

THE BENSIMON BYRNE

Consumerology Report

Economic Trends and Consumer Behaviour

May 2013



Consumers Project Cutbacks to Their Discretionary Spending in the Coming Year

New Consumer Spending Index Reveals Why

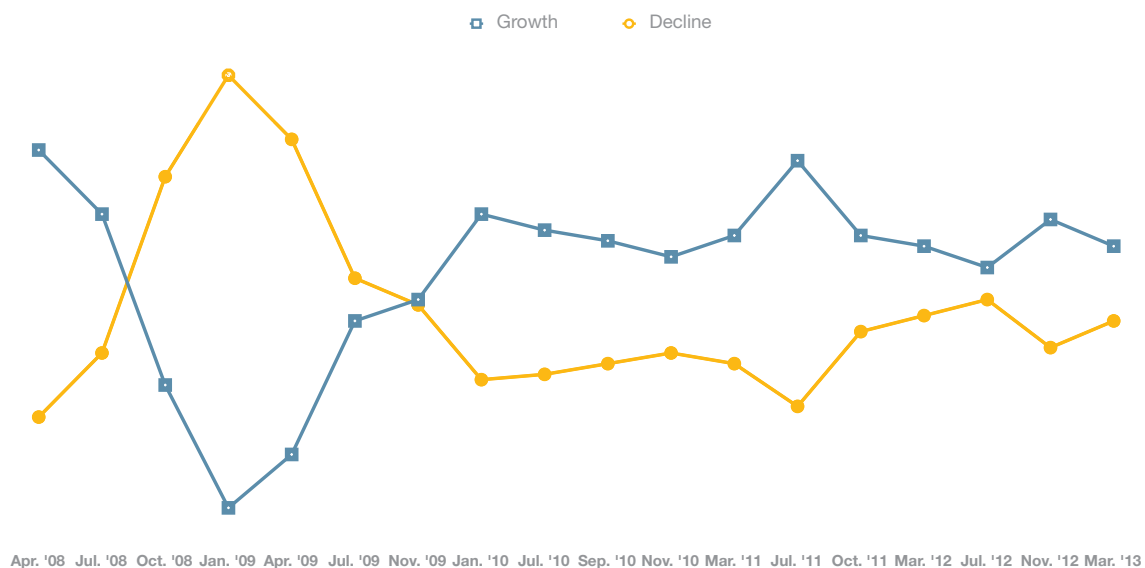
19th Quarterly Edition of The Bensimon Byrne Consumerology Report

Economic Assessments

While most Canadians (57%) still believe the economy is growing, assessments of the national economy are down 5% from last fall, and significantly down (18%) from pre-recession. The biggest drops in assessments of growth are in the Atlantic provinces and British Columbia. Impressions of growth in the national economy are driven by the strength of the prairies. Outside of that region, most Canadians think their provincial economy is in recession.

Assessments of the National Economy

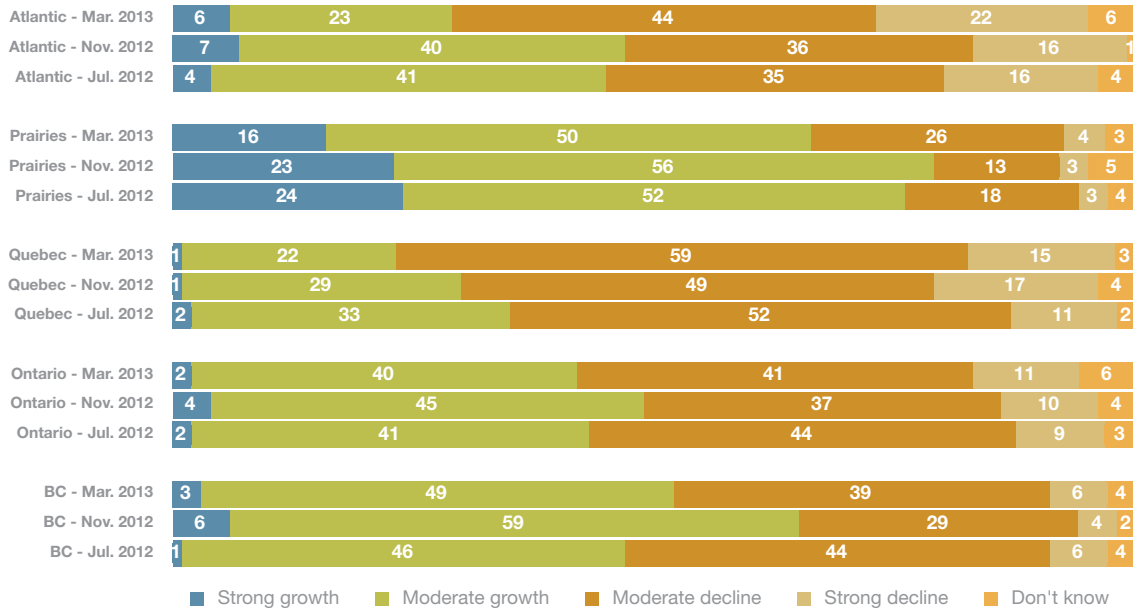
"In general, how would you describe the state of the economy of Canada today – would you say that it is in a period of _____?"



This quarter's Consumerology study focuses on our annual tracking of economic trends and consumer behavior. Online focus groups inform a national quantitative online survey with 1500 Canadians. The sample is proportionate to the gender, age and regional distribution of the Canadian population and was collected from March 19-28, 2013.

Assessments of Provincial Economies

"In general, how would you describe the state of the economy of your province today – would you say that it is in a period of _____?"



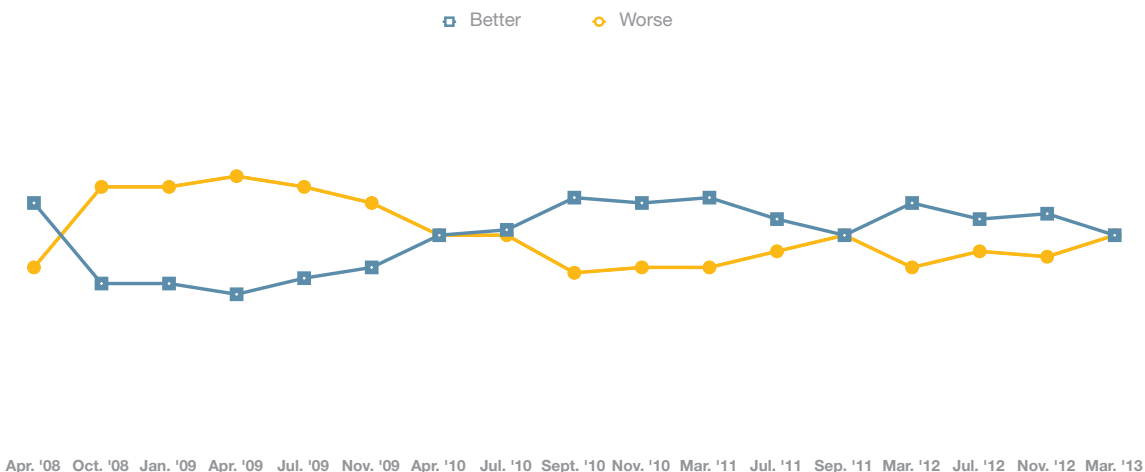
Personal Financial Situation

Half of Canadians are better off financially than they were a year ago, and half are worse off. Only in the Prairies are a clear majority better off over the past year. Those most likely to be losing ground are over the age of 45 and middle to lower income.

The more affluent one is, the more likely one's fortunes are to be improving year over year. A majority of Canadians (66%) remain optimistic about how the next year will treat them, with optimism particularly high among the young and the wealthier.

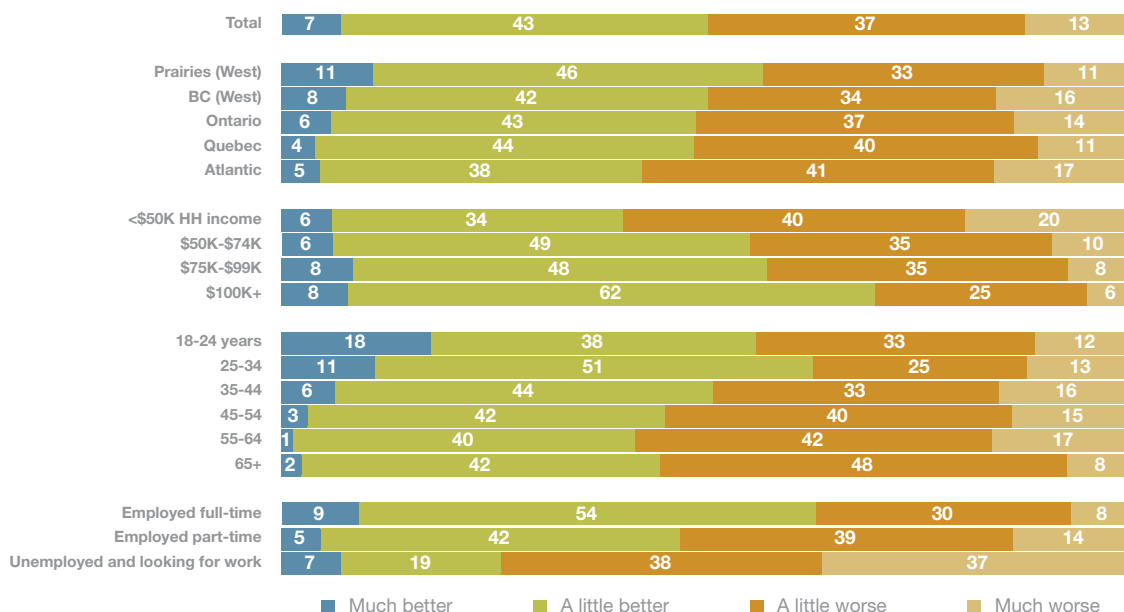
Assessment of Personal Financial Situation

"How would you say your PERSONAL financial or economic situation is compared to one year ago? Would you say your PERSONAL or economic financial situation has gotten _____?"



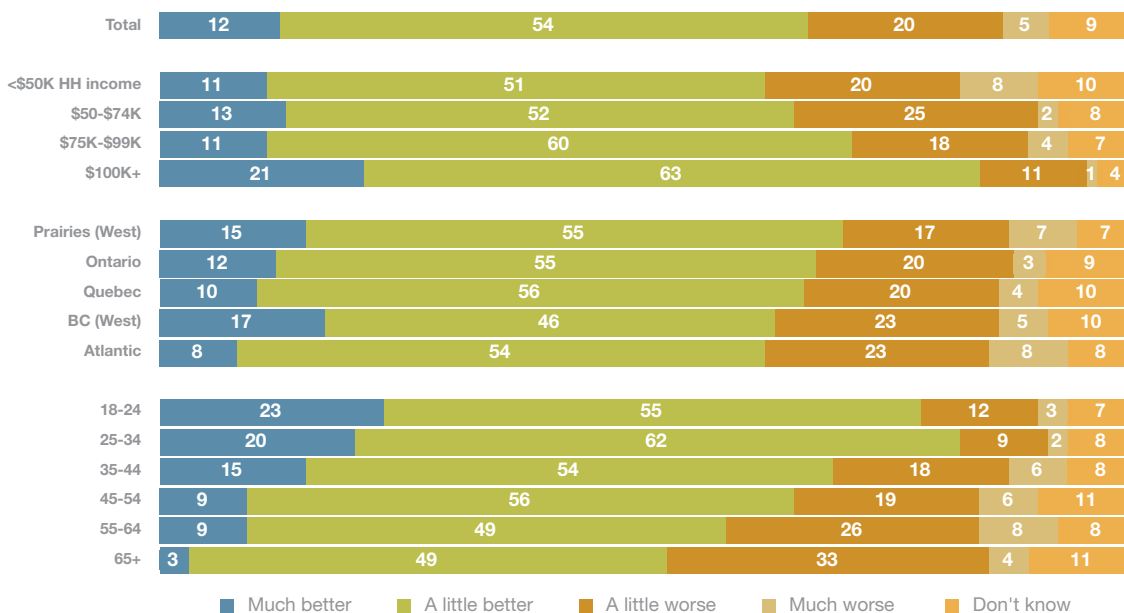
Assessment of Personal Financial Situation

"How would you say your PERSONAL financial or economic situation is compared to one year ago? Would you say your PERSONAL or economic financial situation has gotten _____?"



Expectations of Personal Financial Situation

"Looking forward to one year from now, do you think that your PERSONAL financial or economic situation will be much better, a little better, a little worse or much worse?"



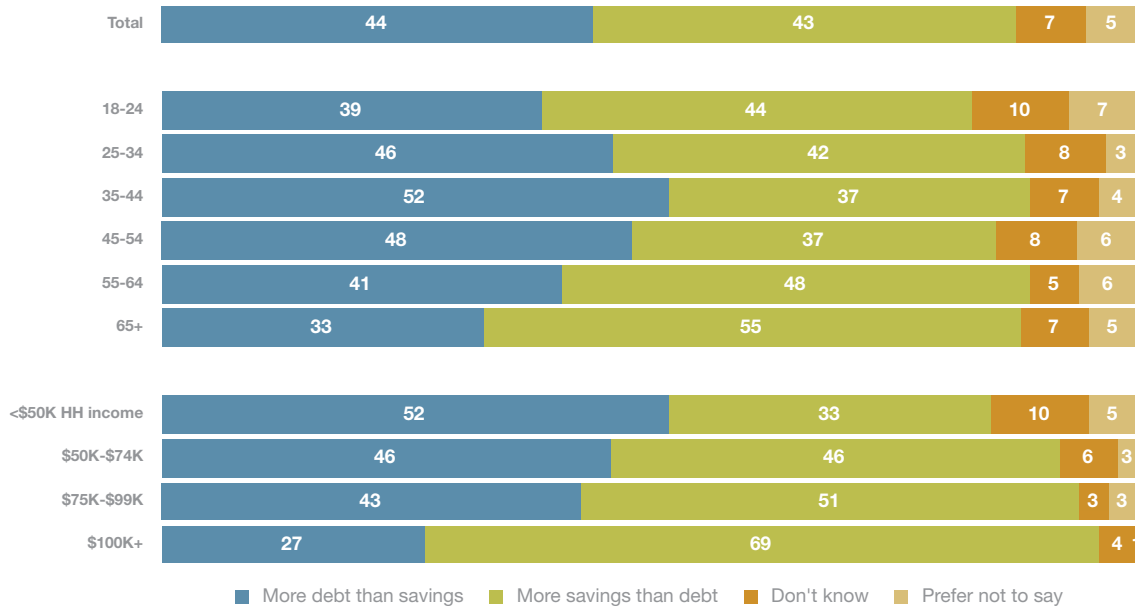
Personal Debt Levels

Two thirds of Canadians have some debt and while most (62%) are at least somewhat easily able to afford to service it, one third of Canadians are finding it at least somewhat difficult to make payments. If interest rates were to rise just one percent, 27% of those with debt would have a big problem making payments and 60% will have at least some problem. The most common

reason those with debt took on debt was in order to make ends meet followed by the need to buy things they wanted. Canadians have been primarily borrowing to maintain lifestyle in the face of stagnant incomes. Half of Canadians have more debt than savings (not including mortgage or equity). This is especially the case for those aged 25-55 where debt levels peak.

Do Canadians Have More Debt or More Savings?

"What is the status of your current financial position – would you say that you have more debt than you do savings (not including equity in your home), or more savings than you have debt?"



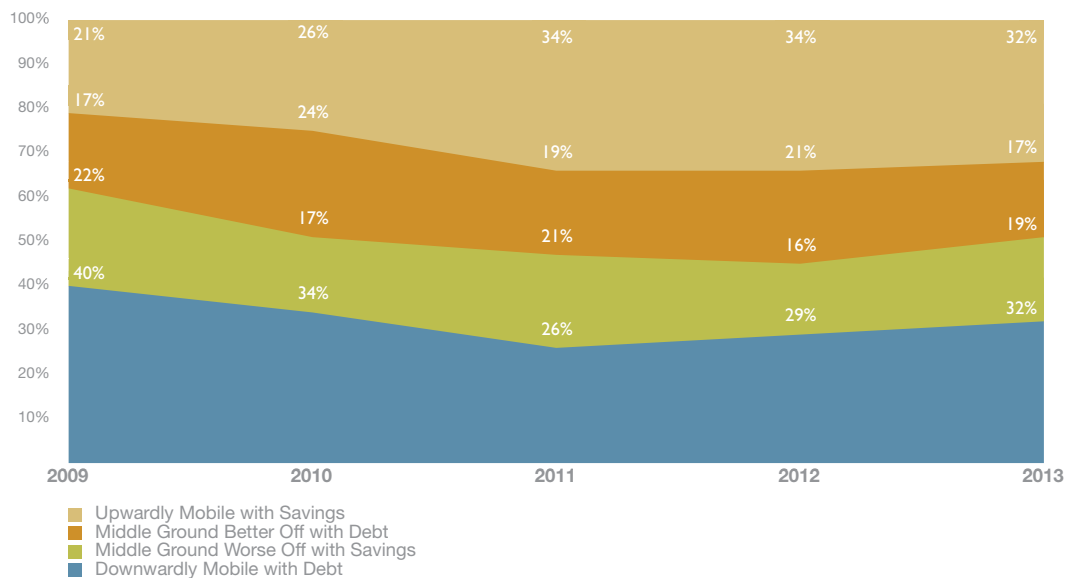
Financial Mobility & Security

We have identified two important segments of the population, both of whom exhibit very different consumer behaviours:

1. The **Upwardly Mobile with Savings** (32% of Canadians) are those whose personal financial situation is better than it was last year, and who have more savings than debt. (Half still have some debt.)
2. The **Downwardly Mobile with Debt** (32% of Canadians) are those whose personal financial situation is worse than it was last year, and who have more debt than savings.

The remaining 36% of the population occupy the **Middle Ground** – those that are either better off with debt or worse off with savings. After the recession of 2008, the percentage of downwardly mobile with debt decreased significantly until 2011, from which point things turned and the downwardly mobile segment has been growing for the past two years. The upwardly mobile segment is not shrinking – it is the middle class that has been sliding into downward mobility.

Over Time



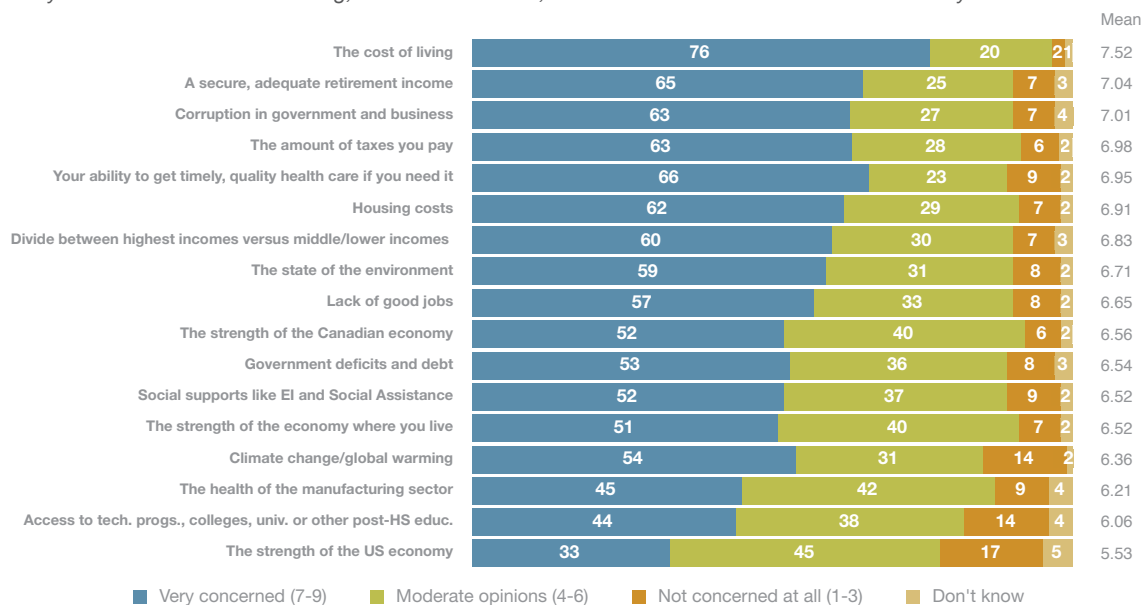
Social Concerns & Financial Well Being

Rarely is healthcare not the top policy concern of Canadians, but concerns about the cost of living are paramount at the present time. The cost of living is concerning to more Canadians than any

other economic challenge followed by concerns over healthcare, adequate retirement, corruption in government and business, taxes, housing costs, and the divide between the rich and poor.

Canadians' Concerns – Among All Respondents

“How concerned are you about each of the following, on a scale of 1 to 9, where 1 is not concerned at all and 9 is very concerned...”



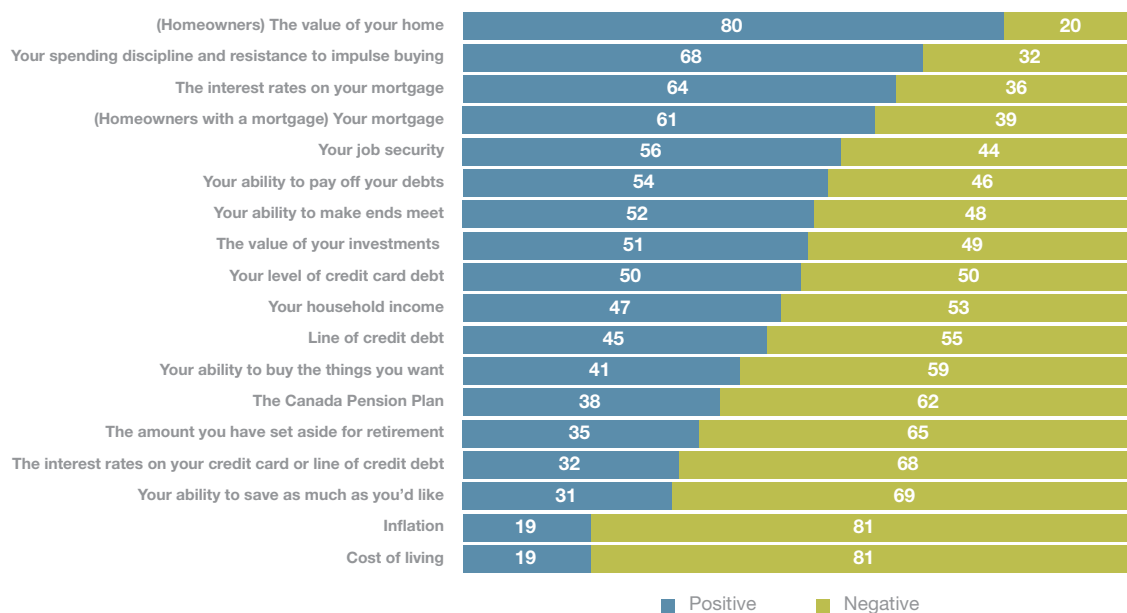
Mean is the average score on a 1-9 scale, with 1 meaning strongly disagree, and 9 meaning strongly agree

In terms of their own finances, we have reported on the importance of home equity to most Canadians' financial security. This remains the most positive aspect of most Canadians' finances, and eight of our ten homeowners feel good about the value of their home. Canadians also feel positively about their spending discipline, the interest rates on their mortgage, and their job security, although a significant number feel their job

is not secure. A majority feel negative about their ability to buy the things they want, the CPP, the interest rate on their credit card, their retirement savings and their ability to save, with the cost of living and inflation topping the most negative financial factors in their lives. Only one in three Canadians is comfortable with the amount they are saving for retirement.

How Canadians Feel About Financial Factors In Their Lives – Among All Respondents

“At the current time, are you feeling positively or negatively about each of the following financial factors in your life...? Is that very positive, somewhat positive, somewhat negative or very negative?”



The Bensimon Byrne Consumer Spending Index

This report introduces a new way of anticipating consumer spending in the next quarter. The Bensimon Byrne Consumer Spending Index is an index of gross spending over the next year including all categories. It is based on self-reported spending projections of two separate categories: essential items and discretionary spending.

A score less than 100 indicates that consumers expect to spend less in the coming year than in the past year and a score greater than 100 indicates that consumers expect to spend more in the coming year than in the previous year. The closer to 100 the score is, the more constant spending will be compared to last year.

Essential Spending includes:	Discretionary Spending includes:
<ul style="list-style-type: none">• Automobile repairs/maintenance	<ul style="list-style-type: none">• Books
<ul style="list-style-type: none">• Cell phone	<ul style="list-style-type: none">• Cable television
<ul style="list-style-type: none">• Cigarettes	<ul style="list-style-type: none">• Clothes for yourself
<ul style="list-style-type: none">• Clothes for kids	<ul style="list-style-type: none">• Computers/computer equipment
<ul style="list-style-type: none">• Electricity	<ul style="list-style-type: none">• Cosmetics
<ul style="list-style-type: none">• Gas	<ul style="list-style-type: none">• Dining out at restaurants
<ul style="list-style-type: none">• Groceries	<ul style="list-style-type: none">• DVDs
<ul style="list-style-type: none">• Internet in the home	<ul style="list-style-type: none">• Going out to bars/clubs
<ul style="list-style-type: none">• Taxes	<ul style="list-style-type: none">• Home furnishings
	<ul style="list-style-type: none">• Home repairs/renovations
	<ul style="list-style-type: none">• Investment Funds, Investment Bonds
	<ul style="list-style-type: none">• Live sports events
	<ul style="list-style-type: none">• Lottery tickets
	<ul style="list-style-type: none">• Movies at the theatre
	<ul style="list-style-type: none">• Music
	<ul style="list-style-type: none">• Personal electronics
	<ul style="list-style-type: none">• Saving for retirement
	<ul style="list-style-type: none">• Vacations
	<ul style="list-style-type: none">• Wine, Beer, Liquor

The combined Bensimon Byrne index score for essential and discretionary spending is **89.9**. Consumers predict a slight decline on **essential spending** in the coming year, with an index score of

48.5 and a significant retrenchment in **discretionary spending**, with an index score of **41.4**. These results show that price pressures on essential items are crowding out discretionary expenditures.

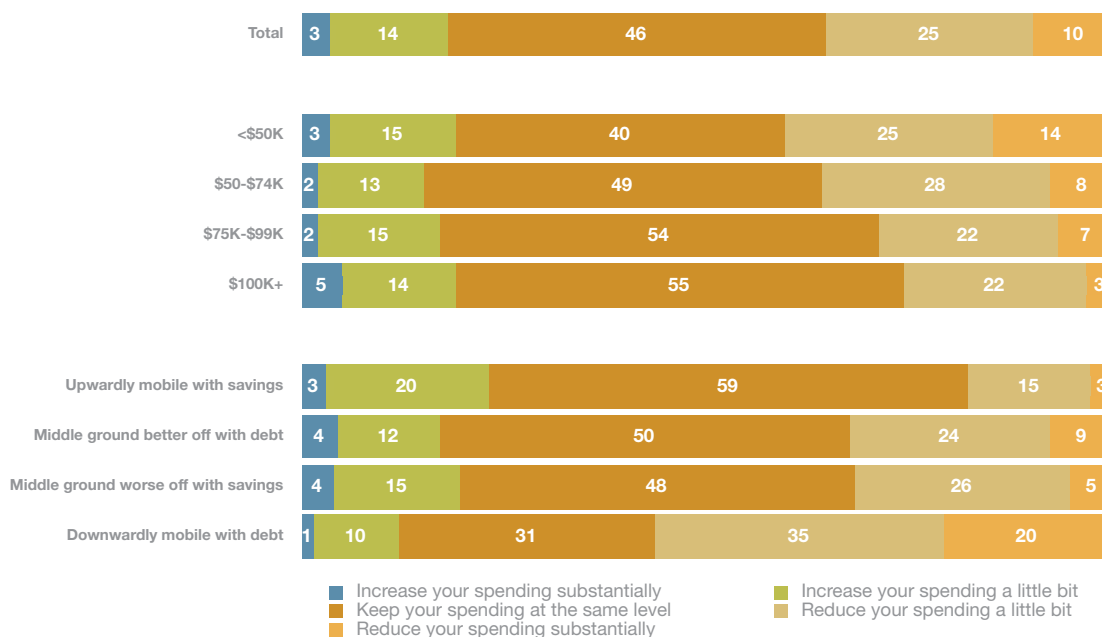
Spending Projections

Almost half (46%) of Canadians intend to maintain their current spending patterns in the next year. However, Canadians are in a saving mode. Twice as many plan to reduce spending (35%) as plan to increase it (17%). Canadians in the highest income groups – while more likely to maintain current levels of spending – are not more likely than Canadians with lower incomes to intend to spend more.

The **Upwardly Mobile** (32% of Canadians) buck the retrenchment trend, with 60% intending to maintain current levels of spending, while almost one quarter (23%) intend to increase spending. The **Downwardly Mobile** (32% of Canadians) are five times as likely to reduce spending than to increase it. More intend to reduce spending than maintain current levels of spending.

Spending in the Next Year

"In the next year, will you..."



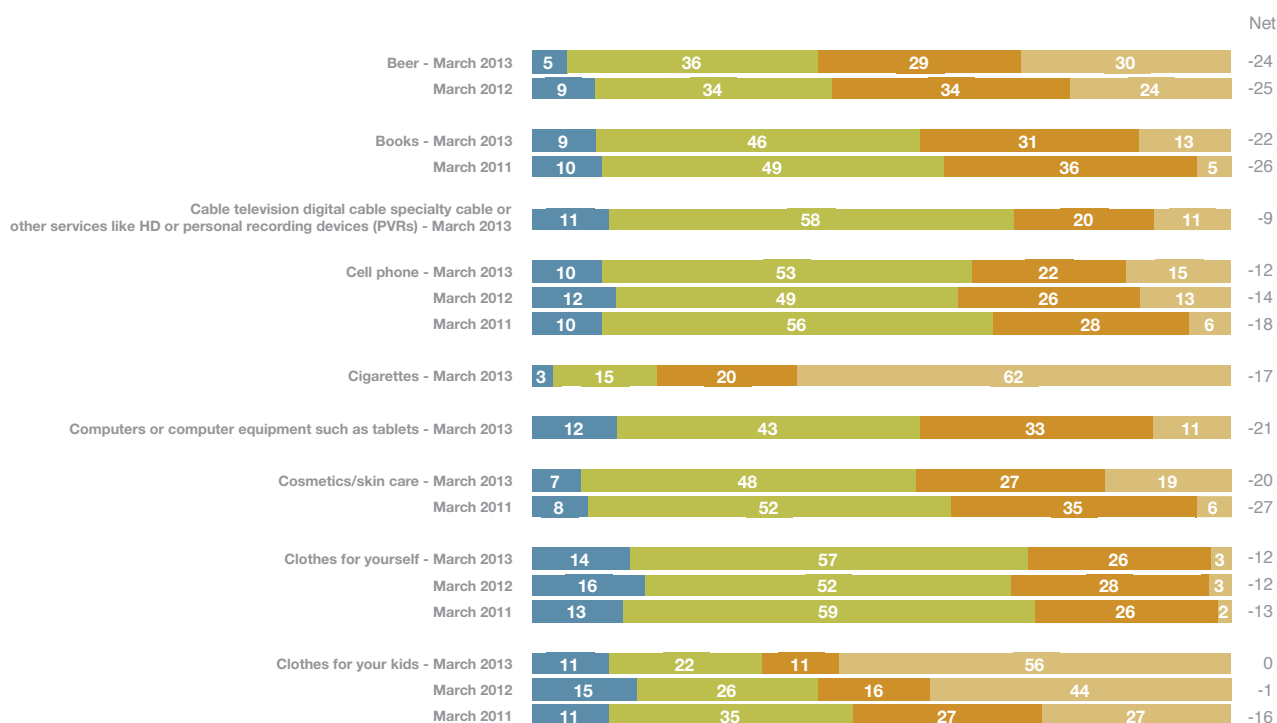
Spending Projections Across Categories

Canadians expect to maintain current spending patterns through the next year across almost all categories. The only net increase in spending (where more Canadians expect to increase spending than decrease it) is on essentials such as gas, groceries, and electricity. Spending on retirement income vehicles should

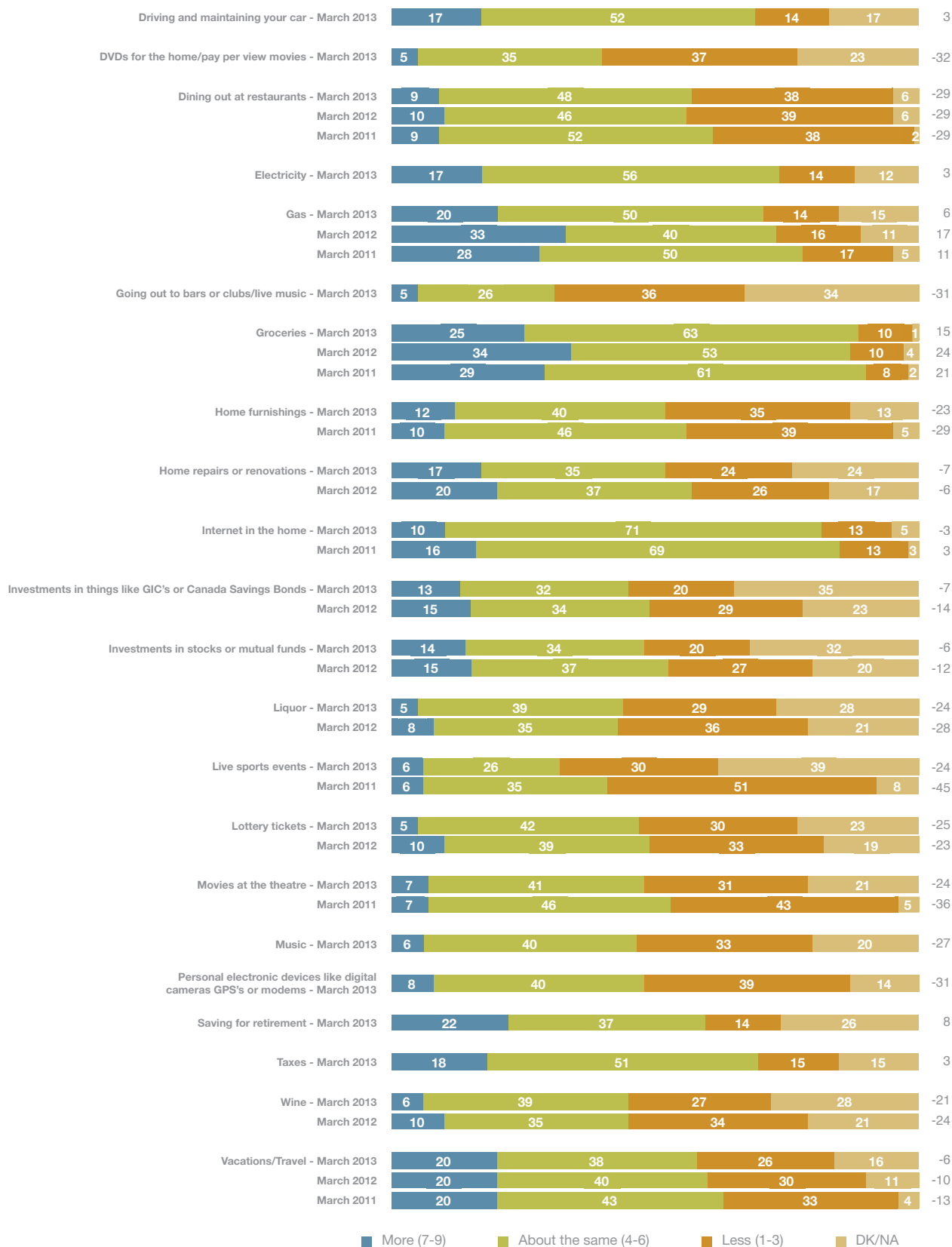
also see an increase, as Canadians are almost twice as likely to say they will try to save more money this year than to save less. Categories such as vacations, home furnishings, cosmetics, and investments will still see some retrenchment but not nearly as severe as in previous years.

Category Spending – 2011-2013 Tracking

"On a scale of 1 to 9, where 1 means you intend to spend much less than you did last year and 9 means you intend to spend much more than you did last year, please tell us how much you expect to spend in the coming year on the following items or activities..."



(Chart continued on next page.)



Net refers to the % difference between the % giving a 7-9 (spend much more) minus the % giving a 1-3 (spend much less)

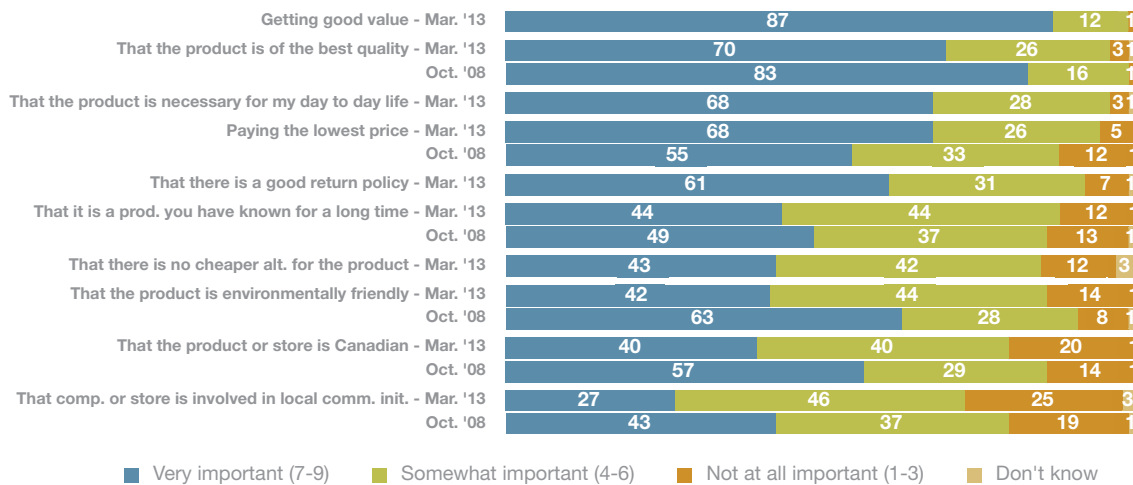
Changes in Consumer Priorities

Consumer purchase decisions have changed since 2008. For most consumers, a demand for the lowest possible price is becoming the dominant consideration. In 2008, just over half of Canadians rated paying the lowest price as very important; today, more than two-thirds do.

At the same time, social considerations have fallen in importance as the demand for the lowest price has risen. Being environmentally-friendly, made in Canada and a company's community support are of much less importance now than before the recession.

Importance of Product Attributes – Among All Respondents

"When you buy a product, how important is the following on a 1-9 scale, where 1 is not at all important and 9 is very important...?"



An Underlying Pessimism for the Future

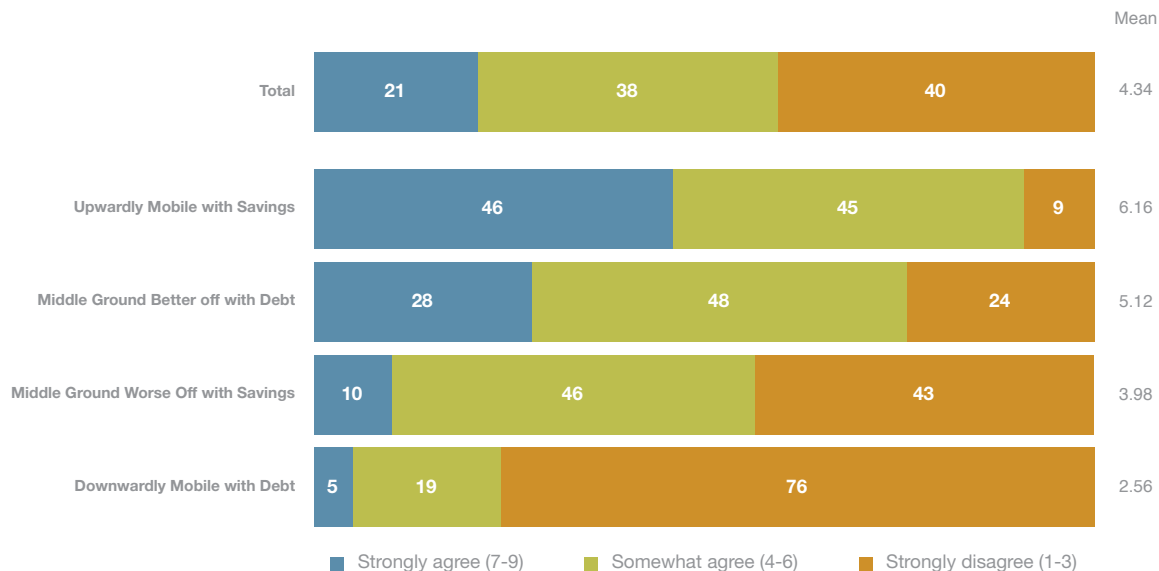
Canadians are feeling less financially secure (40% vs 21%) than they did a few years ago, even among the upwardly mobile. However, the truly upwardly mobile are far and away the most optimistic about their future. Those in the middle (36% of Canadians) – whether doing better but burdened by debt or doing worse but buttressed by savings – are more likely to be worried about falling behind than excited about the future. There is a lack of confidence in the future and of future generations.

It takes both improving financial fortunes and having a positive savings-to-debt ratio to make a Canadian feel secure and excited about the future.

Canadians are planning to focus on paying down as much debt as possible. Even the upwardly mobile are in both a paying off debt and a saving mode with half saying they will be saving as much as possible and spending as little as possible.

Views on the Economy and Personal Finance – Spending – Among All Respondents

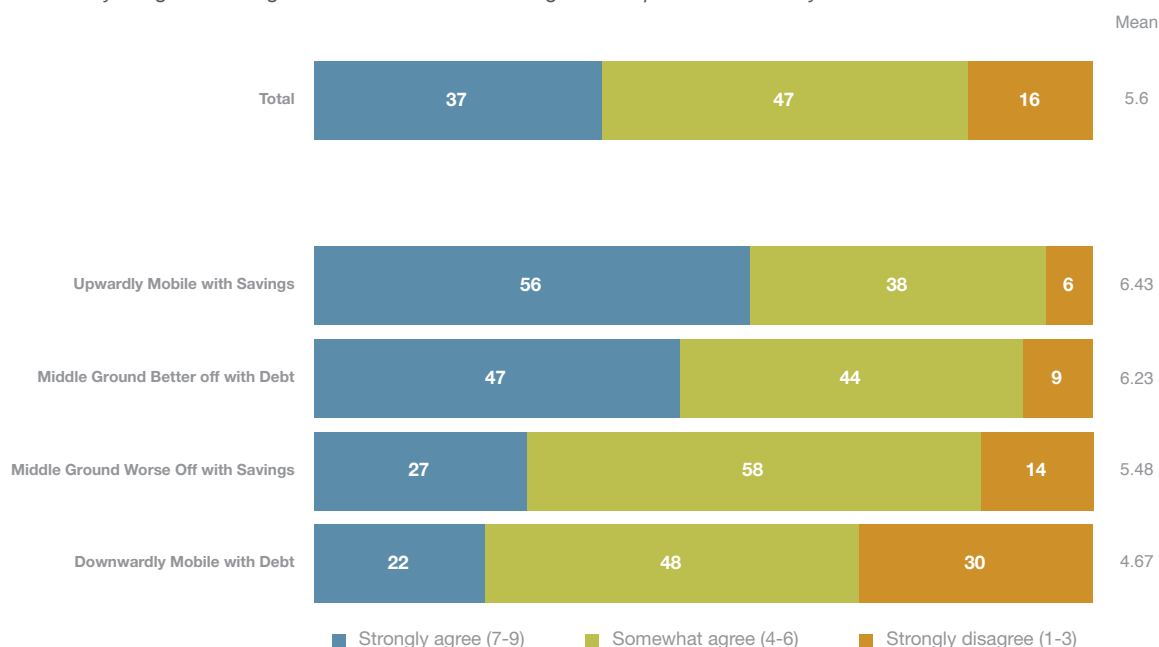
"Please tell us how much you agree or disagree with each of the following... I am feeling more financially secure than I did a few years ago."



Mean is the average score on a 1-9 scale, with 1 meaning strongly disagree, and 9 meaning strongly agree

Views on the Economy and Personal Finance – Spending – Among All Respondents

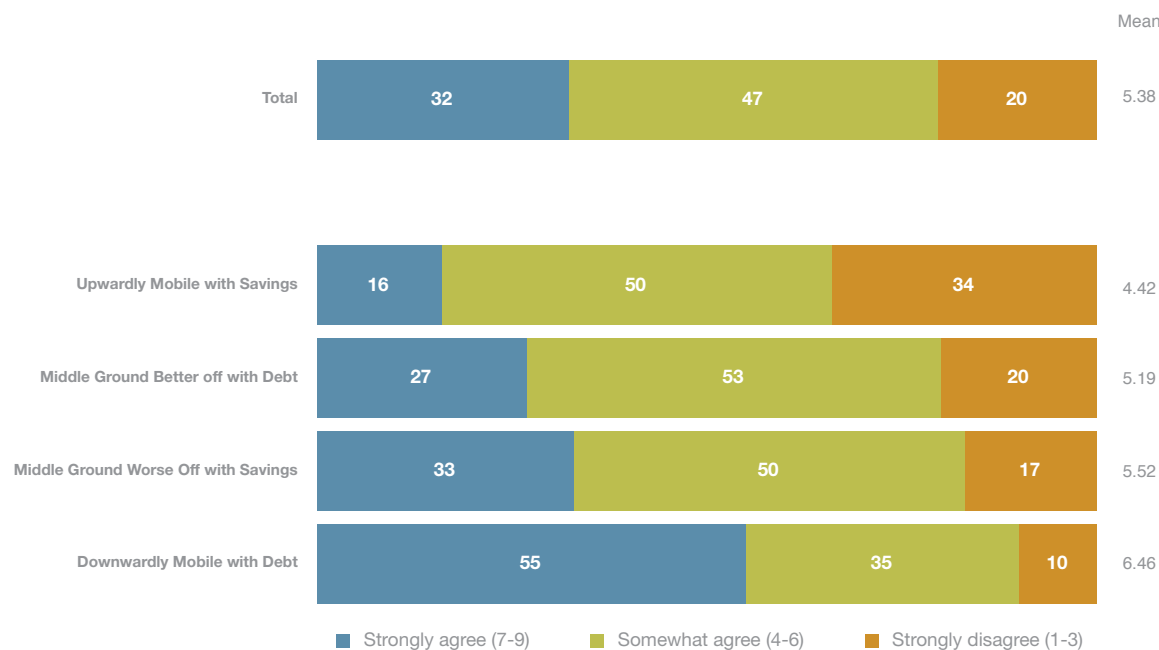
“Please tell us how much you agree or disagree with each of the following... I am optimistic about my future.”



Mean is the average score on a 1-9 scale, with 1 meaning strongly disagree, and 9 meaning strongly agree

Views on the Economy and Personal Finance – Spending – Among All Respondents

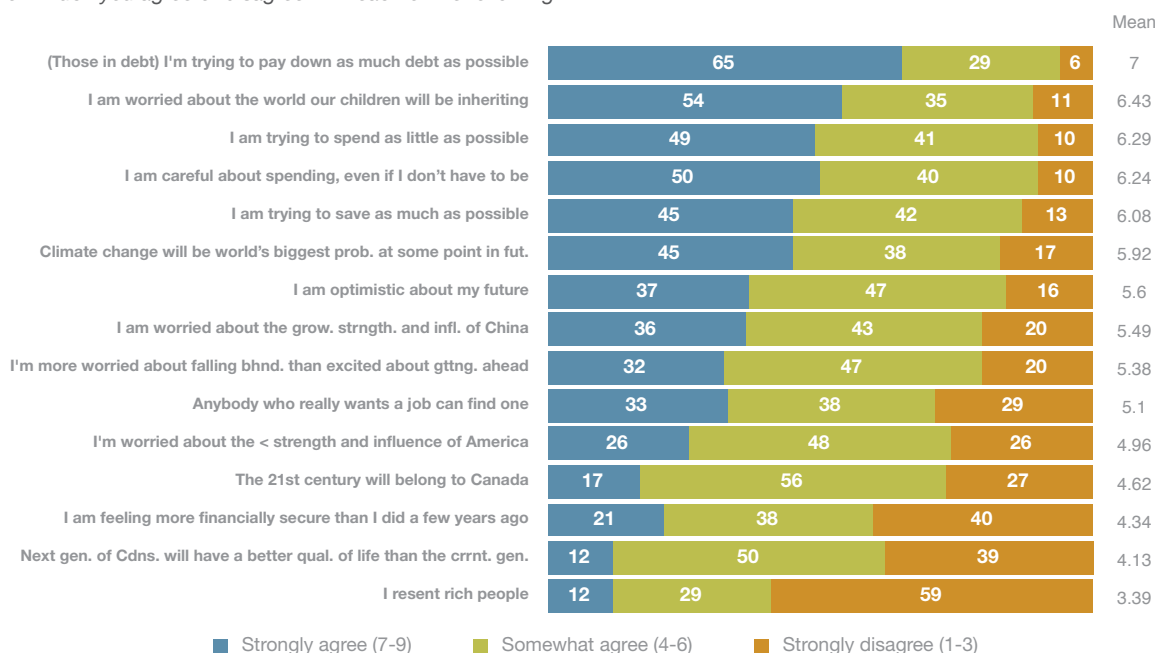
“Please tell us how much you agree or disagree with each of the following... I’m more worried about falling behind than excited about getting ahead.”



Mean is the average score on a 1-9 scale, with 1 meaning strongly disagree, and 9 meaning strongly agree

Views on the Economy and Personal Finance – Among All Respondents

“Please tell us how much you agree or disagree with each of the following.”



Mean is the average score on a 1-9 scale, with 1 meaning strongly disagree, and 9 meaning strongly agree

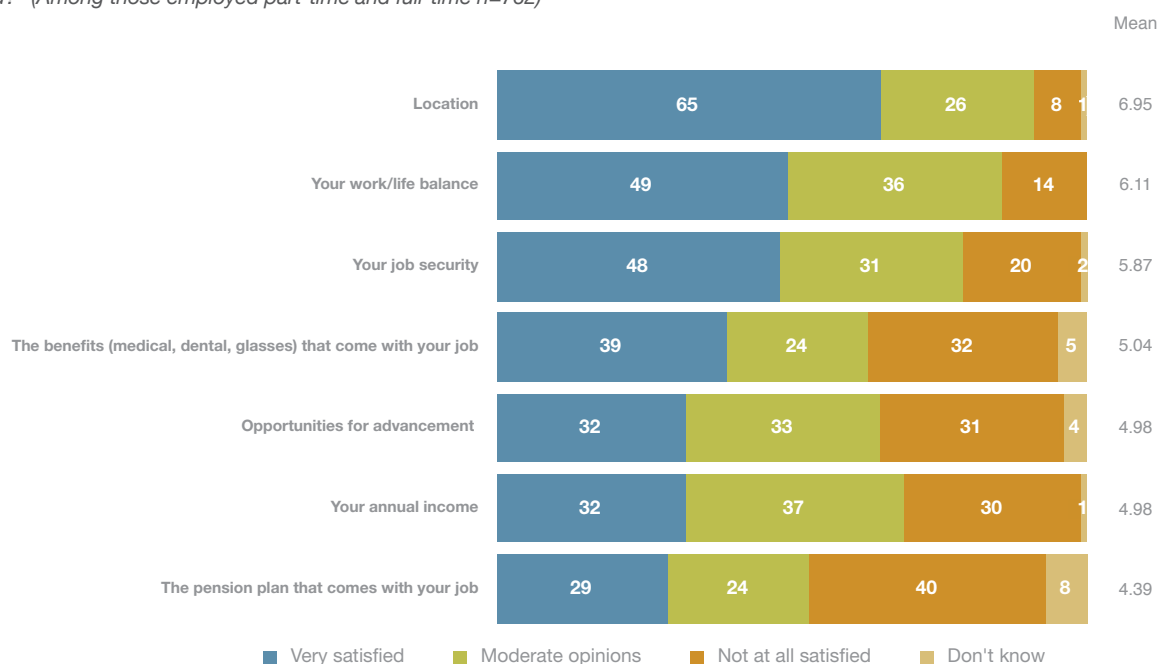
Job Satisfaction

Few elements of the Canadian workplace are providing employees satisfaction. Of the 51% of Canadians who are employed (37% full-time), the workplace pension is the most unsatisfying element of their job, followed by their income.

About half are satisfied with the security of their job and their work/life balance. The downwardly mobile who are employed are less satisfied with all elements of their job than others while the upwardly mobile are the most satisfied.

Employed Canadians' Satisfaction with Aspects of Employment Situation

“Thinking about your current employment situation, how satisfied are you with the following, where 1 is not at all satisfied, and 9 is very satisfied?” (Among those employed part-time and full-time n=762)



Conclusion

The economy is bifurcating Canadian society, as middle income groups continue to face downward pressure on their standard of living. Personal debt levels, built up to maintain standard of living, have a major impact on spending and investment decisions. Canadians are getting very seized with the need to control personal debt. There is very little tolerance for any increase in interest rates without major consequences.

The consumer spending index indicates that Canadians expect to spend slightly less than last year on essentials such as gas, groceries, automobile maintenance, retirement savings and electricity and quite a bit less on discretionary items. Those who cater to middle class consumers will continue to see pressure from discount outlets. The retrenchment from vacations, movies, clothing will continue but not be as severe as in years past.

While value and quality are still determining factors, the importance of price has increased; the lowest price is now as important as the highest quality. Conversely, being environmentally-friendly, made in Canada, the highest quality and community involvement are of less importance now than before the recession. One can infer from this that CSR initiatives are much less influential on consumers than they were pre-recession.