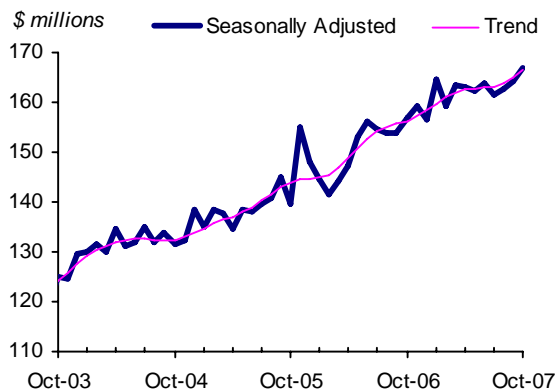


Tourism Sector Monitor ♦ January 2008

Room Revenue

Provincial room revenues were up 1.6% to approximately \$167 million in October, the highest month-over-month growth since March. Most regions experienced gains, including Cariboo (+8.2%), Kootenay (+3.5%), Mainland/Southwest (+2.9%), Nechako (+1.9%) and North Coast (+1.0%). Growth in Thompson/Okanagan (+0.1%) was relatively flat, while Northeast (-3.7%) and Vancouver Island/Coast (-1.5%) saw a drop in receipts.

Room revenues up for the third straight month in October



Returns at the province's hotels continued to increase (+1.8%) in October, driven mainly by growth at large (151-250 rooms; +3.8%) and very large (251+ rooms; +1.7%) hotels. Motels also experienced higher revenues (+1.8%) following a drop in business in September. However, other accommodations, including vacation rentals and fishing lodges, recorded a 2.2% decline.

Table 1. Room Revenue
(seasonally adjusted)

Accommodation Type			
	Oct 07 (\$000)	Sep 07 (\$000)	% change
Total	166,932	164,267	+1.6
Hotels	125,429	123,195	+1.8
Motels	19,941	19,594	+1.8
Other Accommodations	22,148	22,637	-2.2
Regions (Top 3 performers)			
Cariboo	5,293	4,890	+8.2
Kootenay	8,349	8,066	+3.5
Mainland/Southwest	89,974	87,408	+2.9

Visitor Entries

Total visitor entries to Canada via BC inched down (-0.6%) in October, ending a two-month-long upturn. However, entries from the US continued to move up (+0.8%), as more overnight visitors (+2.5%) offset a reduction in the number of Americans on same-day trips (-2.5%).

Visitor volume from overseas countries fell sharply (-5.4%) due to a significant drop in entries from Europe (-8.0%) and Asia (-7.6%). However, entries from Oceania (+2.6%) increased for the third consecutive month.

The number of Canadians returning home via BC climbed 8.4% in October. There was a surge (+14.6%) in same-day trips to the US, while the number of travellers returning home from trips overseas fell (-0.5%).

Visitor entries dipped in October

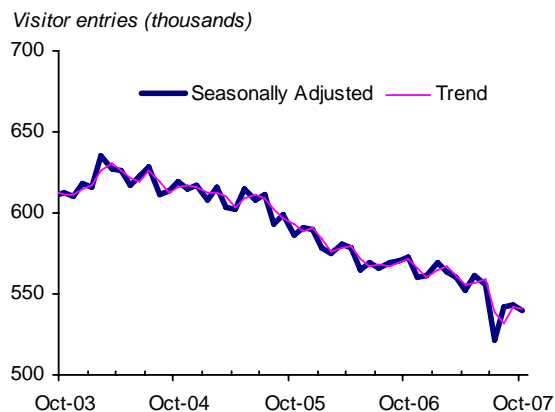


Table 2. Traveller Entries
(seasonally adjusted)

	Oct-07 (‘000)	Sep-07 (‘000)	% chg from Sep-07
American visitors			
Total	419	416	0.8
Same-day	135	139	-2.5
Overnight	284	277	2.5
Overseas visitors			
Total	120	127	-5.4
Europe	41	45	-8.0
UK	21	23	-6.6
Asia	54	59	-7.6
Japan	16	16	-5.3
Taiwan	5	6	-18.7
Oceania	15	15	2.6

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 hotel occupancy rate rose 0.5 percentage points to 67.8% in October. The average provincial room rate (\$132.10) advanced 1.4%, the highest month-over-month growth since January.

Table 3. Other Tourism Indicators
(seasonally adjusted)

	Oct-07	Change from Sep-07
Hotel Industry		
Occupancy rate (%)	67.8	0.5 pp.
Average room charge (\$) <i>(Pannell Kerr Forster)</i>	132.10	1.4
Airport Passengers (000s) (%)		
Vancouver International Airport		
Total traffic	1,466	-0.2
US (trans-border)	361	-0.1
Other International	338	-2.3
Canada (domestic) <i>(YVR)</i>	767	0.6
Victoria International Airport		
Total traffic	128	1.8
<i>(Victoria Airport Authority)</i>		
Food Services Receipts (\$ millions) (%)		
All establishments	651	1.8
Food service	611	1.9
Drinking places <i>(Statistics Canada & BC Stats)</i>	44	4.5
Transportation (000s) (%)		
Coquihalla Highway		
Passenger Vehicles <i>(Ministry of Transportation)</i>	233	1.1
BC Ferries		
Vehicle Volume	713	-0.9
Passenger Volume <i>(BC Ferries)</i>	1,797	-1.1
Exchange Rates Cdn \$		
US \$	1.025	+0.05
UK Pound	0.501	+0.02
Japanese Yen	118.765	+6.61
Australian \$ <i>(Statistics Canada)</i>	1.140	-0.01

Note: pp. percentage points

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

Passenger volume at the Vancouver airport was down slightly (-0.2%) in October, while the number of travellers through the Victoria airport increased (+1.8%). BC Ferries experienced a drop in passenger (-1.1%) and vehicle (-0.9%) traffic, while

more passenger vehicles (+1.1%) travelled on the Coquihalla Highway.

In October, BC's food services and drinking places industry recorded an increase in receipts (+1.8%, *seasonally adjusted*), as sales at drinking places (+4.5%) and food service establishments (+1.9%) were higher.

A look ahead—November 2007

Early returns show that provincial room revenues advanced for the fourth consecutive month in November, inching up 0.3%. Although Kootenay (+5.1%), Thompson/Okanagan (+3.9%) and Cariboo (+3.6%) recorded substantial gains, a drop in Mainland/Southwest (-1.4%) counteracted most of the increases. Nechako (+0.8%), Vancouver Island/Coast (+0.5%) and Northeast (+0.2%) experienced marginal growth, while revenues in North Coast were down (-1.9%).

Receipts at hotels fell 1.3% in November, ending a three-month-long upturn. Most hotels recorded decreases, including large (151-250 rooms; -3.2%), very large (251+ rooms; -2.0%) and small (1-75 rooms; -0.7%) hotels. Mid-sized hotels (76-150 rooms; +0.3%) experienced modest gains, while returns at motels (+0.9%) and fishing lodges, bed and breakfasts, and other types of

accommodation (+6.1%) also improved. However, growth at vacation rentals (-3.0%) continued on a downward trend.

Visitor entries to the province were up (+1.1%) in November, driven by a substantial increase in visitation from overseas countries (+4.2%). Entries from Oceania (+8.0%) and Asia (+6.6%) surged, while the number of visitors from Europe declined 1.9%. US entries inched up (+0.1%) as more same-day visits (+2.5%) offset a decline in overnight entries (-1.0%).

Both the Vancouver (+4.1%) and Victoria (+0.9%) airports were busier in November, and BC Ferries recorded an increase in passenger (+2.1%) and vehicle (+1.7%) volume. In addition, the number of passenger vehicles travelling on the Coquihalla Highway was also higher (+6.7%).

About preliminary numbers

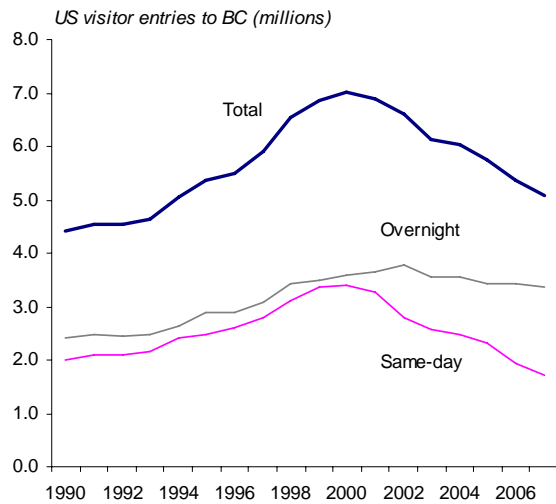
Companies file their hotel room taxes with varying delays. The initial data retrieved by BC Stats may be revised considerably over the following months. BC Stats reports room revenues with a three-month lag. For example, data for January are not reported until April. However, we also briefly report “preliminary data” with a two-month lag.

How accurate is the preliminary data? Over 21 reports in 2006 and 2007, BC room revenues changed (rose or fell on a month-over-month basis) on average by 2.4% (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: Why Have US Entries to the North Gone South?

The number of Americans entering BC has been steadily declining since the turn of the century. In 2006, approximately 5.4 million US entries were recorded, a 23.2% decline relative to 2000 levels (7.0 million). Over this period, the number of US visitors on same-day trips to BC was nearly halved, dropping from 3.4 million to 1.9 million (-42.9%). Overnight entries also fell (-4.5%) from 2000 to 2006.

Total and same-day visits from the US have fallen significantly since 2000



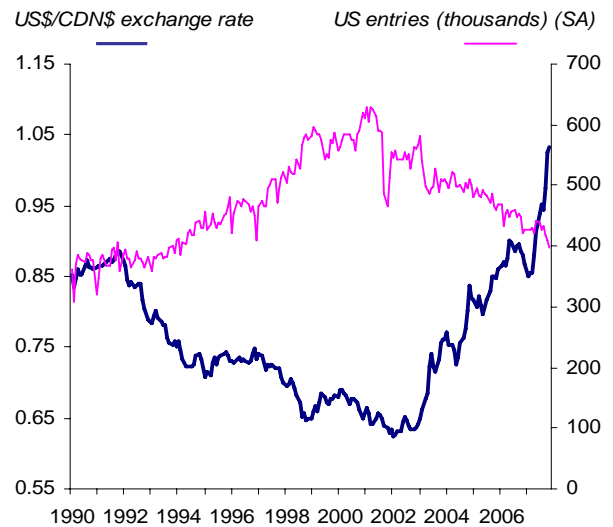
Data Source: Statistics Canada

What factors have contributed to the recent downward trend in US entries? The exchange rate is arguably one of the most important factors. Recently, the Canadian dollar appreciated to record-high levels, and reached parity with the US dollar in October 2007 for the first time in more than three decades.

There is some evidence to suggest that US entries to BC and the exchange rate are negatively correlated. From January 2002 to November 2007, the value of the Canadian dollar (US\$/CDN\$) increased from 0.625 to 1.034 (+65.5%). During the same period, the number of same-day visits by Americans

slumped 41.6% and overnight entries declined 15.2%. Overall, total US entries fell 27.0%.

US\$/CDN\$ exchange rate vs. US entries



Data Source: Statistics Canada & BC Stats

There are other economic factors that could also explain the decline in US entries. For example, fuel, air travel and accommodation are significant components of travel costs. The appreciation of the Canadian dollar, together with the rising cost of gasoline, increasing airfares and higher room rates may be working together to reduce American entries. The extent to which travel from the US has been affected by these developments can be assessed using regression analysis to determine the statistical relationship between US entries and a number of possible explanatory variables.

Regression Analysis

Linear regression models were used to estimate the relationship between the number of US entries to BC (same-day and overnight modelled separately) and the following explanatory variables:

- US\$/CDN\$ exchange rate;
- US per capita disposable personal income;
- the airline fare component of the US Consumer Price Index (CPI);
- US gas prices;
- the BC average hotel room rate;
- 9/11; and
- SARS.

The variables were based on monthly time-series data covering the January 1990 to November 2007 period. Dummy variables were included in the models to account for the decline in entries observed after the September 11th terrorist attacks and the SARS outbreak.

Although increased wait times at the border and changes to passport requirements are also potential barriers to travel between Canada and the US, these are difficult to assess given the lack of quantitative data available. Therefore, the variables were restricted to those that could be defined using existing data sets and considered the most significant determinants of US entries based on previous research completed by BC Stats.¹

The results indicate that the variables included in the analysis explain 88% of the variation in the number of US same-day entries, and 92% of the variation in the number of overnight trips. In other words,

the reduction in the number of US entries to BC can be mostly attributed to these factors.

Exchange Rate

Since reaching an all-time low of US\$0.625 in January 2002, the Canadian dollar has continued to appreciate, reaching its highest level in more than 33 years in November 2007 (US\$1.034). With an appreciating Canadian dollar, travel to and within BC becomes relatively more expensive for US visitors.

After controlling for the other explanatory variables, the regression results indicate that if the Canadian dollar appreciates by one cent relative to the US greenback, the number of same-day and overnight visitors would fall by 3,198 and 1,789 every month, respectively.

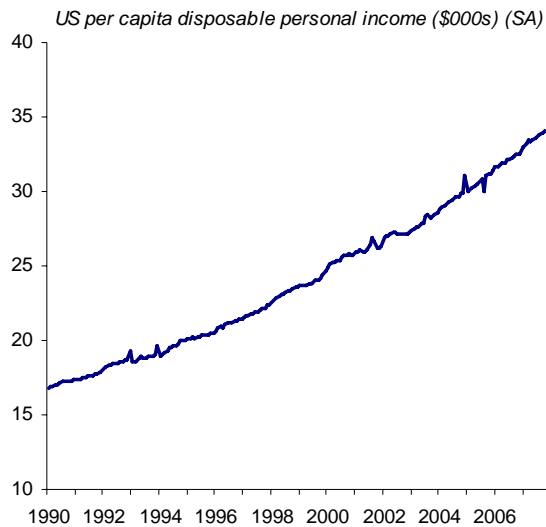
Disposable Income

To determine if income has an effect on the number of American entries, US per capita disposable personal income was included in each model. It is expected that the higher an individual's disposable income, the more likely he/she will spend a portion of this on discretionary expenditures such as travel. Therefore, an increase in personal disposable income should encourage more Americans to travel to BC.

The results confirm the expectation that disposable income is positively related to the number of US entries. Specifically, if average US per capita disposable income increases by \$100, an additional 803 same-day and 876 overnight US entries to BC would be recorded every month.

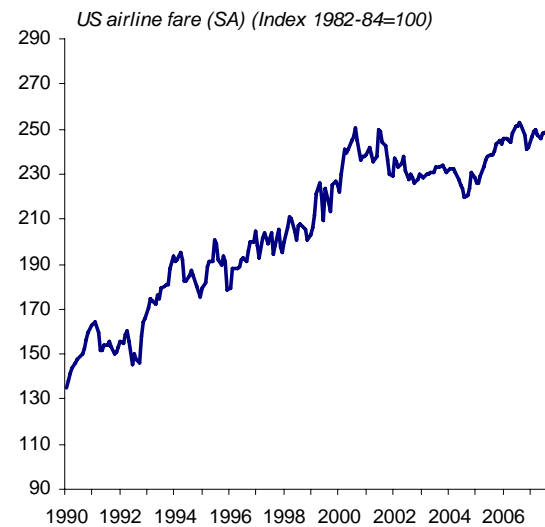
¹ For example, see *What Drives US Visitors Away?* in *Tourism Sector Monitor* Issue 05-07.

A rising disposable income encourages more Americans to travel to BC



Data Source: Bureau of Economic Analysis, US Department of Commerce

With the exception of the 2001-2004 period, US airfares have trended up since 1990



Data Source: Bureau of Labor Statistics, US Department of Labor

Airfare

Another significant component of total travel costs is airfare, which was measured using the airline fare component of the US CPI. After falling from 2001 to 2004 (-5.1%), airfares in the US rebounded in 2005 (+4.1%) and 2006 (+4.5%). Economic theory suggests that an increase in the price of airline tickets will lead to a decrease in the number of Canadian trips demanded by US travellers (a negative relationship). On the other hand, US travellers may substitute an overseas trip with a visit to their northern neighbour if the price of travel to Canada is relatively less expensive (a positive relationship).

For the overnight regression model, the airfare variable was negative and statistically significant. All else being equal, a one point increase in the airline fare component of the US CPI would prevent 173 overnight visitors from flying to BC every month. The fact that airline fare does not have a statistically significant impact on the number of US same-day entries is not a surprising result, since most enter the province by vehicle (83% on average during 1990 to 2006) and are therefore not impacted by changes in airfare.

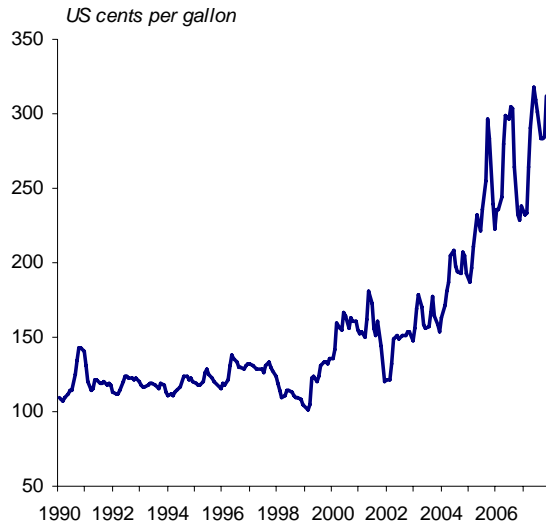
US Gasoline Prices

Another component of travel costs for US travellers is gasoline prices. Given the proximity of Canada to the US, a significant proportion of both same-day and overnight US visitors travel to BC by car. In 2006, approximately 80% of same-day and more than one-half (52%) of overnight visitors drove their vehicle into the province.

The price of gasoline in the US has been increasing rapidly since 2002 and reached record-high levels in May 2007 at US\$3.18 per gallon. This was almost three times

higher than average gas prices recorded in January 2002 (US\$1.21).

Average US gas prices have skyrocketed since 2002



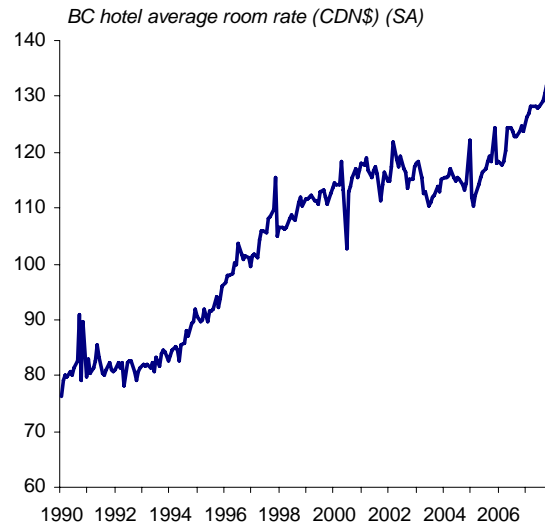
Data Source: Energy Information Administration, US Department of Energy

Consistent with expectations, the regression results indicate that gas prices have a significant negative impact on the number of same-day and overnight entries from the US. Specifically, a one US cent increase in average gas prices would prevent 196 same-day and 124 overnight travellers from driving to BC every month.

Accommodation Costs

To measure the extent to which the cost of accommodation has an effect on the number of US entries to BC, the average room rate for BC hotels was included in the overnight regression model. If room rates are an important factor in determining whether US visitors will travel to BC, the sign on this variable should be negative. In other words, an increase in room rates would result in a reduction in the number of US visitors staying at the province’s hotels.

BC’s hotel room rate increased 50% from 1990 to 2006



Data Source: Pannell Kerr Forster & BC Stats

However, the results indicate that there is a statistically significant *positive* relationship between the average hotel room rate and the number of overnight entries. This result may seem counterintuitive, as this suggests that higher accommodation costs encourages more Americans to travel to BC. However, the relationship may not be causal, as a rise in entries from the US may drive accommodation prices up.

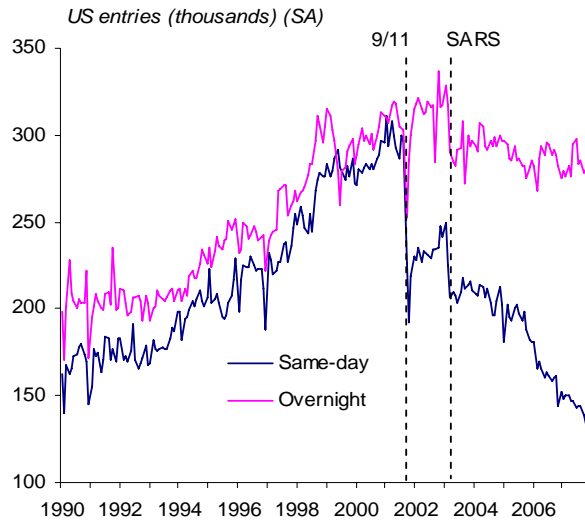
9/11 and SARS

Finally, dummy variables were included in each model to determine the effect of the September 11th terrorist attacks and the SARS outbreak that occurred in March 2003.

According to the regression results, 9/11 had a statistically significant negative impact on the number of US same-day entries to BC. In the absence of the terrorist attacks, there would have been 70,270 more US same-day visitors to the province each month since September 2001. However, the 9/11 variable did not have a statistically significant effect on the number of overnight visitors.

With respect to SARS, the coefficient on this variable was negative for both the same-day and overnight regression models. However, the strength of this relationship was not statistically significant in either case, as US visitation recovered fairly quickly following the outbreak.

A drop in US entries to BC was recorded following 9/11 and SARS



Data Source: Statistics Canada & BC Stats

Conclusion

Our research indicates that an appreciating Canadian dollar, rising fuel costs, higher airfares and 9/11 have contributed to a decline in US entries. How will these factors continue to impact the number of Americans travelling to BC?

Based on the findings of the regression analysis, the US\$/CDN\$ exchange rate has the most significant impact on US entries to BC. Given that the Canadian dollar is expected to remain just under the US\$1.00 mark over the short term, travel to BC will remain less of a bargain for US travellers.

With respect to the cost of air travel, Delta Air Lines is considering a takeover of either Northwest Airlines or United Airlines, and Continental Airlines is also seeking a

merger partner. Reduced competition in the airline industry, coupled with rising fuel costs, will put upward pressure on airfares in the US.

According to the US Department of Energy, motor gasoline prices are expected to reach record-high levels in 2008, which will likely discourage same-day travellers from driving their vehicles into BC.

Although it has been more than six years since the September 11th terrorist attacks, these events had a permanent impact on border security between Canada and the US. The extent to which more stringent security regulations, changes to passport requirements, and increased wait times at the border have affected the number of US entries to BC was not considered in this analysis. However, it is reasonable to assume that these developments will discourage Americans from travelling to the north.

Appendix: Regression Results

Dependent Variable: Same-day US Entries

<i>Regression Statistics</i>	
Multiple R	0.938
R Square	0.881
Adjusted R Square	0.878
Standard Error	15020.040
Observations	215

<i>Variable</i>	<i>Coefficient</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	315606.68	22779.73	13.85	0.00
Exchange Rate	-319849.06	21571.46	-14.83	0.00
Disposable Income	8.03	0.76	10.62	0.00
Gas Prices	-196.33	66.36	-2.96	0.00
9/11	-70270.46	4276.92	-16.43	0.00

Dependent Variable: Overnight US Entries

<i>Regression Statistics</i>	
Multiple R	0.957
R Square	0.917
Adjusted R Square	0.914
Standard Error	11939.448
Observations	215

<i>Variable</i>	<i>Coefficient</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	110007.15	37768.93	2.91	0.00
Exchange Rate	-178862.26	25996.55	-6.88	0.00
Disposable Income	8.76	2.38	3.68	0.00
Airfare	-172.55	101.46	-1.70	0.09
Gas Prices	-123.95	54.91	-2.26	0.03
Hotel Room Rate	1658.28	188.95	8.78	0.00
Trend	-381.92	188.34	-2.03	0.04