CTC Tourism Intelligence Bulletin – Issue 21: March 2004

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

Pent-up Demand Expected to Contribute to Travel Recovery

Executive Summary

- As the global economy strengthens and travel concerns subside, optimism for a solid recovery in the tourism industry continues to grow. Canadian travellers, in particular, have demonstrated a rather quick resolve to move beyond the devastating challenges that plagued the industry through most of 2003. Driven by increasing consumer confidence, a stronger dollar (vis-à-vis the U.S. dollar) and solid pent-up demand for travel, Canadian outbound travel posted solid growth late in 2003 and this trend appears likely to continue well into 2004.
- Unfortunately, international travel markets still harbour concerns related to last year's SARS epidemic. Toronto, in particular, is one urban centre that still reports a lack of forward bookings from the U.S. market as a result of lingering concerns. The industry is hopeful that any collateral damage to the product brand "Canada" will be addressed and rectified as quickly as possible.
- Fortunately, despite residual concerns, there are clear signs that a travel recovery driven by pent-up demand is already materializing. Growth should be particularly evident during the spring and summer, when the consequences of last year's SARS outbreak were most damaging. After three years of setbacks, consumers and businesses alike now appear ready to reprioritize travel in recognition of its increasingly vital role in achieving personal and corporate goals.

Emerging Trends and Issues - Release of Pent-up Demand Bodes Well for Summer Season

- As a direct result of the setbacks experienced by Canada's tourism industry last year, many planned trips were either cancelled or postponed. As the industry looks ahead, most of the concerns that plagued the industry in the recent past are fading in importance. This improved environment will hopefully allow trips that were not taken last year, or over the past few years, to materialise and thus help strengthen the recovery.
- The very encouraging results of The Conference Board of Canada's most recent Travel Intentions Survey for summer 2004 appear to reflect this sentiment by being the most promising in years. While the appreciating Canadian dollar was found to encourage more Canadians to travel outside of the country, improving economic prospects, growing consumer confidence, and strong pent-up demand were shown to boost domestic travel intentions, as well.

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The Conference Board of Canada
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Canadian Tourism Commission
Commission canadienne du tourisme

- Fortunately, optimistic signals extend to reflect growth in international travel to Canada this year. Combined with improving economic prospects and growing consumer confidence south of the border, The Conference Board Inc.'s latest Consumer Confidence Survey of U.S. residents suggests an increasing desire to visit Canada over the next six months. However, to some extent, all of Canada's international markets remain concerned about health issues and global events, and as a result, a full rebound in travel volumes (to 2000 levels) remains a distant goal for most.

Consumer (Traveller) Overview

- The latest Travel Intentions Survey by the Conference Board of Canada specifically asked Canadians to establish the degree to which the US/Canada exchange rate influenced their intended travel destination. Interestingly, a higher percentage (16%) of those intending to stay in Canada for their vacation cited the exchange rate as a significant influence, as opposed to those Canadians that intend to travel to the U.S. (13%). It appears that for many Canadians, a 75 or 76-cent dollar still does not provide enough of a financial motivation to take a U.S. vacation.
- Meanwhile, in the U.S., a recent member survey by the National Tour Association showed that consumer confidence and booking levels among tour operators and suppliers across the U.S. climbed steadily throughout the final half of 2003. In fact, 58% of tour operators polled reported sales volumes for the third quarter of 2003 that were equal to or greater than the same quarter of 2002. For the fourth quarter, that number climbed to 71%. Fortunately, the growth was expected to continue through the first quarter of 2004.
- The outlook for business travel appears optimistic as well, strengthening in tandem with the recovering economy. The National Business Travel Association (NBTA) released a survey at the end of January 2004, which revealed that 71% of American business travel managers polled believed that business travel will rebound significantly in 2004 and 2005. In fact, 54% expect that rebound to occur this year. In addition to the recovering U.S. economy, survey respondents indicated that the growing use of mid-priced hotel accommodations and discount airlines were other key factors that would help support the expected increase in business travel volumes.

Travel Supplier Overview

- Air Canada reported that its overall revenue passenger miles (RPM) for January 2004 were up 1.1% from the previous year. This marked the second consecutive month the airline has experienced growth in its overall passenger traffic. The carrier also reported the best monthly load factor performance (72% overall) in the airline's history. The airline noted that traffic on its Indian, South American and sun destination routes continued to drive the carrier's positive performance. However, international Atlantic routes and U.S. transborder routes continued to decline.
- By all accounts, Canada's low-fare marketplace should continue to expand rapidly during 2004. Air Canada's low-cost subsidiaries Zip, Westjet, Jetsgo and Canjet have all recently announced fleet increases or upgrades and expanded flight schedules for 2004. The additional capacity should keep airfares competitive and will hopefully help to create an ideal environment for generating solid growth in the air travel market.
- In the U.S., overall passenger traffic also increased in January 2004 compared with the previous year. This marked the fifth consecutive month of year-over-year improvements. Most of the improvement, however, was achieved within international markets that suffered significant declines as a result of the uncertainty that existed prior to the war in Iraq. On a positive note, the Air Transport Association (ATA) reported that average yields on international routes increased 7.6% during January, compared to the previous year. While the increase in yields supports the observation that overseas business travel is returning, many analysts agree that high fuel costs and excess capacity continue to stifle the overall recovery of the airline industry.

Economic Overview

- The roaring U.S. economy is driving the rest of the North American continent (Western Hemisphere) to turn in some of the strongest economic performance since the year 2000. However, the economic recovery in Canada and the U.S. is not expected to be accompanied by a booming job market. The lack of new jobs will weigh on income gains in 2004. In addition, the strength of Canadian economic growth is expected to lag behind that of the U.S., as a stronger dollar weighs on Canada's export sector. As a result, The Conference Board of Canada believes that the U.S. Federal Reserve will raise interest rates faster than the Bank of Canada during 2004. If this happens, the value of the Canadian dollar (vis-à-vis the U.S. dollar) should depreciate later in the year.
- After two years of tepid (less than 1%) economic growth, Europe is poised to turn in an average increase of 2% in 2004. Similar to the situation in North America, Europe is losing manufacturing jobs to developing countries. The strength of the euro is pressuring European firms to invest in capital (robotics, computers) in order to increase productivity. Unfortunately, these investments are displacing workers. The strong unions in Europe are making the adjustment difficult on labour; as a result, there promises to be work stoppages over the next year as unions fight this economic restructuring. As a result, income gains are expected to be modest across most of Europe this year. On the other hand, the U.K should continue to out-perform the European continent this year and next, in both overall growth and income gains.
- The export-driven economies of Asia are getting a boost from the U.S. economic recovery as well as regional behemoth, China. The increasing economic power of China is remarkable, where urban incomes have risen by an average of 9% per year during the past four years, boosting the spending power of a whopping 400 million urban residents. However, the importance of exports has led to a situation where economies throughout the Asian region are keeping their currencies artificially low (undervalued) versus the U.S. dollar. There is a risk that there will be a significant exchange rate adjustment this year, leading to a stronger Chinese yuan and Japanese yen versus the U.S. dollar. This appreciation would be bad for exports, but would make it less costly for Asians to travel to the U.S. and Canada.

Opportunities

- According to a recent study by the Canadian Corporate Travel Association (CCTA) and Topaz International, travel agents still retain a competitive advantage over Internet travel sites when it comes to corporate travel. The study found that on-line business travel bookings can cost a company up to 65% more than similar bookings made by travel agents, particularly for air travel involving more than one destination. Results showed that the average air ticket price for a business trip was 7 to 27% more expensive when purchased through an Internet site, rather than through an agent. Furthermore, the CCTA pointed out that corporate travel agents provide essential services such as in-depth knowledge of travel options, and the ability to quickly search out discounts and deals, which the Internet cannot provide.
- Meanwhile, the Student and Youth Travel Association (SYTA) recently reported that the student and youth travel market (representing Canadians under 30)-worth approximately $10 billion to Canada's tourism industry-managed to expand between five and nine percent in 2003. By doing so, it proved itself to be a resilient and growing niche market. According to SYTA, this market is poised to expand a further 10 to 14% this year.

In Brief

As the global economy strengthens and travel concerns subside, optimism for a solid recovery in the tourism industry continues to grow. Canadian travellers, in particular, have demonstrated a rather quick resolve to move beyond the devastating challenges that plagued the industry through most of 2003. Late in 2003, Canadian outbound travel posted a solid growth. This tendency, driven by increasing consumer confidence, a stronger dollar (vis-à-vis the U.S. dollar) and solid pent-up demand for travel, will most likely continue in 2004. Canadian travel suppliers hope that pent-up travel demand will also boost growth in the domestic travel market and spur a rebound in international arrivals.

One indicator of growing optimism is the recent announcements of planned expansion in the airline industry. Aside from international carriers, Canada's own Air Canada, Westjet, Jetsgo and Canjet have all recently announced fleet increases or upgrades and expanded flight schedules for 2004. The additional capacity should keep airfares competitive and will hopefully help to create an ideal environment for generating solid growth in the air travel market.

Unfortunately, international travel markets still harbour concerns related to last year's SARS epidemic. Toronto, in particular, is one urban centre that still reports a lack of forward bookings from the U.S. market as a result of lingering concerns. The industry is hopeful that any collateral damage to the product brand "Canada" will be addressed and rectified as quickly as possible.

Fortunately, despite residual concerns, there are clear signs that a travel recovery driven by pent-up demand is already materializing. Growth should be particularly evident during spring and summer, the time period last year when the effects of SARS were most damaging. After three years of setbacks, consumers and businesses alike now appear ready to reprioritize travel in recognition of its increasingly vital role in achieving personal and corporate goals.

Emerging Trends and Issues

Release of Pent-Up Travel Demand Bodes Well for Summer Season

Canada's tourism industry suffered a series of serious setbacks last year. Among the numerous impediments were cancellations or postponements of many planned trips resulting from lingering security issues, the War in Iraq and, most notably, the outbreak of SARS. Looking ahead, most of these obstacles are fading in importance and a few no longer exist. These improved circumstances will hopefully allow trips that were not taken last year, or over the past few years, to materialize and thus help strengthen the recovery.

Despite inevitable global concerns, there are clear signs that a travel recovery is already underway. Moreover, year-over-year growth is expected to be particularly strong over the second and third quarters of this year, compared to the same period in 2003 when the consequences of both the war in Iraq and the SARS outbreak were most damaging. Barring the emergence of yet another damaging global event, the most recent travel trends support this optimistic outlook.

Travel Intentions Most Promising in Years

In fact, The Conference Board of Canada's most recent Travel Intentions Survey of Canadians is the most promising in years. Survey findings show that 72.8% of Canadians-the highest number in three years-plan on taking a summer vacation in 2004. The high percentage of Canadians who intend to travel this summer reflects the impact of an appreciating Canadian dollar (vis-à-vis the U.S. dollar) as well as improving economic prospects, growing consumer confidence and strong pent-up demand for travel.

Table 1 -Summer (May-September) Vacation Intentions (% of Canadians surveyed)

	December 2003	December 2002	December 2001
Summer Vacation Intentions (All Destinations)	72.8	62.4	63.2
Canada	48.0	45.7	48.1
US	10.1	6.7	7.0
Other International	12.5	8.6	6.9
Do Not Know/Refused	2.2	1.4	1.2

Source: The Conference Board of Canada.

In addition, the probability that these intentions will translate into trips may be further supported by lower interest rates. The Bank of Canada's recent interest rate cut should help support further discretionary spending and ease some pressure brought on by record-high consumer debt levels facing many Canadians. Another contributing factor to a resurgence in travel intentions is the strengthening of consumer confidence. The Conference Board Index of Consumer Attitudes survey shows that consumer confidence has reached its highest level since mid-2002. Strong consumer confidence goes a long way to ensure that travel intentions actually materialize into trips.

Pent-up Demand Spurs Travel on Both Sides of the Border

The survey results support the notion that pent-up travel demand is spurring more Canadians to plan domestic trips this summer, compared with the previous year. However, barring a plunge in the value of the Canadian dollar or the emergence of yet another extraordinary global event, it appears that more Canadians will be vacationing outside the country than they have in a long time. Luckily, more international travellers are expected to travel to Canada over the summer.

In fact, the latest (December 2003) travel intentions survey of U.S. residents conducted by The Conference Board Inc. found that 2.1% of vacationing Americans plan to travel to Canada in the next six months-a considerable increase from the 1.4% that was reported in the October 2003 survey. Unfortunately, the lingering effects of the SARS outbreak still dampen the level of actual advance bookings from the U.S. To some extent, all of Canada's international markets remain concerned about health issues and global events, and as a result a full rebound in travel volumes (to 2000 levels) remains a distant goal for most. Nevertheless, the optimism that pent-up travel demand will help spur a rebound in the industry is a welcome belief.

Consumer Overview - Canada and the United States

Business Travellers

The outlook for business travel appears to be strengthening in tandem with the recovering economy, according to the National Business Travel Association (NBTA). The NBTA released a survey at the end of January 2004, which revealed that 71% of American business travel managers polled believed that business travel will rebound significantly in 2004 and 2005. In fact, 54% expect that recovery will occur this year. The NBTA suggested that the recovering U.S. economy would help drive a growing volume of corporate travel throughout this year.

Another factor contributing to the increase in business travel volume, according to survey respondents, is the growing use of mid-priced hotel accommodations and discount airlines; 61% of those polled indicated they would expand their use of these options in 2004 to help rein in corporate travel costs. That being said, almost half of the respondents (48%) reported their firm had increased their travel budget for 2004, compared to only 18% that reported a budget decrease. The NBTA also found that most survey respondents expected hotel prices and airfares to remain relatively flat in 2004.

According to the Hospitality Research Group of PKF Consulting, corporate meeting planners have a similarly optimistic outlook regarding their corporate meeting business this year. A recent survey of meeting planners across the U.S. showed that 50% of corporate meeting planners polled believed that they would plan more meetings in 2004 than 2003, while 44% believed they would plan about the same number of meetings. However, the vast majority of corporate meeting planners (82%) indicated that their individual meeting budgets would remain at the same level as last year.

Improving economic prospects should also help spur business travel in Canada. The Conference Board of Canada's latest (Winter 2004) Index of Business Confidence reached its highest level in three years and posted a startling 19.2 point gain over the previous quarter. An increasing percentage of respondents were optimistic that Canada's economy would continue improving: 48.8% compared with 38.9% in the previous quarter. A strong majority of respondents (61.8%) indicated they felt their firms' finances would improve over the next six months, an increase of 8.7 percentage points since the last survey, and 60% expect their firms' profitability to improve over the next six months, up 7.9 percentage points from the previous survey.

Leisure Travellers

The latest (December 2003) Travel Intentions Survey by the Conference Board of Canada suggests that the outlook for this year's summer travel season is the most positive it has been in three years. It indicated that compared to the previous year's results the appreciating Canadian dollar is encouraging more Canadians to travel outside of the country. However, improving economic prospects and strong pent-up demand for travel also helped to boost domestic travel intentions.

In addition, the latest Travel Intentions Survey specifically asked Canadians to establish the degree to which the US/Canada exchange rate influenced their intended travel destination. Interestingly, a higher percentage (16%) of those intending to stay in Canada for their vacation cited the exchange rate as a significant influence, as opposed to those Canadians who intend to travel to the U.S. (13%). It appears that for many Canadians, a 75 or 76-cent dollar still does not provide enough of a financial motivation to take a U.S. vacation.

The survey also showed that a growing number of Canadian travellers intend to search for and/or purchase at least one component of their summer vacation destination on-line. Of those polled, 71% indicated they were likely or very likely to use the Internet for researching their trip. This was up from 52% reported a year earlier. A larger jump was seen in those who intended to purchase at least part of their trip online: 45%, compared with 30% a year earlier.

A new report by the Travel Industry Association of America (TIA) revealed that on-line travel bookings in the U.S. continued to grow through 2003, albeit at a slower pace than the previous year. According to the TIA study, "Travelers' Use of the Internet," Internet travel bookings increased 8% in 2003. Of those who purchased travel products on the Internet, 75% bought airline tickets, 71% reserved hotel rooms, and 43% booked rental cars. The study also found that on-line travel purchasers spent an average of US$2,600 for online travel in 2003. This is up from the average spending of US$2,300 reported in 2002. According to the TIA, the later booking patterns witnessed throughout 2003 was largely attributed to the greater availability of last minute Internet deals.

Meanwhile, according to the latest member survey by the National Tour Association of tour operators and suppliers across the U.S., consumer confidence and booking levels among survey respondents climbed steadily throughout the final half of 2003. In fact, 58% of the tour operators group reported sales volumes for the third quarter of 2003 that were equal to or greater than the same quarter of 2002. For the fourth quarter, that number climbed to 71%. Fortunately, the growth was expected to continue through the first quarter of 2004 where 84% of the tour operators polled expected their first quarter sales volumes to meet or exceed the previous year's levels.

It appears that the majority of U.S. travel agents experienced no discernible impact from the recent escalation of the U.S. terror alert. According to a survey conducted by Travel Weekly and NTM Research of travel retailers, 60% of those polled saw no impact on their bookings at all, while 40% noted some sort of effect. Of those who witnessed an impact, 22% said they experienced fewer advanced bookings, 18% said their bookings had slowed, and 7% experienced a greater than usual number of cancellations.

Travel Supplier Overview - Canada and the United States

Airlines - Canada

Air Canada reported that its overall revenue passenger miles (RPM) for January 2004 were up 1.1% from the previous year. This marked the second consecutive month the airline has experienced growth in its overall passenger traffic. The carrier also reported the best monthly load factor performance (72% overall) in the airline's history. While domestic traffic increased a modest 1.5%, its international Pacific routes climbed 18.6%, compared to last year. The airline noted that traffic on its Indian, South American and sun destination routes continued to drive the carrier's positive performance. However, international Atlantic routes and U.S. transborder routes traffic continued to decline, down 10% and 15.1% respectively, compared with January 2003.

The Ontario Superior Court finally approved Air Canada's selection of Trinity Time Investments as its equity plan sponsor. Trinity will purchase a 31% stake in Air Canada for $650 million once the airline emerges from creditor protection, thus making Trinity the carrier's largest shareholder. The court also approved Air Canada's financial restructuring agreement with GE Capital Aviation Services (GECAS) worth US$1.5 billion in loans and aircraft leases. Air Canada stated that these two transactions represent cornerstones in the carrier's successful emergence from creditor protection and hopes to proceed with the remainder of the emergence process "expeditiously."

Air Canada also announced the expansion of its new, simplified web fare structure to include all 80 continental U.S. destinations it serves, due to the "overwhelmingly positive" response on its domestic routes. In fact, since implementing the web fare structure on its domestic routes in May 2003, Air Canada's Internet sales have tripled and now account for approximately half of all domestic ticket sales. The carrier reported that of the internet ticket sales, about half are generated through Air Canada's travel agency web site.

Table 2. Airline Revenue Passenger Miles (RPM) and Capacity - January 2004

Airline	RPM (in millions) January 2004	RPM change 2004 vs. 2003	Capacity 2004 vs. 2003
Air Canada (includes Tango, Zip and Jetz)	3,208	+1.1%	-1.2%
Air Canada Regional (Jazz)	119	-2.5%	-2.6%
Westjet	467	+53.1%	+37.3%
Jetsgo	187	+206%	+173%

Westjet posted a net profit of $12.8 million for its fourth quarter ended December 31, 2003-a 37.6% increase over the $9.3 million in net earnings achieved during the same quarter in 2002. This represents the twenty-eighth consecutive quarter of profitability for the low-cost carrier. Revenue passenger miles increased 44.4% during this period, compared with the previous year, while capacity rose 41.0%. This resulted in a load factor gain of 1.3 points to 70.3%. Westjet said it began to see the "rationalization of capacity" during the fourth quarter, which could presumably help ease the downward pressure on airfares. However, the carrier noted that the yield environment remained "fairly weak."

By all accounts, Canada's low fare marketplace should continue to expand rapidly during 2004. Westjet recently announced plans to launch new services in April within the Toronto-Montreal-Ottawa triangle in order to target more of the Canadian business travel market. In addition, the carrier will implement scheduled transborder flights into the U.S. this fall. Air Canada also announced plans to revamp and nearly double the size of its low-cost subsidiary, Zip, to twenty aircraft by the end of this year. Following suit, discount carrier Jetsgo recently revealed plans to more than double its fleet to thirty-two aircraft by the end of June 2004. At the very least, these moves suggest the airlines are cautiously optimistic of strengthening demand for air travel in 2004.

Airlines - U.S.

Passenger traffic in the U.S. posted a modest increase in January, compared with the same month in 2003. This marked the fifth consecutive month of year-over-year improvements. However, most of those gains were achieved in international markets where the declines witnessed on routes a year ago were particularly hampered by the uncertainty surrounding the potential of war in Iraq. On a positive note, the Air Transport Association (ATA) reported that average yields on international routes (airfare paid per revenue mile flown) increased 7.6% in January, compared to the previous year. While this increase was reported to be driven by a rebound in overseas business travel, many analysts agree that high fuel costs and excess capacity continue to stifle the overall recovery of the airline industry.

The ATA also reported that overall revenue passenger miles (RPMs) increased 2.6% in January 2004, compared with the previous year. The growth in domestic traffic was reported to be 2% while international routes witnessed growth of 4.1%. While international Atlantic and Latin routes managed to expand 4 and 12.2%, respectively, Pacific routes were still off 1.9%, compared with the previous year.

U.S. Transportation Secretary Norman Mineta told The Seattle Times that he believes that major carriers will continue losing business travellers to low-cost airlines, and warned that airlines should not expect any further financial aid from the U.S. government. Mineta stated that major carriers cannot expect their lucrative corporate travel market to recover beyond 65% of pre-9/11 levels, due to permanent declines in corporate travel and increased usage of low-cost carriers. A recent U.S. Department of Transportation report revealed that the percentage of domestic passenger volumes and revenues handled by low-cost carriers increased to 28% and 19%, respectively, in the third quarter of 2003.

An examination of airlines' fourth quarter earnings for 2003 reveals the growing performance gap between major and low-cost carriers. All major airlines, except Continental, posted net losses for this period, although in most cases, those losses were considerably smaller than the previous year's shortfall. Meanwhile, most discount carriers recorded net profits for the fourth quarter 2003. In their earnings reports, carriers tended to point out the adverse effects of record-high fuel costs, which impacted the financial performance of major and low-cost airlines alike. Another factor impacting revenues was the sustained downward pressure on yields, a result of intensifying competition. Considering that most airlines intend to further increase their capacity during 2004, the pressure on yields is not expected to ease any time soon.

Table 3. Net Income - Q4 2003

Airline	Net Income (Loss) Q4 2003 (in U.S. $)	Net Income (Loss) Q4 2002 (in U.S. $)
Alaska Air Group	-$20.8 million	-$43.1 million
AMR Corporation (American)	- $111 million	-$529 million
America West Airlines	+$6.8 million	-$52 million
AirTran Holdings	-$20.2 million	-$57.6 million
Continental Airlines	+$47 million	-$109 million
Delta Air Lines	-$327 million	-$363 million
JetBlue Airways	+$19.5 million	+$15.2 million
Northwest Airlines	-$129 million	-$178 million
Southwest Airlines	+$66 million	+$42 million
UAL Corporation (United)	-$476 million	-$1.5 billion
US Airways	-$98 million	-$794 million

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

Airline	RPM; Jan. 2004 vs. Jan 2003	Capacity; Jan. 2004 vs. Jan 2003
Alaska Airlines	+11.6%	+4.3%
American Airlines	+3.8%	-0.8%
America West Airlines	+8.1%	+4.9%
AirTran Airways	+14.9%	+16.5%
Continental Airlines	+8.5%	+3.2%
Delta Air Lines	+0.3%	-1.7%
JetBlue Airways	+39.7%	+47.0%
Northwest Airlines	-4.2%	-6.0%
Southwest Airlines	-0.5%	+2.6%
United Airlines	-1.0%	-2.7%
US Airways	+8.2%	+4.5%

The Federal Aviation Administration (FAA), concerned about congestion, asked both American and United Airlines to reduce their flights to O'Hare Airport by 5% each. The FAA stated that in November and December of last year, record-high congestion caused delays for nearly 39% of the arrivals at O'Hare. These delays caused a ripple effect of flight delays across the U.S., which resulted in increasing delays by an average of 10% at 35 major airports. The FAA warned that further steps would be taken if congestion persists.

Meanwhile, Hartsfield-Jackson Atlanta International Airport, the world's busiest airport in terms of passenger traffic, reported that 79.1 million passengers passed through the airport in 2003. This figure comes close to the airport's peak year in 2000, when 80.2 million passengers used the airport. In 2001, the figure dropped to 75.9 million, then rose slightly in 2002 to 76.8 million.

Hotels - Canada

The latest National Market Report by Pannel Kerr Forster Consulting Inc. (PKF) shows that Canada's hotel industry ended the year on a positive note, with demand and room revenues posting positive results in December 2003, compared to the previous year. Despite the fact that the average daily rate was virtually on par with last year's figures, the 1% increase in the national occupancy rate resulted in a 2.4% increase in the revenue per available room (RevPAR).

However, over the full year, occupancy was reported to be down 3.2 percentage points in 2003 to 58.7% and average daily room rates fell 3%. As a result, RevPar declined 8.1%. In its 2004 National Market Outlook, PKF forecasts that Canada's hotel industry will rebound this year to levels just below those seen in 2002. Specifically, they expect occupancy rates to increase 5%, average daily rates to rise 3% and RevPAR to climb 7%.

Fairmont Hotels & Resorts, Canadian Hotel Income Properties (CHIP) REIT and Legacy Hotels all posted net losses for the fourth quarter ended December 31, 2003. However, Fairmont achieved net earnings of US$50.7 million (CDN $67.4 million) for the full year of 2003, and CHIP REIT posted a net profit of $12.5 million, despite the challenges presented by the SARS outbreak. All three companies noted that 2003 proved to be one of the most difficult years in the Canadian hotel industry, but were optimistic about improving demand trends heading into 2004.

Table 5. Hotel RevPAR and Net Income Q4-2003

Company	Revenue per available room (RevPAR), Q4 2003 vs. Q4 2002	Net Income (Loss) Q4 2003	Net Income (Loss) Q4 2002
CHIP REIT	-2.9%	-$3.2 million	$7.0 million
Fairmont Hotels & Resorts	+8.8 and +5.0% (owned vs. managed hotels)	US$13.5 million (CDN $17.9 million)	US$11.0 million (CDN$14.6 million)
Legacy Hotels REIT	-4.9%	-$9.2 million	$7.6 million

Hotels - U.S.

According to Smith Travel Research (STR), the U.S. hotel industry ended 2003 virtually on par with 2002, boosted by improving demand in the second half of the year. Overall occupancy and revenue per available room (RevPAR) increased 0.2% each, while average room rates declined 0.1%. According to preliminary results for January 2004, it appears that both demand and revenues are on track to achieve healthy growth this year. In fact, weekly figures during the month showed that RevPAR ranged between 3 - 5% higher than the previous year. STR predicted that the positive momentum achieved in the final months of 2003 would continue throughout 2004.

Supporting this positive outlook are the latest findings of the Lodging Executives Sentiment Index (LESI), a leading indicator of lodging executive sentiment by LodgingForecast. According to the TIA, the latest LESI revealed that, as of January 2004, hotel executives felt "much more positive than they did the previous month about present conditions, and remain very optimistic about the future." The LESI rose to 62.5 in January, compared with 54.4 the previous month. The Present Situation Index jumped ahead to 30.0 from 14.7, and the Future Situation Index remained extremely high, at 95.0.

Meanwhile, earnings for the fourth quarter of 2003 were mixed with Choice, Hilton and Starwood each posting profits for the period. As well, Marriott achieved a significant turnaround, posting a US$169 million profit compared with a $37 million loss in the same period a year ago. Most hotel companies were optimistic that the worst of the declines experienced in 2003 were over, reporting that it appeared a burgeoning travel recovery was underway. This sentiment was supported by strong leisure travel levels experienced during the holiday season. A number of hotels also reported an improvement in business travel trends during the final months of 2003, and were hopeful of an upswing in corporate travel this year.

Table 6. Hotel RevPAR and Net Income

Hotel	Revenue per available room (RevPAR), Q4 2003 vs. Q4 2002	Net Income (Loss) Q4 2003 (in U.S. $)	Net Income (Loss) Q4 2002 (in U.S. $)
Choice Hotels	+5.0%	+$20.7 million	+$15.1 million
FelCor Lodging Trust	-1.7%	-$142.9 million	-$178.4 million
Hilton Hotels	-0.1%	+$40 million	+$67 million
InterstateHotels & Resorts	+0.2%	-$8.0 million	-$3.4 million
Marriott International Inc.	+1.1%	+$169 million	-$37 million
Prime Hospitality	-1.6%	-$2.0 million	-$2.9 million
Starwood Hotels & Resorts	+4.7%	+$87 million	+$91 million
WestCoast Hospitality	-3.7%	-$2.0 million	-$1.4 million
Wyndham International	+1.2%	-$87.8 million	-$59.7 million

According to PricewaterhouseCoopers, the U.S. lodging industry lost US$1.99 billion in 2003 because of the price-lowering influence of the Internet. Although the Internet generated US$715 million in incremental room revenues last year, the net loss sustained by the industry was estimated to be US$1.27 billion. PWC noted that Internet bookings have reduced the rate that premium hotels have traditionally achieved compared with independent hotels. Specifically, it was reported that average daily rates for premium hotels would have been US$3.18 higher per occupied room without the impact of Internet bookings.

A recent report by Cornell School of Hotel Administration revealed that a significant portion of business and leisure travellers regularly change hotel chains, regardless of their level of satisfaction while staying at a particular hotel. The report, Satisfied Switchers and Dissatisfied Stayers, categorises guests into four segments: satisfied switchers; dissatisfied switchers; satisfied stayers; and dissatisfied stayers. Of the travellers polled, 38% fell into the category of "satisfied switchers". Apparently for this group, satisfaction is not an incentive for repeatedly choosing the same hotel. The report also noted that business travellers were most likely to fall into the "dissatisfied switchers" category. Cornell suggested that the study results point to the need for further refinement in hotel customer retention programs, to aim them "at customer groups most likely to respond."

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 in Canada plummeted 15% in January 2004 compared with a year earlier. During this same month, the average airfare from Canada to the U.S. declined 9% while airfares to other international (non-U.S.) destinations climbed 1%, compared to the previous year.

Meanwhile, in the U.S., the Air Transport Association (ATA) reported that the average domestic airfare in January increased 1%, compared with last year. Average international airfares posted even more significant gains during the month. In particular, airfares on Atlantic routes increased 6.2%, 11.3% on Pacific routes, and 3.5% on South American routes.

The Airline Reporting Corporation (ARC) reported that U.S. travel agency sales during January 2004 increased 1% compared with the same month in 2003. The organization noted that the trend of stabilization and slight growth in travel agency sales appeared to continue through the month. ARC also reported that e-ticket transactions continued to grow, reaching a new record high of 86% in January.

InterActiveCorp (IAC), parent company of Expedia.com and Hotels.com posted a net profit of US$153 million for its fourth quarter ended December 31, 2003. This was a 5% increase over the previous year. Revenues in its travel segment surged upwards by 41%, compared with the same quarter of 2002. IAC noted that its travel results were driven by strong growth both within the U.S. and internationally. In fact, international bookings climbed 101%, compared with a year earlier, and merchant hotel revenues increased 40%.

For the period ended December 31, 2003, American Express posted a net income of US$606 million for its travel-related services segment. This represented a 10% increase over the previous year.

International Overview - Overseas

United Kingdom and Ireland

British Airways (BA) posted a net profit of GBP83 million (CDN$208.2 million) for its third quarter ended December 31, 2003. This represents a significant jump from the GBP13 million profit recorded during the same quarter in 2002. Meanwhile, revenue passenger kilometres (RPKs) climbed 3.3% during this period, compared with the previous year. The airline stated that the main factor behind the improvement in earnings was the success of the GBP1.7 billion in cost cutting the airline implemented over the past two years. In a separate statement, BA revealed that it planned to cut a further GBP300 million (CDN$752.4 million) in staff costs over the next two years.

In describing the current environment, however, BA warned that security issues were impacting the airline's forward bookings. Fortunately, the market for long-haul premium travel remained above last year's levels, although short-haul premium demand continued to be weak, and non-premium traffic volumes were still quite price-sensitive.

During January 2004, BA reported a 3.5% rise in RPKs compared with the same month a year earlier. RPKs for economy seats grew by 3.9%, and premium traffic increased by 1.1%. Overall capacity was up 4.4% resulting in a minimal load factor drop of 0.5 points to 69.1%, compared with the previous year.

Scottish-based Zoom Airlines reported it is prepared to launch low-fare air service from Glasgow and Gatwick to Canada in May 2004, and has increased its schedule due to strong demand. The airline stated that the demand for these flights, particularly on its Calgary and Vancouver routes, has exceeded expectations. In fact, 15,000 bookings have already been confirmed.

Meanwhile, BAA, the international airports group, reported that passenger traffic in its seven U.K. airports rose 5.6% to 38.1 million for its third quarter ended December 31, 2003 and anticipates this trend will continue into 2004. The airports group noted that traffic grew 3.4% at Heathrow Airport, which BAA indicated was a sign that the airline industry was recovering. During January 2004, passenger traffic climbed 4.8%. This included a 2.3% rise in North Atlantic traffic, "despite weather disruptions and intensified security measures."

Table 7. Percentage change in passengers carried

Carrier	Jan. 2004 vs. Jan. 2003
British Airways	-1.2%
EasyJet	+12.3%
Ryanair	+36%

According to BTI UK, a business travel management company, security concerns are not significantly hampering U.K. business travel plans to the U.S. A recent survey of BTI corporate clients revealed that less than 10% said that security delays and disruptions would prompt them to cancel or make a major change to a U.S. flight. Less than 3% indicated they would cancel travel plans completely due to security concerns about a specific U.S. flight, while over 76% said they would make only minor alterations to their schedule.

Overall, the Guild of Business Travel Agents (GBTA) reported that British companies increased their global business travel in the final three months of 2003. The GBTA's Quarterly Transaction Survey showed that air trips (primarily international) rose 8%, while overall transactions were up 7%, compared with the same period a year earlier. The GBTA stated that these figures indicated that a recovery is well underway.

Pent-up Demand Expected to Contribute to Travel Recovery

According to the Association of British Travel Agents (ABTA), confidence is building within the U.K. outbound market, and the threat of terrorism has significantly receded. A recent ABTA poll conducted by MORI showed that, as of January 2004, approximately 28% of British travellers had booked their 2004 summer vacation, compared with 23% in a similar poll conducted two years prior in January 2002. A further 53% said they intended to travel outside of the U.K. this year, but had not yet booked their trip. Only 3% of recent respondents indicated a concern about terrorism. Of those delaying their bookings, 17% said that they expected to get a better deal by waiting, while 33% cited "other reasons."

The Canadian Tourism Commission's (CTC) foreign office in the U.K. reported that U.K. consumers are moving away from all-inclusive vacation packages. Instead, they are increasingly arranging travel themselves over the Internet, favouring low-cost Internet deals and airfares. Recent data showed that Internet bookings in the U.K. were up by 80% in 2003, compared with the previous year.

France

Air France reported a net profit of EUR28 million for its third quarter ended December 31, 2003. This represents a 33% increase from the same quarter of 2002. The airline stated that passenger activity in the third quarter was "buoyant", with a 3.4% increase in traffic. Over the same period, capacity increased 2.7%, which resulted in a 0.5 point gain in load factor to 75.9%. Meanwhile, average yields managed to increase 1%.

In January 2004, Air France's passenger traffic rose 3.7%, representing the seventh consecutive month of year-over-year growth. Long-haul traffic increased 3.5%, while international medium-haul traffic jumped 6.1%. Domestic traffic posted the smallest growth, up 2.5% compared with January 2003.

On February 11 of this year, the European Commission (EC) approved Air France's merger with KLM, a deal that will create Europe's largest airline group and the world's largest by revenues. However, by passenger traffic, Air France-KLM will rank third behind American Airlines and United. According to the EC, this merger represents "an important step in the consolidation that is needed in the airline industry at an international level."

The Canadian Tourism Commission's (CTC) foreign office in France reported that travel agents were satisfied with the pace of bookings in the fourth quarter of 2003, and remained cautiously optimistic in their business outlook. The CTC noted that e-commerce in France was experiencing explosive growth, with 36% of Internet users indicating they purchased products on-line.

Germany

Lufthansa German Airlines reported that passenger traffic rose 6.4% in January 2004, compared with a year earlier. Capacity grew 5.1%, and the load factor improved 0.6 points to 70%. The airline noted that demand to the American continent was particularly strong, with passenger numbers increasing by 11.9%.

In protest of Lufthansa's recent announcement that it planned to eliminate agency fees and establish a net-fare system for travel agents, hundreds of German travel agencies staged a 3-day boycott of the airline in mid-February, refusing to sell tickets for Lufthansa flights. The airline appeared unfazed by the action, saying that they did not expect a large drop in bookings during the boycott, as 80% of its agency contracts had already been switched to the new system. By eliminating agency commissions, Lufthansa hopes to save approximately EUR200 million (CDN$334.8 million) in annual distribution costs.

Meanwhile, German airport operator Fraport again reported record passenger numbers for Frankfurt Airport in January, posting 2.3% growth over the previous year. The company attributed the high numbers to a "boom in long-haul travel, which German tour operators reported for the winter season."

According to the Financial Times, Thomas Cook's main German travel unit, Neckermann, reported a steady rise in travel demand, with summer bookings up 10% over the same time last year. Sales figures, however, were not as high, because of lower prices. Thomas Cook Reisen, a higher-end unit, also reported that demand had been strong since the beginning of January, with summer bookings expected to grow 8 to 9% over last year's figures.

In its latest quarterly report, the Canadian Tourism Commission's (CTC) foreign office in Germany noted that the country's travel industry was optimistic about a recovery in travel demand in 2004. The German Association of Travel Agencies predicted that overall sales in 2004 would increase 5%, despite the fact that package prices dropped an average of 8.5% in order to entice more travellers to book earlier. The CTC also reported that the wildfires in British Columbia had caused a noticeable decline in travel inquiries to Canada, but that bookings and inquiries for Canadian destinations rose through the fourth quarter of 2003.

Italy

Unfortunately, Alitalia and its trade unions have not yet reached an agreement regarding the airline's recently proposed restructuring plan, which involves the elimination of 2,700 employees. Further strike action by Alitalia workers is planned for March 2004. Since November 2003, the airline has been forced to cancel more than 1,000 flights due to various strikes. Alitalia is hoping to improve its financial position by 2005 so that it will be accepted to join the Air France-KLM merger as a third partner.

Meanwhile, Alitalia announced that it would introduce a distribution charge onto its ticket sales in order to drive more bookings through its web site. Charges for tickets sold through travel agents will range from EUR25 - 35 (CDN$42-$59) while the charge for tickets purchased through its call centre will be EUR10 (CDN$17). The charge for web site bookings will be 5 euros (CDN$8).

The Canadian Tourism Commission's (CTC) foreign office in Italy reported in its latest quarterly report that 8 million Italians were forecast to travel over the Christmas holidays. According to FIAVET (the Federation of Italian Travel Agents), 20% of these trips (1.6 million) were to be taken outside of Italy, although for long-haul travel, Italians were favouring sun vacations, such as Mexico and the Caribbean. The number of ski holidays taken by Italians was expected to double over the 2003-04 ski season, but most of these (95%) were expected to take place within Italy.

The Netherlands

KLM Royal Dutch Airlines reported a net profit of EUR8 million (CDN$13.4 million) for its third quarter ended December 31, 2003. This reverses the net loss of EUR66 million (CDN$110.5 million) posted for the same quarter of 2002. Echoing the sentiments expressed by British Airways, KLM attributed its earnings achievement to the success of its cost-cutting program. By the end of its third financial quarter, the airline had reduced costs by EUR125 million (CDN$209.2 million) and eliminated 2,600 jobs. By 2005, the airline aims to reach EUR650 million (CDN$1.1 billion) in cost cuts, and reduce its workforce by 4,500 jobs.

In January 2004, KLM reported that its passenger traffic increased 3%, compared with the previous year. Air capacity decreased 6%, which resulted in an average load factor increase of 2.3 points to 78.5%. Overall, the airline noted that it was beginning to see an increase in its lucrative business market. Unfortunately, passenger traffic on North Atlantic routes was still off 11% on 17% less capacity.

In its latest quarterly report, the Canadian Tourism Commission's (CTC) foreign office in the Netherlands reported that the negative impact of the stronger Euro on the Dutch economy and high unemployment rates were affecting consumer confidence. This was fuelling the trend of last-minute bookings, which was expected to continue. However, the silver lining to the stronger Euro is the increased affordability of travel to Canada. After the bomb attack in Turkey last fall, a safe and politically stable destination like Canada is even more appealing to Dutch travellers.

The CTC also reported that Internet travel bookings are becoming increasingly popular, particularly through web sites that offer dynamic packaging (i.e. vacation packages with flexible components). Not surprisingly, as a result, travel trends are shifting more towards independent rather than group travel. Vacations to sun destinations have been very popular this winter season because of the extremely low prices being offered for these trips. Unfortunately, this has affected bookings to Canada, which were down by about 8% in the fourth quarter of 2003.

Japan

Japan Air Systems (JAS) posted a net profit of 3.7 billion yen (CDN$45.5 million) for its third quarter ended December 31, 2003. Comparable results for the previous year are not available since they would pre-date the JAL/JAS merger. The airline reported that both business and leisure travel began showing signs of recovery during the quarter, with the effects of last year's SARS outbreak almost fully faded. However, the airline warned that the outbound market was still very sensitive to global health issues, such as the avian flu, and further potential SARS outbreaks. The airline stated that the rebound in travel demand had been slower than expected, particularly in its leisure market. JAS also noted that international routes remained "sluggish."

For the same quarter, All Nippon Airways (ANA) posted a net profit of 6.9 billion yen (CDN$84.8 million). This reversed a net loss of 6.1 billion yen posted the previous year. ANA stated that restructuring efforts and cost cutting offset much of the impact that SARS had on the airline's profitability. The airline attributed part of its earnings to aggressive cost cutting. Other factors included a rise in domestic airfares, and a post-SARS increase in international passengers. The airline noted that the "industry faces future uncertainty," although this did not prompt ANA to reassess its financial forecast.

Figures recently released by the Japanese government revealed the extent of the impact of the SARS outbreak on the Japanese outbound travel market. Japan's transport ministry reported that overseas travel revenues at Japan's fifty largest travel agencies plummeted 22.1% in 2003, mainly because of the ramifications of the SARS outbreak. The foreign ministry reported a record decline in the number of passports issued last year, down 27% from the year before. Overall, the Japanese outbound market declined 19.5% in 2003 compared with 2002.

The Canadian Tourism Commission's (CTC) foreign office in Japan reported that demand for Japanese travel to Canada throughout the fourth quarter of 2003 reached the same level as 2002. Demand for trips to the U.S. slowly increased during this period as a result of the aggressively low fares offered by U.S. carriers after the summer season. Despite this, overall visits to the U.S. were still expected to decline 4.2% in the fourth quarter compared with the previous year.

Korea

Korean Air Lines (KAL) posted a net loss of 183.5 billion won (CDN$210.5 million) for its fourth quarter ended December 31, 2003. This was more than double the loss it reported in the same quarter the previous year. Despite slightly improved sales, the declining value of the won against the U.S. dollar sent the interest payments on its foreign debt soaring. The airline stated it was increasingly optimistic about 2004, encouraged by signs of a global economic recovery. However, KAL remains concerned that an epidemic of avian flu in Asia could impact its passenger traffic.

The Korea National Tourism Organization (KNTO) reported that outbound Korean departures rose 6.9% in January 2004 compared with a year earlier. This comes on top of an 18% increase in departures in January 2003 over the previous year.

The Canadian Tourism Commission's (CTC) foreign office in Korea reported that Air Canada and Korean Air Lines increased their flight frequency between Korea and Canada over the December 2003 holiday season to meet growing demand. The overall number of Koreans travelling abroad increased 10.3% in December 2003 compared with the previous year, which continued a monthly trend of increasing overseas visits that dates back to the fall. The Korean National Tourism Organization (KNTO) reported that overseas travel spending is also on the rise. KNTO reports Korean travellers spend an average of $1,726 per trip abroad-up 6% from 2001.

Hong Kong

Cathay Pacific Airways reported that its passenger traffic in January 2004 beat all previous records for that month, boosted by strong travel demand over the Chinese New Year holiday. The airline carried 1.1 million passengers, a 4% increase over the previous year, although last year's holiday fell in February. The airline also reported that, as of the end of January 2004, it had not noticed any impact of the avian flu outbreak on its bookings.

Dragonair, Hong Kong's second-largest airline, reported that its passenger traffic surged by 18.7% in January 2004 compared with the previous year. Although the airline noted as Cathay did, that passenger numbers were artificially boosted by the fact that the Chinese New Year took place in February last year, it insisted that the underlying trend was still positive.

Not surprisingly, Hong Kong International Airport reported that its passenger numbers declined 20.3% for the full year 2003, reflecting the damaging impact of the SARS outbreak. Over the year, total flight movements fell 9.5%. However, December 2003 saw passenger levels finally surpass pre-SARS levels and post a modest 0.4% growth, compared to December 2002. Meanwhile, the Chinese New Year holiday boosted overall January 2004 passenger levels by 6.2%, with outbound traffic up 49% compared with the previous year.

The Canadian Tourism Commission's (CTC) foreign office in Hong Kong stated in its Fourth Quarter Report that the outlook for Hong Kong travel "continues to be cautiously confident." The region's travel agents reported that Christmas holiday bookings were steady throughout the final months of 2003. Overall booking figures, however, were still slightly below 2002 levels.

The CTC also reported that business and consumer confidence appeared to be rebounding faster than anticipated. A survey by AC Nielsen revealed that 67% of Hong Kong residents polled felt confident about a sustained economic rebound, and 86% of respondents said they planned to spend more on non-essential items and overseas holidays.

Taiwan

The Canadian Tourism Commission's (CTC) foreign office in Taiwan reported that the positive performance of the stock market in the fourth quarter of 2003 was an encouraging indication that economic prospects in that country are improving. This, in turn, is boosting consumer confidence in planning travel for 2004. However, Taiwanese travellers remain very sensitive to international events, and potentially negative incidents can quickly have a damaging effect on traffic to any troubled destination.

The CTC also noted that approximately 38% of Taiwan citizens use the Internet. On-line travel bookings continue to climb for both domestic and outbound travel. In fact, tourism is Taiwan's top e-commerce market, accounting for 46% of on-line purchases.

The Australian Tourist Commission's (ATC) January Market Report for Taiwan indicated that total outbound Taiwanese departures increased 1.1% in December 2003, although full-year figures showed an 18.1% decline compared with 2002. As expected, travel demand for the 2004 Chinese New Year period in January was weaker than the previous year, but fortunately the avian flu outbreaks did not appear to impact the outbound market during this period. The weakness in demand was expected to continue through February and March.

Australia

Qantas Airways posted a net profit of AUD$357.8 million (CDN$369.7 million) for its first-half financial year ended December 31, 2003. This represents a 1.5% increase over last year's results. The airline stated that its cost-cutting program had succeeded in offsetting the revenue losses the airline sustained during the SARS outbreak, although the appreciating Australian dollar helped boost profits as well. Meanwhile, passenger revenues declined 4.8% during the period because of a 0.8% drop in revenue passenger kilometres (RPKs) and a yield decrease of 1.1%. However, the airline noted that revenues recovered well in the final three months of 2003 when demand recovered and the airline was able to raise its fares from the "low-yielding SARS recovery" prices Qantas had offered in the aftermath of the SARS outbreak. The airline warned that the operating conditions remain tough, and as a result, raised the target of its three-year cost-cutting plan from AUD$1 billion to AUD$1.5 billion.

In December 2003, Sydney Airport recorded the highest increase in international passenger traffic the airport has seen in thirteen months. During this month, international passenger numbers rose 7.8%, while overall passenger numbers posted a 9.2% growth over the previous year. Domestic and regional traffic was 10% higher than the same month of 2002.

The latest travel statistics show that overall outbound travel from Australia surged by 15% in December 2003 compared to 2002. Holiday departures increased by 27%, while business travel (up 0.3%) remained virtually the same as the previous year. Departures to North America increased by 15%. However, over the full year, Australian overseas travel dropped 2% in 2003, compared with 2002.

The Canadian Tourism Commission's (CTC) foreign office in Australia reported that Canadian travel products were selling well in the fourth quarter of 2003. Canada held the lead as the top long-haul ski destination among Australians, although price competition from U.S. ski destinations was strong. The Tourism Forecasting Council predicted that, after a weak performance in 2003, the Australian outbound market would grow by 6.3% in 2004, boosted in part by a strengthening Australian dollar. The CTC noted that tour operators were already reporting increased bookings for this year due to more favourable exchange rates. As of December 2003, the Australian dollar had improved in value by 26% compared with December 2002.

The CTC also reported that travel bookings are the fastest growing e-commerce market in Australia, according to a survey by Roy Morgan Research. The findings showed that 2.7 million consumers had made on-line purchases in 2003-up from 1.2 million in 2000. Of these on-line consumers, one-third purchased air travel or accommodation through the Internet.

New Zealand

Air New Zealand (ANZ) posted a net profit of NZ$105 million (CDN$96.7 million) for its first half ended December 31, 2003. This represents a 12% increase from the same period a year earlier. During the first half, RPK's remained on par with the previous year, while capacity rose 3.5%. However, the average load factor fell 2.6 points to 73.6%. While international traffic fell 2.1% during this period, international capacity grew 2.5%, mainly because of increased frequency in traffic to Los Angeles and Australia. The airline noted that it planned to increase its focus on enhancing its long-haul business, including adding direct flights to the U.S. and upgraded in-flight amenities.

Statistics New Zealand reported that overseas travel by New Zealanders jumped 20% in December 2003 over the previous year, although Asian destinations received the majority of this increase. Holiday travel during the month rose by 33%, and business travel climbed 7%, compared with the same month in 2002. Travel to North America registered an increase of 12%.

In its latest monthly market report, the Australian Tourist Commission (ATC) said that consumer confidence in New Zealand had reached its highest level since March 1996. It gained significant ground in the final quarter of 2003 as a consequence of the strong domestic economy and a "buoyant" housing market.

Economic Overview

North America

The roaring U.S. economy is driving the rest of the North American continent (Western Hemisphere) to turn in some of the strongest economic performance since the year 2000. However, the economic recovery in Canada and the U.S. is not expected to be accompanied by a booming job market. For example, during the third quarter of 2003, the U.S. economy grew at its fastest pace in 20 years, yet there were still job losses during that period. Jobs in Canada and the U.S.-especially manufacturing jobs-are being lost to countries offering lower cost production. The lack of new jobs will weigh on income gains in 2004. In addition, the strength of Canadian economic growth will lag behind U.S. gains as a stronger Canadian dollar weighs on the export sector. The Conference Board of Canada expects that the U.S. Federal Reserve will be in a position to raise interest rates faster than the Bank of Canada during 2004. As a result, the value of the Canadian dollar will abate and finish the year valued at 74 cents.

Europe

After two years of tepid (less than 1%) economic growth, Europe is poised to turn a growth of 2% in 2004. Similar to the situation in North America, Europe is losing manufacturing jobs to developing countries. The euro is putting increasing pressure on European firms to invest in capital (robotics, computers) in order to increase productivity. These investments are displacing workers. The strong unions in Europe are making the adjustment difficult on labour. Many expect work stoppages to occur over the next year as unions fight this economic restructuring. Consequently, income gains are expected to be modest across most of Europe this year before improving in 2005. On the other hand, the U.K should continue to out-perform the European continent this year and next, in both overall growth and income gains.

Asia-Pacific

The export-driven economies of Asia are getting a boost from the U.S. economic recovery as well as regional behemoth, China. The recent global recovery is being led by an upswing in the investment of machinery and equipment (computers, information technology and robotics) cycle. South-East Asian countries stand to benefit most by providing the U.S. and China with these goods. As a result, Asia can expect to witness some of the strongest personal income growth in years. The increasing economic power of China is remarkable. According to the Wall Street Journal, urban incomes have risen by an average of 9% per year during the past four years, boosting the spending power of a whopping 400 million urban residents. However, the importance of exports has led to a situation where economies throughout the region are keeping their currencies artificially low (undervalued) versus the U.S. dollar. There is a risk that there will be a significant exchange rate adjustment this year, leading to a stronger Chinese yuan and Japanese yen versus the U.S. dollar. This appreciation would be bad for exports but make it less costly for Asians to travel to the U.S. and Canada.

Opportunities

According to a recent study by the Canadian Corporate Travel Association and Topaz International, travel agents still retain a competitive advantage over Internet travel sites when it comes to corporate travel. The study found that on-line business travel bookings can cost a company up to 65% more than similar bookings made by travel agents, particularly for air travel involving more than one destination. Results showed that the average domestic ticket cost an average of 7% more when purchased through an Internet site, rather than through an agent. Purchasing a ticket to the U.S. through the Internet costs an average of 27% more, while an average international ticket was 18% more expensive. Furthermore, the CCTA pointed out that corporate travel agents provide essential services such as in-depth knowledge of travel options, and the ability to quickly search out discounts and deals, which the Internet cannot provide.

The Student and Youth Travel Association (SYTA) recently reported to The Canadian Travel Press that, despite the downturn in travel seen in 2003, the student and youth travel market grew between five and nine percent, proving itself to be a resilient and growing niche market. According to SYTA, this market (representing Canadians under 30) is worth about $10 billion in Canada, and accounts for 40% of the domestic travel market. In 2004, student and youth travel is predicted to grow 10 to 14%. SYTA also pointed out that this market has a direct impact on future travel trends; they believe that if youth enjoy travelling in Canada while they are young, they will continue travelling domestically as adults.

According to the Travel Industry Association of America's (TIA) recent Travelers' Use of the Internet report, it appears that email promotions have successfully swayed the travel decisions of a portion of travellers. In 2003, 11% of travellers indicated they were influenced to take a trip they would not otherwise have taken, based on a promotional offer they received by email. Overall, 37% of all online travellers said they had subscribed to travel web sites in the past, to receive emailed travel information. The TIA noted that this indicated a level of success on the part of hotels, airlines and online travel agencies in using email marketing to reach current and potential customers.

Summary

Despite residual concerns from SARS and other global events of 2003, there are clear signs that a travel recovery, driven by strong pent-up demand is beginning to materialize. Optimism within the tourism industry continues to grow as the global economy strengthens and consumer confidence builds. In particular, Canadian outbound travel has rebounded rather quickly from the challenges that devastated the industry through most of last year.

Unfortunately, many of Canada's international markets, particularly the U.S., are still harbouring concerns in respect to the SARS outbreak that assailed Canada in 2003. At present, it remains unclear how long it may take to repair the damage to Canada's brand image. To some extent, all of Canada's international markets remain concerned about health issues and global events, and as a result, a full rebound in travel volumes (to 2000 levels) remains a distant goal for most. Nevertheless, year-over-year growth is expected to be strong over the second and third quarters of this year, compared to the same period in 2003 when the consequences of both the War in Iraq and the SARS outbreak were most damaging. Fortunately, barring the emergence of yet another detrimental global event, the most recent travel trends support an increasingly optimistic outlook.

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