



## BC's Tourism Industry: Positioned for Growth

### Highlights

- The tourism industry is a significant economic engine for the province, accounting for \$7.1 billion in GDP in 2012. Tourism represents a bigger slice of overall economic activity in BC than in most other provinces.
- According to a recent Statistics Canada study, tourism supports up to 12% of all jobs in British Columbia.
- Tourism is also one of the principal sources of export earnings for BC, making it an important driver of prosperity.
- Between 2002 and 2009, the tourism industry experienced a steady decrease in international visitor volumes and expenditures, with especially sharp declines in visitors from the US and Japan. Since 2009, tourism activity has strengthened, punctuated by growth in excess of 4% last year. A similar pace of expansion is projected for 2014.
- The US remains BC's leading international tourism market. But the number of Chinese visitors has increased rapidly, and China has become our second largest international tourism market.
- With ongoing economic and income growth in China, an improving US economy, and a weaker Canadian dollar, we expect tourism in BC will enjoy something of a revival over the next few years.

### Some Facts About BC's Tourism Industry

Tourism is sometimes described as the world's largest industry. In the BC context, it ranks as a key economic sector. One reason why tourism is almost universally supported by governments is because it is an "export" industry. For a small economy like BC, diverse and thriving export industries are critical to economic prosperity. Widespread support for the tourism industry around the world also speaks to the fact that governments are interested in promoting local culture, sights, cuisine and other amenities.

In BC, tourism supports and sustains jobs in every region and serves as the economic backbone of many smaller communities. Compared to other provinces, the tourism industry is proportionally larger in BC, a reflection of the province's natural beauty and the diversity of both winter and summer activities offered here. Greater Vancouver's international status as a desirable travel destination contributes to the prominence of the broader BC tourism sector.

Aggregate visitor data indicate that tourism in BC has struggled over the past decade. However, a resilient domestic tourism market<sup>1</sup> and the changing mix of international visitors have tempered the accompanying downturn in tourism-related revenues. Looking ahead, we believe current trends in the industry and in the larger global and North American market environment have shifted so that tourism in BC is now poised for a period of solid growth.

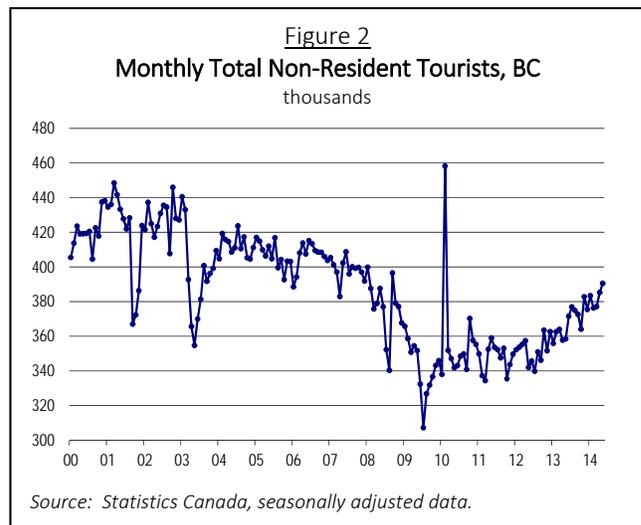
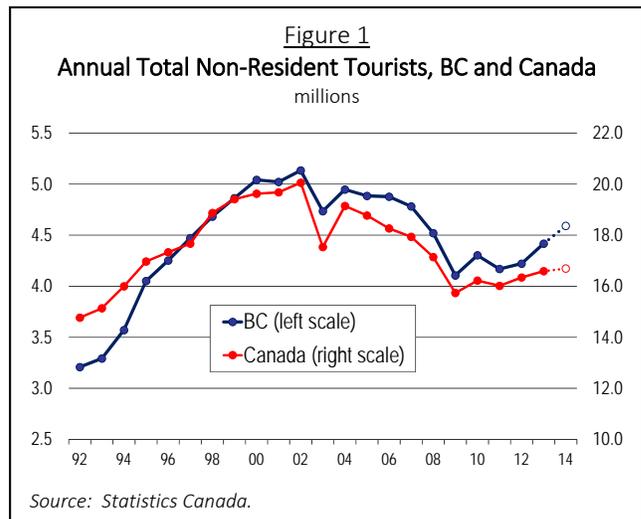
**Visits on the Upswing**

A quick review of the past two decades provides some context. As Figure 1 shows, the 1990s saw robust growth in the industry. The number of non-resident tourists coming to BC surged from 3.2 million in the early 1990s to more than 5 million by the end of the decade. The high quality and diverse product experience offered in BC and the legacy of Expo 86 helped to drive a 60% jump in non-resident visits between 1992 and 2002, which was almost twice the 35% increase recorded nationally.

After 2002, however, the tourism market changed. Between 2002 and 2009, heightened border and airline security in the wake of 9/11, an appreciating Loonie, the SARS and the Avian flu scares, and then the 2008-09 Great Recession all conspired to push the number of tourists coming to BC (and to Canada) steadily lower. The impact of SARS is evident in the steep visitor dip in 2003 (Figure 1). And while visits recovered somewhat during the following year, the overall downward trend continued, with the number of tourists entering BC dropping by 20% from 2002 to 2008.

<sup>1</sup> Domestic tourism refers to spending in BC by Canadian visitors, including BC residents who travel

One of the reasons we are more optimistic about the outlook for tourism in BC is because, since hitting a low point in 2009, the number of foreign visitors has turned up. The 2010 Winter Olympics helped. While visits retreated in 2011, a modest uptrend in foreign tourists has continued. So far this year international visits to BC are up by 7.6% from 2013.



to and spend money in other locations within the province.

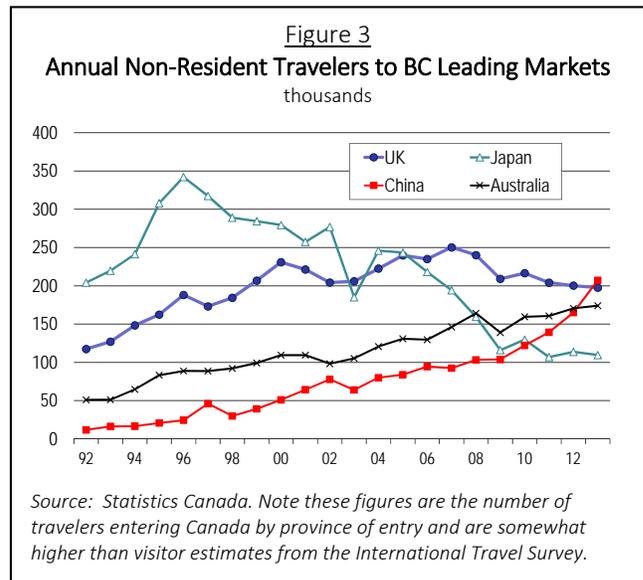
Other recent data also show a rebound in tourism activity. In the past couple of years the monthly number of tourists has risen from a seasonally adjusted level of roughly 350,000 to a recent high of 390,000 (Figure 2).<sup>2</sup> If the trend in the first part of 2014 persists, the number of foreign tourists arriving in BC should rise by 4% this year, on the heels of a 4.6% gain in 2013.

### **An Important Source of Export Earnings**

Although the tourism experience is consumed locally, in economic terms tourism is often considered to be an “export” industry because non-resident visitor expenditures represent an injection of money into the local economy from external sources. In 2012, international visitors generated \$3.2 billion in export revenue for the province; this put the international component of tourism on a par with metallic mining exports, though it was still much smaller than the \$10 billion in export receipts attributable to the forest products industry in the same year.<sup>3</sup>

Tourism expenditures from international sources in 2012 were slightly higher than the year before but still a full 13% below the 2002 level. The turnaround that began in 2010 and extended through 2012 was attributable to several factors: hosting the 2010 Winter Olympics; the implementation in China of Approved Destination Status for Canada, in conjunction with increased air capacity from China; and a gradual recovery in the US and global economies.

<sup>2</sup> The impacts of 9/11, the 2003 SARs crisis, and the 2010 Winter Olympics are apparent in the monthly data.



It is important to note that for BC, the domestic tourism market is larger than the foreign market. Overnight visits from domestic sources (Canada) totaled 17.9 million in 2012 and led to tourism-related expenditures of \$8.3 billion. British Columbia residents accounted for nearly 60% of domestic overnight stays and for 38% of domestic tourism spending in 2012. From BC’s perspective, the remaining 62% of domestic tourism expenditures, amounting to \$5.1 billion, can be considered as export earnings for the province.

### **Impact on GDP**

The tourism industry contributed an estimated \$7.1 billion in “value added” (real GDP) to BC’s economy in 2012, measured in 2007 constant dollars. Tourism GDP was up by 1.5% from 2011 and was 4.4% higher than in 2007. The tourism sector did not quite keep pace with aggregate economic growth

<sup>3</sup> Information on exports, tax revenue and GDP are drawn from Destination BC, “The Value of Tourism, Trends from 2002 to 2012,” February 2014.

of 6.0% over the 2007-2012 period. In value-added or GDP terms, the tourism industry (domestic and international combined) is comparable in size to BC's mining sector.<sup>4</sup>

### Tax Revenue

In 2012, the BC tourism industry produced \$1.2 billion in provincial taxes, including income, hotel, gas and other taxes.<sup>5</sup> Provincial tax revenue from the tourism industry has climbed by almost 75% since 2002, despite the soft international market, partly owing to growth in domestic tourism spending as well as to various tax increases over the past decade.

### BC's International Tourism Markets

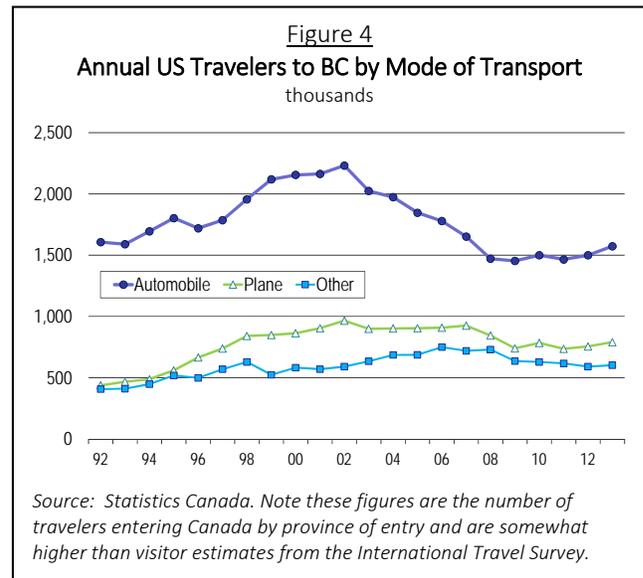
With almost three million American visitors in 2013, the US is by far BC's largest international tourism market. However, between 2002 and 2013 the number of US visitors fell by more than one-fifth. American automobile trips to BC were down by 30% over the period, while visitors arriving by air fell 18%. Americans arriving by other modes (bus, train, boat) edged up 2%. The lower Canadian dollar and an improving American economy have helped to boost US tourist arrivals recently.

Not surprisingly, geographic proximity is a key factor affecting where Americans coming to BC hail from. The top three US source states are Washington (38% of US visitors in 2012), California (14%), and Oregon (6%). Americans crossing the border spend an average of nearly four nights in BC. The average party size is three, and each group

<sup>4</sup> Here, mining excludes oil and gas production.

<sup>5</sup> There are also local taxes collected on tourism-related activities.

typically spends \$309 per night, or about \$1,200 per trip. There has been a drop in US tourist expenditures of about 25% since 2002, in tandem with the fall-off in visitor numbers.<sup>6</sup>



China has become an increasingly important market for BC's tourism industry. Fuelled by robust economic growth, a rapidly expanding middle class population, less restrictive travel policies, and Chinese citizens' evident desire to see the world, outbound travel from China has soared (rising by almost 20% per year since 2000). By the end of this decade, China is projected to be the single largest tourism-generating market in the world. The BC tourism industry has clearly benefitted from China's economic growth its rising consumer incomes, with a 166% increase in the number of Chinese visitors since 2002. China has become the province's second largest international tourism market.

<sup>6</sup> "United States Tourism Market Profile," Destination BC, and Destination BC, "The Value of Tourism, Trends from 2002 to 2012," February 2014. See [www.destinationbc.ca](http://www.destinationbc.ca).

Chinese visitors stay for an average of 23 days once in BC. Leisure travelers visit for an average of eight days, which means business travelers and Chinese travelers who are here for other reasons (such as family) are the segments driving the high average duration. The average party size from China is 1.8 persons,<sup>7</sup> and the average spend per night per party is \$84 (for the whole trip, the figure is \$2,555).<sup>8</sup> Although average daily expenditure is relatively low, the longer duration of Chinese visits boosts spending. China is the fourth largest source of tourism dollars for BC.

The United Kingdom is our third largest international tourism market. In 2012 UK visitors spent an average of 12 nights in the province. The typical party size was two, with each party spending an average of \$199 per night. The number of visitors from the UK has decreased by about 20% since 2007.

The number of travelers from Australia, on the other hand, has risen steadily, and the country has become BC's third largest market. Finally, tourist arrivals from Japan have fallen markedly since the mid-1990s, although the country remains BC's fifth biggest international market for tourism.

### **Tourism Looms Large in the Job Market**

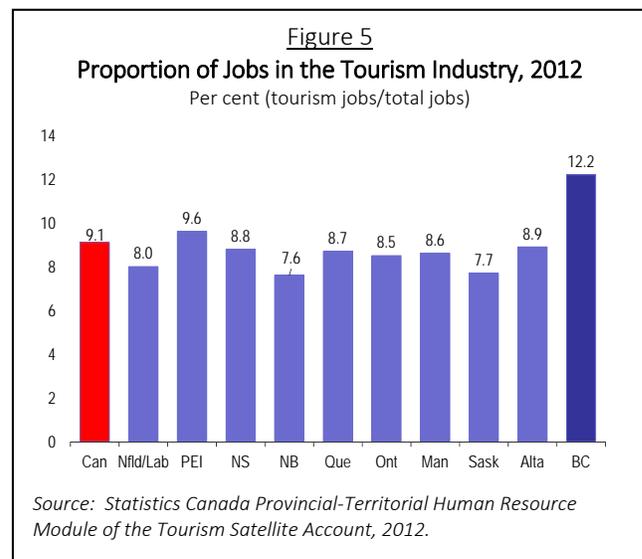
Statistics Canada recently published a study estimating the number of people employed in the tourism industry in the provinces.<sup>9</sup> This analysis uses globally recognized definitions

<sup>7</sup> 45% of visiting parties consist of one person.

<sup>8</sup> "China Tourism Market Profile," Destination BC, see [www.destinationbc.ca](http://www.destinationbc.ca).

<sup>9</sup> Terrence Martin, "Provincial-Territorial Human Resource Module of the Tourism Satellite Account, 2012," Statistics Canada, June 2014.

of tourism which include business and domestic travel together. This approach results in a generous definition of the industry, and it suggests that 270,000 people in BC owe their livelihoods to tourism-related economic activity. Although this figure is significantly larger than those reported in other sources<sup>10</sup>, the study uses a consistent method of estimating tourism employment across jurisdictions that allows for comparisons among the provinces.



Statistics Canada's analysis shows that tourism has a bigger employment and economic footprint in BC than in other provinces. According to its methodology, 12.2% of all jobs in BC are in the broad tourism sector, a larger share than in any other province. PEI is next, followed by Alberta (see Figure 5). BC accounts for a disproportionate share of tourism-related employment in Canada. Statistics Canada

<sup>10</sup> BC Stats estimates there are 130,000 jobs derived from tourism in BC. This is based on a narrower definition of the industry than the one used by Statistics Canada in the above-referenced study.

estimates that tourism supports 1.6 million jobs nationally. BC accounts for 18% of these, compared to our 13% share of overall Canadian employment. A majority of jobs in tourism (about half) are in the food and beverage sector, followed by transportation and then the accommodation industry.

Contrary to common perceptions, the tourism industry does not consist of only relatively low-wage jobs. Statistics Canada finds that the average hourly wage in the overall tourism sector was \$18.95 in 2012.<sup>11</sup> The food and beverage industry reports an average hourly wage of \$14.22. Tourism-related jobs in transportation have an average hourly wage of \$29.26; in the travel service sector, the comparable wage is \$24.19 per hour.

### **A Brighter Future**

We believe the difficulties that BC's tourism industry has experienced over the past decade are abating and that a period of stronger growth lies ahead. There are several factors behind this upbeat assessment.

First, recent data show a pick-up in tourism activity, including in US visitors. Although Canada has also seen international visits rise since 2010, BC has enjoyed faster growth, with the 2010 Winter Olympics likely one reason for this. No other venue or advertising campaign could have provided comparable world-wide coverage and exposure for the province.

A second factor is the exchange rate. The Canadian dollar has lost value in relation to the US greenback over the past 12-18 months, and most forecasters believe it will

continue to trade at a discount to the US dollar. Because the US is the most important international market for the BC tourism industry, the weaker Canadian currency should drive US visitor numbers higher. China's currency is also expected to strengthen relative to the Canadian dollar over the coming years, which will also be positive for tourism.

Third, tourism in BC benefits from top quality infrastructure. Vancouver International Airport (YVR) is routinely ranked as one of the best in the world. A superb airport connected to the downtown core via rapid-transit improves the tourism experience and enhances Vancouver's appeal. Vancouver also hosts excellent cruise ship facilities which are instrumental in bringing tens of thousands of visitors to the province every year. The expansion of the Vancouver Trade and Convention Centre is also a plus for the local tourism industry. This world-class facility allows Vancouver to attract major international conventions. The BC ferry system has long provided a pleasant and unique experience for many foreign tourists.

China's growing economy and burgeoning middle class population are also big pluses for tourism in BC. Canada's success in securing Approved Destination Status in China should help the province leverage Chinese citizens' growing desire for foreign travel, as will increased air service between YVR and Chinese destinations. There is also an opportunity for BC to take advantage of the fact that Chinese coming to Canada often combine their trip with a visit to the United States.

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<sup>11</sup> Terrence Martin, "Provincial-Territorial Human Resource Module of the Tourism Satellite Account, 2012," Statistics Canada, June 2014.

Finally, BC boasts a remarkably diverse array of tourism products that few other jurisdictions can match. In addition to traditional sightseeing/touring/shopping vacations in urban areas like Vancouver and Victoria, other principal growth segments in the industry include: skiing/snowboarding and a diverse mix of winter destination resorts, boating and fishing, hunting, golfing, Aboriginal/cultural tourism, agri-tourism (wine and culinary), cabins and other retreats and resorts, and cruises which call on or depart from a number of BC ports.

By any measure, tourism is one of British Columbia's most important economic engines. Although the industry struggled over the 2002 to 2009 period, an upswing is now underway. The federal and provincial governments should be looking to support and invest in the tourism sector's growth opportunities. Federally, a liberalization of air policy that leads to more and better connections with Asia-Pacific markets would

be particularly welcome. With its healthier fiscal position, Ottawa should reverse the dramatic cuts previously made to the budget of the Canadian Tourism Commission. Both levels of government should step up tourism marketing efforts in other countries, including the United States. It would make sense for municipally-oriented tourism promotion bodies in the lower mainland to collaborate and pool resources to operate on a true regional scale. Policymakers also need to pay close attention to regional labour demand patterns in the tourism industry – an industry that is both large in size and diverse in its specific labour requirements.

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