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Exchange Rates and Border Crossings in the Cascade Gateway

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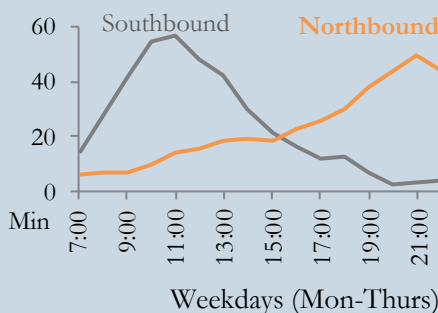
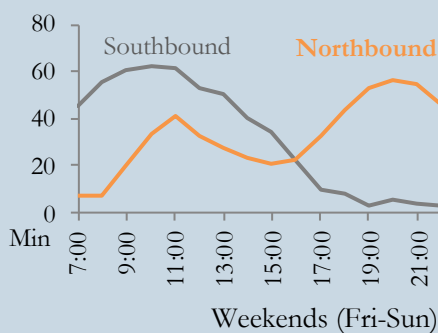
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Primary Reason for Crossing at Cascade Gateway, by Residence¹

Trip Purpose	Canadian	U.S.
Shopping	31%	4%
Recreation	19%	27%
Vacation	11%	31%
Business/Work	2%	15%
Family	5%	18%
Gas	22%	—
Mail	8%	—

Wait Times at Peace Arch August 2013²



Introduction. There has been recent speculation about the influence of the declining Canadian dollar on the volume of cross-border travel. This article explores that relationship in the context of the Cascade Gateway, which is the group of border crossings (Peace Arch, Pacific Highway, Lynden/Aldergrove, and Sumas/Abbotsford) that serve the Interstate 5 corridor, connecting Whatcom County, WA, to the Lower Mainland of B.C.

Regional Cross-Border Travel. An understanding of *who* crosses the border and *why* they cross is useful when considering the influence of the exchange rate. A recent study by the BPRI and the Whatcom Council of Governments found that U.S. and Canadian residents have different reasons for crossing the border.³ As shown in the table to the left, the primary trip purpose for Americans is vacation and for Canadians is shopping. In addition, 22% of Canadians cited another type of shopping, purchasing gas, as a primary reason for their trip – a reason non-existent for U.S. residents. Many Canadians cross into the U.S. to pick up mail, which is *also* shopping-related, as Canadians are motivated to get a U.S. mailbox to avoid costly international shipping rates. Canadian shoppers are also motivated by the relatively low cost of certain items in the U.S., a situation due in part to Canadian policies (e.g., price supports for dairy goods and taxes on gasoline).

With B.C.'s population concentrated in the Lower Mainland, and with the Rockies and Canadian Coastal mountains inhibiting travel to the east and the north, a visit to the U.S. is a convenient option for a B.C. resident. Roughly 80% of cross-border trips in the Cascade Gateway are undertaken by Canadian residents³ and this preponderance of Canadian travelers produces a distinct trend in wait times. The graphs to the left highlight peak wait times at Peace Arch in August, 2013. Both weekdays and weekends exhibit a similar pattern, with southbound wait times peaking in the morning as Canadians begin the day, and northbound wait times peaking in the afternoon as Canadians return home. Lastly, with vacation and recreation figuring as major trip purposes, there is a substantial *seasonal* traffic peak at the Cascade Gateway, with July and August exhibiting traffic volumes about 50% higher than the slowest winter months (see *Figure 2*).

Looking Back: Travel Trends and Exchange Rates. The difference in trip purposes between Canadians and Americans suggests that as the Canadian dollar weakens, the Cascade Gateway should experience a decrease in Canadians crossing south to shop and an increase in Americans travelling north for recreation and vacation.

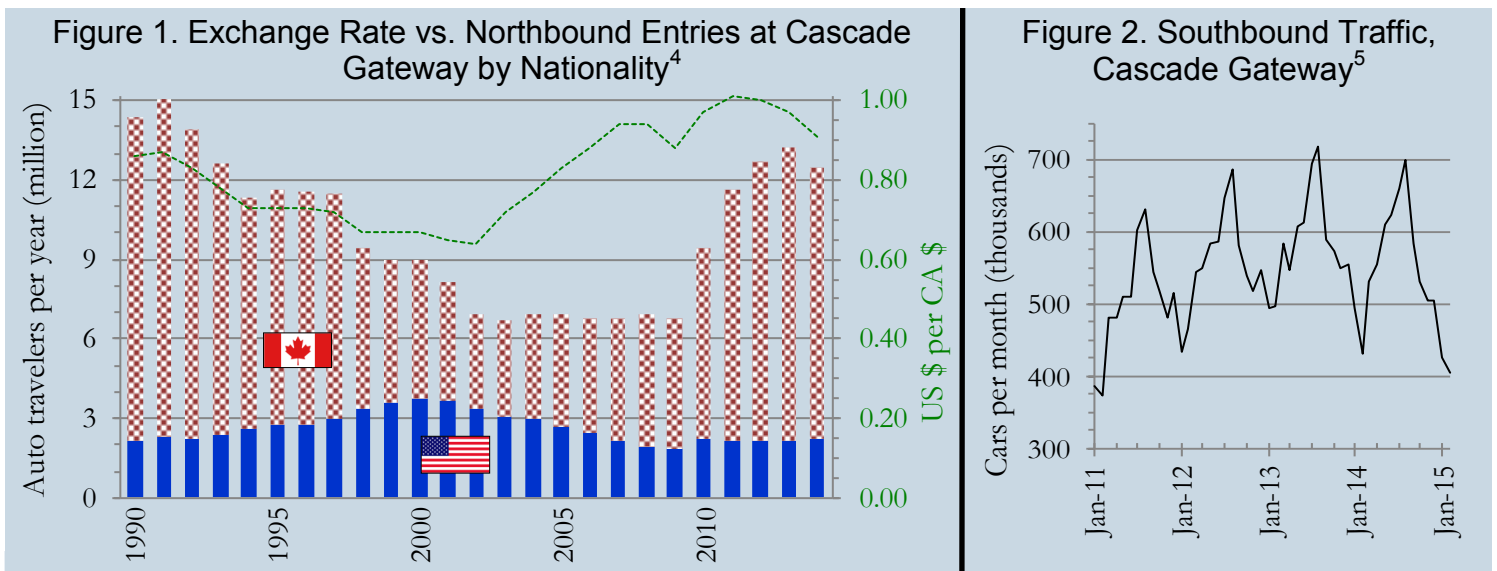


Figure 1 provides evidence of the relationship between the exchange rate and the travel habits of regional residents. The declining Canadian dollar in the period prior to 2001 was a time of declining travel by Canadians and of increasing travel by Americans. As the Canadian dollar strengthened, those trends reversed, albeit after a period of generally subdued travel in the aftermath of 9/11. Over the last seven years, during a period of relative weakness of the U.S. dollar, the number of U.S. citizens entering B.C. at the Cascade Gateway has remained below levels seen in 2006.

Focusing on recent trends, over the past 20 months the loonie has dropped fairly consistently from US\$0.98 in July, 2013, to US\$0.80 by February, 2015.⁶ Figure 2 shows recent traffic trends at the Cascade Gateway. From 2013 to 2014, traffic volumes declined by 2% during the peak month and by 12% during the trough month. From 2013 to 2015, volumes during the trough month declined by 18%.

Looking Ahead: Travel Trends and Policy Implications. Based upon the discussion above, the following conclusions can be reached:

- If the exchange rate stabilizes or the U.S. dollar continues to strengthen, an increase in Americans traveling to Canada this summer for vacation/recreation purposes can be anticipated. However, overall traffic volumes for 2015 will still be lower than in 2014 due to declines in Canadian traffic.
- There is a lag between declines in Canadian visitation and the associated economic impacts (i.e., retail revenue, associated sales tax revenue), so the full impact in the Cascade Gateway region of the drop of the loonie has yet to be realized.
- If travel patterns shift such that fewer Canadians and more Americans cross the border, the 'bulges' seen in the wait-time graphs may even out, resulting in shorter wait times and a more even daily workload for inspection agencies. However, large seasonal peaks will remain a reality, complicating the efforts of inspection agencies to achieve the most efficient staffing.
- Other factors can strongly affect future travel volumes, such as ongoing population growth in the Lower Mainland, which will lead to greater traffic. Conversely, sudden policy changes (such as the removal of Canadian dairy price supports, a possibility under the Trans-Pacific Partnership) could dampen Canadians' shopping-related travel.
- The fluctuation of crossing volumes further supports the call for more flexible and dynamic border management policies, rather than costly and often irreversible infrastructure investments at individual ports that might result in inefficient use of finite resources.

Endnotes

1. Source: 2013 IMTC Resource Manual (theimtc.com/wp-content/uploads/2013OnlineResourceManual.pdf).
2. Source: Cascade Gateway Border Data Warehouse (www.cascadegatewaydata.com).
3. Source: 2013/2014 IMTC Passenger Vehicle Survey (www.wvu.edu/bpri/files/2014_Jul_PVIS_Final_Report.pdf).
4. Source: Statistics Canada, CANSIM Table 427-0001 (www.statcan.gc.ca) and yearly averages of monthly exchange rates from Bank of Canada (www.bankofcanada.ca/rates/exchange).
5. Source: U.S. Customs and Border Protection.
6. Although there were several months in 2009 when the loonie hovered around US\$0.80, it has not been this low since the mid-2000s.