually postponing their decision to travel to a particular destination.

Germany

Lufthansa reported that passenger load factor dropped 2.4 per cent to 70.5 per cent during the first quarter of 2003 compared with 2002. Lufthansa cited a persistently weak global economy, the Iraq war and the spreading of SARS as having a significant impact on the results. Load factors were down for all regions. In March, Lufthansa announced further capacity cuts, the majority of which would impact North American routes.

Also in March, Lufthansa reported a net profit of EUR 717 million (CDN\$ 1.14 billion) for 2002 compared with a loss of EUR 633 million (CDN \$ 1.0 billion) in 2001. Lufthansa did however caution that it was unlikely to match 2002 earnings in 2003.

According to the German travel and tourism magazine, Fvw, German tour operators received few cancellations as war broke out in Iraq. However, like other destinations, forward bookings remain on hold. To encourage travellers to not cancel, most operators offered free re-booking to alternative destinations. Fvw also noted that a survey by Forsa found 80 per cent of Germans intend to spend less on their holidays this year and two-thirds plan a drastic cutback. Partly for this reason, low-priced holidays are once again expected to be the best sellers.

In addition, a survey by Fvw and the TATS organization reported German tourism sales-mostly package holidays-decreased 13 per cent in February compared with last year. Total sales by travel agencies surveyed declined by 9.6 per cent during the same period. The CTC reported March bookings of tour operators contacted were down by 20-30 per cent compared with last year.

Fvw also reported that the traditional family market is declining as the number of outbound holidays taken by European families fell 9 per cent to 71.5 million trips in 2002 compared with a year earlier. This follows a 4 per cent decline in 2001 compared with 2000. Much of the decline is attributed to problems in the German marketplace since this segment accounts for a quarter of all international family holidays taken by Europeans.

According to the 19th German Tourism Analysis of the British American Tobacco (BAT) Leisure Research Institute, 2003 will not be a "normal year for travel". Still, stable with 2002, 47 per cent of respondents had firm travel intentions despite reduced cash and the threat of conflict in Iraq. However, due to the weak economy, there is clear trend for shorter holidays, last minute bookings and special deals. Accordingly, means of transportation like the automobile, coach, rail and ship have become more popular at the expense of air travel.

The Canadian Tourism Commission's foreign office in Germany reported that concerns about SARS have replaced war concerns-especially regarding travel to Toronto. Both issues are keeping many consumers from making firm travel plans. Unfortunately, while its web-site was being amended, the German Ministry of Foreign Affairs suggested that travel to Canada should be avoided. As such, the CTC received calls regarding SARS from concerned travellers and some tour operators experienced cancellations-specifically for travel to Toronto/Ontario.

Italy

As expected, Alitalia posted a net profit of EUR 93 million (CDN\$ 148 million) for 2002, compared with a loss of EUR 907 million (CDN\$ 1.4 billion) in 2001. During this period, revenues decreased 9 per cent. Alitalia warned that because of increased competition, the war in Iraq and higher handling and security costs, it is not possible to predict another positive net result for 2003. This is why, in March, Alitalia started charging a temporary fuel surcharge on all flights to compensate for significant increases in fuel costs.

The Australian Tourist Commission reported in its latest Italy Market Report that bookings are slow to non-existent, due to the global situation. Travellers are increasingly concerned about SARS.

The Struggle Continues & Intensifies

The Canadian Tourism Commission's foreign office in Italy reported that it also has found travellers to be more concerned about SARS than the war. While the overall attitude of consumers remains one of wait-and-see, especially as summer bookings generally do not start until May, some travellers are putting their bookings on hold until SARS is no longer an issue. On a positive note, 69.2 per cent of respondents to a survey by CIRM in March stated that the war had little to no effect on their holiday plans.

The Netherlands

KLM announced passenger traffic fell 3 per cent in March to 4.8 billion RPKs while capacity increased 6 per cent. These statistics reflect changes made after the onset of war to compensate for diminishing demand. March traffic was also affected by the initial decline in demand due to SARS. On North Atlantic routes, load factor dropped 7.5 per cent to 81.2 per cent.

Due to declining demand as a result of both the war in Iraq and SARS, KLM announced in April it is intensifying its company-wide focus to reduce costs and maximize its cash position. A hiring freeze has since been implemented and KLM is considering eliminating 9 per cent of its workforce. Capacity has also been slashed by 20 per cent on routes to the Middle East and the U.S. and by 5 per cent on European routes.

The Canadian Tourism Commission's foreign office in the Netherlands reported that while travellers were worried about the war, in general it was still business as usual. It was reported that just after the war in Iraq started, 29 per cent of Dutch consumers were waiting to book their holiday. Now that the war is over, it is expected that bookings will pick up again. On a positive note, it was reported that SARS has so far had very little influence on Dutch travellers to Canada. In addition, the bookings that are being made are generally for more expensive packages.

Japan

Japan Airlines System Corp. (JAS) does not expect a rapid improvement in earnings after the end of the war in Iraq, based on their experience during the 1991 Gulf War. At that time, it took four to six months for operations to fully recover. The airline also remains cautious following the outbreak of SARS in Asia. Japan Airlines also announced more capacity cuts in April after reducing capacity twice in March due to the war in Iraq and the SARS outbreak. Capacity cuts for JAS now total 8 per cent during March and are expected to increase to 12 per cent during April and 17 per cent in May. In March, JAS announced job cuts and slashed its annual net profit forecast by 67 per cent.

JTB Corporation forecasts a 36 per cent drop in the number of Japanese travelling abroad during this year's Golden Week holiday season (April 26 - May 5). Even with the end of the war in Iraq, Japan's economic slump and worries about SARS will keep optimism low. Nippon Travel Agency Company's reservations are down 25 per cent compared with last year for the Golden Week holiday period.

According to the Japan Association of Travel Agents, bookings for overseas travel in May halved (down 49.9%) from a year earlier due to factors such as the war and SARS. April and June also showed sharp drops of 37 per cent each for the same month compared to the previous year.

The Canadian Tourism Commission's foreign office in Japan reported SARS is the main issue for Japanese travellers. In April, the Ministry of Foreign Affairs posted a travel advisory to Japanese visiting Toronto. Due to both SARS and the war in Iraq, some tour operators shifted their focus to domestic program promotion. Tour operators anticipate the Japanese outbound market will be down by as much as 30 per cent from April to June.

The Australian Tourist Commission reported that group travel to all destinations had been negatively impacted by the war in Iraq. After the first couple of days of war when cancellations were common, the rate slowed as consumers switched destinations rather than cancelling travel completely. However, travellers' attention has turned to SARS and forward bookings are reported to be down.

The Struggle Continues & Intensifies

According to the Jano Research Institute, brand shopping is no longer the main reason for Japanese to travel abroad. In recent years, Japanese travellers have increasingly been seeking "Zakka" or local cultural goods and special experiences particular to the destination.

Meanwhile, the Japan National Tourist Organization reported that the number of overseas travellers for January increased by 20.4 per cent to 1,355,000 compared with a year earlier.

Korea

Korean Air (KAL) announced its average load factor on passenger flights fell to 66 per cent in March from 77 per cent a year ago due to the outbreak of SARS. As a result, KAL has asked the South Korean government to temporarily cut the tax on oil purchases as well as provide a special loan to buy oil. Due to declining demand, both KAL and Asiana announced capacity cuts, mostly on Chinese routes in March and April. It is anticipated that the capacity cuts will result in substantial declines in the carriers' earnings this year.

According to the Canadian Tourism Commission's foreign office in Korea, both SARS and the war are negatively affecting Korean outbound travel, with SARS having a significantly greater effect. Overall, there is a sense of "wait-and-see" cautious attitude among Korean travellers. Group travel has been the most negatively affected as FITs and students continue to travel to Canada regardless of world events and medical outbreaks. In order to stimulate group travel, some travel agents are offering discounts of 30-40 per cent on packages.

The Australian Tourist Commission reported in its latest Market Report for Korea that Korean departures for January increased 18 per cent compared with last year. After the outbreak of war, Korean group travel, as in other Asian countries, was the most affected tourism segment as about 50 per cent of groups cancelled their outbound trips.

Hong Kong

Cathay Pacific announced capacity cuts of 37 per cent of its total capacity in April. Both regional and long-haul flight services were affected, including flights to and from Vancouver. Cathay Pacific also released flight attendees in training. The airline stated the war and SARS had a devastating impact on its passenger demand and that Cathay Pacific's commercial future is uncertain. It is now anticipated that its first half year earnings will be negative.

Dragonair cut its capacity by 25 per cent on selected routes in April due to a downturn in demand following the outbreak of SARS. Dragonair noted leisure travel had been particularly hard hit although business travel had also posted a significant decline. Once demand returns, Dragonair stated it will implement its full planned summer schedule.

The Canadian Tourism Commission's foreign office in Hong Kong reported that most travellers are cancelling and postponing travel, partly because of entry restrictions imposed upon citizens of Hong Kong when they enter other countries. Forward bookings are scarce as well. Overall, the tourism market is very depressed and it is not expected to turn around in a short period of time. With the exception of Toronto, Canada is still perceived as a safe destination.

The latest Mastercard Asian lifestyles survey released in March revealed that while Hong Kong respondents travelled more than other Asian countries (40% of Hong Kong residents took a personal trip in the last six months of 2002 compared with 17 per cent of residents across Asia), travel was nonetheless down 28 per cent from 2001. Similar to survey results in 2001, almost twice as many Asians travelled alone (66%) rather than in groups (34%). When asked about future personal trips for the next six months, 29 per cent of respondents indicated that they anticipate an increase while 34 per cent anticipated a decrease. The survey also showed that the majority of travellers still prefer the traditional way of conducting airline bookings (i.e. a travel agent) as opposed to online methods.

Taiwan

In April, Taiwan's government offered to cut aircraft landing and other charges in an effort to assist airlines suffering from depressed passenger demand as a result of SARS. Taiwan's two international airports would cut aircraft landing charges by 15 per cent for six months. Domestic airports would cut landing and other charges by 50 per cent for one year. The cuts would cost the government about NT\$940 million (CDN\$ 39 million). The government is also studying a request from travel agencies to lower their business income tax.

The state-controlled foundation that owns 71 per cent of China Airlines announced in April that it intends to sell 36 per cent of its stake in the airline by the end of this year. The sale would give control of the airline to private industry.

According to the Canadian Tourism Commission's foreign office in Taiwan, the Taiwanese want to stay close to home as much as possible and are delaying their travel plans at least until the end of May. Travel to Canada has been greatly affected by SARS due to both media reports of deaths in Toronto and statements made by Taiwanese Premier You. In a statement, Premier You raised the possibility of a boycott on travel to Canada. Cancellations averaged 70 per cent for group travel after the Premier's announcement. However, Taiwanese travellers are reluctant to take flights to any destination and 80 per cent of outbound trips have been reported cancelled by a local Taiwanese travel association.

The Australian Tourist Commission's latest Market Report for Taiwan reported total outbound trips in February registered a decrease of 0.4 per cent compared with the same period a year earlier. China and Macau registered the largest increases in outbound Taiwanese travel.

The latest Mastercard Asian lifestyles survey released in March revealed that travellers from Taiwan were among the most frequent travellers in the Asia/Pacific region. While respondents from Hong Kong travelled the most (40%), 35 per cent of Taiwanese respondents also made a personal trip in the last six months of 2002.

Australia

In April, Qantas announced the layoffs of 1,000 workers or 2.9 per cent of its workforce before the end of June in response to a decline in business due to the war in Iraq and SARS. Four hundred other jobs will also disappear through attrition and 300 full-time jobs will be converted into part-time. Qantas also cut its profit forecasts in March as well as reduced its international capacity by up to 20 per cent from April to July.

As widely expected, the Australian Competition and Consumer Commission and its New Zealand counterpart have rejected a proposed merger between Qantas and Air New Zealand. The regulators stated that they believed the deal would cut competition.

The Canadian Tourism Commission's foreign office in Australia reported that Australians are still in a resilient mood, though bookings have slowed. While SARS is causing concern, Canada continues to be perceived as a safe destination and travellers who have booked are generally not cancelling their trips. However, in April, the Australian Department of Foreign Affairs and Trade advised Australians to consider deferring non-essential travel to Toronto due to the incidence of SARS. Some travellers have taken this advice and are routing their travel around Toronto.

According to Asmal travel reports, total outbound travel by Australian residents for the month of January increased 4 per cent compared with a year earlier. During this period, holiday travel increased by 3 per cent, VFR departures increased 12 per cent but business travel decreased by 5 per cent. Holiday travel to North America increased 43 per cent during this period.

New Zealand

Air New Zealand (ANZ) announced that the dwindling of forward bookings on some international routes has forced it to cut some capacity in May and June on U.S., Hong Kong and Japanese routes. The cancellations account for approximately 3.3 per cent of ANZ's total available capacity on its international network. The airline does not expect that the cutbacks will affect its profit forecast for the fiscal year ending in June.

The Canadian Tourism Commission's foreign office in New Zealand reported that New Zealand travellers will continue to travel to safe destinations. Most people in New Zealand do not feel threatened by the war in Iraq and while there is concern about SARS, it is not increasing. Travel agents report that business is nonetheless slow, both to Canada and other destinations.

The Australian Tourist Commission's latest Market Report for New Zealand reported outbound inquiries at New Zealand wholesalers and retailers are less than normal for this time of year. Destinations most affected are Asia and other long-haul markets. While some initial inquiries are coming in, consumers are not committing to travel.

According to Asmal travel reports, total outbound travel by New Zealand residents during February increased 2 per cent compared with a year earlier. While holiday and business travel increased by 4 per cent, VFR departures decreased 0.4 per cent and residents travelling for other reasons fell by 3 per cent. Holiday travel to North America increased 33 per cent during this period.

Economic overview**North America**

With the war in Iraq over, the North American economy should be poised for a rebound. A drop in oil prices represents one major weight that has been removed from the economy. Without any disruptions in the oil supply as a result of war, the price of oil has fallen by more than 30 per cent over the last month. Besides the drop in oil prices, the argument for growth in the United States is further supported by low interest rates and significant federal tax cuts. U.S. stock markets reflect this optimism as the Dow Jones industrial average has increased 10 per cent since the beginning of the war.

Canadian employment growth continues to be strong through the first part of 2003. The economy is accelerating fast enough that inflation is now a concern with the Bank of Canada. The Bank has already increased interest rates twice this year, and seems primed to raise them again. The strong economy and relatively higher interest rates (compared to the U.S.) have pushed the Canadian dollar to a three-year high. However, many feel that the dollar will not be able to maintain such levels for very much longer.

Europe

Following the start of the war, European stock markets also thrived. European economic growth is also expected to benefit from lower oil prices. Unfortunately, Europe has significant structural problems, especially in its labour markets, which are dragging down economic growth. Germany has recently begun to address these problems, but it will take time to resolve them. The currency union is also proving to be an economic straight jacket for continental economies. Interest rates are not low enough to stimulate economic activity and government deficit restrictions (because of the monetary union) are causing governments to raise taxes and cut spending, just at the time when fiscal stimulus is most needed. The end result of all of these pressures is that European consumers (especially those on the continent) are feeling less than optimistic, and their spending correspondingly reflects this mood. .

In contrast to the European continent, the U.K. economy is expected to continue to perform relatively well. A downside risk in the U.K. is a possible housing market bust, which would disproportionately weigh on consumers.

Asia-Pacific

SARS is dominating the outlook for Asian economies. The impact of SARS has been dramatic, especially in Hong Kong where retail sales fell by over 50 per cent in March. Based on a 60 per cent reduction in tourism to the region, analysts at Morgan Stanley have revised projections downward for Asian growth this year from 5 per cent to 4.6 per cent. Economists at J.P. Morgan are predicting a recession in the first half of this year in Hong Kong and are revising forecasts downward for both Singapore as well as the region's economic juggernaut, China. While the main industry impacted is tourism, people are also leery of going into public places such as department stores and restaurants. These cautious consumers are significantly dampening retail spending.

Opportunities

A study by Cornell University's School of Hotel Administration suggests discounting room rates during slow times may not be the best approach to increase revenues. While the prevailing wisdom is that reducing room rates entices new customers to book rooms, the study argues that this approach doesn't work in an era of proliferating room discounts and web-based travel deals. The study found discounting damages hotel revenues because it does not improve sales and fails to increase demand in most tourism segments. Hotels are therefore encouraged to find other methods to keep or increase their room revenues during slow times without resorting to price discounting. One strategy could be to offer packages that emphasize the value of services received.

According to a Meetings Today survey of business travel managers, 67 per cent of respondents indicated that the average lead-time for meetings of 100 attendees or less is fewer than 90 days. Furthermore, 29 per cent stated the average lead-time is 30 days or less, more than double the rate of last year. The survey also found hotel rates for meetings with fewer than 90 days of lead time are at worst no different than those planned long in advance. For hoteliers, this means to be competitive they must adapt and offer aggressive rates as well as flexible clauses, services and amenities as part of their first offer to corporate buyers of short-term meetings.

Knowing which travel segments are travelling in a time of essential-travel-only is of utmost importance. According to an April 7th survey by the Business Travel Coalition, only 22 per cent of colleges and universities are banning travel to destinations known to have cases of SARS, compared with 58 per cent of corporations. Most educational institutions are providing guidance or news updates to their travellers.

Value will be uppermost in the minds of American travellers this summer—at least according to the recent survey by Travelocity. In fact, a significant number of them would travel if they perceived the cost as a good deal—even during war. According to the survey, this is especially true for international travel and respondents stated they are keeping an eye on international destinations, including Canada, for travel values.

The Travelocity survey also detailed activities American travellers are most interested in doing on their vacation in the coming year. Combining or integrating these activities with value priced services will create packages that are tailor-made to entice U.S. visitors. The top ten types of vacation activities were: spending time with family and friends, beach vacations, camping/outdoors/nature trips, adventure vacations, amusement/theme parks, cultural experiences, architectural/historical sites, romantic time/honeymoon, cruise and fishing.

Americans are not the only ones interested in value pricing. According to Hitwise, an online intelligence service, traffic to travel agencies' Websites in the U.K. surged 17 per cent in the last week of March, despite the war in Iraq. Hitwise attributes the increase to deals that were posted on the Websites and British travellers who are keen to compare prices online and who may forget their fears when presented with a good deal.

Summary

Increasingly, travellers' perceptions will dictate the business reality for the tourism industry. For most, money is not the main obstacle preventing travel decisions. However, travellers' perceptions regarding possible fallout from the war in Iraq, the state of the airlines as well as health-related concerns are more likely to influence when, where and if a vacation will take place.

While Canada is still viewed as a safe destination in terms of any war-related reprisals, its reputation as a safe destination from a health perspective has suffered because of SARS. Undoubtedly, SARS has (and will continue) to negatively impact domestic and international travel to and from Canada this summer. In particular, international travel perceptions regarding the safety of Canada has not only suffered a tremendous setback as a result of the WHO travel advisory but also from countries themselves issuing travel warnings to individuals wishing to travel to Toronto.

The positive signs for summer 2003 are that Canadian travellers continue to express a strong willingness to travel domestically and, by and large, still have the financial means to do so. Still, the recent war in Iraq and SARS suggest that travellers' perceptions will increasingly play a key role in determining the business reality of Canada's tourism industry this year.

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