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CTC Tourism Intelligence Bulletin – Issue 7: May 2002

The Tourism Intelligence Bulletin continues to monitor the impact of the events of September 11 on the tourism industry around the world. This issue reveals tourism intelligence gathered in April 2002.

North American Auto Travel Leads the Recovery

Executive Summary

- By all indications, the tourism industry worldwide is continuing its recovery trend with the leisure travel market leading the way. The positive outlook for domestic leisure travel was highlighted in the Canadian Tourism Research Institute's latest (March 2002) Summer Travel Intentions Survey. In particular, the survey suggests the majority (61.2%) of Canadians intend to take a vacation this summer. This year, it appears the family travel market will play a significant role towards recovery of the industry. Down in the U.S., the tourism industry is also recovering, although it may linger a little behind Canada.
- For both Americans and Canadians the automobile will be the preferred mode of transportation for summer vacations. Unfortunately, security issues are still delaying a rebound in domestic air travel. Rising domestic airfares in Canada, in part due to new additional taxes and surcharges could further spur growth in the drive travel market over the summer. Meanwhile, international airfares are becoming much more competitive-both in relative and absolute terms. If this condition continues it will further delay the recovery of domestic air travel.

Emerging Trends and Issues -Summer of Family Fun

- The Summer of 2002 will feature families travelling by car to their destinations within Canada. The Canadian Tourism Research Institute's (CTRI) Summer 2002 Travel Intentions Survey suggests as many 5.15 million Canadian households (65% of households with children) intend to take a vacation this summer (May - September). While the overall percentage of Canadians who plan to take their longest vacation within Canada is down from last year, it is up compared with 2000-a notably strong year for domestic tourism.
- Family travellers who responded to CTRI's survey suggest that influences outside the hotel are more important in 2002 than they were five years ago. Perhaps one of the most startling revelations is that with the exception of Internet connections, every amenity or service listed decreased in importance between 1997 to 2002. In 1997, the most important feature identified when selecting a hotel for the travelling family was medical assistance. Today, the survey suggests the most important amenity is information on local attractions and activities.

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*North American Auto Travel Leads the Recovery***Consumer (traveller) response**

- Business travel, while not rebounding quite as fast as leisure travel, is on its way out of the doldrums. But it may take another year to reach 2000 levels according to a new survey by the National Business Travel Association. For this to happen, almost 72 per cent of respondents indicated that a stable economy must first be in place.
- A new survey by Opinion Research suggests that more than two thirds of Americans intend to travel this summer. While the majority of Americans are expected to vacation within the continental U.S., 15 per cent intend to visit Canada. The survey also suggests that travel by air will be hampered, in part, to annoyances associated with security.

Travel supplier response

- Major airlines continue to suffer financially-it is estimated that the nine major carriers in the U.S. lost a combined US\$ 2.2 billion (CDN\$ 3.5 billion) in the first quarter of this year. This represents one of the steepest quarterly losses ever for the industry. Meanwhile, Air Canada was busy adding to its subsidiaries in March. It introduced a new low fare carrier, Zip, as well as a new online travel operation, Destina, that will award Air Canada Aeroplan points for purchases-the only travel site to do so.
- While many hotels in the U.S. and Canada reported first quarter losses, the general mood was optimistic on better than expected results and a favourable outlook for later this year. Forecasted lodging demand in both Canada and the U.S. are being revised upwards to reflect the rebound and relative optimism primarily associated with the leisure travel market.
- Many car rental firms have followed the lead of the airlines and eliminated base commissions paid on contract rates offered for corporate and government accounts. So far, the changes do not affect agency commissions paid for leisure, association and non-negotiated corporate rentals.

Economic Fallout

- The pace of recovery within the North American economies has necessitated upward revisions in economic forecasts this year. For Canada, the pace of job creation picked up markedly in March allowing the unemployment rate to decline. The hefty employment gains brought the largest quarterly increase in net new jobs since 1987. The U.S. also saw healthy job creation in March. In Mexico, the first signs of improvement for its economy were apparent from February's employment numbers, which reported a drop in both the unemployment and underemployment rates.
- Euroland is also on track to recover in 2002 mainly due to a recovery in manufacturing activity. However, the recovery this year will be constrained as the unemployment rate in the euro area is expected to remain high and negatively impact both consumer confidence and retail spending.
- By and large, the economies of the Asia Pacific region depend on exports. Last year, the collapse in demand for IT equipment hurt the Asia Pacific region as export growth plunged. While the recovery in the U.S. economy will help boost economies in the Asia Pacific region, excess inventories in the IT sector of the United States will restrain demand for computer equipment from the region.

Opportunities

- Domestic leisure travel by auto is expected to significantly contribute to the rebound in the tourism industry this summer. For those suppliers that are accessible to the drive-to market, marketing messages expected to resonate with both Americans and Canadians are messages featuring escapes to quiet, relaxing places that are close to home. And with more Canadian families expect to vacation this summer, targeting both traditional and non-traditional families with the ever-popular messages of product flexibility, price assurance and good service would be beneficial.
- Travel suppliers that are not accessible or easily accessible to the drive-to market can benefit from deflecting travellers concerns and stress associated with air travel. One such example is, Sports Express, which picks up and delivers golf bags (and other luggage) to any resort or destination in the U.S., England, Scotland or Ireland. This service eliminates the need to check in bags at the airport and ultimately saves the travellers time and stress.
- One way to encourage weary business travellers is to reward free hotel nights. A recent survey by Hyatt Hotels Corporation indicated close to 50 per cent of business travellers would take more vacations if they had free hotel nights. The majority of business travel respondents to the survey suggest their spouses would find free hotel nights to be the biggest reward to business travel.

Overview

While the number of space tourists—yes, you read that correctly—doubled in April to two, we expect that travel by car will continue to represent the mode of choice for many Canadian and American tourists this summer. By all indications, it is the leisure travel market that is expected to lead the recovery, while business travel still grapples with challenges, including restrictive corporate-travel policies.

The positive outlook for domestic leisure travel was highlighted in the Canadian Tourism Research Institute's March 2002 Summer Travel Intentions Survey. In particular, the survey suggests the majority (61.2%) of Canadians intend to take a vacation this summer with the automobile being the preferred mode of transportation. The survey also found that the family-travel market is once again looking to play a significant role in the rebound of the industry. To understand what the family-travel market is looking for this year—what has changed and what has remained the same—we examine the survey results further in our Emerging Trends and Issues section.

Unfortunately, rising domestic airfares, in part due to new taxes and additional surcharges, is delaying a rebound in domestic air travel. Along with security issues, we expect these additional costs will further push growth in the drive-travel market over the summer. Meanwhile, international airfares are becoming much more competitive—both in relative and absolute terms. If this condition continues, it will further delay the recovery of domestic air travel.

A recent study by D.K. Shifflet & Associates suggests that the tourism industry in the U.S. may linger in the doldrums before it fully recovers. While the study suggests that the majority of American leisure travellers feel their travel patterns are back to normal, 14 per cent believe it will take another six months. According to the study, leisure travel over the next six months is still expected to be down 5 per cent compared with last year.

Emerging Trends and Issues

Gearing up for another summer of family fun

A heightened emphasis on quality family time and an increased motivation to travel by automobile since September 11 together suggest a strong summer this year for the "rubber-tire market." According to our latest travel-intentions survey, 65 per cent of households with children intend to take a vacation this summer. (This compares with 61% of households overall.) With nearly 7.93 million families with children under the age of 19 in Canada, the industry is looking at as many as 5.15 million household trips this summer.

Getting there is half the fun!

The how and where of summer travel by respondents to the Canadian Tourism Research Institute's (CTRI) Summer 2002 Travel Intentions Survey has not changed much from previous years. It appears that regardless of who is travelling this summer—grandparents, parents, kids or friends—the preferred mode of transportation is the automobile (62%). Only 27 per cent indicated they intend to fly to their vacation destinations.

While the overall percentage of Canadians who are planning to take their longest vacation within Canada is down from last year, it is up compared with 2000—a notably strong year for domestic tourism. In general, the Summer 2002 Travel Intentions Survey suggests Canadians are feeling confident about travelling—from both from an economic and psychological perspective.

When families do get away for their summer 2002 vacation, 63 per cent will most likely be travelling with their partners or spouses and children. Only 9 per cent of families intend to leave the kids at home this summer.

Cater to family needs

Five years ago, most hotels were positioning themselves as destinations offering a complete family vacation experience and, according to CTRI's family-vacation study conducted in 1997, that was exactly what families wanted.

North American Auto Travel Leads the Recovery

Today, hotels have more options. One option is to choose to be a dominant player in the family market. This entails a hotel positioning itself as a destination with all the corresponding amenities. Or, it can integrate the attractions of the local community to enhance the vacation experience while having the hotel serve as a trusted base station that still provides the amenities found essential by many of today's families.

Family travellers who responded to CTRI's Summer 2002 Travel Intentions Survey suggest that influences outside the hotel are more important in 2002 than they were in 1997. Perhaps one of the most startling revelations is that, with the exception of Internet connections, every amenity or service listed has decreased in importance since 1997. However, certain amenities-those reported as essential by over 50 per cent of family-travel respondents-still exist.

In 1997, the most important feature identified when selecting a hotel was medical assistance-viewed as essential by 70 per cent of families. This was followed by information on local attractions and activities at 69 per cent.

CTRI's latest survey findings suggest that the most important thing that needs to be provided by hotels for the travelling family is information on local attractions and activities. This was identified by 63 per cent of respondents. Other deal-breaking amenities identified were: 24 hour access to medical assistance (57%); hotel swimming pool with children's equipment (52%); and a children-stay-free program (51%).

Should be a good summer

By all accounts, the summer of 2002 should be a good one for domestic tourism. For the most part, Canadian families will be travelling by car to their vacation destinations and staying in Canada. While families will expect hotels to provide what we've called deal-breakers and a few other conveniences-they are doing more research on their own before arriving and are looking to the hotel to help fill their vacation itineraries.

Consumer response - Canada and the United States

Business Travellers

According to recent research in March by D.K. Shifflet & Associates, 60 per cent of U.S. business travellers plan to take either the same number or more trips in the next six months compared with the same time last year. While the majority of respondents (53%) feel their travel is back to normal levels, 26 per cent responded that they didn't know when travel would get back to normal. This was an increase from the results of research carried out by D.K. Shifflet & Associates in January.

A new survey by the National Business Travel Association also suggests that corporate travel is recovering but it may take nearly a year for travel to reach the levels seen in 2000. According to the survey, almost 72 per cent of respondents indicated that a stable economy must be in place before business travel expenditures return to previous levels. Still, 65 per cent of respondents have seen demand for business travel increase significantly since January of this year.

Internet-research company, Jupiter, reported almost half of U.S. business travellers expect to make the same number of trips as last year. Jupiter also expects the proportion of managed business-travel bookings made via the Internet to rise from 7 per cent last year to 26 per cent in 2007.

Leisure Travellers

According to Statistics Canada, overnight travel to Canada from the United States rose in February compared with a year ago. Auto travel from the U.S. led the way, increasing 11.1 per cent, while non-auto travel declined by 8.5 per cent.

A recent study conducted by Opinion Research Corporation indicated that more than two-thirds (69%) of Americans intend to take some sort of domestic vacation travel this year. More importantly, the study revealed that 15 per cent of respondents plan to visit Canada. While RoperASW also announced the results of its Summer Travel Survey, which found two thirds of Americans plan to take spring or summer vacations this year, the majority (82%) are still expected to stay within the Continental U.S.

North American Auto Travel Leads the Recovery

Recent research conducted in March by D.K. Shifflet & Associates suggests that U.S. leisure travel in the next six months will continue to be down 5 per cent compared with last year. The research also found that when Americans do go on vacation, they are less likely to travel internationally compared with last year and will seek quiet, relaxing places.

A study by the University of Washington found that 81 per cent of domestic and international passengers were stressed by commercial air travel during January and February of this year, up from 60 per cent just prior to September 11. However, less than 2 per cent of respondents said their stress was due primarily as a result of terrorism. In fact, most of the stress was caused by delays as a result of increased security procedures.

Concerns regarding security were also uncovered in a recent survey by Travelocity. Specifically, the study found that 70 per cent of respondents continue to find security measures inconsistent from airport to airport, compared with 78 per cent surveyed last October and November. The study also determined that travellers spent roughly the same amount of time at airports during January to March of this year as they did this past October and November. So, even though wait times improved, more time was needed as a result of new security measures and earlier arrival times.

Travel-supplier response - Canada and the United States

Airlines - Canada

According to Air Canada, both domestic and U.S. transborder traffic remained essentially unchanged in March compared with a year ago. Revenue passenger miles were up 1 per cent in March compared with last year. Air Canada also announced the latest addition to its operations: Zip, a low fare subsidiary based in western Canada will start operations this summer. Air Canada will now have five operations: Air Canada Jazz; Tango by Air Canada; Air Canada Jetz; Zip; and its mainline service.

In April, Air Canada announced it was doubling its fuel surcharge to \$30 per return ticket. The \$30 return-ticket surcharge was first introduced May, 2001 but the cost was reduced last November to \$15 when fuel prices fell. Also in April, Air Canada launched its on-line travel subsidiary, Destina. Currently, the site offers air, hotel and car rentals but, by the end of this year, it is expected to add tour packages and perhaps even cruises. Destina will be the only on-line travel site that awards Air Canada Aeroplan points for purchases.

Airlines - U.S.

The Air Transport Association reported in March, that average domestic airfares in the U.S. are still 13.2 per cent below last March while international airfares are 8.5 per cent below last year. The average first- and business-class fares were down 14.3 per cent during the same period.

Airline analysts at UBS Warburg LLC in New York announced that the nine major carriers in the U.S. likely lost a combined U.S. \$2.2 billion (Can. \$3.5 billion) in the first quarter of this year. While that's less than the U.S. \$3 billion (Can. \$4.7 billion) lost by the group in the fourth quarter of last year, it still represents one of the steepest quarterly losses for the industry in history.

U.S. Airways reported a 78 per cent load factor for March, up 4.6 per cent from last year. This is the highest monthly load factor in the company's history. Still, revenue passenger miles for March were down 13.4 percent, while available seat miles decreased 18.5 per cent compared with one year ago. For the first quarter of this year, US Airways announced a loss of U.S. \$286 million (Can. \$450.5 million), excluding unusual items compared with a U.S. \$164 million (Can. \$258.3 million) loss for the first quarter of last year.

Meanwhile, United Airlines announced its passenger load factor rose 4.5 per cent in March compared with a year ago. However, this was a result of a 13 per cent decline in passenger traffic and an 18 per cent decline in capacity in March compared with a year ago. In April, United Airlines launched a new marketing push into Europe. The marketing campaign, using television, print and radio, will blanket the U.K., Germany and France in an effort to boost United's name recognition among European travellers.

United Airlines also reported a loss of U.S. \$510 million (Can. \$800.3 million) for the first quarter of this year compared with a loss of U.S. \$313 million (Can. \$491.1 million) for the same period last year. United said it still has a long way to go before it recovers from both the economic downturn and the impact of September 11. It warned employees that they should expect further wage cuts.

North American Auto Travel Leads the Recovery

Delta Airlines reported a loss of U.S. \$354 million (Can. \$556.9 million) for the first quarter of this year compared with a net loss of U.S. \$122 million (Can. \$191.9 million) last year, excluding unusual items. Delta expects the weakness in the high-yield business travel market will continue to affect the pace of its recovery.

Continental Airlines reported a U.S. \$114 million (Can. \$179.5 million) loss, excluding unusual items, for the first quarter of 2002. This compares to a profit of U.S. \$9 million (Can. \$14.2 million) last year. Still, Continental managed to have its first profitable month since September 11 as it generated U.S. \$25 million (Can. \$39.3 million) in pre-tax profits in March.

American Airlines' parent corporation announced a loss of U.S. \$575 million (Can. \$906.1 million) for the first quarter of this year, compared with a loss of U.S. \$43 million (Can. \$67.8 million) for the same period last year. Results were attributed to the downfall in business travel, which historically makes up a significant portion of American Airlines' overall business.

The Hawaii Visitors and Convention Bureau announced in April that the number of available airline seats from mainland U.S. to Hawaii returned to normal levels in March. By midsummer, added capacity is expected.

Hotels - Canada

According to KPMG, 2002 should turn out to be a relatively good year for hotels across Canada as demand should be flat or even better than last year. The leisure-travel market is expected to be especially strong. In the meantime, Smith Travel Research and HVS Canada reported hotel occupancy rates fell 1.7 per cent to 48.5 per cent in February compared with last year.

Fairmont Hotels & Resorts announced a 7.1 per cent decline in revenue per available room for Fairmont-owned hotels and a 10.2 per cent decline for Fairmont-managed hotels for the first quarter of 2002, compared with the same quarter last year. Still, operating results surpassed expectations and reflected better-than-anticipated business trends.

Hotels - U.S.

PricewaterhouseCoopers revised its earlier forecast and now projects lodging demand will increase 3.8 per cent this year. The rebound in lodging demand, combined with a slow supply growth relative to other years, will result in a 1.2 per cent increase in occupancy rates this year to 61.3 per cent. While more conservative, Ernst & Young also expects occupancy rates to increase this year (0.3%). However, Ernst & Young suggests luxury hotels will continue to feel the negative effects of tightening corporate-travel budgets and may take longer to recover to the occupancy rates achieved in 2000.

According to PKF Hawaii, occupancy rates for February were down 7 per cent from a year earlier. However, this was the first month since September 11 that registered less than double-digit decreases in occupancy.

Marriott Hotels reported a decrease of 32 per cent in earnings per share for the first quarter of this year compared with last year. Marriott stated the results reflected weaker lodging demand and lower profits in the vacation timeshare business.

Hilton Hotels reported a 38 per cent decrease in first quarter income compared with the same period last year. The results were in line with the company's expectations. Hilton Hotels stated that occupancy and rates in "drive-to" markets (those less dependent on air travel) showed significantly better results than hotels in large urban centres.

Travel Agents

In Canada, IATA's Bank Settlement Plan (BSP) reported that outbound international leisure travel continues to lead the air-travel rebound as it increased by 40 per cent in March compared with a year earlier. Regions registering outstanding gains were the South Pacific (up 79%) and Asia (up 60%). However, international business travel by air registered a decrease of 8 per cent in March, compared with the previous year.

The BSP also reported that for air travel, Canadian travel agents' commission revenue decreased 40 per cent in March compared with a year earlier. In the U.S., the Airlines Reporting Corporation says that travel agencies experienced a 33 per cent commission-revenue decrease for the same period.

Neilsen//NetRating in the U.S. reported that traffic to on-line travel agencies and destinations surged 12 per cent in March compared with February. Expedia was the most popular on-line travel agency with 11.6 million visitors, followed by Travelocity, Orbitz, Southwest Airlines and CheapTickets. Expedia also reported a 64 per cent rise in bookings for the first quarter of this year, compared with the same period last year. Total revenue was up 103 per cent.

North American Auto Travel Leads the Recovery

A study by NFO CF group reported that nearly eight out of ten on-line Canadians use the Internet as a source of travel information and planning, with four out of ten saying that it has had a significant influence on how they make travel decisions. The leisure-travel study further stated that only 14 per cent of Canadian Internet users believe they can get better travel deals from a bricks-and-mortar travel agency than on-line and only 18 per cent prefer printed travel catalogues to on-line information.

However, for employees of large corporations, a study by Topaz International suggests that business travellers are better off using their corporate-travel agency rather than the Internet. The study suggests that Internet sites beat a travel agent's best quoted fare just 7 per cent of the time. On the other hand, agents were able to beat Internet fares through the use of negotiated agreements with preferred suppliers.

Other Suppliers

Budget, Alamo, Dollar, Hertz, Avis and National have all eliminated base commissions paid on contract rates offered for corporate and government accounts. The change does not affect agency commissions paid for leisure, association and non-negotiated corporate rentals. A report by Abrams Travel Data Services stated that the U.S. car-rental industry is recovering as demand for rental cars at airports is up nearly 30 per cent since the beginning of the year. The report goes on to say that prices are increasing from the post-September 11 level.

International response - Overseas

United Kingdom and Ireland

Go Fly announced it carried 81.5 per cent more passengers in March compared with a year ago, while increasing its load factor by 8.9 per cent. Meanwhile, low-cost rival easyJet reported a 39 per cent increase in the number of passengers in March compared with a year ago. For the same period, however, British Airways reported a 3.1 per cent decline in passengers.

In March, U.K. airport operator BAA, reported its seven U.K. airports served 3.4 per cent more passengers compared with a year ago. Low cost carriers continue to lead the economic rebound with Stansted Airport showing a 17.2 per cent increase in passengers. In fact, Heathrow Airport reported its first monthly increase (2.2%) since February of last year. BBA also announced an £8.1 billion (Can. \$18.4 billion) 11-year investment program at London's three main airports that will add, among other things, new terminals and improve existing ones.

The British government announced it will reduce the Air Passenger Duty tax charged on economy and business-class airfares on flights to 13 European Union (EU) applicant countries and Switzerland. The lower tax rate previously applied only to countries inside the EU.

British Airways launched a change to its fare structure on key routes within the U.K. to compete with low-cost carriers. Some changes included the elimination of both Saturday night stay-overs and advance purchase restrictions on all domestic flights in and out of London. British Airways also announced the elimination of its Blue Skies program, under which the airline paid qualifying leisure-oriented agencies twice as much or more for booking economy tickets. After an investigation, British Airways discovered it had been getting better sales performance from agents to whom it pays only 5 per cent capped commissions. Finally, the airline announced it will cut an additional 500 jobs from its regional airline, CitiExpress.

The British Tourist Authority (BTA) announced its 2002 marketing campaign aimed at attracting an extra one million visitors to the U.K. this year. The campaign will target double-income, no-children couples as well as empty nesters. The Only in 2002 campaign will run in BTA's seven key markets, including Canada. The campaign will receive funding of £20 million (Can. \$45.5 million) from the government with industry partnerships adding another £5.3 million (Can. \$12.1 million) in cash and £15 million (Can. \$34.1 million) in in-kind marketing. Upwards of £1.4 million (Can. \$3 million) will be spent on advertising in Canada.

Teletext Holidays released research showing 40 per cent of people in the U.K. now book a holiday solely because of its price. Additionally, 18 per cent of those aged 25 to 35 are "addicted to frequent holiday deal-hunting."

According to a consumer survey by Advantage, an agent consortia, 41 per cent of consumers surveyed in March said they preferred to take a non-packaged holiday, instead using elements of a holiday package that meet their needs. For suppliers, Advantage recommends building flexible, independent packages that combine quality touring products with no-frills scheduled airlines.

*North American Auto Travel Leads the Recovery***France**

In March, Air France announced an increase of 2.7 per cent in passenger traffic despite 0.7 per cent less air capacity. North American traffic dropped 11.6 per cent on 19.3 per cent less air capacity. In contrast, Air France increased capacity to Asian destinations.

Club Mediterranee reported that its net sales for the first quarter of this year dropped 15 per cent compared with last year, while the number of resort guests dropped 18.4 per cent. Nearly identical trends are expected for the second quarter of this year.

Germany

Lufthansa announced a decrease of 11.4 per cent in the number of passengers for the first quarter of this year compared with last year. However, the load factor reached a record level of 73.1 per cent as capacity declined 12.7 per cent compared with a year ago. Lufthansa also reported that it is expecting to increase capacity to the U.S. this summer but will still be 10 per cent below summer 2001 levels.

Last year, Lufthansa managed to report an operating profit of €28 million (Can. \$39.4 million), thus meeting the objective set after September 11 to avoid an operating loss. The operating loss was avoided in part by adjusting capacity and implementing cost-cutting measures. Lufthansa further stated it is too early to give a reliable estimate regarding 2002 results.

A survey by DRV, a German travel agents' association, reported that 59 per cent of its agents expect to see rising sales in the next six months compared with only 9 per cent who expected increased sales in September of last year. Still, 63 per cent of agents have sold fewer holidays this year compared with last year, partly due to the late-booking trend. A recent survey by German tour operators indicated that while 30 per cent of Germans traditionally vacation in Germany each year, this year, 39 per cent intend to take a domestic vacation.

According to a recent survey by the magazine Wirtschaftswoche, German companies expect business travel costs to rise by 3 per cent this year due to more expensive rail and air tickets. The companies expect to control travel costs in part by taking shorter trips, flying economy or re-negotiating fares.

Frankfurt airport reported a decrease of 3.9 per cent in passenger traffic for March compared with a year ago. Le Meridien announced plans for a five-star luxury hotel to be the focal point of the new Air-Rail Centre at the Frankfurt Airport. The hotel is scheduled to open in 2005.

Italy

In April, the Italian government announced it has authorized a €93 million (Can. \$1.2 billion) injection into Alitalia as part of an already-planned €1.43 billion (Can. \$2 billion) recapitalization program. The recapitalization is a key element of a recovery plan to reach its financial targets.

The Ente Nazionale Italiano del Turismo (ENIT, or, the Italian National Tourist Board) announced plans to spend €1.5 million (Can. \$2.1 million) to promote the regions of Emilia Romagna and Molise with 50 per cent of the funds coming from ENIT. In order to capitalize on the success of Italian wine tours, the Movimento Turismo del Vino (Movement for Wine Tourism) announced the formation of the "Club Turisti del Vino" (Wine Tourism Club) that will cater to enthusiasts of wine-related tourism. It is estimated that 3.5 million visitors participate in Italian wine-related tourism every year. It was the only segment of the Italian tourism industry that did not appear to suffer after September 11.

The Netherlands

KLM announced that passenger traffic fell 2 per cent in March compared with a year ago. Considering the more negative results of previous months, this indicates that it is on the road to recovery. For the summer, KLM announced capacity would still be off by 5 per cent compared with a year earlier, with most of the cuts being applied to business seats as passengers switch to less expensive tickets.

KLM also announced the elimination of base commissions paid to travel agents. The new policy applies to all KLM operated flights to and from Canada and follows the lead taken by Air Canada and major U.S. carriers last month.

*North American Auto Travel Leads the Recovery***Japan**

Japan Airlines (JAL) reported in February an overall 10 per cent decline in overseas passengers, including a 25 per cent decline in passenger numbers to the U.S. Optimistically, JAL expects demand for North American flights to return to normal by August.

In April, the Land, Infrastructure and Transport Ministry opened the second runway at Narita airport. The runway will serve international routes for 36 domestic and foreign airlines. During the coming summer, the number of arrivals and departures will total 594 a week (67% of its total capacity).

According to the Japanese newspaper daily Asahi Shimbun, armed police officers will be aboard Japanese airliners during the World Cup finals to prevent hooliganism in the skies. The tournament, which Japan is co-hosting with South Korea, begins on May 31.

According to a survey in February by the Japan Association of Travel Agents (JATA), one out of every three people cancelled or changed their plans for overseas travel because of a fear of travelling following September 11. The survey also revealed that 34 per cent of respondents did not make the decision based on their own feelings but, instead, followed the mood of the public.

A recent survey by JTB Corporation announced that despite visitation falling 5 per cent this year compared with last year, Hawaii continued to be the preferred destination for Japanese honeymooners this past spring. Hawaii has been the leading destination for Japanese honeymooners for 12 of the past 20 years. As a result of the terrorist attacks and a reluctance to travel to the U.S., Australia climbed 7.9 per cent from a year ago to hold second place. Europe rounded out the third position. This was a blow to the U.S. mainland which had been in the top three since in 1996.

Korea

Korean Air (KAL) announced an operating profit of KRW 36.2 billion (Can. \$43.7 million) for the first two months of this year compared with a loss of KRW 81.9 billion (Can. \$98.8 million) for the same period last year. KAL stated the operating profit was a result of increased passenger traffic during January and February.

Hong Kong

Cathay Pacific announced it will reinstate some flights to the U.S. and Canada this summer due to the recovery in international travel. Still, Cathay Pacific does not expect to see a full recovery in air travel until next year.

The Hong Kong Tourism Board (HKTb) reported that it is seeking 400 tourism "hosts" in an effort to offer better service to overseas visitors. The hosts will be paid HKD \$5,000 per month (Can. \$1,010) and will provide information and other frontline services to visitors. The positions will last for one year.

HKTb also announced it will concentrate on developing four specific market segments: exhibitions and conventions-related business travel; family travel; eco-tourism; and cultural tourism. The HKTb hopes to reinforce Hong Kong's status as Asia's most popular travel destination and feels these four segments offer good growth possibilities.

Taiwan

The Taipei Department of Transportation introduced Taiwan's first-ever "tourist passport" targeted at independent foreign travellers. The passport will provide travellers with discount coupons and certificates redeemable for gifts. In the first stage, 100,000 passports will be printed and given away by visitors associations, travel agents and the local tourism industry.

The Tourism Bureau announced it is allotting TWD \$6.5 billion (Can. \$293.5 million) to tourism companies in the form of preferential loans to upgrade Taiwan's tourism industry. As many as 800 companies are expected to benefit from the plan and will use the loans to buy property and equipment as well as computer hardware and software.

In April, Taiwan's Environmental Protection Administration (EPA) introduced an ecotourism-monitoring mechanism to gauge the public use of national parks and scenic areas. The EPA has completed baseline surveys of various environmental factors such as water ecology, cultural landscapes and noise pollution with further reviews scheduled to determine levels of use.

According to the CTC in Taiwan, visitors from Hong Kong can apply for a tourist visa via the Internet and receive approval the same day. Internet tourist visas are less expensive and will allow more entries than the traditional hard-copy visa.

*North American Auto Travel Leads the Recovery***Australia**

Qantas announced October as the launch date for Australian Airlines, its low-cost airline. Australian Airlines will not compete against Qantas but, instead, will operate on low-profit routes or on routes from which Qantas has withdrawn. In the meantime, Qantas has introduced new routes to compete against Virgin Blue.

In February, the Australian Bureau of Statistics reported the first year-over-year increase in international visitor arrivals since September. While the key markets of Japan and New Zealand remained soft, China, Singapore and Malaysia posted very strong increases. The bright light for international arrivals last year was the backpacker market which showed a 5 per cent increase in visitor nights compared with one year earlier.

According to the Tourism Leading Indicators Study by the Australian Tourism Commission and KPMG, Australian operators are cautious about business performance over the next three months but the outlook is brighter for inbound-tourism operators, at least in the long term. The study also indicates that growth expectations for inbound tourism from the U.K. and Asia are optimistic for the second quarter of this year compared with last year. Bookings from the U.S. are down for this same period.

New Zealand

Statistics New Zealand reported outbound tourism by New Zealand residents increased 12 per cent in March compared with last year. This was the first monthly increase since September and may be due in part to the Easter holidays. While increased departures to Oceania and Asia were recorded-with Australia, Fiji and China leading the way-departures to the U.S. were down.

According to Statistics New Zealand, international visitors arrivals increased 14 per cent in March compared with the previous year. Using February statistics, Canadian arrivals were up 6 per cent compared with last year.

Economic Fallout

North America

The Canadian economy is soaring. The pace of job creation picked up markedly in March allowing the unemployment rate to decline slightly to 7.7 per cent. The hefty employment gains brought the largest quarterly increase in net new jobs since 1987. Fuelled by a rebound in the goods-producing sector, gross domestic product (GDP) had its strongest monthly increase in two years. Even the struggling manufacturing sector, which had been in a major slump since September 2000, saw total production rise, its first significant gain in 16 months.

The speed of the turnaround of the U.S. economy has forced revisions in economic predictions for this year. Despite the creation of 58,000 jobs in March, the unemployment rate increased slightly to 5.7 per cent in February. Consumer confidence managed to surge an incredible 15 points in March and this was reflected in strong retail sales in February.

The first signs of improvement for the Mexican economy were apparent from February's employment numbers, which reported a drop in both the unemployment and underemployment rates. A fairly solid rebound is developing in Mexico's manufacturing industries as a result of the recent dramatic improvement in U.S. manufacturing activity. Mexico's economic prospects hinge almost entirely on the speed and timing of the recovery in the United States, given that 85 per cent of Mexico's exports are sold to its northern neighbour.

Europe

Euroland is on track to recover in 2002 due mainly to a recovery in manufacturing activity. Industrial production increased in both January and February and the area's purchasing managers' index rose to levels indicative of expansion in the manufacturing sector. The recovery this year will be relatively weak with real GDP growth of 1.2 per cent. However, because the unemployment rate in Euroland will remain high, this will have a negative impact on both consumer confidence and retail spending. Consumers will not see further interest-rate reductions for the remainder of this year and into 2003. The ongoing weakness of the euro, stubborn inflation and the favourable situation in the United States all point to the European Central Bank putting additional interest-rate reductions on hold. In 2003, real GDP is forecast to expand by 2.7 per cent.

Asia-Pacific

Most countries in this part of the world are small, open economies that depend on exports for their economic well being. The collapse in demand for information-technology equipment last year hurt the Asia-Pacific region, as export growth plunged. Monetary authorities attempted to blunt the impact of the export crisis by lowering interest rates. These moves could not, however, negate the negative fallout resulting from adverse developments in the global economy. Real GDP growth expanded by only 0.7 per cent last year and growth of less than 1 per cent is anticipated in 2002. While the recovery in the U.S. economy will help the Asia-Pacific, there is still excess inventories in the information-technology sector of the United States and this factor will restrain demand for computer equipment from the Asia-Pacific region.

The other major factor that will restrain demand in the region is the precarious situation in Japan. This country is one of the most important export markets for virtually every country in the Asia-Pacific area and the ongoing recession in Japan will hurt growth prospects in the short-term.

Opportunities

A survey by Hyatt Hotels Corporation indicated close to 50 per cent of business travellers would take more vacations if they had free hotel nights. Business travel respondents to the survey suggest that 68 per cent of their spouses would find free hotel nights to be the biggest reward to business travel. When asked how they would like to use free hotels night benefits, 36 per cent of business travellers chose spontaneous romantic vacations, while 27 per cent chose family vacations.

Research by DK Shifflet & Associates suggests Americans are seriously interested in spending their vacations in quiet, relaxing places close to home. Marketing efforts to American audiences would do well to emphasize these benefits in addition to the ever-popular benefits of product flexibility, price assurance and good service.

It appears that more than anything, inconvenience and inconsistency with security measures are keeping people from travelling by air. Fortunately, the U.S. Department of Transportation's new Transportation Security Administration claims it will meet the deadline at the end of this year to install hundreds of explosive-detection machines-each at a cost of over U.S. \$1 million-to screen checked baggage at major airports. Assuming the average passenger checks two bags per trip, that's more than 2.2 billion bags requiring screening. Unfortunately, more delays are inevitable.

For suppliers involved with air travel, finding methods to avoid or minimize air-travel delays should be a priority. Travellers wishing to bypass airport check-ins altogether can choose not to take luggage with them and buy supplies at their destinations. Or, they can use a new service, such as Sports Express, that will pick up items such as golf clubs and luggage from a traveller's home, office or golf club and deliver them directly to any resort or destination in the U.S., England, Scotland or Ireland. In addition to convenience, this can save the traveller hours by helping them avoid baggage check-in lines. Offering alternatives or additional services that bypasses air travel inconveniences enhances a relationship with a customer as it creates a value-added dimension to the relationship.

DK Shifflet & Associates suggests focusing on the auto-travel market this summer, as 40 per cent of U.S. travellers feel it is important to be in control of their own transportation. And, according to Opinion Research, about 15 per cent of Americans plan to visit Canada. One in six travellers see air travel and other modes as unsafe, which reinforces the stay-close-to-home mindset. This is good news, indeed, for the tourism suppliers within driving distance to the United States. Suppliers who are further than this from the U.S. should consider finding alternatives to the traditional air-travel experience through the use of value-added services such as alternate luggage delivery.

Summary

Domestic leisure travel is expected to contribute significantly to the rebound in the industry this summer. As has been the case in most years, the vast majority of Canadians and Americans plan to use the automobile for their longest summer holiday. By all accounts, the family-travel market is expected to be quite strong this summer. New research suggests that what families expect from their hotels has changed over the past 5 years. While families are now generally less demanding regarding a range of family-related amenities, certain deal-breakers still exist.

The competition to lure Canadians-and Americans-this summer is expected to be stiff as many well funded marketing campaigns will be launched as the industry recovers. At the moment, domestic airfares are not providing any incentive for Canadians to travel within Canada. While average airfares for international travel decline, domestic airfares continue to increase.

It appears that effective marketing messages used in the months after September 11th are still valid today. New studies continue to suggest that Canadians and Americans are looking for places to escape to where they will find rest and relaxation without the added stress of getting them there. While travellers remain interested in products that offer flexibility, price assurance and good service, they appear quite receptive to new initiatives that will also ease the burden of travel.

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