

Tourism Sector Monitor ♦ April 2004

Room Revenue

Room revenues in BC fell 2.7% (seasonally adjusted) in January, following three months of growth.

Almost every region in the province saw revenues drop, especially Northeast (-8.8%), Kootenay (-5.2%), and Cariboo (-4.5%). The only region with marginally positive growth was Vancouver Island/Coast (+0.2%). Indeed, over the last 12 months, Vancouver Island/Coast has been the only major region showing a strong tourism sector.

Room revenues edge downward in January

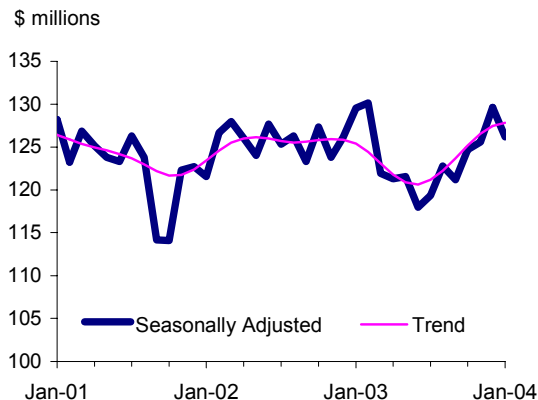


Table 1. Room Revenue
(seasonally adjusted)

Accommodation Type			
	Jan.04 (\$000)	Dec.03 (\$000)	% change
Total	126,177	129,618	-2.7
Hotels	92,674	94,346	-1.8
Motels	15,557	15,948	-2.5
Other Acc.	17,966	19,193	-6.4
Regions (Top 3 performers)			
Van. Island/Coast	23,863	23,813	+0.2
Nechako	718	730	-1.6
North Coast	1,651	1,680	-1.7

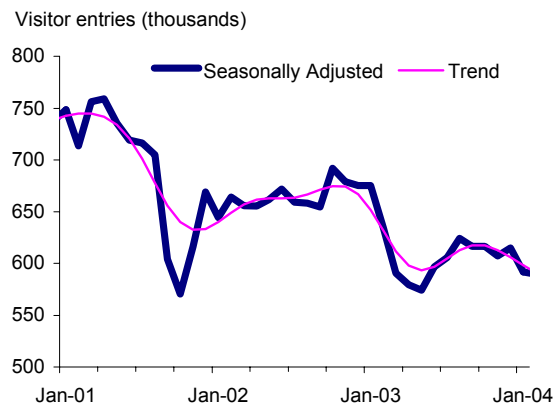
As with the regions, virtually all accommodation types saw slower business in January. Revenues were down 1.8% at hotels, and down 2.5% at motels. Revenues at "other" accommodation types—which includes cabins, bed & breakfasts, ski resorts, and the like—fell 6.4%.

Visitor Entries

The fall in room revenues corresponds to a drop in visitors entering the province. The volume of travellers entering Canada via BC fell 3.2% (seasonally adjusted) in January. This was mostly due to fewer travellers from the US. Same-day visits from the US were down 3.4%, while overnight visits dropped 3.9%.

In contrast, overseas entries on the whole were unchanged. Asian visitor entries inched up slightly (0.8%). A significant drop in entries from Japan (-7.3%) largely offset increases in visitors from Korea, Taiwan and Hong Kong.

Visitor entries drop in January



Special Focus Article: *Regional Airports in BC.*
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Table 2. Traveller Entries
(seasonally adjusted)

	Jan-04 (‘000)	Dec-03 (‘000)	% chg from Dec-03
American visitors			
Total	484	503	-3.7
Same-day	207	214	-3.4
Overnight	276	287	-3.9
Overseas visitors			
Total	107	107	-0.1
Europe	34	34	-1.0
UK	17	17	-0.4
Asia	57	57	0.8
Japan	19	20	-7.3
Taiwan	7	6	12.4
Oceania	12	11	6.4

(BC STATS & Statistics Canada)

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

As a bright note, there was continued growth in visitors from Australia and the South Pacific (+6.4%). However, this region still only accounts for about 11% of the overseas market.

Other Indicators

Weak demand in the tourism sector has been putting downward pressure on prices. The consumer price index for traveller accommodation was 13.5% lower than in January of last year.

For hotels, the effort to boost occupancy through lower prices has been working to a degree. Both price and occupancy began to fall in the spring of 2003. Hotel room rates are still lower than they were 12 months ago (-4.6%), but occupancy is starting to recover, up 1.4 percentage points over January of last year. Employment in the accommodation sector, however, remains well below last year's levels (-8.6%).

Passenger vehicle traffic over the Coquihalla highway dropped (-6.8%) in January, compared to the same month of 2003. This has no doubt been a source of weakness for

the tourism market in Thompson-Okanagan and Cariboo.

BC Ferries traffic is also below its level from January of last year, with 4.6% fewer vehicles. However, this is a substantial improvement over December, when job action early in the month reduced the ferry system to essential service levels.

The downs and ups of the ferry system over the last two months likely has much to do with Vancouver Island room revenue trends. In December—the month of the ferry strike—room revenues on Vancouver Island lagged behind every other region of the province. In January, with ferry traffic “back to normal,” Vancouver Island was the only region showing month-over-month revenue growth.

The Canada-US exchange rate continues to discourage American travel in Canada. The Canadian dollar was worth 77 cents US in January, compared to 65 cents in the same month last year.

Table 3. Other Tourism Indicators

	Total	Change from year ago
Hotel Industry		
Occupancy rate	45.6	1.4 pp.
Average room charge	112.35	-4.6%
<i>(Pannell Kerr Forster)</i>		
Airport Passengers (000s) (%)		
Vancouver International Airport		
Total traffic	1,136	1.5
US	289	-1.1
Other International	295	2.0
Canada	552	2.7
<i>(YVR)</i>		
Victoria International Airport		
Total traffic	89	12.4
<i>(Victoria Airport Authority)</i>		
Transportation (000s) (%)		
Coquihalla Highway		
Passenger Vehicles	96	-6.8
<i>(Ministry of Transportation & Highways)</i>		
BC Ferries		
Vehicle Volume	498	-4.6
Passenger Volume	1,193	-4.8
<i>(BC Ferries)</i>		
Exchange Rates Cdn \$ Change from year ago		
US \$	1.296	-0.25
UK Pound	2.363	-0.13
Japanese Yen	0.012	0.00
Australian \$	0.999	0.10
<i>(Statistics Canada)</i>		

note: pp. percentage points

A look ahead

Room Revenue

Preliminary numbers suggest that room revenues were lacklustre in **February**, inching upward 0.5% (seasonally adjusted). Revenues were strongest in the interior (Kooteney and Cariboo), and relatively flat in the coastal region (Vancouver Island and the Mainland).

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 were unchanged in February (+0.1%, seasonally adjusted). A drop in visitor entries from Asia (-4.6%) was offset by a small increase in same-day trips from the US (+0.6%).

In contrast to room revenues and visitor entries, transportation indicators were relatively strong in February. Traffic over the Coquihalla highway was up 3.7% compared to February of last year, a modest recovery after three months of decline. BC Ferries vehicle traffic was up 5.4% compared to 12 months earlier, the strongest increase in over a year.

The Canadian dollar depreciated 1.7 cents against the US dollar in February, which may help to explain the modest increase in same-day trips from the US.

Special Focus: Regional Airports in BC

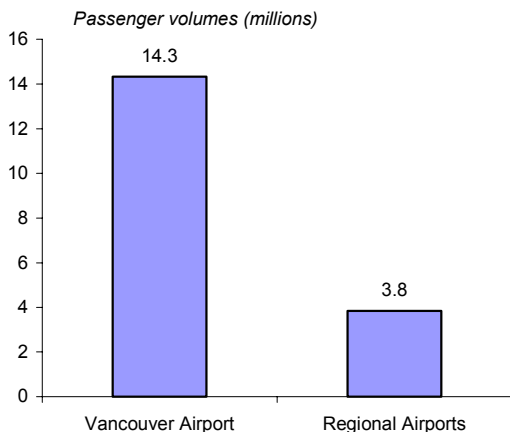
British Columbia's regional airports recorded nearly four million passengers passing through their gates last year – close to the total population of BC. This report examines recent trends in regional airports, and considers their role in BC tourism.

There are 21 regional airports in BC, most of which are very small. Two-thirds of the regional airports have a market share of less than 3% each. At the other end, the two largest regional airports – Victoria and Kelowna – together manage more than half (53%) of all regional airport passengers.

Combined, the regional airports reported 3.8 million passenger counts in 2003. This is up from 3.3 million passenger counts in 1997 (+17%).

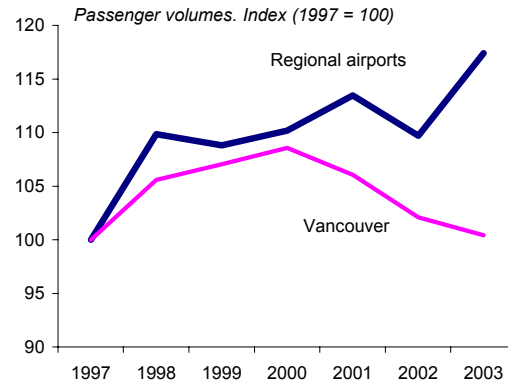
The Vancouver International Airport reported 14.3 million passenger counts in 2003 – almost three times more than all the regional airports combined.

Vancouver airport nearly three times larger than regional airports combined



In recent years there has been a significant decline in passenger traffic at the Vancouver airport. Passenger counts are down 3% from 1997, representing a drop of about half a million people. However, the increasing traffic at the regional airports has left overall airport passenger counts unchanged.

Regional airports busier as Vancouver declines



Total traffic volume at all of these airports in BC amounted to 18.2 million passengers in 2003, up marginally from 18.1 million in 1997.

Regional airports managed 21% of total traffic in 2003, up from 18% in 1997. Thus, traffic patterns at BC airports are changing – shifting away from the “hub” towards the smaller airports.

However, shifting patterns of airport use is not the only story. On a per capita basis passenger volumes are lower than in the late 1990s.

In 1997, there were 4.6 passenger counts per capita in BC. By 2000, traffic had risen to 4.9 per capita. Over the last three years, passenger counts have fallen to 4.4 per capita – down 4.5% from 1997.

Thus, despite the growth of regional airport traffic, BC's overall air passenger transportation system is struggling.

A note on the data and sources:

Passenger counts were reported directly by the regional airports in BC. Nanaimo data were collected from reports by Grant Thornton. Data for the Port Hardy and Penticton airports were not reported. These are both very small airports, and result in only a negligible undercount. Two small airports, Cranbrook and Powell River, did not provide data for all years. In these cases, data for the missing years was estimated. Finally, in Castlegar, counts were available only for passengers boarding planes. These data were used to estimate the number of passengers disembarking at that airport.

With the exception of Port Hardy and Penticton, this report covers all of the airports designated by Transport Canada as national, regional, or local. Smaller airstrips that do not have regularly scheduled passenger service are not included.

Background: The Decentralization of BC Airports

Up until the early 1990s, virtually all airports in Canada were owned and operated by the federal government. A decentralization policy, laid out in the mid-1990s, was grounded in the idea that “locally-owned and operated airports are able to function in a more commercial and cost-efficient manner, are more responsive to local needs and are better able to match levels of service to local demands”¹.

Since the mid-1990s, Transport Canada has divested virtually all of its regional airports. However, this was not a policy of privatization. Ownership and operations has been transferred to municipal governments or non-profit airport authorities. Only two regional airports in BC—Port Hardy and Penticton—are still operated by Transport Canada.

¹ <http://www.tc.gc.ca/programs/airports/policy/nap/NAP.htm>

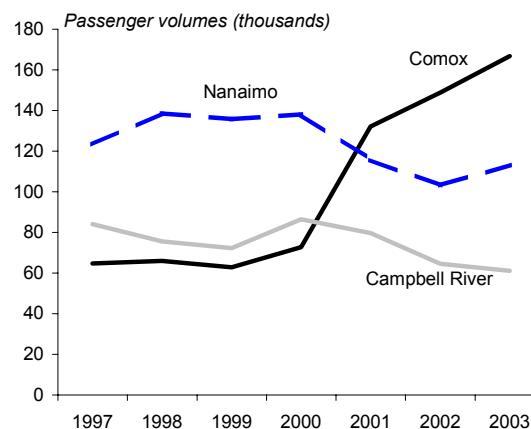
For the three regional airports in BC that are part of the National Airports System—Victoria, Kelowna, and Prince George—ownership has been retained by Transport Canada but operations are managed by a local non-profit authority.

At virtually all BC airports, operations had been transferred to local authorities by 1997. This report looks at the regional airports for the years since decentralization: 1997 to 2003.

Regional competition

Most of the regional airports in BC are served by Jazz, Air Canada’s regional airline. There are two small carriers that specialize in service to northern BC—Central Mountain Air and Hawkair. Since 1996, WestJet has emerged as a highly competitive, low-cost airline now operating out of six BC airports.

Competition between airlines, in some places, has led to competition between airports. The cluster of airports in mid-Vancouver Island—Comox, Nanaimo, and Campbell River—is a good illustration. In 2001, WestJet established a direct flight from Calgary to Comox. Passenger counts have exploded at Comox, rising 130% between 2000 and 2003. However, passengers dropped 18% at Nanaimo, and 29% Campbell River. The combined increase in passengers at the three airports was small—only 8%.



A similar pattern is showing in the passenger traffic at Vancouver and Abbotsford. In 1997, the Abbotsford airport was rarely used, having a traffic volume similar to Cranbrook. However, WestJet has since made Abbotsford a major base of operations. Last year, Abbotsford was the third largest airport in BC, with a 451% growth in passengers since 1997. At the same time, domestic passenger traffic in Vancouver fell 9%, due at least in part to competition from Abbotsford.

This sort of competition may give airports a stronger incentive to reduce their operating costs, improve passenger services, and the like.

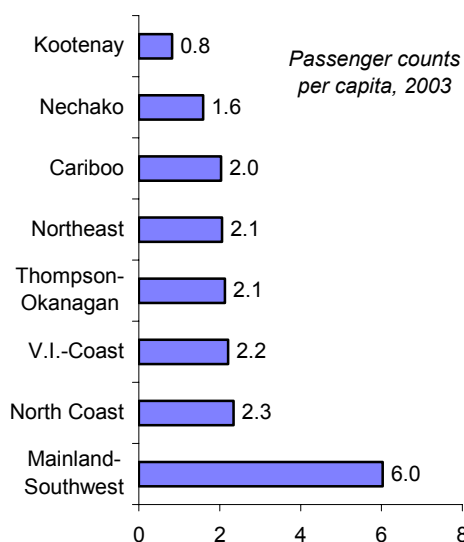
Development Regions

Aggregating the airport statistics into the standard development regions of the province provides a broad overview of the regional system.

The regional airports seem well distributed across the province. Most regions of BC have several local airports, and their size, for the most part, matches the local population.

In the Mainland/Southwest region, there were 6.0 passenger counts per capita in 2003, owing to the massive presence of Vancouver International. The lowest number of passengers per capita was in the Kootenay region (0.8). This region includes much of the BC Rockies, and the Calgary International Airport likely services a good part of the region's air traffic. In the other regions of the province, passenger counts are quite consistent, at a little over 2 per capita.

Most Regions of BC have Similar Air Traffic Volumes



The regions of BC, excluding Mainland-Southwest and Kootenay, seem more or less equally served by their regional airport systems. Vancouver Island, Thompson-Okanagan, Cariboo, Northeast, and North Coast all have roughly the same traffic volumes on a per capita basis.

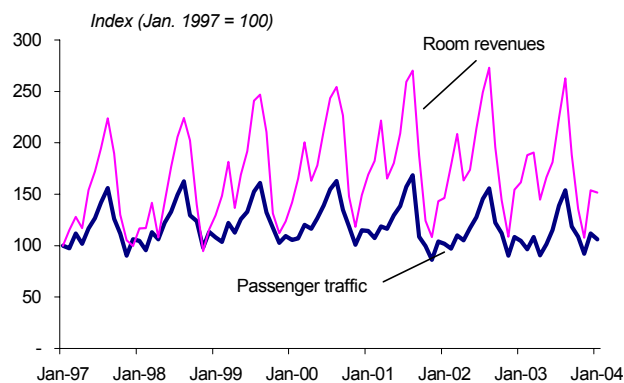
Nevertheless, proximity to BC's major international airport in Vancouver—which handles almost 80% of the province's passenger traffic—remains a crucial factor. For example, a bus ride from downtown Victoria to Vancouver International Airport takes little more than three hours. From Prince Rupert, the bus ride is 24 hours.

Air Traffic and BC Tourism

Regional passenger traffic has an uneven relationship with tourism room revenues. In some parts of the province, airports are an important part of the tourism transportation system. In other places, passenger volumes have little if anything to do with the local tourism economy. Two BC airports serve as illustrations: Vancouver and Prince George.

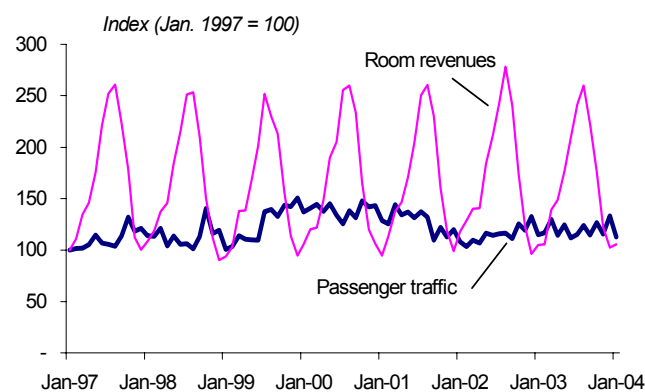
In the Mainland/Southwest region, monthly room revenues are closely correlated with passenger counts at the Vancouver airport.

Passenger Traffic at Vancouver Airport Closely Related to Room Revenues



In the Cariboo region, things look rather different. Traffic volumes at the Prince George Airport—the only airport in Cariboo—have no relation at all to the region's room revenues. Indeed, passenger traffic does not even show a seasonal pattern, in sharp contrast to room revenues. It seems that in the Cariboo region tourists are not a major part of airport traffic.

Room Revenues in Cariboo Unrelated to Passenger Traffic



There is not sufficient monthly data readily available for a more in-depth analysis. However, it appears that the Prince George airport is fairly representative of the regional airports. For the Victoria and

Kelowna airports—the two largest regional airports—there is a statistical correlation between room revenues and passenger counts, but it is not very strong. Even these airports are transporting, at best, a small share of the region's tourist traffic.

In short, it seems that most of the regional airports primarily serve the transportation needs of local residents, and only have a secondary function as part of the tourism infrastructure.

Development Regions

Passenger traffic (thousands)								% change
Development Region	1997	1998	1999	2000	2001	2002	2003	1997-2003
1. Vancouver Island/Coast	1,461.3	1,580.7	1,548.7	1,523.0	1,578.8	1,486.3	1,588.2	8.7
2. Mainland/Southwest	14,895.2	15,697.5	15,998.2	16,263.4	15,783.5	15,244.9	14,744.0	-1.0
3. Thompson - Okanagan	929.5	1,002.8	999.3	1,025.5	1,033.4	991.9	1,045.3	12.5
4. Kootenay	160.5	164.2	161.3	157.9	152.0	129.4	125.5	-21.8
5. Cariboo	312.3	322.8	352.2	392.9	361.9	325.4	339.8	8.8
6. North Coast	160.7	160.2	144.0	142.5	154.3	146.1	150.2	-6.6
7. Nechako	81.9	83.3	75.6	59.1	53.8	66.3	69.2	-15.4
8. Northeast	131.6	133.3	129.4	116.2	117.3	109.5	131.7	0.1
Total	18,133.1	19,144.8	19,408.7	19,680.5	19,235.0	18,499.9	18,193.9	0.0

Passenger traffic per capita								% change
Development Region	1997	1998	1999	2000	2001	2002	2003	1997-2003
1. Vancouver Island/Coast	2.0	2.2	2.2	2.1	2.2	2.1	2.2	7.7
2. Mainland/Southwest	6.6	6.9	6.9	6.9	6.6	6.3	6.0	-8.9
3. Thompson - Okanagan	2.0	2.1	2.1	2.1	2.1	2.0	2.1	9.0
4. Kootenay	1.1	1.1	1.1	1.0	1.0	0.9	0.8	-21.4
5. Cariboo	1.8	1.9	2.1	2.3	2.2	2.0	2.0	13.7
6. North Coast	2.3	2.3	2.1	2.2	2.4	2.3	2.3	3.4
7. Nechako	1.8	1.8	1.7	1.3	1.2	1.5	1.6	-12.1
8. Northeast	2.0	2.1	2.0	1.8	1.8	1.7	2.1	1.6
Total	4.6	4.8	4.8	4.9	4.7	4.5	4.4	-4.5

Source: BC Stats

Tourism Regions

Passenger traffic (thousands)								% change
Tourism Regions	1997	1998	1999	2000	2001	2002	2003	1997-2003
Vancouver Island	1,374.8	1,494.2	1,462.3	1,436.5	1,485.6	1,418.5	1,524.0	10.9
Vancouver, Coast & Mountain	14,938.5	15,740.7	16,041.4	16,306.6	15,830.1	15,278.9	14,776.1	-1.1
Thompson-Okanagan	878.3	954.1	959.1	982.9	989.5	953.9	1,002.2	14.1
Kootenay Rockies	160.5	164.2	161.3	157.9	152.0	129.4	125.5	-21.8
Cariboo Chilcotin Coast	51.2	48.7	40.2	42.6	43.8	37.9	43.2	-15.7
Northern BC	686.5	699.6	701.2	710.8	687.3	647.3	690.9	0.7
Total	18,089.8	19,101.6	19,365.4	19,637.3	19,188.4	18,465.9	18,161.8	0.0

Source: BC Stats

Passenger Counts at Regional Airports, 2003

Airport	Passengers (thousands)	% of Regional traffic
Victoria	1,182.9	31
Kelowna	863.6	22
Abbotsford	422.5	11
Prince George	339.8	9
Comox Valley	166.8	4
Kamloops	138.5	4
Nanaimo	113.2	3
Fort St. John	92.1	2
Terrace-Kitimat	89.7	2
Smithers	69.2	2
Cranbrook	64.0	2
Castlegar	61.5	2
Campbell River	61.1	2
Prince Rupert	60.5	2
Powell River	32.1	1
Williams Lake	26.8	1
Fort Nelson	22.5	1
Dawson Creek	17.1	0
Quesnel	16.3	0
Penticton	n/a	
Port Hardy	n/a	
Total	3,842.3	