



It's All in the Numbers

Lessons To Be Learned

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The Conference Board of Canada

October 11, 2010

Hilton Barbados

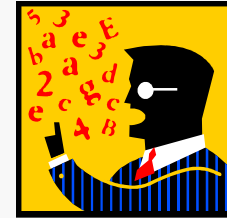
OneCaribbean

Many Experiences

2



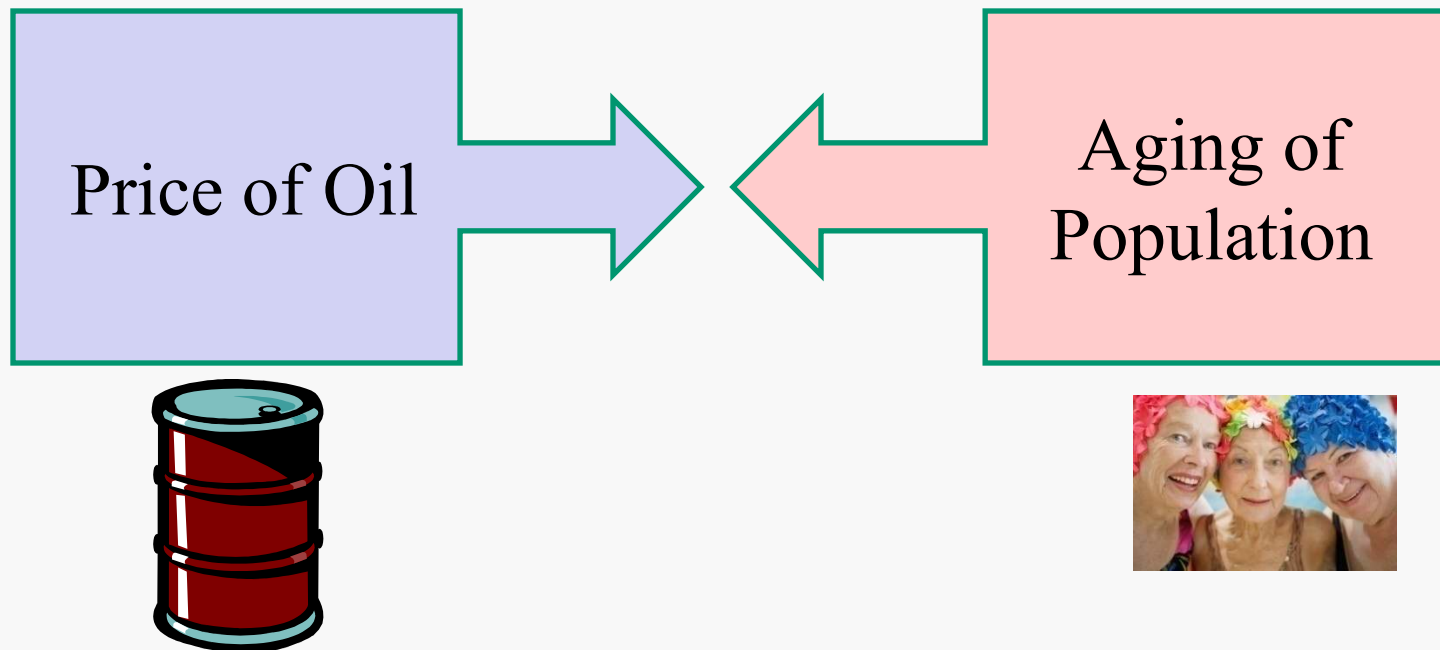
Talking Points



- Two converging forces changing travel
- **Canada:** An important market in transition
- **US:** Number one; will Cuba be a gateway to growth?
- **Europe/UK:** Time to refocus Caribbean product



Two converging forces – *oil prices & aging population*



Running out of affordable oil



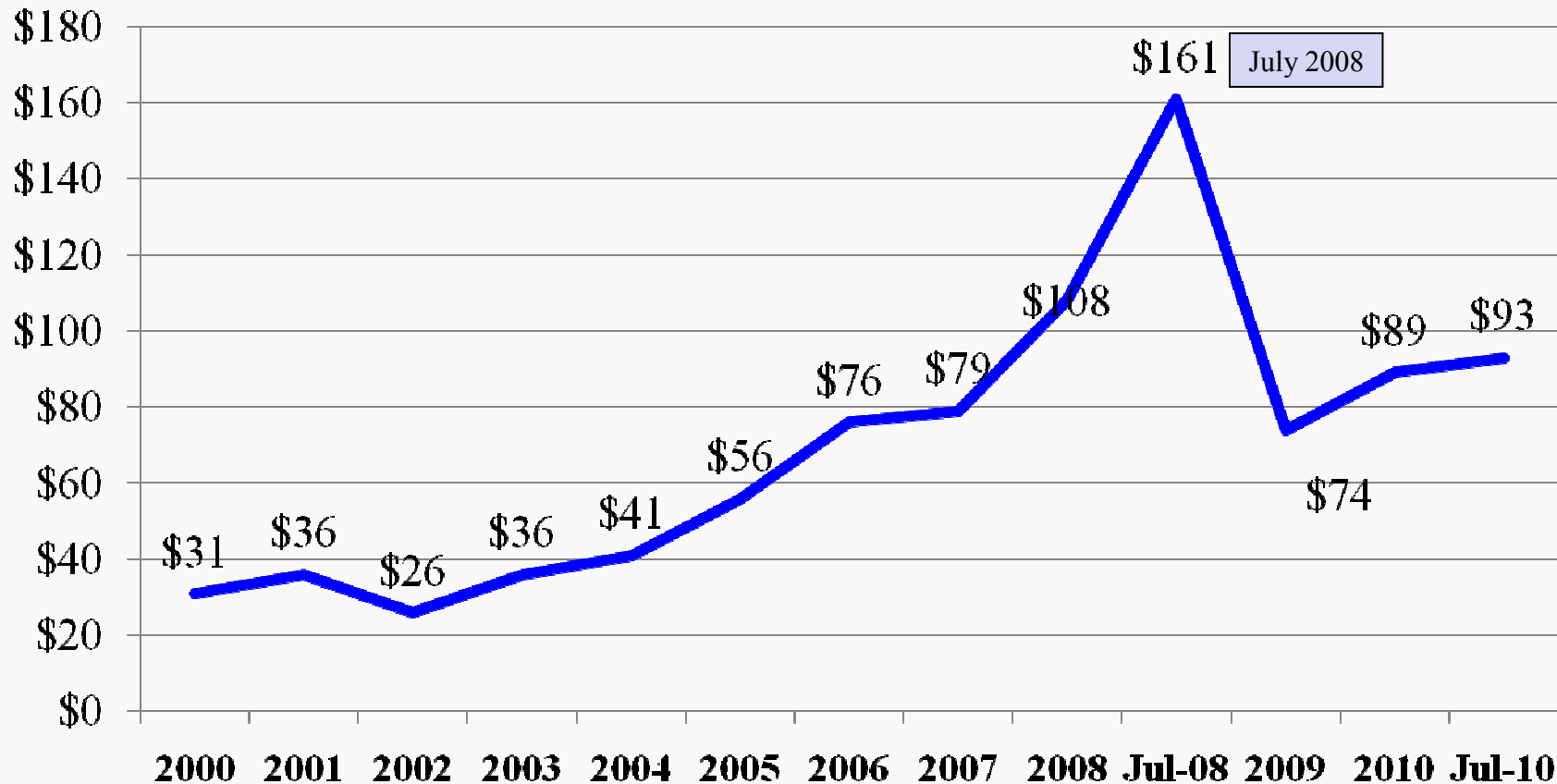
“...the world’s not running out of oil. It’s just running out of the oil we can afford to burn.” Jeff Rubin, Economist & Author

- 170 billion barrels of oil in Canada’s tar sands; 500 billion barrels in Venezuela's tar sands.
- Triple digit oil would bring massive changes to trading between countries, shipping and manufacturing and of course, the travel industry.
- More products and services will be delivered closer to home because distance cost money and burning carbon will be taxed.
- Oil already trading above US \$ 80 a barrel in the shadow of deepest ever post-war recession.



Jet Fuel Price: US \$ per Barrel

(January price per barrel of jet fuel oil)



Source: Air Transport Association.

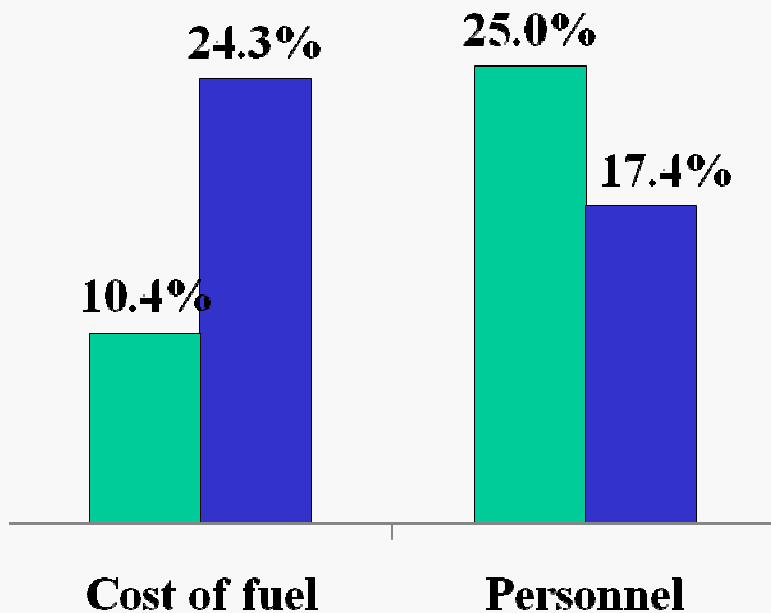
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Air Canada: Fuel now 24% of expenses vs. 10% in 1999

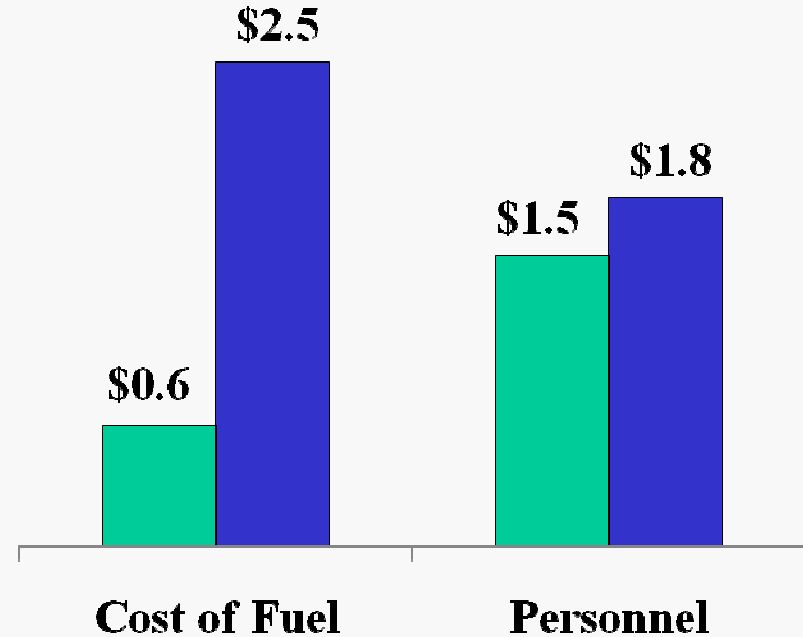
% of Total Operating Expenses

■ 1999 ■ 2009



\$ Billions

■ 1999 ■ 2009



Source: Air Canada Annual Reports.

7



\$100+ Barrel Oil Will Change Travel

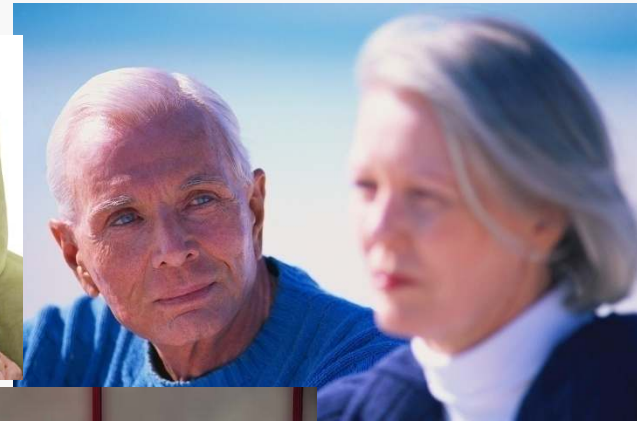
- NY/London return flight burns about 24,000 gallons of jet fuel or over 100 gallons per passenger on a B767¹ – what a mid-sized car burns in three months.
- It takes 40 times as much energy to fly something over the Pacific as to ship it.
- We are already seeing the results of high oil prices on airlines – fuller flights, flights consolidated, double dips, competitors linking up
- Proponents of \$100+ barrel oil predict less air travel, closer to home trips, fewer air carriers, higher air fares

Source: ¹“Why Your World Is About To Get A Whole Lot Smaller” by Jeff Rubin, 2009

8



Oil & Aging: Two Converging Forces



Converging Forces: Oil & Aging

- As people age, the distance they are willing travel shrinks. Health issues become more important; “been there, done that”;
- After age 65, trip distances begin to shorten.
- Even more pronounced for those 75+.
- 71% of outbound pleasure trips taken by Canadians 65+ were to the US in 2009
- 83% of UK holiday visits in 2009 were within Europe; only 1% to the Caribbean/Mexico
- The growth in overseas leisure travel will begin to slow over next decade as both Europe’s and North America’s population ages.



Europe

eurostat  **newsrelease**

STAT/08/119
26 August 2008

Population projections 2008-2060
**From 2015, deaths projected to outnumber
births in the EU27**
Almost three times as many people aged 80 or more in 2060

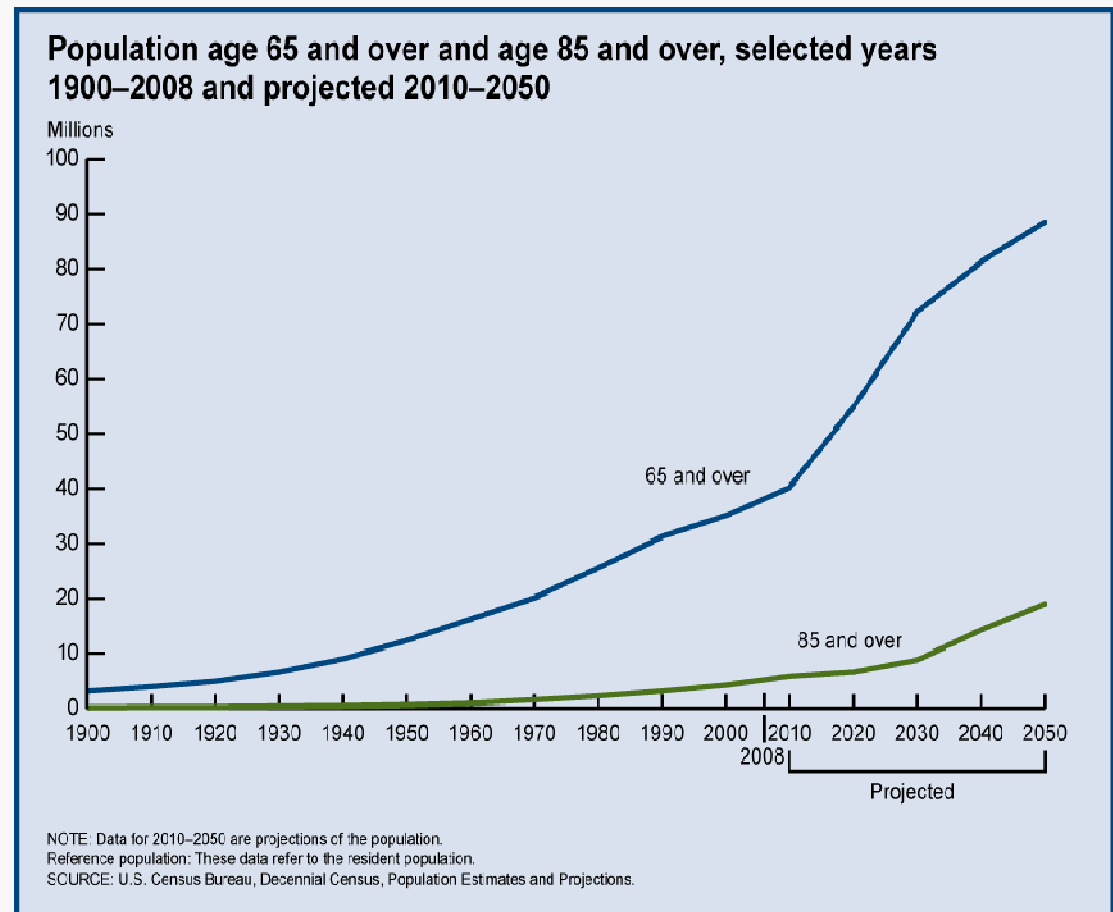
- **Already there are more Europeans 65+ than 14 years of age and under**
- . **16% of UK population now 65+ but by 2035 it will be 22%,**
- * **Germany 30%, France 24%**



US Aging Too!

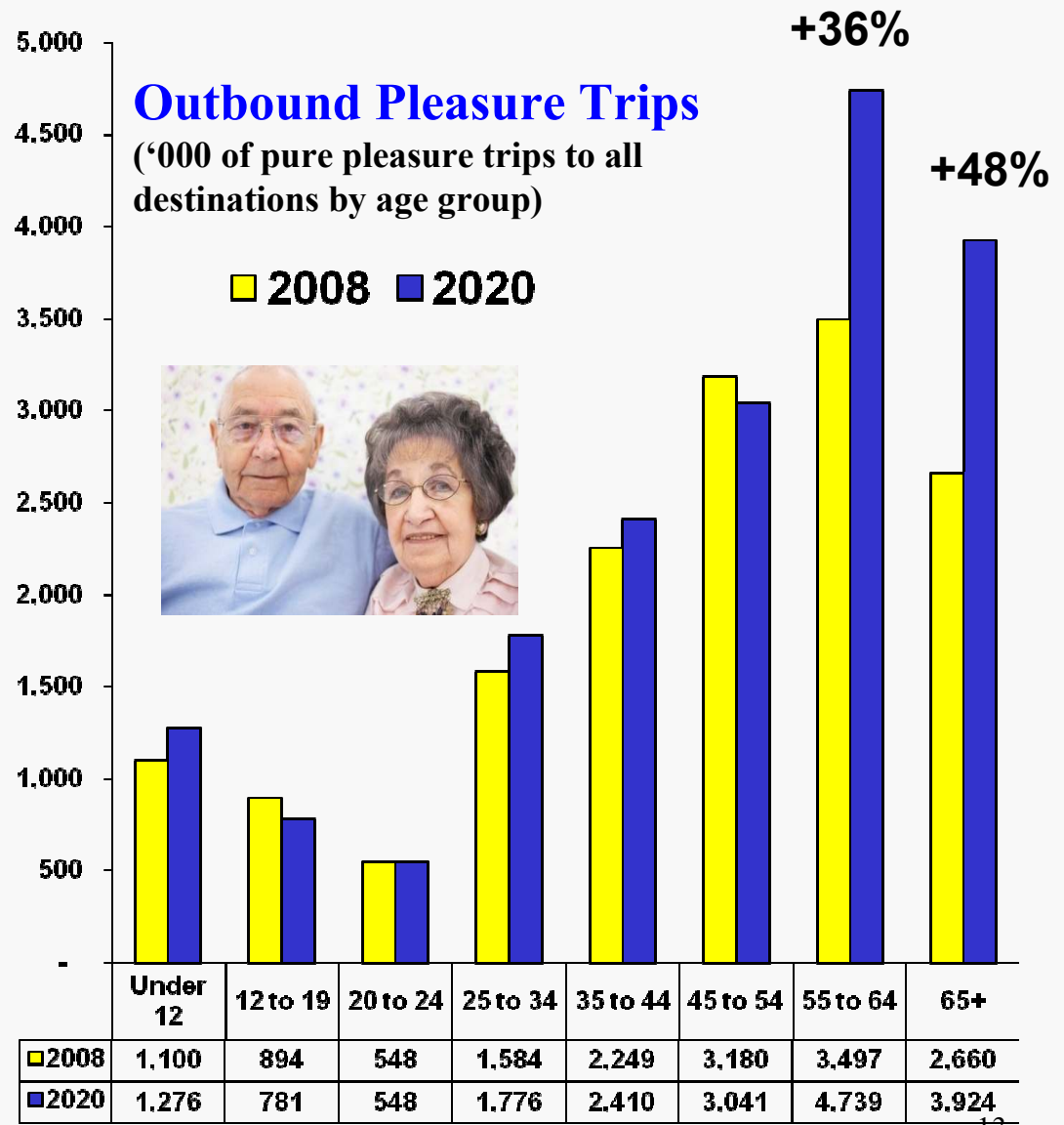
- By 2030 65+ will grow by 75%!

- Why important? Average age of US outbound travellers is 45.



Canada

- Couples without children now outnumber couples with children – the graying of Canada’s boomers
- The number of seniors will rise from 14% in 2009 to 25% by 2036.
- Canadians 60+ already outnumber those 14 and under.



What does this all mean?

- Focus product & marketing resources on high revenue travellers (*generally couples without children*).
- Develop goals and targets based on receipts rather than arrivals.
- Target high revenue & best prospects wherever they may reside.
- Main objective is to grow revenues.



Canada



*“Economy pretty good,
all things considered”*



Canada to lead G7 in Growth

- Canada is expected to lead all G7 countries in economic growth over the next couple years;
- Canadian dollar expected to be above par with **US \$** in 2011 – important for operators whose costs are mainly in US \$ & revenues in CAD \$
- Canada's economy depends on exports for about 40% of GDP; US being the number one trading partner.
- Growth stronger west of Ontario due to commodities such as oil, gas, potash, etc.
- Consumer confidence up in all regions compared with 2009 with the exception of BC and Ontario - **HST**.
- **Quebec** facing new taxes; health tax, 1% rise in sales in 2011 and again in 2012.

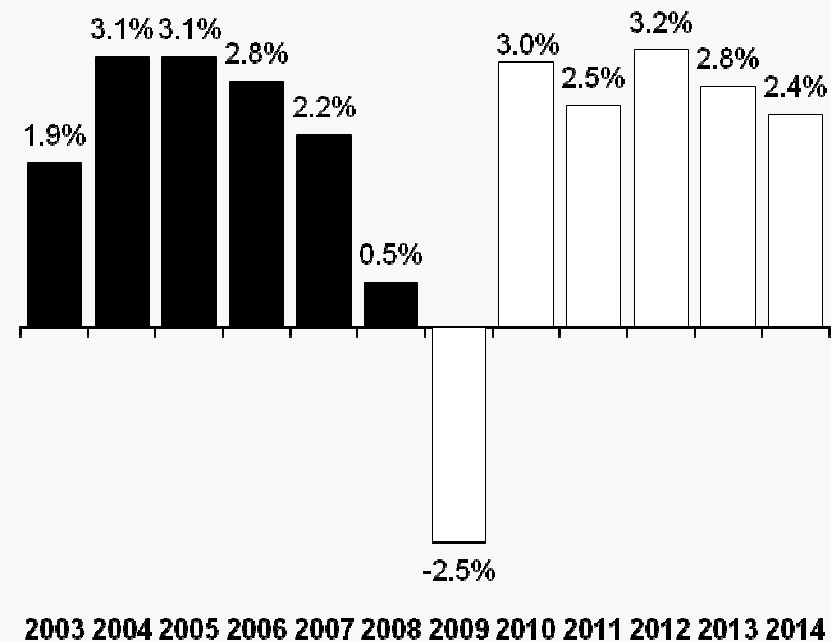
16



Canadian Economy

(% change in real GDP)

- Economic growth will support outbound travel
- Real disposable income to grow on average by 2.4% a year between 2010 and 2014.
- The Canadian dollar is trading a near par with the US \$ and is at a 25 year high against the GBP and all time high against the Euro.
- Biggest risk to forecast is how the **US performs** – it has huge debt issues that are difficult to tackle.



September 2010 CBoC forecast

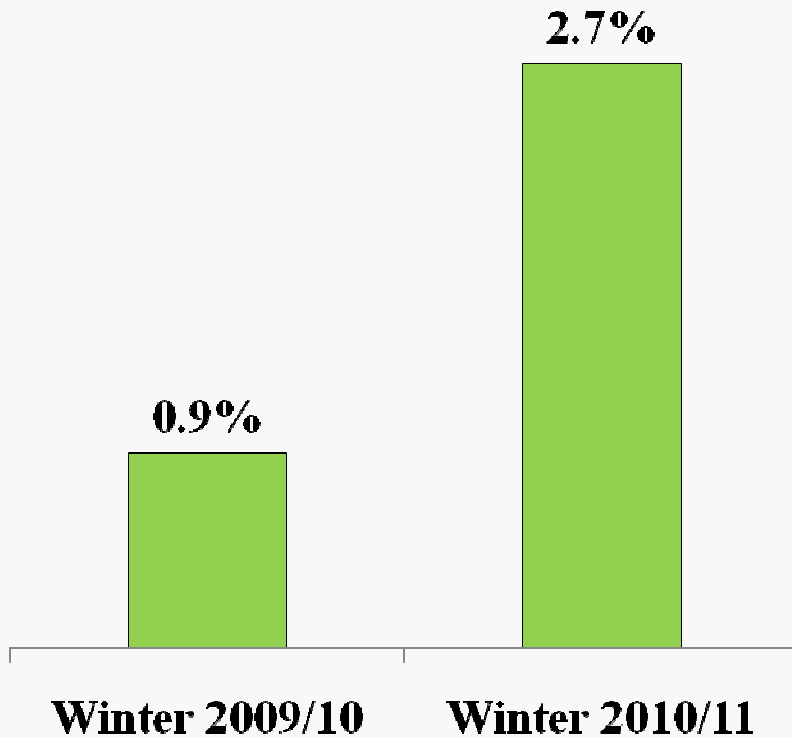
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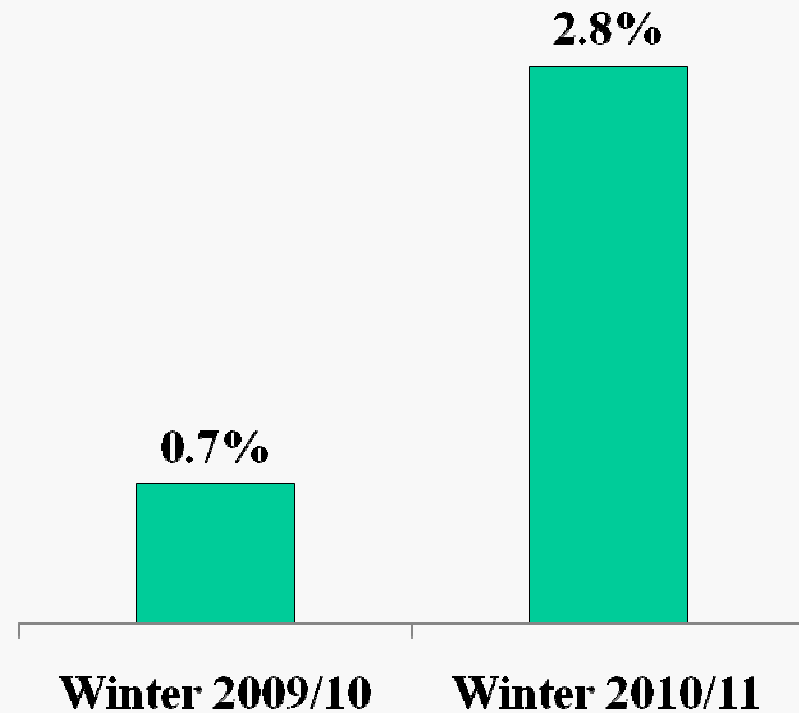
Economic Prospects Reversal of Last Winter

(% change in real GDP and disposable income)

Real GDP Growth



Real Disposable Income



Source: CBoC

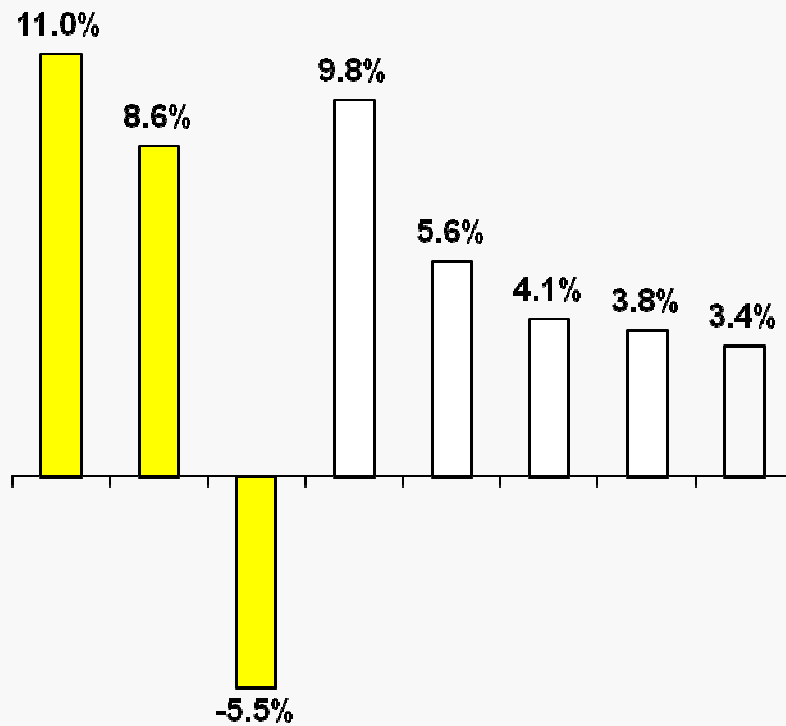
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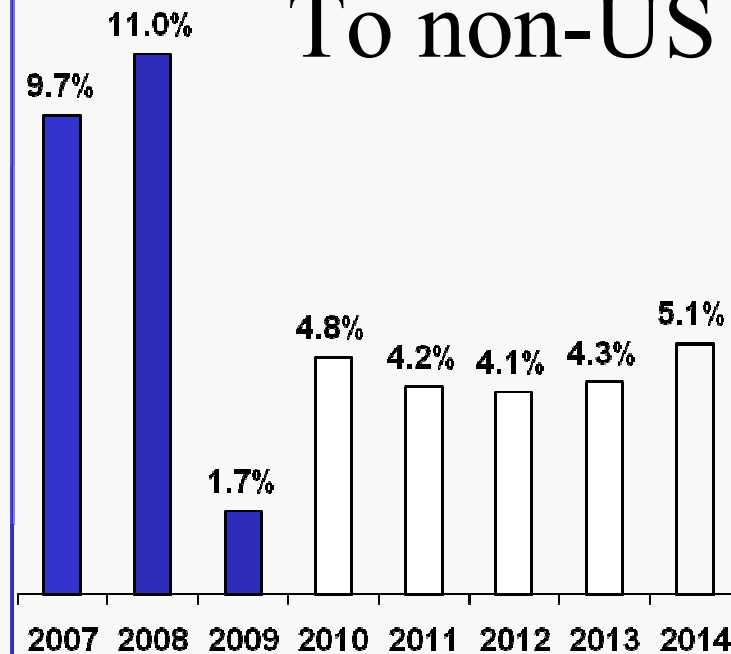
Canada: Outbound leisure trip growth

(% change in leisure trips from previous year)

To US



To non-US

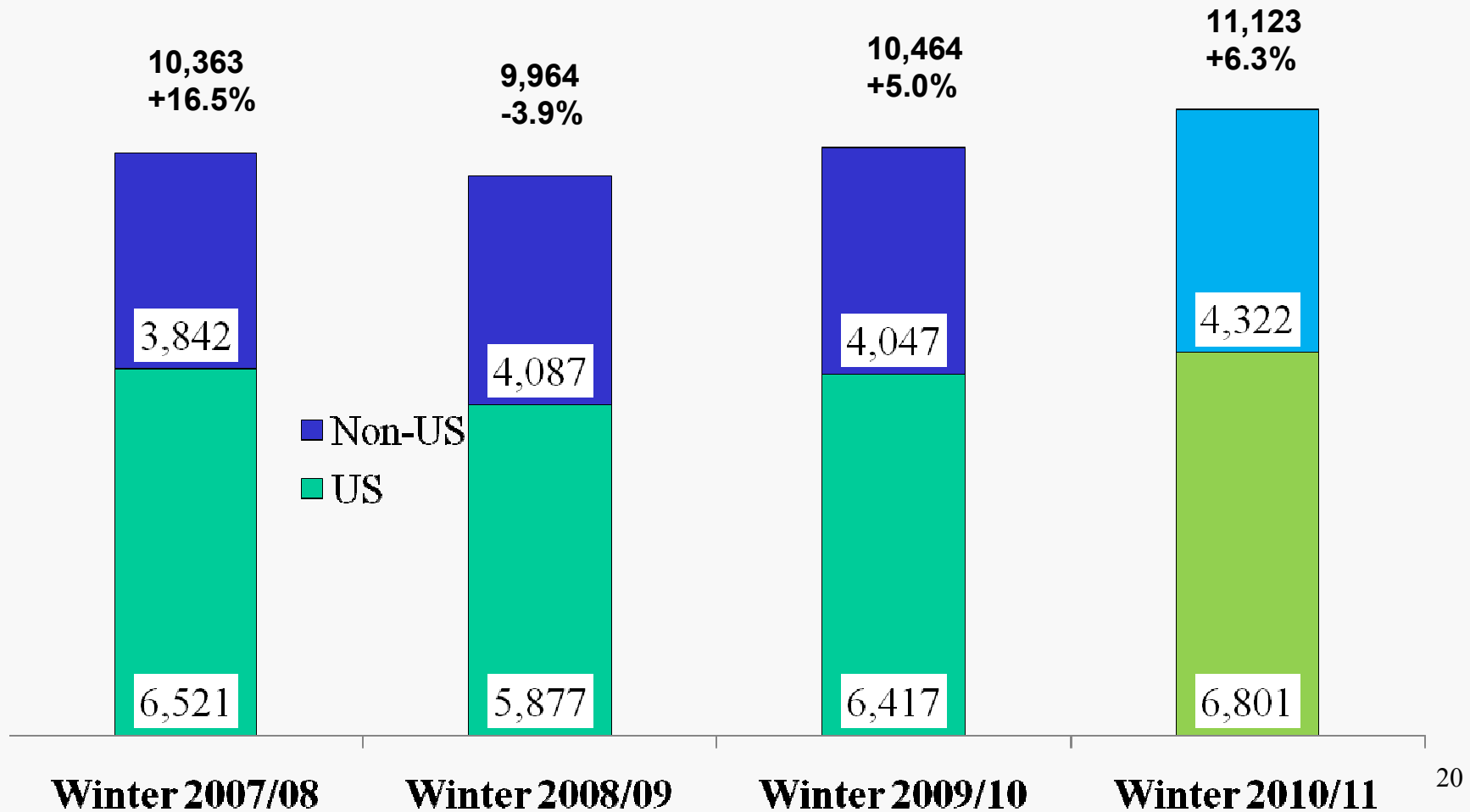


2007 2008 2009 2010 2011 2012 2013 2014



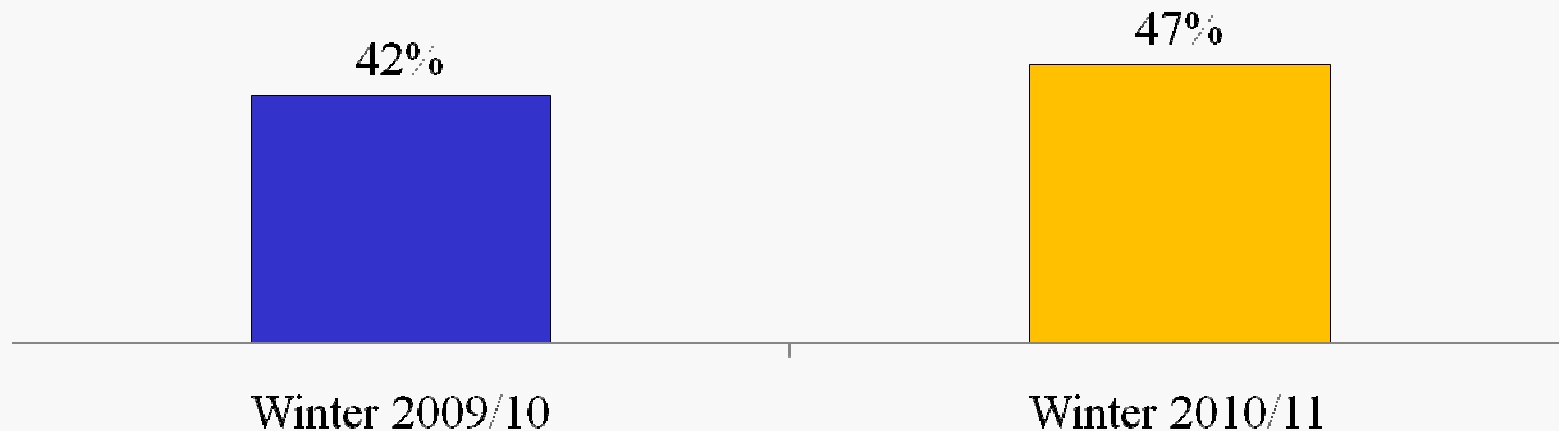
Winter Leisure Trips to grow 6.3%

('000 of outbound leisure trips each winter to US and non-US destinations and total)



Outbound Winter Trip Intentions Up

Significantly more Canadians indicated in the August 2010 online survey that they plan to go on a vacation trip outside the country this winter compared with the August 2009 online survey.



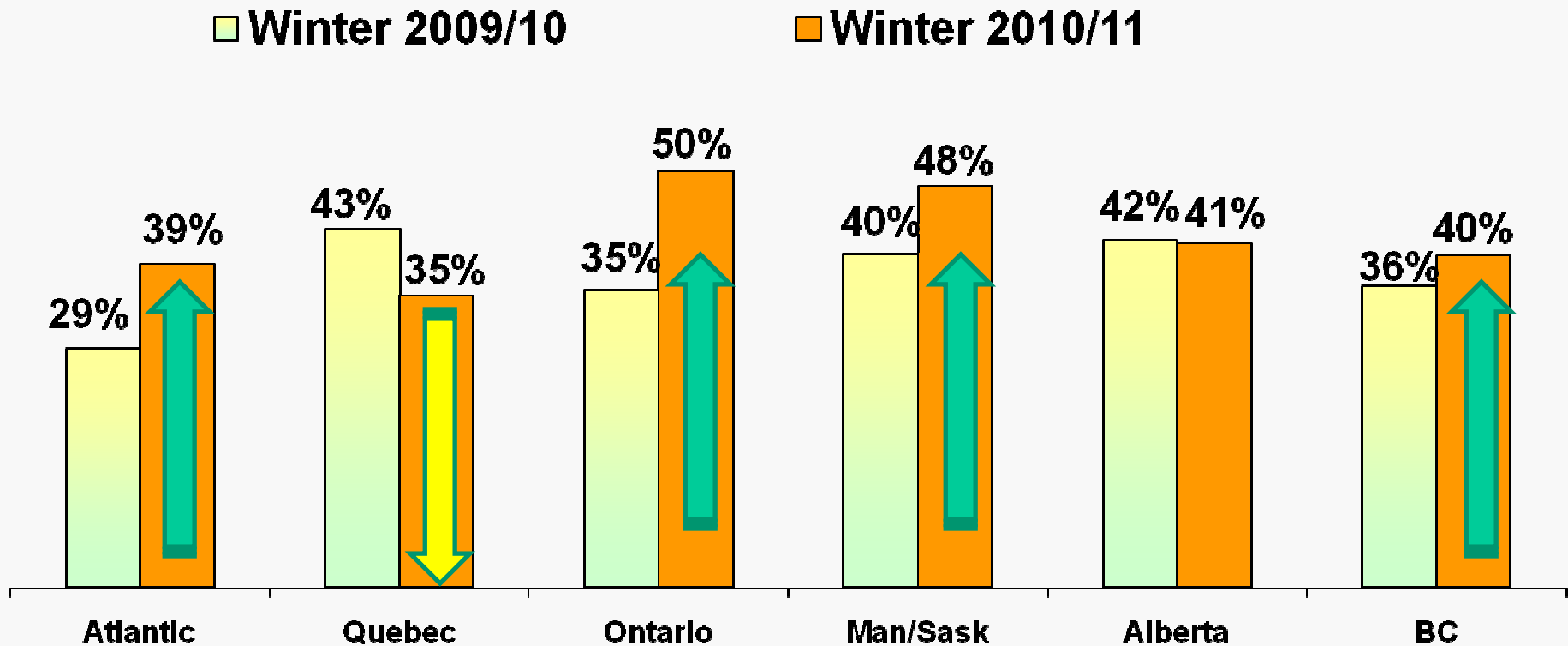
Sources: CBoC online surveys during August 2009 and 2010 with 1,500 respondents. Margin error is +/-2.4%

21



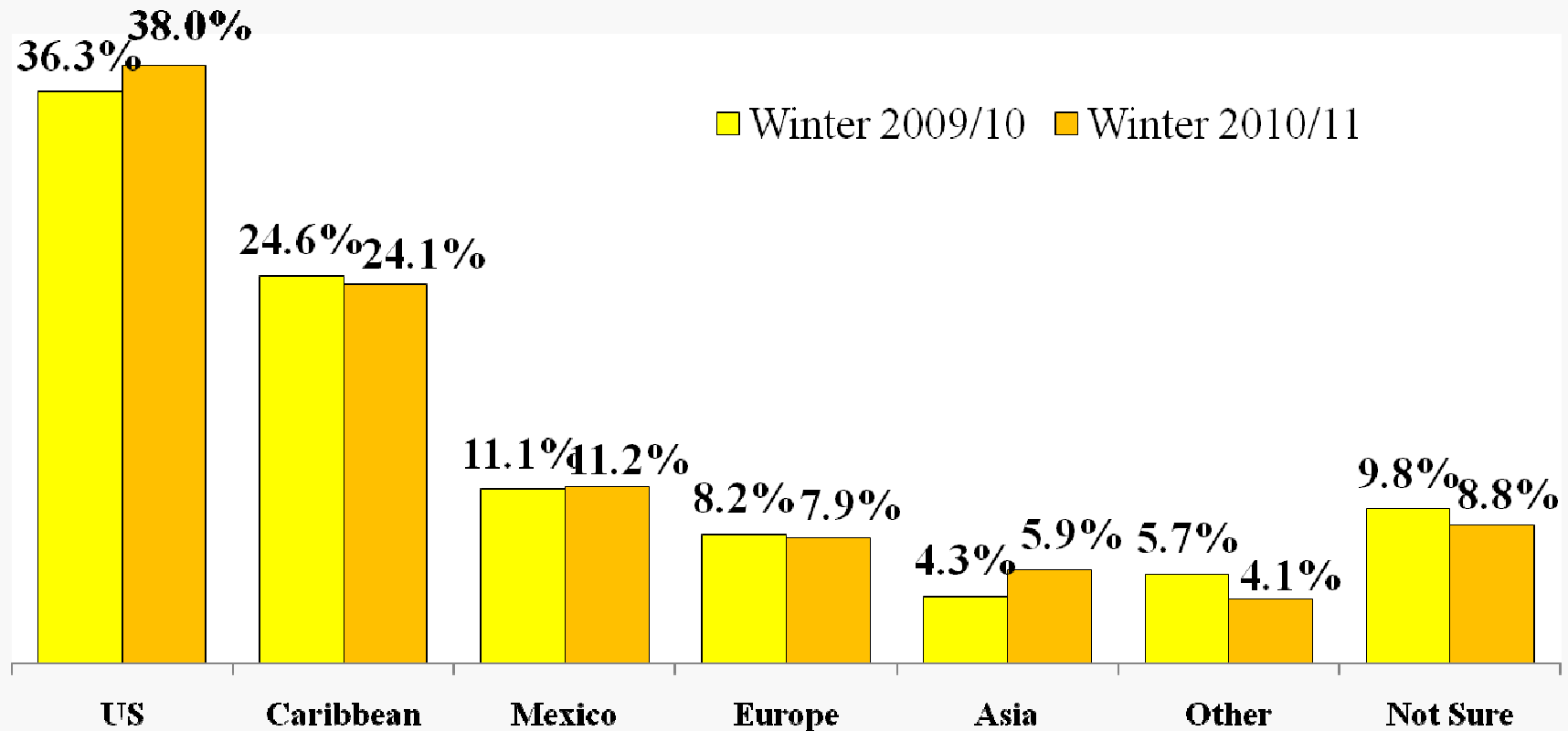
Outbound Winter Trip Intentions

(% planning outbound winter trip August 2009 and August 2010 CBoC surveys)



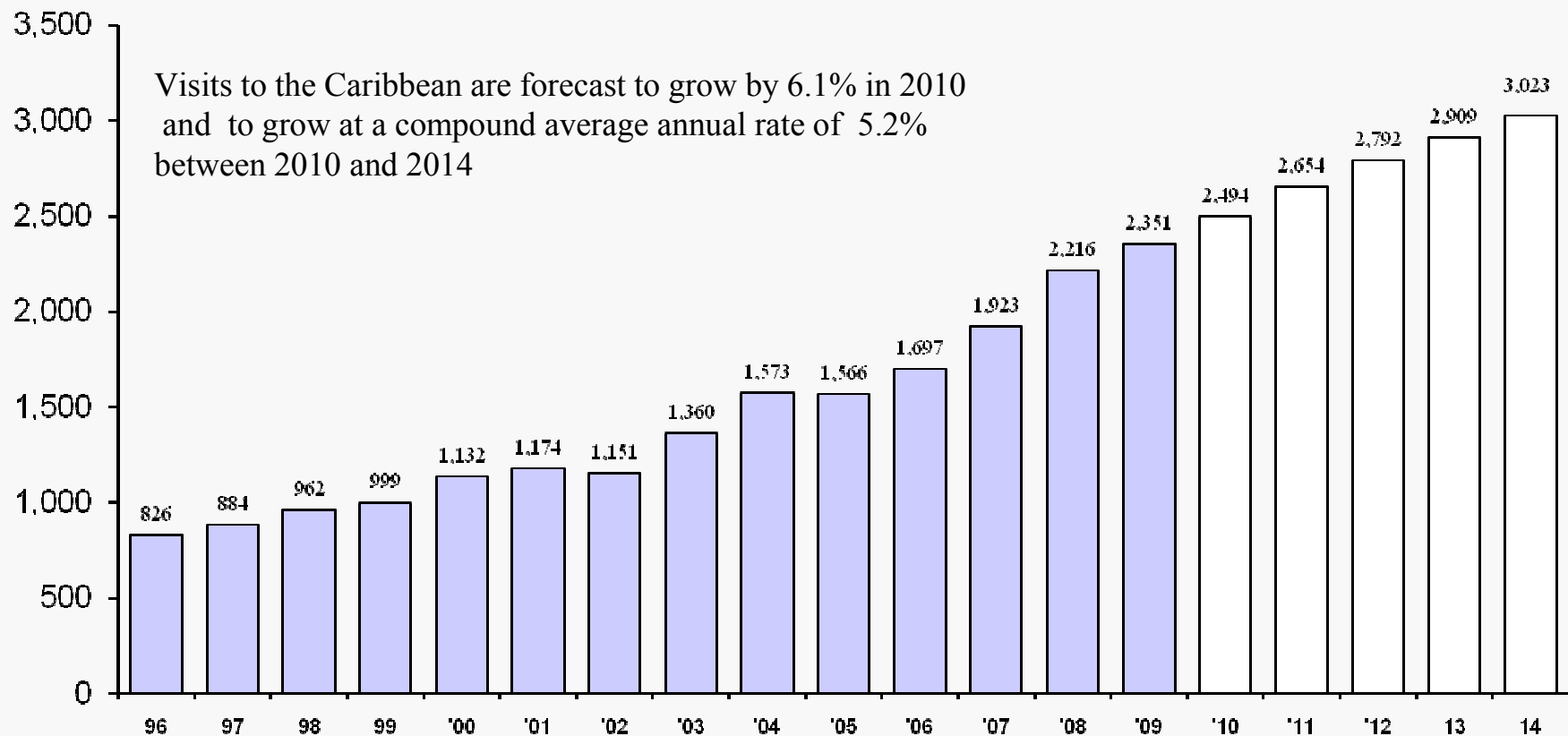
Intentions to Visit US rebound

(Destination of intended vacation trip each winter; August surveys each year)



Caribbean: Visits to reach 3m by '14

(‘000s of Canadian visits by year to Caribbean destinations)



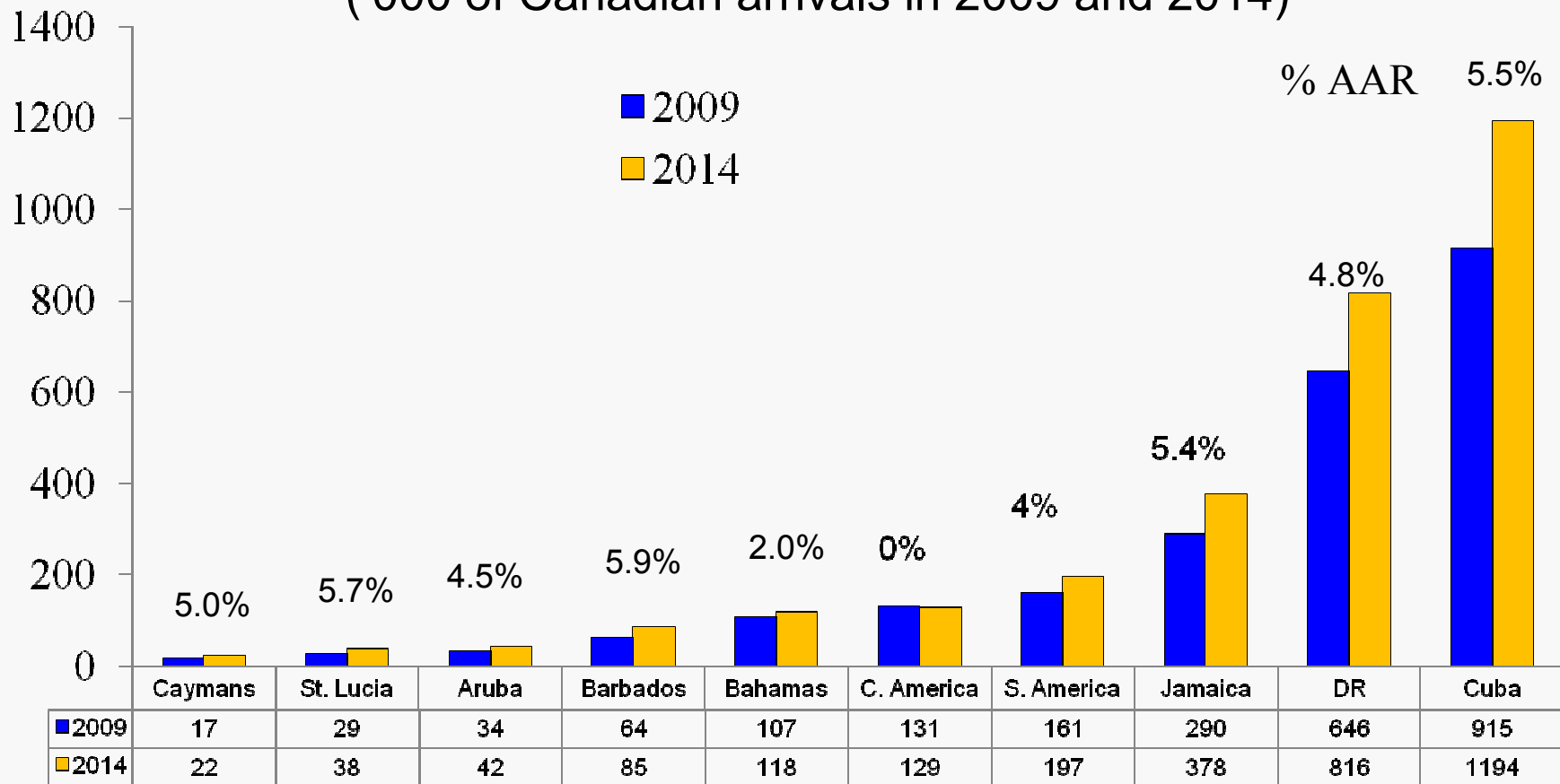
Source: Caribbean Tourism Organization; Forecast, Conference Board of Canada. Caribbean excluding Cancun

24



Growth will Continue next 5 Yrs.

('000 of Canadian arrivals in 2009 and 2014)



Sources: 2009 from CTO and respective countries while forecast is by the CBoC.



Caribbean/Mexico: Growth but at a cost

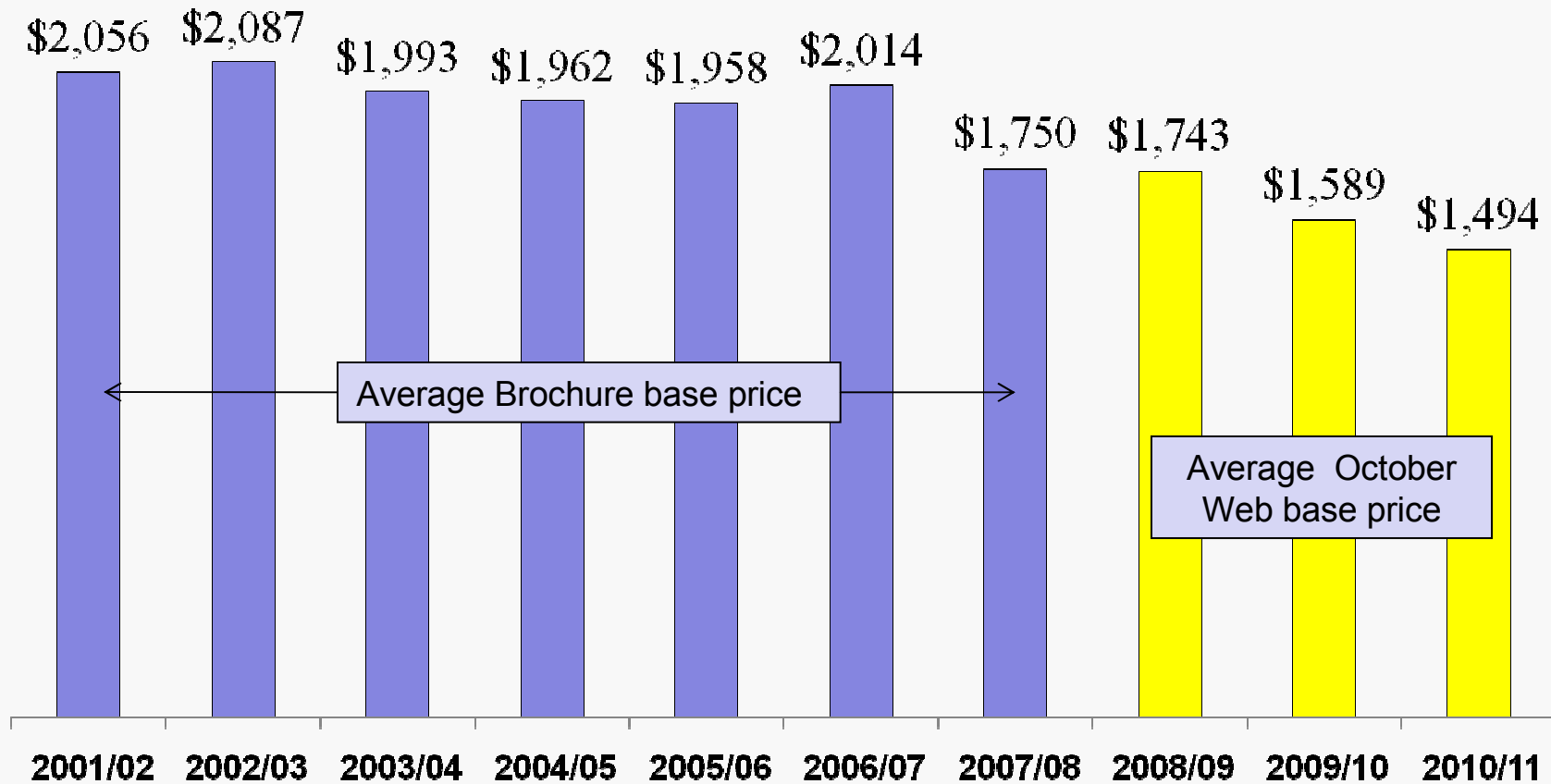
- Package prices too low for operators, resort owners, destinations.
- Chronic over capacity – up +6% this winter to over 3.2 million seats
- Average package price during high season 6% lower & 27% lower than during the winter of 9/11!
- Consolidation has occurred only to be replaced by additional capacity.
- Remember World of Vacations, Regent Holidays, Canada 3000 Holidays, Conquest Vacations, Canadian Holidays? All gone.
- Replaced with Sunwing Vacations, expanded operations by ACV and WSV and the folding of Signature Vacations into Sunwing Vacations.
- Despite the changes and consolidation, over capacity exists which has driven down prices.

26



Package Prices Continue to Fall

(Average package price, three time periods, Toronto gateway, standard room, dbl. occupancy, same dates and destinations)



Source: Major operator's brochures prior to 2008/09, operator websites 2008/09 onwards.

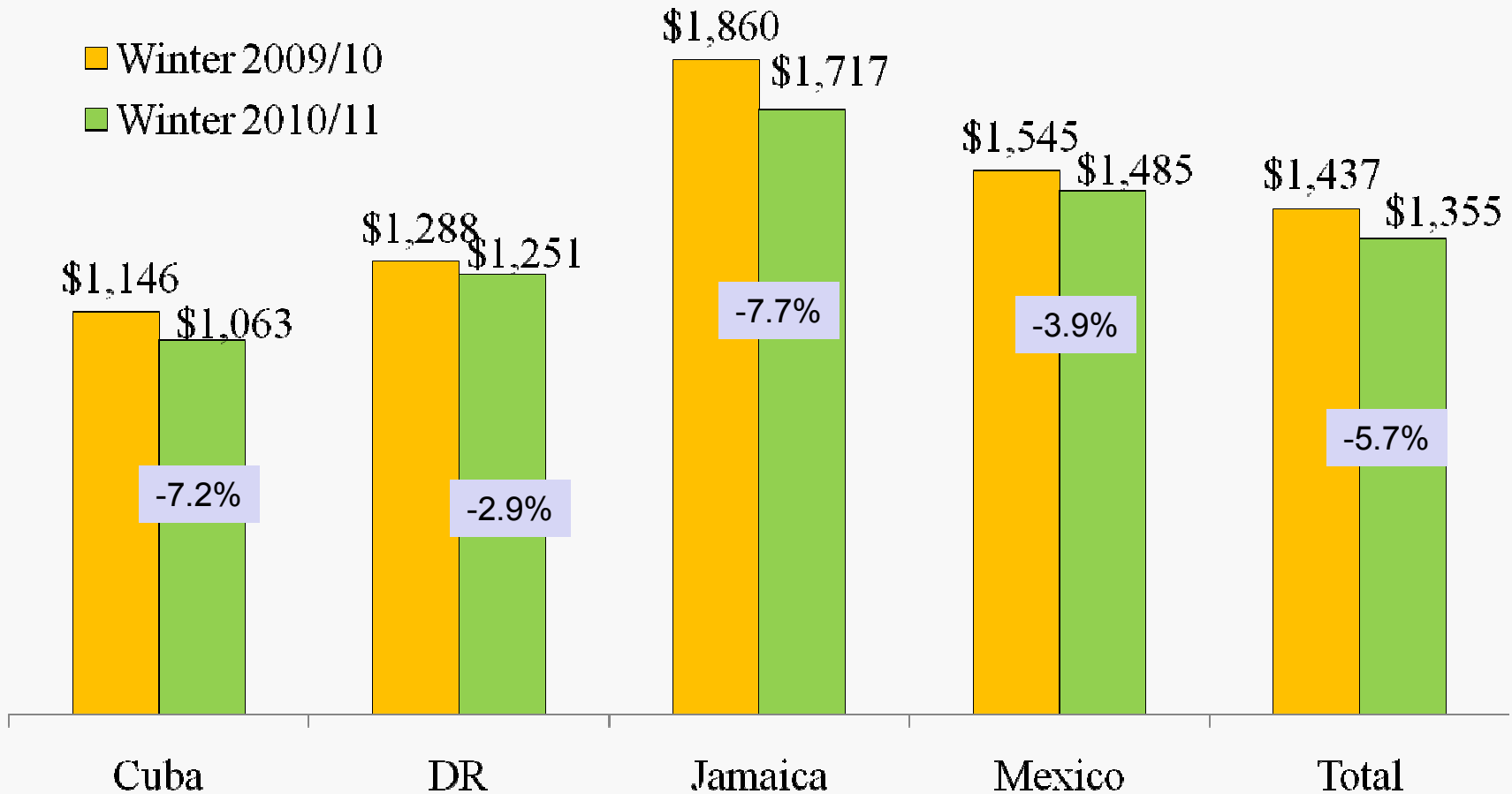
27

Destinations were Cuba, DR, Jamaica & Cancun. Time periods mid-December, February and March.



Winter 2010/11 Package Prices off 6%

(Average web package base price of all major operators for 3 time periods, Toronto gateway, standard room, dbl. occupancy)



Source: Major operator's brochures prior to 2008/09, operator websites 2008/09 onwards. Destinations were Cuba, DR, Jamaica & Cancun. Time periods mid-December, February and March.

28



Caribbean have grown Canadian visits & market share past 10 Years

Region	2000 Pleasure Visits	2009 Pleasure Visits	% Growth	% Share in 2000	% Share in 2009
Europe	1,591,300	2,302,100	45%	45%	34%
Caribbean	732,300	2,231,900	205%	21%	33%
Asia	261,900	582,900	123%	7%	9%
Mexico	625,600	1,096,000	75%	18%	16%
C. America	70,200	116,100	65%	2%	2%
Total Visits	3,514,900	6,720,700	91%		

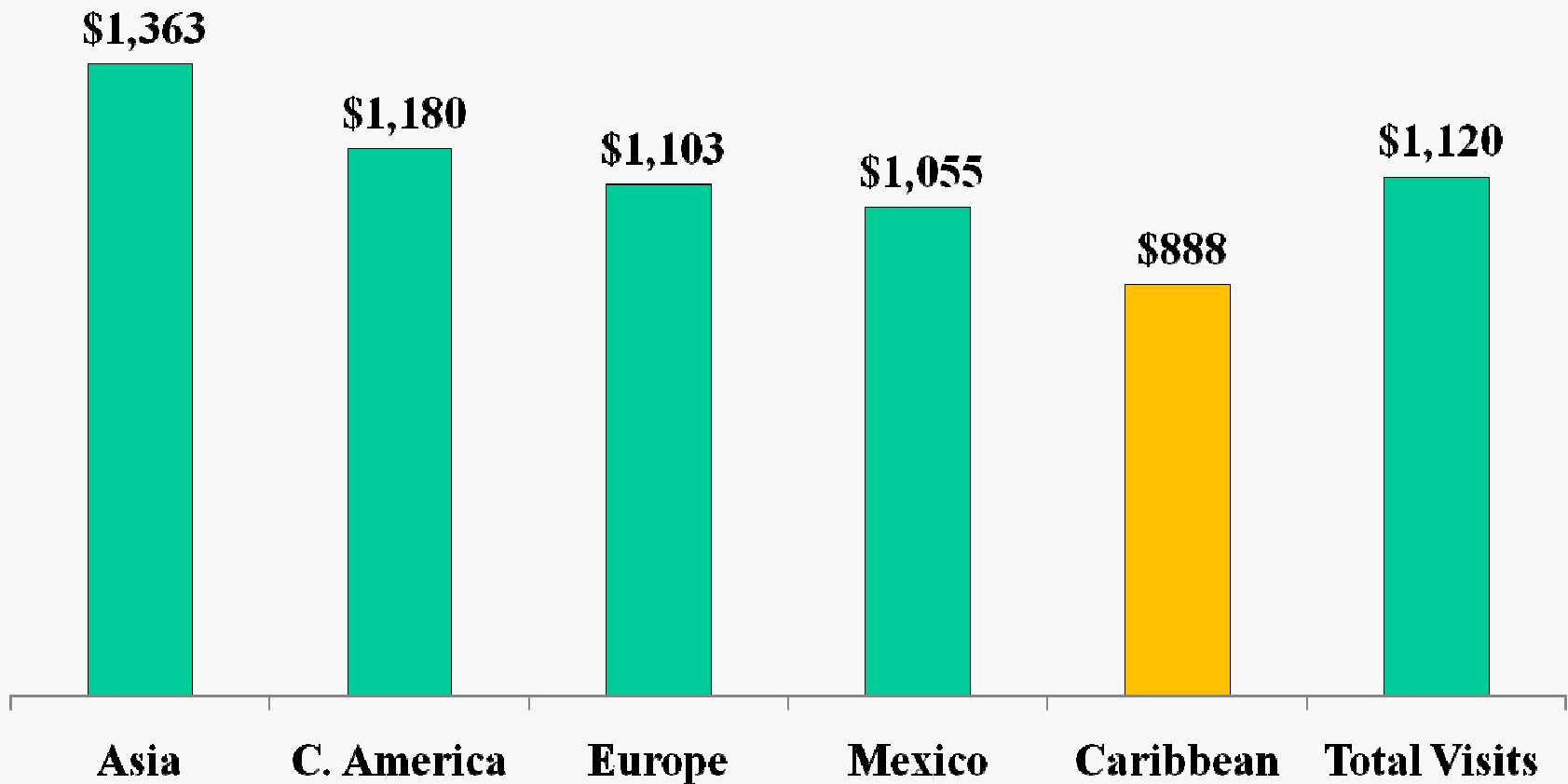
Source: Statistics Canada & CBoC

29



Caribbean had lowest \$ per visit

(Average spent per visit in 2008 in \$ CAD)



Source: Statistics Canada.

30



Growth at any cost not the way forward

- Canada's aging boomers are the drivers of change.
- They are more adventuresome, have money and are willing to travel further for the experiences they desire.
- Selling experiential travel products is the path towards growing revenues.
- Sale of all-inclusive packages is peaking - not dying.
- To raise revenues Caribbean destinations must needs to get more per visitor & ***that means a different type of visitor.***
- Don't abandon the all-inclusive but realize there is limited growth left in this market from Canada and little opportunity to raise revenues at the same rate as in the past.

31



Package Prices Will Rise

- Higher costs (fuel, taxes) will force operators to pass on to travellers.
- Americans, the market that drives prices, are returning to the Caribbean – *resorts will not be as willing to discount.*
- Higher prices will dampen demand.
- But then selling experiences is the way forward, selling on price is not.



United States



Unrealized potential!!

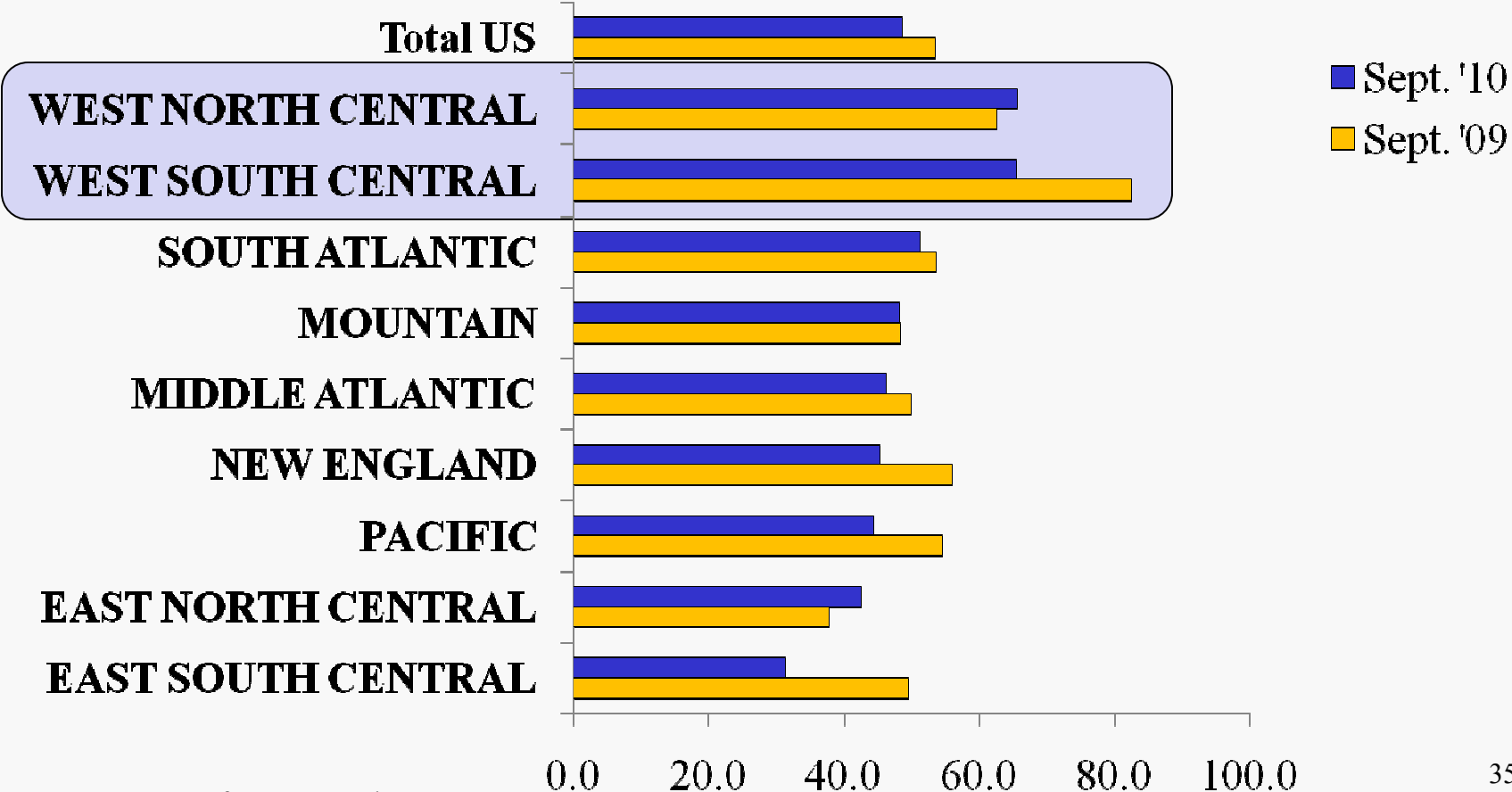


US: Unrealized potential

- US in difficult situation from many perspectives.
- Economy remains weak, consumer confidence continues to fall, federal deficit now US \$1.6 trillion.
- Debt to GDP ratio will reach 80% in 2012 under current budget plans from just 35% in 2000.
- Bush administration added up to US \$600 billion to the annual deficit by cutting taxes without cutting spending.
- Employment fell by 95 thousand jobs in Sept. due to weak hiring in the private sector.
- Consumer confidence at lowest point since Feb. 09
- GDP to grow by 2.9% in 2011



US Consumer Confidence: Down in all regions but strongest in WNC & WSC



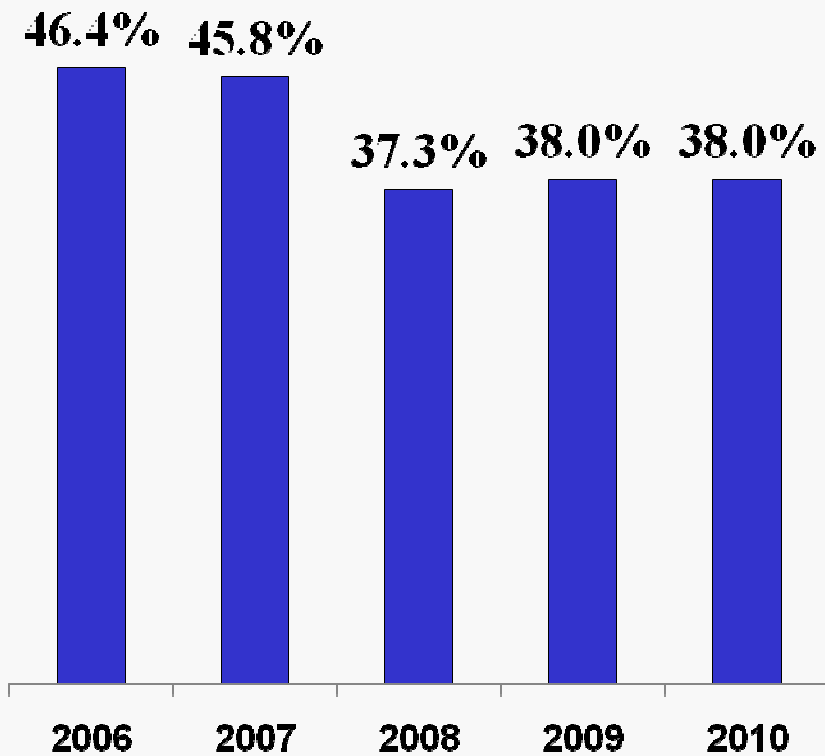
Source: US Conference Board Inc.



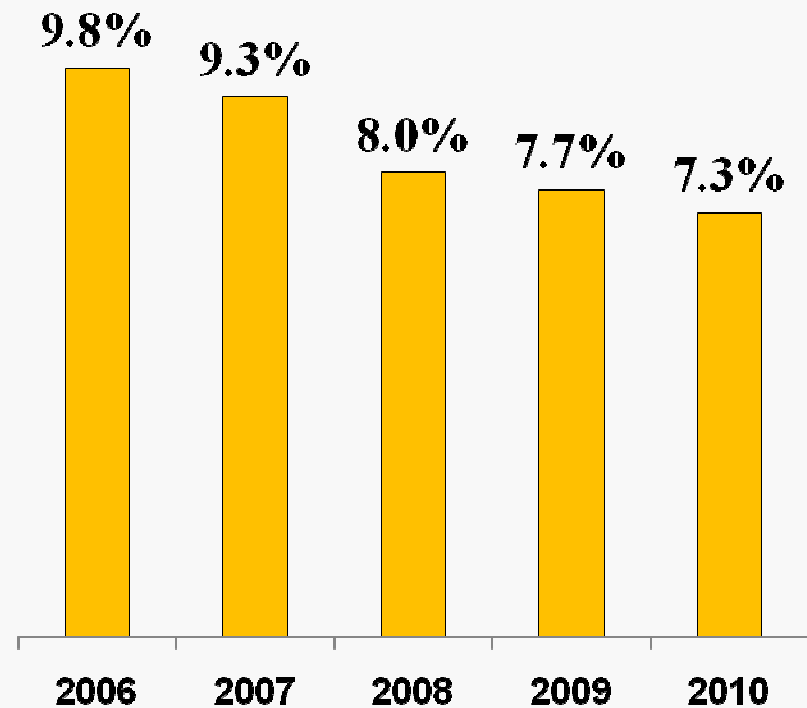
US Six Month Vacation Intentions

(% indicating in August each year that they plan to take a vacation trip next six months)

Total Vacation Intentions



Foreign Vacation Intentions



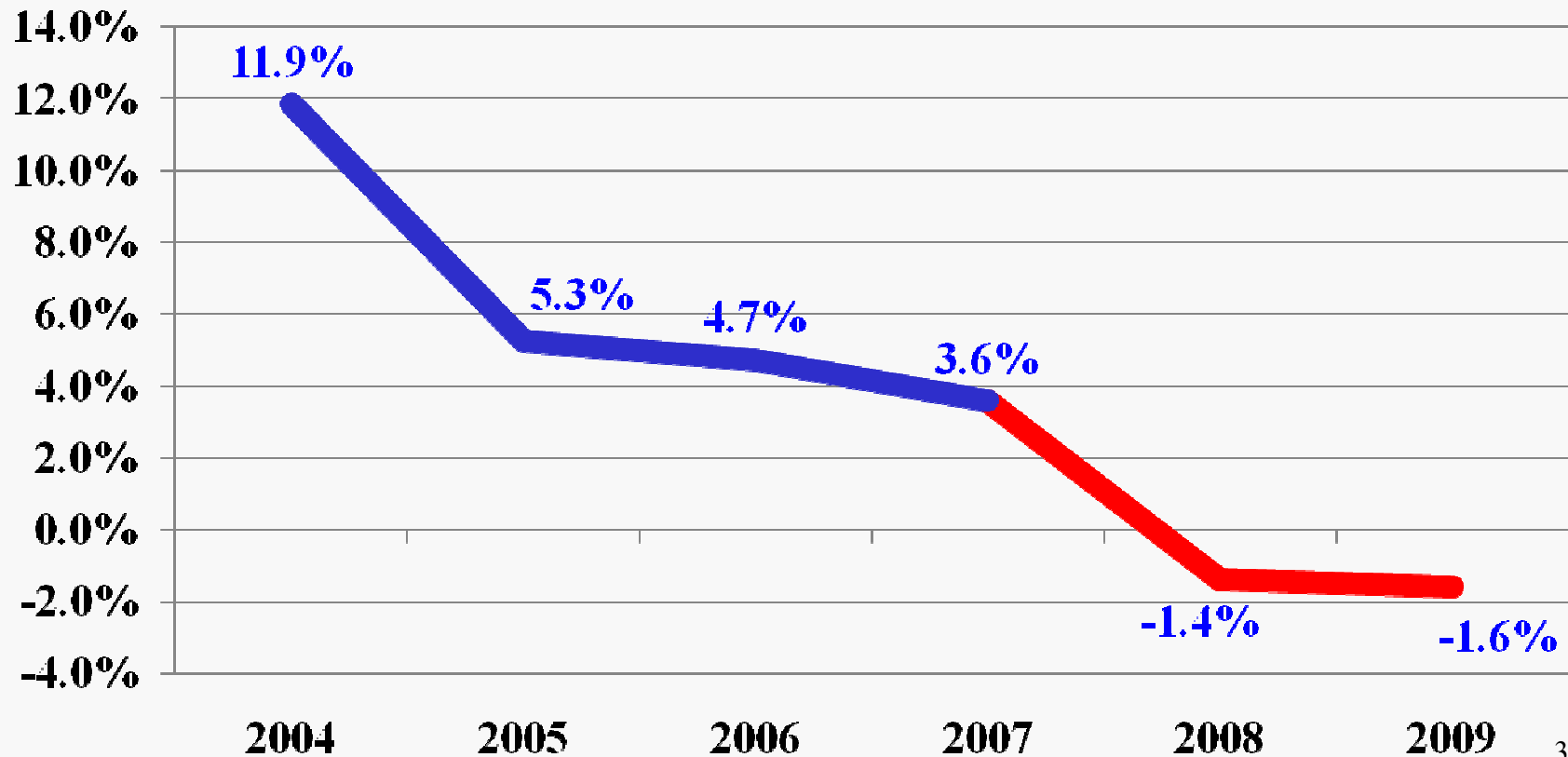
Source: US Conference Board Inc.

36



US Overseas Trips Have Fallen but also appear to be recovering

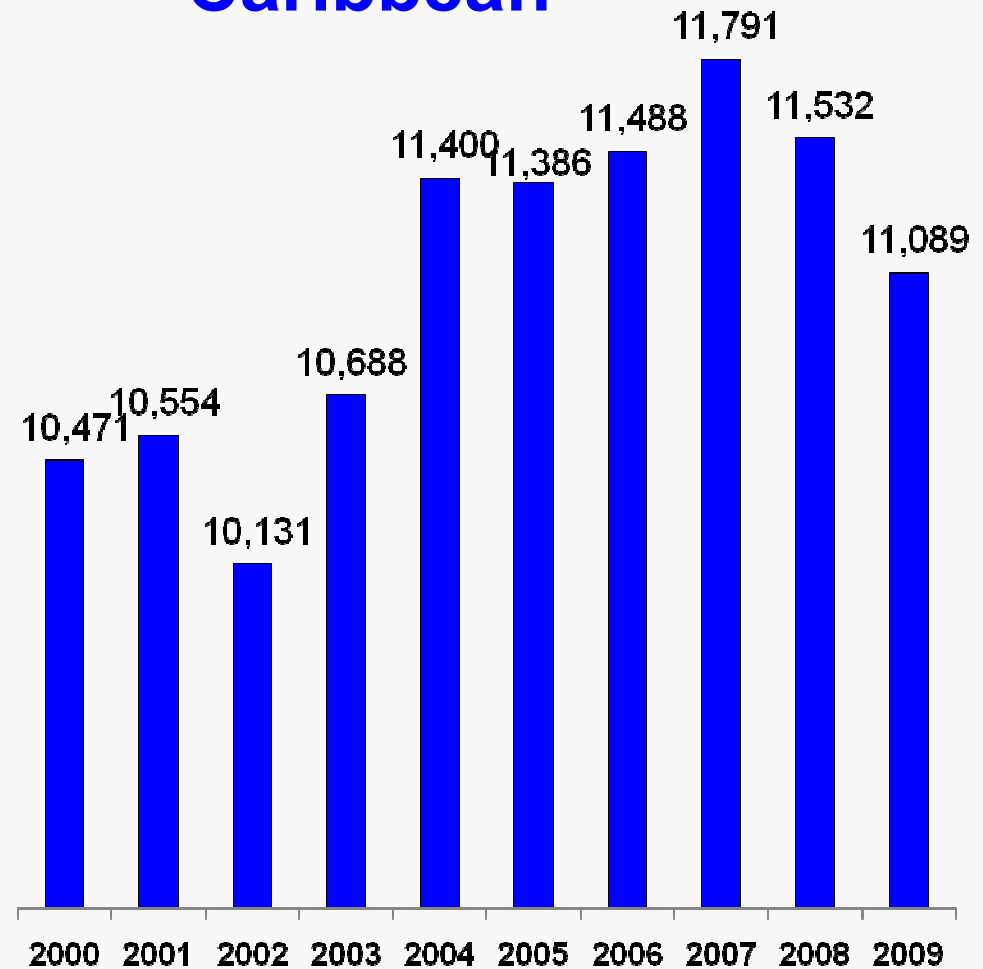
% Change from previous year in US Overseas Trips



US: Unrealized potential!

- US arrivals have grown at AAR of less than 1% since 2000.
- Arrivals have fallen by 6% since reaching 2007 high.
- Prospects low for next couple years but the unrealized potential too valuable to ignore.

'000 of US Arrivals to Caribbean



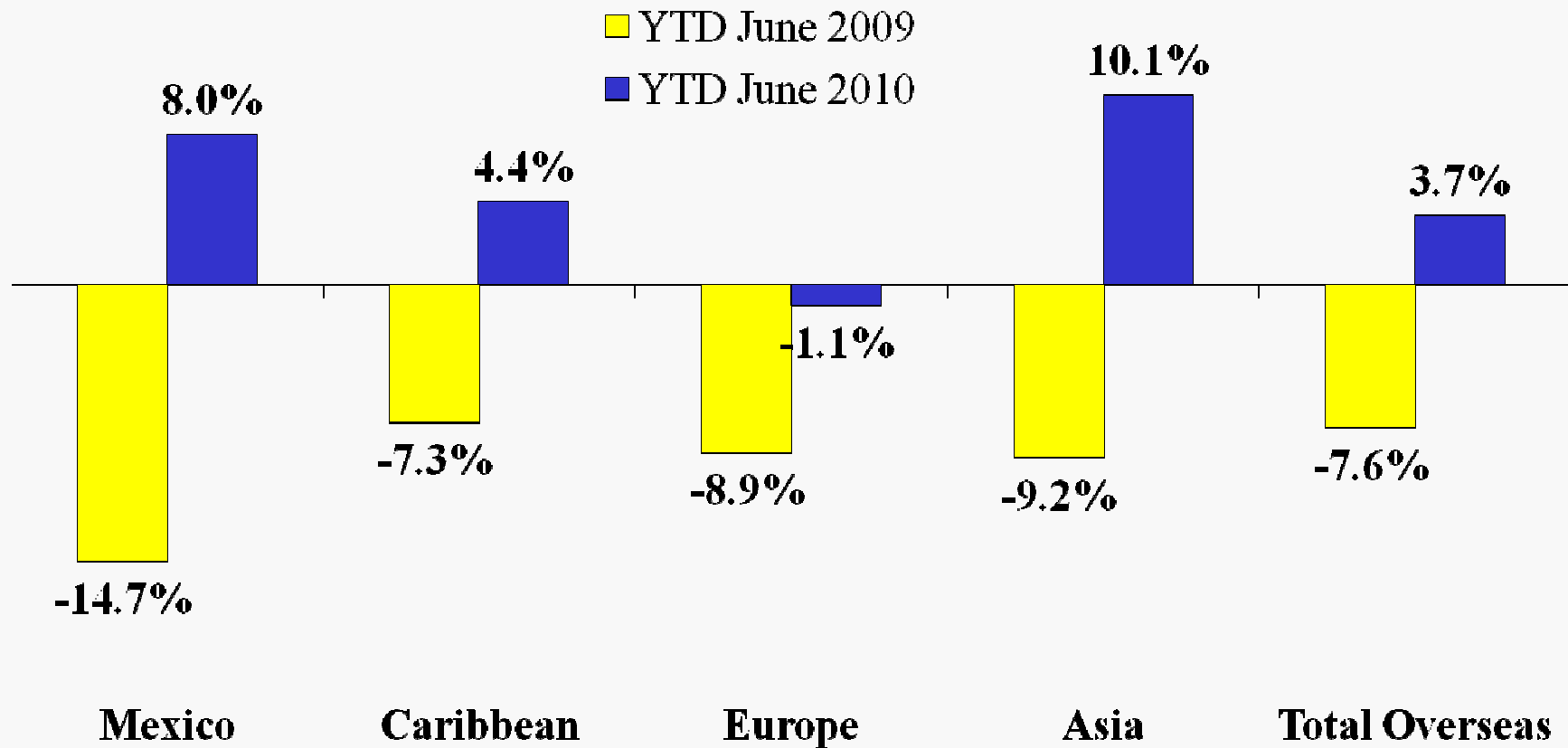
Source: CTO

38



The Americans are coming!

(% change in US air arrivals YTD June 2009 vs. same 2008
& YTD June 2010 vs. same 2009)



Source: US OTTI

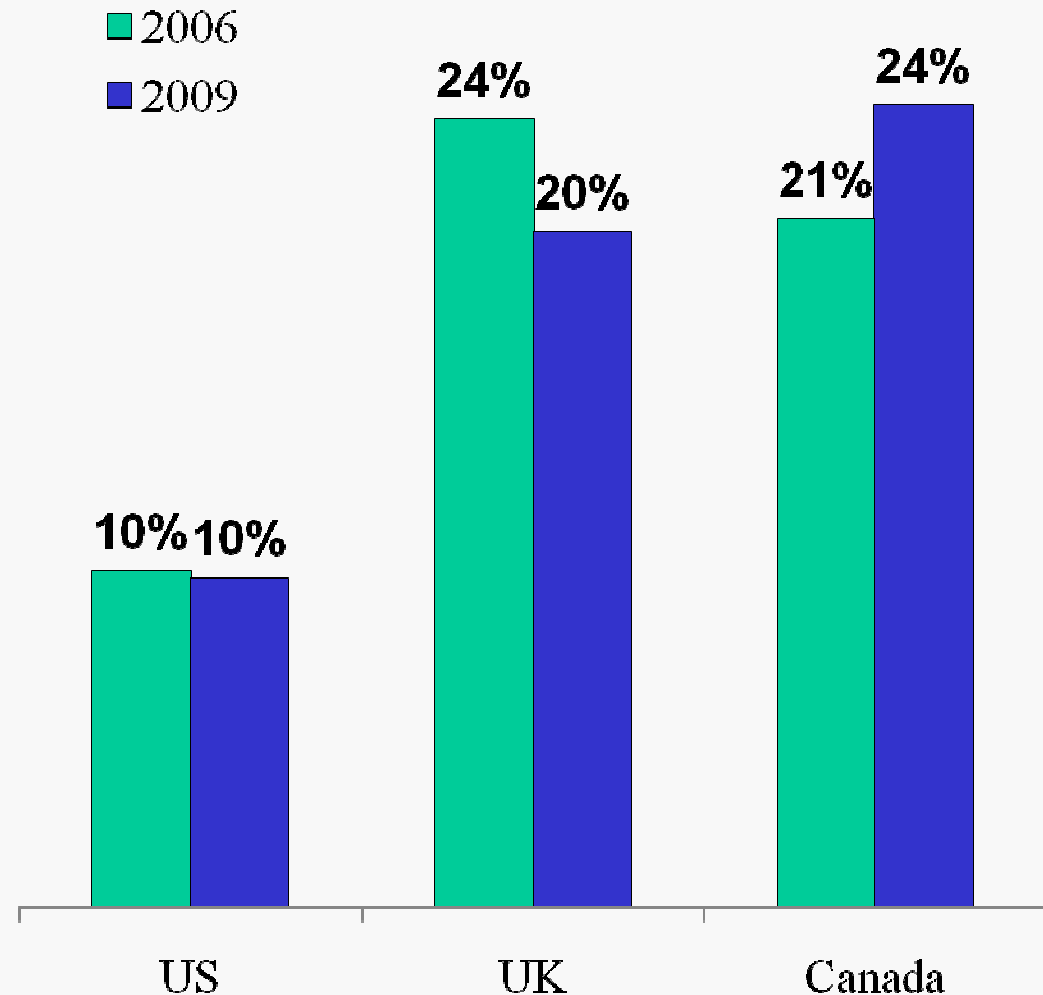
39



The Opportunity!

- Canadians & Brits travel overseas at more than twice the rate as do Americans.
- The low penetration of outbound travel by Americans represents an opportunity & marketing challenge for destinations.
- Given the size of the US population, it is a challenge all destinations readily accept.
- They just have to work harder to get the same return.

Ratio of Overseas Trips to Population



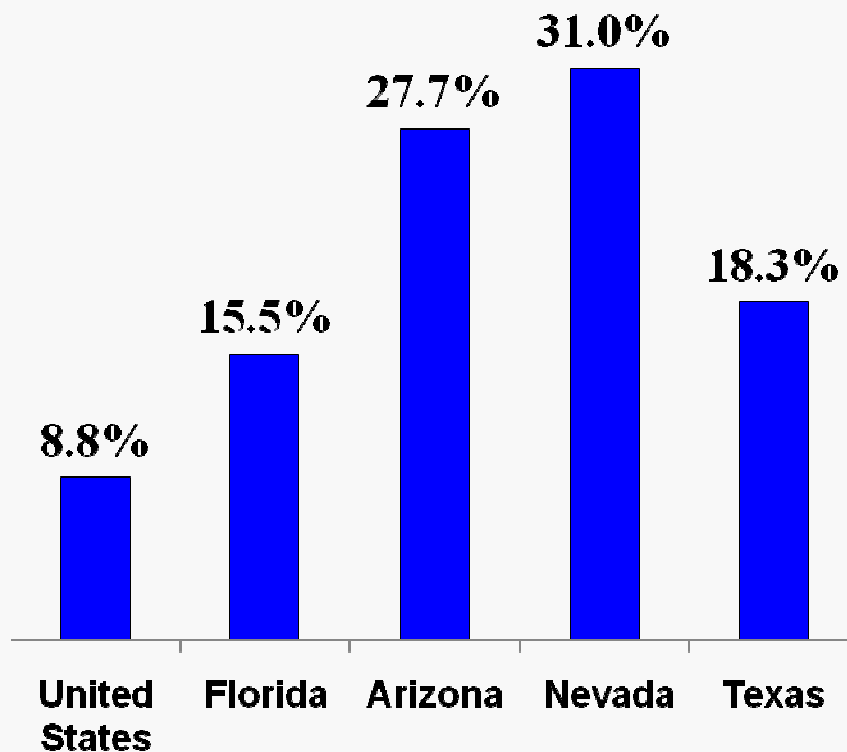
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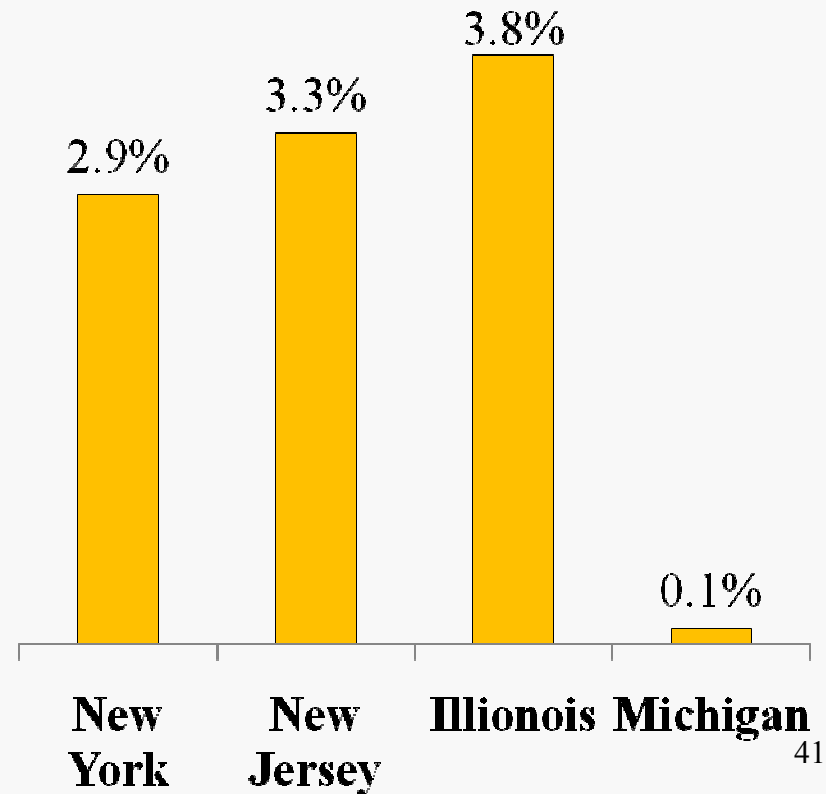
US Population Shift to South & West

(% change in population between 2000 and 2009)

High Population Growth States



Low Population Growth States



Source: US Census Bureau



US: Population shift

- **Low population growth states:** Caribbean needs to have a higher penetration rate – sun, sand, warmth will still sell in Northern States.
- **High population growth states:** Expand presence in warmer Southern and Western States. Focus more on experiential travel



Prospects from Europe



Europe: Key Talking Points

- Europe's troubling economic outlook
- Competition from closer, less costly destinations
- Main stream market changes
- The opportunity



Europe: Tougher Market Going Forward

- Rebound from recession much slower than in other parts of the world
- Debt levels unsustainable resulting in higher taxes and cost cutting
- Austerity measures leading to strikes in France, Spain, Greece with threats of union action in the UK.
- *“Shift from fiscal stimulus to austerity will tip the euro zone back into a shallow recession in first half of 2011.”* (Moody’s Analytics, Sept. 14, 2010)

45



Three dead as Greece protest turns violent



GREEK FINAN

LATEST NEWS

- ▶ Spain approv
- ▶ EU seeks bet
- ▶ Germans app
- ▶ EU agrees eu

FEATURES AN



▶ Q&A: Europe



French protesting revisions to retirement age

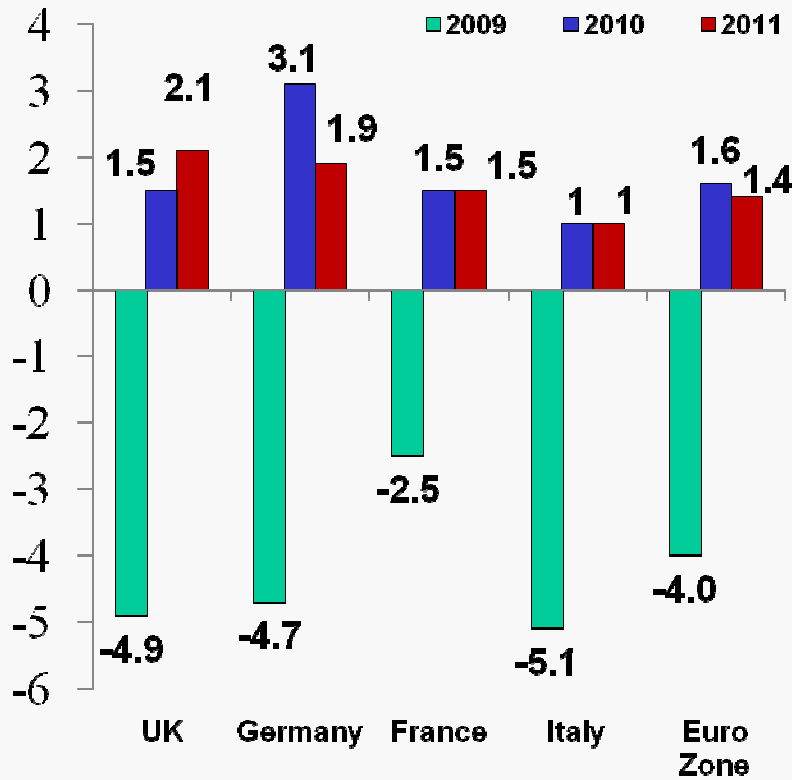
Source: BBC News



European Economies Under Stress

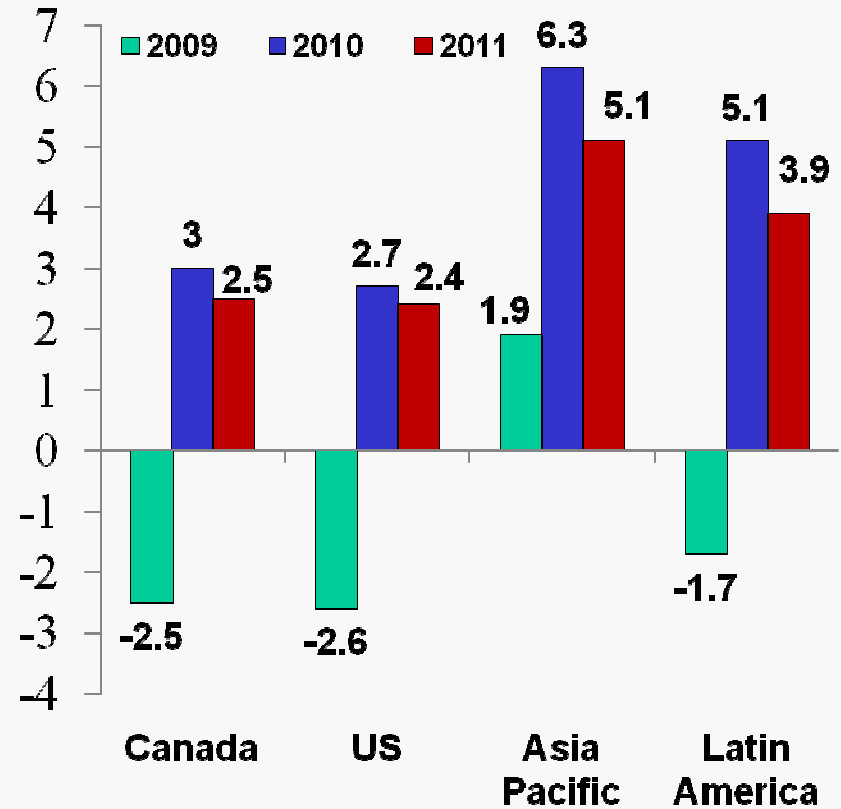
(% change in GDP)

Europe: % Real GDP Growth



Tough trading environment

Other Regions: % Real GDP Growth



More promising environment



Caribbean competing with new closer to home destinations

- Egypt, Dubai, Mombasa, Tunisia and a range of other destinations have become competitive with the Caribbean from a product, price and closer to market perspective.
- UK package travellers spent on average US **\$495** while visiting the Caribbean in 2009.
- Package travellers spent only US **\$358** while visiting Egypt – less than 5 hours flight time.



Meet the Competition

Sharm el Sheikh, Egypt



Less than 5 hrs from London

\$358 US

Average spent by UK package travellers 2009

Caribbean \$495 US

Dubai, UAE



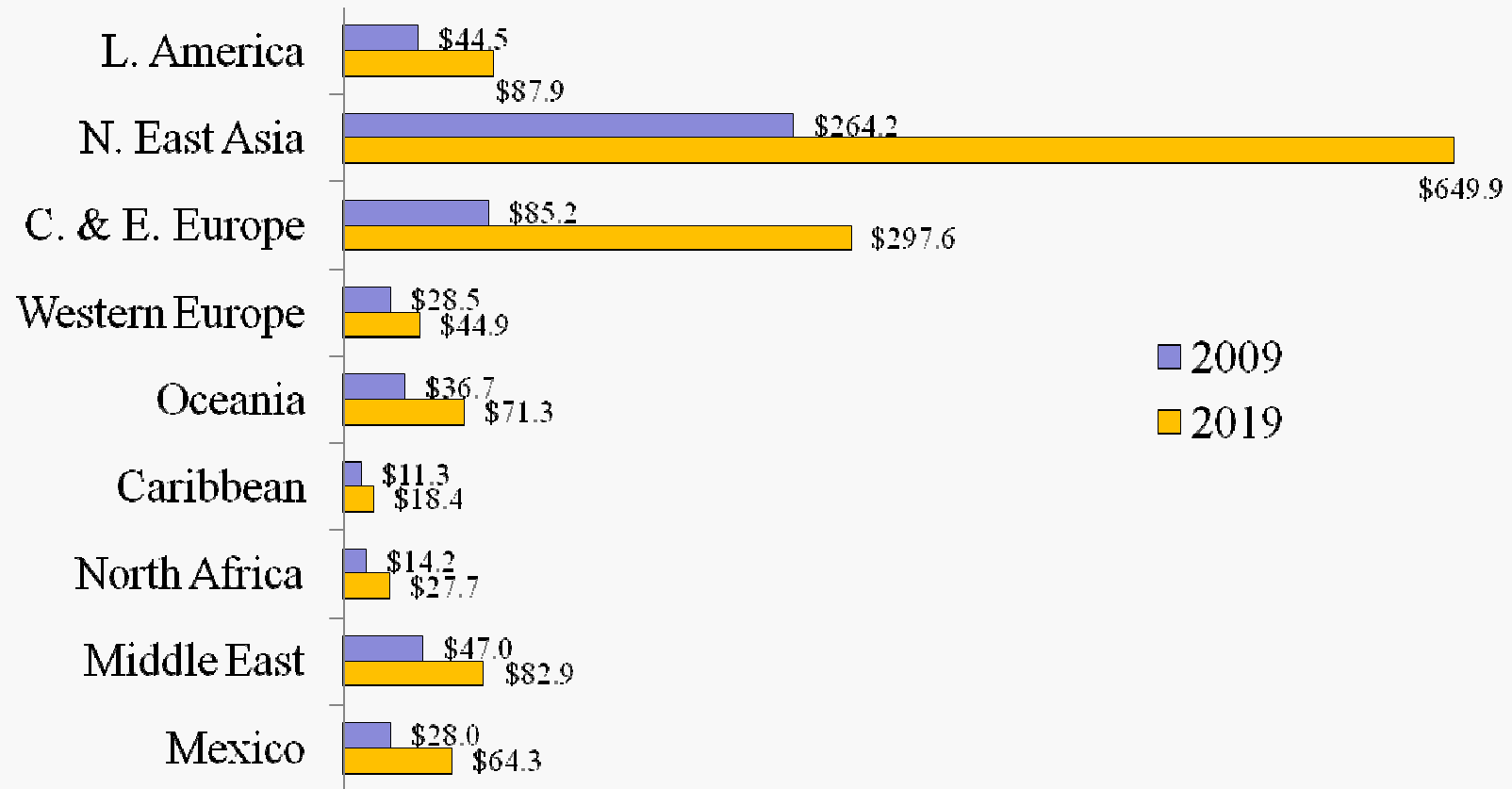
Less than 7 hrs from London

\$576 US



Capital Investment in Tourism

(\$ US Billions of Public & Private Investment)



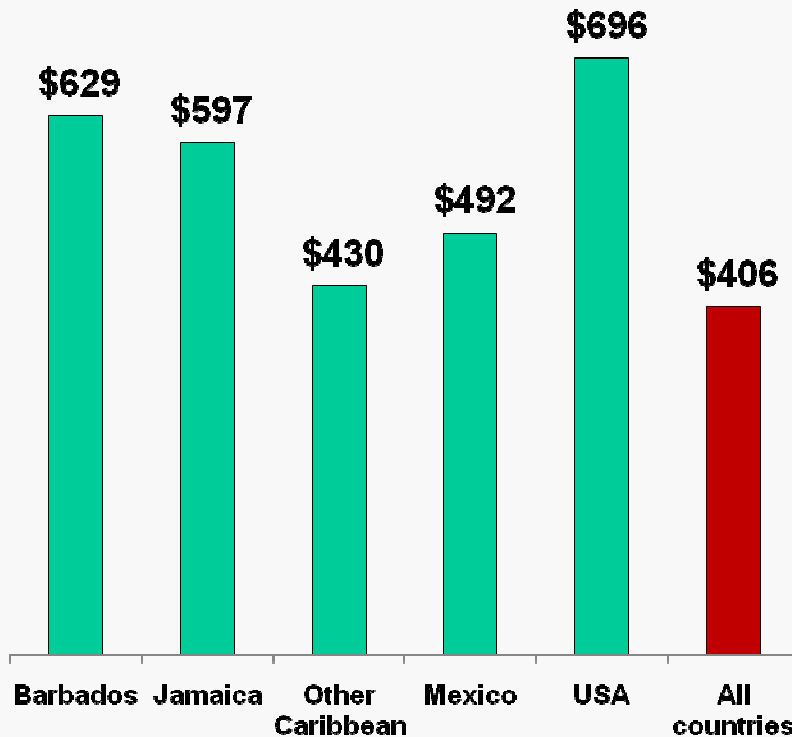
Source: WTTC

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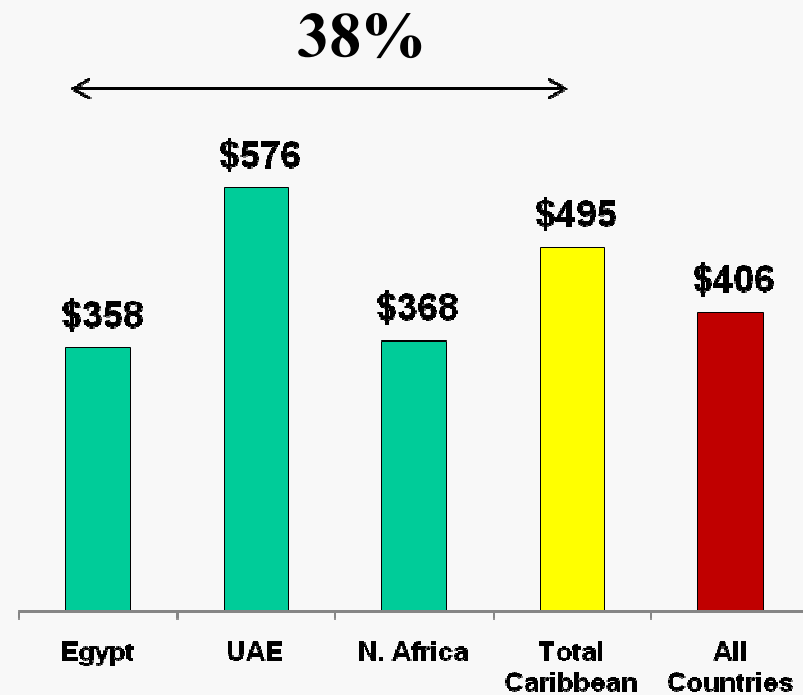


Caribbean: *Not price competitive for main stream market compared with competitors closer to UK*

UK: Average Spent in \$ US by Package Travellers in 2009



UK: Average Spent in US \$ by Package Travellers in 2009



Source: UK ONS & CBoC exchange rate calculations.



Caribbean losing Europe visit share to Dubai, Egypt, Other closer Destinations

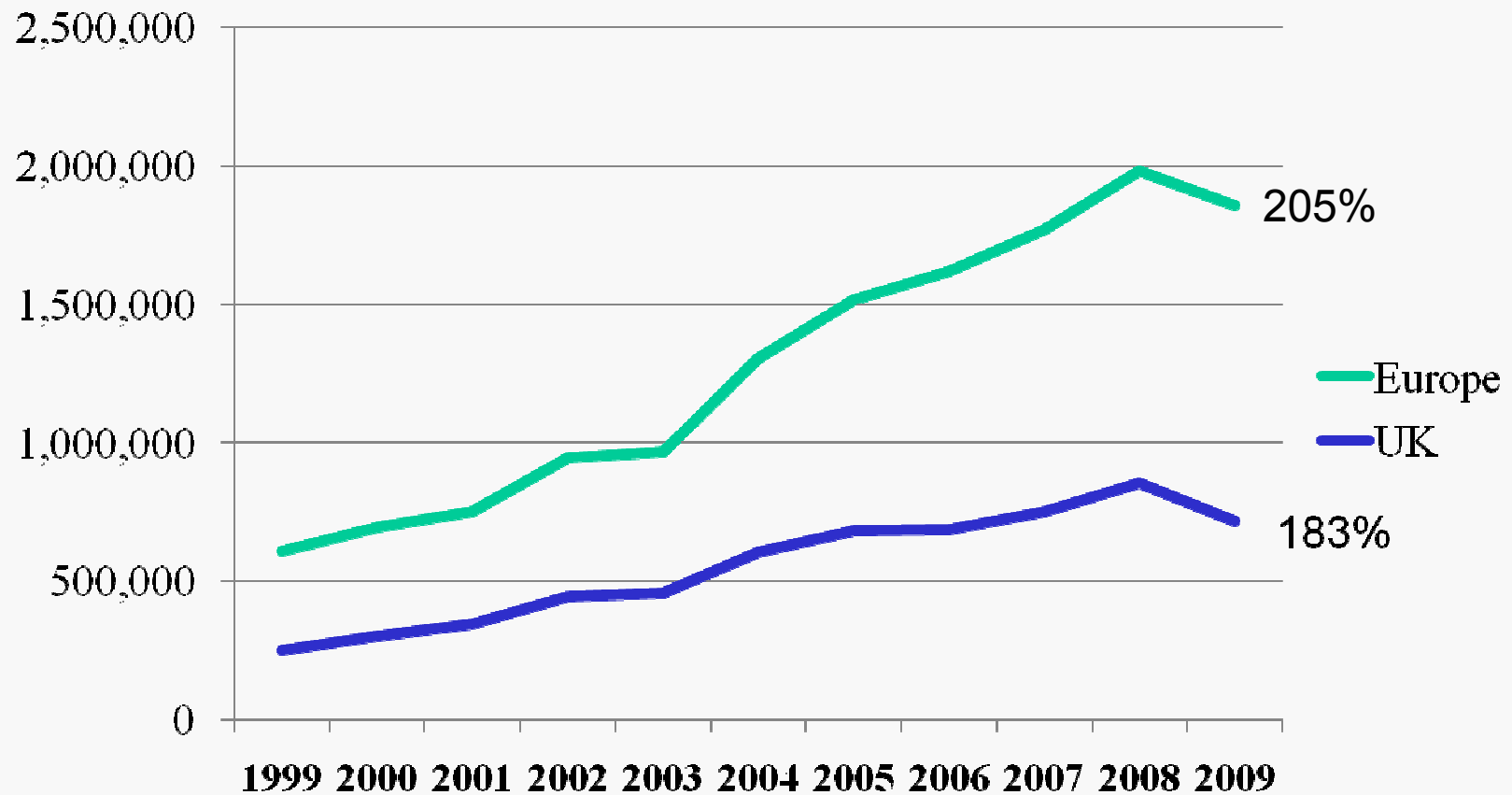
- Hotel visits from **Europe** to Dubai rose by 205% between 1999 and 2009.
- **UK** hotel visits grew by 183%
- Europe visits to the Caribbean **fell by 3.2%** between 1999 and 2009.
- **Egypt** expects arrival growth of 10% annually through 2012 to reach 14 million tourist arrivals

52



Dubai: Number of Hotel Visitors

(1999 through 2009)



Source: Dubai Dept. of Tourism and Commerce Marketing

53



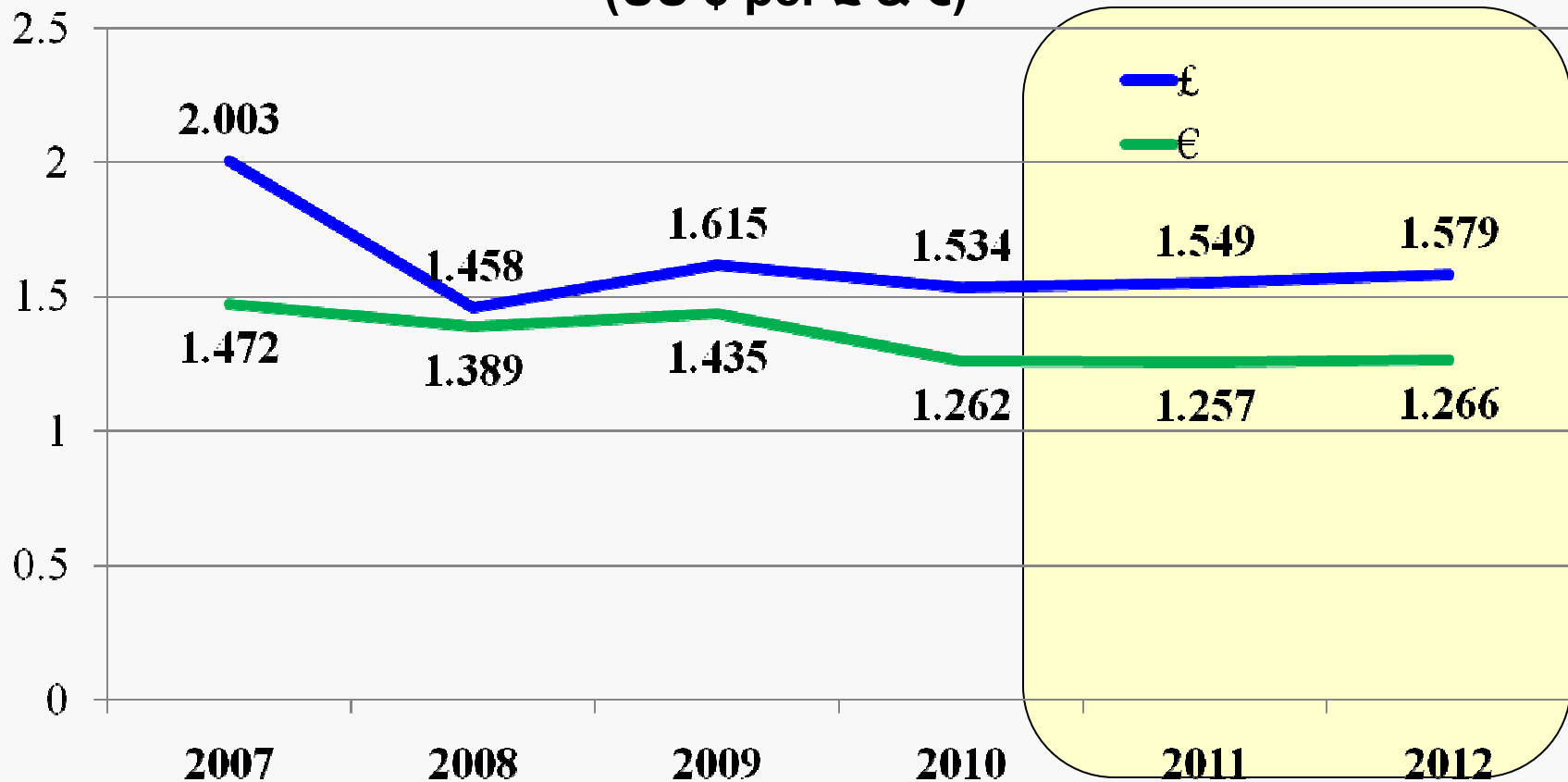
Exchange rate no help

- Analysts expect the Pound and Euro will continue to trade below the levels seen during 2007 through 2012.
- The low exchange rate coupled with increases in **VAT, APD** and other fees will make for difficult market conditions.



No help in site from exchange rate £ & € Trading Below 2007 Level

(US \$ per £ & €)



55

Source: Scotiabank.

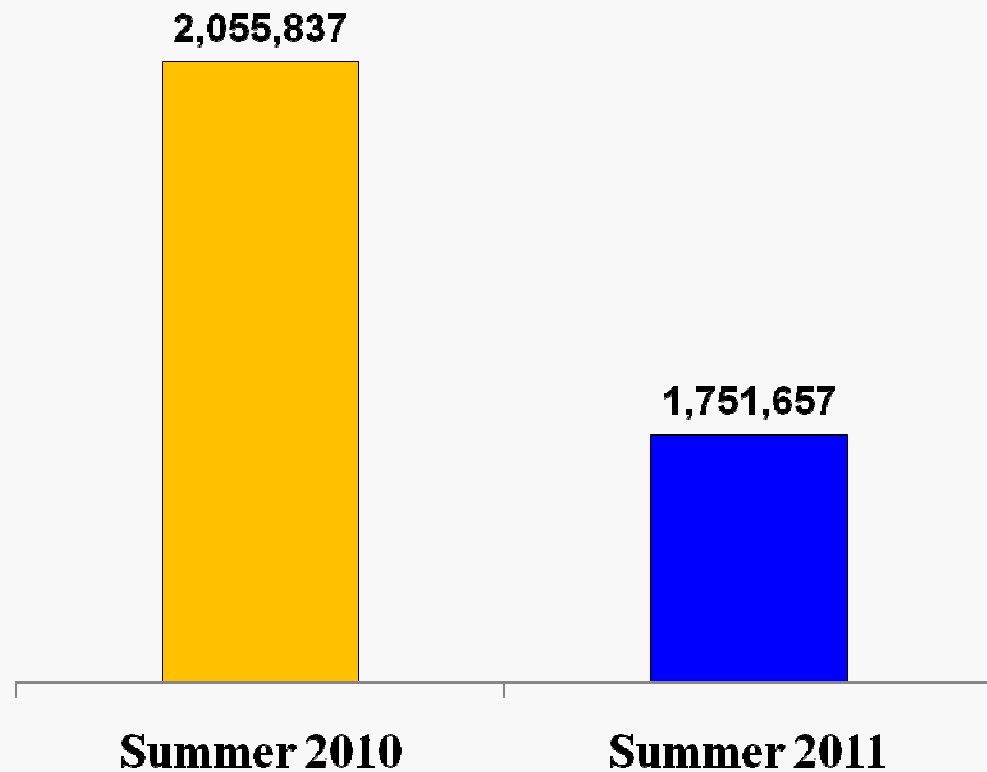


Too early to panic



- Planned schedule seat capacity for summer '11 to Caribbean from Europe is off 15% or 300 thousand seats.
- DR, Guadeloupe, Martinique & Trinidad showing sharpest drop although Cuba and Bahamas are also down.
- Still early for summer 2011, especially for charter carriers.
TOM is showing however a 42% increase capacity to Sharm el-Sheikh.

Schedule Seat Capacity Europe to Caribbean



Source: OAG

56



UK Travel Market Changes

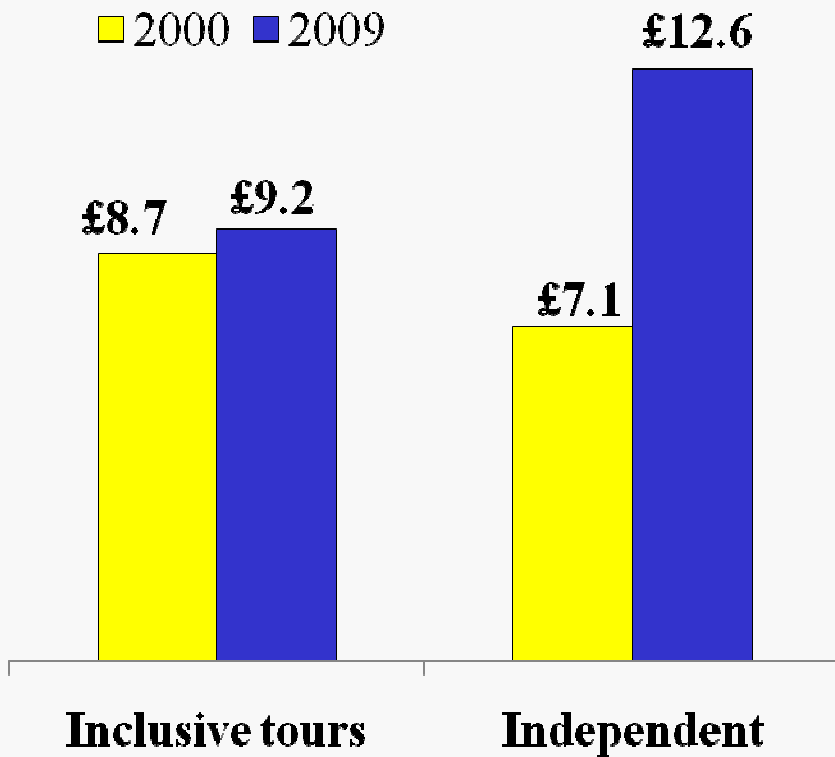
- Independent holiday travel has grown while inclusive tour holidays have declined past 10 years.
- Brits spent £12.6b on independent outbound holiday visits in 2009 or **77%** more than in 2000
- Spending on outbound inclusive tour holiday visits grew by just **6%** to £9.2b



UK: 77% increase in spending on independent holiday visits

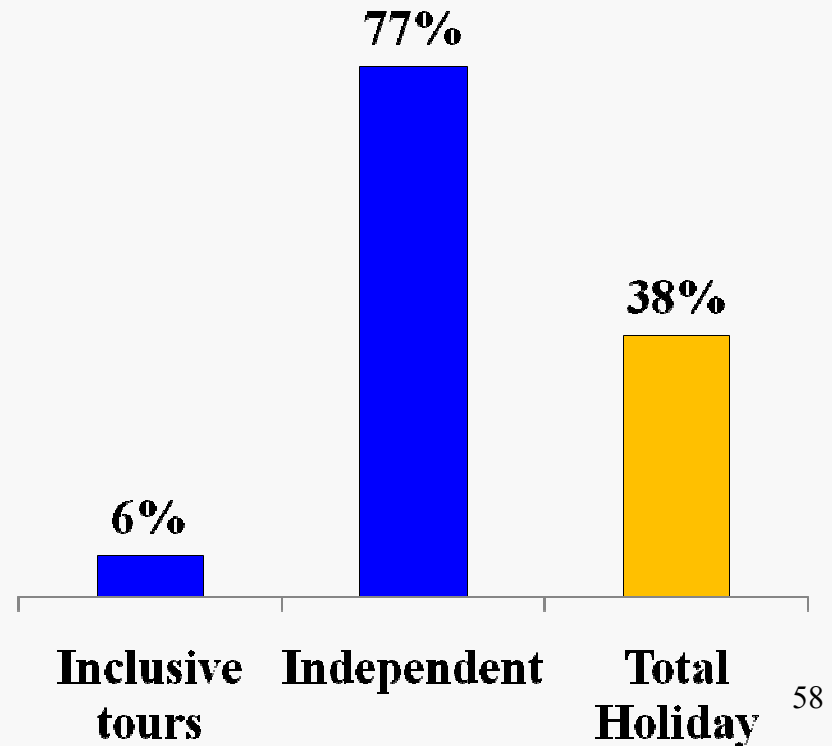
UK: £B on Holiday Visits

■ 2000 ■ 2009



Source: UK ONS

UK: % Change in Holiday Visit Spending 2000-2009

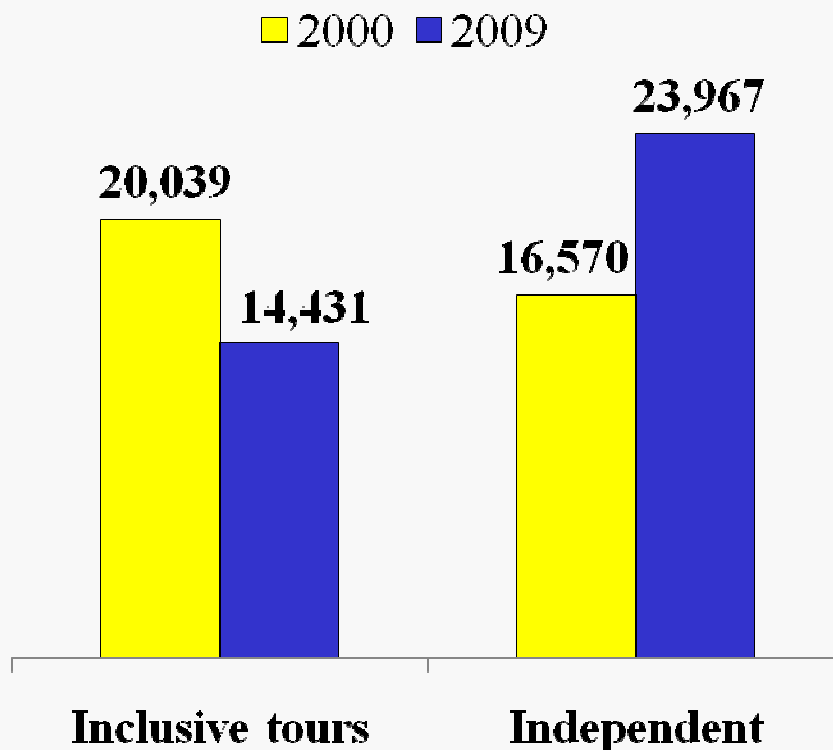


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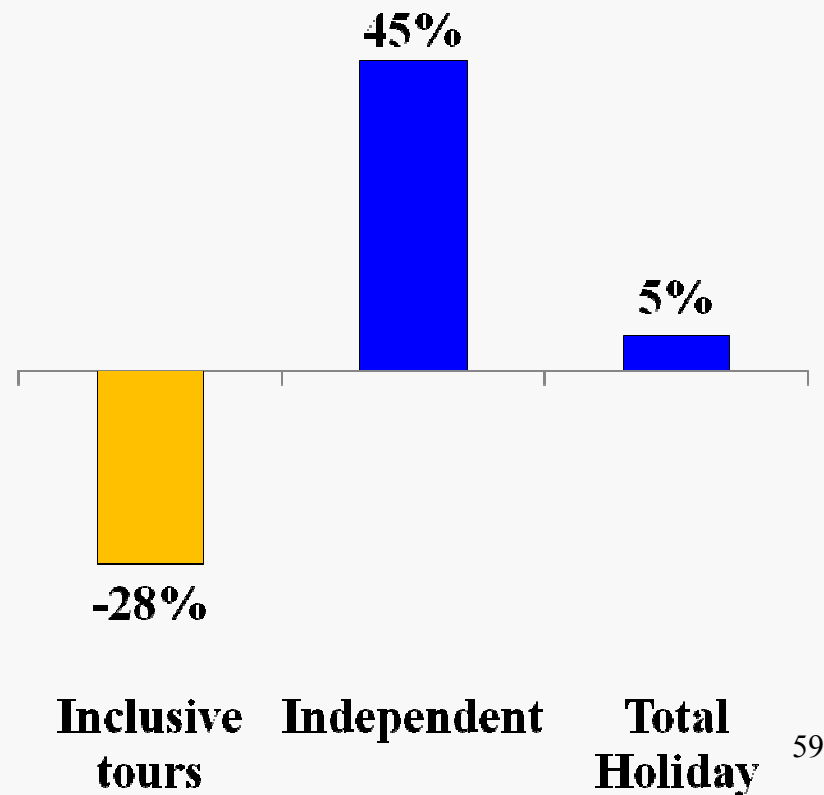


UK: 62% of holiday visits do not involve a package

UK: '000 of Holiday Visits



UK: % Change in Holiday Visits 2000-2009



CTO European Travel Focus

- Shift focus to independent holiday travellers and away from package – the shift has already occurred in the market.
- Inclusive holiday market already heading to Egypt, Dubai & nearer destinations.
- Independent travellers spend more than package travellers.
- Focus on 35+ as they have the highest propensity towards independent travel.
- Little opportunity in European family market. ⁶⁰



Concluding Remarks - Canada

- Canada has been a very good market for the Caribbean for a long time.
- Time to refocus to higher revenue travellers as market conditions (higher costs, change in travel tastes, aging) are dictating a change in strategy.
- Western Canada remains growth opportunity for “traditional” all-inclusive.
- Central Canada (Ontario & Quebec) need to focus more on selling experiential travel

61



Concluding Remarks - US

- Low penetration means lots of opportunity to expand market.
- Cuba could become a gateway to the rest of the Caribbean if/when embargo lifted.
- Need higher penetration in lower growth & colder Northern US.
- Southern & Western US need to focus on experiential travel





Concluding Remarks - Europe

- Sun & sand inclusive tours have limited growth potential due to less costly competition offering similar product nearer to Europe – Egypt, Turkey, Dubai
- Focus on high revenue travellers and selling your unique experiences not found anywhere else.
- Don't focus on price; focus on your product and the value you bring to the travel experience.

63



Thank you

OneCaribbean
Many experiences!

David Redekop
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64

