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Canada

CTC Tourism Intelligence Bulletin – Issue 19: November 2003

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

Focus on Value Crucial to a Recovery

Executive Summary

- The North American tourism industry breathes a little easier as the most current indicators point to the onset of a recovery, confirming that the worst of a very difficult period is now over. Unfortunately, the legacy of weak demand over this long period leaves the industry facing strong upward price resistance. Profitability, therefore, is expected to continue to be an uphill battle as businesses search for a formula to raise prices.
- Price cutting efforts to stimulate demand date back to 2001, but were particularly evident over this past summer. As a result, travellers have become quite accustomed to finding some of the lowest prices the industry has witnessed in years, and in some cases, the lowest ever. Businesses that resorted to price slashing must now cope with the problem of raising these rock-bottom prices to more sustainable levels in the face of ongoing price resistance.
- The ability to raise prices in this environment would perhaps be more successful if businesses kept in mind and could communicate to their customers the value proposition. For Canadian tourism suppliers, the focus on value is also particularly important at this time as the value of the Canadian dollar continues to soar. Having already reached a ten-year high, the appreciating dollar will undoubtedly inspire many Canadians to travel outside the country this winter and in 2004.

Emerging Trends and Issues - Domestic Travel Intentions Strong Despite Appreciating Dollar

- According to the latest Travel Intentions Survey (September 2003) by the Conference Board of Canada, domestic travel intentions for Canadians this winter (November 2003-April 2004) are looking quite positive. Last year, the industry battled increasing uncertainty because of the war in Iraq and declining consumer confidence. While winter travel intentions appeared strong in September 2002, many of those travel plans did not materialize.
- Now that the war in Iraq is over and the SARS health concerns are fading, no events that would significantly alter consumer confidence are expected as we head in to the winter season. In addition, the economic consensus suggests conditions are poised to improve. However, conventional thinking would suggest that a long-term appreciation of the Canadian dollar (against the U.S. dollar) will cause the industry some concern, particularly in how it will impact the domestic and inbound travel markets. Fortunately, according to the latest Travel Intentions Survey, domestic travel intentions appear to be holding up well-at least for the winter travel season.

Contents

The Conference Board of Canada
Insights You Can Count On

Canadian Tourism Commission
Commission canadienne du tourisme

Consumer (Traveller) Overview

- In the U.S., travel intentions also appear to be strengthening, according to the latest American Express Leisure Travel Index. According to survey results, 28 per cent of respondents intend to take a vacation this fall or winter, up 3 points from last year. Most of these trips (39%) will be taken over the Christmas holiday. More travellers are intending to fly to their vacation destination (55%) compared with a year ago (44%) and of the air travellers, 48 per cent expect to travel internationally in the near future (up from 36% in 2002).
- A recent survey of affluent consumers by American Express and RoperASW showed that high-income Canadians consider both price and quality when making purchasing decisions, while high-income Americans favour price over quality. It was noted that countries where the wealthy ranked price higher than quality tended to have well-developed economies where shoppers are used to a great deal of choice. For Canadian respondents, the third most important factor in a purchasing decision was brand reputation, while Americans were more concerned about looks and design.
- While the Business Travel Coalition (BTC) suggests that corporate spending cutbacks on air travel have bottomed out, it also indicates that a substantial increase in the next year is doubtful. According to recent survey results, nearly all of the respondents (93%) believed that the reduction in corporate travel over the last two years is permanent in nature. While the National Business Travel Association (NBTA) was more positive in forecasting a recovery in business travel in 2004, they also indicate that corporations will maintain their focus on cost-cutting and receiving the best economic value from their travel purchases. However, despite the focus on cost cutting, the NBTA still expects that overall business travel costs will increase by 6 per cent in 2004.

Travel Supplier Overview

- Air Canada reported that its September passenger traffic was still down 12.4 per cent from the previous year, although overall demand continues to improve. The airline noted that September figures represented the smallest year-over-year decrease in traffic since April 2003. In fact, domestic traffic was only off 3.9 per cent compared with last year while South American routes improved 16.4 per cent-partly as a result of increased demand in leisure sun destinations as well as improving economic conditions in South America.
- South of the border, air passenger traffic in the U.S. remained stagnant in September, compared with last year, as airlines made the transition from the leisure-oriented summer period to the beginning of the fall business travel season. On a positive note, several major carriers were able to achieve operating profits in the third quarter of 2003, due to solid passenger traffic, capacity reductions and accelerated cost-savings initiatives.
- Pannel Kerr Forster Consulting Inc. (PKF) reports hotel demand in Canada appears to be recovering according to the latest August results. The national occupancy rate still remains 5.7 per cent below last year while revenue per available room (RevPAR) remains down 11.5 per cent. Meanwhile, hotel demand in the U.S. continued to grow through the month of August, with the national occupancy rate increasing 1.8 per cent from last year and RevPAR up 1.9 per cent. Preliminary third quarter results to the end of September suggest that occupancy levels during the crucial summer season grew 2 per cent while RevPAR increased 2.3 per cent, compared with the same period a year earlier.

Economic Overview

- A solid economic recovery in the U.S. is expected to spur growth in the overall North American economy by 3.7 per cent in 2004. Overall, economic growth of 2.3 per cent is expected this year. However, during the second half of the year it is expected to surge and record its strongest pace of economic growth since the late 1990s. The rebound in economic growth in the U.S. late this year and in 2004 is attributable to solid consumer spending, a significant rebound in investment spending and strong growth in real exports. For Canada, the acceleration in its economy is expected to be less robust and lag behind that of the U.S. These factors are expected to exert downward pressure on the Canadian dollar versus its U.S. counterpart early next year.

- Economic growth in the Eurozone and its major economies, Germany, France and Italy, is still expected to be stagnant this year-weighed down in part by the appreciation of the euro. Fortunately, there are some signs of an economic recovery beginning in Europe. The hopes for Eurozone economic recovery strengthened recently when Germany's Ifo business climate index rose more than expected in October. In addition, the European Central bank stated that growth in the Eurozone should reach its trend rate of 2.0-2.5 per cent growth next year. The U.K. economy, meanwhile, is expected to rebound and expand by 2.6 per cent in 2004. Economic growth in the U.K. is expected to be led by higher export sales, which in turn will lead to positive growth in industrial production.

- Overall, Asia appears to have recovered quickly from the SARS health crisis which threatened to paralyze economic activity only a few short months ago. Economic growth is now likely to hit 3 per cent this year, with similar growth expected next year. China remains the fastest growing economy in the region mainly because of rapid export growth. Unfortunately, Japan will continue to restrain growth in the region, although there are some signs of a potential rebound in Japanese economic activity. In particular, the export sector has recently been doing quite well, thanks in part to the central bank's intervention to slow down the appreciation of the yen.

Opportunities

- With a new $1 billion casino set to open in Niagara Falls next year, it should be heartening to hear that more than one-quarter of Americans aged twenty-one and older (51.2 million) gambled at a casino in 2002, according to a new study by Harrah's Entertainment, Inc. The study reports that the largest group of gamblers are 51 to 65 years old (30%) and have an annual household income of over $95,000 (34%). While the average gambler took 5.8 trips to a casino last year, they were also more likely than non-gamblers to have taken a vacation of at least one week in the past year (63% of gamblers vs. 47% of non-gamblers).

- Although much attention has been recently focussed on the rapid growth of hotel bookings through the Internet, a recent study concluded that global distribution systems (GDS) remain the largest single source of electronic business for the hospitality industry. According to research by NFO Plog, GDS and GDS media will account for an estimated US$11.5 billion in room revenues in 2003, compared with US$7.5 billion in direct online consumer bookings via the internet. In fact, 90 per cent of travel agents said they use the GDS and GDS shopping displays as much as or more than they did two years ago.

In Brief

The North American tourism industry breathes a little easier now, as the most current indicators point to the onset of a recovery, confirming that the worst of a very difficult period is over. Unfortunately, the legacy of weak demand over this long period leaves the industry facing strong upward price resistance. Profitability, therefore, is expected to continue to be an uphill battle as businesses search for a formula to raise prices.

From 2001, and particularly over the past summer, many suppliers have reduced prices in an effort to stimulate demand. As a result, recent travelers have benefited from the lowest prices witnessed in years, and in some cases, the lowest ever. Businesses that resorted to price slashing must now cope with the problem of raising these rock-bottom prices to more sustainable levels in the face of ongoing price resistance. Once again, strategies that most effectively differentiate a business from its lower-cost competitors are those that support and communicate value.

Hong Kong hotels are an example of this type of strategy. They fought the inclination to slash prices when facing single digit occupancy levels during the height of the SARS outbreak. In fact, many businesses in the region report that, despite the worst crisis in its history, they never questioned the value offered to their customers. Now that demand is rebounding-actually much faster than most expected-these hotels are enjoying near normal occupancy levels without the daunting task of raising rates to pre-SARS levels.

For Canadian tourism suppliers, the focus on value is also particularly important at this time, as the Canadian dollar continues to soar. Having already reached a ten-year high, the appreciating dollar will undoubtedly inspire many Canadians to travel outside the country this winter and in 2004. For Canadian tourism suppliers, the value proposition will be a crucial factor if they want to capitalize on this growing trend.

Emerging Trends and Issues

Domestic Travel Intentions Strong Despite Appreciating Dollar

According to the latest Winter Travel Intentions survey (September 2003) by the Conference Board of Canada, domestic travel intentions for Canadians this winter (November-April) are expected to remain strong. This is good news for the industry, which has come to rely increasingly on the domestic marketplace because of the continuing decline of international travel markets. However, the rapid appreciation of the Canadian dollar (against the U.S. dollar) is cause for some concern, not only for the domestic tourism market but also for inbound travel from other countries. Indeed, since the survey was completed, a further appreciation of the Canadian dollar and improvement in consumer confidence have been witnessed. These factors are expected to be a further stimulus to Canadian outbound travel over the winter.

Winter Travel Intentions Survey Results

According to the Conference Board of Canada's latest Travel Intentions Survey, 39.0 per cent of Canadians indicated they were likely or very likely to take a winter vacation this year-down marginally compared to 2002.

Table 1 Winter (November-April) Vacation Intentions - (%)

	2003	2002
Vacation Intended	39.0	42.3
Canada	19.4	19.6
US	8.2	9.0
Other International	10.7	13.0
Do Not Know/Refused	0.7	0.7

Source: The Conference Board of Canada.

The slight decline in intentions does not necessarily suggest fewer trips will be taken this winter. It simply underscores the industry-wide trend of consumers taking more of a wait-and-see attitude towards travel planning and booking. Whereas in the past travellers would plan their holidays three months in advance, they now typically book much closer (even within the month) to the time they intend to travel. The travel intentions survey confirms that the bulk of winter travel bookings are expected to be made in November and December-very close to actual trip dates.

In addition, barring any extraordinary geo-political events this fall or winter, we expect that more people who intend to travel will follow through with their plans. Last year, the industry battled increasing uncertainty because of the war in Iraq and declining consumer confidence. While travel intentions appeared strong in September 2002, many of those travel plans did not materialize. Now that the war in Iraq is over and the SARS health concerns are fading, no events that would significantly alter consumer confidence are expected as we head in to the winter season. In addition, the economic consensus suggests conditions are poised to improve.

Travel Intentions Strengthened by Rising Consumer Confidence

The Conference Board of Canada's Travel Intentions Survey represents a sound barometer of Canadians' intent to travel, but if economic (or non-economic) conditions change, these plans may not materialize.

Last year, consumer confidence, as measured by the Conference Board of Canada, fell significantly in the period leading into winter travel. This year, consumer confidence is strengthening as we head into the winter travel period. While more Canadians may be lured to the U.S. by a stronger dollar, we do not expect this to deter the many declared domestic travel plans-at least over the winter season.

Fortunately for the Canadian tourism industry, the Conference Board of Canada believes that the Canadian dollar has reached its peak. It is expected that next year the U.S. will witness stronger economic growth, faster interest rate increases and greater growth in foreign direct investments. These factors, combined with the assumption that commodity prices will have already peaked, weigh against a further significant appreciation of the Canadian dollar. While many Canadian tourism suppliers hope to capitalize on the expected momentum of tourism demand this winter, many others hope that the Conference Board of Canada's prognosis on the exchange rate proves correct in time to capitalize on inbound travel for the summer of 2004.

Consumer Overview - Canada and the United States

Business Travellers

The National Business Travel Association (NBTA) released its 2004 Business Travel Overview and Cost Forecast, which predicts that overall business travel costs will increase by 6 per cent in 2004. Business airfares are expected to increase by 5 per cent, hotel rates are expected to climb 3 per cent, and corporate car rental rates will rise 2 per cent. The NBTA forecasts a recovery in business travel in 2004; however, they indicate that corporations will maintain their focus on cost-cutting and receiving the best economic value from their travel purchases.

While the Business Travel Coalition (BTC) suggests that corporate spending cutbacks on air travel have bottomed out, it also indicates that a substantial increase in the next year is doubtful. According to survey results, companies will spend an average of 7 per cent less on air travel in 2003 than they did in 2002, which represents a 20 per cent fall from spending levels in 2000. Of the North American corporations polled, 76 per cent increased their use of low-cost carriers this year, compared with last year, and 65 per cent anticipate that their use of discount airlines would increase again in 2004. Nearly all of the respondents (93 per cent) believed that the reduction in corporate travel over the last two years is permanent in nature.

Similar cautious sentiment was apparent in the results of a survey by the Association of Corporate Travel Executives, GetThere, and BusinessWeek Research Services. Only one-third (35 per cent per cent) of senior managers and senior financial executives polled expected to increase their spending on corporate travel in 2004, and 57 per cent stated that they would focus heavily on minimizing travel costs. Almost all of the respondents (95 per cent per cent) believed that travel expenditures have a major impact on their bottom line. Thirty-nine per cent of the companies polled have implemented an online travel system to help plan and manage their corporate travel, with 79 per cent of this group experiencing cost savings as a result.

According to a survey conducted by Travelport and Harris Interactive, business travellers also consider competitive pricing to be the most important attribute of a corporate travel service, with ease of use and customer support the second and third most important features. The survey, titled "What Business Travellers Want," also asked business travellers to select the three most crucial fundamentals of business travel. Respondents cited a hotel close to their meeting, reliable wireless phone service, and a suitcase with wheels as the three most important items to have on a trip. Business class seating, five star accommodations, and in-flight e-mail service were among the least selected options.

A recent survey by Travelocity and Synovate Market Research suggests that the division between business and leisure travellers is becoming less and less obvious as a result of the increased focus on price and value in corporate travel decisions. For example, of the business travellers polled for the survey, the largest group (25 per cent per cent) stated that price was the main factor in purchasing air tickets, with 85 per cent of respondents choosing coach class. Only 9.7 per cent of respondents indicated that they fly business class, while 4.5 per cent fly first class. Approximately half of those polled said they conduct online research before booking their business travel.

Leisure Travellers

According to the Conference Board of Canada's, September 2003 Travel Intentions Survey, domestic travel intentions for the winter season appear to be quite strong-because of improving economic conditions, rising consumer confidence and the absence of uncertainty that was generated last year by the looming war in Iraq. However, the survey results do suggest further evidence of an increasing industry-wide trend of consumers taking a more wait-and-see attitude towards travel planning and booking. In addition, historical evidence suggests that the dramatic appreciation of the dollar will undoubtedly inspire many Canadians to travel to international sunspot destinations this winter.

Travel intentions also appear to be strengthening in the U.S., according to the latest American Express Leisure Travel Index. According to survey results, 28 per cent of respondents intend to take a vacation this fall or winter, up three points from last year. Most of these trips (39 per cent) will be taken over the Christmas holiday. More travellers are intending to fly to their vacation destination (55 per cent) compared with a year ago (44 per cent) and of the air travellers, 48 per cent expect to travel internationally in the near future (up from 36 per cent in 2002).

The majority of American travellers (63 per cent) said that their ideal vacation is "a place where you can relax and unwind," while 56 per cent chose "a place to spend quality time with your family." Seventy-eight percent of travellers, across all income groups, described their travel style as "value-minded, seeking good quality within a budget." In 2004, respondents plan to spend an average of US$2,962 per vacation, up from US$2,163 in 2003, and the number of travellers intending to spend more than US$5,000 rose from 6 per cent to 11 per cent.

According to research produced by Yesawich, Pepperdine, Brown & Russell (YBP&R), the number of vacations involving more than one household travelling together is growing, creating a new travel trend dubbed "Togethering." Results of a recent survey show that almost 80 per cent of active leisure travellers have taken at least one vacation with extended family, other families or friends in the last five years. More than two-thirds (69 per cent) of respondents cited "spend time with family" as a very or extremely important aspect of a vacation, up from 57 per cent in 2000. YBP&R stated that this trend is likely a reflection of "the growing importance of family in our post-9/11 culture."

A recent survey of affluent consumers by American Express and RoperASW showed that high-income Canadians consider both price and quality when making purchasing decisions, while high-income Americans favour price over quality. RoperASW, a market research firm, noted that countries where the wealthy ranked price higher than quality tended to have well-developed economies where shoppers are used to a great deal of choice. For Canadian respondents, the third most important factor in a purchasing decision was brand reputation, while Americans were more concerned about looks and design.

Travel Supplier Overview - Canada and the United States

Airlines - Canada

Air Canada reported that its September passenger traffic was down 12.4 per cent from the previous year, although overall demand continued to improve. The airline noted that September figures represented the smallest year-over-year decrease in traffic since April 2003. Domestic traffic was only 3.9 per cent below last year's levels, and Atlantic routes saw an increase of 0.1 per cent. Meanwhile, traffic on South American routes improved 16.4 per cent over 2002, which the airline attributed to increased demand in leisure sun destinations as well as improving economic conditions in South America. However, passenger traffic on U.S. routes was 25 per cent lower than last year, and Pacific routes were still down 43 per cent.

In late September, Air Canada was granted an extension to December 20, 2003 of the original stay period ordered by the Ontario Superior Court. This extension will allow the airline enough time to complete the remaining steps of its restructuring under the Companies' Creditors Arrangement Act. These steps include further renegotiations of aircraft leases and operating contracts, arranging further equity financing, and resolving its pension deficit.

Air Canada also announced that it permanently dropped the price of its Executive Class fares by up to 50 per cent for tickets purchased on its web site. The average price for a long-haul domestic Executive Class ticket will now be $979, with no restrictions. The airline noted that more than 50 per cent of its overall domestic bookings are now made online, half of which are generated through its dedicated travel agency web site.

Table 2. Airline Revenue Passenger Miles (RPM) and Capacity - September 2003

Airline	RPM (in millions) September 2003	RPM 2003 vs. 2002	Capacity 2003 vs. 2002
Air Canada (includes Tango, Zip and Jetz)	3,368	-12.4%	-11.1%
Air Canada Regional (Jazz)	127	-0.8%	+2.7%
Westjet	423	+33.8%	+45.4%
Jetsgo	118	+344 %	+358 %

Westjet announced net earnings of $32.3 million for the third quarter ending September 30, 2003, representing the 27th consecutive quarter of profitability and a 39.8 per cent increase over the same quarter of 2002. Compared to last year, operating revenues over this period increased 25.1 per cent to $253.9 million. While yields were down 9.8 per cent, this was more than offset by a 15.9 per cent decrease in costs per available seat mile. Westjet also reported that its internet sales continued to grow at an average rate of 1 per cent per month-with now 69 per cent of overall bookings being made online.

Airlines - U.S.

Passenger traffic in the U.S. was relatively stagnant in September, compared with previous years, as airlines made the transition from the leisure-oriented summer period to the beginning of the fall business travel season. The Air Transport Association (ATA) reported that overall revenue passenger miles (RPMs) were marginally higher (0.3 per cent) than last year. While domestic traffic increased 1.9 per cent, international routes saw a decline of 7.7 per cent.

The ATA also reported that overall capacity was down 4.6 per cent, resulting in an average load factor increase of 3.4 points over September 2002, to 69.9 per cent. While an increase in load factor is generally considered a positive indicator for the airline industry, it should be noted that with continued pressures on airfares, airlines need to achieve higher load factors in order to realize a profit.

Focus on Value Crucial to a Recovery

Strong summer passenger traffic, capacity reductions and ramped-up cost-saving initiatives resulted in net profits for several major carriers in the third quarter of 2003. This was achieved despite the blackout in August and the September hurricanes. AMR Corporation (American Airlines' parent company) experienced the most dramatic year-over-year turnaround, posting net earnings of US$1 million compared with a net loss of US$924 million in the same quarter of 2002. The airline attributed much of the improvement to aggressive cost cutting and restructuring efforts.

Delta remained essentially in the red with a net loss of US$164 million, blaming its losses on its inability to achieve a competitive cost structure as a result of current labour costs-the airline noted its pilot costs were 80 per cent higher than those of American Airlines. Virtually all the carriers said that they would continue their diligence in controlling operational costs in light of the current revenue climate.

Table 3. Net Income

Airline	Net Income (Loss) Q3 2003 (in U.S. $)	Net Income (Loss) Q3 2002 (in U.S. $)
Alaska Airlines	+$40.7 million	+12.5 million
AMR Corporation	+$1 million	-$924 million
America West Airlines	+$32.9 million	-$49.6 million
AirTran Holdings	+$19.6 million	+$1.2 million
Continental Airlines	+133 million	-$37 million
Delta Air Lines	-$164 million	-$326 million
JetBlue Airways	+$29 million	+$12.2 million
Northwest Airlines	+$42 million	-$46 million
Southwest Airlines	+$106 million	+$75 million
US Airways	-$90 million	-$335 million

Table 4. Airline Revenue per Available Passenger Mile (RPM) and Capacity

Airline	RPM; Sept. 2003 vs. Sept. 2002	Capacity; Sept. 2003 vs. Sept. 2002
Alaska Airlines	+9.3 %	+7.9 %
American Airlines	-1.7%	-5.9%
America West Airlines	+5.7%	-1.8%
AirTran Airways	+37.6%	+26%
Continental Airlines	+2.1%	-4.0%
Delta Air Lines	-2.6 %	-3.1%
JetBlue Airways	+66.9 %	+57.7%
Northwest Airlines	-2.9 %	-6.2%
Southwest Airlines	+10.6 %	+3.8%
United Airlines	-4.1%	-11.0%
US Airways	-1.7%	-11.2%

Business Travel News (BTN) reported that business fares continue to decline. According to airline analysts Deutche Bank and Harrel Associates, average U.S. business fares for the week of October 15, 2003 were down 5 per cent compared with the same week a year earlier. This latest decline is similar to the rate of decline observed over many consecutive weeks. According to BTN, a rise in business fares is not expected until 2004.

According to a report recently released by J.P. Morgan, the pricing impact and route expansions of low- cost carriers are significantly muting the recovery of business fares. The report states that discount carriers currently constrain the pricing power of network airlines on more than six hundred domestic routes, where one-way walkup fares are capped at US$299. The report goes on to predict that low-cost airlines will account for 40 per cent of domestic air traffic by 2006.

A new low-cost carrier, with the provisional title of "Project Roam" will be launched in June 2004 from its base in Pittsburgh. The company will start with a fleet of eight aircraft and five hundred staff, but hopes to operate 120 daily departures to thirty-nine destinations, with a workforce of 2,100 within five years. Planes will be configured with both business class and coach seats, with in-flight amenities which include personal entertainment centres similar to those found on JetBlue aircraft.

Hotels - Canada

According to an ongoing study conducted by KPMG, tourism expenditure losses surpassed $1 billion between March 2 and October 11 of this year, in the six Canadian cities tracked during this period (Toronto, Montreal, Niagara Falls, Ottawa, Calgary and Vancouver- these cities represent 35 per cent of Canada's accommodation market). Tourism expenditure losses in Toronto reached $513.2 million during this period-down 27.8 per cent compared with 2002. While KPMG noted that tourism expenditures have shown significant improvement over the last two months, the pressure to keep hotel room rates low persists.

Pannel Kerr Forster Consulting Inc. (PKF) reported that the average daily room rate for Canadian hotels in August decreased 4.6 per cent to $121.26, compared to August 2002. The national occupancy rate also dropped 5.7 percentage points to 72.3 per cent. While demand appeared to be recovering through the summer, August's revenue per available room (RevPAR) was still down 11.5 per cent compared with August 2002.

Fairmont Hotels & Resorts reported a net profit of US$11.6 million for the quarter ending September 30, 2003. This compared with US$39.0 million for the same quarter last year. The luxury hotel company attributed its earnings decline to the lingering impact of SARS as well as a considerable decline in international travellers. However, Fairmont's outlook is upbeat: the company's press release noted that they are expecting a recovery next year, particularly for group travel.

Table 5. Hotel RevPAR and Net Income Q3-2003

Company	Revenue per available room (RevPAR), Q3 2003 vs. Q3 2002	Net Income (Loss) Q3 2003	Net Income (Loss) Q3 2002
Fairmont Hotels and Resorts	+2.9%	US$11.6 million (CDN $15.3 million)	US$39.0 million (CDN$51.4 million)
Legacy Hotels REIT	-15.1%	$17.5 million	$37.5 million

Hotels - U.S.

According to the latest figures from Smith Travel Research (STR), hotel demand in the U.S. continued to grow through the month of August. In fact, the national occupancy rate increased 1.8 per cent from last year, to 67.9 per cent while RevPAR grew 1.9 per cent. However, the average room rate was stagnant. Preliminary third quarter results to the end of September show that RevPAR rose 2.3 per cent during the crucial summer season, while occupancy climbed 2 per cent compared with the same period a year earlier. Preliminary figures for October indicate that figures will drop during a month that is traditionally one of the slowest, anyway, but STR is optimistic that overall growth will continue throughout 2003 and into 2004. PricewaterhouseCoopers recently forecasted that overall lodging demand would increase by 4 per cent in 2004, boosting RevPar by 4.9 per cent over 2003 figures.

Several lodging companies reported third quarter earnings in October, including Choice, Hilton Hotels, and Marriott International, all of which posted profits for the period ending September 30, 2003. As expected, pressures on room rates kept revenues lower than the same quarter of 2002 but a strong summer season boosted occupancy levels slightly higher. The general outlook for the fourth quarter is positive, although group and business demand remains weak. However, reports indicate that business travel is slowly recovering, in line with the strengthening economy. Most lodging companies and industry analysts agree that that the U.S. hotel industry seems to have turned a corner.

Table 6. Hotel RevPAR and net income

Hotel	Revenue per available room (RevPAR), Q3 2003 vs. Q3 2002	Net Income (Loss) Q3 2003 (in U.S. $)	Net Income (Loss) Q3 2002 (in U.S. $)
Choice Hotels	+0.8%	+$24.3 million	+$21.9 million
Hilton Hotels Corp.	-1.9%	+$34 million	+$48 million
Host Marriott	-2.5%	-$88 million	-$38 million
Marriott International	0%	+$92 million	+$109 million

Pannel Kerr Forster (PKF) Consulting recently released its 2003 mid-year edition of Trends in the Hotel Industry, revealing that hotel revenues in the U.S. fell 3.7 per cent in the first half of 2003, compared with the same period last year. Fortunately, lodging companies had cut costs by an average of 5.9 per cent in 2001 and 2.1 per cent in 2002. There were, however, few belt-tightening steps left to take in 2003 and as a result, the operating costs of the average hotel increased 1 per cent in the first half of this year. PKF predicts that, because of limited projected growth in average daily room rates, full-year revenues for 2003 will be down for the third consecutive year.

Meanwhile, InterContinental Hotels Group recently announced it was planning to double the distribution of its luxury brand in the U.S. and Canada over the next ten years. The hotel group will seek to increase its presence through new management contracts or brand re-alignments with established hotels. It will also make use of franchise arrangements rather than building new company-owned properties. The company stated that demand for upscale hotel brands remained constant and was expected to grow stronger as the economy strengthened, particularly in traditional gateway cities and resorts such as Los Angeles and Orlando.

Travel Agents

IATA's Bank Settlement Plan (BSP), the system of tracking airline tickets sold through Canadian travel agencies, reported that the average cost of domestic air travel for Canadians decreased 8 per cent in September compared with a year earlier. IATA also reported that the average airfare to the U.S. was down 4 per cent compared with the previous year, while airfares to international (non-U.S.) destinations were 3 per cent lower.

Meanwhile, in the U.S., the Air Transport Association (ATA) reported that the average domestic airfare in September increased for the third consecutive month-up 1.5 per cent compared with last year. However, international fares have declined. The average U.S. airfare on Atlantic, Pacific and South American routes dropped 0.4 per cent, 2.1 per cent and 3.2 per cent, respectively.

The Airline Reporting Corporation (ARC) reported that travel agency sales in September increased 1 per cent compared with the same month last year. However, year-to-date sales are still 6 per cent behind last year's figures for the same period.

According to the AAA's August National Travel Barometer, travel bookings were up 1 per cent in September, compared with the same month in 2002. Overall bookings were boosted by strong cruise and tour bookings for the upcoming winter season, which increased 10 per cent and 9 per cent, respectively. However, hotel bookings were down 3 per cent compared to September 2002.

The Vancouver Port Authority (VPA) announced that the Vancouver-Alaska cruise sector posted a decline for the 2003 season, its first in 21 years. The number of passengers leaving from Vancouver dropped 15 per cent, and total sailings were down 10 per cent. The VPA noted that, while the Alaska cruise market continues to grow, Vancouver's once dominant share of that market is eroding, partially as a result of world events and of Seattle's increasing market share.

According to a new Airline IT Trends survey by SITA and Airline Business Magazine, 16 per cent of the world's airline tickets are now sold online, up from 10 per cent in 2002 and 6 per cent in 2001. In North America this figure rises to 39.7 per cent, while in Europe it stands at 14 per cent. Direct sales through airline websites has doubled in the last year and now represents 10 per cent of all airline tickets sold. This is estimated to account for US$50 billion in sales.

International Overview - Overseas

United Kingdom and Ireland

British Airways (BA) reported a 1.7 per cent rise in revenue passenger kilometres (RPKs) for September over the previous year. RPKs for economy seats grew by 2.1 per cent, although premium traffic decreased by 0.5 per cent. Overall capacity was up 3.7 per cent resulting in a load factor drop of 1.4 points to 75.7 per cent compared with September 2002. BA noted in its press release that its premium traffic volumes seemed to be stabilizing, although they remained well below "levels seen previously."

BA also confirmed that it closed the first-class cabins on six of its long-haul routes, including Heathrow-Montreal, because of the lack of demand in the premium travel market. The airline described the future of its first class service as tenuous, although it noted that it is still profitable on about fifteen of its routes. The carrier also flew its last three Concorde flights on October 24, retiring the supersonic luxury airliners because of plummeting passenger numbers. BA noted that economy travel remained its main focus because of continuing pressures on airfares.

In mid-October, British Airways announced that it had purchased four additional transatlantic slots at Heathrow Airport. The carrier intends to further increase its services at Heathrow while downsizing its presence at Gatwick Airport. The slots were purchased from United Airlines and will mean that BA now holds 41 per cent of all slots at Heathrow Airport.

BAA, the international airports group, reported that passenger traffic in its seven U.K. airports rose 2.6 per cent to 12.5 million in September, compared with last year. Long-haul traffic increased 1.5 per cent, although North Atlantic routes saw a decrease of 1.1 per cent. European scheduled service was the strongest market, with traffic up 7.6 per cent over the previous year.

Table 7. Percentage change in passengers carried

Carrier	Sept. 2003 vs. Sept. 2002
British Airways	-1.9%
EasyJet	+18.6%
Ryanair	+49.0%

BTI UK, a business travel management company recently revealed that within its own client base, business travel volume was improving, although companies were increasingly focussed on cutting costs. Up to 90 per cent of BTI's clients include discount carriers in their travel policy, while 79 per cent said they encouraged employees to book air travel at the last minute in order to get the best available fare. BTI also reported that since 2001, clients have cut their corporate travel expenditures by an average of 25 per cent through a combination of lower fares, less travel, and downgrading.

According to a recent American Express International Business Traveller Survey, only 27 per cent of the British business travellers polled expected to increase their volume of corporate travel in the next year. One-third indicated that they would increase their use of low-cost carriers for business trips, and almost half noted that they use online booking tools at least some of the time.

Leisure travel company First Choice reported in a recent trading update that its 2003 summer season was one of its strongest ever, with bookings up 5 per cent from the previous summer, and bookings for its winter package holidays appeared to be looking strong as well. First Choice indicated that booking lead- times continue to be short, and the company believes that this will become a permanent feature of the travel industry.

The UK hotel market is finally showing signs of recovery, according to preliminary figures released by Pannel Kerr Forster. U.K. occupancy levels rose 2.4 per cent in September, and in London they rose 3.3 per cent, compared with September 2002. Revenue per available room rose 1.6 per cent nationally, while in London it increased 3.6 per cent. PKF noted that these figures are evidence of a slow recovery, providing grounds for further optimism.

A recent survey by Active Hotels show that the number of people in the U.K. using the Internet to book accommodations soared 80 per cent between September 2002 and September 2003. Growth has been particularly strong in the regions outside of UK's major cities, where online accommodations bookings have doubled.

France

In a landmark deal signed in mid-October, Air France and KLM Royal Dutch Airlines finalized their transaction agreement to merge and create Europe's largest airline. The two carriers filed for approval with European and US regulatory authorities, intending to close the deal in April 2004. At that time, Air France will acquire KLM and establish a holding company under which both carriers will continue to operate their current brands. Alitalia was considered as a third member of the merger agreement, but Air France and KLM ruled out Alitalia's inclusion until the state-owned Italian carrier privatized and showed progress in its financial restructuring.

OAG reported that the newly created airline will rank as the largest in Europe, with 25 per cent more scheduled flights than its closest rival, Lufthansa. If Alitalia becomes involved in the tie-up, the airline would be twice as large as Lufthansa. One OAG spokesperson speculated that the merger could pave the way for further consolidation within the European airline industry. Consumer groups have voiced concern over the merger, worried that less competition will mean less pricing leverage, particularly on long-haul routes.

Meanwhile, Air France's September passenger traffic increased 6.6 per cent compared with the previous year. Capacity increased by 10.1 per cent, resulting in a load factor drop of 2.5 points to 75.1 per cent. The carrier noted that the traffic increase was mainly a result of the effects of a pilots' strike in September 2002. Air France recently became one of the latest major airlines to unveil its revamped first and business class services, to lure back some of its most lucrative clients. New amenities include 50 per cent more space in first class, and 27 per cent more space in business class.

According to a recent American Express survey of business travellers from eight different countries, French corporate travellers are the most enthusiastic when it comes to booking their business trips online. More than 90 per cent of French respondents indicated that they like the convenience of online bookings, while 43 per cent enjoyed the benefit of cheaper fares found online.

Germany

Lufthansa German Airlines reported that its passenger traffic rose 0.1 per cent in September compared with a year earlier, while seat capacity increased 1.8 per cent. This resulted in an average load factor decline of 1.2 percentage points to 77 per cent. The airline stated that the weak global economy continued to hamper its performance, along with lingering fallout from the SARS epidemic and the war in Iraq. However, year-to-date passenger traffic up to September 30, 2003 is 1.4 per cent higher than the previous year.

Lufthansa also hopes to stimulate its long-haul business class market. In a similar move to other major airlines, the airline recently spent approximately EUR$300 million (CDN$460.6 million) to overhaul the business class cabins on its long-haul fleet. New amenities include lie-flat seats and new entertainment systems. In mid-October, Lufthansa announced that it planned to cut costs by EUR1.2 billion (CDN$1.8 billion) over the next two years to increase profitability and secure jobs. The airline cited declining yields, fewer high-fare business travellers and increased competition from low-cost carriers as the reasons necessitating a cost-cutting program, the details of which are yet to be announced.

Thomas Cook AG recently reported a drop of 11.6 per cent in third quarter sales for the period ending July 31, 2003, reflecting the repercussions of the war in Iraq and the SARS outbreak on the German-based travel company. Booking prices were down an average of 5.4 per cent, and despite extensive discounting, the company reported that consumers were not motivated to purchase holidays. However, the company commented that winter bookings were looking much more positive, with current numbers 5.4 per cent ahead of what they were last year. Despite the upturn, the company reported that it plans to cut capacity in the German leisure airline market and increase price incentives for early bookings to reduce the number of less-profitable, last-minute offers.

The Canadian Tourism Commission's foreign office in Germany reported that bookings to Canada for the winter season were rising, particularly for individuals (rather than groups). The general consensus among tour operators is that overall bookings would recover in the second half of this year, rebounding towards "moderate growth" for the German tourism industry in 2004.

Italy

Despite the lobbying efforts of Italy's Prime Minister, Silvio Berlusconi, Alitalia was not invited to join the recent landmark airline merger between Air France and KLM. The French and Dutch carriers indicated that Alitalia, owned by Italy's government, would need to be privatized and undergo significant financial restructuring before entering into a trilateral agreement with Air France and KLM.

Alitalia recently announced the development of a three-year cost-cutting plan, but has not yet provided details. Meanwhile, Alitalia followed the lead of British Airways and several other major airlines and stated that it would cut its basic agency commissions down to 1 per cent, effective January 1, 2004.

A recent global survey of 11,000 high-income consumers by American Express and Roper ASW showed that affluent Italians tend to favour price over quality when making purchasing decisions. Among the Italian respondents, price ranked as the top factor, followed by quality, then product features, while customer service and personal recommendations ranked much lower on the list.

The Canadian Tourism Commission's foreign office in Italy reported that outbound tourism dropped 1 per cent this summer, with significant decreases in travel to Canada, the U.S. and Asia. July and August's outgoing figures were more positive, but will not make up for the decline seen in the months before July. With temperatures at the highest levels seen in 200 years, most Italian travellers were prompted to take their vacation at the beach (70 per cent) or in the mountains (17 per cent). Overall summer travel to domestic destinations climbed by 25 per cent.

The Netherlands

KLM Royal Dutch Airlines reported a net profit of EUR 89 million (CDN$136.7 million) for its second quarter ending September 30, 2003. While this represents a 4.7 per cent increase over the previous year, the improvement was mainly a result of non-operational factors, including the sale of its stake in a charter airline. Passenger revenues decreased 11 per cent during this period, as a result of a 3 per cent drop in passenger traffic and an 8 per cent fall in yields (including currency effects). According to the airline, its second quarter results reinforce the need to implement structural cost-saving measures and it notes that the industry outlook remains "fragile."

Meanwhile, KLM's September passenger traffic declined 4 per cent compared with September 2002. Capacity was down 3 per cent, and as a result, the average load factor dropped 1 point to 83.1 per cent. The airline noted that traffic on its Asia/Pacific routes has almost fully recovered, with traffic and capacity both down only 1 per cent compared with a year ago, and a virtually flat load factor.

Unfortunately, traffic on North Atlantic routes is still significantly lower than last year-down 10 per cent compared with September 2002, primarily on Canadian destinations. Capacity on these routes has been cut by 12 per cent resulting in a load factor increase of 3.3 points to 89.6 per cent.

Japan

Japan's two leading airlines, Japan Air Systems and All Nippon Airways (ANA) will receive a total of 85 billion yen (CDN$1 billion) in loans from the Japanese government to help cover revenue losses incurred by the war in Iraq and the SARS outbreak. In exchange, the government-owned Development Bank of Japan has insisted that the airlines implement cost-cutting measures to help mitigate the losses. The two carriers received earlier government loans totaling 239 billion yen (CDN$2.9 billion) to assist in their financial recovery from the impact of the September 11 terrorist attacks.

ANA subsequently announced plans to reduce its employee salaries by 5 per cent as of next spring. This move marks the first time that base salary cuts have been implemented in the Japanese airline industry. ANA's annual labour costs are approximately 180 billion yen (CDN$2.2 billion), therefore the 5 per cent cuts will save the airline approximately 9 billion yen (CDN$109 million).

The Japanese government recently asked the United States to give Japanese citizens an exemption from new passport rules that the U.S. government intends to implement as of October 2004. According to the new rule, travellers from any country eligible for the visa-waiver program, including Japan, will have to provide a machine-readable passport if they wish to enter the country without a visa. Furthermore, if the passport itself has been issued after October 2004, the passport will also have to have biometric identifiers (i.e. digitally encoded with information about the person's facial features or fingerprints) to be accepted in lieu of a visa.

The Japanese government estimates that, of the 5 million visitors who enter the U.S. annually, approximately 200,000 do not currently have machine-readable passports. As well, the Foreign Ministry will not be equipped to issue passports with biometric identifiers until sometime in late 2005. Considering the current security difficulties inherent in obtaining a U.S. visa, this could severely impact Japanese visits to the U.S. once the new passport rules are in place.

Meanwhile, ANA will participate in the testing of a new "e-check-in" system at Narita Airport in Tokyo involving cutting-edge facial recognition technology. According to Japan's Ministry of Land, Infrastructure and Transport, this trial will be the first step towards an "e-airport concept" to improve passenger safety and convenience. Participating passengers will have their identity confirmed by a biometrics-equipped automatic check-in machine both at the departure lobby, and again at the airplane gate. The trial will run from December 2003 to March 2004.

The Canadian Tourism Commission's foreign office in Japan reported that the Japanese outbound market was still cautious as a result of lingering concerns about SARS but was expected to show signs of recovery by this October or November. Bookings for trips to see Canada's fall colours were strong, and Air Canada reported nearly sold-out flights to Canada from Tokyo and Osaka during September and October.

Korea

The Korea National Tourism Organization (KNTO) reported that outbound Korean departures climbed by 12.3 per cent in September compared with a year earlier. This is on top of a 14.1 per cent increase in departures between September 2002 and 2001. However, year-to-September figures indicate that departures were down 3.7 per cent compared with the same period last year, as a result of the huge decline witnessed during the SARS outbreak. The KNTO also reported that 12,615 Koreans visited Canada in September, an increase of 6.1 per cent over September 2002.

The Korean Herald reported that, according to figures released by Korea's National Statistical Office, the expected recovery in the Korean economy has been delayed by a continued slump in consumer spending and investments. Although the Ministry of Finance, as well as the Bank of Korea, insist that economic growth in Korea will reach 3 per cent this year, many private think tanks have downgraded their outlooks.

According to the Australian Tourist Commission's (ATC) September Market Report, some international airfares out of Korea dropped by up to 35 per cent in September, as carriers attempted to stimulate travel during a traditionally slow period.

Hong Kong

Cathay Pacific Airways reported that its passenger traffic continued its steady recovery in September, as the decline narrowed to 3.2 per cent compared with last year's figures. Capacity was down 4.3 per cent, but the load factor increased 4.4 percentage points to 78.6 per cent. The airline noted that it was able to restore service back to normal levels by the end of September but it is still competing with quite aggressive pricing, which is keeping its passenger revenues down.

Meanwhile, Dragonair reported that its September passenger numbers were up marginally (0.7 per cent) from the same month last year. The airline stated that it is seeing healthy demand in the business travel market, which is expected to continue.

The Australian Tourist Commission's (ATC) September Report for Hong Kong indicated that, with the exception of Japan, international departures from Hong Kong were still down in September, although the gap has narrowed. Passenger numbers for U.S. destinations were 7.3 per cent lower than last year, and Europe was down by 1 per cent. The ATC also reported that the decline in travel agent sales transactions narrowed to 6 per cent in September compared with the previous year, showing marked improvement from the previous months when transactions were off more than 20 per cent.

Taiwan

EVA Air announced plans to increase flight frequencies during the winter season on key routes, because of an increase in travel demand. The carrier will increase service on a number of international routes, including those to the U.K., Australia and New Zealand.

The Chinese Aviation Development Foundation, which owns 71 per cent of China Airlines Ltd. (Taiwan's largest airline) has announced plans to sell a 36 per cent stake by the end of this year and give up control of the carrier. The market value of the stake has been set at about US$444 million. Industry analysts have blamed the airline's awkward ownership structure for impeding its ability to reform or improve management efficiency.

The Canadian Tourism Commission's (CTC) foreign office in Taiwan reported that total outbound travel from Taiwan dropped 35 per cent in the period between January and July 2003. Passenger traffic to the U.S. dropped 17.5 per cent, Europe was down 26.3 per cent, and Asian destinations declined 37.9 per cent. Fortunately, outbound travel showed a significant rebound in July and August, with consumers responding well to the many travel price discounts. Travel was expected to recover even further during the fall travel season.

The Australian Tourist Commission's latest Market Report for Taiwan indicated that total outbound travel in August was up 1 per cent compared with August 2002. Australia, Canada and Europe were the top three long-haul destinations in terms of volume.

Australia

Qantas Airways announced plans to launch a low-cost domestic carrier in May 2004, in response to the growing competition by discount carrier Virgin Blue. Qantas has said that its new airline will be a separate business with its own brand, and will be modeled after the airline's low-cost international brand, Australian Airlines. Virgin Blue has gained approximately 30 per cent of the domestic market in Australia since its launch three years ago.

A recent global survey of affluent consumers conducted by American Express and RoperASW showed that high-income Australians consider price to be the most important factor in purchasing decisions. As with the respondents from the U.S., Hong Kong, and the U.K., the second most important factor among Australian respondents was quality, while the third most important were looks and design.

The World Rugby Cup kicked off in Sydney in mid-October, with organizers expecting to attract 40,000 international visitors to the tournament. However, the number of tourists flying to Australia seemed to be lower than expected. Organizers attributed the shortfall to the fact that the SARS outbreak and the war in Iraq occurred at a time when many tourists were making their travel decisions.

New Zealand

Any lingering hope for a merger between Air New Zealand and Qantas Airways was squashed in mid-October when the New Zealand Commerce Commission vetoed the deal, ruling that the economic benefits were not as high as the cost of reduced competition. The Commission argued that the merger would result in airfare increases of up to 19 per cent and reduced services which would deter overseas travel from New Zealand. Although the two carriers indicated they planned to appeal the decision, there seems to be little hope that the decision will be overturned.

Meanwhile, Air New Zealand (ANZ) reported that its passenger traffic for the quarter ending September 30, 2003 improved over the previous year. Revenue passenger kilometres (RPKs) increased 2 per cent, and capacity was up 4.5 per cent compared with the same period last year. However, yields were down 35.7 per cent, mainly because of exchange rates against the US dollar and yen.

ANZ announced a new four-year cost-cutting drive, hoping to achieve NZ$245 million (CDN$196.3 million) in annual savings by 2007. The program will include a 15 per cent reduction in staff, although most of these job losses will be through attrition. The state-owned airline is still recovering from huge financial losses sustained two years ago following the collapse of its Australian subsidiary, Ansett.

Statistics New Zealand reported that overall outbound travel in September climbed 10 per cent over the previous year and represented the highest recorded increase in New Zealand resident departures. The increase benefited Australia, Fiji, India and the U.S. Departures for the year ending September 2003 were up 4 per cent from the same period a year earlier.

The Canadian Tourism Commission's (CTC) foreign office in New Zealand reported that New Zealand operators are experiencing "good to strong" sales of trips to Canada in fall tours and strong sales for the winter season. The strengthening New Zealand dollar is playing a role in this trend, as well as perceptions of Canada as a safe destination.

According to the Australian Tourist Commission (ATC), the New Zealand Ministry of Tourism reported that New Zealand's tourism industry has been experiencing an unprecedented boom in recent years. Tourism expenditures are increasing, making tourism the second largest sector in terms of export receipts. In 2002, visitor arrivals increased by 7 per cent, and expenditures were up 17.3 per cent compared with the previous year. Since 1997, average visitor spending has increased 95 per cent.

Economic Overview

North America

A solid economic recovery in the U.S. is expected to generate growth in the overall North American economy by 3.7 per cent in 2004. This will follow in the wake of an anticipated 2.3 per cent gain in 2003. In fact, during the second half of 2003, the U.S. economy is expected to record its strongest pace of economic growth since the late 1990s. In 2004, strong growth of 3.8 per cent is anticipated for the U.S. economy. The optimistic U.S. economic outlook is attributable to solid consumer spending, a significant rebound in investment spending and strong growth in real exports. Looking further ahead, the number of U.S. families earning at least $100,000 is expected to climb from 15 million today to 20 million by the end of this decade, according to a recent report by the Conference Board Inc. Moreover, with 78 million aging boomers extending the length of their peak earning years, a larger and more mature affluent market is emerging. As far as Canada is concerned, the acceleration in its economy is expected to be less robust and lag behind that of the U.S. economy. These factors should begin to put downward pressure on the Canadian dollar versus its U.S. counterpart early next year.

Europe

Economic growth in Europe and its major economies -Germany, France and Italy- is still expected to be sluggish this year. The appreciation of the euro has been just one of the factors weighing on economic growth. The euro, which traded below U.S. 90 cents in 2001, is now trading around U.S. $1.15. In 2004, the euro is not forecast to appreciate as quickly vis-à-vis the U.S. dollar. Fortunately, there are some signs of an economic recovery beginning in Europe. According to the Financial Times (FT), Euro-zone recovery hopes strengthened recently when Germany's closely watched forward-looking Ifo business climate index rose more than expected to 94.2 in October from 92 in September. It was the sixth successive rise in the index, which now stands at its highest level since February 2001. Hans Werner Sinn, president of Ifo, said the improvement in the index was in line with the recent joint forecast of Germany's six main economic research institutes, which saw a modest upturn starting in the fourth quarter. In addition, the FT reports that European Central bank president, Mr. Duisenberg, said he was optimistic about economic growth in the Eurozone, stating that it should reach its trend rate of 2.0-2.5 per cent growth next year. Meanwhile the UK's economy is expected to rebound and expand by 2.6 per cent in 2004. Growth will be led by higher export sales, which will in turn lead to positive growth in industrial production.

Asia-Pacific

This populous region of the world appears to have recovered quickly from the SARS health crisis which threatened to paralyze economic activity only a few short months ago. Economic growth will likely hit 3 per cent this year and much the same growth is anticipated in 2004. China remains the fastest growing economy in the region mainly because of rapid export growth, a factor that some countries view as a serious threat. However, domestic demand is also growing in China and as a result the country is currently the largest importer of goods from Taiwan and South Korea. Japan will continue to restrain overall growth in the region, although there are some signs of a potential rebound in Japanese economic activity. Exports have recently proven to be quite solid, due in part to the central bank's intervention to slow down the appreciation of the yen. In addition, labour markets have been improving and real disposable income has been on the rise and this has helped to boost household consumption.

Opportunities

With a new $1 billion casino set to open in Niagara Falls next year, it should be heartening to hear that more than one-quarter of Americans aged twenty-one and older (51.2 million) gambled at a casino in 2002, according to a new study by Harrah's Entertainment, Inc. The study reports that the largest group of gamblers are 51 to 65 years old (30%) and have an annual household income of over $95,000 (34%). While the average gambler took 5.8 trips to a casino last year, they were also more likely than non-gamblers to have taken a vacation of at least one week in the past year (63% of gamblers vs. 47% of non-gamblers).

Although much attention has been recently focussed on the rapid growth of hotel bookings through the Internet, a recent study concluded that global distribution systems (GDS) remain the largest single source of electronic business for the hospitality industry. According to research by NFO Plog, GDS and GDS media will account for an estimated US$11.5 billion in room revenues in 2003, compared with US$7.5 billion in direct online consumer bookings via the internet. In fact, 90 per cent of travel agents said they use the GDS and GDS shopping displays as much as or more than they did two years ago.

It appears that a growing number of Americans are concerned about sustainable tourism and are willing to pay more for vacations that preserve the natural environment. The TIA released a report recently, titled Geotourism: The New Trend in Travel, which shows that approximately 75 per cent of U.S. travellers feel strongly that their holiday visits should not damage the environment. Dubbing them "Geotourists," the TIA estimates that 58.5 million Americans (approximately one-third of all U.S. travellers) would be willing to pay more to use a travel company that strives to protect and preserve the environment, the majority of whom (61 per cent) would pay 5 to 10 per cent more.

Summary

Many current performance indicators for the tourism industry suggest a recovery is taking place. Furthermore, recent travel intentions surveys on both sides of the border suggest strong travel intentions for the winter travel season. However, the rapid appreciation of the Canadian dollar (against the U.S. dollar) is cause for some concern to many Canadian tourism suppliers, not only for the domestic tourism market but also for inbound travel from other countries. Fortunately, the latest Winter Travel Intentions Survey (September 2003) by the Conference Board of Canada suggests that domestic travel intentions will remain strong in spite of the appreciating Canadian dollar. In fact, considering that last year the industry battled increasing uncertainty because of the war in Iraq and declining consumer confidence, the prognosis might even be better.

However, while tourism demand is improving, the industry continues to face strong upward price resistance from travellers. Travellers continue to expect to find the lowest travel prices the industry has witnessed in years, if not in history. Businesses must now cope with the problem of raising those rock-bottom prices to more sustainable levels in the face of ongoing price resistance. It appears that strategies that most effectively differentiate a business from its lower-cost competitors are those that support and communicate value.

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