CTC Tourism Intelligence Bulletin – Issue 20: January 2004

The Tourism Intelligence Bulletin continues to monitor the tourism industry around the world. This issue reveals tourism intelligence gathered in November and December 2003, as well as early January 2004.

New Year Ushers in Renewed Optimism

Executive Summary

- Looking back on 2003, it seems impossible to believe the travel industry could have sustained a worse year. While a rebound had been anticipated in 2003, with a forecasted overall average growth of 3.0% in tourism revenue from a base of $51.8 billion, the Conference Board of Canada estimated that SARS, the war in Iraq, Air Canada's filing for creditor protection, mad cow disease (BSE), wildfires in B.C., August's massive power failure and the volatility of the exchange rates cost the Canadian tourism industry at least $2 billion dollars in foregone revenue. In itself, 2003 caused significant hardship for most travel suppliers. Compounded by the industry's weak performance in 2001 and 2002, it has proved devastating.

- Fortunately, 2003 ended with a positive momentum encouraging suppliers to greet the new year with restored optimism. In fact, pent-up demand helped much of the industry achieve positive results over the Christmas holidays. Meanwhile, the tourism industry's recovery is still quite fragile and a number of issues remind us that we are not quite out of the woods yet. Once again, SARS incidents are receiving media coverage, and airline security threatens to become an even greater challenge in 2004.

- Meanwhile, positive signs for a recovery in business travel continue to grow, although residual effects of SARS on meetings and convention business will still be felt this year. Unfortunately, the pace of recovery in business travel is expected to be constrained while travel budgets remain tight. Marked increases in travel budgets will only occur after businesses see more consistency in financial operating results.

Emerging Trends and Issues - The Battle For Control Of On-Line Travel Market Heats Up

- One enduring consequence of the industry's weak performance in 2003 has been low prices, sustained, in part, by the flourishing popularity of discount travel web sites. Travel sites such as Expedia, Travelocity and Orbitz were very useful in moving products when things were slow, but now prove to be a significant factor in the battle to overcome ongoing price resistance-particularly for the hotel industry. Recent data shows the staggering impact of these third-party web sites on hotel industry profits. This fact, combined with the surging growth of on-line hotel bookings has spurred more lodging companies to aggressively pursue more bookings through their own web sites.

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- Within the last year, a number of hotel chains have launched "Lowest Rate Guarantee" campaigns to reassure consumers that the best rates could be found on a hotel's own web site. In so doing, hotels are hoping to reactivate declining brand loyalty and capture a larger share of the profits to be made on their products. Some still include third-party web sites in their marketing strategy, but have negotiated more equitable deals. As travel suppliers continue to improve their internet marketing strategies and increase their understanding of the opportunities and disadvantages of using third-party sites, they will regain a greater amount of control of product prices, and reap more of the rewards offered by the growing on-line market.

Consumer (Traveller) Overview

- The outlook for leisure travel, as it heads into 2004, improves considerably. However, the later booking trend that emerged after September 11, 2001 does not appear to be subsiding. In fact, the recent heightened security concerns, including the elevation of the terror alert in the U.S. over the Christmas holidays, will likely perpetuate this "wait and see" attitude. Another factor contributing to the late booking trend is the increasing popularity of the internet for researching and booking travel. A December 2003 Ipsos-Reid poll revealed that 60% of respondents had used the internet for researching travel information (a 4% rise from 2002), while 33% had booked travel arrangements on-line (up 7% from 2002).

- Fortunately, it appears that business travel volumes are also poised to increase in the coming year, fuelled by increasingly competitive travel prices and an improved economic outlook. Ipsos-Reid's 2003 Business Travel Study indicates that 32% of frequent Canadian business travellers polled intend to travel more often in the next twelve months, compared with 22% who planned to travel less often. However, the study findings also highlighted the increased focus on corporate cost cutting over the last two years. Average monthly credit card expenditures for business travel dropped 13% in 2003 to $2,600, compared with $3,100 in 2001. Unfortunately, recent data suggests that travel budgets will remain tight with low-cost carriers gaining a greater foothold in corporate travel planning.

- In the U.S., the Travel Industry Association of America (TIA) forecasted that Americans would take 2.3% more leisure trips this winter season (December 2003 - February 2004), compared with last year. The TIA attributed the increase to improvements in economic activity and consumer confidence. In support of this forecast, The U.S. State Department reported that it issued a record number of passports in the year ending September 30, 2003, which may be another sign of improving travel demand.

Travel Supplier Overview

- Air Canada reported that its December revenue passenger miles (RPM) were up 0.2% from the previous year. This marked the first time in 12 months the airline has experienced growth in its overall passenger traffic. Unfortunately, domestic traffic was still 1.3% below last year's levels while international Atlantic routes were down 4.3%. However, international Pacific routes were up 16.5% over 2002, bolstered by increased demands for Delhi, Hong Kong, and Mainland China.

- In the U.S., overall RPM's grew 1% in December 2003, compared with the previous year, representing the fourth consecutive month that passenger traffic has increased in the U.S. These figures suggest that the demand in air travel is continuing its gradual recovery, although the major airlines continue to lose market share to the low-cost carriers. However, planned capacity increases are expected to fuel the industry's competitive environment this year, making it unlikely that prices will recover any time soon.

- The latest Pannell Kerr Forster (PKF) figures show that hotel demand in Canada steadily increased through the fall, narrowing occupancy declines and revenue losses compared to 2002 figures. In November, the national occupancy rate was virtually on par with last year's figures (-0.2%), and revenue per available room (RevPAR) was down only 1.4% compared with November 2002.

Economic Overview

- Real economic growth in the U.S. is expected to reach 4.2% in 2004 and 3% in 2005, fuelled by a federal tax cut, low interest rates and an upswing in investment spending. Meanwhile in Canada, strong consumer spending and business investment are expected to offset any weakness in the exports and government sectors in 2004. The Conference Board of Canada forecasted that the Canadian economy would grow by 3% in 2004 and a further 3.6% in 2005.

- Economic growth in Europe and its major economies-Germany, France and Italy-should improve in 2004. According to Consensus Forecasts, the economies of Western Europe are expected to grow by 2% in 2004-double the rate of growth they have averaged over the last two years. As usual, the U.K., with closer ties to the bustling U.S. economy is expected to outperform the Eurozone. On the continent, the economies of France and Germany are expected to under-perform, advancing by an average of 1.5%. Nevertheless, after several years of lackluster growth there are some reasons for optimism, as these two core Eurozone countries begin restructuring their economies through tax cuts and labour market reforms.
- The outbreak of SARS severely hit regional trade in the Asia-Pacific. Luckily, China's economy muscled through the last half of 2003, aided by a rush of government-sponsored consumer loans. In 2004, Hong Kong, South Korea and Taiwan are expected to record the best economic growth they have had in years. In Australia, the economy is expected to grow by nearly 4% in 2004, supported by the revival in regional trade as well as strong consumption driven by low interest rates. After gaining 2.4% in 2003, the Japanese economy will continue to perform relatively well in 2004, growing a further 1.3%.

Opportunities

- Business travellers are becoming increasingly disillusioned by the travel experience. Recognizing this, one way suppliers can ensure they attract as many corporate clients as possible is by taking a closer look at their corporate markets and capitalizing on the amenities that will improve the business travel experience. For example, a study by New York University revealed that a growing proportion of business travellers (40%) are women. The study showed that 65% of women business travellers include some aspect of relaxation into their business trip, including leisure activities during their business trip (44%) and additional vacation days tacked on to the end of their trip (21%). The study also revealed that the most important in-room amenities among female corporate travellers are a mini-bar (71%), brand-name bath amenities (56%) and spa services (47%).
- For leisure travel, a recent article in London's Evening Standard stated that British travellers are shifting their interest from sun vacations to adventure holidays. Since 2001, adventure holiday bookings have grown 5% each year with 150,000 British expected to take a thrill-seeking holiday in 2004. Moreover, according to organizers of the U.K.'s annual Adventure Travel and Sports Show, the top adventure holiday in 2004 is expected to be river kayaking/grizzly bear-watching trips to Canada.

In Brief

Looking back on 2003, it seems impossible to believe the travel industry could have sustained a worse year. While a rebound had been anticipated in 2003, with a forecasted overall average growth of 3.0% in tourism revenue from a base of $51.8 billion, the Conference Board of Canada estimated that SARS, the war in Iraq, Air Canada's filing for creditor protection, mad cow disease (BSE), wildfires in B.C., August's massive power failure and the volatility in the exchange rates cost the Canadian tourism industry at least $2 billion dollars. In itself, 2003 caused significant hardship for most travel suppliers. Compounded by the industry's weak performance in 2001 and 2002, it has proved devastating.

Fortunately, 2003 ended with a positive momentum encouraging suppliers to greet the new year with restored optimism. Losses in the airline and hotel industries narrowed significantly in the final quarter of 2003, and pent-up demand helped much of the industry achieve positive results over the Christmas holidays. Improving economic prospects, growing consumer confidence, and pent-up demand are expected to help spur leisure travel throughout 2004.

Although positive signs for a recovery in business travel are flourishing, the aftermath of the SARS epidemic on the meetings and convention business will linger well into the new year. As well, it is expected that the pace of recovery in business travel will be hampered by ongoing travel budget constraints. Marked increases in travel budgets will only occur once businesses witness more consistent financial operating results.

Meanwhile, the tourism industry's recovery is still quite fragile and a number of issues remind us that we are not quite out of the woods yet. Once again, SARS incidents are receiving media coverage, and airline security threatens to become an even greater challenge in 2004. And, because of the increasing popularity of discount travel web sites, many suppliers are finding it tougher to raise prices as consumer demand rebounds. Regaining pricing control is critical in achieving financial profitability for many tourism suppliers and it will be interesting to see how this "web war" plays out through the coming year.

Emerging Trends and Issues

The Battle For Control of the On-Line Travel Market Heats Up

One of the lingering consequences of weak travel demand through 2003 has been low prices. Many travel suppliers reduced prices in an effort to stimulate demand through slow periods. Now, with an upsurge in demand, raising those prices has become a colossal challenge, particularly because consumers are now accustomed to rock-bottom rates. Businesses that resorted to price slashing must now cope with the problem of regaining control of their prices, and rebuilding the value of their brands. The most heated battle for price control appears to be taking place on-line, where the increasing popularity of the Internet has merged with consumers' relentless pursuit of the lowest possible prices.

On-line intermediaries (also known as third-party web sites) such as Expedia, Travelocity and Orbitz, were very useful to airlines, hotels and car rental companies in moving products when things were slow. These third-party sites offered travel suppliers a medium to advertise extensive last-minute discounts. Consumers flocked to these sites, whose bargain-basement prices were clearly displayed, thus facilitating their search for the lowest rates.

However, these same web sites have now become a bane for many travel suppliers in the battle to overcome ongoing price resistance-particularly for the hotel industry. Dozens of travel web sites proliferated over the last few years to accommodate a wide range of hotel discount strategies that were often uncoordinated. Hotel chains, independents, franchises, and management companies all had their own approach to setting room rates and as a result, pricing and inventory control were particularly difficult.

The airline industry has had a much easier time controlling web pricing-there are only a handful of major airline companies, and commissions are tighter, to name two reasons. Another factor is that airlines are at the forefront of marketing their own web sites in order to generate more direct on-line purchases. This has reduced the consumers' reliance on third-party sites for airline bookings. Currently, about 62% of on-line ticket sales in the U.S. are now made directly through airline web sites.

Conversely, in the hotel industry, competition for on-line bookings is growing more intense. According to on-line travel research firm PhoCusWright, since 2001,the market share of on-line hotel bookings has been roughly split in half between hotel web sites and third-party web sites (hotels have maintained a 4 to 8% edge over the third-party sites). Meanwhile, the market itself has been expanding by leaps and bounds. The latest TravelCLICK eTRAK data shows that in the third quarter of 2003 alone, the number of room nights sold on-line jumped 52% worldwide, compared with the same quarter of 2002. This has prompted more aggressive attempts by hotel companies to bypass intermediary channels and increase the number of sales on their own web sites.

Third-Party Web Sites Slicing Off Larger Portions of the Profit Pie

Another factor driving hotels to drastically reduce their use of third-party sites is the staggering impact these web sites have on hotel profits. Smith Travel Research (STR) recently released a report estimating that close to US $1 billion of the U.S. hotel industry's profits for 2003 will be absorbed by third-party merchant web sites (Expedia, Travelocity and Hotels.com account for about 75% of this segment). This represents about 6% of the US$16 billion in overall profits STR expects the U.S. hotel industry to net in 2003. The latest figures also represent a significant increase from 2002 when the merchant sites' share of hotel profits were estimated to be US$676 million, or 4.5% of overall profits.

Within the last year, a number of hotel chains have struck back with marketing campaigns to attract more internet traffic to their own branded web sites. Declarations of "Guaranteed Lowest Rates" have proliferated, assuring internet surfers that the best rates are to be found on a hotel's own web site. Hotels are hoping to reactivate the brand loyalty that has declined over recent years, and capture a larger share of the profits to be made on their products.

Forewarned is Forearmed

Fortunately for Canadian travel suppliers, anecdotal evidence suggests that third-party web sites have not penetrated Canada's travel market to nearly the same extent as it has south of the border-at least, not yet. However, a November Ipsos-Reid poll showed that Canadians are increasing their use of the Internet for planning and booking their travel: 33% of those polled said they had booked travel on-line, up from 26% the previous year, and 18% in 2000. About 60% said they had used the internet to get travel information or conduct research on vacation destinations. It will be crucial for travel suppliers to have well-developed internet marketing strategies that will help them maintain their share of travel bookings and control product prices.

Many suppliers still include third-party web sites in their marketing strategy, but have negotiated more equitable deals. For example, Hilton Hotels Corp. has an agreement with Expedia that provides Expedia with exclusive access to Hilton's room inventory in exchange for lower commission rates. This will likely work to Hilton's advantage in 2004 since Expedia's parent company, InterActiveCorp (which also owns Hotels.com) announced to investors that it planned to nearly double its marketing spending this year to US$900 million, "to consolidate its lead in on-line travel." Other major third-party sites have divulged similar plans, searching for new ways to compete for internet travel bookings.

As Smith Travel Research stated in its report on merchant model web sites, "third party sites are here to stay. It is up to the hotel operators to use these web sites to form a mutually rewarding relationship." As travel suppliers continue to improve their internet marketing strategies and increase their understanding of the opportunities and disadvantages of using third-party sites, they will reap more of the rewards offered by the growing on-line market.

Consumer Overview - Canada and the United States

Business Travellers

It appears that business travel levels have stabilized and are poised to increase in the coming year, fuelled by increasingly competitive travel prices and an improved economic outlook. However, while these factors point to a potential increase in travel volumes, recent data suggests that travel budgets will remain as tight as ever, with low-cost carriers gaining a greater foothold in corporate travel planning. Although business confidence continued its gradual recovery through the final months of 2003, companies appear to be reluctant to increase travel expenditures until the economic climate becomes more stable.

Ipsos-Reid released the results of its Canadian 2003 Business Travel Study in December which indicated that 32% of frequent business travellers polled intended to travel more often in the next twelve months. In comparison, 22% planned to travel less often. While this is positive news, survey results show that air travel and hotel stays are still down significantly from 2001: flights taken for business purposes have declined 13%, and hotel nights have dropped 15% from the levels seen in 2001.

Study findings also illustrate the heightened focus on corporate cost cutting over the last two years. Average monthly credit card expenditures for business travel have dropped 13% to $2,600, compared with $3,100 in 2001. And while the largest group of respondents (41%) said that they primarily fly with full-service airlines, 17% said they fly primarily with low-cost carriers, and 25% said they use both.

According to a recent benchmarking study by BTI Canada, a corporate travel management company, the average cost of airline tickets purchased by its Canadian corporate clients declined 9.6% in the last year. Average hotel rates were on par with 2002 figures, which BTI noted were already depressed, and car rental rates fell 4%. BTI stated that their clients were continuing to pursue the lowest possible prices, in many cases at the expense of comfort.

New Year Ushers in Renewed Optimism

In early January, American Express Consulting released its 2004 Trends and Forecasts for the Canadian Business Travel Industry, predicting that Canadian corporations will spend 2% less this year on business travel, but will increase their travel volume. Domestic air prices are expected to decrease the most (5-6%), resulting in significant cost savings for corporate travel budgets. Meanwhile, the strong economic outlook is expected to fuel business travel demand.

The latest Accenture survey shows that low-cost travel options remain a priority for U.S. business travellers as well. Survey results indicated that 76% of respondents expect their business travel to increase or remain the same over the next six months, although budgetary concerns were the most important factor in their travel planning. Of those polled, 59% reported using low-cost carriers for business trips in the last six months and 65% intended to increase or maintain their use of low-cost carriers in the near future. The vast majority of respondents planned to use mid-range (75%) or budget-chain (13%) hotels, while only 4% indicated they would stay at luxury hotels.

According to the Travel Industry Association of America (TIA)'s Winter 2003-2004 Travelometer forecast, Americans will take 3.7% more business trips this winter season (December - February) compared with last year. The outlook for 2004 appears even more favourable: the TIA's latest Annual Travel Forecast projects that the volume of U.S. business travel will rise 4.2% to 122 million trips in 2004, compared with 2003. This is the first expected annual increase in U.S. business travel since 1999, and follows a 3.7% decline expected for 2003.

According to Meeting Planners International and American Express, the bright spot in the business travel market appears to be the meetings segment, whose global revenues are projected to grow an average of 4% in 2004. The two organizations recently released FutureWatch 2004, an annual outlook of the meeting industry based on a survey of meeting professionals across North America and Europe. Findings showed that Canadian respondents predicted a 12% meeting budget increase for 2004, while American and European respondents expected meeting budgets to rise 25%. American planners also predicted that 11% more meetings would be held outside of the U.S.

Leisure Travellers

The outlook for leisure travel in 2004 is optimistic, even though the late booking patterns that emerged after September 11, 2001 show no signs of diminishing. Recently heightened security concerns, including the elevation of the terror alert in the U.S. over the Christmas holidays will likely perpetuate this "wait and see" attitude. Another contributing factor to this trend is the increasing popularity of the internet for researching and booking vacations.

A survey conducted in November by Ipsos-Reid on behalf of Expedia.ca revealed that 54% of Canadians polled planned to travel during the December holiday season, and 62% planned to travel between January and March. Of those planning a trip in December, 27% had chosen a destination in another province, while 20% intended to stay within their own province. The remaining respondents were intending to spend their holiday in the U.S. (24%) or in other parts of the world (29%). Of the group travelling between January and March, 36% intended to choose a Canadian destination, while 28% planned to visit the U.S. or other international locations (34%).

The survey also suggested that Canadians' use of the internet for planning and booking travel is growing. Of those polled, 60% said they had used the internet for researching travel information, (a 4% increase from a year ago) while 33% had booked travel arrangements on-line (up 7% from a year ago).

In the U.S., the Travel Industry Association of America's (TIA) Winter 2003-2004 Travelometer forecast projected that Americans would take 2.3% more leisure trips this winter season (December - February), compared with last year. The TIA attributed the increase to improvements in economic activity and consumer confidence. In its Annual Travel Forecast, the TIA predicted that domestic leisure travel would expand by 3.2% in 2004, on top of the 2.8% increase expected for 2003. In support of these forecasts, the U.S. State Department reported that it issued a record number of passports in the year ending September 30, 2003, which could be another sign of improving travel demand.

A recent study by Vividence Corporation and PhoCusWright Inc. suggested that consumers are increasingly interested in booking vacation packages on the internet, but are frustrated by the lack of flexibility that packages currently offer. According to the study, 28% of consumers monitored had bought vacation packages on-line in the past, and 68% were interested in doing so in the future. However, most consumers (73%) found current package offerings to be too inflexible; the primary complaints were the inability to select preferred travel providers (50%) and the inability to ensure that preferred amenities were included (32%).

Travel Supplier Overview - Canada and the United States

Airlines - Canada

Air Canada posted a net loss of $263 million for the third quarter ending September 30, 2003 compared with a $125 million net profit for the same period last year. Year-to-date (as of September 30) the airline's net losses totaled nearly $1.1 billion. Revenue passenger miles and capacity for the third quarter each declined 13%, resulting in a load factor that was virtually unchanged from the previous year (up 0.1 percentage points). Meanwhile, passenger revenues dropped 8% compared with the third quarter of 2002.

The carrier blamed most of its third-quarter losses on the dramatic decline in international travel in the wake of the SARS outbreak, but recognized that they needed to continue improving operational efficiencies to succeed in the "permanently reduced domestic yield environment." Air Canada noted that the increasing competition from low-cost carriers continued to put pressure on airfares and revenues, describing this as the "new and challenging industry reality in Canada."

For December, Air Canada reported that its overall revenue passenger miles (RPM) were up 0.2% from the previous year, marking the first time in twelve months the airline has experienced growth in its overall passenger traffic. Unfortunately, domestic traffic was still 1.3% below last year's levels while international Atlantic routes were down 4.3%, compared to last year. However, international Pacific routes were up 16.5% over 2002, bolstered by increased demands for Delhi, Hong Kong, and Mainland China. The airline noted that demand for Caribbean, Mexican and South American destinations had also increased considerably.

After months of uncertainty and legal wrangling, which caused delays for the carrier's restructuring process, Air Canada's board of directors approved the selection of Trinity Time Investments as its equity plan sponsor. In the new deal, Trinity will purchase a 31% stake in Air Canada for $650 million once the airline exits bankruptcy protection, making Trinity the carrier's largest shareholder. Air Canada still requires court approval for this deal. However, Ernst & Young, the bankruptcy-court monitor, has already recommended it be approved so that Air Canada can complete its restructuring process before the Trinity deal expires on April 30, 2004.

Table 1. Airline Revenue Passenger Miles (RPM) and Capacity - December 2003

Airline	RPM (in millions) December 2003	RPM 2003 vs. 2002	Capacity 2003 vs. 2002
Air Canada (includes Tango, Zip and Jetz)	3,132	+0.2%	-2.6%
Air Canada Regional (Jazz)	129	+2.4%	-4.0%
Westjet	476	+40.6%	+37.9%
Jetsgo	174	+231%	+234%

According to the latest OAG Quarterly Report, the low-cost carrier segment is continuing its rapid expansion in Canada. In the week of December 8, 2003, the frequency and seat capacity of low-cost air travel within Canada increased 37% compared with the previous year. This will likely continue through 2004, as Canada's two largest low-cost carriers, Westjet and Jetsgo have both recently announced aggressive expansion plans for the year.

A recent article by The Globe and Mail illustrated the startling shift in domestic market share that occurred over the past year among the routes covered by the three largest carriers in Canada (Air Canada, Westjet and Jetsgo). According to the article, Westjet increased its domestic market share to 25% in the third quarter of 2003, up from 18% in 2002. Year-old Jetsgo now maintains an 8% market share. Meanwhile, Air Canada's share of the domestic market dropped to 67% in the third quarter of 2003, compared with 82% in the previous year.

In an attempt to simplify airfare pricing, Air Canada recently announced that it would incorporate fuel surcharges into its base domestic fares. By doing so, advertised prices more accurately reflect the final ticket price charged to the consumer (international fares already incorporate the fuel surcharge). Depending on the distance travelled, fuel surcharges usually range between $10 to $20 each way on a domestic trip. Westjet and Jetsgo subsequently announced they would follow suit.

Airlines - U.S.

The Air Transport Association (ATA) reported that overall revenue passenger miles (RPMs) grew 1% in December 2003, compared with the previous year. This represents the fourth consecutive month that passenger traffic has increased in the U.S. While domestic traffic rose only marginally (0.2%), international traffic increased 2.9%, bolstered by solid increases on Atlantic and Latin American routes (up 3.6% and 7.9%, respectively).

These figures suggest that the demand in air travel is continuing its gradual recovery, although the major airlines continue to lose market share to the low-cost carriers. Several major airlines have announced plans to increase capacity in an effort to meet the growing demand and compete with the expanding low-cost segment. American Airlines, for example, said they intend to increase their capacity by 7% in 2004. However, this is expected to fuel the industry's competitive environment and intensify the downward pressure on airfares, making it unlikely that prices will recover any time soon.

According to James May, President and CEO of the Air Transport Association, passenger traffic ran smoothly over the busy holiday period in December, despite the elevation of the terror alert and the wave of security-related flight cancellations. He noted that it appeared that the heightened terror alert level did not have any significant impact on holiday bookings, and that travellers seem to be growing more accustomed to the additional security rules and procedures.

Table 2. Airline Revenue per Available Passenger Mile (RPM) and Capacity

Airline	RPM; Dec. 2003 vs. Dec. 2002	Capacity; Dec. 2003 vs. Dec. 2002
Alaska Airlines	+8.0%	+8.5%
American Airlines	-0.1%	-0.8%
America West Airlines	+5.3%	+4.8%
Continental Airlines	+7.6%	+3.3%
Delta Air Lines	-0.5%	-0.3%
JetBlue Airways	+43.6%	+48.2%
Northwest Airlines	-4.8%	-6.3%
Southwest Airlines	+1.1%	+4.3%
United Airlines	-2.8%	-5.9%
US Airways	+4.1%	+3.4%

UAL Corp, the parent company of United Airlines posted a net loss of US$367 million for the third quarter (ending September 30, 2003) although it recorded its first quarterly operating profit in more than three years (US$19 million). The airline stated that its restructuring was on track, and that it was making "tremendous progress" in reducing costs. In December 2003, UAL announced that it had secured US$2 billion in exit financing, a major step in the company's emergence from Chapter 11 bankruptcy protection. However, the financing will be contingent upon approval by the Air Transportation Stabilization Board and the U.S. Bankruptcy Court.

United Airlines also confirmed that it would launch its new low-fare operation in February 2004, naming the service Ted (the last three letters of "United"). The new service will compete with the low-cost carrier segment on a number of United's routes. It is estimated that approximately 70% of United's network currently faces low-cost competition-the highest percentage of any major U.S. airline. Ted will be launched with four airplanes but United hopes to expand the service to 40 aircraft by the end of 2004.

According to Travel Weekly, the U.S. Department of Transportation released a report indicating that as of December 2003, low-cost carriers increased their domestic market share to 22% of available seats. This represents an increase of 2 percentage points from 2002, and 6 percentage points from 2000. The report also indicates that major carriers had 54% of the domestic market share while other carriers (regionals, commuters, etc.) accounted for the remaining 24%.

On January 5, the U.S. government launched a surveillance program, U.S. VISIT (Visitor and Immigrant Status Indicator Technology), whereby foreign visitors to the U.S. are fingerprinted and photographed. Citizens from the twenty seven countries eligible for the Visa Waiver Program will be exempt, although this procedure will still affect approximately 24 million visitors per year. Some members of the travel industry are concerned that this new policy could impact tourist visits to the U.S. by projecting a negative image to international travellers.

Hotels - Canada

According to a study by KPMG, tourism expenditure losses reached $1.03 billion between March 2 and October 25, 2003, in the six Canadian cities tracked during this period (Toronto, Montreal, Niagara Falls, Ottawa, Calgary and Vancouver-these cities represent 35% of Canada's accommodation market). The firm reported that tourism spending appeared to be rebounding throughout the fall even though many of the factors that affected spring and summer tourism still impacted fall travel. These included a weaker than expected U.S. economy and the climbing value of the Canadian dollar. A forecast by Pannel Kerr Forster Consulting Inc. (PKF) predicted that the Canadian hotel industry would suffer revenue losses totaling $470 million in 2003.

The latest PKF figures show that hotel demand steadily increased throughout the fall, narrowing occupancy declines and revenue losses compared to 2002 figures. PKF reported that the average daily room rate for Canadian hotels in November decreased 1.1% to $104.55, compared to the previous year. However, the national occupancy rate was virtually on par with last year's figures, down only 0.2 percentage points to 56.3%. As a result, November's revenue per available room (RevPAR) was down only 1.4% compared with November 2002.

As of January, more than 100 Toronto-area hotels have agreed to implement a Destination Marketing Fee (DMF), which will appear as an additional 3% charge on all guest bills. The funds will be collected by the Greater Toronto Hotel Association and used for sales and marketing activities to promote Toronto as a tourist destination.

Four Seasons Hotels Inc. posted a net profit of $4.7 million for its third quarter ending September 30, 2003. The lodging company had posted a net loss of $12.3 million for the same quarter in 2002. The hotel group stated in its press release that bookings continued to increase throughout the third quarter, bolstered by increasing demand in business bookings, as well as strong leisure demand. The company also noted that the improvement in demand continued into the fourth quarter but that the booking window continued to be much shorter than the historical norm. Looking to the future, Four Seasons predicted that the recovering economy should "translate into continued improvement in travel demand, particularly business travel."

In November 2003 Fairmont Hotels & Resorts Inc. reported to investors that there were positive signs for hotel industry growth in 2004 considering the ongoing improvement in the U.S. economy and the recovery from the effects of the SARS outbreak. Fairmont stated that international tour operators appeared to be increasingly optimistic about bookings and overall booking volumes were expected to increase. However, room rates were predicted to remain constant.

Hotels - U.S.

According to preliminary figures from Smith Travel Research (STR), U.S. hotel revenue per available room (RevPAR) grew between 3 and 5% during December 2003. Following gains of 2.9% in October and 3.6% in November, it appears that a recovery in the U.S. hotel industry continued to strengthen through the final month of 2003. According to PKF Consulting, a number of factors boosted hotel demand in December, including growing consumer optimism, and the fact that Christmas fell on a Thursday, which enabled more people to take a long weekend. Also last year's holiday season witnessed a drop in demand, brought about by the prospect of a war in Iraq.

However, PricewaterhouseCoopers (PWC) estimated that the U.S. government's elevation of the terror alert over the holiday season impacted lodging occupancy between December 21 - 27 by as much as 1.5%. PWC said that numerous flight cancellations and delays, as well as heightened security measures triggered a rise in travellers' concerns that had a negative affect on travel over this period. The firm noted that, of the eleven federally issued terrorist/security alerts since September 11, 2001, six have corresponded to a "statistically significant decline" in hotel occupancy.

Starwood Hotels and Resorts posted a net profit of US$48 million for its third quarter ended September 30, 2003. The company's RevPAR grew through the summer season, averaging an increase of 4.4% compared with the previous year. Starwood reported that its group bookings during this period were quite weak but its transient bookings were up more than 8% in North America. Fortunately, this more than offset the weakness in group demand. The company also experienced "modest but uneven rate increases" in September.

Table 3. Hotel RevPAR and Net Income

Hotel	Revenue per available room (RevPAR), Q3 2003 vs. Q3 2002	Net Income (Loss) Q3 2003 (in U.S. $)	Net Income (Loss) Q3 2002 (in U.S. $)
FelCor Lodging Trust	-2.4%	-$133 million	-$14 million
InterstateHotels & Resorts	-1.4%	-$0.4 million	-19.4 million
Prime Hospitality	+0.3%	+$2 million	+$2.8 million
Starwood Hotels & Resorts	+4.4%	+$48 million	+$52 million
WestCoast Hospitality	+0.2%	+$2.6 million	+$3.9 million
Wyndham International	+1.8%	-$89.1 million	-$78.2 million

According to a recent survey by Pannel Kerr Forster (PKF) Consulting's Hospitality Research Group (HRG), full-service hotels have reacted with more volatility to recent economic downturns than limited-service hotels. However, HRG predicted that full-service hotels would recover more quickly, with limited-service hotels lagging behind. HRG expected occupancy to grow significantly in 2004 while room rate growth will be modest until at least 2005. HRG believes a recovery in the hotel industry will be driven by a rebound in business and group travel.

PricewaterhouseCoopers forecasted in its eighth annual Hospitality & Leisure Industry Briefing that, after three years of stagnation, RevPAR for the U.S. hotel industry is projected to grow 5.2% in 2004 and a further 3.9% in 2005.

Travel Agents

For December, IATA's Bank Settlement Plan (BSP), the system of tracking airline tickets sold through Canadian travel agencies, reported that the average cost of domestic air travel in Canada decreased 19% compared with a year earlier. The average airfare from Canada to the U.S. dipped 7%, while airfares to other international (non-U.S.) destinations were 2% below the previous year.

For the full year ending December 2003, IATA reported that the average cost of Canadian domestic air tickets dropped 10% compared with 2002. The average air fare from Canada to the U.S. fell 5%, while airfares to other international (non-U.S.) destinations were 4% below the previous year.

Meanwhile, in the U.S., the Air Transport Association (ATA) reported that the average domestic airfare in November increased for the fourth consecutive month-up 2.5% compared with last year. The average U.S. airfare on Atlantic, Pacific and South American routes all increased, as well, up 3.5%, 4.8% and 2.9%, respectively.

The Airline Reporting Corporation (ARC) reported that U.S. travel agency sales in December 2003 increased 3% compared with the same month last year. However, full-year sales for 2003 were down 4% compared with 2002.

According to the AAA's National Travel Barometer, travel bookings in the U.S. increased 13% in December 2003, compared with the same month in 2002. Overall figures were boosted by very strong cruise bookings which were 31% higher than the previous year. Tour packages were up 12%, hotel bookings rose 8% and car reservations increased 4% compared to December 2002. AAA attributed the improvement to cold winter weather and a hot stock market.

The American Society of Travel Agents reported the results of their Travel Agency Profile survey, which revealed that the number of agencies reporting sales of US$5 million or more increased to 15.1% in 2003 from 12.5% in 2002. The findings also showed that agents are selling less air travel and more leisure cruises and tour packages. Airline sales accounted for 32% of an average agency's volume in 2003-down from 34% in 2002 and 54% in 2001. Meanwhile, leisure product sales now account for 74% of agency volume, compared with 64.5% last year.

According to Carlson Wagonlit Travel's 2004 Travel Trends Survey, 45% of travel agents surveyed reported that 2004 bookings were up compared with the previous year, while 38% indicated that bookings were about even. Only 17% said that bookings were down. When asked about their personal outlook for 2004, 85% stated they were either fairly or very optimistic about business.

International Overview - Overseas

United Kingdom and Ireland

British Airways (BA) posted a net profit of £98 million (CDN$227.7 million) for its second quarter ended September 30, 2003-a 35% decrease compared with the same period in 2002. For the half-year period (April to September) net earnings were reported to be down 82% from the previous year to £35 million (CDN$81.3 million). The airline reported that much of the drop in earnings was a result of continued economic weakness, while aggressive price competition kept airfares low. BA noted that its current cost-cutting program helped mitigate some of the revenue loss but warned that further measures would need to be implemented in 2004 to improve profitability. Some of these measures could include further staff reductions.

In December 2003, BA's revenue passenger kilometres (RPKs) rose 4.8% over the previous year. In this month, RPKs for both economy and premium seats grew 4.8%, compared to 2002. Overall capacity was up 2.3% resulting in a load factor hike of 1.7 points to 73.3% compared with December 2002. BA noted in its press release that its long-haul premium traffic continued to build, which strengthened the airline's revenue outlook. Short-haul premium traffic, however, remained weak and traffic in economy segments remained very sensitive to pricing.

Meanwhile, the U.K.'s two main low-cost carriers continued to demonstrate their resilience through one of the airline industry's most challenging periods. Low-cost carrier Ryanair posted a net profit of EUR 168.9 million (CDN$272.3 million) for its first half ended September 30, 2003-an 11.9% increase over the same period of 2002. Low-cost rival Easyjet reported a 33.9% decrease in earnings to £32.4 million (CDN$75.3 million) for its fiscal year ended September 30, 2003, although much of this decline was attributed to expansion activities. Both carriers announced plans for further expansion in 2004 and reported that they are "cautiously optimistic" about the upcoming year. However, price competition is expected to exert continued downward pressure on airfares.

According to the latest OAG quarterly report, low-cost carriers have continued to lead the growth in air travel both to and from the U.K. In the week of December 8, low-cost flights in and out of the U.K. were up 23%, compared with the same week in 2002. Meanwhile, low-cost domestic flights increased 13%. Overall, flights to and from the U.K. were up 3%, while domestic flights decreased 5%. OAG figures also showed that flights to and from the overall U.S. and Canada region were down 1% compared with a year earlier.

BAA, the international airports group, reported a 2.8% increase in passenger traffic for its second quarter results ended September 30, 2003, compared with the previous year. In the first half of its annual results (April 2003 to September 2003), passenger numbers climbed 2.5%. BAA's airports saw a record number of passengers over the 2003 summer season-August was the busiest month on record-which helped mitigate the effects of the war in Iraq and of the SARS outbreak. A new White Paper by the U.K. Ministry of Transportation predicts that the number of passengers travelling through the country's airports will continue growing, and could triple over the next thirty years.

In December 2003, BAA had its "busiest ever" Christmas period, posting a 6.2% growth in passenger traffic compared with the previous year. The airports group stated that most major markets increased their traffic. In fact, North Atlantic routes were up 2.1% while other long-haul routes jumped 8.7% and European destinations increased 9.9%.

Table 4. Percentage change in passengers carried

Carrier	December 2003 vs. December 2002
British Airways	+1%
EasyJet	+16%
Ryanair	+53%

Leisure travel company First Choice reported a net profit of £32.2 million (CDN$74.8 million) for its fiscal year ended October 31, 2003-up 19% from the previous year. The company reported a turnaround in several of its international operations, including its Canadian business, by focussing on higher-margin products. They also noted that, as of December 2003, summer 2004 bookings were 20% behind what they were at the same time last year. However, they were unconcerned about the lag considering the industry shift to later booking patterns.

According to market research firm AC Nielsen, travel agents in the U.K. have reported that overall winter bookings are ahead of last year's levels, although the current geo-political situation is still having an impact on travel demand. Winter bookings were up 4% in September and 7% in October, compared with 2002, with the ski market and long-haul market performing particularly well.

Meanwhile, Summer 2004 bookings are down approximately 30% because of later booking patterns and the absence of discounted offers. AC Nielsen noted that prices for next summer's products could potentially increase if tour operators "hold their nerve" and refrain from attempting to stimulate demand by cutting prices too early.

According to the Australian Tourist Commission's (ATC) latest market report for the U.K., the Association of British Travel Agents (ABTA) reported that the number of cancellations for U.S. destinations resulting from the heightened terror alert were "negligible." The ABTA stated that "British people have been accustomed to high levels of security awareness for a long time and the evidence is that it does not stop them from travelling."

France

Air France posted a net profit of EUR48 million (CDN$77.4 million) for its second quarter ended September 30, 2003-a 14.3% drop in earnings compared with the same period in 2002. The airline earned EUR52 million (CDN$83.8 million) for its first half of its 2003-04 fiscal year-a 74% fall from the previous year. Air France attributed the decline to the effects of the war in Iraq and of the SARS outbreak, as well as sluggish economies in France and the rest of Europe. The airline plans to implement a new three-year cost-cutting program at the end of its current fiscal year despite signs of a recovery in both "business demand and revenue quality".

Meanwhile, Air France reported a "good performance" for December, with a 5.4% increase in passenger traffic compared with the previous year. Meanwhile, capacity increased by 2.5%, which resulted in a load factor gain of 2.1 points to 76.2%. Long-haul routes posted a 4.8% growth in passenger traffic on a 1.1% increase in capacity. Traffic on North American routes jumped 10.5% with a 3.3% increase in capacity.

However, the airline was forced to cancel six Paris-Los Angeles flights on December 24 and 25 at Prime Minister Jean-Pierre Raffarin's request, after U.S. intelligence found the name of at least one person on passenger manifests suspected of having links to terrorist groups. This was later found to be a case of mistaken identity. According to Travel Weekly, the aborted flights cost Air France approximately US$1.24 million. The airline reported that it had not suffered a decline in bookings as a result of these cancellations although it may have been too early for the airline to notice an effect.

According to the latest OAG Quarterly Report, flights from Paris to the U.S. & Canada declined 2% in frequency in the week of December 8, 2003, compared with the same week in 2002. Capacity, however, increased 1% compared with the previous year.

Accor reported that its global hotel revenues for the third quarter of 2003 (ended September 30, 2003) were down 0.7%, although year-to-date revenues showed a 1.4% decline compared with the same period in 2002. RevPAR levels for the Upscale and Midscale segment were down 0.7%, although U.S. properties showed an increase of 4.3%. Economy properties excluding the U.S. properties were down 0.4%, while U.S. economy hotels decreased 1%.

According to the Australian Tourist Commission's (ATC) latest market report for France, a survey conducted by BVA in November revealed that 51% of those polled intended to take a trip for more than one night between December 2003 and April 2004. This represents a marked increase from the previous year, when only 47% of respondents planned to take a trip during this period.

Germany

Lufthansa German Airlines posted a net loss of EUR17 million (CDN$27.4 million) for its third quarter ended September 30, 2003, compared with a profit of EUR371 million (CDN$598.1 million) posted in the same quarter of 2002. The most recent losses bring the airline's year-to-date deficit to EUR409 million (CDN$659.4 million). The airline stated that it was "adjusting to a situation in which yield will be permanently lower," and would aim to achieve a further EUR 1.2 billion (CDN$2 billion) in cost savings over the next two years. One bold cost-saving measure was the recent announcement that Lufthansa will eliminate travel agent commissions as of September 1, 2004.

In December 2003, Lufthansa's passenger traffic rose 3.6%, compared with a year earlier. This was achieved with 1.6% more air capacity and resulted in an average load factor rise of 1.4 percentage points to 69.8%. The airline described its performance as signifying a "market revival" and a good starting point for 2004.

German airport operator Fraport reported record passenger numbers for Frankfurt Airport in December 2003 which were 2.8% over the previous year. The company noted that passenger traffic continued an upward climb through the final three months of 2003 and projected that numbers would increase 4 to 5% in 2004.

In mid-December 2003, German-based TUI Group (Europe's largest travel firm) reported its winter season bookings were picking up across Europe, and were 6.7% ahead of the previous year. Sales in Germany were up 4.2%, boosted by a surge of late bookings. TUI noted this has been one of the slower markets to recover from the drop in travel that was precipitated by the war in Iraq, SARS and the weakened economy.

According to a recent Germany Market Report by the Australian Tourist Commission (ATC), key German tour operators have reduced prices for summer 2004 travel products by an average of 10% in order to counteract the growing trend of last-minute bookings. Prices for U.S. and Caribbean destinations are expected to drop by up to 40% due to the weaker U.S. dollar; it is expected that cost savings achieved through the stronger Euro will be passed on to consumers.

Italy

Alitalia posted a third-quarter loss of EUR47 million (CDN$75.8 million) for the period ended September 30, 2003 (before taxes and extraordinary items), compared with a EUR26 million (CDN$42 million) profit reported in the same quarter of 2002. Despite the significant decline in earnings, the airline's passenger traffic increased 8.7% during this period compared with the previous year.

Meanwhile capacity increased 4.6% which resulted in a load factor rise of 2.9 points to 78.2%. Unfortunately, escalating price competition contributed to a 13.4% drop in yields, compared with the previous year. Alitalia attributed this decline in yields to over-capacity in the market and increasing competition from low-cost carriers.

Alitalia reported that traffic on North American routes (U.S. and Canada) jumped significantly in the third quarter, rising 19.9% with a 19.1% increase in capacity. This resulted in a record load factor of 86.8% on these routes. Alitalia also announced that it planned to increase capacity on its long-haul routes by 33% for the summer of 2004, mainly on flights to Canada and the U.S.

A recently unveiled restructuring plan by Alitalia announced the elimination of 2,700 employees. This news sparked a series of strike actions by airline staff. The new rescue plan is meant to ensure the airline can break even by 2005, so that Air France and KLM will allow Alitalia to join their merger. However, the carrier faces fierce opposition by trade unions. Two strikes in November and December resulted in the cancellation of hundreds of flights. A third strike scheduled for January 19 forced Alitalia to cancel 364 flights that day as well as to modify 64 others. This affected more than 18,000 passengers. Coincidentally, Italy's transport sector, including air traffic controllers, went on strike in early January 2004, causing a further 334 Alitalia flights to be grounded.

According to the latest Italy Market Report by the Australian Tourist Commission (ATC), Italy's tourism sector continues to improve, particularly for on-line travel bookings. TTG Italia reported that 20,000 to 30,000 of Alitalia's monthly ticket sales are now made through the internet.

The Netherlands

KLM Royal Dutch Airlines reported that its passenger traffic dipped 7% in December 2003, compared with the previous year. However, air capacity was down 11% which resulted in an average load factor increase of 3 points to 77.6%. In November 2003, passenger traffic was on par with 2002 figures, while capacity was off 5%.

After substantial capacity cuts in 2003, the airline announced in December 2003 that it planned to significantly increase its capacity for the 2004 summer season and bring it back to 2001 levels. Some of this increase will involve routes to the U.S. and Toronto. However, the airline warned that its profitability remained under pressure due to increasing competition from Europe's low-cost carrier segment, which was keeping prices low.

Amsterdam's Schiphol Airport reported that its October and November passenger traffic rose 1.2 and 3%, respectively, which the airport attributed to a continuing recovery in air demand. The airport noted that traffic to all geographic regions was picking up, with the exception of North America. In November, long-haul routes saw an increase of 5% in traffic while European routes climbed 2%.

Japan

Japan Air Systems (JAS) posted a net loss of 57.6 billion yen (CDN$69.9 million) for its first half ended September 30, 2003, as a result of the SARS outbreak and of the war in Iraq. The airline stated that the rebound in travel demand had been slower than expected, particularly in its leisure market. Conversely, rival airline All Nippon Airways (ANA) posted a first half year net profit of 20.6 billion yen (CDN$249.8 million) for the same period. ANA stated that restructuring efforts and cost cutting offset much of the impact that SARS had on the airline's profitability.

Figures from 15 Japanese airlines, including JAS and ANA, revealed that air bookings for flights leaving Japan for the new year holiday season (December 26 - January 7) jumped 8.8% compared with the previous year. Meanwhile, domestic flights for the same period were down 4.3%.

In December 2003, in preparation for the year-end travel rush, the Ministry of Health, Labour and Welfare introduced a new medical kit for the speedy diagnosis of SARS , to be ready for any potential re-emergence of SARS this winter. The kit was distributed to Japan's major airports and port facilities at the end of December. A recent survey by travel agency JTB Corp. revealed that the previous SARS outbreak is still having an impact on bookings. The survey showed that bookings to China, Hong Kong and Taiwan were down 20% over the holiday season, compared with the previous year.

JTB Corp. also forecasted that Japanese trips abroad, which plummeted in 2003 due to the SARS outbreak, should recover this year to levels last seen in 2002. JTB estimated that 16.5 million Japanese will travel overseas this year, a 23.6% increase over last year. The agency noted that events such as the Summer Olympics in Athens will help encourage more travel.

Korea

Korean Air Lines (KAL) posted a net profit of 227 billion won (CDN$249.5 million) for its third quarter ended September 30, 2003. This was more than four times the net earnings it posted for the same quarter in 2002 (55.4 billion won). The airline noted that passenger traffic recovered from the effects of SARS during this period, while the stronger value of Korea's currency helped boost its financial performance.

KAL also announced it planned to increase international passenger capacity by 13% in 2004 based on a "very positive" business outlook for 2004. The airline predicted that its international passenger traffic will grow 16% this year and boost its full-year revenues by 8%. On the other hand, domestic traffic is forecast to drop 5% due to the impact of a new high-speed rail service.

The Korea National Tourism Organization (KNTO) reported that outbound Korean departures climbed by 10.3% in December compared with a year earlier. This followed a 7% increase in departures witnessed in December 2002, compared with the previous year.

According to the Australian Tourist Commission's (ATC) latest Market Report for Korea, overseas travel expenditures reached US$3.04 billion in the third quarter of 2003, marking the first time that Korean overseas spending exceeded US$3 billion. Expenditures in the same quarter of 2002 were US$2.47 billion. This year, Korea's economy is projected to grow 5.2% and its per capita income by 9%. Combined with steadily increasing consumer confidence levels, these factors should help support continued growth in overseas travel expenditures.

Hong Kong

Cathay Pacific Airways reported that its passenger traffic received a boost in December 2003 due to pent-up demand for leisure travel over the Christmas and New Year holiday. Revenue passenger kilometres increased 2.7%, while the number of passengers rose 0.6%. Meanwhile, capacity increased 2.8%, which resulted in an average load factor of 77.5%, on par with December 2002. The airline noted that its cumulative figures for 2003 show that its passenger business is recovering quickly and gaining a lot of ground lost to the SARS outbreak. The airline also described demand in both business and leisure segments as healthy, with encouraging yield trends.

Hong Kong's tourism industry has rebounded strongly since the devastating blow it sustained during the SARS outbreak. Tourism visits in December 2003 reached a monthly record high of 1.79 million visitors-a 7.4% increase over the previous year. The Hong Kong Tourism Board stated that, since launching its Global Tourism Revival Campaign in June, its tourism industry has experienced a steady recovery-it achieved year-on-year growth by August and set visitor records in October and December.

The Hong Kong government reported that the unemployment rate continued to fall through the final months of 2003 and actually returned to pre-SARS levels in November. Consumer spending is also improving, growing in the third quarter of 2003 for the first time in two years.

Taiwan

Taiwan's largest carrier, China Airlines posted a net profit of TWD$1.3 billion (CDN$50.3 million) for its third quarter ended September 30, 2003. The airline stated that it was able to minimize the effects of the SARS outbreak due to effective cost control and strong cargo performance. By the end of that period, yields had returned to 2002 levels and operating revenues were 5.2% higher than the previous year. The airline also noted that travel demand picked up strongly once the SARS epidemic abated.

In December 2003, EVA Air reported to investors that its post-SARS recovery was much stronger than they had expected and this prompted the airline to raise its financial performance expectations for 2004. The airline noted that passenger traffic picked up "quickly and strongly after SARS."

The government's Taiwan Journal reported that the country's economic prospects for 2004 were "upbeat." It is expected that the Central Bank of China will keep exchange and interest rates low to sustain an economic recovery and to counteract instabilities in the financial markets that may be triggered by the upcoming presidential election. In turn, this should help bolster consumer confidence.

The Australian Tourist Commission's December 2003 Market Report for Taiwan indicated that travel demand for the 2004 Chinese New Year period in January was expected to be softer than the previous year. This softness is mostly due to the lingering effects of the SARS outbreak and political uncertainty surrounding the presidential election in March 2004. Short and mid-haul destinations were expected to do better than long-haul destinations.

Australia

Qantas Airways announced in November 2003 that it was on track with its financial performance this fiscal year (which began in July 2003) and it expected to exceed its cost-cutting targets set for the year, mainly through lowering its labour costs. The carrier noted that its international markets continued to recover, while domestic demand remained solid. Qantas will also launch its new low-cost carrier Jetstar in May 2004, which will challenge discount airline Virgin Blue for a greater share of the domestic leisure market.

The latest travel statistics show that overall outbound travel from Australia increased 4% in October 2003, compared to the previous year. Holiday departures were almost on par with 2002 figures (up 0.4%) while business travel increased 11%. However, the increase was mainly seen in Asian destinations. Meanwhile, travel to the U.K. and the U.S. was down 3% and 5%, respectively.

The Australian government announced that it would increase its international tourism marketing funding by A$120.6 million (CDN$121.3 million) over the next four years. A$12 million will be used immediately to "kick-start" its overseas marketing programs, with the remainder going towards developing new branding for a marketing launch next year.

New Zealand

Air New Zealand (ANZ) reported that its passenger traffic fell 4.9% in November 2003, compared to the previous year. Meanwhile capacity increased by 0.2% which resulted in a load factor drop of 3.7 percentage points to 71.4%. The drop was attributed to the lingering effects of the SARS outbreak on Asian travel demand, particularly in the Japanese international market, which declined 6.6%.

After reviewing its distribution costs ANZ announced that it would reduce agency commissions in Canada and the U.S. As of January 5th, 2004 commissions will be cut to 3%, down from 5%, which the airline described as being in line with industry trends.

Statistics New Zealand reported that overseas travel by New Zealanders increased 18% in November 2003 over the previous year, although Australia and China were the main beneficiaries of this increase (up 21% and 49%, respectively). Meanwhile, leisure travel to North America increased 3%.

The Australian Tourist Commission (ATC) reported that Auckland International Airport processed a record number of passengers in the final week of November 2003, even though January is traditionally the airport's busiest month. The ATC also reported an earlier-than-usual travel demand for Canadian destinations for the summer 2004 season.

Economic Overview

North America

Real economic growth in the U.S. is expected to reach 4.2% in 2004 and 3% in 2005. Fuelling this growth is a federal tax cut, low interest rates and an upswing in investment spending. Meanwhile in Canada, strong consumer spending and business investment is expected to more than offset any weakness in the exports and government sectors in 2004. The Conference Board of Canada expects that the Canadian economy will grow by 3% in 2004 and a further 3.6% in 2005. The outlook for the Mexican economy is also quite promising. According to JP Morgan, the combination of a weak peso, excess capacity and a booming U.S. economy should keep the Mexican economy increasing at a 4% annual rate of growth through the first half of 2004. In addition, optimism for the new year is high with the Mexican stock market already hitting a record high in early 2004.

Europe

Economic growth in Europe and its major economies-Germany, France and Italy-should improve in 2004. According to Consensus Forecasts, the economies of Western Europe are expected to grow by 2% in 2004, or double the rate of growth they have averaged over the last two years. As usual, the U.K., with closer ties to the bustling U.S. economy, will continue to outperform the Eurozone. On the continent, the economies of France and Germany are expected to under-perform, advancing by an average of 1.5%. Nevertheless, after several years of lackluster growth there are some reasons for optimism as these two core Eurozone countries begin restructuring their economies through tax cuts and labour market reforms. Evidence of this optimism is already showing up in consumer and business surveys.

Asia-Pacific

The outbreak of SARS severely hit regional trade in the Asia-Pacific. Luckily, China's economy muscled through the last half of 2003, aided by a rush of government-sponsored consumer loans. In 2004, Hong Kong, South Korea and Taiwan are expected to record the best economic growth they have had in years. In Australia, the economy is expected to grow by nearly 4% in 2004, supported by the revival in regional trade as well as strong consumption driven by low interest rates. After gaining 2.4% in 2003-the strongest economic growth it has had in years-Japan will continue to perform relatively well in 2004, growing a further 1.3%. After a near decade-long recession, the economic reforms in Japan appear to finally have taken hold.

Opportunities

Business travel's struggling recovery process has frustrated many travel suppliers who feel helpless to counteract the uncontrollable factors that continue to hamper a rebound in this sector. These factors include a continuing weak economy and heightened security concerns. To make matters worse, business travellers themselves are becoming increasingly disillusioned by the travel experience. Suppliers, having recognized this, can ensure they attract as many corporate clients as possible, particularly as demand increases, by discovering and capitalizing on those amenities which will enhance the business travel experience.

For example, Lieberman Research Worldwide conducted a survey on behalf of Westin Hotels, which found that 90% of business travellers view exercise as a way to relieve stress while on the road, and 69% stated that "state of the art" fitness facilities influence their hotel choices. However, 61% of those polled encountered hotels without fitness facilities while 53% encountered facilities that were sub par.

Another survey, conducted by New York University, revealed that a growing proportion of business travellers are women that now makes up 40% of the market. The study showed that 65% of women business travellers include some aspect of relaxation in their business trip, including leisure activities during their business trip (44%) and additional vacation days tacked on to the end of the trip (21%). The top in-room amenities among female corporate travellers were a mini-bar (71%), brand-name bath amenities (56%) and spa services (47%).

For leisure travel, a recent article in London's Evening Standard stated that British travellers are shifting their interest from sun vacations to adventure holidays. Since 2001, adventure holiday bookings have grown 5% each year with 150,000 British travellers expected to take a thrill-seeking holiday in 2004. Moreover, according to organizers of the U.K.'s annual Adventure Travel and Sports Show, the top adventure holiday this year is river kayaking/grizzly bear-watching trips to Canada.

Summary

After the devastating events of 2003, the travel industry's positive momentum as it heads into the new year has stirred a renewed sense of optimism. Pent-up travel demand helped much of the industry achieve positive results over the Christmas holidays despite the lingering issues that remind us that we are not quite out of the woods yet. Fortunately, escalating security concerns and sporadic media stories of SARS appeared to have a marginal effect on holiday travel, once again demonstrating the increasing resilience of travellers. Improving economic prospects, growing consumer confidence and pent-up demand are all expected to help spur leisure travel through 2004.

However, one enduring consequence of the industry's weak performance in 2003 has been low prices, sustained, in part, by the flourishing popularity of discount travel web sites. Against a backdrop of growing travel demand, it may be prudent for suppliers to re-visit their internet marketing strategies armed with a better understanding of the opportunities and disadvantages of using third-party web sites. This understanding will go a long way in helping travel suppliers regain greater control of product prices and reap the rewards offered by the growing on-line market.

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