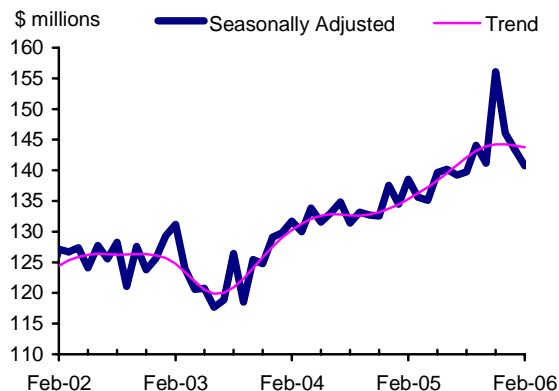


Tourism Sector Monitor ♦ May 2006

Room Revenue

Room revenues declined for the third straight month (-1.8%) in February. Five regions saw revenues fall with the biggest decrease occurring again in Northeast (-8.8%), where revenues have dropped for four consecutive months. Revenues in BC's biggest regions, Mainland/Southwest (-2.3%) and Vancouver Island/Coast (-0.3%), also slid. In addition, Kootenay (-4.6%), Thompson-Okanagan (-1.3%), and Nechako (-0.2%) recorded slumps in room revenues after seeing increases in January. However, North Coast experienced double-digit growth of 11.0%, and revenues also inched up in Cariboo (+0.1%).

Room revenues continued to fall in February



Hotels of all sizes experienced decreases in revenues in February (-2.7%). Hotels with 151-250 rooms posted biggest declines (-3.4%) in room revenues, and large hotels with more than 250 rooms saw revenues fall 2.7%. Business at hotels with 151-250 rooms was off (-2.7%). Small hotels continued to experience declines in their room revenues (-1.9%). Revenues at vacation rentals (-9.9%) and non-standard accommodations (-2.2%), including fishing lodges, also slipped. However, motels

(+0.3%) posted the sixth successive increase since September.

Table 1. Room Revenue
(seasonally adjusted)

Accommodation Type			
	Feb 06 (\$000)	Jan 06 (\$000)	% change
Total	140,751	143,403	-1.8
Hotels	104,225	107,170	-2.7
Motels	19,993	19,936	+0.3
Other Accommodations	16,849	17,939	-6.2
Regions (Top 3 performers)			
North Coast	1,770	1,594	+11.0
Cariboo	4,566	4,562	+0.1
Nechako	853	855	-0.2

Visitor Entries

The number of travellers entering Canada via BC borders fell (-2.2%, *seasonally adjusted*) for the second consecutive month in February. Entries from the US, which comprise most of the visits, were down significantly (-4.2%) as Americans made fewer same-day (-7.7%) and overnight (-2.3%) trips into BC.

Conversely, travel to BC from overseas countries was up (+5.5%) in February and regained some of lost ground recorded in January (-7.4%). Asian entries dropped 5.7%, as travel from all major markets except South Korea (+6.5%) declined. However, there were more entries from Europe (+2.1%) and Oceania (+4.6%).

Canadian entries continued to slide (-1.7%) in February, as fewer Canadians made same-day trips to the US (-4.8%), but overseas markets attracted more Canadian visitors (+1.7%), posting a third consecutive increase in February.

Visitor entries slumped in January

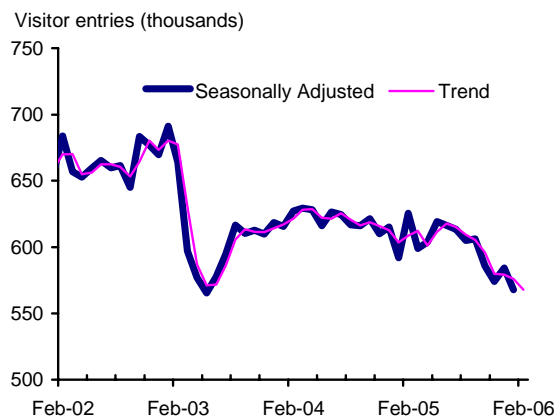


Table 2. Traveller Entries
(seasonally adjusted)

	Feb-06 (‘000)	Feb-06 (‘000)	% chg from Feb-06
American visitors			
Total	435	454	-4.2
Same-day	165	179	-7.7
Overnight	270	276	-2.3
Overseas visitors			
Total	121	114	5.5
Europe	38	38	2.1
UK	19	17	10.7
Asia	57	60	-5.7
Japan	18	19	-5.5
Taiwan	7	7	-8.6
Oceania	12	11	4.6

(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

Other tourism indicators gave mixed signals in February.

The occupancy rate in BC hotels declined 1.5 percentage points (to 65.0%) after increasing in January (+0.3%). Room prices also decreased 1.1% to an average of \$116.00.

The Consumer Price Index for traveller accommodation continued to fall (-1.4%), which was the eleventh decrease in thirteen months. Passenger traffic was busier at Vancouver airport (+1.3%), but Victoria airport welcomed 1.9% fewer passengers. BC

Ferries recorded fewer passengers (-4.4%) and vehicles (-3.9%) aboard. In addition, there was a double-digit drop (-11.7%) in passenger vehicles passing the toll booth of the Coquihalla highway.

The cost of restaurant food was up 0.8% in February. Sales slumped at drinking places (-9.9%), while food service establishments recorded growth in their receipts (+1.1%). Overall restaurant, caterer and tavern receipts inched up (+0.3%) in February.

Table 3. Other Tourism Indicators
(seasonally adjusted)

	Feb-01	Change from Dec-05
Hotel Industry		
Occupancy rate	65.0	-1.5 pp.
Average room charge	116.00	-1.1%
<i>(Pannell Kerr Forster)</i>		
Airport Passengers (000s) (%)		
Vancouver International Airport		
Total traffic	1,378	1.3
US (trans-border)	348	4.7
Other International	321	-0.6
Canada (domestic)	710	0.5
<i>(YVR)</i>		
Victoria International Airport		
Total traffic	112	-1.9
<i>(Victoria Airport Authority)</i>		
Transportation (000s) (%)		
Coquihalla Highway		
Passenger Vehicles	203	-11.7
<i>(Ministry of Transportation & Highways)</i>		
BC Ferries		
Vehicle Volume	706	-3.9
Passenger Volume	1,789	-4.4
<i>(BC Ferries)</i>		
Exchange Rates Cdn \$		
US \$	0.870	0.01
UK Pound	0.498	0.01
Japanese Yen	102.606	2.86
Australian \$	1.174	0.02
<i>(Statistics Canada)</i>		

Note: pp. percentage points

A look ahead

Room Revenue

Preliminary numbers suggest that after declining in February, room revenues rebounded (+2.1%, *seasonally adjusted*) in March. Four regions regain some of lost grounds with the biggest increase recorded in Northeast (+16.7%). BC's biggest region, Mainland/Southwest (-1.4%) and Vancouver Island/Coast (+3.4%) also experienced growth in revenues.

Hotel revenues climbed (+1.3%). Revenues at vacation rentals jumped (+14.0%), and business at non-standard accommodations including fishing lodges and bed & breakfasts (+4.9%) were up in February. Motel receipts slipped (-1.4%) for the first time since August 2005.

The number of visitors entering Canada via BC borders rose (+2.8%, *seasonally adjusted*) in March after falling for two consecutive months.

Entries from the US, which comprise most of the visits, increased 3.1% as Americans made more same-day (+3.9%) and overnight (+2.5%) trips into BC. Travel to BC from overseas countries was also up (+1.9%) in March. Visits from Europe (+2.9%) and Oceania (+1.0%) continued to grow.

The number of Canadians returning home via BC also rose (+2.9%). Re-entries from the US were up 3.2%, with same-day car trips increasing 1.6%, the strongest gain in seven months. The number of travellers returning home from trips overseas was up 1.4% in March.

Passenger traffic continued to increase (+2.1%) at Vancouver airport, and Victoria airport (+0.2%) was also a little busier. In addition, BC Ferries recorded more vehicles (+0.3%) and passenger (+0.5%) aboard, and more passenger vehicles (+1.7%) travelled on the Coquihalla highway.

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 2004 and 2005, BC room revenues changed (rose or fell on a month-over-month basis) on average by 1.7% (absolute value). The preliminary numbers—reported in the "look ahead" section—were less by an average of 0.2 percentage points partly because the initial data retrieved may not be complete until later that month. For example, if the preliminary figure is 1.5, the actual number probably is around 1.7. And if the preliminary figure is -0.5, the actual number is about -0.3.

Special Focus: Are Soaring Gasoline Prices Scaring away US and Canadian Drivers from BC?

US visitor entries to BC by automobile have been trending down since 2001. Several factors have contributed to this decline. Soaring gasoline prices might have pushed up the travelling cost so much that trips by automobile have become less affordable. In addition, the appreciation of the Canadian dollar has taken a toll on the wallets of US visitors. However, the appreciating Canadian dollar has helped the number of Canadians travelling to the US via BC¹ by automobile recover from the negative impacts that resulted from the gasoline price heat.

This paper examines the impacts of these factors on visits by Americans and Canadians to BC, using linear regression models. The results show that the appreciating Canadian dollar has had more significant impact than rising gasoline prices on Canadian and American travellers coming to BC. In addition, the number of Canadians driving to the US via BC is more sensitive to the changes in exchange rates and gasoline prices than US visitors.

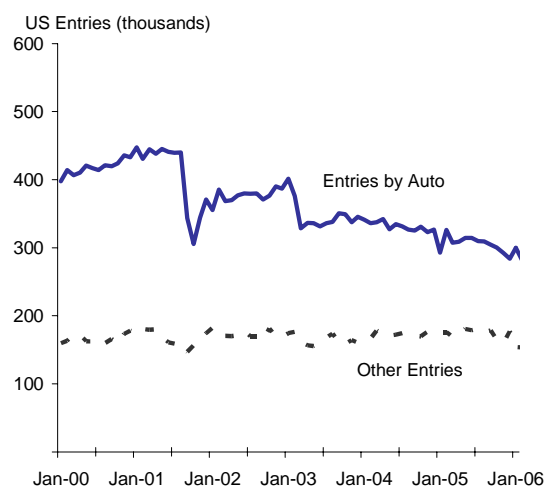
Fewer Americans coming to BC by automobile

Since the turn of the century, travel from the US has been in a slump. Between 2000 and 2005, the number of total US entries dropped 17.9%. Events like 9/11, the SARS outbreak, and the subsequent Iraq war seem to have left enduring marks on visitor entries from the US. However, the downward trend predated, and continued two years after, these events. Therefore, it is likely that these incidents were not the only reasons for the drop in US visitor entries.

¹ The number of Canadians returning to BC from the US by automobile are used to measure travels by Canadians to the US via BC by automobile

Most visitors from the US come to BC by automobile. About six in ten Americans drive to the province either taking same-day or overnight trips. The number of US entries by automobile was a major component of the total US entries growth, and appears to be sensitive to the changes in gasoline prices. US entries by automobile dropped 2.5% in 2002, which represents a bigger decline than the total US visits. In the next three years, Americans continued to take significantly fewer trips by cars. Between 2000 and 2005, about 27% fewer Americans drove to BC for visits. Although fewer Americans visited BC by automobile, trips taken by other types of transportation (non-automobile) remained relatively steady (+4.8%) between 2000 and 2005.

US entries by automobile posted biggest declines among all types of transportation



Data Source: Statistics Canada

It seems that a reasonable explanation for the declining US visits by automobile could be the increased travelling cost to BC as a result of the rising gasoline prices and also the appreciating Canadian currency.

Regression Analysis

A linear regression model was used to estimate the relationship between the number of US visitors by automobile entering Canada via BC with the cost of car transportation measured by the consumer price index (CPI) for gasoline, and the monthly average US dollar to Canadian dollar exchange rate to assess the cost of travel expenses. Dummy variables were also included to account for the impacts of the September 11th terrorist attack in 2001, the subsequent Iraq war, and more recently, the disasters of hurricane Katrina and Rita.

The regressions show that the above variables can explain 86% of the variation in the number of US entries by automobile.

The relationship between the number of Canadian driving to the US via BC, and CPI for gasoline and exchange rate were also examined. The trend variable, representing a time path for the regression model, was not statistically significant for the model, and therefore was not used as an explanatory variable. The linear model was able to explain 75% of variations in Canadian travels to the US by automobile.

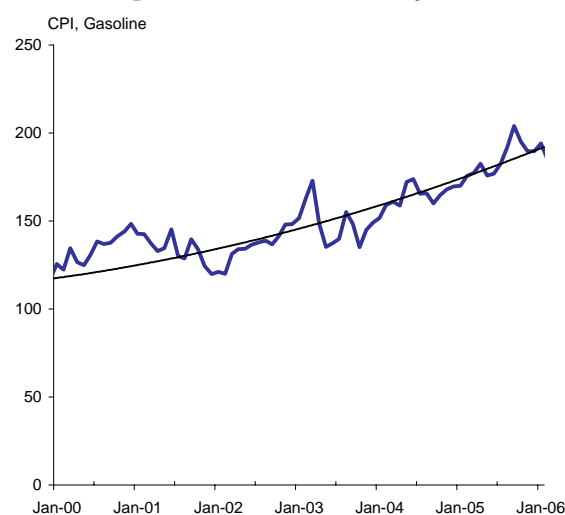
Soaring gasoline prices pushed up travelling cost

The rise in gasoline prices has become one of the most talked about issues in North America, complete with pictures of gas stations where the current price at \$1.19 CDN per litre in Vancouver, and prices in many US cities topping \$3 US per gallon. The average retail price for gasoline was about \$1 dollar per litre in Victoria in 2005, up nearly 35% compared to 2000. Vancouver recorded even greater growth of almost 38% in re-tailed gasoline prices during the same period.

Several factors have contributed to the increase in gasoline prices in the past five

years. Among them, a drop in US and Canada gasoline inventories and a shortage of refining capacity played significant roles. In addition, the continuing instability in Iraq and the growing crisis over Iran's nuclear ambitions, as well as strong global demand from countries such as China and India, political uncertainty in key oil-producing states such as Nigeria, and the disasters of hurricane Katrina and Rita, have all heated up the gasoline prices and limited the prospects for relief any time soon.

Gasoline prices increased nearly 35% in BC

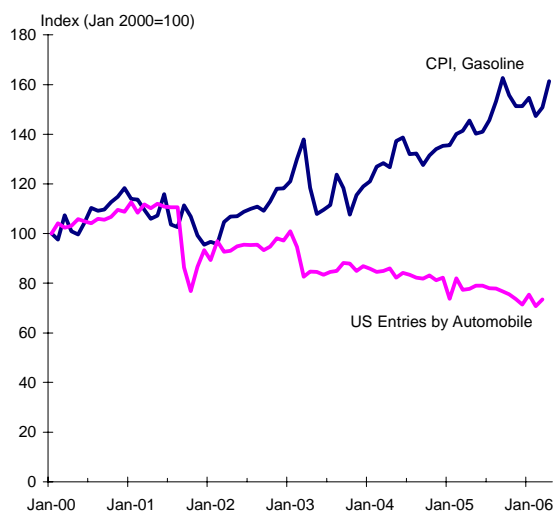


Data Source: Statistics Canada

The average person is certainly feeling the squeeze from high gasoline prices as it becomes more expensive to travel by car anywhere in North America. BC, as one of the most favourable tourist destinations, has been affected by such changes.

The regression results show that gasoline price is a factor affecting the number of visitor entries by automobile. One unit increase in the CPI for gasoline would prevent about 250 travellers from driving to BC every month. However, the exchange rate between the US and Canadian dollars is a bigger factor than the gasoline prices.

Gasoline prices versus US visitor entries



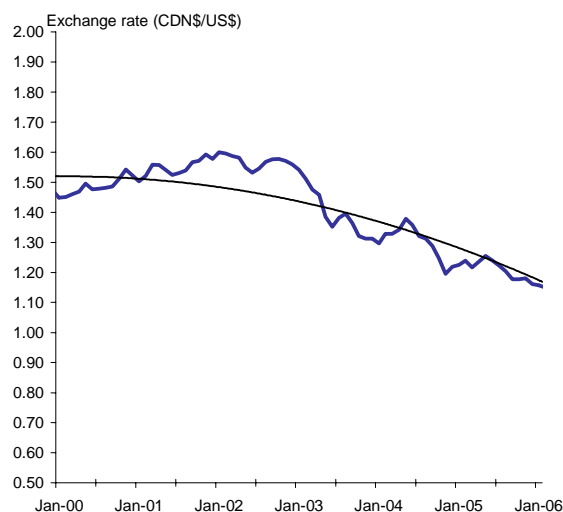
Data Source: Statistics Canada

An appreciating Canadian dollar has made travel more expensive for Americans

The exchange rate between the US and Canadian dollars is another crucial factor affecting the decline in American travellers. The Canadian dollar has been appreciating since late November 2002. The average annual Canadian dollar to US dollar exchange rate (US/per CDN\$) dropped 6.9% to 1.21 between 2004 and 2005. The exchange rate continued a downward trend for the first three months in 2005. In other words, for Americans, the US dollar has been depreciating, and transportation to and within British Columbia, as well as accommodation, meals, and other travel expenses in the province have become less of a bargain for visitors from the US.

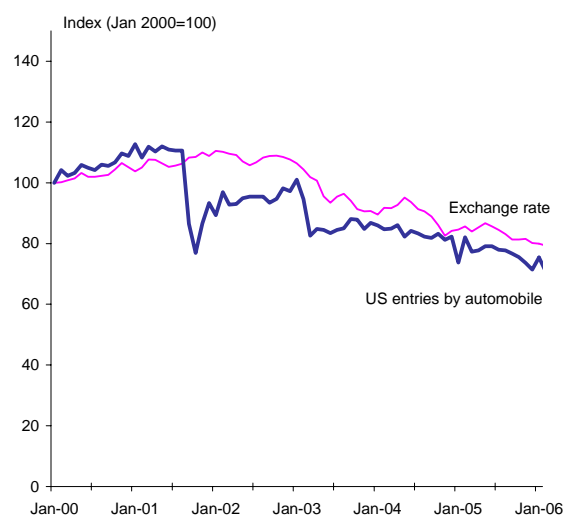
The regression results showed that if the US dollar depreciates by one cent relative to the loonie, approximately 2,500 fewer US visitors would drive to BC every month. The exchange rate clearly has bigger impacts on US travels than the gasoline prices.

Canadian dollar appreciating



Data Source: Statistics Canada

Exchange rate vs. US entries by automobile



Data Source: Statistics Canada

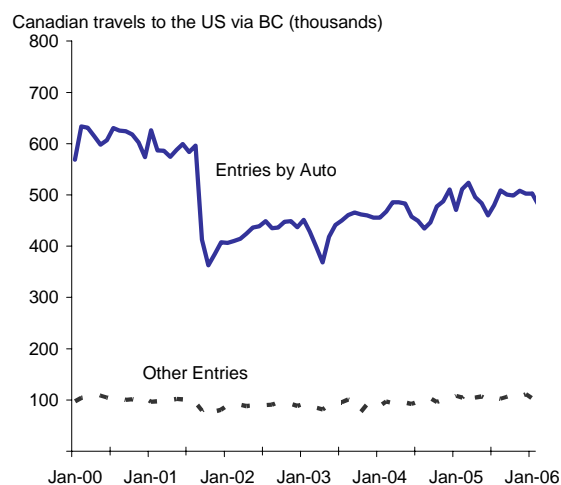
During the period from January 2002 to January 2006 when the value of the US Dollar dropped 20.1% (from 1.45 to 1.16 Cdn\$/per US\$), the number of same-day US visitors to BC slumped 12.8% and the number of US entries by automobile dropped 15.6%.

Canadians travelling to the US via BC by automobile

The US has been one of the top places visited by Canadians. A number of US cities close to the border attract same-day visitors from all over Canada, and BC was the entry and crossing point for many Canadians making trips to the US. Canadian travellers have certainly felt the heat from soaring gasoline prices. However, the rising travelling expenses were partly compensated by the appreciating Canadian dollar that makes travelling to the US more affordable. The number of Canadians travelling to the US via BC slowed in 2000 (-2.2%), 2001 (-13.9%) and 2002 (-17.8%) due to the negative impacts of 9/11 and the subsequent economic and political panics, and started to regain the lost ground in 2003 (+1.5%) and continued an upward trend through 2004 and 2006.

The regression estimation indicated that the Canadian travels to the US by automobile and gasoline prices are negatively related. The model estimated that if gasoline price index increased 1 unit, then there would be about 4,000 fewer Canadians driving to the US. However, the exchange rate (US/per CDN\$) worked in the opposite direction, and it is more of a factor than the CPI for gasoline. The model estimated that if the US dollar depreciates by one cent relative to the loonie, approximately 9,600 more Canadian travellers driving to the US via BC every month. This is the reason why the number of Canadian travels to the US by automobile did not seem to be affected by the soaring gasoline prices as much as the US entries.

Canadians returning from US via BC by automobile

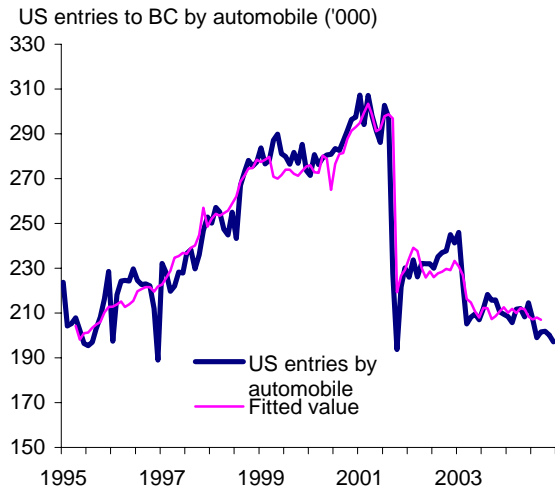


Data Source: Statistics Canada

Models and Charts

US visitor entries by automobile

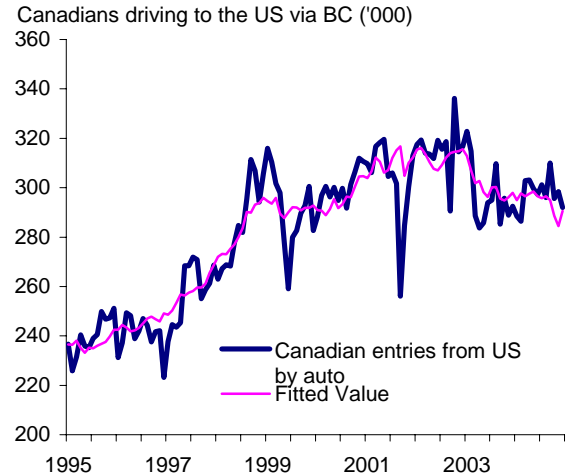
Number of US entries by auto = $-3802 - 86264 * \text{Sept}_{11} + 251,400 * \text{exchange rate} - 256 * \text{CPI for gasoline} + 1146 * \text{trend}$



Dependent Variable: US entries by automobile				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3802	30690	0	1
9/11	-86264	5611	-15	0
Exchange rate	251400	15709	16	0
CPI for Gasoline	-256	125	-2	0
@TREND	1146	99	12	0
R-squared	0.855	Durbin-Watson stat		1.171
Adjusted	0.851	Prob(F-statistic)		0.000

Canadian visitors driving to the US by automobile

Number of Canadians driving to the US = $2,636,197 - 226,323 * \text{Sept}_{11} + 960,433 * \text{exchange rate} - 4,098 * \text{CPI for gasoline}$



Dependent Variable: Canadian travelling to the US by auto				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2636197	178458	15	0
9/11	-226323	29588	-8	0
Exchange rate	-960433	96115	-10	0
CPI for gasoline	-4098	568	-7	0
R-squared	0.755	Durbin-Watson stat		0.314
Adjusted	0.750	Prob(F-statistic)		0.000