

# Strong dollar means cross-border shopping heavily influenced by exchange rate

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With the holiday shopping season in full swing it appears Canadians now more than ever are keeping a watchful eye on the exchange rate before heading south of the border to shop.

Even a one cent increase in the exchange rate causes a disproportionate number of Canadians to go cross-border [shopping](#), according to a new study from a team of researchers including University of Toronto Scarborough and Rotman School of Management professor Ambarish Chandra.

"When the home currency is strong, as is the case in Canada at the moment, even a slight jump in the exchange rate makes a big difference because it expands the set of goods they can buy in America," says Chandra.

The impact of a slight increase in the exchange rate is greater now than it was 10 years ago because the loonie is near parity with the American dollar, he notes.

"It wasn't even on the radar for most Canadians because when the loonie was weaker, so even a significant jump in the exchange rate wouldn't have made much of a difference," he says.

Using data collected by the Canadian Border Services Agency from 1972-2010 in seven provinces that share a land border with the United States, the researchers showed that distance to the border also plays a

crucial role in cross-border shopping habits.

It's mostly Canadians living close to the border who will cross for single-day shopping trips when the loonie appreciates, says Chanda. He notes while the median Canadian lives 81 miles away from the border, the median single day-trip shopper lives only 18 miles from the border. It's also the reason Canadians are also more likely to cross-border shop than their American counterparts because they tend to live closer to the border.

The authors also found that cross-border shopping travel is more than twice as responsive as [international trade](#) to changes in the exchange rate.

"International trade follows consistent patterns established over a longer period of time, but individuals are far more flexible," says Chandra. "If an individual consumer sees an increase in the [exchange rate](#) they can hop in their car and drive south to shop right away."

The authors also examine seasonal patterns and the changes in the security environment at the border following 9-11. Being able to better identify and understand short-term patterns of cross-border travel is also important information for policymakers regarding taxation, infrastructure planning, [border security](#), and controlling the spread of infectious disease, adds Chandra.

The research will be published in the upcoming edition of the journal *Review of Economics and Statistics*.

Provided by University of Toronto

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