

Tourism Sector Monitor ♦ March 2004

Highlights

Room Revenue

Room revenues in BC rose 3.2% (seasonally adjusted) in December, finishing the year on a solid note of growth. Every region in the province saw revenues increase, especially in Northeast (+10.6%), Kootenay (+9.0%), and Thompson Okanagan (+8.0%). Driving the growth was revenues at large hotels (+5.2%) and motels (+5.8%). A miscellaneous category of other accommodation types increased sharply in December (+11.9%)

Room revenues post third monthly increase in December

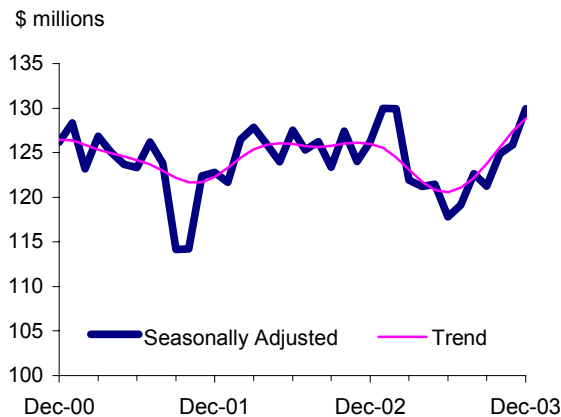


Table 1. Room Revenue* Summary

Accommodation Type			
	Dec 03 (\$000)	Nov.03 (\$000)	% change
Total	129,964	125,894	+3.2
Hotels	94,965	92,758	+2.4
Motels	16,264	15,377	+5.8
Other Acc.	19,235	18,049	+6.6
Regions (Top 3 performers)			
Northeast	4,235	3,830	+10.6
Kootenay	6,466	5,931	+9.0
Thompson Okanagan	19,324	17,889	+8.0

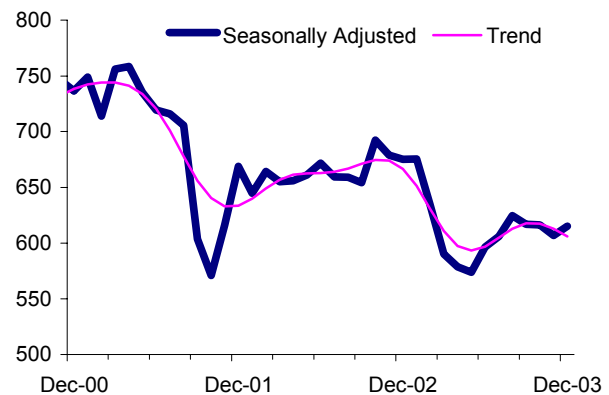
*Seasonally adjusted room revenue

Visitor Entries

The volume of travellers entering Canada via BC borders edged upward marginally in December (+0.6% seasonally adjusted). Entries from both the US (+0.5%) and overseas (+0.9%) increased slightly. Asian visitor entries were essentially unchanged (-0.1%), owing in part to a significant drop in entries from Taiwan (-9.9%).

Visitor entries inch up in December

Visitor entries (thousands)



Other Indicators

Average hotel occupancy was up (+1.8 percentage points) in December, compared to the same month in the year before. Hotel room rates remained below the previous year's prices (-1.4%) for the tenth consecutive month in 2003.

Passenger vehicle traffic over the Coquihalla highway dropped (-8.8%) in December, compared to the same month of 2002. BC restaurant and tavern receipts held ground in December (+0.5%, seasonally adjusted).

Note to readers...

Special Focus Article: *BC Ferries – There and Back Again.* Page 7.

Tourism Trends

Room Revenue

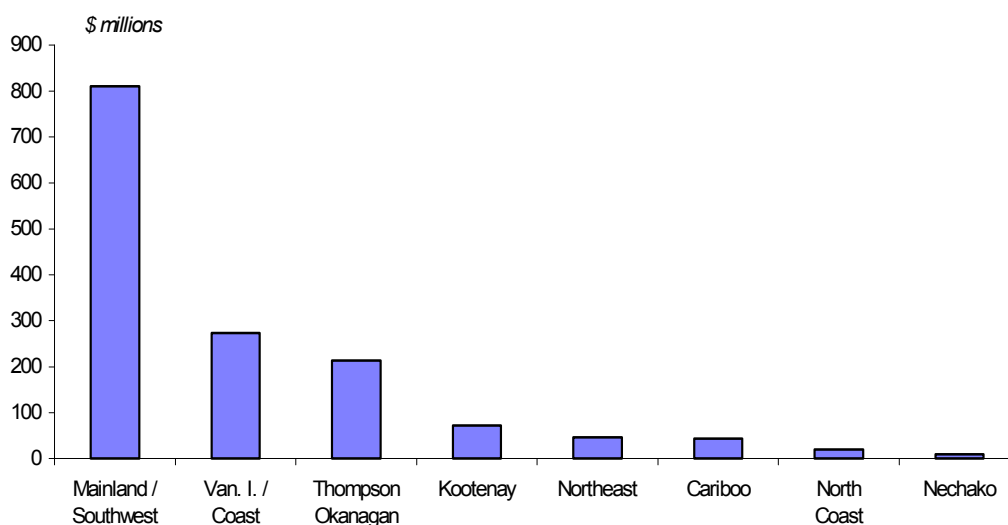
Room revenues in the province posted a 3.2% gain (seasonally adjusted) in December. More room revenues were seen in all the development regions. Northeast (+10.6%), Kootenay (+9.0%), and Thompson Okanagan (+8.0%) experienced stronger growth, while Mainland/Southwest (+1.7%) and Vancouver Island/Coast (+1.2%) posted modest gains.

All major regions of BC saw higher room revenues in December.

In 2003, room revenues in BC amounted to \$1.48 billion, 1.3% lower than the room revenues in 2002. Mainland/Southwest lost ground in 2003 (-4.7%), and was the source of the overall decline in BC. Thompson Okanagan, despite disruption from the summer forest fires, was up 3.8%. Annual room revenues were also higher in Vancouver Island/Coast (+1.7%), North Coast (+1.8%), and Northeast (+21.3%). However, these gains only offset half of the loss in Mainland/Southwest.

The Mainland/Southwest region—Greater Vancouver and its surrounding areas such as Whistler—generated \$810 million in accommodation revenues in 2003, 55% of the provincial total. Vancouver Island/Coast, with \$273 million in room revenues, made up 18% of total revenues. Thompson Okanagan is the other major tourism region, posting \$213 million (14%). The other five regions—the sparsely populated central and northern areas—together generated \$189 million (13% of accommodation revenues). Indeed, some of BC's more remote regions, such as Nechako, contribute only about 1% of accommodation revenues.

Annual room revenues concentrated in Mainland/Southwest



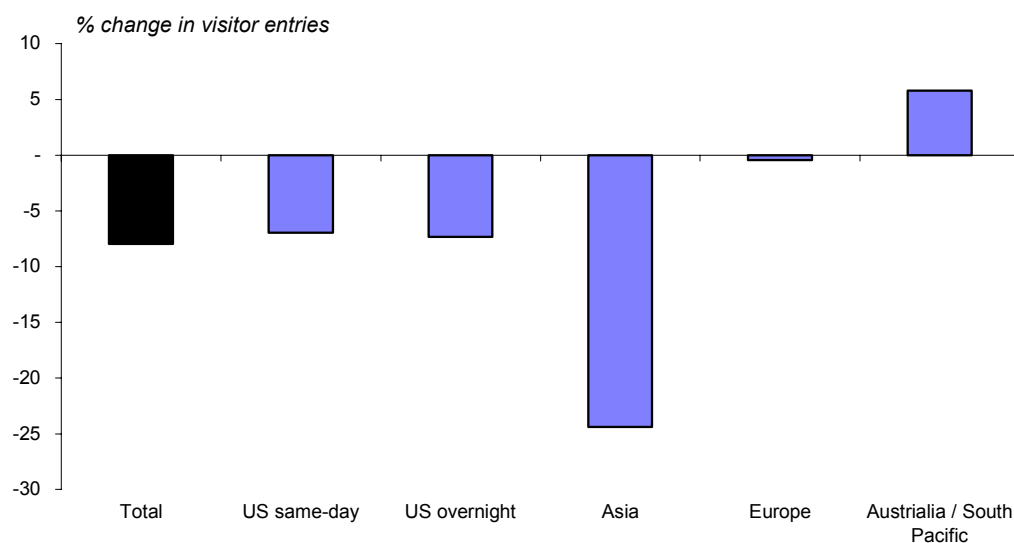
Visitor Entries

The volume of visitors entering Canada through BC edged up 0.6% (seasonally adjusted) in December 2003, after three consecutive monthly losses. Both US (+0.5%) and overseas (+0.9%) entries rebounded in December.

For the year as a whole, visitor entries continued to decline in 2003 (-5.9%), posting the third annual loss since 2001. The largest decline was in the Asian market (-24.4%), following the effect of the SARS panic. The US same-day (-6.4%) and overnight (-7.3%) traffic also slumped in 2003.

Visitor entries from Asia declined sharply in 2003.

Visitor Entries Down from Almost all Regions



The number of Canadians re-entering the country via BC decreased 0.8% in December. The number of Canadians returning to BC from overseas trips (-3.7%) and from same-day car trips to the US (-2.3%) both slumped for the first time since June 2003.

Table 2. Traveller Entries (*seasonally adjusted*)

	Dec-03 (^{'000})	Nov-03 (^{'000})	% chg from Nov-03
American visitors			
Total	507	504	0.5
Same-day	214	214	-0.1
Overnight	289	287	0.6
Overseas visitors			
Total	106	105	0.9
Europe	34	34	-0.6
UK	18	17	0.9
Asia	57	57	-0.1
Japan	20	20	1.0
Taiwan	6	7	-9.9
Oceania	11	10	4.2
Canadian re-entries			
Total	653	658	-0.8
From overseas	88	91	-3.7
From US same-day auto	338	345	-2.3

(BC STATS & Statistics Canada)

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 44.0% in December, 1.8 percentage points higher than in December 2002, while average room rates (\$113.34) in BC were 1.4% lower than last year. This was the 10th straight month of falling room prices.

Hotel room prices continued to fall in December.

There were fewer vehicles (-12.3%) and passengers (-12.8%) on BC Ferries in December, compared with the same month of the year before. This was likely due in large part to the strike at BC Ferries early in the month.

Passenger vehicle traffic over the Coquihalla highway in December was 8.8% less than in the same month of the previous year. Restaurant and tavern receipts crept up (+0.5%, seasonally adjusted) in December.

Table 3. Other Tourism Indicators (unadjusted)

	Reference period	Total	Change from year ago
Hotel Industry			
Occupancy rate	Dec-03	44%	1.8 pp.
Average room charge	Dec-03	\$113.34	-1.4%
<i>(Pannell Kerr Forster)</i>			
Airport Passengers		(000s)	(%)
Vancouver International Airport			
Total traffic	Dec-03	1,191	2.8
US	Dec-03	285	-1.5
Other International	Dec-03	279	3.4
Canada	Dec-03	626	4.6
<i>(YVR)</i>			
Victoria International Airport			
Total traffic	Dec-03	105	16.1
<i>(Victoria Airport Authority)</i>			
Restaurant Receipts		(\$ millions)	(%)
Full service	Dec-03	258	0.0
Limited service	Dec-03	160	0.0
Drinking places	Dec-03	22	0.0
<i>(Statistics Canada)</i>			
Transportation		(000s)	(%)
Coquihalla Highway			
Passenger Vehicles	Dec-03	138	-8.8
<i>(Ministry of Transportation & Highways)</i>			
BC Ferries			
Vehicle Volume	Dec-03	543	-12.3
Passenger Volume	Dec-03	1,371	-12.8
<i>(BC Ferries)</i>			
Exchange Rates			Change from year ago
		Cdn \$	
US \$	Dec-03	1.313	-0.246
UK Pound	Dec-03	2.299	-0.174
Japanese Yen	Dec-03	0.012	-0.001
Australian \$	Dec-03	0.970	0.093
<i>(Statistics Canada)</i>			

note: pp. percentage points

A look ahead

Room Revenue

Following three consecutive gains in last quarter of 2003, preliminary numbers suggest that room revenues were down in **January 2004** (-2.1% seasonally adjusted). All the regional districts experienced substantial losses, with the exception of Vancouver Island/Coast.

Preliminary numbers for January point to a 2.1% drop (seasonally adjusted).

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 eight reports in 2003, 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 also took a downturn in January (-3.7%, seasonally adjusted). This was largely due to a significant drop in visitors from the US (-4.6%).

Other Tourism Indicators

Passenger vehicle traffic over the Coquihalla highway was 6.8% less than the same month of the previous year. The number of passengers (-4.8%) and (-4.6%) vehicles aboard BC Ferries both fell in January—relative to the same month of 2003. The Canadian dollar was strong relative to US currency in December. One Canadian dollar was priced at \$0.77 US, compared to \$0.65 in January 2003 (up 12 cents).

Special focus: BC Ferries—There and Back Again

In 1960, BC Ferries began as a two-ship, two-terminal operation. Today, with over 20 million passengers each year, BC Ferries is one of the largest ferry systems in the world, second only to Washington State Ferries. This report examines the history, operations, and outlook of BC Ferries.

BC Ferries History¹

Beginning around 1900, ferry service between Victoria and Vancouver was offered by a private company, Canadian Pacific Railway (CPR). By the 1950s, the CPR vessels were still miniature ocean liners, aged and poorly adapted for car service. Service was infrequent and the company rejected calls for more modern ships and better service, on the grounds that capital investments in the route would not be profitable.

Nanaimo actually had better ferry connections to Vancouver than did Victoria. There, two private operators offered service: CPR and Black Ball Ferries.

In 1958, a bitter strike at CPR shut down the Victoria – Vancouver service for two-and-a-half months, and the ferry from Nanaimo was the only water transportation link with the mainland. Canadian Pacific was under federal jurisdiction, and Ottawa was slow to react. More than two-weeks into the strike, the federal government mediator merely commented that it seemed the strike “will continue indefinitely”.

In contrast to CPR, Black Ball Ferries operated under provincial jurisdiction. When workers at Black Ball served notice to strike

in solidarity with workers at CPR, reaction from the provincial government was definitive. Premier W.A.C. Bennett, invoking the emergency Civil Defence Act, seized possession of Black Ball Ferries, appointed a new board of directors, and operated the route under direct provincial control. A month later, the union violated the Civil Defence Act and walked off the job – an attempt to force an end to the CPR strike.

The ensuing crisis – four days in which the Island was essentially cut off from the mainland – finally provoked action from the federal government, and the CPR strike came to a quick end.

At the same time, W.A.C. Bennett declared that “in the future, ferry connections between Vancouver Island and the mainland shall not be subject either to the whim of union policy nor to the indifference of federal agencies”. The government announced it would build its own ferry system, and soon began construction of terminals at Tsawwassen and Swartz Bay. BC Ferries came on line in 1960, and in the next year the government bought out Black Ball Ferries’ Nanaimo route.

Though precipitated by a major transportation crisis, BC Ferries was part of a broader program of “province-building”. Under W.A.C. Bennett, the province took on massive public works programs, established crown corporations such as BC Rail and BC Hydro (an expropriation of a private company, BC Electric), and founded several universities (SFU, BCIT, and UVic). As in so many other areas, the Bennett government saw the ferry service as inadequate for the needs of the day, and set about to completely rebuild the system.

¹ This section is largely extracted from “W.A.C. Bennett and His Choice of State Enterprise: The 1958 Case of British Columbia Ferries,” by Frank Leonard, 2002. University of Victoria. (Masters thesis, Department of History)

BC Ferries Today²

BC Ferries carried 21.3 million passengers and 8.3 million vehicles in 2002/03. About 51% of passenger traffic and 45% of vehicle trips were on the Vancouver Island – Mainland routes.

Since the late 1980s, the annual volume of passenger traffic has increased 27%. However, passenger traffic has lagged behind BC's population growth (+36% over the same period). There were 5.1 passenger trips per 1,000 population in 2003, down slightly from 5.5 in 1987.

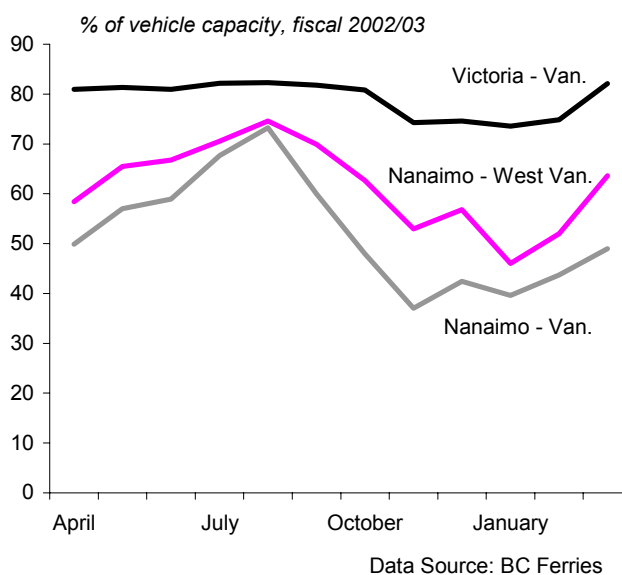
The BC ferry fleet, on average, runs at about 30% capacity for passengers and roughly 55% capacity for vehicles. Low rates of capacity utilization reflect seasonal patterns of ferry use. For example, in 2003, there were about one million vehicle trips in August. This was double the vehicle traffic in February. BC Ferries also adjusts its capacity – such as the number of sailings – to match seasonal demand. On the main Victoria – Vancouver route, capacity management is very precise. Vehicle capacity is held almost constant at 82% in the high season and 74% in the low season.

On the Nanaimo – West Vancouver route, in contrast, vehicle capacity fluctuates widely by month, from 46% in January to 75% in August. Thus, on this route, ferry service is more stable over the year, rather than being carefully matched to traffic volumes. Average capacity utilization over the year is about 62%, significantly lower than the Victoria-Vancouver route (79%).

On the inter-island runs (for example, service to the Gulf Islands) capacity utilization is even lower, averaging 42% of vehicle capacity.

² This section draws largely on data in the BC Ferries 2002/03 annual report.

On Some Routes, Capacity Utilization Fluctuates Widely



The ferry system has not, in general, been a net income earning operation. In four out of the last five years, BC Ferries has posted a net income loss. In 2002/03, there was a net loss of \$29 million – roughly 5.5% of total expenditures. Of course, BC Ferries, unlike the BC Lottery Corporation or the Liquor Distribution Branch, has never had a strong mandate to earn revenues for the government. Affordable, frequent service provision has generally been a higher priority than commercial profitability.

In recent years there has been an expansion of food services, most prominently in partnerships with the White Spot restaurants, Starbucks Coffee, and Villages Pizza. Over the last three years, food and beverage sales per passenger have increased 10%, suggesting customer approval.

Another recent policy change has been the introduction of the reservation system. In the system's first year, 1998, only 3% of vehicle trips opted for the \$15 reservation. By 2003, 17% of vehicles boarded with a reservation, generating over \$7 million in additional revenues. The use of reservations

varies widely by season, from only 9% in the winter months to 20% in the summer. With this many vehicles reserving space, particularly in the summer, it may be increasingly difficult to board a ferry without a reservation.

Finally, a lingering problem at BC Ferries is scheduling. In 2002/03, only 75% of mainland sailings were “on time” (within 10 minutes of schedule).

Vancouver Island—Mainland Routes: A Price Analysis

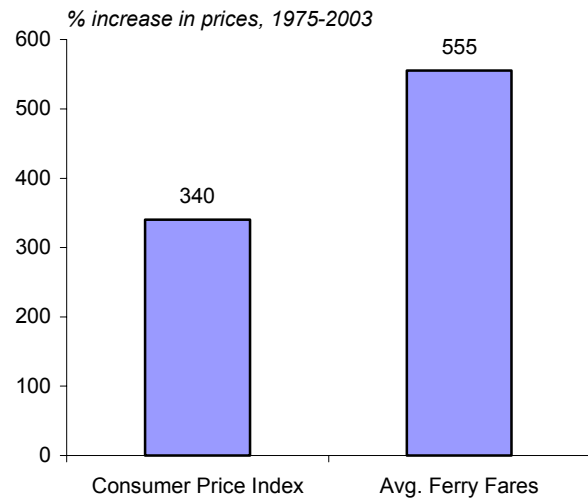
BC Stats has constructed a weighted average ferry fare that includes prices for adults, children, seniors, discounted fares (low season and discounted weekdays), vehicle prices (cars and motorcycles), and reservation fees. These various prices are weighted by their frequency in BC Ferries traffic. The average price covers fares for the Vancouver Island – Mainland routes.

Average fares on the Vancouver Island – Mainland routes have increased steeply over the years, well above the rate of inflation. Since 1975, the Vancouver consumer price index has increased 340%. Average ferry fares over the same period have risen 555%.

For example, in 1975, the car price was \$5, or roughly \$17 in constant 2003 dollars (adjusting for inflation). Last year, the average fare for a car was \$30 – a real increase of \$13 (+77%).

The real (inflation adjusted) weighted average price of taking a ferry trip has risen from \$9 in 1975 to nearly \$15 in 2003 (+63%).

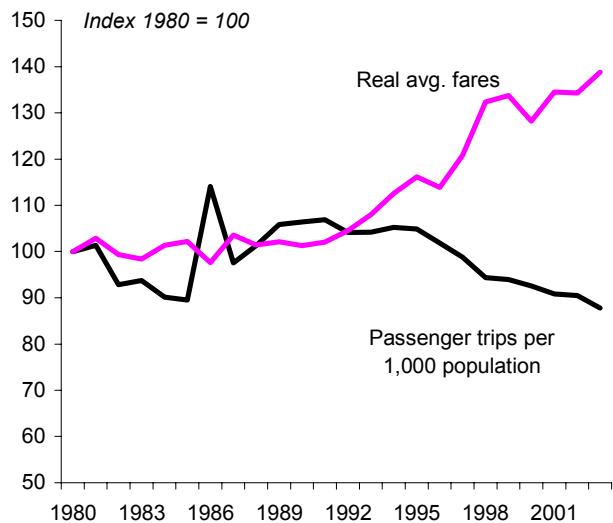
Ferry Fare Increases Higher than Vancouver Inflation



Data Source: BC Stats and BC Ferries

In spite of rising ferry fares, the volume of passengers aboard BC Ferries rose 33% between 1980 and 2003. However, the BC population increased by 55% over the same period. On the Vancouver Island – Mainland routes, the number of passenger trips per 1,000 population has fallen from 3.0 in 1980 to 2.6 in 2003 (-12%). Similarly, the number of vehicle trips per 10,000 population was 8.9 last year, down from 10.1 in 1980 (-12%).

Passenger Trips Fall as Fares Increase



Data Source: BC Stats and BC Ferries

A simple correlation analysis suggests that real (inflation adjusted) average fares explain 51% of the trend in passenger trips per 1,000 population³.

However, with 49% of the variation in passenger trips per 1,000 population unexplained, it is clear that a considerable portion of BC Ferries traffic is not very price sensitive. These passengers are likely businesses and Vancouver Island residents that have few alternatives to using the ferry system. Tourism-related ferry traffic is likely to be more sensitive to changes in prices.

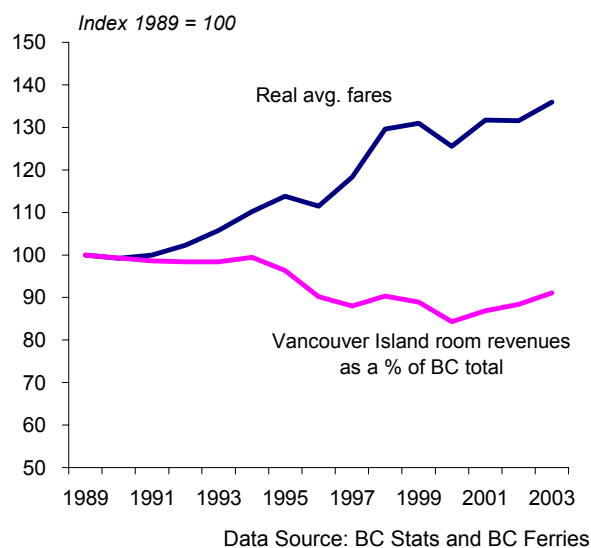
Indeed, it seems that rising ferry prices have adversely affected tourism to Vancouver Island. The Island's share of provincial tourism—as measured by accommodation room revenues—is in decline. The share of total room revenues has fallen from 20.2% in 1989 to 18.4% in 2003—a drop of 1.8 percentage points. This represents about \$30 million in room revenues.

The trend in Vancouver Island's share of room revenues has closely followed changes in ferry prices. This suggests that BC Ferries has been, to a degree, pricing Vancouver Island out of the tourism market. A simple correlation analysis indicates that real average ferry prices "explain" some 84% of the change in Vancouver Island's share of room revenues.

As a rough estimate, one can suggest that the rising ferry rates since 1989 are associated with about \$26 million in lost room revenues on the Island in 2003 alone. To the extent that Vancouver Island is a destination for visitors outside of the province, it is likely that the BC tourism sector as a whole has been affected.

³ BC Ferries, in its last annual report, pointed out that "large multiple tariff increases in 1997" were a significant factor in declining passenger volumes in the late 1990s.

Vancouver Island's share of room revenues falls as ferry prices rise



BC Ferries Outlook

In 2003, BC Ferries was reorganized as a private sector corporation. At the same time, the BC Ferry Authority was established as sole owner of the new company. The provincial government appoints the directors of the Ferry Authority, and private investment in BC Ferries is not permitted.

As well, the company is regulated by the new BC Ferry Commission, which has authority over ferry fares, routes, service levels, and capital spending.

The BC Ferry Commission describes the arrangement as an "effective monopoly" that is "publicly owned but private-functioning"⁴ Further, virtually all significant business decisions are subject to regulatory approval.

Thus, the re-organization at BC Ferries has not dramatically changed the nature of the company. However, there is a new mandate to operate as a commercial enterprise—with,

⁴

http://www.bcferrycommission.com/about_bc_ferries.html. Retrieved March 22, 2004.

perhaps, a greater degree of separation from the government.

Revenues

Passenger and vehicle fares in 2002/03 contributed 64% of total BC Ferries revenue. Last fiscal year, BC Ferries received \$23.4 million in subsidies from the federal government and \$74.2 million from the province. These payments represented 20% of total BC Ferries revenues. The provincial subsidy, according to the BC Ferries annual report, is expected to rise to \$105.5 million in 2003/04.

However, under legislation, the long-term plan is for the ferry service to “move towards a greater reliance on a user pay system so as to reduce, over time, the service fee contributions by the government” (Coastal Ferry Act, Section 38).

Capital Costs

BC Ferries has an ageing fleet. The average age of vessels is 30 years old, and the ships have an expected operational life span of 40 years.

In 1994, the average age of the fleet was 24 years, and the goal at that time was to bring the average age down through vessel replacement. The ill-fated fast ferries project, which was not recommended by BC Ferries, was a major part of the plan for fleet renewal. The auditor general’s conclusion was that, in the end, the fast ferry project had “adversely affected BC Ferries’ ability to renew its fleet”⁵.

BC Ferries is currently planning to spend \$1.8 billion over the next 12 years on an asset replacement program⁶. Thus, capital expenditure requirements may create pressure for further real price increases in the future.

Conclusion

BC Ferries is facing pressures to move closer to a fully user-pay system and at the same time upgrade its fleet. The pattern of rising ferry fares is likely to continue into the foreseeable future, which could slow future tourism growth on Vancouver Island.

⁵ Auditor General. *A Review of the Fast Ferry Project: Governance and Risk Management*. 1999/2000 Report 5. Office of the Auditor General of British Columbia.

⁶ British Columbia Ferry Corporation. *2002/03 Annual Report*. BC Ferries.