CONSUMEROLOGY

ECONOMIC UPDATE | MAY 2014 | ISSUE 22

BENSIMON BYRNE

INTRO

CONSUMERS CONTINUE TO BATTEN DOWN THE HATCHES, REDUCING SPENDING WHEREVER POSSIBLE IN ORDER TO ANXIOUSLY SAVE OR SERVICE DEBT. CANADIANS REMAIN GUARDEDLY OPTIMISTIC FOR THE FUTURE, BUT ARE NOT COMFORTABLE RETURNING TO PAST SPENDING HABITS LET ALONE TAKING RISKS.

What this means for marketers is that Canadian consumers will remain cautious about certain investments and continue to prioritize certain spending and purchases over others. The 2nd Annual Bensimon Byrne Consumer Spending Index reveals that while consumers are not quite cutting back as they did before they still plan to try to spend less in 2014 than they did in 2013. And it reveals what items they will prioritize and where they will cut back.

But what is the context for this? Isn't the national economy slowly but surely recovering? Aren't stock markets up and isn't inflation low?

The pressure on households comes from two directions: cost of living pressures and consumers' financial mobility.

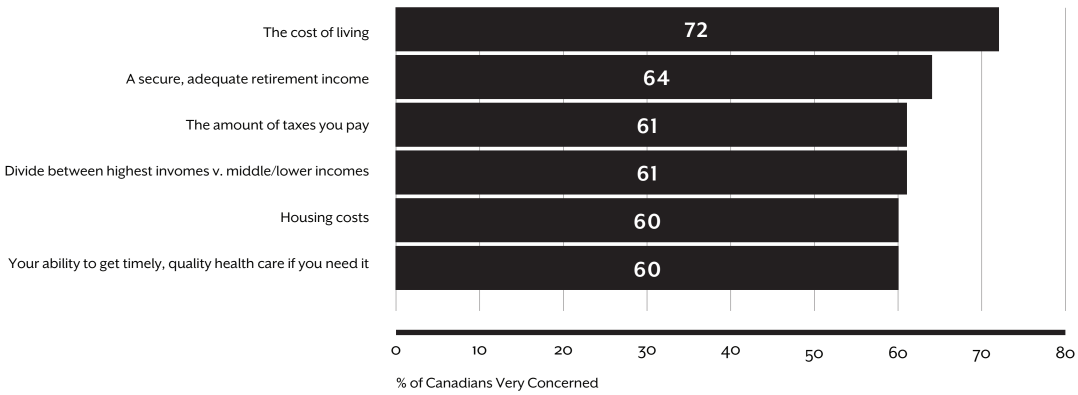
COST OF LIVING

An easy rule of thumb in interpreting oft confusing Canadian public opinion data is that if an issue is of greater concern than healthcare, it's a big problem. The survey index results show cost of living (including housing costs, taxes and retirement income) is a pressing concern for Canadians.

(CONTINUED)

This pressure impacts the range of Canadians households; even the wealthiest Canadians are more likely to say they will reduce their spending in the next year than increase it.

Canadians' Top Concerns



FINANCIAL MOBILITY

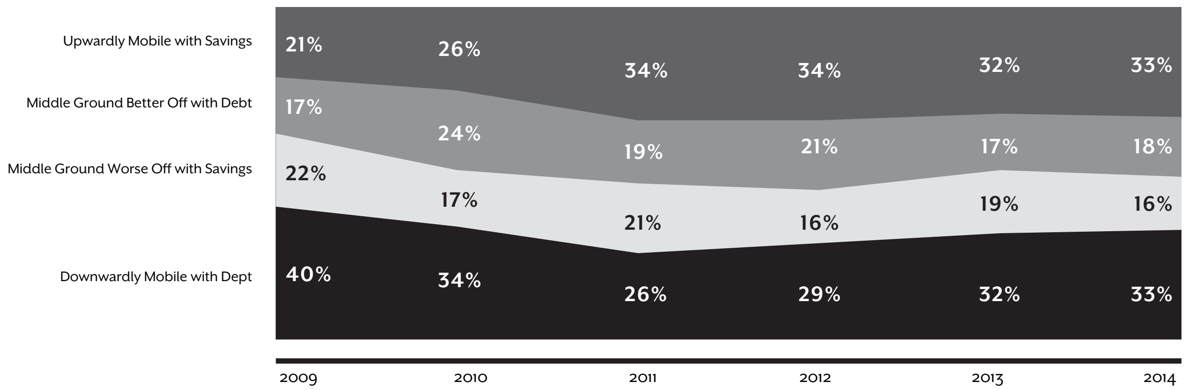
The economic recovery has been uneven; our economy has done a better job of growing the ranks of Upwardly Mobile Canadians better than it has reduced the number of those who are Downwardly Mobile.

Measured in terms of financial mobility, 2011 was a good year, relative to where we are today; the number of Downwardly Mobile Canadians has increased 7% since 2011, while the proportion of Upwardly Mobile Canadians remained stable. The momentum of the recovery seems to have peaked in 2011, after which Canadians are more likely to fall behind than to get ahead.

Whatever ails our economy is not solely tied to the great recession, as the data since 2011 indicates.

Upwardly Mobile Canadians are those who have seen their personal finances improve and have more savings than (non-mortgage) debt. *Downwardly Mobile Canadians* are those who have seen their personal finances worsen and have more debt than savings. *The Middle Ground* are those who have either seen improved personal finances but more debt than savings, or those who have seen worsened personal finances but more savings than debt.

Canadians' Financial Mobility Since 2009



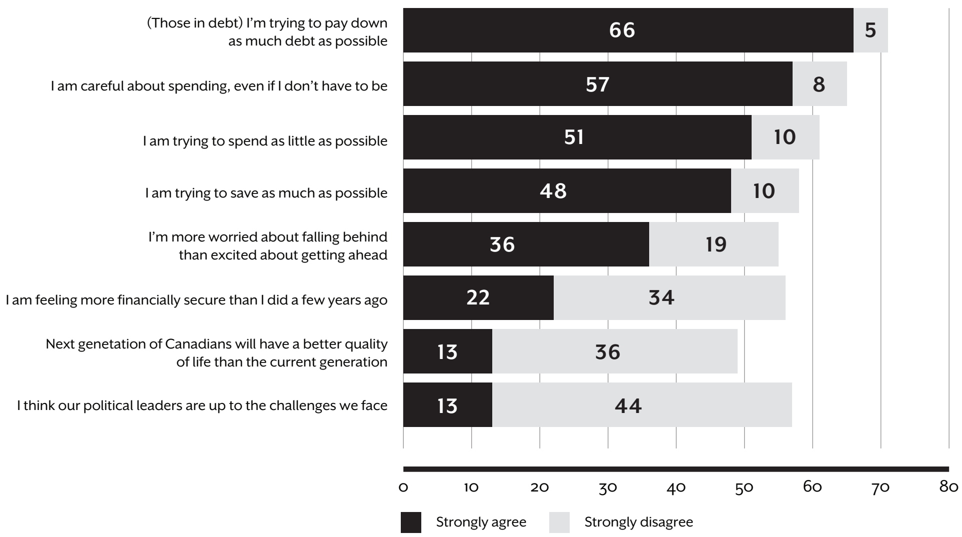
MORE PESSIMISM THAN OPTIMISM ABOUT THE FUTURE

Assessments of the national economy remain guardedly optimistic; Canadians are more likely to say the economy is growing (59%) than shrinking (41%), but very few say it is strong growth. However, a snapshot of sentiment about Canadians' personal finances contrasts with their view about the economy; Canadians were just as likely to say they are worse off than to say they are better off relative to last year. They are generally more optimistic about next year, both for themselves (64% better off) and the national economy (69% growth), but these results are unchanged from 2013; Canadians routinely overestimate improvements in the year ahead.

Relative to 2013, Canadians are even more likely to be worried about falling behind than excited about getting ahead, and it shows in other measures. Canadians are also more likely to feel less rather than more financially secure than they did a few years ago. They are no more likely to be optimistic about their future than they were last year.

(CONTINUED)

Canadians' Views on Personal Finance and the Future



Canadians are focused on paying down debt, spending carefully (even if they do not have to), and spending less and saving more. Not only are these priorities, they are even more important than they were last year.

In short, Canadians are more concerned with stabilizing their finances than aspiring for a significantly better standard of living.

The fact that few think our political leaders are up to the challenge is little comfort. In strong contrast to opinions pre-recession, Canadians are more likely to think the next generation of Canadians will be worse off than they are.

EXAMINING THE CONSUMER SPENDING INDEX

The Bensimon Byrne Consumer Spending Index asks Canadians whether they plan to spend more or less than they did last year, on 30 essential and discretionary items.

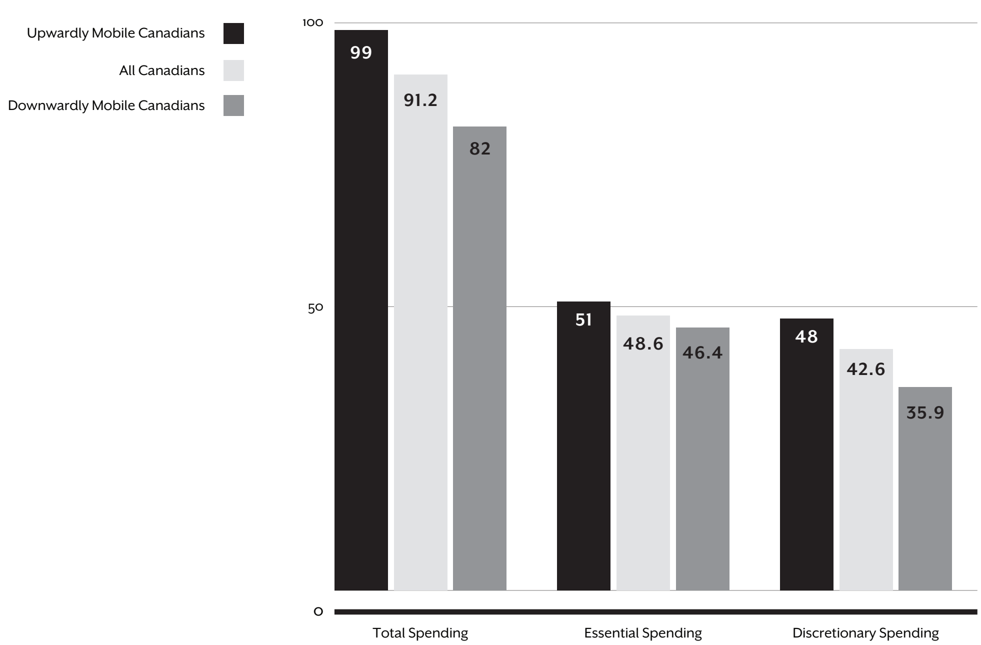
For example: assume a woman named Kim normally goes on two vacations a year, and the cost of airfare (fuel) has increased. If her income is flat, she will likely go on only one vacation, since two would cost more than it did last year and therefore outside her budget. Thus, Kim would plan to spend less on vacations in the next year, not because the cost is down, but because her consumption must go down.

Some economists and commentators have flagged the disconnect between the Consumer Price Index (what is formally referred to as inflation), and the inflation consumers experience on their essentials; housing, electricity, fuel, and food prices all seem to outpace CPI. Our findings suggest the basket of goods included in the CPI does not reflect many consumer essentials that have seen price increases well above the rate of inflation.

This is why Canadians are bitterly complaining about cost of living inflation while macroeconomic measures insist that inflation is in fact low; **when real wages are flat and the cost of essentials increases, demand is suppressed.**

A Consumer Spending Index score greater than 100 indicates that consumers expect to spend more in the coming year than they did in the last. A score of less than 100 indicates a reduction in planned spending and scores closer to 100 indicate constant spending, relative to last year. This score is comprised of two sub-indices; one for discretionary and one for essential spending. For each, a score of 50 is the baseline.

Bensimon Byrne Consumer Spending Index



The Essential Spending index includes Canadians' planned spending on taxes, internet, groceries, gas and auto maintenance, electricity and clothing for their children. Discretionary spending is everything else.

The Consumer Spending Index score for 2014 is **91.2**, meaning Canadians plan to reduce their spending, if somewhat less intensely than in 2013, when the score was **89.9**. Essential spending will be reduced slightly based on this year's score of **48.6** (up .1 from 2013). Discretionary spending will be reduced significantly based on this year's score of **42.6** (up 1.2 from 2013).

The implications of upward or downward mobility are captured by the Consumer Spending Index: Upwardly Mobile Canadians plan to only marginally increase spending on essentials (**51**, up .5 since 2013) and reduce discretionary spending slightly (**48**, up 1.2 since 2013). The Consumer Index reveals even more spending retrenchment among the Downwardly Mobile who will spend less on essentials (**46.4**, up .9 since 2013) and a great deal less on discretionary items (**35.9**, up 1.3).

WHERE DOES THIS LEAVE US?

The good news is that Canadians are finally taking their debt and savings situation seriously. Years of policy makers, advocates and journalists talking about retirement income inadequacy and ruinous personal debt levels are beginning to take hold; Canadians have either heard the message, or have come to grim conclusions on their own. Regardless, Canadians are thinking about their financial future, and not just living day to day.

The bad news is that Canadians are tapped out, and cannot be counted on to continue consuming above their means. Consumers quite simply cannot increase their spending to help fuel the economic recovery. The more difficult it is to imagine a scenario where food, fuel, energy and/or housing costs come down, the more persuasive the notion that consumer demand cannot increase significantly until wages do.

METHODOLOGY

The findings discussed in this report are based on an online survey conducted by The Gandalf Group, among 1500 Canadians, proportionate to the gender, age and regional distribution of the Canadian population. We also surveyed Quebec in proportion to the province's distribution of English and French speakers. The survey was conducted April 3rd to 15th, 2014, in both English and French.

INTENDED CATEGORY SPENDING FOR 2014

	More (7-9)	About the same (4-6)	Less (1-3)	DK/NA	NET	DIFFERENCE IN NET SCORE SINCE 2013
DVDs for the home/pay per view movies	4	33	35	28	-31	1
Personal electronic devices, like digital cameras, GPS's, or modems	8	40	35	17	-27	4
Eating out at restaurants	8	48	35	8	-27	2
Going out to bars or clubs/live music	5	26	31	38	-26	5
Music	6	39	32	23	-26	1
Movies at the theatre	7	40	30	23	-23	1
Live sports events	5	26	27	42	-22	2
Lottery tickets	5	40	30	23	-21	4
Liquor	6	39	27	29	-21	3
Books	8	45	29	17	-21	4
Beer	5	35	25	35	-20	4
Home furnishings	11	42	31	17	-20	3
Wine	6	36	26	32	-20	1
Computers or computer equipment such as tablets	12	44	31	13	-19	2
Cosmetics/skin care	7	49	24	21	-17	3
Cigarettes	4	16	19	61	-15	2
Cell phone	9	54	21	16	-12	0
Clothes for yourself	13	57	25	5	-12	0
Cable television, digital cable, specialty cable, or other services like HD or personal recording devices (PVRs)	10	55	22	13	-12	-3
Investments in things like GIC's or Canada Savings Bonds	11	32	19	37	-8	-1
Home repairs or renovations	16	35	22	27	-6	1
Investments such as equities or mutual funds	13	35	18	33	-5	1
Internet in the home	11	66	16	7	-5	-2
Vacations/Travel	19	39	23	19	-4	2
Clothes for your kids	9	22	11	58	-2	-2
Electricity	20	51	15	14	5	2
Taxes	19	50	15	16	4	1
Driving and maintaining your car	18	50	15	17	3	0
Gas	20	48	14	17	6	0
Saving for retirement	19	38	14	28	5	-3
Groceries	23	61	11	4	12	-3

0 20 40 60 80 100