

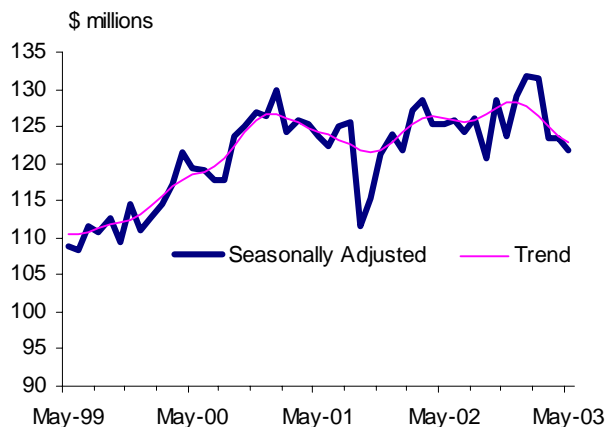
## Tourism Sector Monitor ♦ August 2003

### Highlights

#### Room Revenue

Room revenues in the province slipped 1.3% (seasonally adjusted) in **May**, posting a fourth consecutive monthly loss. Revenues fell in all the development regions except Nechako (+1.3%). The deepest declines were in North Coast (-8.0%) and Northeast (-5.5%). Driving the decline was revenues at large hotels (-2.7%) and motels (-2.1%), rather than at vacation rentals (+3.0%) or small hotels (+1.3%).

#### Room revenues continue to fall in May



**Table 1. Room Revenue\* Summary**

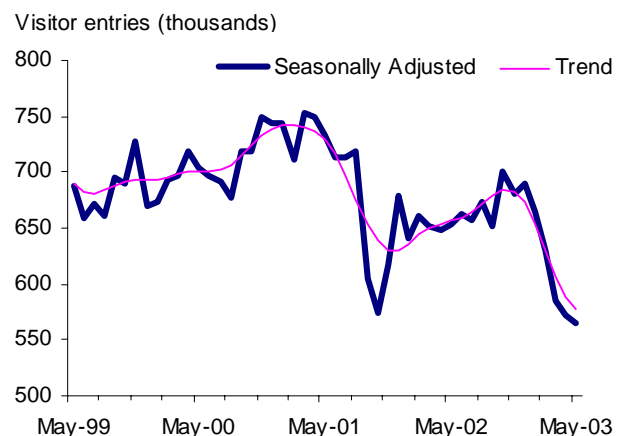
Accommodation Type			
	May 03 (\$000)	Apr.03 (\$000)	% change
Total	121,708	123,336	- 1.3
Hotels	89,697	90,103	- 0.5
Motels	14,883	15,198	- 2.1
Other Acc.	17,595	17,126	+2.7
Regions (Top 3 performers)			
Nechako	748	738	+1.3
Cariboo	3,564	3,574	- 0.3
Thompson Okanagan	17,930	18,026	- 0.5

\*Seasonally adjusted room revenue

#### Visitor Entries <sup>1</sup>

The volume of travellers entering Canada via BC borders continued to decline in **May**, dropping 1.5% (seasonally adjusted). Entries from both the US (-0.6%) and overseas (-6.4%) were down. Decline in the Asian market (-22.3%) has been particularly sharp.

#### Visitor entries down in May



#### Other Indicators

Both hotel occupancy (-1.4 percentage points) and hotel room rates (-1.5%) dropped in May (relative to May 2002). Coquihalla highway passenger vehicle traffic inched down marginally (-0.4%) in May, compared to the same month of 2002.

#### Note to readers...

The TSM has a new format. The "look ahead" is now a separate section beginning on page 6.

Special Focus Article: *Error checking the TRR database*. Page 8.

<sup>1</sup> Visitor entries and other indicators in May were reported in the last issue, but the data has been updated this month.

## Tourism Trends

### Room Revenue

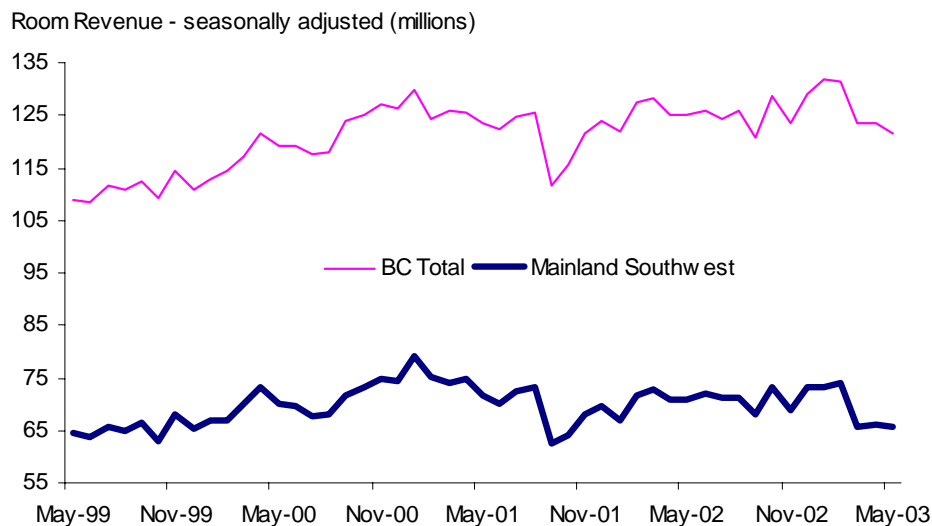
Room revenues were down slightly (-1.3%, seasonally adjusted) in May. The largest regions, Vancouver Island/Coast (-2.1%) and Mainland Southwest (-0.6%), determined the negative changes in BC's total room revenue. In fact, all the development regions witnessed losses in room revenues, except Nechako, which is known for frequent wide fluctuations. As the graph below illustrates, the room revenue changes in Mainland Southwest dominate the fluctuation pattern of the province's room revenue.

North Coast (-8.0%), Northeast (-5.5%) and Kootenay (-4.2%) had the largest month-over-month declines in room revenues. For North Coast, this is the largest loss for this region since January 1999. Over last 3 months, room revenues have fallen 10% in Kootenay.

*North Coast experienced the largest loss in room revenue in more than three years.*

The decline in revenues was concentrated among mid-sized hotels (76 - 250 rooms), which had 2.1% lower revenues. In contrast, revenues at small hotels (with 1 to 75 rooms, +1.3%) and largest hotels (251+ rooms, +0.6%) strengthened in May. Motel revenues slumped 2.1%. Revenues in both vacation rentals (3.0%) and the small "miscellaneous" (2.4%) category rebounded in May after two months decline.

### BC's total room revenue changes with the revenue fluctuation in Mainland Southwest



## Visitor Entries

The volume of visitors entering Canada through BC continued to fall in May, down 1.5% (seasonally adjusted).

Fallout from the SARS scare shows little sign of easing. The number of visitors from Asia plunged a further 22.3%—even worse than the April decrease of 21.5%. In the Asian market, SARS has been of far greater magnitude than the effect of 9/11 (in September 2001, the volume of travellers from Asia dropped only 15.2%). Indeed, even the Asian economic meltdown—the collapse of the financial markets in mid-1997—did not have such dramatic effects on tourism.

It is worth pointing out that the decline in Asian visitors actually began in November of last year. The Asian market was already weak when the SARS panic emerged in April. These two factors combined have been dramatic.

Asians first began to really “discover” BC in 1994. The volume of travellers from Asian countries more than doubled over the next few years, and despite global economic and political turbulence BC remained a choice destination. The last several months have completely wiped out Asia’s eight-year romance with BC. Asian visitor entries in May were at their lowest point since May 1991

*Asian visitor entries in May were at their lowest point since 1991*

### Visitor Entries from Asia continue to plummet

visitor entries (thousands) from Asia

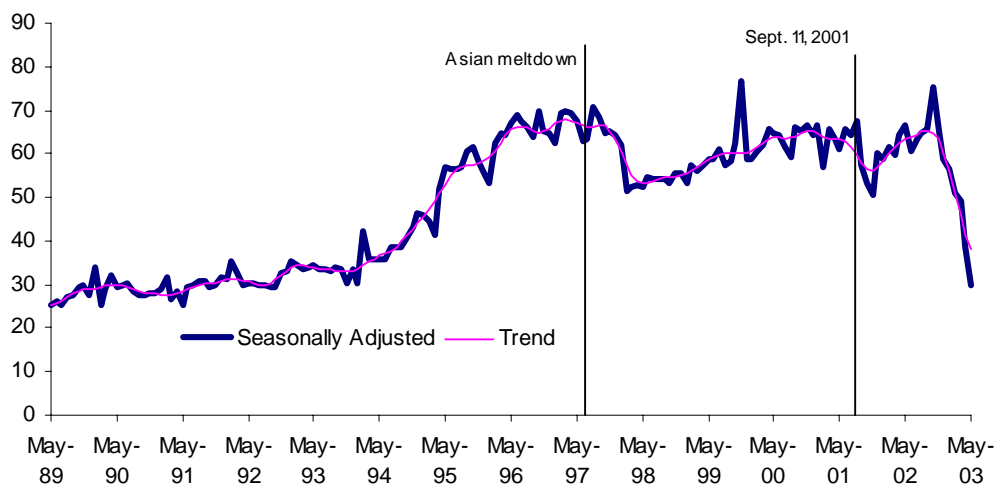


Table 2. Traveller Entries (May, seasonally adjusted)

	May-03 (‘000)	Apr-03 (‘000)	% chg from Apr-03
<b>American visitors</b>			
Total	486	490	-0.6
Same-day	210	208	0.7
Overnight	278	282	-1.4
<b>Overseas visitors</b>			
Total	82	88	-6.4
Europe	33	35	-5.4
UK	16	17	-4.6
Asia	30	38	-22.3
Japan	11	14	-24.2
Taiwan	1	2	-55.8
Oceania	11	9	17.4
<b>Canadian re-entries</b>			
Total	553	510	8.4
From overseas	59	64	-7.9
From US same-day auto	284	253	12.1

(BC STATS &amp; Statistics Canada)

### Other Tourism Indicators

Hotel occupancy was 60.0% in May, 1.4 percentage points below May 2002. Average room rates—\$113.92—were 1.5% lower than in the same month last year. This is the third month of decline for both occupancy and room prices.

*Hotel occupancy and room rates continued to fall in May.*

The Canadian dollar appreciated relative to US currency in May. One US dollar cost \$1.38 Cdn, compared to \$1.55 Cdn in May 2002 (down 16.5 cents). This would be expected to deter American travellers to Canada. 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 BC edged downward 0.6% (seasonally adjusted).

Table 3. Other Tourism Indicators (May, unadjusted)

	Reference period	Total	Change from year ago
<b>Hotel Industry</b>			
Occupancy rate	May-03	60%	-1.4 pp.
Average room charge <i>(Pannell Kerr Forster)</i>	May-03	\$113.92	-1.5%
<b>Airport Passengers</b>		<b>(000s)</b>	<b>(%)</b>
<b>Vancouver International Airport</b>			
Total traffic	May-03	1,084	-13.2
US	May-03	300	-2.6
Other International	May-03	200	-32.5
Canada <i>(YVR)</i>	May-03	584	-9.3
<b>Victoria International Airport</b>			
Total traffic <i>(Victoria Airport Authority)</i>	May-03	99	0.3
<b>Restaurant Receipts</b>		<b>(\$ millions)</b>	<b>(%)</b>
Full service	May-03	236	2.8
Limited service	May-03	157	5.0
Drinking places <i>(Statistics Canada)</i>	May-03	25	-4.1
<b>Transportation</b>		<b>(000s)</b>	<b>(%)</b>
<b>Coquihalla Highway</b>			
Passenger Vehicles <i>(Ministry of Transportation &amp; Highways)</i>	May-03	232	-0.4
<b>BC Ferries</b>			
Vehicle Volume	May-03	714	-2.5
Passenger Volume <i>(BC Ferries)</i>	May-03	1,827	-3.1
<b>Exchange Rates</b>		<b>Cdn \$</b>	<b>Change from year ago</b>
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

## A Look ahead...

### Room Revenue

Preliminary numbers suggest that room revenues dropped sharply in **June** (-3.5% seasonally adjusted), posting the fifth decline since February 2003. Particularly hard hit were Mainland/Southwest and Vancouver Island/Coast regions, which played a key role in the overall decline.

*Preliminary numbers for June point to a 3.5% (seasonally adjusted) decline.*

Room revenues were down for almost every type of tourist establishment, with the largest hotels (251+ rooms) suffering the most.

#### **A caution about preliminary numbers**

Because companies file their hotel room taxes with a varying lag, the initial data retrieved by BC Stats may be revised considerably over the following months. BC Stats reports room revenues with a two-month lag. However, we also briefly report “preliminary data” with a one-month lag.

How accurate is the preliminary data? Over the last eight reports room revenues changed (rose or fell on a month-over-month basis) on average by 3.2% (absolute value). Our preliminary numbers – reported in the “look ahead” box – were off by an average of 0.4 percentage points. The preliminary figures, in other words, seem basically on the mark, though they should be used with caution (a more detailed analysis of their accuracy will be undertaken in the future).

### Visitor Entries

While room revenues appear to have declined sharply in June, the number of visitors entering Canada via BC increased 2.8% (seasonally adjusted). This is the first monthly expansion in 2003. Travellers from the USA, Asia and Oceania (Australia and the South Pacific) all increased substantially.

*Visitor entries had the first solid monthly performance in June, after five months consecutive loss.*

Asia showed the most notable jump in overseas visitors to BC (19.1%). This is an encouraging sign after the dramatic declines seen over the last several months.

### Other Tourism Indicators

Hotel occupancy dropped just over four and a half percentage points (-4.6 pp) to 62.6% in June (compared to the same month of 2002). This was the biggest 12-month decline since March 2002. Average room charges also fell 6.0%, posting a fourth consecutive monthly loss.

*Hotel room rates fell 4.8% – the first drop in a year and a half.*

The traffic of passenger vehicles over the Coquihalla highway was 4.3% busier (compared to June 2002). The number of passengers aboard BC Ferries edged down 1.7% in June–relative to the same month in 2002–while vehicle traffic rose marginally (+0.3%).

The Canadian dollar appreciated sharply relative to US currency in June. One US dollar cost \$1.35 Cdn, compared to \$1.53 Cdn in June 2002 (down 17.9 cents). This was the largest 12-month appreciation recorded since 1988. It is surprising that this corresponds to an increase in US visitors.

Restaurant and tavern receipts in the province slipped 0.5% (seasonally adjusted) in June.

---

### Special focus: Error checking the TRR database

This summer, BC Stats undertook a major review of the tourism room revenue database.

The database consists of over 2,300 records from companies that pay the provincial hotel room tax. Each record was individually examined to check for errors—particularly incorrect postal codes, room counts, and establishment categories. Our records were compared with information in the BC Accommodation Guide, as well as information from the establishments' own internet websites.

*BC Stats error-checked each of the 2,300 records in the room revenue database.*

The overall conclusion is that the room revenue database is impressively accurate. We have, however, found errors and made adjustments to improve on this accuracy.

### Total revenues not changed

The main information we could not check was the revenues of tourism establishments. Revenue data is derived from the administrative records of the Consumer Taxation Branch, and there is no other available source of information.

The revenue figures would be inaccurate if there is widespread non-compliance with the hotel room tax. Based on their audits, the Consumer Taxation Branch believes there is a fairly low risk of non-compliance overall in the accommodation industry. This makes sense, given that the hotel tax was introduced at the request of the tourism industry, and its revenues are used for tourism promotion.

### Regional distribution:

#### Postal codes and consolidated reporters

Postal codes—which are used to identify the geographic region of an establishment—were one potential problem. Incorrect postal codes would make a tourism establishment appear to be operating in a different region. This can arise, for example, when the business owner lives in a different area than where the business operates (this would create a potential for recording the wrong address). However, our inspection found very few of these sorts of errors.

Another potential problem relates to consolidated reporters. Tax filers who own (or manage) more than one property often make a single tax payment for all the properties. Problems arise when the head office, say in Vancouver, reports revenues from establishments in the Okanagan or the Queen Charlotte Islands. These revenues then appear to come from a single establishment located in Vancouver.

Most of the consolidated reporters we found have properties in only one area. For example, Whistler has several companies that



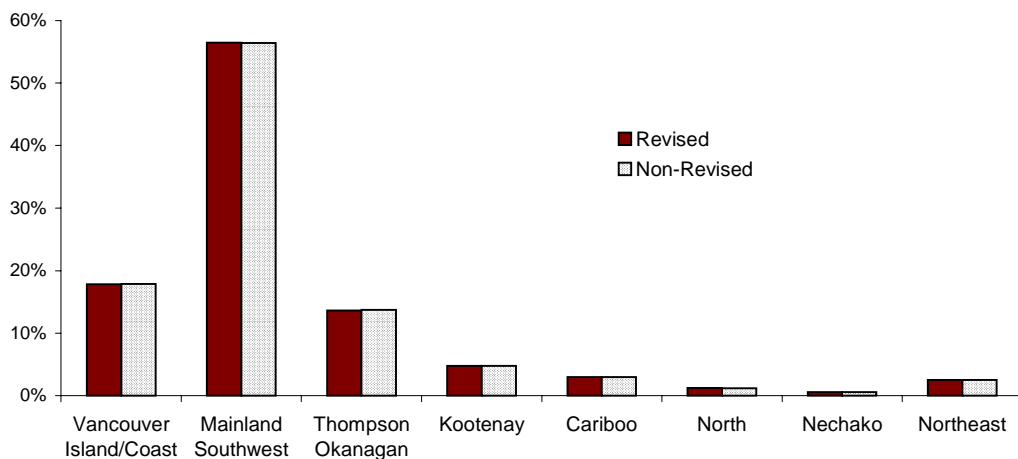
rent condos scattered around the town. Thus, many of the consolidated reporters do not create problems for the regional level data.

When we identified consolidated reporting that spanned across regions (or across towns in the same region), we created separate establishments and allocated revenues on the basis of room counts. These adjustments resulted in 43 “new” establishments.

Correcting for postal code errors and consolidated reporters had a negligible effect on the room revenue data. We concluded that roughly \$1.6 million in revenues were linked to the wrong development region, representing one-tenth of one percent of total revenues. The region most strongly affected by the changes—Thompson-Okanagan—saw its share of BC room revenues fall by a minuscule 0.08 percentage points. The database was, in this respect, already quite accurate.

*One-tenth of 1% of total room revenues were linked to the wrong geographic area*

**Percentage shares of room revenues, by regional district, 2002**



**Room counts and establishment types**

There was a considerable room undercount in the database. Our review identified a net undercount of 4,341 rooms (4.5%). Most of the undercounting was in the regions of Mainland Southwest and Thompson Okanagan. More than one-third of the net undercount was in Whistler, where 1,579 rooms were not recorded in the database. This was due to several very large hotels that were listed as having only a few rooms.

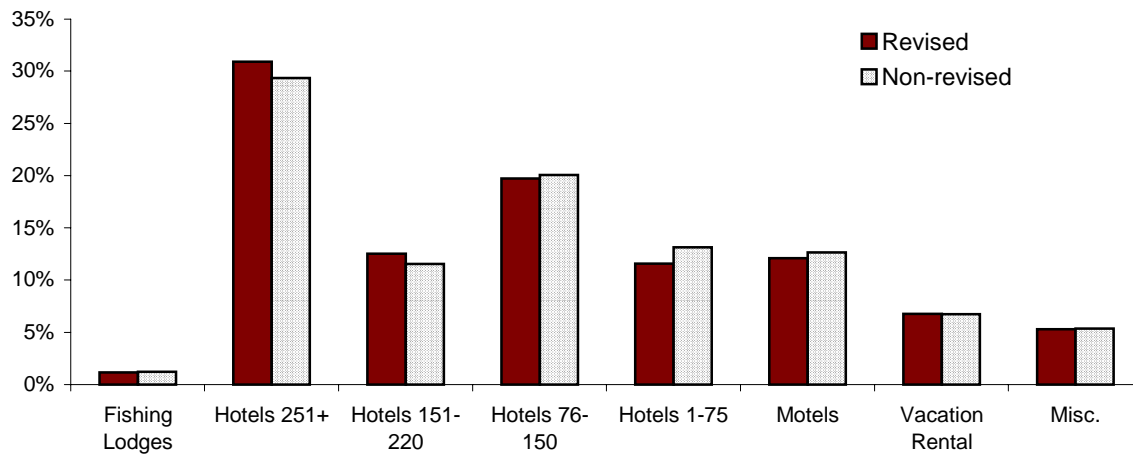
One effect of correcting the room undercount was that a number of hotels were reclassified from small to medium or large. Other classification errors were found as well, such as hotels that were incorrectly classed as motels.

*There was a 4.5% room undercount rate in the database.*

In all, \$38.9 million in room revenues were linked to the wrong establishment category – about 2.6% of total revenues.

*2.6% of total revenues were linked to the wrong establishment type*

**Percentage shares of room revenues, by establishment type, 2002**

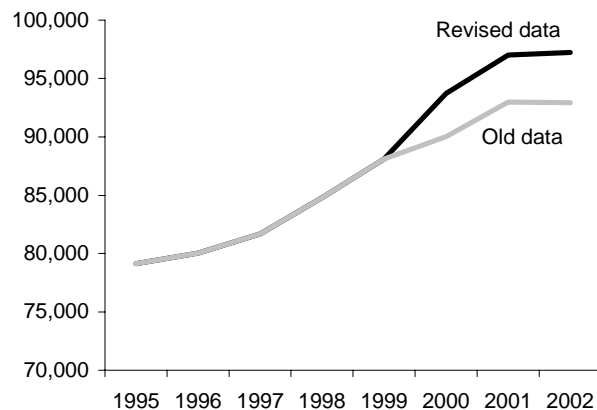


**Using the revised data**

Overall, the error-checking process resulted in little substantive change. There are, however, areas where one should be cautious in using the data.

The database has been revised back to January 2000, and it is not possible to revise any further back in time. This creates some difficulties in time-series analysis. For example, the database previously showed a 2.2% increase in the number of rooms in BC between 1999 and 2000. With the new revisions, there appears to be a 6.4% increase. For room and property counts, there is not a consistent time series prior to January 2000.

**Total number of rooms in BC: Revisions from 2000 onward create a “break” in the time series**



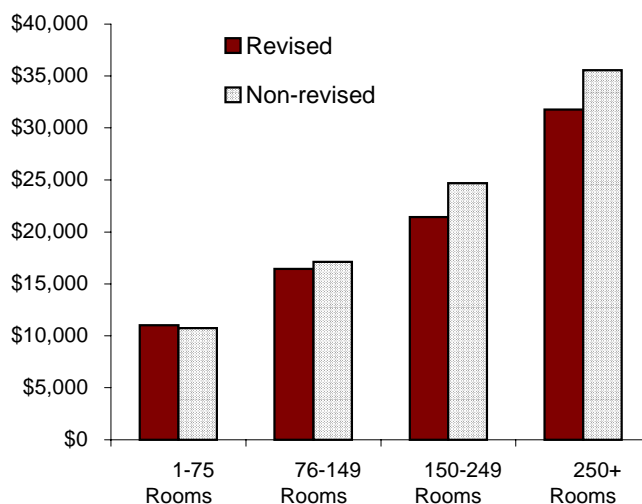
Total room revenues in BC were not changed by the revisions, so the time series for revenues is still consistent over the earlier years. Nevertheless, there are differences when one combines the revenue data with other information—such as room counts or establishment types.

For example, the average revenue stream generated by a single room in BC was \$15,488 in 2002. Using the non-revised data, this figure stands at \$16,211—overstating the “true” value by \$724 (4.7%).

The revenue value of rooms in large establishments was considerably overstated in the old data set. A room in a large hotel (251+ rooms) was worth \$31,752 in revenues on average in 2002—a figure that the old database inflated by almost \$3,800 (12%). In contrast, the revenue value of a room in a small hotel (1-75 rooms) was underestimated in the old data set—\$274 (2%) lower than the revised figure.

These differences are never great enough to change the basic conclusions: for example, the revenue value of a room increases directly with hotel size regardless which data set one uses. The old data, however, exaggerated the revenue value of rooms in larger hotels. Constructing a time-series with these data should be limited to January 2000 onward.

### Annual revenues per room, by hotel size, 2002



## **Conclusion**

Overall, the error checking process has given BC Stats a high degree of confidence in the room revenue database.

Modest changes have been made to improve the database. Users will need to keep in mind that the pre-2000 room and property data—because they are less accurate—are not completely consistent with later years. For the regional distribution of revenues, some changes have been made but they are of negligible importance. In our view, the regional time series data remain consistent and valid.