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## CTC Tourism Intelligence Bulletin – Issue 23: July 2004

*The Tourism Intelligence Bulletin continues to monitor the tourism industry around the world. This issue reveals tourism intelligence gathered in May and June 2004.*

# Brighter Outlook Makes Tourism Industry Smile

## Executive Summary

- The recent celebration of Tourism Week, June 20 to 26, highlighted the positive impact of tourism on Canada's prosperity. This event, based on the theme "Tourism Makes Canada Smile," aimed to emphasize the industry's economic contribution as well as its positive influence on our quality of life. Despite the series of misfortunes that have plagued the industry over the past few years, it is clear that tourism remains a key driver of Canada's economy.
- The future outlook for Canada's tourism industry compares quite favourably against most traditional sectors of the economy and many previous high-flyers. In fact, a recent survey of British Columbians suggested that residents of that province expect tourism to be the leading industry for creating future jobs and economic activity in B.C.- ahead of the high-tech and forestry industries. For a second consecutive year, British Columbians ranked tourism as the largest contributor to the province's economy.
- Throughout the country, the outlook for the industry appears brighter than it has for a long time. In spite of high fuel prices, a pent-up demand and a stronger economic environment are spurring business and leisure travellers back on the road and into the air-trends that are certainly giving the tourism industry reasons to smile. Optimism for a strong summer season remains high as Canada witnesses the return of international travellers, traditionally known to be substantial spenders.

## Emerging Trends and Issues-Growth of Low-Cost Carriers a Crucial Factor in Travel Recovery

- Unprecedented growth in the supply of low-cost air travel is helping to spur the domestic tourism market. While the cheaper, more flexible price structure of these airlines has contributed to shorter booking windows and has encouraged travellers to be more price-sensitive, they have also enticed more people to travel. Moreover, they have also helped to provide affordable air access to many regions of Canada that were once considered too remote or too costly.
- Cheaper flights also provide benefits to other tourism suppliers, particularly hotels, who, to varying degrees, depend on air travellers as part of their customer base. More "heads in beds" are already contributing to an improvement in the outlook for Canadian hotels. While airfares are being driven down by increased competition, hotels are not experiencing equivalent capacity increases.
- The turmoil the industry has endured over the past few years is enough to ensure that new hotel construction will be kept to a minimum. In this environment, increases in travel demand should directly translate into higher occupancy levels and provide a more suitable environment for raising room rates.

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## Consumer (Traveller) Overview

- The overall outlook for summer leisure travel remains positive. A recent survey by Ipsos-Reid for Expedia.ca revealed that nearly half (48%) of the Canadians polled planned to take a summer vacation this year. Of those who are planning a trip, 26% intend to travel inter-provincially, while 35% indicated they plan to travel within their own province. Approximately 15% of summer vacationers intend to take their trip in the U.S., and 13% plan to travel internationally.
- Meanwhile, the Travel Industry Association of America (TIA) released its Summer Leisure Travel Forecast, which predicts that Americans will increase their leisure travel by 3.2% during the summer period (June - August 2004). However, the TIA noted that consumers in the U.S. are increasingly concerned about rising gas prices, which could push inflation even higher. They suggested that these concerns could negatively impact the number of actual trips taken this summer.
- At long last, business travel appears to be recovering, bolstered to a great extent by a strengthening economic environment. The TIA recently projected that business travel will surge 4.6% this year-the strongest growth witnessed since 1999. The TIA reported that "business activity is ramping up, with more capital-investment and increased travel, and they go hand-in-hand." Across the U.S., hotels are reporting increases in mid-week stays-a definite sign that business travel is on the rise.

## Travel Supplier Overview

- In late June 2004, Air Canada accepted an investment proposal from Cerberus ACE Investment LLC to provide the airline with \$250 million in financing in exchange for a 9.2% stake. This agreement, subject to court approval, represents the final portion of the financing required by Air Canada in order to complete its reorganization under bankruptcy protection. Air Canada confirmed that it was on track to emerge from bankruptcy protection by the September 30th deadline.
- Meanwhile, passenger traffic in the U.S. continues to climb, boosted by stronger international business and leisure travel volumes. As a result, the airline industry remains optimistic for a strong summer season, at least in terms of demand. However, escalating jet fuel prices continue to create heavy financial losses among carriers, particularly the major airlines, most of who have little financial cushion. At the same time, airfares have remained at all-time low levels, thus sustaining a weak revenue environment.
- Canada's hotel industry achieved considerable increases in overall room revenues in April 2004, compared with the previous year when the effects of the SARS outbreak began to seriously impact the industry's performance. The corporate segment is finally showing signs of a recovery, with many Toronto hotels reporting a steady climb in bookings for independent business travellers as well as meetings.
- The recovery in the U.S. hotel industry continued to gain ground through April and May. Reports of a continuing upward trend in weekday occupancy are "largely propelled by the recovery in business travel," according to Smith Travel Research. In fact, some lodging companies have already begun raising room rates in certain markets, a sure sign of an industry turnaround. STR was particularly bullish regarding the short-term prospects of average daily rates, predicting that "room rate increases will start to surpass occupancy gains in the next six months."

## Economic Overview

- The U.S. economy is expected to grow by 4.4% this year. In 2005, growth will slow down as the impact of higher interest rates cuts into both consumer and investment spending. In Canada, GDP growth will reach 3% in 2004 and 3.2% in 2005. Canada's dollar is expected to continue to slide, fetching \$0.737 U.S. in 2004 and \$0.70 U.S. in 2005. Unfortunately, the outlook for consumer spending in Canada for the remainder of 2004 is expected to be less than stellar. Faced with a substantial tax increase on July 1, Ontario consumers are expected to rein in spending enough to hold the national growth rate for the third quarter of 2004 to just 0.5%.
- With the exception of employment, economic activity in Europe is improving. Unfortunately, the unemployment rate in Europe is expected to remain unchanged in 2004 (8.8%) before falling slightly to 8.6% in 2005. Meanwhile, real GDP in the Eurozone is expected to increase 1.6% in 2004 and by 2% in 2005. It is possible that growth will be constrained over both the near and medium term by the costs involved in absorbing ten new members into the European Union. Fortunately, the economic expansion in the U.K. is not expected to be derailed by the higher interest rates required to tame inflation. In part because of solid retail sales, real GDP in the U.K. is forecast to increase by 3.1% this year and 2.7% in 2005.

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- Growth prospects for the Asia Pacific region have turned decidedly more positive over the past year as significantly lower interest rates contributed to stronger economic activity. In 2004, real GDP growth of 4.4% is anticipated for the region, in part because of the strength of the Chinese economy and the rebound in economic activity in Japan. The Japanese economy has been spurred by the ongoing strength of the Chinese economy, an improving U.S. economy and the boost to growth provided by Japan's domestic sector. Despite concerted efforts to curtail the booming Chinese economy, real GDP is still expected to increase by 8.6% this year.

**Opportunities**

- According to The Conference Board Inc.'s latest Consumer Internet Barometer, two-thirds of consumers are now using the Internet to make travel arrangements and the level of satisfaction reported among users is very high. This quarterly survey showed that 88% of consumers are "extremely" or "somewhat" satisfied with using the Internet for all types of travel arrangements. However, the Barometer reports that consumers are still using the Internet more for researching than actually booking their travel. The Conference Board stated that security concerns regarding credit card information is the primary reason for not making arrangements online. To address this concern, The Conference Board suggests that web sites communicate to consumers what Internet security measures they have in place.
- In a reversal of fortunes, the 2004 National Leisure Travel Monitor by YPB&R suggested that the outlook for travel agents is improving. According the Monitor, the use of agents gained a full percentage point between 2003 and 2004 among respondents who were asked if they had used an agent to plan a leisure trip in the last twelve months. YPB&R said the incidence of usage appeared to be stabilizing after a significant decline over the past two years. The "mature" travel segment (aged 58 and over) reported the highest use of agents but YPB&R warned that agents must increase their marketing focus on younger travellers "to cultivate the true potential inherent in these generational groups."

**In Brief**

The recent celebration of Tourism Week, June 20 to 26, highlighted the positive impact of tourism on Canada's prosperity. This event, based on the theme "Tourism Makes Canada Smile," aimed to emphasize the industry's economic contribution as well as its positive influence on our quality of life.

Despite the series of misfortunes that have plagued the industry over the past few years, it is clear that tourism remains a significant contributor to Canada's economy. In fact, the future economic outlook for Canada's tourism industry compares quite favourably against most traditional sectors of the economy, including many previous high-flyers. The results of a recent survey of British Columbians suggested that residents of that province expect tourism to be the leading industry in job creation and economic activity in B.C.- ahead of the high-tech and forestry industries. For a second consecutive year, the survey indicated that British Columbians ranked tourism as the largest contributor to the province's economy.

Throughout the country, the outlook for the industry appears brighter than it has for a long time. In spite of high fuel prices, pent-up demand and a stronger economic environment are spurring business and leisure travellers back on the road and into the air-trends that are certainly giving the tourism industry reasons to smile. Optimism for a strong summer season remains high as Canada witnesses the return of international travellers, traditionally known to be substantial spenders.

Meanwhile, unprecedented growth in the air capacity of Canada's expanding low-cost carrier segment is helping to stimulate the domestic tourism market. While the cheaper, more flexible price structure of these airlines has contributed to shorter booking windows, and encouraged travellers to be more price-sensitive, they have also enticed more people to travel. Moreover, they have also helped to provide affordable air access to many regions of Canada that were once considered too remote or too costly.

## Emerging Trends and Issues

### **Growth of Low-Cost Carrier Segment is Crucial Factor in Travel Recovery**

The growing acceptance and use of low-cost carriers is changing the way consumers think about travel. Increased capacity resulting from the introduction of low-cost carriers has brought down average airfares considerably and helped to convert travel intentions into actual trips. In other words, cheaper flights are helping to stimulate pent-up demand for travel and are a crucial factor in the current travel recovery.

The introduction of discount air carriers over the past few years has been persistent and impressive. WestJet's and Jetsgo's shares of the domestic marketplace surged last year and now account for over 40% of domestic air capacity. Their lower operating costs translate into an ability to offer lower fares, which, in turn, are enticing more people to travel. As a result of fierce competition, domestic travellers have perhaps benefited most from the greater declines in airfares. However, competition is expanding into the trans-border market and other international segments. While the introduction rate of the new entrants has been much lower in these markets than within Canada, lower-priced alternatives are at least giving travellers other options.

### **Cheaper Flights are Putting "Heads in Beds"**

Cheaper flights also provide benefits to other tourism suppliers, particularly hotels, who, to varying degrees, depend on air travellers as part of their customer base. More "heads in beds" are contributing to an improvement in the outlook for hotels in Canada. While airfares are being driven down by increased competition, hotels are not experiencing equivalent capacity increases.

In fact, as a result of the extraordinary shocks to the tourism industry, very little new hotel construction has taken place over the last three years. Since the expansion of hotel capacity is being kept to a minimum, any increase in travel demand will translate into stronger occupancy levels and provide a more suitable environment for increasing room rates.

Increased domestic air capacity is also proving to be an economic boost for regions that are relatively more remote. Canadian destinations such as Newfoundland are benefiting significantly from the added coverage by low-cost carriers.

For example, according to Transport Canada, Toronto's Pearson International Airport reported 2.2% fewer domestic passengers in 2003, while the volume of domestic traffic through the airport in St. John's, Newfoundland rose 9.3%. Corroborating evidence can be found in the latest Canadian Travel Survey conducted by Statistics Canada. The survey reports that Newfoundland enjoyed some of the best tourism performance in the country through the first three quarters of 2003- both visits and expenditures were strong compared to the rest of Canada.

The proliferation of, and demand for low-cost travel alternatives within the airline industry has significantly changed the way consumers now approach all aspects of travel-from business travel to leisure travel as well as travel to visit family and friends. While low-cost carriers have shortened the booking window and encouraged travellers to be more price-sensitive, they have undoubtedly helped spur the current recovery in travel demand. Despite the inevitable growing pains of competition among low-cost carriers as they extend their reach, the growth of this segment is a crucial factor for the tourism industry to achieve the potential suggested by the current more positive outlook.

## Consumer Overview - Canada and the United States

### Business Travellers

At long last, business travel appears to be recovering, bolstered to a great extent by a strengthening economic environment. The Travel Industry Association of America (TIA) recently reported that "business activity is ramping up, with more capital-investment and increased travel, and they go hand-in-hand." U.S. hotels have reported increases in mid-week stays, a definite sign that business travel is on the rise. Meanwhile, the TIA recently predicted that that this year will be the strongest for business travel since 1999.

According to the latest forecast by the Travel Industry Association of America (TIA), business travel in the U.S. is predicted to rise 4.6% this year, compared with 2003. This forecast represents the first expected increase in business travel in the last five years. The TIA stated that a "healthier economy is providing ample stimulus for strong growth this year." The forecast also predicted that business travel would rise a further 3.5% in 2005, which, according to the Business Travel Coalition, could bring the pace of U.S. business travel back to pre-2001 levels by the end of next year.

The TIA's forecast is supported by the findings of the recently released National Business Travel Monitor by Yesawich, Pepperdine, Brown & Russell. The Monitor states that 43% of business travellers polled expected to take more business trips this year, while 34% indicated that their business trips would remain about the same as last year. Only 23% reported that they planned to take fewer trips this year than in 2003. Unfortunately, the report also stated that 37% of corporate travellers see the new security measures as a big hassle-up from 32% the previous year.

According to Business Travel News, a new survey by Citigroup Smith Barney revealed that a majority of travel managers polled predicted their travel spending would increase in 2005. Survey findings showed that 57.1% of respondents indicated their spending would increase by an average of 5%. For 2004, 48% of those polled saw their travel spending outlook as "improving," while only 10% said their spending outlook for this year was "deteriorating."

### Leisure Travellers

Overall, the outlook for summer leisure travel remains positive. Pent-up demand, supported by a stronger economy, appears to be offsetting some of the impact of high fuel prices. A recent survey by Ipsos-Reid for Expedia.ca revealed that approximately half (48%) of Canadians polled planned to take a summer vacation this year. Of those who are planning a trip, 26% intend to travel inter-provincially, while 35% indicated they plan to travel within their own province. Approximately 15% of summer vacationers intend to take their trip in the U.S., and 13% plan to travel internationally.

A recent survey by Travelocity.ca offered a much more optimistic snapshot of Canadian summer travel plans. An e-mail survey of Travelocity members showed that 80% of respondents planned to take a vacation this summer. Travelocity did not provide a breakdown of domestic vs. U.S. or international travel plans in their survey results, but did say that Vancouver was the top domestic summer travel destination among respondents, chosen by 20% of those travelling within Canada. The second most popular domestic destination was Toronto (16%) while the Rockies (Banff, Jasper and Lake Louise) came in third place at 15%.

The Travelocity survey also revealed two main factors for those not taking a summer vacation this year. The largest group (30%) chose timing as the main reason for not travelling this summer, having either just returned from a trip or intending to take one later in the year. The next-largest group (18%) indicated that they believe the cost of travel is too high to take a trip this summer. While travel surveys have indicated an upsurge in summer travel, the persistence of high gas prices or escalating prices could affect travel plans for many people.

Meanwhile, the Travel Industry Association of America (TIA) released its Summer Leisure Travel Forecast, which indicates that Americans are expected to increase their summer leisure travel by 3.2% during the summer period (June - August 2004). The forecast predicts that the top three travel activities among summer travellers will be: visiting friends and relatives (77%); going to a beach or lake

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(73%); and visiting small towns or rural areas (65%). The TIA also noted that consumers in the U.S. are increasingly concerned about rising gas prices and consequently, higher inflation. Specifically, TIA suggested that these concerns could negatively impact the number of actual trips taken this summer.

A recent survey by Yesawich, Pepperdine, Brown & Russell went as far as to suggest that high gas prices could affect this summer's travel plans of more than half of U.S. leisure travellers. The survey revealed that 56% of respondents agreed that the rising cost of gasoline would impact their summer travel plans, while only 24% of respondents indicated they would have no effect. Meanwhile, only 30% agreed that fuel surcharges on airline tickets would affect their travel plans. The survey also indicated that the largest group of respondents (32%) agreed they would re-evaluate their summer vacation plans if the price of gasoline reached US\$2.10 a gallon.

According to AAA, high gas prices did not appear to deter holiday travelers in the U.S. from taking a trip over the Memorial Day weekend. AAA predicted that 3.6% more Americans would travel more than fifty miles from their home during that period, despite sky-high gas prices. AAA also expected record-high travel volumes for the July 4 holiday period. Overall, AAA expected that travel over the July 4 holiday period would increase 3.4%, compared with last year. It was expected that auto travel would increase 3% while air travel would surge 4.5%.

Just prior to the Memorial Day, a survey by Yesawich, Pepperdine, Brown & Russell showed that the majority of leisure travellers in the U.S. appeared undeterred by the most recent terror alert issued by the U.S. government. Of those polled, 62% stated that the possibility of a major terrorist attack in the U.S. this summer would have no effect on their travel plans this summer, compared with 20% who said it would. However, 56% of respondents admitted that recent world events increased the likelihood of them staying in the U.S. for their summer vacation. A further 58% agreed that recent world events had decreased the likelihood of them taking a trip outside of the U.S. this summer.

In early May, the TIA released its Annual Travel Forecast, which predicted that leisure travel in the U.S. would grow 3.4% in volume for the full year 2004, compared with 2003. According to the TIA, the main factors contributing to the expected increase are a healthier economy, moderate increases in consumer spending, higher levels of consumer confidence and an improving business environment. The forecast also predicted that U.S. leisure travel would expand a further 2% in 2005.

Despite this positive outlook, the TIA's Traveler Sentiment Index for the second quarter of 2004 dropped almost five points from the first quarter to 97.4. The index, which measures traveler perceptions of affordability, the ability to travel based on personal finances, the time to travel, general interest in travel, as well as quality of service received while traveling, posted gains in the latter two areas, while showing decreases in the first three areas. The TIA remained optimistic, however, that 2004 will be a "strong year for all areas of travel," noting that the index remains higher than at any time in 2003.

## Travel Supplier Overview - Canada and the United States

### **Airlines - Canada**

Air Canada posted a net loss of \$304 million in the first quarter of this year (ended March 31, 2004), compared with a net loss of \$270 million in the first quarter of 2003. While the losses appeared significant, the carrier stated that its financial performance during this period was the "most encouraging" since it entered into bankruptcy protection a year ago. The carrier's operational loss, before reorganization and restructuring items was \$145 million. This represented a marked improvement from the \$209 million operational loss posted the same quarter of the previous year. Air Canada noted that passenger revenues decreased on North American routes, but that these decreases were partially offset by revenue growth in the Pacific, Latin American and traditional leisure destinations. The airline also noted that it would continue to record a number of significant reorganization and restructuring items as it proceeded through its restructuring plan.

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In late June, Air Canada accepted an investment proposal from Cerberus ACE Investment LLC to provide \$250 million in financing in exchange for a 9.2% stake in the airline. This agreement, subject to court approval, represents the final portion of the financing Air Canada requires in order to complete its reorganization under bankruptcy protection. Air Canada confirmed that it was on track to emerge from bankruptcy protection by the September 30th deadline.

For May 2004, Air Canada reported that its overall revenue passenger miles (RPMs) rose 25.4% compared with May 2003. This increase partially reflects the impact of the SARS outbreak on passenger traffic the previous year, although the carrier noted that its system-wide load factor for May reached record-high levels for that month (up 6.9 percentage points to 78.5%). In May 2004, domestic passenger traffic climbed 12.2% while traffic on international Pacific routes surged upwards by 209.5%. Meanwhile, Atlantic routes saw an increase of 1.2% and traffic on trans-border (U.S.) routes were similar to last year's levels (up 0.9%). Fortunately, Air Canada stated that its passenger yields were "firming" and that forward bookings for the summer "are strong."

**Table 1. Airline Revenue Passenger Miles (RPM) and Capacity - May 2004**

| Airline                            | RPM (in millions)<br>May 2004 | RPM change<br>2004 vs. 2003 | Capacity<br>2004 vs. 2003 |
|------------------------------------|-------------------------------|-----------------------------|---------------------------|
| Air Canada (includes Zip and Jetz) | 3,428                         | +25.4%                      | +14.4%                    |
| Air Canada Regional (Jazz)         | 140                           | +4.5%                       | +2.3%                     |
| Westjet                            | 452                           | +34.6%                      | +31.2%                    |
| Jetsetgo                           | 198                           | +103%                       | +114%                     |

Westjet reported net earnings of \$512,000 for its first quarter ended March 31, 2004, compared with \$778,000 for the same period of 2003. The low-cost carrier called the figures disappointing, attributing the lower-than-expected earnings to several factors: lower airfare revenues due to increasing competition and schedule changes; the high cost of fuel; and, costs related to stock option restructuring. Westjet also released details regarding its transborder service, set to begin this fall to Los Angeles, San Francisco, Phoenix, Fort Lauderdale and Orlando. The carrier said it planned to use a "very aggressive pricing philosophy" in order to stimulate business in those markets.

### **Airlines - U.S.**

Passenger traffic in the U.S. increased 14.2% in May 2004, compared with the previous year. Contributing to this growth, domestic traffic increased 8.5% while international traffic surged 32.3%, compared to May 2003. While part of this increase can be attributed to the SARS-related fall in traffic witnessed last year, many airlines are also reporting stronger international business and leisure travel volumes. As a result, the airline industry remains optimistic for a strong summer season, at least in terms of demand.

However, escalating jet fuel prices continue to create heavy financial losses among carriers, particularly the major airlines, most of whom have little financial cushion. At the same time, airfares have remained at all-time low levels thus sustaining a weak revenue environment. In fact, several attempts to add fuel surcharges to airfares have failed to take hold. A recent report by Standard & Poor (S&P) highlighted this problem: they noted that current fuel prices, when adjusted for inflation, are not as high as they were during the 1991 Gulf War. According to S&P, the problem is not high fuel prices, but rather, the fact that "airline fares, adjusted for inflation, are too low."

Relentless competition from low-fare carriers has forced Delta Airlines and U.S. Airways to implement further massive cost cuts in order to avoid filing for bankruptcy protection under Chapter 11. Delta warned it could not survive in the current marketplace structure, and is struggling to negotiate a 30% wage cut with its pilots union. U.S. Airways announced that it intended to shed a further US\$1.5 billion in costs under its new Transformation Plan. The airline has revamped its fare structure and plans to shift its focus to larger, more lucrative markets in an attempt to recapture a greater share of the eastern market from low-cost carriers such as Southwest Airlines.

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Meanwhile, United Airlines is facing further setbacks in its attempt to emerge from bankruptcy protection. The airline's application for a US\$1.6 billion loan guarantee was rejected by the Air Transportation Stabilization Board (ATSB). The Board ruled that private credit markets have improved since 9/11, when the loan guarantee program was established, therefore making government assistance unnecessary. United disagreed, and petitioned the ATSB for reconsideration after reducing the loan guarantee amount to US\$1.1 billion, but the updated bid was again denied. United indicated it would attempt to secure further capital and equity financing on its own, but many airline analysts believe that this setback will significantly delay the airline's exit from Chapter 11.

The low-cost carrier market in the U.S. will soon have another major player. U.K. entrepreneur Richard Branson announced that his Virgin brand would begin flying in the U.S. as a low-fare airline sometime in 2005. The airline, Virgin America, will be based in San Francisco and New York City. Flight schedules and other details regarding its business plan have not yet been released.

**Table 2. Airline Revenue per Available Passenger Mile (RPM) and Capacity - May 2004**

| Airline               | RPM;<br>May 2004 vs. May 2003 | Capacity;<br>May 2004 vs. May 2003 |
|-----------------------|-------------------------------|------------------------------------|
| Alaska Airlines       | +9.2%                         | +8.8%                              |
| American Airlines     | +9.0%                         | +9.7%                              |
| America West Airlines | +6.4%                         | +6.3%                              |
| AirTran Airways       | +4.3%                         | +7.7%                              |
| Continental Airlines  | +11.9%                        | +13.8%                             |
| Delta Air Lines       | +18.5%                        | +19.1%                             |
| JetBlue Airways       | +38.3%                        | +43.5%                             |
| Northwest Airlines    | +15.9%                        | +8.4%                              |
| Southwest Airlines    | +11.7%                        | +4.8%                              |
| United Airlines       | +21.6%                        | +17.2%                             |
| US Airways            | +7.6%                         | +4.9%                              |

According to the Washington Post, the U.S. Department of Transportation warned that airline delays and cancellations could reach near-record levels this summer at major airports, due to increasing low-fare carrier schedules and the growing use of smaller, regional aircraft. The department's inspector general reported that delays in the first quarter of 2004 were up 24% compared with the same quarter of 2003. Summer delays and congestion are expected to be particularly bad in Washington, Philadelphia, Atlanta, San Antonio, Cincinnati, Fort Lauderdale, La Guardia (New York) and O'Hare (Chicago). A recent article in Aviation Today reported that increasing airport congestion has sparked a new battle between major airlines and low-cost carriers: the competition for airport gates.

Brazilian aircraft manufacturer Embraer presented its forecast at the Regional Airline Association's spring meeting, stating that 8,450 new regional aircraft in the 30 - 120 seat range will be needed in the next 20 years. North America is expected to remain the largest market, requiring 56% of these aircraft deliveries. Other airline analysts in attendance agreed, noting that major carriers are increasingly using smaller, more efficient aircraft in order to cut costs.

The U.S. government passed legislation in mid-June extending the October 2004 deadline for biometric passports for one year. This extension provides those countries included in the U.S. Visa Waiver Program with much-needed additional time to convert to biometric passports. After the deadline, any foreign traveller without a biometric passport will require a visa to enter the country.



*Brighter Outlook Makes Tourism Industry Smile***Hotels - Canada**

In April 2004, Canada's hotel industry achieved considerable growth in overall room revenues, compared with the previous year when the effects of the SARS outbreak began to seriously impact the industry's performance. Not surprisingly, Ontario witnessed the most substantial gains. According to Pannell Kerr Forster Consulting Inc. (PKF), revenue per available room (RevPAR) jumped 68.7% for downtown Toronto hotels during the month. Preliminary figures for May showed even further growth in this market. Similar to trends in the U.S., the corporate segment appears to be finally showing signs of a recovery with many Toronto hotels reporting a steady climb in bookings for independent business travellers as well as for meetings.

According to the latest National Market Report by PKF, national RevPAR levels rose an average of 14.2% in April 2004 to \$63.44 compared with the same month of 2003. Occupancy was up 5 percentage points to 58.5%, while the average daily rate increased 4.3% to \$108.52. When broken down by quality segment, the greatest increases were witnessed in the luxury segment, which showed a 7.4% rise in occupancy rate and 4% growth in average daily room rate.

Four Seasons Hotels Inc. reported a net profit of US \$11.5 million (CDN \$15.2 million) for its first quarter ended March 31, 2004. The lodging company's average revenue per available room (RevPAR) increased 14.1% during this period, although the figures for the same quarter of 2003 were depressed due to the effects of the war in Iraq. In its press release, Four Seasons noted that travel demand continued to accelerate during the first quarter, maintaining its pace of growth into April. They stated that if "current trends continue, we anticipate that 2004 will be a year of substantial rebound for the lodging industry and for Four Seasons."

A recent report titled Trends in the Conference Centre Industry, by PKF Consulting and the International Association of Conference Centres (IACC), forecasts growth in occupancy and room revenues for North American conference centres in 2004 and 2005. The report indicates that both residential and non-residential conference centres are expected to achieve an average growth of 3 to 4% in RevPAR over the next two years. The authors of the report believe that a recovery in the meeting industry has taken hold, and that increases in activity will continue to be driven by "improvement in the economy and pent-up demand for training and management development meetings."

**Hotels - U.S.**

According to preliminary figures from Smith Travel Research (STR), the recovery in the U.S. hotel industry continued to gain ground through April and May 2004. Increases in weekly national RevPAR levels averaged 7% during May, with occupancy up by nearly 3%. STR also reported a continuing upward trend in weekday occupancy, "largely propelled by the recovery in business travel." Some of the larger lodging companies, such as Marriott International Inc. have begun raising room rates in some markets, a sure sign of an industry turnaround. STR was particularly bullish regarding the short-term prospects of average daily rates, predicting "room rate increases will start to surpass occupancy gains in the next six months."

In fact, a recent PricewaterhouseCoopers forecast suggested that average daily rates in the U.S. would rise by 3% in 2004. Although inflation was cited as one factor driving the increase, growth in business travel and building consumer confidence were other contributing factors.

According to the 2004 Trends in the Hotel Industry report recently released by PKF Consulting, profits in the U.S. hotel industry are expected to grow by 14.3% this year compared with 2003. PKF attributed the increase in profitability to growing occupancy and room revenues driven by rising business and leisure travel demand. However, PKF warned that this increase would only bring hotel profits back to levels seen in 2002. It was noted that current profits remain 36.2% below those witnessed in 2000.

A recent survey by the New York University Tisch Center for Hospitality, Tourism and Sports Management suggested that the two main threats to a recovery in the global hospitality industry are potential terrorism attacks and the economy. This survey of executives attending the Center's recent international conference indicated that 51% of respondents believe that potential terrorism attacks are the largest threat to an industry recovery, while 35% believed it was the economy. The survey also revealed that 62% of those polled believed that a full recovery of occupancy and average daily rates (back to levels seen in 2000) was still 1 to 2 years away.

*Brighter Outlook Makes Tourism Industry Smile***Travel Agents**

IATA's Bank Settlement Plan (BSP), the system of tracking airline tickets sold through Canadian travel agencies, reported that in May 2004, average domestic airfares in Canada fell 9% compared with a year earlier. Airfares from Canada to the U.S. declined as well, falling 4%; however, airfares to other international (non-U.S.) destinations showed a significant increase, rising 10% compared with May 2003.

In the U.S., the Air Transport Association (ATA) reported that domestic airfare yields declined 1.8% in May 2004, while international airfare yields continued to rise. Specifically, airfare yields increased 3.2% on Atlantic routes, 18% on Pacific routes, and 1.7% on Latin American routes.

The Airline Reporting Corporation (ARC) reported that travel agency sales processed through ARC rose 13% in May compared with the same month of 2003. ARC noted that the increase was mainly the result of a 30% increase in international airfare volumes, while domestic airfare sales volumes grew only 4%. ARC also noted that May's international sales figures came close to levels last seen in 2000.

A recent survey by the National Tour Association revealed that the majority of its U.S. members are experiencing increases in business this year. The findings showed that 58% of respondents reported higher sales volumes in the first quarter of 2004 compared with the same quarter of 2003. Fifty percent of those polled indicated they had handled higher numbers of passengers in the first quarter, while 60% expected passenger numbers to increase during the second and third quarters of this year, compared to the same period of 2003.

AAA reported that gasoline prices in the U.S. continued to climb, reaching a national average of US\$1.999 per gallon (for self-serve regular unleaded) on May 18, 2004. AAA noted that this was almost 50 cents higher than one year ago. If prices remain high through the summer season, AAA predicted that motorists would begin altering their driving patterns, which would affect the number of trips taken, the distance travelled, and the mode of transportation used.

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

British Airways (BA) posted a pre-tax profit of GBP£45 million (CDN\$109.1 million) for its fourth quarter ended March 31, 2004. This brought the airline's full year pre-tax earnings to GBP£230 million (CDN\$557.8 million) and represented a significant increase from the GBP£135 million pre-tax profits reported a year earlier. BA attributed its increased profitability to the success of its Future Size and Shape cost cutting program, noting that they had "made significant progress in the restructuring of [their] short-haul business." The airline stated that market conditions correspond to previous announcements, showing steady recovery in long-haul premium traffic, while short-haul premium traffic remained low. Price sensitivity was still an issue for economy passengers. BA said that, although airfare yields are expected to decline even further, they anticipate revenues to improve through its upcoming fiscal year due to increases in passenger volume.

BA reported an 11% rise in revenue passenger kilometres (RPKs) during May 2004, compared with the previous year. RPKs for economy seats grew by 10.8% while premium traffic increased 12.1%. Overall, capacity was up 8%, which resulted in a load factor increase of 1.9 percentage points to 71.6%, compared with the same month of 2003. Passenger traffic to the Americas rose 6.6%. In mid-May, BA added a GBP£2.50 (CDN\$6.06) fuel surcharge to ticket prices to help offset the soaring cost of jet fuel. They also announced a discount for premium fares over the summer in an effort to attract more leisure travellers to fill business-class seats during a season that is typically slow for business travel.

Meanwhile, low-fare airline Ryanair, posted a full-year net profit of EUR222.6 million (CDN\$362.6 million), before goodwill and exceptional items, for the period ended March 31, 2004. This represented a 5% decrease in earnings for the quarter compared with the previous year. While the airline noted that its passenger traffic increased 47% over the previous year, average airfares declined 14%.

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The U.K.'s other leading low-cost carrier, Easyjet, posted a pre-tax loss of GBP£18.5 million (CDN\$30.1 million) for its first half ended March 31, 2004. This was a slight improvement from the GBP£24.4 million loss posted for the same period a year earlier. The airline warned that the pricing environment remained "exceptionally competitive" keeping airfares at "unprofitable and unrealistic" levels into the foreseeable future.

**Table 3. Percentage change in passengers carried**

| Carrier         | May 2004 vs. May 2003 |
|-----------------|-----------------------|
| British Airways | +3.9%                 |
| EasyJet         | +19%                  |
| Ryanair         | +19%                  |

Company Barclaycard recently released their annual Travel in Business Survey, which revealed that 47% of British business travellers are travelling more in 2003/2004 than they did in the previous year. A further 29% indicated their travel frequency was about the same, while 24% indicated it was less. The top reason for travelling more frequently was "business expansion in the U.K. or overseas" (28% and 24%, respectively), while the number one reason for travelling less was "technology is reducing the need."

In mid-May 2004, travel company Thomas Cook reported that Britain's poor spring weather was helping to boost its U.K. overseas bookings for this summer. It was reported that in late April and early May, the company's overseas summer bookings were 20% ahead of last year's figures during the same period. Bookings for the peak summer travel month of August were already 10% higher than last year's figures.

E-tid.com reported that Visa cardholders in the U.K. spent 159% more on travel and tourism products in the first quarter of 2004, compared with the same period of 2003. The increase in on-line travel and tourism products rose 123% during this period. Visa noted that the spending increases in the travel and tourism category were larger than those seen in the overall market.

## France

Air France posted a net profit of EUR93 million (CDN\$151.5 million) for its fiscal year ended March 31, 2004. This represented a 20% decline in earnings compared with the previous year and the last final financial report as a standalone airline before its merger with KLM. Air France noted that despite the challenging year, it managed to finish with a profit as a result of its cost savings plan and the strength of the euro, which helped to offset rising fuel costs.

Air France-KLM reported their combined passenger traffic for May 2004 rose 15.6% compared with May 2003. It was noted that the previous year's performance of both carriers was significantly impacted by the SARS outbreak and the war in Iraq. Not surprisingly, Asia-Pacific routes saw the largest growth, up 76.9% over the previous year, while routes to the Americas climbed 19.8%.

In early May 2004, Air France and KLM completed their merger and announced they would begin co-ordinating their schedules as of June 1, 2004. The two airlines will continue to provide their own brand products under a common holding company for the next three years. They indicated that their merger would allow them to cut more costs and "battle overcapacity in the market". The new airline, the largest in Europe, will rank first in the world by sales, but third in passenger traffic, after American Airlines and United Airlines.

On May 23, 2004 the roof of Terminal 2E at Paris Charles de Gaulle Airport collapsed and killed four people. The cause of the collapse is unknown and an investigation is pending. The terminal, which handled sixty flights a day, most of which were Air France, had only been open for eleven months before the accident, and is now closed until further notice. Air France said the closure would not affect its summer schedule. Airport officials commented that there was little problem in shifting affected flights to other terminals, but that the additional passenger traffic in other terminals was proving to be a challenge.

*Brighter Outlook Makes Tourism Industry Smile***Germany**

Lufthansa German Airlines reported a net profit of EUR62 million (CDN\$101 million) for its first quarter ended March 31, 2004. This is a marked turnaround from the net loss of EUR356 million (CDN\$594.6 million) the airline reported for the same quarter of 2003. The airline also reported that average airfare yields were up 5.2% during the period, and that it was profiting from the general economic upturn, particularly in Asia and the U.S. It also noted that it was optimistic regarding its prospects for the year, "despite Germany's still ailing economy."

In May 2004, Lufthansa's passenger traffic rose 26.7%, compared with a year earlier. Meanwhile, capacity increased 27.4%, which resulted in a 0.4 percentage point decrease in load factor to 73.7%.

German airport operator Fraport, reported that passenger numbers for Frankfurt Airport climbed 12% in May 2004, year over year, to 4.4 million. The company forecasted that its full-year passenger figures for 2004 would rise between 3.5 to 4.5% compared with 2003. However, according to a Reuters news report, Germany's air traffic controllers may launch strike action in late July, led by their new union, GDS. The union is attempting to negotiate salaries with Deutsche Flugsicherung (DFS), the controllers' state-owned employer, but DFS refuses to recognize the new union. If the strike occurs, it will be the first action taken by German air traffic controllers since 1973, when a "go-slow" action caused massive disruptions for the country's air travel.

TUI AG recently reported that sales for the first quarter of 2004 increased 27% over the previous year, noting that sales for their winter products had increased 6.1%. They also reported that as of mid-May, summer bookings were already ahead by 3.3%, compared to last year.

The Canadian Tourism Commission's foreign office in Germany recently reported the results of a survey by FUR, which pointed to growth in the German travel market this year. Of the Germans polled, 69% indicated that they were planning to take a trip sometime in 2004, up from 67% in 2003. Of this percentage, only a modest 5.1% were expected to be long-haul trips.

**Italy**

Alitalia posted a loss of EUR206.2 million (CDN\$335.6 million) for its first quarter ended March 31, 2004, not including extraordinary items and taxes. This figure represented a further decline in earnings compared with the EUR198 million loss it reported in the same period the previous year. Alitalia reported that passenger revenues for the first quarter of 2004 grew 0.2% over last year but that average fare yields declined a further 3.4%. While passenger traffic for the period grew 3.7%, capacity increased 6%, which resulted in a 1.5 percentage point drop in load factor. Fortunately, Alitalia's performance on its intercontinental routes was much more positive. In this sector, traffic grew 11.5% while capacity increased 10.2%. This resulted in a 0.9 point rise in the load factor.

On July 22, 2004 the Italian government announced it would approve a short-term bridge loan for EUR 500 million (CDN\$813.8 million) to assist Alitalia while the ailing airline develops a new business plan. Italy's Department of Infrastructure stated that this would be "a first and significant step towards hitting the important objective of cleaning up the flag carrier's accounts." The loan still requires the approval of the European Union-which has strict competition rules regarding state aid for airlines. On June 28, 2004 Alitalia told its shareholders that a new business plan would be ready in July and would involve privatization plans for the state-owned carrier. It is also worth noting that Alitalia currently accounts for 100% of the direct air capacity between Italy and Canada.

According to Macquarie Airports, passenger traffic at the two Rome airports grew 15.7% in May 2004. Macquarie stated that this jump in traffic signalled a rebound in global air travel, driven by a recovery in traveller confidence, additional airline capacity and increasing competition.

The Canadian Tourism Commission's (CTC) foreign office in Italy recently reported the results of a survey conducted by the Italian Exchange offices, which placed Canada third in a list of countries where Italians travellers return to the most often. According to the survey, Canada ranked third after Australia and Thailand in key points such as accommodation, courtesy of people, environment, information, safety and shopping.

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The CTC's Italian office also reported the results of an Assoturismo survey, which indicated that 77% of Italians intend to take a summer vacation this year. Of those polled, only 4% plan to take a trip outside of Europe. Meanwhile, the most popular trips planned are a seaside vacation (71%), and the most popular month for taking a vacation is August (62%). It was also reported that the vast majority of respondents (84%) were undeterred by potential terrorist action.

**The Netherlands**

KLM Royal Dutch Airlines reported its final financial results as a standalone airline, posting a net profit of EUR24 million (CDN\$39.1 million) for its full year ended March 31, 2004. This is a significant turnaround from the EUR416 million net loss reported the previous year. KLM said that a better-than-expected fourth quarter performance boosted its full-year results, mainly because of rising passenger volumes. It also credited the successful delivery of its cost-cutting program. While operating revenues fell 9% for the year, operating costs were trimmed 19%. Meanwhile, passenger traffic for the year declined 3% and average airfare yields dropped 6%. In mid-May 2004, KLM announced a fuel surcharge on all flights because of rising fuel prices.

KLM also announced it would implement a net-fare system with travel agents as of January 1, 2005. This system would effectively terminate the booking fee it currently pays agents. Instead, the airline will cut airfares by EUR 34 (CDN\$55.35). This cut in airfare would equal the amount of the current booking fee it pays agents and allow agents to charge clients their own booking fee. KLM indicated that it would also impose a fee on tickets booked directly through KLM in order to maintain a level playing field. The airline believes this new process will provide consumers with greater price transparency.

According to the Canadian Tourism Commission's (CTC) foreign office in the Netherlands, Canada maintains a position in the top ten countries visited by Dutch travellers. The number one foreign destination for Dutch travellers is France. In 2003, Dutch travellers took 35 million trips, many of which (34%) were taken without prior planning. A further 22% of trips were booked directly with travel suppliers, while 24% booked through a travel agency. The number of vacation packages increased from 39% of total trips taken in 2002, to 44% in 2003.

**Japan**

Japan Airlines (JAL), the country's largest carrier, posted a net loss of 88.6 billion yen (CDN\$1.1 billion) for its fiscal year ended March 31, 2004. This was in stark contrast to the positive net earnings of 11.65 billion yen the airline posted the previous year. JAL attributed its financial performance to a loss of 3 million passengers on international routes in the wake of the SARS outbreak and the war in Iraq. Passenger traffic for the year dropped 20% compared with a year earlier while passenger revenues declined 17.8%. The airline believes it will return to profitability in the current fiscal year and plans to implement a number of promotions and initiatives aimed at boosting airfare yields. Airline analysts believe that JAL's post-SARS earnings recovery has been slower than many other airlines, because of the heightened cautiousness of Japanese travellers.

JAL and All Nippon Airways (ANA) announced plans to raise airfares by 5% as of July 1, to counteract the growing financial impact of higher fuel prices. However, the Japanese government will need to approve the airfare hike before the airlines are free to implement it.

The Japanese Ministry of Health, Labour and Welfare issued a travel alert in June, cautioning visitors to North America this summer to be wary of West Nile fever. The alert noted that the virus caused 264 deaths in the U.S. last year, and that any travellers returning home with a fever should seek immediate medical attention.

The Canadian Tourism Commission's (CTC) foreign office in Japan recently reported that many Japanese travel agents are expecting their bookings to Canada to reach 2002 levels this year. Agents are also reporting that their Canadian trips are selling more strongly than U.S. trips. According to the CTC, the prime Japanese target travel market remains the "50+" age group. These are the travellers who spend the most on overseas trips, and make travel a high spending priority.

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The Australian Tourist Commission recently reported that the Japanese Tourism Marketing Co. has forecasted a rise in Japanese travel between May and July, to levels higher than those seen during the same period of 2003. Hawaii, Micronesia and Europe are expected to see the highest growth in Japanese visitors during this period.

**Korea**

Korean Air (KAL) posted a net profit of 173.4 billion won (CDN\$199 million) in its first quarter ended March 31, 2004, a significant turnaround from the 37.9 billion won loss reported in the first quarter of 2003. International passenger traffic rose 9.2% during the quarter. Revenues increased 9.2%, and its operating profit surged 83.3%, despite high fuel costs. The airline attributed its positive results to rising passenger demand and a stronger local currency, but warned that its current "healthy growth trend" could be impacted by the rising cost of fuel.

According to the latest figures by the Korea National Tourism Organization (KNTO), it appears that Korean outbound travel is recovering to levels higher than 2002. In May, outbound Korean departures rose 88.8% compared with a year earlier, to 680,185. This increase comes on top of a 34.4% drop in outbound travel in May of 2003, when the effects of SARS caused outbound trips to decline to 360,293. In May 2002, Koreans took 549,024 trips outside their country. A similar trend was seen in April.

The Canadian Tourism Commission's (CTC) foreign office in Korea reported that "well-being" themed packages are growing in popularity, which are also being developed for Canada. The CTC also reported that Air Canada will increase its direct air capacity between Korea and Canada during the summer months to meet increasing demands, but it appears that there will still be a shortage of seat capacity.

**Hong Kong**

Cathay Pacific Airways reported a 270.8% rise in passenger traffic for May, although the figures were obviously distorted by the "SARS-related slump" in 2003 passenger figures. Capacity rose 106.8% in May compared with the previous year. The airline noted that it was a record May for actual passenger traffic, boosted by "very busy long-haul routes and exchange rate gains." The airline warned, however, that fuel prices were a concern, and that a recently implemented fuel surcharge on airfares was not enough to help the airline recoup its additional fuel costs.

Dragonair, Hong Kong's second-largest airline, reported that its passenger traffic demand weakened from April to May, with travel waning through the Golden Week holiday. The airline noted that business and leisure travel demand was strong in the early part of the week-long holiday, but slowed towards the end as some people "decided to avoid the crowds and put off their holidays until later."

The Australian Tourist Commission recently reported that a lull in travel was expected in Hong Kong between May and mid-July, which is typically a slow travel period for the Chinese market. A number of Hong Kong travel agents launched special promotions in conjunction with the major airlines in order to stimulate travel demand during this period.

**Taiwan**

The Canadian Tourism Commission's (CTC) foreign office in Taiwan reported that the travel outlook for Taiwanese travel to Canada is positive. Airline bookings are near capacity, even though flights between Taipei and Vancouver have increased by 5%. The strong Canadian dollar, however, appears to be restricting growth in this market. Tour operators are even more optimistic about fall bookings to Canada: trips from Taiwan during the fall months are expected to increase 20 - 30% over last year's figures.

The Australian Tourist Commission (ATC) recently reported that outbound travel from Taiwan was quiet in March and April due to the Taiwanese presidential election. Unfortunately, the outcome of the election appears to have had a negative impact on Taiwanese business confidence; a recent survey showed that 78% of Taiwanese workers feel less confident about the future, with 76% indicating they expect unemployment to increase. Of those polled, 56% worried that their income level would fall.

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The ATC also reported that short-haul, cheaper air travel is expected to grow in popularity in Taiwan, because of the difficult economic and political environment there. Competition for the long-haul outbound market is fierce, sparking many price-driven promotions, which now dominate the travel marketplace. More than 90% of Taiwanese travellers currently pre-book all of their travel arrangements, but bookings are usually made in as little as 2 weeks in advance.

### **Australia**

Low-cost carrier Virgin Blue posted a net profit of A\$159 million (CDN\$150.2 million) for its fiscal year ended March 31, 2004, increasing 47% over the previous year despite intensifying competition in Australia's budget air travel market. Passenger traffic rose 61%, and capacity grew 55% over the year, resulting in a robust load factor of 82.6%. The airline stated that the domestic market remained "intensely competitive", with Qantas' new low-fare subsidiary Jetstar applying even greater pressure to airfare yields.

Qantas Airways announced the addition of a fuel surcharge to all its flights, in order to offset part of the rising price of jet fuel. The airline reported that its fuel costs have risen 57% over the last year, resulting in "hundreds of millions of dollars" of additional operating costs.

The latest travel statistics show that overall outbound travel from Australia increased 52% in April 2004 compared to 2003. Holiday departures increased by 64%, while overseas business travel climbed 51% compared with the previous year. Meanwhile, leisure travel to North America increased by 59%.

A recent market report by the Canadian Tourism Commission (CTC) indicated that the Australian tourism market is poised for significant growth over the next year. A recent survey revealed that 37% of potential long-haul leisure travellers expressed an interest in visiting Canada in the next twelve months. A much larger group of potential travellers (71%) indicated they were interested in visiting Canada within the next five years. According to the survey, most Australian travellers are seeking holidays in a natural setting, away from crowds, but in a location where they can experience the local culture.

### **New Zealand**

Air New Zealand (ANZ)'s latest operation statistics show that the airline's overall passenger traffic increased 8.7% in April 2004, compared with a year earlier. Capacity for the month grew 1.8%, which resulted in a load factor gain of 4.7 percentage points to 73.8. The airline's long-haul passenger traffic grew 6.9%, overall, although it declined 2% on its North American and European routes. ANZ announced a new non-stop service between Los Angeles and Christchurch set to begin in November, which will operate three times a week. Connections to Canada will be available through the airline's Star Alliance partnership.

In mid-May, Air New Zealand introduced a fuel surcharge on all passenger tickets. The increase in fuel prices has been particularly problematic for the airline because of the recent fall in value of the New Zealand dollar-it has declined 14% since February.

Statistics New Zealand reported that overseas travel by New Zealanders jumped 26% in May 2004, compared with the previous year. Overall holiday travel and business travel each rose 28%, and leisure travel to North America increased 34%.

According to a recent report by the Australian Tourist Commission, New Zealand's economy is expected to maintain solid growth through this year, but will slow down in 2005. Consumer confidence fell slightly in the first quarter of 2004, but consumers remain "extremely optimistic."

## Economic Overview

### **North America**

The strength of the U.S. economy will result in better than average real GDP growth in North America in 2004. Economic growth combined with higher inflation will drive central banks to raise interest rates. It is expected that higher interest rates will cut into consumer spending in 2005. Until then, we expect the U.S. economy will expand 4.4%. In Canada, real GDP growth is expected to reach 3% in 2004. Our outlook still suggests that Canada's dollar will continue to slide against the U.S. dollar, fetching \$0.737 U.S. in 2004 and \$0.70 U.S. in 2005.

Unfortunately, the outlook for consumer spending in Canada for the remainder of 2004 is expected to be less than stellar. Faced with a substantial tax increase on July 1, Ontario consumers are expected to rein in spending enough to hold the national growth rate for the third quarter of 2004 to just 0.5%.

Meanwhile, the Mexican economy is expected to expand by a modest 3.2% this year and 3.6% in 2005. Private (Mexican) consumption is expanding and is forecast to increase by 3.4% this year and by 3.7% in 2005. In the near future, energy prices could also restrict worldwide consumer spending. In fact, the effect of higher energy prices is comparable to a tax increase. However, the difference is that the revenues generated by higher taxes fund government programs whereas the majority of the bill for higher energy prices is paid to foreign energy producers. The Conference Board expects crude oil prices to average US\$35 per barrel in 2004 and US\$31.91 per barrel in 2005.

### **Europe**

With the exception of employment, economic activity in Europe is improving. Unfortunately, the unemployment rate in Europe is expected to remain unchanged in 2004 (8.8%) before falling slightly to 8.6% in 2005. Real GDP in the Eurozone is expected to increase 1.6% in 2004 and by 2% in 2005. It is possible that growth will be constrained over both the near and medium term by the costs involved in absorbing ten new members into the European Union. Meanwhile, in the U.K., the economic expansion is not expected to be derailed by the higher interest rates required to tame inflation. Partly because of solid retail sales, real GDP in the U.K. is forecast to increase by 3.1% this year and 2.7% in 2005.

### **Asia-Pacific**

Growth prospects for the Asia Pacific region have taken a more positive slant over the past year as significantly lower interest rates contributed to stronger economic activity. In 2004, real GDP growth of 4.4% is anticipated for the region, partly because of the strength of the Chinese economy and the rebound in economic activity in Japan. The Japanese economy has been spurred by the ongoing strength of the Chinese economy, an improving U.S. economy and the boost to growth provided by Japan's domestic sector. Despite concerted efforts to curtail the booming Chinese economy, it still managed to expand at an annualized rate of 9.7% in the first quarter of 2004. Real GDP (in China) is expected to increase by 8.6% this year before decreasing slightly to 7.7% in 2005.



## Opportunities

According to The Conference Board Inc.'s latest Consumer Internet Barometer, two-thirds of consumers are now using the Internet to make travel arrangements and the level of satisfaction reported among users is very high. This quarterly survey conducted by The Conference Board Inc. shows that 88% of consumers are "extremely" or "somewhat" satisfied with using the Internet for all types of travel arrangements. However, the Barometer reports that consumers are still using the Internet more for researching than actually booking their travel. In addition, The Conference Board states that security concerns regarding credit card information is the primary reason for not making arrangements online. To address this concern, The Conference Board suggests that web sites communicate to consumers what Internet security measures they have in place.

In a reversal of fortunes, the 2004 National Leisure Travel Monitor by YPB&R suggested that the outlook for travel agents is improving. According to the Monitor, the use of agents gained a full percentage point between 2003 and 2004 among respondents, who were asked if they had used an agent to plan a leisure trip in the last twelve months. YPB&R said the incidence of usage appeared to be stabilizing after a significant decline over the past two years. The "mature" travel segment (aged 58 and over) reported the highest use of agents but YPB&R warned that agents must increase their marketing focus on younger travellers "to cultivate the true potential inherent in these generational groups."

A recent international conference on culinary tourism held in Victoria, BC featured presentations on emerging trends within this growing tourism niche. In his keynote address, Michael Hall, head of tourism at the University of Otago in New Zealand stated that "certain demographic shifts are building the client base for cuisine tourism," referring specifically to the Baby Boomer segment. Hall said that this group had more money and more leisure time to travel, and is showing greater interest in "eating and drinking well" while on vacation. According to the Okanagan Cultural Corridor, B.C.'s Okanagan Valley has seen a 65% rise in visitors taking wine tours since 2001, with wine tourists spending an extra \$20 - \$30 more per day in the region compared with other types of tourists.

## Summary

The tourism industry is recovering from the misfortunes that have plagued it over the past few years, and is making an effort to show Canadians the positive impact that the industry has on their quality of life. Fortunately, in spite of high fuel prices, a pent-up demand and a stronger economic environment are spurring business and leisure travellers back on the road and into the air this summer. Looking further ahead, there appears to be an almost unanimous opinion that the industry will continue to expand and create more opportunities for employment and economic growth.

One of the key factors of the industry's more positive outlook is the expanding low-cost air carrier segment. While the cheaper, more flexible price structure of these airlines has contributed to shorter booking windows and has encouraged travellers to be more price-sensitive, it has also helped entice more people to travel. In addition, it has also helped to provide affordable air access to many regions of Canada that were once considered too remote or too costly. Despite the inevitable growing pains of competition among low-cost carriers as they extend their reach, the strength of this segment factors highly in the growth potential of the tourism industry.

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