

Tourism Sector Monitor ♦ November 2003

Highlights

Room Revenue

The month of **August** saw room revenues increase strongly (+2.9%, seasonally adjusted) for the second time in a row. This rise, driven by a strong performance in Mainland/Southwest (+4.4%) and Vancouver Island/Coast (+3.7%), was the strongest since December 2002. Despite the forest fires raging in the Interior, revenues were down or virtually unchanged in the affected regions.

The Increase in Room Revenues was the Highest since December 2002 Despite the Wildfires

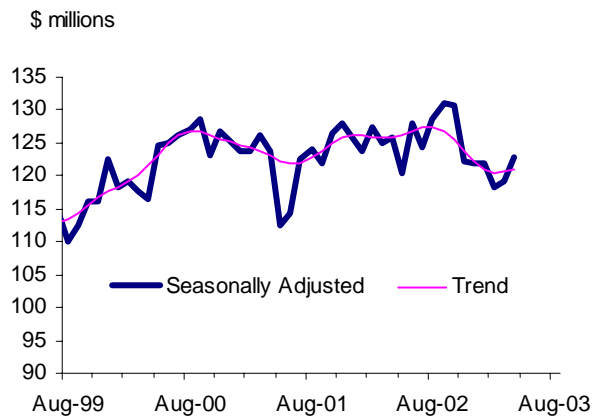


Table 1. Room Revenue* Summary

Accommodation Type			
	Aug 03 (\$000)	July 03 (\$000)	% change
Total	122,724	119,268	2.9
Hotels	91,013	87,245	4.3
Motels	14,871	14,740	0.9
Other Acc.	17,438	17,428	0.1
Regions (Top 3 performers)			
North Coast	1,678	1,591	5.5
Mainland/Southwest	67,165	64,359	4.4
Vancouver Island/Coast	22,724	21,911	3.7

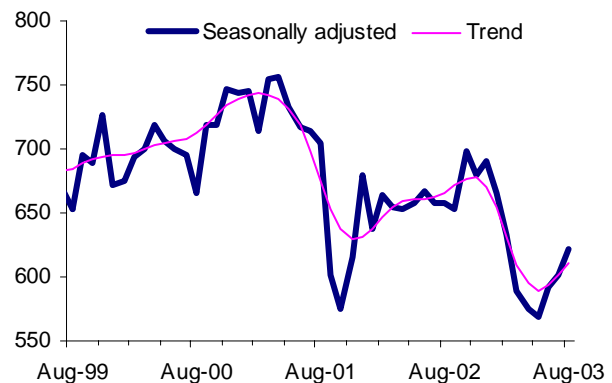
*Seasonally adjusted room revenue

Visitor Entries

The recovery that began in June continued in **August**, as the number of travellers entering Canada through BC borders rose 2.8% (seasonally adjusted). This improvement was also spread across regions since more travellers from the US (+2.4%), Asia (+13.5%), Europe (+0.8%) and Oceania (+3.3%) visited BC.

Rebounding from SARS and Iraq War, Entries Continued to Rise

Visitor entries (thousands)



Other Indicators

The August forest fires likely played a role in the slump in passenger vehicles on the Coquihalla Highway (-6.5%). Air passenger traffic through Vancouver reached 1.64 million in **August**, 1.2% lower than August 2002.

Note to readers...

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

Special Focus Article:

The Immediate Impact of Forest Fires on the BC Tourism Sector, Page 7

Tourism Trends

Room Revenue

An upturn in room revenues that started in July continued in **August**, as revenues advanced 2.9% (seasonally adjusted), the strongest increase registered since December 2002. Overall, the current rebound from the outbreak of SARS and the war in Iraq more than offset the adverse effect on the forest fires in BC and the effect of a strong Canadian dollar.

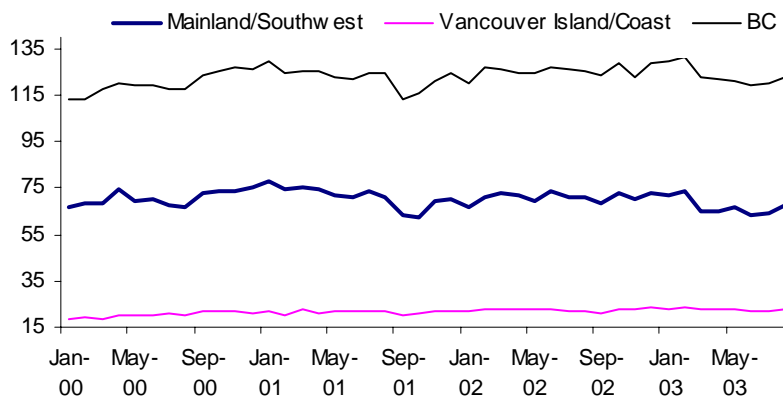
BC saw a mixed performance across regions in August. Mainland/Southwest (+4.4%), Vancouver Island/Coast (+3.7%) and North Coast (+5.5%) recorded strong gains. Weaker tourism activity was registered in the regions closest to the wildfires. Kootenay (-3.0%) and North East (-3.0%) posted similar declines while Thompson-Okanagan (+0.2%) and Cariboo (+0.1%) remained virtually unchanged. It would appear that the summer 2003 forest fires only had a limited effect on the rebound that started in July. However, revenues still have to increase substantially to get back to the level reached at the beginning of the year.

Overall, room revenues were up despite the raging forest fires

August's performance in regions close to the forest fires was weaker than the two biggest regions far from the wildfires

Strong Gains in the two biggest regions boosted BC room revenues

Room Revenue (\$ millions)



The increase in **August** was spread over all accommodation types with the exception of the miscellaneous category (-0.7%). Large hotels with at least 250 rooms (+7.2%) saw the largest rise, followed by mid-size hotels (those with 151-250 rooms), at +3.3%. Those with 76-150 rooms (+2.1%) and small hotels (1-75 rooms, +2.1%) also had strong growth. Motels (+0.9%) and vacation rentals (+0.7%) generated modest increases.

Almost all types of establishments generated more revenues than in July

Visitor Entries

The number of visitors entering Canada via BC continued to rise even more strongly in **August** (+2.8%, seasonally adjusted). It was the first time since November 2000 that there have been three consecutive increases in the number of travellers entering Canada through BC borders.

Visitor entries continued to rise at a quick pace in August

The **August** increase in visitor entries was spread over all source markets. Asian entries (+13.5%) continued to rise as Japan, Hong Kong, Taiwan and South Korea all registered double-digit increases. Asian entries have not yet recovered to pre-SARS and Iraq War levels, but the worst of the effect appears to be over.

Not affected to the same extent by these past events, Oceania (Australia and the South Pacific, +3.3%) and Europe (+0.8%) showed modest gains.

The number of travellers entering Canada through BC borders was robust

The number of US visitors on same-day (+2.8%) and overnight trips (+2.3%) increased in **August**. Same-day travel to BC was apparently unaffected by the wildfire situation, which is different than previous unforeseen shocks. Same-day travel fell substantially during the month of the 9/11 attacks, the war in Iraq and the SARS outbreak.

All Top Markets for BC Tourism Registered an Increase in Entries in August

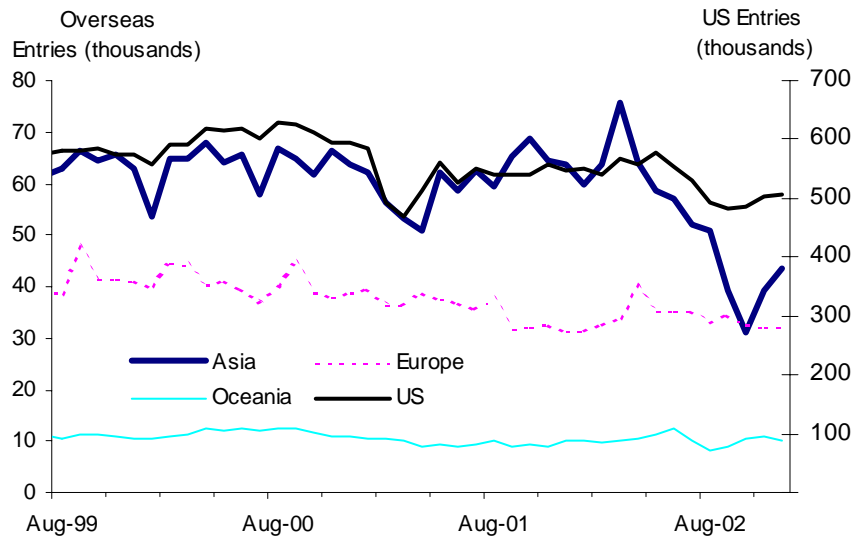


Table 2. Traveller Entries (August, seasonally adjusted)

	Aug-03 ('000)	Jul-03 ('000)	% chg from Jul-03
American visitors			
Total	523	511	2.4
Same-day	225	219	2.8
Overnight	295	289	2.3
Overseas visitors			
Total	98	93	4.9
Europe	33	32	0.8
UK	17	17	-2.0
Asia	49	44	13.5
Japan	12	11	11.2
Taiwan	7	5	33.1
Oceania	10	10	3.3
Canadian re-entries			
Total	629	599	5.0
From overseas	82	75	8.2
From US same-day auto	319	299	6.6

(BC STATS & Statistics Canada)

note: Total Overseas visitors is not equal to the sum of visitors from Europe, Asia and Oceania since it is also includes other areas

Other Tourism Indicators (Up to August 2003)

The Coquihalla Highway had 6.5% fewer passenger vehicles passing through its tollbooths in **August** 2003 (compared to August 2002). The raging fires affected the traffic on this route connecting the southwestern part of the province with the interior as drivers likely rethought their vacation plans and routes.

Coquihalla Highway traffic went down due to the BC wildfires

Passenger traffic at the Vancouver Airport was also lower (-1.2%) than **August** 2002. Despite this drop, the effect of the SARS panic on air travel seems to be abating since the pace of the year-over-year decline has slowed over the last four months. On the positive side, traffic and passengers on BC ferries (+1.9%) was higher than in August 2002.

Compared to the same month last year, hotel occupancy dropped half a percentage point to 79.5% in **August**. Average room rates were also lower (3.4% to \$131.13) than in the same month last year.

The Canadian dollar remained strong in **August** despite a slight depreciation relative to the US dollar. One US dollar cost \$1.40 Canadian, up 2 cents from July.

Restaurant and tavern receipts rose in **August** (+2.2%, seasonally adjusted) after surging (+5.3%) the previous month. Consumers spent more on food services (+2.4%), but less in drinking places (-1.6%).

Table 3. Other Tourism Indicators (August, unadjusted)

	Reference period	Total	Change from year ago
Hotel Industry			
Occupancy rate	Aug-03	79.5%	-0.5 pp.
Average room charge	Aug-03	\$131.13	-3.4%
<i>(Pannell Kerr Forster)</i>			
Airport Passengers		(000s)	(%)
Vancouver International Airport			
Total traffic	Aug-03	1,641	-1.2
US	Aug-03	482	2.7
Other International	Aug-03	375	-6.6
Canada	Aug-03	784	-0.7
<i>(YVR)</i>			
Victoria International Airport			
Total traffic	Aug-03	122	9.8
<i>(Victoria Airport Authority)</i>			
Restaurant Receipts		(\$ millions)	(%)
Full service	Aug-03	297	11.6
Limited service	Aug-03	177	12.5
Drinking places	Aug-03	27	-2.2
<i>(Statistics Canada)</i>			
Transportation		(000s)	(%)
Coquihalla Highway			
Passenger Vehicles	Aug-03	388	-6.5
<i>(Ministry of Transportation & Highways)</i>			
BC Ferries			
Vehicle Volume	Aug-03	1,032	1.9
Passenger Volume	Aug-03	3,032	1.9
<i>(BC Ferries)</i>			
Exchange Rates		Cdn \$	Change from year ago
US \$	Aug-03	1.396	-0.172
UK Pound	Aug-03	2.224	-0.184
Japanese Yen	Aug-03	0.012	-0.001
Australian \$	Aug-03	0.910	0.060
<i>(Statistics Canada)</i>			

note: pp. percentage points

A look ahead

Room Revenue

Preliminary numbers suggest that room revenues fell 2.2% in **September**, offsetting a large part of the gains made in August (+2.9%). The drop seems broad-based as revenues were down in seven of BC's eight regions. This fall was observed among most accommodation types.

There was a loss in momentum in tourism activities in September as most indicators showed declines

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 recovery that began in June stopped momentarily in **September**, as the number of travellers entering Canada through BC borders edged down 0.4% (seasonally adjusted). Entries from the US fell (-1.2%) but entries from overseas continued to improve (+3.8).

Visitor entries edged down in September after increasing substantially this summer

Other Tourism Indicators

The traffic of passenger vehicles over the Coquihalla highway slumped (-9.7%) again in **September** compared to the same month in 2002, definitely a side effect of the forest fire situation in the BC Interior. The number of passengers through Vancouver Airport continued to fall in **September** compared to the same month last year while Victoria Airport continued to register impressive gains.

The raging BC wildfires continued to have an impact on passenger vehicle traffic

Difficulties in the tourism sector in 2003 were reflected in the average room charges and hotel occupancy, which were both down in **September** 2003 compared to September 2002 for the seventh straight month.

The Canadian dollar continued to hold a strong position, appreciating relative to US currency in **September**. The cost of a US dollar was \$1.36, down 4 cents from July. Restaurant and tavern receipts edged up in **September**.

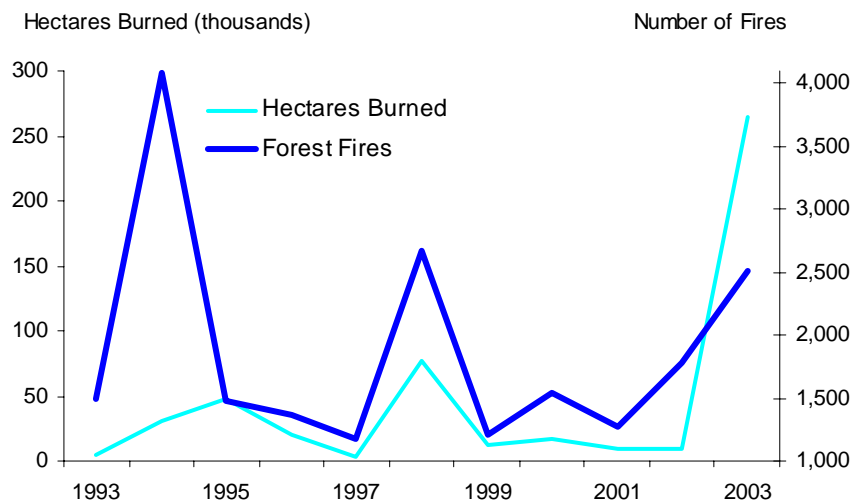
Special Focus: The Immediate Impact of Forest Fires on the BC Tourism Sector

The BC tourism sector has faced a few difficult challenges recently. It started with September 11th, followed by the war in Iraq and the SARS outbreak this year. Forest fires that raged across BC this summer in July, August and September were another unforeseen hit for the BC tourism sector. The devastating fires forced the BC government to issue a restrictive travel advisory in late July, banning people from entering the backcountry, which includes tourism locations such as forested areas, alpine, grasslands and non-productive forest land. In addition, a campfire ban was in effect in all provincial parks as well as some other areas to reduce the risk of new human-caused fires.

BC suffered the worst wildfires in the province's history

So far this year there have been 2,507 fires reported to November 18. This is more than the 1993 to 2002 average of 1,805 fires per year. These wildfires, bigger than usual, were also more devastating. The area burned in BC this year was 260,000 hectares. This is dramatically higher than normal, about 10 times the historical average of 23,800 hectares burned annually between 1993 and 2002.

The Amount of Hectares Burned by Wildfires in 2003 were the Highest Registered



Source: BC Ministry of Forests

Room Revenue Losses Concentrated In BC Interior Regions

Approximately three-quarters (74%) of fires were situated in the BC interior this summer, encompassing the Thompson-Okanagan and Cariboo region. Some fires also raged in the Kootenay and Northeast development regions. Regions close to the forest fires were affected the most. Tourism activity was already going down this year before the summer fires extended this downward trend. The fires started to affect some regions in July, as room revenues fell in Thompson-Okanagan (-2.7%, seasonally adjusted) and Cariboo (-3.1%). In August, Kootenay (-3.0%) and Northeast (-3.0%) posted similar declines to what Thompson-Okanagan and Cariboo experienced one month before. Room revenues remained virtually unchanged in Thompson-Okanagan (+0.2%) and Cariboo (+0.1%) in August, suggesting that the worst had past.

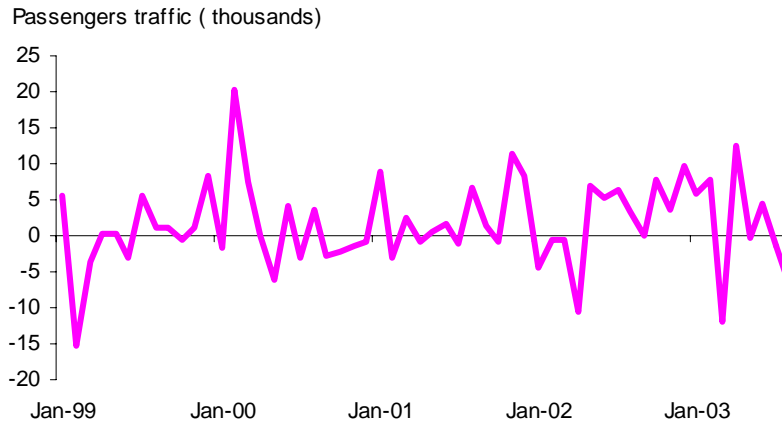
Last minute cancellations contributed to the weak performance in these regions. This performance would have been possibly weaker without factors that contributed to offset part of the losses in room revenues. First, a large number of people in communities such as Kelowna had to leave their homes due to the fires. Some of them had to stay in hotels or motels until they were able to go back home. Second, some fire fighters, fire watchers and media who came to the Thompson-Okanagan region had to stay in tourist accommodations, increasing room revenues.

Province wide, room revenues continued to increase July (+1.0%) and August (+2.9%) largely as a result of stronger growth elsewhere in the province. The current rebound in room revenues from the outbreak of SARS and the war in Iraq more than offset the adverse effect of forest fires in regions far from the fires. It is possible that the stronger performance of regions far from the fires is due to travellers who changed their plans to visit these regions instead of those heavily affected by the forest fires.

Other Tourism Indicators

The BC fires also caused problems for people travelling by cars. Traffic on the Coquihalla Highway, the most popular route connecting the southwestern part of the province with the BC interior, fell on a year-over-year basis in July, August and September.

Fewer Passengers Vehicles on the Coquihalla Highway During the Forest Fires Period

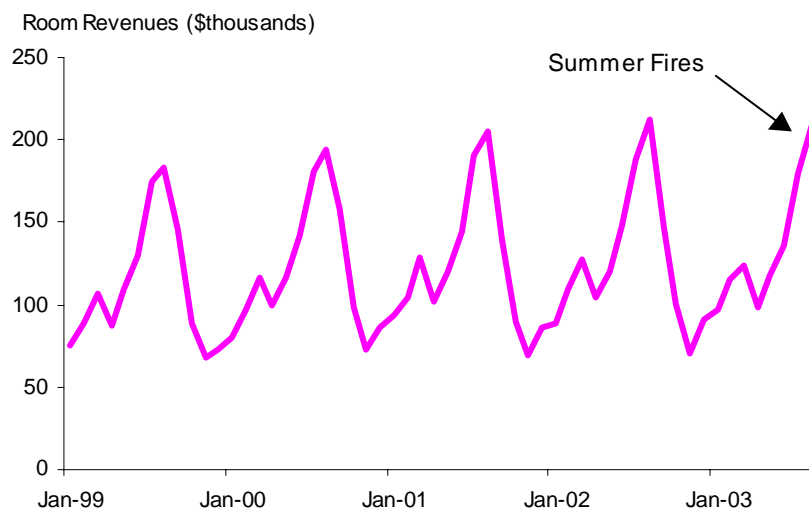


Visitor entries, another proxy of tourism activity, did not show the same negative picture as passenger vehicle traffic and room revenues. Forest fires did not have an adverse effect on visitor entries, perhaps due to the fact that the data covers the whole province while the fires were localised in specific regions. The number of travellers entering Canada through BC borders increased in July (+2.2%, seasonally adjusted) and August (+3.0%).

Wildfires Happened During the Peak of the Season

Tourism is a seasonal phenomenon. The wildfires unfortunately burned mostly during July, August and September, the three months of the year when most room revenues are typically generated. More precisely, establishments generated 38% of their annual room revenues in these three months between 1995 and 2001. Moreover, the forest fires were at their peak in August, also the peak month for tourism. Despite this bad timing, the peak of the 2003 season does not appear to be lower than the peak of previous years. The upturn from the outbreak of SARS and the war in Iraq allowed BC establishments to generate room revenues similar to previous years during the peak of the 2003 season.

BC Experienced a Similar Peak Season than in the Past



Looking ahead: Impact of the Fires Seems Temporary

The fire season is more or less over with only a few active wild-fires left (140 burning on November 18, 2003). As a result of cooling temperature, rainfall and reduced fire danger, some forest districts were open again to backcountry travel in late September. At first glance, this suggests that the impact of the forest fires was temporary. However, the full impact of the fires on the tourism sector in 2003 will not be known until we have statistics on room revenues, vehicles traffic and visitors entries for the full year.

The dry weather of 2003 played an important role in the raging fires this summer. Looking forward, some aspects of climate change could be a possible challenge to the tourism sector in the coming years since less rainfall and hotter weather increase the danger of wildfires.

Impact of the Fires on the Economy

Forest fires affected other industries besides the tourism sector. Logging and forestry activities and manufacturing industries such as wood and paper were shut down due to extreme fire hazard. Fears of supply shortages and low inventories due to the forest fires may have partially contributed to the jump in lumber prices in August.

Government spending went up due to firefighting. By October 25, the province had identified an estimated \$550 million in total costs related to wildfires. Government spending represents an offset to the losses incurred in other industries in the BC economy. On the bright side, the BC Government is currently studying the possibility that wood affected by wildfires might be marketable timber for China, which may increase BC exports in the future.

Wildfires Have Less of an Impact than Previous Disasters

Based on room revenues, the instantaneous impact of fires on the BC tourism sector was smaller than the events of September 11th, the Iraq War and the outbreak of SARS, since fires were isolated to particular regions within BC. More importantly, these regions represent a small share of all room revenues generated in BC.

September 11 and SARS had a Bigger Impact on BC Room Revenues

Event	Period	BC % change
Sept. 11th	Sep-01	-10.8
SARS Asia/Iraq War	Mar-03	-3.5
SARS Toronto	Jun-03	-9.7
BC fires	Jul-03	1.1
BC fires	Aug-03	2.9

Source: BC Stats

It is difficult to isolate the effect of BC fires on room revenues since the wildfires happened when the recovery from the SARS outbreak and the Iraq War was underway. Despite this caveat, the tourism sector did not suffer as much due to the wildfires as the Iraq War, SARS or September 11th. Even the performance of the Thompson-Okanagan, the region where fires were burning most intensely to a certain degree, was better during the 2003 season than during September 2001.