

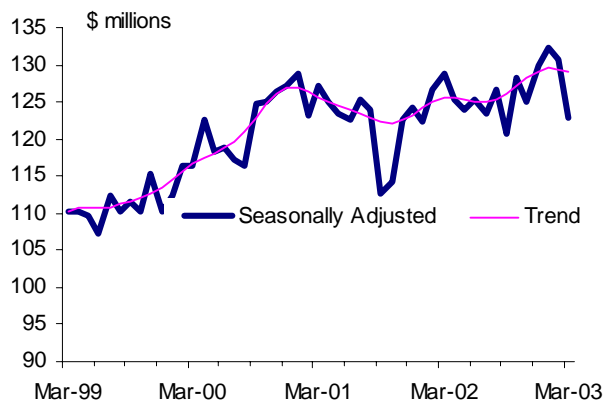
Tourism Sector Monitor ♦ June 2003

Highlights

Room Revenue

Room revenues in the province dropped 5.9% (seasonally adjusted) in **March**, the largest decline since September 2001. The fall in revenues was heavily concentrated in the Mainland/Southwest region (-10.5%), with large hotels (251+ rooms) having the greatest revenue losses (-9.5%).

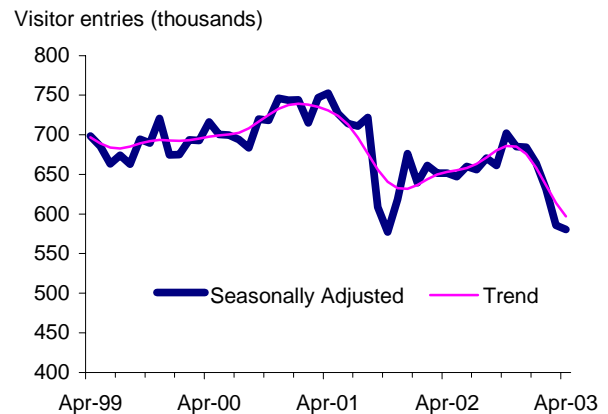
Room revenues fall steeply in March



Visitor Entries

The number of visitors entering Canada via BC border crossings declined 1.8% in **April** (seasonally adjusted), continuing the downward trend that essentially started last November.

Volume of visitor entries drops in April



Other Indicators

Both hotel occupancy (-2.9 percentage points) and hotel room rates (-2.4%) were down in March (relative to March 2002). There was 12.5% more passenger traffic over the Coquihalla highway in April, compared to the same month of 2002. In contrast, there were 13.6% fewer passengers through the Vancouver International Airport.

Table 1. Room Revenue* Summary

Accommodation Type			
	Mar.03 (\$000)	Feb.03 (\$000)	% change
Total	122,927	130,606	-5.9
Hotels	88,755	95,224	-6.8
Motels	15,901	16,106	-1.3
Other Acc.	18,634	18,660	-0.1
Regions (Top 3 performers)			
Northeast	4,465	3,662	+21.9
Cariboo	3,587	3,333	+7.6
North Coast	1,615	1,527	+5.8

*Seasonally adjusted room revenue

A Look Ahead...

Preliminary numbers for April 2003 suggest room revenues held constant (-0.3% seasonally adjusted). Unadjusted data point to a 5.7% decrease compared to April 2002.

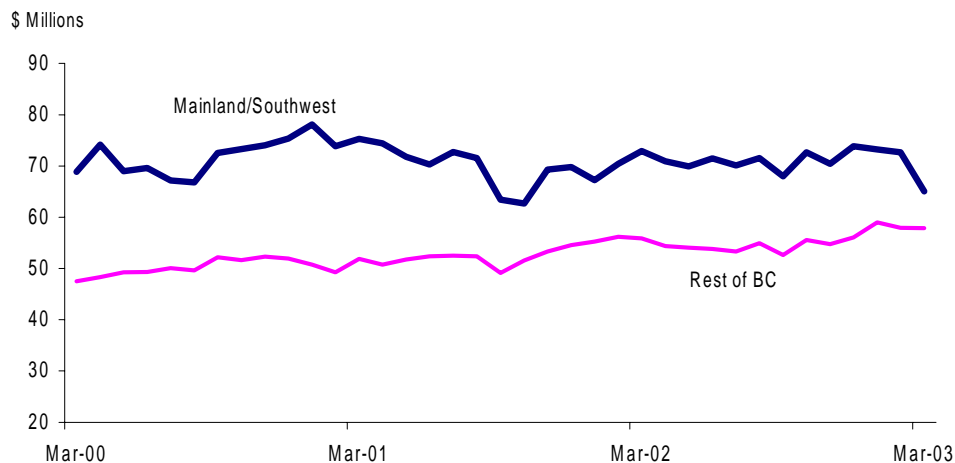
Tourism Trends

Room Revenue

Room revenues dropped sharply in March (-5.9% seasonally adjusted), posting the largest decline seen since September 2001. Particularly hard hit was Mainland/Southwest region (-10.5%). Indeed, room revenues for the rest of BC remained stable (-0.1%). Over the last several years, the “rest of BC” has had a growing share of provincial room revenues.

Room revenues jumped 21.9% in the Northeast, principally due to activity in workcamps. Revenues also rose in Cariboo (+7.6%) and North Coast (+5.8%).

Declining Room Revenues Were Concentrated in the Mainland/Southwest Region



Room revenues were down for almost every type of tourist establishment, with the largest hotels (251+ rooms) suffering the most (-9.5%). Motels saw revenues inch down (-1.3%), while the miscellaneous category (including fishing lodges) edged up 1.0%.

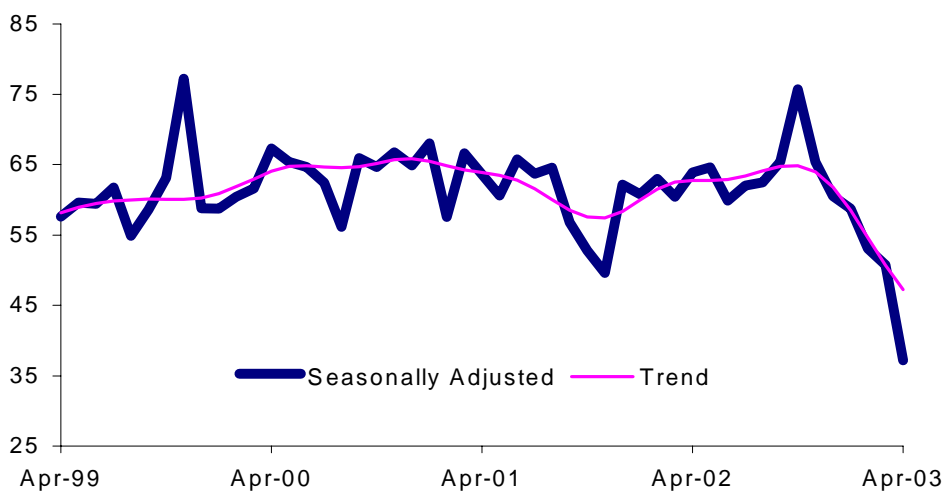
Visitor Entries

The volume of visitors entering Canada through BC continued to fall in April, down 1.8% (seasonally adjusted).

Visitor entries from Asia were down 26.7% in April—fallout from the SARS panic. Taiwan showed the steepest drop (-56.0%), followed by Hong Kong (-25.6%), Japan (-21.2%), and South Korea (-20.3%). However, travellers from Asia typically account for less than 10% of BC visitor entries.

Visitor Entries from Asia plummeted in April.

visitor entries (thousands) from Asia



Entries from the US, in contrast, showed little change (+0.5%), while the volume of travellers from Australia and the South Pacific increased 9.3%.

The number of Canadians returning from overseas trips via BC was down 19.5%—by far the largest decline recorded since March 1987. The outset of war in Iraq—which began March 20th—may have led people to delay or cancel their overseas travel plans.

The number of Canadians returning from travel abroad was down substantially in April.

Table 2. Traveller Entries (seasonally adjusted)

	Apr-03 (‘000)	Mar-03 (‘000)	% chg from Mar-03
American visitors			
Total	490	488	0.5
Same-day	208	205	1.3
Overnight	283	288	-1.8
Overseas visitors			
Total	86	99	-13.0
Europe	35	34	3.7
UK	17	16	6.6
Asia	37	51	-26.7
Japan	15	19	-21.2
Taiwan	2	5	-56.0
Oceania	9	8	9.3
Canadian re-entries			
Total	511	562	-9.1
From overseas	64	80	-19.5
From US same-day auto	253	279	-9.3

(BC STATS & Statistics Canada)

Other Tourism Indicators

Hotel occupancy stood at 55.6% in April, 2.9 percentage points lower than in April 2002. Average room rates—\$104.95—were 2.4% lower in April than in the same month last year. This is the second month of decline for both occupancy and room prices.

There were roughly 970,000 passengers flowing through the Vancouver airport in April, 13.6% below the traffic level in April of last year. Both domestic (-10.8%) and cross-border US (-8.1) passenger levels were down considerably. The largest year-over-year drop was in non-US international travel (-25.1%).

People are not, however, giving up travel altogether. The Coquihalla highway had 12.5% more passenger vehicles passing through its tollbooths in April (compared to April 2002).

The Canadian dollar appreciated relative to US currency in April. One US dollar cost \$1.38 Cdn, compared to \$1.58 Cdn in April 2002 (-\$0.165). The Canadian dollar also appreciated 1.6 cents next to the UK pound, though lost 4.4 cents relative to the Australian dollar.

Restaurant and tavern receipts in the province edged up 1.2% (seasonally adjusted) in March. Revenues at drinking places rose 6.4%, and 0.9% at food services.

Hotel occupancy and room prices were down significantly in April.

Table 3. Other Tourism Indicators

	Reference period	Total	Change from year ago
Hotel Industry			
Occupancy rate	Apr-03	55.6%	-2.9 pp.
Average room charge <i>(Pannell Kerr Forster)</i>	Apr-03	\$104.95	-2.4%
Airport Passengers		(000s)	(%)
Vancouver International Airport			
Total traffic	Apr-03	970	-13.6
US	Apr-03	244	-8.1
Other International	Apr-03	203	-25.1
Canada <i>(YVR)</i>	Apr-03	522	-10.8
Victoria International Airport			
Total traffic <i>(Victoria Airport Authority)</i>	Apr-03	94	-0.8
Restaurant Receipts		(\$ millions)	(%)
Full service	Apr-03	228	3.2
Limited service	Apr-03	153	8.0
Drinking places <i>(Statistics Canada)</i>	Apr-03	26	-1.0
Transportation		(000s)	(%)
Coquihalla Highway			
Passenger Vehicles <i>(Ministry of Transportation & Highways)</i>	Apr-03	191	12.5
BC Ferries			
Vehicle Volume	Mar-03	614	0.8
Passenger Volume <i>(BC Ferries)</i>	Mar-03	1,533	-1.6
Exchange Rates		Cdn \$	Change from year ago
US \$	May-03	1.384	-0.165
UK Pound	May-03	2.246	-0.016
Japanese Yen	May-03	0.012	0.000
Australian \$ <i>(Statistics Canada)</i>	May-03	0.896	0.044

note: pp. percentage points

Special Focus: Assessing the Impact of September 11th

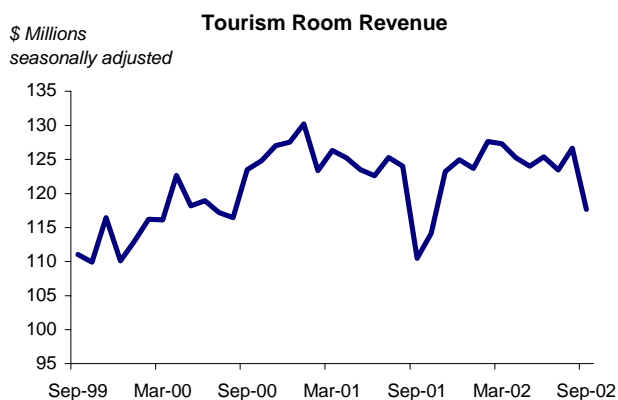
It is now almost 2 years since the terrorist attacks of September 11th, 2001. At the time, many observers worried about a major downturn in the tourism economy as a result of 9/11.

Year-over-year changes in tourism indicators give a sense of the medium-to-long term effects of September 11th. In this report, we look at the 12-month period immediately preceding September 2001 (September 1st 2000–August 31st 2001), which serves as a reference point for 9/11 and its aftermath (September 1st 2001–August 31st 2002). From this viewpoint, 9/11 has not been a significant factor in the BC tourism economy.

Overall, the 9/11 effect—where there was any effect at all—was highly transitory and disappears in a medium-to-long term analysis. The one exception to this is the airline industry, though even here it is hard to blame the industry's problems on 9/11 alone.

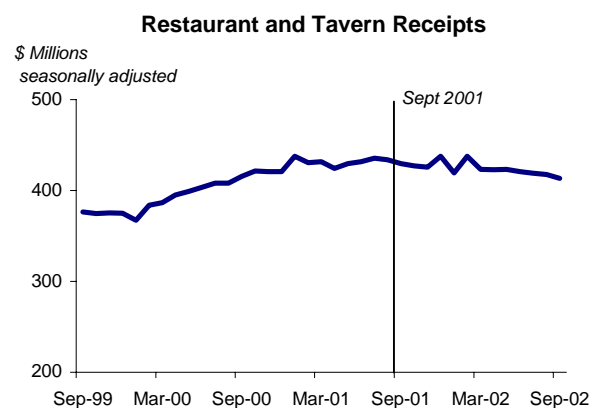
Accommodation

Tourism Room Revenues (seasonally adjusted) spiked downward in September 2001, but bounced back quickly. From September 2001 to August 2002, room revenues totalled \$1.48 billion, down only 1.8% from the previous 12 months.



Employment in the accommodation industry was actually up slightly (+1.7%) over the same period, indicating that any cash flow problems caused by 9/11 were not serious enough for firms to start shedding workers.

Restaurant and tavern receipts took no notice of September 11th. Receipts for the period September 2001 to August 2002 amounted to \$5.1 billion, essentially unchanged from the previous 12-month period (-0.6%)



Employment

Employment in the three core tourism sectors—accommodation, food and beverage, and arts, entertainment and recreation—provide a key indication of the strength of the tourism economy. The employment data have not been seasonally adjusted, so they show the wide cyclical fluctuations characteristic of the tourism sector. However, a 9/11 effect is not discernible. Employment for the “year” of September 2001 to August 2002 was unchanged (+0.3%) from the previous 12 months.

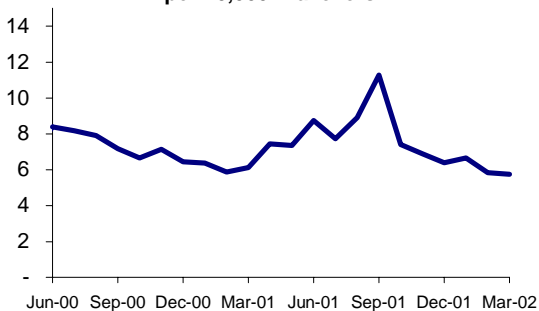


Border Enforcement Activities

Customs enforcement action – seizures, arrests, etc – spiked temporarily in September 2001. There does not, however, seem to be any long-term increase in enforcement at Canada’s points of entry.

Though the Annual Report of the Canada Customs and Revenue Agency speaks of “increased vigilance of customs officers at points of entry,” data on border enforcement activity indicates that by October, enforcement practices were back to normal. This suggests that increased difficulty crossing the border *into* Canada has not been deterring travellers. However, if there has been a notable increase in enforcement activities on the US side, Americans might still be reluctant to enter Canada – especially for same-day cross border trips.

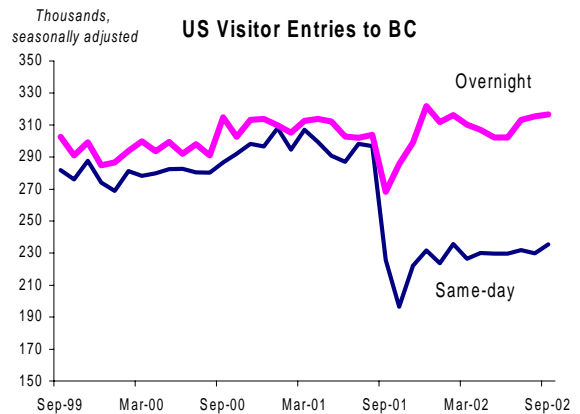
Customs Enforcement Actions per 10,000 Travellers



Sources: Visitor entries to Canada provided by Statistics Canada. Customs enforcement activities derived from Canada Customs and Revenue Agency, “Comprehensive Discussion of Our Performance by Business Line in Support of Accountability - 2001-2002 Annual Report to Parliament,” Page 111. Data visually estimated from graph.

Visitor Entries

Traveller entries from the US to BC were down 10.6% (seasonally adjusted). However, closer inspection reveals that same-day trips are down dramatically (-23.5%) while overnight trips have not changed noticeably (-1.1%). The drop in same-day trips (many of which are probably brief shopping excursions) has likely had an impact on Canadian retailers located along the US border. But the same-day traffic has relatively little effect on the tourist economy proper. This is perhaps why declines in overall traveller entries have not had a significant impact on key tourism economic indicators.



Overnight trips seem to have been given a boost in the post-September 11th period. By December 2001, overnight entries were at their highest level in over three years. For Americans wanting to stay closer to home or avoid air travel, BC is an obvious destination.

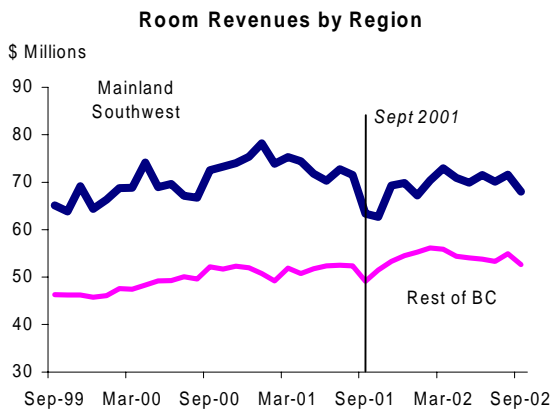
Another point worth emphasising is that BC trips to US are down as well. Canadian re-entries to BC from the US totalled just over six million in September 2001 to August 2002, 27.6% lower than the previous year. Same-day auto trips to the US were down 37.4%, and overnight trips were down 8.7%.

Altogether, this represents 2.3 million fewer BC trips to the US (with about 250,000 of

these being overnight trips). In contrast, over the same period, BC lost about 1 million visits from the US (50,000 of them overnight visits). The “balance of trade” in cross-border visitors has clearly shifted in BC’s favour – fewer US visitors, but many more British Columbians staying closer to home.

Regional Impacts

There is some indication that BC tourism post-9/11 is shifting away from the Mainland/Southwest region (Greater Vancouver and the surrounding areas like Whistler and Harrison Hot Springs). In Mainland/Southwest, tourism room revenues were 6.0% lower during September 2001 to August 2002 than in the year before. Room revenues in the rest of BC, however, were 4.3% higher.



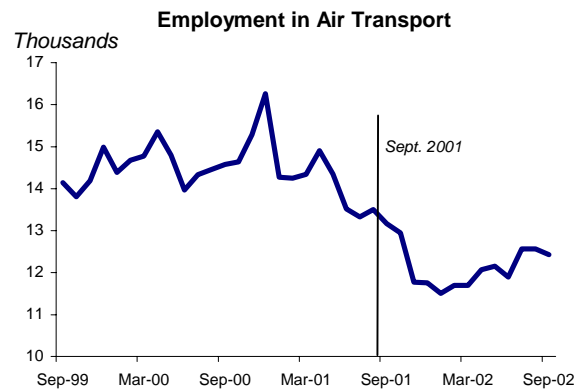
A possible explanation of this regional trend is that as travellers turn away from US destinations, they have moved on to explore other parts of the province.

Airline Industry

The one area that has been substantially injured by 9/11 is the airline industry. This is perhaps not surprising, considering the prominent role air transport played in the attacks.

At Vancouver International Airport, passenger traffic was down 10.6% during September 2001 to August 2002 (compared to the previous year). Domestic passenger volumes (-11.7%) fell more than international levels (-9.7%).

Employment in air transport in BC is also down significantly. Employment in the industry averaged 12,100 over September 2001 to August 2002, 15.9% below the previous year.



One key factor in the decline in employment, no doubt, was the collapse of Canada 3000. The airline, which was Canada’s second largest carrier, declared bankruptcy two months after 9/11. Nearly 5,000 employees across the country were put out of work.

Despite all this, there were clearly other factors involved in the deterioration of the airline industry in BC. First, the industry was already in decline before September 11th. Second, bankrupt – or nearly bankrupt – airlines have been the hallmark of Canada’s air transport industry for years. Indeed, after some 15 years the airline industry has yet to adapt completely to a deregulated market environment.

The 9/11 disruption amounted to a sharp blow to a fragile industry, and there have been clear casualties: bankrupt airlines, falling employment, and declining passenger

volumes. At the same time, all of these things could well have happened anyway.

Canada 3000, for example, had been offered up to \$75 million in short-term federal aid, but market forces at the time prevented the creation of a viable business plan. September 11th seems to have decided the timing of Canada 3000's implosion, but not the event itself.

Conclusion

If there is any lesson to be learned from this analysis, it is that BC's tourism economy has staying power. After an initial spike downward, the tourism economy bounced back within two months of the terrorist attacks. And if one takes the whole 12 month period beginning September 1st, 2001, nothing out of the ordinary seems to have occurred.

Hotel room revenues and overnight visitor entries were marginally lower (both down

by less than 2%), but tourism employment levels were unchanged and the restaurant business was unaffected. The volume of US visitors is lower, but the number of British Columbians staying closer to home is much higher. Perhaps as a consequence, patterns of tourism seem to be shifting away from the Mainland/Southwest region towards other, less-travelled parts of the province.

For the year as a whole, September 11th is largely a non-story. This fact should be kept in mind as the dual effects of the SARS scare and the Iraq war play out in BC. If the past is any guide, the impact of these events will likely be short lived.

The one weak spot – and a key challenge for public policy – is the instability of the airline industry. Given that the nation's flagship carrier, Air Canada, is currently under the shelter of bankruptcy protection, this is a point that does not need much repeating.

Table 1: Summary of Key Tourism Indicators

	12-Month Totals		
	Sept 2001 - Aug 2002	Sept 2000 - Aug 2001	change
Tourism Industry			
Tourism Room Revenue (\$ Millions, SA)	1,476	1,503	-1.8%
Mainland/Southwest	830	883	-6.0%
Rest of BC	646	620	4.3%
Occupancy Rate (%)	58.2	61.1	-2.9 pp
Average Room Rate (\$)	116.97	116.93	0.0%
Restaurant and Tavern Reciepts (\$ Millions, SA)	5,105	5,135	-0.6%
Employment (thousands):			
Accommodation	29.5	29.0	1.7%
Food & Beverage	117.2	118.5	-1.1%
Arts, Entertainment, Rec.	28.3	27.0	4.7%
Total	175.0	174.5	0.3%
Travel (thousands):			
Vancouver Airport Passenger Traffic	14,507	16,226	-10.6%
Employment in Air Transport	12.1	14.4	-15.9%
US Traveller Entries to BC	7,729	8,740	-11.6%
Same-day auto	2,713	3,555	-23.7%
Overnight	3,653	3,707	-1.5%
Cnd Re-entries from US	6,035	8,341	-27.6%
Same-day auto	3,442	5,500	-37.4%
Overnight	2,593	2,841	-8.7%