Business Alert

Business Council of British Columbia

June 23, 2015

Lower Canadian Dollar Dampens Cross-Border Shopping

Highlights

- The fall in the value of the Canadian dollar, unsurprisingly, has led to a decline in the number of British Columbians making short-duration visits to the United States.
- The number of same-day border crossings by British Columbians started to fall in 2013. Same-day trips are down 148,000 compared to the peak registered in early 2013; this represents a 28% drop.
- Trips to the US lasting two or more days have also been affected by the slumping Canadian dollar and are down 23% from their most recent highs.
- Fewer visits to the US means that BC consumers are spending a smaller fraction of their household budgets south of the border. This is one factor behind the pick-up in retail sales in the province.
- The steady decline in cross-border trips since early 2013 also coincides with a rise in the volume of gasoline purchased in BC. This is noteworthy because when border crossings were rising, gasoline sales in BC were trending down; now, they have clearly turned higher.

In early 2013 the Canadian dollar was trading approximately at parity with the American greenback. Then the Loonie started a gradual descent to its recent level of 81 cents US. A 20% depreciation of the Canadian dollar vis-à-vis the US currency has significantly changed the relative prices of traded goods and services. Many exports from BC shipped into the US are suddenly more competitively priced. The opposite is true for imports coming into the province from the US.

Cross-border shopping effectively amounts to individual consumers doing their own "importing." With the devalued Canadian dollar adding an additional cost of 20% (and more after paying fees to convert currency), a large portion of the savings on items purchased stateside that existed when the Canadian dollar was at parity has now been eliminated. So the number of British Columbians venturing into the US, unsurprisingly, has diminished.

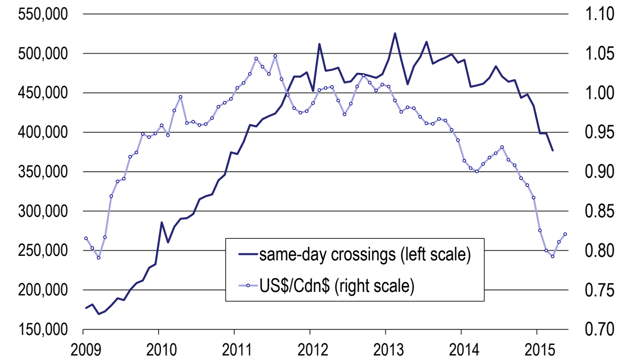
The response to the slumping Loonie is most pronounced in the case of same-day trips to the US, which typically are motivated by purchases of gasoline, food, clothes and other consumer products (and some services[1]). After peaking in early 2013, monthly same-day cross-border trips by BC residents have declined steadily. The

[1] Such as haircuts, restaurant meals and entertainment.

downturn coincides with the initial drop in the Canadian dollar. Between February 2013 and March 2014, a period when the Loonie was still above US$0.90, same-day trips fell by 66,000. As the dollar continued to slide same-day trips fell further – by March 2015 they were down 28% from their 2013 high. This translates into 148,000 fewer short-duration trips each month. The correlation between the drop in the Canadian dollar and the fall-off in same-day trips to the US is depicted in Figure 1. Figure 2 more clearly shows the sharp decrease in monthly same-day crossings since early 2013.

Figure 1

BC Same-day Border Crossings and Canada-US Exchange Rate

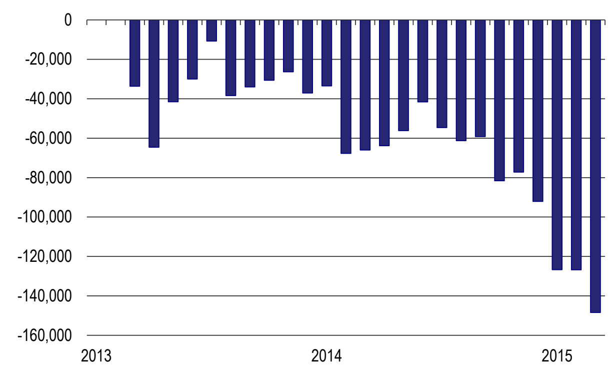


Source: Statistics Canada, BCBC for seasonal adjustment of border crossings. Note: data are vehicles returning to Canada.

Although short duration trips to the US have decreased significantly, in March 2015 roughly 375,000 vehicles still ventured into the US and returned to BC the same day. While there are different motivations for these trips, we believe a still-sizable gasoline price differential between the lower mainland and Washington state and persistent savings on some other consumer items continue to prompt tens of thousands of British Columbians to make regular same-day trips across the Canada-US border.

Figure 2

Change in Number of BC Same-day Border Crossings from February 2013



Source: Statistics Canada, BCBC for seasonal adjustment of border crossings. Note: data are vehicles returning to Canada

Smaller Drop in Overnight Trips

Interestingly, the sagging Loonie has not had much of an impact on overnight travel to the United States (these are trips involving a one-night stay). Again starting from when the Canadian dollar started its descent (February 2013), the number of BC vehicles making overnight trips is down by just 4%.

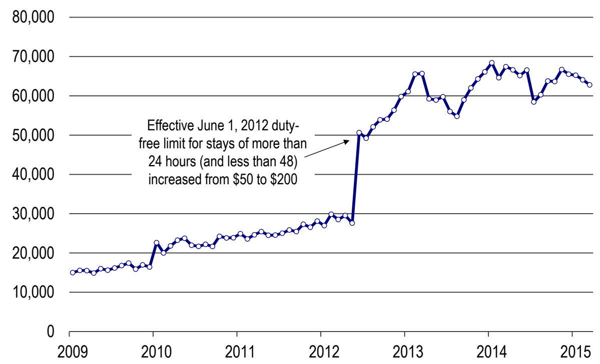
As is evident in Figure 3, the increase in duty-free limits from $50 to $200 for Canadians visiting the United States for 24-48 hours, which came into effect in June 2012, led to a surge in overnight trips to the US. The magnitude of the response indicates that the higher duty-free limits have helped to sustain the appetite of BC consumers for brief southbound journeys, even though the exchange rate is now less favourable for purchasing goods and services in the US.

Tracking Longer-Term Trips to the US

The currency's impact on longer-term visits to the US has been larger than for overnight (one night) stays. The number of vehicles

Figure 3

BC Vehicles Returning after One Night in the US



Source: Statistics Canada, BCBC for seasonal adjustment.

Figure 4

BC Vehicles Returning after Two or More Nights in the US

Source: Statistics Canada, BCBC for seasonal adjustment.

returning to BC after spending two or more nights in the US has dropped 23% since February 2013, a decline that is closely aligned with the fall-off in same-day trips. In absolute terms, longer duration trips have dropped from a recent peak of more than 86,000 per month to about 66,000.[2]

Impact on BC Retail Spending

In our May 2013 Policy Perspectives publication, we estimated that the steep rise in short-term trips to the US between 2009 and 2012 resulted in **an increase in cross-border spending by BC residents on the order of $1.2 billion on an annualized basis.** We also argued that these "leakages" were a factor in the comparatively weak growth in BC retail spending[3] which was apparent in the data at the time. We went on to estimate that the increase in cross-border shopping over that period had trimmed perhaps a full percentage point off of the annual growth of retail sales in BC. Because of the concentration of population and border crossings in the southern part of the lower mainland region, we speculated that the impact on retail sales was considerably greater in Metro Vancouver and the Fraser Valley.

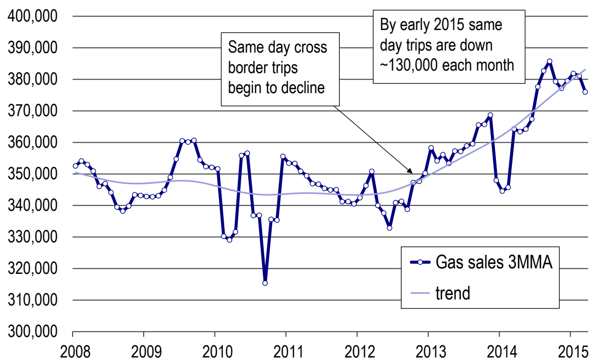
By 2014, retail spending in BC had picked up significantly, and it gained additional momentum in the first few months of 2015. In 2012 retail sales in the province inched ahead at a distinctly sub-par 2%. In 2013, when the number of cross-border trips had started to fall off, retail sales advanced by 2.5%. By 2014, as same-day trips fell further, retail spending in BC grew at a healthy 5.6% pace. The three percentage point jump in the growth of retail spending is attributable to many factors. However, a monthly decline of 100,000-plus in the number of same-day border crossings (coupled with at least 10,000 fewer longer-term trips each month), relative to the situation a couple years ago, undoubtedly has helped to lift both

[2] Note that for trips longer than 48 hours the duty-free limits were hiked to $800, versus the prior two-tier rate of $400 for stays up to a week and $750 for trips in excess of a week.

[3] Retail spending includes gasoline purchases.

customer traffic and reported sales in domestic stores and other retail outlets.

Figure 5
BC Retail Gas Sales, seasonally adjusted cubic metres



Source: Statistics Canada, BCBC for seasonal adjustment and trend.

Gasoline Sales

A closer look at the gasoline market is instructive, as motor vehicle fuel is one of the items that BC consumers tend to purchase when travelling to the United States. As seen in Figure 5 above, gasoline sales in BC trended slightly lower in volume terms between 2008 and mid-2012, a period when the number of cross-border trips was skyrocketing. But since 2013, as the number of vehicle trips by British Columbians to the US started to decrease, the volume of gasoline sold in the province reversed course and began to climb again. The volume of gasoline retailed in BC has increased by about 10% from where it stood a couple of years ago. This tells us that while many lower mainland residents are still patronizing service stations in Washington State because of much lower gasoline prices there, the weaker Canadian dollar has led some BC residents to eschew the option of cross-border fill-ups.

Conclusion

The depreciation of the Canadian dollar against the US currency has clearly dampened the number of cross- border trips by British Columbians. This is especially true for same-day visits. Given that shopping and gasoline purchases are the primary motivation for most short-duration trips to the US, it is reasonable to conclude that recent exchange rate adjustments have reduced cross-border shopping by British Columbians. If the Canadian dollar continues to trade in the 80 cents US range (as we expect), BC retail outlets located in relatively close proximity to the border are likely to experience a pick-up in activity as a result of smaller "leakages" of consumer spending.

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