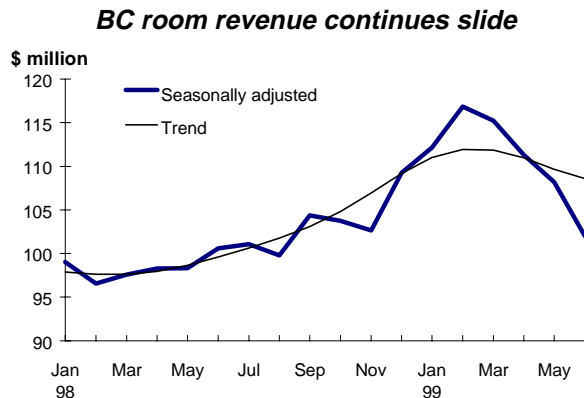


Tourism Room Revenue ♦ June 1999

Highlights

The Province

- Room revenue (seasonally adjusted) in BC fell 5.7% in June to \$102.0 million. This was the fourth straight monthly decline, and drops room revenue to its lowest level since August 1998.



- US overnight entries also showed a similar trend, falling in the four months of March through June. June entries (seasonally adjusted) were off 8.0% compared to May.

In the Regions

- While North Coast had its biggest revenue jump since November 1998 (+7.0%), the only other development regions that had a month-over-month increase in revenue were Northeast (+1.8%) and Thompson/Okanagan (+0.3%).
- The province's smallest region, Nechako, had the biggest drop in room revenue (-10.1%). Revenue in the region accounts for less than one per cent of the provincial total.
- The bigger regions also had a rough time in June. Mainland/Southwest, earning nearly six

of every ten room revenue dollars, saw revenue fall for the third straight month (-7.9%). Two months of modest growth in Vancouver/Island Coast were reversed with a 6.0% decrease in revenue in June.

The Accommodation Types

- June saw revenue declines for most of the accommodation categories. In aggregate, hotels earned 5.2% less than in May. Hotels between 76 and 150 rooms bucked the trend with an increase of 3.5%.
- Two accommodation categories that have not fared well in recent months are the largest hotels (250+ rooms) and vacation rentals. Large hotels saw revenue slide for the fourth straight month (-3.7%) in June, and vacation rentals posted their third consecutive double-digit drop (-13.7%).

Text Table 1. Room Revenue Summary

| Accommodation Type | | | |
|----------------------------|--------------------|-------------------|-------------|
| | June 99 (\$000) | May 99 (\$000) | % change |
| Total | 101,996 | 108,175 | -5.7 |
| Hotels | 77,089 | 81,341 | -5.2 |
| Motels | 13,537 | 13,788 | -1.8 |
| Other Acc. | 11,742 | 12,778 | -8.1 |
| Regions (Top 3 performers) | | | |
| North Coast | 1,426 | 1,333 | 7.0 |
| Northeast | 1,835 | 1,802 | 1.8 |
| Thompson/Okanagan | 13,371 | 13,326 | 0.3 |

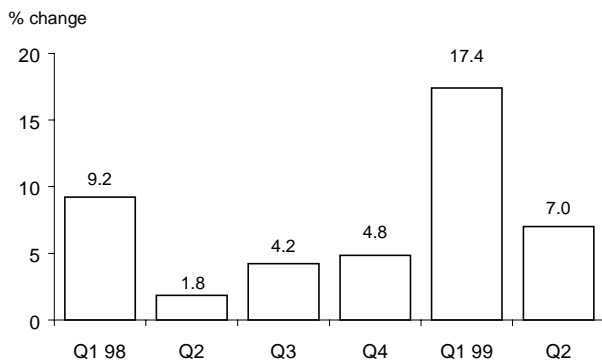
All data reported in Highlights are seasonally adjusted. All comparisons are to the month previous except where noted.

Room Revenue Trends (Unadjusted)

On a year-over-year basis, room revenue was virtually unchanged from June 1998. The total of \$123.8 million represented a -0.1% decline.

In spite of the slight drop in revenue seen in June, room revenue through the first half of 1999 was 11.5% higher than in the same period of 1998. Fuelled by strong growth in the early part of the year (particularly February and March), total room revenue for the period reached \$591.4 million.

After booming in the first quarter, room revenue growth moderates in second quarter



South continues to outperform north

Through the first half of 1999, growth in room revenue has been localized in the southern regions. Although growth has slowed somewhat in the second quarter (with the exception of the Kootenay Development Region), year-to-date revenue in the south is up 13.7% over last year.

This contrasts with the northern regions, which collectively earned 10.8% less room revenue in the first six months of the year than in the same period of 1998. The only development region where things are looking up somewhat is North Coast, where revenue dropped 5.2% in the first quarter, but rose a modest 0.7% in the second.

US entries fuel recent boom

The boom in room revenue which began in late 1998 coincided with a sharp upturn in the number of US overnight travellers entering Canada via BC. In the eight months between September 1998 and April 1999, US overnight entries rose an average of 20% each month. As this upward trend began to wane (US overnight entries were up a relatively slow 1.7% in June) room revenue growth, particularly in southern BC, also slowed.

Text Table 2. BC Tourism Indicators

| | Change from June 98 | Total June 99 |
|--|------------------------|------------------|
| Hotel Industry | | |
| Occupancy rate | -1.2 pp. | 69.8% |
| Average room charge <i>(Pannell Kerr Forster)</i> | 1.6% | \$123.74 |
| Passenger Traffic (%) (000s) | | |
| Vancouver International Airport | | |
| Airport | | |
| Total traffic | 0.2 | 1,422 |
| US | -1.4 | 370 |
| Other International | 4.6 | 314 |
| Canada <i>(YVR)</i> | -0.8 | 739 |
| Victoria International Airport | | |
| Total traffic <i>(Victoria Airport Authority)</i> | -5.2 | 99 |
| Transportation (%) (000s) | | |
| Coquihalla Highway | | |
| Passenger Vehicles <i>(Ministry of Transportation & Highways)</i> | -2.9 | 220 |
| BC Ferries | | |
| Vehicle Volume | -2.4 | 696 |
| Passenger Volume <i>(BC Ferries)</i> | -2.8 | 1,916 |
| Exchange Rates | | |
| | chg. from June 98 | Cdn \$ |
| US \$ | 0.004 | 1.469 |
| UK Pound | -0.075 | 2.343 |
| Japanese Yen | 0.002 | 0.012 |
| Australian \$ <i>(Statistics Canada)</i> | 0.078 | 0.964 |

All references in **Room Revenue Trends** are to unadjusted data. All comparisons for **BC Tourism Indicators** are for the reference month relative to the same month the previous year.

Traveller Entries to BC

Growth in international visitor entries slows

In June there were 3.5% more international visitor entries (unadjusted) to BC compared to June 1998, the slowest growth in visitor entries since August 1998. The increase in entries from all the major regions was slower than in May.

US overnight entries make smallest advance in two years

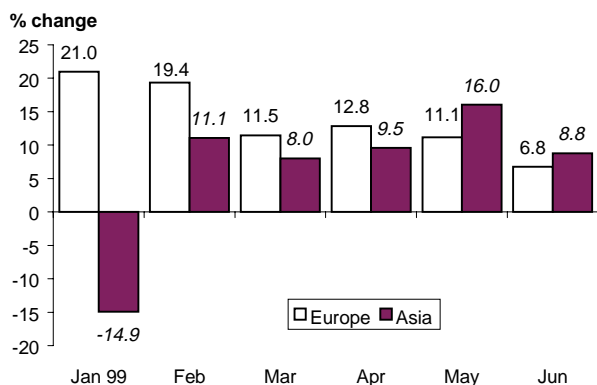
Overnight entries by Americans, a key component of tourism activity in BC, were up 1.7% over June 1998. This was the smallest year-over-year advance since April 1997. Because of strong growth earlier in the year, US overnight entries were up 13.3% through the first half of 1999. But growth slowed as the busiest part of the year approached. (In 1998, there were 594,000 US overnight entries in the peak month of August, and only 10% more—658,000—in the four months of January through April.)

Overseas slows, too

The rate of growth from overseas countries also slowed compared to May's numbers, with a 7.3% increase over June 1998. Entries from Asia continued to rebound from the slump of 1998, and were up 8.8% in June in spite of a 5.5% drop in the number of visitors from Japan.

Entries from Europe returned to a more sustainable level in June, rising 6.8% after five months of double digit increases.

Entries from Asia outpace Europe for second month running



Canadians continue to stay home

For the 18th consecutive month, there was a double-digit decline in the number of Canadians returning to Canada via BC. There were 785,195 Canadian resident re-entries to Canada via BC in June, down 15.7% from June 1998. The weakness of the Canadian dollar played a huge role in this decline. The value of the Canadian dollar has recovered slightly from its lowest point (64.7 cents US cents in October 1998), but has not surpassed 69 cents US since.

The total number of Canadians returning from the US via BC fell 16.4% to 735,330, again largely due to a sharp decline (-20.0%) in the number of same-day car trips (516,077). Other trips to the US were off 6.7% (219,253).

Text Table 3. Traveller Entries (unadjusted)

| | % chg from Jun-98 | Jun-99 (000) |
|----------------------------|-------------------|--------------|
| American visitors | | |
| Total | 2.7 | 719 |
| Same-day | 4.0 | 316 |
| Overnight | 1.7 | 403 |
| Overseas visitors | | |
| Total | 7.3 | 166 |
| Europe | 6.8 | 63 |
| UK | 19.2 | 28 |
| Asia | 8.8 | 79 |
| Japan | -5.5 | 28 |
| Taiwan | 30.8 | 17 |
| Oceania | 4.3 | 15 |
| Canadian re-entries | | |
| Total | -15.7 | 785 |
| From overseas | -2.6 | 50 |
| From US | -16.4 | 735 |
| Same-day | -20.0 | 516 |

(Statistics Canada)

Note: All comparisons for Traveller Entries to BC are for the reference month relative to the same month the previous year

SPECIAL FOCUS: *Mixed messages? Seasonal adjustment explained*

If I had a nickel for each time I was asked...

A question that's been asked of us lately is "How can the seasonally adjusted numbers be down while the unadjusted are up?" Yes, at first glance it does seem paradoxical. In each of the first five months of 1999, BC's hotels, motels, and other purveyors of rental accommodation earned significantly more room revenue than in the same month of 1998, and in June there was no change from a year earlier. Yet for the months of March through June, seasonally adjusted room revenue was heading down quite sharply.

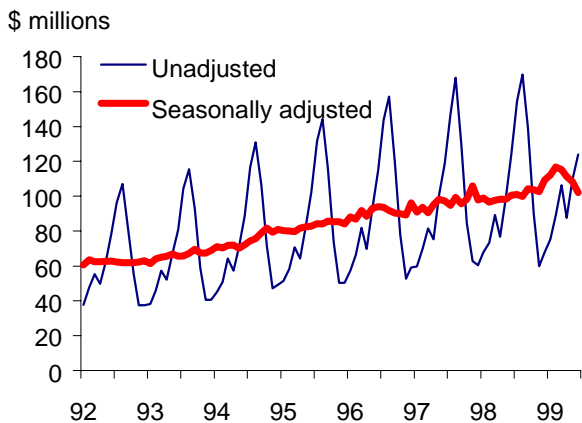
There's a reason why the growth rates are headed in different directions. But first...

Seasonal adjustment—why we do it

Tourism in BC is a profoundly seasonal phenomenon. How seasonal is it? In the peak month of August, room revenue is nearly three times that of the slowest month, December. And accommodation properties earn half their annual revenue in the four months of June through September.

Comparing one month's performance to the same month of the previous year (say, June 1999 over June 1998) is one way to assess how tourism is doing. But that approach ignores what's been going on in the intervening eleven months. And in a dynamic sector like tourism, eleven months is a long time.

Seasonal adjustment averages out the summer peaks and winter valleys

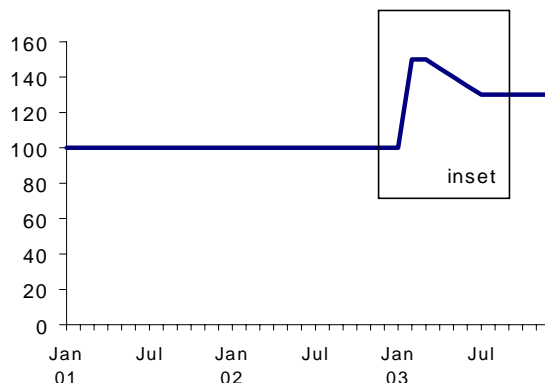


Seasonal adjustment gives us a method of comparing one month to the previous month, by removing the regular and predictable seasonal fluctuations that occur. Changes from the normal seasonal patterns are revealed in the seasonally adjusted data series.

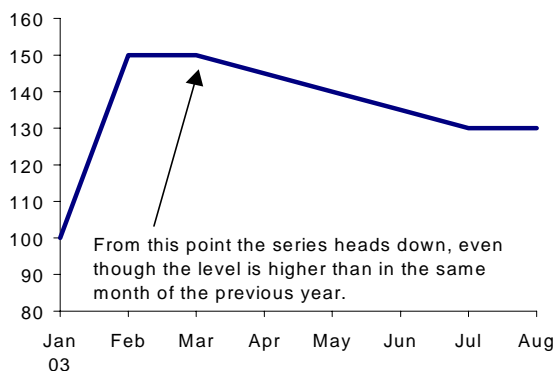
A hypothetical example

Let's look at the hypothetical example of a widget retailer who's been selling 100 widgets a month for two years. In February of the third year, sales suddenly jump to 150 per month—a 50% increase! But the gain is short-lived; sales remain at 150 per month in March (unchanged from February), then fall by 5 units in each month until July when they resume their steady state at 130 units per month. Sales are now higher than they were in the second year, but they are no longer increasing.

Widget sales—long term



Widget sales—a closer look



Both the month-over-month and year-over-year comparisons tell us something about the widget retailer's fortunes. A month-over-month comparison would show a sharp increase, followed by a decline, and then a stable series. For a short-term analysis, this method is ideal.

On the other hand, year-over-year comparisons will continue to show an increase until the following February, even though sales stabilized at 130 units from July onward. This analysis won't report the downturn in sales until a year after the fact.

Dynamics in tourism

Tourism is subject to big seasonal swings, thus making seasonal adjustment an important analytical tool. But other factors can create irregular changes in the volume of tourism activity. While tourism in BC has been trending upward over the long term (as shown in the overall direction of the seasonally adjusted room revenue), there can be specific events that precipitate dramatic short-term changes in the sector's performance. As we saw in 1998, a shift in exchange rates between Canada and the US can lead to some rapid changes in the number of people who travel across the border. A special event, such as Expo '86, the APEC Summit in November 1997, and more recently the Royal BC Museum's Leonardo da Vinci exhibit of October 1998 through March 1999, can also generate a quick increase in the number of tourists visiting an area. On the other hand, a sudden economic downturn, as occurred in Asian countries in 1998, can lead to a sharp drop in the number of tourists.

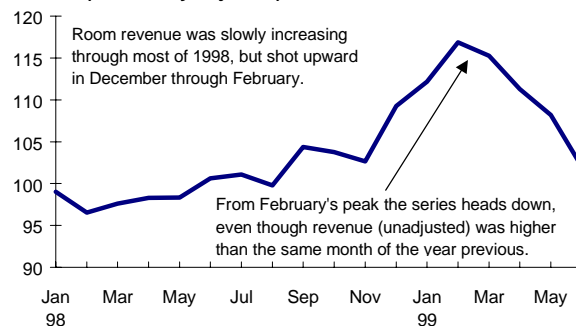
Solving the room revenue paradox

The apparent paradox in the room revenue trends—unadjusted is up while the seasonally adjusted is down—arose because there was an unusually large increase in room revenue in late 1998 and early 1999. Year-over-year growth rates of unadjusted room revenue peaked in February (+21.5%), but since then have tapered off. Much like the widget sales line, as the year-over-year growth rates tapered off, the seasonally adjusted revenue fell. The following chart, showing seasonally adjusted room revenue, shows the industry's strong performance in the months of December 1998 through February 1999, and the subse-

quent decline.

BC had an unusually strong winter season

\$ million (seasonally adjusted)



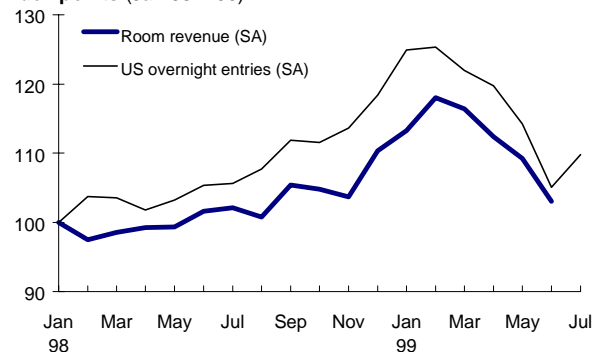
Comparing seasonally adjusted series

Having a nice neat series with all of the seasonal factors removed makes it easy to compare one series with another.

One such comparison that we've made in recent months is between the seasonally adjusted room revenue and US overnight entries. A quick glance at the chart below reveals that there is a strong correspondence between the two series. As US overnight entries grew in the latter part of 1998, so did room revenue. And as US entries slipped, room revenue followed.

US entries as a predictor of room revenue?

Index points (Jan.98=100)



Readers who seek to determine where room revenue might be headed in July will be heartened to see the upturn in US entries, which suggests that the slide in room revenue might be coming to an end.