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Exchange Rates, Border Crossings, and Retail Sales in the Cascade Gateway

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A Decade of Shifts in the Canada – U.S. Exchange Rate

2007: For the first time in 20 years, the CAD exceeds $0.90 USD, reaching **$0.94 USD**.[1]

2010 to 2012: CAD remains strong, averaging between **$0.97 and $1.01 USD**.

Mid-2013 to 2015: CAD begins to drop, then falls sharply by 17% against the USD in the third quarter of 2015.

2016: CAD dips to **$0.68 USD** in January (a 28% decline from 2007) then rises to **$0.75 USD** by March.

Outlook: CAD is predicted to rise slowly to **$0.77 USD** by the end of 2016.[2]

Introduction. One year ago, BPRI published a Border Brief analyzing the relationship between the Canada – U.S. exchange rate and crossing volumes in the Cascade Gateway (see Winter 2015 Border Brief).[3] At that time, the decline in the value of the Canadian Dollar (CAD), which began significantly in mid-2013, had already influenced the volume of cross-border travel in the region and has continued to do so since. This Border Brief updates our previous analysis, and goes beyond crossing volumes to consider the economic impacts associated with the continued drop in Canadian cross-border travelers. To provide context for the extent of recent changes in cross-border traffic, the Brief begins with a regional analysis of crossing volumes at the three largest gateways along the Canada – U.S. border. Next, we focus on local economic conditions in Whatcom County, where crossing volumes declined most steeply since 2013 and where Canadians have had a noticeable impact on the local retail sector.

Regional Changes in Southbound Cross-Border Travel. The three highest volume gateways for personal vehicle traffic along the Canada – U.S. border are Detroit (Michigan), Buffalo-Niagara Falls (New York), and the Cascade Gateway (Washington).[4] Figure 1 below shows how southbound border traffic and exchange rates changed from 2005 to 2015 during August.[5] From 2005 to 2013, volumes in the Cascade Gateway steadily increased during the peak travel month of August, while volumes at both Buffalo and Detroit fluctuated and trended downward. Volumes at all three gateways dropped since 2013, although the impact of the steep drop in the CAD from 2014 to 2015 is most noticeable at the Cascade Gateway (see Table 1 below).

Figure 1. Passenger Vehicles at Top 3 Gateways (August)[6]

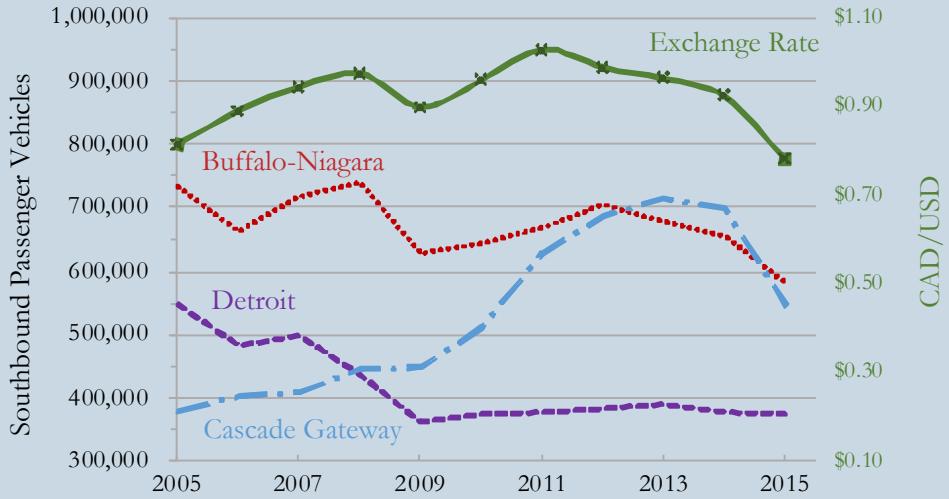

Table 1. Percent Change in Passenger Vehicles at Top 3 Gateways (August)

Gateway	2013-2014	2014-2015
Detroit	-3.5%	-0.8%
Buffalo	-3.0%	-11.3%
Cascade Gateway	-2.3%	-21.5%

These regional differences may be partially driven by the residency of travelers at each gateway. While Canadians comprise a significant percentage of travelers at all three gateways, their relative impact on crossing volumes is most strongly felt at the Cascade Gateway, where 82% of personal vehicle passengers are Canadian, compared to 64% at Detroit and 65% at Buffalo.[7]

Trends at the Cascade Gateway. In 2014, the four border crossings in the Cascade Gateway system ranked among the top ten busiest along the Canada – U.S. border, accommodating 21% of all personal vehicle traffic.[8] Figure 2 below graphs the volume of travelers by residency since 1990, juxtaposed with the CAD/USD exchange rate. Some notable trends are evident in different time periods. In the 1990s, traffic volumes decreased as the value of the CAD declined. However, the relationship between the exchange rate and traffic volumes weakened in the years following 9/11. From 2002 to 2009, overall traffic volumes remained fairly steady, although Canadian travelers slowly increased as the CAD began to strengthen post-2003. In 2010, the year the Olympics were held in Vancouver, cross-border traffic increased by 40% compared to the previous year, marking the beginning of an upward trend from 2010 to 2013 that closely followed the increasing value of the CAD, and resulted in traffic volumes that surpassed those seen in the mid-1990s. The relationship between the exchange rate and cross-border traffic from 2010 to 2015 seems to have returned to the pattern witnessed during the pre-9/11 era, when volumes shifted alongside movements in the purchasing power of the CAD.

Another notable trend is a consistent increase in the number of U.S. residents traveling to Canada from 2013 to 2015. In 2015, more than 2.6 million trips were taken by U.S. residents through the Cascade Gateway — a rate not seen since 2005 when the CAD was strengthening and the exchange rate was $0.83 USD. Additionally, 2015 was the first year since 2004 that the CAD has dropped below a value of $0.80 USD.

Effect on Retail Sales. Studies performed by the International Mobility and Trade Corridor Program have shown that 67% of cross-border travelers at the Cascade Gateway are bound for Whatcom County and that one-third of Canadian travelers are crossing primarily to shop.[9] Whatcom County's high per capita retail sales — 102% of the national average (compared to 95% in Erie County in the Buffalo-Niagara Gateway) — highlight the importance of Canadian shoppers to the local economy.[10]

Figure 2. Northbound Entries by Nationality at the Cascade Gateway[11]

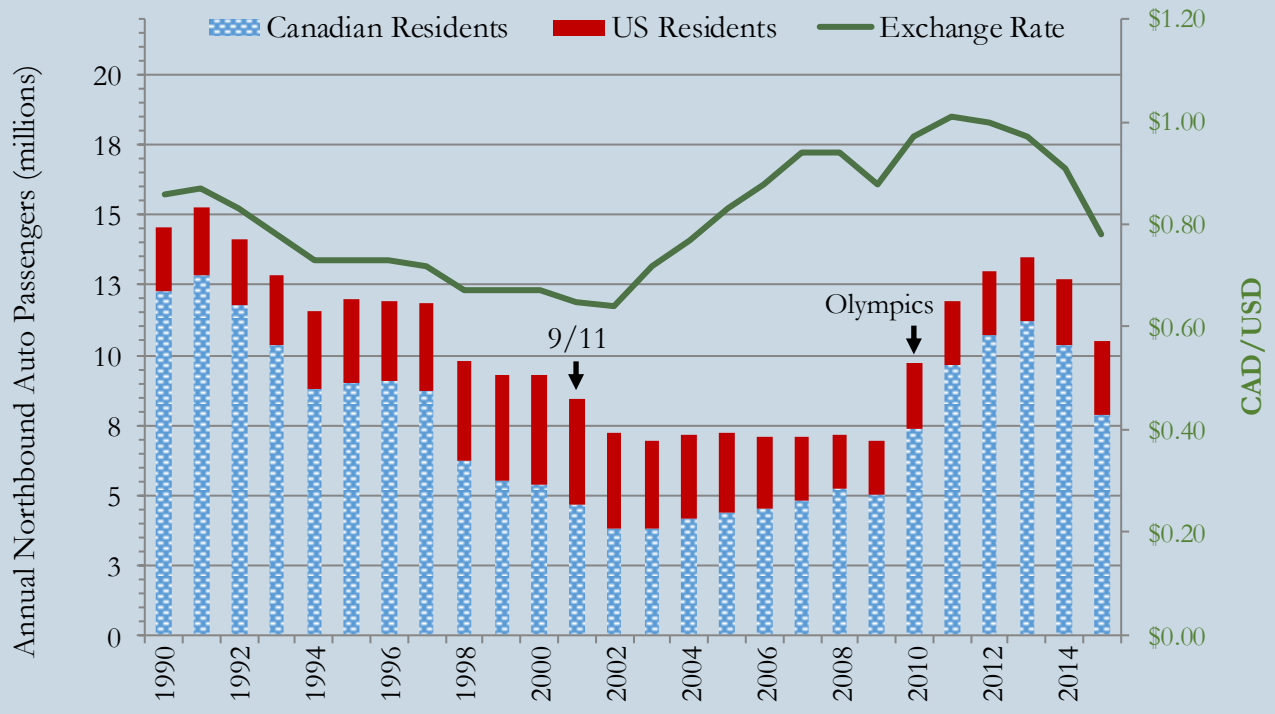

Table 2 shows the percent change in retail sales from the third quarter of 2014 to the third quarter of 2015 at three geographic scales: Bellingham (the primary shopping destination for Canadians in Whatcom County), Washington State, and the United States. Overall retail sales increased by 1.6% nationally and by 5.9% in Washington State, yet decreased by 4.7% in Bellingham.[12] During the same time period, traffic volumes decreased by 17% — a number very similar to the drop in retail sales in the general merchandise category. BPRI studies confirm that the shopping destinations frequented by Canadians fall largely under the category of general merchandise, further supporting the important connection between retail sales and cross-border Canadian shoppers.[13]

Table 2. Percent Change in Retail Sales from Third Quarter of 2014 to 2015[14]

Item	Bellingham	Washington	United States
Clothing	-11.9%	0.9%	2.6%
General Merchandise	-16.0%	2.5%	1.5%
Motor Vehicles & Parts	3.3%	10.1%	6.9%
Home Furnishings	7.6%	7.4%	5.8%
Entire Retail Sector	**-4.7%**	**5.9%**	**1.6%**

Online sales. Online sales are an important component of the economy of Whatcom County, which has the highest per capita online sales in Washington. Some of these sales are driven by Canadians[15] who purchase through online retailers such as Amazon, and have goods shipped to post office boxes located in Whatcom County. Table 3 below shows the per capita value of online sales in Blaine and Sumas, two towns in the County located at the border. The difference in per capita online sales between these locations and Washington State increased by 3,475% between 2000 and 2005, and grew by another 588% from 2005 to 2010. Since 2010, however, the year-over-year gap between sales growth in Blaine and Sumas as compared to the state level has narrowed significantly from 69% in 2011 to 4% in 2014. This slowing occurred at the same time that the value of the CAD fell, and crossing volumes decreased, pointing to the contribution of Canadians to online sales tax revenue in Whatcom County.

A reduction in online sales may have a different impact on the local economy than a reduction in retail sales. Compared to sales of general merchandise, for example (which are largely captured by big box stores such as Costco, Walmart, and Target and occur in towns with larger economic bases, such as Bellingham), online sales tax revenue may be a disproportionate source of income for smaller locations such as Blaine and Sumas. As a result, the latest 'bust' cycle in the CAD will likely have negative impact on local government funding.

Table 3. Difference in Per Capita Online Sales[16]

Year	Blaine & Sumas	Washington State	Difference	% Change in difference
2000	$39.44	$43.91	-$4.47	
2005	$206.88	$71.34	$135.54	3,475% (5 year)
2010	$1,064.31	$134.21	$930.10	588% (5 year)
2011	$1,747.71	$172.02	$1,575.69	69% (1 year)
2012	$2,678.76	$207.32	$2,471.44	57% (1 year)
2013	$3,403.14	$254.13	$3,149.01	27% (1 year)
2014	$3,538.61	$300.52	$3,238.09	3% (1 year)

Projections. Traffic volumes at the Cascade Gateway will likely continue to decline in the near future. Crossings in 2015 have already dipped below those seen throughout much of the 1990s and are comparable to the several years leading up to 9/11 when the exchange rate averaged $0.67 USD — lower than the current rate of $0.75 USD. The mid-2000s was another time period when the exchange rate was comparable to now, yet volumes remained low during that time, possibly due to the deterring after effect of 9/11. High traffic volumes seen in the previous five years may suggest that the effects of 9/11 are less of a factor now than in the mid-2000s. However, even during the peak purchasing power of the CAD during 2011 and 2012, when the CAD/USD exchange rate was near parity, volumes still did not reach those seen in the early-1990s when the exchange rate hovered at $0.85 USD. The National Bank of Canada predicts that the CAD will reach a low in the first quarter of 2016, then slowly regain strength and reach $0.77 USD by the first quarter of 2017.[17] If such a slow and small increase occurs, the CAD/USD exchange rate would return to the value seen in 2004, when 52% fewer passenger vehicles entered the Cascade Gateway, compared to 2015.[18]

The historical trends highlighted in this Border Brief suggest that, while the exchange rate is an important factor influencing cross-border travel, there are other factors that should be considered when forecasting trends. Events such as 9/11 and the Olympics altered the relationship between the exchange rate and cross-border travel, either disrupting or boosting volumes with a lasting effect. In addition, there are circumstances that may mitigate the impact of the exchange rate on cross-border traffic. Population growth on both sides of the border has created a larger potential number of cross-border travelers. In addition, the extent to which Canadians continue to have online purchases delivered to post office boxes in the U.S. may be significant. Finally, consumer habits can be 'sticky,' as some Canadians may continue their cross-border shopping patterns despite a weaker CAD. All of these factors may help to buffer the economy of Whatcom County against the next 'bust' cycle in the CAD/USD exchange rate.

Policy Implications. Changes in cross-border traffic at the Cascade Gateway will have important policy implications for a range of stakeholders, including local governments and businesses, transportation agencies, and particularly Canadian and U.S. inspection agencies. A decrease in overall traffic may alleviate some of the long wait-times and staffing pressures experienced in recent years.[19] However, more U.S. residents traveling to Canada places pressure on the Canada Border Services Agency to process more international visitors, some of whom may not be frequent cross-border travelers and, therefore, may take longer to process.

Endnotes

1. Based on annual averages. Source: Canadian Foreign Exchange Services (www.canadianforex.ca).
2. National Bank of Canada, Foreign Exchange Market Analysis, March 2016 (www.nbc.ca).
3. Border Policy Research Institute (BPRI), "Exchange Rates and Border Crossings in the Cascade Gateway," Border Policy Brief, Winter 2015 (www.wwu.edu/bpri/files/2015_Winter_Border_Brief.pdf).
4. Crossings include: 1 bridge and 1 tunnel at Detroit, 4 bridges at Buffalo-Niagara Falls, and 4 land crossings at Cascade Gateway (Peace Arch, Pacific Highway, Lynden, and Sumas).
5. Annual data for 2015 is not yet available, so August was used as it is the peak travel month at all three gateways.
6. Bureau of Transportation Statistics Border Crossing/Entry Data (http://transborder.bts.gov).
7. Based on the average proportion of Canadian residents from 2005-2015. Due to data availability, averages for all crossings in Ontario were used to calculate the residency of travelers at Detroit. Source: CANSIM Table 427-0001 (www.statcan.gc.ca).
8. Calculations based on removing Point Roberts, WA from rankings, which is landlocked by Canada. Source: Bureau of Transportation Statistics Border Crossing/Entry Data (cited above).
9. International Mobility & Trade Corridor Program (IMTC) Passenger Vehicle Intercept Survey (PVIS) (http://theimtc.com/passengersurveys/).
10. Washington State Department of Revenue (www.dor.wa.gov) and U.S. Census Bureau (http://www.census.gov/retail/index.html).
11. Statistics Canada, CANSIM Table 427-0001 (cited above) and yearly averages of monthly exchange rates from Bank of Canada (www.bankofcanada.ca/rates/exchange).
12. Total retail excludes food services.
13. BPRI, "Canadians Shopping in Northwest Washington," Border Policy Brief, Spring 2013 (www.wwu.edu/bpri/files/2013_Spring_Border_Brief.pdf).
14. Washington State Department of Revenue and U.S. Census Bureau (cited above).
15. Roughly 8% of Canadians who cross at the Cascade Gateway do so to pick up mail. Source: IMTC PVIS (cited above).
16. Washington State Department of Revenue (cited above).
17. National Bank of Canada, Foreign Exchange Market Analysis, March 2016 (cited above).
18. Based on monthly crossing data obtained from U.S. Customs and Border Protection.
19. BPRI, Border Policy Brief, Winter 2015 (cited above).

BPRI thanks Daniel Edgel for his valuable research contributions to this Border Brief.