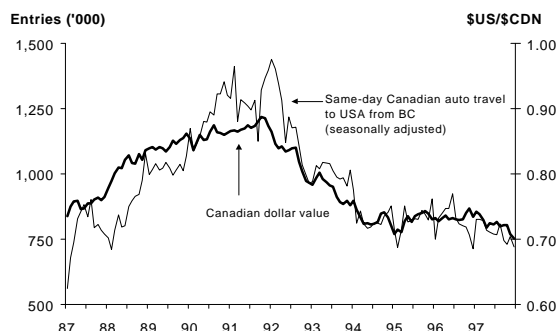


Special Focus: Exchange Rates and Cross-border Travel

It is a widely held belief (at least by Canadians) that exchange rates have a profound impact on international travel. But is this in fact true?¹

Same-day travel to USA by Canadians follows dollar

As the chart below shows, the number of Canadians travelling to the USA from BC on a single day automobile trip is strongly affected by the relative value of the Canadian dollar.



A regression analysis reveals that for same-day auto travel to the USA, the exchange rate explains over 70% of the variation in the series. The analysis shows that for every decrease of one cent in the Canadian dollar, 30,000 fewer Canadians will make a same-day trip to the USA from BC each month (and the reverse occurs when the currency increases in value).

Overnight travel to USA by Canadians remains steady

Overnight trips to the United States show no relationship between exchange rates and the number of travellers. In spite of the steady decline in value of the Canadian dollar since 1992, overnight trips to the USA from BC have remained fairly constant, averaging about 320,000 per month.

What this indicates is that a strong Canadian dollar causes Canadians to go cross-border shopping, but the value of the dollar isn't an overriding factor in the decision to travel further afield for a vacation.

So it's true, to a limited extent—Canadian

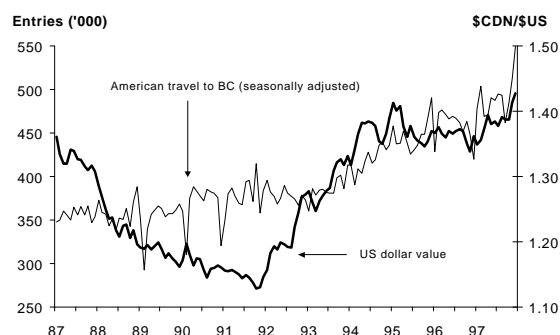
¹ This analysis supports the findings of an earlier report prepared by Tourism BC (Victor Li, "The effects of exchange rates and tourism inflation on British Columbia's inbound and outbound travel", Research and Economic Analysis Unit, Ministry of Small Business, Tourism and Culture, December 1994.)

travel to the USA is, in part, influenced by the exchange rate. But do travellers from other countries think the same way as bargain-hunting Canucks?

American travel not as susceptible to exchange rate fluctuation

In 1997, 5.9 million Americans crossed the border into British Columbia. This was an increase from 5.5 million the previous year. Did the increase in the value of the US dollar relative to the Canadian currency play a role? The long-term evidence suggests not.

The value of the US dollar fell relative to the Canadian dollar between January 1987 and October 1991, and then rebounded sharply in 1992 and 1993. Since then the exchange rate has seen less extreme variations. Through this 12 year period, entries of Americans to Canada via BC increased steadily, in spite of the fluctuations in the relative value of the currencies.



There is little difference in the pattern between same-day and overnight trips made by Americans.

This suggests that other factors, such as the economic climate in the USA and marketing tactics used by BC, may be more important in influencing American travel to BC, although the record low value of the Canadian dollar seen in early 1998 would certainly not hinder the northward trek of Americans.

Travel to BC from overseas not affected by exchange rate

Like the Americans, visitors from overseas countries also show no evidence of being affected by the exchange rate.

Other factors, such as the economic climate in the source country and interest in BC as a destination, may play a more important role in the changing number of visitors to Canada.