

Tourism Sector Monitor ♦ November 2004

Room Revenue

Room revenues dropped in August (-3.3%, *seasonally adjusted*), ending two months of recovery. Revenues fell in all development regions except Cariboo (+1.4%). The deepest declines were in Thompson-Okanagan (-4.7%), Kootenay (-4.7%), Northeast (-4.3%) and the largest region, Mainland-Southwest (-4.0%). The second largest region, Vancouver Island/Coast (-0.7%), posted more moderate declines.

Room revenues down in August

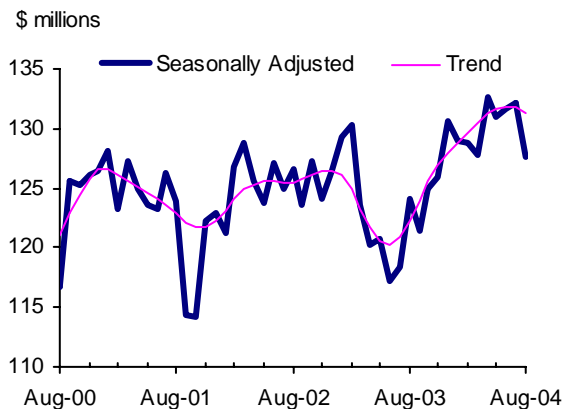


Table 1. Room Revenue
(*seasonally adjusted*)

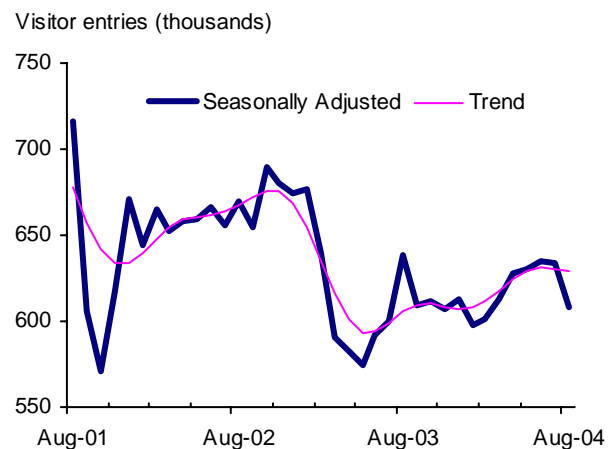
Accommodation Type			
	Aug 04 (\$000)	July 04 (\$000)	% change
Total	127,683	132,107	-3.3
Hotels	93,964	96,195	-2.3
Motels	15,373	16,173	-4.9
Other Acc.	18,521	18,885	-1.9
Regions (Top 3 performers)			
Cariboo	3,834	3,780	+1.4
Vancouver Island/Coast	24,135	24,317	-0.7
North Coast	1,687	1,720	-1.9

The sharp decline was due to loss of revenue for every type of tourism establishment. Motels (-4.9%) and smaller hotels (75 rooms or less) (-2.9%) experienced the largest decrease in revenue. Revenues at large hotels (251 or more rooms) (-2.2%) slumped in August.

Visitor Entries

The number of visitors entering Canada via BC border crossings continued to decline in August, falling 2.8% (*seasonally adjusted*). This was due to fewer entries from both the US (-2.5%) and overseas (-4.3%). Possible concerns about delays due to increased security and rising oil prices, as well as a stronger Canadian dollar might have influenced visitors, as the number of American travellers making same-day trips to BC decreased (-4.0%). With the exception of Hong Kong (+14.9%), travel was down for most of BC's top overseas markets.

Visitor entries declined in August



The number of Canadians returning to BC edged up (+0.6%) for the first time since March. Fewer Canadians (-1.7%) made same-day car trips south of the border,

however travel to overseas destinations was more popular (+4.1%).

Table 2. Traveller Entries
(seasonally adjusted)

	Aug-04 (‘000)	Jul-04 (‘000)	% chg from Jul-04
American visitors			
Total	498	511	-2.5
Same-day	203	211	-4.0
Overnight	293	299	-2.0
Overseas visitors			
Total	115	121	-4.3
Europe	38	40	-7.0
UK	19	20	-4.0
Asia	53	58	-7.7
Japan	18	21	-13.5
Taiwan	6	7	-11.4
Oceania	13	13	-1.2

(BC STATS & Statistics Canada)

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 average room rates (-0.2%) and hotel occupancy (-2.4 percentage points) dropped in August.

Employment in key tourism-related industries picked up speed (+0.8%) in August, with the exception of the accommodation sector (-1.1%) where employment was down from the previous month. The job gains were widespread across the tourism sector, with a notable (+3.0%) increase in the arts, entertainment and recreation industry.

The consumer price indexes for both traveller accommodation (-1.2%) and restaurant food (-0.1%) fell.

Transportation indicators were weak for the second consecutive month. The number of passengers at both the Vancouver (-1.3%) and Victoria (-4.7%) airports was

down. In Vancouver, there were more people travelling to or from the US (+2.2%), but fewer overseas passengers (-2.7%). After a month of relatively strong passenger vehicle traffic, the number of cars on the Coquihalla Highway dropped (-4.7%). Passenger volume (-1.7%) and vehicles (-1.5%) aboard BC Ferries were also down.

Table 3. Other Tourism Indicators
(seasonally adjusted)

	Aug-04	Change from Jul-04
Hotel Industry		
Occupancy rate	59.0	-2.4 pp.
Average room charge	115.70	-0.2%
<i>(Pannell Kerr Forster)</i>		
Airport Passengers (000s) (%)		
Vancouver International Airport		
Total traffic	1,298	-1.3
US (trans-border)	327	2.2
Other International	315	-2.7
Canada (domestic)	656	-2.4
<i>(YVR)</i>		
Victoria International Airport		
Total traffic	100	-4.7
<i>(Victoria Airport Authority)</i>		
Transportation (000s) (%)		
Coquihalla Highway		
Passenger Vehicles	207	-4.7
<i>(Ministry of Transportation & Highways)</i>		
BC Ferries		
Vehicle Volume	695	-1.5
Passenger Volume	1,786	-1.7
<i>(BC Ferries)</i>		
Exchange Rates Cdn \$		
US \$	0.762	0.01
UK Pound	0.419	0.01
Japanese Yen	83.998	1.15
Australian \$	1.071	0.02
<i>(Statistics Canada)</i>		

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 rebounded (+4.7%, *seasonally adjusted*) in September, regaining the ground lost in August. All regions fared well except for Cariboo (-0.9%) and North Coast (-2.9%). Mainland/Southwest (+5.9%) was the main engine for revenue growth, followed by Thompson-Okanagan (+5.2%) and Kootenay (+5.7%). The improvement in September was due to strong revenues reported by every type of establishment, with the largest hotels (251 or more rooms) (+6.7%) taking the lead.

Visitor entries posted a strong monthly expansion (+5.0%) in September. Same-day and overnight travellers from the US increased (+5.6%). Asia (+5.2%) and Europe (+4.6%) showed the most notable jumps in overseas visitors to in BC.

The number of passengers increased for all mediums of transportation. Victoria airport (+9.0%) and Coquihalla Highway (+6.6%) was the busiest. Overall, the preliminary indications are that September was a relatively strong month for tourism BC.

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 three-month lag. For example, data for January are not reported until April. However, we also briefly report “preliminary data” with a two-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: China a potential market for BC's tourism industry

China's travel and tourism industry has been developing rapidly since 1978, when Deng Xiaoping first set the country on a path of economic reforms and policy changes. In the last five years, increasingly favourable and flexible governmental tourism policies have opened up the Chinese tourism industry to the world and enabled more Chinese nationals to step out of their country.

Due to higher living standards and relaxation of travel constraints, more and more Chinese mainlanders are travelling abroad. According to the World Tourism Organization, (WTO) by 2020 China will be the world's fourth-biggest source of outbound tourists after Germany, Japan and the US, and also the biggest destination for international tourists.

The Chinese state media reported 16.6 million outbound tourists in 2002, exceeding Japan for the first time as Asia's largest source of outbound travellers. While it took the Japanese four decades to reach close to 18 million outbound travellers (in 2000), Chinese international travellers accomplished that in one decade. Despite the SARS outbreak, 20.2 million Chinese nationals travelled abroad in 2003, a 21% increase from the previous year.

Canada is not as well placed as other countries to capitalise on the fastest growing tourism market.

Chinese mainlanders' freedom of movement has lagged behind the age of easy international travel by a couple of decades, but they are catching up fast. The big boost has come in the past couple of years, as Chinese authorities have made it easier for individuals to obtain passports. Chinese citizens are also able to obtain tourist visas from countries granted Approved Destina-

tion Status (ADS) by Chinese authorities. A country must have ADS before Chinese tour groups are allowed to visit. Chinese travellers wishing to visit countries without ADS must go through a complicated process, which usually means applying for tourist visas that are rarely granted. By February 2004, China had signed ADS agreements with 28 countries and regions and on September 1 2004, 27 European countries were awarded ADS.

The US and Canada are potentially the largest Western markets for Chinese tourists, but the lack of approved status has posed a serious barrier, as have visa-issuing procedures at Embassies in Beijing.

What particularly worries the Canadian and US governments is the prospect of large numbers of Chinese tourists turning up in tour parties and then claiming refugee status. The worry is a legitimate one, however it seems that China and Europe, which are equally keen to avoid refugee issues, have added a clause in the agreement which allows for repatriation of any visitors that would outstay the term of their visit.

The approval of Canada as an official destination would have a significant impact on the Canadian tourism industry, not just because of the sheer number of potential new tourists, but also because of expected expenditure by Chinese tourists. According to European research groups, Chinese tourists spend less per trip than Americans and Japanese, but their spending is on par with that of Germans travelling in Europe. In 2000, Chinese tourists spent an average of \$112 per night in Canada, more than visitors from Hong Kong (\$102) and Taiwan (\$108).

Another major obstacle standing between Canadians and Chinese tourist dollars is the

lack of airline capacity. At present, the air service agreement between the two countries only allows 15 flights a week in each direction.

Newly affluent Chinese travellers would like to visit North America, but where they actually go is Hong Kong, because it is considered a shoppers heaven and also because by 1999, the region had been granted Approved Destination Status. According to Chinese statistical data, Hong Kong is the most popular destination among mainlanders travelling for business and pleasure, followed by Macao and Japan. Among the top 10 preferred countries and regions the US is placed seventh while Australia is tenth.

Since receiving ADS in 1999, China has become Australia's fifth biggest international tourist market, after Japan, the UK, the US and Singapore. In 2001, Australia received 172 thousand Chinese visitors, and by 2005 arrivals are expected to reach close to half a million tourists.

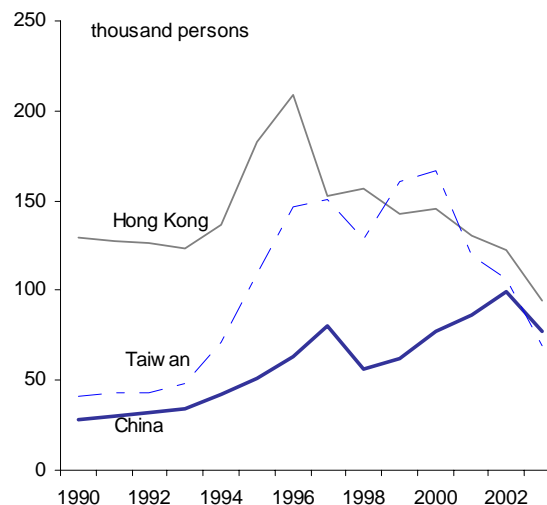
In 2003, Canada was not among the top 10 destinations visited by Chinese tourists, although according to the Asia Pacific Foundation of Canada, research has shown that Canada is a highly desirable tourist destination for Chinese travellers, in part due to the large and growing Chinese Canadian population in the country.

Chinese visitors a lucrative business for Canada

Although Canada has not yet been granted ADS by the Chinese government, it still received 86,407 entries from the Mainland in 2001 – half the Australian total. Surveys from 2002 found that 1.9 million newly affluent Chinese would have been interested in visiting Canada, which could have boosted the economy by approximately \$1 billion each year. However, administrative barriers from both governments have kept

the number of Chinese tourist arrivals low. Very few mainlanders are successful in obtaining tourist visas to Canada. Those who are, frequently cite family or business as their primary purpose for travel to Canada. Although it is difficult for Chinese visitors to pass administrative barriers, an increasing number are travelling to Canada. Entries from China increased 15% (to 99,292) between 2001 and 2002, a period when entries from other Asian sources were declining. Due to ongoing security fears and the SARS outbreak in Canada and China, visitor arrivals from China fell 22% in 2003. In contrast to the expanding Chinese tourist market, travel from Hong Kong and Taiwan, both among Canada's top ten overseas tourist markets, has been contracting. However the lower numbers were most likely due to weak global economies, ongoing security fears, the war in Iraq and SARS.

An increasing number of Chinese visitors include Canada in their overseas travel plans



China is one of British Columbia's fastest growing international tourist sources.

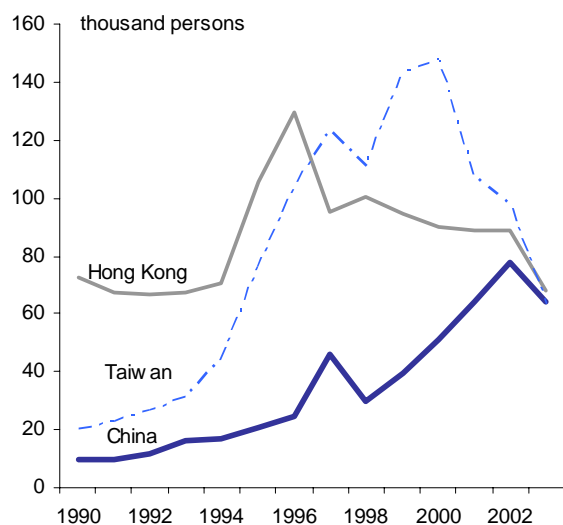
Although Canada as a whole attracts a fair share of Chinese visitors, BC is above the national average in terms of its share of the Chinese market. Not surprisingly, a higher

number of Chinese travellers visit BC because of the province's close proximity to Asia (it is the first port of entry for many Asian travellers) and also because it has a large Asian population.

Outstanding scenery, open spaces, safety and cleanliness could also lure more mainlanders to BC since most Chinese live in small apartments in very big and densely populated urban areas and therefore they are looking for something different during their trip. The province's mild climate is also an attractive factor.

Over the last three years, there has generally been an upward trend for Chinese tourists coming to BC, while other major Asian markets, such as Hong Kong and Taiwan have slowed down. BC received a dramatic increase of travellers from Hong Kong before 1997, due in part to uncertainties during the months leading up to the repatriation with China, but since then entries have been declining.

China is gearing up to be a significant tourist generator for BC



BC was a favoured choice for travellers from Taiwan until the late nineties when the number of visitors dipped possibly due to the economic downturn experienced by

the middle and upper-income economies in Asia.

China has come a long way since 1949, when mostly government officials and a small number of people who had relatives abroad had the privilege of travelling overseas. With increasing personal income, more Chinese are seeking the opportunity to improve their life style and travel overseas. For Mainlanders the desire to travel can be traced back to the roots of Chinese culture, as one of their great poets Li Bai advises that a wise man should read ten thousand books and travel ten thousand miles.