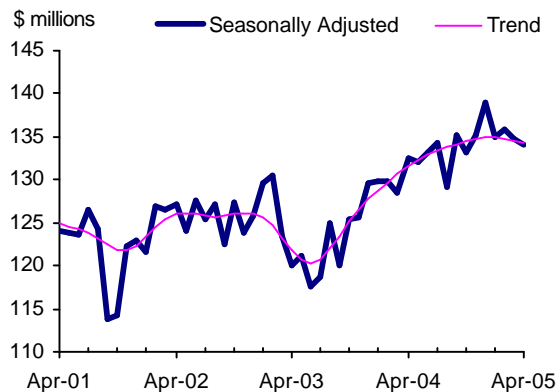


## Tourism Sector Monitor ♦ July 2005

### Room Revenue

Provincial room revenues edged down for the second straight month in April (-0.5%, *seasonally adjusted*), due mainly to weakness in Vancouver Island/Coast (-2.2%) and Northeast (-16.3%), where temporary accommodations for workers were not as busy. Mainland/Southwest (+0.4%), Kootenay (+3.1%), and Cariboo (+11.9%) were the only regions that saw room revenue increase.

#### Room revenues continued to inch down



Among accommodation types, only hotels with 151-250 rooms (+3.6%) and motels (+1.5%) posted gains in April.

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

Accommodation Type			
	Apr 05 (\$000)	Mar 05 (\$000)	% change
Total	134,029	134,754	-0.5
Hotels	97,554	99,548	-2.0
Motels	18,053	17,789	1.5
Other Acc.	16,083	18,191	-11.6
Regions (Top 3 performers)			
Cariboo	4,697	4,197	+11.9
Kootenay	6,214	6,029	+3.1
Mainland/Southwest	69,480	69,194	+0.4

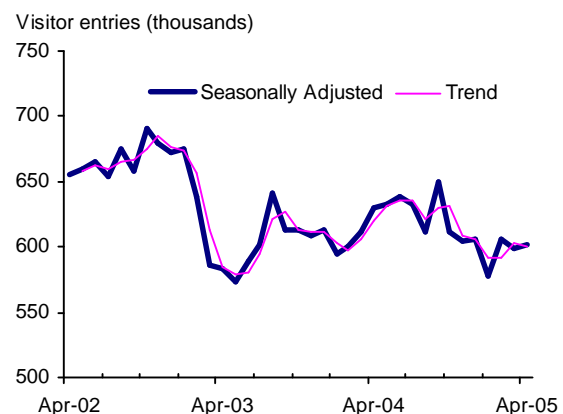
The biggest decline was recorded in the vacation rental category (-15.6%). Again, this is probably related to less activity at work camps. Large hotels (251+ rooms, -5.6%) and miscellaneous accommodations (including fishing lodges, bed and breakfast and other short term accommodations, -6.5%) also experienced a substantial drop in room revenues.

### Visitor Entries

The number of visitors entering Canada via BC border crossings edged up in April (+0.4% *seasonally adjusted*), largely due to an increase in visits from overseas (+3.4%). Entries from the US slipped (-0.4%), with a decrease in same-day cross border excursions (-1.4%) partially offset by a modest gain in overnight visits (+0.7%).

The overall increase in Asian visitor entries (+3.3%) was largely due to extra visitors from Hong Kong (+33.3%) and Japan (+2.3%). European entries stalled in April (+0.1%) with fewer travellers from both the UK (-3.2%) and Germany (-0.3%). Entries from Australia, New Zealand and the South Pacific fell 0.7%.

#### Visitor entries edged up in April



The number of Canadians travelling abroad slumped 5.3% in April, as fewer Canadians made same-day trips to the US (-8.2%).

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

	Apr-05 (‘000)	Mar-05 (‘000)	% chg from Mar-05
<b>American visitors</b>			
Total	473	475	-0.4
Same-day	192	195	-1.4
Overnight	285	283	0.7
<b>Overseas visitors</b>			
Total	128	124	3.4
Europe	42	42	0.1
UK	19	20	-3.2
Asia	66	63	3.3
Japan	21	21	2.3
Taiwan	8	9	-5.5
Oceania	12	12	-0.7

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

### Other Indicators

Other tourism indicators gave mixed signals in April.

The consumer price index for traveller accommodation (-1.6%) fell for the third consecutive month. In the hotel industry, however, room prices were up 1.0%. The occupancy rate in BC hotels slipped 0.5 percentage points. Employment in the accommodation sector rose 0.9% after slipping 0.6% in March.

The restaurant food price index edged up (+0.2%), and restaurant, caterer and tavern receipts rose 2.8% in April. Revenues were up at both food services (+2.8%) and drinking places (+2.8%). However, employment in the food & beverage services sector fell 1.0%.

Transportation indicators were relatively weak in April. Passenger traffic dropped 0.5% at the Vancouver Airport and 2.2% at the Victoria airport. The Coquihalla highway was not as busy (-1.4%), and both

vehicle (-0.5%) and passenger (-0.1%) volumes aboard BC Ferries were off.

The Canadian dollar depreciated 1.3 US cents to 0.809 US dollar in April. While a weak Canadian dollar is expected to help BC's tourism sector, the depreciation in April might be too small to have any meaningful effect.

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

	Apr-05	Mar-05	Change from
<b>Hotel Industry</b>			
Occupancy rate	63.3		-0.5 pp.
Average room charge	113.00		1.0%
<i>(Pannell Kerr Forster)</i>			
<b>Airport Passengers (000s) (%)</b>			
<b>Vancouver International Airport</b>			
Total traffic	1,376		-0.5
US (trans-border)	345		-1.7
Other International	344		3.9
Canada (domestic)	687		-2.0
<i>(YVR)</i>			
<b>Victoria International Airport</b>			
Total traffic	110		-2.2
<i>(Victoria Airport Authority)</i>			
<b>Restaurant Receipts (\$ millions) (%)</b>			
All establishments	546		2.8
Food service	501		2.8
Drinking places	45		2.8
<i>(Statistics Canada)</i>			
<b>Transportation (000s) (%)</b>			
<b>Coquihalla Highway</b>			
Passenger Vehicles	222		-1.4
<i>(Ministry of Transportation &amp; Highways)</i>			
<b>BC Ferries</b>			
Vehicle Volume	721		-0.5
Passenger Volume	1,846		-0.1
<i>(BC Ferries)</i>			
<b>Exchange Rates Cdn \$</b>			
US \$	0.809		-0.01
UK Pound	0.427		0.00
Japanese Yen	86.723		0.20
Australian \$	1.046		0.00
<i>(Statistics Canada)</i>			

Note: pp. percentage points

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

## A look ahead

### Room Revenue

Preliminary numbers suggest that room revenues rebounded (+3.0%, *seasonally adjusted*) in May, as six out of eight regions posted month-over-month gains.

Province-wide, revenues were up for every type of tourism establishment. Non-standard accommodation (including fishing lodges, bed and breakfast and other short term accommodations, +20.1%), vacation rentals (+15.4%) and large hotels (251+ rooms, +8.9%) experienced exceptionally strong gains.

Visitor entries rose 4.1% (*seasonally adjusted*) in May. This was a result of an increase in the number of US visitors (+4.4%) as well as overseas travellers (+2.8%).

Vancouver airport (+2.0%) was busier in May than in the previous month. Victoria airport (-0.7%), however, reported less activity. There were more passengers (+1.2%) and vehicles (+0.7%) aboard BC Ferries.

#### 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%.

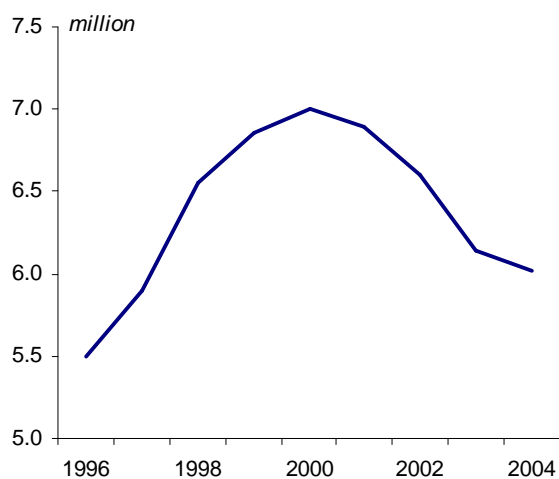
## Special Focus: What Drives US Visitors Away?

American visitors comprise the biggest client base for British Columbia's tourism sector. However, the number of US travellers coming to Canada via BC has declined over the last a few years. This paper examines some of the reasons behind these declines, using linear regression models to analyze how different factors may affect the number of US visitor entries.

### US Travellers Going South or Overseas

The number of US travellers coming to Canada via BC began to decline in 2001 and has fallen every year since then<sup>1</sup>. The downturn predated the events of 9/11, but was exacerbated by them, and subsequent issues such as the SARS outbreak and, to a lesser extent, the war in Iraq.

### Annual Number of US Visitors Entering BC



Data Source: Statistics Canada

According to the US Office of Travel & Tourism Industries (OTTI)<sup>2</sup>, the number of US residents coming to Canada plummeted (-12.3%) in 2003, while US trips to Mexico only dropped 5.1%. During the same period, however, overseas destinations welcomed 4.5% more US visitors.

<sup>1</sup> -1.6% in 2001; -4.3% in 2002; -7.0% in 2003; -1.9% in 2004; Source: Statistics Canada

<sup>2</sup> <http://tinet.ita.doc.gov/>

As Americans are a significant driving force in BC's tourism economy, a change of interest towards overseas markets could have a huge impact on the province's tourism sector.

What makes BC a less attractive destination for US travellers? There isn't much inconsistency in the services provided in BC, nor is there any unpleasant incident that keeps Americans from going North (except for SARS, which proved to have little impact in the following analysis). It seems a reasonable explanation could be the cost of travel to BC.

When people plan a vacation, there are several components that always have a price tag attached: transportation, accommodation, food and beverages, admissions and tickets, and souvenirs. Finding the relationships between the costs of these components and the number of US tourists may help explain the recent trend.

### Regression

Linear regression models were used to estimate the relationship between the number of US visitors entering Canada via BC (same-day and overnight separately) with a list of variables, including average motor gasoline retail prices in the US to measure the cost of car transportation<sup>3</sup>, the US Air Travel Price Index (ATPI) to measure the cost of air transportation<sup>4</sup>, the BC hotel average room rate to measure the cost of accommodation<sup>5</sup>, and the monthly average US dollar to Canadian dollar exchange rate to measure the cost of all other travel expenses<sup>6</sup>. Dummy variables were also included to account for the effect of the Sep-

<sup>3</sup> Energy Information Administration, US Department of Energy. (<http://eia.doe.gov>)

<sup>4</sup> US Bureau of Transportation Statistics ([www.bts.gov](http://www.bts.gov))

<sup>5</sup> Pannell Kerr Forster Canada

<sup>6</sup> Source: Statistics Canada

tember 11<sup>th</sup> terrorist attack in 2001 and the SARS outbreak in 2003.

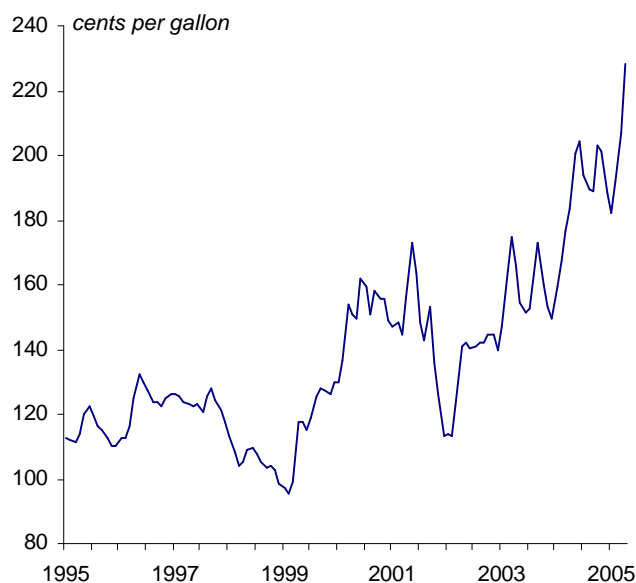
The regressions show that the above variables can explain 89% of the variation in the number of US same-day entries, and 84% of the variation in the number of US overnight trips. In other words, US travellers' diminishing interest in BC can be mostly attributed to these factors.

### Gasoline Prices

Due to the proximity of the two countries, many US residents drive to Canada rather than taking public transportation, giving them a lower-cost means of transportation, and greater flexibility when they travel. Thus, retail gasoline prices play an important role when Americans decide whether to drive to Canada or stay closer to home.

The regression results showed that gasoline price is a significant factor for the numbers of both same-day and overnight visitor entries. One US cent of increase in average gas prices would prevent over 300 same-day and 200 overnight travellers from driving to BC every month.

### US Average Motor Gasoline Retail Prices



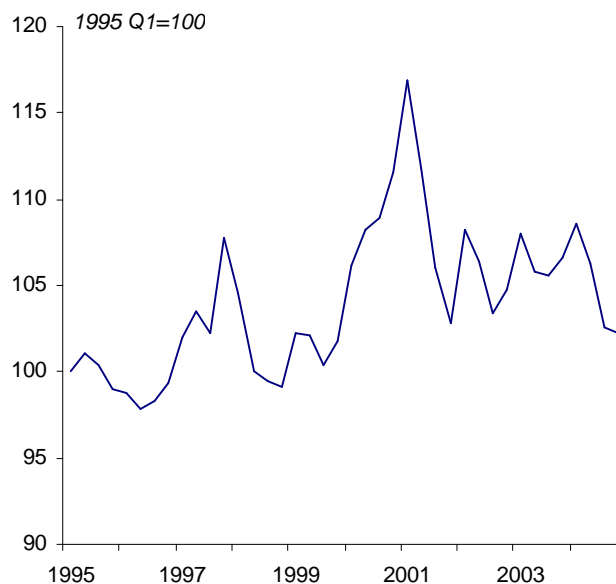
Data Source: US Department of Energy

Gasoline prices have been skyrocketing since the beginning of 2002, and there is still no sign of relief. The US average gasoline price in April 2005 was US\$2.28, more than twice as much as the price in January 2002 (US\$1.13). Thus, gas prices are likely to affect the number of US visitors negatively for quite a while.

### Airfares

Airplane tickets comprise another big portion of total travel costs. When people are making travel plans, air tickets are probably among the first things they consider, especially for overseas or distant destinations.

### US Air Travel Price Index



Data Source: US Bureau of Transportation Statistics

A rise (or drop) in airfares can be a double-edged sword for the Canadian tourism market. First, the more expensive air tickets to Canada are, the less likely US residents are to fly to Canada for vacation. On the other hand, higher airfares to Mexico or overseas would make those destinations less affordable and hence bring more Americans on visits to their northern neighbour. The regression showed that the second effect has prevailed in the past. In other words, the number of US visitors to BC is positively

related to average air travel prices. On average, one point increase in the Air Travel Price Index would bring over 600 more same-day US travellers to BC every month<sup>7</sup>.

Travellers' confidence, brutal competition, and cost cutting by airlines have all helped forge a downward trend in US airfares since 2001. According to the US Bureau of Transportation Statistics, the US origin air travel price index (ATPI, 1995 Q1=100) dropped from 117 in the first quarter of 2001 to 102 in the fourth quarter of 2004.

### Exchange Rates

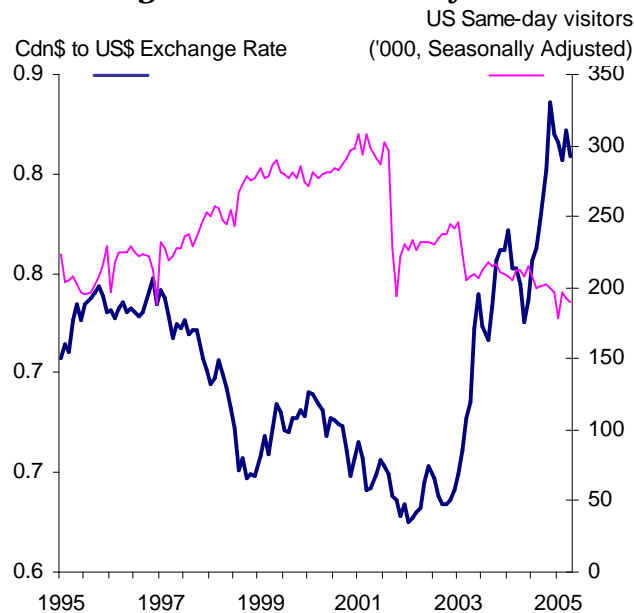
The exchange rate between the US and Canadian dollar is another, if not the most, important factor for American travellers. With the Canadian dollar appreciating, transportation to and within British Columbia, accommodation, meals, and all other expenses in the province become less of a bargain for visitors from the US.

In October 2003, BC STATS evaluated the impact of US dollar to Canadian dollar exchange rate (Cdn\$/per US\$) movements on cross-border travel. The conclusion was that variations in the value of the US dollar have positive impacts on the number of both same-day and overnight trips by Americans to BC. This conclusion was also confirmed by this study. The regression results showed that if the US dollar appreciates by one cent relative to the loonie, approximately 1,200 more same-day and 1,100 more overnight US visitors would come to BC every month, and vice versa.

During the period from January 2002 to December 2004 when the value of the US Dollar dropped 23.8% (from 1.60 to 1.22 Cdn\$/per US\$), the number of same-day US visitors to BC slumped 12.8% and the number of overnight entries dropped 8.0%.

<sup>7</sup> The Air Travel Price Index is not a significant explanatory variable for over-night travels

### Exchange Rate vs. US Same-day Entries



Data Source: Statistics Canada

Of course, many factors contributed to this trend. In addition to gasoline and air travel prices, the September 11<sup>th</sup> terrorist attack and the SARS outbreak also affected travel to BC.

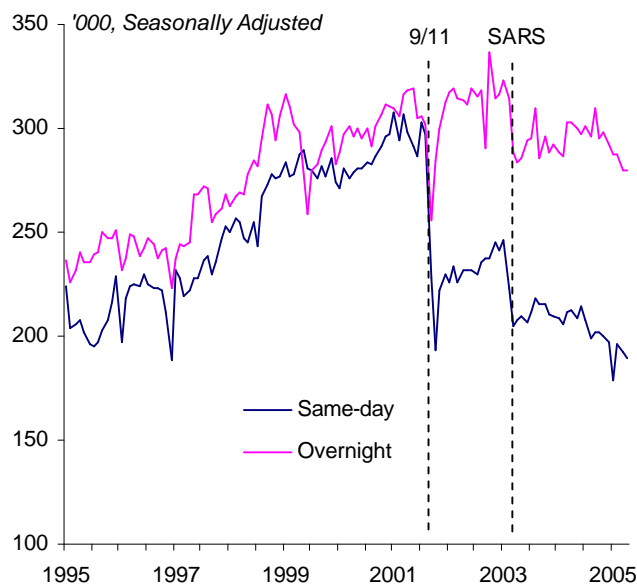
### 9/11 and SARS

To separate and identify the impact of the September 11<sup>th</sup> terrorist attack and the SARS outbreak on US visitor entries, two dummy variables were included in the models.

The regression suggested that 9/11 had a huge negative impact on US same-day and overnight visitor entries. Without the events of 9/11, there would have been 88,700 more same-day and 16,800 more overnight US visitors to BC in each month since September 2001.

The impact of the SARS outbreak, on the other hand, was not as strong. Since visitor entries recovered fairly quickly after the outbreak, the regression did not recognize SARS as a significant explanatory variable for the number of US visitors.

### Monthly US Visitor Entries to BC

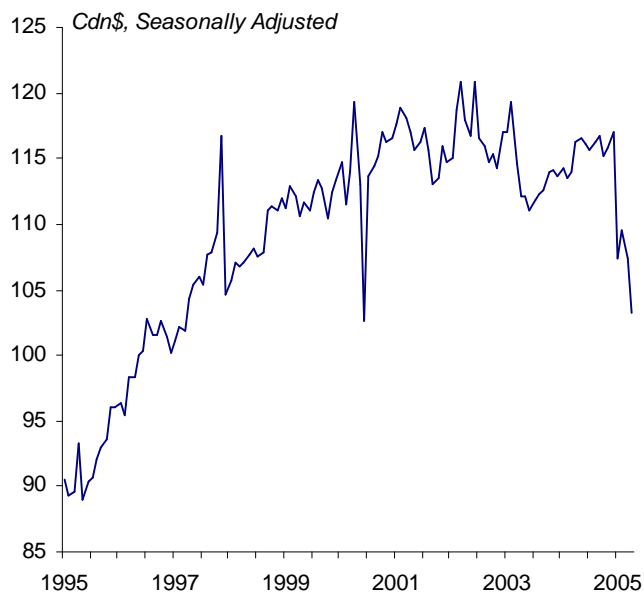


Data Source: Statistics Canada & BC STATS

### Accommodations

Initially, average room rates of BC hotels were included in the regression model for overnight US visitor entries, as accommodation also claims a big chunk of travel expenditure. However, no significant relationship was found between hotel prices and the number of US overnight visitors.

### Daily Room Rate of BC Hotels



Data Source: Pannell Kerr Forster Canada & BC STATS

The fact that BC's room rates do not appear to affect the decision making process of Americans is not necessarily a bad thing for BC's accommodation industry. It implies that BC's hotel rooms were priced within an equilibrium range so that they were neither too expensive to scare Americans away nor cheap enough to lure more of them to come over.

It is also possible that instead of influencing overnight US visitor entries, hotel room prices might affect the length of their stay in BC. However, due to the lack of data, this hypothesis was not verified in this study.

### Are they coming back?

Our research revealed the main reasons behind the downward trend in the numbers of US visitors coming to BC. The trend was established under the pressure of higher gasoline prices, lower fares to alternative destinations, a lower value of the US dollar, and residual impact of September 11<sup>th</sup>. But what can we expect to see in the next little while?

High gasoline prices aren't likely to fall back any time soon, especially when OPEC crude oil prices keep ratcheting up to new record levels (US\$54.4 per barrel in July 15, 2005<sup>8</sup>).

US air travel prices are very likely to stay low or go down further, especially after the possible merger of US Airways, American's seventh-largest airline, and America West Airlines. This \$1.5 billion merger deal would create the US's largest budget airline. Together with the already successful low-fare airline-JetBlue, they will bring the airfare war to a new level.

The movement of Canadian dollars against US dollars depends on how both economies perform and many other unpredictable fac-

<sup>8</sup> Energy Information Administration, US Department of Energy. (<http://eia.doe.gov>)

tors. But one thing is certain: even if the high Canadian dollar starts to fall, the process will take a fair amount of time. And during that period, the exchange rate will keep affecting BC's tourism sector negatively.

It has been almost four years since the Sept. 11<sup>th</sup> terrorist attack, but the number of US visitors to BC has not yet fully recovered. It is difficult to guess how much longer it will affect tourism in BC, but with the recent serial bombing in London, the confidence of US tourists certainly needs more time to heal.

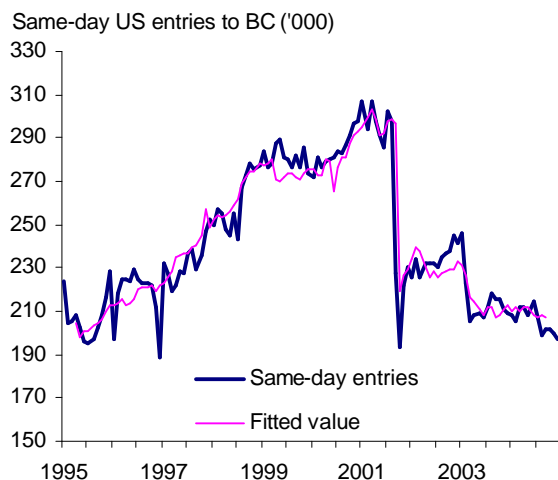
In general, most of the factors identified have been slowing travel from the US to BC in the last several years, and it seems likely that these factors will remain a drag on the tourism sector for quite a while.



## Models and Charts

### Same-day US visitor entries

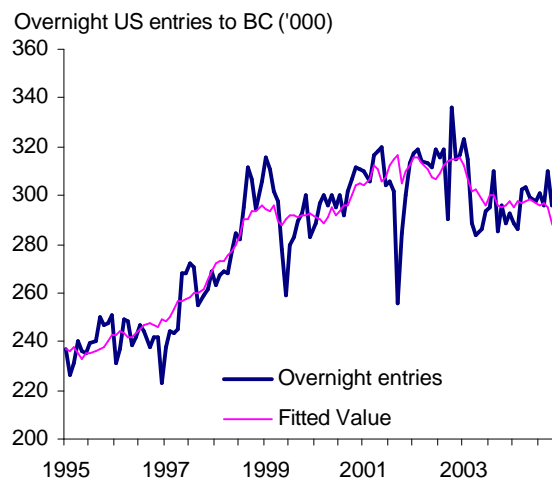
# of Same-day Trips = 12,053 – 88,671 \*  
Sept\_11 + 120,485 \* exchange rate - 330 \* gas  
prices + 626 \* air fare + 1074 \* trend



Dependent Variable: Same-day US entries				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	12053	37333.39	0.32	0.75
9/11	-88671	4375.91	-20.26	0.00
Exchange rate	120485	16760.99	7.19	0.00
Gas price	-330	85.93	-3.84	0.00
ATPI	626	353.73	1.77	0.08
@TREND	1074	90.58	11.86	0.00
R-squared	0.889	Durbin-Watson stat		1.230
Adjusted R-squared	0.884	Prob(F-statistic)		0.000

### Overnight US visitor entries

# of overnight trips = 109,791 – 16,816 \*  
Sept\_11 + 106,733 \* exchange rate - 212 \* gas  
price + 903 \* trend



Dependent Variable: Overnight US entries				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	109792	26485.77	4.15	0.00
9/11	-16816	4005.55	-4.20	0.00
Exchange rate	106733	14802.56	7.21	0.00
Gas price	-213	80.28	-2.65	0.01
@TREND	903	81.00	11.15	0.00
R-squared	0.848	Durbin-Watson stat		1.145
Adjusted R-squared	0.843	Prob(F-statistic)		0.000

## Major Variables Used

	2000	2001	2002	2003	2004
<b>US Visitor Entries Via BC ('000)</b>					
<b>Same-day</b>	3,407.1	3,257.7	2,808.1	2,580.7	2,468.0
<b>Overnight</b>	3,598.8	3,636.8	3,787.8	3,556.7	3,571.1
<b>Annual Average Exchange rates (Cdn\$/per US\$)</b>					
	1.49	1.55	1.57	1.40	1.30
<b>Average US Motor Gasoline Retail Prices (US Cents per Gallon)</b>					
	151.0	146.1	135.8	159.1	188.0
<b>US Air Travel Price Index (1995Q1=100)</b>					
	108.7	109.4	105.7	106.5	104.9
<b>BC Hotel Average Daily Room Rate (Cdn\$)</b>					
	114.0	116.1	117.0	113.7	115.6