

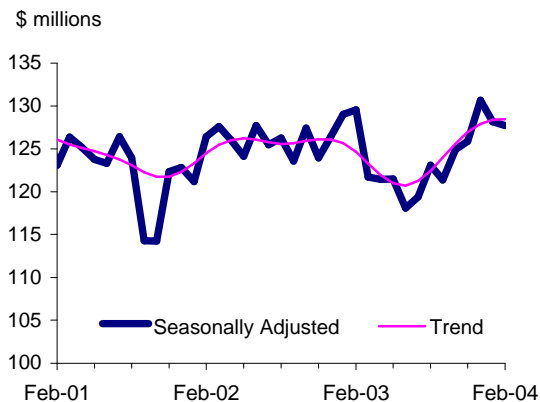
## Tourism Sector Monitor ♦ May 2004

### Room Revenue

Room revenues in BC were essentially unchanged (-0.3% seasonally adjusted) in February.

Revenues were down sharply on Vancouver Island (-4.2%). This is a reversal from last month, when the region was the only area posting significant growth. Elsewhere, Thompson Okanagan (-0.7%) and North Coast (-1.9%) also saw modest declines in revenues.

#### Room revenues show little change



**Table 1. Room Revenue**  
(seasonally adjusted)

<b>Accommodation Type</b>			
	Feb.04 (\$000)	Jan.04 (\$000)	% change
Total	127,718	128,143	-0.3
Hotels	92,229	93,502	-1.4
Motels	15,655	15,557	+0.6
Other Acc.	18,203	18,116	+0.5
<b>Regions (Top 3 performers)</b>			
Northeast	4,318	3,894	+10.9
Cariboo	3,651	3,564	+2.4
Kootenay	6,461	6,374	+1.4

In Mainland/Southwest, revenues were flat (+0.3%). The regions of Kootenay (1.4%), Cariboo (+2.4%), and Northeast (+10.9%) had revenue growth, but not enough to offset the decline on Vancouver Island.

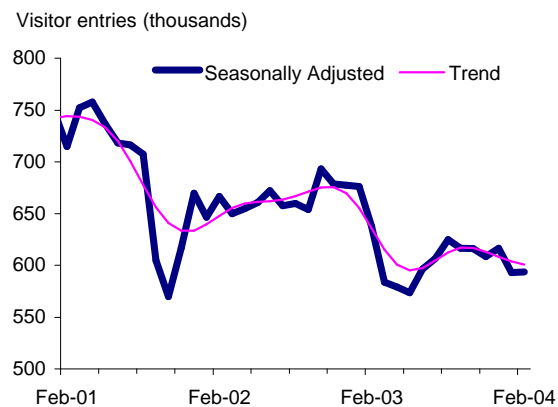
Hotels, regardless of size, saw slower business in February (-1.4%). Revenues at motels (+0.6%) and at other accommodation types (+0.5%) inched up marginally.

### Visitor Entries

As with room revenues, the volume of travellers entering Canada via BC was unchanged (+0.1% seasonally adjusted) in February. Both entries from the US (+0.1%) and overseas (+0.2%) were stable.

This continues the pattern of general weakness in traveller entries. There has not been significant growth in the number of visitors in six months.

#### Visitor entries hold steady



Entries from Asia were down 2.3%, the fourth month of a generally downward slide. Slight growth in entries from Europe (+1.4%) and elsewhere offset weakness in the Asian market.

Special Focus Article: *BC's Hotel Industry: Towards a New Business Model?*

**Table 2. Traveller Entries**  
(seasonally adjusted)

	Feb-04 (‘000)	Jan-04 (‘000)	% chg from Jan-04
<b>American visitors</b>			
Total	485	484	0.1
Same-day	208	207	0.4
Overnight	280	280	-0.2
<b>Overseas visitors</b>			
Total	107	107	0.2
Europe	34	34	1.4
UK	16	17	-5.5
Asia	55	57	-2.3
Japan	22	19	16.6
Taiwan	7	7	0.8
Oceania	11	11	-4.0

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

### Other Indicators

Weak demand in the tourism sector continues to put downward pressure on prices. The consumer price index for traveller accommodation fell 1.4%(seasonally adjusted) in February, and was down 13.9% from February of last year.

In the hotel industry specifically, room prices edged down 1.1% and occupancy dropped 2.2 percentage points (seasonally adjusted). Indeed, hotels took the brunt of the decline in room revenues.

Employment in the key tourism-related industries dropped 2.4% (seasonally adjusted), led by declines in food & beverage services (-3.6%) and accommodation (-1.0%).

In contrast to room revenues and visitor entries, transportation indicators were relatively strong in February. Passenger traffic rose 3.0% at the Vancouver Airport.

Passenger vehicle traffic over the Coquihalla highway was up 6.2%, which no doubt helped boost room revenues in the Cariboo region (+2.4%).

There was strong growth of passengers (+3.6%) and vehicles (+4.4%) (seasonally

adjusted) aboard BC Ferries, and passengers at the Victoria airport were up 1.4%. In spite of this, tourism room revenues on Vancouver Island were down significantly.

The Canadian dollar depreciated roughly two cents against both the US dollar and the British pound in February. The dollar also fell in value next to the Japanese yen and the Australian dollar. The drop in the dollar effectively makes travel in Canada less expensive for tourists from those countries, and should help stimulate BC's tourism economy.

**Table 3. Other Tourism Indicators**  
(seasonally adjusted)

	Total	Change from month ago
<b>Hotel Industry</b>		
Occupancy rate	58.7	-2.2 pp.
Average room charge	112.40	-1.1%
<i>(Pannell Kerr Forster)</i>		
<b>Airport Passengers (000s) (%)</b>		
<b>Vancouver International Airport</b>		
Total traffic	1,287	3.0
US	327	2.0
Other International	293	-1.0
Canada	667	5.4
<i>(YVR)</i>		
<b>Victoria International Airport</b>		
Total traffic	106	1.4
<i>(Victoria Airport Authority)</i>		
<b>Restaurant Receipts (\$ millions) (%)</b>		
All establishments	479	0.9
Food service	457	0.9
Drinking places	22	0.7
<i>(Statistics Canada)</i>		
<b>Transportation (000s) (%)</b>		
<b>Coquihalla Highway</b>		
Passenger Vehicles	211	6.2
<i>(Ministry of Transportation &amp; Highways)</i>		
<b>BC Ferries</b>		
Vehicle Volume	710	4.4
Passenger Volume	1,813	3.6
<i>(BC Ferries)</i>		
<b>Exchange Rates Cdn \$ Change from month ago</b>		
US \$	0.752	-0.02
UK Pound	0.403	-0.02
Japanese Yen	80.225	-1.80
Australian \$	0.968	-0.03
<i>(Statistics Canada)</i>		

note: pp. percentage points

**Note to readers:** beginning with this issue, all data are reported on a **seasonally adjusted** basis.

## A look ahead

### Room Revenue

Preliminary numbers suggest that room revenues continued to decline in **March**, falling 1.3% (seasonally adjusted).

Mainland/Southwest and Vancouver Island—the two largest regions in the BC tourism economy—both saw revenues fall.

In contrast, visitor entries were up significantly in March (+2.4%, seasonally adjusted) for the first time since last August. There was strong growth in both same-day (+2.1%) and overnight (+4.2%) trips from the US. However, overseas entries fell 3.2%. As well, employment in the key tourism-related industries edged up 1.5%.

Passenger traffic dropped at both the Vancouver and Victoria airports. There was some passenger growth on BC Ferries (+1.6%), but this was modest after two months of strong increases.

For hotels, the occupancy rate increased 3.2%, while prices were unchanged. Indeed, the preliminary room revenues data suggest that hotels saw revenue growth while other accommodation types carried the bulk of the decline.

#### ***About preliminary numbers***

Companies file their hotel room taxes with varying delays. 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. For example, data for January are not reported until April. However, we also briefly report “preliminary data” with a one-month lag.

How accurate is the preliminary data? Over 17 reports in 2003 and 2004, room revenues changed (rose or fell on a month-over-month basis) on average by 2.7% (absolute value). The preliminary numbers—reported in the “look ahead” section—were off by an average of 0.5 percentage points. This represents a margin of error of 19%. For example, if the preliminary figure is -1.3%, the actual number more likely ranges from -1.1% to -1.5%.

**Special Focus:****BC's Hotel Industry: Towards A New Business Model?**

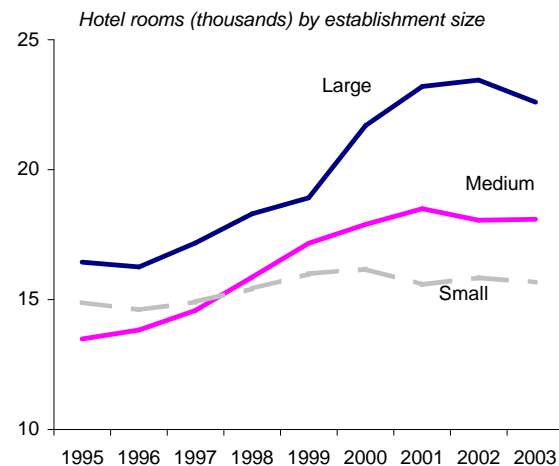
British Columbia's hotel and motel industry has grown considerably in recent years, both in terms of rooms and revenues. However, the industry also faces certain stumbling blocks, such as rising prices for consumers and a growing volume of unused room supply. This report follows economic trends in the hotel and motel industry from 1995 to 2003.

**Increasing room supply**

The number of hotel and motel rooms in the province has increased 18% over the last eight years. There were roughly 78,400 hotel and motel rooms in BC in 2003, nearly 12,000 more than in 1995.

This has been due, for the most part, to the establishment of more large hotels. For hotels with more than 75 rooms, there was a 36% increase in the room count. The number of rooms at small hotels grew only 5%, and at motels room growth was only 2%. The average number of rooms per property has increased from 49 in 1995 to 56 in 2003 (+15%).

Overall, the industry has expanded, and accommodation providers are running larger operations than in the mid-1990s.

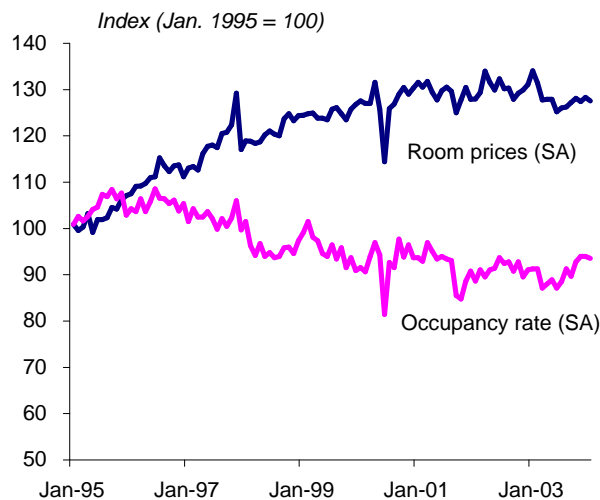
**Supply of hotel rooms up from the mid-1990s**

Data Source: BC Stats

In spite of increasing room supply, hotel prices have been increasing over the same period. In 1995, average hotel room prices were \$92 per night. By 2003, the average hotel price was \$115, a 25% increase. This is well above the overall rate of inflation in BC, which has totalled 12% since 1995.

Other things being equal, an increase in room supply should lead to lower prices, as more and more hotels compete for the same number of travellers. Instead, the hotel sector has opted to keep prices high and settle for a lower occupancy rate.

### Rising hotel prices, falling occupancy rates



Data Source: Pannell Kerr Forster & BC Stats

Average annual occupancy in the hotel sector has dropped from 68% in 1995 to 58% last year, down roughly 10 percentage points. The highest occupancy rate recorded in the last eight years was 90%, in August 1995. For the last 6 years monthly occupancy has never exceeded 80%. There is significant unused room capacity, even in the peak summer months.

In short, while room supply has increased over the years, the estimated number of *occupied* rooms is practically unchanged (+1%).

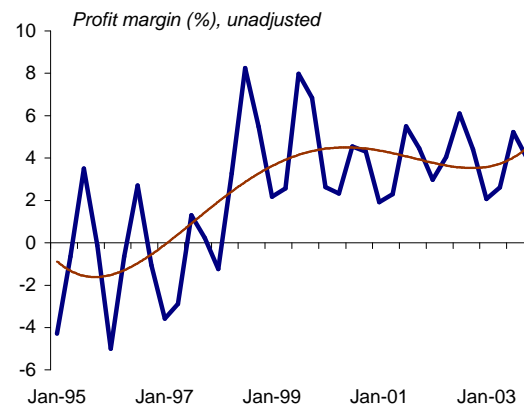
An overall measure of financial performance—combining issues of price and occupancy—is revenues per room. It appears that the recent combination of higher prices and lower occupancy is paying off for accommodation providers. Revenues per room among hotels/motels have increased 18% since 1995.

The largest hotels have seen the weakest revenue performance. Hotels with more

than 150 rooms have seen revenues per room rise only 7%, compared with 16% at small hotels (1-75 rooms). Large hotels had the greatest increase in room capacity over the last eight years, and are facing tighter competition.

Data on profit margins are not available for the BC hotel industry. However, some rough indication can be gleaned from the national accommodation and food service industry. These data suggest that the industry has seen significant improvements in its operating profit margin. The industry was posting modest operating *losses* from 1995-97, with a three-year average loss of 0.8% of revenues. Since 1998, operating profits have averaged 4.0%.

### Nationally, profits in accommodation and food service are up from the mid- 1990s



Data Source: SC, Catalogue no. 61-008-XIE

### Employment levels flat

In contrast to room supply, revenues and profits, employment in the accommodation industry has been relatively flat in recent years. The accommodation industry had 29,000 employees in 2003. This is up 5%

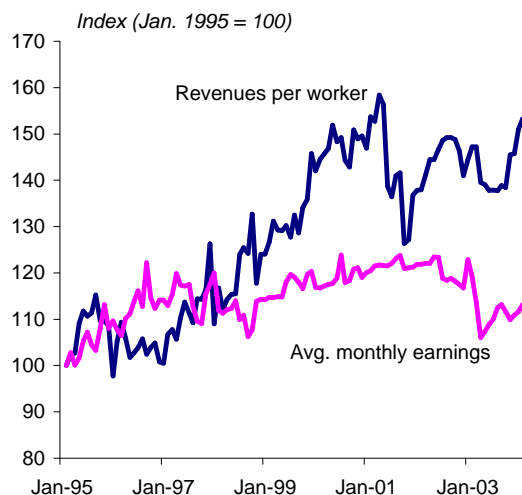
from 1995, but employment peaked in 1996 and has been in slow decline since then.

Minimal employment gains, combined with expanding room supply, suggest that the industry has scaled down its use of labour. Indeed, the number of workers *per 100 rooms* dropped to 37 last year, down from 41 in 1995 (-11%). This is consistent with the decline in occupancy rates—lower occupancy requires fewer cleaning and service staff.

All of this means that the hotel/motel industry has been able to boost its revenues without needing significant increases in employment. Thus, revenues per worker have increased sharply.

Average revenues per worker in 1995 were \$2,760 per month. By last year, revenues per worker had risen to \$3,660 per month—up 32%.

### Monthly earnings lag behind room revenues



Data Source: BC Stats and Statistics Canada

Average monthly earnings have also increased, but not by the same degree. In

1995, average earnings were \$1,496 a month. By 2003, earnings had risen 6%, to \$1,581 a month.

The net result of these trends is that workers are earning a declining share of room revenues. In 1995, labour earnings represented 54% of room revenues per worker. By 2003, earnings had dropped to 42% of revenues per worker.

### Employees earn a declining share of revenues



Data Source: BC Stats and Statistics Canada

### Conclusion

There have been considerable changes in the BC hotel industry over the last eight years. Total room supply is up 18%, representing almost 12,000 more rooms. At the same time, occupancy rates have dropped to 58%, down 10 percentage points. This has left a considerable volume of unused capacity in the hotel industry.

A key factor in this unused room capacity is the 25% increase in average hotel prices over the last eight years. Consumers today are paying considerably more for accommodation in BC.

At the same time, revenues per worker have been growing much faster than employee earnings, and workers are receiving a declining share of revenues.

Indeed, there seems to be a new “lean” business model emerging in the hotel industry. Occupancy is low, but prices are rising and labour costs have been held in check. Accommodation providers—even in the peak season—are not operating at full steam, but their financial performance does not seem to have suffered for it.