



THE GLOBE AND MAIL

January 4, 2011

Retailers feel heat from parity-happy Canadians

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From Wednesday's Globe and Mail

Those that sell cars, books, electronics, clothes and housewares under the most pressure to cut prices

After months of dealing with a stubbornly high Canadian dollar, some retailers are finally beginning to do what consumers have been demanding: narrow the price difference between Canadian and U.S. goods.

Despite dollar parity, Canadian retail prices have remained higher than U.S. prices for comparable, or identical, products. According to one bank economist's estimate, Canadian prices are, on average, about 12 to 15 per cent higher than those in the United States.

The price gap is encouraging increasing numbers of Canadians to seek better deals south of the border, a trend that could accelerate this year if domestic retailers don't bring down prices quickly enough. The dollar has been hovering at par for days and is expected to coast there for most of 2011.

Retailers feeling the most pressure to cut prices are those selling cars, books, electronics, clothes and housewares. That's because those items can be readily compared online and most - with the notable exception of cars - are relatively easy for consumers to transport to Canada.

The Consumers' Association of Canada says it has already received "hundreds" of e-mails from shoppers complaining about yawning price gaps on those items.

A wide swath of retailers is expected to respond to those demands.

"When 75 per cent of your Canadian consumers live within an hour of the U.S. border, and you are at parity ... yes, you are under a lot of pressure," said Diane Brisebois, chief executive officer of the Retail Council of Canada. "We suspect that it will intensify."

Before the holiday season, many large retailers began renegotiating prices with wholesalers, manufacturers and distributors, while trimming other business costs, including their leases, to accommodate an anticipated wave of price cuts.

"We may be living with a strong loonie for a longer period of time. And the only way [for retailers] to deal with that is to look at their internal operations and to see where they can find the savings to remain competitive," Ms. Brisebois said.

Part of the challenge is that Canadian retailers face higher import taxes on finished goods than U.S. retailers, she added.

For consumers, the real rub is the loonie's perceived staying power at parity this year, although it averaged 97 cents (U.S.) in 2010.

Officially hitting parity can "psychologically important" for consumers, said Douglas Porter, deputy chief economist with BMO Nesbitt Burns.

Retailers will feel mounting pressure to cut prices if there is a widespread belief that a dollar at parity is the "new reality," he said.

Mr. Porter, who has written about retail price gaps between Canada and the U.S., estimates that, on average, retail prices are 12 to 15 per cent higher in Canada. That estimate is based on a loonie at par and the fact there has been no big difference between Canadian and U.S. inflation over the past 18 months.

BMO is forecasting the Canadian dollar will remain at parity for most of 2011, largely buoyed by the strength of strong commodity prices. That could prompt more consumers to shop state-side.

In December, Statistics Canada reported the number of "same-day car trips" by Canadian residents to the United States rose 4.9 per cent in October from September, 2010.

In recent months, U.S. retail sales have risen by almost 8 per cent over year-earlier levels versus gains of slightly more than 3 per cent in Canada. "Some of it may also reflect some leakage of cross-border shopping by Canadian consumers," Mr. Porter said.

The Consumers' Association of Canada says domestic retailers risk losing even more market share to their U.S. rivals. "We see differences in prices of various things across the border ranging from 15 per cent to 35 per cent, and Canadians wonder why this should be so," CAC president Bruce Cran said.

The association was flooded with "hundreds of e-mails" from consumers on vacation in the United States over the holiday period, he added. Among their main gripes was the differing price of automobiles.

Porsche Canada made it clear that the higher loonie spurred its decision to drop base prices on all car lines by an average of \$5,200. "Porsche Canada has historically been the first to act decisively and responsively to currency fluctuations in the North American market," Joe Lawrence, Porsche Canada's chief executive officer, said in a statement.

General Motors of Canada Ltd., however, is taking the opposite path. It will boost prices on 2011 models beginning on Thursday with increases ranging from \$42 on the subcompact Chevrolet Aveo, which carried a manufacturer's suggested retail price of \$13,950 before the increase; to \$262 on the Cadillac Escalade luxury SUV, which starts at \$84,645, but also offers a \$6,000 rebate.

A Canadian dollar at parity affects luxury vehicles more than mass market vehicles, in part because of higher price differentials in luxury segments. That gives luxury buyers big savings when they buy vehicles in the United States, one senior industry executive said.

The differences in cross-border prices are lower on mass-market vehicles, the source noted, adding that most manufacturers have offered higher incentives in Canada to offset the price differences.

The Porsche move "will not change anything for us," said Marcus Breitschwerdt, president of Mercedes-Benz Canada Inc. Since 2007, when the Canadian dollar first hit parity, Mercedes-Benz has used a combination of price adjustments and offers of additional features on vehicles in Canada, he said.

According to the Registrar of Imported Vehicles, a total of 158,603 new and used cars were imported to Canada from the United States in 2010. While that is greater than the 124,421 imported in 2009, it remains below a peak of 239,929 set in 2008.

Nonetheless, buying a new car from a dealer in the United States can be a tricky exercise. Robert Lamb, founder of consumer group CarsWithoutBorders, said most U.S. dealers are penalized if they sell new cars to Canadians.

"The shame of it all is a normal Canadian citizen with a family and a couple kids can't just go and save five or six thousand dollars on a car. And they are losing that money," Mr. Lamb said.

Some other Canadian retailers said they have no immediate plans to lower prices because of the higher dollar. Electronics retailer Best Buy Canada is closely monitoring the currency, "but we're always making sure that we're providing our customers with the lowest prices regardless of what is happening with the dollar," said communications manager Danielle Jang.

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