

THE BENSIMON BYRNE

Consumerology Report

The Impact of
Macro Economic Trends

April 2008



Methodology

- The Gandalf Group conducted qualitative and quantitative research to produce the Consumerology Report.
- Online discussions were held over 3 days in March 2008 with 4 groups of Canadians
 - General population national sample who were optimistic about the economy
 - General population national sample who were pessimistic about the economy
 - Involved Canadians under the age of 34
 - Involved Canadians over the age of 34
- A quantitative online survey was conducted with 1500 Canadians demographically matched by age, region and gender to Statistics Canada populations.
- The survey was done in English and French and fielded in March 2008.
- The margin of error for the national sample is +/- 2.53%.

Executive Summary

- Although most Canadians feel that Canada is on the right track today, a combination of poor personal economic experience and concern about economic trends has consumers reining in their spending.
- Canadians are worried about an impending economic slowdown and increasing costs of essentials, resulting in overall spending concerns.
- Many Canadians indicate they will cut back variable spending. If their worries increase, expect spending to drop significantly.
- Although 75% believe the country is on the right track today, only 62% believe the economy will be growing a year from now.
- Populations most at risk are families with children, lower income Canadians, and older Canadians. Forty-five per cent of families with children are in worse shape today than they were a year ago.

Key Findings

- 1 in 5 Canadians – 1 in 4 Ontarians – are worried that they or somebody in their household might lose their job this year.
 - This compares to 17 per cent in January 2008 and 14 per cent in August 2007, nationally, and 23 percent in Ontario (Ipsos Reid)
- About 1/3 of Canadians making \$75, 000 or less come up short each month making fixed expenses.
- Forty-five per cent of Canadians do not have enough money each month for variable expenses.
- Canadian cite the price of gasoline as one of the most important issues facing the country.
 - Second only to health care.

Key Findings

- Sixty-five per cent of Canadians follow economic news and are significantly more likely to have changed their spending.
- Although interest rates are an important indicator of economic strength, they are a strong purchase motivator to only 7% of Canadians.
- Canadians believe it is a much better time to be saving than to be investing or spending.

Big Picture – Does Macro Impact Micro?

- Changes in spending are affected by macro economic news, by macro economic conditions and by micro economic realities.
- Changes in spending are associated with consideration of many macro factors such as:
 - Following economic news
 - The health of national, provincial and regional economies
 - Unemployment rates – especially regional
 - Interest rates
 - Price of oil
 - The health of the Canadian Pension Plan
- Changes in spending are also significantly affected by micro economic realities such as:
 - Personal fortunes – how have changes in the economy treated me?
 - Personal debt load
 - Job security
 - Overall security of the company I work for

Big Picture – Does Macro Impact Micro?

- Canadians consider news about the economy and are experiencing their own economic conditions. Both matter. Neither serves as a proxy for the other. When perceptions of the economy turn down, spending drops; when personal finances have deteriorated or feel precarious, spending dives.
- In fact, in all areas except gas, groceries and electricity, a large majority of Canadians expect to spend the same or less in the coming year.

Spending Habits

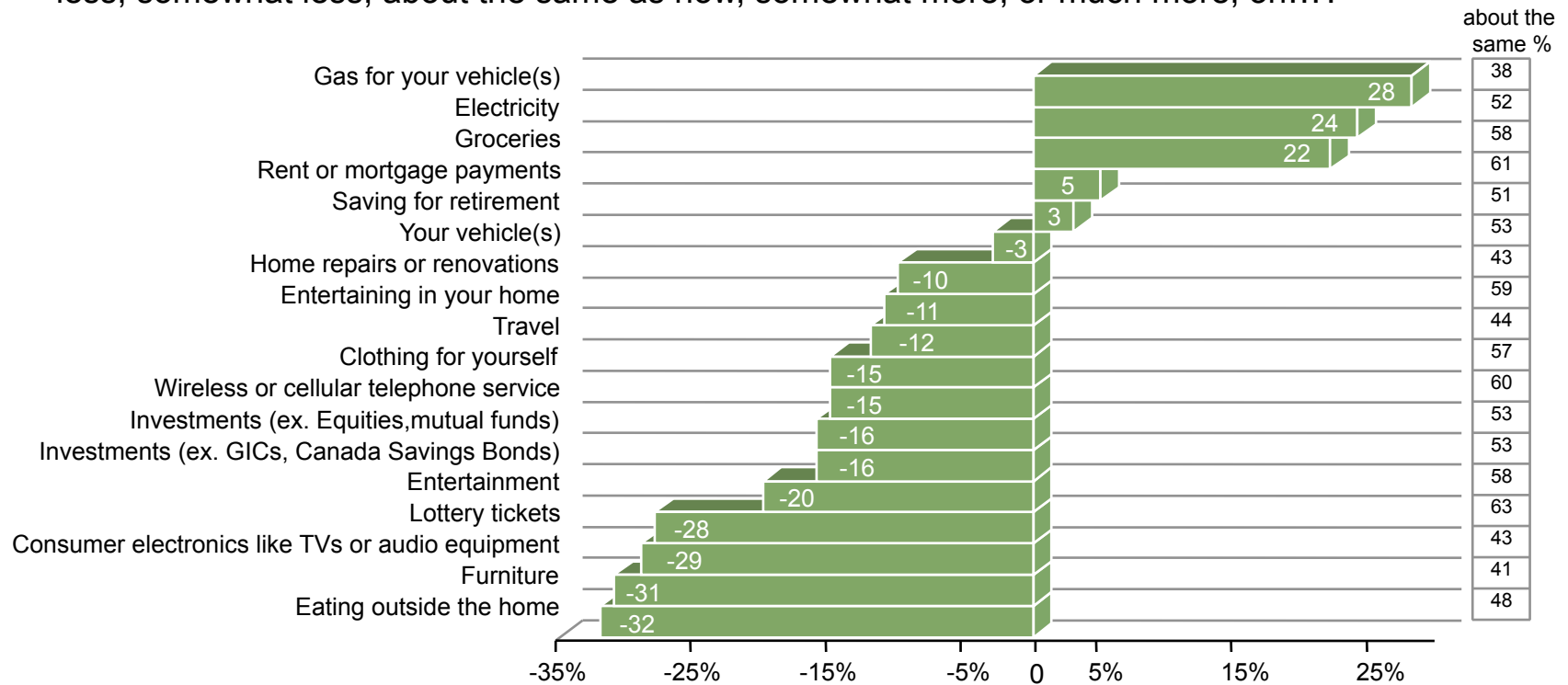
- Canadians report that they are more likely to be cutting back on discretionary spending than increasing it in the coming year.
 - If the mood about the macro picture turns more negative, expect dramatic reductions in spending
 - In essence, consumers are at a spending crossroads
- More than half of Canadians (57%) say they are spending less.
- Three-quarters of Canadians say that their day-to-day spending isn't changing but they are more cautious with variable spending or purchasing big ticket items.

Anticipated Spending

- The biggest trends in spending are greater spending on “necessities” – food, gas, electricity and a marked decrease in spending on “big ticket items”.
- For instance, one third of Canadians expect to pay more for groceries in the coming year, almost half (46%) expect to spend more on gasoline and just over one-third (36%) expect to spend more on electricity.
- Forty five per cent expect to spend less this year than last on furniture. Twenty nine per cent expect to spend less this year on clothing for themselves (this is skewed up by those who don't have children), 31% anticipate their spending on entertainment to decrease and a third expect to spend less on home repairs or renovations.
- Canadians believe it is a much better time to be saving than to be investing or spending.

Anticipated Spending: Difference between more and less

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...?



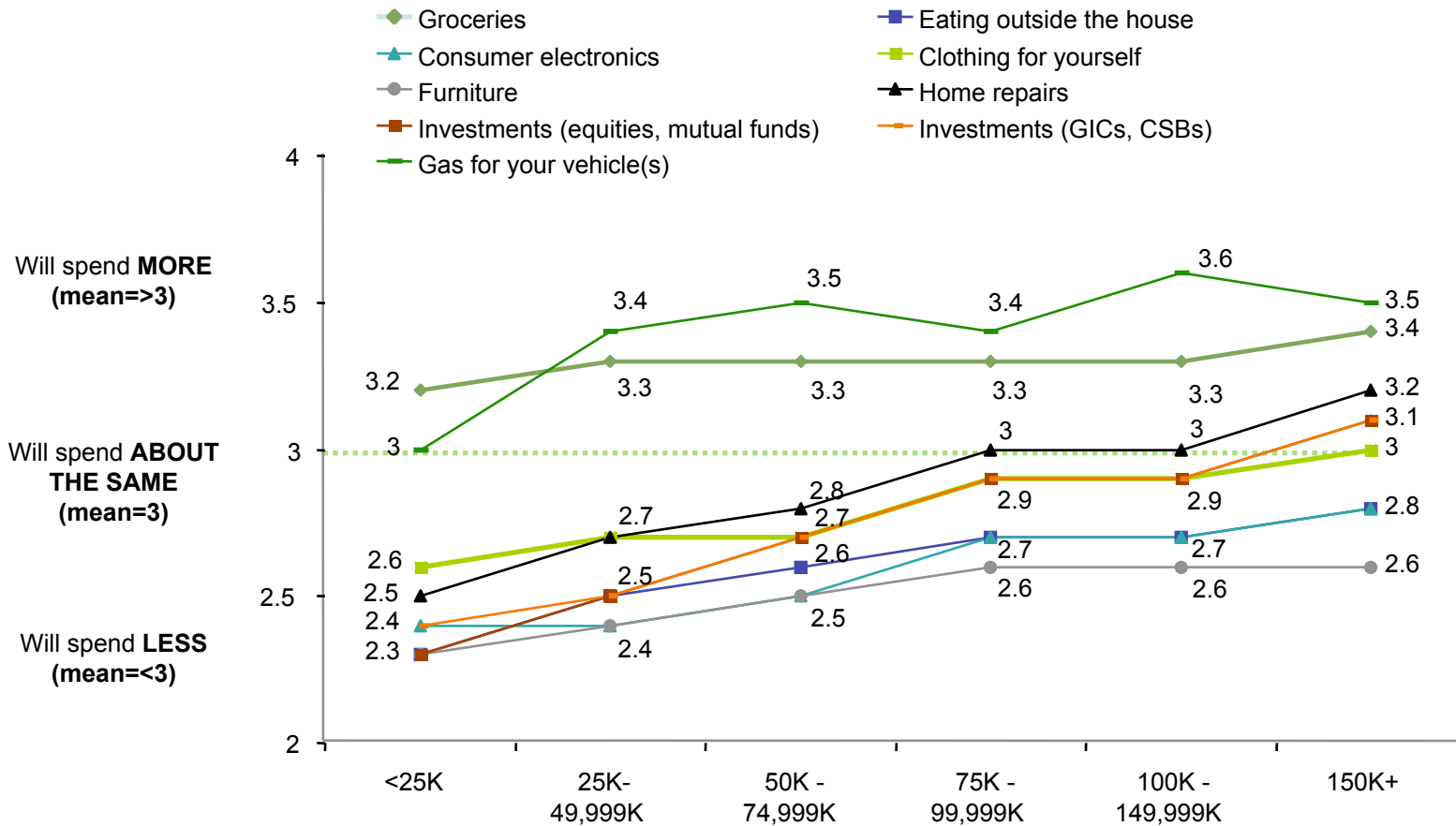
Differences in Spending Patterns

- For the population as a whole, rent/mortgage (for families with kids), groceries, gas and electricity are the only spending items whose mean value leans toward spending more. On every other item Canadians will be spending the same as last year or less than last year.
- Groups most likely to say they are spending less are women, lower incomes and those who have experienced worsening economic conditions.

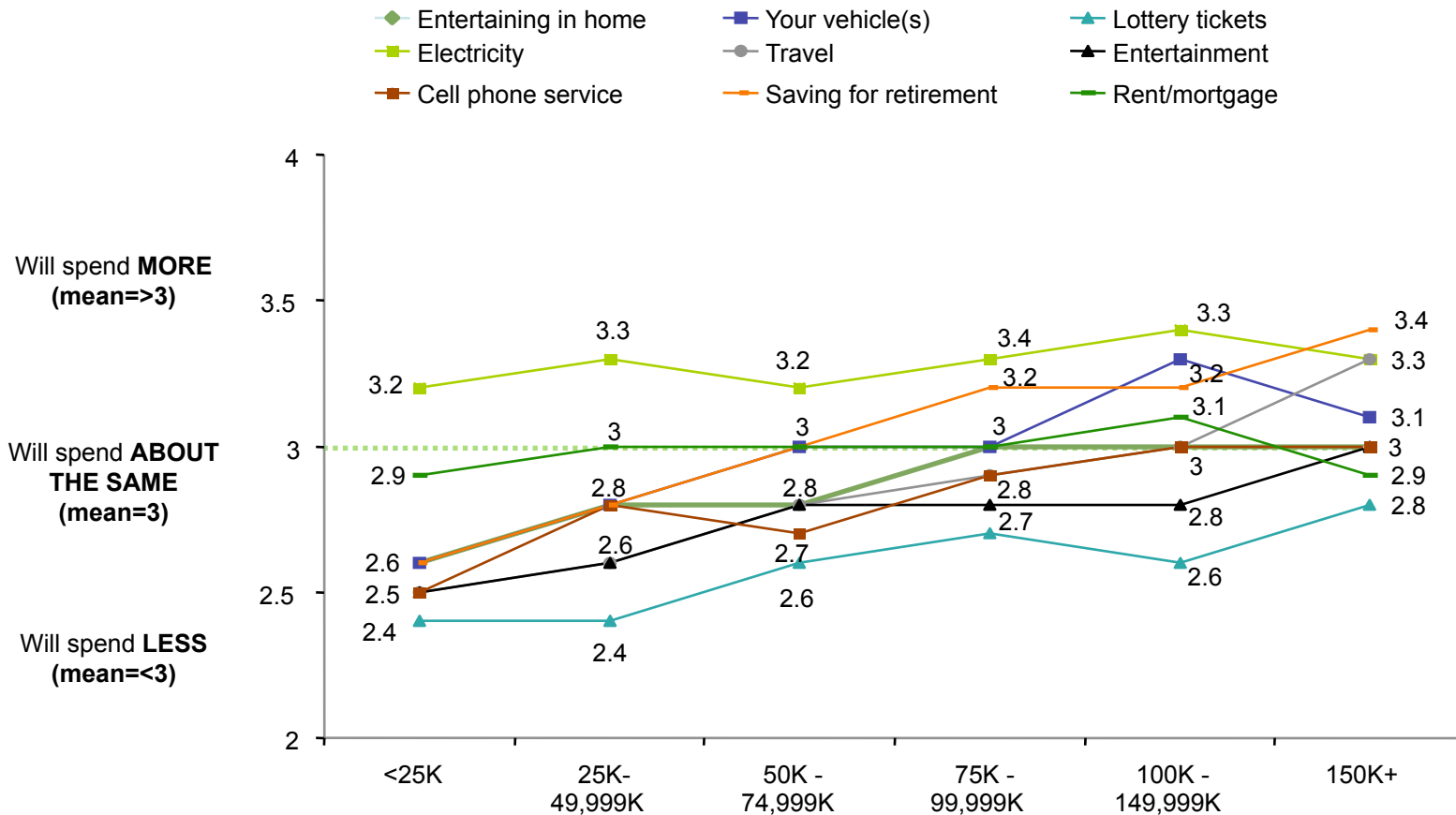
Differences in Spending Patterns

- As expected, higher income results in anticipated greater spending in all areas except for rent/mortgage and electricity (fixed). Interestingly, it is only those making over 150k who anticipate spending more on most items this year.
- Those making 75k or more per year are markedly more likely than lower income to be saving for retirement and investing in GICs and mutual funds.
- Age differences are marked and represent different stages and spending patterns of the life course. Generally, spending declines with age except in gas and electricity.
- Younger Canadians (under 30 yrs) are particularly likely to spend on electronic goods, and to be investing in GICs and mutual funds.
- Families with children expect to spend more in the coming year than families without children on rent/mortgage, retirement savings, investments such as GICs, their vehicle(s), and gas.
- Families without children are more likely to expect to spend more in the coming year on clothing for themselves, travel, and eating out.

Income: Spending Patterns

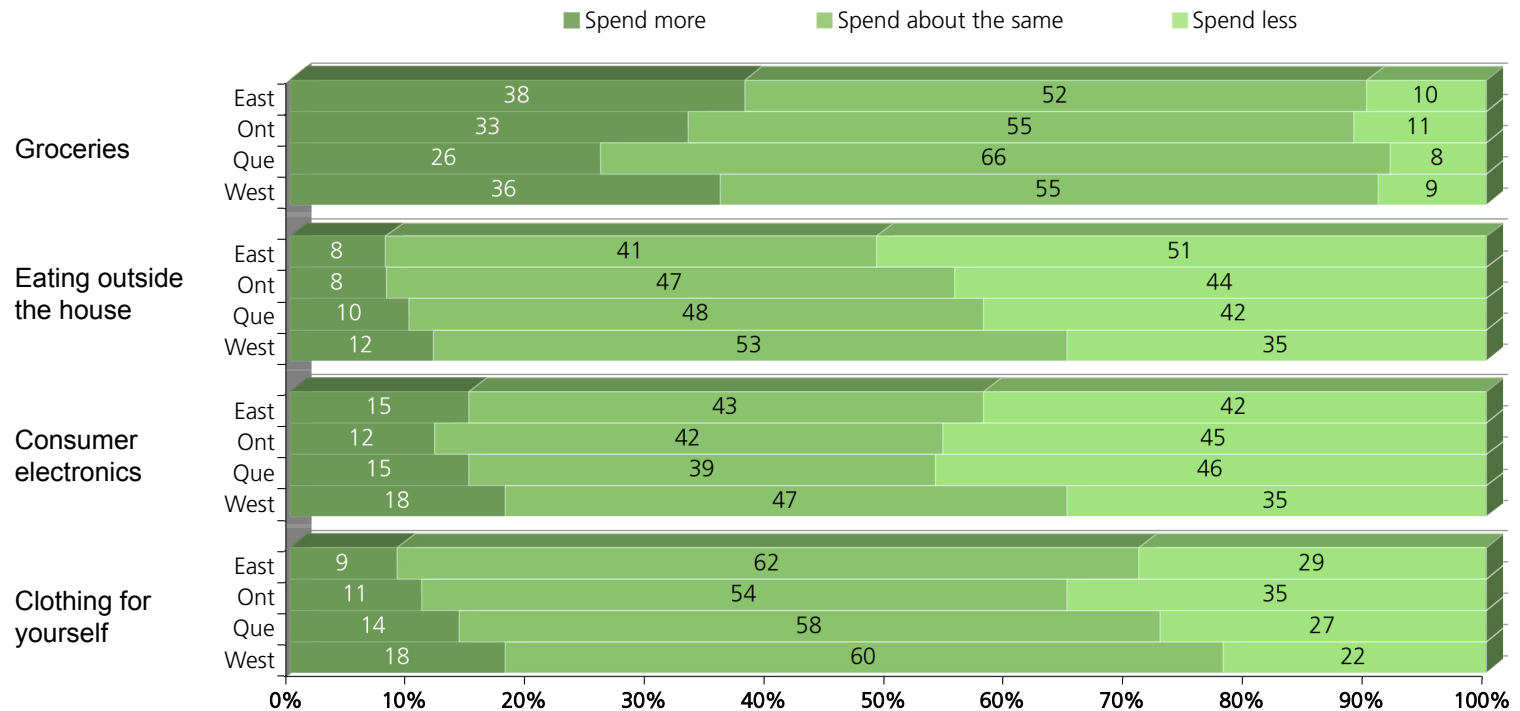


Income: Spending Patterns



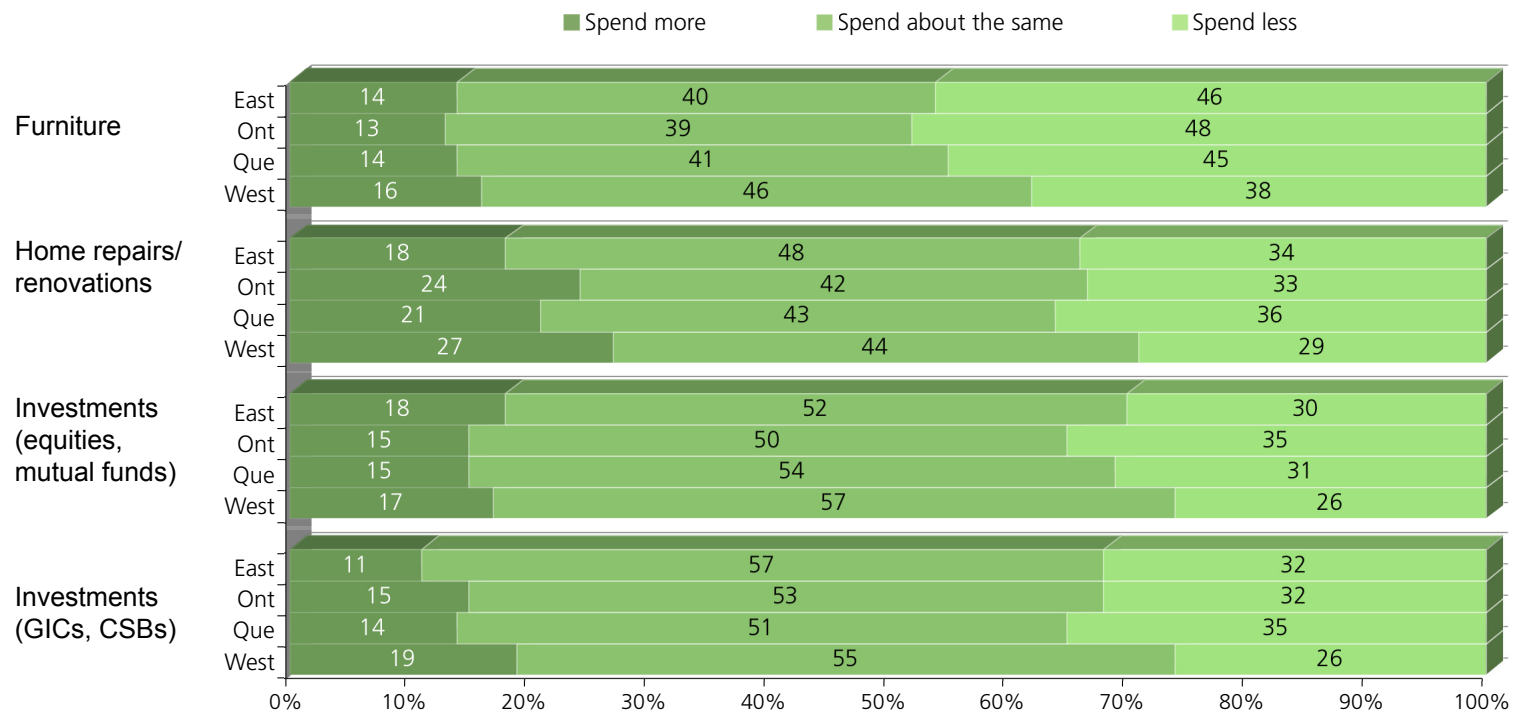
Spending Patterns: Region

- 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, or much more on:



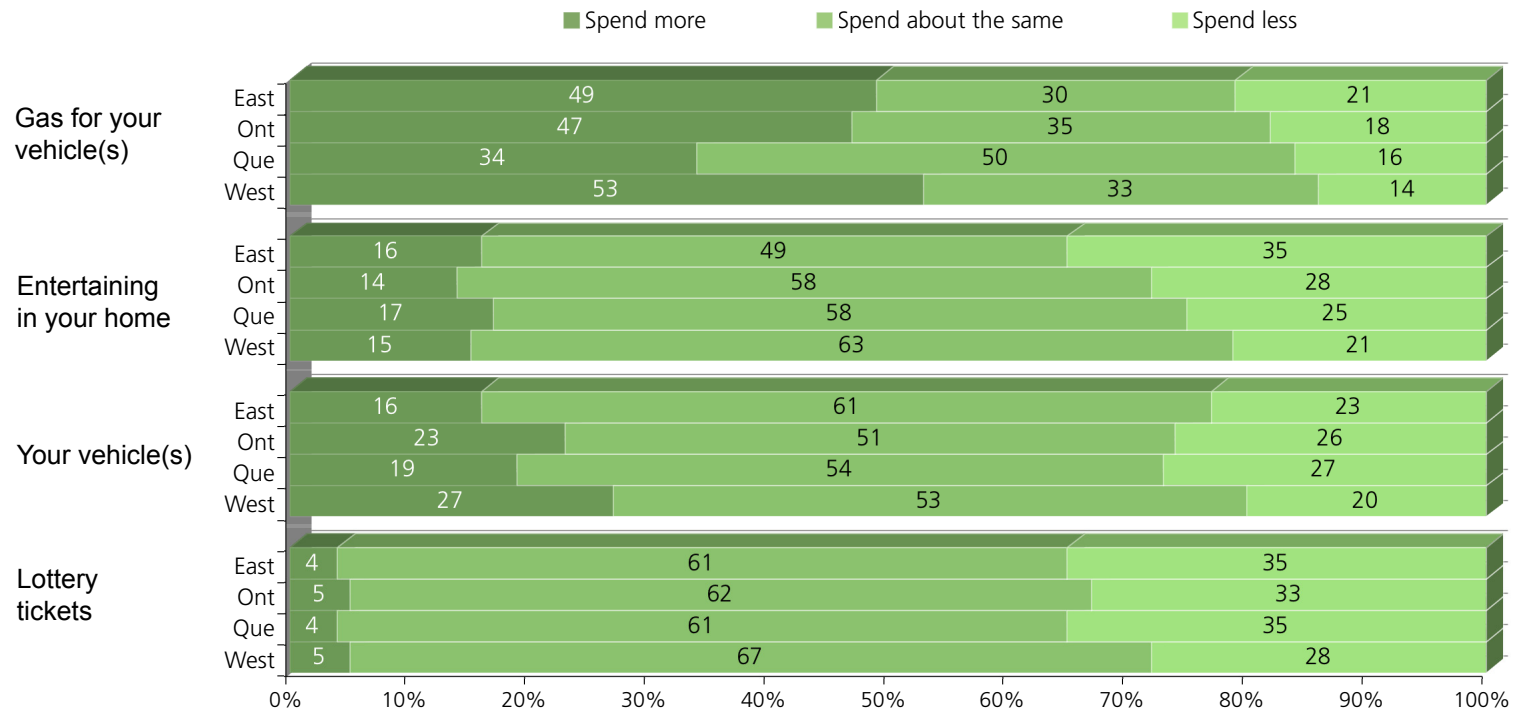
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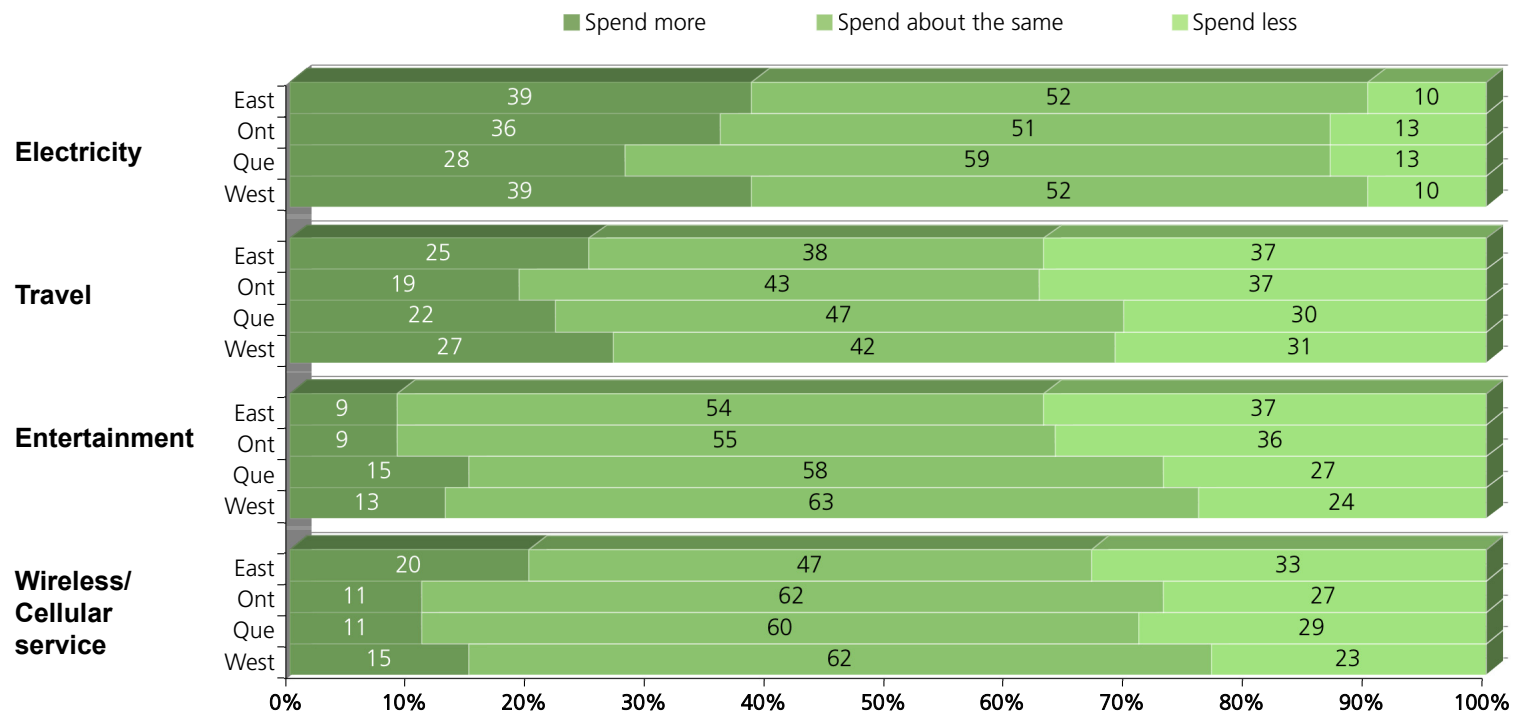
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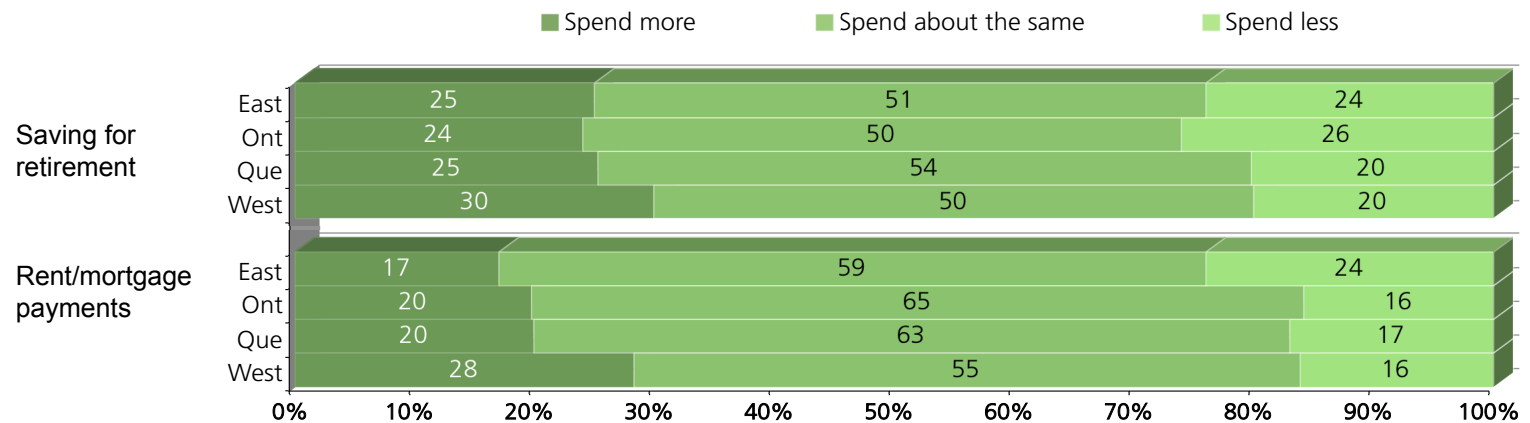
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Spending Patterns: Region

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Economic Pessimism

- If the economy is perceived to be in a downturn:

Canadians will try to keep up spending on essentials:

- Groceries
- Gas
- Vehicle maintenance
- Lottery tickets
- Electricity
- Cell phones
- Rent or mortgages

Canadians will cut back even more on negotiables:

- Eating out
- Consumer electronics
- Clothing
- Furniture
- Entertaining at home
- Travel
- New car purchases
- Entertainment

Self Reported Impact on Spending

- Canadians report that the price of oil has biggest impact on spending (except highest income earners (\$150K plus).
 - Qualitatively, Canadians discuss how the price of gas/oil impacts not just driving but supermarket prices, travel, etc.
- Second is the amount of personal debt – again except for the highest income earners.
 - Debt load is a bigger issue among those who have a hard time coming up with money for fixed costs each month.
- For highest income earners – it is the security of their job and the value of the Canadian dollar vis a vis US dollar.
- Lower income Canadians report that virtually all economic indicators (excepting the performance of the stock market, investments and RRSPs and the relative value of the Canadian dollar) – macro and micro – have a greater impact on their spending than higher income Canadians.

How are Canadians Managing Fixed Spending?

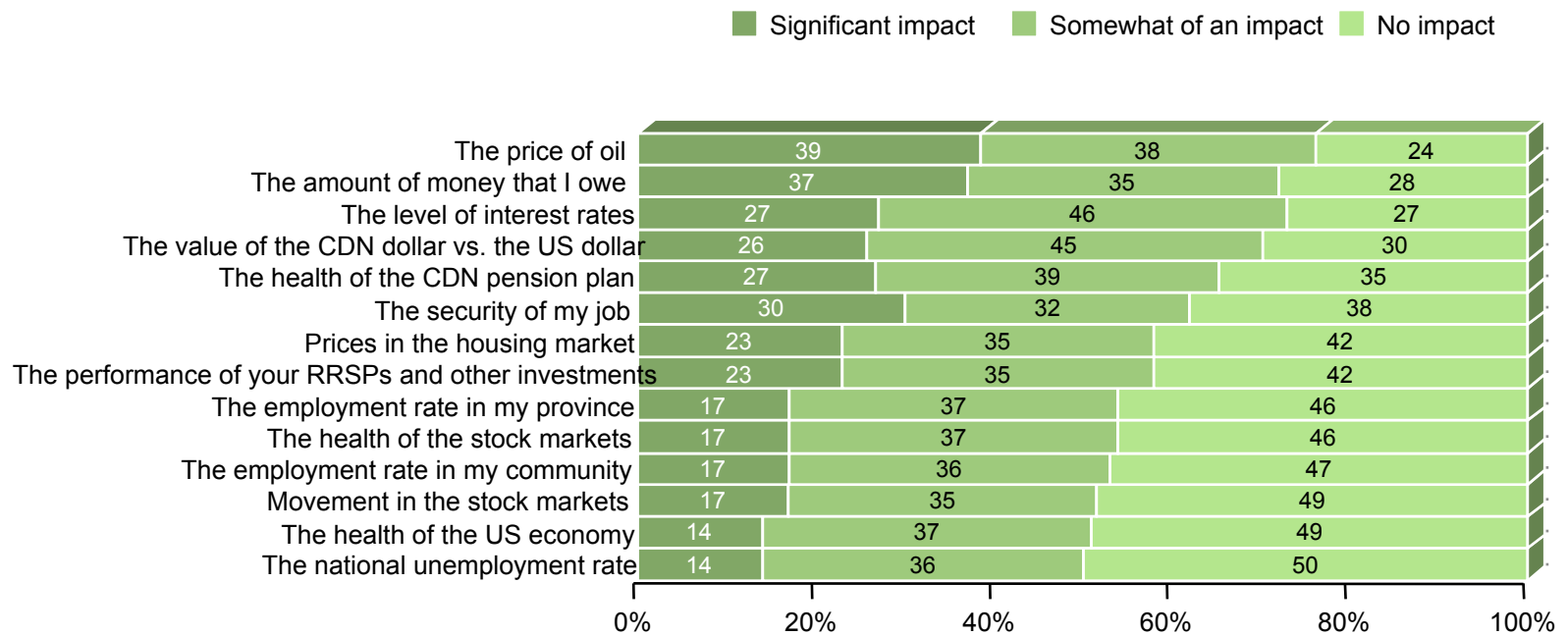
- More than 2/3 of Canadians (70%) say they know approximately how much their fixed expenses are and have enough money each month to cover them.
 - about 1/3 of those making 75k or less come up short each month compared to just 10% of those making over 100k.
- Forty percent of families come up short some months on variable costs.

How are Canadians Managing Variable Spending?

- Not surprisingly, more Canadians say that they have a harder time coming up with money for their variable spending than for their fixed spending.
- Still most (55%) say they have enough money each month.
- The demographic trends are similar with lower income, families with children and middle-aged the most likely to come up short.

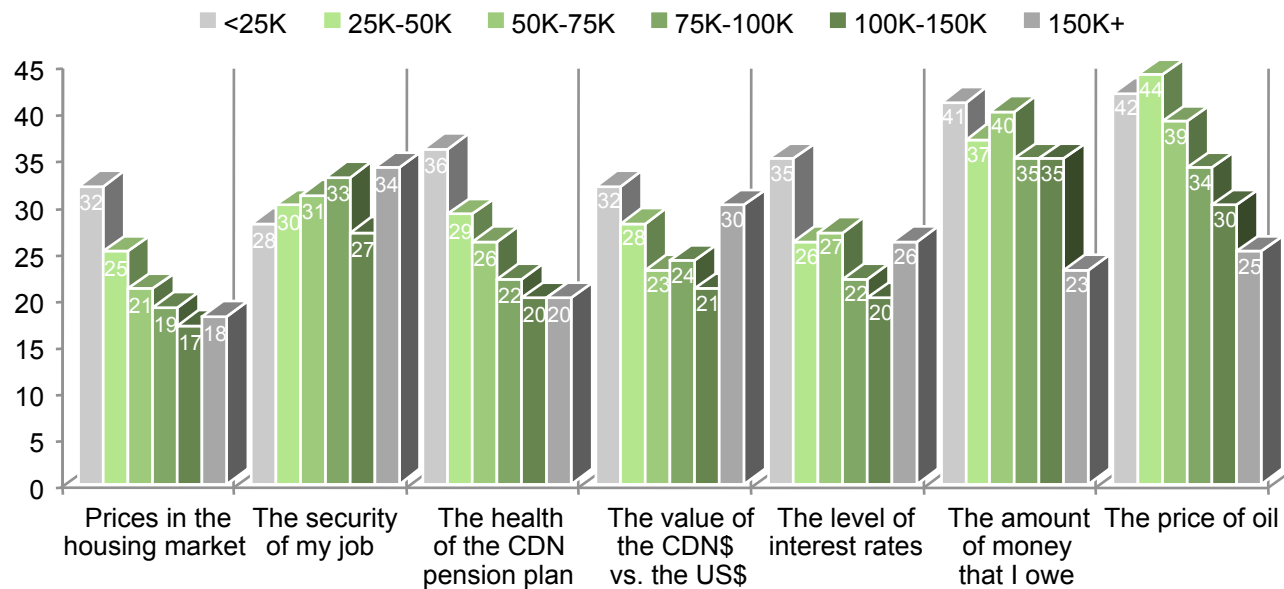
Economic Indicators

How much of an impact do the following have on your spending:



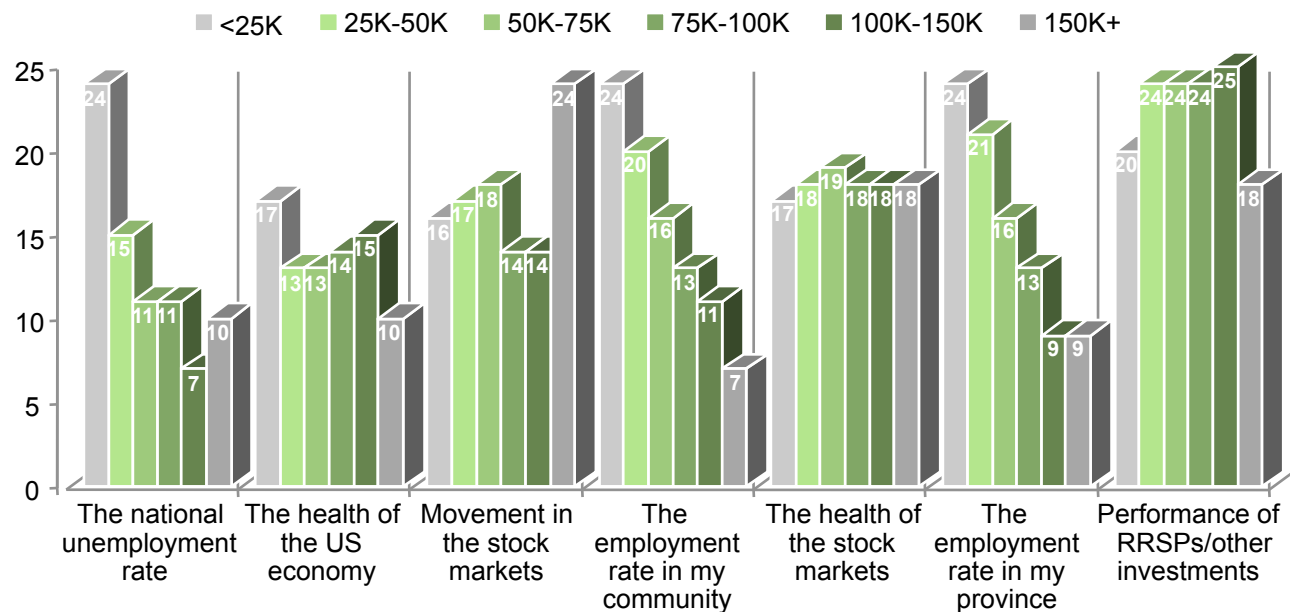
Economic Indicators: Income

How much of an impact do the following have on your spending:
(those who say “significant impact”)



Economic Indicators: Income

How much of an impact do the following have on your spending:
(those who say “significant impact”)

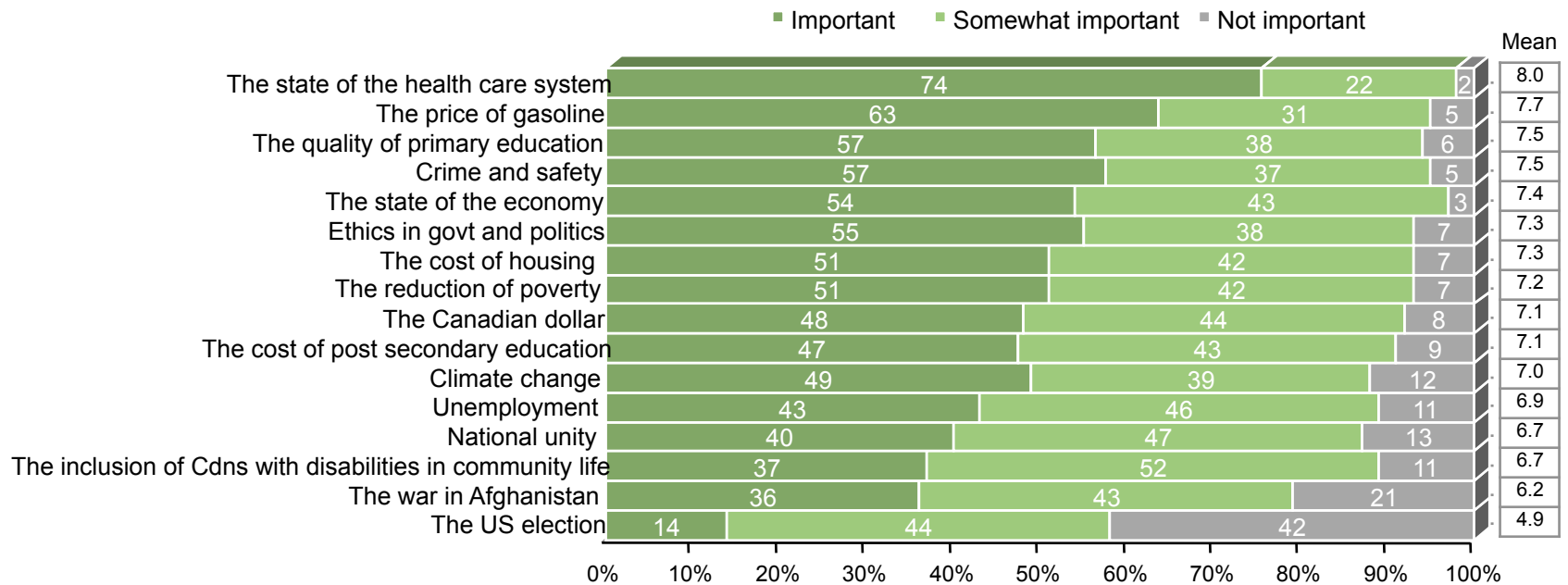


Challenges Facing Canada

- Other than the price of gasoline, consumers see broad based challenges such as health care, education and crime as being more important than the economy.
- The significance of the price of gas as an issue for Canadians shows just how important an issue it is – following just behind the health care system.
 - It was cited by every respondent in online discussions as having a direct and broad-based impact.
- Climate change is emerging as an enduring concern of Canadians.
 - 50% of Canadians, no matter what their economic expectations, think it is a top priority issue.
 - Higher priority in central Canada than in western Canada.

Challenges Facing Canada:

Below is a list of issues that some people think are important challenges for Canada at this time:

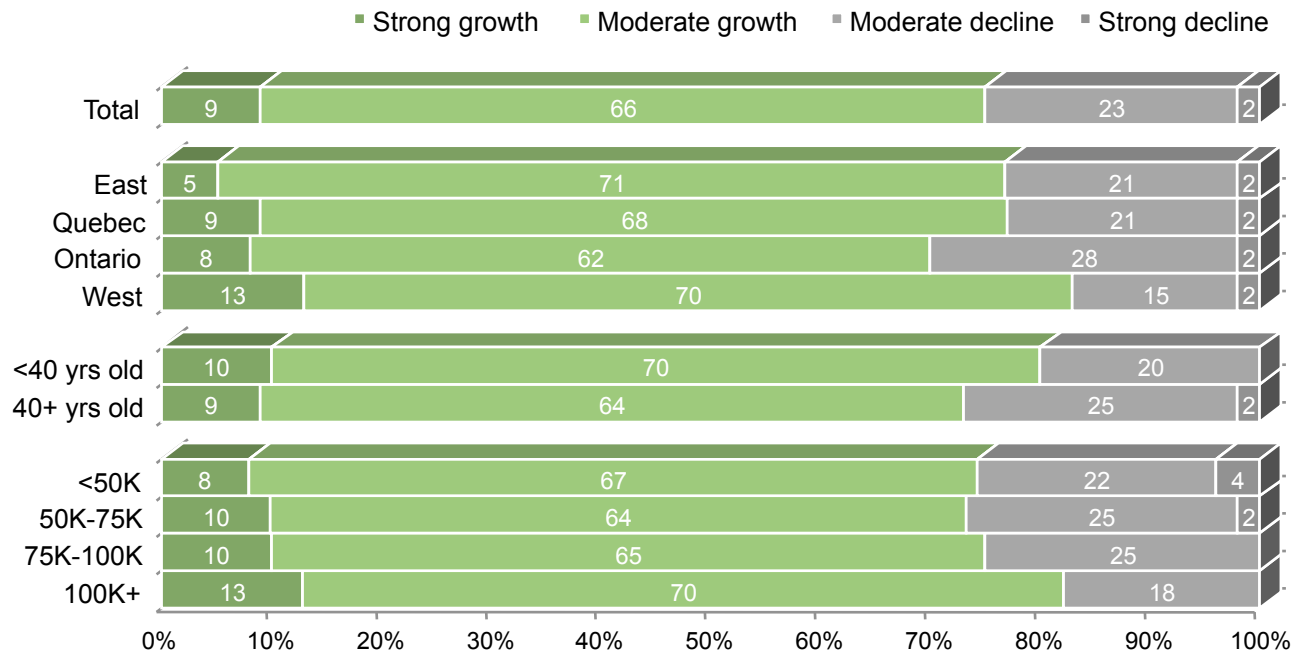


Assessments of the National Economy

- Three quarters of Canadians believe the economy is experiencing moderate or strong growth
- The West, younger Canadians (those under 40) and richer Canadians (those making 100k or more) assess the state of the economy most positively
- Ontarians assesses the economy more negatively than other regions of the country.
 - Ontario is most aware of US economic difficulties and most likely to think US pain equals Canadian pain.
 - Twice as likely as western Canadians to think the economy is in decline right now.

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 strong growth, moderate growth, moderate decline, or strong decline?

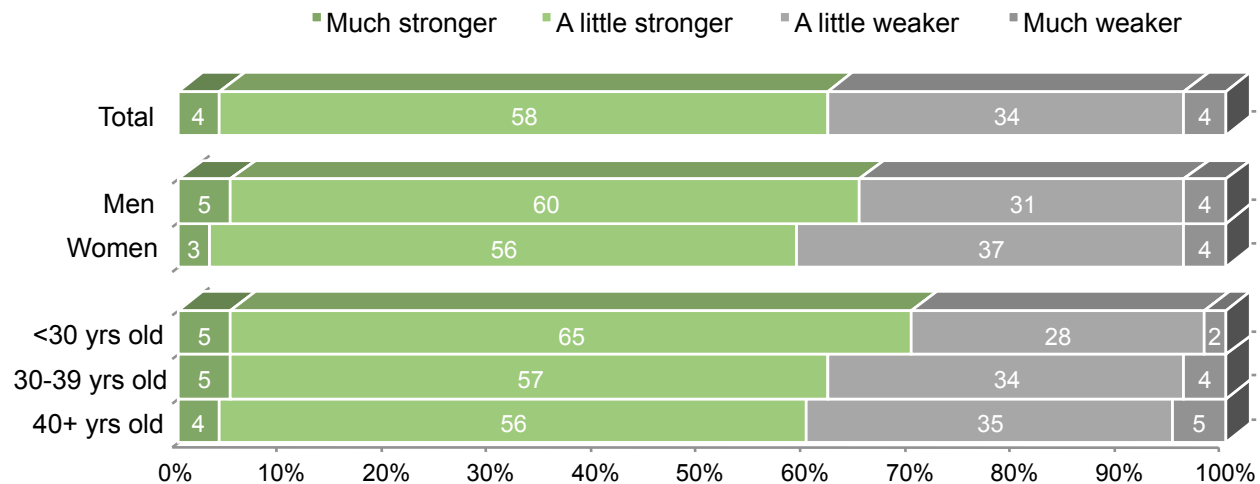


National Economic Expectations

- Canadians' expectations of the economy over the next year are less positive than their assessments of today's economy.
- Just 62% of Canadians believe the economy will continue to grow – a drop of 13 pts from those who believe the economic is currently growing
- Men are more optimistic than women and those under 30 years old are more optimistic than older Canadians. There are no regional differences
- The lower expectations of the national economy are not primarily affected by economic news. Instead, they are most strongly associated with assessments of how your personal fortune has changed from last year. Because only just over half of Canadians are doing better this year than last their expectations of how the economy will do are more pessimistic.
 - Qualitative respondents talk about day to day changes they see – rising gas prices, rising food prices, rising housing costs – it appears to be chipping away at confidence.

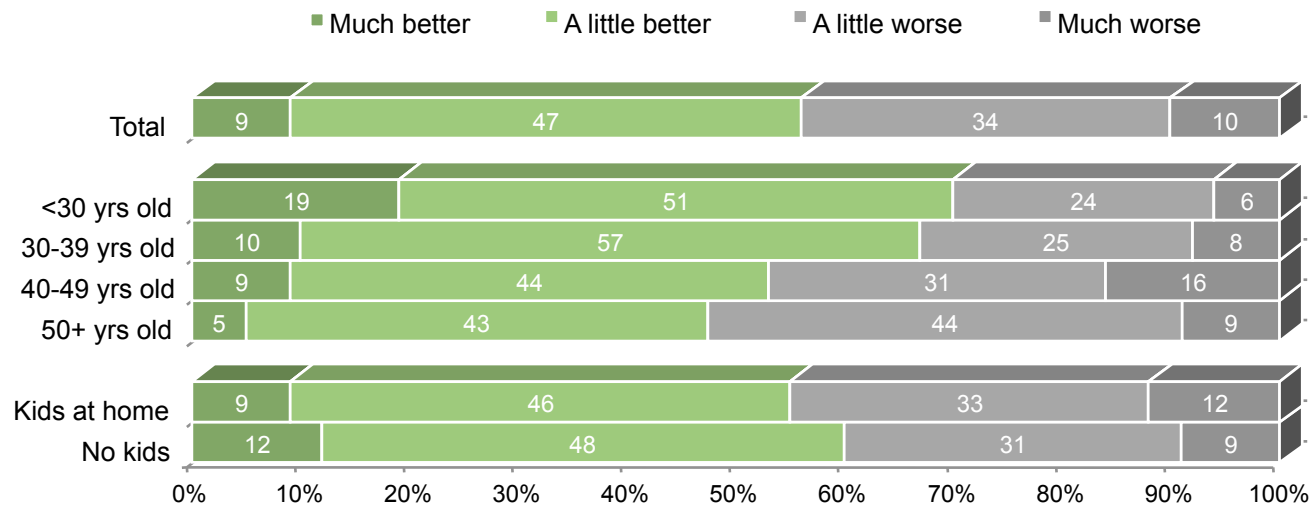
Economic Expectations

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?



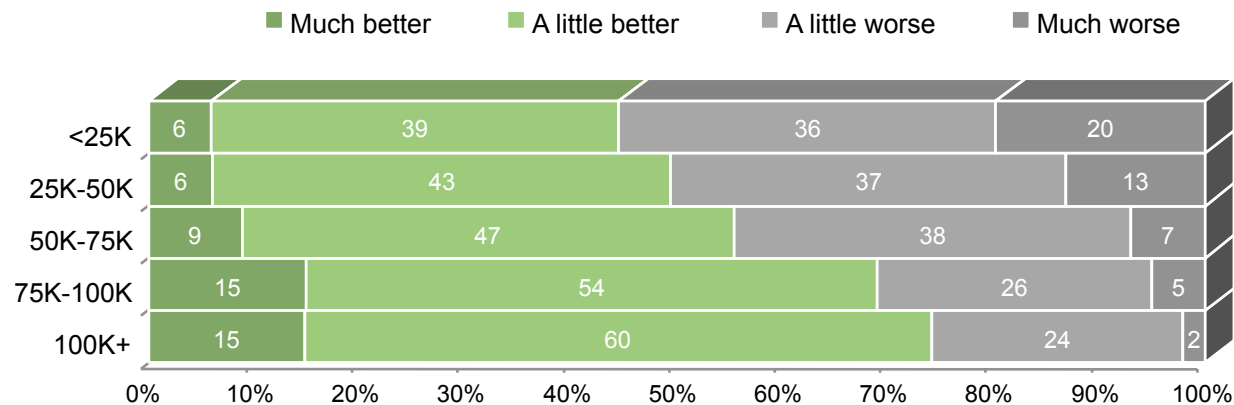
Assessment of Personal Financial Situation

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



Assessment of Personal Financial Situation: Income

How would you say your PERSONAL financial situation is compared to one year ago?
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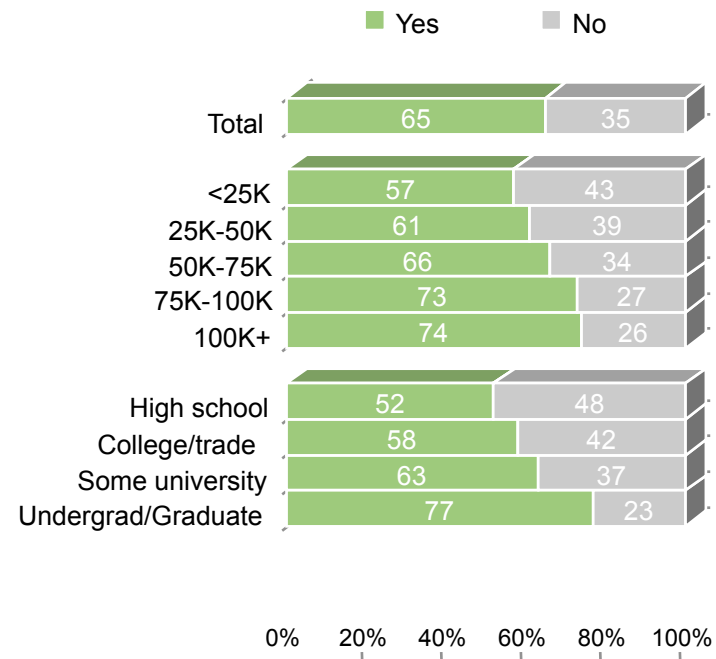
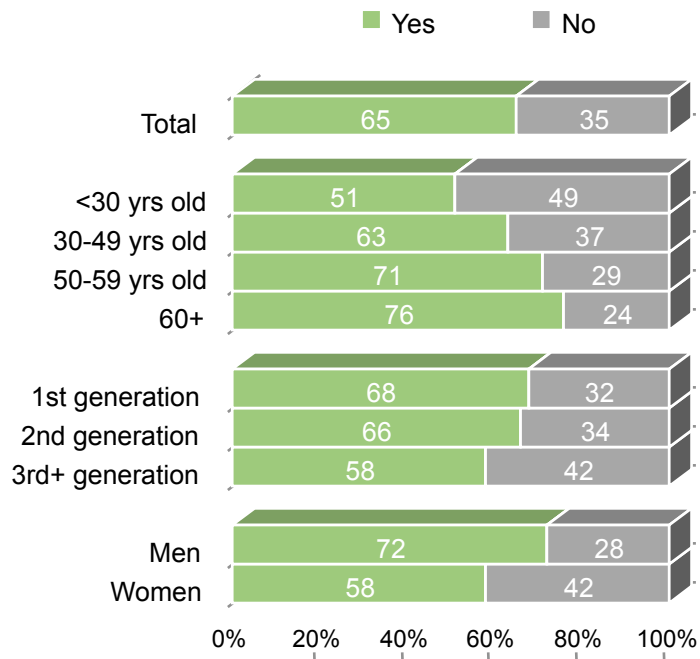


Economic News

- 65% of Canadians follow the economic news.
- Those of higher income, education and age are much more likely to follow the economic news than those who are younger, less educated and lower income.
- Those who are new to this country are much more likely to follow the news with almost a 10 pt gap between 1st generation Canadians and 3rd generation Canadians.
- Men are more likely than women to follow economic news with a 14pt gap between the genders.

Economic News Following

Do you follow economic news either in the media or in discussion with others?



Does What They Read Impact Spending?

- About half of Canadians report that what they read about the economy in the news affects their day to day spending. This number increases to 65% in Ontario.
- Regardless of what they say, those who do follow economic news are significantly more likely to report having changed their spending.
- 1st and 2nd generation Canadians more directly than 3rd generation Canadians are significantly more likely to report that **world** economic news affect their spending than other Canadians.
 - almost 70% saying that what they read or hear has an impact on their spending.
- Our qualitative respondents expressed a level of confusion with the economic news, struggling with whom to believe, whom to trust, and what was important to know.
- As discussed, both macro and micro experiences/news affect changes in spending.

Conclusions

- Without a doubt, the macro economy and consideration of the macro economy affects Canadians micro spending decisions.
- Families with children, lower income Canadians and older Canadians are experiencing worsening economic conditions. They are less optimistic about the Canadian economy and more affected by economic conditions. They are also spending less on all but necessities (groceries, gas, electricity).
- Conversely, higher income and higher education Canadians report more insularity from economic news and macro economic trends generally.

Conclusions

- Very few Canadians expect to spend more this year than they did last year. Excepting groceries, electricity and gas, on balance, Canadians expect to spend the same or less.
- Canadians are most likely to reduce spending on variable items such as entertainment, consumer electronics, furniture, and eating outside the home.