CTC Tourism Intelligence Bulletin – Issue 26: January 2005

The Tourism Intelligence Bulletin continues to monitor the tourism industry around the world. This issue reveals tourism intelligence gathered in November and December 2004, as well as early January 2005.

Signs of Recovery More Widespread

Executive Summary

- Canada's tourism industry made solid progress in 2004 and, by most accounts, the recovery now appears firmly rooted. However, the recent tsunami disaster in the Indian Ocean proved yet another reminder of the vulnerability of the global tourism industry. Tourism in the affected regions of south and southeast Asia is expected to be the hardest hit, and although early economic analysis suggests the global impact of the disaster may not be that significant, it masks the enormous human tragedy resulting from the tsunami.
- One year ago, after suffering through its own set of challenges in 2003, Canada's tourism industry looked to 2004 with cautious optimism. Fortunately, the collective effort to rebuild confidence after the severe acute respiratory syndrome (SARS) outbreak appeared to pay off, as overseas arrivals from most of Canada's key markets exceeded expectations during 2004. Despite the rapid rise of the Canadian dollar, which prompted many more Canadians to travel abroad, Canada's domestic travel industry was able to hold its own. Unfortunately, the rebound in U.S. travel fell short of many operators' expectations.
- The relative speed with which international arrivals have rebounded suggests that much of the pent-up demand for international travel to Canada may have already been released. Still, looking ahead into 2005, the industry appears much more optimistic than it has for a long time. The upward trend in demand and revenues is expected to continue gaining steam through this year, although it may take a little longer for profitability to catch up.

Emerging Trends and Issues - Today's On-line Travel Market Only Tip of the Iceberg

- Internet travel bookings are still expanding at a steady rate, and offer a significant as-yet-untapped revenue potential for the industry. While growth in Internet usage for researching vacations appears to have levelled off somewhat, the number of travellers prepared to book parts of their trip on-line continues to rise.
- JupiterResearch recently forecast that U.S. on-line travel purchases would reach U.S.$54 billion in 2004, and account for 23 per cent of the year's total U.S. travel revenues. By 2009, this market segment is expected to balloon to U.S.$91 billion and account for one-third of all U.S. travel purchases.
- While the on-line travel environment remains intensely competitive, travel suppliers are becoming increasingly savvy about on-line distribution. Some suppliers have negotiated much more equitable terms in their partnerships with on-line travel agencies, while other suppliers have taken a hardline approach, insisting that all on-line bookings come directly through their own websites. Obviously, businesses must determine which on-line strategies work best for them.

Contents

The Conference Board of Canada
Insights You Can Count On

Canadian Tourism Commission
Commission canadienne du tourisme

Consumer (Traveller) Overview

- Heading into 2005, the outlook for leisure travel remains solid, with Canadians remaining upbeat about economic and employment prospects. Looking further ahead towards this summer, travel intentions appear strong, according to the latest Travel Intentions Survey by The Conference Board of Canada. While intentions for domestic and international travel appear similar to last year, it may not be surprising to find the strong Canadian dollar (vis-à-vis the U.S. dollar) is encouraging more Canadians to consider a trip south of the border.
- In the United States, leisure travellers remain enthusiastic about travel as well. Buoyed by positive economic prospects and increased traveller security, Christmas holiday trips were expected to reach record high levels, according to the American Automobile Association (AAA). Furthermore, leisure travel volumes were expected to continue rising throughout the winter season, according to the latest Travel Industry Association of America (TIA) seasonal forecast. In fact, TIA noted that leisure travel volumes have been steadily expanding over the past four years and are now 11 per cent higher than in 2000. The TIA also forecast that growth in U.S. leisure travel volumes would reach 2.9 per cent for the full year of 2004, and gain a further 2 per cent in 2005.
- Meanwhile, the North American business travel environment over the past six months has been very encouraging and may rebound to levels last seen before the Sept. 11 terrorist attacks, according to Carlson Wagonlit Travel. The agency's Business Travel Barometer survey showed that 34 per cent of Canadian and U.S. business travellers polled said they anticipate taking more business trips in 2005. Furthermore, over 60 per cent of travel managers polled expect their company's travel expenditures to increase this year.

Travel Supplier Overview

- Just prior to Christmas, the Greater Toronto Airports Authority reported that passenger traffic at Pearson Airport, Canada's largest hub, was expected to increase significantly over the Christmas holiday travel period. Unfortunately, a winter storm moved into Southern Ontario on Dec. 23, causing hundreds of international and domestic flight delays just as the holiday rush was hitting full swing.
- South of the border, the U.S. airline industry appears to be in as much financial trouble as it was a year ago, with no end to the problems in sight. Of the major U.S. carriers, United, US Airways and ATA Airlines remain under Chapter 11 bankruptcy protection, while others scramble to reduce operating costs and boost internal efficiencies to avoid the same fate. All of the major airlines are intensifying their focus on minimizing labour expenses, which is taking its toll on staff morale and, consequently, on customer satisfaction as labour conflicts escalate. An increase in overseas travellers, which is boosting traffic on lucrative international routes, has been the one bright spot in otherwise deteriorating conditions.
- Meanwhile, the Canadian hotel industry appears more optimistic than it has for a while. During the fall of 2004, the industry enjoyed further gains in occupancy, daily rates and revenues, primarily as a result of a rise in business travel volumes. Many lodging companies are rebounding from the heavy losses sustained in 2003, despite a weaker than expected rebound in the U.S. market. The industry's profitability, anemic in 2003, gained considerable strength in 2004 and looks poised for stronger growth this year.

Economic Overview

- Growth in the North American economy is expected to slow to 3.4 per cent in 2005 as Canada, the U.S. and Mexico all record slightly weaker growth. In both Canada and the United States, rising interest rates will contribute to moderate economic growth, while slower export activity will subdue the Mexican economy following the decelerating economic growth in the key U.S. market. In Canada, the steep rise of the loonie, combined with high energy prices, had already contributed to a slowdown in economic growth by the end of 2004. The continued strength of the Canadian dollar is expected to play a big part in dampening economic growth in 2005. Fortunately, inflation is expected to remain in check and allow the Bank of Canada to postpone raising interest rates until the latter half of 2005. This should bode well for Canadian consumers. In fact, consumer spending, driven by solid employment growth, wage gains and low financing rates, is expected to be the economy's stabilizing force during 2005.

- The ongoing strength of the euro vis-à-vis the U.S. dollar is the main reason cited for weaker economic growth in Europe this year. Even exports from lower cost producers like Poland are feeling the pinch of the strong currency, particularly in the face of stiff competition from China, whose yuan remains pegged to the dollar. Combined with the anticipated slowdown in global demand, export growth in Europe is expected to slow significantly. As a result, European exporters will turn to cost-cutting in order to remain competitive. This is expected to slow wage growth and increase layoffs, and in the process dampen household spending.
- The slowdown in the global economy also implies that the export-driven economies of the Asia-Pacific region will record slower growth this year. Specifically, the latest consensus suggests real economic growth in the Asia-Pacific region will expand 3 per cent during 2005, a far cry from the 5 per cent growth witnessed during 2004. The impact of the Dec. 26 tsunami will add an element of uncertainty to these estimates, although it now appears that its effect on overall economic growth in the region will be minimal.

Opportunities

- British travellers are becoming increasingly adventurous when it comes to choosing vacations, according to a new poll by the Daily Telegraph Adventure Travel & Sports Show. Adventure activities such as diving and trekking are growing in popularity, while interest in beach vacations wanes. The driving factor in choosing an adventure vacation destination is the interest in trying something new, while some look for a way to escape the boredom of their routine lives or their stressful jobs.
- According to the Canadian Gay and Lesbian Chamber of Commerce, the recent Supreme Court rulings allowing same-sex marriages have given Canada the image of being a gay-friendly destination. The Chamber estimated that this new image could generate an additional $1 billion in tourism revenues for Vancouver, Toronto and Montreal alone over the next three years. They added that gay tourists are not only seeking to get married, but are also interested in entertainment, sports, leisure, northern adventures, as well as Canada's various gay pride events. The Chamber plans to work with governments and businesses to market Canada as a pro-gay destination.

In Brief

Canada's tourism industry made solid progress in 2004 and, by most accounts, the recovery now appears firmly rooted. However, the recent earthquake and resulting tsunami disaster in the Indian Ocean proved yet another reminder of the vulnerability of the global tourism industry. Tourism is expected to be the hardest hit industry in the directly affected regions of south and southeast Asia. Although early economic analysis suggests the global impacts may not be that significant, it masks the enormous human tragedy resulting from the tsunami.

Over and above the tremendous outpouring of humanitarian effort, the tragedy is showing how the global tourism industry has learned from past tragedies to work collectively to overcome adversity. One year ago, after suffering through its own set of challenges during 2003, Canada's tourism industry looked to 2004 with cautious optimism. Fortunately, the collective effort to rebuild confidence after the severe acute respiratory syndrome (SARS) outbreak appeared to pay off, as overseas arrivals from most of Canada's key markets exceeded expectations during 2004. Even despite the rapid rise of the Canadian dollar, which incited many more Canadians to travel abroad, Canada's domestic travel industry was able to hold its own during 2004. However, from the industry's perspective, the rebound in U.S. travel fell short of expectations.

Some of the reasons for the weakness in the rebound of the U.S. travel market include the 2004 election, the depreciation of the U.S. dollar , high gas prices that discouraged auto travel to Canada, and the release of U.S. travellers' pent-up demand for overseas travel that had accumulated over the previous three years.

Still, Canada's tourism industry benefited in 2004 from the release of pent-up demand for international travel to Canada. However, much of that demand has run its course, so the industry will have to look to the more traditional factors, like economic ones, for clues to success in 2005. Marketing is still an important traditional factor, although the means by which the message is most efficiently conveyed is becoming less traditional. Consumers' growing use of and satisfaction with Internet travel purchases suggest this is one trend that cannot be ignored.

Emerging Trends and Issues

Today's On-line Travel Market Only Tip of the Iceberg

Despite recent media reports stating the on-line travel market is beginning to cool, Internet travel bookings are still expanding at a steady rate, particularly in Canada. As the market continues to mature, consumers are becoming more sophisticated Internet users and feel much more comfortable buying travel products on-line. Internet travel bookings have seen explosive growth over the past several years, yet there are clear signs that today's on-line travel market is only the tip of the iceberg.

A recent Conference Board Travel Intentions Survey showed that 40 per cent of Canadians planning a winter vacation this year intended to use the Internet to book at least part of their trips, while 63 per cent of vacationers said they would obtain information about their winter trips on-line. This was up from 36 per cent and 62 per cent in September 2003, respectively. Growth in Internet usage for researching vacations appears to have levelled off somewhat, but the number of travellers prepared to book parts of their trips on-line continues to rise.

In fact, there appears to be a sizable reservoir of untapped potential in the Canadian market. According to Statistics Canada, growth in overall Internet usage is indeed levelling off, having risen only 5 per cent between 2002 and 2003. However, electronic commerce transactions jumped 20 per cent during the same period, resulting in a 25 per cent spike in on-line spending that pushed sales over $3 billion. StatsCan estimates that 7.9 million households-that is, 65 per cent of all Canadian households-used the Internet regularly last year, but only 26 per cent purchased goods or services on-line, leaving plenty of room to expand Canada's e-commerce market.

High-speed Internet access-for most consumers, a necessary component of on-line purchasing-continues to expand rapidly as well. In 2003, high-speed connections made up nearly two-thirds (65%) of all Canadian Internet connections, up from 56 per cent a year earlier and 35 per cent in 2002. This has undoubtedly helped boost the steep incline in on-line purchases: StatsCan estimates that the bulk of last year's e-commerce transactions (72%) were conducted via high-speed access.

Travel products are top on-line expenditure in the United States

Interestingly, travel bookings are only the second most popular type of on-line purchase in Canada, falling behind publications (i.e. books, magazines and newspapers). In the United States, by far the world's largest e-commerce market, travel is the most popular type of on-line purchase. According to comScore Networks, an on-line market research firm, travel now accounts for nearly half of all U.S. on-line expenditures-up from about a third in 2001.

In fact, according to the Travel Industry Association of America (TIA), 56 per cent of U.S. adults-120 million Americans-use the Internet, and the vast majority of this group (83%) are travellers. While the upward trend of Internet usage in the United States for researching trips plateaued two years ago, the growth in on-line bookings remains steady. In 2004, 31 per cent of American travellers reported that they book their trips on-line, up from 29 per cent in 2003 and 27 per cent in 2002.

Furthermore, the adoption of high-speed Internet access continues to skyrocket in the U.S, according to Nielsen//NetRatings. In July 2004, 51 per cent of American Internet access was high speed (often referred to in the United States as "broadband") up from 38 per cent in July 2003. Between the fourth quarter of 2003 and the third quarter of 2004, U.S. broadband access increased by a whopping 2 million subscriptions per quarter. In 2005, the rapid expansion of broadband access is expected to grow at a similar pace, rising by an average of 1.75 million subscriptions per quarter.

All of these statistics boil down to one important fact for Canadian travel suppliers: the on-line travel market continues to expand, offering a great deal of as-yet-untapped revenue potential. In fact, there is plenty of evidence to suggest that growth in travel purchases will be significant for years to come. JupiterResearch recently forecast that U.S. on-line travel purchases would reach U.S.$54 billion in 2004, up from U.S.$46 billion in 2003, and account for 23 per cent of the year's total U.S. travel revenues. By 2009, this market segment is expected to balloon to U.S.$91 billion and account for one-third of all U.S. travel purchases.

The Consumer Mantra: "You Better Shop Around"

Over the past few years, it has become abundantly clear that consumers who purchase travel on-line are driven primarily by price and are less loyal to brands than ever. While they prefer to shop around to ensure they receive the best deal possible, many can be swayed by "best rate" guarantees. On average, travellers will research an average of two to three websites to find the best travel deal, according to the Consumer Survey Report by JupiterResearch. However, if the rate on the supplier site is equal to the price on a third-party site, the consumer is more apt to book on the supplier site. The report also noted that U.S. consumers are not as receptive to bundled travel products (also know as dynamic packaging) because they believe they can get a better deal buying components separately.

The latest National Travel Monitor by Yesawich, Pepperdine, Brown & Russell suggests that consumers primarily look for three specific features in a travel website: the ability to check for lowest rates, a grace period allowing for cancellations without a penalty, and simultaneous displays of fares and rates of competing suppliers. Websites should also clearly communicate their website security measures to customers, as security of credit card information is by far the top concern among consumers regarding on-line travel purchases.

While the on-line travel environment remains intensely competitive, travel suppliers are becoming increasingly savvy about on-line distribution. In this respect, some suppliers have negotiated much more equitable terms in their partnerships with on-line travel agencies, while other suppliers have taken a hardline approach by shunning third-party sites altogether, insisting that all on-line bookings come directly through their own websites. Obviously, businesses must determine which on-line strategies work best for them. However, successful businesses are sure to be those that recognize the further potential of this market, and design their websites to cater to the ever-expanding number of web-booking travellers.

Consumer Overview - Canada and the United States

Business Travellers

North American business travel over the past six months has been very encouraging and may rebound to levels last seen before the Sept. 11 terrorist attacks, according to Carlson Wagonlit Travel (CWT). In fact, the agency's Business Travel Barometer survey showed that 34 per cent of Canadian and U.S. business travellers polled said they anticipate taking more business trips in 2005. Furthermore, over 60 per cent of travel managers polled expect their companies' travel expenditures to increase this year.

Corporate event spending is beginning to trend upwards as well, according to a survey conducted by Special Events magazine. Of the corporate planners polled, 38 per cent said their special events budgets had increased in 2004, while a further 33 per cent said they remained on par with 2003. Only 19 per cent reported that their budgets had decreased. Looking ahead, 37 per cent of respondents anticipate their budgets for 2005 to increase, while 43 per cent expect them to remain the same. Most respondents (68%) believe their organizations will stage about the same number of events in 2005, and a further 28 per cent expect the number to increase.

A similarly upbeat mood was found among members of the Trade Show Exhibitors Association (TSEA), according to a recent article in Corporate Meetings & Incentives magazine. The Exhibit Management Survey of TSEA members showed that 35 per cent of respondents believe event attendance has recovered to year-2000 levels, while a further 23 per cent expect that recovery to occur by June 2005. Only 5 per cent believe the industry will never recover to 2000 levels, while 29 per cent do not know. Furthermore, 81 per cent of respondents were confident that their trade shows' return on investment had risen in 2004 compared with the previous year.

A recent survey of U.S. meeting planners indicated that a majority of planners believe their meetings have stabilized in number, while being increasingly confident that their booking lead times and budgets are expanding. According to PKF Consulting's Trends in the Hotel Industry report, about three-quarters of the meeting planners polled said their budgets for 2004 had either risen (38%) or stayed the same (45.4%) compared with 2003. In 2005, 45.4 per cent are expecting further budget increases, while 48.4 per cent anticipate their budgets will remain the same. The survey also revealed that booking lead times continue to lengthen, climbing upwards to an average of 23.4 months in advance in 2004, compared with 21.6 months in 2003.

U.S. business travel volumes were expected to post growth of 4 per cent for the full year of 2004, registering the first increase since the year 2000, according to the latest annual forecast by the Travel Industry Association of America (TIA). In 2005, further growth of 3.6 per cent in expected. The TIA stated that the strengthening U.S. economy and relaxed corporate travel restrictions are the two primary drivers of growth in business travel.

According to the latest TIA seasonal forecast, U.S. business travel volumes are expected to rise 3 per cent during the December 2004 to February 2005 winter period. While corporate travel continues to trend upwards from the depressed levels in 2001 and 2002, the number of U.S. business trips expected this winter is still about 20 per cent lower than the same period in 2000.

The TIA also reported that the National Federation of Independent Business recently saw its Small Business Optimism Index climb to its highest level since 1983. In the November survey, the index rose almost 4 points to 107.7, driven primarily by expectations of a pickup in economic growth and stronger sales.

Meanwhile, a recent study of business travellers' on-line purchasing habits revealed a preference for the on-line experience provided by supplier websites, despite more frequent visits to on-line travel agencies. A survey by Keynote Systems suggested that more business travellers (40%) begin their on-line booking process by consulting a specific on-line agency (Expedia being the leading site of this type), although many go on to book their travel on airline, lodging or car rental websites. A further 20 per cent begin their searches at a supplier site, while another 20 per cent start at search sites. According to Keynote, business travellers are more satisfied with supplier sites because they offer more services and options.

Another recent survey suggests that a majority of American business travellers book their trips on-line, but still require the services of live travel agents to help manage their bookings. A survey for Travelport Corporate Solutions indicated that 52 per cent of U.S. corporate travellers polled now book their business trips on-line, although less than a third (29%) will make changes to their bookings on-line. Respondents preferred to speak with a live agents to conduct activities such as confirming their on-line bookings, updating travel plans (especially while on the road), and handling certain requirements that on-line booking systems cannot.

Leisure Travellers

Canadian consumers remained upbeat heading into the winter travel season, according to The Conference Board of Canada's December 2004 Index of Consumer Confidence. Canadians believed that prospects for economic growth and employment would remain positive over the next six months, although rising interest rates prompted more Canadians to believe that now is not a good time to make a major purchase. However, with economic growth stagnating in October and November of 2004, interest rate increases will likely be put on hold for the next few months.

Meanwhile, a pre-Christmas survey by Expedia.ca/Ipsos-Reid indicated that 70 per cent of Canadians planned to travel over the holiday season, up from 54 per cent the previous year. Of those taking a trip, 38 per cent said they planned to travel within Canada, 20 per cent planned a trip to a U.S. destination, and the remaining 42 per cent planned to travel to other countries. The survey results also suggested that the appreciation of the Canadian dollar influenced almost half of the survey respondents (46%) to take a trip outside of the country, either over Christmas or sometime in 2005.

The number of Canadians visiting ski resorts continues to rise, according to the Canadian Ski Council. Last winter (2003/2004), Canadian resorts saw a record 19.5 million visits, despite a decline in American and other international visitors. B.C. saw the highest increase, up 10.3 per cent over the previous season, while Alberta resorts saw their visits rise by 3 per cent. A new ski resort in Nova Scotia helped boost ski visits in Atlantic Canada by 8.6 per cent. Central Canadian resorts posted a decrease in visits, but less-than-stellar snow conditions likely played a role in this decline. Overall annual visits have been trending upwards since 1996.

Looking ahead to the summer of 2005, the outlook for Canadian travel appears quite stable, according to the December 2004 Travel Intentions Survey by the Canadian Tourism Research Institute. Overall, 69 per cent of Canadians polled said they planned to take a summer trip this year. This represents a slight dip compared with December 2003 (73%), but last year's results reflected the pent-up demand for travel that followed the SARS outbreak. Domestic travel intentions appeared to be about the same as in last year's survey: 66 per cent of those planning a summer trip said they would choose a Canadian destination. Plans for trips to the United States were slightly higher than in 2003 (16% in 2004 vs. 14% in 2003), while plans for travel to other international destinations remained about the same (17%).

In the United States, leisure travellers remain enthusiastic about travel as well. A record number of Americans were expected to travel (50 miles or more) over the Christmas and New Year's holiday period, according to the American Automobile Association (AAA). Buoyed by positive economic prospects and increased traveller security, overall travel volumes were forecast to rise 3 per cent over the same period in 2003. AAA expected that since Christmas Day and New Year's Day both fell on the weekend, more Americans would take weekend getaways. Auto travel was expected to edge upwards by 2.9 per cent compared with the previous year, and air travel by 3.5 per cent. AAA anticipated that travel by other modes (train, bus, etc.) would increase 5 per cent.

American travellers also planned to increase their holiday travel spending this year, according to a recent poll by Maritz Research Hospitality Group. The study suggested that those travelling over the 2004 holiday period would spend 25 per cent more than they did during the same period in 2003. Maritz attributed this increase to a 10 per cent jump in air travel, compared with last year's survey, as well as a rise in hotel stays (at higher rates) and dining out. According to Maritz, travellers had more discretionary money to spend over Christmas this year than they did last year.

U.S. travel volumes are expected to continue rising throughout the winter season, according to the latest TIA seasonal forecast. Overall leisure travel volumes are expected to climb 2.5 per cent during the December 2004 to February 2005 travel period. The TIA noted that leisure travel volumes have been steadily expanding over the past four years and are now 11 per cent higher than in 2000. A positive economic outlook is helping to sustain U.S. consumer confidence, ensuring that "travel remains high on Americans' activity list." The TIA also forecast that growth in U.S. leisure travel volumes would reach 2.9 per cent for the full year of 2004, and gain a further 2 per cent in 2005.

Americans are releasing pent-up demand for overseas travel, according to a recent article on CNN.com. The European Travel Commission estimated that American visits to Europe rose 20 per cent in 2004, compared with 2003, and nearly reached the record set in 2000. Furthermore, Americans have been travelling to more exotic European destinations and have shown a greater interest in the continent's history and culture.

The article also mentioned that Americans appear more interested in "soft adventure" activities while on vacation, such as family whitewater rafting trips. Executives from AAA Travel and Outside magazine noted that these travellers look for exciting and interesting activities during the day, but want to return to comfortable lodgings in the evening.

The latest Nielsen//NetRatings indicate that 68 million Americans (46% of all U.S. web surfers) visited travel websites in November 2004-a 13 per cent increase compared with the same month in 2003. MapQuest was ranked the most popular travel site, visited by about 31 million web surfers, followed by Expedia (14 million), Travelocity (11 million), Orbitz (nearly 11 million) and Southwest Airlines (7 million).

Travel Supplier Overview - Canada and the United States

Airlines - Canada

Just prior to Christmas, the Greater Toronto Airports Authority (GTAA) reported that passenger traffic at Pearson Airport, Canada's largest hub, was expected to increase significantly over the Christmas holiday travel period. Unfortunately, a winter storm moved into Southern Ontario on Dec. 23, causing hundreds of international and domestic flight delays just as the holiday rush was hitting full swing. While Air Canada experienced a significant number of cancellations and delays affecting routes across the country, Jetsgo appeared to bear the brunt of the storm's impact. The low-cost carrier was forced to cancel more than 30 flights by Christmas Eve, which affected about 3,000 passengers.

In December 2004, Air Canada's overall revenue passenger miles (RPMs) rose 1 per cent, compared with a year earlier. Domestic passenger traffic remained almost on par with 2003 levels (up 0.4%), while growth on Atlantic routes climbed 5.1 per cent. Meanwhile, traffic on U.S. transborder routes declined 8.2 per cent, while international Pacific routes dropped 3.1 per cent. The airline scaled back on its seat capacity by 3.3 per cent, which allowed it to record its ninth consecutive month of record load factors in year-over-year comparisons (up 3.2 percentage points to 75.2%).

Air Canada has been directly benefiting from the tighter visa and security rules imposed by the U.S. government, according to a recent article in the Financial Times. The carrier reported that a growing number of overseas travellers are choosing to transfer through Toronto, Vancouver and Montreal rather than U.S. cities when travelling to Latin American destinations, to avoid U.S. security hassles. This trend contributed to a threefold increase in the airline's passenger traffic to South America in 2004, compared with a year earlier. Rising passenger volumes between Japan and Brazil accounted for a large portion of this increase.

WestJet's performance bounced back in December after suffering a blow the previous month, when computer problems caused on-line bookings to fall. Bucking the industry trend of scaling back (or eliminating) travel agent commissions, WestJet increased the commission paid to agents for global distribution system (GDS) bookings from 5 to 9 per cent in November. It also streamlined its booking system so that agents now earn a 9 per cent commission whether bookings through the carrier's website, or through the GDS.

Table 1. Airline Revenue Passenger Miles (RPMs) and Capacity - December 2004

Airline	RPM (in millions) December 2004	RPM change 2004 vs. 2003	Capacity 2004 vs. 2003
Air Canada Mainline (includes Jetz)	3,1639	+1.0%	-3.3%
Air Canada Regional (Jazz)	137	+6.2%	+4.9%
WestJet	641	+34.5%	+32.4%

The GTAA released its 2005 fee schedule in December 2004, announcing a 17 per cent increase in landing fees for Canada's key air hub, compared with 2004. The increase has been roundly criticized by the airline industry in light of the industry's recent financial struggles, but the airport authority said it needed to recover some of the costs involved with its new terminal. According to the Air Transport Association of Canada, Pearson is now the world's fifth most expensive airport in terms of airline fees.

To compound the issue of airline fees, the federal government raised Crown rents at federally owned Canadian airports by 6.5 per cent as of Jan. 1, 2005, according to the Canadian Travel Press. Since Sept. 11, 2001, airport rents have increased by 25 per cent.

Calgary International Airport tied with San Antonio International Airport for the top spot as best small airport in the world, according to the latest Global Airport Satisfaction Index Study by J.D. Power and Associates. The survey, which measures overall passenger satisfaction among airports worldwide, ranked Calgary at the top of its class (airports serving under 10 million passengers per year). The airport was commended for its terminal facilities and retail concessions and for its good use of space. Meanwhile, Vancouver and Toronto were included in the study's medium-size category (airports serving 10 to 30 million passengers annually). In terms of passenger satisfaction, the results ranked Vancouver above average, while Toronto ranked below average.

Airlines - U.S.

Heading into 2005, it appears the U.S. airline industry is in as much financial trouble as it was a year ago, with no end to the problems in sight. Of the major U.S. carriers, United, US Airways and ATA Airlines remain under Chapter 11 bankruptcy protection, while others scramble to reduce operating costs and boost internal efficiencies to avoid the same fate. All of the major airlines are intensifying their focus on minimizing labour expenses, which is taking its toll on staff morale and, consequently, on customer satisfaction as labour conflicts escalate. An increase in overseas travellers, which is boosting traffic on lucrative international routes, has been the one bright spot in otherwise deteriorating conditions.

In December 2004, almost all carriers reported gains in passenger traffic, compared with December 2003, but chronically low airfares prevented many airlines from cashing in on the surge in holiday travel demand. To make matters worse, winter storms struck Midwestern states over the Christmas weekend (the same system that hit Southern Ontario), causing hundreds of flight delays and cancellations. On top of the bad weather, unexpectedly high staff shortages created further chaos for US Airways, while a computer breakdown forced Comair (a Delta regional subsidiary) to shut down its operations on Christmas Day, leaving thousands of passengers stranded. The U.S. Department of Transportation subsequently launched an investigation into the two airlines to determine whether consumer protection regulations were breached during the holiday fiasco.

In January 2005, Delta Airlines switched to a new domestic pricing schedule called SimpliFares, which reduced the airline's fares by up to 50 per cent, streamlined its pricing system, and eliminated some remaining ticket restrictions. The changes, which will mainly benefit Delta's business clients, bring the airline closer to a price structure resembling that of a low-cost carrier. The lower fares will also ratchet up the level of competition within the U.S. market as other carriers are forced to march fares on competing routes.

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

Airline	RPM Dec. 2004 vs. Dec. 2003	Capacity Dec. 2004 vs. Dec. 2003
Alaska Airlines	+8.6%	+4.2%
American Airlines	+6.1%	+4.9%
America West Airlines	+8.3%	+7.3%
AirTran Airways	+27.9%	+28.2%
ATA Airlines	-11.0%	-12.4%
Continental Airlines	+7.8%	+7.5%
Delta Air Lines	+5.4%	+6.2%
JetBlue Airways	+34.1%	+34.4%
Northwest Airlines	+7.7%	+7.6%
Southwest Airlines	+10.3%	+12.2%
United Airlines	+2.3%	+3.2%
US Airways	-2.8%	+0.2%

In November 2004, Delta's financial position improved considerably when its pilots' union finally signed a new wage agreement that included a 32.5 per cent pay cut in exchange for stock options. The wage reductions will save the airline U.S.$1 billion per year in operating costs. Delta still plans to cut 6,900 jobs-10 per cent of its workforce-over the next 18 months.

Meanwhile, the outlook for US Airways remains grim. The airline reached an agreement with its flight attendants' union that will save the airline U.S.$94 million in labour costs, but that achievement was overshadowed by the nightmare it faced over the Christmas holiday weekend. The bad weather, combined with an unusually high numbers of flight attendants and baggage handlers calling in sick, forced the airline to cancel nearly 500 flights and created a massive backlog of 10,000 pieces of luggage. The airline asked for staff to volunteer their time over the New Year's Day weekend to help clear up the backlog and greet passengers to ensure the expected rush went more smoothly.

United Airlines warned that it teetered dangerously close to liquidation because of stubbornly high labour costs. The airline stated that it was necessary to achieve a further U.S.$725-million reduction in labour expenses, on top of the U.S.$2.6 billion it has shaved off since entering bankruptcy protection.

In an effort to boost consumer confidence in air travel, the U.S. government extended a law protecting passengers from the impact of airline bankruptcies. The law stipulates that airlines operating the same route as a bankrupt carrier must honour tickets for that defunct carrier, for a maximum charge of U.S.$25 each way. This law was set to expire in November 2004, but was extended for an additional year in a bill passed by Congress.

Chicago's O'Hare Airport remains the busiest airport in the world in terms of flights, according to the U.S. Bureau of Transportation Statistics. O'Hare handled 992,471 flights in 2004, up 6.6 per cent from 2003, although it ranked very poorly in terms of on-time arrivals and departures. Atlanta's Hartsfield-Jackson Airport was the second busiest airport in 2004, and Dallas-Fort Worth ranked third.

Hotels - Canada

As a new year begins, the Canadian hotel industry appears more optimistic than it has for a long time. During the fall of 2004, the industry enjoyed further gains in occupancy, daily rates and revenues, primarily the result of a rise in business travel volumes. Many lodging companies are rebounding from the heavy losses sustained in 2003, despite a weaker than expected rebound in the U.S. market. The industry's profitability, anemic in 2003, gained considerable strength in 2004, and looks well on the road to recovery this year.

Overall RevPAR (revenue per available room) climbed 4.5 per cent in October 2004, compared with the same month in 2003, according to the latest National Market Report by PKF Consulting. Gains were seen in most regions of Canada, most significantly in Alberta (up 10%). Nationwide, occupancy levels edged up 1.3 percentage points to 65.1 per cent, while average daily rates climbed 2.5 per cent to $114.37.

PKF conducted a survey of major Canadian hotel companies, which revealed growing optimism about the outlook for Canada's lodging industry. A majority of survey respondents (60%) believed RevPAR would grow between 2 and 5 per cent in 2005, while a further 30 per cent believed it would surpass 5 per cent. Most of those polled expected their profitability to increase by more than 5 per cent in 2005, and almost all respondents (90%) said they planned to acquire new assets this year.

A recent survey by the Greater Toronto Hotel Association (GTHA) revealed that Toronto-area hotels have rebounded from the severe impact of the SARS outbreak in 2003, with members reporting occupancy levels surpassing those of 2001. Survey respondents indicated that occupancy for the period of January to September 2004 was 70.71 per cent, up from 60.33 per cent in 2003 and 69.27 per cent in 2001. The GTHA also noted that the region's hotel employment levels appear to be back to normal.

Hotels - U.S.

The current recovery in the U.S. lodging industry did not show any sign of losing steam through the final months of 2004, as revenues, rates and occupancy levels all continued to climb steadily upwards. A depreciating U.S. dollar and pent-up travel demand for the United States is helping to attract more overseas visitors, while domestic business travel demand continues to build: both of these trends are boosting the industry's bottom line. Analysts predict that the upward trend in demand and revenues will continue through 2005, possibly reaching levels not seen since the late 1990s. It will take a little longer, however, for profitability to catch up

Average nationwide RevPAR levels increased 7.1 per cent in November 2004, compared with the previous year, reaching U.S.$47.90, according to the latest data from Smith Travel Research (STR). Occupancy rose by an average of 1.6 percentage points to 56.3 per cent, while average daily room rates jumped 4.2 per cent to U.S.$85.00.

Room rates across the top 50 hotel markets in the United States were expected to increase 3.7 per cent for the full year of 2004 and a further 4.7 per cent in 2005, according to PKF Hospitality Research and Torto Wheaton Research. In their recently updated Winter 2005 Hotel Outlook, they suggest that stronger demand and better on-line price-setting practices are helping hotels achieve solid gains in daily rates. New York City is expected to see the largest rate increases-9.3 per cent in 2004 and a whopping 13.7 per cent in 2005-boosted by soaring occupancy levels. The report also noted that between 2000 and 2003, room rates in these top markets fell 6.4 per cent, contributing to a 36 per cent decline in profits.

A similarly optimistic outlook was presented by Fitch Ratings, a global credit rating firm. Fitch stated that the rebound in business travel emerging in 2004 would continue to boost occupancy and average daily rates, resulting in a steady recovery in hotel profits for the next several years. In 2005 and 2006, demand growth is expected to continue outpacing supply growth, sustaining the supply imbalance that will allow prices to continue rising. Fitch also noted that rising international visits to the United States, helped by more favourable exchange rates (due to the weaker U.S. dollar), would also play a part in the financial recovery of the U.S. lodging industry.

Hilton Hotels Corp. recently reported that for the first time, the number of monthly web bookings on its corporate website overtook the number booked through its call centre in October 2004. Although web bookings only represented 13 per cent of Hilton's overall bookings, on-line transactions that month increased 30 per cent over the same month of 2003. Meanwhile, transactions made through third-party websites, such as Expedia, fell 3 per cent, and only accounted for 2.5 per cent of Hilton's overall bookings.

Travel Agents

In November, domestic airfares within Canada gained some ground, according to the International Air Transport Association's (IATA) Billing and Settlement Plan, the system of tracking airline tickets sold through Canadian travel agencies. In fact, the average cost of a domestic air ticket increased 5 per cent during November 2004, compared with a year earlier. Meanwhile, airfares from Canada to the United States fell 12 per cent, while airfares to other international (non-U.S.) destinations decreased 8 per cent compared with November 2003.

According to the Air Transport Association, passenger yields (price paid per mile flown) on domestic travel within the United States declined 5.6 per cent during November 2004, compared with a year earlier. On the other hand, airfares on Atlantic and Latin American routes remained similar to the previous year, while airfares on Pacific routes climbed 5.9 per cent.

American Express reported that the average airfare paid by the firm's business travel clients in the third quarter of 2004 fell to the lowest levels seen in five years of tracking. The average one-way fare for the period was U.S.$217, an 11 per cent decline from a year earlier, and 16 per cent lower than in 2001. American Express subsequently announced plans to cut 2,000 jobs in a restructuring that will mainly affect its business travel operations.

Signs of Recovery More Widespread

Many members of the U.S. travel industry are reporting that their business has recovered to levels pre-dating Sept. 11, 2001, according to the TIA's annual Travel Business Status Survey. More than two-thirds of survey respondents said that their volume of travel business is either back to normal (38%) or above normal (31%), compared with the levels seen before the Sept. 11 terrorist attacks. Most respondents (78%) reported an increase in visitor or client volumes in 2004 over the previous year, and even more (82%) expected further increases in 2005. The top three visitor trends in 2004, cited by respondents, were on-line information requests (identified by 82% of those polled), on-line bookings (67%) and booking within two weeks of trip (63%).

A similar sentiment was found among travel professionals polled for the Travel Experts Survey by MLT Vacations. The respondents indicated a "strongly renewed interest in travel" for 2005, citing all-inclusive resorts and family trips as the two most requested types of holidays. The survey results also showed that the attraction tickets most commonly added to vacation packages were theme parks, adventure tours and historical tours, in order of preference.

International Overview - Overseas

United Kingdom and Ireland

British Airways (BA) witnessed a 3.2 per cent rise in overall revenue passenger kilometres (RPKs) during December 2004, compared with a year earlier. Traffic in first and business classes appeared to rally, jumping 6.8 per cent, while traffic in economy classes grew a more modest 2.7 per cent. But in the same month, BA reported that passenger volumes on routes to the Americas declined 1.7 per cent, compared with a year earlier. The airline attributed this drop to unusually high passenger numbers the previous year, when seat sales were offered. A Reuters report indicated that passenger numbers have been improving steadily since last year's downturn, although competition from discount airlines (on short-haul routes) and U.S. carriers (on long-haul routes) is keeping fares low.

Overall, the number of flights in the U.K. increased 4.9 per cent to reach a record high in 2004, according to the National Air Traffic Services (NATS). Transatlantic flights rose 7.4 per cent, while domestic flights rose 4.4 per cent. Arrivals and departures for other destinations climbed 7.5 per cent. NATS stated that the expansion of low-cost airlines helped boost short-haul travel, while the recent recovery in overseas travel encouraged growth on transatlantic routes.

Table 3. Percentage change in passengers carried

Carrier	Dec. 2004 vs. Dec. 2003
British Airways	+ 1.8%
EasyJet	+28%
Ryanair	+ 9%

U.K. travel company First Choice posted a pre-tax profit of GBP£98.3 million (CDN$ 222.2 million) for its fiscal year ending Oct. 31, 2004. While revenues for its mainstream holiday division, which includes U.K. retail, airline and tour operating businesses, fell 1 per cent compared with the previous year, its operating profit increased 5.9 per cent. Retail vacation sales volumes were up 5 per cent, and retail prices rose by an average of 4 per cent. Profit margins from its tour operating businesses climbed to 4.1 per cent-up from 3.8 per cent the previous year.

In November 2004, U.K. ski operators were forced to drop the prices of ski vacations to European and North American destinations because of slower than expected sales, according to TravelMole.com. Operators were expecting demand to be higher after last year's strong winter season, and added more capacity to the market. It was hoped that bookings to Canada and the United States would pick up, in light of the favourable exchange rate. Tour operator Canadian Affair mentioned it was expecting a 36 per cent increase in bookings to Canada in 2005 for this reason.

Meanwhile, a survey of U.K. travel agents by Amadeus found that 76 per cent of respondents said they would switch-sell customers towards preferred travel suppliers. Respondents indicated they would steer clients away from suppliers who have cut commission payments, charge fees, or have direct-sales policies. An even greater number (81%) believed that most suppliers underestimate the influence of travel agents in customer buying decisions.

On-line travel bookings continue to make inroads into British tourism, although consumers still trust agents more than the Internet, according to figures released by the Association of British Travel Agents (ABTA). In 2004, 19 per cent of U.K. leisure travellers surveyed were making their travel bookings on-line, six times more than in 2000. Price was by far the number one reason more travellers were turning to the Internet, although 75 per cent of travellers said they used agents as a source of travel information. Only 57 per cent of all respondents had looked for information on-line, but nearly three-quarters of travellers with broadband access (71%) were apt to browse travel sites for information. Interestingly, ABTA noted that the proportion of leisure travellers indicating that agents' advice is more trustworthy than in the past has increased by 50 per cent since 2002.

For the first time ever, the U.S. Department of Commerce launched a tourism marketing campaign in the U.K., to take advantage of the favourable exchange rate and "help dispel negative perceptions of the country." The campaign, worth U.S.$6 million, invites U.K. visitors to explore U.S. cities seen in popular movies, and features the tag line "you've seen the films, now visit the set."

France

Air France-KLM (the merged airline comprised of Air France and KLM Royal Dutch Airlines), posted stronger profits than expected for its second fiscal quarter ended September 30, 2004. The stronger than expected growth was attributed to a robust recovery following the effects of strikes, the SARS outbreak and the war in Iraq. Net profits for the quarter were EUR€201 million (CDN$318.7 million), up from EUR€143 million (CDN$226.7 million) for the same quarter a year earlier, and passenger traffic jumped 7.8 per cent. The airline noted that merging the two carriers bolstered overall revenues much earlier than anticipated, despite high fuel prices.

Air France-KLM's overall passenger traffic (measure by revenue passenger kilometres) climbed 6.9 per cent in December 2004, compared with the same month in 2003. Meanwhile, capacity increased 5.6 per cent, which resulted in a load factor gain of 1 percentage point to 77.7 per cent. Overall, passenger numbers increased 4 per cent over the previous year. The carrier also announced that it would drop ticket prices for flights out of KLM's main hub, Amsterdam, to all 66 European destinations to better compete with low-cost carriers.

French travellers are most likely to book vacation packages on-line compared with the other two largest European on-line markets, the U.K. and Germany, according to the latest European Travel Monitor. Overall, France accounts for 11 per cent of the overall European on-line market, behind the U.K. (36%) and Germany (22%). According to the latest Nielsen//NetRatings, Internet use in France surged by 9.56 per cent between August and November 2004, the second highest increase in the world (behind Spain) for those three months. By November, the number of French Internet users had reached 15.6 million.

In its latest Market Report for France, the Tourism Australia mentioned that forward bookings for French domestic travel, and ski resorts in particular, were lower than expected for the winter season.

Germany

Lufthansa Group, the parent company of Lufthansa German Airlines, posted net earnings of EUR€125 million (CDN$198.2 million) for its third quarter ended September 30, 2004, compared with a net loss of EUR€17 million (CDN$27 million) a year earlier. Third quarter sales were up by 5 per cent, bolstered by returning air travel demand and ticket fuel surcharges. However, the company noted that the travel environment remained fiercely competitive. Looking forward, the airline expects to moderate planned capacity increases and continue reducing operating costs.

Boosted by a continued recovery in demand on Asia-Pacific routes, Lufthansa's passenger traffic rose 8.5 per cent in December 2004, compared with the same month in 2003. Traffic on routes to the Americas climbed 3.2 per cent. For the full year of 2004, Lufthansa's overall passenger traffic reached a record high, growing 14.7 per cent over the previous year. The airline noted that all regions saw double-digit increases in passenger traffic in 2004.

Germany's second-largest airline, Air Berlin, reported a 19 per cent growth in sales for 2004, boosted by a 20 per cent rise in passenger numbers. According to a Reuters report, the carrier has been increasing its focus on air-only passengers, reducing its reliance on vacation package business in order to take advantage of the rising demand for low-cost travel.

Germany's transportation ministry announced substantial cuts in air traffic control fees as of Jan. 1, 2005. Takeoff and landing fees for German airports dropped 28.3 per cent, and overflight fees came down 20 per cent. Airline fees for air traffic control services increased after Sept. 11, 2001, as air travel demand fell and fees were spread over a smaller number of flights. However, the subsequent recovery has allowed the German government to reduce fees, saving the airline industry about EUR€75 million (CDN$119 million) per year.

Frankfurt Airport served its 50 millionth passenger for 2004 on Dec. 21, marking the first time the airport has surpassed 50 million passengers in a single year. Fraport, the airport's operating company, said it reached the 40-million mark in 1997, and expects passenger levels to reach 60 million by 2010.

The German outbound tourism industry experienced a substantial turnaround in 2004, according to the "German Tour Operators" report by FVW travel magazine. The overall market expanded by 4.4 per cent to EUR€14.6 billion (CDN$23.1 billion), boosted by a 6 per cent increase in outbound travellers. Revenues for package holidays rebounded, growing 4.5 per cent in 2004 after declining 6.1 per cent in 2003. Long-haul trips increased by 7.4 per cent, bolstered by a favourable exchange rate and the diminishing effects of SARS and the war in Iraq. The cruise segment saw the most significant growth, with revenues rising 15.2 per cent.

FVW also reported that Germany's overall leisure travel market clearly recovered in 2004, with tour operator sales rising 6 per cent over the previous year, according to DRV (the country's travel association). Last-minute bookings declined sharply due to widespread early-booking discounts, although the average price of a vacation package dropped EUR€7 to EUR€545 (CDN$864). DRV noted that revenues had not yet reached the benchmark figures of 2000, but the downward sales trends of the last two years appear to have reversed, supporting a very positive outlook for 2005.

Japan

Japan's two main carriers, Japan Airlines (JAL) and All Nippon Airways (ANA), each posted healthy profits for the first half ended September 30, 2004. JAL reported net earnings of 82.9 billion yen (CDN$970 million), compared with a net loss of 57.6 billion yen (CDN$674 million) in the same period a year earlier. ANA's net profit was 29.8 billion yen (CDN$349 million), up from 20.6 billion yen (CDN$241 million) a year earlier.

Both airlines attributed the profit growth to a recovery in passenger traffic on international routes, compared with a year earlier when travel demand dwindled in the wake of the SARS outbreak. Comparing year over year, JAL's international passenger numbers soared by 46 per cent, while ANA's jumped 36.6 per cent. To offset rising fuel costs, both carriers implemented fuel surcharges of up to 2,500 yen (CDN$29.27) on international air tickets in January 2005.

JAL reported a 2.3 per cent increase in passengers flying on international routes over the Dec. 25, 2004 to Jan. 6, 2005 holiday period, compared with a year earlier, for a total of 286,168 travellers. During the same period, domestic passengers declined 1.1 per cent, totalling 1.6 million travellers. Preliminary data from the Japanese government indicates that Japanese outbound trips reached 16,831,000 in 2004, an increase of 26.6 per cent over 2003.

Recovering demand for air travel has improved the performance of Japan's major international airports. Tokyo's Narita International Airport reported that it reached a record high of 30 million passengers in December. Osaka's Kansai International Airport reported a net profit for its first half ending September 30, 2004. This was the first time the airport operator has posted net earnings since opening 10 years ago. Kansai plans to use the additional funds to build another runway, which will be operational by 2007.

The Japanese Association of Travel Agents (JATA) has launched a campaign to increase Japanese outbound travel incrementally every year, with a goal of surpassing 20 million trips by 2007, according to Tourism Australia's latest market report for Japan. JATA has set targets of 16.5 million for 2004, 17.35 million for 2005, and 18.5 million for 2006. An over-concentration of international travel demand in Tokyo, Osaka and Nagoya has created a bottleneck obstructing the growth of travel from these markets. In response, JATA is trying to encourage more travellers to depart from smaller, local cities.

Viewing natural and scenic attractions is the favourite travel activity among Japanese outbound leisure travellers, according to the 2004 Japan Travel Demand: Trends and Insights report by the TIA. More than two-thirds of Japanese visitors to the United States polled by the Department of Commerce in 2003 cited this as their favourite activity, while shopping dropped to the number two spot (cited by 61% of respondents). Visiting historical/cultural sites and gourmet sampling were the third and fourth most-popular activities (cited by 50% and 49%, respectively).

Concerns about international terrorism have prompted the Japanese government to adopt an anti-terrorism plan that resembles security measures used in United States. The new plan includes pre-screening airline passenger lists, deploying sky marshals on commercial flights and fingerprinting foreign visitors.

Korea

Korean Air reported its net profits declined 62 per cent to 85.4 billion won (CDN$99 million) in its third quarter ended September 30, 2004. In comparison, the airline posted a net profit of 227 billion won (CDN$263 million) in the same quarter a year earlier. The airline attributed its diminished profitability to skyrocketing fuel costs and weaker domestic demand. Specifically, the company reported that fuel costs had increased 56 per cent while its domestic passenger revenues declined 11.4 per cent. The decline in domestic revenues was partly attributed to competition from a new high-speed rail service. However, revenues from international services rose 22.4 per cent compared with a year earlier, mainly due to traffic increases on long-haul destinations such as the United States and Europe.

Korean outbound travel continued to grow rapidly, according to the latest figures by the Korea National Tourism Organization (KNTO). In October, Korean outbound departures rose 16.8 per cent compared with a year earlier, and in November they climbed 16.5 per cent. Up to the end of November, year-to-date outbound travel was up 25.2 per cent over the same period in 2003, surpassing 7 million trips.

According to a recent article in Korea Trade & Investment, rising levels of Korean disposable income have led to the exploding popularity of well-being-related products and services, spawning a new lifestyle focus encompassing almost every industry in the country. Despite waning consumer confidence and high unemployment levels, the well-being market continues to balloon. The Korean travel industry has embraced this trend, developing vacation packages that focus on relaxation and luxury treatments, as well as gourmet cuisine. Some Korean tour operators and travel agencies cater specifically to well-being travellers, adopting company names such as "Well-Being Honeymoon" and "Well-Being Resort."

China

China Eastern Airlines reported a 31 per cent rise in net profits to 299.33 million yuan (CDN$43.4 million) for its third quarter ended September 30, 2004. The airline noted that growth in passenger traffic was able to offset the jump in fuel costs. In November, the carrier's passenger traffic climbed 9.5 per cent compared with the same month a year earlier.

China Southern Airlines, the country's largest carrier, posted a net profit of 208.1 million yuan (CDN$30.2 million) for the third quarter ending September 30, 2004. Net earnings fell 45.5 per cent compared with the same quarter of 2003, a decline that the airline attributed to the impact of high fuel costs. However, for the first three quarters of 2004, the airline's aggregate net profits totalled 541.2 million yuan (CDN$78.5 million), a drastic turnaround from the 782.9 million yuan loss (CDN$113.6 million) recorded in the first three quarters of 2003, when the airline was severely hurt by the SARS outbreak.

China Southern Airlines also reported that its passenger numbers were expected to reach 40 million in 2004, a record for the airline. The carrier increased its international services and expanded its domestic market share to almost 40 per cent last year after integrating Xinjiang Airlines and China Northern Airlines into its operations. A newly developed hub system at Guangzhou's new Baiyun International Airport also allowed the carrier to boost the efficiency of its flight services for both domestic and international destinations.

The International Air Transport Association (IATA) reported that it expects the Chinese market to be a main driver of international passenger traffic growth over the next five years, along with India. In its annual forecast, IATA suggested that global air traffic would increase at an average annual rate of 6 per cent through to 2008, boosted by 8.3 per cent growth in the Asia-Pacific region. In November, the Chinese government announced it would further liberalize its aviation market to allow greater private and foreign investment. China plans to push the rapid reform of its aviation industry in order to meet the escalating demand of the country's air transport market.

China's on-line travel market continues to expand at an explosive rate, according to recent reports by eyefortravel.com. China Southern Airlines said that its e-ticketing sales were on track to reach 3 billion yuan (CDN$435 million) by the end of 2004, and that its e-ticket airport check-in counters were very successful. The airline also launched an on-line hotel reservations system to compliment its air ticket booking services. Meanwhile, Ctrip.com, an on-line travel agency offering air and hotel bookings, reported its third quarter revenues increased 64 per cent compared with a year earlier, boosting its operating income by 53 per cent. The website also reported that by the end of the quarter, its client base had topped 950,000 customers.

The People's Bank of China announced that the maximum value of Chinese currency travellers were allowed to take in or out of the country would increase to 20,000 yuan (CDN$2,900), effective Jan. 1, 2005. The previous maximum, set at 6,000 yuan (CDN$870), had been in place since 1993, but demand for taking more money out of the country has risen along with the growth of outbound travel.

Australia

Qantas Airways, Australia's flag carrier, plans to spend A$18 billion (CDN$16.6 billion) to modernize its aging fleet. The airline expects to replace planes with new long-range aircraft to boost efficiencies and improve its ability to compete on international routes. Qantas' low-cost subsidiary, Jetstar, recently announced plans to install new inflight entertainment equipment and begin serving hot meals to compete with rival Virgin Blue's inflight amenities. Domestic competition remains very intense: Jetstar's one-way domestic fares have dropped as low as A$19 (CDN$17.49).

Australian outbound travel continues to experience robust growth, according to the latest data from the Australian Bureau of Statistics. In October 2004, the number of overall outbound trips increased 26 per cent over October 2003. Outbound leisure trips jumped 44 per cent, and departures for business trips increased 8 per cent compared with the previous year. According to Tourism Australia, a stronger Australian dollar is a main driver of increasing outbound travel.

In fact, the latest forecast from Tourism Australia suggests that growth in outbound travel will keep domestic travel levels relatively flat until 2013. Outbound trips were an estimated 26 per cent higher in 2004 than in 2003, reaching 4.3 million departures. The average rate of annual growth over the next 10 years is expected to be 4 per cent, to reach 6.1 million departures by 2013. Domestic travel, on the other hand, was forecast to grow 1.3 per cent in 2004, then expand at an average rate of 1 per cent every year until 2013.

Not surprisingly, reports from Australian travel agents were very positive about business in 2004, according to Travel Week magazine. The travel industry has, by all accounts, recovered from the effects of the SARS outbreak. However, new policies regarding airline commissions may represent a challenge for travel agents and consumers, now that agents may have to start charging for their services.

Economic Overview

North America

The North American economy is poised to slow to 3.4 per cent in 2005 as Canada, the United States and Mexico all record slightly weaker growth. In both Canada and the United States, rising interest rates will contribute to moderate economic growth, while slower export activity will subdue the Mexican economy due to the decelerating economic growth in the key U.S. market.

The steep rise of the loonie combined with high energy prices had already contributed to putting the brakes on the Canadian economy by the end of 2004. Moreover, expectations for the continued strength of the currency have led to a significant downgrade the outlook for the Canadian economy this year. Along with a drawdown in inventories, the higher currency is expected to restrain growth to just 2.5 per cent in 2005. Fortunately, inflation is expected to remain in check, permitting the Bank of Canada to postpone raising interest rates until the latter half of 2005. This should bode well for Canadian consumers. In fact, consumer spending is expected to be the economy's stabilizing force during 2005. Job gains combined with unwavering consumer confidence, respectable wage gains and low financing rates are expected to keep consumer spending on a roll.

Meanwhile, the U.S. economy is expected to expand a further 3.5 per cent in 2005, in the wake of an estimated 4.4 per cent gain in 2004. The solid growth is based on ongoing increases in investment spending and strong growth in exports. Moreover, the U.S. labour market is expected to remain solid. The U.S. economy created 157,000 new positions in December, and job creation is expected to remain strong this year. In fact, the unemployment rate is expected to fall to 5.3 per cent in 2005.

The outlook for economic growth in Mexico remains fairly optimistic for 2005. The U.S. manufacturing sector remains in good shape and is expected to drive growth for Mexican manufactured goods during the year. In an effort to maintain a competitive advantage over China, Mexico is starting to diversify into other non-U.S. export markets with higher value added products. In turn, higher employment should begin to fuel income growth and lead to greater household spending. As a result, private consumption is expected to expand by close to 4 per cent in 2005.

Europe

Economic growth in Europe was pegged at 2.2 per cent last year and is expected to be slightly weaker in 2005. The main reason for the weak economic growth is the ongoing strength of the euro vis-à-vis the U.S. dollar. Even exports from lower cost producers like Poland are feeling the pinch of the strong currency, particularly in the face of stiff competition from China, whose yuan remains pegged to the dollar.

Moreover, with the ominous current account deficit in the United States, the strength of the euro against the dollar is likely to continue throughout 2005 and beyond. Combined with the anticipated slowdown in global demand, export growth is therefore expected to slow significantly. As a result, European exporters will turn to cost-cutting in order to remain competitive. This is expected to slow wage growth and increase layoffs, and in the process dampen household spending.

Asia-Pacific

The slowdown in the global economy implies that the export-driven economies of the Asia-Pacific region will record slower growth this year. Real GDP in the Asia-Pacific region is forecast to increase by about 3 per cent during 2005, compared to an estimated 5 per cent growth during 2004. The effects of the tsunami will add an element of uncertainty to these estimates, although it now appears that its impact on overall GDP growth will be minimal.

As the U.S. economy slows down this year, it is expected to depress export growth for the region, even in the face of strong import demand from China. Moreover, the weak state of the domestic economies of some major players in the region, such as Japan and South Korea, will dampen economic growth in 2005. Close to 15 per cent of Korean credit-card holders in 2004 were estimated to be delinquent, leaving the possibility of massive bankruptcies. Meanwhile, domestic demand in Japan may be slowing even faster than anticipated. Household consumption declined by 1.2 per cent in October, which could foreshadow weak growth in private consumption for 2005.

Opportunities

British travellers are becoming increasingly adventurous when it comes to choosing vacations, according to a new poll by the Daily Telegraph Adventure Travel & Sports Show. Adventure activities such as diving and trekking are growing in popularity, while interest in beach vacations wanes. The driving factor in choosing an adventure vacation destination is the interest in trying something new (cited by 32% of Brits polled), while 27 per cent are looking for a way to escape the boredom of their routine lives. A further 16 per cent are looking to get away from a stressful job. The Daily Telegraph noted that the increasing interest in adventure travel is seeing a new generation of leisure travellers "who are looking for some added value to their travels, whether this is cultural, sports or adventure related."

Meanwhile, a recent poll by Harris Interactive Travel Research indicates that while price is the main driver of travel purchase decisions, about one-third of U.S. leisure travellers do not know which booking channel offers the best value. Of those polled, 37 per cent believed on-line travel agencies offered the best value, while 15 per cent of respondents thought supplier sites were the best choice. However, the largest group of respondents did not know where to obtain the best prices (38%) or best value (36%). Harris noted that the travel suppliers that can demonstrate either or both of these attributes have an excellent opportunity to increase their business.

According to the Canadian Gay and Lesbian Chamber of Commerce, the recent Supreme Court rulings allowing same-sex marriages have given Canada the image of being a gay-friendly destination. The Chamber estimated that this new image could generate an additional $1 billion in tourism revenues for Vancouver, Toronto and Montreal alone over the next three years. They added that gay tourists are not only seeking to get married, but are also interested in entertainment, sports, leisure, northern adventures and Canada's various gay pride events. The Chamber plans to work with governments and businesses to market Canada as a pro-gay destination.

Summary

Compared with the past few years, 2004 provided Canada's tourism industry with much more stable conditions in which to establish a solid footing. For most segments of the industry, these stable conditions helped generate a significant rebound in demand. While the lacklustre performance of the U.S. market was disappointing, the surge in overseas visitors provided the industry with a much needed boost. As well, business travel, a segment that suffered tremendously over the past three years, appears to have reversed its downward trend, and is in fact a key driver in the recovery of the accommodations industry, both in Canada and the United States.

The relative speed with which international arrivals have rebounded suggests that much of the pent-up demand for international travel to Canada may have already been released. Still, looking ahead into 2005, the industry appears much more optimistic than it has for a long time. The upward trend in demand and revenues is expected to continue gaining steam through 2005, although it may take a little longer for profitability to catch up.

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