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CTC Tourism Intelligence Bulletin – Issue 24: September 2004

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

Early signs of a tourism recovery

Executive Summary

- The latest travel-related indicators, such as hotel occupancy, air passenger volumes and border counts, all support the notion that the outlook for the tourism industry is brighter than it has been over the past twelve months. Nonetheless, it is too early to declare that a solid rebound in demand is underway.
- While all of Canada's key international markets registered growth over the first six months of this year (compared to the same period last year), it is unlikely that the year-end results will match the 2002 levels, which have now become the benchmark for the industry.
- The double-digit declines registered in most markets in 2003 can only be offset by corresponding growth across the board. Only then will tourism suppliers be able to restore financial health.

Emerging Trends and Issues-Signs of Recovery in Europe and Asia but U.S. Lags

- Tourism suppliers across the country welcomed the rebound in travel from Europe and Asia (especially Japan) over the first half of 2004. The re-emergence of the high-yield Japanese tourist is vital for the future of the industry.
- Yet travel from the United States remains soft in Western Canada, in Quebec and in Atlantic Canada. Growth in travel from the U.S. has been confined largely to Ontario. The absence of significant numbers of American tourists more than a full year after the Gulf War and the outbreak of SARS is both notable and a cause for much concern with industry suppliers.
- The domestic market offers little immediate comfort for the industry. Overnight domestic travel was down in 2003. The 86.3 million trips were 9.4% lower than the level recorded the previous year. Business travel was particularly hard hit, dropping by 10.1%. While this trend was reversed in the first quarter of this year, the number of trips taken was 5.4% below the level recorded in the same period in 2002.

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Consumer (Traveller) Overview

- Bolstered by a positive economic environment, the outlook for leisure travel should continue to strengthen through the summer in both Canada and the United States. Many of the global challenges that have plagued tourism demand over the past few years appear to have diminished considerably. Meanwhile, thanks to the popularity of using the Internet for planning and booking travel, booking trends indicate a further narrowing of the lead time between planning a trip and the date when the trip actually occurs.
- After the tremendous decline (-12%) in overnight U.S. visits last year, it is somewhat comforting to hear that Canada's popularity as a vacation destination has rebounded, according to a recent poll by Harris Interactive. When Americans were asked to name their favourite country in which to take a vacation if cost were not an issue, the poll showed that Canada has moved up to seventh place, after falling to the 12th spot in 2003. Considering the negative media attention Canada received because of the severe acute respiratory syndrome (SARS) outbreak, it was not surprising that Canada's popularity dropped last summer.
- Pent-up demand and an improving economy are brightening the outlook for business travel as well, and these positive trends are expected to continue well into 2005. With the outlook for corporate profits improving, more companies are expected to reinvest in business travel to ensure that they stay ahead of their competition. However, business travellers continue to place a high priority on minimizing travel costs. In many instances, companies are reducing costs by booking on-line and through the greater use of low-cost carriers.

Travel Supplier Overview

- Despite further losses, Air Canada reported a substantial improvement in its latest second-quarter financial results, compared with the previous year. The carrier credited the improvement to a significant recovery in air travel demand since last year's SARS outbreak and to the reductions in operating expenses achieved through its restructuring process. Looking ahead, the airline noted that bookings for August and September appear strong, although fuel costs remain a big concern. Still, the airline is on track to emerge from creditor protection under the Companies' Creditors Arrangement Act by the scheduled date of Sept. 30, 2004.
- South of the border, the U.S. airline industry also experienced a healthy surge in demand over the busy summer season, with overall passenger traffic reported to be up 9.2% in July 2004, compared with the previous year. However, this rebound in demand is not translating into a financial recovery for most U.S. carriers. Rising fuel costs represent an added burden, but the fierce competition within the U.S. domestic marketplace is the biggest challenge facing U.S. airlines today.
- If the upward trend in business and leisure travel demand is maintained it should lend support to a financial recovery in both the Canadian and U.S. hotel industries. Second quarter financial reports indicated that bookings picked up in pace from the first quarter of this year, and were on track for further growth through the summer travel season. Average daily room rates have increased, in tandem with strengthening demand, and occupancy levels are expected to continue improving, even as room rates rise. In the United States, growth has been particularly evident in mid-week figures. The increase in mid-week demand has triggered a shift in pricing power back to many U.S. hotels, particularly for meeting and convention bookings.

Economic Overview

- Led by economic growth in the U.S., the North American economy is expected to expand by a solid 4.4% in 2004. This pace of economic growth, combined with high oil prices, is expected to force central banks to raise interest rates in an effort to curb inflation. Unfortunately, higher interest rates will dampen the growth of consumer spending in 2005. While the latest forecast from The Conference Board of Canada does not expect the value of the Canadian dollar vis-à-vis the U.S. dollar to increase significantly between now and the end of the year, it also does not expect that the Canadian dollar will lose much steam next year as the interest rate differential between the two countries narrows.

- The expanding global economy continues to support the recovery of economic activity in Europe, although the pace of growth remains sluggish. The latest Consensus surveys show that real gross domestic product (GDP) in the Eurozone is expected to rise 1.7% in 2004 and 2.0% in 2005. Low core inflation and relatively low interest rates are supporting economic growth, but escalating oil prices and high unemployment continue to exert downward pressure. In the U.K., GDP growth expectations have been recently upgraded because the pace of growth recorded in the first quarter of 2004 was stronger than originally forecast. On the other hand, household consumption was slightly weaker than expected.
- Buoyed by an expected 8.7% growth in the Chinese economy, real GDP in the Asia-Pacific region is forecasted to expand by 5.1% in 2004 before slowing to 3.3% in 2005. The expanding global economy is supporting growth across the Asia-Pacific region, as many countries are highly export oriented. However, export demand may lose some steam as China's economy slows and interest rates in the U.S. rise. In addition, concerns are mounting that China's economy may be headed for a hard landing, as the tightening measures implemented to rein in China's robust economic growth take hold. Meanwhile, Japanese business sentiment is at its highest level since 1991. While Japan's economic growth has been robust, some analysts believe that it may have already peaked.

Opportunities

- A new report by J.D. Power and Associates suggests that hotel chain efforts to encourage consumers to book through their websites are paying off. The 2004 North America Hotel Guest Satisfaction survey revealed that guests who book their hotel room directly on the hotel's website report significantly higher satisfaction with their stay than those who make their reservations through an independent travel site. The findings also revealed a large jump in on-line hotel bookings among hotel guests: 36% of the respondents who had made hotel reservations in 2004 used the Internet to make their bookings, up from 20% in the 2003 survey.
- Meanwhile, the new Metropoll X study by Gerard Murphy & Associates shed light on the factors that influence meeting planners when choosing a meeting destination. By far, the most important factors involved meeting logistics, such as: convenient airline service (selected by 83% of respondents); availability of good hotels that are easy to get to (79%); food and lodging costs (74%); and overall travel costs (73%). Interestingly, the factors that relate more to attendee experiences, such as climate and good restaurants, were deemed to be much less important.

In Brief

Following a disastrous year in 2003, there are some encouraging signs that a recovery of demand may be ahead. Results for the first half of this year demonstrate growth in travel from key foreign markets in Asia and in Europe. Slower growth occurred from the United States and it was confined largely to Ontario. Thus cautious optimism is the watchword for the industry.

At the same time, it is important to remember that this growth is measured against the lows of last year. Bearing this in mind, the industry has largely adopted 2002 as the benchmark against which to gauge any rebound in demand. Viewed from that perspective, optimism is muted pending the performance for the remainder of the year and, indeed, into 2005.

Thus, despite the encouraging signs to date, sustained growth is a prerequisite for financial health for most Canadian tourism suppliers.

Emerging Trends and Issues

Canada's Domestic Travel Market: An Underdeveloped Opportunity

Enticing more Canadians to travel in Canada has long been the rallying cry of Canada's destination executives. In fact, the numbers suggest that the domestic travel market is not one to be ignored. Last year, Canadians spent \$8.1 billion on overnight pleasure travel in Canada and another \$4.6 billion while visiting friends and relatives. During the same period, Canadians spent about \$9 billion on outbound pleasure travel. Despite this market's importance, only a few of Canada's travel retailers and package tour operators have historically had a strong Canada program. Fortunately, more and more operators and agents are stepping forward to cash in on the potential of the domestic pleasure travel market.

It is true that the \$8.1 billion spent on domestic leisure trips last year was not evenly spread across the country. In fact, of the nearly 37 million pleasure trips Canadians made in Canada last year, less than 6 million (16%) were made to another province. And, when Canadians do venture outside their home province, it is usually to a neighbouring one. Last year, the top three destinations for inter-provincial pleasure trips were Quebec (about 23% of inter-provincial trips), B.C. (20%) and Ontario (18%). But all provinces represent a potential market for agents or operators selling domestic pleasure travel. Although Newfoundland and Labrador captured only 2% of domestic inter-provincial pleasure trips made last year, this still represents 128,000 trips, a sizeable market for agents and operators to tap into.

Agents and suppliers are finding their niche

The retailers and tour operators that have delved into the domestic pleasure travel market are still learning how best to sell to it. Travel agents arranged only 24% of domestic vacation trips made last year, so finding the right niche when selling to the domestic market is vital. The most successful programs involve simple, recognizable products that Canadians enjoy, such as sporting and cultural events and weekend hotel getaways.

Another key element is providing a website designed to sell Canadian product, as Canadians increasingly turn to the Internet for researching and booking their travel. For example, the Canadian Automobile Association (CAA) set up a website offering a full range of domestic travel products for every region of the country. Popular bookings on the site include weekend getaways to festivals and events like Quebec City's Carnival, the Calgary Stampede and Ottawa's Winterlude festival.

Conquest Vacations, an outbound package tour operator, is another travel supplier actively promoting Canadian domestic travel products. The operator took a unique approach to developing its Canada program by collaborating with top land operators such as Brewster Vacations, Merit Golf Vacations and Hanover Holidays. Conquest Vacations provides air and marketing support, while the land operators provide the land product. Brent Carnegie, VP of Sales and Marketing for Conquest Vacations, told the Conference Board that its Canada program has really taken off this year: "Our summer 2004 program has been a real success for us as more agents catch on to the real depth and breadth of the product we now offer."

Fortunately, the potential to sell more Canadian travel product is supported by recent domestic travel forecasts by The Conference Board of Canada. In its April 2004 outlook, the Conference Board forecast that overnight domestic pleasure travel would expand by 5.8% in 2004 and a further 4% in 2005. By 2006, Canadians will make an estimated 13% more domestic pleasure trips than they did in 2003. These trends show that the domestic market represents a growth opportunity for Canada's travel industry, without a lot of the risk associated with long-haul international markets.

Consumer Overview - Canada and the United States

Business Travellers

Pent-up demand and an improving economy are brightening the outlook for business travel this fall, and these positive trends are expected to continue well into 2005. With corporate profits also expected to strengthen, more companies are expected to reinvest in travel to ensure that they stay ahead of their competition. However, business travellers continue to place a high priority on minimizing costs when they travel, and are reducing costs by increasing their use of on-line booking and of low-cost carriers. Highly competitive domestic airfares in both Canada and the U.S. are also going a long way to help companies keep their travel costs down.

The National Business Travel Association (NBTA) recently released the results of its 2004 mid-year survey, which confirmed that U.S. companies are spending more on travel in 2004 than they did in 2003. Of the travel managers polled, 60% said their spending levels had increased over last year's budget, although most of this group (77%) reported that this increase was less than 10%. Only 22% of the respondents indicated their spending had declined, while 18% said their spending in 2004 was about the same as it was in 2003. The NBTA survey also revealed that business travel volumes are up this year over 2003: over 70% of the travel managers polled expected their companies to book more hotel room nights in 2004, compared with last year.

Overall business travel spending in the U.S. is expected to grow by 10% in 2005, according to the latest forecast by Runzheimer International. Spending on air travel is predicted to climb 5%, while spending on lodging jumps 13%. Runzheimer noted that low-fare airline demand will spur greater business travel volumes, which will in turn allow hotels to progressively increase their daily room rates.

The latest Corporate Travel Benchmark Survey by GetThere, a provider of on-line corporate booking technology, revealed that its clients continue to use low-cost carriers and are increasing their on-line bookings to reduce travel costs. According to survey results, 75% of respondents believe that using low-cost carriers helps them reduce travel expenses. Furthermore, the survey reported that 60% of business travel bookings were being made on-line this year-up from the 53% reported in 2003. Respondents also reported an average total cost savings of 15% when booking on-line, and a 50% reduction in agency fees.

Businesses that use on-line travel agencies to make their corporate bookings tend to be extremely satisfied with their experience, according to a recent survey by the Business Travel Coalition (BTC). The BTC surveyed 32 American corporations and universities that are clients of the three major on-line corporate travel agencies (Expedia, Orbitz and Travelocity's corporate travel sites). The average annual spending on air travel of those surveyed was U.S.\$6.5 million. All 32 organizations stated they achieved the savings they expected and would make the same decision again. The BTC predicted that the use of on-line agencies will continue to grow for a number of years, until "a competitive equilibrium is reached."

Now that the economy is doing better and corporate profits are rising, companies are beginning to revive their luxury incentive travel programs, said a recent article in USA Today. Ritz-Carlton Hotels reported that their incentive travel bookings this year have increased by a third over last year. Furthermore, the Business Travel Coalition reported that most companies they have surveyed expect to increase their incentive-travel budgets in 2005. The article noted, however, a definite reduction in the level of luxury involved with these trips, with most companies still somewhat concerned about costs and the appearance of extravagance.

Meanwhile, growth in the meetings market also appears to be gaining momentum. According to a recent survey of meeting planners by Meeting News, the largest group of respondents (25%) stated that attendance at mandatory meetings has risen by up to 25% over the last six months, compared with the same period last year. A further 4% of respondents said that attendance has risen more than 25%. Only 4% reported that attendance has decreased. The leading reason for the increase, according to survey respondents, is an "increased emphasis on the value of face-to-face events."

The meetings market is poised for further growth in 2005, according to a recent survey of meeting and event planners attending an event for Hospitality Sales and Marketing Association International (HSMIAI). In fact, the majority of respondents (59%) already anticipated planning more meetings next year.

Leisure Travellers

The outlook for leisure travel continued to strengthen through the summer, bolstered by a positive economic environment in both Canada and the United States. On other fronts, many of the global challenges that have plagued tourism demand over the past few years appear to have diminished considerably. Meanwhile, booking trends appear to suggest a further narrowing of the lead time between planning travel and when the trip actually occurs. The exploding popularity of on-line travel bookings is a large contributor to this trend.

The Conference Board of Canada's June 2004 Travel Intentions Survey suggests that Canadian attitudes towards domestic travel have strengthened considerably since the previous survey in March, which suggested weaker-than-expected results for the summer travel season. Specifically, the June survey indicated that 20.6% of respondents planned to take a domestic winter vacation (between November 2004 and April 2005). This is up considerably up from the 16.4% that responded likewise last year and the 18.5% in June 2002. Overall, 48% of Canadians polled intended to take a winter trip this year-up from 42% in both June 2003 and June 2002.

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

	June 2004	June 2003	June 2002
Winter Vacation Intentions (All Destinations)	48.0	42.0	42.1
Canada	20.6	16.4	18.5
United States	9.6	10.1	7.6
Other International	16.9	14.3	13.5
Do Not Know/Refused	0.9	1.2	2.5

Source: The Conference Board of Canada.

However, the most recent Travel Intentions Survey also found only 6% of Canadians had already booked their domestic winter vacation. Most respondents (68%) indicated they planned to make their travel arrangements one to six weeks prior to the departure date, with only 20% intending to book their trip more than seven weeks in advance. Correspondingly, a growing number of Canadians are planning to book all or part of their trip on-line. The latest survey found 43% of Canadian travellers intended to use the Internet to book some or all of their trip-up from 36% in 2003 and 25% in 2001.

American travel intentions appear to be strengthening as well, particularly for outbound travel. According to the June 2004 Consumer Confidence Survey by The Conference Board Inc., 42.7% of Americans indicated they planned to take a vacation in the next six months. This represents a rise of nearly 1 percentage point compared with the June 2003 survey. More importantly, the number of Americans intending to travel outside of the United States rose to 9.3% in June 2004-up from 7.2% in June 2003.

The survey also indicates that the number of Americans planning to fly to their vacation destination has increased over the previous year. Specifically, 20.5% of Americans intended to travel by plane on a leisure trip in the next six months, compared to 16.8% that indicated similar plans in June 2003. Meanwhile, the number of those planning to travel by car dropped to 22.4% in June from 24.9% a year earlier.

A survey by Cambridge Credit supports the positive outlook toward travel intentions. According to the Cambridge Consumer Credit Index, 50% of Americans surveyed intend to take a summer vacation this year, up from 46% in 2003. Furthermore, fewer respondents indicated they would need to borrow money to pay for their trips. In fact, only 19% of vacationers intended to pay for their trip with a credit card, down from 23% in 2003. According to Cambridge Credit, the survey results show that more Americans are feeling confident enough to spend money on vacations than last year and have greater financial resources to do so.

Canada's popularity as a vacation destination for Americans has surged since last summer, according to a recent poll by Harris Interactive, which asked Americans to name their favourite country in which to take a vacation if cost were not an issue. The survey showed that Canada has moved up to seventh place, after falling to the 12th spot in 2003. It is not surprising that Canada's popularity dropped last summer, considering that severe acute respiratory syndrome (SARS) had a huge impact on U.S. trips to Canada. Between 1997 and 2002, Canada's ranking ranged from ninth place (in 2001) to fourth place (in 2002). Australia has held the number one spot since 1997.

Meanwhile, the latest American Express Platinum Luxury Survey suggests that affluent consumers are increasingly interested in spending money on life experiences, including travel, while shifting their focus away from the pursuit of luxury goods and "keeping up with the Joneses." The survey showed that 59% of affluent consumers (with household incomes over U.S.\$100,000) receive the greatest personal satisfaction from experiences such as fine dining, travel and entertainment, rather than acquiring personal or home luxuries. More than two-thirds (68%) have taken an average of six trips in the last year, spending an average of U.S.\$12,650 on travel during that period. Furthermore, 81% of those polled said they expected to spend either the same amount or more on travel during the next 12 months.

Travel Supplier Overview - Canada and the United States

Airlines - Canada

Air Canada posted a second-quarter net loss of \$510 million for the period ended June 30, 2004, although the bulk of this loss was attributed to restructuring charges totalling \$426 million. Meanwhile, passenger traffic for the quarter jumped 20% compared with a year earlier, as capacity increased 11%. This resulted in an average system-wide load factor of 78.6%-a 5.8 percentage point gain over last year. Compared with last year, the carrier's second quarter operating profit improved by \$292 million, with passenger revenues up 15%, and unit costs down by 11%. The carrier credited these improvements to the significant recovery in air travel demand since last year's SARS outbreak, and the reduction in operating expenses achieved through the creditor-protection restructuring process. Looking ahead, the airline noted that while bookings for August and September appear strong, fuel costs remain a big concern.

Air Canada also reported that it is still on track to emerge from creditor protection-under the Companies' Creditors Arrangement Act (CCAA)-by the scheduled date of Sept. 30, 2004. By mid-July, the airline achieved ratification of its last outstanding labour agreement, and by mid-August, it had resolved a lingering labour issue with its pilots' union. On Aug. 17, Air Canada's creditors approved the airline's new business plan, the final hurdle the airline needed to clear before seeking court approval to emerge from CCAA protection. Air Canada's new business plan appears to focus on building its long-haul business, cutting its fleet, and paring down the size of its airplanes. The Ontario Court overseeing the restructuring approved the airline's plan of arrangement on Aug. 23, giving Air Canada the green light to complete its restructuring by the end of September.

During July 2004, Air Canada's overall revenue passenger miles (RPMs) grew 12.8% compared with July 2003. Domestic passenger traffic remained on par with July 2003 levels, while growth on international Pacific routes skyrocketed by 112.2%. Meanwhile, traffic on Atlantic and U.S. transborder routes increased a negligible amount, up 0.2% and 0.7%, respectively. The airline kept a tight rein on capacity, expanding by only 9.5% over July 2003. This resulted in a record monthly system load factor (80.4%) for the fourth consecutive month. Air Canada noted that its passenger yields were continuing their uphill climb from the plunge they took in 2003.

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

Airline	RPM (in millions) July 2004	RPM change 2004 vs. 2003	Capacity 2004 vs. 2003
Air Canada (includes Zip and Jetz)	4,259	+12.8%	+9.5%
Air Canada Regional (Jazz)	158	+7.5%	+4.9%
WestJet	637	+29.1%	+27.6%
Jetsetgo	268	+90.5%	+69.7%

WestJet reported net earnings of \$7.5 million for its second quarter ended June 30, 2004, down significantly from the \$14.7 million it earned in the second quarter of 2003. Similar to its first quarter report, WestJet stated that the results were, once again, disappointing, citing increasing fuel costs and higher landing and terminal fees as the main reasons for the reduction in profitability. Although passenger traffic in the second quarter increased 24.5%, WestJet's fuel costs jumped 32% over the previous year. The airline also noted that moving its hub from Hamilton to Toronto, a switch it made to gain access to the "high demand Toronto-Ottawa and Toronto-Montreal routes," also drove up its landing and terminal fees by 200%.

NAV Canada recently announced it will raise its air navigation service charge by 7.9%, effective Sept. 1, 2004. The company pointed out that, on a per-passenger basis, this would amount to an increase of about \$1 to \$2 per domestic flight, depending on the distance flown. NAV Canada indicated that the increase was necessary in order to offset the projected revenue shortfall in the next fiscal year, stemming from the downturn the airline industry has suffered since the Sept. 11 terrorist attacks.

Airlines - U.S.

The U.S. airline industry experienced a healthy surge in demand over the busy summer season. According to the Air Transport Association (ATA), overall passenger traffic increased 9.2% in July 2004, compared with the previous year. Domestic traffic rose 6.7%, while international traffic jumped 16.1%, driven by surging demand on Asia-Pacific routes (up 22.6%).

Unfortunately, this rebound in demand is not translating into a financial recovery for most U.S. carriers. Rising fuel costs continue to be bad news, but the increasingly aggressive competition within the domestic marketplace is the real challenge facing U.S. airlines these days. A fare survey by Harrell Associates showed that average leisure fares were 30% lower in the first week of August 2004, compared with a year earlier, while business fares were 9% lower. A spate of further airfare sales scheduled for the slower fall season is expected to push depressed airfares even lower, despite creating additional demand.

Second quarter financial reports confirmed that high fuel prices and intense domestic competition continue to erode the profitability of both major airlines and low-cost carriers, alike. American Airlines (AA) was the only carrier to eke out a modest profit gain, largely due to the massive cost-cutting the airline has undertaken over the past two years. AA now faces competition from low-cost carriers on almost 90% of its routes, which represents a significant constraint to future growth in its airfare yields. Compounding matters, the year-over-year spike in fuel prices added U.S.\$232 million to the carrier's second quarter operating costs. Meanwhile, Delta's operating losses for the quarter reached nearly U.S.\$2 billion and raised serious questions about the airline's future. Delta is still struggling to negotiate wage concessions with its pilots' union in an attempt to shave a further \$1 billion off its annual labour costs.

Early Signs of a Tourism Recovery

Table 3. Net Income - Q2 2004

Airline	Net Income Q2 2004 (in U.S.\$)	Net Income Q2 2003 (in U.S.\$)
AirTran Holdings	+\$16.8 million	+\$57.2 million
Alaska Air Group	-\$1.7 million	+\$45.2 million
AMR Corporation (American)	+\$6 million	-\$75 million
America West Airlines	+\$5.7 million	+\$79.7 million
Continental Airlines	-\$17 million	+\$79 million
Delta Air Lines	-\$1,960 million	+\$184 million
JetBlue Airways	+\$21.5 million	+\$38 million
Northwest Airlines	-\$182 million	+\$227 million
Southwest Airlines	+\$113 million	+\$246 million
UAL Corporation (United)	-\$247 million	-\$623 million
US Airways Group	+\$34 million	+\$13 million

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

Airline	RPM July 2004 vs. July 2003	Capacity July 2004 vs. July 2003
Alaska Airlines	+10.7%	+5.1%
American Airlines	+5.3%	+5.1%
America West Airlines	+9.0%	+9.0%
AirTran Airways	+13.0%	+15.2%
Continental Airlines	+9.4%	+7.3%
Delta Air Lines	+14.0%	+12.8%
JetBlue Airways	+30.6%	+34.6%
Northwest Airlines	+5.7%	+3.0%
Southwest Airlines	+9.4%	+6.9%
United Airlines	+7.9%	+8.2%
US Airways	+3.3%	+2.69%

United Airlines, still struggling to restructure while under Chapter 11 bankruptcy protection, signed new agreements with its debtor-in-possession lenders. These new loans will provide the airline with an additional U.S.\$500 million in financing while it continues to restructure. However, a recent analysis by USA Today and BACK Aviation Solutions suggested that regardless of the extent that the airline is able to slash costs while under bankruptcy protection, the cost-cutting alone may not be enough. United has been losing market share to low-fare competition in almost all of its key markets. The analysis indicated that during a four-year period ending in 2003, the average fare paid (on a per mile basis) by United's passengers on domestic flights dropped 25%, reportedly the largest decline experienced by any major U.S. airline.

To combat growing domestic competition, Continental Airlines announced a lowest price guarantee for domestic airfares offered on its website. No doubt inspired by the success of similar promotions in the hotel industry, the airline offered a 10% discount on a future flight to any customer finding a lower domestic airfare (for the identical itinerary) at any other Internet travel site. However, the offer was only valid until Sept. 6, 2004.

Meanwhile, the U.S. Department of Transportation (DOT) signed an air services agreement with China in July. The new agreement will double the number of airlines allowed to fly between the two countries, and facilitate a fivefold increase in flights over the next six years, to 249 weekly flights. The DOT authorized United Airlines and Northwest Airlines to begin passenger service to China in August 2004.

Hotels - Canada

A solid upward trend in business and leisure travel demand continues to propel a recovery in the Canadian hotel industry. Second quarter financial reports indicated that bookings picked up in pace from the first quarter of this year, and were on track for further growth through the summer travel season. According to HVS International, Canadian hotel managers are raising their average room rates in tandem with strengthening demand, noting that Canadian hoteliers are typically very good at managing their yields. Four Seasons Hotels echoed this sentiment, stating in its latest quarterly report that it expected occupancy levels to continue recovering, even as room rates rise.

Overall RevPAR (revenue per available room) climbed to \$84.48 in June, up 12.5% compared with the same month in 2003, according to the latest National Market Report by PKF. Nationwide, occupancy levels increased 5.6 percentage points to 68.6%, while the average daily rate edged up 3.2% to \$123.10. When broken down by quality segment, the luxury segment continued to lead the pace of recovery in occupancy, although budget hotels averaged the largest increase in room rates (3.4%).

Second quarter financial reports were generally very positive, reflecting the surge in RevPAR experienced by the hotel industry during this period. Hotels reported a solid recovery in business and leisure travel demand, with the pace of growth expected to continue through the summer travel season. All lodging companies were very optimistic in their outlook for the third quarter, anticipating that demand would continue building, even as they continued raising room rates. Fairmont noted that bookings for tour groups were surpassing expectations for the summer, although U.S. travel to Canada remained soft. Legacy Hotels predicted that its occupancy and room rate figures would recover to 2002 levels by the end of this year.

Table 5. Hotel RevPAR and Net Income Q2 2004

Company	Revenue per Available Room (RevPAR), Q2 2004 vs. Q2 2003	Net Income Q2 2004	Net Income Q2 2003
Fairmont Hotels & Resorts	+22.7 and +18.0% (owned vs. managed hotels)	+\$37.6 million (U.S.\$29.0 million)	+\$52.0 million (U.S.\$40.1 million)
Four Seasons Hotels	+22.7	+\$17.3 million	-\$1.4 million
Legacy Hotels REIT	+16.3%	+\$12 million	+4.7 million

The Hotel Association of Canada (HAC) released its forecast for 2005, predicting overall RevPAR growth of 3% next year for Canadian hotels. HAC noted that Canada's economic outlook for 2005 looks positive, but that oil, geopolitical events and the world economy could take its toll on the industry's recovery. For these reasons, HAC characterized the recovery for the hotel industry in 2005 as "slow and tentative." PKF rounded out this forecast in its latest National Market Report, predicting that average occupancy levels for 2004 would reach 61% (up from 59% in 2003), then climb to 62% in 2005. Average daily rates are expected to increase by 3.6% to \$116 in 2004 (up from \$112 in 2003), then edge up to \$120 in 2005.

Hotels - U.S.

After robust growth during the first half of this year, the U.S. hotel industry is now reaping the financial benefits of a significant recovery in hotel demand. Steady increases in average daily rates are bolstering RevPAR, with growth particularly evident in mid-week figures. In fact, increases in mid-week demand are beginning to shift pricing power back to hotels, particularly in meeting and convention bookings. According to a recent report by Ernst & Young, these positive trends are expected to continue gaining steam through the rest of this year, although occupancy and daily rates are still well below the historical highs reached in 2000.

Average RevPAR jumped 8.6% in the U.S. during the second quarter of 2004, compared with the previous year, according to Smith Travel Research (STR). Meanwhile, occupancy levels rose 4.2% (to 64.2%) with average daily room rates climbing 4.3% to U.S.\$86.17. STR called the U.S. hotel industry's performance encouraging and said the positive momentum was expected to continue through the second half of the year. Full year RevPAR is now anticipated to grow 5% compared with 2003.

Early Signs of a Tourism Recovery

Second quarter financial reports were generally quite positive, which caused many hotels to boost their profit expectations for the third quarter. Most lodging companies reported robust growth in RevPAR, driven in part by assertive moves in room rate increases. Marriott International, the largest hotel chain in the U.S., said that a return of international travellers was another factor boosting its revenues. Marriott indicated that the number of international visitors to its U.S. hotels during the second quarter increased by about 30%, compared to last year. By all reports, business and leisure segments all performed well, with rates on an upswing. Fortunately, demand is expected to continue pushing occupancy and rates steadily higher throughout the remainder of this year.

Table 6. Hotel RevPAR and Net Income

Hotel	Revenue per available room (RevPAR), Q2 2004 vs. Q2 2003	Net Income Q2 2004 (in U.S.\$)	Net Income Q2 2003 (in U.S.\$)
Choice Hotels	+7.0%	+\$18.5 million	+\$17.1 million
FelCor Lodging	+7.3%	-\$41 million	-\$27 million
Hilton Hotels Corp.	+8.3%	+\$75 million	+\$54 million
Host Marriott	+8.8%	+\$17 million	-\$14 million
Marriott International Inc.	+9.3% (North America)	+\$160 million	+\$125 million
Prime Hospitality	-0.2%	+\$3.6 million	-\$17.8 million
Starwood Hotels & Resorts	+16.0% (North America)	+\$154 million	+\$290 million
Westcoast Hospitality	+6.6%	+\$805,000	+\$1.8 million

According to the Travel Industry Association of America (TIA), the latest Lodging Executives Sentiment Index indicates that optimism among U.S. lodging industry executives continues to grow. In June, the index rose to 76.7 from 73.7 the previous month. At the same time, the Present Situation Index jumped to 70.0, from 60.5 the previous month.

All segments of the U.S. hotel industry are forecast to grow this year, according to the 2004 Ernst & Young National Lodging Report. The luxury, upscale and mid-scale segments are expected to see moderately strong RevPAR growth (6.6%, 5.1% and 5.5%, respectively), while economy and budget segments increase more modestly (3.6% and 3.5%, respectively).

Travel Agents

Average airfares declined in all segments in July 2004, as reported by the International Air Transport Association's (IATA's) Billing and Settlement Plan, the system of tracking airline tickets sold through Canadian travel agencies. Average domestic airfares in Canada dropped 8% compared with a year earlier, while airfares from Canada to the U.S. fell 13%. Airfares to other international (non-U.S.) destinations decreased 7% compared with the same month of 2003.

E-ticketing reached a record high of 87% of all air tickets sold in the U.S. in July 2004, up from 83% in July 2003, according to the Airlines Reporting Corporation (ARC). ARC also reported that total airfare sales figures and average international fares in July compared "favourably" to those seen in July 2003, while average domestic fares declined 5%.

Two of the largest providers of on-line travel products, IAC (parent company of Expedia) and Orbitz each reported substantial revenue gains in the second quarter of 2004, compared with the previous year. IAC's travel division increased its second quarter revenues by 34% to U.S.\$556 million, driven primarily by a 32% increase in the company's worldwide merchant hotel business and by growing consumer demand for travel packages. Second quarter revenues for Orbitz rose 30% to U.S.\$75.6 million, boosted by a 21% rise in gross travel bookings, which topped U.S.\$1 billion for that period.

More than one-third of all U.S. travel will be booked on-line by 2006, following the upward trends seen in the last two years (15% in 2002 and 20% in 2003), according to a recent forecast by PhoCusWright. In 2003, on-line travel sales (for leisure and unmanaged business travel) increased 37% compared with 2002, and is anticipated to rise another 34% this year.

AAA reported that gasoline prices in the U.S. registered a national average of U.S. \$1.86 per gallon on Aug. 17, 2004. This was a slight decrease from the average price recorded a month earlier (U.S.\$1.92) but a significant increase from the price a year earlier (U.S.\$1.59). That same day, crude oil prices reached a record high of nearly U.S.\$47 per barrel.

International Overview - Overseas

United Kingdom and Ireland

British Airways (BA) posted a net profit of GBP£70 million (CDN\$163.8 million) for its fiscal first quarter ended June 30, 2004. This represented a solid turnaround from the GBP£63 million (CDN\$147.4 million) net loss reported a year earlier, when SARS and the war in Iraq hurt the airline's revenues. Passenger traffic for the quarter increased 7.9% compared with a year earlier, but yields (average fare paid on a per kilometre basis) declined 4.5%. Market conditions were apparently unchanged, with long-haul premium traffic recovering steadily, while short-haul premium traffic remained weak. Furthermore, airfare yields are still expected to decline through the rest of this year, but should be offset by rising passenger volumes. BA noted that fuel and labour costs remained a challenge and, consequently, upped its fuel surcharge on all long-haul flights from GBP£2.50 to £6.00 (CDN\$5.85 to \$14.04) per ticket.

In July, BA's revenue passenger kilometres (RPKs) rose 8.3%, reflecting the continued recovery from the downturn in air travel in 2003. Premium traffic jumped 9.7%, while non-premium traffic grew 8.1%. Traffic on Asia-Pacific routes surged 13.1%, while European-U.K. routes saw a 7.1% rise, and traffic to the Americas climbed 5.5%, compared with the same period a year earlier.

BA narrowly averted a strike planned by its check-in staff and baggage handlers to coincide with the busy August Bank Holiday weekend beginning Aug. 27. Fortunately, the airline was able to reach an agreement with its unions on a new pay deal, which involved almost 11,000 BA employees. If the strike had occurred, it would have affected an estimated 100,000 passengers per day over one of the U.K.'s busiest holiday weekends, and cost the airline an estimated GBP£10 million (CDN\$23.4 million) per day in lost revenues.

Meanwhile, low-fare airline Ryanair, posted a full-year profit (after tax) of EUR53.1 million (CDN\$83.8 million) for its first fiscal quarter ended June 30, 2004. This represented a 21% increase in earnings for the quarter compared with the previous year. The airline's passenger numbers grew by 28% for the quarter, while yields declined 6%. Looking forward over its current fiscal year, Ryanair expects its passenger volumes to increase 20% while yields fall between 10 to 20%, as competition continues to intensify.

BAA, the international airports group, reported that passenger traffic in its seven U.K. airports rose 8% to 14.2 million in July 2004, bringing passenger numbers back to levels not seen since Sept. 11, 2001. During the same month, traffic on North Atlantic routes increased 12.3%. BAA noted that aviation markets were benefiting from the general upturn in global travel, and that price competition among low-cost carriers in Europe was spurring more air travel in that region.

Table 7. Percentage change in passengers carried

Carrier	July 2004 vs. July 2003
British Airways	+8.3%
EasyJet	+28%
Ryanair	+22%

The Association of British Travel Agents (ABTA) estimated that a record 2 million leisure travellers took an outbound trip over the July 24 holiday weekend-expected to be the busiest weekend for British travel this year. ABTA mentioned that 75% of British travellers favour European destinations for summer vacations, yet long-haul destinations have been performing well this summer, as well. By the end of July, the favourable exchange rate had fuelled a 16% rise in summer bookings to U.S. destinations, compared with the previous year. ABTA also noted that this year has been a "very late booking market" for member agencies, but outbound trips received a boost in July because of the dismal British weather.

Early Signs of a Tourism Recovery

The U.S. and Canada rank high among the British as "dream" long-haul destinations, according to a recent survey commissioned by the Jamaica Tourist Board. "Australia or New Zealand" was the top choice, chosen by 17% of respondents, while the "U.S. or Canada" came in second at 16%. The Caribbean ranked third, garnering 10% of the vote. The survey also indicated that 45% of the British people polled intended to take an outbound trip sometime in the next year.

British family holidays, which account for one in four British trips, will generate GBP£15 billion in holiday expenditures this year, at an average of GBP£1,830 per trip, according to a recent study by Mintel. However, only about 29% of these trips will last longer than four nights. Mintel noted that families used to be a mainstay of the British holiday market, but are now much less likely to choose tour packages or travel abroad. Instead, families are now much more likely to take independent domestic holidays.

Meanwhile, similar to the North American market, British business travel appears to be recovering, but corporate travellers are still expected to economize on their trips. A new survey by Accenture showed that British business travellers are increasing their use of budget hotels and low-cost carriers this year, compared with 2003. Of those polled, 5% said they were using luxury hotels, and 58% were using mid-priced hotels, down from 14% and 65% in 2003. However, the use of budget hotels increased to 28% in 2004, from 12% last year. Moreover, the use of low-cost carriers increased to 15% this year from 11% in 2003, while those saying they never use discount airlines for business trips dropped to 28% in 2004, from 38% last year.

France

Air France-KLM, the new airline formed by Air France's acquisition of KLM Royal Dutch Airlines, reported that its sales and passenger figures were up for its first fiscal quarter ended June 30, 2004. Sales for the quarter increased 12.3% to EUR4.5 billion (CDN\$7.1 billion), compared with the combined sales of each airline in the same quarter of 2003, and passenger numbers increased 11.4%. Consolidated traffic climbed 16.9%, on a 12.9% rise in capacity. Meanwhile, average yields declined 3.9%, but that figure includes a negative currency effect estimated at 2%. The airline attributed the improvement in performance to the benefits of merging Air France and KLM, as well as surging passenger demand on most of its long-haul routes. Traffic on the airline's North and South American routes increased 16.9% during the quarter, compared with the previous year.

In July, overall passenger traffic on Air France-KLM rose 9.5% compared with July 2003. Capacity grew 8%, resulting in a load factor gain of 1.1 percentage points to 82%. The airline noted a healthy demand for air travel and "positive developments in forward bookings." This prompted the airline's Dutch unit (KLM) to raise ticket prices between 1 and 3%, and raise its winter passenger capacity by 9%. The airline specifically stated that this increase in airfares was related to growing demand, rather than increasing fuel prices. A few days later, Air France-KLM announced a fuel charge to be implemented on all routes, ranging from 2 to 12 euros, depending on the length of flight.

A preliminary investigation found that weak concrete caused the collapse of a passenger terminal at Paris Charles de Gaulle airport in May. Metal supports perforated the concrete used for the vaulted ceiling, causing the roof to split and cave in. In August, the airport reopened some sections of the terminal to the public, allowing a few daily flights to operate from there, although passengers board these flights directly on the tarmac to avoid the boarding lounge where the roof collapse occurred. Before the accident, the terminal handled about 20,000 passengers per day, which represented about 15% of the airport's overall passenger capacity.

Fifty-four% of French travellers will spend their summer holiday in France, according to a recent market report by the Australian Tourist Commission (ATC). The average length of a summer vacation is 16 to 17 days, but short breaks of fewer than seven days have risen by 28%.

Germany

Lufthansa German Airlines posted a net loss of EUR 23 million (CDN\$36.3 million) for its second quarter ended June 30, 2004. After a much more profitable first quarter, this net loss in earnings reduced the carrier's half-year net profit to EUR39 million (CDN\$61.8 million), although this is still a vast improvement from the net loss of EUR392 million (CDN\$621.6 million) reported in the first half of 2003. The airline stated that its second-quarter passenger business continued to recover, with revenues up 15.2% compared with the previous year. Meanwhile, average yields fell 2.6% during the quarter due to "continuing fierce market pressure."

Early Signs of a Tourism Recovery

In July 2004, Lufthansa's passenger traffic rose 16.3%, compared with a year earlier. Capacity increased 15.8%, which resulted in a 0.3 percentage point rise in load factor to 74.6%. The carrier noted that passenger demand continued to recover in July, boosted by significant year-over-year growth on its Asia-Pacific routes. In August, Lufthansa imposed a fuel surcharge of 2 to 7 euros on all flights, to offset rising fuel costs.

German airport operator Fraport reported that passenger numbers for Frankfurt Airport climbed 5.6% in July 2004, year-over-year, to 4.8 million. This is the highest monthly passenger count for the airport so far this year. The Fraport Group also reported that demand on intercontinental routes continued to strengthen.

German authorities approved the redevelopment of a new major airport in Berlin. Schoenefeld Airport will be expanded and given the name of Berlin Brandenburg International (BBI). Scheduled to be completed in 2010, it will be capable of handling 20 million passengers per year—50% more than the number handled by all three of Berlin's current airports—and will become Germany's third-largest hub, after Frankfurt and Munich. Construction is set to begin in 2006.

TUI AG recently reported that its profits for the second quarter of 2004 almost doubled to EUR100 million (CDN\$157.9 million), with gross sales rising 2.1% compared with the same period of 2003. Two external factors the company cited as contributing to the improvement were "good yields" and a "significant reduction in last-minute sales." In August, the company reported that its overall summer booking sales were 2.5% ahead of the previous year, with client numbers up 1.9%. German sales were outperforming the overall market, up 2.5%, with 2.1% more clients than the previous year. TUI also noted that price levels were good, with "no major last-minute discounting this year."

All-inclusive golf packages are growing in popularity among German travellers, according to an article in the German travel magazine FVW. Club holidays, in particular, are becoming more popular, due to the wide range of activities offered, such as spas, entertainment and good restaurants. However, when choosing long-haul golf destinations, price is a major influence. Therefore, destinations that offer lower prices and good course standards are drawing more Germans.

Japan

Japan Airlines (JAL), the country's largest carrier, posted a net loss of 40.7 billion yen (CDN\$484.4 million) for its fiscal first quarter ended June 30, 2004. This represented a significant improvement from the 77.2 billion yen (CDN\$918.8 million) net loss reported in the same quarter of 2003. JAL said that its international passenger traffic recovered steadily through the quarter, rising 76% compared with the same period of 2003, when demand plunged due to the SARS outbreak. The airline's international business travel levels were reported to be back to normal, as well. While the airline noted that rising oil prices would have a huge impact on its full-year operating costs, it expected a planned 5% increase in international airfares would help offset some of the soaring fuel costs.

Meanwhile, All Nippon Airways (ANA) reported a net profit of 2.43 billion yen (CDN\$28.9 million) for its first fiscal quarter ended June 30, 2004. In the same quarter of 2003, ANA posted a net loss of 18.3 billion yen (CDN\$217.8 million). Although the airline derives the bulk of its profits from domestic routes, it attributed its financial results to the 67% rise in international traffic it experienced during the quarter, particularly on European and U.S. routes.

Reports from JAL and ANA indicate that bookings for the July 16 to Aug. 15, 2004 holiday period were 22.7% higher than last year's figures. JAL noted that its flights to North America, Hawaii and Oceania are more than 90% full, on average, during this period. Narita International Airport reported that its passenger figures for the summer were expected to reach 3.78 million, bringing passenger levels back to 2002 levels.

The latest semi-annual MasterCard Survey of Consumer Confidence in the Asia-Pacific region indicated that Japanese consumer sentiment has been trending upwards, although it remains in the pessimistic range (a reading of less than 50, on a scale of 1 to 100). The latest score for Japan reached a record high of 47.6, up from 31.8 six months earlier, and 17.4 the previous year. The historical average for the Japanese market is 22.7. Consumer sentiment regarding the stock market posted the highest score (68.8), and the outlook regarding the economy scored within the optimistic range, as well (51.6). However, sentiments regarding employment (43.9), quality of life (34.9), and regular income (38.7) rated much lower.

Korea

Korean Air (KAL) posted a net profit of 15.5 billion won (CDN\$17.5 million) in its second quarter ended June 30, 2004. This represented an 82.9% decline from the 90.6 billion won (CDN\$102.4 million) profit reported in the same quarter of 2003. Revenues from its international passenger business surged by 53.4% during the quarter, but domestic revenues declined 11%, partly because of a new high-speed rail service between Seoul and Pusan. KAL stated that oil prices were also a challenge to profits, as they have been for all airlines, but that the region's continuing economic recovery should provide a strong boost to demand and help the airline offset the impact of higher fuel costs.

On Aug. 2, KAL's pilots' union voted to strike over a wage dispute, although a date has not been set. According to a Reuters report, South Korea typically faces a rise in union action during the summer season, because it is traditionally the time when wage negotiations take place. KAL said that a strike would cost the airline about 20 billion won per day in lost revenue.

Demand for outbound travel continued to build steam through June and July, suggested the latest figures by the Korea National Tourism Organization (KNTO). In June, Korean outbound departures rose 47.2% compared with a year earlier, and in July they rose 23%. Outbound travel from Korea had recovered quickly from a few months of contracting volumes associated with SARS in 2003, and by July of last year, it was already posting year-over-year growth.

The number of wealthy South Koreans is on the rise, stimulating demand for overseas travel, despite Korea's relatively sluggish economy, according to the Financial Times. In addition, the Korean travel market received a boost this year when the workweek was reduced from 5.5 to 5 days. This made weekend trips more accessible. Hana Tour, the country's largest wholesale travel agency, reported that its operating profits were surging, with strong growth expected through the remainder of this year.

The latest semi-annual MasterCard Survey of Consumer Confidence in the Asia-Pacific region indicated that Korean consumer sentiment has fallen since the previous survey six months ago (from 43.6 to 40.7), and remains well below the historical average (55.0). Sentiments regarding regular income were just barely optimistic (51.5), while sentiments regarding the economy (39.5) and employment (36.3) scored much lower.

China

Chinese airlines saw a combined profit of 5.2 billion yuan in the first half of 2004, according to the General Administration of Civil Aviation of China (CAAC). In comparison, the airlines' losses for the same period in 2003 totalled 3 billion yuan, due to the effects of the region's SARS outbreak. Passenger numbers increased 39.3% in the first half of 2004, compared with a year earlier, and are expected to rise 28% to 112 million for the full year of 2004. However, CAAC stated that the pace of development of China's aviation infrastructure cannot keep up with demand, and is a significant constraint on the growth of air travel in the country.

China opened the new state-of-the-art Baiyun International Airport in Guangzhou, located in the country's southern region, on Aug. 5, 2004. As the country's largest airport, it can accommodate 25 million passengers per year. It also has the potential to challenge the position of Hong Kong International Airport as the second-largest hub in Asia. Once the second phase of the airport is completed in 2010, the airport will have the capacity to serve 80 million passengers annually.

Seasonal power shortages in Shanghai and other areas of China appear to have a very positive spin-off effect for the Chinese travel market. According to China Daily, Chinese travel demand grew tremendously this summer, as rotating blackouts forced thousands of companies to temporarily halt operations and give their employees a week's vacation. In Shanghai alone, this practice affected an estimated 600,000 local families, many of whom took a holiday trip during the allotted time off. Chinese officials have said that soaring power loads during the summer months are largely due to the high use of household air conditioners, combined with increasing power consumption in the industrial sector.

Chinese outbound travellers are becoming increasingly interested in shopping for luxury goods when they travel, according to a recent article in *The Economist*. These travellers tend to be relatively budget-conscious about accommodation and meals, but enjoy shopping for expensive, high-status goods. The article noted that attitudes towards luxury in China have "changed dramatically" in the last several years.

Australia

Qantas Airways, Australia's flag carrier, posted a net profit of A\$648.4 million (CDN\$597.6 million) for its fiscal year ended June 30, 2004, a record full-year profit for the airline. In 2003, Qantas posted a net profit of A\$343.5 million (CDN\$316.6 million), almost half of what it earned in 2004. For the fiscal year, passenger traffic increased 5.3%, while yields dropped 6.4%. Traffic on international routes rose 5.7%. The airline attributed its ballooning profits to stringent cost-cutting and rebounding passenger demand. The airline's low-cost subsidiary, Jetstar, is also performing well, and was expected to become profitable by July, only two months after its launch.

Meanwhile, intense domestic competition has taken its toll on low-cost carrier Virgin Blue, which reported a 22% downturn in profits since April, the beginning of its current fiscal year. The airline declined to provide dollar figures for its latest financial results, but did cite the launch of discount rival Jetstar and high fuel costs as the two main reasons for its declining profits. Virgin Blue also reported that it was in the advanced stages of planning a new international discount airline that would compete with Qantas on long-haul destinations such as Los Angeles, London and Johannesburg.

Australian outbound travel has continued to trend upwards since plunging drastically in May and June of last year, according to the Australian Bureau of Statistics. In May 2004, the number of overall outbound trips increased 51% over May 2003, with outbound leisure trips up 68%. In June 2004, outbound trips jumped 44%, with leisure trips surging 70% over the previous year.

The latest MasterCard Survey of Consumer Confidence in the Asia-Pacific region suggested that consumer confidence in Australia has fallen from its record high six months ago. Specifically, the overall level was 63.4 compared with 80.9 in the previous survey. Consumer sentiment regarding regular income remained high (81.3), while sentiment regarding the economy (62.9) and employment (61.1) scored lower. Sentiments regarding the stock market plummeted to 46.0. The historical average for overall Australian consumer confidence is 56.8.

Economic Overview

North America

According to Consensus Forecasts, the North American economy is expected to expand by a solid 4.4% in 2004, due primarily to the strong growth expected for the U.S. economy. However, combined with high oil prices, surging economic growth is expected to force central banks to raise interest rates in an effort to curb inflation. Unfortunately, higher interest rates are expected to dampen the growth of consumer spending in 2005.

The Conference Board of Canada expects the Canadian economy to expand by 3% in 2004 and a further 3.2% in 2005. While the latest Conference Board outlook does not expect the value of the Canadian dollar vis-à-vis the U.S. dollar to increase significantly between now and the end of the year, it also does not expect that the Canadian dollar will depreciate significantly during 2005 as the interest rate differential between the two countries narrows.

In the U.S., real consumer spending is poised to expand by 3.8% this year and a further 3.3% next year. U.S. households are expected to continue to spend next year, despite climbing interest rates, because of rising wage income, a result of the rebound in U.S. labour markets. However, a critical factor that could restrain consumer spending over the near term is energy prices. While the Conference Board expects oil prices to ease later this year, spiking prices have already affected U.S. consumer spending. In fact, since the start of this year, consumer expenditures on energy products and services have skyrocketed by U.S.\$50 billion to reach U.S.\$450 billion.

Early Signs of a Tourism Recovery

Mexico's economic outlook has been bolstered by strong growth expectations in the U.S. economy. As well, real private consumption is expected to expand by 4% in 2004 and a further 4.1% in 2005.

Europe

The expanding global economy continues to support the recovery of economic activity in Europe, although the pace of growth remains sluggish. The latest Consensus surveys show that real gross domestic product (GDP) in the Eurozone is expected to rise 1.7% in 2004 and 2.0% in 2005. Low core inflation and relatively low interest rates are supporting economic growth, but escalating oil prices and high unemployment continue to exert downward pressure. In the U.K., GDP growth expectations have been recently upgraded because the pace of growth recorded in the first quarter of 2004 was stronger than originally forecast. On the other hand, household consumption was slightly weaker than expected.

Asia-Pacific

Buoyed by an expected 8.7% growth in the Chinese economy, real GDP in the Asia-Pacific region is anticipated to expand by 5.1% in 2004 before slowing to 3.3% in 2005. The expanding global economy is a positive factor supporting economic growth across the Asia-Pacific region, where many countries are highly export oriented. However, export demand in the region may lose some steam as China's economy slows and interest rates in the U.S. rise. Concerns are mounting that China's economy may be headed for a hard landing, as the tightening measures implemented to rein in China's robust economic growth take hold. Meanwhile, the second quarter Bank of Japan's Tankan survey of Japanese business sentiment registered its highest reading since 1991. While Japan's economic growth has been robust, some analysts believe that it may have already peaked, as some indicators suggest a deceleration in activity.

Opportunities

Hotel chain efforts to encourage consumers to book through their websites appear to be paying off, suggests a new report by J.D. Power and Associates. The 2004 North America Hotel Guest Satisfaction survey revealed that guests who book their hotel room directly on the hotel's website report significantly higher satisfaction with their stay than those who make their reservations through an independent travel site. The findings also revealed a large jump in on-line hotel bookings among hotel guests: 36% of the respondents who had made hotel reservations in 2004 used the Internet to make their bookings, up from 20% in the 2003 survey. The report also noted that those who make on-line hotel bookings were more likely to make the reservation on a hotel chain's website, rather than a third-party travel site.

A key factor in the decision-making process for on-line hotel booking is access to photos of the hotel and hotel rooms, according to a recent survey by Hotels.com. Of those polled, 67% indicated they feel more comfortable seeing a photo of the property when booking a room over the Internet. The two most important concerns among consumers when booking a hotel room on-line were the location of the hotel and the accuracy of the website description.

Meanwhile, the latest Metropoll X study by Gerard Murphy & Associates shed light on the factors that influence meeting planners when choosing a meeting destination. By far, the most important factors involved meeting logistics, such as: convenient airline service (selected by 83% of respondents); availability of good hotels that are easy to get to (79%); food and lodging costs (74%); and overall travel costs (73%). Interestingly, the factors that relate more to attendee experiences, such as climate and good restaurants, were deemed to be much less important (selected by 37% and 35%, respectively).

Summary

The solid upward trend in travel demand witnessed during the spring and summer of this year suggests that the tourism industry is currently in the midst of a long-overdue recovery. Despite skyrocketing fuel prices and lingering concerns about terrorist threats, travellers have increasingly taken to the roads and the skies. Fortunately, the recovery is expected to continue strengthening throughout the remainder of the year.

While the increase in demand is indeed welcome, most Canadian tourism suppliers will agree that further growth is still necessary to establish a comfortable operating environment. Aside from finding ways to enhance and stimulate growth opportunities within the domestic marketplace, the industry will need to take on a more active role (along with various levels of government and the Canadian Tourism Commission) in finding ways to maximize scarce marketing dollars in an effort to recapture a larger share of travellers from key international markets. Doing this will require longer-term growth strategies that look beyond the current travel rebound.

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