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Canada

CTC Tourism Intelligence Bulletin – Issue 25: November 2004

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

How Sound the Rebound?

Executive Summary

- In general, the rebound in travel demand continued to gain ground through the late summer and early fall. However, for many tourism businesses, profits have not kept pace with the growth in demand, because prices remain low. Furthermore, a disappointing drop in overnight U.S. travel into Canada towards the end of the summer knocked some wind out of the sails of the burgeoning travel recovery. Skyrocketing oil prices have also taking a toll on the tourism industry rebound, not only by raising the costs associated with travel but also by constraining the discretionary spending of potential travellers.
- But aside from these issues, there are still many reasons to be optimistic that a recovery has taken root. The Conference Board of Canada's latest Travel Intentions Survey shows that Canadian winter vacation intentions remain quite strong for both domestic travel and international sun destinations. Furthermore, consumer confidence and economic prospects for Canadians remain solid. Combined with greater geopolitical stability throughout the world, more travellers appear eager to travel abroad again.
- While strengthening travel demand is good news for the travel industry, most Canadian tourism suppliers will agree that further revenue growth is necessary for a comfortable operating environment. With a pricing environment that remains intensely competitive, the strength of the current tourism rebound has to be strong enough and long enough to revive the industry.

Emerging Trends and Issues: Travel demand is returning-when will profitability follow?

- While the generally positive travel demand trends are expected to continue, the pace of growth alone is not expected to be strong enough to guarantee a comfortable operating environment. In fact, with airfares still falling and hotel room rates only starting to recover, the increase in overall travel prices is expected to remain well below inflation. The Conference Board of Canada's latest travel forecast suggests that overall tourism expenditures in Canada are expected to increase by a rather modest 5.5 per cent this year. Moreover, the outlook for 2005 and 2006 forecasts growth of 5 and 4.9 per cent, respectively-a conservative pace, considering how much growth is needed for the overall industry to feel financially comfortable again.
- In the new travel environment, outdated business models combined with today's price-sensitive travellers have made the transition difficult for many travel suppliers. With a more favourable external environment and stronger business fundamentals, we can hope that the tourism industry will eventually regain much of the ground lost over the past few years. In the meantime, the profitability outlook over the short term will likely remain conservative.

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Consumer (Traveller) Overview

- Canadian domestic leisure travel intentions remain as strong as they appeared earlier this summer. The Conference Board of Canada's latest Winter Travel Intentions Survey shows that 20.2 per cent of Canadians polled intend to take a domestic winter vacation this year, on par with the June 2004 survey, and a modest rise from a year ago. Overall travel intentions appear to have increased dramatically when compared with last year, with 48.6 per cent of respondents citing plans to take a vacation this winter, up from 39 per cent a year ago. Of course, last year's survey reflected the impact of the severe acute respiratory syndrome (SARS) outbreak on Canadian traveller confidence.
- The overall picture for U.S. leisure travel may also be improving. The fall 2004 (September to November) forecast by the Travel Industry Association of America (TIA) indicated that overall U.S. leisure travel volumes are expected to rise 2.6 per cent over the same period in 2003, due to consumers' pent-up demand and a "wide array of travel bargains." This increase in demand was reflected in the TIA's third quarter Traveler Sentiment Index, which rose 1.6 percentage points over the previous quarter, to 99.0. When broken down by region, the largest increase in the overall index was registered in the Northeast (up 9%)- potentially good news for Canadian businesses wanting to attract cross-border traffic from that area.
- A recovery in business travel also appears on track, but spending growth is expected to remain sluggish, even heading into 2005, as companies continue to embrace cost-curbing travel policies. Specifically, corporations still require justification for travel and are increasingly substituting tele- or web-conferencing for trips where they can. Furthermore, with lingering concerns regarding the fate of the U.S. economy, many companies are reluctant to loosen their purse strings significantly.

Travel Supplier Overview

- Air Canada successfully emerged from bankruptcy protection under the Companies' Creditors Arrangement Act on Sept. 30, 2004, but the success of Air Canada's restructuring plan remains to be seen: according to a recent Reuters news report, Air Canada's unit costs are still 13.1 cents per available seat mile, compared to 7 cents for Westjet. Furthermore, record oil prices threaten Air Canada's profitability. That being said, preliminary financial statements indicate the airline achieved an operating profit of $235 million for the third quarter of 2004.
- In the United States, operating conditions for the airline industry continue to deteriorate, despite healthy growth in passenger volumes. Competitive pressures continue to build, and have now forced two more major carriers-US Airways and ATA Airlines- into bankruptcy protection. Other carriers, including Delta, may soon face a similar fate. All major airlines continue to struggle with cost reductions, but soaring oil prices continue to eclipse any gains.
- Meanwhile, Canada's hotel sector enjoyed solid growth in both occupancy levels and room rates at the beginning of the summer travel season, but the pace of growth seemed to lose steam by August. One major reason was the weakness in overnight U.S. visitation during that month, particularly within the rubber-tire market. While Fairmont recorded a sharp rise in earnings for the third quarter of 2004, it did note that its financial performance was hurt by the "weaker than expected" level of U.S. travel to Canada.

Economic Overview

- Economic growth in the North American economy is expected to improve significantly on last year's lacklustre performance. Consensus Forecasts expects real gross domestic product (GDP) for the North American economy to grow by 4.3 per cent in 2004. However, overall growth is expected to slow to 3.5 per cent in 2005, as the Canadian, U.S. and Mexican economies each post slower growth. The slower growth next year is partly due to the expected corrective action taken by central banks over the near term.
- Economic activity in Europe has picked up decidedly from last year. Recent consensus surveys now peg real economic growth for the region at 2.3 per cent in both 2004 and 2005. On the other hand, the Euro zone continues to be plagued by weak job growth and high unemployment. In fact, the unemployment rate is expected to average 9 per cent in 2004 before declining marginally to 8.8 per cent in 2005. For the U.K., growth in real GDP is forecast to reach 3.3 per cent this year, but will slow to 2.6 per cent in 2005 as higher interest rates lead to slower growth in consumer demand.

- Led by the surging Chinese economy and solid economic growth in Japan, real GDP in the Asia-Pacific region is expected to increase by 5.2 per cent this year. Strong export growth is the main factor behind the solid economic outlook, as most countries in this region depend heavily on the international sector for economic prosperity. A case in point is Japan, where strong growth in exports helped lift the economy out of years of stagnation. The economic outlook for 2005, however, is more modest. Real GDP in the Asia-Pacific region is expected to grow less than 4 per cent as weaker U.S. demand and high energy prices dampen output.

Opportunities

- The vast majority of marketing executives believe that events deliver the greatest return on investment of all marketing initiatives, according to a recent global survey by Meeting Professionals International. Survey findings showed that two-thirds of marketing executives polled cited events as delivering the best ROI, more than direct marketing (19%) or sales promotions (14%). The leading type of marketing event was trade shows, chosen by one-third of respondents, followed by conferences (24%) and seminars (20%).
- As Canada's on-line travel market continues to mature, it is important to pay attention to older Canadians (aged 55+), according to a recent study by Ipsos-Reid. Its Canadian Interactive Reid Report reveals that this group now represents the fastest growing and wealthiest contingent of on-line Canadians. Sixty percent of Canadians in this age group now have Internet access, up from 48 per cent a year ago, and two-thirds of this access is high speed. While older Canadians still lag behind other age groups in terms of purchasing products on-line, their average weekly Internet usage has also jumped significantly, to 9.6 hours per week from 6.8 hours a year ago.
- A recent study shows that recreational-vehicle enthusiasts represent another potentially lucrative travel group. According to a survey commissioned by the Recreational Vehicle Industry Association, conducted by Michigan State University, RVers and campers spent an estimated U.S.$3.8 billion in communities across the United States between May and August 2004. Each party spent an average of U.S.$65 per day in communities where they stayed, excluding campsite fees, although the university believes this is a conservative estimate. In the United States there are a record 7.2 million RVs currently on the road, involving 30 million RV enthusiasts (including renters). The number of RV-owning households is expected to grow 15 per cent between 2001 and 2010.

In Brief

In general, the rebound in travel demand continued to gain ground through the late summer and early fall. However, for many tourism businesses, profits have not kept pace with the growth in demand, because prices remain low. Most recently, a disappointing drop in overnight U.S. travel into Canada towards the end of the summer knocked some wind out of the sails of the burgeoning travel recovery.

Increasing uncertainty over the upcoming American election combined with a weaker-than-expected U.S. labour market and the high value of the Canadian dollar appear to be dampening U.S. travel to Canada even more than expected. Moreover, skyrocketing oil prices are taking a toll not only on the relative cost of travel but also on the discretionary spending of potential travellers.

Aside from the issues hampering the rebound in U.S. travel this year, there are still many reasons to be optimistic that a recovery is taking root. The Conference Board of Canada's latest Travel Intentions Survey continues to show that Canadian winter vacation intentions remain quite strong for both domestic travel and international sun destinations. Furthermore, consumer confidence and economic prospects for Canadians remain solid. Combined with greater geopolitical stability throughout the world, more travellers appear eager to travel abroad again.

Still, despite the generally positive travel trends, most Canadian tourism suppliers will agree that further revenue growth is still necessary to establish a comfortable operating environment. With prices that remain intensely competitive, even stronger demand growth is necessary to make a significant impression on tourism suppliers' bottom line.

Emerging Trends and Issues

Travel demand is returning-when will profitability follow?

While lowering prices can prove effective at stimulating demand, the current rock-bottom rates for many segments of the tourism industry are making it difficult for even budget or low-cost suppliers to generate profits. Most tourism businesses need prices to increase or demand to rise significantly to establish a comfortable financial operating environment. The strength of the current tourism rebound has to be strong enough and long enough to help revive the industry.

So just how strong is the current tourism rebound? According to PKF Consulting, the year-to-date average occupancy for Canadian hotels in August 2004 was 62.6 per cent-up 3.3 percentage points from the same month in 2003. While most of the increase in room demand has been focused in Ontario, many regions of the country appear to be benefiting from a recovery in demand for room nights.

The latest international travel data from Statistics Canada paints a similar picture. Although visits to Canada softened somewhat in August, remaining on par with the previous year, international travel to Canada increased prior to that for five consecutive months. By the end of August, year-to-date overnight trips to Canada had increased by 8.6 per cent over the same month in 2003.

However, Canada's hotel industry won't get back to the absolute dollar levels achieved in 2000 for another few years, according to Hotel Association of Canada president Tony Pollard. At the annual conference of the Canadian Business Travel Association, Pollard highlighted an additional plight facing the sector: increasing levels of supply growth. Pollard states, "Right now, there are capacity problems. New product is cutting into the occupancy rates of existing hotels and there are probably a lot of hotels trying to sell occupancy through rates."

While Pollard expects that average daily rates will return to 2002 levels fairly soon, the all-important revenue per available room (RevPAR) figure will continue to be lower. In fact, in absolute dollar terms, Pollard expects that RevPAR levels won't return to 2000 figures until 2008.

The need for efficiency

Recent data from Statistics Canada's Labour Force Survey confirms that the pursuit of internal efficiencies in the accommodation and food service sector triggered a decline of 17,000 hospitality industry jobs in August, bringing the year-to-date loss to 29,000 (-2.8%).

Another travel sector acutely aware of the need for efficiency is the airline industry. Despite an 11 per cent reduction in unit costs and a 15 per cent increase in passenger revenues, Air Canada still posted a second-quarter net loss of $510 million for the period ending June 30, 2004. While the bulk of this loss was attributed to restructuring charges, posting a net operating loss despite the tremendous growth in revenues highlights how brutally competitive the airline industry has become. Even the widely heralded champion of Canada's low-cost air travel, WestJet, reported weaker net earnings for its second quarter ending June 30, 2004, compared with last year. WestJet's weaker financial results came despite a 24.5 per cent growth in passenger demand.

While the airline industry is grateful for the solid rebound in passenger demand, further declines in average domestic and transborder airfares combined with record high oil prices have hampered the airline industry's bottom line.

Growth will continue, but at a conservative pace

While growth in domestic and international travel demand is expected to continue, the pace of growth alone will not guarantee that the industry will be able to operate in a comfortable financial environment. In fact, with airfares still falling and hotel room rates only starting to recover, the increase in overall travel prices is expected to remain well below inflation.

The Conference Board of Canada's latest domestic travel forecast suggests that overall tourism expenditures are expected to rebound by a modest 5.5 per cent this year. Moreover, the outlook for 2005 and 2006 forecasts growth of 5 and 4.9 per cent, respectively-a conservative pace, given how much growth is needed for the overall industry to be profitable again.

Overall profitability will take time

In today's world, sustainable long-term growth for practically any sector of the economy may be a flight of fantasy. In the new travel environment, outdated business models combined with today's price-sensitive travellers have made the transition difficult for many travel suppliers. With a more favourable external environment and stronger business fundamentals, we can hope that the tourism industry will eventually be able to regain much of the ground lost over the past few years.

But achieving profitability for the sector overall is expected to take some time. The Conference Board of Canada's previous Industrial Outlook (Winter 2003) suggested the travel industry's overall profitability would not return until 2005. While an updated Industrial Outlook for the tourism sector has yet to be finalized, the profitability outlook for the sector will likely remain conservative over the short term.

Consumer Overview - Canada and the United States

Business Travellers

A recovery in business travel appears to be on track, but even heading into 2005, spending growth is expected to remain sluggish as companies continue to embrace cost-curbing travel policies. Corporations still require justification for travel, and are increasingly substituting tele- or web-conferencing for trips where they can. Furthermore, with lingering concerns regarding the fate of the U.S. economy, many companies are reluctant to loosen their purse strings significantly.

Canadian business travel volumes are increasing while the cost of business air travel continues to fall, according to a recent survey by BTI Canada. In its semi-annual Benchmarking Study, BTI revealed that the number of air tickets issued to BTI's corporate clients climbed 13 per cent through the second half of 2003. During the same period, the average price of a domestic ticket dropped by $26 and average transborder fares fell by $48. On the other hand, domestic hotel rates rose 2.25 per cent over that same period.

The study also found that since the second half of 2003, the number of tickets BTI clients have bought through non-traditional distribution channels (e.g. airline websites) has risen 13 per cent, and now accounts for more than 40 per cent of all corporate air tickets sold. Paper tickets booked through the traditional Global Distribution System (GDS) have dropped 2.5 per cent, accounting for only 8 per cent of tickets booked, while the majority of tickets booked (52%) are electronic tickets processed through the GDS.

U.S. business travel volumes are expected to increase 3.4 per cent this fall (September to November 2004), compared to the same period in 2003, according to the fall travel forecast by the Travel Industry Association of America (TIA). This level would fall short of the travel volumes seen in the fall of 2002 (about 3.3% lower); however, the TIA believes that U.S. business travel "is firmly on the road to recovery."

A recent survey released by Smith Barney confirmed that U.S. business travel volumes are rebounding, although the vast majority of travel managers increasingly use low-cost carriers to curb travel costs. Of the corporate travel managers polled, 67.8 per cent expected their 2005 travel expenditures to exceed those of 2004, at an average rate of 5 per cent, and all respondents saw their travel spending outlook as either improving (59.4%) or unchanged (40.6%). Most respondents (80%) reported increasing their use of low-cost carriers, up from 62 per cent in the previous quarterly survey. Furthermore, 54.3 per cent revealed their companies were using more tele- and web-conferencing tools as an alternative to taking business trips.

A recent survey by the Business Travel Coalition (BTC) reinforces the notion that minimizing travel costs has become a permanent fixture of corporate travel. Of the U.S. travel managers polled, 94 per cent agreed that cost-consciousness is a permanent aspect of business travel, with more companies using low-cost carriers, non-refundable (and inflexible) air tickets and travel alternatives. BTC said its survey findings did not suggest that lower travel volumes would be permanent, but rather that recent changes in corporate policies to minimize travel costs would likely remain in place for the foreseeable future.

Leisure Travellers

Canadian domestic leisure travel intentions remain as strong as they appeared earlier this summer, according to The Conference Board of Canada's updated Winter Travel Intentions Survey. Of the Canadians polled during August 2004, 20.2 per cent intend to take a domestic winter vacation this year, on par with the June 2004 survey, and up from 19.4 per cent in the September 2003 survey. Overall travel intentions appear to have increased dramatically when compared with last year, with 48.6 per cent of respondents citing plans to take a vacation this winter. Of course, last year's survey reflected the impact of the severe acute respiratory syndrome (SARS) outbreak on Canadian traveller confidence.

Table 1. Winter (November-April) Vacation Intentions (% of Canadians surveyed)

	August 2004	September 2003	September 2002
Winter Vacation Intentions (All Destinations)	48.6	39.0	42.3
Canada	20.2	19.4	19.6
United States	10.4	8.2	9.0
Other International	16.7	10.7	13.0
Do Not Know/Refused	1.3	0.7	0.7

Source: The Conference Board of Canada.

The overall picture for leisure travel intentions in the United States may also be improving. On Aug. 30, 2004, the American Automobile Association (AAA) released a forecast suggesting that a record number of Americans would travel (50 miles or more) over the Labour Day weekend. Overall travel volumes were expected to increase 2.2 per cent over the same holiday in 2003, breaking the record for overall trips during a Labour Day weekend. Air travel was expected to climb 4.0 per cent compared with last year, while 2.0 per cent more Americans took to the road. Travel by other modes (train, bus, etc.) was expected to remain on par with the previous year. AAA attributed the increases to improved consumer confidence, plummeting airfares and decreasing travel security concerns.

However, when broken down by American region, travel volumes in the Great Lakes region were expected to dip slightly (0.4%) compared with 2003. This was the only American region to register a decline, which AAA believed was due to the milder weather in the area. Unfortunately, this slight decrease may have hurt cross-border travel volumes during an important vacation period.

Expectations for a solid fall travel season in the United States are also quite high, according to the TIA's Fall 2004 (September to November) forecast. Overall leisure travel volumes are expected to rise 2.6 per cent over the same period in 2003, due to consumers' pent-up demand and a "wide array of travel bargains."

This increase in demand was reflected in the TIA's third quarter Traveler Sentiment Index, which rose 1.6 percentage points over the previous quarter, to 99.0. The largest increases were seen in the indexes measuring ability to travel based on personal finances, and general interest in taking pleasure trips. When broken down by region, the largest increase in the overall index was registered in the Northeast (up 9%)-potentially good news for Canadian businesses wanting to attract cross-border traffic from that area.

The TIA also reported that its third quarter Travel Safety Index, which measures consumer perceptions of travel security, increased 2.4 per cent from the second quarter. Overall, the latest index measured 122.6 against the baseline that was started in the fourth quarter of 2001, just after the Sept. 11 attacks.

In fact, despite growing concerns about Al Qaeda terrorism, American demand for international travel is increasing, according to an annual survey by 1st Air. Survey findings showed that 64 per cent of American international travellers polled are taking more overseas business trips than they were a year ago, while 60 per cent are taking more overseas leisure trips. However, threats of Al Qaeda attacks have prompted 39 per cent of respondents to change or cancel travel plans, compared with 31 per cent in last year's survey. Not surprisingly, most respondents (85.2%) said they would fly internationally more frequently if fares were reduced by 20 to 30 per cent. Almost half of the respondents said they found international fares to be more expensive than they were a year ago.

Travel Supplier Overview - Canada and the United States

Airlines - Canada

Air Canada successfully emerged from bankruptcy protection under the Companies' Creditors Arrangement Act (CCAA) on Sept. 30, 2004. The airline, which now operates under a parent company, ACE Aviation Holdings, Inc., revealed details of its new business plan just prior to exiting CCAA protection. New strategies include an expansion of its international routes, especially to Latin America and Asia, and the use of smaller, more efficient jets on its domestic and transborder (U.S.) routes, while increasing flight frequencies to maintain its share of these markets. The carrier also intends to step up its service to smaller, regional domestic markets.

However, the success of Air Canada's restructuring plan remains to be seen: according to a recent Reuters news report, Air Canada's unit costs are still 13.1 cents per available seat mile, compared to 7 cents for Westjet. Furthermore, record-high oil prices are a substantial threat to Air Canada's profitability. A Canadian Press news report stated that if prices stay around U.S.$50 per barrel, the airline's annual fuel costs would increase by CDN$336 million. But the high level of competition in Canada's air travel industry would make it difficult for Air Canada to offset those extra costs through higher airfares. On a tentatively positive note, unaudited consolidated financial statements for ACE Aviation Holdings Inc. indicate the airline achieved an operating profit of $235 million for the third quarter of 2004.

In September 2004, Air Canada's overall revenue passenger miles (RPMs) rose 9.5 per cent over the same month in 2003. Domestic passenger traffic remained almost on par with September 2003 levels (up 0.5%), while growth on international Pacific routes continued to surge, jumping 73.8 per cent. Meanwhile, traffic on U.S. transborder routes increased 3.7 per cent, while Atlantic routes dropped 3.7 per cent. The airline continued to watch its capacity closely, expanding by only 1.5 per cent over the previous year. This resulted in the airline's sixth consecutive month of record load factors in year-over-year comparisons (up 5.8 percentage points to 79.2%). Air Canada noted that its strong domestic performance was boosted by "strong traffic flows across Canada from international services, particularly Japan."

Table 2. Airline Revenue Passenger Miles (RPMs) and Capacity - September 2004

Airline	RPM (in millions) September 2004	RPM change 2004 vs. 2003	Capacity 2004 vs. 2003
Air Canada (includes Zip and Jetz)	3,689	+9.5%	+1.5%
Air Canada Regional (Jazz)	137	+7.9%	-10.8%
WestJet	558.6	+32.0%	+26.4%
Jetsgo	178.3	+50.9%	+43.4%

Meanwhile, Transat A.T. Inc. reported a net profit of $12.8 million for its third quarter ended July 31, 2004, compared with a net loss of $10.1 million for the same quarter in 2003. The company stated that its passenger volumes had returned to pre-SARS levels, with Canadian bookings rising 22 per cent over the corresponding quarter of 2003, although prices had not recovered as quickly. The company noted that overall bookings for the fourth quarter were looking positive, with booking levels already 13 per cent ahead of the same period a year ago. However, the pricing environment is expected to remain challenging, with persistently short booking windows ranging from one to six weeks prior to departure.

Airlines - U.S.

Despite healthy growth in passenger volumes, operating conditions for the U.S. airline industry continue to deteriorate. Competitive pressures continue to build, and have now forced two more major airlines-US Airways and ATA Airlines-into bankruptcy protection. Other carriers, including Delta, may soon face a similar fate. All major carriers are struggling to achieve further cost reductions, but soaring oil prices continue to eclipse any gains. A number of airlines have implemented a small fare hike (U.S.$5-$10) to offset rising fuel costs, but intense domestic competition may mean these increases will not last for long.

Overall passenger traffic in the U.S. increased 9.5 per cent in September, according to the Air Transport Association. Domestic passenger traffic rose 9.0 per cent, while international traffic increased by 10.8 per cent. International capacity expanded 8.0 per cent, while airlines increased their domestic capacity by a much more modest 2.9 per cent. A number of major airlines have scaled back on their domestic capacity while heightening their focus on international services in order to further capitalize on those more lucrative routes.

Third quarter results were weaker than anticipated for a period that is typically the airline industry's strongest season. Unfortunately, most major carriers were not able to achieve the necessary financial cushion to get them through the slower fall months. Intense domestic competition and soaring oil prices remain the main culprits, while Delta and American Airlines cited the brutal hurricane season as another detrimental factor. Southwest and Alaska managed to increase their net earnings, but both carriers have strong fuel hedging programs that keep their fuel costs substantially lower than current market rates.

Fuel costs have completely overshadowed the financial achievements of recent cost-cutting efforts-unit costs for major airlines are at a seven-year low, excluding fuel costs, said a recent report by J.P. Morgan Securities. The report surmised that if oil prices in the third quarter of 2004 were the same as in the third quarter of 2003, then the industry's overall profits for the third quarter of 2004 could have totalled about $200 million, instead of plunging far into the red.

Table 3. Net Income - Q3 2004

Airline	Net Income Q3 2004 (in U.S.$)	Net Income Q3 2003 (in U.S.$)
Alaska Air Group	+$79.2 million	+$40.7 million
AMR Corporation (American)	-$214 million	+$1 million
Continental Airlines	-$16 million	+$133 million
Delta Air Lines	-$646 million	+$164 million
Northwest Airlines	-$46 million	+$42 million
Southwest Airlines	+$119 million	+$106 million

Table 4. Airline Revenue Passenger Miles (RPMs) and Capacity - September 2004

Airline	RPM Sept. 2004 vs. Sept. 2003	Capacity Sept. 2004 vs. Sept. 2003
Alaska Airlines	+14.9%	+6.7%
American Airlines	+9.4%	-0.5%
America West Airlines	+13.5%	+7.8%
AirTran Airways	+4.5%	+10.7%
ATA Airlines	+4.0%	-8.5%
Continental Airlines	+11.0%	+6.8%
Delta Air Lines	+8.6%	+4.6%
JetBlue Airways	+25.0%	+30.9%
Northwest Airlines	+3.4%	+1.1%
Southwest Airlines	+10.5%	+5.7%
United Airlines	+11.1%	+7.3%
US Airways	+6.7%	+0.7%

US Airways entered bankruptcy protection under Chapter 11 in September for the second time in two years, and many analysts speculate that the airline will not be able to avert liquidation this time around. The carrier said its central problem was plunging domestic passenger revenues, which were U.S.$200 million lower than expected. The airline plans a major overhaul of its flight schedule, substantially boosting its eastern U.S. and international services by increasing its overall capacity by 7 per cent. It also enforced an 18 per cent pay cut for pilots, and a steeper one (21%) for the rest of its employees. US Airways stated that it intends to change its core business model to "combine the best business practices of both legacy and low-cost carriers."

United Airlines, still operating under bankruptcy protection, has opted for a different approach: it announced plans to substantially pare down its domestic capacity, although it also intends to bump up its international services. By March 2005, the airline will prune back its domestic capacity by 12 per cent and expand its international capacity by 14 per cent, resulting in a net decline in the airline's overall capacity. Under this plan, United's international service will account for 40 per cent of its overall capacity (up from 36 per cent in September 2004) and 50 per cent of its mainline revenues. According to Travel Weekly, Delta, Continental and American Airlines have all made similar moves within the last year, increasing their international capacity by 14, 15 and 9 per cent, respectively.

Meanwhile, Delta Airlines released details of a massive "transformation plan" to shave U.S.$5 billion in annual costs by 2006 in a last-ditch attempt to avoid filing for bankruptcy protection. The airline plans to eliminate 6,000-7,000 jobs and de-hub its Dallas/Fort Worth operation by redeploying aircraft to other routes. Delta said it is on track to achieve half of its cost cuts by the end of 2004, but warned that if it could not turn around its "rapidly deteriorating" financial situation in the near term, it would have to "restructure through the courts." J. P. Morgan Securities subsequently released a report citing a 70 per cent probability that Delta would be forced to enter Chapter 11, despite the airline's cost-cutting efforts.

Northwest Airlines has attempted to reduce its distribution costs by implementing a U.S.$5 fee on tickets purchased through its call centre and a U.S.$10 fee for tickets bought at its airport ticket counters. The airline hopes to divert more customers and travel agents to its website for booking tickets. Northwest described this move as aligning its distribution costs with those of low-cost carriers, saving the airline U.S.$70 million per year. American, United and Continental Airlines have since followed suit.

Hotels - Canada

While the beginning of the summer travel season appeared to offer signs of strong growth in occupancy and revenues for Canada's hotel sector, the pace of growth seemed to lose steam by August. One major reason was the weakness in overnight U.S. visitation during that month, particularly the rubber-tire market. Despite this setback, an overall increase in demand allowed daily rates to continue inching upwards to provide some gains in revenue.

In August, overall RevPAR (revenue per available room) climbed to $93.33, up 6.2 per cent from August 2003, according to the latest National Market Report by PKF Consulting. In line with recent trends, most of these gains were concentrated in Ontario and Quebec, particularly in Southern Ontario, Toronto and Montreal. Nationwide, occupancy levels increased 1.3 percentage points to 73.7 per cent, while the average daily rate edged up 4.4 per cent to $126.71.

PKF recently released the highlights of its Trends in the Hotel Industry Annual Operations Report, which revealed that in 2003, Canada's accommodation industry suffered a 22 per cent drop in bottom-line profitability compared with the previous year. In 2002, the Canadian hotel industry's profits were 1 per cent higher than 2001. Fortunately, in 2004, PKF expects the industry's profitability to bounce back by 24 per cent, reflecting a substantial (although not total) recovery from the setback in 2003. This upward trend is expected to continue for the medium to long term, with a further 6.5 per cent growth in profitability forecast for 2005 and further improvements anticipated for "2006 and beyond."

In fact, Canadian corporate hotel rates are expected to rise up to 3 per cent next year, according to the latest American Express Global Business Travel Forecast. The forecast suggests a "continued steady revival" of business travel. American Express indicates that the forecast applies to hotel rooms in both the mid-range and upper-range price level.

Hotels - U.S.

Despite a slowdown in growth during August, leisure and transient business demand continued to strengthen through the third quarter, boosting U.S. hotel industry profits. In fact, revenue increases were driven primarily by higher room rates, rather that demand growth, which resulted in significant bottom-line improvements. Marriott International, the largest lodging company in the United States noted that during this period, growth in its room rates exceeded growth in occupancy for the first time since early 2001. Growth in demand and profit margins are expected to remain solid through the remainder of this year.

The average nationwide RevPAR during the third quarter of 2004 rose 6.4 per cent to US$57.96, compared with the previous year, according to Smith Travel Research (STR). Occupancy levels grew 2.6 per cent to 67.1 per cent, while average daily room rates climbed 3.6 per cent to U.S.$86.32. STR described the quarter as strong, particularly in September, when occupancy rose 7.1 per cent and helped prop up average RevPAR levels by 11.1 per cent. STR noted that October figures were looking very positive as well. If current trends hold, the U.S. industry could achieve significant RevPAR growth (over 6%) for the full year of 2004.

Preliminary third quarter financial reports were very positive, with the three largest U.S. hotel chains (Marriott, Starwood and Hilton) achieving significant year-over-year increases in net profits for the period. All three reported strengthening demand in all markets, particularly in the lucrative business travel segment, and room rates continued to rise-Starwood raised rates by an average of 8.5 per cent in its North American hotels. All reports were very optimistic regarding the outlook for the fourth quarter, with current trends expected to continue through the remaining months of this year.

Table 5. Hotel RevPAR and Net Income

Hotel	Revenue per available room (RevPAR), Q3 2004 vs. Q3 2003	Net Income Q3 2004 (in U.S.$)	Net Income Q3 2003 (in U.S.$)
Hilton Hotels Corp.	+ 7.3%	+$61 million	+$34 million
Host Marriott	+ 7.9%	-$47 million	-$88 million
Marriott International Inc.	+ 8.3% (North America)	+$133 million	+$92 million
Starwood Hotels & Resorts	+12.1% (North America)	+$107 million	+$48 million

An acceleration in business travel and "higher-rate lodging demand" prompted PricewaterhouseCoopers (PWC) to revise its 2004 forecast upwards, suggesting that nationwide RevPAR levels will grow 6.3 per cent this year compared with 2003. This would be the largest year-over-year RevPAR increase in 20 years. Higher inflation forecasts and more effective price control measures by lodging companies were other factors attributed to the forecast revision. PWC also anticipates a 3.7 per cent rise in daily rates for 2004, which will account for 60 per cent of the expected RevPAR gains.

Improving prospects for the U.S. lodging industry have prompted a new cycle of hotel development, according to Lodging Econometrics. More than 280 new projects (mostly in the mid-priced range) were announced in the second quarter of 2004-the highest number of new guest rooms to be built in over two years. However, these projects will not affect supply until 2006 and beyond. In the meantime, Lodging Econometrics has projected that supply will grow by a modest 1.2 per cent in 2004 and 1.3 per cent in 2005. This will allow existing hotels to benefit from the solid growth in demand expected over the next two years.

Travel Agents

Average airfares declined in all segments in September 2004, as reported by the International Air Transport Association's (IATA) Billing and Settlement Plan, the system of tracking airline tickets sold through Canadian travel agencies. Average domestic airfares in Canada dropped 8 per cent compared with a year earlier, while airfares from Canada to the United States fell 12 per cent. Airfares to other international (non-U.S.) destinations decreased 5 per cent compared with September 2003.

Total airline sales by U.S. travel agencies fell 2 per cent in September, compared with a year earlier, according to the Airlines Reporting Corporation (ARC). This was due to a 4 per cent decrease in average fares sold: domestic fares dropped by 10 per cent, while international fares increased by 7 per cent. ARC also reported that international tickets accounted for 41.5 per cent of sales, up from 37 per cent in September 2003. E-ticketing accounted for 87 per cent of air tickets sold, up from 83.7 per cent a year earlier.

Travel agents expect bookings to increase this fall, according to the Late Summer/Fall Travel Trends Survey released in September by Carlson Wagonlit Travel (CWT). Of the 313 CWT travel associates polled, 72 per cent said their bookings were higher than last year, while 20 per cent said they were about the same. Only 8 per cent have found bookings to be lower. When asked for reasons for the increase, 45 per cent cited pent-up demand, while 31 per cent insisted their clients had never stopped travelling. Renewed confidence in the economy was mentioned by 25 per cent.

In 2005, higher business travel demand is expected to boost airfares and hotel rates in North America, according to the latest American Express Global Business Travel Forecast. International airfares (business class) are forecast to jump 2-5 per cent in both Canada and the United States. However, intense competition will likely dampen growth in domestic fares: U.S. economy class airfares are expected to climb 1-3 per cent, while Canadian economy class airfares stay flat or fall as much as 2 per cent. Hotel rates are expected to rise up to 3 per cent. The forecast predicts that rental car rates will go up as well (by up to 2%), although growth will be restrained by on-line competition.

AAA reported that gasoline prices in the United States registered a national average of U.S.$1.97 per gallon on Oct. 12, 2004. This was US$0.13 higher than a month earlier, and a substantial jump from the price a year earlier (U.S.$1.56). That same day, crude oil prices topped U.S.$54 per barrel.

International Overview - Overseas

United Kingdom and Ireland

British Airways (BA) saw a 3.6 per cent rise in overall revenue passenger kilometres (RPKs) during September, although first and business class traffic fell 0.2 per cent compared with a year earlier. The overall increase was driven by a 4.2 per cent jump in economy-class travel-a considerably less lucrative segment for the airline. Routes to the Americas witnessed a modest increase in passenger traffic, rising 1.6 per cent over the same month in 2003.

The carrier kept capacity increases to a minimum in September, bumping up capacity by only 0.6 per cent. It also plans to pare down its winter flight schedule by 2 per cent on high-frequency routes, including those to New York and Los Angeles, "to protect the operational performance of the airline." The decision appears to be a proactive move by the airline to give it some breathing room to reinforce its staffing and technical resources. In August, BA was forced to cancel more than 80 flights because of technical problems and staffing shortages. The airline, which has trimmed its workforce by 13,000 over the past three years, admitted it needed to hire more staff in some areas.

BA also reported that market conditions remain the same, with premium traffic on long-haul routes recovering at a quicker pace than premium traffic on short-haul routes. Non-premium (economy class) traffic remained very price-sensitive, due to intense competition from low-cost carriers. Moreover, surging oil prices prompted the carrier to increase its fuel surcharge to help offset additional fuel costs. The airline anticipates the higher oil prices will boost its fuel costs by GBP£225 million (CDN$506.5 million) this fiscal year.

BAA, the international airports group, reported that passenger traffic in its seven U.K. airports rose 5.4 per cent to 13.1 million in September 2004. Traffic on North Atlantic routes increased 7.9 per cent, despite hurricane disruptions in the Caribbean and eastern United States.

Table 6. Percentage change in passengers carried

Carrier	Sept. 2004 vs. Sept. 2003
British Airways	+1.3%
EasyJet	+25%
Ryanair	+17%

U.K. agents and operators reported that travel demand increased through the summer, ending on a "buoyant" note, according to Travel Mole. Describing the competitive environment as difficult, with heavy discounting and too much capacity, the season nonetheless ended strongly, with bookings picking up pace in September and October. However, changing trends have prompted tour operator TUI UK to review its business fundamentals and cut back its workforce by 8 per cent. The company plans to increase its offerings in flexible flight and hotel options, low-cost air-only tickets, and dynamic packaging products. A spokesperson for the company stated, "we have to take into account the fact that people book on the Internet or take independent holidays. The whole shape of the package holiday is changing."

In fact, according to a Mintel poll, Internet travel bookings have overtaken those made through travel agents in the U.K. The survey findings showed that 33 per cent of respondents had booked travel through the Internet in the past 12 months, while 32 per cent had booked through a travel agent. Others had booked directly through a tour operator, or by other means. Mintel attributed the increase in on-line bookings to the popularity of discount airlines.

Moreover, a survey by the Jamaica Tourist Board confirmed that the option of arranging an independent holiday, rather than a package vacation, is on the rise in the U.K. Of the long-haul travellers polled in September 2004, 41 per cent booked their travel and accommodation separately, up from 38 per cent in the March 2004 survey. Conversely, those preferring a package or all-inclusive vacation dropped to 56 per cent from 60 per cent over the same period. Not surprisingly, the survey findings suggested that Londoners were the most enthusiastic about "do-it-yourself" holidays, with 64 per cent preferring this option.

Meanwhile, looking ahead, independent U.K. travel agency Travel Counsellors announced its average booking prices have risen 58 per cent for Christmas holiday trips, compared with the same period last year. The average price for a two week trip over the last half of December 2004 has jumped to GBP£3,251 (CDN$7,318), up from GBP£2,057 (CDN$4,630) a year ago. However, in volume, Christmas holiday bookings are 2 per cent behind what they at the same point last year. The agency attributed the increase in average booking price to a shift towards more long-haul destinations for Christmas vacations this year. It also believes that increasing demand is allowing airlines, tour operators and other travel suppliers to raise their rates. Year-to-date, (January to October 2004), average booking prices have risen 11 per cent to GBP£1,324 (CDN$2,980) compared with the same period in 2003.

U.K. business travel is growing steadily, continuing the upward trend that began in early 2004, suggest the results of the latest Quarterly Transaction Survey from the Guild of Business Travel Agents (GBTA). The survey findings indicated that second quarter transactions increased by 10 per cent, overall, compared with the same period in 2003. Air transactions were up 13 per cent, while transactions in the "other" category, including passport and visa services and travel insurance, jumped 35 per cent. Hotel bookings were the same as the previous year, but the GBTA noted that hotel bills are often paid directly by the client, and may not always show up as a travel agency transaction.

France

Air France-KLM (the newly-merged airline comprised of Air France and KLM Royal Dutch Airlines), reported that its overall passenger traffic climbed 6.9 per cent in September compared with the same month in 2003. Capacity grew 4.9 per cent, resulting in a load factor gain of 1.5 percentage points to 79.5 per cent. The airline noted strong demand on its transatlantic routes (up 7.5%), particularly on its North American network. In October the airline increased its fuel surcharge on all long-haul flights by 11 euros (CDN$17.20) to offset skyrocketing oil prices, but said it would withdraw the increase "as soon as the price of the barrel goes below 40 dollars for 30 consecutive days."

Looking ahead, the airline plans to expand its winter flight schedule by 3 per cent, although Asian routes will receive the bulk of these increases. It also announced new discounts for its l'Espace Affaires-Business class fares, of between 10 to 35 per cent on a number of medium- and long-haul routes.

Thomas Cook, one of Europe's largest travel agencies, is cutting 10 per cent of its workforce at its French division due to financial losses this year. The company stated that "incorrect capacity planning for hotels and flights" had led to unexpected financial difficulties.

The Australian Tourist Commission recently released a business tourism market report for France, which suggested that French corporate decision-makers look for quality or luxury, and "once in a lifetime experiences" when planning their incentive travel programs. The report went on to say that program planners are interested in soft adventure options, if participants can return to luxury accommodations afterwards, and that sunshine is a prerequisite.

Germany

Lufthansa German Airlines reported that its passenger traffic rose 14.1 per cent in September compared with the same month in 2003, buoyed by strong demand on routes to the Americas and Asia-Pacific. During the month, capacity increased 13.8 per cent, which resulted in a 0.3 percentage point rise in load factor to 77.6 per cent. The carrier raised its fuel surcharge on Oct. 15, 2004 to 17 euros on long-haul flights, and 7 euros on short- and medium-haul flights to offset escalating fuel costs.

German airport operator Fraport reported that passenger numbers for Frankfurt Airport edged up by 3.1 per cent in September 2004, year-over-year, to 4.8 million. The airport had its busiest third quarter ever this year, in terms of passenger traffic, air freight tonnage and aircraft take-offs and landings. Fraport credited the strong growth in passenger numbers to a continued rise in business and leisure travel demand in the intercontinental sector.

There has been a clear upturn in the German holiday market this year, according to industry feedback received at FVW Kongress Zukunft, a recent German tourism conference held by travel magazine FVW. Thomas Cook reported that its client numbers were up about 4 per cent this year, with winter sales ahead by 7 per cent. Tour operator Rewe reported that its business would grow 3 to 4 per cent this year, with much stronger growth in its "modular holiday sales." Rewe also noted that flight capacity was kept down this past summer, which meant less discounting was necessary.

FVW also reported that total travel agency sales rose 11.4 per cent over the first nine months of 2004, compared with the same period in 2003, according to a recent TATS survey of 2,050 German travel agencies. Tourism sales increased 8.2 per cent, while airline sales jumped 15.2 per cent. At the end of October, overall bookings, including advance winter holiday bookings, were 7.6 per cent ahead of last year's figures.

The German travel industry is trying to reverse the climbing trend of last-minute bookings by offering early-booking incentives, according to the Third Quarter Market Report by the Canadian Tourism Commission's (CTC) German foreign office. Last-minute packages are increasingly more expensive than those booked in advance, especially for the upcoming winter season. The report also noted that the United States is shaping up to be a more popular winter ski destination than Canada because of lower package prices.

Japan

Japan's two main carriers, Japan Airlines (JAL) and All Nippon Airways (ANA), suffered losses totalling more than 5 billion yen (CDN$57 million) due to flight cancellations stemming from a record typhoon season in Japan this year. Eight typhoons hit the country between mid-June and the end of September, forcing each airline to cancel about 1,500 flights, which affected hundreds of thousands of passengers.

Pent-up demand for Japanese outbound travel is very strong this year, according to the Las Vegas Convention and Visitors Authority (LVCVA) in Japan, as reported in an article in the Las Vegas Review-Journal. The LVCVA stated that after refraining from travelling in 2003, Japanese people are taking trips abroad again because "they are tired of staying home." The TIA recently forecast that Japanese trips to the United States will climb 7.2 per cent in 2004 over the previous year, boosted by an improving economy, renewed consumer confidence and a favourable exchange rate.

Japanese consumer confidence reached an all-time high in September, according to the Bank of Japan's quarterly survey. The September index increased 4.5 points over the previous survey in June, representing the fourth consecutive quarterly improvement. The index gauging sentiment over the next 12 months increased the most, while sentiment regarding current conditions climbed marginally.

Booking windows for overseas trips are getting shorter, with Japanese travellers booking their trips much closer to their departure date, according to Tourism Australia's latest market report for Japan. In the final few months of 2004, FIT (fully independent travel) and individual packages are expected to grow steadily, while the pace of group travel lags somewhat behind.

Tourism Australia's business tourism market report for Japan indicated that incentive travel is on the rise among Japanese companies, due to a higher focus on individual performance. When planning incentive travel, Japanese corporate decision-makers tend to look for accessible destinations (in terms of flight schedules, visas, etc.), deluxe or luxury standards, good quality facilities and the availability of familiar (i.e. Japanese) food.

Korea

Korean outbound travel continues to grow steadily, according to the latest figures by the Korea National Tourism Organization (KNTO). In August, Korean outbound departures rose 17.3 per cent compared with a year earlier, and in September they rose 15.4 per cent. These increases build on growth achieved in the same months last year (2.5% and 12.2% for August and September of 2003).

The CTC reported in its latest quarterly Korean market report that Canada ranked seventh among Koreans as an overseas destination, according to a survey by Korea Travel News. Japan ranked first, with 29 per cent of the vote, followed by China and the Maldives. Canada was cited as the preferred overseas destination among 4.2 per cent of respondents.

The CTC market report also noted that obtaining a U.S. visa is becoming increasingly difficult for Koreans, due to a new Internet system. This is deterring Korean travellers from choosing U.S. destinations. As of the end of August, year-to-date Korean visits to the U.S. had dropped 16.4 per cent.

China

China Eastern Airlines reported its passenger traffic climbed 20 per cent in September compared with the same month of 2003. Meanwhile, China Southern Airlines said its passenger traffic grew 9.6 per cent in September, with international traffic surging 37.4 per cent compared with a year earlier. China's airline industry has seen passenger demand rebound strongly since it dropped during the SARS outbreak in 2003, but sky-high oil prices are clouding the industry's profitability outlook. Chinese carriers have been less vulnerable to rising oil prices because China's state-controlled oil markets keep prices lower than the international market. However, the recent steep increases are now beginning to affect Chinese airline fuel costs.

The Chinese airline industry will soon have its first private airline, Okay Airways, according to BBC News. The new carrier, also known as Aokai, will launch domestic charter and air cargo services by the end of this year with a fleet of Boeing 747 aircraft. BBC News also reported that two other carriers, United Eagle Airlines and Air Spring have also applied for licenses "to meet the burgeoning demand for air travel within China."

China Southern Airlines took a significant step further into the international marketplace by signing an agreement to join the SkyTeam airline alliance, pending fulfillment of SkyTeam's quality standard requirements. This will mark the first time a Chinese carrier will join a global air alliance, strengthening the country's connection to the global airline network, and opening itself to further growth in international passenger traffic. Once the carrier joins the alliance, the new Baiyun International Airport will become SkyTeam's first Chinese hub.

The newly affluent Chinese middle class now accounts for almost 10 per cent of the population of China, or about 100 million people, according to a recent series in the Toronto Star. This segment of the Chinese population is experiencing wealth for the first time, and driving skyrocketing growth in leisure travel spending. The rising middle class is also contributing to an outpouring of overseas trips, which are expected to number 32 million trips this year.

The Toronto Star quoted a tourism instructor from Shanghai's Fudang University, who said that travel is part of traditional Chinese culture. Chinese tourists favour busy travel schedules, covering a lot of ground on their tours in order to feel they have received value for their money. Furthermore, travel to North America is hugely desirable to many Chinese travellers. The instructor stated that once Canada and the United States are granted "approved destination status" for Chinese tour groups, travel to North America will become a priority for them.

Australia

Qantas Airways, Australia's flag carrier, increased its fuel surcharge to A$29 (CDN$26) on international flights and to A$12 (CDN$10) on domestic routes. Although the airline has a very strong fuel hedging program, it still faces additional fuel costs of nearly A$200 million (CDN$182 million) for this fiscal year if current oil prices are sustained.

Air Canada announced plans to launch the first non-stop flight between Australia and Canada, starting Dec. 16, 2004. The flight will operate between Sydney and Vancouver, allowing Australian travellers to bypass the United States, thus eliminating the inconvenience of U.S. customs clearance and transit visas. The new service will increase seat capacity between Australia and Canada by 33 per cent.

Australian outbound travel has maintained a strong pace of growth, according to the Australian Bureau of Statistics. In August 2004, the number of overall outbound trips increased 18 per cent over August 2003, with outbound leisure trips up 31 per cent. Departures for business trips were up 7 per cent compared with the previous year.

A number of Australian tour operators have reported strong demand for Canadian packages, according to the latest quarterly report by the CTC's foreign office in Australia. Trafalgar tours released its Canada and U.S. brochures a month early due to "huge demand," and as of September, sales for Canadian tours were three times higher than they were at the same point last year. Contiki has revamped its 2005 U.S.-Canada brochure, adding two new Canadian tours, in anticipation of doubling its business over last year's figures. Australian ski operators have launched their tour products to Canada for this winter, and all report strong sales.

The CTC also reported that Australian consumer confidence remains high, despite a small decline in the latest Roy Morgan Confidence Rating. While the index fell 1.3 points from July to August, the reading was still the highest August result since the survey was started in 1986.

Economic Overview

North America

Economic growth in the North American economy is expected to improve significantly on last year's lackluster performance. Consensus Forecasts expects real gross domestic product (GDP) for the North American economy to grow by 4.3 per cent in 2004. However, overall growth is expected to slow to 3.5 per cent in 2005, as the Canadian, U.S. and Mexican economies each post slower growth. The slower growth next year is partly due to the corrective action taken by central banks over the near term.

The current strength in the economy along with rock-bottom interest rates, high commodity prices and soaring oil prices has rekindled inflation fears among economic observers. Therefore, in an effort to alleviate any inflationary pressures, U.S. and Canadian central banks are likely to raise interest rates significantly over the next two years, inevitably taking some steam out of the economy.

According to The Conference Board of Canada, the Canadian economy will expand by 3 per cent in 2004 and a further 3.2 per cent in 2005. Strong import demand from the United States spurred the Canadian economy despite the high value of its dollar this year. However, as demand from the U.S. softens, the loonie's strength is expected to dampen growth in exports. The Conference Board of Canada does not expect the value of the Canadian dollar vis-à-vis the U.S. dollar to fall significantly before the end of the year, as both countries are poised to continue to raise interest rates through 2005.

In the United States, stimulative fiscal and monetary policy will help real consumer spending grow by 3.6 per cent in 2004. Along with strong growth in investment spending, this will be enough to propel growth in real GDP to 4.2 per cent this year. Strengthening U.S. labour markets as well as steady wage gains resulting from strong productivity increases are expected to shore up income growth and keep consumers in a spending mood. Thus, barring ongoing record-high energy prices, real GDP and consumer spending are expected to grow by 3.2 per cent in 2005. However, oil prices remain the wild card in this outlook if they do not ease gradually throughout the remainder of the year.

The close trade links between Mexico and the United States have helped Mexico's economy in 2004. The solid U.S. expansion lifted Mexico's manufacturing sector out of the doldrums and spurred growth throughout the Mexican economy. Plus, with the manufacturing sector finally out of recession and domestic demand on the mend, income growth has picked up and fuelled strong gains in household consumption. Real private consumption is expected to grow by 4 per cent in 2004 and 4.1 per cent in 2005.

Europe

Economic activity in Europe has picked up decidedly from last year. Consensus surveys peg growth in real GDP at 2.3 per cent in both 2004 and 2005. However, the Euro zone continues to be plagued by weak job growth and high unemployment. The unemployment rate is expected to average 9 per cent in 2004 before declining marginally to 8.8 per cent in 2005. Faced with low labour costs by new entrants into the European Union, labour unions are starting to make wage concessions to employers. As this process unfolds, and as manufacturers become leaner and more efficient, output and capital spending are expected to rise, thereby exerting downward pressure on unemployment rates.

For the U.K., growth in real GDP is forecast to reach 3.3 per cent this year, but will slow to by 2.6 per cent in 2005 as higher interest rates lead to slower growth in consumer demand.

Asia-Pacific

Led by the surging Chinese economy and solid economic growth in Japan, real GDP in the Asia-Pacific region is expected to increase by 5.2 per cent this year. Strong export growth is the main factor behind the solid economic outlook, as most countries in this region depend heavily on the international sector for economic prosperity. A case in point is Japan, where strong growth in exports helped lift the economy out of years of stagnation.

Unfortunately, the outlook for 2005 is not as optimistic. Real GDP in the Asia-Pacific region is expected to grow less than 4 per cent, as weaker U.S. demand and high energy prices dampen output. In fact, since the region uses more than twice the amount of oil it produces, economic growth in the entire Asia-Pacific region could drop by as much as 1 per cent if energy prices remain at current levels for a year or more. Moreover, while high inflation in China is expected to lower economic growth there, deflation concerns continue to persist in Japan. This could cause consumer spending to retrench once again and thus provide little offset to the slowdown in exports.

Opportunities

The vast majority of marketing executives believe that events deliver the greatest return on investment of all marketing initiatives, according to a recent global survey by Meeting Professionals International. Survey findings showed that two-thirds of marketing executives polled pointed to events as delivering the best ROI, more than direct marketing (19%) or sales promotions (14%). The leading type of marketing event was trade shows, chosen by one-third of respondents, followed by conferences (24%) and seminars (20%).

As Canada's on-line travel market continues to mature, it is important to pay attention to older Canadians (aged 55+), according to a recent study by Ipsos-Reid. Its Canadian Interactive Reid Report reveals that this group now represents the fastest growing and wealthiest contingent of on-line Canadians. Sixty percent of Canadians in this age group now have Internet access, up from 48 per cent a year ago, and two-thirds of this access is high-speed service. While older Canadians still lag behind other age groups in terms of purchasing products on-line, their average weekly Internet usage has also jumped significantly, to 9.6 hours per week from 6.8 hours a year ago.

A recent study shows that recreational-vehicle enthusiasts represent another potentially lucrative travel group. According to a survey commissioned by the Recreational Vehicle Industry Association, conducted by Michigan State University, RVers and campers spent an estimated U.S.$3.8 billion in communities across the United States between May and August 2004. Each party spent an average of U.S.$65 per day in communities where they stayed, excluding campsite fees, although the university believes this is a conservative estimate. In the United States there are a record 7.2 million RVs currently on the road, involving 30 million RV enthusiasts (including renters). The number of RV-owning households is expected to grow 15 per cent between 2001 and 2010.

Summary

As a rebound in travel demand continues to gain solid ground, the question remains: when will this recovery finally improve the profitability of the travel industry? For many, prices remain too low, despite the recent growth in demand, to significantly prop up tourism suppliers' bottom line. But there does appear to be hope. For example, ACE Aviation Holding Inc., Air Canada's parent company, expects to report an operating profit of $235 million for the airline's third quarter. But to achieve a comfortable financial operating environment, the strength of the current tourism rebound has to be strong enough and long enough to help revive the industry.

Unfortunately, achieving sustainable profitability in the tourism industry could take some time. According to the Canadian Tourism Research Institute, travel expenditures are expected to continue growing at a rather conservative pace over the medium term. In conjunction, growth in travel prices is still expected to lag behind the pace of inflation during the short term. However, if the current rebound lasts long enough, the tourism industry will eventually be able to regain much of the ground lost over the past few years.

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