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The Research Viewpoint

Economic and political changes mean approaching offshore markets in new ways

Some issues return back for study regularly. It is a safe bet that the issue of reaching offshore markets, especially within the context of a floating dollar and other variables and shocks to our industry, will take up more of our time in the near future.

In July of 2003, I wrote about the exchange rate, discussing the rising value of the Canadian dollar vis-à-vis the U.S. dollar. I outlined our series of price-value perception studies, done in the early 1990s, which showed that buying Canadian travel products, Canadians are more sensitive to shifts in currency exchange rates than are U.S. residents; and also that a rising Canadian dollar would not result in as much lost business for Canadians as people may fear.

With all of the focus upon what is happening in North America, though, we tend to forget that other markets are affected as well. What is the cross impacts of shifts in economic conditions and policies on other world markets? What is the ripple effect around the world of a sudden rise or fall in the U.S. dollar?

In the tourism sector, after all, we serve visitors from around the world. For Canada, our top ten overseas markets are, in order the of size U.K., Japan, France, Germany, Mexico, Australia, South Korea, Hong Kong, Netherlands, and Taiwan.

For Canada, these offshore markets do not represent as big a slice of the tourism pie as the U.S. market in absolute numbers (the total number of annual visitors from overseas is consistently around four million – about 25% of the total number from the U.S.). But they do represent growth opportunities for the Canadian tourism industry. If we are living in a global world, we must pay attention to these opportunities.

For us in research, this means a new look at what marketing calls the value proposition. For the consumer in Japan, how has the perceived value of a trip to Canada changed, especially when weighing the possibility of a similar trip to a different country?

After all, exchange rates affect the cost of a trip and the price competitiveness of destinations, but most importantly causes a perception of getting more (or less) for your money.

One of the things we have found over the past few years is that the shocks to the tourism sector – September 11, military action in Iraq, SARS – eroded the perceived value of places like Canada a little bit in the mind of the international traveller. Now, with exchange rates continuing to shift like quicksand under our feet, are our calculations keeping up with today's world?

These concerns will be driving some of our future research projects. We have already decided to include questions on exchange rates, for example, on upcoming travel intention surveys.

The implications for our econometric modelling are huge. The model assumes, for example, that all other things being equal, X change in a currency value will produce Y level of demand, based on the historical record. We use macroeconomic factors such as Gross Domestic Product, employment levels and carrier capacity. The historical record has been fairly stable, regarding the currencies of our major international markets. If they become unstable, though, it means a recalculation of studies, particularly forecasts. As an example, we recently recalculated the forecast in receipts and payments between the Canadian and U.S. markets. Due to a change in the currency exchange rate, we emerged with differences of between 1.4 and 1.9 per cent in Canadian balance of payments estimates.

It is worth noting, as background to the current conditions, that the tourism sector is helped in the long term by stable exchange rates. It creates a more stable business environment for everyone, and operators in the industry can build their business offers with less uncertainty surrounding price points.

As we all know, the thirty years from 1944 to 1973 were the years of the Bretton Woods system. This system was set up by western government in the dying days of the Second World War as a caution and control, since fluctuating currencies were identified as one of the triggers of the two world wars. The system stabilized exchange rates, and also helped spur thirty years of steady and reliable growth in the worldwide tourism industry. As any hotel manager working anywhere will undoubtedly tell you, such stability would be welcome again.

The policy makers of Canada and other countries have not opted for stable exchange rates, though. And because people need up-to-date, reliable data, it is our job to get it for them, more than ever.