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Canada

CTC Tourism Intelligence Bulletin – Issue 17: September 2003

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

Recovery Momentum Still Precarious

Executive Summary

- Widespread forest fires in British Columbia, continuing terrorism alerts and the massive power outage in Ontario and parts of the US Northeast continue to hamper the momentum necessary for a solid tourism recovery in Canada. Not surprisingly, most suppliers remain cautious regarding upcoming prospects for the fall and winter season. On the other hand, the summer season did provide the industry with a glimmer of renewed optimism for the future.
- One positive trend witnessed was the surge in attendance at many Canadian summer festival events. While the goal of these events was to generate much-needed tourism dollars for their respective cities, an added benefit was to globally broadcast media messages that showcased Canada as a SARS-free, world-class travel destination.
- With the recent positive media coverage quelling any lingering SARS concerns and with traveller safety confidence at its highest levels since 9/11, it is hoped that travellers' decisions will once again be driven by more traditional economic and socio-economic factors. Fortunately, south of the border, the tourism rebound already appears to be gaining some much-needed momentum.

Emerging Trends and Issues - Despite Warnings, Travellers' Safety Confidence Remains High

- While still reeling from the effects of the Iraqi War and the SARS outbreak, travel suppliers were faced with the prospect of another flurry of booking cancellations when the U.S. Department of Homeland Security issued new terrorism alerts in late July. Fortunately, these threats did not materialize. While these alerts did cause some Americans to reconsider their travel plans, most appeared unfazed by the government warnings.
- Recent surveys suggest that terrorism fears now have little bearing on Americans' travel decisions. In fact, the most recent Travel Industry Association of America's (TIA) Travel Safety Index reports that travel safety confidence in the U.S. is at, or near, record high levels.
- On this side of the border, The Conference Board of Canada's latest Travel Intentions Survey revealed that Canadians are also feeling more confident about flying. Of those Canadians polled in June, 21 per cent indicated they plan on travelling by air for their domestic winter holiday this year. This compares to only 10 per cent that indicated the same last year. After 9/11, there was a dramatic shift to transportation modes other than air travel, but this winter it appears more Canadians are feeling safer in the skies and as a result, plan to fly to their vacation destinations.

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Consumer (Traveller) Overview

- Fortunately, perceptions of Canada as a safe vacation destination appear to be returning to pre-SARS levels in the U.S. According to the latest Tourism Impact Study by the Canadian Tourism Commission (CTC), 75 per cent of American travellers polled agreed they would feel safe taking a trip to Canada. This is a 13 per cent increase over the previous survey wave in early June, and only 3 per cent below the first wave, conducted in early April. Another survey, by Harris Interactive, showed that economic concerns are currently the main reasons why 54 per cent of Americans are not planning to travel this year. Of those polled, the largest group (23%) cited budgetary constraints as the main reason they would not be taking a trip, while general economic conditions and concerns about job security came in second and third (17% and 14%, respectively). Terrorist alerts (12%) and public health threats such as SARS and West Nile Virus (11%) rated lower.
- As businesses continue to look for ways to reduce spending on travel, more companies are turning to on-line booking as a cheaper alternative to conventional corporate travel agencies. According to research conducted by PhoCusWright and the National Business Travel Association, on-line business air travel transactions in the U.S. have jumped from 9.5 per cent of total bookings made in 2001to 34 per cent today. Survey data indicates that businesses are able to save 10 to 20 per cent per air ticket purchased on-line. A survey of U.S. corporate travel managers by UBS indicated that reducing travel expenditures will remain a priority for businesses into 2004, despite the expected increase in corporate travel. Results of the poll showed that negotiated hotel rates for next year are expected to remain unchanged from those of 2003.

Travel Supplier Overview

- Battered by the effects of the SARS outbreak, the war in Iraq and the process of financial restructuring, Air Canada reported a second quarter net loss of $566 million. The airline stated that the second SARS outbreak in late May had been particularly devastating, since it occurred at a time when many travellers were confirming summer travel plans. As a result, many international visitors avoided Canada altogether. In fact, the carrier attributes at least $400 million of its losses to the impact of the SARS outbreak. Furthermore, Air Canada predicted that the year-over-year decline will exceed $1 billion, with no meaningful recovery expected before the third quarter of 2004.
- In the U.S., passenger traffic surged in July. This resulted in record-breaking average load factors for the U.S. airline industry. On average, flights were 82.4 per cent full in July-the highest percentage in the 30-year history of the Air Transport Association. In the same month, the Airline Reporting Corporation (ARC) recorded the first positive growth (1% over July 2002) of airfare sales by travel agencies since November. ARC also noted that electronic airfare ticketing reached an all-time high in July, accounting for 83.3 per cent of all transactions, and surpassing the previous record of 82.1 per cent.
- According to Smith Travel Research, July was the first month since January that saw a growth in U.S. hotel occupancy. The average occupancy in lodging properties across the U.S. was 69.4 per cent-2.4 per cent higher than July 2002. Unfortunately, Pannel Kerr Forster Consulting Inc. (PKF) reported that the national occupancy rate in Canada for June declined 8 percentage points, compared with last year, to 63.1 per cent. In that same month, the average daily room rate for Canadian hotels was reported to have also decreased 5.5 per cent to $119.96, compared to June 2002.

Economic Overview

- After a short lull, the Canadian economy is expected to accelerate again later this year. Supporting this recovery are two Bank of Canada interest rate cuts-one in July and the second in September. Canada's lowest interest rates in a generation should boost both consumption and investment by the fourth quarter and into 2004. Looking ahead, the relatively stronger economic recovery in the U.S. combined with expected interest rate increases by the Federal Reserve should put downward pressure on the Canadian dollar-taking it from its current 72 cents (U.S.) level to 68 cents (U.S.) by mid-2004.
- Fortunately, the continental European economy appears to have turned the corner. German business confidence has risen for three consecutive months, an indication that the worst may be over for Europe's largest economy. In addition, the Reuters/NTC Research purchasing managers index (PMI) showed that for the first time in 13 months, all the big eurozone economies-Germany, France, Italy and Spain-recorded growth in service sector business activity in August. Consequently, European stock markets hit year highs through the beginning of September. In the U.K., strong consumer confidence and a continued pick up in stock prices boosted the Conference Board Inc.'s forward-looking leading index for that country, for a third consecutive month in June.

- There are also a number of signs that the Asia-Pacific region is emerging from a SARS- induced lull in economic growth. Chinese consumers are aggressively buying cars and homes and state-controlled Chinese banks are funding big government projects that are supporting the recovery. In Japan-the longest-standing under-performer of the advanced economies-Gross Domestic Product (GDP) expanded at a stronger-than-expected 2.3 per cent annualized rate during the second quarter of this year. In addition, the Conference Board Inc.'s forward looking leading index for Japan increased by 0.5 percent in June for a second consecutive month-another sign indicating that a recovery is underway. Meanwhile, weak global economic growth, the worst drought in a century, a strengthening currency and a downturn in the tourism sector are factors that depressed Australia's economy in the second quarter. Fortunately, annual growth of 3 per cent in 2003/04 is still possible.

Opportunities

- While a recent survey by Jupiter Research indicates that 87 per cent of consumers have already chosen their vacation destination before searching for accommodations on-line, only 23 per cent have pre-determined which hotel they will choose. This presents an excellent opportunity for lodging properties to entice customers by showcasing the benefits of their particular hotel or resort on their web site. A new report by Cornell University indicates that by 2005, one in five hotel bookings will be made on-line, up from one in twelve in 2002.
- It also appears that ski and snowboard vacations are once again gaining in popularity. The results of the Kottke End-of-Season Survey for 2002-2003 were recently released, indicating that U.S. ski areas tallied 57.6 million visits, beating the previous record set in the 2000/01 season and marking a 11.3 per cent increase over the long-term average of all ski seasons since 1978. The latest Ski and Snowboard Industry Report for the U.K. also revealed that the number of Britons who take a ski holiday surpassed 1 million-bolstered in part by the increase in the availability of low-cost airfares. That number is expected to climb to 1.1 million during the 2003/2004 season with many British skiers heading to the U.S. and Canada to take advantage of the favourable exchange rate.

In Brief

Widespread forest fires in British Columbia, continuing terrorism alerts and the massive power outage in Ontario and parts of the US Northeast continue to hamper the momentum necessary for a solid tourism recovery in Canada. Not surprisingly, most suppliers remain cautious regarding upcoming prospects for the fall and winter season. On the other hand, the summer season did provide the industry with a glimmer of renewed optimism for the future.

One positive trend witnessed was the surge in attendance at many Canadian summer festival events. The Montreal Jazz Festival broke all previous records in attendance and revenues, and the high profile Rolling Stones concert attracted 500,000 people to Toronto. While attendance at this year's Calgary Stampede fell slightly short of last year's mark, increased patronage by domestic travellers was evident and quite welcomed. The goal of these events was to generate much-needed tourism dollars for their respective cities, but an added benefit was the globally broadcast media coverage, showcasing Canada as a SARS-free, world-class travel destination.

Meanwhile, south of the border, the tourism rebound appears to be gaining some much-needed momentum. According to the Airline Reporting Corporation (ARC), July marked the first time since November 2002, that air ticket sales in the U.S. increased on a year-over-year basis. In fact, the Montreal-based International Civil Aviation Organization (ICAO) recently reported that a recovery in global air travel is now under way, building slowly but surely towards a 4.4 per cent rebound in 2004.

Although most in the tourism industry anticipated (or hoped for) a more speedy recovery from the storm of world events, the good news is that the foundation for recuperation is strengthening. With positive media coverage quelling any lingering SARS concerns and traveller safety confidence at its highest level since 9/11, it is hoped that key building blocks are emerging to help support a sustained recovery in the months ahead.

Emerging Trends and Issues

Despite Warnings, Travellers' Safety Confidence Remains High

While still reeling from the effects of the Iraqi War and the SARS outbreak, travel suppliers were faced with the prospect of another flurry of booking cancellations when the U.S. Department of Homeland Security issued new terrorism alerts in late July. Fortunately, these threats did not materialize. While these alerts did cause some Americans to reconsider their travel plans, most appeared unfazed by the government warnings.

James May, President of the Air Transport Association told the Washington Post in mid-August that the most recent terrorism alerts had "no impact" on air travel, going on to declare that the U.S. airlines "continue to have the safest form of security in the industry."

Whether or not the warnings had any real impact, it is interesting to look at the travel alerts that were issued in March and May-both of which included an elevation in the U.S. government terrorism threat levels from yellow to orange. When the March warning was issued, air traffic plummeted, although much of that decline could be arguably attributed to the effects of the war in Iraq. When the terrorism threat was again raised to code orange, between May 20 and May 30, a survey of American travellers, conducted during this period by the Canadian Tourism Commission (CTC), indicated that concerns about travelling were less pronounced, compared with earlier surveys. In the first wave, conducted in early April, 28 per cent of those polled were less willing to travel due to current events, while in the fourth wave, conducted in late May only 21 per cent of respondents had similar concerns.

Another survey, conducted in June by Harris Interactive, suggests that terrorism fears now have little bearing on Americans' travel decisions. In fact, of those choosing not to travel this year, the largest group cited budgetary constraints as the main reason for not taking a trip. General economic conditions and concerns about job security came in second and third (17% and 14%, respectively) while terrorist alerts (12%) and public health threats such as SARS and West Nile Virus (11%) rated lower.

Supporting the perception that air travel safety is increasing is the Travel Industry Association of America's (TIA) Second Quarter Travel Safety Index, which reported that travel safety confidence in the U.S. was at a record high. The index reached 128.3 points in May, an increase of 28.3 basis points over the fourth quarter of 2001 when the TIA first started tracking this factor. This was positive news for the ailing air travel industry which has suffered tremendously since the September 11, 2001 terrorist attacks. Since then, the TIA has released its Third Quarter results, which showed the Travel Safety Index dropped slightly but remained 26 basis points higher than the quarter following 9/11.

The recent safety record of the U.S. airline industry has likely played a key role in increasing traveller safety confidence. According to the National Transportation Safety Board (NTSB), 2002 was the first year of the last two decades in which no fatal U.S. airline accidents occurred. Although 34 commercial airline accidents occurred last year, most were considered minor and none resulted in passenger or crew fatalities. The NTSB noted that the continuing trend of low accident levels over the last few years is due in part to advanced aircraft safety technology and more realistic training simulators.

In fact, a study conducted earlier this year by Michael Flannagan and Michael Sivak of American Scientist Magazine, illustrated how much safer it is to fly, rather than drive, to a destination. The study concluded that if a person drove 1,100 km by car, the typical distance of a non-stop flight, he or she would be 65 times more likely to be killed than if he or she travelled the same distance by airplane. Flannagan and Sivak wrote that in order for flying to become as risky as a road trip, airline disasters on the scale of 9/11 would have to occur at least once per month.

On this side of the border, The Conference Board of Canada's latest Travel Intentions Survey revealed that Canadians are also feeling more confident about flying. Of those polled, 21 per cent of Canadians plan on travelling by air for their domestic winter holiday this year, compared to only 10 per cent last year. After 9/11 there was a marked increase in the percentage of travellers choosing to travel by car rather than by air but it appears that this winter more Canadians are planning to fly to their vacation destinations.

Consumer overview - Canada and the United States

Business Travellers

As businesses continue to look for ways to reduce spending on corporate travel, more companies are turning to on-line booking as a cheaper alternative to conventional corporate travel agencies. According to research conducted by PhoCusWright and the National Business Travel Association, on-line business air travel transactions in the U.S. have jumped from 9.5 per cent of total bookings made in 2001, to 34 per cent today. Survey data showed that businesses were able to save 10 to 20 per cent per air ticket purchased on-line. Savings were a result of smaller transaction fees, combined with the ability to compare negotiated corporate discounts with current sale prices.

A recent survey by UBS Investment Bank indicated that keeping travel costs as low as possible will remain a priority for businesses into 2004, despite the expected increase in corporate travel. This poll of U.S. travel managers responsible for approximately US $450 million in annual hotel spending showed that negotiated hotel rates for next year are expected to remain flat compared with 2003. This will likely put additional pressure on the hotel sector as operational costs continue to rise-UBS expects business travel to account for 70 to 75 per cent of 2004 revenues at most lodging properties.

The survey identified three main trends in corporate travel purchasing: 1) travel buyers expected to continue consolidating group bookings at preferred hotels for greater leverage; 2) 40 per cent expected to increase their use of mid-priced hotels rather than full-service brands; and 3) buyers showed a strong preference for multi-brand companies that offer a "one-stop shopping" experience. UBS also reported that business travel volumes are expected to remain unchanged or increase slightly through September to December, compared with the same period last year.

Leisure Travellers

According to the latest Tourism Impact Study, conducted in early July by the Canadian Tourism Commission (CTC) and NFO Plog Research, the perception of Canada as a safe vacation destination seems to be returning to pre-SARS levels in the U.S. Results of the survey show that 75 per cent of the American travellers polled agreed that they would feel safe taking a trip to Canada. This is a 13 per cent increase over the previous survey wave in early June, and only 3 per cent below the first wave, conducted in early April. The likelihood of travelling to Canada in the next year has remained steady since the first wave (16%).

A June survey by Harris Interactive clearly showed that economic concerns have the most influence on American travel decisions. Of those polled, 54 per cent indicated they would not take a vacation this year, with the largest group (23%) citing budgetary constraints as the main reason for not travelling. General economic conditions and concerns about job security came in second and third (17% and 14%, respectively) while terrorist alerts (12%) and public health threats such as SARS and West Nile Virus (11%) rated lower on the list.

The Travel Industry Association of America (TIA) released the results of its Third Quarter Traveler Sentiment Index in mid-August, reporting that the overall index rating (96.0) remained constant with the previous quarter (95.7). TIA indicated that the number of consumers now viewing travel as affordable had increased, probably as a result of industry efforts to stimulate demand through discounts and promotions; however, this increase was offset by an index drop in consumers' perceptions about having enough time for leisure travel. The TIA's Travel Safety Index was down slightly (1.5 points) from the previous quarter, but still up 26 points from the fourth quarter of 2001, when the TIA began tracking this factor.

AAA predicted that a record number of travellers would take a trip during the Labour Day weekend this year. The automobile club projected that 33.4 million people would travel over the holiday, up 1.8 per cent from last year, beating the previous record of 33.2 million set in 1995. AAA also estimated that 2.2 per cent more people would travel by car compared with last year, while air travel would decline 2.6 per cent. A Priceline.com survey of hotel demand indicated that the top three lodging destinations for the Labour Day weekend were New York City, Chicago, and San Diego. Vancouver jumped ahead 25 spots to number 6 compared with a similar survey conducted in May.

According to a new study by Ipsos-Reid titled "Online Travel 2003: What the Future Holds", more Canadians are now booking their travel directly through the Internet. The study shows that 36 per cent of Canadians who have Internet access booked travel plans online-up from 31 per cent in June 2002 and 18 per cent in September 2000. The survey indicates that the Internet is the primary source of travel information for 35 per cent of on-line Canadians, while the proportion of those relying on travel agents or family and friends is significantly lower (14% for each). Expedia.ca is the most popular web site for Canadians who have used the Internet to book or research travel plans (chosen by 18%) followed by Travelocity (13%), Air Canada (12%) and CAA (11%).

Meanwhile, it appears that approximately one-third of Canadians are not taking enough vacation time. According to a survey by Expedia.ca and Ipsos-Reid, 33 per cent of Canadians polled are not taking all of their allotted vacation days, representing about $8 billion in unused holiday time per year. According to survey results, British Columbians are the most vacation-deprived, with 41 per cent reporting unused vacation days, while Quebec residents are most likely to take their full allotment of holidays (30% report not using all their vacation days).

Travel-supplier overview - Canada and the United States

Airlines - Canada

Air Canada's operations were recently disrupted when a massive power outage hit the eastern part of Canada and the U.S. on August 14, taking out the airline's Systems Operations Control Centre in Mississauga, Ontario. All flights were suspended for approximately 24 hours, with hundreds of flights cancelled, snarling up the airline's passenger traffic for days. Although a number of airlines in Canada and the U.S. were affected by the blackout, Air Canada was the only carrier to lose power to its main operations control centre. Overall, the losses suffered by the North American airline industry because of the blackout were estimated to be in the tens of millions of dollars.

A few days later, on August 19, Air Canada's troubles intensified when a virus infected the airline's check-in systems and call centre. Air Canada customer service representatives were forced to resort to manual check-in procedures and although no flights were cancelled, massive line-ups and some flight delays resulted, particularly in Toronto Pearson and Vancouver airports.

Meanwhile, Air Canada reported a net loss of $566 million for its second quarter ending June 30, 2003. Battered by the effects of the SARS outbreak, the war in Iraq and the process of financial restructuring, the airline reversed the profit ($30 million) it reported for the same period last year. President and CEO Robert Milton stated that the second SARS outbreak in late May had been particularly devastating to the airline, since it occurred at a time when many travellers were confirming summer travel plans, prompting many international visitors to avoid Canada altogether. The airline attributed at least $400 million of its loss to the impact of the SARS outbreak. Further, the airline predicted that the year-over-year decline would exceed $1 billion, with no meaningful recovery before the third quarter of 2004.

In July, Air Canada flew 3.78 billion revenue passenger miles (RPMs), a drop of 13.4 per cent compared with July 2002. During the same period, its capacity declined 15.4 per cent to 4.83 billion available seat miles (ASMs). As a result, its load factor increased 1.9 points to 78.1 per cent. Again, traffic in July was down most significantly on Pacific routes (- 53.2 %) compared with last year.

Jazz, Air Canada's regional airline subsidiary, experienced a 7.3 per cent increase in RPMs for the month of July compared with last year, while its capacity decreased 7.1 per cent. This resulted in an 8.4 point increase in load factor, to 62.3 per cent.

In mid-August, Air Canada announced a major expansion of its Tango product, in an effort to compete with popular low-cost rivals such as WestJet, Canjet and Jetsgo. The move resulted in a 140 per cent increase of available Tango flights, with further expansions expected in October. Eventually, the airline plans to have Tango fares available on most domestic routes, as well as all U.S. and international destinations.

Calgary-based discount airline WestJet reported a net profit of $14.7 million for its second quarter ending June 30, 2003, marking the 26th consecutive quarter that the carrier has posted a profit. Chairman, President and CEO Clive Beddoe attributed WestJet's remarkable profitability to improved cost-savings and efficiencies achieved during "one of the most challenging environments that our industry has experienced." On-line bookings were also up by 5 per cent in the second quarter compared with last year, representing 65 per cent of the airline's total bookings.

WestJet's revenue passenger miles (RPM)s rose to 493.4 million in July, an increase of 41.5% compared with the same month last year. Year-to-date (January to July) RPMs increased 43.5 per cent, compared with the same period in 2002. ASMs grew to 635.3 million in July, up 46.3 per cent compared with last year. As a result, its load factor dropped 2.6 points to 77.7 per cent.

After its first year of operation, discount carrier Jetsgo reported its first year-over-year traffic statistics. RPM's were up by 212 per cent and ASMs increased 220 per cent in July compared with the same month last year. In July 2003, Jetsgo's passenger traffic grew to 140.9 million RPMs, on 199.2 million ASMs, resulting in a 70.7 per cent load factor.

Transport Canada announced that Montreal's Dorval Airport will be renamed Pierre Elliott Trudeau Airport in a ceremony scheduled to take place on September 9, 2003. Transport Minister David Collenette stated that the decision was in line with previous moves to rename Canadian airports after former prime ministers, beginning with Trudeau's decision to name Toronto's airport after Lester B. Pearson.

Airlines - U.S.

The massive August 14 power outage in eastern Canada as well as in north-eastern and mid-western parts of the U.S. caused major air traffic disruptions for thousands of travellers as planes were grounded or diverted from a dozen airports. The blackout resulted in closings or partial closings at airports in New York, Newark, Detroit, Cleveland, Toronto, Montreal, Ottawa, Islip, Syracuse, Buffalo, Rochester, and Erie, Pennsylvania and effects of the closings rippled across the entire North American air traffic system. American Airlines and Northwest Airlines suffered the greatest impact of all U.S. carriers, with 198 and 216 flight cancellations, respectively. The blackout wreaked havoc with flight schedules for almost four days as airlines scrambled to restore air services in the wake of over 1,000 flight cancellations.

Meanwhile, passenger traffic in the U.S. surged in July, resulting in record-breaking average load factors for the U.S. airline industry. On average, flights were 82.4 per cent full in July, the highest percentage in the 30-year history of the Air Transport Association. However, all major carriers had cut their capacity dramatically in the wake of the SARS outbreak to help boost load factors and reduce costs. And although average fares were up 2.3 per cent compared with July 2002, cost-conscious vacationers kept up their pursuit of bargain airfares, preventing the major airlines from profiting significantly from this upswing in air travel.

The Air Transport Association (ATA) reported that overall revenue passenger miles (RPMs) were up 0.5 per cent in the month of July, compared with a year earlier. A 2.4 per cent climb in domestic traffic, and a 7.5 per cent increase in passenger traffic on Latin routes buoyed this slight increase. Meanwhile, international passenger traffic was down 4.7 per cent, due to a 12.9 per cent drop in Pacific traffic and a 5.2 per cent decrease on Atlantic routes.

According to a report recently released by the U.S. Department of Transportation, low-cost carriers are increasing their share of long-haul travel. From 2000 to 2002, they gained a "competitive market presence" in an additional 32 long-haul markets, and increased their share of these markets from 12.5 per cent to 17.3 per cent. Over these two years, average long-haul airfares dropped by 29 per cent. During the same period, low-cost carriers tripled their passenger traffic on long-haul routes, while major airlines experienced a 15.5 per cent decline.

In a more recent development, the Bureau of Transportation Statistics announced that Southwest Airlines carried more domestic passengers in May than any other U.S. carrier, marking the first time a low-cost carrier has overtaken the major airlines in domestic passenger volume. Southwest jumped to first place by carrying 6.54 million passengers, while Delta came in second at 6.34 million, and American Airlines ranked third at 6.22 million.

Meanwhile, UAL Corp., the parent company of United Airlines posted a net loss of US$623 million for the second quarter ending June 30, 2003. This loss was almost double that which was witnessed during the same period of 2002. Despite the severe loss, UAL reported that revenue steadily improved during that period, which the company found "encouraging." In fact, during the month of July, UAL reported an operating profit of US$35 million and managed to meet the requirements of its debtor-in-possession financing for the sixth consecutive month. The airline plans to emerge from bankruptcy protection by the first quarter of 2004.

US Airways Group posted a US$13 million profit for the second quarter ending June 30, 2003, reversing the US$248 million loss it experienced in the same period of 2002. The airline's earnings were boosted by a US$214 million federal government security rebate, which saved the carrier from a US$154 million loss. The airline reported that its results echoed the experience of almost all major network carriers, whose second-quarter profits were impacted by a combination of a weak economy and the effects of the war in Iraq. The airline added that it managed to build positive momentum during this period and was encouraged by the results.

Table 1. Net Income

Airline	Net Income (Loss) Q2 2003 (in U.S. $)	Net Income (Loss) Q2 2002 (in U.S. $)
ATA Airlines	+$40.8 million	-$57.9 million
JetBlue Airways	+$37.9 million	+$14.6 million
UAL Corporation	-$623 million	-$341 million
US Airways	+$13 million	-$248 million

American Airlines, the world's largest carrier, announced in mid-August that it was easing restrictions on non-refundable air tickets, in a move to reverse the stringent "use-it-or-lose-it" rules implemented in the fall of 2002. Continental, Delta and Northwest quickly followed suit. The restrictive policies were put in place last year to try and force business travellers to buy higher-priced refundable tickets, but there has been no indication that the policy was successful. In fact, industry analysts believe that the strict rules have driven business travellers to the more flexible low-cost carriers. Although their policies are not as consumer-friendly as they were prior to the 2002 changes, the four airlines will now allow passengers to apply the value of a non-refundable ticket to a future ticket if the traveller cancels before the ticket's original departure time. Before these standards were amended, passengers could retain the value of their non-refundable ticket even if they did not cancel prior to the flight.

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

Airline	RPM; July 2003 vs. July 2002	Capacity;July 2003 vs. July 2002
American Airlines	-0.4%	-6.9%
ATA Airlines	+32.4%	+19.3%
Continental Airlines	+5.6%	-0.7%
Delta Air Lines	-2.7%	-8.5%
JetBlue Airways	+79.2%	+73.7%
Northwest Airlines	-3.9%	-7.5%
Southwest Airlines	+9.8%	+3.6%
United Airlines	-5.7%	-12.2%
US Airways	-3.5%	-9.5%

Meanwhile, the U.S. Department of Homeland Security announced the 60-day suspension of two transit programs which enabled Latin American and Asian passengers to stop over in U.S. airports without visas while waiting for flight connections to other countries. Travellers from Mexico, Central and South America, as well as Asia (Singapore and Brunei excepted) must now apply for a visa and pay a US$100 fee to stop in any U.S. airport. If the suspension becomes permanent, industry analysts believe that many foreign travellers will avoid U.S. airlines and hubs, and will be forced to re-route their travel through other hubs, such as Vancouver. Last year, the Travel Without Visa program allowed 381,065 passengers to fly through American airports, most of who travelled with an American carrier.

According to the Airports Council International, Atlanta Hartsfield continues to be the world's busiest passenger airport. It served 76.9 million passengers in 2002, a 1.3 per cent increase over 2001. Chicago O'Hare came in second with 66.6 million while Los Angeles LAX ranked third in the U.S. with 56.2 million. London Heathrow was the busiest airport outside of North America, with 63.3 million passengers.

Hotels - Canada

According to an ongoing study conducted by KPMG, tourism expenditure losses in Toronto reached $429 million for the period of March 2 to August 16 of this year, compared with 2002. The largest category of revenue loss continued to be the accommodation sector, which has seen expenditures fall by $155.5 million during this period. KPMG also reported that, since March 2, the decline in tourism expenditures has totalled $806 million in the six Canadian cities it has been tracking, indicating that Montreal, Niagara, Calgary and Vancouver are also experiencing significant losses this year. Of the six monitored cities, Ottawa is the only city where tourism expenditures are similar to 2002 figures.

Pannel Kerr Forster Consulting Inc. (PKF) reported that the average daily room rate for Canadian hotels in June decreased by 5.5 per cent to $119.96, compared to June 2002. During this same month, the national occupancy rate declined 8 percentage points, compared with last year, to 63.1 per cent.

In spite of this, Fairmont Hotels & Resorts Inc. posted a second-quarter net income of $40.1 million for the period ending June 30, 2003- a 38 per cent increase over the $28.9 million profit posted for the same period in 2002. The company, which includes a portfolio of 80 luxury properties around the world, attributed much of its net income to a favourable tax reassessment in June. Fairmont also reported that, despite challenges in almost all Canadian markets, particularly Toronto, its Banff property remained an overall top performer due to consistent demand from the business group sector. Encouraged by early signs of an apparent recovery in the U.S., Fairmont anticipates it will experience a sharp recovery in 2004.

Meanwhile, Four Seasons posted a net loss of $1.3 million for the second quarter ending June 30, 2003. The company reported that travel demand trends improved throughout this challenging period and that near-term travel bookings were increasing, although it was too soon to know whether these improvements represented the beginning of a sustainable recovery.

Table 3. Hotel RevPAR and Net Income Q2

Company	Revenue per available room (RevPAR), Q2 2003 vs. Q2 2003	Net Income (Loss) Q2 2003	Net Income (Loss) Q2 2002
Fairmont Hotels & Resorts Inc.	+0.4%	+$40.1 million	+$28.9 million
Four Seasons Hotels Inc.	-7.4%	-$1.3 million	+$18.1 million

Hotels - U.S.

According to Smith Travel Research, July was the first month since January that displayed a growth in hotel occupancy. The average occupancy in lodging properties across the U.S. was 69.4 per cent-2.4 per cent higher than July 2002. The rise in occupancy was due to a 3.8 per cent increase in room demand, which outpaced the room supply growth of 1.3 per cent. Meanwhile, average daily room rates rose 0.3 per cent in July to US$83.52 while revenue per available room (RevPAR) rose 2.7 per cent to US$57.98, compared with July 2002.

Unfortunately, second quarter financial results were down from the previous year for virtually all major U.S. hotel brands as a result of the challenges presented by the sluggish economy and geopolitical events during that period. For the second quarter RevPAR was also down an average of 3.1 per cent across the U.S.-mostly because of the drop in business travel and the widespread discounting of leisure travel rates. Most lodging companies reported diminished expectations for the second half of 2003, particularly because of the bleak outlook for fall bookings. Nevertheless, many remain cautiously optimistic about a recovery in 2004.

Table 4. Hotel RevPAR and net income

Hotel	Revenue per available room (RevPAR), Q2 2003 vs. Q2 2002	Net Income (Loss) Q2 2003 (in U.S. $)	Net Income (Loss) Q2 2002 (in U.S. $)
FelCor Lodging Trust	-7.6%	-$20.2 million	+$13.0 million
Hilton Hotels Corp.	-6.9%	+$54.0 million	+$76.0 million
Host Marriott	-8.2%	-$14.0 million	+$24.0 million
Interstate Hotels	-5.8%	-$0.5 million	-13.7 million
Jameson Inns, Inc.	-1.8%	+$1.4 million	+$1.5 million
Prime Hospitality	-3.7%	-$17.8 million	-$4.5 million
Starwood Hotels	-4.3%	+$290 million	+$180 million
WestCoast Hospitality	-5.0%	+$1.8 million	+3.8 million
Wyndham International	-5.4%	-$91.5 million	-$41.4 million

The latest forecast by PricewaterhouseCoopers (PWC) indicated that lodging occupancy rates were expected to average 69 per cent over the Labour Day weekend, up 1.5 per cent from 2002. Urban and resort locations were expected to experience the highest occupancy gains, as leisure travel continued its upward trend. Overall, PWC predicted that the average occupancy rate for the summer travel period between the Memorial Day and Labour Day weekends would increase minimally compared to the same period in 2002 (67.7% versus 67.5% respectively).

The American Hotel and Lodging Association announced the development of a voluntary program allowing air travellers to check their baggage and receive an airline pass at their hotel up to 12 hours before their flight. The program is currently being tested in the Orlando, Florida area with select hotels, but may expand to hotels and airports across the U.S. if the trial run is successful.

Meanwhile, Bear Stearns revised its lodging industry forecast, predicting a recovery in the second half of 2004 as opposed to its earlier estimate of a 2003 upturn. With corporate expenditures still well below pre-9/11e levels 9/11, the firm anticipated that business travel spending would remain conservative through the fall months, resulting in lower room revenues.

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 11 per cent in July compared with a year earlier. IATA also reported that the average airfare to the U.S. was down 1 per cent compared with the previous year, while tickets to non-U.S. destinations were 2 per cent lower.

Meanwhile, in the U.S., the Air Transport Association (ATA) reported that the average domestic July airfare increased 2.3 per cent compared with last year. For international travel, the average U.S. ticket price on Atlantic routes was up 2.6 per cent, while fares on Latin and Pacific routes were down 3.4 and 8.2 per cent, respectively.

The Airline Reporting Corporation (ARC) reported that travel agency sales were up 1 per cent this July over the same period last year, marking the first increase in ARC sales since November 2002. ARC also noted that electronic ticketing reached a new record in July, accounting for 83.3 per cent of all transactions, surpassing the previous record of 82.1 per cent.

Expedia, Inc. reported its second quarter financial results for the period ending June 30, 2003, posting a US$41.3 million net profit. Quarterly gross bookings were up 53 per cent compared with the previous year, to US$2.0 billion. Expedia Canada Corp., the company's Canadian unit, reported a 113 per cent rise in gross bookings on Expedia.ca, to US$47.5 million compared with the same quarter of 2002.

According to Travel Click's eMonitor results for the second quarter of 2003, total world-wide electronic hotel bookings made through global distribution systems (GDS) and the Internet combined were up 2.1 per cent compared with the previous year. This growth was fuelled by a 39 per cent increase in the number of Internet bookings made through third-party web sites. The average daily room rate for e-bookings, however, dropped 1.9 per cent.

International overview - Overseas

United Kingdom and Ireland

British Airways (BA) posted a net loss of £63 million (CDN$137.1 million) for its first fiscal quarter of 2003 ending June 30-a huge decline compared with the airline's £40 million (CDN$87.1 million) profit achieved in the same period last year. Overall passenger traffic for the first fiscal quarter 2003 was up 1.7 per cent compared with the previous year, while capacity dropped 0.2 per cent. This resulted in an average load factor improvement of 1.3 percentage points to 71.8 per cent. However, the carrier's yield (measured as pence per revenue passenger kilometres) decreased 12.7 per cent compared with the same quarter of 2002.

In its press release, BA reported that its fiscal year loss was not as high as anticipated and that demand for air travel seemed to be improving. Passenger traffic, in particular, appeared to be building towards levels witnessed last year, although yields continued to be down. The carrier also indicated that its Future Size and Shape cost-cutting and restructuring program had helped mitigate the financial blows sustained during the war in Iraq and the SARS outbreak.

Unfortunately, British Airways suffered further losses in July when the carrier's check-in staff at Heathrow Airport conducted a two-day wildcat strike to protest the introduction of a swipe-card staff clocking system. The strike action forced the airline to cancel more than 500 flights on the July 18-19 weekend, disrupting the travel plans of up to 90,000 travellers. BA estimates it lost close to £40 million (CDN$87.1 million) in revenues due to the two-day dispute.

As a way to win back some of its customers disgruntled by the chaos caused by the strikes, British Airways subsequently launched an on-line promotion which resulted in record-breaking on-line sales figures for the airline. On the busiest day of the seat-sale, BA estimates it sold 34,500 seats, or one seat every two seconds, and maintains that its share of on-line ticket bookings is increasing. By comparison, British travel web site Travel Mole reported that low-cost carrier Ryanair sells an average of 63,000 seats on-line every day, roughly the same number as its discount competitor, EasyJet.

Ryanair posted a profit for its first quarter ending June 30, 2003 of EUR40.5 million (CDN$60.7 million)-an increase of 4 per cent compared with the carrier's first quarter profit of EUR39.0 million (CDN$58.2 million) in 2002. Passenger traffic for that period was 45 per cent higher than the previous year, although the carrier's average load factor fell 5 points to 78 per cent, and average fare yields dropped 14 per cent. Ryanair added fifty new routes and two new European bases during the first quarter, and reported that it expects to continue growing during the current fiscal year.

BAA, the international airports group, reported a pre-tax first quarter profit of £127 million (CDN$276.3 million) for the period ending June 30, 2003-an 11.2 per cent drop in earnings compared with the same period in 2002. BAA attributed part of this reduction to a large investment in an additional 1,000 security staff recruited since 9/11. Passenger traffic in BAA's U.K. airports grew 2.2 per cent to 32.7 million in the first quarter compared with a year earlier, boosted by strong growth at Stansted, Edinburgh, Glasgow and Southampton. Meanwhile, Heathrow's traffic was down 2.2 per cent, long-haul travel during that period having been negatively affected by the SARS outbreak and other world events.

BAA also reported that its seven U.K. airports experienced their second busiest month on record in July, up 2.2 per cent to 13.2 million passengers compared with July 2002. BAA indicated that July could have broken all previous records, had the British Airways' wildcat strike not happened. It was reported that domestic travel and European travel were up (1.9% and 6.9%, respectively) while North Atlantic travel suffered a slight (2.9 %) setback from the recovery witnessed in June.

Table 5. Percentage change in passengers carried

Carrier	July 2003 vs. July 2002
British Airways	+2.5%
EasyJet	+74.9%
Ryanair	+40%

According to the U.K.'s Office of National Statistics, visits abroad by U.K. residents increased by 1 per cent in the three months ending June 30, 2003, compared with the same period a year earlier. Visits to North America increased the most (6%) while visits to European destinations increased by 2 per cent. Meanwhile, other overseas destinations posted a decrease of 6 per cent. Overall, U.K. expenditures abroad remained unchanged from the same period last year.

The latest Ski and Snowboard Industry Report revealed that the number of Britons who take a ski holiday every year has surpassed 1 million-bolstered in part by the increase in the availability of low-cost airfares. This represents a sharp increase from the 1999/2000 season, when the number of British ski holidays dropped to 700,000, partly because of that season's expensive airfares. The report also indicated that the number could climb to 1.1 million during the 2003/2004 season, with many British skiers heading to the U.S. and Canada to take advantage of the favourable exchange rate.

France

Air France profits plummeted 97 per cent to EUR4 million (CDN$6 million) in its first quarter ending June 30, 2003, compared with the EUR159 million (CDN$238.4 million) profit the airline posted in the same quarter of 2002. The airline cited public sector strikes, the SARS outbreak, high fuel prices, and the weakening of the dollar and yen as contributing factors to a "deterioration in the business climate." Air France estimates that the effects of SARS alone cost the airline EUR100 million (CDN$150.0 million) in lost revenue. Passenger traffic during the first quarter fell 5.7 per cent, compared with the previous year, although the airline reported signs of a recovery at the beginning of June.

In July, Air France's passenger traffic improved by 2.9 per cent over July 2002, marking the first increase since February. Capacity was up 1.1 per cent, resulting in an average load factor of 79.4 per cent, a 1.4 point increase over the same period last year. The carrier also expanded into a new terminal at Charles de Gaulle Airport in July, adding enough runway and gate capacity to accommodate an additional 6 million passengers annually.

Accor reported that hotel revenues for its first half ending June 30, 2003 were down 1.7 per cent compared with the same period last year, to EUR2.4 billion (CDN$3.6 billion). Upscale and mid-scale hotel revenues were down 1.7 per cent, brought down by a second quarter drop of 4.4 per cent. Meanwhile, overall economy hotel revenues were up 1.1 per cent despite U.S. revenues in the economy segment being down by 4 per cent.

Germany

Lufthansa announced a net loss of EUR34 million (CDN$51.0 million) for its second quarter ending June 30, 2003. This represents a significant fall in net earnings from the same period last year, when the airline achieved a net profit of EUR 160 million (CDN$240.1 million). Although the airline was encouraged by its operational results, particularly since Lufthansa's operating loss in the first quarter was a hefty EUR415 million (CDN$622.4 million), it also warned that current bookings for the second half of the year indicated that no significant improvement could be expected.

In July, Lufthansa's passenger numbers increased by a marginal 0.3 per cent, over the same month in 2002, although revenue passenger kilometres (RPKs) declined by 1 per cent. The revival of post-SARS air travel to the Asia-Pacific region was reflected in passenger numbers on those routes, down by only 9 per cent in July 2003 compared with 2002, after plummeting 20 per cent in June. Passenger traffic on Atlantic routes was up 8.8 per cent compared with last year. In August, Lufthansa announced that it would reinstate regular work hours in September for its ground staff whose work schedules were reduced in April due to the Iraqi War and SARS.

According to airline industry analysts HVB Group, budget airlines now account for 32 per cent of Germany's inbound and outbound air traffic. Lufthansa's share of the market has been reduced to 50 per cent, after having lost 20 to 30 per cent of its passengers to low-cost competitors.

According to the Australian Tourist Commission's (ATC) latest Market Report for Germany, TUI and Thomas Cook report positive booking trends in all markets, with sales growing to as much as 20 per cent in July. However, despite this trend, full-year sales are expected to be down by 4 or 5 per cent, prompting both travel agencies to plan significant staff reductions over the next year. Thomas Cook announced it hoped to cut overall operational costs by EUR600 million (CDN$899.9 million) in 2003/2004.

Italy

In July, Alitalia's passenger traffic increased 14.9 per cent over the same month in 2002. Meanwhile, capacity was up 5.2 per cent, which resulted in a load factor increase of 6.5 points to 78.0 per cent. Year-to-date, the carrier's passenger traffic was up 4 per cent with a 4.3 per cent increase in capacity. Overall, this resulted in a minimal drop in load factor to 69.8 per cent compared with the same period last year.

The Australian Tourist Commission reported in its latest Market Report for Italy that the global outlook among Italians continued to improve in July, with the fear of SARS ever diminishing. As anticipated in previous reports, a record number of Italians stayed home for their summer vacation this year, mostly in response to the increased cost of living.

The Netherlands

KLM Royal Dutch Airlines posted a net loss of EUR54 million (CDN$81.0 million) for the first quarter ended June 30, 2003. This compares to a profit of EUR11 million (CDN$16.5 million) witnessed during the first fiscal quarter of 2002. Over the same period RPKs dropped 9 per cent compared with a year earlier, and airfare yields were down 11 per cent. The airline reported that its financial losses served to reinforce the necessity of moving forward with its cost-cutting measures, including up to 4,500 staff layoffs.

In July, KLM's revenue passenger kilometres were down 3 per cent compared with the previous year, and capacity dropped 3 per cent as well, resulting in a 0.2 point drop in average load factor to 83.8 per cent.

Japan

Japan Airlines System Corp. (JAS) reported a massive 77.28 billion yen (CDN$922.7 million) net loss for its first fiscal quarter ending June 30, 2003. This result illustrates the serious financial impact of the SARS outbreak and the war in Iraq. International passenger numbers were down 46 per cent during that period, with overall passenger traffic (RPKs) suffering a decline of 36 per cent compared with the first fiscal quarter of 2002. The airline's capacity also decreased during the first fiscal quarter by 18.1 per cent. On the other hand, domestic passenger numbers increased by 2.3 per cent, and RPKs were up 1 per cent compared with the same period last year.

All Nippon Airways (ANA) also reported a significant financial loss for its first fiscal quarter, posting a net loss of 18.2 billion yen (CDN$217.3 million) for the period ending June 30, 2003. The airline saw its international passenger numbers decrease 35 per cent during the quarter, the impact of which offset the carrier's cost-cutting measures intended to mitigate the drop-off. ANA also reported that its business demand began picking up by the end of the quarter, and based on advance bookings, anticipates that overall bookings will return to 2002 levels by the end of the second fiscal quarter (September 30,2003).

Both JAS and ANA are seeking emergency loans from the Development Bank of Japan to assist them in recovering from the financial impact of the war in Iraq and the SARS epidemic. Although the size of the loans packages have not been announced, the scale of assistance is expected to be similar to the loans extended to the airlines following the September 11 terrorist attacks.

The Land, Infrastructure and Transport Ministry announced that Japanese travel agencies saw their June overseas tour bookings drop by 51.7 per cent compared with June 2002. It was the second straight month in which overseas bookings fell below 50 per cent of 2002 figures.

Kinki Nippon Tourist Co. posted a net loss of 3.27 billion yen (CDN$39.0 million) for the six-month period ending June 30, 2003, attributing most of their loss to the Iraqi war and the SARS epidemic. Overall sales during the period dropped 6.2 per cent while overseas travel revenues fell 26.9 per cent compared with the previous year. The travel agency anticipates the negative impact from both events to affect sales until at least October.

Japan's largest travel agency, JTB Corp., announced it would streamline the operation of its head office in Tokyo as of September 1. Restructuring actions will include cutting its workforce of 150 down by a third.

According to the Australian Tourist Commission's (ATC) Japan Market Report for July, the number of Japanese overseas travellers in May decreased 55.1 per cent to 575,000 compared to May 2002. This figure marked the highest decline on record, due to a combination of factors including world events, the sluggish Japanese economy and the inopportune timing of the Golden Week holiday.

Fortunately, Japan's average monthly household spending increased 1.6 per cent in June compared with the previous year, marking the first year-over-year growth in nine months. In July, the key index of consumer confidence rose 1.3 points from the previous month, achieving the first gain in two months.

Korea

Korean Airlines posted a net profit of 90.6 billion won (CDN$106.9 million) for the second quarter ending June 30, 2003, compared with a 467.5 billion won (CDN$551.5 million) profit in the same quarter of 2002. Meanwhile, operating revenues dropped 10 per cent compared with a year ago, because of a sharp decline in international traffic. Although the airline achieved significant net earnings for the second quarter, it reported a six-month loss of 284.6 won (CDN$335.7 million) for the period ending June 30.

Asiana, Korea's second largest airline, posted a KRW 38.5 billion net loss (CDN$45.4 million) for the first six months of 2003. In the same period last year, the carrier achieved net earnings of KRW10.7 (CDN$12.6 million). Despite the loss, Asiana reported that full-year earnings for 2003 are expected to revert to solvency.

According to the Australian Tourist Commission's (ATC) July Market Report, June departures from Korea were down 10 per cent to 483,965, after falling to the lowest levels in April and May. June passenger traffic through Incheon Airport climbed to 56,827, the highest levels since March 23, with double the numbers seen in May when passenger numbers dropped to 26,773. The ATC also reported that outbound travel was building throughout July and was expected to be back to normal levels by the end of that month.

Hong Kong

Cathay Pacific Airways posted its worst-ever financial report, announcing a loss of HK$1.24 billion (CDN$219.4 million) for the first half of 2003. In comparison, the airline posted a net profit of HK$1.4 billion (CDN$247.7 million) in the first half of the previous year. Passenger numbers fell 32.3 per cent during this time and the average load factor plunged 13.7 points to 64.4 per cent. In July, passenger traffic improved a great deal, with RPKs down only 15.4 per cent compared with July 2002. While capacity was down 16.9 per cent, the airline's load factor increased 1.5 points to 83.6 per cent.

In August, Cathay Pacific announced it would operate 90 per cent of its regular schedule, restoring most of the services it cut during the SARS outbreak. The remaining 10 per cent of suspended services should be reinstated by the end of September. Although passenger traffic continued to show a strong recovery, airline executives warned that its yields remained quite low because of the heavy discounts it has offered in order to stimulate demand.

The Hong Kong Tourism Board announced that the region's tourism industry is recovering from the effects of the SARS outbreak much more quickly than anticipated. Approximately 1.3 million tourists visited Hong Kong in July, up 80 per cent from the numbers seen in June, although this is still 5.6 per cent lower than July 2002. The government is spending HK$400 million (CDN$70.7 million) on a series of events to promote Hong Kong tourism, including music shows, fireworks, and appearances by sport stars such as soccer player David Beckham and skater Michelle Kwan.

The Australian Tourist Commission's (ATC) July Market Report for Hong Kong reported that international travel numbers from Hong Kong increased in June, however, it came at the expense of sales revenues as the battle for market share heated up following the SARS outbreak. Tourism Industry Council levy figures (representing travel transactions) were down 20 per cent in June, although this was a vast improvement over May, when levy figures declined 85 per cent.

Taiwan

China Airlines, one of Taiwan's major carriers, reported a loss of TWD905 million (CDN$36.6 million) for the first half of 2003-another example of the dramatic impact the SARS outbreak had on the Asian airline industry. In the same period last year, the carrier posted a profit of TWD1.34 billion (CDN$54.3 million).

Taiwanese think tank Academia Sinica Institute of Economics reported that the impact of SARS resulted in a 1.57 per cent decline in private consumption for the second quarter of 2003-the largest decline seen since 1961. Fortunately, the organization has forecasted an improvement in Taiwan's economy for the second half of this year, as well as an increase in private consumption in the third and fourth quarters. The Asian Development Bank also forecasted a steady recovery for the Taiwanese economy throughout the remainder of 2003, with further growth expected in 2004.

The Australian Tourist Commission's latest Market Report for Taiwan reported that total outbound trips in June continued to fall well below 2002 levels, down 68.3 per cent compared with the same period a year earlier. However, by July it appeared that the outbound market had almost fully recovered, boosted by airfare promotions. Leisure group tour packages were most popular, with almost all available products sold out for that month. Because most seat sales were effective until the end of July, it was expected that August sales would not be quite as strong.

Australia

Despite significant second-half financial losses, Qantas Airways reported a full year net profit of A$343.5 million (CDN$303.2 million) for the year ended June 30, 2003. While a record first half helped keep the carrier in the black, this figure is still almost 20 per cent below the net profit of A$428 million (CDN$377.7 million) the carrier posted the previous year. Meanwhile, passenger traffic for the year was up 2.8 per cent and overall capacity increased 3.7 per cent, compared with the previous fiscal year.

The airline was able to achieve net earnings for the full year partly because it implemented a series of severe cost-cutting measures in response to the damaging effects of the war in Iraq and the SARS outbreak. These actions included cutting international capacity by 20 per cent, cutting staff levels by 3,500 and reducing capital expenditures by A$1 billion (CDN$882.5 million). In an effort to save A$1 billion more over the next three years, the airline plans to restructure itself into three separate business units.

Qantas also plans to launch a new International Business Class in September to attract more business travellers to the airline. New features include revamped interiors and seating, as well as other upgraded amenities. Low-cost carrier Virgin Blue has attempted to hone in on Australia's corporate travel market as well, by creating a Blue Zone section on each of its aircraft that offers more comfortable seats and increased legroom. However, unlike the cost of business travel on most major airlines, Virgin's "business class" upgrade can be purchased for an extra A$30 (CDN$26).

The Australian Bureau of Statistics reported that the number of Australians travelling overseas dropped 2.3 per cent in the year between July 1, 2002 and June 30, 2003. However, the Australian Tourism Export Council did note that signs of an Australian tourism recovery were apparent in June and expected travel to be back to 2002 levels by the end of this calendar year.

New Zealand

Air New Zealand (ANZ) reported a net profit of NZ$165.7 million (CDN$129.9 million) for its fiscal year ended June 30, 2003-its first full-year profit in the last four years. The airline credited most of its financial gain to internal restructuring and improved returns from domestic and international markets. While pleased with the results, Chairman John Palmer warned that ANZ is still experiencing problems with overcapacity and cost structure, and stated that the airline's best solution remains its proposed merger with Qantas Airways.

Despite a second-half decline, ANZ's long-haul passenger traffic increased 5.7 per cent for the year, compared with last year. It was also reported that short-haul international traffic was down 2.8 per cent-reflecting the impact of the SARS outbreak. Meanwhile, domestic traffic increased 6.2 per cent. Overall passenger traffic increased 5.6 per cent with 2.7 per cent more capacity. As a result, average load factors increased 2.1 percentage points to 74.4 per cent.

According to the Australian Tourist Commission (ATC), overseas departures from New Zealand for the month of June were down 10 per cent compared with last year. While departures to Asia were down most significantly, North American destinations were off by 27 per cent. The ATC attributed the overall decline to the effects of SARS, the Bali bombings, and the fact that the starting date of school holidays in New Zealand changed from the end of June to the beginning of July.

Economic overview

North America

After a short pause, the Canadian economy is expected to accelerate again later this year. Supporting this recovery are two Bank of Canada interest rate cuts -one in July and the second in September. Canada's lowest interest rates in a generation should boost both consumption and investment by the fourth quarter and into 2004. Looking ahead, the relatively stronger economic recovery in the U.S. combined with expected interest rate increases by the Federal Reserve is expected to take a toll on the value of the Canadian dollar-sliding from around 72 cents now to 68 cents by mid 2004.

The latest data indicates that the U.S. economy appears to have definitely turned the corner. In fact, expectations are that by the end of the year, the U.S. economy could be expanding by up to 5 per cent (on an annual basis). Rising consumer confidence, surging existing home sales, sizeable increases in demand for durable good orders by businesses as well as federal tax cuts should help fuel the U.S. economy through the end of the year and into 2004.

Europe

The most recent forward-looking data out of Europe indicates that the continental economy also appears to have turned the corner and that a recovery is in progress. According to a recent article in the Wall street Journal (Signs of a Global Upturn, August 12) German business confidence has risen for three consecutive months-an indication that the worst may be over for Europe's largest economy. Executives are also feeling more optimistic in France, Belgium and the Netherlands. Economists said the increases were encouraging signs of growth. In addition, the Reuters/NTC Research purchasing managers index (PMI) for services, rose above the 50 mark (that separates expansion from contraction), reaching 52.0 in August against 50.2 in July. The survey showed that for the first time in thirteen months all the big eurozone economies-Germany, France, Italy and Spain-recorded growth in service sector business activity in August. "Overall the rises in the PMI indices suggest the worst is over for the eurozone economy," said Daragh Maher of ING. Consequently, European stock markets hit year highs through the beginning of September. The Conference Board Inc.'s forward-looking leading index for the U.K. increased for a third consecutive month in June. Strong consumer confidence and a continued pick-up in stock prices have been the main components boosting the British index.

Asia-Pacific

There are a number of signs that the Asia-Pacific region is already emerging from a SARS-induced pause in economic growth. According to a recent article in the Wall Street Journal, Chinese consumers are aggressively buying cars and homes. State-controlled Chinese banks are funding big government projects and showering consumers with auto and home loans that are supporting the recovery. Even in Thailand, the government has been engaged in a pump-priming program, plowing cash into village craft industries and health care. In Japan-the longest-standing underperformer of the advanced economies-Gross Domestic Product (GDP) expanded at a stronger-than-expected 2.3 per cent annualized rate during the second quarter. In addition, the Conference Board Inc.'s forward-looking leading index for Japan increased by 0.5 percent in June for a second consecutive month-another sign that a recovery is underway. Meanwhile, weak global growth, the worst drought in a century, a strengthening currency and a downturn in the important tourism sector combined to depress Australia's normally resilient economy in the second quarter. Fortunately, Michael Blithe, chief research economist at Commonwealth Bank, said other recent data had been encouraging and that annual growth [in Australia] of about 3 per cent in 2003-04 still looked achievable.

Opportunities

According to a recent survey by Jupiter Research, 87 per cent of consumers have already chosen their vacation destination before searching for accommodations on-line. However, only 23 per cent have pre-determined which hotel they will choose. This presents an excellent opportunity for lodging properties to entice customers by showcasing the benefits of their particular hotel or resort on their web site. The survey also indicated that 40 per cent of respondents would be more likely to make their hotel bookings on-line if the web site offered an easy way to quickly call the reservation centre in the event of a booking mistake. According to a new report by Cornell University, one in five hotel bookings will be made on-line by 2005, up from one in twelve in 2002.

The China Internet Network Information Centre recently reported that the number of Internet users in China climbed 15.1 per cent in the first six months of 2003, bringing the total to 68 million people. This figure represents an increase of 48.5 per cent compared with the same period in 2002 and ranks China second behind the U.S. in terms of the number of citizens online.

Meanwhile, it appears that ski and snowboard vacations are becoming more popular than ever. The results of the Kottke End-of-Season Survey for 2002-2003 were recently released, indicating that U.S. ski areas tallied a record number of skier/snowboarder visits last season. Skier/snowboarder visits totalled 57.6 million, beating the previous record set in the 2000/01 season, and marking a 11.3 per cent increase over the long-term average of all ski seasons since 1978.

The Travel Industry Association of America (TIA) recently suggested that romance travel could be a burgeoning travel market niche. Defining a "romantic getaway" as a "trip with a spouse or love interest without children to rekindle the romantic feelings in a relationship," the TIA reported that 31 per cent of American adults (61.8 million) took a romantic getaway in the last year, and the average traveller has taken 2.5 romantic trips in that time. The TIA also noted that the average annual income of romantic travellers is US$67,000 compared with the national average of US$45,000.

Summary

Non-economic setbacks (like the forest fires in British Columbia and the recent power outage through Ontario and parts of the U.S. Northeast) continue to hamper a sustained recovery in the tourism industry. However, one mitigating factor is that tourism is no longer being singled out as the only sector absorbing the full impact of these ill-fated events. At the same time, concerns about terrorist action, SARS and other world events are diminishing, while more traditional economic factors are once again representing the main determinants affecting travel intentions.

Recovery from the storm of world events is taking longer than anticipated (or hoped for) but the foundation for a tourism recovery is strengthening. One positive trend witnessed during the summer was the surge in attendance at many Canadian summer festival events. These events generated much-needed tourism dollars to their cities and, at the same time, broadcasted the message to a global audience that Canada is SARS-free and still a world-class travel destination.

Fortunately, south of the border, it appears the tourism rebound is gaining some much-needed momentum, an encouraging sign for Canadian tourism. With the recent positive media coverage quelling any lingering SARS concerns and with traveller safety confidence at their highest levels since 9/11, it is hoped that key building blocks for a sustained tourism recovery are taking shape.

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