

Falling Canadian Dollar Aids Food Exports, But Could Bring Higher Prices

The steep decline of the Canadian dollar to below 64 cents U.S. in August can be expected to have important impacts on trade with the United States, and on prices within Canada. At time of writing, export statistics are available only up to June. Even at this early stage in the Canadian dollar's 1998 decline there were some indications that a low valued loonie was beginning to affect cross border trade in agricultural and food products between British Columbia and the United States. There was also some indication that the low dollar had already become a significant factor behind price rises for some food commodities traded freely across the border.

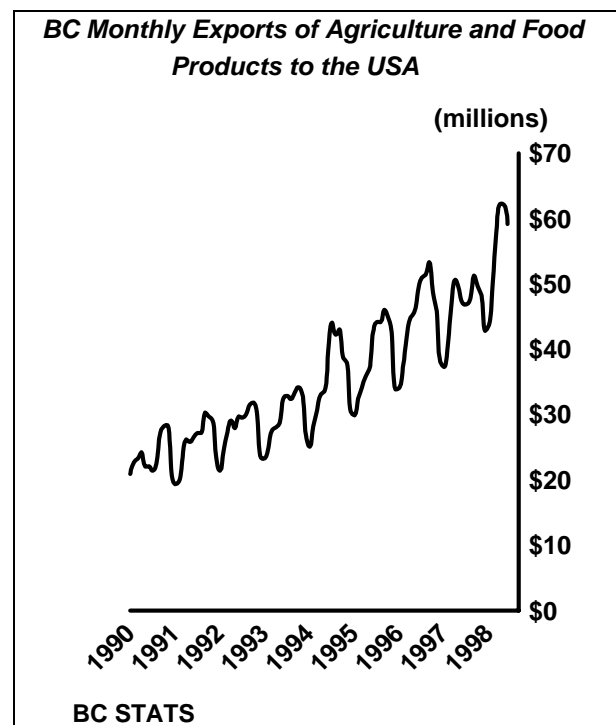
Agriculture and Food Trade On the Rise

The export advantage produced by the drop of the Canadian dollar against the United States currency appears to have accelerated a long established export growth trend for agricultural commodities and food products.

Cross border trade has been increasing in both directions for more than a decade. Much of the increase in Canadian imports of food from the United States has come about as Canadian consumers have developed tastes for products that cannot be practically cultivated in Canada, particularly during the winter months. Canadian exports to the United States have risen as the agricultural industry in Canada has discovered product niches for which local climate, soil or other conditions offer some advantage.

More open trade in both directions was secured with the implementation of the Can-

ada-USA Free Trade Agreement at the end of the 1980s and the later North American Free Trade Agreement (NAFTA), which brought in Mexico. Since then, agricultural producers on both sides of the border have adjusted to the more liberalised North American trading environment. In British Columbia this process has involved considerable restructuring of the industry to take advantage of new trading opportunities. New, or considerably enlarged agricultural export industries have included greenhouse operations, cranberry growing, mushroom farms, and cattle raising.



Prior to the signing of the Canada-USA Free Trade Agreement, U.S. exporters shipping to Canada faced Canadian tariff rates for fruit, vegetable or horticultural products of around 10 to 15 per cent for many items. Canadian exporters shipping to the United States faced similar tariffs. Most of these barriers have now disappeared, prompting steady trade growth in both directions during the 1990s.

With more imported food products in their home market, Canadian consumers have enjoyed greater choice and have gained some protection against price rises through increased competition.

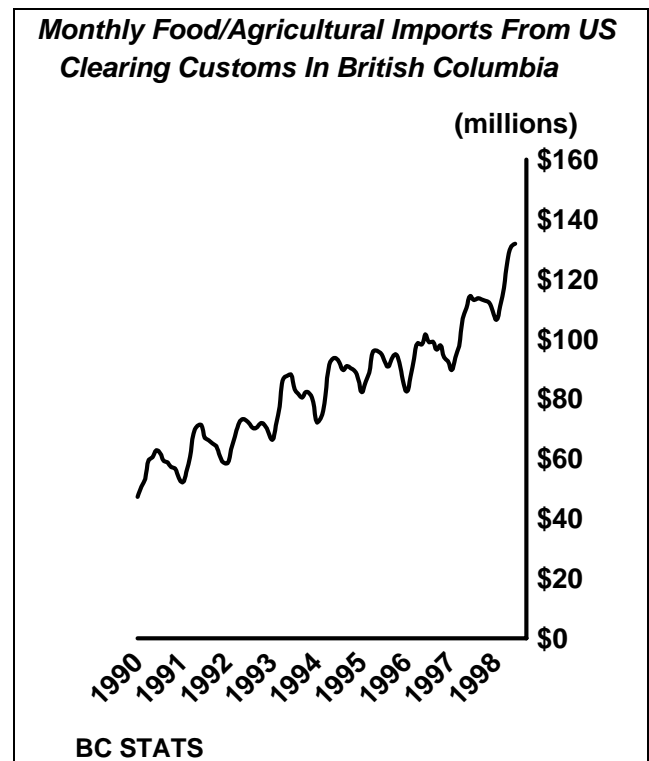
However, as imports have become a larger component of Canadian food consumption, Canadian consumers have become more exposed to changes in the Canada-U.S. exchange rate. This exposure also applies to some extent for Americans, but it is far more important in Canada because Canadian imports from the United States are a far larger part of Canadian food consumption than American imports from Canada are of American food consumption.

Cross border trade in farm and food products involves goods that are mainly standard commodities, for which sources can be changed easily with small differences in price. In this fluid and price-sensitive commerce, it is possible that import-export trade reflects changes in the exchange rate relatively quickly. Trade figures for January to June year to date indicate that this year's decline in the Canadian dollar was already affecting British Columbia food exports in the first half of the year.

During the January to June period, the loonie dropped below 70 cents U.S., down from a range of 72 to 74 cents U.S. in the same months of 1997. As it dropped, there

were strong surges in exports of British Columbia food and agricultural exports to the United States. For example, vegetable exports to the United States rose 51 per cent in June year to date this year, to \$52 million. Exports of horticultural products rose 30 per cent, to \$30 million. Exports of live cattle rose 41 per cent, to \$45 million. And exports of bakery products rose 55 per cent, to \$16 million.

These remarkable increases came as overall exports to the United States were virtually unchanged from 1997 levels, held down by weak prices and stiff international competition for forestry products.



The link between exchange rate changes and exports of food and agricultural commodities cannot be quantified in precise terms. The long growth trend for these commodities suggests that some of the increase in the current year would have taken place even with a stable exchange

rate. There was a slowdown in export growth during 1997 that has tended to emphasise the gains of 1998. However, the dramatic growth figures for food and agriculture exports in the first half of this year, coincident with relatively modest exchange rate changes, seem to suggest that trade in these products can be easily affected by a falling Canadian dollar.

Since June, the Canadian dollar has fallen further, dropping below 65 cents U.S. in August for the first time ever. As export numbers become available for the summer and autumn, it is likely that shipments of food and agriculture products to the United States will continue to climb further over 1997 levels.

Some Food Prices Up With Low Canadian Dollar

While these trends promise more income for British Columbia agricultural producers, they can also be expected to raise prices for fresh food products.

There is some evidence that food prices were already climbing during the first half of the year. Consumer price indices for fruit and vegetable products rose much faster in that period than prices for any other major categories of consumer goods used in compiling the national and provincial consumer price indices. Canadian prices for fresh fruit in June were up 9 per cent over June 1997, and prices for fresh vegetables were up 14.8 per cent. These sharp price jumps came as the 'all items index', for all consumer products together, increased only 1 per cent.

In British Columbia, prices for fresh fruit and vegetables were rising even faster. Prices for fresh fruit and fresh vegetables purchased in the province were up 16.6 per cent and 15.3 per cent respectively in June from 12 months earlier. In the same period, the provincial consumer price index for all items rose only 0.4 per cent.

These numbers imply that consumers in British Columbia and elsewhere in Canada could be facing sharply higher prices for fresh produce this winter, if the Canadian dollar does not reverse its fall against the United States dollar.

A low valued Canadian dollar can produce higher food prices in more than one way. The obvious and most certain price increases have come as Canadian consumers have been obliged to pay more in Canadian dollars for the same amount of food imported from the United States. This form of price inflation threatens to become far more serious during the winter months when so much of Canadian consumption of fresh fruit and vegetable products is traditionally imported from California, Florida and other southern states.

Another form of price inflation can be produced indirectly when Canadian food producers ship more of their output to the United States. In effect, British Columbians can be obliged to pay more for food produced in their own province because they are being forced to bid against American consumers armed with a high valued U.S. dollar.