



2008 First Quarter Report
Prepared by Tourism PEI
March 2008

Looking Back

Weakness in the United States

While recessions are not usually confirmed until after they are over, many experts agree the U.S. is heading in that direction. This is confirmed in part by the RBC/Consumer Attitudes and Spending by Household (CASH) Index that hit an all time low of 33.1 in March 2008. In March of 2007 the index was as high as 92.3¹.

Low consumer confidence and a strong loonie have reduced U.S. visitation across Canada. According to Statistics Canada, travel to Canada from the U.S. hit a record low in January, bringing down overall travel to its lowest level on record. The strength of the loonie has increased the cost of travel to Canada from the U.S. by 17% since this time last year.

This decline occurred even though overnight travel to Canada from overseas countries reached a record high of 391,000 visitors in January². By comparison, the cost of travel to Canada from the UK, France and Germany has increased by 18.7%, 5.3% and 6.1% respectively. According to Stats Can, for U.S. travelers, Atlantic Canada is the most price-competitive of all regions within Canada.

Fuel prices on both sides of the border continue to rise as oil prices hit record highs during the first quarter. Average fuel prices in Canada started the year around 106.0 c/L, they are currently around 123.0 c/L. In the U.S. the story is the same. The average price of a gallon of gasoline in the US in January was \$3.10US. It is now closer to \$3.50US.

Domestic Strength

The good news over the past quarter is that the Canadian economy continues to perform well in the face of economic weakness of our largest trading partner. In their provincial outlook reports, RBC and Bank of Montreal economists are predicting relatively good economic growth in the Western and Atlantic Provinces while Ontario and Quebec will feel more of the effect of an economic slowdown in the US.

It is difficult to draw any conclusions based on three months of data but occupancy and room nights sold on Prince Edward Island have been, up 1% and 3.0% respectively. Room-nights-sold (RNS) to U.S. visitors is already showing signs of weakness while RNS to visitors from Alberta, Manitoba and Ontario are showing relative strength.

Since 2001 there has been a disconnect between a rising exchange rate and cross border shopping³. Historically, as the loonie appreciated against the greenback, same day auto trips increased in lock step. Between 1986 and 1991, when the Canadian dollar rose 21%, Canadians flooded south of the border, with the number of same-day auto trips more than doubling. Despite the record appreciation of the Canadian dollar, the propensity of Canadians to make cross border trips has barely risen between 2002 and 2007. Cross-border shopping is one-third of its peak in the 1990s. This is good news for both Canadian retailers and tourism operators.

¹ The RBC CASH Index is a monthly national U.S. survey of consumer attitudes on the current and future state of local economies, personal finance situations, savings and confidence to make large investments

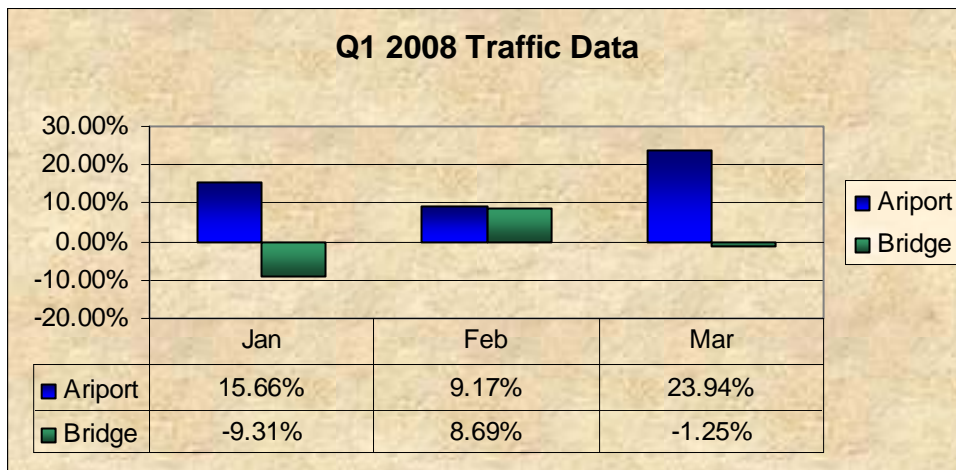
² Statistics Canada, Travel between Canada and other countries, Jan. 2008

³ Statistics Canada, Canadian Economic Observer, Dec. 2007

Transportation

- Air traffic at the Charlottetown Airport is continuing the pattern of growth seen in 2007. Air traffic finished up 16% for Q1 2008. The Charlottetown Airport posted some of the strongest growth of all airports in Atlantic Canada. It also finished in the top ten in Canada for year-over-year growth for 2007⁴.
- Traffic leaving Prince Edward Island across the Confederation Bridge in 2007 was down 1% in Q1
- Figure 1 shows comparative traffic data for 2007.

Figure 1: Comparative Traffic Data



Inquiries

- Inquiries to the call centre were up 8% in Q1. January and February had solid growth up 11% and 12% respectively.
- The number of packages of tourism information mailed out for Q1 was down 3%. January posted a 12% increase lead by a strong increase in requests from the Maritime provinces and New England. February was a relatively slow month down 13%.

Historic Site Visitation

- Historic Site Visits were down 6% during the first quarter. It was a slow quarter for all Historic sites across Prince Edward Island. Eptek experienced very good growth in February (+77%) while the Acadian Museum (+26%) posted solid growth in March.

⁴ Canadian Airport Council, Annual Report, Dec. 2007

Occupancy by Region

- Province-wide total room-nights sold in Q1 were up 3% versus last year. After a strong start to the year, March was down 9.9% against March 2007. Occupancy rates Province wide were up almost 1% versus the first three months last year.
- Figure 2 shows comparative occupancy rates for the PEI Touring Regions and province-wide.
- Figure 3 shows comparative numbers of room-nights sold for the touring regions and province-wide.

Figure 2: Occupancy Rates, First Quarter 2008 vs Q1 2007

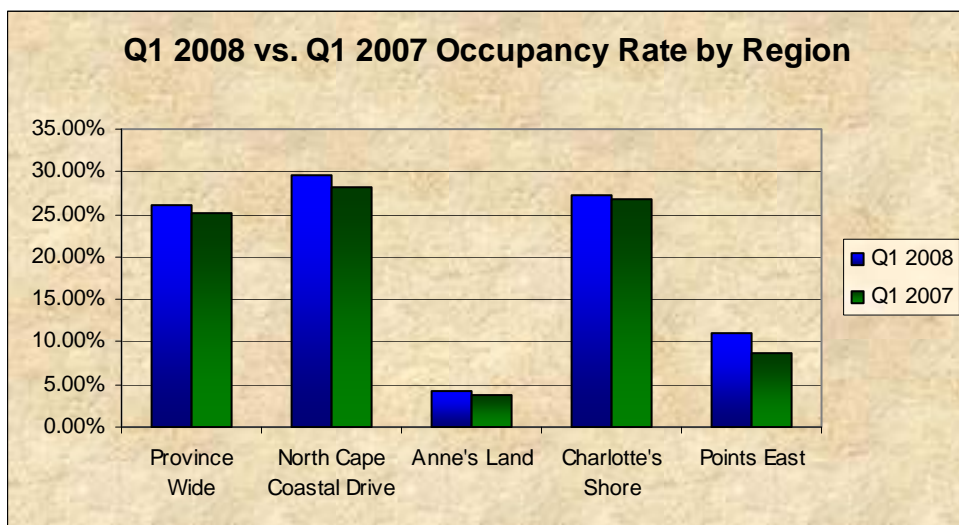
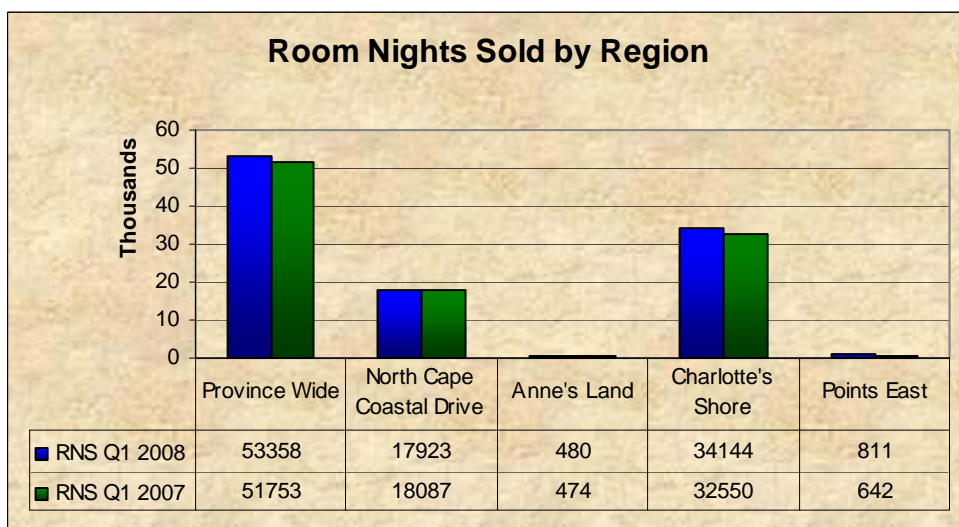


Figure 3: Room-nights Sold, First Quarter 2008 vs. Q1 2007



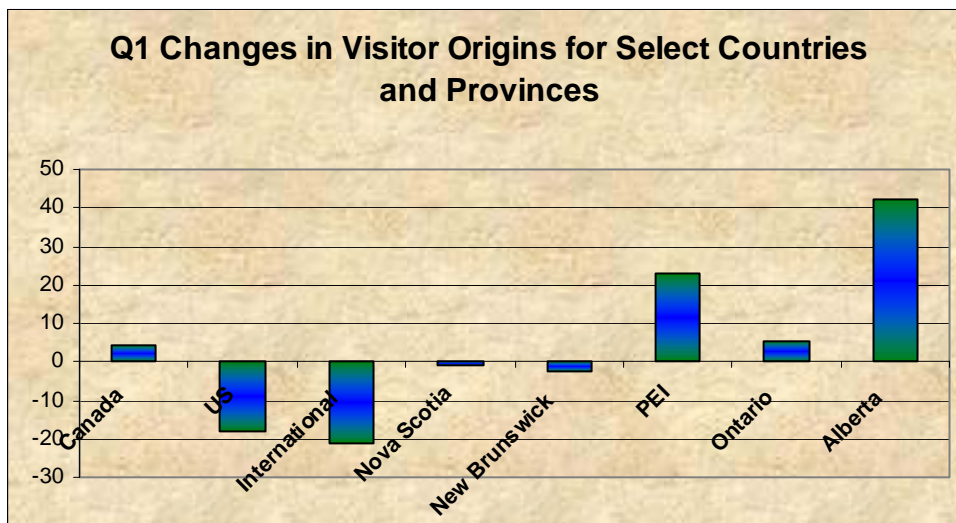
Occupancy by Type of Accommodation

- The occupancy rate for Hotels/Motels/Resorts showed modest growth during Q1, up 2.8% versus the same period last year.
- Inns were up 5.2% versus last year.
- Cabins/Cottages, finished with a 63% increase during Q1 while Tourist Home/B&Bs were down almost 16% against Q1 2007.

Room Nights Sold (RNS) by Origin

- Beginning in January 2007, accommodation operators began reporting origin data on all 13 provinces and territories, all 50 states and select countries.
- During the first quarter of 2008, of the people who visited PEI who stayed in fixed-roof accommodations, 95.5% of RNS were Canadians, 3% were Americans, and 1.5% were from other countries.
- RNS to Canadians in 2008 was up 4.5%. RNS to people from New Brunswick and Nova Scotia was down 2.5% and 0.7 respectively during Q1. RNS to Ontario was up by 5.3% while Alberta had one of the largest increases, up 42% during the first quarter. RNS to Islanders was up an impressive 23.3%.
- U.S. RNS declined 18.3% during Q1. All major U.S. markets showed a decrease in RNS during the first quarter.
- International RNS was down 21.1%.
- Figure 5 shows the changes in origins compared to the same period in 2007.

Figure 4: Change in Origin Data (in percentage points)



Conclusion

Occupancy rates and room-nights-sold on PEI started the year posting very solid year-over-year increases. With the exception of Points East, March showed considerable softness across the province. This could be a function of the strong Canadian dollar and a very harsh winter in Atlantic Canada driving Maritimers to warmer destinations. The Charlottetown Airport Authority data supports this as enplanements (people leaving) were up 24% for the month of March.

The Canadian Tourism Research Institute (CTRI) predicts a decrease in U.S. visitation to PEI for 2008. Low consumer confidence, high gasoline prices and a strong Canadian dollar may keep some U.S. travelers closer to home. U.S. travel intentions waned in February and remained softer than they were a year ago, according to the latest Consumer Confidence Survey report by the Conference Board, Inc. in the United States. 42.2% of U.S. consumers polled said they planned to take a vacation within the next 6 months, down from 44.5% in December 2007. Interestingly, direct seats available for air travel from the U.S. to Canada is expected to increase 4.1% during the second quarter, year-over-year⁵.

Nearly half of American travelers surveyed by AIG Travel Guard said they would "alter the quality of their leisure trips". Of this group 17.2% said they will stay closer to home. Three-quarters of respondents cited the weaker U.S. dollar as their greatest concern about travelling this year. Fortunately, Atlantic Canada remains the most price-competitive regions in Canada for U.S. travelers⁶.

Industry analysts are predicting increasing fuel prices across Canada and the United States⁷. By the summer a litre of gasoline could be as high as \$1.50 leading travelers to reconsider long road trips. When the price of filling the gas tank increased to \$64 from \$47 in 2004, it contributed to a 2% drop in domestic travel by car. Randy Williams, president of the Tourism Industry Association of Canada says if gas prices soar to \$1.50/l, domestic travel could decline by as much as 4%.

The Canadian economy continues to do well, particularly in Atlantic Canada. Perception isn't always reality. Statistics show cross-border shopping and overnight stays by Canadians to the U.S. have not increased significantly since the loonie began to appreciate against the U.S. dollar in 2002. Cross-border shopping is currently one-third of its peak in the 1990s.

The CTRI forecasts that travel to PEI will be buoyed by solid growth in domestic, business and pleasure travel visits. CTRI predicts a 2.9% increase in visitation to PEI for 2008⁸. Stable growth in personal incomes in Canada particularly in Atlantic Canada and Ontario should stimulate domestic demand. This year marks the 100th anniversary of Anne of Green Gables, which could further stimulate demand among pleasure travelers.



The Gentle Island

⁵ CTC/Conference Board of Canada. Tourism Intelligence Bulletin, Issue 44, March 2008

⁶ CTC/Conference Board of Canada, U.S. and Overseas Travel to Canada, Second Quarter 2008

⁷ The Globe and Mail, *Will soaring prices keep travelers close to home?* 3/25/2008

⁸ The Conference Board of Canada, Provincial Outlook Winter 2008, Economic Forecast

