



Surge in Cross Border Shopping Weighs on Retail Sales in BC

Article Highlights

We estimate that British Columbians spent between \$1.0 and \$1.6 billion on short-term cross-border shopping excursions to the US last year. This refers to purchases of goods only and excludes services consumed while in the US.

If longer-term trips are included (more than 48 hours), the figure rises to \$2.6 billion.

The stronger dollar, cheaper gas, strained household budgets and a recent increase in duty free exemption amounts have all contributed to a significant increase in border crossings. Over the past few years, same-day trips to the US from the lower mainland region have risen from 2.3 million trips annually to nearly 5.7 million last year.

Due to proximity to the US border, British Columbians are more inclined to shop in the US than residents of most other provinces. In per capita terms, last year BC residents made twice as many same-day trips to the US as Ontarians and 60 times as many as Albertans.

The steep increase in cross-border shopping is having a material impact on retail spending in the province. We estimate that if cross-border shopping had not grown sharply (and had remained at 2009 levels), BC retail sales would have expanded by 3% in 2012 rather than 1.9%.

The additional consumer purchasing power stemming from the stronger Canadian dollar, recent increases in the duty-free exemptions, and the large gap between gas prices in Metro Vancouver and Washington state have all contributed to a recent jump in cross-border shopping. For those who go to the US routinely, the increase in trips is plain to see. There are frequently long line ups at border crossings, gas stations in adjacent US communities are busy, and parking lots at shopping centres are filled with BC license plates. The number of Canadian shoppers has risen to the point where there have even been calls in Bellingham for merchants to designate shopping times just for Americans, in order

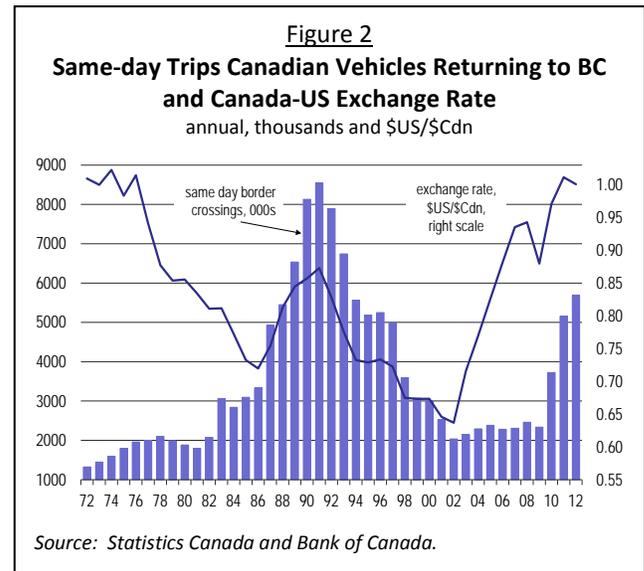
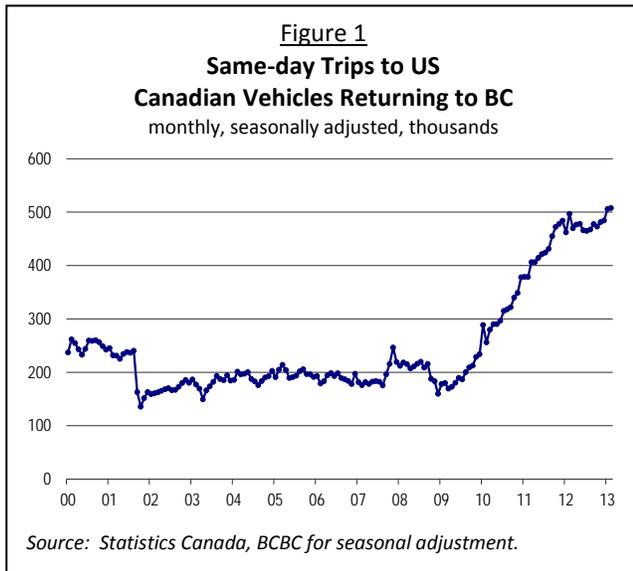
to address the congestion caused by hordes of bargain-hunting British Columbians.¹

Using data on the number of border crossings, we estimate that British Columbians spent between \$1.0 and \$1.6 billion on consumer goods during short-term visits to the US last year. If spending from longer vacation-type trips is included, the estimate climbs to \$2.0 to \$2.6 billion.²

¹ The Globe and Mail.

<http://www.theglobeandmail.com/life/the-hot-button/fed-up-with-canadian-shoppers-us-customers-want-their-own-shopping-hours/article4478423/>

² We are focusing on consumer goods that are included in the retail spending data in BC. These are consumer goods, including gas, which can be transported across the border. The data cited here do not include services and restaurant meals consumed in the US by BC residents.



The figure would rise further if we had reliable data on purchases of services by BC residents while visiting Washington State. We conclude that the increase in cross-border shopping is playing a role in the weakness of domestic retail sales in BC.

Border Crossings on the Rise

The number of British Columbians crossing the border by car has increased sharply. Same-day trips soared by 143% between 2009 and 2012.³ In 2012 there were 5.7 million same-day vehicle crossings between BC and the US; in 2009 just 2.3 million such crossings were recorded.

The Canada-US exchange rate clearly affects cross-border activity. The relatively strong Canadian dollar has prompted more short-term crossings, with the response being particularly evident as the dollar approached parity.

³ Francine Roy, “Cross-border Shopping and the Loonie: Not What it Used to Be,” Canadian Economic Observer, Statistics Canada (December 2007).

A widening differential in gas prices between Metro Vancouver and Washington is also influencing the propensity of British Columbians to cross the border. Annual increases in the BC carbon tax and in Translink-related fuel levies have compounded earlier price discrepancies, creating powerful incentives for many British Columbians to fill their tanks south of the border.⁴ In late April 2013 gas prices in Blaine were the equivalent of around Cdn\$1.02 per liter, compared to \$1.38-\$1.40 in Surrey and Langley.⁵ Purchasing 70 liters of fuel would save a cost-conscious BC motorist about \$25. While we have little data on detailed spending patterns, it is generally recognized that Canadians visiting American border communities often purchase groceries (especially dairy products, which are much less expensive

⁴ Per litre, the carbon tax is 6.67cents and the Translink tax is 17 cents.

⁵ Prices taken from www.washingtongasprices.com and www.vancouvergasprices.com. One US gallon = 3.785 liters and exchange rate Cdn\$0.98/US\$1.00.

than in BC), clothing, electronic products, and many other household items. Plenty of BC residents who travel to the US mainly to buy gas, spend money on other goods/services while there. Lower prices in American retail stores for a range of consumer products are a key reason why so many Canadians visit the US to shop.

there were fewer big box stores in Canada, and large US retailers such as Walmart also had a smaller presence here. Internet shopping was also not yet available.

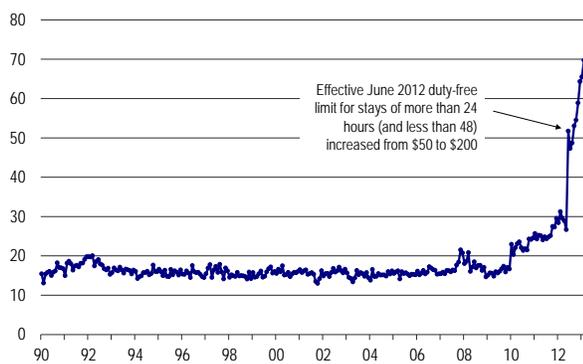
Another change that has had an impact on border crossings is the increase in duty-free limits that came into effect on June 1, 2012. Canadians are now permitted to bring back \$200 worth of merchandise after being in the US for 24 hours, a substantial boost from the previous \$50 limit. After 48 hours the limits have been 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.

As is evident in Figure 3, immediately after this policy change came into effect the number British Columbians taking overnight trips by automobile to the US jumped. Over the nine-month period since the duty-free policy was altered, the number of overnight trips more than doubled from the same period prior to the change.

Some media reports convey a sense that the cross-border shopping phenomenon has reached new heights. In this context, it is instructive to note that the number of same-day trips remains well below the peak levels recorded in the early 1990s (Figure 2), when the number of crossings hovered around 8 million annually for three consecutive years. During this period the Canadian dollar was relatively strong, albeit not as high as today. Two decades ago, in addition to lower prices, cross-border shopping was likely motivated by the greater selection of consumer goods available in US stores and significant price differentials vis-a-vis Canada. Back then

Finally, there are longer-term car trips identified in the data as stays in the US lasting over 48 hours. In this category, the enhanced duty-free allotments have not had the same impact. Rather, extended car trips to the US are more strongly correlated with fluctuations in the exchange rate. The appreciation of the Loonie over the past few years has resulted in a steady increase in cross-border driving trips of two or more days. As with same-day trips, however, despite the dollar being near parity and the BC/Canadian population having grown, the absolute number of longer-term vehicle crossings was actually higher in the early 1990s.

Figure 3
One Night Trips to US
Canadian Vehicles Returning to BC
monthly, seasonally adjusted, thousands



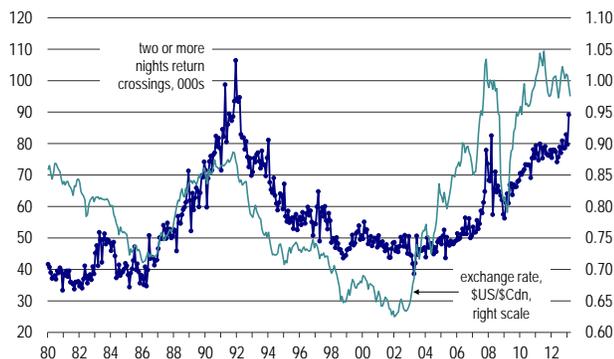
Source: Statistics Canada and BCBC for seasonal adjustment.

The Economic Impact of Cross-Border Shopping

Notwithstanding the fact that cross-border trips are still below earlier highs, there are good reasons to believe that British Columbians are spending more of their household consumption budgets outside of the province than they did a few years ago. Leaving aside trips in excess of two nights for now, we estimate that in 2012 same-day crossings and overnight US trips of two days or less together amounted to spending by BC residents of \$1.0 billion to \$1.6 billion.

Figure 4

Two or More Nights to US, Canadian Vehicles Returning to BC and Canada-US Exchange Rate
monthly, seasonally adjusted, thousands and \$US per \$Cdn



Source: Statistics Canada, Bank of Canada and BCBC for seasonal adjustment.

This estimate is based on the assumption that almost all (95%) same-day and overnight vehicle crossings involve the purchase of gas, and that the average gasoline purchase was \$70 (Cdn) last year. With respect to shopping, we begin with a very conservative guess that each same-day vehicle returns with an average of \$80 worth of goods. Much of this will be groceries, but day-trippers and other short-stay visitors to the US also buy clothes,

shoes, toiletries and cosmetics, and other household and consumer products. For the overnight stays, each vehicle has an average of two people, and we assume they each return with their \$200 duty-free allotment.⁶ Adding up these expenditures produces an estimate of \$1.08 billion in cross-border spending by BC residents on goods during short-term trips to the United States.

We judge this estimate to be conservative, because our assumption of \$80 per vehicle for same-day crossings is likely too low. Many of these vehicles will have two or more people, and each person could easily come back with \$50, \$80 or more in US goods. Our implicit assumption is that the vast majority of same-day shoppers cross the border to buy gas, some groceries and other small items, and usually they will not be required to pay duty on their relatively small declarations. In many cases however, Canadian shoppers make larger purchases and pay the applicable duty and taxes. (Needless to say, some people spend larger amounts and/or bring back alcohol or tobacco products but don't declare their goods or pay duty.) It is worth noting that automobiles are also now being purchased south of the border in growing numbers and imported into the province.

Allowing for these kinds of shopping excursions, it's quite possible that the

⁶ Note that the \$200 duty free limit was in place only since June 2012. We assume that prior to this people on overnight trips spent less in the US. As a result, the average expenditure for all of 2012 is estimated at \$140 per person. Data on the number of people travelling by car on overnight trips confirm that, on average, each vehicle does have two persons when crossing the border.

average purchase for same-day vehicle crossings is \$150, or even more. For similar reasons, \$300 rather than \$200 may be a better estimate of per person spending on overnight trips to the US. If these latter figures are better estimates, then total spending by BC residents on goods purchased on **short-stay trips** to the US is in the vicinity of \$1.6 billion. This amount could have been closer to \$2 billion in 2012 if average total expenditures per trip are higher – for example, due to the purchase of services (e.g., restaurant meals, haircuts, entertainment) while in the US.⁷

So far our estimates do not include spending on cross-border trips in excess of two days. We distinguish this spending from that associated with overnight and same-day trips, because shopping and gas purchases are frequently the main motivations behind brief forays into the US, whereas longer stays are likely to be primarily for vacations or to visit family and friends. While shopping still takes place on longer vacation-type visits, consumer expenditures on these trips may be viewed as less of a “leakage” than spending on shorter-term excursions. With duty-free allowances now set at \$800 per person, we use a conservative estimate of \$500 of goods per person on average for trips to the US in excess of two days, allow for two

⁷ The focus here is on goods that move across the border. Cross-border travellers also purchase services such as auto repairs, spend money on entertainment (such as football games, concerts and gambling), and dine out while in the US. If services are included, then the total dollar outlays by BC residents crossing the border would be appreciably higher.

persons per vehicle, and assume that each car returns to BC with a full tank of gas.

This adds another \$1 billion or so to the previous estimate of cross-border spending by British Columbians.

So in aggregate, we estimate that cross-border shopping on **goods** by BC residents was between \$2.0 and \$2.6 billion last year. Importantly, this figure does not capture spending on services, restaurant meals or entertainment, which could easily add another \$1 billion or more.

Retail Sales in BC

Growth in retail sales in BC has been sluggish, advancing by just 1.9% in 2012. In per capita terms, spending rose by a very slim 0.9%. Allowing for inflation, retail outlays actually declined slightly on a per capita basis last year.

While soft employment growth, a slow-down in the housing market, and high levels of household debt are all tempering consumer spending, the rise in cross-border shopping is also dampening domestic retail activity. Retail sales in BC reached \$61.6 billion in 2012. If retail “leakages” are at the higher end of our estimates as reported above, cross-border shopping could represent more than 4% of total retail expenditures in BC last year.⁸

⁸ This includes spending on longer-term trips to the US as well.



Table 1: Cross-border Price Comparisons of Some Common Household Purchases

Product	Canadian Price Cdn \$	US Price In Cdn \$*	Price Difference \$	Price Difference %
Milk 2% - 2 liters	3.42	2.00	1.42	41.6
Organic milk 2% - 2 liters	5.20	3.98	1.21	23.3
Butter, 454 g	3.99	3.32	0.67	16.9
Cheddar cheese, medium \$/454 g	7.77	3.21	4.56	58.6
Eggs, one dozen large	2.94	1.83	1.11	37.9
Corn Flakes, Kellogg's 470 g	4.34	3.18	1.16	26.7
Cheerios, 470 g	6.38	4.44	1.94	30.4
Crackers, Wheat Thins (original) 250 g	3.13	2.74	0.39	12.5
Potato Chips, Lays Original 270 g	3.45	2.91	0.54	15.7
Miracle Whip, 890 ml	4.58	3.56	1.02	22.2
Ketchup - Heinz 1 L	4.33	1.98	2.35	54.3
Cake Mix - Betty Crocker White	2.30	1.99	0.31	13.3
Coke, 2 L	2.28	1.53	0.75	32.9
Energizer AA batteries - 6 pack	6.97	4.89	2.08	29.8
Advil (200mg) 50 tabs	8.18	6.60	1.57	19.2
T-Fal 12 inch Saute Pan	19.97	20.40	-0.43	-2.1
Tide liquid laundry detergent, 4.43 L	21.38	19.38	2.00	9.4
Paper towel, Bounty 5.9m2	3.89	2.93	0.96	24.7
Sunscreen, Coppertone 60 SPF 237 ml	8.97	8.49	0.31	3.4

* Prices are adjusted to reflect different product sizes and quantities, exchange rate is 0.98 US\$/Cdn\$, prices are averages of regular prices (i.e. not on sale) and most are averages from two different stores in Canada and two in the US.

Since most of the cross-border activity is driven by residents of Metro Vancouver and the lower Fraser Valley, this means the “leakage” of BC consumer dollars to the south constitutes an even bigger share of retail spending in the context of the lower mainland region.⁹

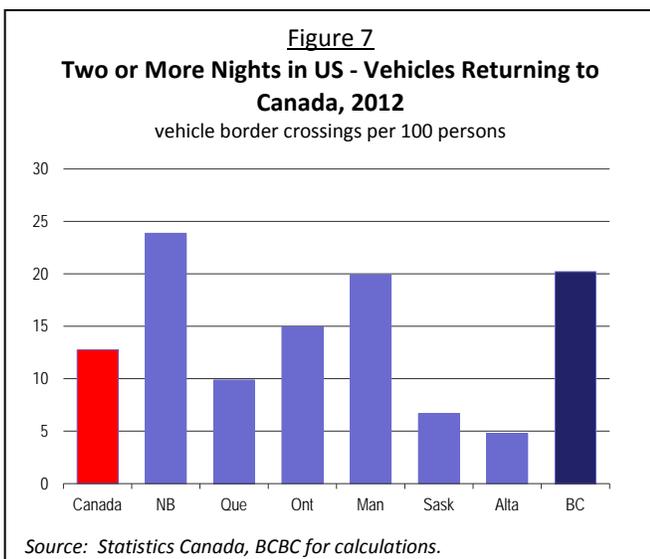
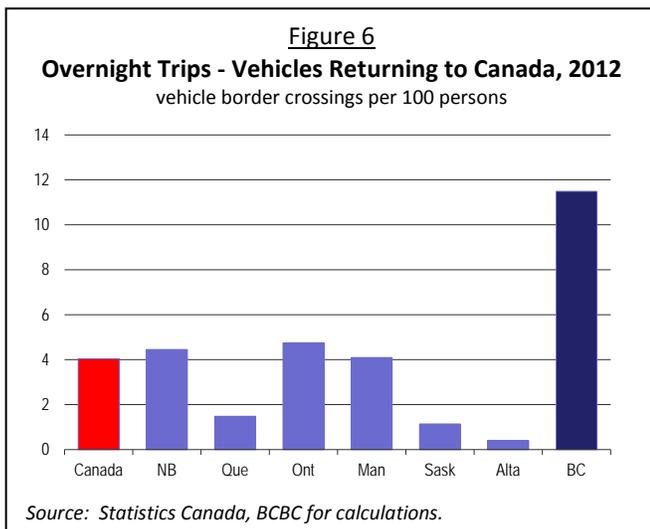
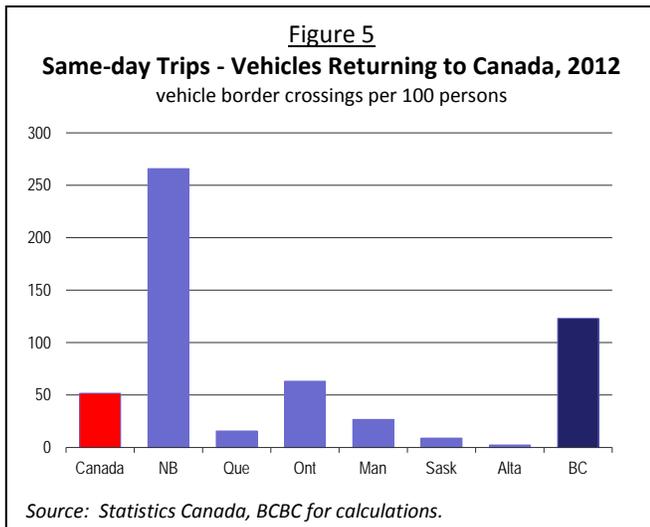
With respect to the impact of cross-border shopping on the trajectory of retail spending in BC, our analysis suggests that recent increases in border crossings and the

higher duty-free allotment resulted in cross-border purchases expanding by \$1.0 billion to \$1.5 billion at the higher end between 2009 and 2012 (and by about \$1.2 billion if one looks only at short trips).

British Columbians Are More Inclined to Cross Border Shop

From a Canadian perspective, cross-border shopping disproportionately impacts BC's retail sector (particularly Metro Vancouver's) because British Columbians find it easier to access US retail outlets than do residents of most other provinces.

⁹ Retail sales in Metro Vancouver were \$28 billion in 2012.



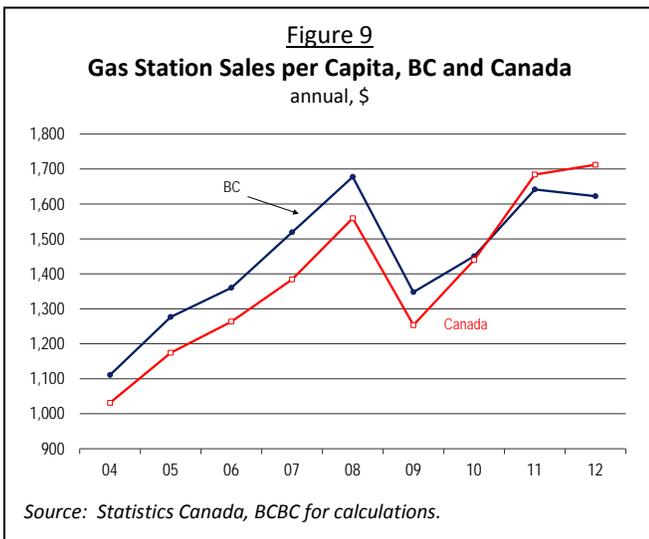
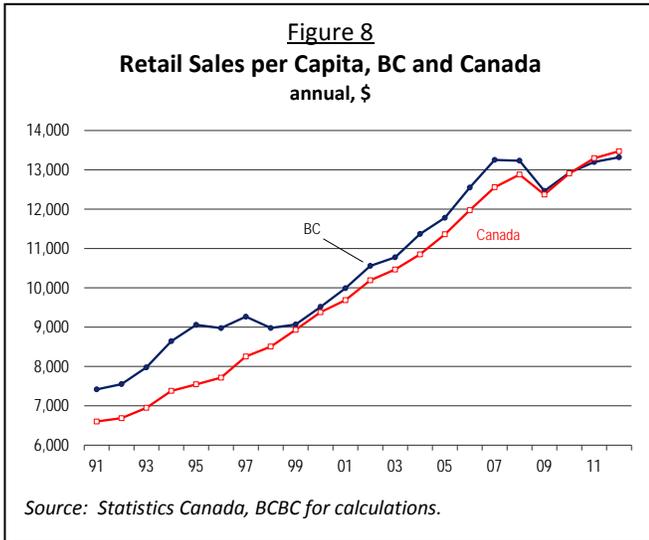
Geography obviously plays a key role here. With more than half of BC residents living in the lower mainland, BC has a greater share of its population located in close proximity to the US than is true in many other parts of Canada.

In 2012, for every 100 residents British Columbians made 123 same-day vehicle sojourns to the US. In Alberta, the comparable figure was just two, while in Saskatchewan it was nine. At 63 crossings per every 100 persons, the annual rate of same-day trips in Ontario is about half of that in BC. Interestingly, residents of New Brunswick are the most prolific cross-border shoppers, making 266 same-day trips per 100 persons last year.

In terms of overnight stays, British Columbians lead the other provinces by a big margin, with an average of 11.5 trips per 100 persons to the US last year. Ontarians ranked second, with 4.7 overnight trips per 100 residents. Per capita stays of more than two nights, which are associated with vacations, are more evenly balanced across the country, but BC residents are still more likely to take a longer-term driving trip to the US than are other Canadians.

BC Retail Sales Drop Below the National Benchmark

Measured in per person terms, retail spending in BC has typically been higher than the Canada-wide average. In the past few years, however, the pattern has shifted, with retail outlays per person slipping below the national benchmark. We believe the sharp increase in border crossings, coupled with the fact that BC residents make more visits to the



US than other Canadians, means that cross-border shopping is disproportionately affecting the retail marketplace here in British Columbia. Indeed, if the increase in spending from the larger estimate of “leakages” associated with just short-term border crossings is added back into the figures for BC’s retail sales, it turns out that retail sales would have grown by 3.0% in 2012 (rather than 1.9%), which is slightly greater than the Canadian increase. Moreover, per capita retail spending in BC would be \$120 above

the Canadian average and thus more consistent with historical patterns.

The change in per capita retail spending vis-à-vis Canada is apparent when looking just at gasoline sales. As with total retail spending, per capita sales at BC gas stations have gone from exceeding the national average to being well below it within a couple of years. While the carbon tax and Translink-related fuel levies may have prompted some BC vehicle owners to drive less, the steep increase in cross-border trips and shopping leads us to conclude that a good portion of the reduction in gasoline sales in the lower mainland especially reflects rising cross-border gas purchases rather than meaningful underlying changes in consumer behavior. Per capita gas sales in BC are now \$90 below the Canadian level. As recently as 2009 they were \$95 above the Canada-wide average.

In April 2012 Translink increased its fuel levy from \$0.15 per litre to \$0.17 per litre. While this increase did generate additional revenue for the organization, 2012 fuel sales measured in volume terms fell by 2.1%.¹⁰ The ability to increase taxes on fuel in the Metro area may be reaching a tipping point. As Translink itself has noted, “[h]igher fuel costs, increased fuel efficiency, increased use of transit (as supported by growth in ridership), and fuel leakage outside the ... region, are likely contributing to this decline.”¹¹

¹⁰ Translink 2012 Year-end Financial and Performance Report.

¹¹ Translink 2012 Year-end Financial and Performance Report. Note that the number of passenger vehicles registered in the region grew

Policy Implications

Based on the data and estimates presented in this paper, we believe BC consumers are spending more of their household budgets in the US, and that this has become a factor behind the weak retail sales environment recently evident in the province. That said, we would caution that cross-border shopping is not a new phenomenon and that it tends to ebb and flow with the currency, changes in relative prices, and border congestion.

What, if anything, might be done to mitigate the outflow of domestic retail spending dollars to the United States? Governments are limited in the policy levers that can be used to address the issue. All levels of government need to pay close attention to how their policies, regulations, taxes and other levies can impact both the cost of retail goods (e.g., grocery products) as well as the operating costs of retail businesses on our side of the border. The federal government can continue to reduce tariffs on consumer items imported into the country for which there is little domestic manufacturing activity. Governments would be well-advised to dismantle the supply-management schemes that push up the prices for dairy and poultry products in Canada. The onerous tax burden imposed on fossil fuels in BC merits scrutiny, as there

is reason to believe the marked disparity in gas prices between the lower mainland and Washington is affecting the purchasing decisions of a significant number of BC motorists. In this regard, policy-makers also need to recognize that when our residents cross the border to fill their tanks, many will also take advantage of the opportunity to purchase other US goods and services, thus accentuating the outflow of retail spending dollars.

For now, business in BC is likely to remain very challenging for many segments of the retail industry. Indeed, the retail sector in Canada as a whole is battling a number of headwinds, including overstretched household budgets, cooler housing and real estate markets, and relatively soft economic and job growth.¹² The strong consumer spending rebound that Canada enjoyed following the 2009 recession has petered out. In BC, the higher level of cross-border shopping is another factor contributing to a soft retail sales environment.

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1.4% in 2012, while the number of commercial vehicles increased by 1.5%. The fact that vehicles increased while the volume of gas sales dropped 2.1% suggests that leakage was a significant factor. Translink also notes that fuel volumes in the region have been declining by about 2% annually since 2009, which is the year when same day border crossings started to climb sharply.

¹² See Scotiabank Global Economics, Industry Trends (April 22, 2013).