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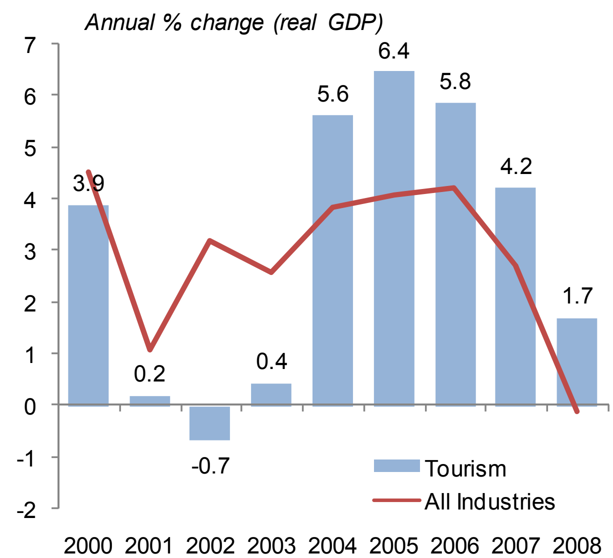
Tourism sector grows, but at a slower pace in 2008

British Columbia's tourism sector[1] plays an important role in the provincial economy, accounting for more than $6.6 billion (about 4%) of the province's real gross domestic product (GDP) in 2008.[2] Employment in the sector totalled 131,000 people–roughly one in every eighteen jobs in the province.[3]

The province's tourism sector grew 1.7% in 2008, outpacing the rest of the economy for a fifth straight year. Although it outperformed the provincial economy (which shrank for the first time since 1982) the effects of a weakening global economy were felt in the tourism sector. All of the tourism-related industries posted gains, but the increases were well below the levels seen in recent years. From 2004 to 2007, the tourism sector as a whole grew at an average annual rate of 5.5%, more than three times the 1.7% increase posted in 2008.

Tourism-related transportation industries advanced 2.3%, and other services (such as amusement, recreation, vehicle rental and travel arrangement services) saw GDP climb 3.4%. Retailing (+0.6%) and accommodation & food services (+0.5%) posted only modest increases.

Tourism sector outperforms provincial economy, but growth slows in 2008



Data Source: BC Stats & Statistics Canada

The comparatively strong performance of the tourism sector in 2008 is partly a reflection of the timing of the current economic slowdown. There were some indications that economic conditions were softening earlier in the year, but the full impact of the economic and financial crisis did not become evident until the fall, after the peak tourist season had ended. Most tourism indicators showed some volatility, but did not actually slip into a

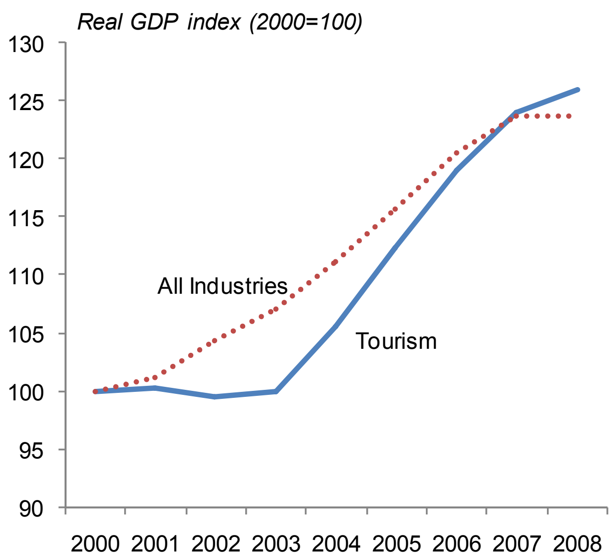
[1] BC Stats' tourism sector statistics program is supported and partly funded by Tourism BC. The data presented in this report was produced in partnership with Tourism BC.

[2] GDP estimates in this report are derived from data released by Statistics Canada in April 2009. A description of the methodology used to calculate GDP, employment and other tourism indicators is available in a document titles *Measuring the Size of British Columbia's Tourism Sector* at www.bcstats.gov.bc.ca

[3] The employment figures presented in this article are calculated using information from Statistics Canada's Survey of Employment, Payrolls and Hours (SEPH). To ensure consistency when making comparisons, the all-industry employment total from SEPH is used in this document, rather than the more comprehensive employment figure from the Labour Force Survey.

persistent decline until late in the year. The annual figures reflect developments throughout the year, which is why they remained positive despite the weakness near the end of 2008.

Tourism sector took longer to recover from the slowdown at the beginning of the decade, but has since made up the lost ground



Data Source: BC Stats & Statistics Canada

Global economic conditions influence sector's performance

Tourist expenditures are usually discretionary, and decisions about whether or not to travel are influenced by current or perceived economic and social conditions both at home and at the traveller's ultimate destination. During periods of economic expansion, when consumers are confident about the future, spending on tourism-related goods and services tends to increase. However, tourist spending dries up quickly when the economy is in a slump, as is the case at present. Tourists may also choose to stay close to home if they are concerned about security (as was the case after 9/11), health issues (as was the case in 2003, and earlier this year during the Swine flu scare) and the difficulty or inconveniences associated with travelling.

The strong growth seen during the period from 2004 to 2007 was partly a reflection of relatively robust economic conditions in North America, since many visitors to BC come from other parts of Canada or the US. At the same time, travel to BC from further afield, especially Asian sources, was increasing and this provided a boost to the tourism sector.

Past experience also suggests that the tourism sector may take longer to recover from external shocks than is the case for the economy as a whole. The sector has been subjected to many external shocks over the last decade, including an economic slowdown in the US at the turn of the century, the 9/11 terrorist attacks and an outbreak of Severe Acute Respiratory Syndrome (SARS) in 2003, all of which had an adverse effect on tourism activities in British Columbia.

The current economic situation is far more serious than the relatively mild slowdown that occurred at the turn of the century. With BC, Canada, the US and many other countries experiencing ongoing recessionary conditions, it is highly unlikely that the province's tourism sector will be unaffected by the general malaise. The latest economic data suggest that the Canadian and US economies are still in the doldrums, and economic indicators relevant to tourism in BC, such as retail sales, room revenues, and visitor entries show that these industries have struggled through the first half of 2009. However, the upcoming 2010 Olympics may provide a much-needed boost to tourism industries in the province.

A note on GDP

GDP is a measure of the value added to the economy by a particular activity. It is calculated by subtracting the cost of supplies and services used to produce a good or service from total revenues. For example, the price of a restaurant meal covers the cost of food purchased to make the meal, the energy used to cook it, rent and other building expenses, cleaning supplies, accountant's fees, and so on. It also includes a mark-up intended to cover items such as wages, profits and depreciation. Although the restaurant uses food, energy and other inputs, its contribution to GDP is only the value added to the economy by the service it provided–the difference between the price paid by the consumer and the cost of inputs used by the restaurant.

The GDP figures reported in this article are reported in constant (2002) dollars. This means that they have been adjusted to eliminate the effects of price changes over time. They are measured at ***basic prices****: i.e. they include subsidies but exclude some indirect taxes.*

Key tourism activities

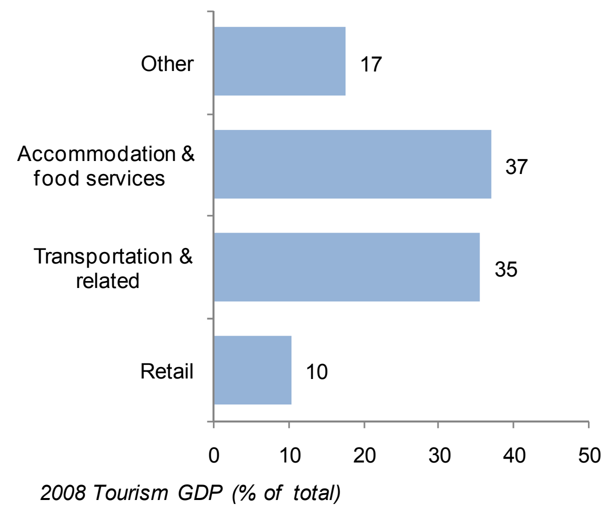
Many different types of services are included in the province's tourism sector. These range from accommodation & food services to transportation, retailing, recreation, travel arrangement and vehicle rental services, cultural services, and various other types of services used by tourists travelling in BC.

Within the tourism sector, accommodation & food services (37%) and transportation (35%) account for roughly equal shares of total GDP. Ten percent of the sector's GDP originates in retail activities, with other industries making up the remainder (17%).

Air transportation, related services (the operation of airports, harbours and so on) and water transportation are the biggest industries within the transportation category, which also includes bus, taxi and rail services.

In the retailing industry, souvenir, gift, book and luggage shops all sell items purchased by tourists, so some of the activities of these retailers are attributed to the tourism sector. Other key activities include food, drug, gas and RV sales, as well as general merchandise and clothing retailers.

Accommodation, food services and transportation services generate nearly three-quarters of the tourism sector's GDP



Data Source: BC Stats

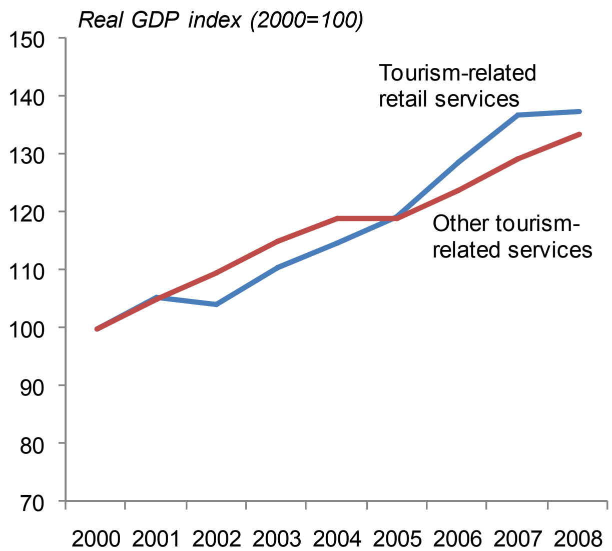
"Other tourism-related services" includes travel agents, vehicle rental agencies, an estimate of the value of vacation homes, performing arts, and a variety of other industries providing goods and services directly to tourists.

Long-term growth strongest in retail and other tourism services

Between 2000 and 2008, tourism sector GDP has increased by just over a quarter (26%), roughly the same pace as in the economy as a whole over this period (24%). Within the sector, however, there is some variation in performance. The strongest impetus for growth has originated in the sector's smaller industries. Since 2000, GDP in tourism-related retailing activities has advanced by more than one-third (+37%), expanding rapidly until only recently.

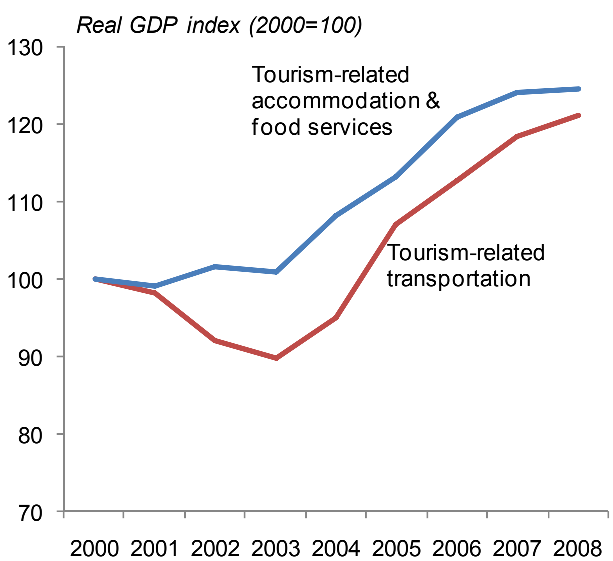
Similarly strong GDP growth (+34%) was observed in the other tourism-related industries, such as vehicles rental, tourism-related recreation and spending on vacation homes.

Retail and other tourism service industries have made strong gains since 2000...



Data Source: BC Stats

...and transportation & accommodation have regained some lost ground



Data Source: BC Stats

GDP in tourism-related transportation increased 21%, notwithstanding a rather abrupt drop during the early part of the decade. Since 2003, the industry has recovered lost ground as demand for transportation services by tourists has picked up. Recently, however, the jets have started to cool in lock-step with the rest of the economy, with GDP growth in 2008 slowing to less than half the rate (+2.3%) that was registered in 2006 (+5.2%) and 2007 (+5.2%).

Are tourism sector estimates comparable to data for other industries?

Yes, as long as care is taken to ensure that GDP or jobs are not double counted. Since the tourism statistics are calculated by apportioning a share of total GDP or employment in each industry to the tourism sector, the tourism-related component must be subtracted from total GDP or employment in the relevant industries before making any comparisons.

From 2000 to 2003, GDP growth in accommodation & food services stalled. In 2004 and beyond, however, the industry has been on a steady upward path punctuated by spurts of growth. Since 2000, accommodation & food services GDP has risen by one-quarter (25%), but, like all industries in the tourism sector, 2008 brought slower GDP growth.

Tourism sector revenues reach $13.8 billion in 2008

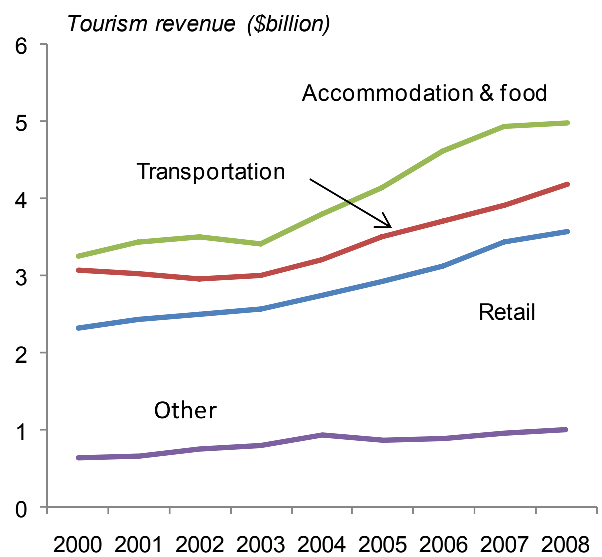
Tourism sector revenues reached $13.8 billion in 2008, up 4.2% from the previous year. Each of the sector's key industries saw revenue advance during the year. High gas prices helped drive the cost of transportation services up, and this was reflected in revenues, which jumped 7.4%, the biggest increase registered since 2005. Providers of retail (+4.4%) and miscellaneous (+5.1%) tourist-related services saw revenues increase, but at a slower pace than in previous years. Revenues at tourist-related accommodation & food service establishments rose only slightly (+1.3%).

How are tourism revenues calculated?

This is the first time that BC Stats has released revenue data for the tourism sector. Similar to GDP, revenue estimates for each tourism-related industry are derived directly from relevant annual and monthly data. A "tourism proportion" for each industry is applied to the revenue data to determine tourism revenues by industry.[4]

The revenue data are presented in current dollars, so the effect of price changes, which are significant in some industries, is reflected in the data.

High gas prices helped keep transportation revenues on an upward track in 2008



Data Source: BC Stats

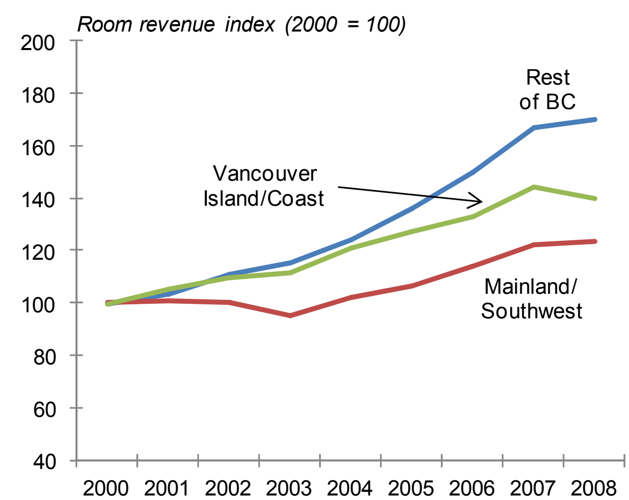
Like many other tourism indicators, tourism revenue has advanced steadily following a brief period of relatively slow growth at the start of the decade. Since 2000, revenues from tourism-related activities have risen by nearly half (+48%) with the lion's share of that increase occurring in the period since 2003.

As was the case with GDP, the tourism-related accommodation & food services (36%) and transportation (30%) industries generated the biggest share of total revenues. Retail industries account for a much larger slice (26%) of the revenue pie (more than two-and-a-half times the industry's share of total GDP). This is due to the fact that retailing requires a relatively large overhead including the purchase of goods from manufacturers and wholesalers for resale. The cost of goods purchased for resale is passed on to buyers (and thus contributes to revenues) but is not included in the industry's GDP.

Room revenues post weakest increase since 2003

Room revenues inched up just 0.7% in 2008, ending a four-year-long run of strong growth, which saw revenues climb at rates ranging from six to eight percent each year. This was only the second time since 2000 that room revenues have failed to increase significantly.

Room revenues have increased significantly since the start of the decade



Data Source: BC Stats

One of the regions hardest hit by the downturn in 2008 was Vancouver Island/Coast (–3.2%), which is usually popular with visitors from the US and overseas. Nechako (–3.2%), North Coast

[4] See *Measuring the Size of British Columbia's Tourism Sector* available on our website at www.bcstats.gov.bc.ca

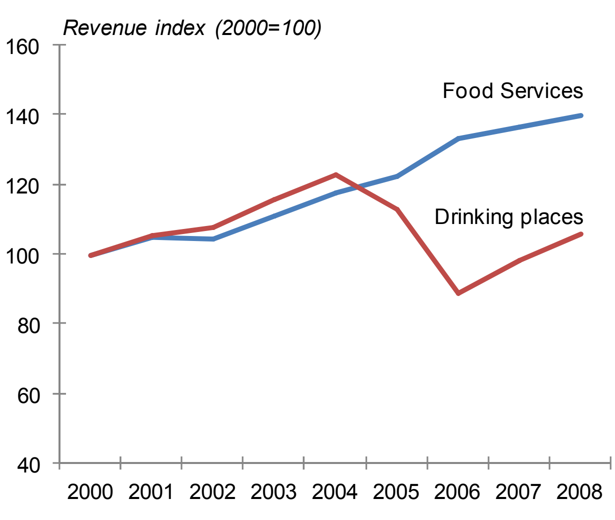
(–1.1%) and Kootenay (–0.8%) also saw revenues shrink during 2008. Mainland/Southwest (+1.1%), which accounts for more than half (53%) of total revenues in the province, fared better, and Northeast (+12.5%) posted a comeback after shrinking (–7.4%) in 2007.

Despite the recent slowdown, room revenues in the province have risen 38% since 2000, with even stronger growth seen in some regions of the province. Northeast (+163%), Thompson/Okanagan (+70%) and Kootenay (+64%) have posted substantial increases over the long term, while Nechako (+36%) and Cariboo (+44%) have posted more modest growth.

Restaurants and pubs still busy, but growth slows in 2008

Cash registers at food services and drinking places rang up 2.2% more sales in 2008 than in the previous year. This was the smallest increase recorded since 2002. Revenues at drinking places rose a substantial 7.7%, but restaurants and caterers posted a more modest 1.7% increase.

Revenues at drinking places making a comeback



Data Source: Statistics Canada

Despite the strong growth in 2008, BC's drinking places have not fared well during the last four years. Revenues dropped off sharply in 2006, and remain well below the 2004 level. Drinking places account for about 6% of total revenues in the food service & drinking places industry.

The increase in food service revenues is partially due to higher prices for restaurant meals. During 2008, the cost of restaurant meals in the province rose 2.6%, partly in response to rising food prices. This suggests that the increase in 2008 was probably price- rather than volume-driven. Most of the clients at restaurants and pubs are locals; it is estimated that tourists account for just under a quarter of their business. The continued upward trend in restaurant revenues suggests that despite uncertain economic times and rising prices, visitors and local residents are still patronizing BC eateries.

Tourism sector employs 131,000[5]

Employment in the tourism sector was estimated at 131,000 in 2008, up 2.7% from the number in the previous year. While job growth in the sector was largely driven by a moderate increase in the accommodation & food services industry (+3.5%), all of the key industries took on more workers. Employment in the tourism sector advanced at a rate in-line with the economy as a whole (+2.7%).

Approximately half (50%) of all workers in the tourism sector are employed in the accommodation & food services industry. The sector's second largest employer, transportation, provided jobs to a little more than one-quarter (26%) of those in tourism.

[5] This employment data excludes the self-employed. Self-employment is a significant factor in the tourism sector (and in the province as a whole). Information from the Labour Force Survey (a survey of households which includes the self-employed) suggests that the actual figure may be about 3% higher than what the SEPH data suggests.

Retail (14%) and other services (10%) provide jobs to the remaining members of the sector's workforce.

What is direct tourism employment?

Direct tourism employment is a measure of the number of people working in various industries that serve tourists. It includes workers in industries ranging from accommodation & food services to retailing and transportation.

Direct tourism employment estimates are generated by assigning a percentage of total employment in various industries to the tourism sector. These percentages are calculated by BC Stats based on information from various sources.

Steady employment growth since the beginning of the decade

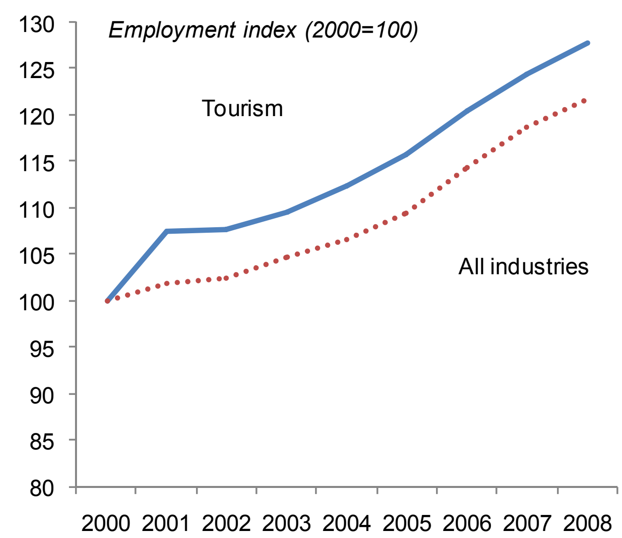
The number of jobs in the tourism sector has expanded by more than a quarter (+28%) since 2000, well ahead of the 22% increase in the economy as a whole, but this is largely due to stronger-than-average job growth at the beginning of the decade. Since 2001, the number of tourism jobs has increased at about the same rate as the all-industry average.

Increasing its workforce by 21%, the tourism-related transportation industry has seen employment grow at a rate slightly less than the provincial average.

In contrast, the accommodation & food services industry has seen tourism-related employment expand 29% since 2000. Employment in tourism-related retail services has advanced even more, jumping 41% over the same period while other tourism-related service providers have posted a 30% increase in the number of jobs.

It should be noted that these employment figures do not differentiate between full-time and part-time workers, so some of the job growth may be related to changes in the incidence of full-time and part-time employment.

Tourism employment is keeping pace with job growth in other industries



Data Source: BC Stats

Tourism workers earned $4.7 billion in 2008

A substantial increase in both average wages and the number of employees in the sector saw workers in the tourism sector bring home $4.7 billion in wages & salaries in 2008, an increase of 7.5% over the previous year, slightly more than the 6.9% increase registered in 2007. At 8.9%, workers in tourism-related retail services saw the largest jump in total wages and salaries; while 'other' tourist industries saw a more modest 5.8% rise in pay. Wages in accommodation & food services (+7.7%) and transportation (+7.3%) also increased.

For the tourism sector as a whole, earnings per worker are roughly three-quarters (76%) of the average for the economy as a whole. There are also some significant differences between the industries in the sector. Transportation, for instance, accounts for only a quarter (26%) of tourism-related employment, but 41% of the total wage bill. Meanwhile, the tourism-related accommodation & food services industry employs roughly twice as many people, yet has a slightly smaller share (37%) of total wages.

There are a number of reasons that help explain this apparent discrepancy in the wage bill between industries. One reason is that many of the jobs in transportation require more training and higher levels of skill than in other tourism industries such as accommodation & food, which has historically been a strong employer of BC's youth, providing them with entry-level, lower paying positions during peak seasonal activity. Additionally, transportation is an industry that is highly unionized (50% of workers have union coverage) which may help keep wages relatively high compared to industries such as accommodation & food services, where just 8% of the workers have union coverage.

Hotel occupancy down slightly in 2008

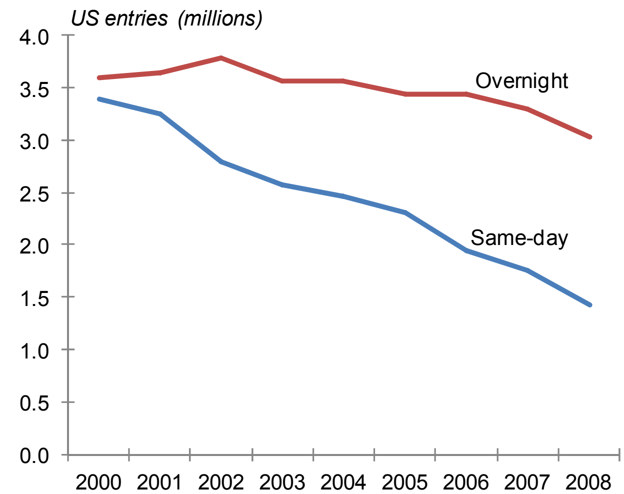
Hotel occupancy rates in the province dropped slightly in 2008, falling to just under 65%. Despite the decline, occupancy rates remain well above the 59% level recorded in 2001. Room rates climbed to an average of $133, an increase of 4.0% over the 2007 average.

Visitor entries fall for the seventh time in eight years

Visitor entries were down 8.9% in 2008 as the number of travellers coming to BC from the US continued to plummet, while overseas entries lost momentum. The US is the most important source of international travellers to the province (accounting for roughly three out of four visitors to BC), and entries from the US were down nearly 36% from a peak of over 7 million in 2000. The decline in entries predated the events of 9/11, as the US economy entered a brief slowdown at the turn of the century, but events following the terrorist attacks appear to have kept travel from the US on a downward path.

Same-day travel from the US is now less than half what it was in 2000, and while the number of overnight trips is also down, the decline has not been nearly as marked. Delays at the border, rising gas prices and an appreciating Canadian dollar have almost certainly contributed to this, but there may well be other factors at play. There are no signs that a turnaround is imminent, since it is unlikely that the number of American travellers will increase significantly until economic conditions south of the border improve.

Same-day travel from the US continues to decline



Data source: Pannell Kerr Forster

In recent years, an increase in the number of overseas visitors has helped compensate for the downturn in travel from the US. However, entries from overseas were flat (–0.1%) in 2008 as travel from both Asia (–3.8%) and Europe (–1.0%) declined. On the other hand, entries from other countries increased 10.0%, building on even stronger growth in the previous year.

BC airports flying high; ferry traffic down

Passenger traffic through Vancouver International Airport increased in 2008 (+1.3%) boosted by continued growth in domestic travel (+3.6%). A total of 17.9 million travellers passed through the Vancouver Airport in 2008, more than half of them (9.3 million) on domestic flights. The number of international travellers was also up (+1.3%) but not as much as in 2007. However, trans-border traffic through Vancouver's airport was off (–0.6%).

Victoria International Airport also handled record numbers of travellers in 2008 (+3.8%), marking the sixth straight annual increase in the number of travellers. More than 1.5 million people flew into or out of the airport, up more than one-third (+35%) from 2000 levels.

Passenger traffic on BC Ferries declined in 2008, with about 700,000 fewer passengers travelling on vessels plying the waters off the BC coast. Vehicle traffic on the ferries was also down, but less significantly.

Table 1: Tourism Sector Indicators

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenue ($million)	9,339	9,582	9,720	9,799	10,712	11,463	12,382	13,251	13,802
% change	*8.7*	*2.6*	*1.4*	*0.8*	*9.3*	*7.0*	*8.0*	*7.0*	*4.2*
GDP ($million)	5,048	5,191	5,238	5,233	5,667	6,182	6,667	7,081	7,382
% change	*5.0*	*2.8*	*0.9*	*-0.1*	*8.3*	*9.1*	*7.8*	*6.2*	*4.3*
Real GDP ($2002 million)	5,263	5,273	5,238	5,261	5,556	5,913	6,259	6,522	6,633
% change	*3.9*	*0.2*	*-0.7*	*0.4*	*5.6*	*6.4*	*5.8*	*4.2*	*1.7*
Implicit price index (2002 =100)	95.8	98.4	100.0	99.4	102.0	104.5	106.5	108.6	111.3
% change	*1.2*	*2.7*	*1.6*	*-0.6*	*2.6*	*2.5*	*1.9*	*2.0*	*2.5*
Employment, SEPH ('000)	102.4	109.9	110.1	112.2	115.1	118.5	123.4	127.5	131.0
% change	*0.5*	*7.3*	*0.2*	*1.9*	*2.6*	*3.0*	*4.1*	*3.3*	*2.7*
Wages & salaries ($million)	3,182	3,350	3,326	3,367	3,579	3,812	4,126	4,411	4,740
% change	*3.1*	*5.3*	*-0.7*	*1.2*	*6.3*	*6.5*	*8.3*	*6.9*	*7.5*
Consumption taxes	846	861	933	985	1,044	1,086	1,103	1,111	1,040
% change	*7.3*	*1.8*	*8.4*	*5.6*	*6.0*	*4.0*	*1.6*	*0.8*	*-6.5*