

Tourism Sector Monitor ♦ July 2004

Room Revenue

Room revenues in BC rose 3.5% (*seasonally adjusted*) in April, the first increase in room revenues seen since December. Indeed, gains posted in April were more than enough to recover from the downturn in the first three months of the year.

Mainland Southwest was the major engine of revenue growth (+5.7%), supported by the much smaller Northern BC (+9.0%) and Kootenay regions (+6.1%).

Room revenues recover in May

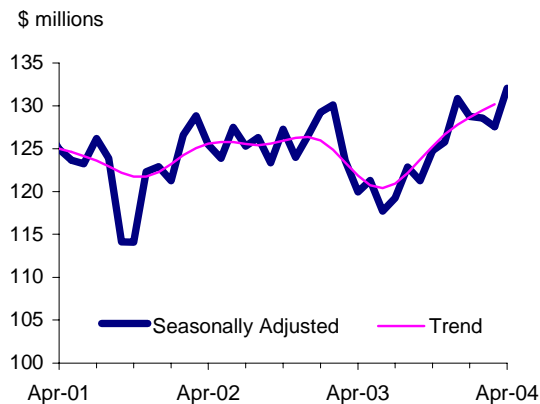


Table 1. Room Revenue
(*seasonally adjusted*)

Accommodation Type			
	Apr.04 (\$000)	Mar.04 (\$000)	% change
Total	130,234	127,316	+3.5
Hotels	96,494	94,757	+1.8
Motels	15,675	15,785	-0.7
Other Acc.	18,064	16,775	+7.7
Regions (Top 3 performers)			
Northern BC	7,210	6,616	+9.0
Kootenay	6,562	6,183	+6.1
Mainland Southwest	72,246	68,365	+5.7

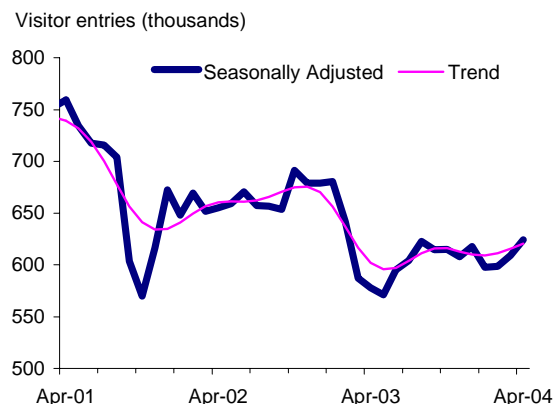
In notable contrast with last month, Thompson-Okanagan (-1.6%) and Cariboo (-4.4%) were the only two regions with falling revenues in April. In March, these two regions were the only places with growing revenues.

Revenues were up at hotels (+1.8%), especially at the largest establishments. Non-standard accommodation types—beach houses, resorts, and the like—bounced back (+7.7%) after a significant decline last month (-7.0%). Motels saw revenues slip 0.7%.

Visitor Entries

Visitor entries posted a second monthly increase in April, rising 2.1% (*seasonally adjusted*). Entries from the US were up 1.1%, largely due to more overnight visits. The number of overseas visitors jumped 7.2%, with strong growth from Asia (+7.2%) and Australia/South Pacific (+25.3%).

Visitor entries edge upward



Special Focus Article: *Declining Revenues at BC's Drinking Places*

Table 2. Traveller Entries
(*seasonally adjusted*)

	Apr-04 (‘000)	Mar-04 (‘000)	% chg from Mar-04
American visitors			
Total	508	502	1.1
Same-day	209	210	-0.1
Overnight	301	299	0.8
Overseas visitors			
Total	111	104	7.2
Europe	34	34	-0.3
UK	16	16	-4.6
Asia	61	57	7.2
Japan	18	19	-6.8
Taiwan	9	8	16.3
Oceania	12	9	25.3

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

Other Indicators

In the hotel industry, both occupancy (+0.9 percentage points) and room rates (+1.4%) increased in April. Employment in the accommodation sector increased marginally (+0.3%), though overall tourism-related industries saw modest job losses (-0.5%).

The food and beverage service industry also had a strong month, with revenues up 4.1%. Revenues were up at both restaurants (+4.0%) and drinking places (+5.9%).

Transportation indicators round out the picture of a healthy tourism sector. Passenger traffic at Vancouver International Airport was up 1.8%, with similar growth at the Victoria Airport (+2.2%). Coquihalla Highway traffic was unchanged from its seasonal pattern, but BC Ferries passengers increased 2.2%.

The Canadian dollar edged down to US\$ 0.74 in April. The currency has depreciated three cents since January—when the Loonie was at an 11-year peak. This trend has eased, at least to some degree, the cost of visiting Canada and should help to strengthen the tourism economy.

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

	Total	Change from month ago
Hotel Industry		
Occupancy rate	61.9	0.9 pp.
Average room charge <i>(Pannell Kerr Forster)</i>	114.70	1.4%
Airport Passengers (000s) (%)		
Vancouver International Airport		
Total traffic	1,299	1.8
US	343	3.4
Other International	309	3.7
Canada <i>(YVR)</i>	647	0.1
Victoria International Airport		
Total traffic <i>(Victoria Airport Authority)</i>	105	2.2
Restaurant Receipts (\$ millions) (%)		
All establishments	518	4.1
Food service	494	4.0
Drinking places <i>(Statistics Canada)</i>	24	5.9
Transportation (000s) (%)		
Coquihalla Highway		
Passenger Vehicles <i>(Ministry of Transportation & Highways)</i>	222	0.1
BC Ferries		
Vehicle Volume	715	0.0
Passenger Volume <i>(BC Ferries)</i>	1,871	2.2
Exchange Rates Cdn \$ Change from month ago		
US \$	0.745	-0.01
UK Pound	0.413	0.00
Japanese Yen	80.225	-1.43
Australian \$ <i>(Statistics Canada)</i>	1.002	0.00

note: pp. percentage points

Note to readers: all data in the *Tourism Sector Monitor* are now reported on a **seasonally adjusted** basis.

A look ahead

Room Revenue

Preliminary numbers suggest that room revenues declined 1.1% (seasonally adjusted) in May, retreating after strong growth in April. The decline appeared across the board with every region except Thompson-Okanagan posting lower revenues.

There were fewer passenger vehicles on the Coquihalla Highway (-2.7%) and aboard BC Ferries (-1.6%). Employment in key tourism related industries was basically unchanged (+0.1%).

On the other hand, visitor entries continued to rise in May (+1.4%). The number of overseas visitors soared 12.7%, offsetting a decline in US entries (-1.1%). Most of the decline in US visitors was due to a drop in same-day cross-border trips (-3.1%).

However, it would seem that the increase in international visitors was not enough to give a boost to the tourism economy in May.

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 probably ranges from 1.1% to 1.5%.

Special Focus:

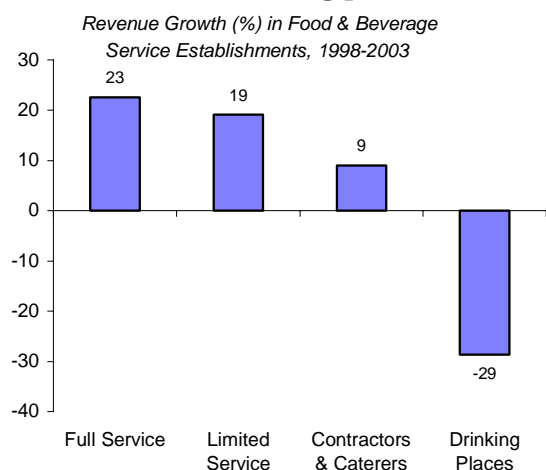
Declining Revenues at BC's Drinking Places

British Columbia's food and beverage service industry has been enjoying strong growth in revenues in recent years. However, one sector of the industry, drinking places, has been sharply battered over the last half decade. This article examines the downturn and considers a number of possible causes, including prices, the smoking ban, and competition from other establishments.

Drinking places in decline

Revenues at drinking places in BC have plummeted 29% since 1998, representing a drop of \$144 million. Over 30 establishments (6%) have withdrawn from the market in the last five years, and revenues per establishment have fallen 24%.

Revenues have fallen sharply at BC drinking places



Source: Statistics Canada

This is in striking contrast with establishments that primarily serve food.

At full service restaurants, revenues have expanded 23%. At limited service "fast food" restaurants, revenues are up 19%. Even food service contractors and caterers have seen revenue growth (+9%). Thus, drinking places are the one weak spot in the food and beverage service industry.

There are several possible factors in the decline of drinking places in BC, including general trends in prices and consumption of alcohol, the WCB ban on smoking in bars, and growing competition from licensed restaurants.

1. Overall alcohol sales

Total expenditures on alcohol in BC have shown relatively slow growth in recent years. On a per capita basis, total alcohol sales rose 10% between 1998 and 2002. This was the slowest growth of liquor sales among the provinces, and is roughly half the national average (+19%). This limited growth in demand for alcohol suggests a partial reason why drinking places are in difficult times.

2. Liquor prices

BC has some of the highest liquor prices in Canada. Statistics Canada's inter-city price index provides data on the liquor prices in 11 major cities in Canada. Prices in Vancouver, in October 2002, were 4% higher than the 11-city average.

Only the east coast cities of St John's and Halifax had higher alcohol prices (5% above average) than Vancouver. The lowest alcohol prices are in Regina (6% below average) and Winnipeg (16% below average).

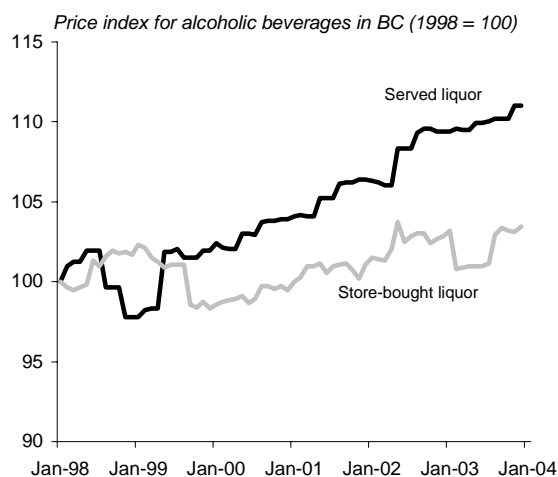
Nevertheless, liquor prices in BC, while comparatively high, have been fairly stable in recent years. Alcohol prices rose 4.3% between 1998 and 2003, below the overall rate of inflation (9.5%). This suggests that price has not been the cause of slow alcohol sales in BC.

However, there is a growing gap between the price of store-bought liquor and liquor served in establishments.

Alcohol purchased in stores has had price increases of only 1.3% between 1998 and

2003.¹ However, the price of served liquor over the same period rose 9.7%. Thus, the cost of “going out for drinks” has risen significantly compared to “having friends over for drinks”. This increasingly unfavourable price comparison has likely hurt drinking places in BC.

Price of served liquor rising faster than store-bought liquor



Source: Statistics Canada

3. The smoking ban

The smoking ban on the food and beverage service industry is another possible factor in the decline of drinking places. Drinking and smoking are often done together, which could make a smoking ban in bars and nightclubs particularly burdensome.

When the Workers Compensation Board first imposed the ban in January 2000, it provoked a sharp reaction from industry. Two and a half months later, the BC Supreme Court ruled that the WCB had failed to adequately consult with stakeholders, and overturned the ban.

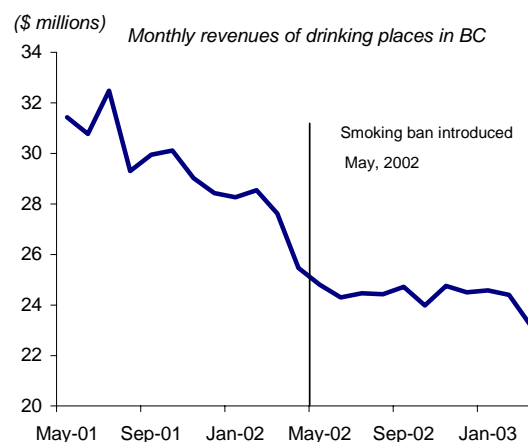
A study commissioned by the WCB concluded that the two and a half month ban did produce a short-term decline in the liquor service industry.²

¹ In the beginning of 2004, there was a 3.9% increase in liquor prices, set by the BC Liquor Distribution Branch.

² Pacific Analytics. 2001. “The Economic Impacts of the

The smoking ban was re-introduced in May 2002. However, this date does not correspond to a drop in the revenues of drinking places.

The smoking ban did not spark a decline in revenues



Source: Statistics Canada

The decline in revenues at drinking places occurred *prior* to the enactment of the smoking ban, and revenues have been relatively stable since then. It seems that the smoking ban did not have a negative impact on the revenues of BC drinking places.

4. Competition from licenced restaurants

Nightclubs and some bars offer a very distinctive “product.” However, pubs are often not very different from licenced restaurants.

The distinction between pubs and licenced restaurants is largely a creation of the liquor control laws. In principle, licenced restaurants can only serve alcohol as an accompaniment to a meal. At pubs, food can be served as an accompaniment to alcohol, or served not at all. Pubs exist largely because restaurants are not legally permitted to serve alcohol without food. And liquor control legislation takes this issue quite seriously.

Proposed Amendment to the ETS Regulation.” Prepared for the Workers Compensation Board of British Columbia. This study was based on provincial liquor sales, rather than establishment revenues.

For a licenced restaurant, serving alcohol without food (qualifications noted below) is one of the most serious offences under the *Liquor Control and Licensing Act*. A first offence can result in a maximum \$10,000 fine and/or a 15-day suspension. In contrast, many of the “public safety” elements in the liquor laws carry significantly lower penalties—including offences such as overcrowding the establishment, serving alcohol to intoxicated patrons, and even serving alcohol to minors. These violations can result in a maximum \$7,000 fine and/or a 7-day suspension.³

Nevertheless, there are regulatory loopholes in the liquor control laws, and restrictions on restaurants are gradually being relaxed.

Traditionally, restaurants have been allowed to set aside 10% of their seating as a lounge where people can order drinks without food. Changes to the legislation in recent years allow for 20% of restaurant space to be designated as a lounge—doubling the lounge space previously allowed. As restaurants incorporate the new law into their floor plans, they will likely continue to claim market share from pubs.

As well, there is the ‘intention to order food’ loophole that allows restaurants to serve thirsty patrons not interested in a meal.

In order to serve alcohol, restaurant staff must *believe* that a customer *intends* to order food. This frequently leads to a game in which the customer asks for a menu and a drink, but eventually decides not to order food. Two drinks can be served before a customer has to order food, and even then ordering a side of French fries or carrot sticks can minimally satisfy the restriction.

Through the allowance for restaurant lounge space and the ‘intention to order’ game, licenced restaurants are able to op-

erate much like a pub, and it seems that restaurants are increasingly competing with liquor primary establishments.

This would suggest that a significant portion of the decline in the revenues of drinking places does not represent a “weakness” in the food and beverage service industry. Rather, it may be more related to a competitive redistribution of market share, which explains in part the strong growth of revenues at full service restaurants.

However, without more detailed data—information about licenced vs. unlicensed restaurants, nightclubs vs. pubs, etc—this account cannot be definitively established.

Conclusion

In the food and beverage service industry, drinking places have been the one weak spot, with revenues falling 29% over the last five years.

Overall spending on alcoholic beverages has not been as robust in BC as in other provinces. As well, the price of served liquor (+9.7%) has been rising much faster than the price of store-bought liquor (+1.3%) over the past five years. However, neither of these facts provide an adequate account of why drinking places have seen such a steep decline in revenues.

The introduction of the smoking ban, which might be expected to be a particular burden on drinking places, was a possible factor. However, the downturn in revenues largely occurred before the smoking ban was enacted.

Competition from licenced restaurants has probably been the main factor in the declining revenues and market share of drinking places.

³ Liquor Control and Licensing Regulation. Schedule 4.