Domestic Price, (Expected) Foreign Price, and Travel Spending by Canadians in the United States

1. Introduction

The pace of Canadian travel spending in the United States has increased substantially. In 1980, Canadian citizens spent approximately 35$ (CN) each day while in the United States. By 1994, travel spending rose almost three-fold to more than 90$ (CN) per day.[1] This spending is vital to many border communities, affecting retail sales, employment, and tax receipts.[2] For example, declining retail sales in Canada during the early 1990s was in large part attributed to increased cross-border shopping by Canadians in the United States (Kemp 1992). Consequently, many U.S. border communities enjoyed the benefits of increased Canadian travel spending during the same time period. In this paper, we develop and estimate a model of spending by Canadians in the United States.[3]

Although numerous studies have examined the factors that influence total Canadian import demand, only a handful of studies have been directed at international travel spending

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[1] Travel spending is included in the balance of payments, and these "hidden imports" have accounted for as much as 10 percent of total Canadian merchandise imports from the United States (*Touriscope: International Travel*, 1994).

[2] While crossings occur at a large number of points along the border, major crossing points are concentrated in the northern New York-Montreal/Ottawa, Buffalo-Toronto, Detroit-Windsor, and Seattle-Vancouver regions.

[3] Canadian spending in foreign countries other than the United States represents less than 10% of total Canadian travel spending.