

Tourism Sector Monitor ♦ September 2003

Highlights

Room Revenue

Room revenues in the province fell 3.6% (seasonally adjusted) in **June**, posting a fifth consecutive monthly loss. Revenues dropped in five of the eight regions. Mainland/Southwest (-5.5%) and Northeast (-4.7%) saw the biggest declines, while Nechako (-3.7%), Cariboo (-3.4%) and Vancouver Island/Coast (-2.7%) experienced continued weakness in the accommodation sector. North Coast (+2.4%) posted the strongest increase among the regions.

Room revenues continue to fall in June

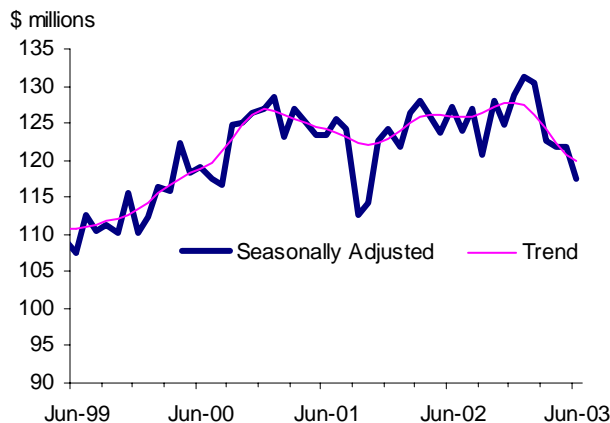


Table 1. Room Revenue* Summary

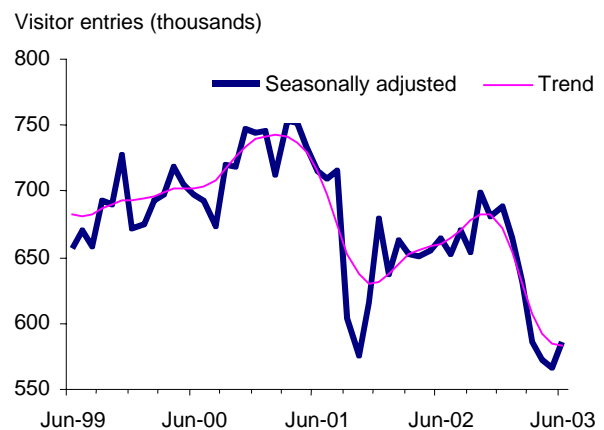
Accommodation Type			
	June 03 (\$000)	May 03 (\$000)	% change
Total	117,481	121,868	-3.6
Hotels	86,096	88,930	-3.2
Motels	15,122	14,910	+1.4
Other Acc.	17,351	17,652	-1.7
Regions (Top 3 performers)			
North Coast	1,562	1,526	+2.4
Thompson Okanagan	18,075	17,926	+0.8
Kootenay	5,912	5,897	+0.3

*Seasonally adjusted room revenue

Visitor Entries

A seven-month-long downturn in the number of travellers entering Canada through BC borders ended in **June**, with entries increasing 3.1% (seasonally adjusted). Entries from both the US (+2.3%) and overseas (+7.7%) were up substantially. Recovery in the Asian market (+23.1%) was particularly remarkable.

Visitor entries starting to recover



Other Indicators

Coquihalla highway traffic increased (+4.3%, compared to June 2002), but other indicators were weak in **June**. Passenger traffic through the Vancouver International Airport (-9.9%) and on BC Ferries (-1.7%) declined. Hotel occupancy (-4.6 percentage points) and room rates (-6.0%) were lower than in June 2002.

Note to readers...

The "look ahead" section, including preliminary estimates for **July** is now a separate section beginning on page 6.

Special Focus Article: *The Effect of Exchange Rate Movements on Cross-Border Travel*. Page 7

Tourism Trends

Room Revenue

The recent downturn in room revenues showed no signs of abating in June, as revenues fell (-3.6%, seasonally adjusted) for the fifth month in a row. The largest regions, Mainland/Southwest (-5.5%) and Vancouver Island/Coast (-2.7%) both contributed to the decline. Revenues in Cariboo (-3.4%), Nechako (-3.7%) and Northeast (-4.7%) remained depressed.

The largest increase was registered in the small region of North Coast (+2.4%). Revenues edged up in Thompson/Okanagan (+0.8%) and Kootenay (+0.3%). Revenues generated by most types of establishments fell in June. Large hotels with at least 250 rooms saw the biggest decrease (-5.1%) in revenues. Small hotels (1-75 rooms, -3.1%), mid-sized hotels (76-250 rooms, -1.5%) and vacation rentals (-2.7%) also suffered. Only motel revenues increased (+1.4%) in June, for the first time in four months.

Room revenues post biggest single-quarter decline since 1995

Quarterly Room Revenues in BC (\$ million)



Room revenues plunged in the second quarter (-6.0%, seasonally adjusted). This was the largest quarterly decline on record¹. The SARS outbreak in Toronto was a major factor behind the decline, as travel to Canada from overseas destinations, particularly Asia, was sharply curtailed.

Room revenues plunged 6.0% in the second quarter of 2003

Revenues dropped in all regions except Cariboo (+1.6%). Mainland/Southwest (-8.1%), Nechako (-7.5%) and Kootenay (-6.5%) saw the largest declines. Not surprisingly, revenues for all ac-

¹ 1995 is the first year for which consistent room revenue figures are available.

commodation types declined in the second quarter. Larger hotels (251+ rooms, -9.2%; 151-250 rooms, -6.8%) and the miscellaneous category (-9.6%), which includes fishing lodges, were particularly hard hit.

Visitor Entries

The number of visitors entering Canada through BC increased 3.1% in June (seasonally adjusted), marking the first monthly increase since last October.

More travellers from the US (+2.3%), Asia (+23.1%) and Oceania (Australia and the South Pacific, +2.3%) came to Canada. For the first time in nearly a year, Asian entries (+23.1%) were up substantially. Entries from Asia, which had been weak throughout the winter, plummeted following the SARS outbreak in Toronto. They remain well below historical levels.

Entries from Taiwan bounced up (+178.9%). Both South Korea (+31.9%) and Hong Kong (+14.1%) posted strong increases, though the volume was still far below the level before the SARS scare. The number of entries from Japan was virtually unchanged (+0.2%) in June.

The number of Canadians re-entering the country through BC borders also rose (+4.3%) in June, the second month-over-month advance since the end of 2002. The number of people making same-day auto trips to the US edged upward (+1.4%), while the number of visitors returning from overseas trips jumped 14.8%.

Visitor entries had the first solid monthly performance in June, after five months of decline

Asian entries began to recover in June, but there is still a long way to go

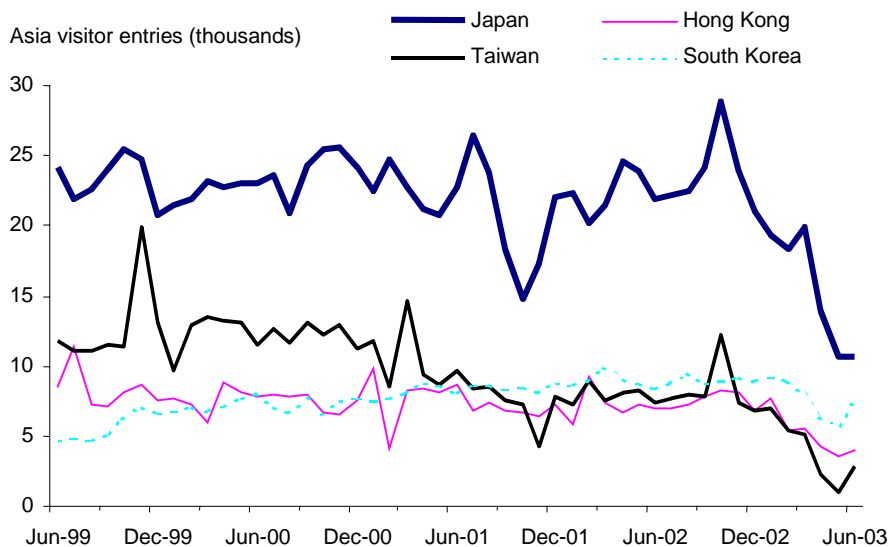


Table 2. Traveller Entries (June, seasonally adjusted)

	Jun-03 (‘000)	May-03 (‘000)	% chg from May-03
American visitors			
Total	498	487	2.3
Same-day	214	210	1.8
Overnight	285	278	2.6
Overseas visitors			
Total	89	82	7.7
Europe	32	33	-1.9
UK	16	16	0.6
Asia	37	30	23.1
Japan	11	11	0.2
Taiwan	3	1	178.9
Oceania	11	11	2.3
Canadian re-entries			
Total	579	555	4.3
From overseas	68	59	14.8
From US same-day auto	289	285	1.4
<i>(BC STATS & Statistics Canada)</i>			

Other Tourism Indicators

Hotel occupancy rates averaged 62.6% in June, 4.6 percentage points below the June 2002 level. Average room rates (\$122.17) were 6.0% lower than in the same month last year. This was the fourth month of decline for both occupancy rates and room prices.

Hotel occupancy and room rates continued to fall in June.

The Coquihalla highway had 4.3% more passenger vehicles passing through its tollbooths in June 2003 (compared to June 2002). Traffic of vehicles on BC ferries was up slightly (+0.3%) relative to the same month last year. However, passenger traffic was lower than last year, both on BC ferries (-1.7%) and at the Vancouver International Airport (-9.9%).

The Canadian dollar appreciated relative to most major currencies in June. One US dollar cost \$1.35 Cdn, its lowest value since November 1996. The Canadian dollar also appreciated 2.7 cents relative to the UK pound but lost 2.9 cents relative to the Australian dollar.

Restaurant and tavern receipts (seasonally adjusted) in BC edged up (+0.7%). Consumers spent more in drinking places (+2.8%) and in limited service restaurants (+0.7%).

Table 3. Other Tourism Indicators (June, unadjusted)

	Reference period	Total	Change from year ago
Hotel Industry			
Occupancy rate	Jun-03	62.6%	-4.6 pp.
Average room charge	Jun-03	\$122.17	-6.0%
<i>(Pannell Kerr Forster)</i>			
Airport Passengers		(000s)	(%)
Vancouver International Airport			
Total traffic	Jun-03	1,231	-9.9
US	Jun-03	366	-4.4
Other International	Jun-03	248	-24.5
Canada	Jun-03	618	-5.7
<i>(YVR)</i>			
Victoria International Airport			
Total traffic	Jun-03	96	0.6
<i>(Victoria Airport Authority)</i>			
Restaurant Receipts		(\$ millions)	(%)
Full service	Jun-03	240	0.1
Limited service	Jun-03	153	5.2
Drinking places	Jun-03	25	-2.9
<i>(Statistics Canada)</i>			
Transportation		(000s)	(%)
Coquihalla Highway			
Passenger Vehicles	Jun-03	257	4.3
<i>(Ministry of Transportation & Highways)</i>			
BC Ferries			
Vehicle Volume	Jun-03	753	0.3
Passenger Volume	Jun-03	1,953	-1.7
<i>(BC Ferries)</i>			
Exchange Rates		Cdn \$	Change from year ago
US \$	Jun-03	1.352	-0.179
UK Pound	Jun-03	2.246	-0.027
Japanese Yen	Jun-03	0.011	-0.001
Australian \$	Jun-03	0.900	0.029
<i>(Statistics Canada)</i>			

note: pp. percentage points

A look ahead

Room Revenue

Preliminary numbers suggest that room revenues edged up (+0.5%, seasonally adjusted) in **July**, after five months of declines. Room revenue growth in Mainland/Southwest contributed to the overall increase, while revenues in the Vancouver Island/Coast region were virtually unchanged. The increase was concentrated in larger hotels (151-250 rooms) and vacation rentals.

Preliminary numbers for July point to a 0.5% (seasonally adjusted) increase.

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? Our preliminary numbers—reported in the “look ahead” box—have typically been off by less than a half percentage point. 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

The number of visitors entering Canada via BC advanced for the second straight month (+2.0%, seasonally adjusted) in **July**. Although entries from both the US (+1.8%) and Asia (+7.5%) increased substantially, the expansion was not as strong as in June, when the turnaround began.

Other Tourism Indicators

Hotel occupancy dropped more than three percentage points (-3.1 pp) to 71.1% in **July** (compared to the same month of 2002). Average room charges also fell 4.9%. Both indicators were down for the fifth consecutive month.

Hotel room rates continued to drop along with average room charges in July.

The traffic of passenger vehicles over the Coquihalla highway dropped 1.4% (compared to June 2002). The number of passengers aboard BC Ferries edged down again (-0.5%) in **July** (relative to the same month in 2002) while vehicle traffic rose marginally (+1.0%).

The Canadian dollar continued to appreciate relative to US currency in **July**. The cost of a US dollar was 1.38, down 16.4 cents from July in 2002.

Restaurant and tavern receipts in the province posted strong growth (+2.8%, seasonally adjusted) in **July**.

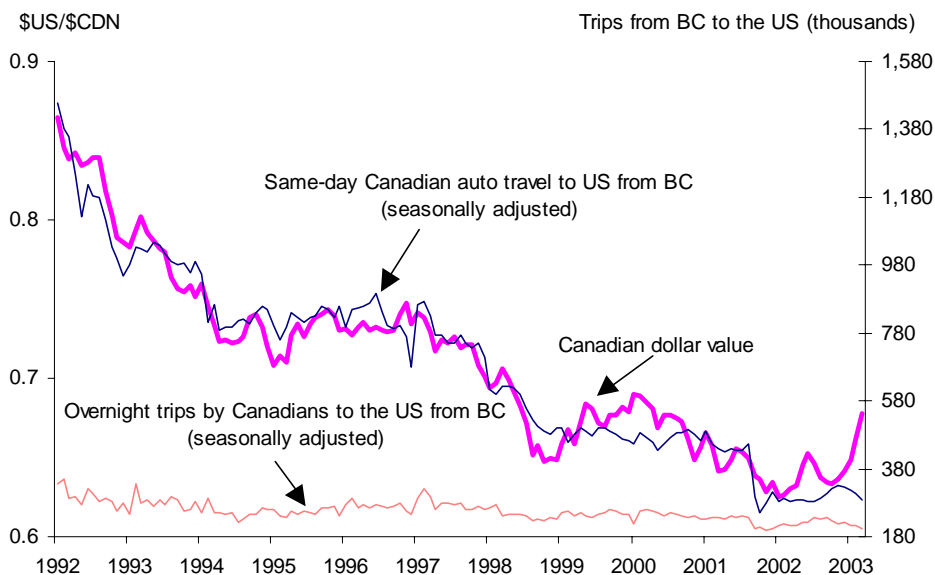
Special Focus: The Effect of Exchange Rate Movements on Cross-Border Travel

Changes in the value of the Canadian dollar relative to the US greenback are believed to have an effect on cross-border travel. When the Canadian dollar appreciates, it becomes less expensive to travel south of the border, which may encourage Canadians to spend more time in the US. At the same time, the relative price advantage for Americans coming to Canada is eroded. Conversely, a lower Canadian dollar makes travel to Canada more attractive to Americans, but may cause Canadians to stay closer to home.

Has the recent appreciation of the Canadian dollar had an effect on travel between Canada and the US? A regression analysis of the data suggests that cross-border travel between BC and the United States is affected by changes in the US/Canada exchange rate. The effect is strongest for short (same-day) trips across the border. Overnight travel (trips lasting for one or more days) to and from the US is less responsive to exchange rate fluctuations.

The regression analysis reveals that sensitivity to the exchange rate differs on both sides of the border. Canadians are more likely to respond to changes in the value of the dollar when arranging their US trips, while Americans are less influenced by this factor.

Fewer Canadians travelling to the US



Canadians travelling to the US from BC

Same-day trips from British Columbia to the US have dropped off considerably over the last ten years. The Canadian dollar depreciated during the same period, from a high of 0.824 US\$ in January

1992 to a low of 0.624 \$US in January 2002. It has been trending up since then.

The analysis suggests that the number of same-day trips from BC to the US is strongly correlated with the value of the Canadian dollar. As the Canadian dollar appreciates (or depreciates), the number of same day trips increases (declines). This finding is not surprising, since shopping is a common reason for same-day trips from BC to the US.

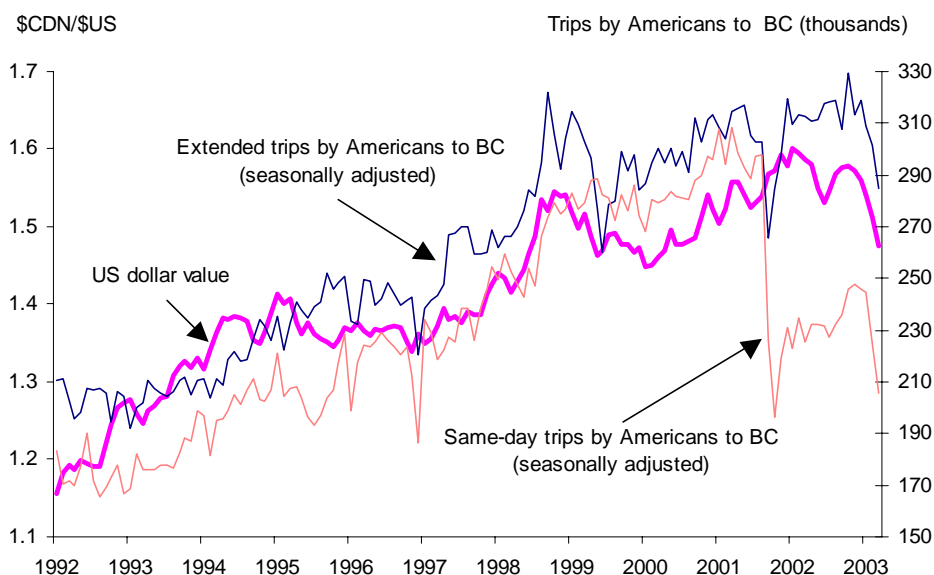
Overnight travel from BC to the US is also affected by the exchange rate, but the correlation is not as strong. Exchange rate changes may have a bigger effect on the length of trips south of the border, but since the data do not indicate how long returning Canadians were in the US, it is not possible to test this hypothesis.

Same-day travel to the US is strongly correlated with the value of the US dollar

Same-day and overnight trips by Americans to BC

The behaviour of American travellers vis-à-vis exchange rate movements is similar to that of Canadians. The value of the US dollar relative the Canadian dollar increased over the period from 1992 to 2003. During this period, the number of Americans travelling to BC for a single day trip rose steadily until the events of September 11, 2001. The attacks had a much bigger effect on travel from the US to Canada than on travel by Canadians to the US. Following the terrorist attacks, same-day entries from the US to Canada decreased by about a third, and remain well-below pre-9/11 levels. Overnight travel did not decline as much, and bounced back much more quickly after the attacks.

The number of Americans coming to BC has begun to slow as the value of the Canadian dollar rises



Long-run trends in overnight travel from the US to BC are quite similar to those for same-day trips. Consequently, it is not surprising to find that variations in the value of the US dollar also have an impact on the number of extended trips by Americans to BC.

Many factors other than exchange rates affect travel decisions. Fundamental determinants such as income, cost of living, climate and the cost of travel to domestic and other international destinations may play an important role in determining the volume of cross-border travel between the US and BC. Also, unexpected events can cause substantial changes in the tourism economy. The events of September 11th had an immediate effect as long border line-ups and the grounding of air travel in North America brought travel to a virtual standstill.

Entries from the US (both same-day and overnight) have yet to recover to pre-9/11 levels. This may be partly due to increased border security, long waiting times, and other factors which make travel more cumbersome than it was before the terrorist attacks.

More recent events have also had an adverse effect on cross-border travel to British Columbia. The war in Iraq and travel advisories following the outbreak of severe acute respiratory syndrome (SARS) in Toronto and elsewhere in Canada may have caused some Americans to re-evaluate their travel plans, choosing destinations other than BC for their vacations or conventions. These factors are difficult to quantify, but are particularly relevant and may be worth further study.