CTC Tourism Intelligence Bulletin – Issue 27: May 2005

The Tourism Intelligence Bulletin continues to monitor the tourism industry around the world. This issue reveals tourism intelligence gathered in March and April 2005.

The Long Road from Surviving to Thriving

Executive Summary

- With growing traveller confidence and continuing stability in the global geopolitical landscape, Canadian tourism suppliers are generally optimistic about their business prospects this year. Although the outlook for the Canadian economy has been somewhat tempered lately, the environment is ripe for travel prices to rise modestly-a key component for achieving profitability and a major area of struggle for the industry in recent years.
- The Conference Board of Canada's latest *Canadian Industrial Outlook* for the tourism industry also supports the view that profits should improve in 2005. However, in comparison to many other industries, overall profit margins are expected to remain relatively thin. Persistently high fuel prices are expected to once again dampen domestic and U.S. auto travel over the summer and take a heavy toll on the profitability of Canada's airline sector.
- The tourism industry is well aware that the road from surviving to thriving is a long one, and obstacles will continue to appear on the horizon. In particular, wooing back the U.S. traveller has proven to be a considerable challenge. The recently announced Western Hemisphere Travel Initiative (WHTI) appears to add another hurdle to this task. While the new passport regulations spelled out in the WHTI are to be implemented in three stages, and will not take full effect until Dec. 31, 2007, visitor confusion could curtail cross-border travel as early as this year.

Emerging Trends and Issues - U.S. Travellers Seek the Unique

- Canadian tourism marketers are being forced to re-evaluate their strategies in targeting potential U.S. travellers-no easy task, in particular because of changes that are occurring in the U.S. travel market itself. Now that geopolitical events have stabilized, more Americans are renewing their interest in travelling overseas. Furthermore, a younger generation of U.S. travellers is emerging as an increasingly important segment of the market. Their preferences and expectations are playing a larger role in the U.S. travel marketplace. Reports suggest that they place a higher premium on unique travel experiences; as a result, they tend to spend more on activities such as entertainment, dining and shopping, but less on transportation and accommodation.
- The Canadian Tourism Commission (CTC) has taken some of these market changes into account by emphasizing unique travel experiences in its U.S. marketing campaigns. Overall, three types of Canadian vacation experiences have been identified as Canada's best bets for luring the biggest spenders: holidays at high-end fishing lodges, visits to ski resorts, and trips to gay- and lesbian-friendly destinations. The CTC hopes to revitalize Canada's brand image in the United States by creating a strong link between the experiences these vacations offer and Canada as a travel destination.

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- The recovery of business travel in Canada appears to be progressing steadily, with corporate travel demand well on its way to pre-Sept. 11, 2001 levels, according to the latest *Business Travel Trends and Forecast* report by American Express (Amex). The firm's outlook suggests that overall travel expenditures by Canadian businesses will rise 3 per cent in 2005 compared with last year. Amex reported that Canadian business travel transactions have risen significantly since 2003, and are now surpassing levels seen in the first half of 2001.
- Meanwhile, the outlook for Canadian leisure travel remains upbeat, although domestic travel intentions for summer 2005 are still rather modest by historical standards, according to the latest *Travel Intentions Survey* by the Canadian Tourism Research Institute. The survey results suggest that travel confidence continues to build, bolstered by a solid outlook for Canada's economy and steady consumer confidence. However, the growth in domestic travel intentions continues to be outshone by intentions for travel to the United States or other international destinations this summer.
- Meanwhile, Americans' positive attitudes towards the economy and their own finances are keeping U.S. travel intentions buoyant. The latest seasonal forecast by the Travel Industry Association of America (TIA) anticipated a 1 per cent rise in leisure travel and a 2 per cent rise in business travel during the spring travel period (March to May 2005). The TIA's latest quarterly Traveler Sentiment Index revealed improving consumer perceptions of their own financial status, as well as more time for travel.

Travel Supplier Overview

- The demise of low-cost carrier Jetsgo left about 17,000 passengers stranded when it shut down operations on March 11, while thousands more customers found themselves with worthless air tickets. That being said, Jetsgo's abrupt departure from Canada's highly competitive air travel marketplace proved to be the wind beneath the wings of both Air Canada and WestJet in the weeks that followed. Both airlines reported a significant jump in their monthly performances for March-particularly WestJet, which quickly expanded its capacity to accommodate many of the stranded Jetsgo passengers.
- In the United States, strong travel demand and leaner operating costs have been no match for the impact of sky-high fuel prices and low airfares on the bottom lines of the major U.S. carriers. As a result, first quarter losses swelled. Some airlines have attempted to capitalize on the rising demand by implementing tentative fare hikes, but only on routes not facing heavy competition from low-cost carriers. Efforts to keep a tight rein on capacity have proven to be a more successful strategy, resulting in record-high load factors in March.
- Judging by 2004 year-end reports, the recovery in the Canadian hotel industry appears to be in full swing. By the end of 2004, nationwide demand for accommodation had increased 2.3 per cent, to levels last seen in 2000, according to figures by PKF Consulting. With travel demand finally lifting occupancy and revenue levels, daily rates were expected to begin rising. Weak prices have been a persistent challenge for the industry over the past few years, so increased pricing power should help spur the sector's bottom line.

Economic Overview

- Real economic growth in North America is expected to slow to 3.4 per cent in both 2005 and 2006. The slower pace is mainly due to a slowing U.S. economy, where consumer spending, particularly for durable goods, is expected to be curtailed by rising interest rates. Meanwhile, the continued strength of the Canadian dollar (vis-à-vis the U.S. dollar) is also expected to take a toll on Canada's export sector in 2005. Fortunately, a strong domestic economy is expected to help out considerably and allow real economic growth to reach 2.3 per cent this year.
- While economic growth in Europe will continue to be constrained by sluggish growth in Germany, countries with more flexible labour markets and stronger job creation should post solid growth. The United Kingdom and, to a lesser extent, France and Sweden fall into this category. However, on balance, real economic growth for the region is expected to be less than impressive, at 1.9 per cent this year and 2.1 per cent in 2006. One of the main reasons for weak economic growth in countries like Germany and Italy is the extent to which labour market rigidities restrict hiring. Weak employment growth does little to stimulate consumer spending-a key driver of economic growth.

- Meanwhile, real economic growth in the Asia-Pacific region is also expected to slow considerably this year, posting growth of only 2.9 per cent, before rising to 3.4 per cent in 2006. Japan's economy fell into a recession during the latter part of 2004 when its export sector-the engine of growth over the past two years-weakened sharply. Moreover, with deflation once again rearing its head, consumer spending is also expected to decline. Overall, real economic growth in Japan is only expected to reach 1.1 per cent in 2005 and 1.8 per cent in 2006. South Korea and Australia are also expected to experience slower economic growth this year. On a more positive note, the outlook for China's economy has picked up again, with real economic growth of 8.2 per cent now expected this year.

Opportunities

- Solo travellers are becoming an increasingly significant travel segment, according to a recent survey by Fodor's Travel Publications. In fact, of the 1,000 American adults polled, about 40 per cent had travelled alone for pleasure in the last three years, but a full 80 per cent of respondents indicated an interest in solo travel. However, 44 per cent perceived that a stigma still exists for solo travellers, especially for women. This may be partly due to the scarcity of travel products geared towards single travellers. A recent article by *Travel and Hospitality Industry Digest* noted a similar trend emerging in the UK. Solo Holidays, a British tour operator specializing in vacations for approximately 20,000 singles annually, has seen a significant increase in demand for solo travel over the past three years. The company is always on the lookout for hotels that will cater to the needs of singles, saying that "hoteliers are realizing that our clients are quite big spenders in the hotel."
- Meanwhile, a new top-level domain (TLD)-".travel"-holds significant promise for the tourism industry. Approved by the Internet Corporation for Assigned Names and Numbers (ICANN), a non-profit company that manages Internet domain names, the dot-travel domain is for the exclusive use of the travel industry. A separate company, Tralliance Corporation, has been given the authority to administer the registry, and plans to develop an easily searchable database for dot-travel registrants. Tralliance is expected to launch registration for the dot-travel domain this fall.

In Brief

With growing traveller confidence and continuing stability in global geopolitical circles, the Canadian tourism industry is nearly unanimous in its belief that better days are in store this year. Although the outlook for the Canadian economy has been somewhat tempered lately, prospects remain positive for travel prices to rise modestly this year-a key component for achieving profitability and a major area of struggle for the industry in recent years.

The Conference Board of Canada's latest *Canadian Industrial Outlook* for tourism also expects that industry profits will improve in 2005. Despite solid growth in travel demand, particularly in Canada's international markets, intense competition is expected to keep travel price increases in check. As a result, overall profit margins are still expected to remain relatively thin. Persistently high fuel prices are expected to dampen domestic and U.S. auto travel this summer as well as the profitability of Canada's airline sector.

The tourism industry is well aware that the road from surviving to thriving is a long one, and obstacles will continue to appear on the horizon. Wooing back U.S. travellers has proven to be a challenge, and the recovery of this market may become even tougher with the recently announced Western Hemisphere Travel Initiative (WHTI). By the time it is fully implemented on Dec. 31, 2007, the WHTI will require all travellers between the United States, Canada, Mexico, the Caribbean and Bermuda to carry passports. While the WHTI has laid out three stages of actual implementation, visitor confusion could curtail cross-border travel as early as this year.

The new regulations reaffirm that global events over the past few years have left a lasting imprint on the North American travel environment and, as a result, the tourism industry must continue to adjust to new market realities. While some changes cannot be anticipated, others, such as the ongoing evolution of traveller preferences and expectations, will need to be addressed effectively in order to take full advantage of Canada's key tourism markets.

Emerging Trends and Issues

U.S. Travellers Seek the Unique

Canada's tourism industry made solid progress over the past year, aided by a strong rebound in arrivals from many international markets. Unfortunately, the rebound in the U.S. leisure market fell short of expectations. Traditionally, American travellers have viewed Canada as a safe and familiar travel destination, a perception that sustained U.S. visits during the trying period that followed the Sept. 11, 2001 terrorist attacks. But now that geopolitical events have stabilized, Americans are seeking more overseas vacation destinations, and Canada's safe image has lost some of its appeal.

Canadian tourism marketers are being forced to re-evaluate their strategies to woo back U.S. travellers-no easy task, in particular because of changes in the U.S. travel market itself. And Canadian travel suppliers are not the only ones grappling with changes in the American travel marketplace. For example, Walt Disney Parks and Resorts has recognized some permanent changes to traveller preferences and expectations that have prompted the company to overhaul its marketing strategies.

In positioning its brand, Disney believes it is more effective to concentrate on marketing strategies that promote the vacation experience rather than just the product. In a presentation to the Travel Industry Association of America (TIA), Disney president James Rasulo singled out Starbucks as a good example of selling an experience: "Some people go to Starbucks just for the coffee, but the brand's success is based on promising consumers an experience they can't find anywhere else. It's about how people feel when they go to the shop."

The TIA's *2005 Domestic Outlook for Travel & Tourism* report also comments on the growing importance of travel experiences among U.S. leisure travellers. According to the TIA, certain travel activities were significantly more popular in 2004: attending performing arts events, art museums and galleries; visits to parks; shopping; attending sports events; and city sightseeing. The TIA suggested that the significant growth of these activities reflects the increasing importance of travel experiences, indicating an important shift in the expectations of the overall travel market.

Generation X Makes Its Mark

A younger generation of U.S. travellers is also emerging as an important segment of this market. Its preferences and expectations are playing an increasingly important role in the U.S. travel marketplace. The baby-boom generation-those aged 41-59-still makes up the largest and wealthiest slice of the U.S. population, accounting for 78 million Americans. However, according to market research firm D.K. Shifflet, U.S. adults between the ages of 25 and 40-the segment labelled Generation X-now spend more per leisure trip than American baby boomers. While leisure-trip spending by the baby boomers has grown in volume by 25 per cent in the last five years, leisure trip spending by the Generation Xers has surged by 66 per cent.

Interestingly, D.K. Shifflet figures show that between 1998 and 2003, growth in overall U.S. travel expenditures was highest in sectors focusing on experiential aspects of travel, that is, entertainment, food and shopping, rather than commodities such as transportation and hotel rooms. Again, these figures suggest that U.S. travellers are placing a greater premium on their travel experiences.

U.S. Travellers Pursue Luxury and Adventure Experiences

Roper Reports recently released the results of a 2004 survey that provide another example of how U.S. traveller preferences have evolved. While the top priority remained safety and security (cited by 71% of respondents), a desire to see new places and do different things moved into second place. Of those polled, 59 per cent named this as a priority, an 8 per cent increase over 2002. Comfort and convenience came in third at 55 per cent. Furthermore, while 55 per cent of respondents indicated they were budget conscious, 43 per cent of those polled said they were willing to pay for quality.

In fact, other research suggests that American consumers are increasingly giving up some luxuries so they can afford the extravagances that really matter to them. According to the Boston Consulting Group (BCG), goods and services in the mid-market range are on the decline as more middle-market consumers "trade down" in some retail categories so they have more cash to "trade up" in others. BCG listed travel, home decor, cars and dining as the leading "new luxury" categories of 2004. They also noted that the retail suppliers who are successfully capitalizing on this growing trend are delivering the unique experiences that consumers now crave.

A New Focus on Canada's Unique Vacation Experiences

The Canadian Tourism Commission (CTC) has taken some of these changes into account and is now emphasizing unique travel experiences in its U.S. marketing campaigns. In fact, the CTC has made it a priority to attract high-yield Americans-the big spenders who fly to their destinations and stay more nights. Three types of Canadian vacation experiences have been identified as Canada's best bets for luring the biggest buyers: holidays at high-end fishing lodges, visits to ski resorts, and trips to gay- and lesbian-friendly destinations. The CTC hopes to revitalize Canada's brand image in the United States by creating a strong link between the experiences these vacations offer and Canada as a travel destination.

Tourism suppliers know all too well that a new travel reality has emerged from the turmoil of the past several years. Fortunately, the Canadian tourism industry is taking key steps to adjust to new market realities, such as accommodating the changing needs and expectations of the U.S. marketplace. It is hoped that, by adapting to these changes, Canada can strengthen its competitive position when targeting key travel markets, particularly high-yield American travellers.

Consumer Overview - Canada and the United States

Business Travellers

The recovery of Canadian business travel appears to be progressing steadily, with corporate travel demand well on its way to pre-Sept. 11, 2001 levels, according to the latest *Business Travel Trends and Forecast* report by American Express (Amex). The firm's outlook suggests that overall travel costs for Canadian businesses will rise 3 per cent in 2005 compared with last year, driven by strengthening travel demand in the corporate sector. Amex reported that Canadian business travel transactions have risen significantly since 2003, and are now surpassing levels seen in the first half of 2001.

Business and convention travel continues to recover in the United States as well, according to the latest travel forecast by the TIA. In spring 2005 (March to May), business travel volumes were expected to increase 2 per cent over the same period in 2004, bringing volume levels in line with those seen in the spring of 2000. This is still slightly below the record-high numbers of corporate trips seen in 2001, but a significant improvement from the drop witnessed in 2002 and 2003.

In a separate news release, the TIA reported that while the U.S. business travel segment appears to finally be recovering, and healthy growth is expected to continue over the next few years, U.S. companies will continue to "look for ways to maximize their effectiveness and minimize costs." The release suggests companies will accomplish this by increasingly relying on new technologies and "smart travel management."

A recent survey of chief financial officers at mid-size U.S. companies suggested that cost-consciousness continues to play a prominent role in overall corporate spending decisions, including business travel, despite a growing optimism regarding the country's economic prospects. The poll, conducted by American Express, revealed that 68 per cent of respondents expect the U.S. economy to improve in 2005; however, half of the respondents intended to prioritize "identifying and controlling unauthorized spending" this year. Another 63 per cent planned to place a higher priority on negotiating better prices from vendors. The survey findings noted that while many American firms were expecting their profits to increase this year, they were also becoming increasingly concerned with managing expenses to promote financial health.

Meanwhile, corporate travellers continue to increase their use of the Internet for booking business trips, according to the latest annual Accenture business travel survey. Of the American business travellers polled, more than 70 per cent said they primarily booked their airline tickets online, up from 61 per cent in 2004 and 57 per cent in 2003. Interestingly, business travellers appear to be increasing their use of network airlines, reversing the upward trend of low-cost carrier usage seen over the past several years in this survey. In fact, 82 per cent of respondents indicated they primarily use network airlines, up from 72 per cent a year ago. According to *Business Travel News*, this could be a sign that recent airfare reforms by the major carriers may be helping to lure back some corporate clients from the discount airlines.

The Accenture survey findings also suggest that aside from price, respondents favour convenient schedules, followed by frequent flyer programs and good customer service when booking a flight. When booking a hotel room, business travellers are most concerned about proximity to their meetings, followed by price range, reputation, customer service and reward programs.

Meanwhile, although corporate travel demand is increasing, the lead time for smaller meetings (under 100 attendees) is not-at least, not in a significant way. This is fuelling competition for meeting space in major U.S. cities, according to *Business Travel News*. The online journal cited a Meetings Monitor survey, which indicated that 31 per cent of corporate buyers polled are paying higher hotel rates for short-term meeting bookings than for meetings with longer lead times. This is up from 20 per cent in the 2004 survey, and 10 per cent in 2003. While this is good news for the U.S. hotel industry's bottom line, it has also encouraged some meeting planners to shift their meetings to secondary markets, as part of their efforts to keep costs down.

Leisure Travellers

Heading into the summer season, the outlook for Canadian travel remains upbeat, although domestic travel intentions for summer 2005 remain modest by historical standards, according to the February 2005 *Travel Intentions Survey* by the Canadian Tourism Research Institute. Of the approximately 2,000 Canadians polled, 59.1 per cent plan to take a summer vacation between May and September this year. This represents a 5.9 per cent increase over last year (from the March 2004 survey). However, the growth in the percentage of Canadians planning to travel within Canada was up by a more modest 3.4 per cent compared with last year's survey results. The increase in the percentage of Canadians intending to travel outside Canada and visit the United States or other international destinations was more robust, climbing 6.5 and 12.8 per cent, respectively.

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

	February 2005	March 2004	March 2003
Summer Vacation Intentions (All Destinations)	59.1	55.8	62.4
Canada	39.6	38.3	46.7
United States	8.2	7.7	6.4
Other International	9.7	8.6	8.1
Do Not Know/Refused	1.6	1.2	1.2

Source: The Conference Board of Canada.

The survey results suggest travel confidence continues to build, bolstered by a solid outlook for Canada's economy and steady consumer confidence. In fact, The Conference Board of Canada's Consumer Confidence Index advanced by 3.1 points in March 2005, reversing the loss of 2.8 points that occurred in February. Consumers appeared most confident about big-ticket spending and job prospects.

The findings from a recent survey by Expedia.ca/Ipsos-Reid suggested that Canadian travel preferences can be categorized into four separate profiles: conventional, countries connoisseur, thrill-seeker, and cosmopolitan. According to the survey results, the vast majority of Canadians are split evenly between the first two profiles-40 per cent fit into the conventional profile, enjoying leisurely sightseeing and guided tours, while another 40 per cent are "countries connoisseurs," enjoying tourist attractions relating to culture and history. Another 10 per cent of Canadians favour thrill-seeking, adventure activities while travelling, and 4 per cent prefer a more cosmopolitan and sophisticated urban travel experience.

In the United States, leisure travel appears poised to expand 1 per cent from March to May, compared with last year, according to the latest TIA seasonal travel forecast. If it occurs, this increase would result in record-high leisure travel during this period-a full 7 per cent higher than in 2003 and 10 per cent higher than 2000. The TIA mentioned that Americans' positive attitudes towards the economy and their own finances were keeping U.S. travel intentions buoyant.

The TIA's latest quarterly Traveler Sentiment Index confirmed the rising interest in leisure travel among U.S. consumers. The index for the first quarter of 2005 rose to 98.7 (just under the baseline of 100, established in the first quarter of 2000)-a 2.5 per cent increase compared with the previous quarter. The greatest improvements were seen in consumers' increased ability to take leisure trips based on improving personal finances and more free time. The only region in the United States to register a decline was the Northeast (-11.1%), due to a 25.4 per cent drop in the component for perceptions of time available for travel.

The latest annual National Leisure Travel Monitor by marketing firm Yesawich, Pepperdine, Brown and Russell/Yankelovich also suggests U.S. leisure travel has surged to its highest level in the last three years. According to the report, 58 per cent of Americans polled indicated they had taken a leisure trip in the last 12 months, up from 49 per cent in the 2004 survey. Although the number of longer vacations increased compared with last year, the majority of trips (56%) were for four days or less. One-fifth (20%) of the travellers polled had taken an international trip in the past year, but 60 per cent of this group said they would be less likely to vacation outside their country this year if the U.S. dollar continues to decline against other major currencies.

The report also stated that U.S. leisure travellers are increasingly using the Internet to shop for travel products, to check for prices and to ensure they do not overpay when booking a trip. While 47 per cent of respondents reported that they had used the Internet to make a travel booking, 70 per cent reported they had used the Internet to check fares and rates before booking through other means. Almost two-thirds (63%) said they check hotel rates online before calling a hotel to reserve a room, and 59% said they check airfares online before calling an airline to book a flight. Most leisure travellers polled (77%) expressed a preference for online travel agency sites such as Expedia, rather than supplier sites (cited by only 23%). This was not that surprising, considering third-party websites offer the ability to search for prices among multiple brands at the same time.

In fact, consumers are becoming increasingly sophisticated in their online travel searches, suggests a new study by Yahoo Travel as reported by *Travel Weekly*. Of the travel purchasers tracked (buying travel both online and off-line), 73 per cent used a search engine before making a travel purchase and conducted an average of six searches, using different key words each time. The study also revealed that consumers still prioritize price when booking an airline ticket, but are becoming increasingly interested in location, reputation and user ratings when purchasing other travel products, such as accommodations.

Travel Supplier Overview - Canada and the United States

Airlines - Canada

The demise of low-cost carrier Jetsgo left about 17,000 passengers stranded when it shut down operations on March 11, while thousands more customers found themselves with worthless air tickets. However, Jetsgo's abrupt departure from Canada's highly competitive air travel marketplace proved to be the wind beneath the wings of both Air Canada and WestJet in the weeks that followed. Both airlines reported a significant jump in their monthly performances for March-particularly WestJet, which quickly expanded its capacity to accommodate many of the stranded Jetsgo passengers.

In March 2005, Air Canada's overall revenue passenger miles (RPMs) rose 6.4 per cent, compared with a year earlier. The carrier's mainline domestic passenger traffic climbed 3.3 per cent, while its regional carrier, Jazz, saw a 11.8 per cent surge in domestic traffic. RPMs on Air Canada's U.S. transborder routes grew 4 per cent, while Atlantic overseas routes rose 3.1 per cent, and Pacific routes jumped 12.2 per cent. The airline kept a tight rein on its seat capacity in March (up 1.4%), which allowed the airline to record its 12th consecutive month of record load factors in year-over-year comparisons (up 3.5 percentage points to 79.8%).

Despite record-high fuel prices, Air Canada's financial picture still appears to be strengthening. In early March the airline's parent company, ACE Aviation Holdings announced a net profit of $15 million for its fourth quarter ended Dec. 31, 2004, mainly due to foreign exchange gains totalling $98 million. Although the carrier's operations fell $3 million into the red during this period, this is a massive turnaround from the net loss of $768 million reported for the same quarter of 2003.

ACE received a further boost in early April when it raised $720 million in equity-$420 million through the sales of shares, and a further $300 million through the sales of debt offerings. Robert Milton, ACE's Chairman, President and CEO, declared that "ACE now has one of the strongest balance sheets in the industry, and our debt is all aircraft-related." Looking ahead, Air Canada plans to help offset its fuel costs through additional cost-cutting measures this year, including 800 more staff layoffs. It also plans to increase its seat capacity by 4.3 per cent in 2005, mostly on international routes, while shifting many of its domestic routes to its regional carrier, Jazz.

Meanwhile, Jetsgo's demise played a large role in WestJet's 54.7 per cent rise in passenger traffic in March, compared with the same month in 2004. These additional revenues came at a crucial time for the discount carrier, which was forced to report two consecutive quarterly losses-in the final quarter of 2004 and the first quarter of 2005. The carrier blamed these losses-the first in its eight years as a public company-on high fuel costs and fierce competition, which drove down airfares to artificially low levels. However, now that a major player in Canada's discount airline market has been removed, competitive pressures have eased and allowed airfares to rise to more realistic levels, which helped narrow the first quarter loss. Furthermore, according to a Reuters report, WestJet has expanded its growth plans for this year, and now intends to increase its seat capacity by 35 per cent.

Table 2. Airline Revenue Passenger Miles (RPMs) and Capacity - March 2005

Airline	RPM (in millions) March 2005	RPM change 2005 vs. 2004	Capacity 2005 vs. 2004
Air Canada Mainline (includes Jetz)	3,615	+6.4%	+1.7%
Air Canada Regional (Jazz)	161	+11.8%	-3.0%
WestJet	722.7	+54.7%	+34.7%

Jetsgo's founder, Michel Leblanc, submitted a corrective action plan to Transport Canada in early April, the first step he has taken to restructure the airline under bankruptcy protection and resume scaled-down flight operations this summer as a charter airline. The submitted plan addressed the safety violations that had prompted the Department to impose operational restrictions on the airline in February, violations that Jetsgo must fix if it is to retain its air operator certificate. The Quebec Superior Court has granted the company until May 13, 2005 to file a full restructuring plan that will allow the airline to emerge from bankruptcy protection in June.

Transport Minister Jean Lapierre introduced a new bill to the House of Commons on March 24, 2005, which, if passed, will compel Canadian airlines to include all taxes and fees in advertised airfares. Lapierre declared that "it's just for the consumer to have the truth." However, industry groups insist that keeping the taxes and fees separate from the base fare shows consumers what proportion of an airfare the airline receives. Still, a survey conducted by Environics Research Group earlier this year revealed that 93 per cent of Canadians polled believed that all charges should be included in advertised airfares.

Halifax International Airport was ranked first in overall passenger satisfaction for small airports (under five million passengers) worldwide, according to the latest annual AETRA Airport Customer Satisfaction survey. The survey, jointly conducted by Airports Council International and the International Air Transport Association (IATA), also singled out the Halifax facility as the best airport, overall, in North and South America. The survey findings were based on the responses of 65,000 passengers polled in 40 airports worldwide, who rated participating airports on 31 service-related parameters.

Airlines - U.S.

In the first quarter of 2005, strong travel demand and leaner operating costs were no match for the impact of sky-high fuel prices and low airfares on the bottom lines of the major U.S. carriers. Delta's losses for the period soared to US$1.08 billion, as fuel expenses increased 54 per cent. Southwest was a startling exception, reporting a net profit of $76 million for the first quarter, triple the earnings reported a year earlier. However, the discount carrier was heavily shielded from escalating jet fuel costs through its extensive fuel hedges. According to the Air Transport Association (ATA), jet fuel prices in the first two months of 2005 were up by an average of 35.8 per cent over the same period of 2004.

Meanwhile, rock-bottom airfares continue to drive growth in air travel demand, boosting U.S. domestic passenger traffic by 7 per cent in March, according to the ATA, although the combination of Easter holidays and spring break contributed to the increase. Compared with a year earlier, passenger traffic on Atlantic and Pacific routes jumped 12 per cent and 12.3 per cent, respectively, while Latin American routes saw a 23 per cent surge in traffic. Some of the major carriers have attempted to capitalize on the rising demand by implementing tentative fare hikes, but only on routes not facing heavy competition from low-cost carriers. Instead, a greater focus has been placed on keeping a tight rein on capacity, which resulted in record-high load factors in March. Flights among the six largest U.S. airlines were 82 per cent full in March, on average, up from 78 per cent full in March 2004.

According to the latest quarterly airline traffic statistics by OAG, low-cost carriers continue to gain significant ground in the U.S. market. In April 2005, U.S. low-cost carriers planned to make 12 per cent more flights than in April 2004, while overall domestic U.S. flights increased by 3 per cent. From April 2004 to April 2005, the low-cost carrier segment expanded from 12 per cent to 17 per cent of the U.S. market. A recent article in *Business Travel News* suggested that U.S. low-cost carriers have been positioning themselves to capitalize on the recovery in business travel, adjusting their business plans to offer more services on business-heavy routes such as the Northeast corridor.

Table 3. Net Income - Q1 2005

Airline	Net Income Q1 2005 (in US$)	Net Income Q1 2004 (in US$)
Alaska Air Group	-$80.5 million	-$42.7 million
AMR Corporation (American)	-$162 million	-$166 million
America West Airlines	+$33.6 million	-$1.6 million
Continental Airlines	-$184 million	-$124 million
Delta Air Lines	-$1,080 million	-$387 million
JetBlue Airways	+$7 million	+$15.2 million
Northwest Airlines	-$458 million	-$230 million
Southwest Airlines	+$76 million	+$26 million

Table 4. Airline Revenue Passenger Miles (RPMs) and Capacity - March 2005

Airline	RPM March 2005 vs. March 2004	Capacity March 2005 vs. March 2004
Alaska Airlines	+10.0%	+1.9%
American Airlines	+9.1%	+2.1%
ATA Airlines	-40.8%	-41.0%
Continental Airlines	+14.8%	+7.0%
Delta Air Lines	+14.4%	+7.8%
JetBlue Airways	+33.7%	+24.1%
Northwest Airlines	+8.6%	+4.7%
Southwest Airlines	+12.0%	+11.9%
United Airlines	+2.4%	-3.1%
US Airways	+9.6%	+5.2%

A recent article in *The New York Times* asserted that crowded planes are making it increasingly difficult for passengers to use their frequent flyer miles, causing the volume of unredeemed miles to balloon by 50 per cent over the past five years. U.S. air travellers are now sitting on nine trillion frequent-flyer miles, enough for 360 million domestic tickets. And airlines appear unwilling to slacken restrictions to allow more passengers to use their miles, because they are afraid of losing even more revenue. However, the article suggested that this approach might actually backfire, as more customers are lured towards more accessible reward programs like the one offered by Southwest Airlines. Its passengers are offered a free flight for every eight trips flown, with very modest restrictions, and no limit on the number of free seats on each flight.

Meanwhile, the latest annual forecast by the Federal Aviation Administration suggested that domestic passenger volumes this year would rise to the levels last reached in 2000, and increase to one billion annual passengers by 2015. In 2004, 688 million passengers flew on U.S. airlines, up from 642 million in 2003.

Hotels - Canada

The Canadian hotel industry began 2005 with performance indicators that suggest a recovery is finally in full swing. According to PKF Consulting, growth in overall accommodation demand in Canada expanded 2.3 per cent by December 2004 and rebounded to levels last reached in 2000. One sign of this solid upswing is the recent wave of announcements regarding new hotel developments, such as the luxury $300-million Ritz-Carlton hotel and condominium residence to be built in downtown Toronto. Now that travel demand is finally lifting occupancy and revenue levels, daily rates are expected to begin rising, which will help to beef up the industry's bottom line.

In February 2005, overall RevPAR (revenue per available room) climbed 6.4 per cent compared with the same month in 2004, according to PKF's latest *National Market Report*. Occupancy levels gained 2.6 percentage points to reach 58.0 per cent, while average daily rates climbed 1.6 per cent to $111.18. For the first two months of 2005, figures suggest that budget-priced accommodations saw the highest growth in demand-occupancy increased 4.1 per cent in this segment, compared with a year earlier. Occupancy in the mid-priced segment climbed 2.1 per cent, while occupancy levels in upscale lodging dropped 1.2 per cent.

However, the continuing recovery in business travel demand should end up boosting average corporate rates in mid-range and upper-scale hotels by 3 per cent this year, according to a recent forecast by American Express. It predicted that increasing occupancy rates combined with limited growth in supply will allow hotels to raise their rates. In its 2005 market outlook, PKF Consulting forecasted that hotel demand would increase 2.5 per cent this year, significantly outpacing the expected 1.0 per cent growth in supply.

Hotels - U.S.

Strengthening demand, particularly in business travel, combined with slow supply growth continues to propel the ongoing recovery in the U.S. hotel industry. With increasing demand, hotels are gaining significant pricing power, allowing room rates to continue rising: in the first two months of 2005, average daily room rates rose 4.2 per cent over the same period a year earlier. Marriott International, the first hotel company to release first quarter 2005 earnings, reported a 27 per cent increase in net profits and a 13 per cent rise in revenues for the period, compared with a year earlier. The hotel chain cited a surging demand for luxury lodging as a major factor in the hotel chain's first quarter financial achievements. Overall, analysts believe that the industry's recovery is still in its early stages, and expect it to continue building through this year and next.

In February 2005, average nationwide RevPAR levels increased 7.5 per cent compared with the previous year, reaching US$50.41, according to the latest data from Smith Travel Research (STR). Occupancy rose by an average of 2.9 per cent, while average daily room rates climbed 4.3 per cent to US$87.10.

Rising demand boosted profits by an average of 13.3 per cent in 2004, year over year, and will likely push profits 14.1 per cent higher in 2005, according to the 2005 P-&-L Forecast recently released by PKF Hospitality Research. The report stated that the resorts segment saw the highest increase in revenues and profits last year (7.8% and 14.6%, respectively), although convention properties are expected to see the greatest jump in revenues and profits in 2005 (7.5% and 15.2%, respectively).

Recovering business travel demand accounted for nearly half of the growth in lodging demand last year, according to a recent report by PricewaterhouseCoopers (PwC). If there had not been a revival of corporate demand, overall lodging demand would have only grown 2.3 per cent last year, instead of the 4.5 per cent growth it actually achieved. PwC also noted that the luxury segments (upscale, upper upscale, and luxury) saw the strongest increase in business demand. PwC predicts that the continuing recovery in business demand will account for a 0.8 percentage point increase in demand growth this year, in turn boosting full-year RevPAR growth to 7.3 per cent-up from 3.0 per cent last year.

The net supply growth of hotel rooms edged up only 1.0 per cent in 2004 over the previous year, and is at the lowest levels since the mid-1990s, according to Lodging Econometrics (LE). Hotel room supply is only expected to increase 1.2 per cent in 2005, and a further 1.4 per cent in 2006-a pace that LE says is consistent with the early stages of a hotel industry recovery. LE expects this low supply environment to drive the industry's overall operating performance for the next several years.

Lodging companies gained some ground in the battle for online bookings in 2004, according to recent data by TravelClick, Inc. Online bookings made directly through hotel websites grew 32 per cent in 2004, significantly outpacing growth in overall Internet hotel bookings, which rose 23 per cent compared with a year earlier. At the 32 major hotel brands tracked by TravelClick, 71 per cent of the centrally booked Internet reservations came directly through the hotels' websites (as opposed to third-party sites), up from 67 per cent in 2003.

Travel Agents

Domestic airfares within Canada continued to gain ground in March 2005, 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 10 per cent during March, compared with a year earlier. Meanwhile, airfares from Canada to the United States dropped 7 per cent, while airfares to other international (non-U.S.) destinations slipped by 2 per cent compared with March 2004.

According to the Air Transport Association, passenger yields (price paid per mile flown) on domestic travel within the United States fell a further 4.8 per cent in March 2005, compared with a year earlier. Airfares on Atlantic and Pacific routes edged up 1.0 and 3.7 per cent, respectively, while fares on Latin American routes declined 3.4 per cent.

Tour company Transat A.T. Inc., the parent company of charter airline Air Transat, posted a net loss of $1.8 million for its first quarter ended Jan. 31, 2005, compared with net earnings of $2.8 million for the same quarter of 2004. The company reported that its North American passenger numbers increased 17.9 per cent during the quarter, compared with a year earlier, but these gains were offset by high fuel prices and "pricing pressures due to the overcapacity in the marketplace, especially in Ontario."

Cruise Lines International Association (CLIA) reported that a record number of passengers, 10.5 million people, took a cruise in 2004. North American passengers accounted for 8.6 million cruisers, an 11 per cent increase over 2003. In 2005, CLIA anticipates overall passenger numbers to reach at least 11 million people; they noted that bookings for 2005 were "coming in at a fast and furious pace."

Overall vacation costs have increased by 5 per cent this year, compared with 2004, according to the American Automobile Association (AAA). On average, lodging rates have increased 3.9 per cent and restaurant prices have risen 6.5 per cent. AAA has tracked lodging and dining costs at the 55,000 lodging and restaurant listings in their AAA TourBook annually since 1950.

International Overview

United Kingdom and Ireland

In March 2005, British Airways' (BA) overall passenger traffic, measured in revenue passenger kilometres (RPKs) rose 4.5 per cent, compared with a year earlier. Traffic volumes on short-haul routes to Europe and long-haul routes to the Asia-Pacific region surged by 6.2 and 10.2 per cent, respectively, while RPKs on routes to the Americas declined slightly (0.4%), compared with March of last year. BA noted that it was still facing "stiff headwinds" in the air travel environment, with high fuel prices and intense competition constraining the airline's modest recovery in revenues. The airline also reported plans to increase its capacity this summer by 3 per cent, mostly on European routes, in an effort to capture more of the UK's short-haul outbound market.

Meanwhile, EasyJet and Ryanair, the UK's two largest low-cost carriers, have each recently announced ambitious expansion plans, in an effort to dominate Europe's burgeoning discount airline market. EasyJet is projecting a 20 per cent increase in passenger volumes this fiscal year, with a significant fleet expansion. Preliminary figures show that EasyJet carried 27 million passengers in the fiscal year ending March 31, 2005. Ryanair, neck-and-neck with EasyJet in terms of annual passenger numbers at 27.5 million, subsequently announced a hefty fleet expansion of its own. Ryanair's goal is to double its passenger numbers over the next six years, to over 70 million in 2011/2012.

According to the British Airport Authority (BAA), passenger numbers at its seven UK airports (including Heathrow), rose 7.7 per cent in March 2005, boosted in part by the early Easter holiday. North Atlantic routes saw a relatively modest increase in passengers (up 3.3%), but overall long-haul passenger levels jumped 14.1 per cent. European routes saw a 9.7 per cent increase, while domestic passenger levels rose 4 per cent.

Table 5. Percentage change in passengers carried

Carrier	March 2005 vs. March 2004
British Airways	+1.1%
EasyJet	+28.9%
Ryanair	+20.1%

TUI UK recently reported that its tour operators carried 3.5 per cent more passengers in 2004, compared to 2003. The company stated that a greater balance between capacity and demand allowed average prices to improve during the year, although clients remained price-conscious and still tended towards booking their trips closer to departure. TUI UK also noted that over the winter season, demand for ski holidays was much stronger than demand for sun destinations.

The Passenger Shipping Association reported that the UK cruise market grew to a record-high level in 2004 for the second consecutive year. Over one million Brits took a cruise in 2004, a 6.6 per cent increase over the previous year.

Overall, British travellers took 4 per cent more overseas trips in the 12 months up to February 2005, compared with the previous year, for a total of 64.2 million trips, according to the UK Office for National Statistics. Visits to North America gained market share over the period, rising 16 per cent to 4.9 million trips, while visits to Western Europe declined by 1 per cent to 49.2 million trips. Trips to other regions of the world surged by 21 per cent.

The Association of British Travel Agents (ABTA) estimated that a record number of Brits would travel abroad during the Easter holiday in March, taking 2.2 million outbound trips during the Easter break. Most (1.6 million) were expected to fly to their destination, and the ABTA noted that demand for ski vacations for this period was very high.

Mintel's *British Lifestyles 2005* report suggests that the most popular type of British holiday is an independent trip abroad. In 2004, 23 per cent of British adults took an independent holiday out of the country, 5 per cent more than in 1999 and 1 per cent more than in 2003. The next most-popular type of trip is a domestic short break (one to three days), taken by 19 per cent of British adults in 2004. Meanwhile, long-haul package vacations have declined from 13 per cent in 1999 to 6 per cent in both 2003 and 2004. The number of Brits taking overseas short breaks grew from 4 per cent in 1999 to 7 per cent in 2003 and 13 per cent in 2004, boosted by the growth in services by low-cost carriers.

Looking ahead, UK tour operators are predicting solid, although not robust, growth in bookings for the summer 2005 travel season. TUI UK reported that by the end of March, their bookings were 1.6 per cent ahead of last year's figures at this time, with strengthening price levels. Thomas Cook UK reported similar results, indicating a "solid rather than buoyant" outlook for summer travel. However, reports from First Choice were much more optimistic: in March it announced that summer 2005 sales were 18 per cent ahead of sales figures at the same time last year, driven by a 32 per cent increase in long-haul bookings.

France

Air France-KLM reported a 6.2 per cent increase in overall passenger traffic (measured in RPKs) for March compared with the same month a year earlier, driven by large increases on Asia-Pacific and Africa-Middle East routes (11.2% and 9.1%, respectively). Traffic on transatlantic flights climbed 6.2 per cent, while European traffic (including France) rose 3.6 per cent. The overall number of passengers carried grew 2.8 per cent over the previous year. The airline also announced significant expansions to its network capacity this summer, which will rise 4.6 per cent overall and 5.9 per cent on long-haul routes. Capacity to the United States, the carrier's largest market outside France, will jump by 10 per cent.

In mid-April the airline announced its fourth fuel charge increase since May 2004, hiking the fee by another EUR6 (CDN$9.69) on long-haul routes, and EUR3 (CDN$4.85) on European flights. However, despite soaring fuel costs, preliminary reports indicate that Air France-KLM will report higher than expected profits for its full year ended March 31, 2005. Forbes.com reported that since Air France and KLM Royal Dutch Airlines merged last year, the combined net earnings of the two carriers have jumped 42 per cent. The merged airline now derives 80 per cent of its revenues from long-haul international flights, routes that are traditionally much more lucrative and much less vulnerable to the aggressive competition of low-cost carriers.

Meanwhile, French outbound travel rebounded by 10 to 12 per cent in 2004, increasing by three million additional trips, according to the European Travel Monitor, recently released by IPK International. The study suggests that French travellers see trips within their own country as becoming increasingly expensive, and this attitude is helping to spur the rising demand for international travel.

Demand for travel to the U.S. has been very strong lately, with the declining value of the U.S. dollar boosting sales of French trips to U.S. destinations, according to Tourism Australia's latest market report for France. The report also noted that over the winter season, demand for ski vacations was high as well.

The recently released HotelBenchmark Global Ranking Index (GRI) by Deloitte revealed that Paris was the second-best performing market in 2004 after Venice, posting a 4.7 per cent increase in RevPAR, compared with a year earlier. Although occupancy has fluctuated a great deal in the last few years, falling from 79 per cent in 2000 to 64 per cent in 2003, then recovering to 67 per cent in 2004, average daily rates have remained stable, keeping Paris ranked in the top five markets throughout this period.

Germany

Lufthansa German Airlines saw a 3.1 per cent increase in passenger traffic in March 2005 compared with the same month in 2004. Traffic on routes to the Americas declined slightly (0.2%), although the number of passengers carried on these routes climbed 1.4 per cent. In April, Lufthansa increased its fuel surcharge on long-haul flights from EUR17 to EUR27 euros (CDN$43.62), to counteract the deepening impact of rising fuel costs.

On March 22, 2005, Lufthansa Group, the parent company of Lufthansa Airlines, signed a deal with Swiss International Airlines to take over the Swiss carrier and integrate it into Lufthansa's operations. Lufthansa will take full control of Swiss in 2006 or 2007, once it secures the proper air traffic rights, but will integrate Swiss routes into its 2005/2006 winter flight schedule. Swiss will retain its own brand, even after the takeover is completed, and continue using Zurich Airport as its main hub.

Frankfurt Airport served 4.2 million passengers in March 2005, a 1.8 per cent increase over the same month in 2004. The facility reported that growth was mainly due to the Easter holiday and school break falling during the month. Looking ahead, the airport expects a 4.4 per cent growth in overall passenger flights this summer, compared with last year, in spite of a slight decline in domestic flights. Intercontinental services are scheduled to rise 7.6 per cent, and European services by 4.9 per cent.

Meanwhile, German travellers took 2 per cent more outbound trips and 3 per cent more domestic trips in 2004, compared with a year earlier, according to IPK International's European Travel Monitor. Holiday travel increased by 2 per cent in volume and business travel jumped 6 per cent. However, trip durations and overall travel spending each decreased by 2 per cent. Tourism Australia reported in its latest German market report that German leisure and business travellers spent 1.5 per cent more abroad in 2004 than they did in 2003, with total expenditures in this category totalling EUR58 billion (CDN$93.7 billion). In 2005, that figure is expected to rise to EUR59 billion (CDN$95.3 billion).

Tourism Australia also reported that, currently, the most significant growth sectors in the German travel market are all-inclusive packages, city breaks, wellness vacations and cruises. German travellers are increasingly booking their trips without consulting a travel agent, partly because of a rising awareness of alternative booking methods. Fortunately, despite the increase in online travel bookings, the proportion of last minute bookings has been shrinking, from 30 per cent of all bookings in the 2002/2003 travel season, to 20 per cent in the current season.

There appears to be a slowdown in the pace of Germany's leisure travel recovery, but nonetheless, the outlook for the 2005 summer season is optimistic. *FVW* travel magazine reported the results of its latest monthly travel agent survey, which recorded a slight drop in the number of agents reporting a satisfactory level of sales (from 55.2% in February to 53.7% in March). A similar drop was seen in the number of respondents predicting a pickup in sales growth over the next six months. *FVW* attributed this modest decline to this year's slower pace of travel growth, compared with the robust recovery seen in 2004. However, Germany's two leading travel companies, TUI AG and Thomas Cook AG have each reported positive outlooks for the summer travel season. Summer bookings at TUI are currently 7 per cent ahead, while Thomas Cook's bookings are 5.1 per cent ahead of the levels seen at this time last year.

Mexico

Mexico will have its first low-cost carrier in July 2005, when Grupo Mexicana de Aviacion launches its new discount carrier, Click Mexicana. The company chose the name Click because it is easy to pronounce in any language and evokes a sense of technology, in particular with respect to the growing popularity of online bookings, the main channel through which Click will sell air tickets. For now, Click will offer domestic services from its main hub in Mexico City, and said its airfares would be priced about 30 per cent below the domestic fares charged by Mexico's major carriers.

Later this year, the Mexican government plans to finalize the privatization of Mexico's major airlines by selling Click and Mexicana Airlines together as a package, and domestic carrier Aeromexico together with regional carrier Aerolitoral as a separate package. All four airlines are currently owned by Cintra, a government holding company. Cintra originally intended to sell Aeromexico and Mexicana together, but the country's consumer watchdogs were highly critical of the move, concerned that an airline monopoly would make Mexican air travel much less affordable. The government has held a controlling interest in the airlines since December 1994, when the Mexican peso crisis led to the financial collapse of the country's airline industry.

Associated Press reported that Mexico's tourism industry has recovered from the downturn of the past few years, with international visits and tourist receipts rebounding to the peaks last reached in the mid-1990s. In 2004, inbound tourist traffic rose by 10 per cent over the previous year, and spending by foreign visitors surged 14.6 per cent, to US$10.8 billion, according to figures from Mexico's Ministry of Tourism. The domestic market showed signs of growth as well-hotel stays by Mexican domestic travellers climbed 4 per cent in 2004, compared with a year earlier.

Mexican consumers increased their retail spending by 3.8 per cent in February 2005 compared with a year earlier, marking the 26th consecutive month of year-over-year spending gains, according to the latest statistics by Mexico's National Statistics Institute. Dow Jones International News reported that Mexican private consumption has been strengthening for more than two years, bolstered by an expansion of available credit.

A recent article in *Brand Strategy*, a British marketing journal, reported that the Mexican middle class is still relatively small, but is growing rapidly as the Mexican economy continues to strengthen. The article suggests that members of this group are attracted to consumer brands that denote status, although they show a much greater preference for newer, international brands than the more traditional Mexican elite do. They seek experiences that involve the values of family and friendship, and spiritual wealth, and are less concerned than upper-income Mexicans about brands that convey financial affluence.

Japan

Japan Airlines (JAL) announced a new three-year restructuring plan, including the elimination of 5,900 jobs, which will allow the airline to cut its operating costs by 75 billion yen (CDN$881 million) by the end of its 2007 fiscal year. The airline will concentrate on strengthening its international passenger business, which exhibited weak demand in the airline's fiscal year ended March 31, 2005. The carrier said it would focus on building its higher-growth routes, particularly those to China and other emerging Asian markets.

Japan opened its third major airport in February 2005, near Nagoya in the central region of the country. Chubu Centrair International Airport now handles about 320 international flights to 25 destinations, plus 700 domestic flights per week, and is expected to serve 12 million passengers this year. Centrair will compete with Japan's other two major airports by offering significantly lower landing fees-about 20 per cent less than Tokyo's Narita International Airport, and about 30 per cent less than Osaka's Kansai International Airport. In the past, Japanese airports have been widely criticized for their expensive landing fees.

A record number of Japanese travellers were expected to travel overseas during the Golden Week holiday, which ran from April 27 to May 7 this year. According to a survey by JTB Corp., Japan's largest travel agency, 602,000 travellers were expected to go abroad during this period. This represents a 13.8 per cent increase over the same holiday of 2004, and the highest number since JTB began the survey in 1969. Golden Week, a time of the year when four national holidays fall within seven days, is one of Japan's busiest travel seasons.

In the first half of 2005, Japanese travellers are expected to make 19.8 per cent more outbound trips than in the same period of 2004, according to the latest MasterIndex of Travel report by MasterCard International. Of the Japanese travellers polled, 61 per cent said they would take at least one personal international trip in the next 12 months. Among this group, the top three reasons for travelling were to see new places (29%), for change of scenery (26%) and to visit historical sites (24%).

However, the December 2004 Asian tsunami appears to have had a considerable impact on the travel intentions of Japanese and Korean travellers, at least for travel within Asia, according to the World Tourism Organization's (WTO) *Post-Tsunami Global Travel Intentions* report. The study indicated that 49 per cent of Japanese travellers and 60 per cent of Korean travellers polled were less likely to travel to any Asian destination in 2005 because of the tsunami. This was significantly higher than the proportion of overall travellers polled around the world who said they would be less likely to travel to this region (30%). The WTO noted that the effect of the tsunami on travel intentions varied greatly by market, with some travellers showing "higher levels of apprehension and resistance to visiting tsunami-affected countries" as a result of the disaster.

Meanwhile, Tourism Australia announced the launch of a new A$8 million (CDN$7.8 million) campaign in Japan targeting high-yield Japanese tourists. The organization is focusing on the growing number of Japanese travellers who are seeking independent trips as an alternative to traditional group travel packages. These visitors tend to stay longer, spend more and travel further away from the major gateways. They also noted that instead of just sightseeing, Japanese tourists were becoming more interested in "rejuvenating holiday experiences," such as nature-based trips.

Korea

Korean Air announced plans to spend US$10 billion over the next 10 years on new aircraft, in-flight service upgrades and technology enhancements to capitalize on the growing demand for air travel. According to a news report by *Air Transport World*, the carrier anticipates demand growth in medium- and long-haul services, in particular to Europe and the United States. The airline stated that this major investment signifies its "commitment to our vision of becoming one of the world's top 10 airlines by 2010."

Korea's National Statistical Office reported that travel and other reservation services made up the country's fastest growing e-commerce category in 2004. Transactions in this category surged 43.3 per cent, compared with a year earlier, to 751 billion won (CDN$937 million), while overall e-commerce transactions jumped 33.6 per cent to 314.1 trillion won (CDN$391.9 billion).

Korean consumer sentiment improved in March, appearing optimistic for the first time in over two years, according to *The Korea Herald*. A government index measuring consumer expectations for the economy and spending plans for the next six months rose to 102.2, up from 99.4 in February and 90.3 in January. A measurement above 100 indicates that the majority of consumers polled are optimistic about economic conditions. The sub-index measuring plans to increase spending in the next six months rose to 105.5 from 103.1 in February, although the sub-indexes for entertainment activities and purchasing big-ticket items remained below 100, at 92.3 and 91.3, respectively.

The latest MasterIndex of Travel report by MasterCard International suggests that Korean outbound travel over the first six months of 2005 will grow to 4.6 million trips, a 12.1 per cent increase compared with the same period in 2004. The report included the results of a survey of Korean travel intentions, which showed that 55 per cent of Korean travellers plan to take at least one personal international trip in the next 12 months. The most popular reasons for taking a trip abroad were "to see different people/cultures" (cited by 43% of respondents planning an international trip), "for rest and relaxation" (41%) and "to study or take courses" (19%).

China

Despite strong growth in passenger demand, China Southern Airlines, the country's largest carrier, posted an unexpected net loss for the full year of 2004. The carrier's full-year loss amounted to 48 million yuan (CDN$7.2 million), although this was still better than the 358 million (CDN$53.9 million) yuan loss reported for 2003. Passenger revenues for 2004 increased 40.6 per cent, but soaring fuel prices, lower-than-expected airfare yields and other expenses offset these gains in the second half of the year. The airline serves a higher proportion of domestic passengers than China's other major airlines, and it noted that domestic competition has become much more intense.

China's other two major airlines, however, recorded net profits for the full year of 2004. China Eastern Airlines' net profit totalled 514.1 million yuan (CDN$77.4 million), a significant reversal from the 949.8 million net loss (CDN$143 million) recorded a year earlier. As well, Air China's full year 2004 net earnings rose to 2.39 billion yuan (CDN$360 million) from 160 million yuan a year earlier, driven by a 39 per cent jump in passenger traffic. Looking ahead, Air China expects air travel demand to expand a further 13 to 15 per cent over the next three years, as China's economy continues to grow. However, the carrier expects high fuel prices and increasing competition will hurt its earnings this year.

In March, passenger traffic through Beijing Capital International Airport rose 19.3 per cent, year over year, to 3.17 million passengers. The airport served 30 million passengers in 2004 and expects that figure to rise to 35 million this year. The facility underwent a major expansion just six years ago, but the rapid growth in travel demand since then has prompted the airport to plan further upgrades, including a third terminal that will allow the airport to handle up to 60 million passengers per year.

In fact, *Air Transport World* recently reported that China has overtaken Japan as Asia's largest air travel market, and is now second to the United States in terms of scheduled seat departures. A new report by Airclaims' International Transport and Tourism Consultancy (ITTC) stated that overall, China's seat departures rose 22 per cent to 180 million in 2004, and are expected to climb another 13 per cent in 2005. From 1998 to 2004, China's departures grew at an average pace of 13 per cent per year, while over the same period, Japan's departures rose by an average of 1.1 per cent, annually. Moreover, foreign carriers increased their market share of Chinese outbound air travel during this same time frame: in 1998, market share was split evenly between Chinese carriers and foreign carriers, but by 2004, China's share dropped to 46.5 per cent.

Canada and China signed a deal in April that significantly expands the bilateral air agreement between the two countries, paving the way for a threefold increase in passenger and cargo capacity. Air Canada subsequently announced extensive plans to expand flight services to China, beginning with an increase in passenger capacity between Vancouver and Shanghai this summer. In 2006 and 2007, the carrier plans to expand its flight services to Beijing, Shanghai and Guangzhou.

The China National Tourism Administration reported preliminary figures for the full year of 2004 indicating that 28.85 million Chinese travellers took an overseas trip last year, according to *Asia Times*. From January to October, outbound travel increased 49.8 per cent over the same period a year earlier, bolstered by a 55.2 per cent increase in leisure travel. Business travel during this period rose 8.6 per cent over the previous year.

In the first half of 2005, 17.4 million Chinese are forecast to travel abroad, a 33.6 per cent rise over the previous year, according to the latest MasterIndex of Travel report by MasterCard International. In a related survey, 89 per cent of Chinese travellers polled said they planned to take at least one international trip in the next 12 months. The largest group of travellers cited "rest and relaxation" as the main reason for travelling (63%), followed by "a change of scenery or weather" (58%) and "to see different people/cultures" (52%).

A recent article by *USA Today* reported that ski holidays are becoming more popular in China, with about five million Chinese expected to visit domestic ski resorts this year. Surprisingly, as little as 10 years ago, ski vacations did not exist-only professional athletes skied in China, and no ski resorts existed at all. Today, there are more than 200 ski hills in China to accommodate the country's burgeoning ski market.

Australia

Qantas Airways, Australia's flag carrier, doubled its fuel surcharge on international flights from A$29 to A$60 (CDN$58) in April. The carrier expects its fuel costs to increase by an additional A$1 billion in its 2005/2006 fiscal year. However, despite soaring fuel prices, the airline achieved record profits for its first half ended Dec. 31, 2005 and anticipates an 11 per cent year-over-year increase in profits for its current fiscal year ending in June.

Australian outbound travel has been trending upwards since May 2003, according to the latest data from the Australian Bureau of Statistics. In February 2005, short-term resident departures jumped 13.4 per cent compared with February 2004. This represents a 36.4 per cent increase from the trough seen in April 2003.

The latest MasterIndex of Travel report by MasterCard International forecasts a 12.4 per cent increase in Australian outbound travel in the first half of 2005, to 2.25 million overseas trips, compared with a year earlier. A related survey of Australian travellers revealed that 76 per cent of respondents intend to take at least one personal international trip in the next 12 months. The most popular reasons for travel were "rest and relaxation" (cited by 49% of respondents), "to see new places" (22%) and "a change of scenery or weather" (22%).

Australians chose Whistler/Blackcomb as the number one overseas ski resort, according to a recent poll of American Express gold cardholders by *Luxury Travel Magazine* and American Express. In the "best country" category, Canada was ranked sixth, behind Australia, Italy, France, the United States and England.

Economic Overview

North America

Real economic growth in North America is expected to slow down from the 4.4 per cent pace set in 2004 to 3.4 per cent in both 2005 and 2006. The slower growth is mainly a result of weaker growth in the U.S. economy, partly a result of rising interest rates, which will dampen consumer spending, particularly for durable goods.

Meanwhile, the continued strength of the Canadian dollar (vis-à-vis the U.S. dollar) will extract a heavy toll on Canada's export sector in 2005. Fortunately, a strong domestic economy is expected to help out considerably and allow real economic growth to reach 2.3 per cent this year. In 2006, as the economy adjusts to a stronger dollar, economic growth is expected to bounce back, advancing by 2.8 per cent.

The Mexican economy is expected to decelerate along with the moderation of the U.S. expansion this year. Overall, real economic growth of 3.6 per cent is anticipated this year and much the same in 2006. Inflation is expected to remain under control (around 4%) and, as a result, interest rates should not increase from current levels of about 8 per cent.

Europe

While economic growth in Europe will continue to be constrained by sluggish growth in Germany, countries with more flexible labour markets and stronger job creation should post solid growth. The United Kingdom and, to a lesser extent, France and Sweden fall into this category. In fact, economic growth in the UK is expected to reach 2.5 per cent in 2005. On balance, however, overall real gross domestic product (GDP) growth for the region is expected to be less than impressive, at 1.9 per cent this year and 2.1 per cent in 2006. One of the main reasons for weak economic growth in countries such as Germany and Italy is the extent to which labour market rigidities restrict hiring. Weak employment growth does little to stimulate consumer spending-a key driver in creating economic growth. Fortunately, inflation is expected to remain in check-growing less than 2 per cent during 2005 and in 2006.

Asia-Pacific

Real economic growth in the Asia-Pacific region is expected to slow considerably from the 4.4 per cent recorded in 2004. For 2005, economic growth is only expected to advance 2.9 per cent, before reaching 3.4 per cent in 2006. Slower growth is mainly the result of the weakening economic situation in Japan. The Japanese economy fell into a recession during the latter part of 2004 when its export sector-which had been the engine of growth over the past two years-weakened sharply. Moreover, with deflation once again rearing its head, consumer spending is also expected to weaken. Overall, real economic growth in Japan is only expected to be 1.1 per cent this year and 1.8 per cent in 2006. Other countries expected to experience slower economic growth this year are South Korea and Australia. On a more positive note, the outlook for China's economy has picked up, and expectations are that real economic growth could reach 8.2 per cent this year and 7.8 per cent in 2006.

Opportunities

Solo travellers are becoming an increasingly significant travel segment, according to a recent survey by Fodor's Travel Publications. In fact, of the 1,000 American adults polled, about 40 per cent had travelled alone for pleasure in the last three years. However, a full 80 per cent of all respondents indicated an interest in solo travel. A hurdle to overcome is that a large proportion of respondents (44%) believe that a stigma still exists for solo travellers, especially for women. A recent article by *Travel and Hospitality Industry Digest* noted the trend of solo travel in the UK. Solo Holidays, a British tour operator specializing in vacations for approximately 20,000 singles annually, has seen a significant increase in demand for solo travel over the past three years. The company is always on the lookout for hotels that will cater to the needs of singles, saying that "hoteliers are realizing that our clients are quite big spenders in the hotel."

Another rapidly expanding travel niche-travellers who bring their pets on vacation-has spurred a boom in pet travel, potentially providing pet-friendly hotels with an opportunity to increase revenues, even if they charge extra for pet stays. According to the American Pet Products Manufacturers Association, pet travel in the United States rose 33 per cent in 2004 to 20 million trips-80 per cent of which were made by dogs. A recent survey by BringYourPet.com revealed that 78 per cent of the pet owners polled said they stay at pet-friendly hotels at least once a year, and 85 per cent are quite willing to pay extra for pet-friendly lodging. Almost two-thirds (64%) said they would be more likely to lengthen their stay at a hotel if they were allowed to bring their pet with them.

A new top-level domain (TLD)-".travel"-holds significant promise for the tourism industry. Approved by the Internet Corporation for Assigned Names and Numbers (ICANN), a non-profit company that manages Internet domain names, the dot-travel domain is for the exclusive use of the travel industry. A separate company, Tralliance Corporation, has been given the authority to administer the registry, and plans to develop an easily searchable database for dot-travel registrants. Only travel companies that register their dot-travel Internet address with Tralliance will have their websites accessible to Internet searchers via major search engines such as Google and Yahoo.. Tralliance is expected to launch registration for the dot-travel domain this fall.

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