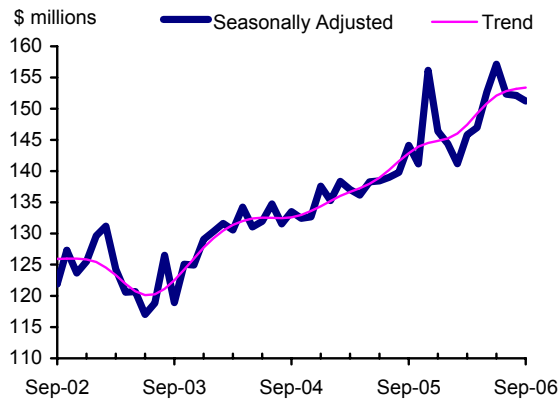


## Tourism Sector Monitor ♦ December 2006

### Room Revenue

Room revenues in BC slipped slightly in September (-0.6%), while a mixed-bag of positive and negative growth rates were recorded in the different regions of the province. Leading the way in growth was North Coast with a 4.1% jump in room receipts, followed by Cariboo (+2.9%), Vancouver Island/Coast (+1.3%), and Thompson-Okanagan (+0.6%). On the other hand, Mainland-Southwest (-1.3%), Nechako (-1.4%), Kootenay (-2.9%), and Northeast (-3.4%) regions all experienced a drop in room revenues.

#### Room revenues in September



Most accommodation types saw their business slump in September. Revenues at the largest hotels (251+ rooms) suffered a 1.4% decline in receipts, the third straight monthly drop in revenue. Business at hotels with 76-150 rooms was off (-0.3%), as was the same for motels (-0.7%), vacation rentals (-2.0%), and miscellaneous establishments (-0.3%). Room revenues at hotels with 151-250 rooms (+1.0%), as well as those with 1-75 rooms (+0.5%), were up.

*Table 1. Room Revenue  
(seasonally adjusted)*

Accommodation Type			
	Sep 06 (\$000)	Aug 06 (\$000)	% change
Total	151,230	152,120	-0.6
Hotels	110,221	110,586	-0.3
Motels	19,165	19,299	-0.7
Other Accommodations	21,432	21,710	-1.3
Regions (Top 3 performers)			
North Coast	1,859	1,787	+4.1
Cariboo	4,518	4,649	+2.9
Vancouver Island/Coast	26,702	26,359	+1.3

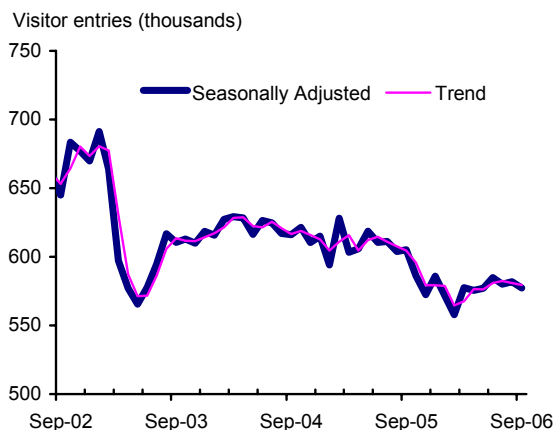
### Visitor Entries

Total visitor entries to Canada via BC fell 0.8% in September. This downturn was driven by a decline in the number of overseas visitors (-2.1%). Entries into BC from Asia (-0.7%), Europe (-3.2%), and Oceania (-2.3%) all fell.

Despite a moderate rise (+0.4%) in overnight visits to BC from the US, a drop in the number of same-day visitors (-1.7%) led to an overall decrease in the number of American entries by 0.4%

September experienced an influx of Canadians returning home via BC (+1.9%). Same-day automobile trips to the US increased (+0.6%), while the number of Canadians returning from overseas was up sharply (+5.8%).

### Visitor entries fell slightly in September



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

	Sep-06	Aug-06	% chg from Aug-06
	('000)	('000)	
<b>American visitors</b>			
Total	456	458	-0.4
Same-day	175	179	-1.7
Overnight	281	279	0.4
<b>Overseas visitors</b>			
Total	121	124	-2.1
Europe	41	42	-3.2
UK	20	21	-3.5
Asia	60	60	-0.7
Japan	18	18	-2.7
Taiwan	7	7	-3.8
Oceania	13	14	-2.3

(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

BC's occupancy rate increased to 65.4% in September (+0.4 percentage points). Room rates in the province, though, fell (-0.6%) to an average price of \$123.40.

Passenger traffic at Vancouver airport was flat in September with declines in domestic (-0.7%) and overseas (-1.8%) traffic being countered by an increase in trans-border traffic (+3.0%). Victoria airport, though, saw passenger volume decline (-0.6%).

BC Ferries carried more passengers (+0.1%) and vehicles (+0.4%), and the Coquihalla highway (+0.7%) experienced a higher volume of passenger vehicles in September.

BC's food service establishments saw receipts fall in September (-0.6%), but drinking establishments saw their receipts grow (+1.6%). Overall, total revenues at BC's taverns and restaurants slumped 0.4%.

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

	Sep-06	Change from Aug-06
<b>Hotel Industry</b>		
Occupancy rate (%)	65.4	0.4 pp.
Average room charge (\$)	123.40	-0.6%
<i>(Pannell Kerr Forster)</i>		
<b>Airport Passengers (000s) (%)</b>		
<b>Vancouver International Airport</b>		
Total traffic	1,405	0.0
US (trans-border)	356	3.0
Other International	325	-1.8
Canada (domestic)	724	-0.7
<i>(YVR)</i>		
<b>Victoria International Airport</b>		
Total traffic	119	-0.6
<i>(Victoria Airport Authority)</i>		
<b>Transportation (000s) (%)</b>		
<b>Coquihalla Highway</b>		
Passenger Vehicles	227	0.7
<i>(Ministry of Transportation &amp; Highways)</i>		
<b>BC Ferries</b>		
Vehicle Volume	717	0.4
Passenger Volume	1,818	0.1
<i>(BC Ferries)</i>		
<b>Exchange Rates Cdn \$</b>		
US \$	0.896	0.00
UK Pound	0.476	0.00
Japanese Yen	105.020	1.31
Australian \$	1.187	0.02
<i>(Statistics Canada)</i>		

Note: pp. percentage points

## A look ahead – October 2006

Early figures suggest that BC's room revenues increased (+2.1%) in October. The advance in business was due to a boost to revenues in all of the regions of the province except for Northeast, which recorded a large decline (-14.1%). Vancouver Island/Coast (+1.4%), Mainland-Southwest (+4.3%), Thompson-Okanagan (+0.6%), Kootenay (+0.6%), Cariboo (+0.7%), North Coast (+0.5%), and Nechako (+6.7%), all posted moderate to large gains in revenues.

Hotels and motels have so far reported strong increases in revenue for October. Hotels with 251+ rooms, the largest con-

tributors to total room revenues, have seen their revenues surge upward 4.8%. Only vacation rentals posted a loss in revenues in October (-5.1%).

Visitor entries to Canada through BC fell in October (-1.5%) with fewer overseas (-1.1%) and American (-1.6%) travellers.

Passenger traffic at both Vancouver (+0.6%) and Victoria (+0.1%) airports were up in October. BC Ferries experienced a further increase in vehicle (+0.8%) and passenger (+0.7%) volumes. Further, more passenger vehicles travelled along the Coquihalla highway (+2.8%).

### 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: Is the Appreciating Canadian Dollar Hurting Visitor Entries?

In recent years, the Canadian dollar has been up in value over the Japanese Yen and the US dollar, and relatively flat to the UK Pound. The recent strength of Canada's currency, the "loonie", can be mostly credited to the persistently strong Canadian economy and high price of commodities, especially oil and natural gas. The appreciation of the Canadian dollar has taken a toll on the wallets of many international visitors coming to BC; there were fewer visitors from Japan and the US. Although visits from the UK maintained its growth, the overall trend in entries from the UK is relatively flat.

This paper examines the impact of the appreciation of Canadian dollars on visitor entries from three major countries, Japan, the UK, and the US, which account for the largest share of entries from Asia, North America and Europe respectively.

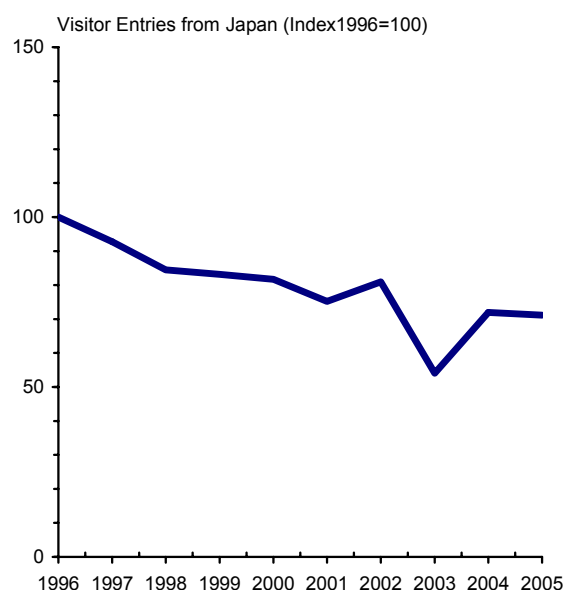
### Fewer visitors from Japan coming to BC

Asia is an important and growing tourism market for BC. In November 2006, BC STATS took a close look at the declining visitor entries from Japan. By 2005, one in two overseas visitors to BC came from Asia, while Asian entries only accounted for roughly a third of total overseas entries in 1980.

Until the mid-1990s, Japan was the major source of visitors and the reason for the rapid growth in Asian entries. Travellers from Japan made up about half of all Asian entries. However, entries from Japan now comprise about 30% of all Asian entries. This was a combined result of the bursting of the Japanese economic "bubble" during the Asian financial crisis of 1997-1998 and

also many subsequent events - 9/11, the SARS outbreak, the Iraq War, weak economies in Japan and abroad, and ongoing problems in the airline industry. In addition, the soaring value of the Canadian dollar relative to the Japanese Yen has made travel to BC more expensive, contributing to the downward trend in entries from Japan.

### *Visitor entries from Japan has been on a downward trend since 1996*



Data Source: Statistics Canada & BC STATS

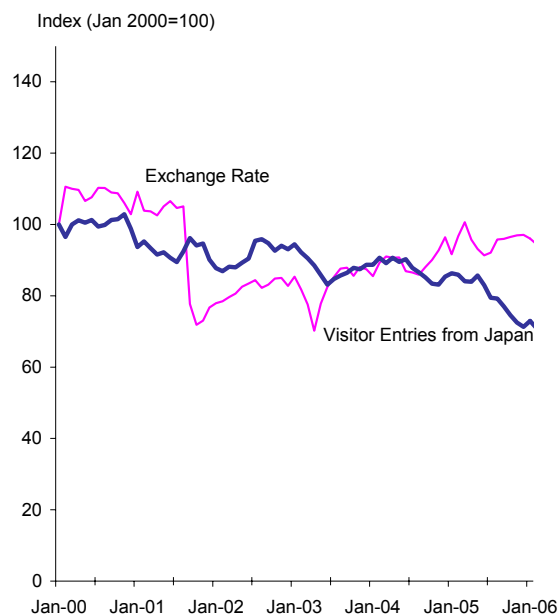
BC welcomed more than 243,400 visitors from Japan in 2005. This was 28.8% lower than in 1996, when visits from Japan peaked. The downward trend in visitor entries from Japan to BC started in 1997 (-7.2%), when the Asian "flu" severely hit the Japanese economy. One of the symptoms of the Asian "flu" was the depreciation of the Japanese Yen. Asian countries usually run a trade deficit with Japan because of the enormous size of its economy relative to the rest of Asia. The

Japanese Yen fell in value as mass selling of the currency began in Asia, but Japan owned the world's largest currency reserve at the time, so it was easy for Japan to recover. However, it was hard for the Japanese economy to compete with South Korea's devalued currency, and China's steady gains in the international trading markets.

The Canadian economy, on the other hand, survived through many economic stumbling blocks and a great deal of political turbulence around the world in the last decade, and sustained its steady growth. Between 1997 and 2005, Canadian GDP advanced 30.1% (Chained 1997 dollars)<sup>1</sup>. The growing economy also boosted the volume of trade, international investment and consumption, and which in turn, contributed largely to the increasing value of the Canadian dollar.

The value of the Canadian dollar has been steadily appreciating since 2001. The average annual Canadian dollar to the Japanese Yen exchange rate dropped 20.3% to 0.011 (CDN\$/ per Yen¥) between 2000 and 2005, reaching the lowest average annual level since 1993. During that same period, visitor entries from Japan also slumped (-5.4%). This depreciation of the Yen means that travellers from Japan saw the relative price of transportation, accommodation, meals, and other expenses increase, making BC less attractive as a destination.

### Exchange rate vs. Entries from Japan



Data Source: Statistics Canada & BC STATS

The appreciation of the Canadian dollar against Japanese Yen surely cannot fully explain the declines in entries from Japan to BC. However, it certainly played a role in the decrease in tourism spending by travellers from Japan. A recent study<sup>2</sup> by the Canadian Tourism Commission (CTC) indicates that a large percentage of Japanese are engaging in typically urban activities while in Canada. Shopping, fine dining, and taking in culture or historical sites are all activities that more than 20% of Japanese travellers report having done while in the country. The study also shows that per person per trip expenditures in 2005 had decreased significantly from 2000 levels. Although this change is not unique to travel to Canada, it is slightly more pronounced given the appreciation of the Canadian dollar relative to the Yen and the subsequent loss in Japanese spending power on those tourism goods and services.

<sup>1</sup> Statistics Canada, Cansim Table 379-0017

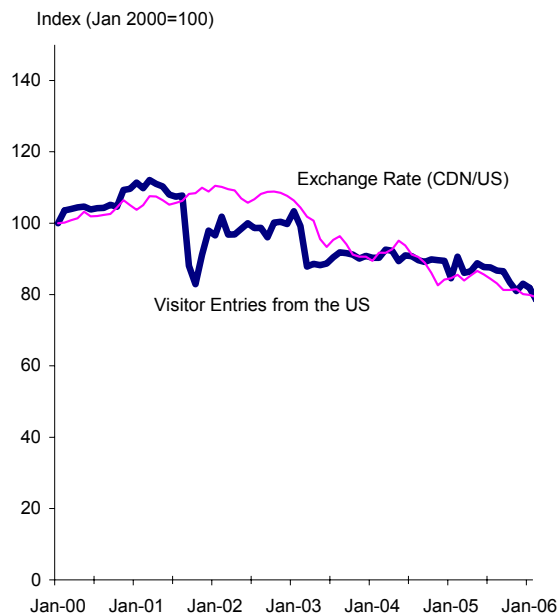
<sup>2</sup> Canadian Tourism Commission: 2005 Japanese Travel Consumer Study – An Analysis of Travel Trends and Canada's Competitive Market Position Executive Summary

## Americans' wallets became lighter

Visitor entries from the US to BC account for about 80% of the total foreign visits to BC. The exchange rate between the US and Canadian dollar is an, if not the most, important factor for entries from the US. In October 2003 and July 2005, BC STATS evaluated the impact of the US dollar to Canadian dollar exchange rate (CDN\$/US\$) movements on visitor entries from the US. The conclusion from both studies shows 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.

During the period from January 2002 to September 2006 when the value of the US dollar dropped 30.0% (from 1.60 to 1.12 CDN\$/per US\$), the number of same-day US visitors coming to BC slumped 22.9%, and the number of overnight travellers dropped 8.6%.

### Exchange rate vs. US entries



Data Source: Statistics Canada

Of course, many crucial factors contributed to this movement. Events like 9/11, the

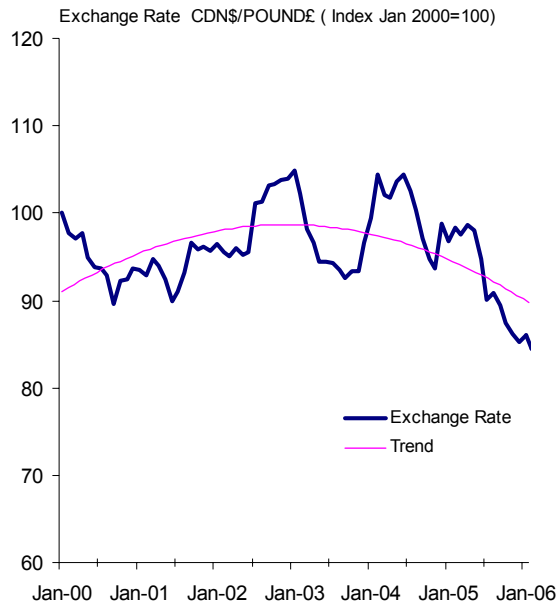
SARS outbreak, and the subsequent Iraq war seem to have left enduring marks on visitor entries from the US. These incidents were great shocks, however, they are not the only reasons for the drop in US travel to BC. Soaring gasoline prices have pushed up the cost of travelling so much that trips from the US by automobile, which compromised more than 60% of the total visitor entries from the US, slumped 27% between 2000 and 2005. As a result of the joint impact of the soaring gasoline prices and the appreciating Canadian dollar, air travel prices have also increased, taking an even greater toll on travelling costs for American visitors. As a result, total visitor entries from the US experienced a significant drop of 17.9% between 2000 and 2005.

## Relatively flat exchange rate between the Canadian dollar and the British Pound

The United Kingdom (UK) has been a very important overseas market for BC's tourism industry. Over 16% of overseas visitors are from the UK. Entries from the UK are the biggest source of visitors from Europe – one in two European visitors coming to BC is British.

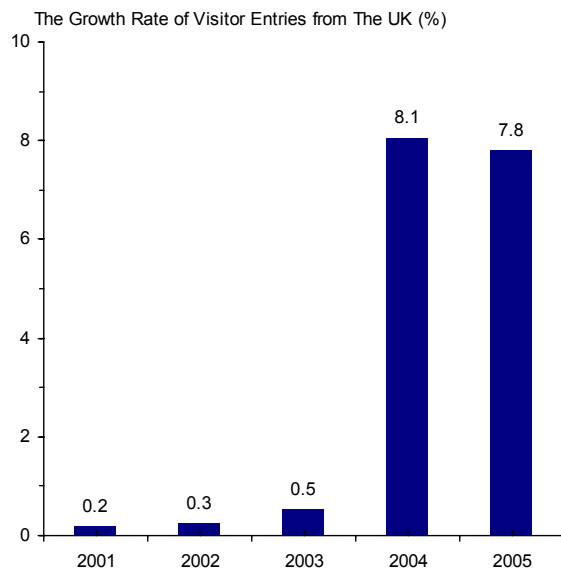
The exchange rate between the British Pound and Canadian dollar has been relatively flat compared with the American greenback and the Japanese Yen. However, the Canadian dollar has been appreciating over the British Pound since 2000. The Canadian dollar increased 2.5% in value on average between 2000 and 2005 (CDN\$/per Pound £). The average annual Canadian dollar to the British Pound exchange rate dropped 7.5% to 2.21 (CDN\$/per Pound £) in 2005, reaching the lowest level since 1997.

*The exchange rate between the Canadian dollar and UK Pound has been relatively flat, but still decreasing*



Data Source: Statistics Canada

*Visitor entries from the UK continued an upward trend since 2000*



Data Source: Statistics Canada

The depreciation of the British Pound to the Canadian dollar did not seem to have much

of an effect on visitor entries from the UK. Visits from the UK have been consecutively growing since 2000. Nearly 240,000 British visitors entered directly via BC, 7.8% more than in the previous year.

The United Kingdom is in its longest economic expansion since World War II, with levels of growth averaging about 2.8 percent over the past decade. The country still faces uncertainty similar to other industrialized nations of the world, but is the best performing country in Europe. According to the British Chambers of Commerce, British economic performance has been “very satisfactory in recent years – with good growth, low inflation and strong job creation.” Entries from the UK via BC certainly benefited from the strong British economy and the resulting increasing spending power of visitors from the UK.