

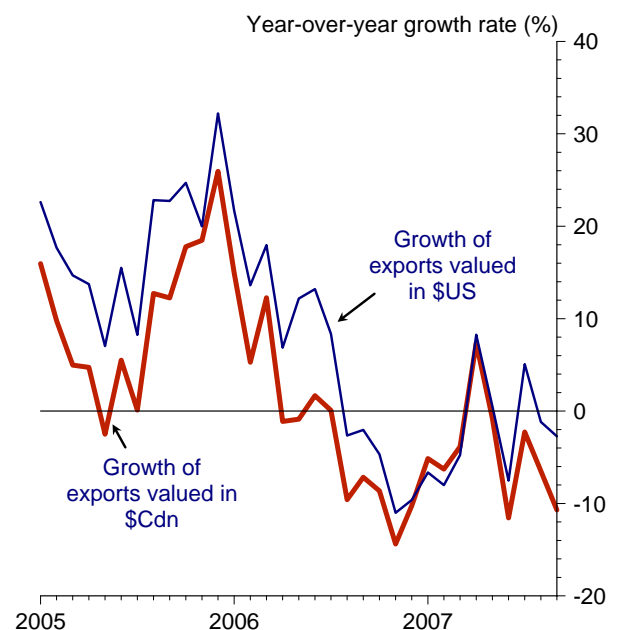
## Exports ♦ September 2007

- The rapid appreciation of the Canadian dollar is wreaking havoc with BC's exports. The value of BC origin exports has fallen 4.5% over the first three quarters of 2007 compared to the same period in 2006. The high Canadian dollar and slumping demand for lumber have been the main contributors to the decline. Valued in US currency, the decline in BC exports was only 1.9%.
- The demand for building products has dropped substantially due to a sharp reduction in housing starts in the United States. As a result, solid wood shipments to the US have declined 20.7% year-to-date in 2007 compared to the first three quarters of 2006. It is possible that the recent fire damage in California could create some demand for BC lumber over the next several months, which would help BC lumber producers that are suffering from a combination of low demand, low prices and an unfavourable exchange rate.
- The one bright spot in the forest sector in 2007 has been pulp. Exports of pulp have surged 16.9%, more than offsetting falling shipments of newsprint (-20.0%) and paper and paperboard (-2.5%), such that overall pulp and paper exports from the province have climbed 7.3%. However, even the value of pulp exports was down in September (-10.9%) as the rising Canadian dollar clawed back some of the price inflation for pulp.
- The energy sector is also feeling the effects of the dollar's appreciation. The value of natural gas exports is 14.0% lower year-to-date compared to 2006 and much of the decline is due to the higher dollar as natural gas is priced in

US currency. The value of shipments of coal has also slumped, down 13.5%. The drop is entirely due to lower prices as there was a 4.0% increase in quantities of coal exported. On the positive side, exports of electricity have more than doubled (+107.9%) so far in 2007; however, this was not enough to offset the falling value of shipments of natural gas and coal as overall energy exports from the province have dipped 5.1% year-to-date.

- Exports of copper ores and concentrates have plunged 29.4% year-to-date, driving overall shipments of metallic mineral products down 1.2%, despite robust growth in exports of unwrought aluminum (+25.4%) and unwrought zinc (+59.0%). Shipments of fabricated metal products have edged up 0.8%.

### *The exchange rate has dampened growth in BC exports*



### SEASONALLY ADJUSTED EXPORTS

*Exports (adjusted for seasonality) continued to slump in September*

Seasonal adjustment supplies a means of making month-to-month comparisons by removing the regular periodic seasonal fluctuations that occur. Variations from normal seasonal patterns are revealed in the seasonally adjusted data series.

- Exports fell for the fourth time in five months in September (-2.4%) as a 14.7% plunge in shipments of forestry products offset increases in all other major commodity groups.
- Exports to the United States were down 2.7% in September as slumps in shipments of forestry products (-9.1%) and industrial and consumer goods (-4.5%) offset increases in exports of energy products (+7.4%) and agricultural and fish goods (+5.8%). Exports to countries other than the US also fell in September (-1.9%) due to a 23.6% drop in exports of forestry products.



**BC Exports, Seasonally Adjusted (\$Millions)**

Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
Sep 2005	187	790	1,070	357	569	2,973	1,858
Oct	194	862	1,150	371	486	3,064	2,050
Nov	203	689	1,149	379	578	2,999	2,011
Dec	191	807	1,179	384	559	3,120	1,971
Jan 2006	189	695	1,166	364	536	2,949	1,936
Feb	187	588	1,138	370	570	2,853	1,784
Mar	185	595	1,097	417	587	2,880	1,772
Apr	181	543	1,070	359	519	2,672	1,696
May	194	524	1,076	348	582	2,724	1,710
Jun	192	562	1,107	380	719	2,960	1,694
Jul	200	462	1,041	350	665	2,718	1,674
Aug	200	502	1,060	341	602	2,704	1,654
Sep	205	506	1,067	378	600	2,756	1,660
Oct	203	445	1,036	391	676	2,751	1,598
Nov	196	447	1,005	356	614	2,619	1,582
Dec	211	530	1,028	376	683	2,828	1,703
Jan 2007	214	510	1,096	363	620	2,802	1,720
Feb	207	569	987	369	556	2,688	1,674
Mar	214	550	1,056	378	596	2,792	1,713
Apr	203	544	1,115	376	658	2,896	1,694
May	192	556	1,011	331	623	2,713	1,595
Jun	186	506	989	339	609	2,629	1,611
Jul	170	552	972	347	607	2,647	1,587
Aug	183	466	982	351	560	2,542	1,565
Sep	197	495	838	359	593	2,481	1,523

## Is Cross-Border Shopping Making a Comeback?

The Canadian dollar hit par with the US greenback in September and has since climbed even further, reaching its highest value relative to the US dollar since the currency was floated. The soaring loonie should be positive news for consumers as a higher Canadian dollar translates to increased buying power for goods imported from the United States; however, Canadian retailers have been slow to respond to the appreciation in Canada's currency with lower prices for consumers.

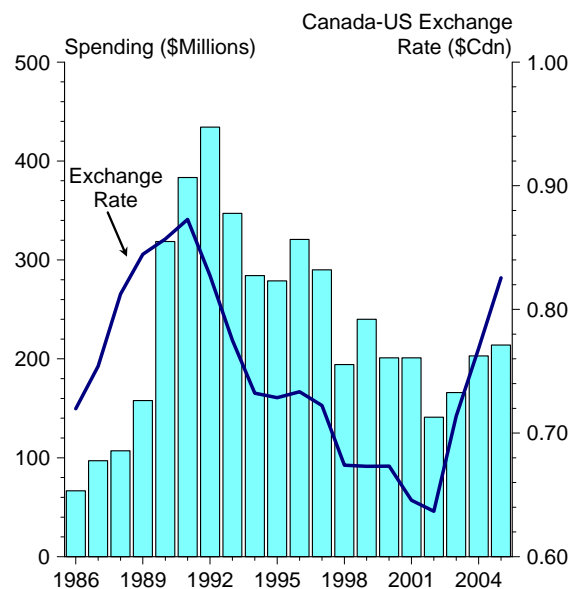
The stickiness of Canadian prices has prompted federal Finance Minister Jim Flaherty to criticize retailers and urge them to reduce prices. The Retail Council of Canada rebuked Mr. Flaherty for his comments, suggesting that the price differential between Canada and the US was due not only to exchange rate differences, but also other factors, such as shipping costs and duties. Canadian retailers claim that their costs are higher than their American cousins and this is reflected in higher prices in Canada.

This may be true, but consumers face some of these costs as well and a large retail chain presumably has more purchasing power than a single consumer and can effectively get a better price from manufacturers than the consumer. Given this, and assuming most consumers take costs such as shipping and duties into consideration before purchasing goods from the United States, the fact that consumers can still get significantly better deals south of the border indicates that Canadian retailers are charging Canadian consumers too much of a premium.

In cases of big ticket items such as automobiles, the difference can amount to thousands of dol-

lars, making the cross-border purchase more than worthwhile. The reluctance on the part of Canadian wholesalers and retailers to adjust their prices could be costly if Canadians decide it is worth the effort to shop across the border. In BC, there is a clear relationship between the relative value of the Canadian dollar and the amount of money spent by British Columbians on same-day trips to the United States. Spending rises when the dollar rises against its US counterpart and falls when the dollar depreciates. With approximately 60% of BC residents living within 50 kilometres of the United States border (excluding Vancouver Island residents, for whom a trip to the US is not quite as convenient), this fact should be cause for some concern to BC retail outlets.

Spending by British Columbians making same-day trips to the US generally rises when the Canadian dollar is higher and falls when the loonie is down



Source: Statistics Canada

Nevertheless, it appears that the run-up of the Canadian dollar to par with the US greenback has not been enough of an enticement to draw many British Columbians to shop south of the border. Same-day visits to the United States, which are most often used as a proxy for cross-border shopping, have not followed historical patterns. The rapid rise in the loonie has not been accompanied by waves of value-conscious BC shoppers seeking deals in the United States as was the case in the early 1990s. After 9/11, the number of same-day visits by British Columbians to the US plummeted and although they have been trending up since that time, same-day visits (and visits in general, for that matter) are still well below pre-9/11 levels. Given that the Canadian dollar was near its low point at that time, it would appear that the increased hassle of crossing the border as a result of enhanced security measures is outweighing the lure of cheaper retail goods.

Same-day visits by British Columbians to the US fell dramatically after 9/11 and have never recovered, even with the exchange rate near par



Source: Statistics Canada

One factor that might be affecting the volume of cross-border shoppers is the growth in online shopping. E-commerce spending by Canadian households more than doubled from \$3.0 billion in 2003 to \$7.9 billion in 2005. British Columbians were responsible for 17% of that 2005 figure, or just under \$1.4 billion. Approximately 40% of those purchases were from companies in countries outside of Canada.

Despite the growth, at just over 1%, e-commerce still represents only a small portion of overall consumer spending. Even though Canadians are among the heaviest users of the Internet, e-commerce has yet to take off. This could be due to a lack of Canadian retailers online, security concerns revolving around the use of credit cards online, or perhaps the additional expense associated with shipping the goods. However, if the price differential between Canada and the US remains significant, it is possible that more Canadians will go online to shop for goods. A positive experience with shopping over the Internet could result in a permanent change in behaviour, which could further harm Canadian retailers, or at least force more of them to have a presence on the Internet.

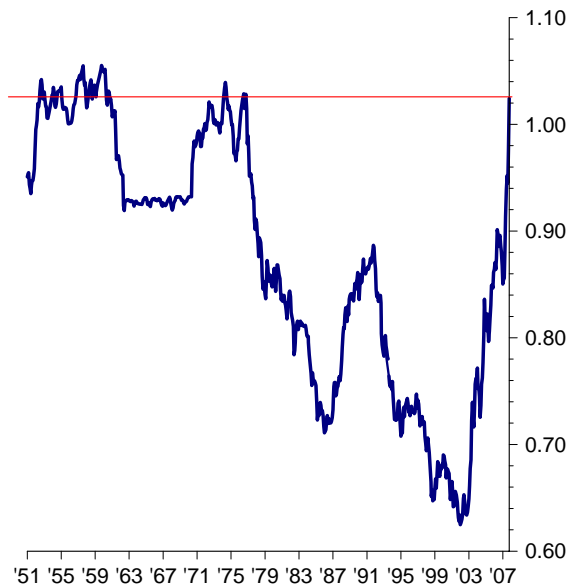
The most recent growth spurt in the value of the loonie relative to the US dollar may have already sparked a surge in Internet purchases. Canada Post and Canada Border Services have recently had to deal with unusually large volumes of goods from the United States ordered over the Internet by Canadian customers, which has created backlogs and delays.

This is a sign that now that the Canadian dollar is worth more than its American counterpart, Canadians are becoming less likely to accept large price differentials. Consumers who had been fairly complacent prior to the dollar reach-

ing par are waking up to the fact that they are paying far more for some goods than they would if they were buying in the United States. The point where the loonie reached par with the greenback seems to have been a psychological tipping point for Canadian consumers. Canada's dollar has not been at par with the US dollar since the mid-1970s and most Canadians have been used to seeing goods in Canada priced higher than those in the United States simply due to the higher value of the greenback. Now that the Canadian dollar is worth more, it isn't as easy for Canadians to accept higher prices.

outweigh all else. In the end, the marketplace should decide what the fair price for goods is and if Canadian retailers are unwilling or unable to adjust their prices, they may find their customer base shrinking. Some retailers, such as Wal-Mart and Chapters Indigo, have already responded to the higher Canadian dollar by accepting the lower of the US or Canadian dollar price on items such as books and greeting cards. Time will tell if others follow their lead.

The Canadian dollar is at its highest monthly average since the mid-1970s



Source: Statistics Canada

While retailers may have valid reasons for higher prices in Canada, ultimately the consumer will decide where to buy based on where they can find the best value. For some consumers, shopping across the border may not be worth the hassle even if there is a cost savings to be had, while for others, the savings will

**Recent Feature Articles in Exports Release  
Listed by Statistical Reference Date of Issue**

<b>07-09</b>	<i>Is Cross-Border Shopping Making a Comeback?</i> (released November 2007)	<b>06-07</b>	<i>Has Doha Gone the Way of the Dodo?</i> (released September 2006)
<b>07-08</b>	<i>Prince Rupert Container Port Open for Business</i> (released October 2007)	<b>06-06</b>	<i>Will BC Miss the Boat on Port Expansion?</i> (released August 2006)
<b>07-07</b>	<i>Canada Weighs Anchor on Free Trade with EFTA</i> (released September 2007)	<b>06-05</b>	<i>Breaking the Interprovincial Trade Barrier</i> (released July 2006)
<b>07-06</b>	<i>BC's Trade with California</i> (released August 2007)	<b>06-04</b>	<i>Deal or No Deal for Softwood Lumber?</i> (released June 2006)
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<b>06-11</b>	<i>Brazil-Canada Trade Getting Over Jet Lag</i> (released January 2007)	<b>05-09</b>	<i>China's Growth Both an Opportunity and a Threat for Exporters</i> (released November 2005)
<b>06-10</b>	<i>Plan B: An APEC Free Trade Region?</i> (released December 2006)	<b>05-08</b>	<i>Booming Energy Sector May Give Rise to "Dutch Disease" for Other Exporters</i> (released October 2005)
<b>06-09</b>	<i>Success of BC's Mining Industry Helps Boost Exports</i> (released November 2006)	<b>05-07</b>	<i>Laying on the Lumber</i> (released September 2005)
<b>06-08</b>	<i>Provincial Export Profile</i> (released October 2006)	<b>05-06</b>	<i>Removal of Textile Quotas Tailor-Made for Protectionist Fervour</i> (released August 2005)

## NOTES

### Countries Included Within World Regions:

**(1) Western Europe:** United Kingdom, Ireland, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland.

**(2) Eastern Europe:** other Europe, including all of Russia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, etc.

**(3) South East Asia:** Malaysia, Brunei Darussalam, Singapore, Myanmar, Kampuchea, Laos, Indonesia, Philippines, Thailand, Vietnam.

**(4) Africa:** continental Africa, excluding Ethiopia, Libya, Somalia, Sudan, Egypt.

**(5) South America:** continental South America from Colombia and Venezuela south to Chile and Argentina, including offshore islands, but not Caribbean.

**(6) Central America and Caribbean:** from Guatemala and Belize to Panama, plus Caribbean Islands.

**(7) Pacific Rim (including Japan):** Japan, Hong Kong, Malaysia, Brunei Darussalam, Singapore, Laos, Mongolia, China, Indonesia, North Korea, South Korea, Philippines, Macau, Taiwan, Thailand, Vietnam, Australia, Fiji, New Zealand.

**(8) Pacific Rim:** as above, but excluding Japan.

**(9) Middle East:** from Turkey and Iran south through the Arabian Peninsula. Excluding Afghanistan and Pakistan, but including Cyprus, Ethiopia, Egypt, Somalia, Sudan and Libya.

The **European Union** is the membership as of January 1, 2007: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania,

Slovakia, Slovenia, Spain, Sweden, United Kingdom.

**'Selected Value-added Wood Products'** category includes prefabricated houses, doors, windows, furniture, moulding, siding, etc. It does not include panel products, shakes, shingles or any pulp and paper products.

### Revisions

Statistics Canada revises trade data for the previous three data years with release of the December data. The revision number is indicated in the footer of the tables (e.g., Rev 1 is the first annual revision, etc., and Prelim indicates it is the first release of data to December for that year). In addition to annual revisions, Statistics Canada revises the data for the previous data year every quarter (indicated in the footer by Rev Q1, etc).

### Service Offered for Detailed Trade Statistics

For BC government statistics users requiring more detailed information on exports or imports, a special report service is offered through the address below:

**Dan Schrier**  
**BC STATS**  
 P.O. Box 9410 Stn Prov Govt  
 Victoria, B.C. V8W 9V1  
 (250) 387-0376

This service is provided through the Trade Research and Inquiry Package (TRIP) computer reporting system. TRIP offers user-defined tabulations of export or import statistics for BC, Canada, the United States and other countries. Tabulations can include information on commodities, countries, US states, years, months, mode of transport, etc.