

Business Indicators ♦ August 2006

BC's Tourism Sector Picks up Speed in 2005

A key player in BC's economy

With an estimated 4%¹ of the province's gross domestic product (GDP) and 6%² of jobs reliant on tourism in 2005, the tourism sector is a key player in British Columbia's economy. The sector contributed approximately \$5.4 billion (constant 1997 dollars) to the British Columbia economy, with hotels, motels, restaurants and related establishments producing 38% of its GDP. Air, bus, water and other transportation (34%) industries and retailers (12%) are also significant components. Other industries round out the remaining 16% of total tourism GDP.

Tourism sector picks up speed

Although the number of international visitors to British Columbia shrank (largely because visits from the US continued to wane), tourism GDP, employment and accommodation revenues all showed solid growth in 2005, which was a good year for tourism in the province. The tourism sector outpaced the economy as a whole for the first time since the mid-1990s.

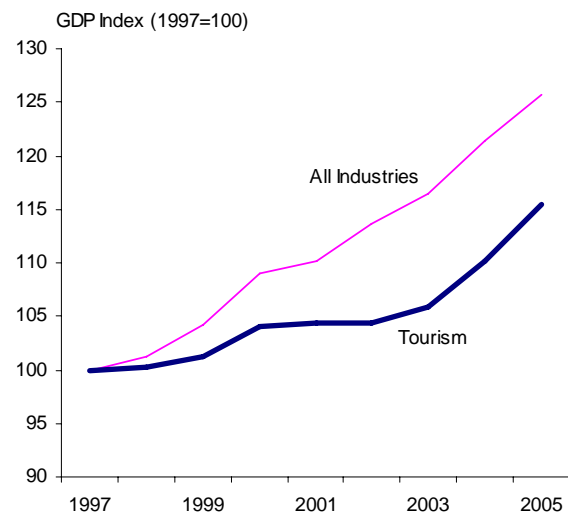
BC attracts visitors from other parts of the country and the US, and travellers from Asia and Europe are also important sources

¹ The GDP estimates in this report are derived using data released by Statistics Canada in April 2006. They are reported at basic prices and are stated in 1997 dollars

² These figures are based on information from the Survey of Employment, Payrolls and Hours (SEPH). SEPH data are derived from payroll information and exclude the self-employed. Self-employment is a significant factor in the tourism sector, and based on information from the Labour Force Survey, it is likely that the actual figure including self-employed workers may be about 20% higher.

of tourism dollars in BC. As well, many British Columbians vacation relatively close to home.

Tourism sector picks up speed in 2005

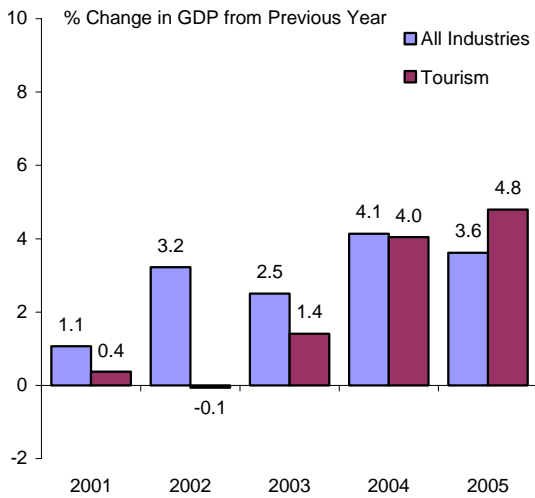


Data Source: BC Stats

Expenditures on travel are usually discretionary, so economic conditions within BC, nationally, and in other parts of the world all have a prominent effect on tourism. When the economy is growing, people have more discretionary dollars to spend, and it is not unusual to see an expansion in tourist activities in British Columbia in these circumstances.

Internal and external events have resulted in both a downturn in the past and eventual recovery in tourism activities during the last few years. The sector had been lagging behind the all-industry average, but, as of 2005, sits in the much more favourable position of leading other industries in terms of GDP growth.

Tourism sector outpaces economy as a whole



Data Source: BC Stats

A note on GDP

GDP is a measure of the value added to the economy by a particular activity. It is calculated by subtracting the cost of supplies used to produce a good or service from total sales. For example, the price of a restaurant meal covers the cost of food purchased to make the meal, the energy used to cook it, rent and other building expenses, cleaning supplies, accountants fees, and so on. It also includes a mark-up intended to cover items such as wages, profits and depreciation. The restaurant didn't produce the food or energy it used. Its contribution to GDP is only the value added to the economy by the service it provided—the difference between the price paid by the consumer and the inputs (such as food and energy) used by the restaurant.

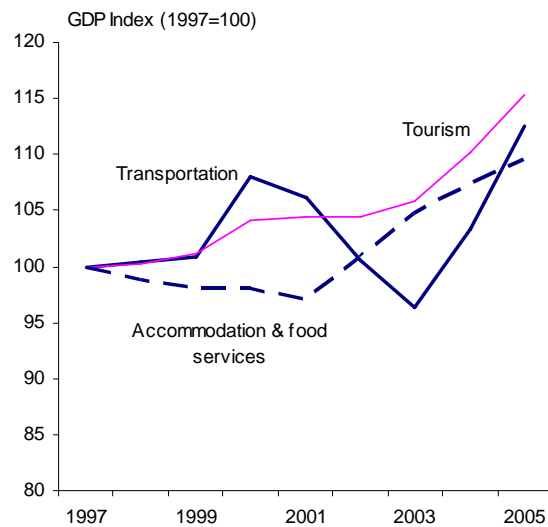
The GDP figures reported in this article are in constant (1997) dollars. This means that they have been adjusted to eliminate the effects of price changes over time. They are measured at **basic prices**: i.e. they include subsidies but exclude some indirect taxes.

Factors contributing to growth vary from year to year, but a rise in activity within the accommodation and food component as well as a recovery of the transportation component from its rather dramatic decline

in the wake of September 11 and the SARS outbreak are key reasons for this sector's more encouraging performance in more recent years.

GDP in the tourism sector was up 4.8% in 2005, exceeding the increase for the economy as a whole (+3.6%) for the first time in years. For the second year in a row, all major industry groups in the sector posted increases. An improvement of 8.9% in tourism-related transportation was one of the reasons for the upturn. These industries, especially air transportation, had been in a slump earlier in the decade, but have been recovering the lost ground. Accommodation and food services continued to expand (+2.0%), while tourist-related retailing, too, improved (+6.5%). Other industries (ranging from recreational services to health care and other services provided to tourists) in the tourism sector also fared relatively well, posting a 1.9% increase.

Transportation and accommodation & food services on an upward track



Data Source: BC Stats

The tourism sector employs 119,900 British Columbians

The number of British Columbians directly employed in BC's tourism sector increased 2.2% to 119,900 in 2005, accounting for roughly 6% of total provincial employment. These figures include workers in a variety of businesses, ranging from restaurants and hotels to government workers whose jobs are tied to tourist activities. Nearly half (48%) of the jobs are in the accommodation and food industry. Transportation (24%) and retailing (18%) are the other big employers in this sector. All of the tourism jobs are in the service industries.

What is direct tourism employment?

Direct tourism employment is a measure of the number of people working in various industries that serve tourists. It includes workers in industries ranging from accommodation and food services to retailing and even administration.

Direct tourism employment estimates are generated by assigning a percentage of total employment in various industries to the tourism sector. These percentages are calculated as part of the GDP estimation process.

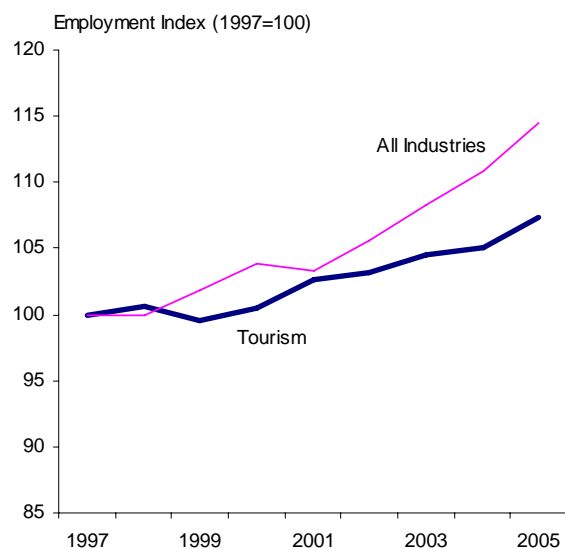
The retail component (18%) of the tourism sector has been responsible for most of the growth in jobs (+4.4%). Employment in accommodation and food industries grew 1.8%, and there were 2.1% more tourism jobs in transportation. Tourism employment in other industries, however, remained flat (+0.0%).

The number of jobs in tourism expanded more slowly and with more volatility than in the economy as a whole. Total employment in British Columbia grew 3.3%³ in 2005, up from 2.4% the previous year. On the other hand, the growth in jobs in the tourist industry increased 2.2% following a more modest gain of 0.5% in 2004. Em-

³ This figure is based on the Survey of Employment, Payrolls, and Hours data and excludes self-employment.

ployment growth in the tourism sector has lagged behind the provincial average since the beginning of the decade.

Employment in tourism is more volatile than in the economy as a whole



Data Source: BC Stats

Tourism employment tends to be rather volatile, reflecting the highly cyclical nature of tourist activities. As the BC economy is experiencing a period of healthy growth, tourism expenditures begin to grow. This, in turn, translates into job gains in the tourism sector.

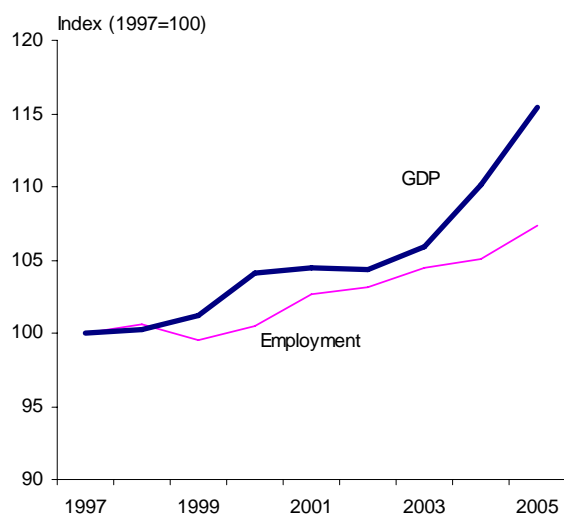
While the number of jobs has been expanding, the increase has not kept pace with GDP growth in the tourism sector. Since 1997, the number of people directly employed as a result of tourism activities has expanded about 7%, while the sector's GDP has increased by nearly a third (32%). The GDP-employment gap has increased significantly in recent years.

Labour productivity gains have likely contributed to the large and growing gap between GDP and employment, but other factors may also be at play. Employment counts do not differentiate between full-

time and part-time workers. Employers can increase their labour inputs either hiring new workers, or by giving their existing employees more hours on the job. Since part-time employment is common in many tourism-related industries, this is almost certainly a factor contributing to the expanding gap between GDP and employment growth.

Increased use of capital equipment (such as computers, or more efficient aircraft) used by tourism service industries may also have contributed to productivity gains. The growing popularity of Internet-based booking services, and other self-serve options for travellers may also have reduced labour requirements in some industries, although the extent to which this has occurred is not known.

Tourism GDP growing faster than employment



Data Source: BC Stats

Are tourism employment estimates comparable to other employment figures?

Yes, as long as care is taken to ensure that jobs are not double counted. Since the tourism employment figures are calculated by apportioning a share of total employment in each industry to the tourism sector, those jobs must be subtracted from total employment in the relevant industries.

Tourism sector workers earned \$3.8 billion in 2005

Workers in the tourism sector earned an estimated \$3.8 billion in 2005. Of this total, \$1.4 billion (38%) went to workers in the accommodation and food service industry⁴. Transportation, accounting for 42% of the total payroll, recorded a 5.8% increase in wages. Strong, persistent growth in room revenues

Strong, persistent growth in room revenues

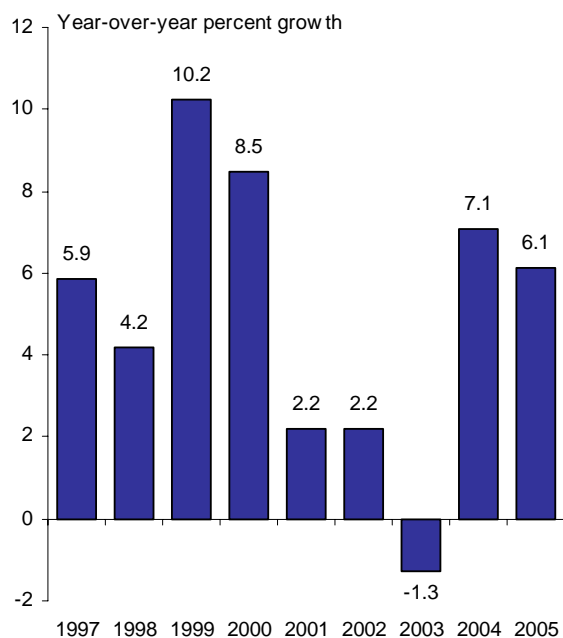
Room revenues at hotels, motels and other establishments in British Columbia increased 6.1% to reach close to \$1.7 billion in 2005. This was the second consecutive year in which there has been a significant increase in room revenues.

All regions of the province recorded revenue growth in 2005. For the third consecutive year, Northeast outperformed the rest of BC, posting a growth rate of 21.9%. This follows a gain of 22.1% in 2003, and 12.2% in 2004. Nechako (+15.2%) bounced back from a weak showing in 2004 (-1.3%), while Cariboo (+12.8%) also posted double-digit growth in revenues. Mainland/Southwest (+4.8%) and Vancouver Island/Coast (+5.0%) made significant gains, but growth was slower than in 2004. Thompson-Okanagan (+9.0%) was also a

⁴ This amount does not include tips and gratuities, which are an important source of income for many workers in the hospitality industries.

major engine of revenue growth, as were Kootenay (+2.6%) and North Coast (+3.4%).

Room revenues rose 6.1% in 2005



Data Source: BC Stats

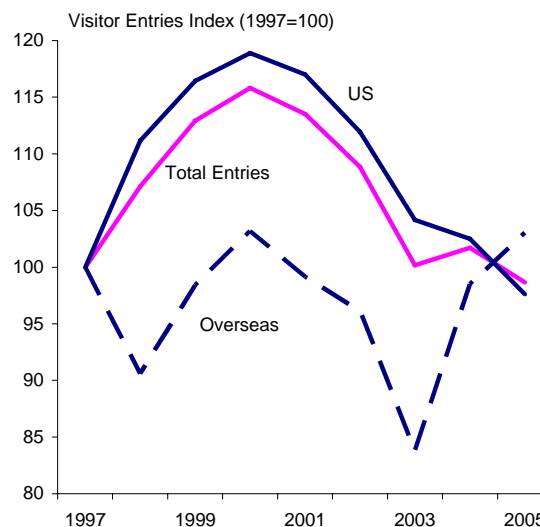
Motels (+8.1%) outperformed vacation rentals (+7.2%), hotels (+6.0%) and other types of accommodation properties (including bed and breakfast, fishing lodges and other types of short-term accommodation).

Visitor Entries

A long-run downward trend in entries resumed in 2005, as the number of visitors declined for the fourth time since the turn of the century. After rebounding (+1.5%) in 2004, the number of travellers entering Canada via BC border crossings dropped 3.0% to about 7.2 million in 2005, the lowest number of visitor entries to BC since 1997. Although entries trended up in the first two quarters of 2005, they slumped in the second half of the year.

The US is a major tourism market, accounting for more than 80% of total visitor entries through the province. Visits from the US have been declining since 2001, and continued to slump (-4.8%) in 2005 with same-day entries dropping 6.6% and overnight travel falling 3.5%. These recent declines explain the overall downward trend in total visitor entries and may be, at least in part, due to a relatively steady appreciation of the Canadian dollar against the American dollar along with soaring gasoline prices in recent months and years.

Entries from the US continued to fall, but overseas entries have bounced back to pre-9/11 levels



Data Source: Statistics Canada

Travel to BC from overseas markets (+4.6%) continued to climb in 2005, building on a substantial increase recorded in 2004 (+17.6%). The strong growth in 2004 was a result of recovery in Asian entries, which had plunged in 2003 due to the SARS scare. Entries started to trend up in December 2004 and continued to climb through the first two quarters of 2005. In mid-2005, entries from overseas weakened, but regained some of the lost ground at the end of the year.

What's in the future for the tourism sector?

The tourism sector appears to have largely recovered from the dramatic downturn that took place following the September 11th, 2001 attacks and the SARS outbreak in 2003, but continues to lag the rest of the economy in terms of long-run growth. Declining entries from the US have affected tourism operators in the province, with only some of the slack being taken up by visitors from other countries. Since the US is such an im-

portant source of tourism dollars, this may well be one of the biggest challenges that the sector faces.

Despite the decline in international visitors, GDP, employment and revenues in the industry are on an upward track, and with the 2010 Olympics looming in the future, it is likely that the sector will remain an important source of growth in the BC economy.

Tourism GDP and Employment

	2001	2002	2003	2004	2005
GDP at basic prices (\$million)					
Tourism	5,430	5,559	5,528	5,909	6,203
Accommodation & food services	2,086	2,148	2,086	2,337	2,423
Retail	610	617	657	696	758
Transportation & warehousing	1,897	1,897	1,833	1,880	1,997
Other	994	1,063	1,106	1,132	1,154
GDP at basic prices (\$1997 million)					
Tourism sector	4,909	4,906	4,975	5,176	5,424
Accommodation & food services	1,869	1,846	1,833	1,833	1,816
Retail	577	571	592	616	656
Transportation & warehousing	1,725	1,634	1,566	1,680	1,829
Other	790	817	860	873	890
Employment ('000)					
Tourism sector	114.7	115.2	116.7	117.3	119.9
Accommodation & food services	58.4	58.2	58	56.9	57.9
Retail	17.8	18.8	19.6	20.6	21.5
Transportation & warehousing	27.5	27	27.7	28.1	28.7
Other	10.9	11.2	11.4	11.7	11.7

Data Source: BC Stats

Defining the tourism sector

What is a tourist?

- *A tourist is a person who travels to, or stays at, a place outside his/her usual environment for a period of no more than a year.*
- *A tourist can travel either for business or for pleasure. However, migratory workers (those living away from home on a temporary basis in order to be at their place of work) are not tourists.*
- *A tourist does not have to travel far from home, or stay away overnight. Tourists include day-trippers, as well as people making longer excursions.*
- *People visiting their vacation homes or cottages are considered to be tourists.*

It is difficult to measure the extent to which tourism has helped foster growth in British Columbia's economy. As tourism is an activity and not a specific good or service, there is, strictly speaking, no such thing as a "tourism industry." Tourists make purchases from a variety of industries, such as restaurants, which also provide the same services to local residents. This presents a challenge when attempting to quantify the contribution that tourists have made to these particular industries.

Based on studies of the behaviour of tourists, we have a reasonably good knowledge of the economic activity that tourists are involved in while visiting British Columbia, and from this information we are able to infer the degree to which particular industries are dependent upon tourism. This, in turn, enables us to generate GDP and direct employment estimates for the tourism sector.