

Tourism Sector Monitor ♦ February 2004

Highlights

Room Revenue

Room revenues in the province increased by 0.8% (seasonally adjusted) in November, posting a second consecutive monthly gain. Revenues were up in larger development regions, such as Mainland Southwest (+1.7%), Vancouver Island/Coast (+0.4%) and Thompson Okanagan (+0.5%). Revenues in the other development regions were mixed. Driving the growth was revenues at medium (76-150 rooms, +0.7%) and large (151-250 rooms, +1.2%) hotels, rather than at motels (-2.9%) or small hotels (1-75 rooms, -3.5%).

Room revenues post secondly monthly increase in November

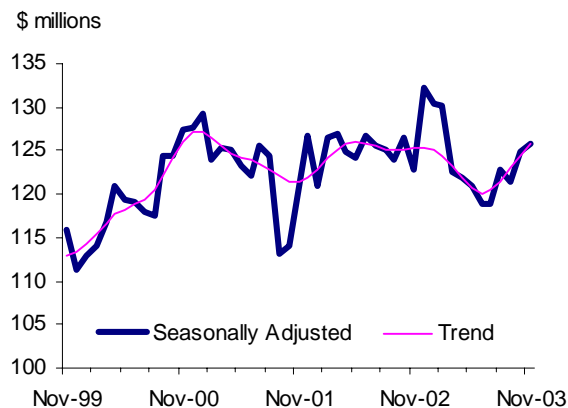


Table 1. Room Revenue* Summary

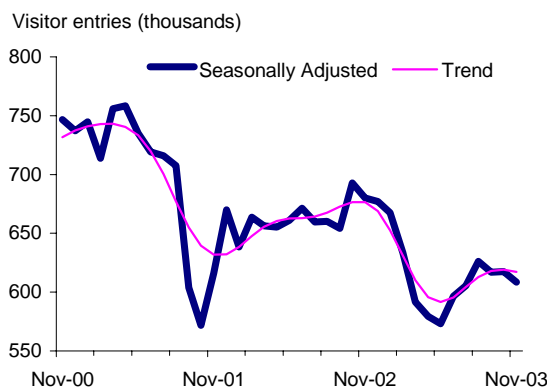
Accommodation Type			
	Nov 03 (\$000)	Oct.03 (\$000)	% change
Total	125,886	124,894	+0.8
Hotels	92,676	92,924	-0.3
Motels	15,588	16,062	-2.9
Other Acc.	17,733	17,473	+1.5
Regions (Top 3 performers)			
North Coast	1,644	1,614	+1.8
Mainland/Southwest	68,645	67,529	+1.7
Northeast	3,772	3,740	+0.9

*Seasonally adjusted room revenue

Visitor Entries

The volume of travellers entering Canada via BC borders continued to decline in November, dropping 1.2% (seasonally adjusted). Entries from both the US (-1.3%) and overseas (-0.3%) were down, while Asian visitor entries crept up 0.2%, posting a sixth consecutive monthly gain.

Visitor entries down in November



Other Indicators

Average hotel occupancy was up (+2.4 percentage points) in November, while hotel room rates continued to drop (-1.9%) for the ninth consecutive month in 2003 (relative to November 2002).

Passenger vehicle traffic over the Coquihalla highway slumped (-11.2%) in November, compared to the same month of 2002. BC restaurant and tavern receipts fared well in November (+1.6%, seasonally adjusted), as both food services and drinking places saw more receipts than in October 2003.

Note to readers...

Special Focus Article: *BC's tourism sector limps through 2002*. Page 7.

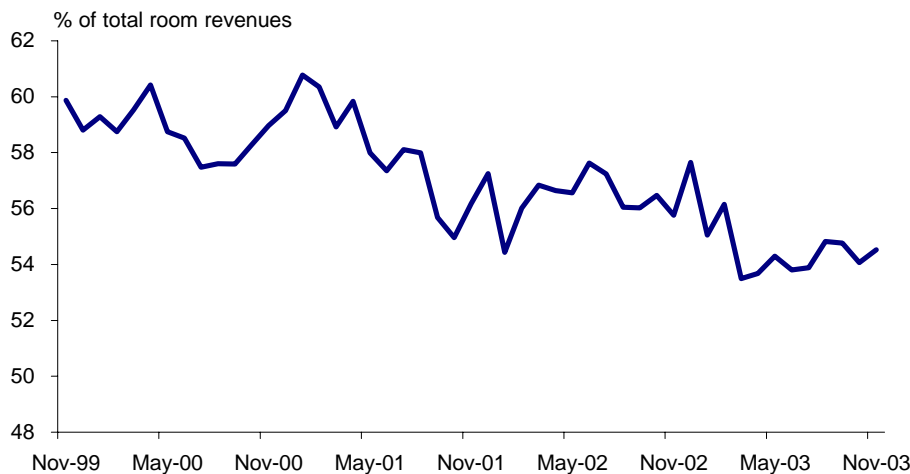
Tourism Trends

Room Revenue

Room revenues rose modestly (+0.8%, seasonally adjusted) in November. In the larger tourism regions, Vancouver Island/Coast (+0.4%), Mainland/Southwest (+1.7%) and Thompson Okanagan (+0.5%), revenues edged up for the second month in a row. Three regions—Nechako (-5.4%), Kootenay (-3.9%), and Cariboo (-2.8%)—showed significant month-over-month declines in room revenues.

The Mainland/Southwest region showed the strongest revenue growth in the province.

Despite strong growth in November, Mainland/Southwest holds a declining share of room revenues in BC



By establishment type, the increase in revenues was concentrated among mid-sized hotels (76 - 250 rooms), which had 0.9% higher revenues. Vacation rentals also recorded stronger revenues (+4.0%). In contrast, revenues at small hotels (1 - 75 rooms) fell 3.5%, while motels saw their revenues slip 2.9%.

Visitor Entries

The volume of visitors entering Canada through BC continued to fall in November, down 1.2% (seasonally adjusted). The largest decline was in US same-day traffic (-3.6%), though overnight visits from the US were also lower (-1.5). Visitor entries from Asia were virtually unchanged in November (+0.2%), though the past six months have seen strong growth.

The effect of the SARS panic on the Asian market was tremendous—larger in magnitude than 9/11 or even the Asian economic meltdown of 1997.

Asian travellers 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 World Health Organization first issued SARS travel warnings in mid-March, 2003. By May, Asian visitor entries were at their lowest point since May 1991.

The recovery in the Asian market is no less impressive than its collapse. Since May, entries from Asia have risen 109.4%. Entries in November were actually 9.7% higher than in February—the month before the SARS panic.

Visitor entries from Asia were higher in November than in February (the month before the SARS scare).

Visitor Entries from Asia recover after SARS panic

visitor entries (thousands) from Asia

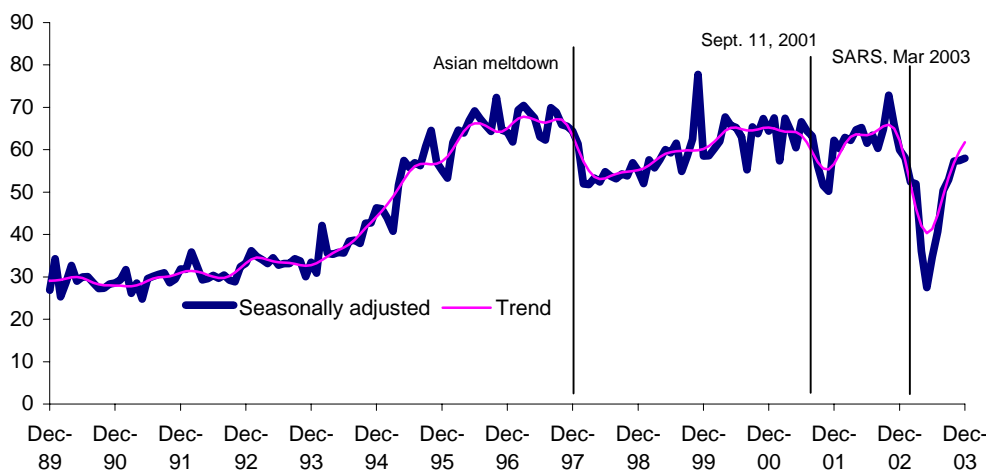


Table 2. Traveller Entries (*seasonally adjusted*)

	Nov-03 ('000)	Oct-03 ('000)	% chg from Oct-03
American visitors			
Total	504	511	-1.3
Same-day	216	224	-3.6
Overnight	288	292	-1.5
Overseas visitors			
Total	105	105	-0.3
Europe	34	34	1.5
UK	17	17	3.1
Asia	57	57	0.2
Japan	20	17	20.3
Taiwan	7	8	-11.1
Oceania	10	10	4.7
Canadian re-entries			
Total	658	630	4.5
From overseas	91	87	5.5
From US same-day auto	345	333	3.8
<i>(BC STATS & Statistics Canada)</i>			

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

Other Tourism Indicators

Hotel occupancy was 48.0% in November, a full 2.4 percentage points above November of the previous year. Average room rates—\$91.15—were 1.9% lower than in the same month last year. This was the 9th straight month of falling room prices.

Hotel room prices continued to fall in November.

The Canadian dollar appreciated relative to US currency in November. One US dollar cost \$1.31 Cdn, compared to \$1.57 Cdn in November 2002 (down 26 cents). This would be expected to deter Americans from travelling to Canada.

Restaurant and tavern receipts in BC edged upward 1.6% (seasonally adjusted).

Table 3. Other Tourism Indicators (unadjusted)

	Reference period	Total	Change from year ago
Hotel Industry			
Occupancy rate	Nov-03	48%	2.4 pp.
Average room charge <i>(Pannell Kerr Forster)</i>	Nov-03	\$91.15	-1.9%
Airport Passengers		(000s)	(%)
Vancouver International Airport			
Total traffic	Nov-03	985	2.2
US	Nov-03	233	2.4
Other International	Nov-03	229	-0.2
Canada <i>(YVR)</i>	Nov-03	524	3.3
Victoria International Airport			
Total traffic <i>(Victoria Airport Authority)</i>	Nov-03	89	13.7
Restaurant Receipts		(\$ millions)	(%)
Full service	Nov-03	230	5.0
Limited service	Nov-03	172	17.3
Drinking places <i>(Statistics Canada)</i>	Nov-03	21	-10.7
Transportation		(000s)	(%)
Coquihalla Highway			
Passenger Vehicles <i>(Ministry of Transportation & Highways)</i>	Nov-03	112	-11.2
BC Ferries			
Vehicle Volume	Nov-03	570	-0.7
Passenger Volume <i>(BC Ferries)</i>	Nov-03	1,358	-1.9
Exchange Rates		Cdn \$	Change from year ago
US \$	Nov-03	1.313	-0.259
UK Pound	Nov-03	2.220	-0.248
Japanese Yen	Nov-03	0.012	-0.001
Australian \$ <i>(Statistics Canada)</i>	Nov-03	0.940	0.058

note: pp. percentage points

A look ahead

Room Revenue

Preliminary numbers suggest that room revenues were up in **December** (+3.2%, seasonally adjusted), posting the highest growth in fourteen months. Mainland/Southwest and Vancouver Island/Coast had modest growth, while other regions showed stronger increases in room revenues.

Preliminary numbers for December point to a 3.2% (seasonally adjusted) growth.

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

The number of visitors entering Canada via BC increased (0.6%, seasonally adjusted) after three months of declining entries. Travellers from both the US and overseas increased their numbers.

Visitor entries had the first solid performance in December, after three consecutive monthly losses.

Other Tourism Indicators

Hotel occupancy continued to increase by 1.8 percentage points to 44% in December (compared to the same month of 2002). Yet the average room charges fell 1.4%, posting a tenth consecutive monthly drop.

Hotel room rates fell 1.4% – the tenth consecutive drop.

The number of vehicles and passengers aboard BC Ferries slumped more than 12% in December – compared to the same month in 2002 – as a result of labour-management conflict. Passenger vehicle traffic over the Coquihalla highway was 8.8% less than the same month of the previous year.

The Canadian dollar was strong relative to US currency in December. One US dollar cost \$1.31 Cdn, compared to \$1.56 Cdn in December 2002 (down 25 cents).

Restaurant and tavern receipts in BC slipped 0.2% (seasonally adjusted) in December, due to lower receipts in food services.

Special focus: BC's tourism sector limps through 2002

Gross Domestic Product (GDP) in BC's tourism sector amounted to roughly five billion dollars in 2002, making up over four percent of the provincial economy. There were some 18,000 companies related to tourism in BC, and over 115,000 workers in the sector. Growth, however, was minimal in the tourism sector, and its size as a share of the BC economy is slowly declining.

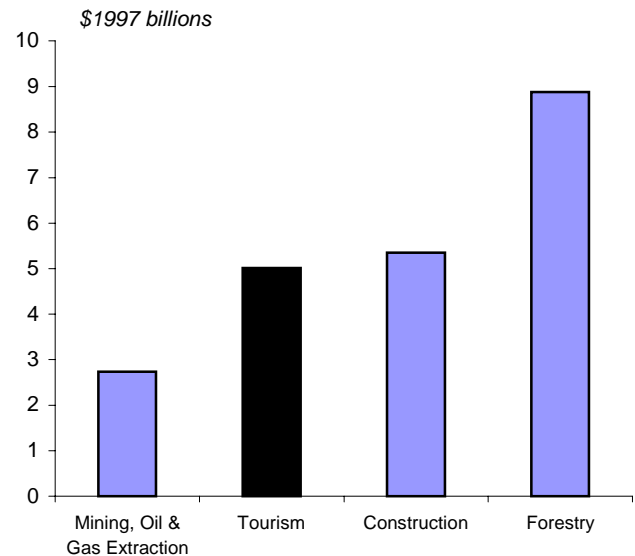
This report examines the latest GDP figures for BC's tourism economy, and also takes the opportunity to review the performance of the tourism sector over the past two decades, highlighting its strengths and weaknesses.

An important player in BC's economy

Tourism plays an important role in British Columbia's economy. The sector contributed \$5.0 billion (constant 1997 dollars) to the British Columbia economy – 4.2% of the province's gross domestic product (GDP). By comparison, tourism's contribution is significantly larger than mining and oil & gas extraction (\$2.7 billion), and similar in size to the construction industry (\$5.3 billion). It is a bit more than half the size of the forestry sector (\$8.9 billion).¹

Hotels, motels, restaurants and related establishments produce 38.1% of the tourism sector's GDP. Airlines and other transportation (27.5%) industries and retailers (12.9%) are also key players. Other industries make up the remaining 21.4% of total tourism GDP.

Tourism generates about 4% of BC's GDP



A note on GDP

GDP is a measure of the value added to the economy by a particular activity. It is calculated by subtracting the cost of supplies used to produce a good or service from total sales. For example, the price of a restaurant meal covers the cost of food purchased to make the meal, the energy used to cook it, rent and other building expenses, cleaning supplies, accountants fees, and so on. It also includes a markup intended to cover items such as wages, profits and depreciation. The restaurant didn't produce the food or energy it used. Its contribution to GDP is only the value of the service it provided—the difference between the price paid by the consumer and the inputs (such as food and energy) used by the restaurant.

The GDP figures reported in this article are in constant (1997) dollars. This means that they have been adjusted to eliminate the effects of price changes over time.

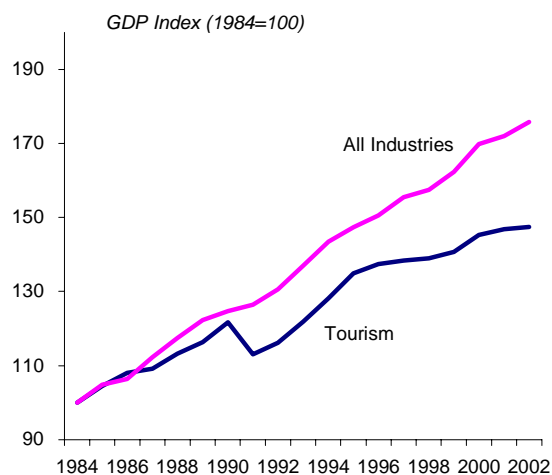
¹ This includes not only logging but related industries such as pulp and paper manufacturing.

The tourism sector has not fared well in recent years

The tourism sector was sluggish in 2002, expanding by a meagre 0.4%. This is well below provincial GDP growth of 2.2%.

Below-average growth is a long-term pattern in BC tourism. In only five of the last 17 years did the tourism sector outpace the provincial economy. Since 1984, tourism GDP has increased 47%, compared with 76% growth in all industries combined. Its share of provincial GDP has fallen from 5.1% in 1984 to 4.2% in 2002.

GDP in the tourism sector has lagged behind the rest of the economy



Since 1984, the retail component of tourism has shown the strongest performance, increasing 70% over the period. Accommodation and food service, the largest element of the tourism economy, has closely matched the performance of total tourism GDP (+45%).

The dismal performance of the transportation sub-sector has been a long-term problem for tourism in BC. Over the last 17 years, tourism-related transportation grew by a total of 8%. The 1991 recession battered the transportation sub-sector, and its GDP

plummeted 24% in that year. It took 8 years for the sector to recover, and it is once again in trouble. In 2001, tourism-related transportation GDP fell 3% and showed no growth in 2002.

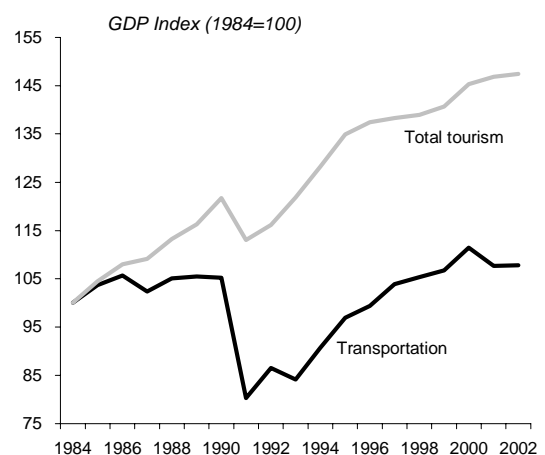
Canada's turbulent airline industry is the main source of the problems. A privatization and deregulation program began some 15 years ago, in a bid to make the industry more competitive. Many airlines have yet to effectively adapt to the new environment.

Canadian Airlines, on the verge of collapse, was absorbed by Air Canada in 2000. In the next year, Canada 3000—having become the nation's second-largest carrier—declared bankruptcy and its 5,000-strong workforce was dismissed.

Despite the dissolution of its main competitors, Air Canada itself filed for bankruptcy protection in early 2003. The airline continues to operate under a court-monitored restructuring program.

In BC, the air transportation industry shed almost 3,700 workers between 1998 and 2002—23% of its workforce.

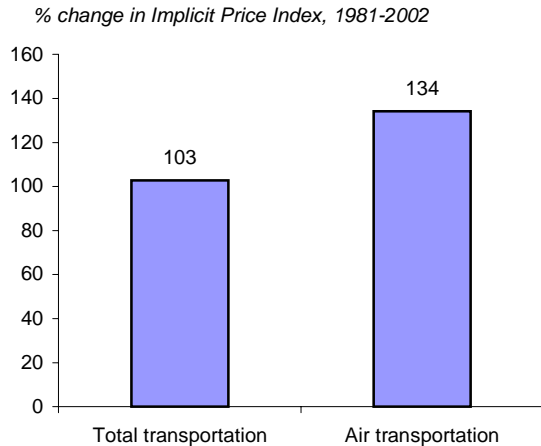
Weakness in the transportation component of the tourism sector has hampered growth



The cost of air transportation, furthermore, has increased sharply over the last two decades. General transportation costs (car

prices, gas, etc.) essentially doubled (+103%) between 1981 and 2002. However, prices for air transportation increased 134% over the same period.

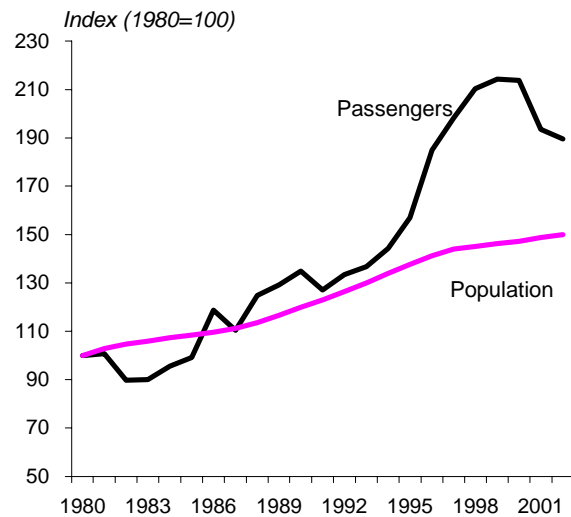
Higher inflation in air transportation



Thus, the long-term health of BC's tourism-related transportation sector hinges on a two-fold problem: maintaining a solvent airline industry while at the same time keeping air travel prices reasonable.

In spite of the troubles in the airline industry, passenger volumes have grown considerably since 1980 (+90%), well ahead of the rise in BC's population (+50%). Much of this growth occurred in the late 1990s in the wake of the open skies agreement, which opened up more direct routes between Canada and the US.

Vancouver airport passenger volumes showed strong growth in the late 1990s

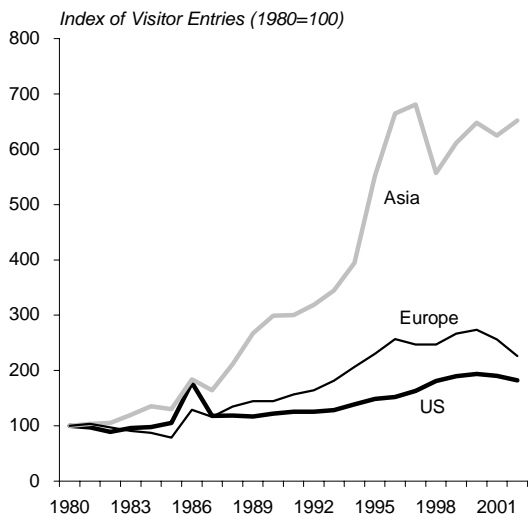


Traveller Volumes to BC

In 2002, the number of international visitors entering Canada through BC border points was down 4.1%. Same-day trips from the US into BC dropped 13.8%, though overnight trips actually increased (+4.2%). The number of overseas visitors edged down 3.0%.

BC has seen strong growth in visitor entries over the past two decades. Between 1980 and 2002, the number of visitors doubled. From the US, same-day visits rose 52%, while overnight trips jumped 114%. Entries from the US make up the vast majority (84%) of all travel to BC. However, the proportion of visitors from overseas has been growing. Visitor entries from Europe have grown 126% since 1980, while entries from Asia have exploded (+552%).

Visitor entries to BC from Asia have soared since the mid-1980s



It is important to remember, however, that visitor entries are only a rough indicator of tourist activity in the province. Some people who enter Canada via BC may be headed for other destinations. The province's location as a transit point for travellers from Asia means that many overseas visitors going to other parts of the country, or even south of the border, initially clear customs in Vancouver.

18,000 businesses offer tourism-related services

There were 17,996 businesses in the tourism sector in 2002. The majority of these firms (61%) were small businesses with fewer than 10 employees. Most (53%) were in the food and beverage industry. The number of firms in the tourism sector has been fairly stable in recent years, increasing 2.6% since 1998.

115,500 British Columbians work in the tourism sector

Employment in the tourism sector was virtually unchanged in 2002 (+0.4%). The sector employs 115,500 people, representing 7.2% of BC workers. The share of BC jobs in

tourism since 1991 has been virtually constant.

Tourism employment includes workers in a variety of businesses, ranging from restaurants and hotels to travel agents and airline staff. Exactly half of the jobs are in the accommodation and food industry. Transportation (17%) and retailing (17%) are the other big employers in this sector. All of the tourism jobs are in the service industries.

Over the past decade, the accommodation and food industry has been responsible for most of the new tourism jobs, up 32% since 1991. Employment in retail sales grew 16%, over the same period. The number of jobs in transportation rose 4% since 1991, despite significant decline over the last few years.

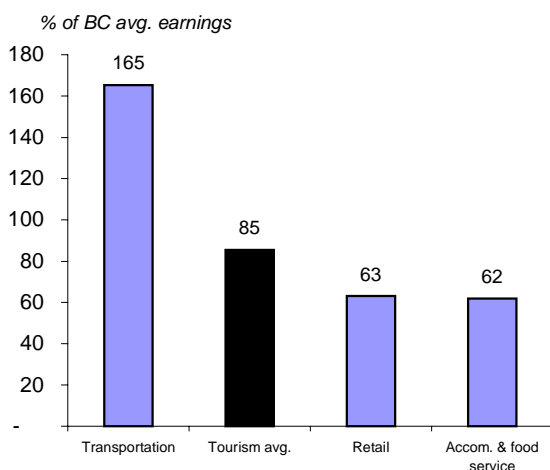
Are tourism employment estimates comparable to other employment figures?

Yes, as long as care is taken to ensure that jobs are not double counted. Since the tourism employment figures are calculated by apportioning a share of total employment in each industry to the tourism sector, those jobs must be subtracted from total employment in the relevant industries.

Tourism workers earned an average of \$577 per week in 2002, noticeably below the total BC average (\$675). Workers in transportation had very high weekly earnings (\$1116), while those employed in retail (\$426) and accommodation and food service (\$418) had weekly earnings well below the BC average. This is partly due to the tendency for tourism jobs to be part-time, often held by young people and students.²

² For more detail on tourism-related jobs, see the article "The Tourism Labour Market," published in issue 03-07 of the *Tourism Sector Monitor*. Note that in this report, we have revised the methodology for calculating average earnings in tourism.

Most tourism jobs offer below-average weekly earnings



Average weekly earnings in the tourism sector inched up 1.1% in 2002. Since 1991, earnings have risen 17%.

Tourism GDP in 2003?

Tourism sector GDP figures for 2003 will not be available for some time. However, there are a variety of indicators that provide an idea of what to expect from the next annual GDP release.

A review of the available data for 2003 points to a challenging year for tourism. Visitor entries to Canada via BC border crossings were down 8% in 2003. Entries from both the US (-7%) and overseas (-13%) dropped significantly. Most worrisome was the massive decline in visitor entries from Asia (-24%), which fell to their lowest level in years.

However, as noted earlier, there has been an impressive recovery in the Asian market over the later half of 2003. Indeed, by November, visitor entries from Asia were 9.7% higher than in February 2003 (*seasonally adjusted*), the month before the SARS outbreak.

Thus, the steep drop in visitor entries suggests that 2003 was a difficult year, but there does not seem to have been any longer-term damage as a result of the SARS scare.

Other tourism indicators tell a similar story. Passenger volumes at Vancouver airport were down 3.7% in 2003, and the number of overseas travellers was down %10.0.

Hotel occupancy rates (58.3%) hit their lowest level in at least a decade. Hotel room rates dipped 1.7%, and the overall consumer price index for traveller accommodation sunk 9.9%, nearly wiping out 8 years of inflation.

Preliminary room revenue data indicates that room revenues in BC edged down 1.4% in 2003, the first decline since 1991.

There was some positive economic news last year. Employment in some key tourism-related industries expanded slightly in 2003. Most notable, employment in air transportation – riding gains made in the first half of the year – was up 4.4%. As well, restaurant and tavern revenues rose a solid 5.7%.

Nevertheless, the overall indication is that 2003 was a particularly difficult year for the tourism sector in BC. A major factor in this was the SARS panic – which should not carry any effects into 2004. At this time, ongoing trouble in the transportation sector seems to be the main weak point for tourism in the province.

Tourism GDP and Employment

2002 data (\$1997 million)	Tourism-related activities	Other activities	Tourism as % of industry GDP	% of tourism GDP
Tourism sector GDP	5,012			
Accommodation & food services	1,911	1,767	52.0	38.1
Retail	645	6,980	8.5	12.9
Transportation & warehousing	1,380	5,859	21.9	27.5
Other with tourism component	1,075	68,888	1.5	21.4
Goods industries		28,687		
Service industries	5,012	84,540	5.9	100
Total GDP for BC: 118,240			4.2	100

2002 data	Tourism-related activities	Other activities	Tourism as % of industry employment	% of tourism employment
Tourism sector employment ('000)	115.5			
Accommodation & food services	58.2	89.1	39.5	50.4
Retail	19.3	190.1	9.2	16.7
Transportation & warehousing	20.0	82.9	19.4	17.3
Other with tourism component	18.0	749.5	2.3	15.6
Goods industries		291.9		
Service industries	115.5	1,196.5	9.7	100
Total employment in BC: 1,612,737			7.2	100

2003 Year-to-Date (Jan - Nov)	Tourism-related
Tourism sector employment ('000)	117.5
Accommodation & food services	58.0
Retail	20.2
Transportation & warehousing	20.5
Other with tourism component	18.8

	1998	1999	2000	2001	2002
GDP at basic prices (\$million)					
Tourism	4,864	5,067	5,235	5,398	5,485
Accommodation & food services	1,889	1,915	1,984	2,088	2,086
Retail	550	561	598	631	664
Transportation & warehousing	1,432	1,528	1,548	1,548	1,582
Other	994	1,063	1,106	1,132	1,154
GDP at basic prices (\$1997 million)					
Tourism sector	4,724	4,784	4,940	4,992	5,012
Accommodation & food services	1,847	1,831	1,877	1,912	1,911
Retail	549	555	582	614	645
Transportation & warehousing	1,348	1,366	1,426	1,378	1,380
Other	979	1,030	1,055	1,090	1,075
Employment ('000)					
Tourism sector	112.5	111.3	112.8	115.0	115.5
Accommodation & food services	56.2	56.2	57.0	58.4	58.2
Retail	16.4	16.2	17.0	18.3	19.3
Transportation & warehousing	21.4	21.4	21.4	20.6	20.0
Other	18.5	17.5	17.3	17.7	18.0