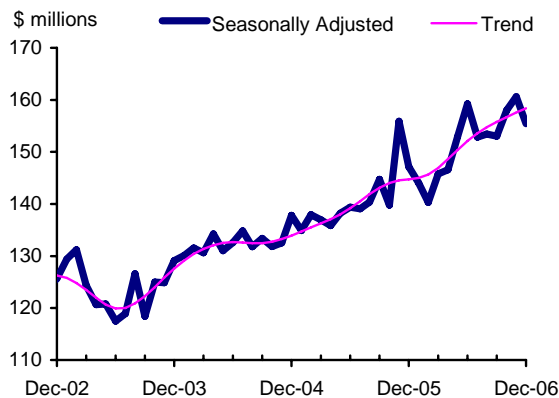


Tourism Sector Monitor ♦ March 2007

Room Revenue

Room revenues fell 3.2% in December following two consecutive months of increases. The decline was largely due to weakness in Mainland/Southwest which accounts for the largest share of total revenues, and which recorded a 5.8% decline in business. Revenues were also down in Northeast (-14.7%) and Nechako (-1.9%). However other regions fared better. Kootenay led the province (+5.8%) in growth, and Cariboo (+2.3%) showed strong revenue performance for the fourth month in December. Room revenues also increased moderately in North Coast (+1.7%), Vancouver Island/Coast (+0.8%) and Thompson-Okanagan (+0.2%).

Room revenues slid in December



Hotels of all sizes experienced declines in December. Large hotels with 151-250 rooms, many of which are located in Mainland/Southwest, posted the biggest drop in revenues (-4.5%). Small hotels (1-75 rooms) also saw returns fall (-3.1%). Room receipts at very large hotels (251+ rooms; -2.1%) and mid-sized hotels (76-150 rooms; -0.9%) slipped as well. In addition, vacation rentals experienced a 2.5% slump in revenues. However, motels posted a 2.9%

increase, and receipts at fishing lodges, bed and breakfasts, and other types of accommodations, taken together, advanced (+2.9%) in December.

*Table 1. Room Revenue
(seasonally adjusted)*

Accommodation Type			
	Dec 06 (\$000)	Nov 06 (\$000)	% change
Total	155,437	160,640	-3.2
Hotels	114,899	117,655	-2.3
Motels	20,751	20,167	+2.9
Other Accommodations	21,086	21,113	-0.1
Regions (Top 3 performers)			
Kootenay	7,681	7,260	+5.8
Cariboo	5,059	4,944	+2.3
North Coast	2,012	1,979	+1.7

Visitor Entries

Total visitor entries to Canada via BC rose slightly (+0.2%, *seasonally adjusted*) in December. Entries from the US, accounting for nearly 80% of the total, inched down (-0.1%) as a decline in overnight trips (-3.0%) from the US offset an increase in same day travel (+5.5%).

The number of visitors from overseas advanced 1.5%, as entries from Asia (+3.3%) and Oceania (+4.9%) increased. However, European entries slipped (-2.3%).

The number of Canadians returning home through BC rose 2.2% in December. Trips to the US were up 3.3%, while fewer Canadians returned home from overseas.

Visitor entries rose slightly in December

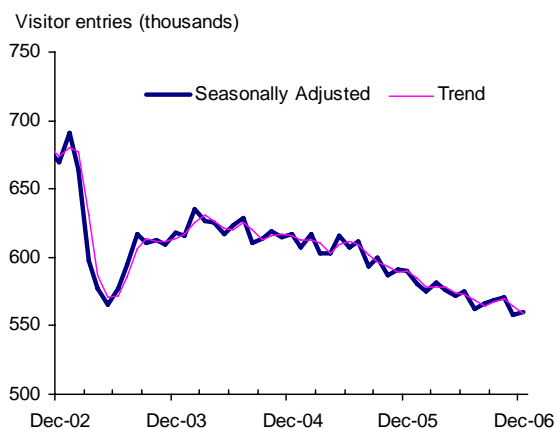


Table 2. Traveller Entries
(seasonally adjusted)

	Dec-06 (‘000)	Nov-06 (‘000)	% chg from Nov-06
American visitors			
Total	435	436	-0.1
Same-day	155	147	5.5
Overnight	281	289	-3.0
Overseas visitors			
Total	124	122	1.5
Europe	40	41	-2.3
UK	18	20	-10.1
Asia	61	59	3.3
Japan	16	18	-10.4
Taiwan	9	6	60.8
Oceania	13	12	4.9

(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 December, BC’s hotel occupancy rate continued to slide (-0.7 percentage points), dropping to 66.6%. Room rates in the province also fell to an average price of \$124.20.

Vancouver airport (+0.3%) was slightly busier in December. However, Victoria airport saw passenger volume drop (-3.5%). BC

Ferries experienced growth in both vehicle (+5.4%) and passenger traffic (+4.3%), recovering some of the ground lost in November. There were 7.0% fewer passenger vehicles on the Coquihalla highway.

Revenues at BC’s food service and drinking establishments climbed 2.2% in December, as receipts at food service establishments advanced (+1.1%), and BC drinking places recorded a substantial 18.8% increase over the previous month.

Table 3. Other Tourism Indicators
(seasonally adjusted)

	Change from	
	Dec-06	Nov-06
Hotel Industry		
Occupancy rate (%)	66.6	-0.7 pp.
Average room charge (\$)	124.20	-1.0 pp.
<i>(Pannell Kerr Forster)</i>		
Airport Passengers (000s) (%)		
Vancouver International Airport		
Total traffic	1,443	0.3
US (trans-border)	381	2.9
Other International	332	-0.9
Canada (domestic)	730	-0.4
<i>(YVR)</i>		
Victoria International Airport		
Total traffic	112	-3.5
<i>(Victoria Airport Authority)</i>		
Transportation (000s) (%)		
Coquihalla Highway		
Passenger Vehicles	189	-7.0
<i>(Ministry of Transportation & Highways)</i>		
BC Ferries		
Vehicle Volume	705	5.4
Passenger Volume	1,794	4.3
<i>(BC Ferries)</i>		
Exchange Rates Cdn \$		
US \$	0.867	-0.01
UK Pound	0.442	-0.02
Japanese Yen	101.678	-1.50
Australian \$	1.104	-0.03
<i>(Statistics Canada)</i>		

Note: pp. percentage points

A look ahead – January 2007

Early returns indicate that room revenues in BC rebounded (+4.2%) in January. Thompson-Okanagan led the province (+10.9%), while Mainland/Southwest (+4.4%) and Vancouver Island/Coast (+2.8%), accounting for the largest shares of total room receipts, saw revenues advance. Revenues were down in the rest of BC.

Hotels of all sizes had a better month in January. Very large hotels with more than 251 rooms (+4.5%) and large hotels (151-250 rooms; +3.9%) recorded the strongest growth. Revenues at mid-sized (76-150 rooms; +2.3%) and small (1-75 rooms; +1.2%) hotels were also up. In addition, motels (+4.7%), vacation rentals (+3.2%) and fishing lodges, bed and breakfasts, and other types of accommodations (+1.2%), showed gains in revenues.

International visitor entries to Canada through BC continued to rise (+0.9%) in January. There were more guests from the US (+1.7%) as increases were recorded in both same-day travel (+0.1%) and overnight trips (+2.6%). The number of visitors from overseas slipped (-1.7%) with fewer visitors from both Asia (-4.4%) and Oceania (-4.7%) coming to BC, overshadowing growth in entries from Europe (+3.4%).

Passenger traffic at Vancouver continued to rise (+0.2%), and volume through Victoria airport was also up (+5.4%) in January. BC Ferries also increased in both vehicle (+1.3%) and passenger (+1.5%) volume. In addition, more passenger vehicles travelled on the Coquihalla highway (+12.8%).

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: Are Room Revenues Red Hot?

Room revenues are determined by both room rates and occupancy rates, and have risen almost steadily since 1995, with only one year of negative growth in that time. While there is not an adequate measure of room rates and occupancy rates for all accommodation types in BC, there are such measures available that are specific to hotels. By first starting with an analysis of hotel room and occupancy rates, and then expanding the discussion to more accommodation types, we hope to answer the question: is this rise due to a genuine increase in business or simply a result of inflation in the accommodation industry?

Hotel Room Revenues and Room Rates

Hotel room revenues fluctuate with changing conditions, but have climbed rapidly over the past twelve years. Between 2001 and 2006, annual room revenues at hotels had increased 19.6%. The only year that room revenues experienced a downturn during this period was in 2003 (-3.1%). Over the same period, the average cost for a hotel room in the province rose from \$116.10 to \$122.90, an increase of 5.8%.

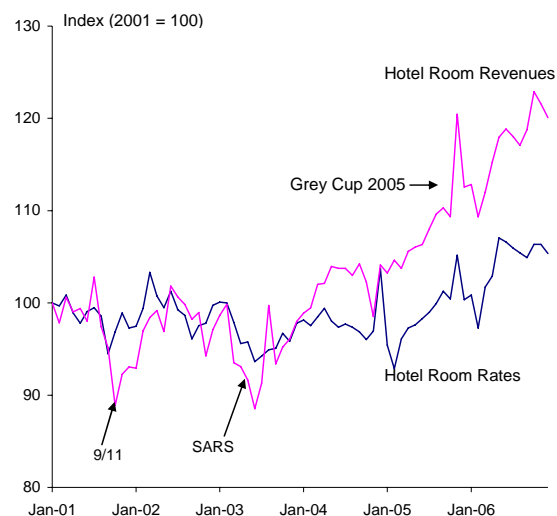
That is not to say that hotel room revenues have not suffered or benefited from the effects of a number of economic shocks. The attacks of 9/11 exacerbated an already ongoing decline in business. Overall, receipts were off 9.0% in September and October of 2001. The average hotel room rate over this time also fell, though only slightly (-1.6%).

The SARS outbreak in 2003 also depressed revenues and prices significantly at hotels. During the month of March alone, business fell 6.3%. This was met with similar decreases in the average room rate for both March (-2.1%) and April (-2.3%). In Vancouver, hotel room rates reached a low of

\$111.00 in August of 2003, having shrunk 15.6% since March when the outbreak first showed up in Canada.

In contrast to these negative shocks, hotel operators enjoyed a sharp rise in revenues in the month of November 2005 with the Grey Cup being held in Vancouver. The effects of this increase were keenly felt in the city of Vancouver where hotel room revenues were up 19.0% and hotel room rates rose 10.1% in November 2005.

While room revenues rose 19.6% since 2001, hotel room rates have risen only 5.8%



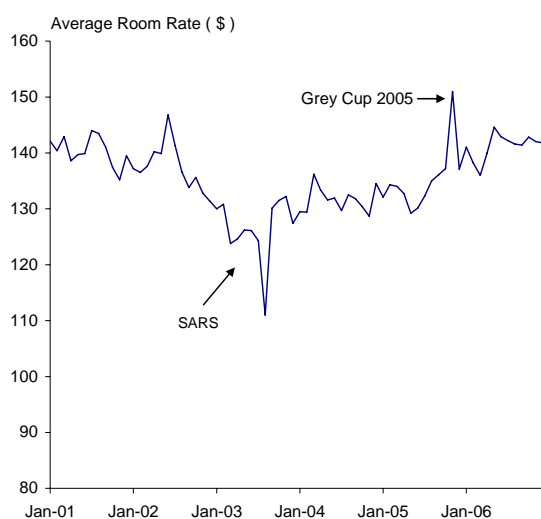
Data Source: Room revenue data, BC Stats
Hotel room rate data, Pannel Kerr Forester.

Overall though, while the average room rate has climbed somewhat in time with room revenues, beyond a few significant shocks, the increase has been modest. This suggests that other factors are also driving the activity seen in room revenues.

It is also interesting to note that when comparing growth rates in both hotel revenues and hotel room rates, the series advances through time much more closely before 2004 than it does today. In fact, the 'gap' in growth rates as been steadily increasing

each month. This suggests that other factors are playing a larger role in determining the dynamics of hotel room revenues today than they did previously.

Hotel room rates in Vancouver fell 15.6% between March and August of 2003, but spiked 10.1% in November 2005 during the Grey Cup



Data Source: Pannell Kerr Forester

Hotel Room Revenues and Occupancy Rates

If the rise in room revenues cannot be fully explained by a rise in the average room rate for the province, it is likely that a genuine increase in demand is driving revenues upward. Trends in occupancy rates indicate that this has occurred.

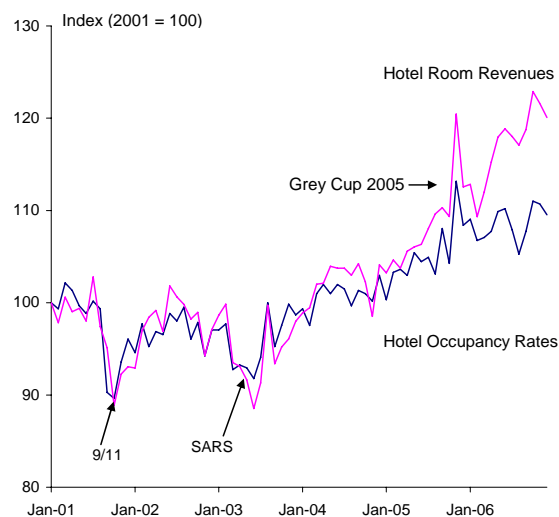
BC's hotel occupancy rate has increased 6.7 percentage points since 2001¹. Two sharp declines during the fourth quarter of 2001 (-2.1 percentage points) and the second quarter of 2003 (-1.9 percentage points) correspond to the attacks of 9/11 and the SARS outbreak respectively; illustrating the fact these events did have a marked effect on demand for accommodation services.

¹ Data for hotel occupancy rates is produced by Pannell Kerr Forester. Analysis is done by BC Stats.

Since 2003, occupancy rates in the province have steadily increased, with a surge in occupancy during November 2005 when the Grey Cup was held in Vancouver (+5.4 percentage points). In the city of Vancouver occupancy rates were 4.1 percentage points higher than in the previous month.

It is important to note though that while occupancy rates, like room rates, have risen over time, occupancy rates measure demand for a fixed number of rooms and, therefore, an increase in the number of rooms available would have the effect of driving down the occupancy rate. However, it is unlikely that this is a significant factor. Since 2001, the number of hotel rooms in BC has only increased 1.8% from nearly 53,000 to almost 54,000 rooms.

Hotel occupancy rates show marked declines in the wake of 9/11 and SARS



Data Source: Pannell Kerr Forester; seasonally adjusted by BC Stats

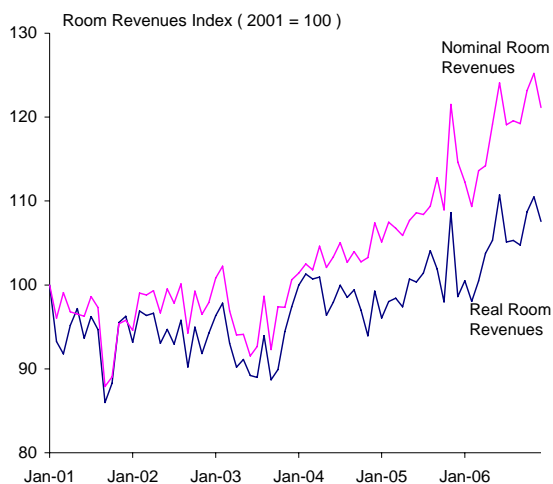
As was the case for hotel room rates, the difference in growth rates between occupancy rates and room revenues has increased in more recent months and years. Again, this suggests that there may be other factors that are playing a larger role in determining the growth rates in hotel room revenues.

Real room revenues

In general, nominal room revenues for all accommodation types in BC have trended strongly upward. In 2006, revenues reached more than \$1.8 billion, 23.6% higher than the total in 2001. This may appear to suggest that there has been a complete recovery from the effects of 9/11 and SARS. Further, this suggests that there has been rapid growth in the sector despite these events and the growing value of the Canadian dollar against the US greenback and skyrocketing fuel prices.

However, nominal room revenues are affected by price fluctuations that impact the relative purchasing power of the currency. Real room revenues, a measure that eliminates the effects of changes in the price level by deflating it with the Traveller Accommodation Services Price Index (TASPI)², show a more modest (+11.8%) increase.

Nominal room revenues increased 23.6% since 2001, real room revenues up 11.8%



Data Source: BC Stats

This more conservative improvement in real revenues suggests that while accommoda-

tion providers are certainly seeing a growth in business, the amount of business that has been generated in real terms is not quite as strong as it appeared to be at first glance.

² The appendix that follows this Special Focus expands on the reasoning for switching from the CPI to the TASPI as a deflator in order to obtain a measure of real room revenues.

Appendix – The TASPI and the CPI: A Tale of Two Indices

Note: This month's Special Focus was written as an update to one published in January 2006 using Statistics Canada's traveller accommodation component of the CPI. Statistics Canada has since discovered an error in their calculation. This report makes use of a different price index to analyze trends in room revenues over time in light of this information.

The TASPI and the CPI: A Tale of Two Indices

Many are familiar with the use of the Consumer Price Index (CPI) produced by Statistics Canada each month. The CPI is an indicator of overall changes in consumer prices faced by Canadians for a fixed basket of commodities. The CPI is built up using separate components which are used to track these price changes through different sectors of the economy. In the past, the traveller accommodation component of the CPI was used to analyse price changes for the accommodation sector³.

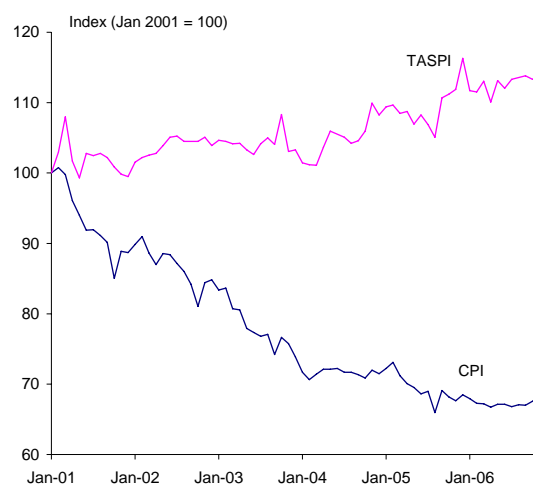
However, due to an error in calculating the CPI for the traveller accommodation component between 2001 and 2006, the data from Statistic Canada is considered to be unreliable and therefore unusable. This miscalculation occurred in the computation of the weights used to derive the value for the index. This error overemphasised the fluctuations in the relative prices between goods in the basket when those fluctuations were negative. In BC, this gave the appearance of a rapidly declining value for the index (-29.8%) when, in reality, the index was actually increasing (+10.6%) between 2001 and 2006.

Initially, the rapid downturn in the index was corroborated with anecdotal evidence gathered during interviews with respon-

³ As was the case with the January 2006 issue of the Tourism Sector Monitor.

dents to the parent survey (Annual Survey of Traveller Accommodation) on which the traveller accommodation component of the CPI data is based. As time progressed and the downturn in the index appeared to inexplicably worsen, an investigation into the formulae revealed the mistake.

The CPI paints a very different picture of price activity in the accommodation services industry in BC



Data Source: Statistics Canada

Since the CPI is used in many legal documents, such as union wage contracts and child support cases, as well as the basis for increases to payments to those on fixed incomes, such as recipients of social assistance and pensions, Statistics Canada has adopted a policy to never revise the CPI as it is believed that the cost to the economy of revising the CPI is greater than the benefit it would receive from doing so.

Therefore, while the error has been recognised and this overemphasis of fluctuations will no longer be an issue for the future, the level of the CPI makes it unusable as an index that can in turn be used as a meaningful deflator of nominal revenues to obtain a measure of revenues in real terms.

A previous article, based on the CPI showed a large increase in real revenues, since a decrease in prices, together with an increase in room revenues suggests a significant jump in business in real terms.

As a proxy for the CPI, this article makes use of the Traveller Accommodation Services Price Index (TASPI). As this series is not considered to be a part of the CPI, this series has been revised to correct for the error in calculation discussed earlier.

Prices for business clients have risen faster than prices for leisure clients on average



Data Source: Statistics Canada; seasonally adjusted by BC Stats

The TASPI, also produced by Statistics Canada, is an indicator of price changes specific to short-term accommodation services. The TASPI is built up by client type, reporting different indices for leisure, business, government, and foreign travellers. One key advantage to using the TASPI as opposed to the average room rate as a measure to monitor price changes is that while the average room rate only includes hotels, the TASPI is based on a wider range of accommodation types including not only hotels, but also motels and casino hotels.

Since 2001, average annual prices for BC accommodations have increased 10.6%,

with business travellers experiencing a slightly higher increase in prices (+12.4%) than leisure travellers (+9.6%). Government travellers have seen an increase in prices similar to that experienced by business travellers (+12.2%). Foreign travellers have seen the smallest impact on the cost of short-term accommodations of all client types (+9.4%).