Cutting back: Nine-in-ten Canadians now tightening household budgets as inflation, high prices persist

Majority say interest rate increases will negatively impact their own finances

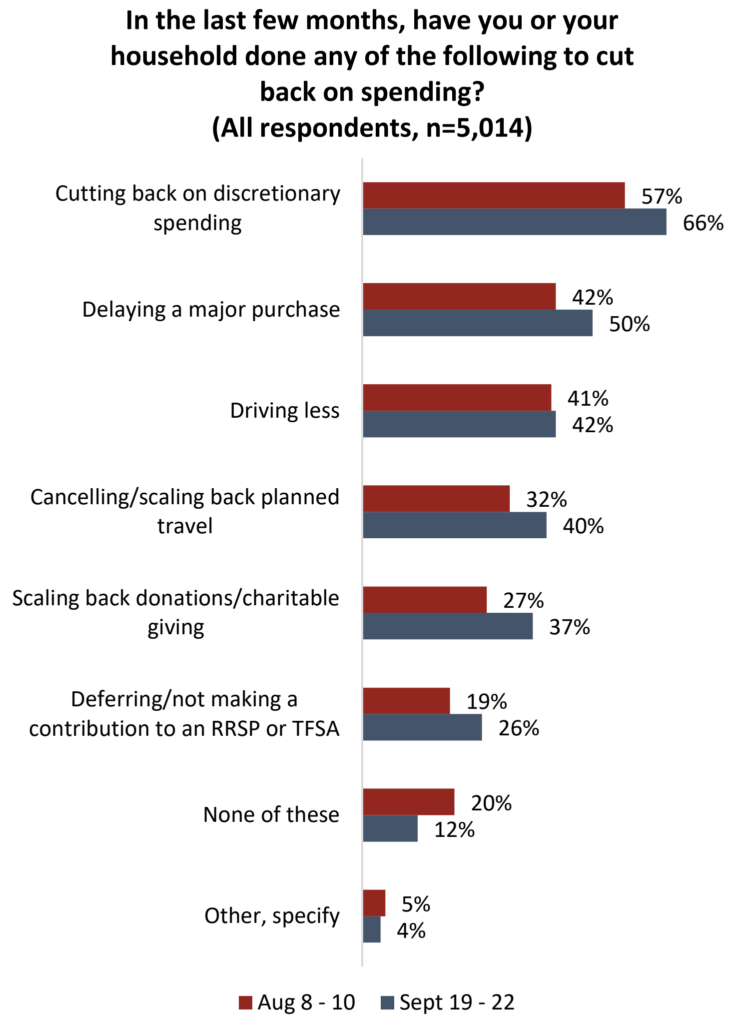
September 29, 2022 – What began at the beginning of the year with a slight twinge for many Canadians over rising prices has led to a place where nearly every adult in this country is spending less and bracing for more financial pain as inflation maintains a tight grip on the nation.

The latest data from the non-profit Angus Reid Institute finds nine-in-ten Canadians (88%) now reporting belt-tightening measures, an eight-point increase from August.

They are most likely to be cutting back on discretionary spending (66% report this) and delaying major purchases (50%) in the face of continued financial uncertainty. Troublingly, fully one-quarter (26%) now say they are deferring contributions to their retirement or savings, up from 19 per cent who said the same six weeks ago.

The Bank of Canada announced another interest rate hike in early September – up 75 basis points to 3.25 per cent – as the battle against inflation rages on. Canadians are divided about what they would like to see going forward, with one-in-three (33%) saying they would hold the rate firm now, and one-in-five saying it should continue to rise (20%) or be reduced (23%).

More unity is noted on the financial implications of increasing interest rates. A firm majority say that the rise in rates will cause them more financial pain over the coming months. At least half of Canadians across all income levels say this, though those earning more than $200,000 as an annual household income are most likely to say the impact will be positive (15%).



METHODOLOGY:

The Angus Reid Institute conducted an online survey from Sept. 19 - 22, 2022 among a representative randomized sample of 5,014 Canadian adults who are members of Angus Reid Forum. For comparison purposes only, a probability sample of this size would carry a margin of error of +/- 2 percentage points, 19 times out of 20. Discrepancies in or between totals are due to rounding. The survey was self-commissioned and paid for by ARI. Detailed tables are found at the end of this release.

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More Key Findings:

- Approaching half of Canadians (46%) say they are worse off now than they were at the same time last year when it comes to their own finances. This represents a 12-year high.
- Half (51%) say it is difficult to feed their household, a proportion that has persisted throughout 2022. This number rises to seven-in-ten (68%) among those with household incomes below $50,000.
- Ahead of Thanksgiving and the holiday season, two-in-five Canadians (40%) say they are delaying or cancelling travel plans due to financial concerns.

About ARI

*The **Angus Reid Institute (ARI)** was founded in October 2014 by pollster and sociologist, Dr. Angus Reid. ARI is a national, not-for-profit, non-partisan public opinion research foundation established to advance education by commissioning, conducting and disseminating to the public accessible and impartial statistical data, research and policy analysis on economics, political science, philanthropy, public administration, domestic and international affairs and other socio-economic issues of importance to Canada and its world.*

Note: Because its small population precludes drawing discrete samples over multiple waves, data on Prince Edward Island is not released.

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Part One: 2022 continues to challenge Canadians financially

Uncertain economic conditions persist, and inflation has impacted the lives of nearly all Canadians this year. Amid this, nearly half of Canadians say they're worse off now financially than they were at the same time last year. This represents the second consecutive quarter where this is the case, and the highest level recorded since 2010:

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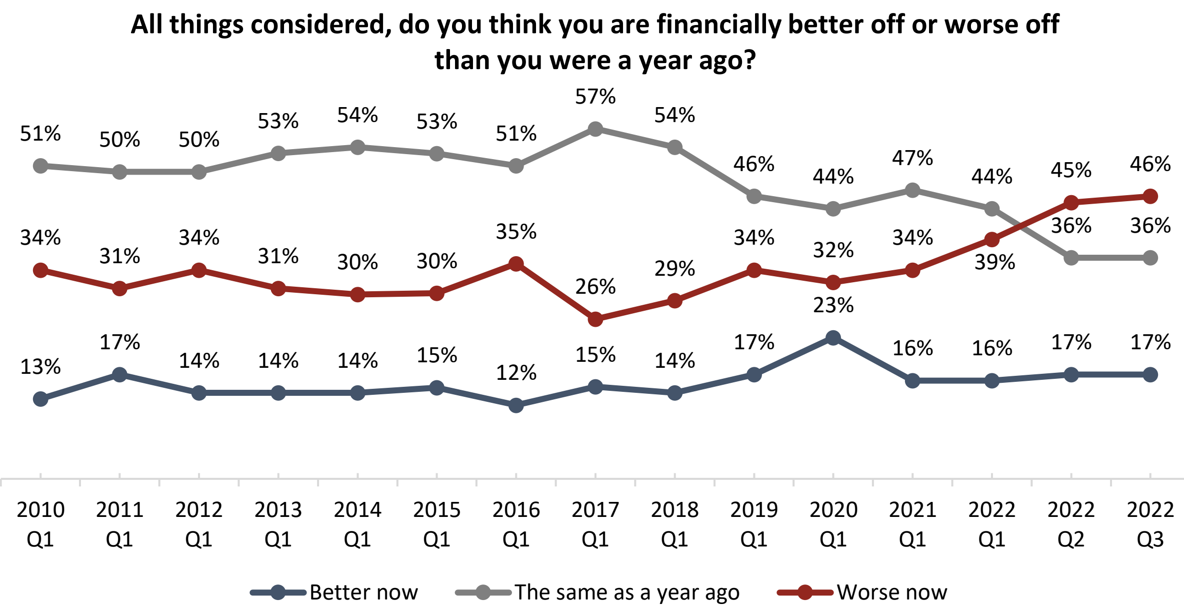
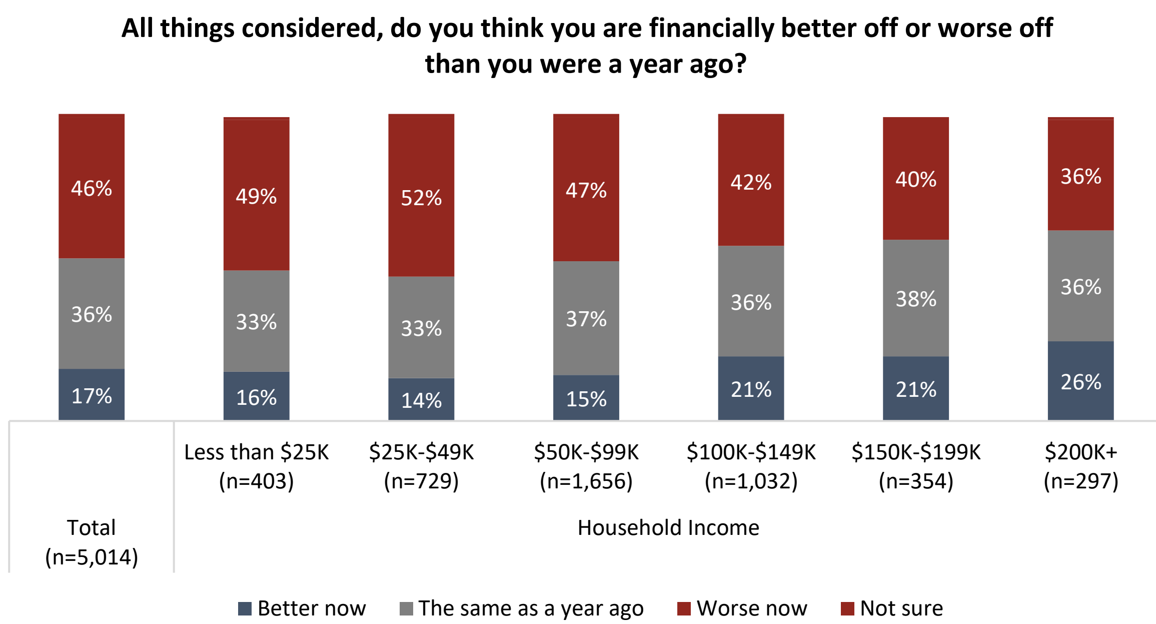


Reports of worsening finances are most prominent among those with lower income levels, while notably, one-quarter of those with income levels of more than $200,000 say that their situation has improved in the past 12 months as economic activity has picked up:



Optimism has not necessarily improved over the past three months about what the coming year will bring, but pessimism has declined slightly:

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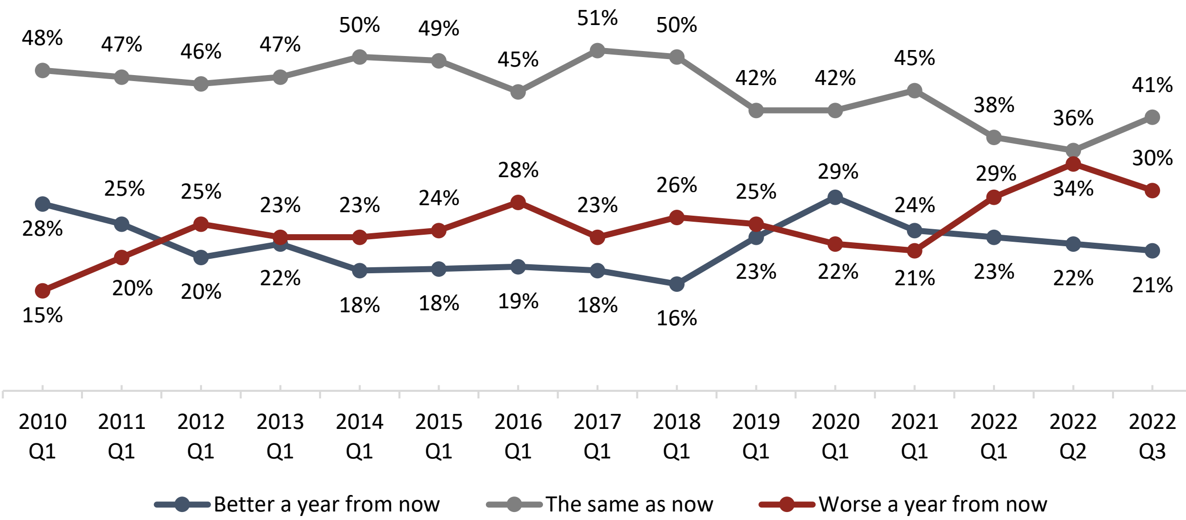
And a year from now, do you think you will be financially better off or worse off than you are now?



Most responding by cutting back

While provinces are touting higher than expected revenues – driven by high resource prices and inflation which are generating positive returns for government coffers – the same factors are causing Canadians to continue to tighten their budgets. This trend is evident even over the past six weeks. Two-thirds of Canadians say they are cutting back on their discretionary spending – an increase of nine points since early August. A similar increase is noted in the proportion who say they are delaying a major purchase (50% overall).

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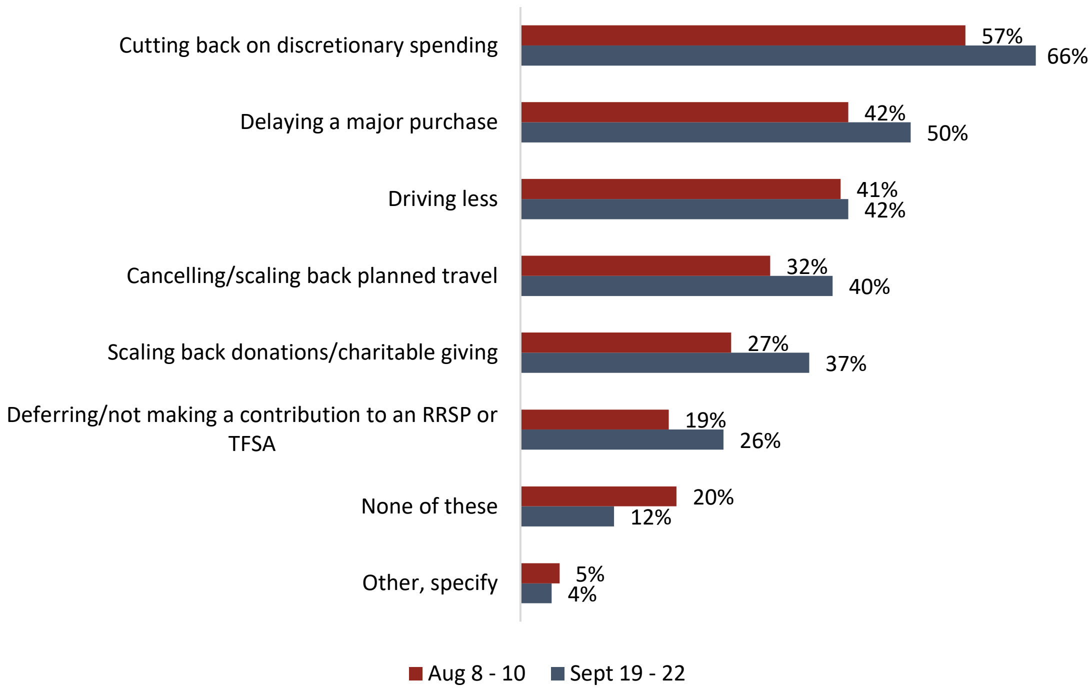
In the last few months, have you or your household done any of the following to cut back on spending?
(All respondents, n=5,014)



These behavioural adjustments are not uniform across income level, but evidently do impact Canadians across all different walks of financial life. Those with higher levels of income are less likely to be taking some of these actions, but not by an overwhelming margin:

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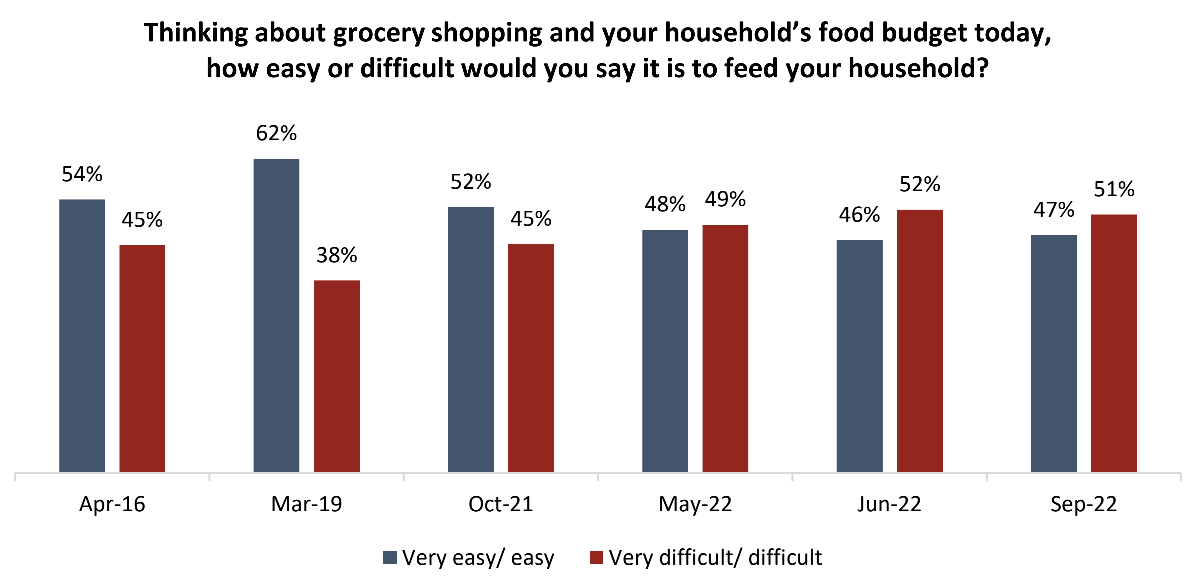
In the last few months, have you or your household done any of the following to cut back on spending?							
	Total (n=5,014)	Household Income					
		Less than $25K (n=403)	$25K-$49K (n=729)	$50K-$99K (n=1,656)	$100K-$149K (n=1,032)	$150K-$199K (n=354)	$200K+ (n=297)
Cutting back on discretionary spending	66%	65%	68%	69%	68%	63%	55%
Delaying a major purchase	50%	52%	52%	52%	49%	42%	37%
Driving less	42%	40%	44%	43%	44%	35%	29%
Cancelling/scaling back planned travel	40%	37%	41%	43%	43%	38%	31%
Scaling back donations/ charitable giving	37%	35%	35%	39%	36%	34%	28%
Deferring/ not contributing to an RRSP or TFSA	26%	24%	24%	29%	27%	22%	21%

Food costs cause persistent problems

The small reduction in year over year inflation reported in September was primarily due to cheaper fuel costs – which have now reversed course in many areas of the country. Grocery costs continue to rise and cause difficulty for half of the population. This has been a trend noted throughout all of 2022:



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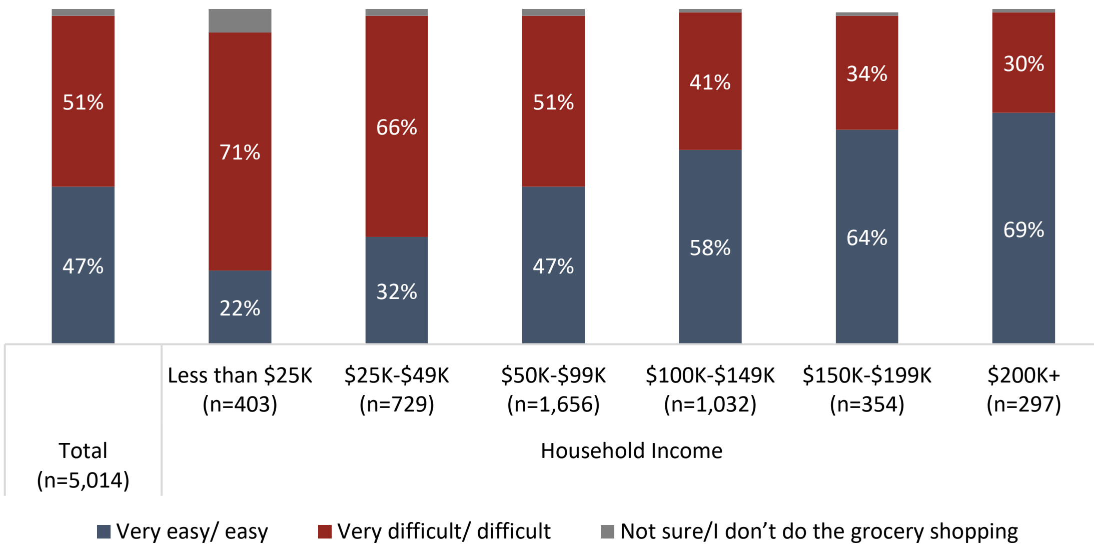
There is a marked difference in this metric along household income levels. Canadians in households earning less than $50,000 annually are much more likely to report difficulties putting food on the table – more than two thirds say this. Food inflation also appears to be hitting the budgets of higher income Canadians as well, as one-third (34%) in households earning between $150,000 and $200,000, and three-in-ten earning more than that, say grocery shopping has been difficult recently:

Thinking about grocery shopping and your household's food budget today, how easy or difficult would you say it is to feed your household?



The Economic Stress Index

Earlier this year, the Angus Reid Institute developed the Economic Stress Index to better understand the financial pressures Canadians are facing. The index factors responses to questions regarding debt, housing and grocery costs, as well as respondents' self-appraisal of their finances over the last 12 months and expectations of the year to come.

The Index separates Canadians into four groups: the Struggling, the Uncomfortable, the Comfortable and the Thriving. The proportion of Canadians falling into the Struggling and Uncomfortable categories has been fairly consistent throughout this year. However, the proportion of Canadians at the top end of the index has fallen, dropping more people down the index.

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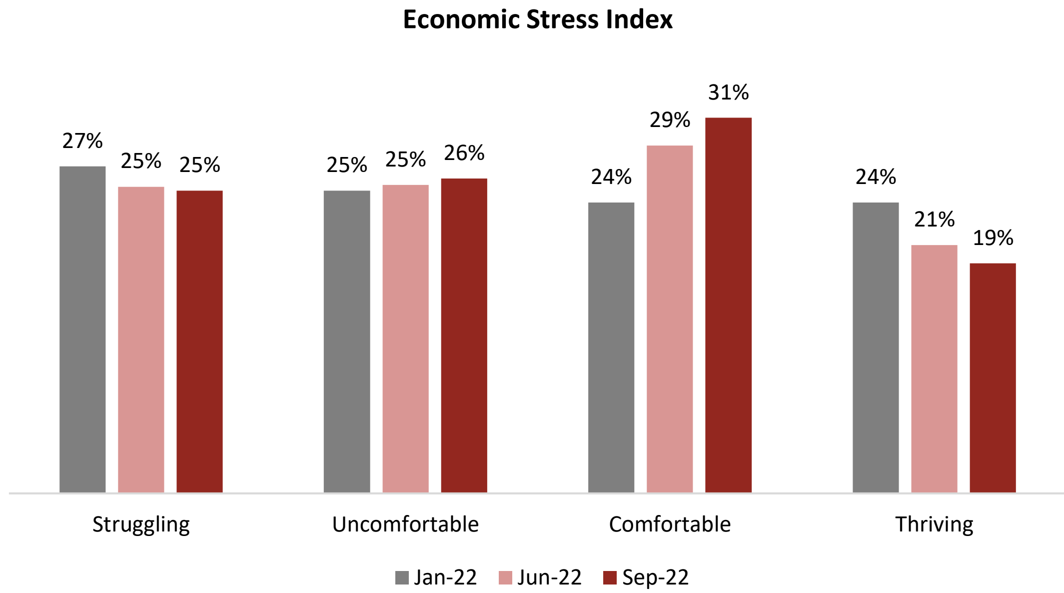
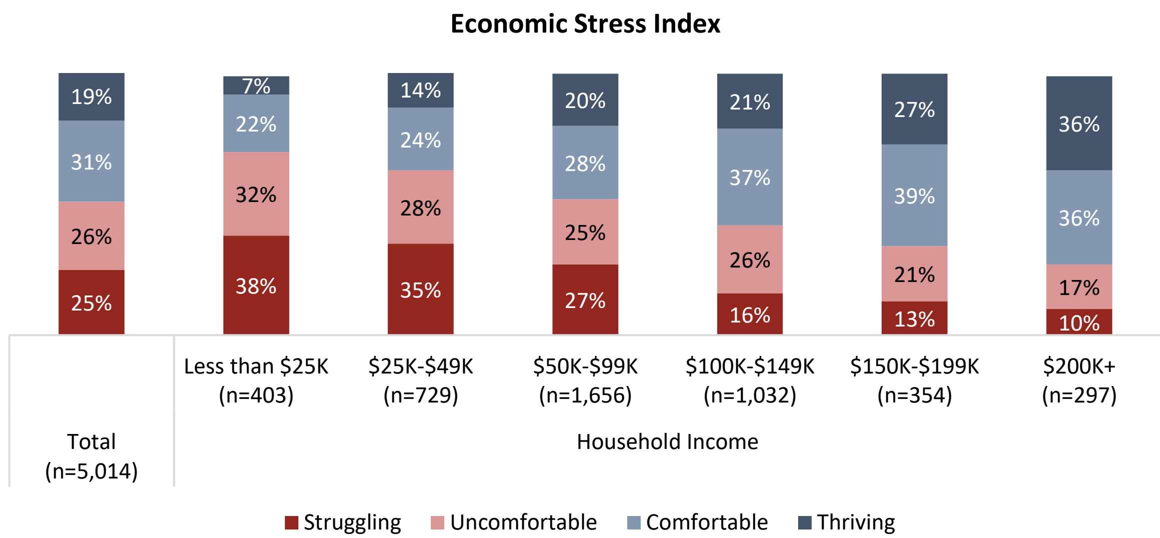


By measuring these factors in combination, it becomes clear just how profound the challenges are among lower-income Canadians. Seven-in-ten among those with the lowest income levels are either Struggling or Uncomfortable.



Across the country, Quebecers are more likely to fall into the Comfortable or Thriving categories on the Index than other provincial residents. Meanwhile, in Newfoundland and Labrador, two-thirds are either classified as Struggling (30%) or Uncomfortable (35%). The former matches Saskatchewan for the highest proportion in the country:

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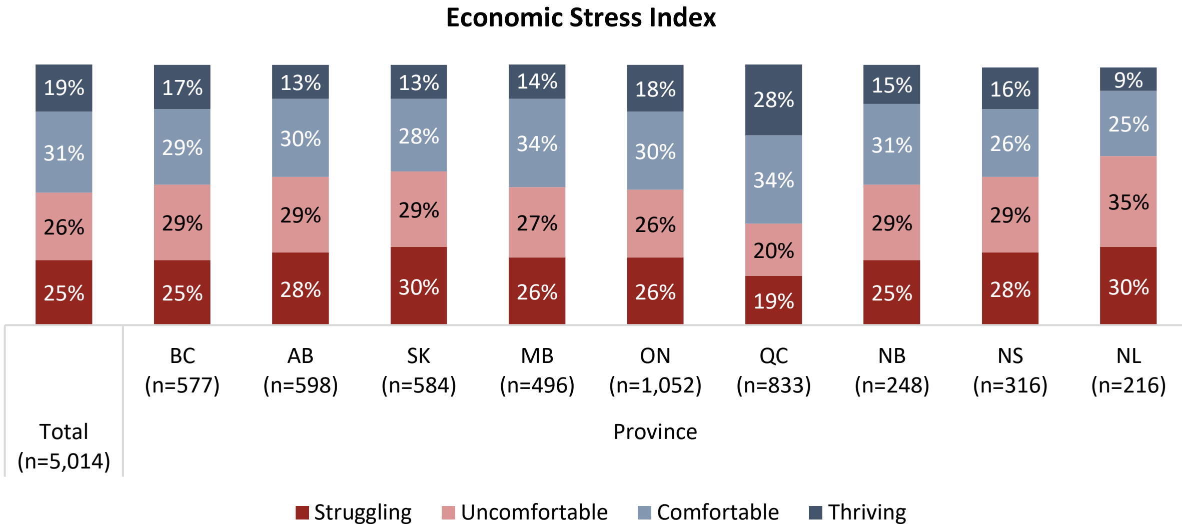


For a more thorough demographic breakdown of the different categories of the Index, see the detailed tables.

Part Two: Rising interest rates

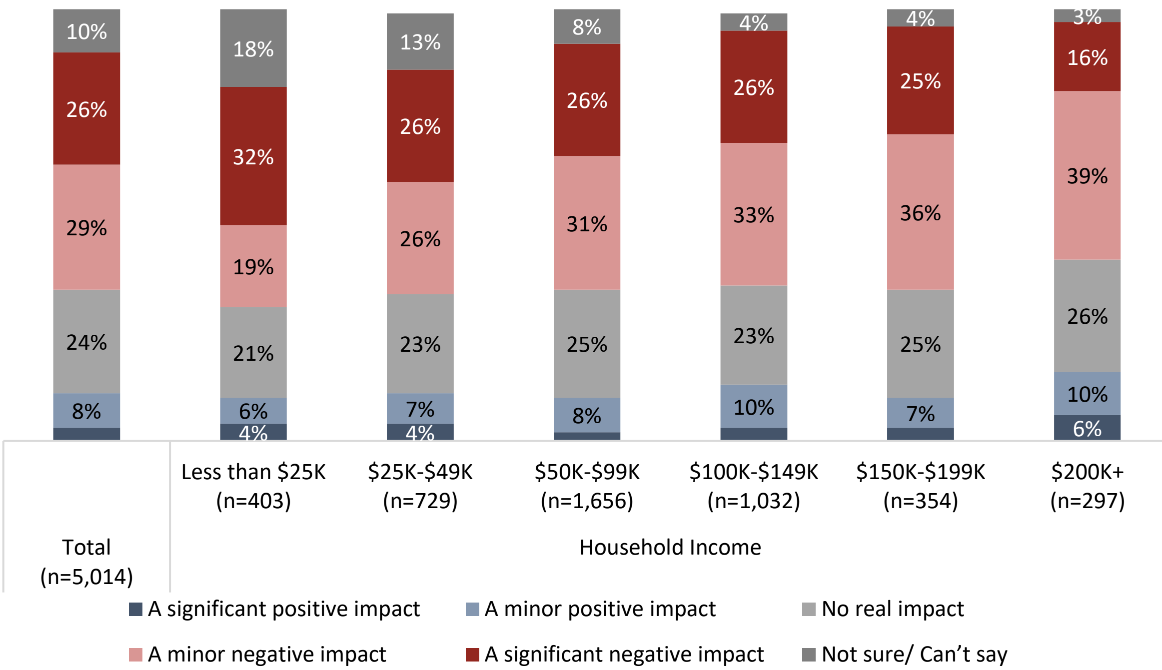
The Bank of Canada has been the chief firefighter in the battle against this burning inflation. It has turned up the pressure of interest rates five times so far this year to try to quench the fire. Inflation has cooled from 40-year highs, but there are still calls for higher interest rates, even as indebted Canadians feel the squeeze.

Half say higher interest rates will have negative impact on their finances

Canadians expect the impact of a stricter credit market to be more negative than positive. More than half (55%) say they expect higher interest rates will have a negative impact on their personal finances, five times as many who say the opposite (11%). One-quarter (24%) expect no personal financial effect either way.

This sentiment of the negative effect of rising rates is consistent across income levels, though those in higher income households are less likely to say the impact is significantly negative and more likely to say it will be more minor in nature:

In the next six months, what kind of impact will the higher interest rates have on your personal finances?



<u>Canadians divided over direction Bank of Canada should take</u>

Despite inflation cooling, the Bank of Canada has indicated September's 75 basis-point interest rate hike would not be the last. The Organization for Economic Co-operation and Development said it expects the Bank to its policy rate a further 125 basis points, to 4.5 per cent.

Canadians are divided on what they believe should be the Bank's next move. However, a majority either want the Bank hold interest rates where they are (33%) or instead lower rates (23%). One-in-five (20%) say the Bank should do as it has indicated and continue to move rates upwards.

In May, when the Bank's policy rate was one per cent, one-quarter (27%) wanted further hikes, while approaching half (45%) wanted the Bank to take a wait-and-see approach. Three hikes later, more are calling for a reversal of course, and fewer for higher rates:

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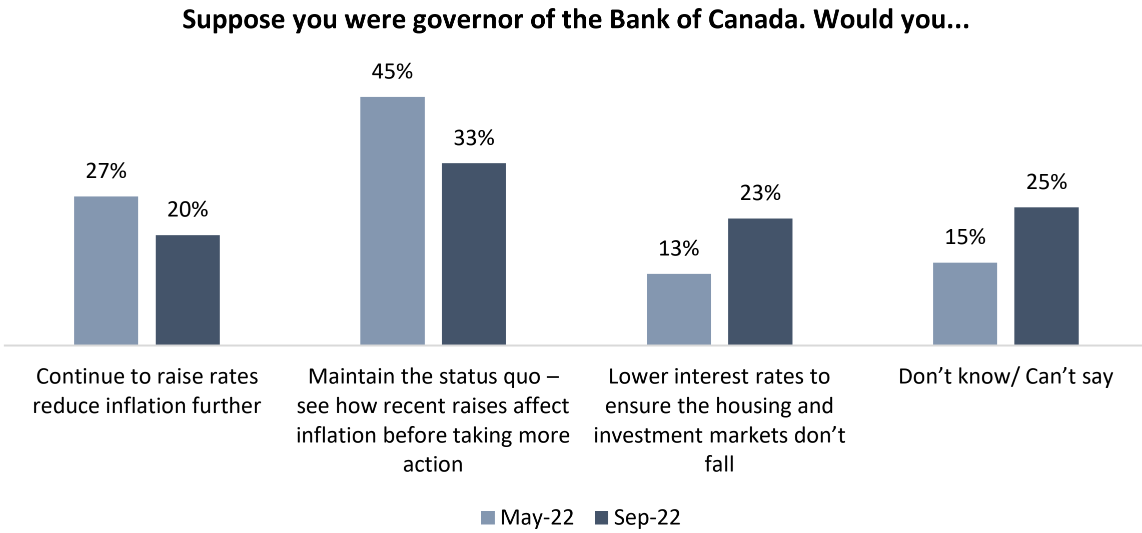

For detailed results by age, gender, region, education, and other demographics, click here.

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