

THE BENSIMON BYRNE

Consumerology Report

Economic Trends and
Consumer Behaviour
April 2010



Consumerology Report

- Each quarter the *Consumerology Report* tracks consumer opinions about the economy, their personal financial expectations, consumer buying intention, and attitudes toward key national issues.
- Now in its eighth quarter, the primary purpose of this edition of Consumerology is to probe and measure the impact of the recession on attitudes and behaviours of consumers, both short- and long-term.
- Previous editions of the *Consumerology Report* have covered a variety of topics including: The Impact of Macro-economic Trends; The Impact of Environmental Issues; New Canadians, New Consumers; Economic Trends and Consumer Behaviour; Evolving Attitudes to Health and Nutrition; and Technology and Canadian Consumers.
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 - Email: karey.templeton@bensimonbyrne.com

Consumerology Report

- On behalf of Bensimon Byrne, The Gandalf Group conducts research to produce the *Consumerology Report*.
- The Gandalf Group offers elite research and strategic advice in brand development, policy advocacy, reputation management, consumer research, issue management and communications. Learn more about them at www.gandalfgroup.ca

Methodology

- The Gandalf Group conducted qualitative and quantitative research to produce the *Consumerology Report*. A national proportionate quantitative online survey was conducted in English and French with 1,500 Canadians between February 23rd and March 1st, 2010.

Definitions and Sample Sizes

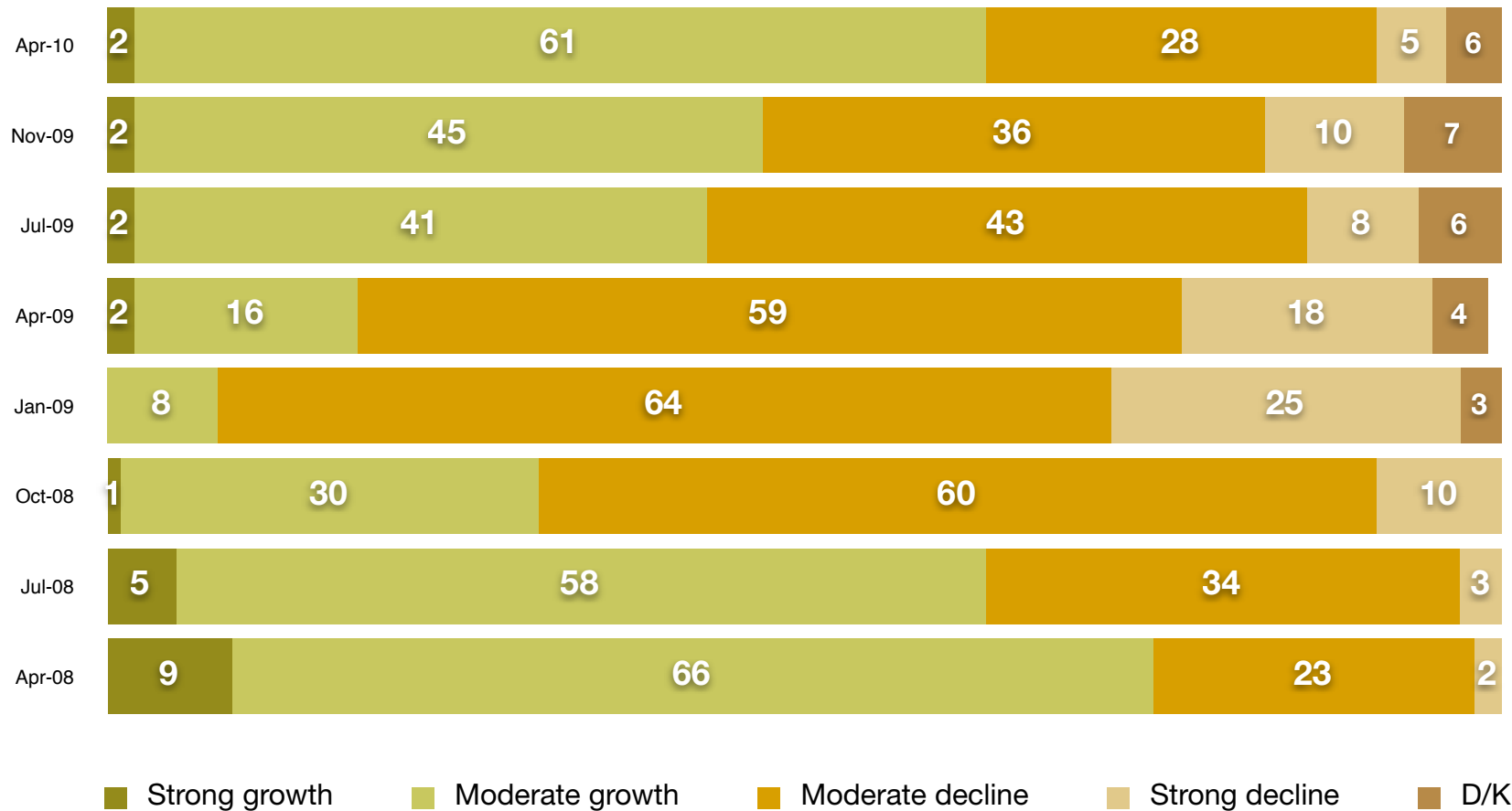
- For the purposes of this presentation, “Better” and “Worse” refer to a respondent’s answer to the question asking “How would you say your PERSONAL financial or economic situation is compared to one year ago? Would you say your PERSONAL financial or economic situation has gotten much better, a little better, a little worse or much worse?” Better = 49.6%, Worse = 50.4%.
- For the purposes of this presentation, “More Debt” and “More Savings” refer to a respondent’s answer to the question asking “What is the status of your current financial position – would you say that you have more debt (not including your mortgage) than you do savings (not including equity in your home), or more savings than you have debt?” More Debt = 57.5%, More Savings = 42.5%.
- For the purposes of this presentation, “Owner” and “Renter” refer to a respondent’s answer to the question asking “Are you a homeowner or a renter?” Owner = 55.6%, Renter = 38.5% (“Other” = 6%).

Everything is Moving in the Right Direction

- There is a stunning level of consensus among Canadians that the recession is over and that the next year will see growth
- For the first time in two years, most Canadians think the economy is growing
- Starting to be reflected in experience – for first time in 2 years, half of Canadians say they are better off than they were a year ago
 - Market recovery is driving factor
 - Improvement concentrated in middle-aged, middle to upper income
- Over 80% think that the economy and their own situation will be better one year from now
- Fear of job loss has plummeted
 - Less so in Ontario
- People freely admit that they are more optimistic than a year ago

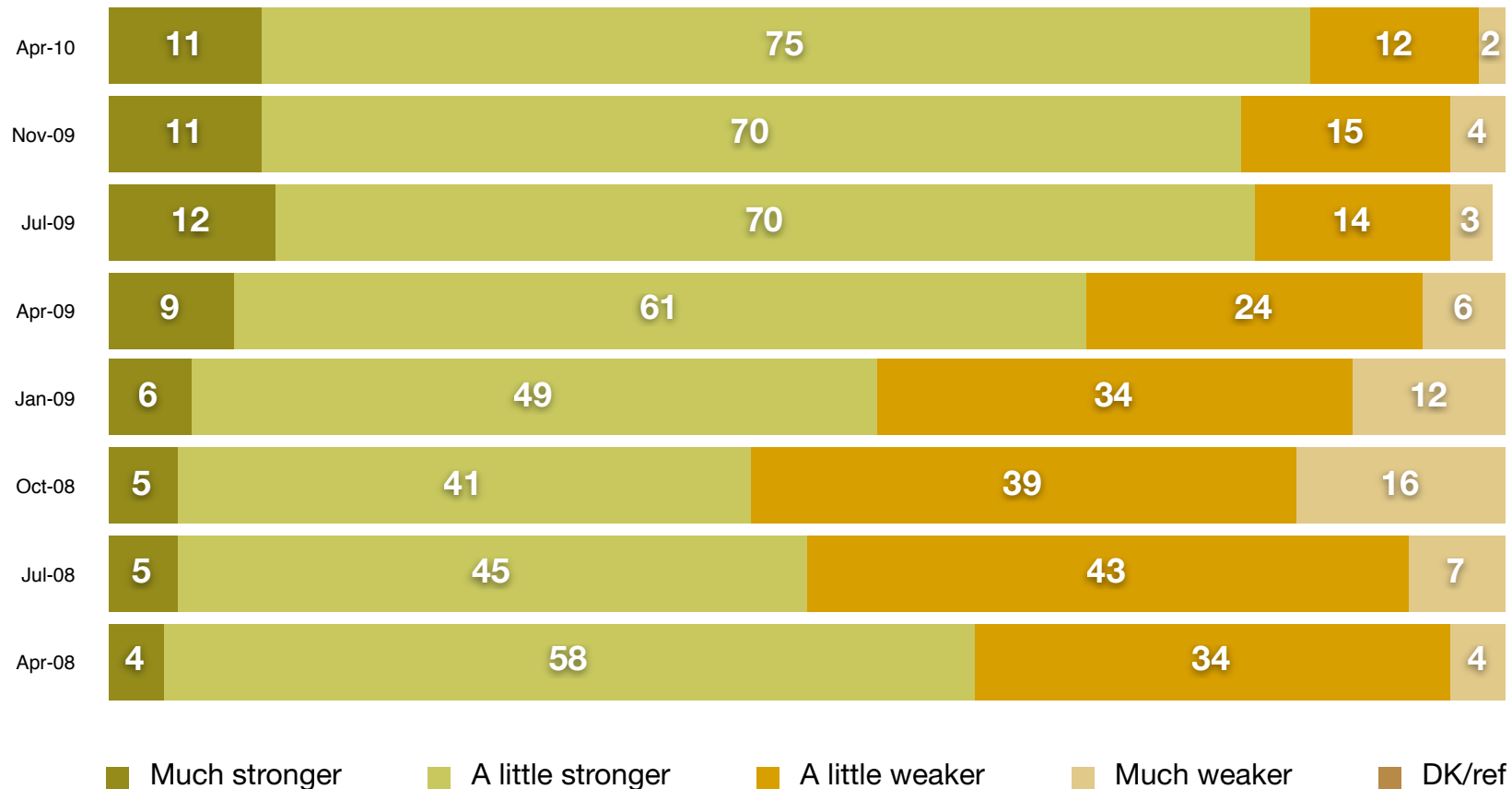
Assessments of the National Economy

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



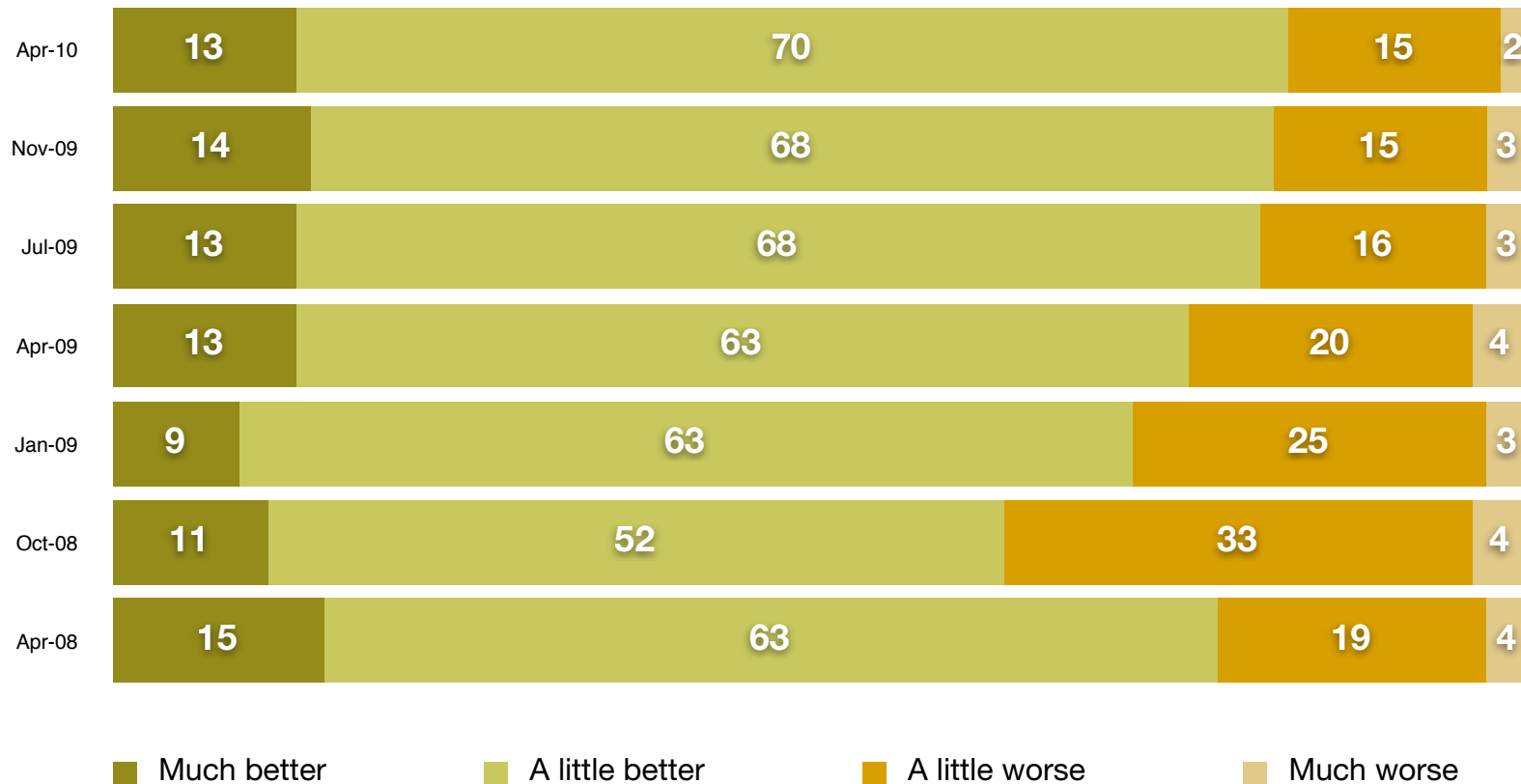
Economic Expectations

- “Looking forward to one year from now, do you think the economy will be much stronger than it is today, a little stronger than it is today, a little weaker than it is today or much weaker than it is today?”



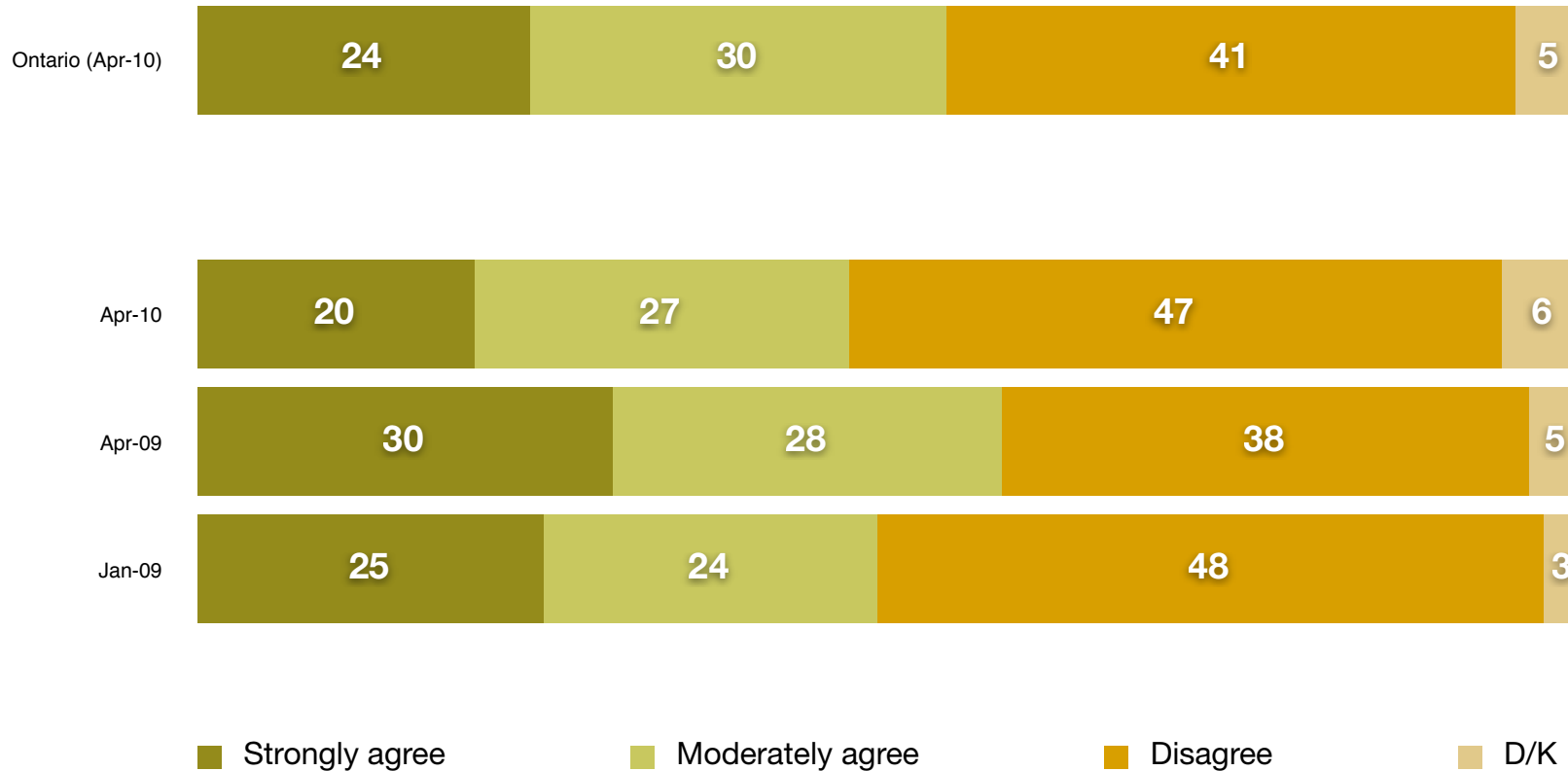
Projection of Personal Financial Situation

- “How do you expect your PERSONAL financial or economic situation to be one year from now – compared to what it is like today? Do you expect that your PERSONAL financial or economic situation will be in much better shape, a little better shape, a little worse, or much worse than it is now?”



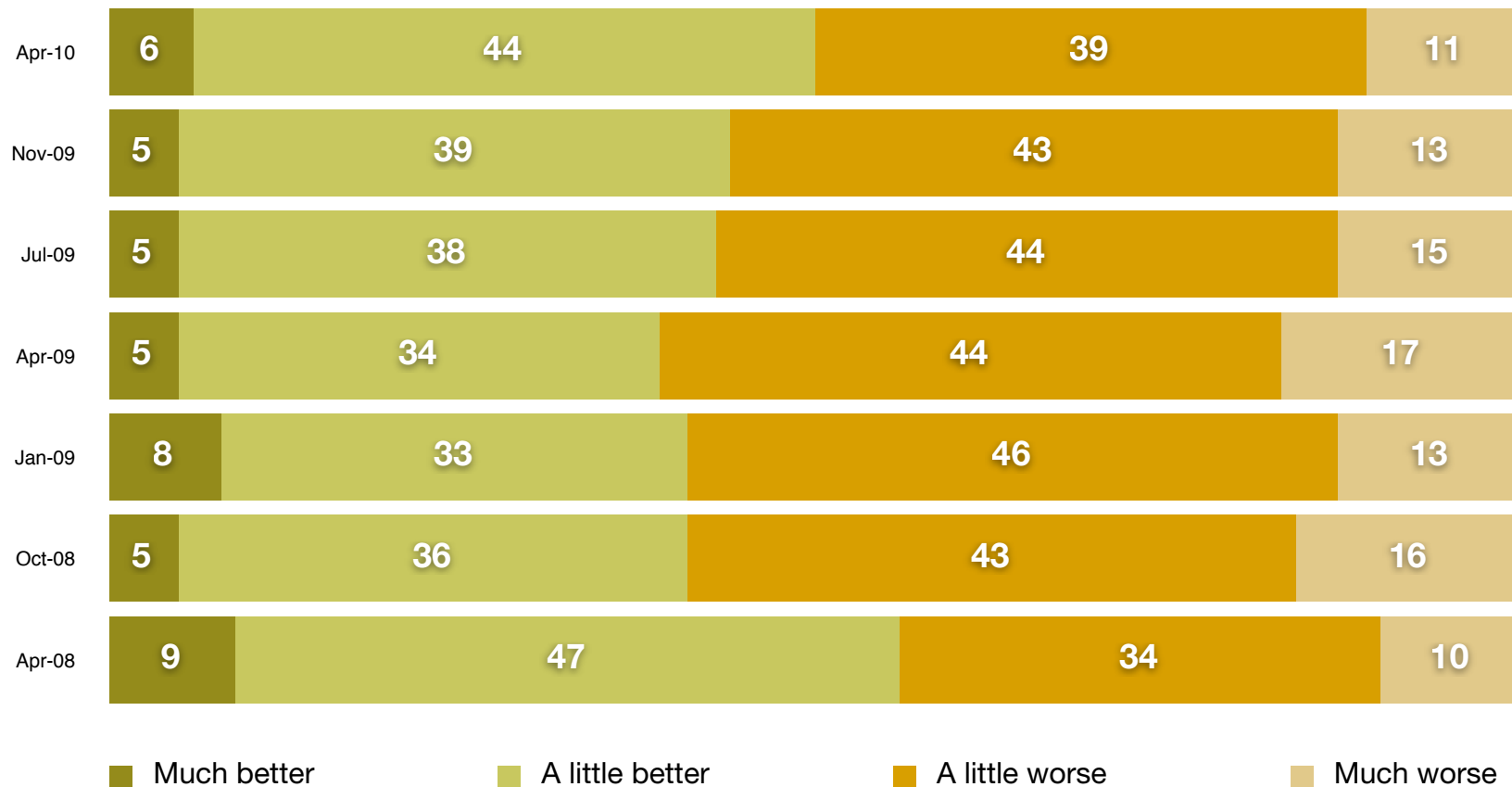
Concern for Job Security

- “We’d like you to tell us how much you agree or disagree with the following statement, using a 1 to 9 scale where 1 means you strongly disagree and 9 means you strongly agree.” **I am worried that I or somebody in my household might lose their job this year.**



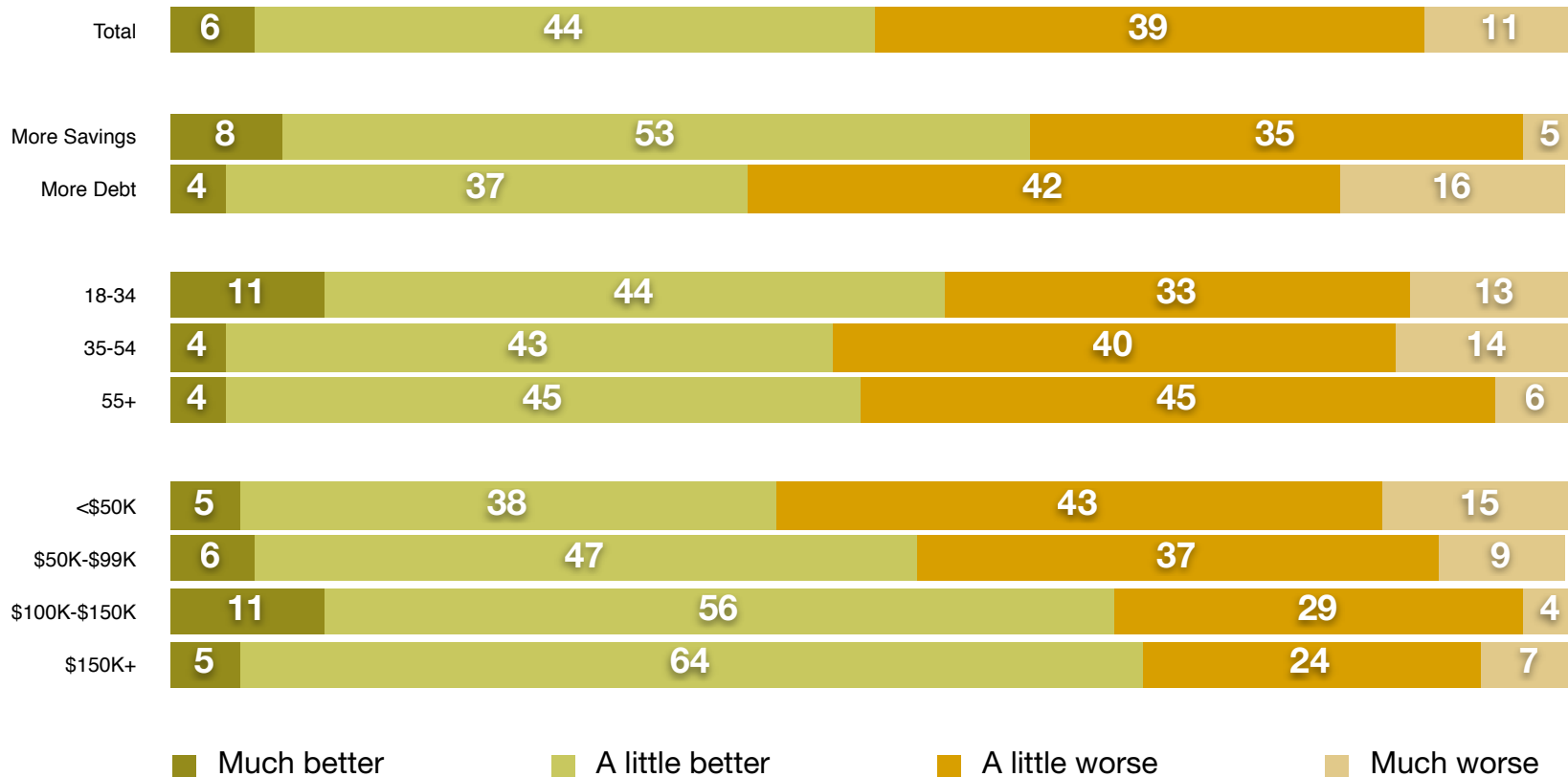
Assessment of Personal Financial Situation

- “How would you say your PERSONAL financial or economic situation is compared to one year ago? Would you say your PERSONAL financial or economic situation will be _____?”



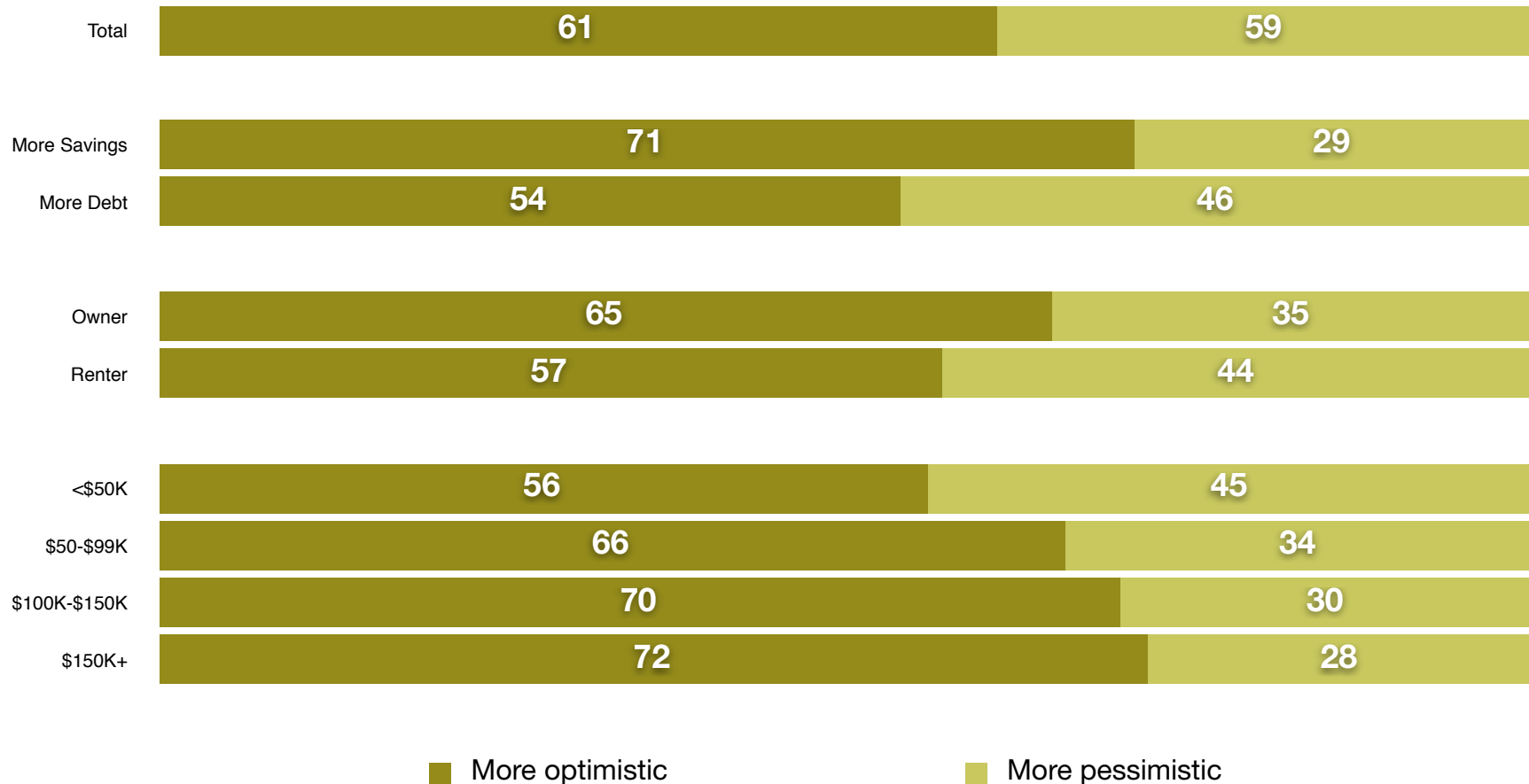
Assessment of Personal Financial Situation

- “How would you say your PERSONAL financial or economic situation is compared to one year ago? Would you say your PERSONAL financial or economic situation has gotten much better, a little better, a little worse or much worse?”



Optimistic vs. Pessimistic

- “Please fill in the blanks with the phrases given below. Compared with a year ago, are you more _____ and less _____?” **Optimistic vs. pessimistic**



Consumer Spending Will Not Reflect This Surge in Optimism

- Two Reasons
 - The culture remains one of thrift and frugality, not spending and extravagance
 - Most Canadians have a large personal debt that is commanding a large share of their wallet, and having a huge dampening effect on their consumer spending

The Culture of Thrift Remains

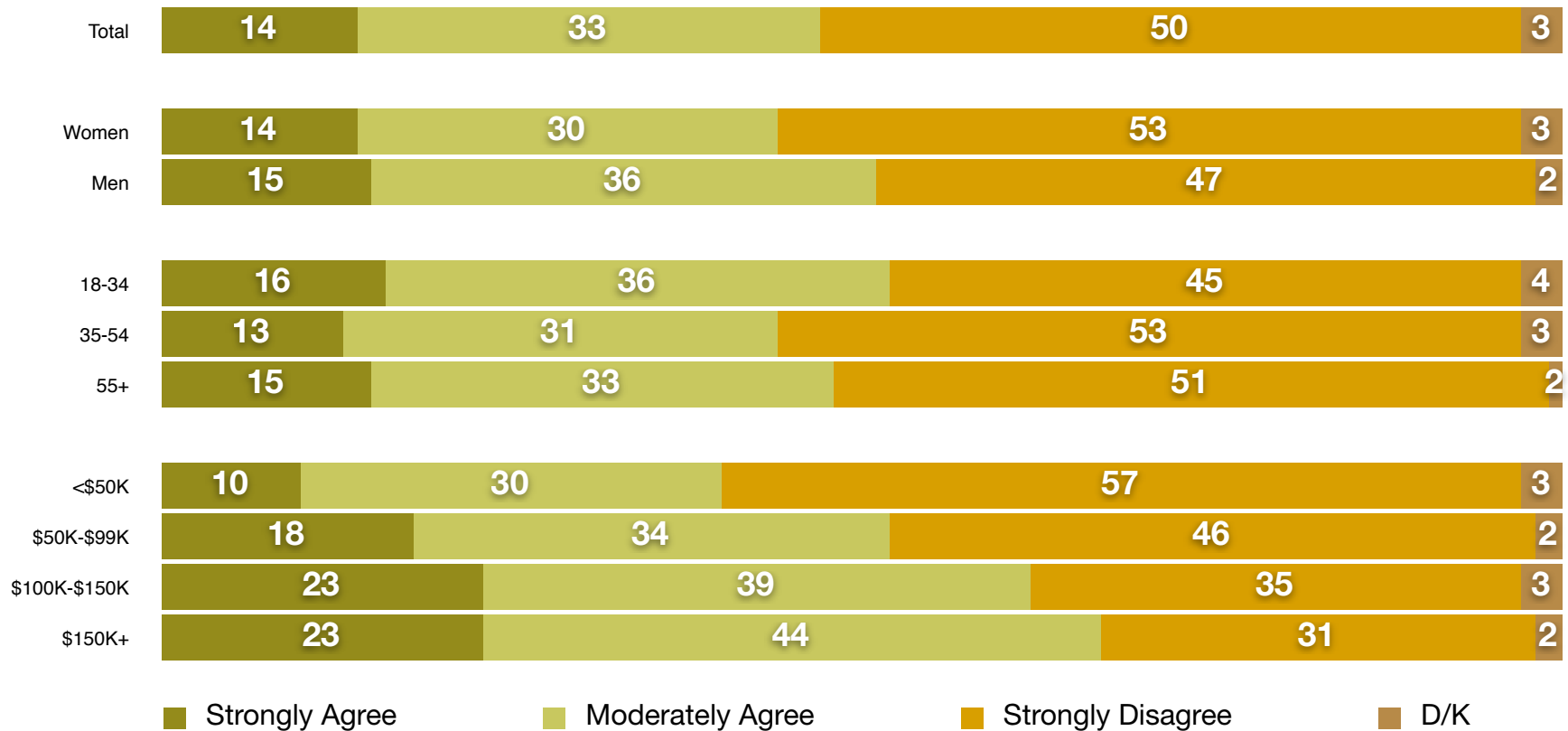
- Very few think this is a good time for them to make a major purchase
- True even among the economically secure – those better off than a year ago, those unafraid of job loss, those with more savings than debt, those who have been increasing their spending
- Few reject the notion that they/we were living beyond their/our means
- Virtually everybody has been reflecting somewhat on the difference between need and want, and it has been top of mind for most Canadians
- Excitement about the end of the recession is quite muted

Recession Behaviour in a Growth Economy

- People of all demographic groups, no matter how secure, say they are:
 - Eating at home more and eating out less
 - Saving more and spending less
 - (With the exception of those earning more than \$150K) buying more no-name products and fewer brand name products
 - Looking at flyers and coupons
 - Acquiring less and simplifying more
 - Buying fewer environmentally friendly products because of cost
- One exception to that trend – more driving and less public transportation

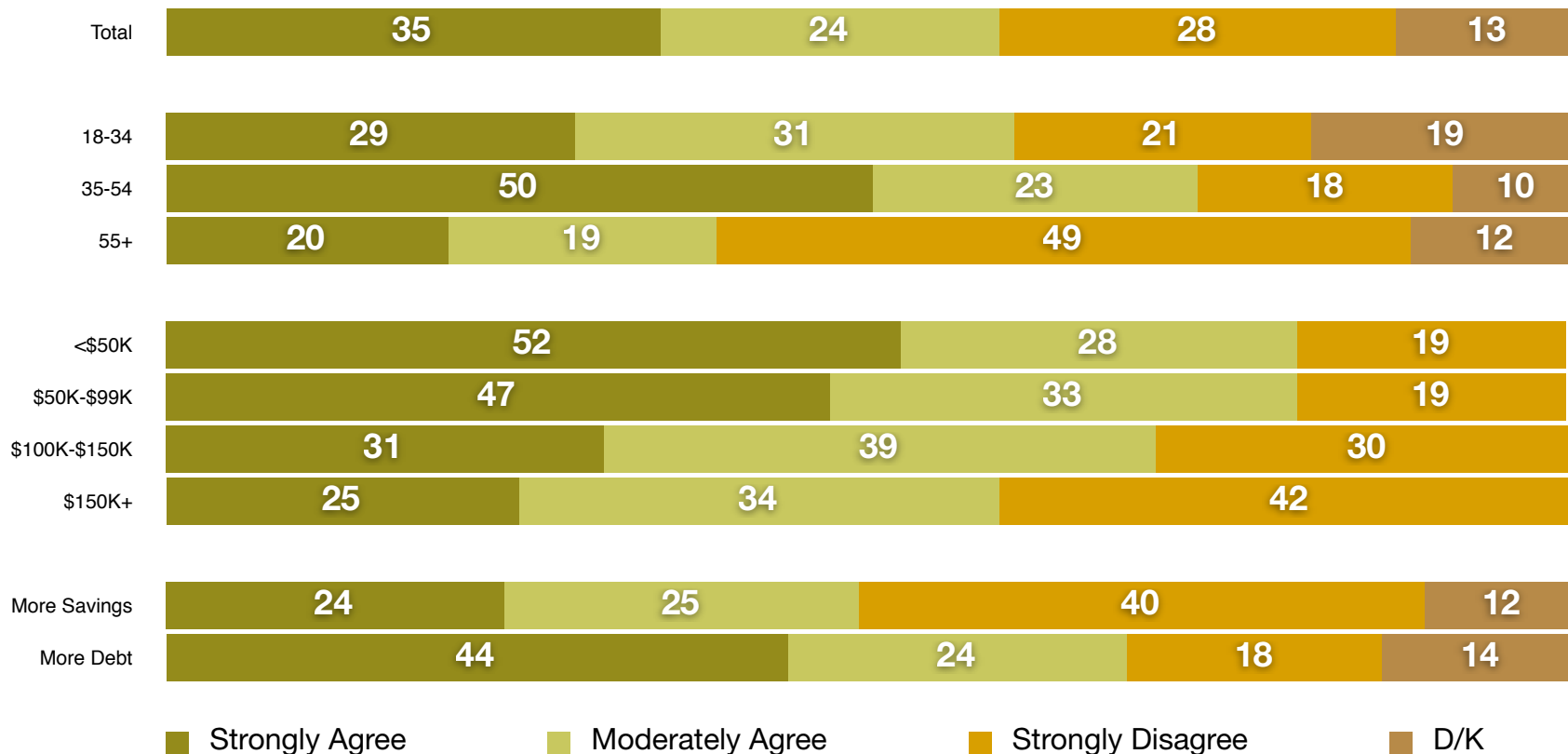
Time for a Major Purchase?

- “We are interested in your current attitudes about spending. For each of the following statements, on a scale of 1 to 9 where 1 means you do not agree at all and 9 means you strongly agree, how much do you agree or disagree with the following?” **This is a good time for me to make a major purchase.**



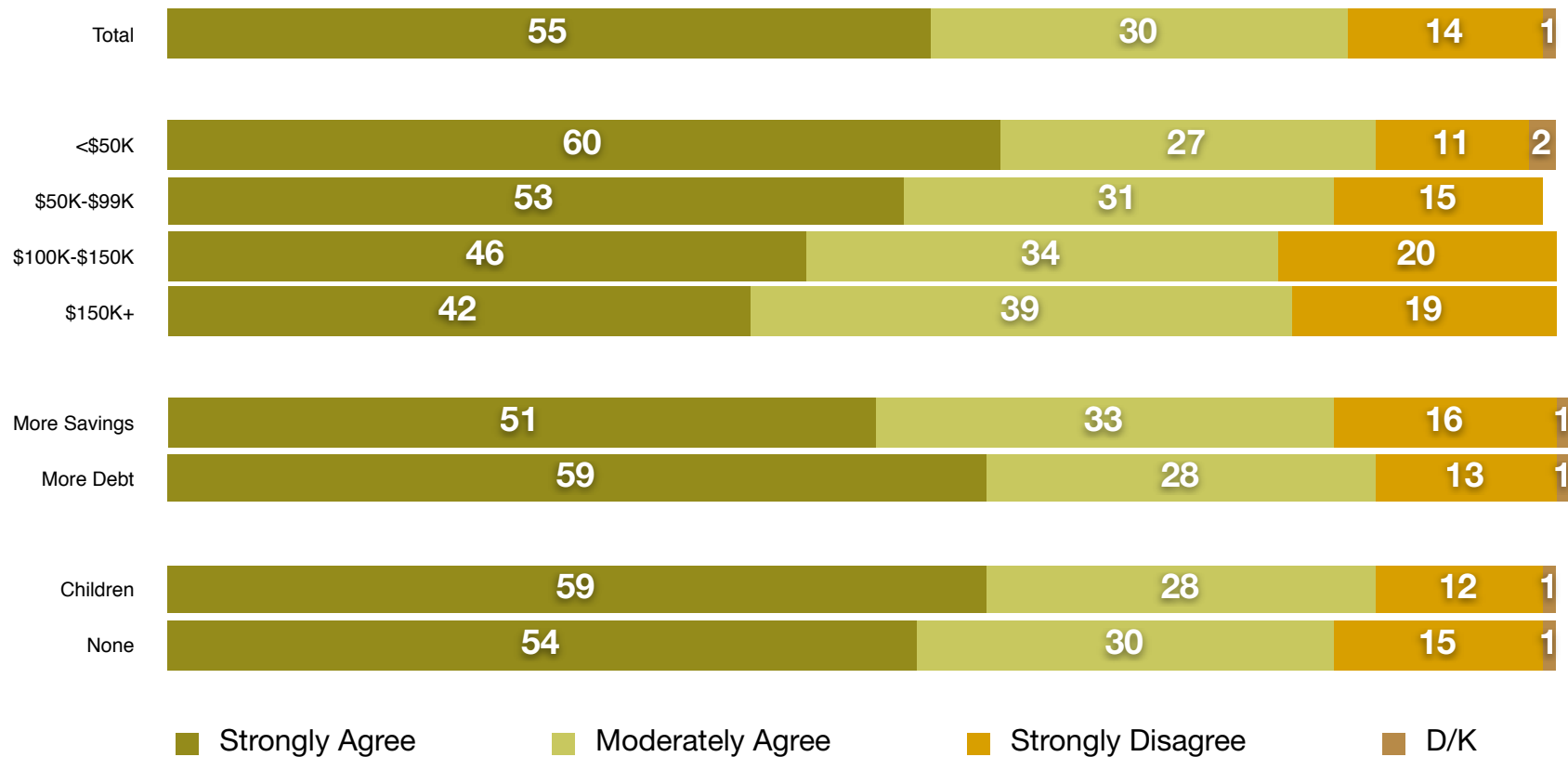
Delayed Retirement

- “We are interested in your current attitudes about spending. For each of the following statements, on a scale of 1 to 9 where 1 means you do not agree at all and 9 means you strongly agree, how much do you agree or disagree with the following?” **I will have to retire later now than I had once planned to.**



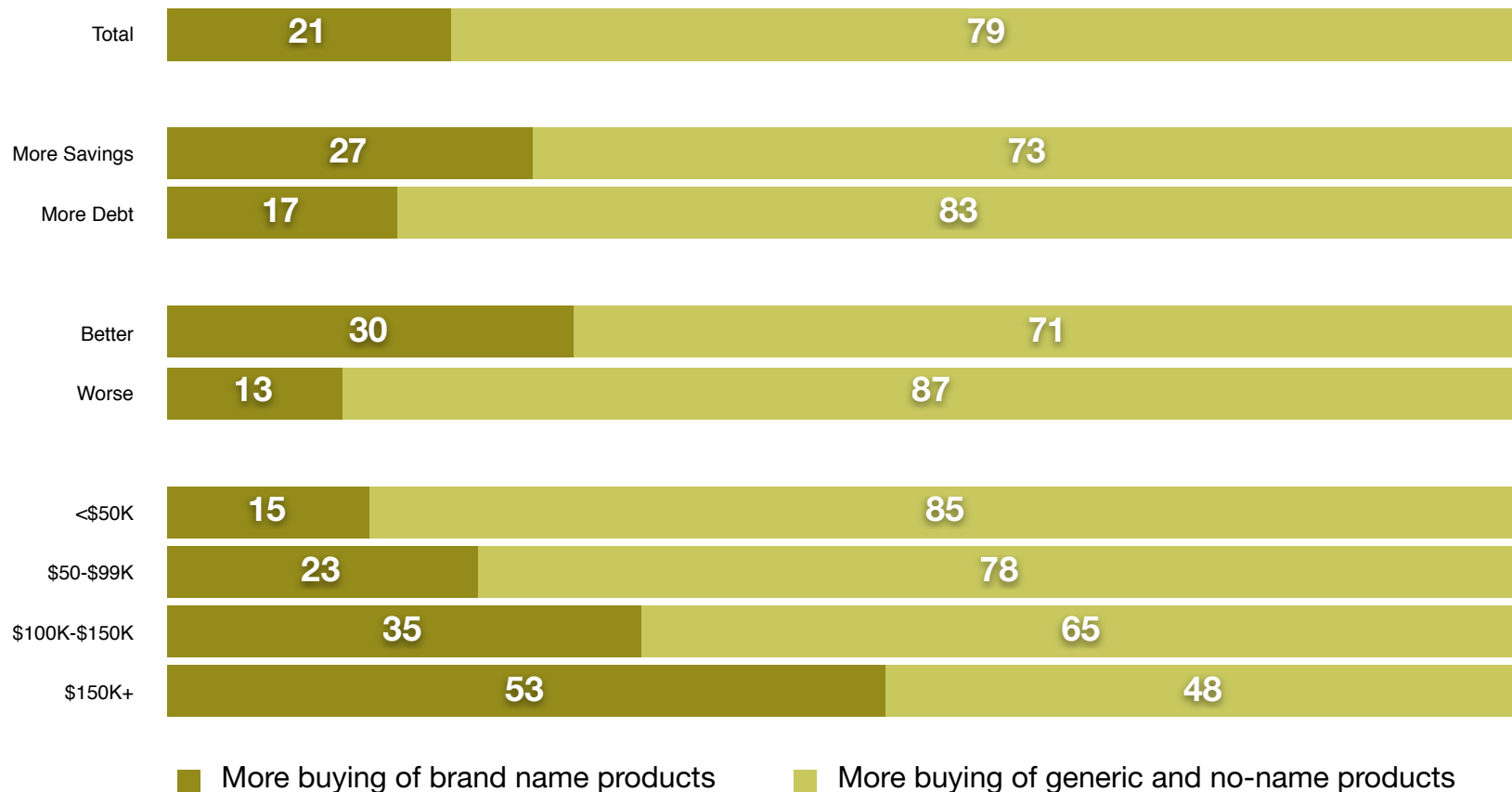
Eschewing Brands

- “We are interested in your current attitudes about spending. For each of the following statements, on a scale of 1 to 9 where 1 means you do not agree at all and 9 means you strongly agree, how much do you agree or disagree with the following?” **I am more likely to buy no-name or generic brands.**



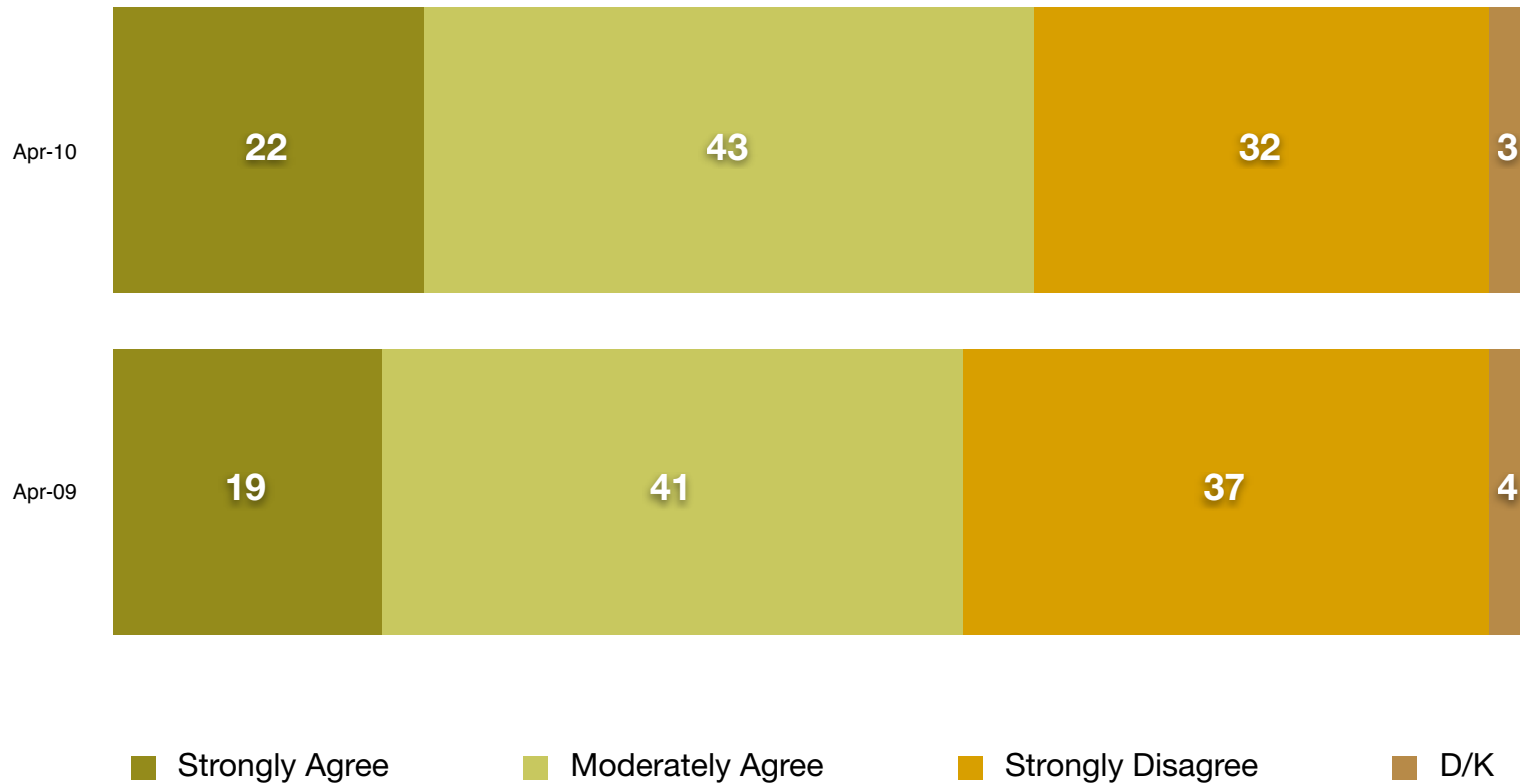
Trends – Brands or No-Name?

- “Please fill in the blanks with the phrases given below. Compared with a year ago, are you doing more _____ and less _____?” **Buying brand name products vs. buying generic and no-name products.**



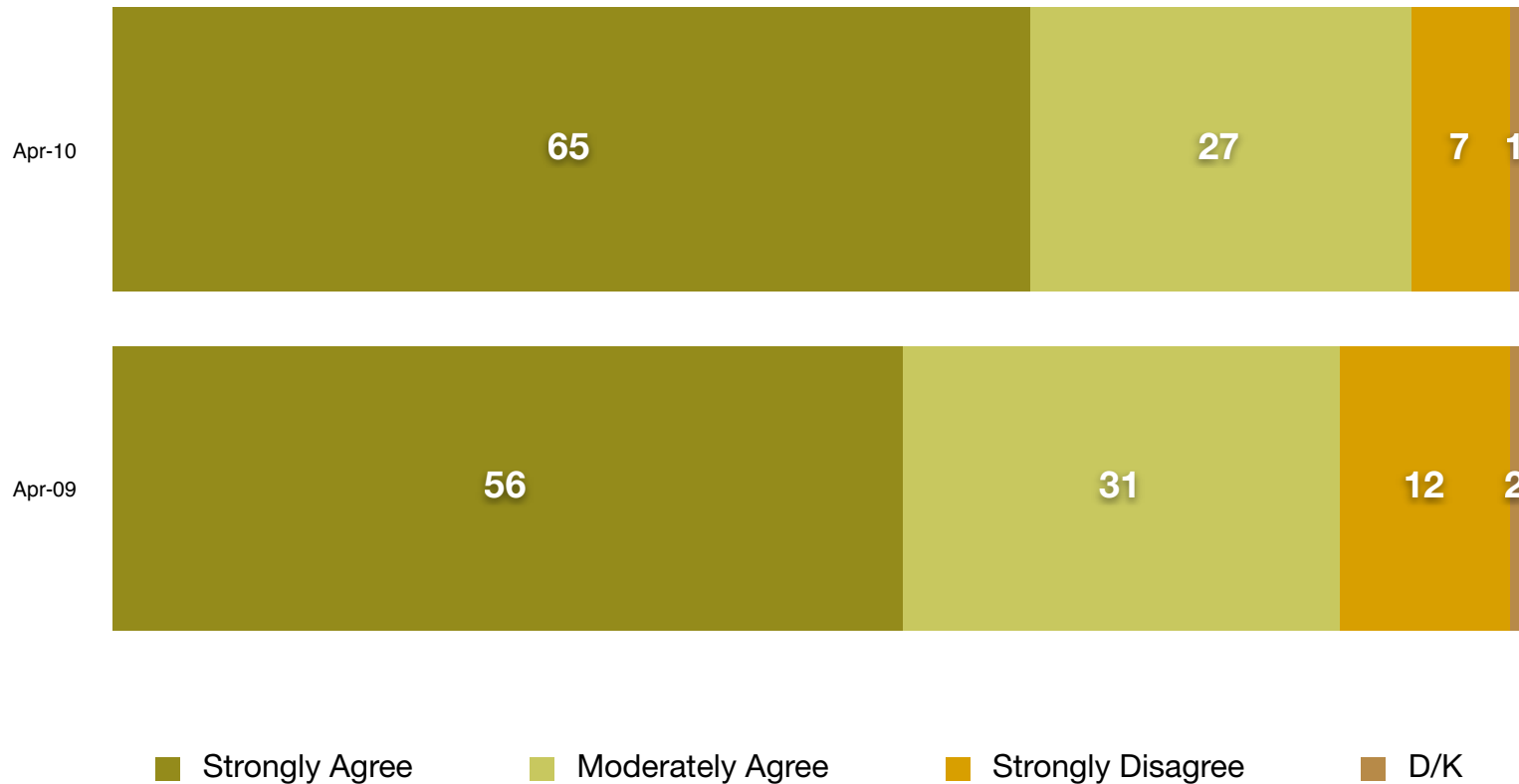
Unaffordable Environmentalism

- “For each of the following statements, on a scale of 1 to 9 where 1 means you do not agree at all and 9 means you strongly agree, how much do you agree or disagree with the following?” **I am buying fewer environmentally friendly products.**



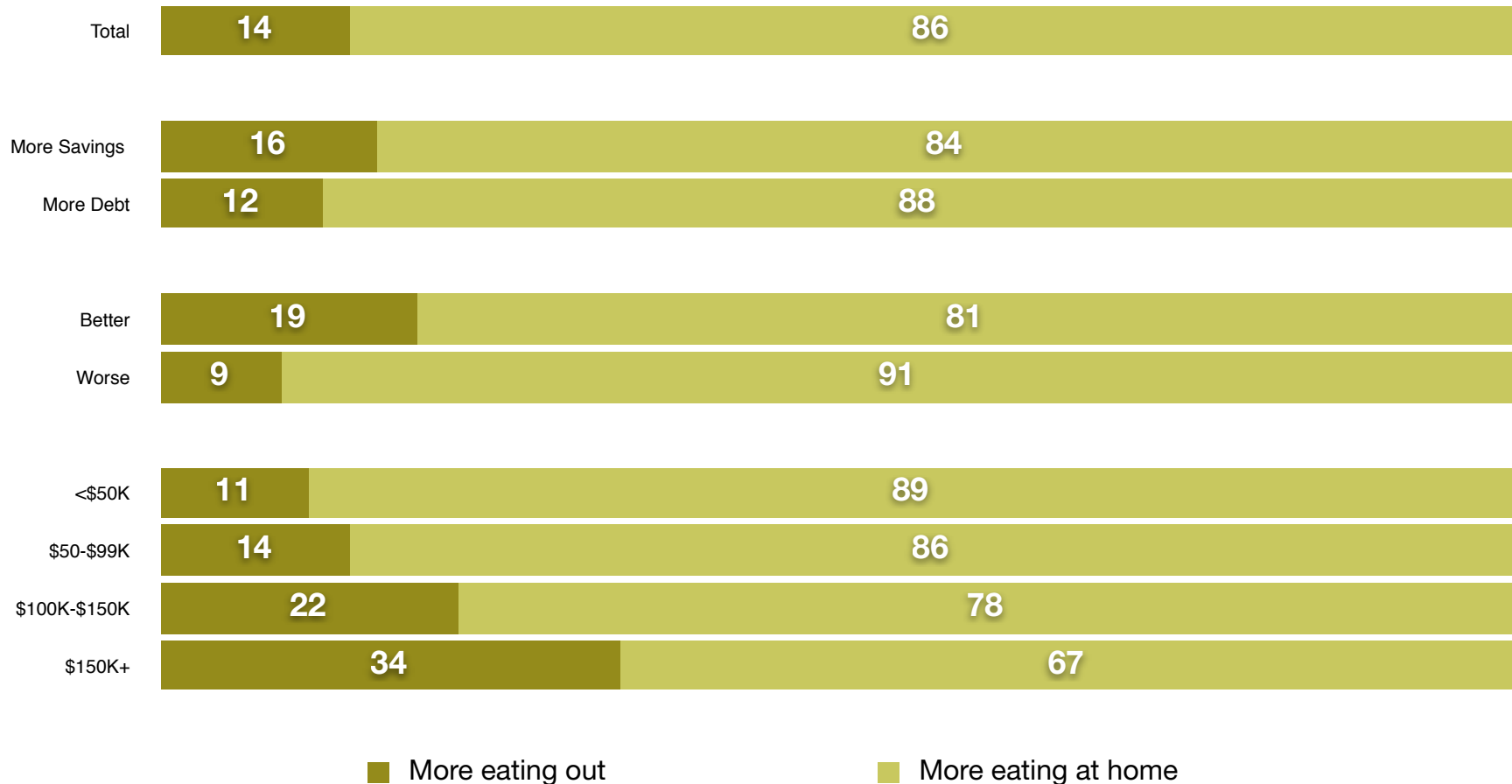
Need or Want?

- “For each of the following statements, on a scale of 1 to 9 where 1 means you do not agree at all and 9 means you strongly agree, how much do you agree or disagree with the following?” **I think more now about the difference between need and want.**



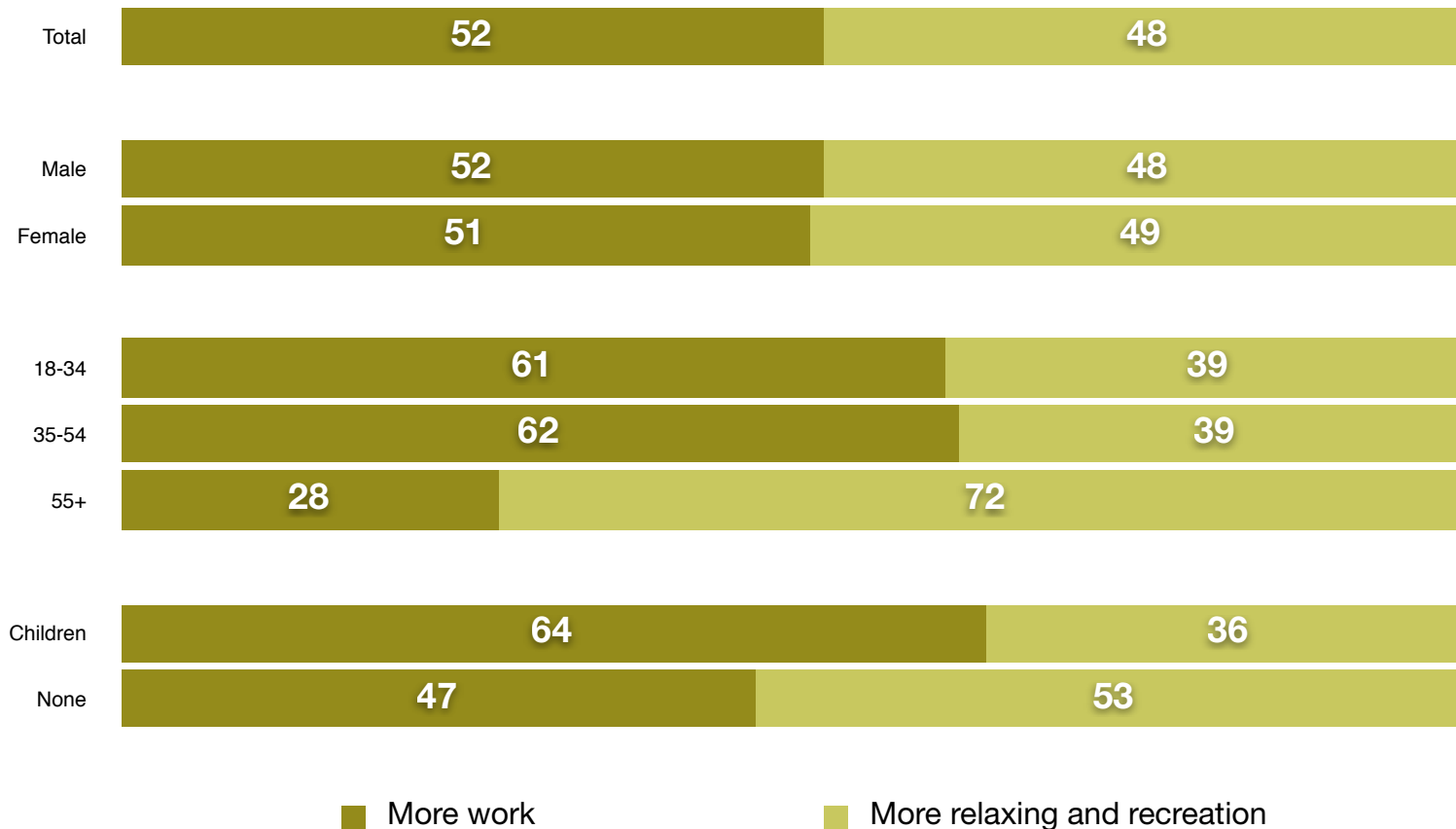
Trends – Eating Out or In?

- “Please fill in the blanks with the phrases given below. Compared with a year ago, are you doing more _____ and less _____?” **Eating at home vs. eating out.**



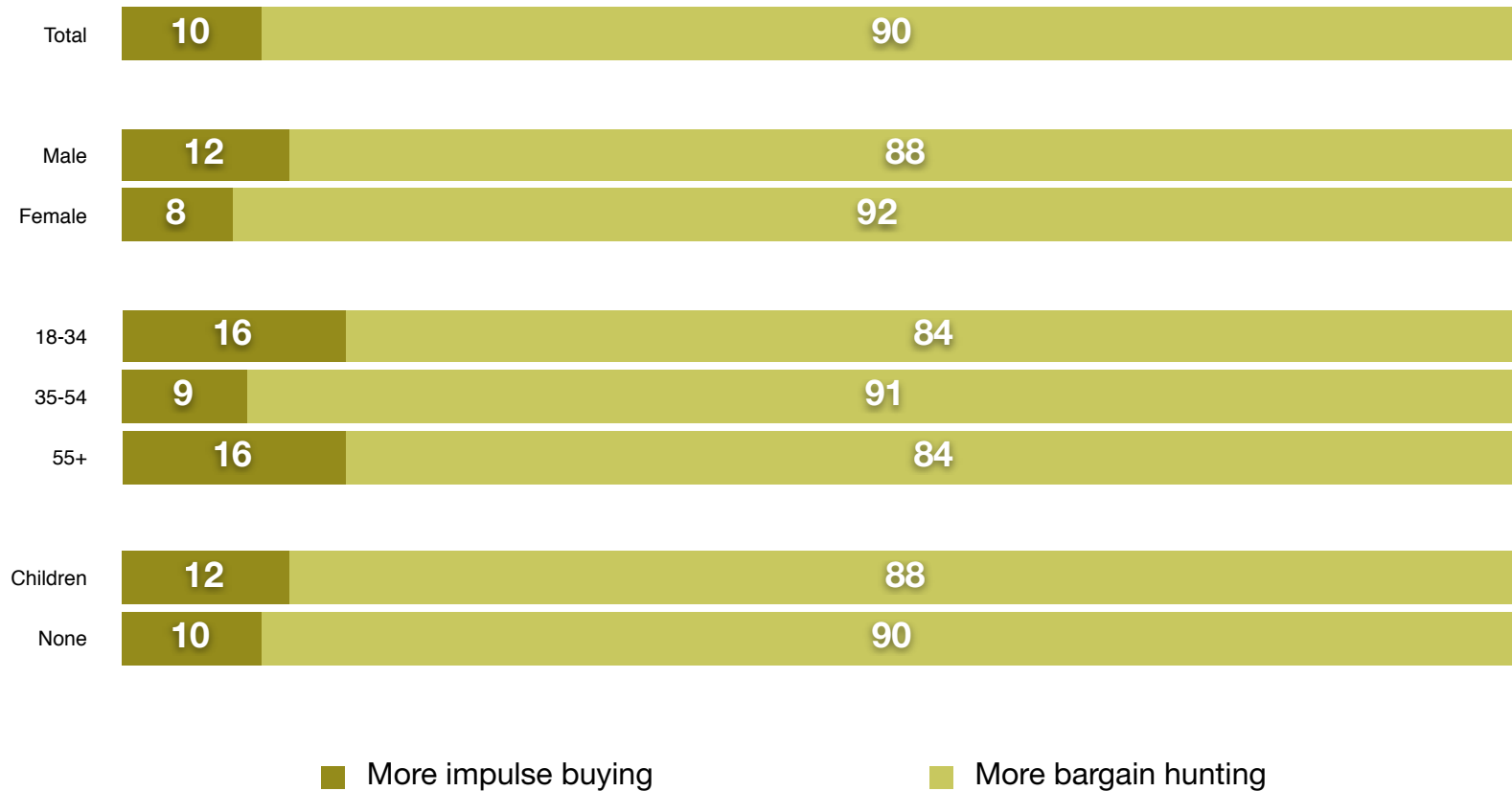
Trends – Work or Recreation?

- “Please fill in the blanks with the phrases given below. Compared with a year ago, are you doing more _____ and less _____?” **Work vs. relaxing and recreation**



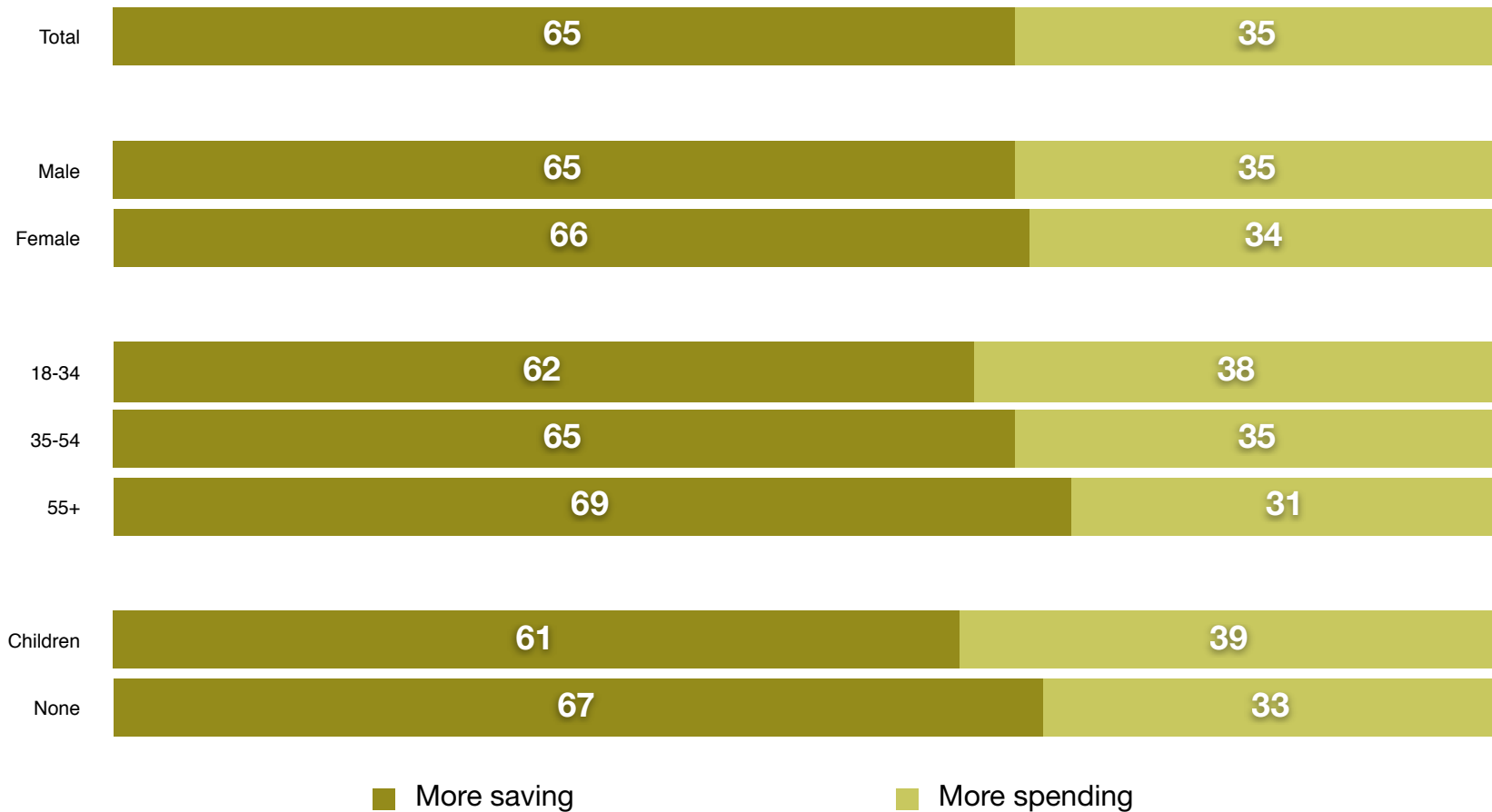
Trends – Bargain Hunting or Impulse Buying?

- “Please fill in the blanks with the phrases given below. Compared with a year ago, are you doing more _____ and less _____?” **Impulse buying vs. bargain hunting.**



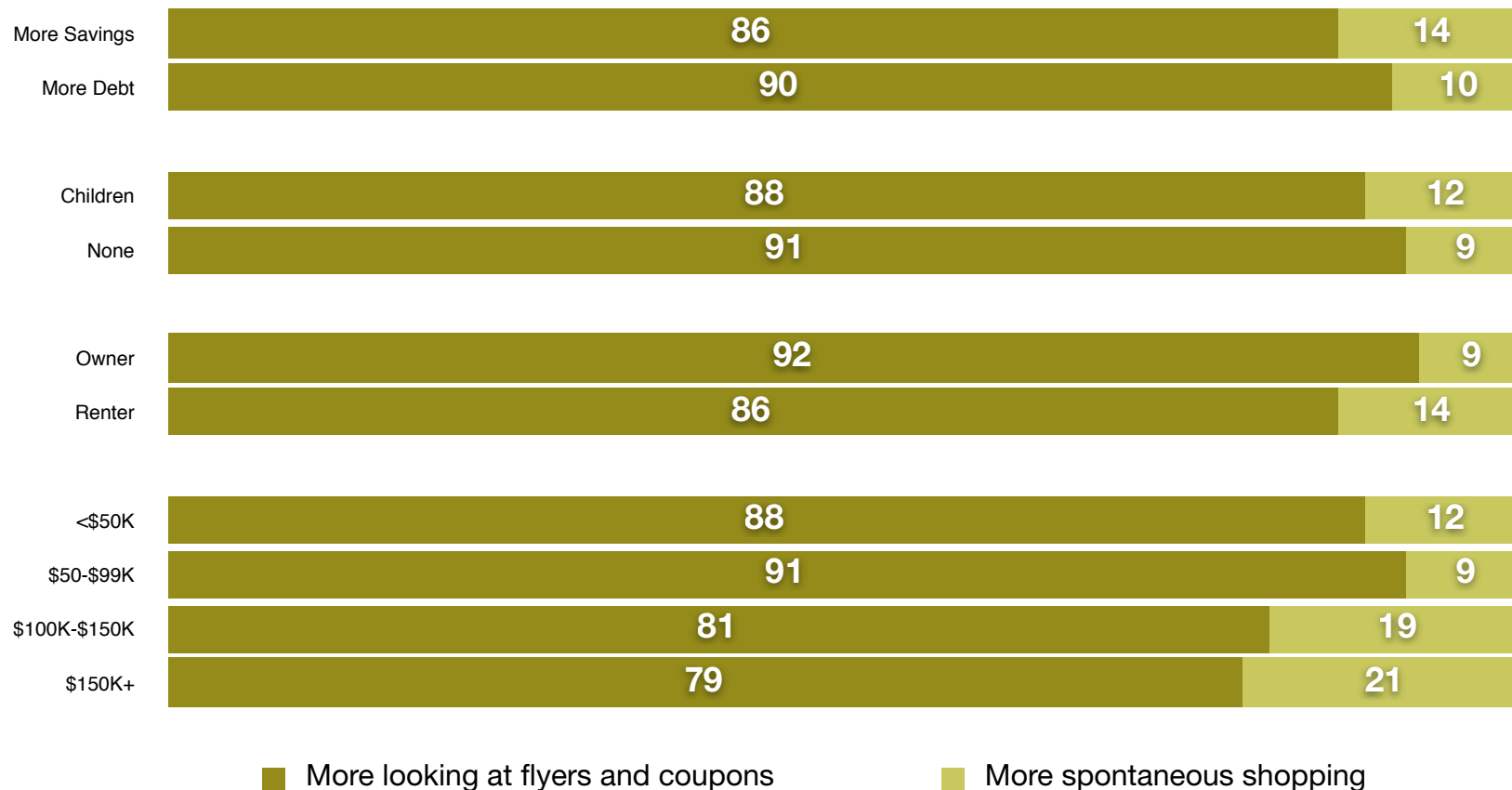
Trends – Saving or Spending?

- “Please fill in the blanks with the phrases given below. Compared with a year ago, are you doing more _____ and less _____?” **Saving vs. spending.**



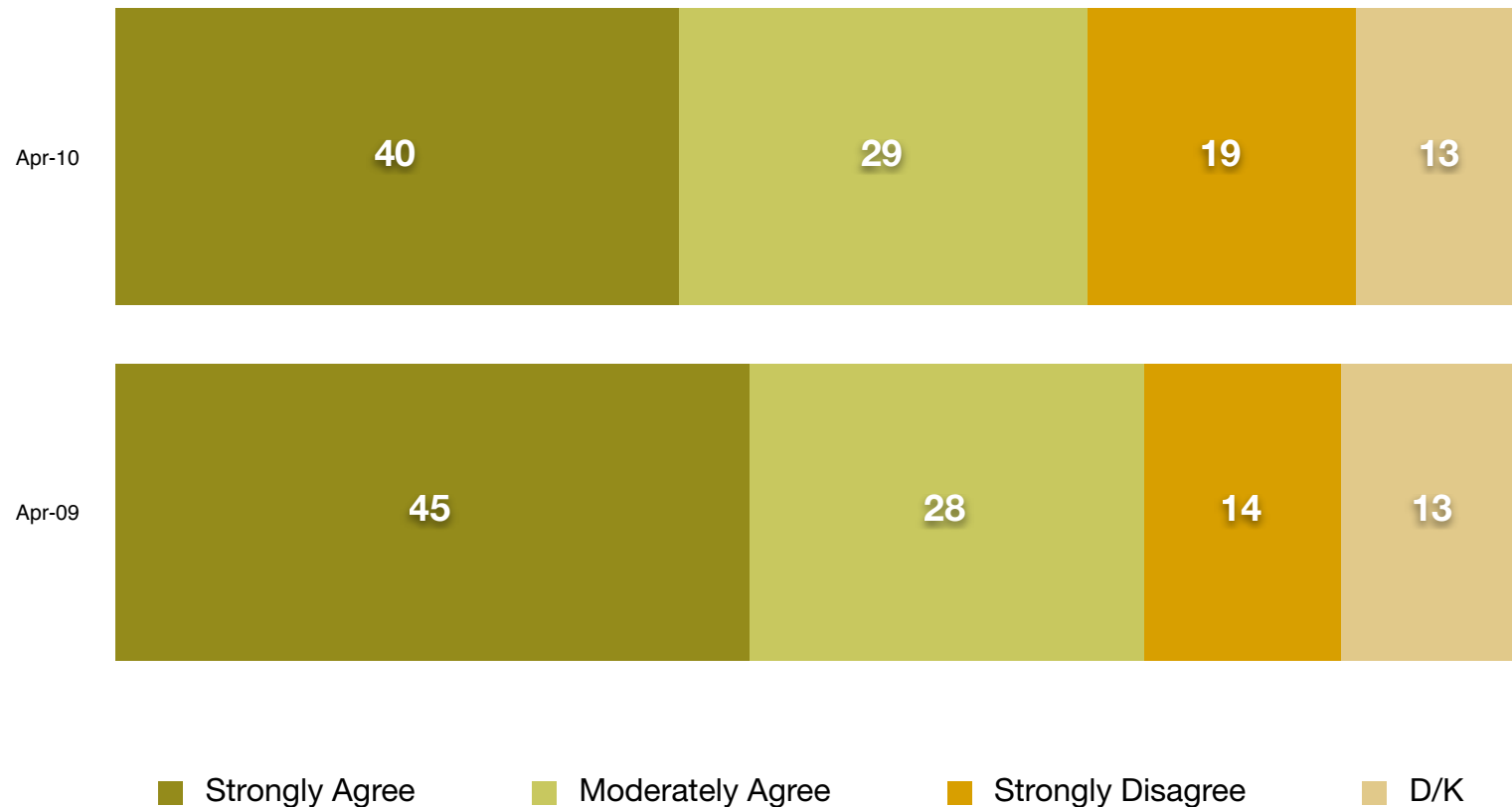
Trends – Coupons/Flyers or Spontaneous Shopping?

- “Please fill in the blanks with the phrases given below. Compared with a year ago, are you doing more _____ and less _____?” **Looking at flyers and coupons vs. spontaneous shopping.**



Investment Confidence Improving

- “For each of the following statements, on a scale of 1 to 9 where 1 means you do not agree at all and 9 means you strongly agree, how much do you agree or disagree with the following?” **I’ve lost confidence investing in the stock markets.**

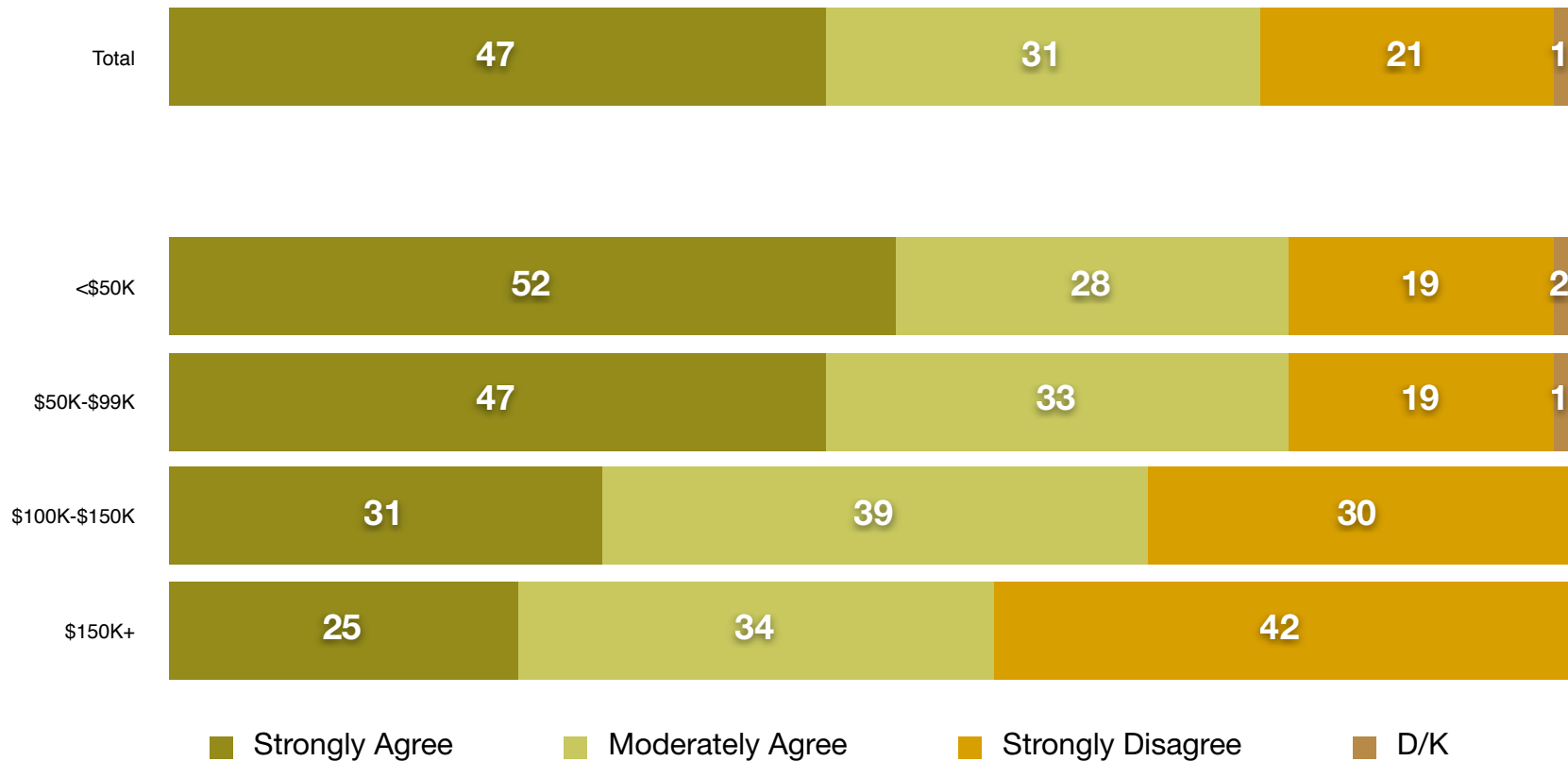


Consumer Restraint

- Most Canadians report that their spending remains much lower than it was a few years ago
- Canadians tell us not to expect a rebound in their spending this year
- 27 possible spending areas tested – 6 where more Canadians expect to increase rather than cut back their spending
- In each of those areas – all essentials or close to it – people are expecting prices to increase
- There is no indication that consumers are anxious to open their wallets

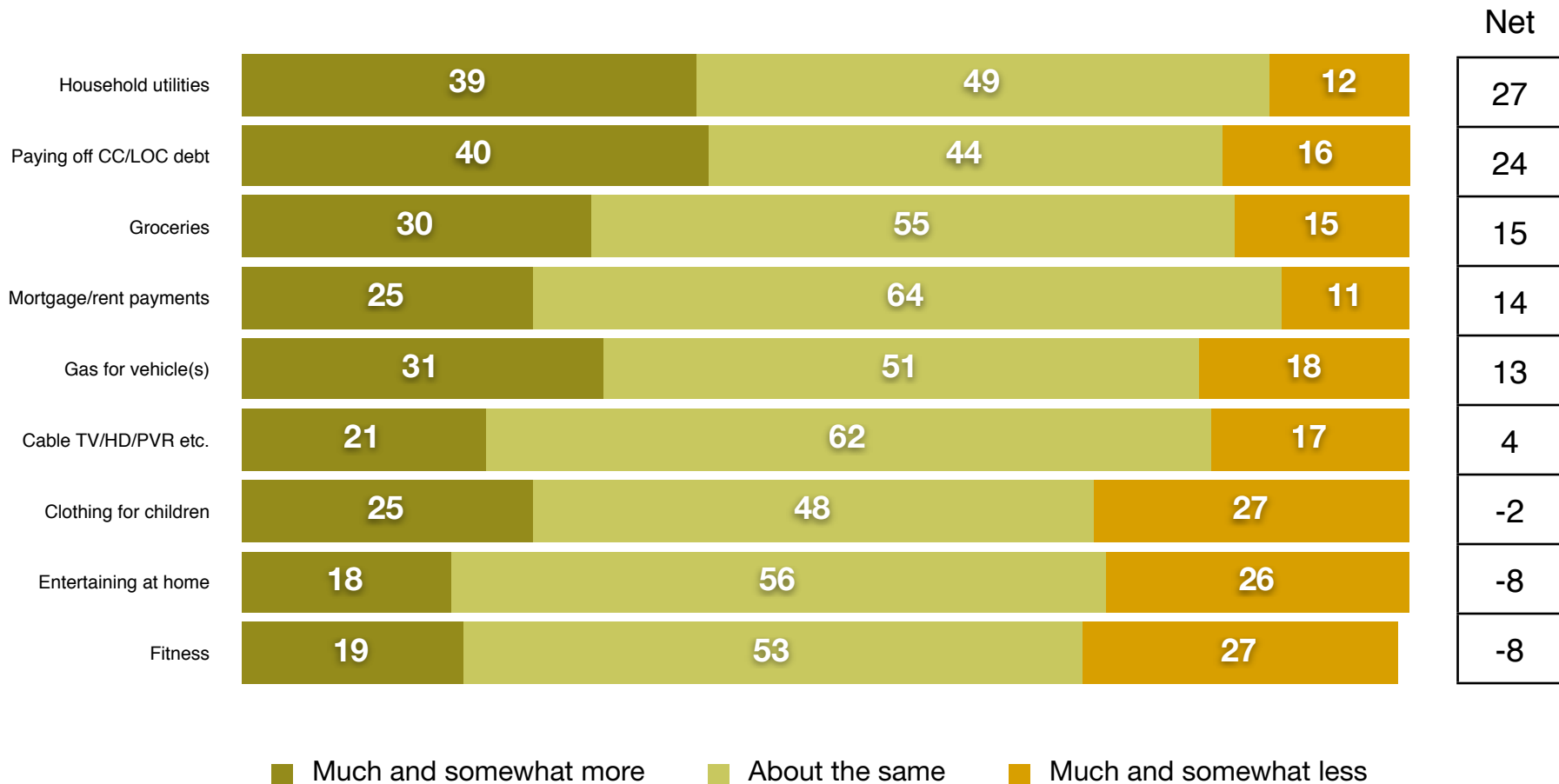
Cutbacks Remain In Place

- “We are interested in your current attitudes about spending. For each of the following statements, on a scale of 1 to 9 where 1 means you do not agree at all and 9 means you strongly agree, how much do you agree or disagree with the following?” **I am spending much less than I did a few years ago.**



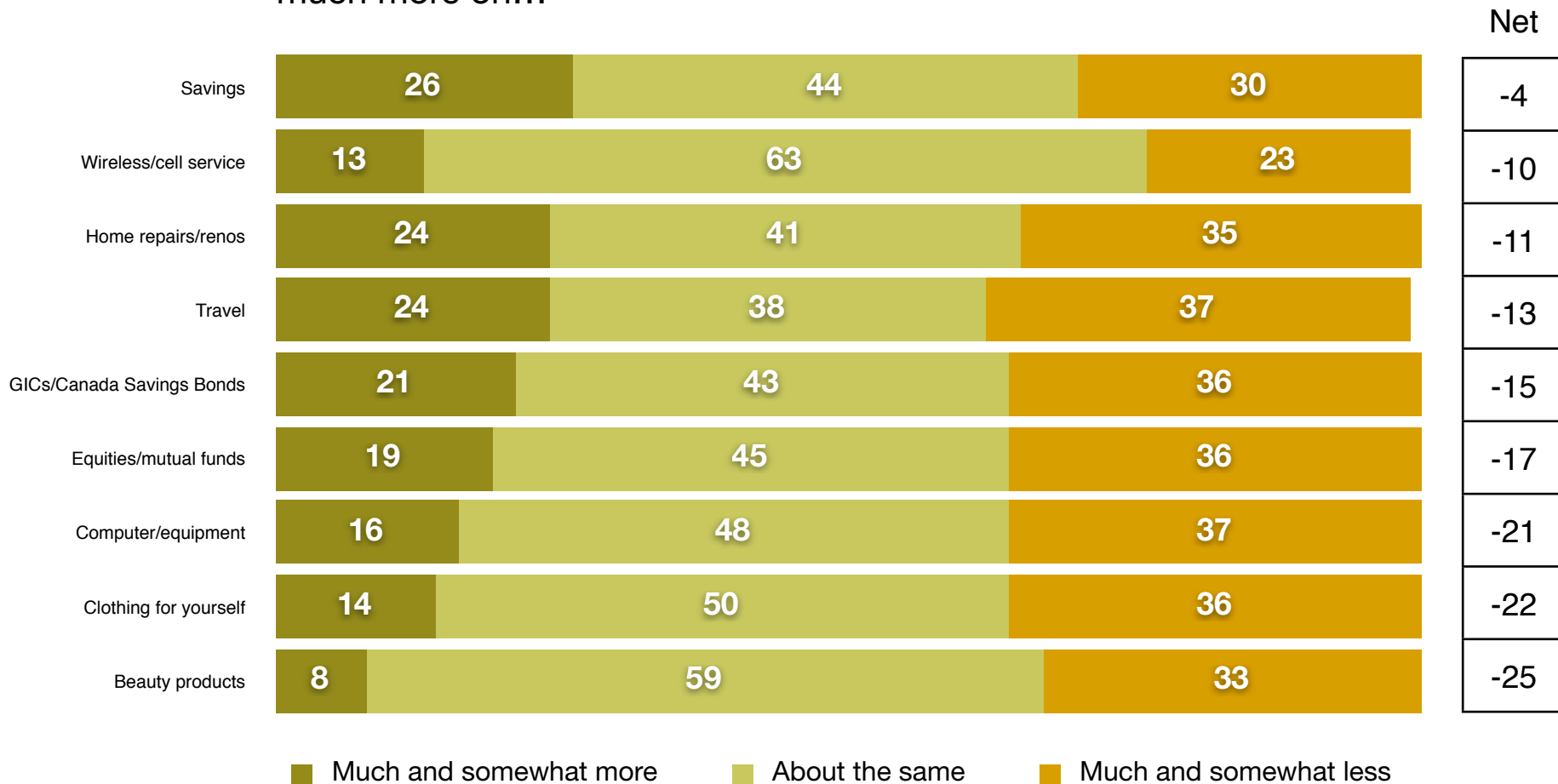
Consumer Spending Projections – Tier 1

- “Compared to the last 12 months, do you expect that over the next year you will spend much less, somewhat less, about the same as now, somewhat more, or much more on...”



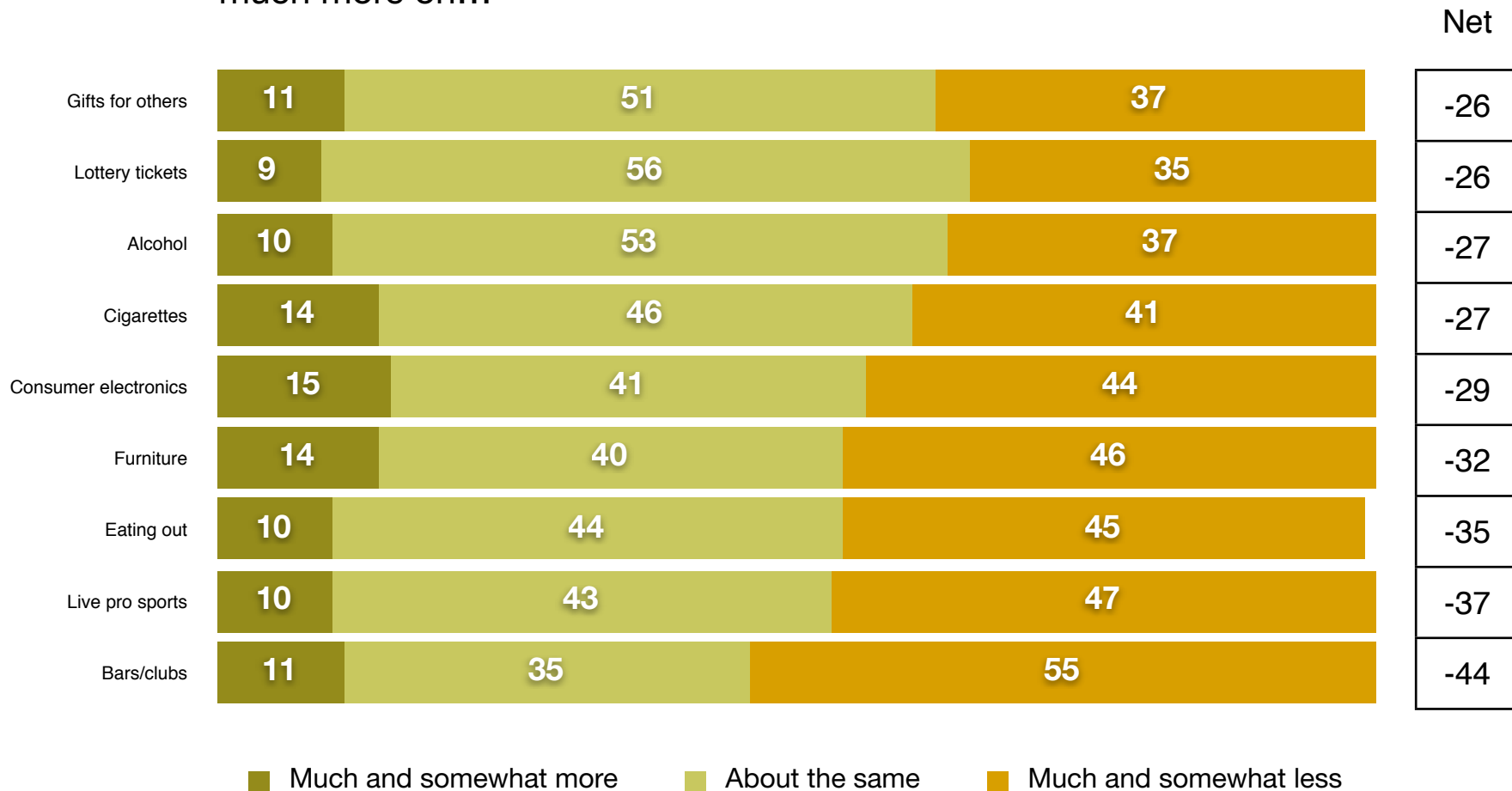
Consumer Spending Projections – Tier 2

- “Compared to the last 12 months, do you expect that over the next year you will spend much less, somewhat less, about the same as now, somewhat more, or much more on...”



Consumer Spending Projections – Tier 3

- “Compared to the last 12 months, do you expect that over the next year you will spend much less, somewhat less, about the same as now, somewhat more, or much more on...”

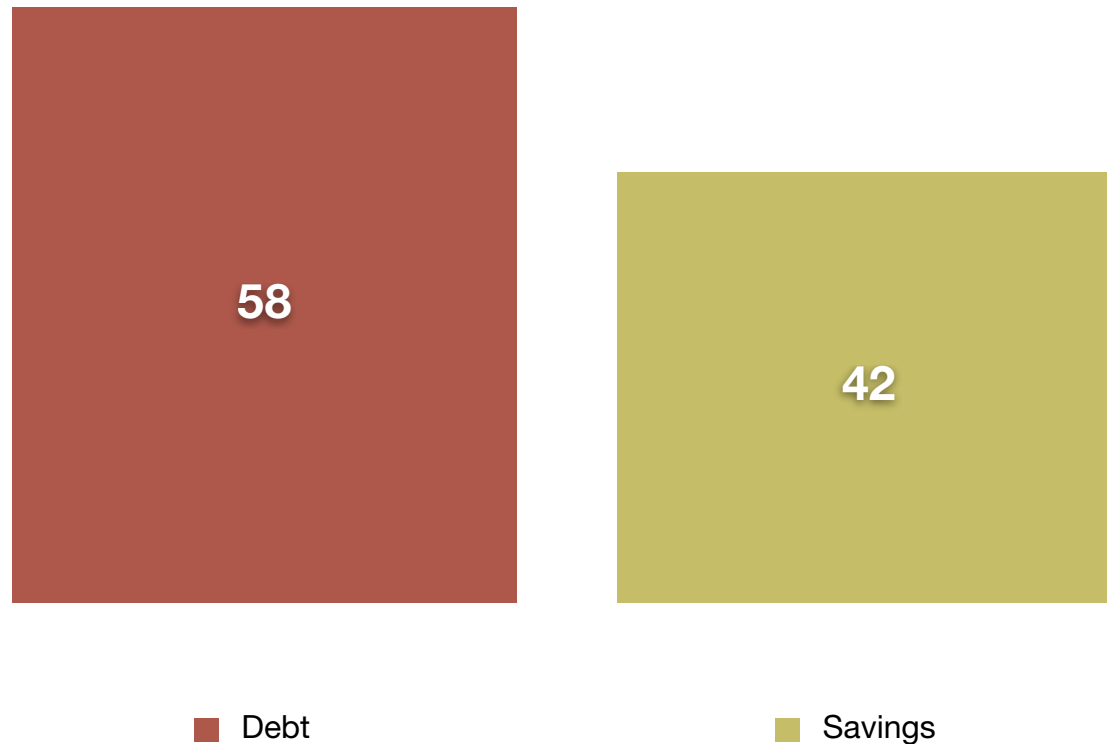


The Debt Anchor on Consumer Spending

- Almost 60% of Canadians have more non-mortgage debt than savings
- This is true of almost $\frac{3}{4}$ of parents, 40% of whom are facing readjusting their education plans for their children
- Half say it will take them more than three years to pay it off
- Even if they got money, they would put it against debt rather than spend it

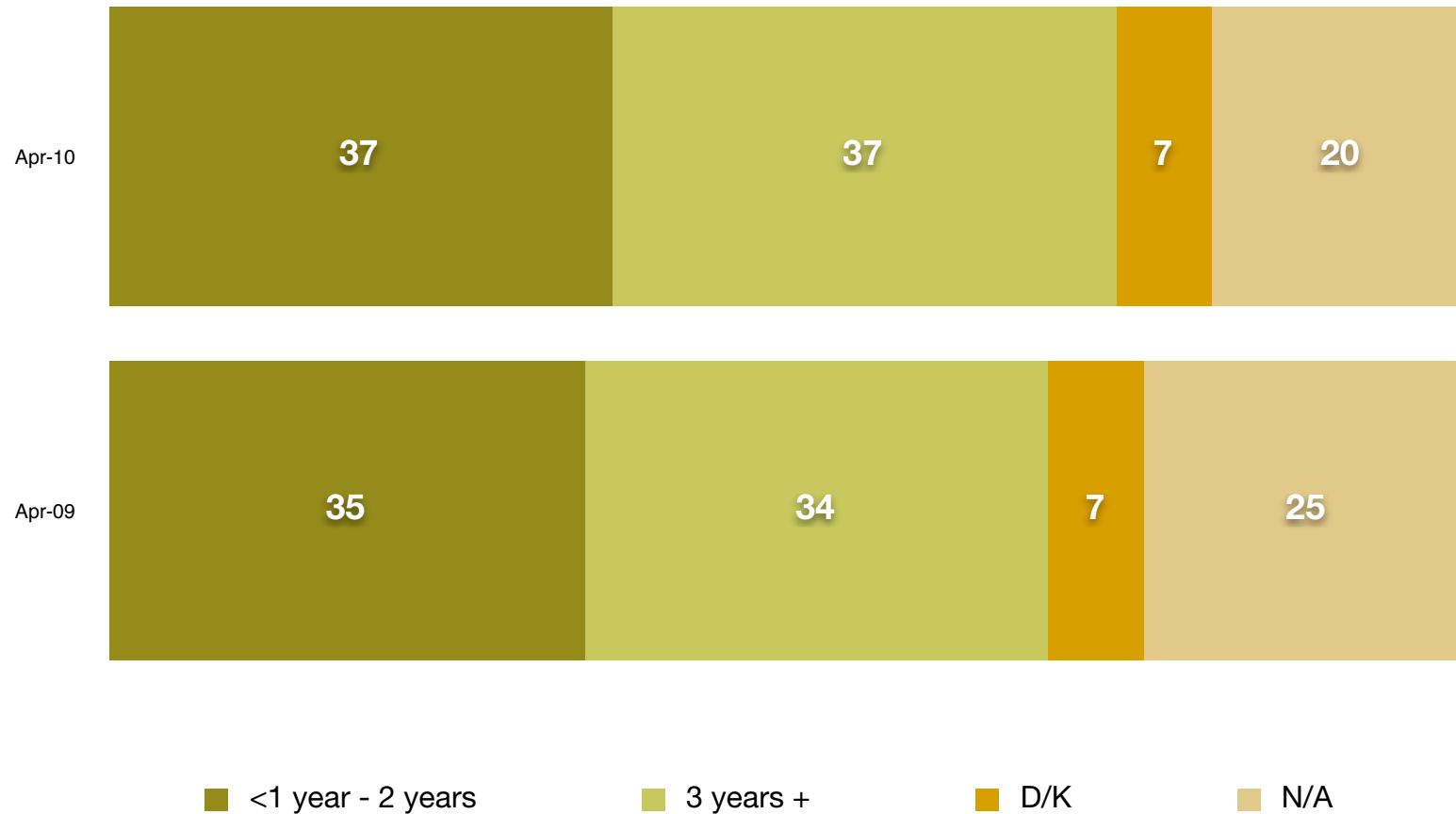
Debt vs. Savings

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



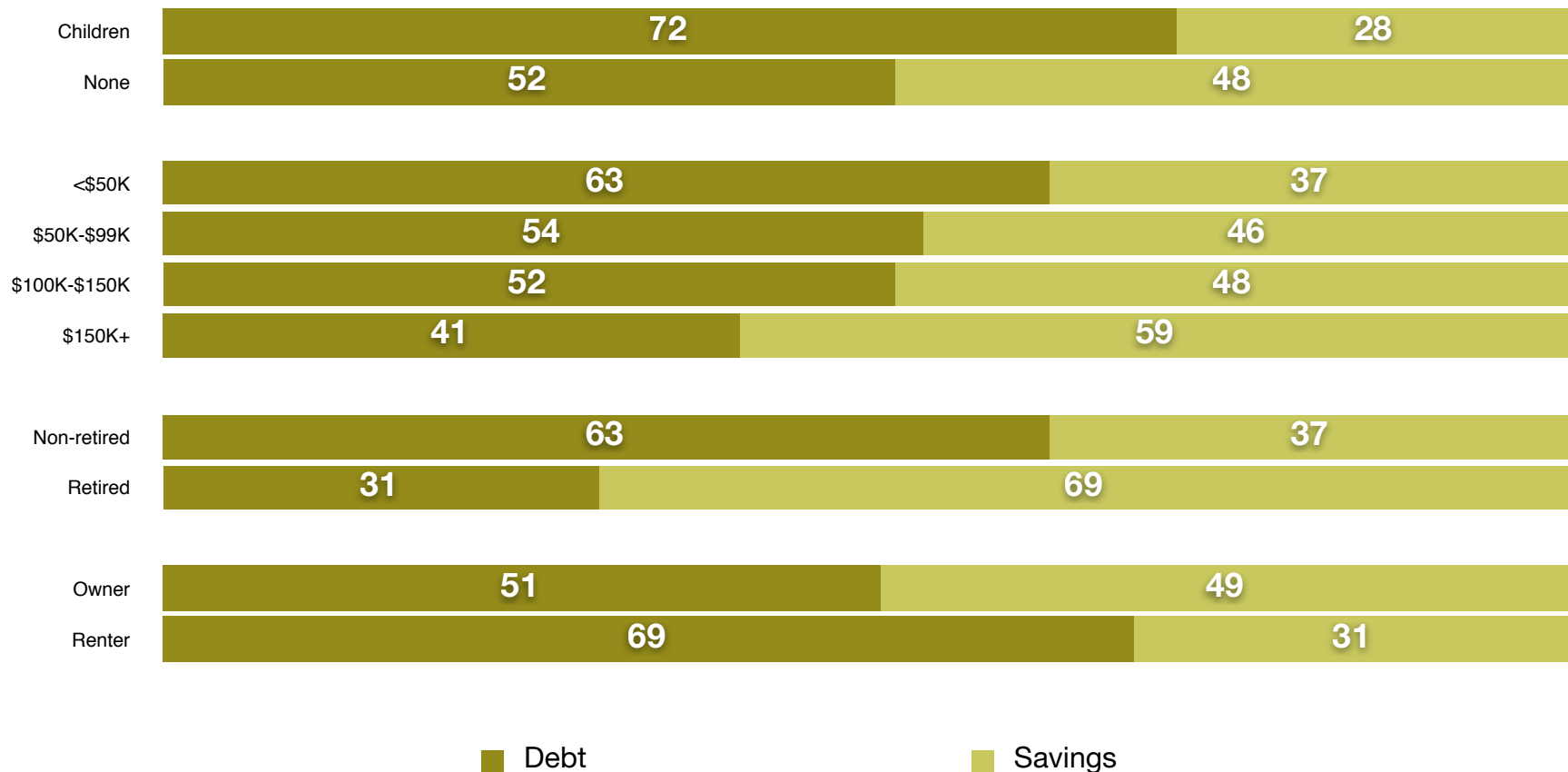
Years of Paying Off Debt

- “How long do you think it will take for you to pay off your debt, not including your mortgage?”



Most Canadians Are In Debt

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

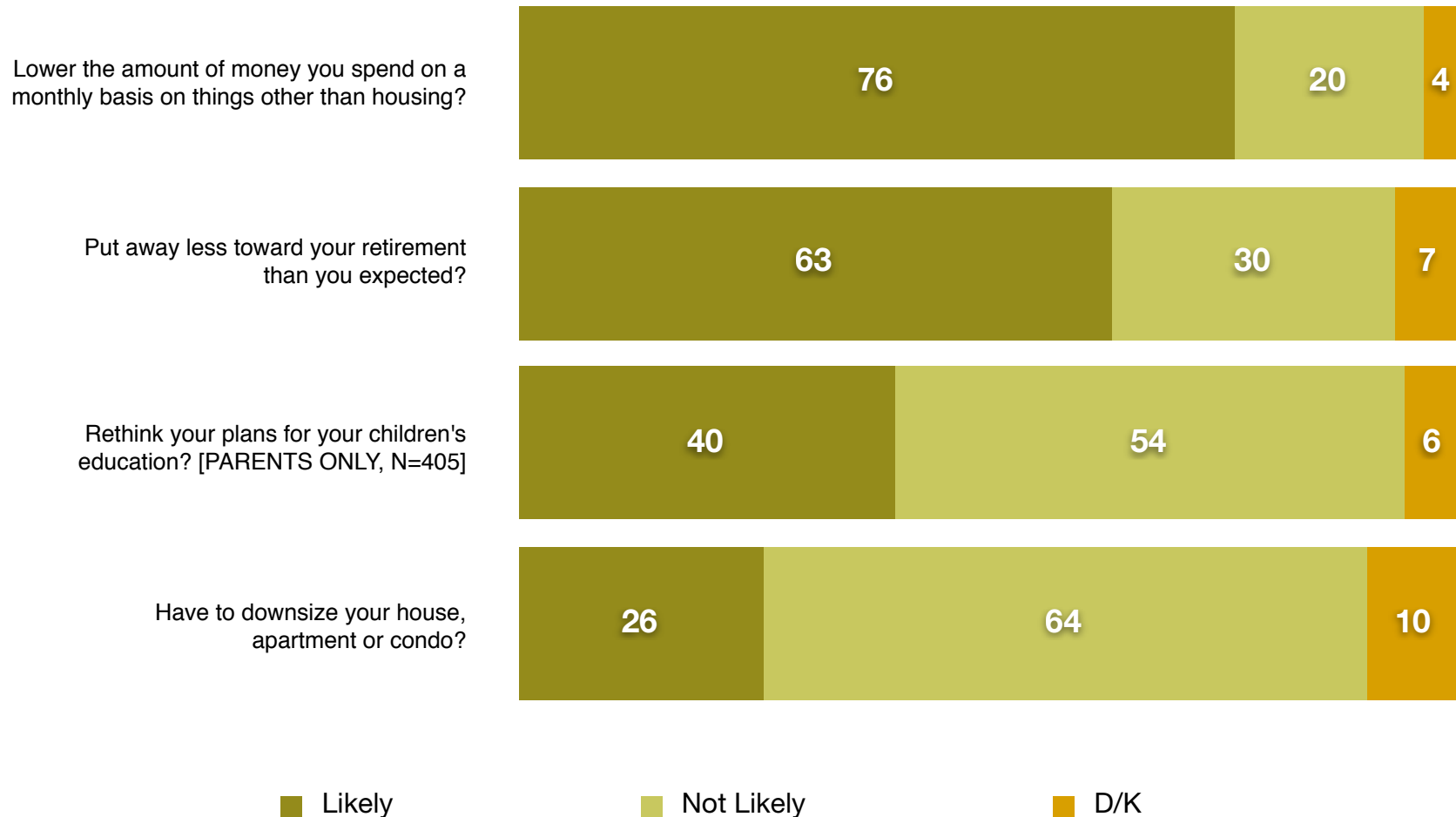


Effects of Personal Debt

- Those who have more non-mortgage debt are:
 - Much more likely to be worse off than a year ago
 - Less likely to be able to make a major purchase
 - More likely to still be cutting back on spending
 - More insecure (worried about falling behind)
 - Virtually all report that they cannot afford to save and are very worried about retirement
 - One in four thinks they are likely to have to downsize their house or apartment
 - 60% say they will be forced to put away less for retirement
 - $\frac{3}{4}$ say they are going to have to reduce their ongoing spending

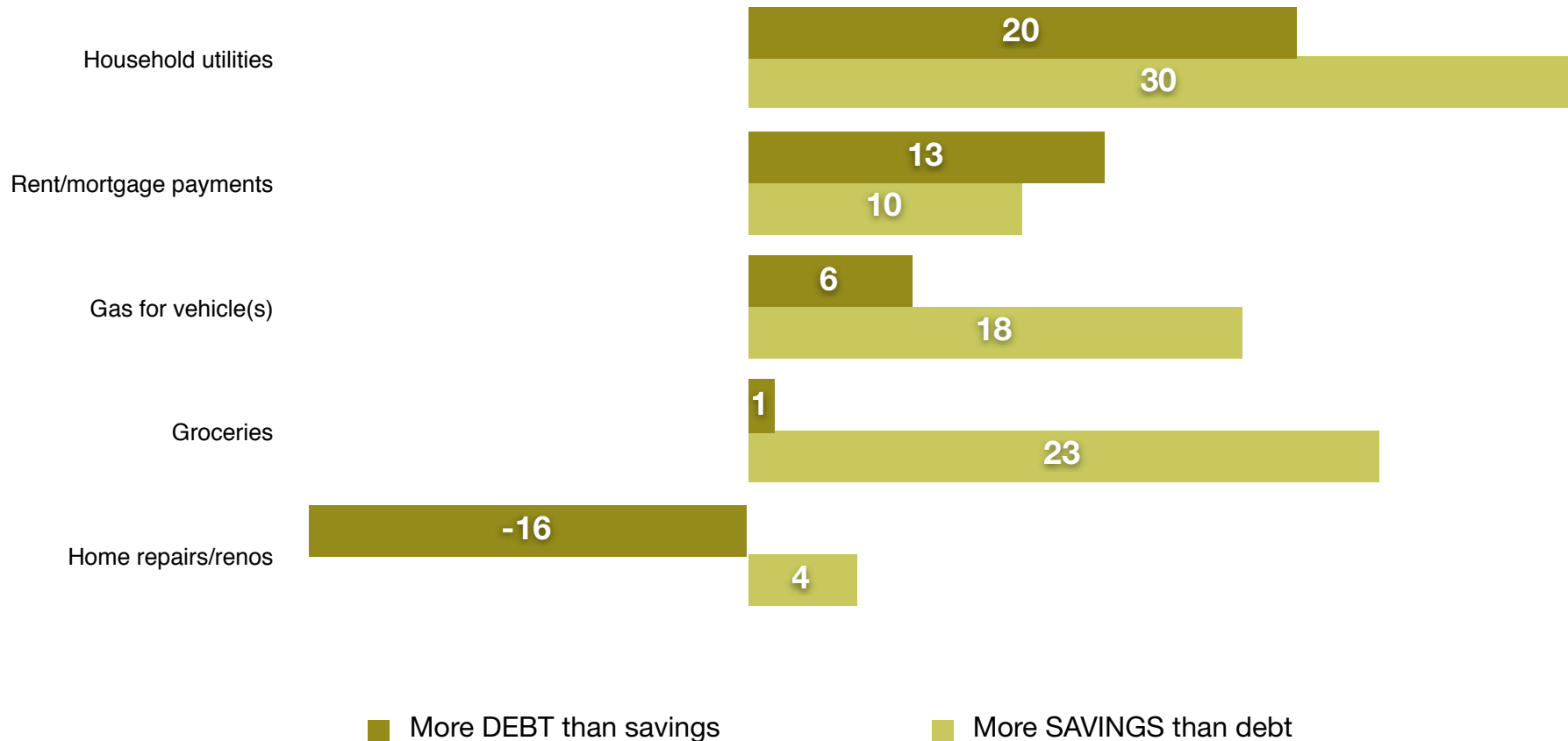
Consequences of Personal Debt

- “And how likely is it that because of this debt you will _____?”



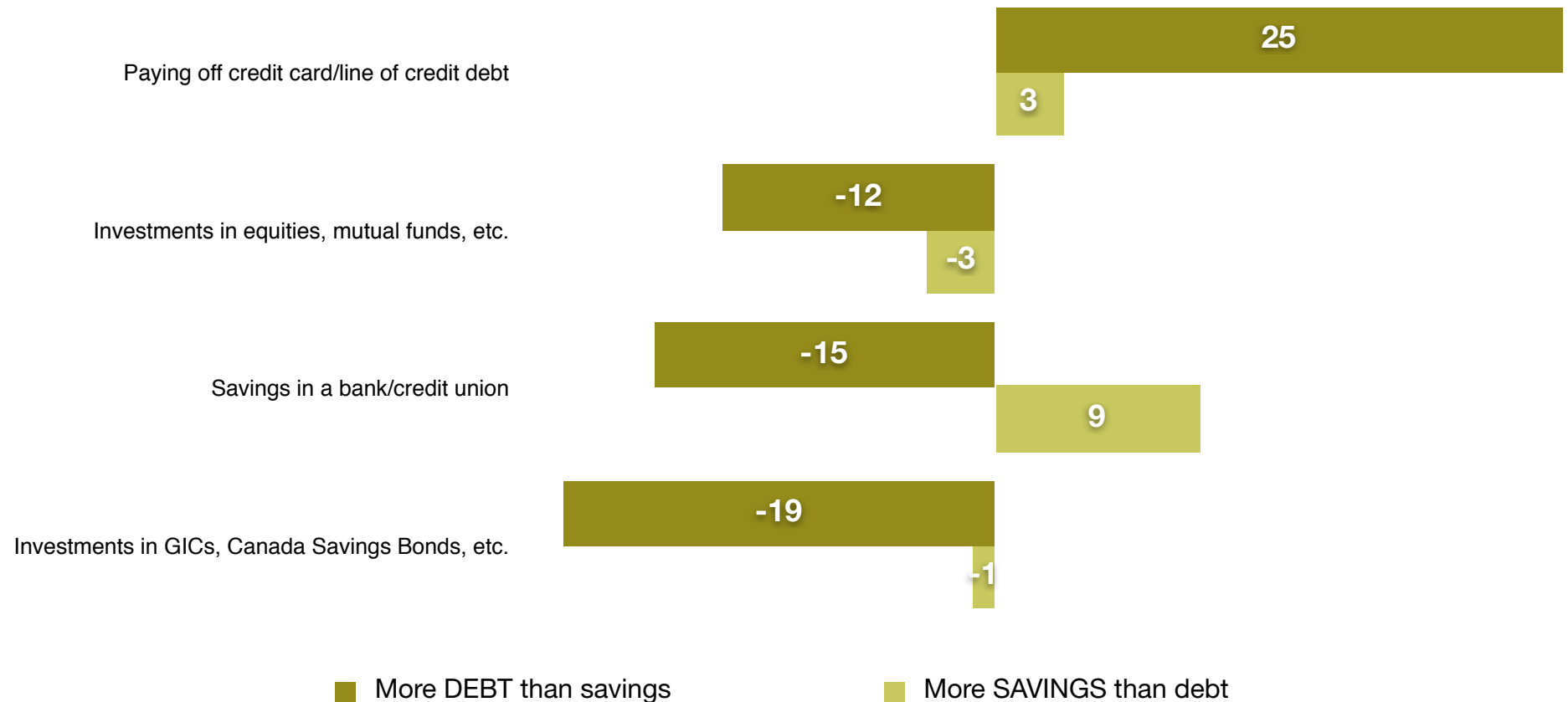
Changes in Spending – Household Costs

- “Compared to the last 12 months, do you expect that in the next year you will spend much less, somewhat less, about the same, somewhat more or much more on...” [Net amount]



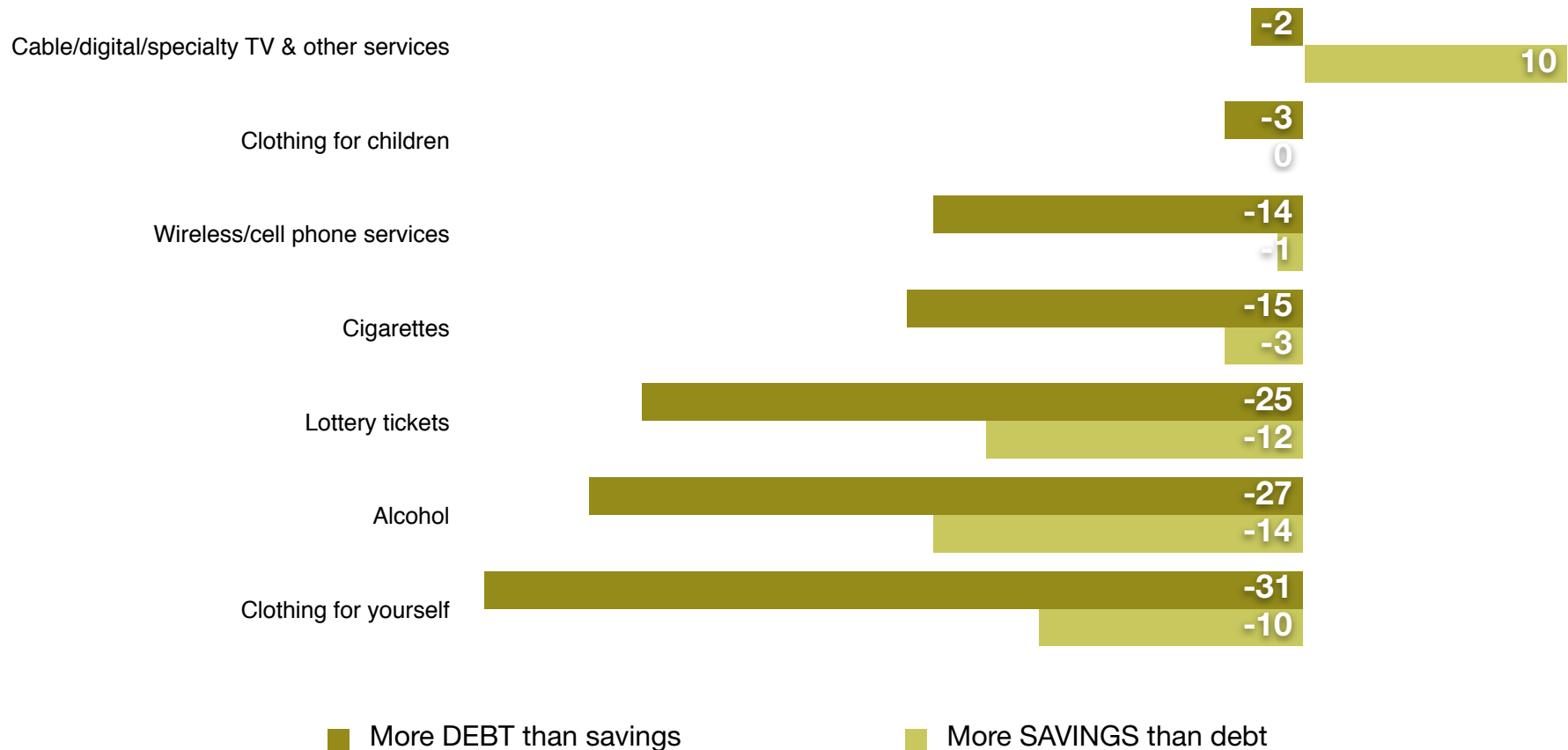
Changes in Spending – Finances

- “Compared to the last 12 months, do you expect that in the next year you will spend much less, somewhat less, about the same, somewhat more or much more on...” [Net amount]



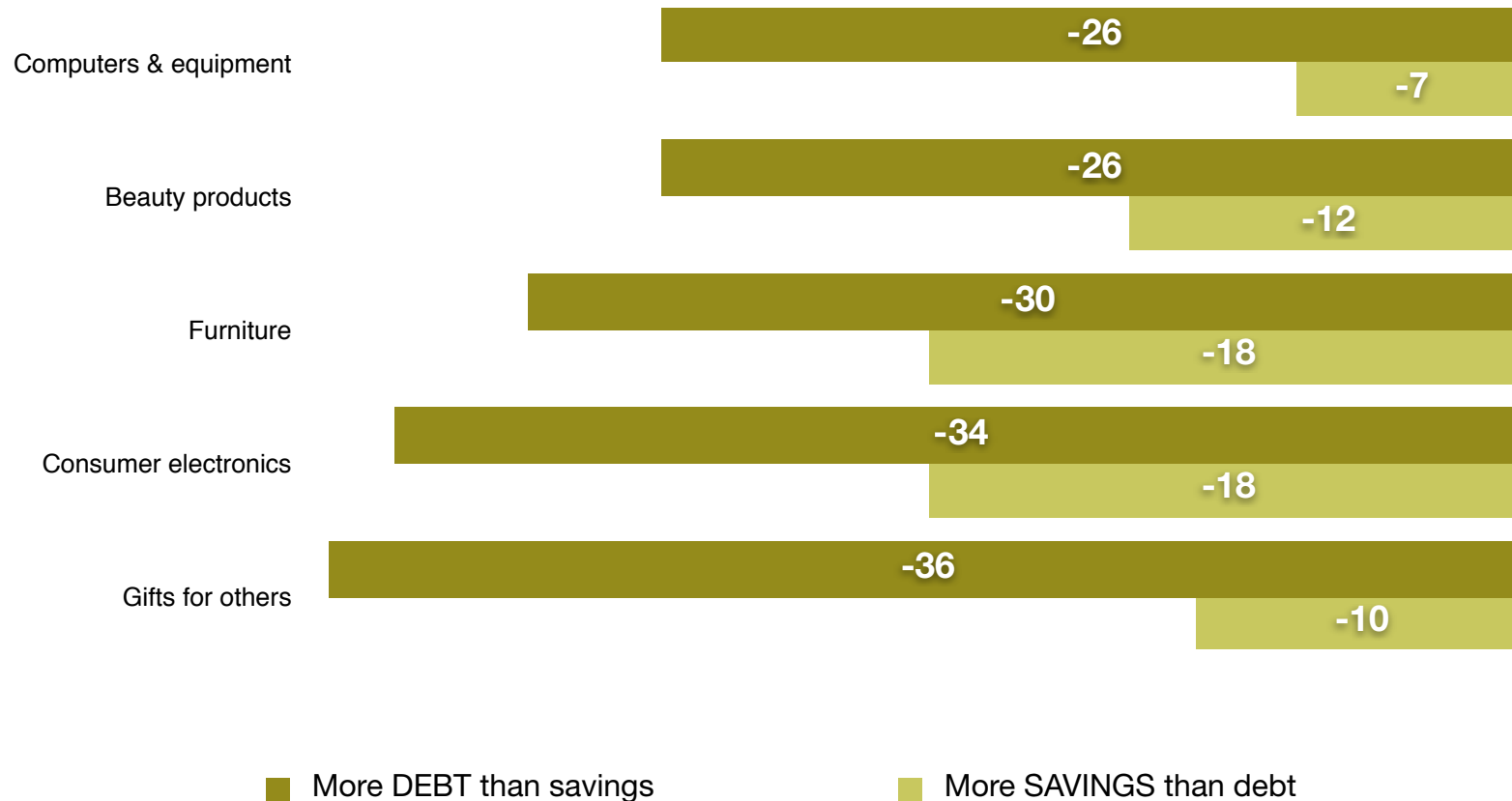
Changes in Spending – Non-essential Spending

- “Compared to the last 12 months, do you expect that in the next year you will spend much less, somewhat less, about the same, somewhat more or much more on...” [Net amount]



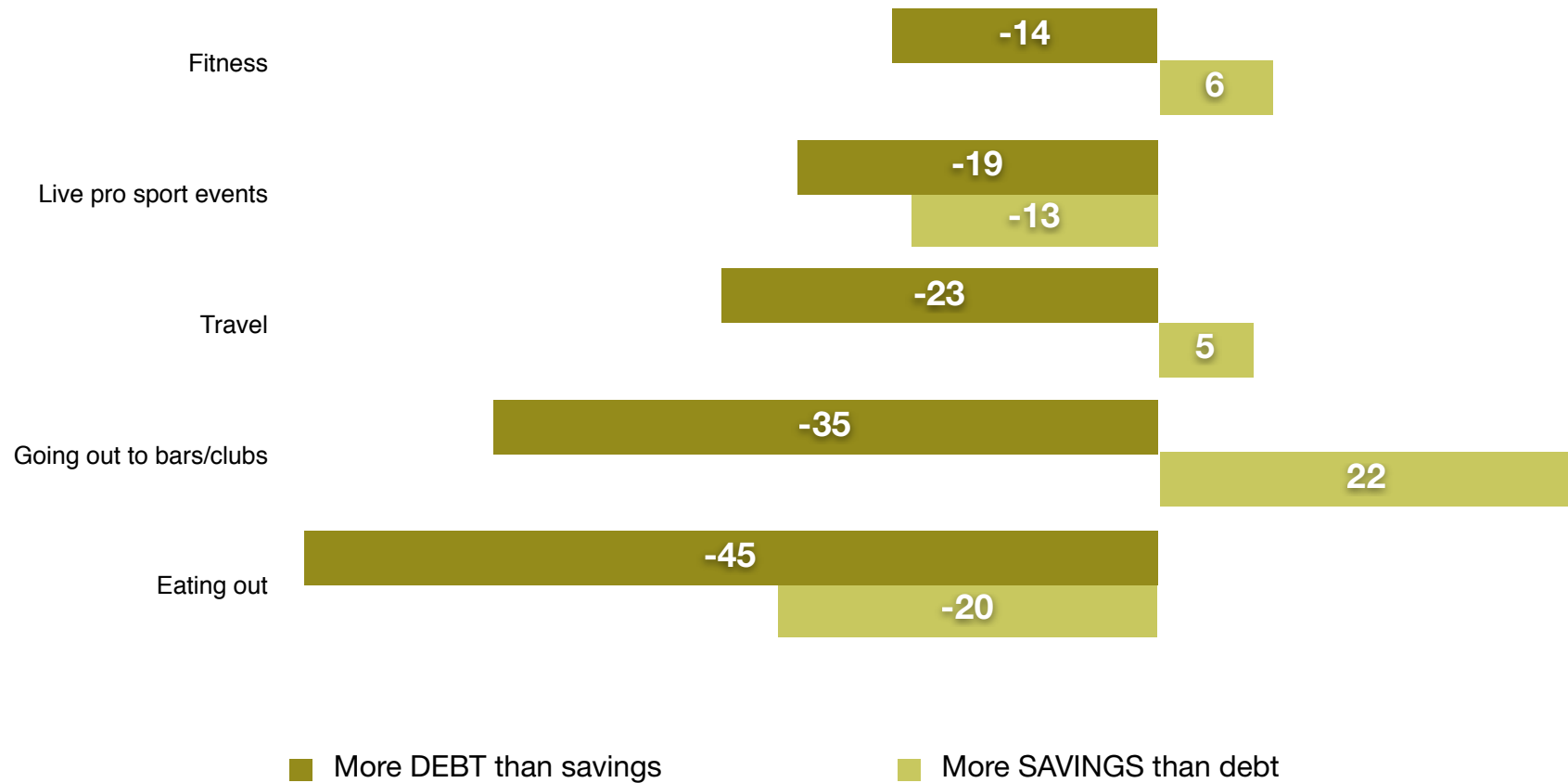
Changes in Spending – Consumer Goods

- “Compared to the last 12 months, do you expect that in the next year you will spend much less, somewhat less, about the same, somewhat more or much more on...” [Net amount]



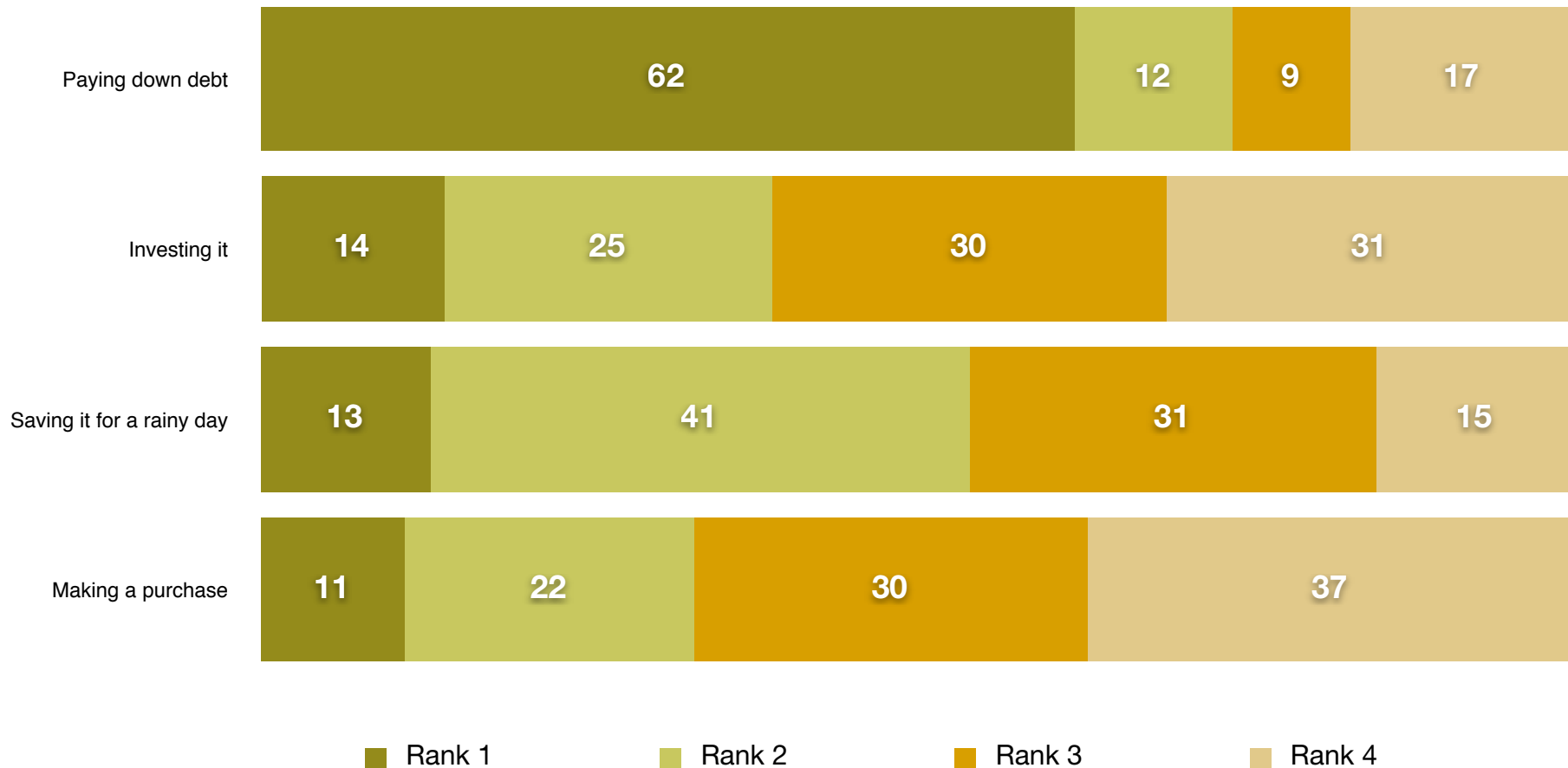
Changes in Spending – Entertainment

- “Compared to the last 12 months, do you expect that in the next year you will spend much less, somewhat less, about the same, somewhat more or much more on...” [Net amount]



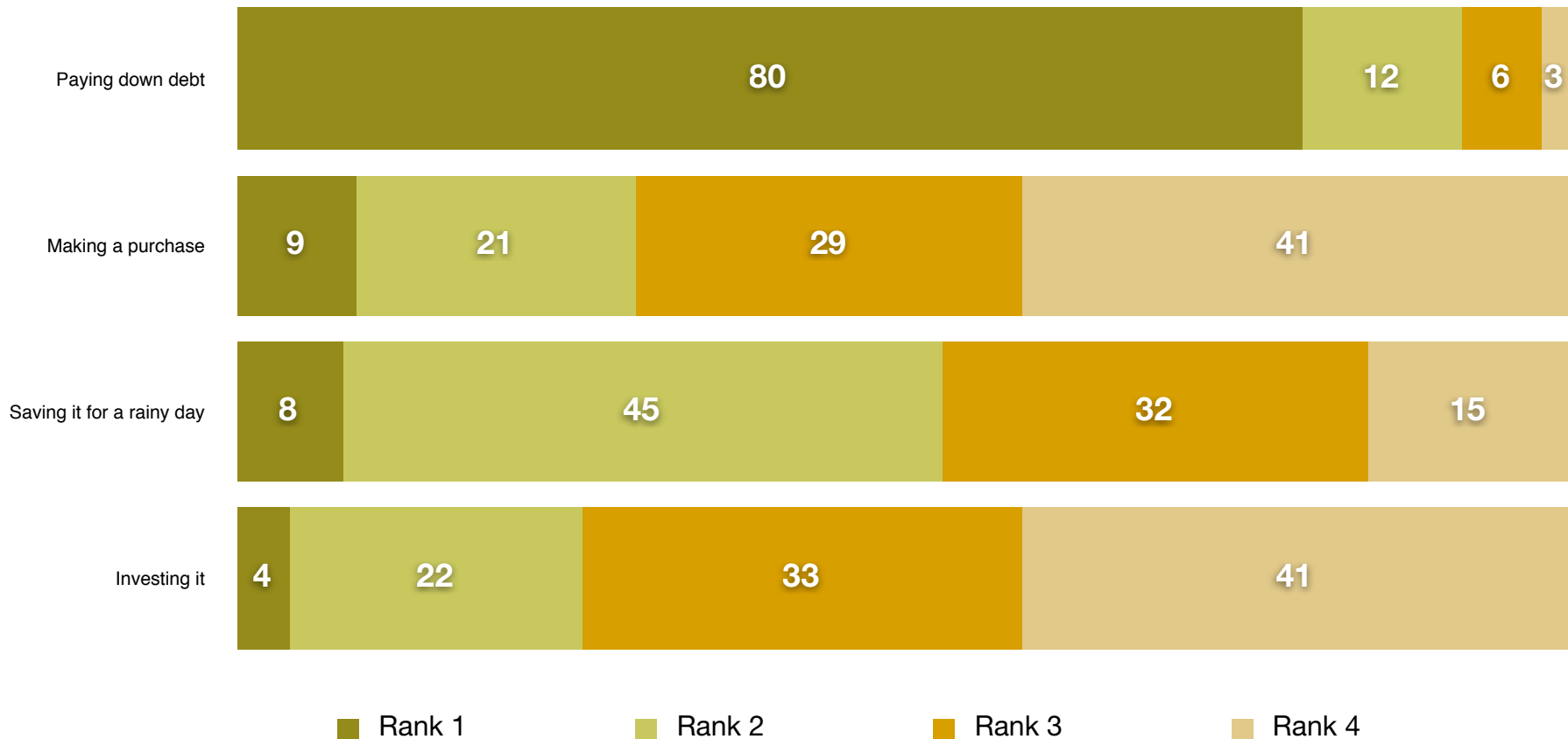
Priorities for Extra Spending Money

- “If you came into \$5,000, please rank the following in terms of where you would put the money in priority sequence by writing 1 for first, 2 for second, etc.”



Priorities for Extra Spending Money – More Debt

- “If you came into \$5,000, please rank the following in terms of where you would put the money in priority sequence by writing 1 for first, 2 for second, etc.”
More debt than savings.

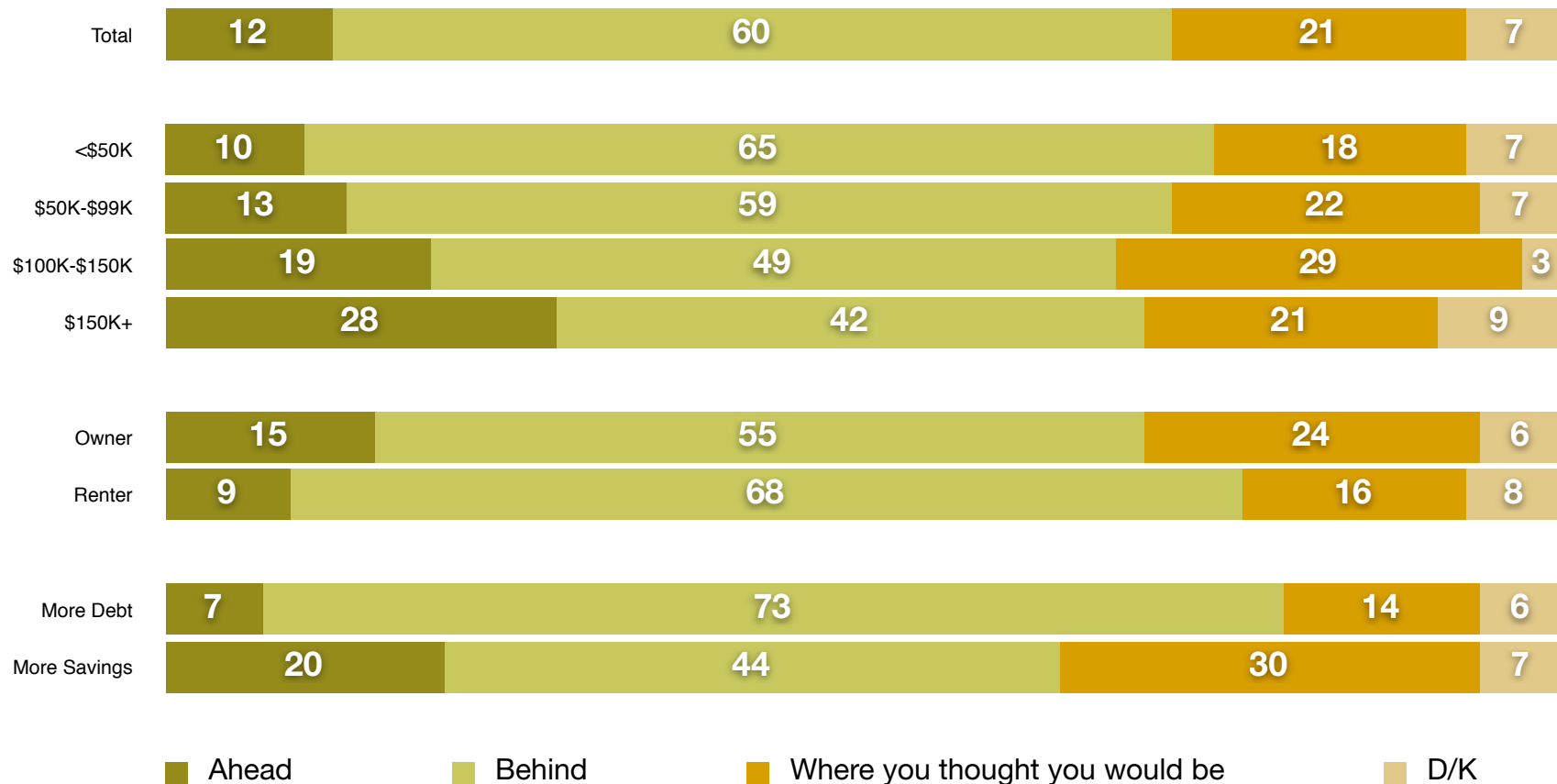


Anxiety About Declining Opportunities

- Underlying short-term economic optimism is a more fundamental anxiety about future prospects
- 60% of Canadians are behind where they thought they would be financially at this point in their life
- Canadians much more likely to think our standard of living will be lower than higher post recession
- Most Canadians have hope, few have confidence, that they will ever be more prosperous than they are now
- Fewer than one in five Canadians is relatively confident that the next generation of Canadians will have a better quality of life than the current generation enjoys
- Much more likely to be worried about falling behind than excited about getting ahead

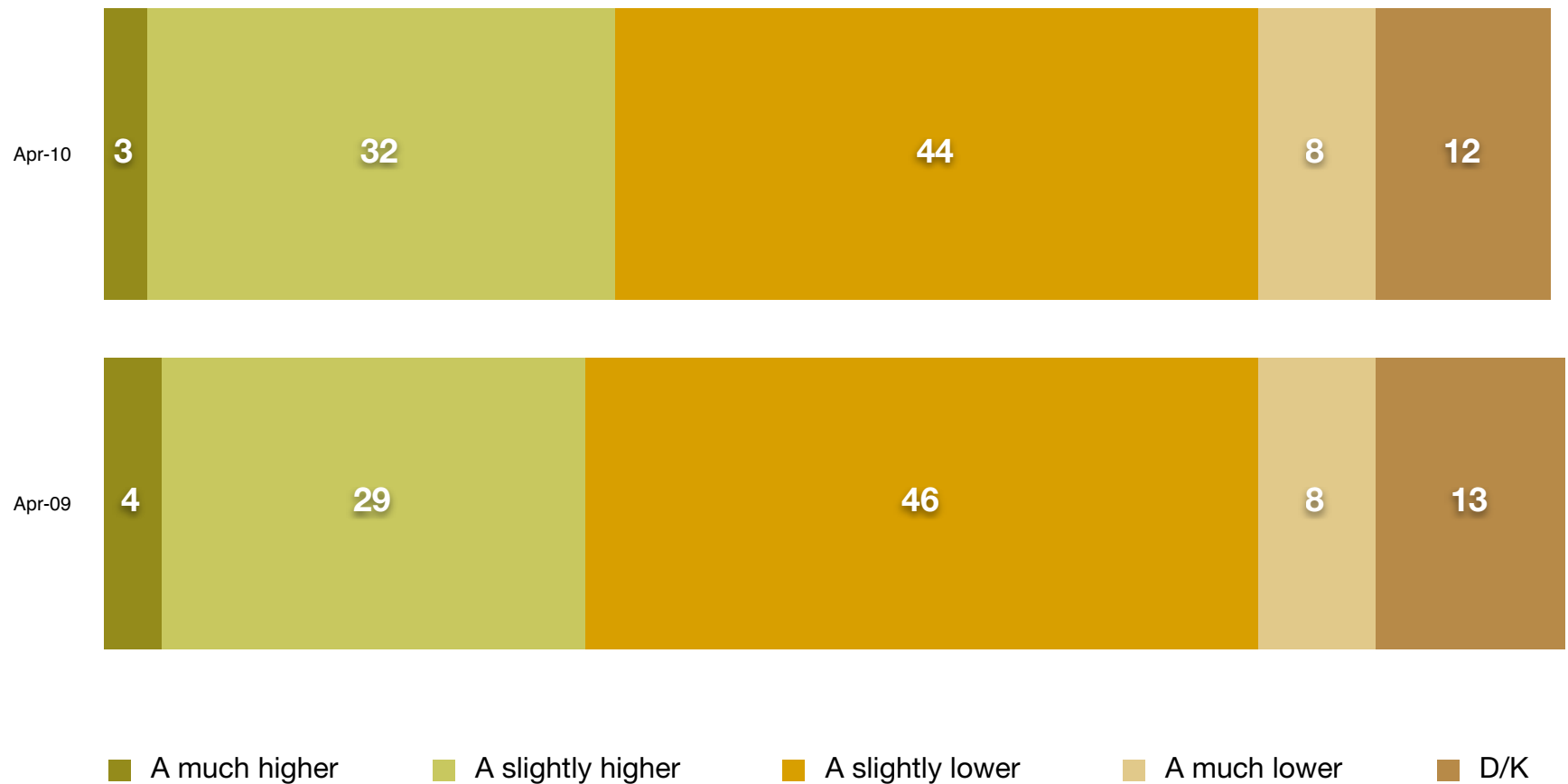
Am I Ahead or Behind?

- “Compared to what you had expected for this stage of your life, are you financially ahead of where you thought you would be, behind where you thought you would be, or where you thought you would be financially?”



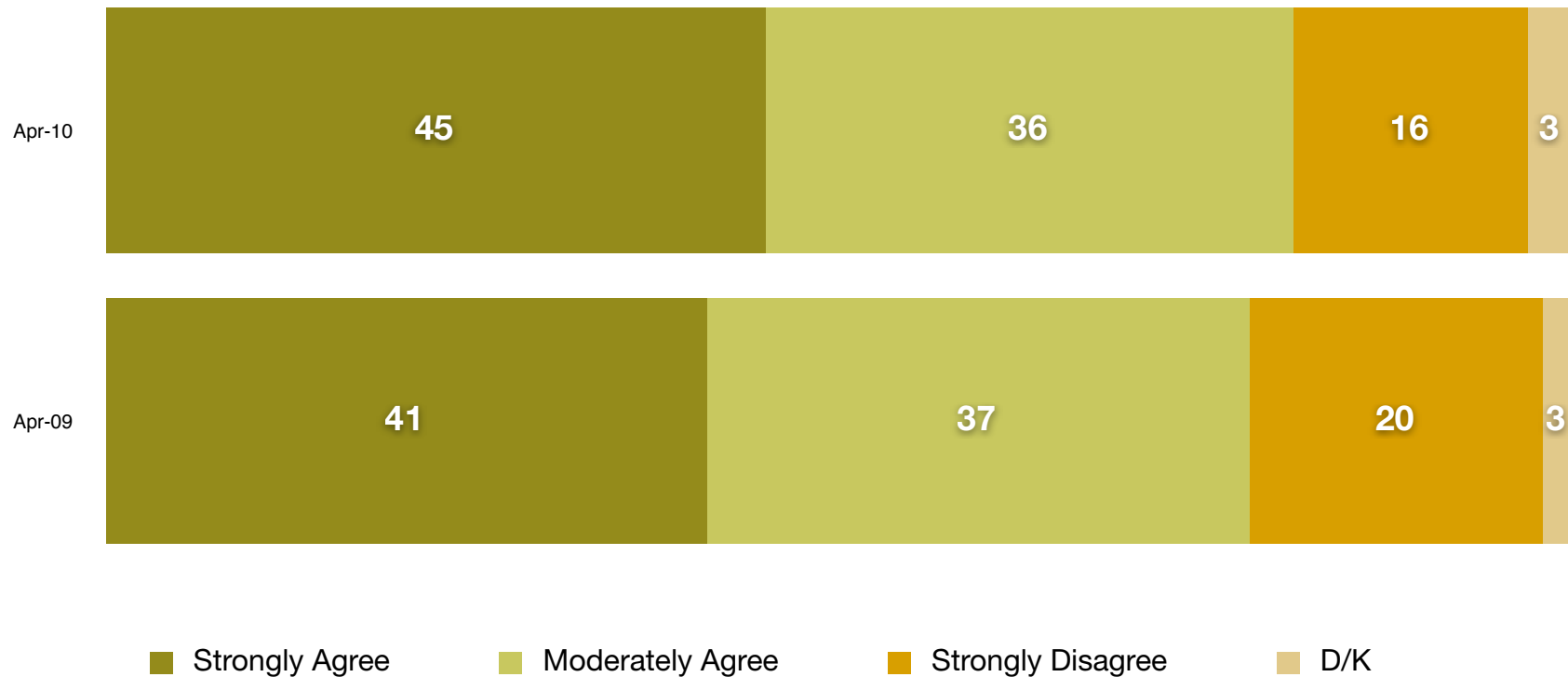
The Future

- “When this recession ends and the economy normalizes, do you think we will have _____ standard of living than we used to have?”



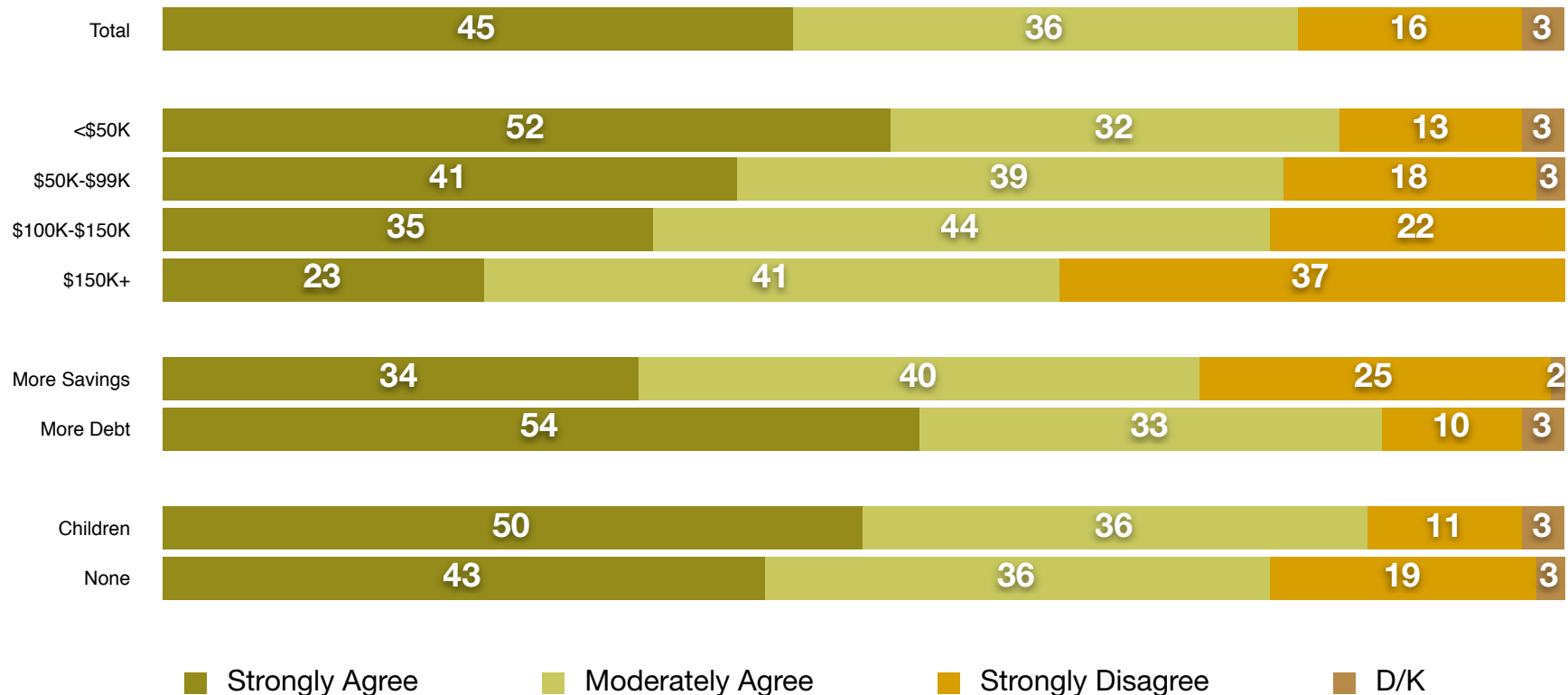
Concern about Personal Finances

- “We are interested in your current attitudes about spending. For each of the following statements, on a scale of 1 to 9 where 1 means you do not agree at all and 9 means you strongly agree, how much do you agree or disagree with the following?” **I’m more worried about falling behind than I am excited about getting ahead.**



Concern about Personal Finances

- “We are interested in your current attitudes about spending. For each of the following statements, on a scale of 1 to 9 where 1 means you do not agree at all and 9 means you strongly agree, how much do you agree or disagree with the following?” **I’m more worried about falling behind than I am excited about getting ahead.**



Conclusions

- Very high expectations that the recession is over, and that both the national and personal balance sheets will be improving over the next year
- People are, and **want** to be, optimistic about the economy over the near term
- It is a relief, but not exciting, that the recession is over

Conclusions

- However, consumer spending will not reflect the topline levels of optimism for two key reasons:
 1. The Culture of Thrift that developed during the recession continues to be dominant in most consumers' minds
 - Restraint remains in and conspicuous consumption remains out – except among the highest income brackets
 - Core attitudinal underpinnings of the “culture of thrift” are not diminishing as the recession diminishes
 2. Most Canadians are in debt and the debt is significant and difficult to manage
 - It is their top priority for discretionary spending
 - It severely limits their ability to return to pre-recession spending levels
 - It is also a big factor in the looming retirement income crisis and many people feel they do not have the capacity to save or invest

Conclusions

- There is a remarkable, disturbing belief that Canada is trending toward a country of fewer opportunities and a lower standard of living
- Little confidence that the next generation will have a better standard of living, despite the fact that most Canadians feel that they themselves have not done as well financially as they had hoped