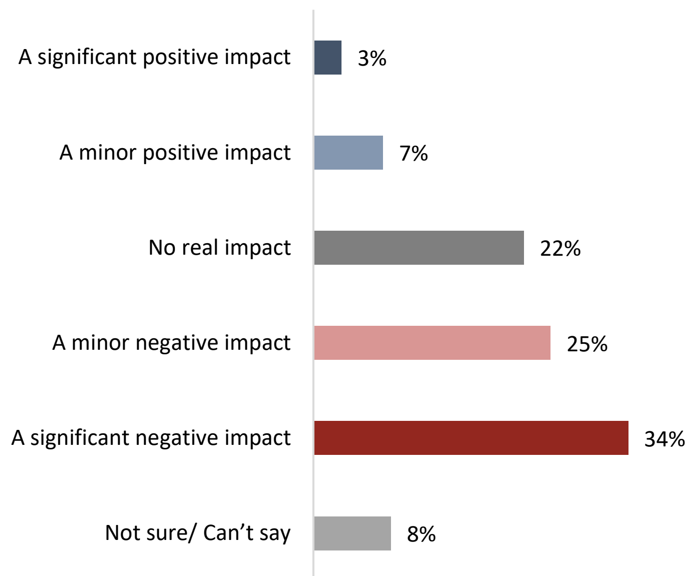
Bracing for (more) pain: Three-in-five Canadians say latest increase to BoC rate will further hurt finances

Enthusiasm for rate hikes drops: 36 per cent would decrease rates, up 13 points from September

July 20, 2023 – Millions of Canadians are fast getting up to speed on monetary policy this summer against the backdrop of yet another increase to the Bank of Canada's key overnight rate, the 10th such rise since the beginning of 2022. A jump of 25 basis points brings the bank's policy interest rate to an even five per cent and puts even more pressure on Canadians struggling to keep up with the cost of living.

In the next six months, what kind of impact will the higher interest rates have on your personal finances? (All respondents, n=1,600)



METHODOLOGY:

The Angus Reid Institute conducted an online survey from July 13 - 17, 2023 among a representative randomized sample of 1,600 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.

New data from the non-profit Angus Reid Institute finds one-third of Canadians (34%) saying they expect significant challenges due to the rate hike and an overall three-in-five (59%) say it will have a negative impact on their personal finances. Just one-in-ten Canadians (10%) say they expect positive results from the decision to raise the rate again, while 22 per cent say they will not be affected.

For Canadians paying a mortgage, increasing rates are causing immense difficulties.

Currently, nearly two-in-five (37%) mortgage holders are having a difficult time making their payments. Among this group, nine-in-ten (89%) say this latest rate increase will further exacerbate this. Further, among those who say their payments are currently "manageable" – fully half of mortgage holders (51%) – a majority (60%) say that this decision will negatively affect their ability to keep payments in this comfortable zone going forward.

Homeowners are not alone, however. An even larger number of renters – 45 per cent – are having a difficult time paying their rent. Within this group, three-in-five (63%) expect a worsening of their own financial conditions due to another interest rate boost. This, as many Canadians eschew home purchases while they wait for interest rates to settle, further increasing competition for rentals.

For some, this difficult reality is acceptable. One-in-three Canadians (32%) say that the Bank of Canada should hold the rate firm at five per cent and await the downstream economic impacts, the target of which

CONTACT:
Shachi Kurl, President: 604.908.1693 shachi.kurl@angusreid.org **@shachikurl**
Dave Korzinski, Research Director: 250.899.0821 dave.korzinski@angusreid.org

is a further reduction in inflation. Another one-in-nine (11%) would increase the rate further. The largest group (36%) say that this is the wrong decision, and the Bank of Canada should decrease rates. Notably, the percentage of Canadians who say the BoC should decrease rates has risen 13 points since September 2022, when the policy rate was 3.25%.

More Key Findings:

- Half of Canadians (49%) say grocery costs are difficult to endure, while half say they are comfortably keeping up (49%). The size of the group having challenges rises to 63 per cent among those whose household incomes are less than $50,000.

- Many Canadians are planning to hold off on making large purchases for now. Two-thirds (68%) say this is a bad time to spend money on something major. That proportion is significantly higher than those measured in 2019 and 2020, though it is lower than a high of 75 per cent recorded last July.

- Two-in-five Canadians (40%) are cutting back on charitable donations amidst these difficult economic times.

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.*

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Part One: Reaction to interest rate increase

The Bank of Canada raised interest rates in July, the 10th time Canada's central bank has done so since March 2022. The bank's goal is to tamp inflation down to closer to two per cent. The aggressive rate hikes appear to be working, as inflation has fallen to 2.8 per cent year over year in Statistics Canada's latest numbers The bank's benchmark interest rate now sits at five per cent, a height not seen since April 2001.

After keeping its powder dry in two previous adjustment windows earlier this year, the bank felt it had to take action in June and July after reading indicators that showed Canada's economy had weathered earlier rate hikes stronger than expected. A hotter economy had the bank worried that there still could be further inflation down the line.

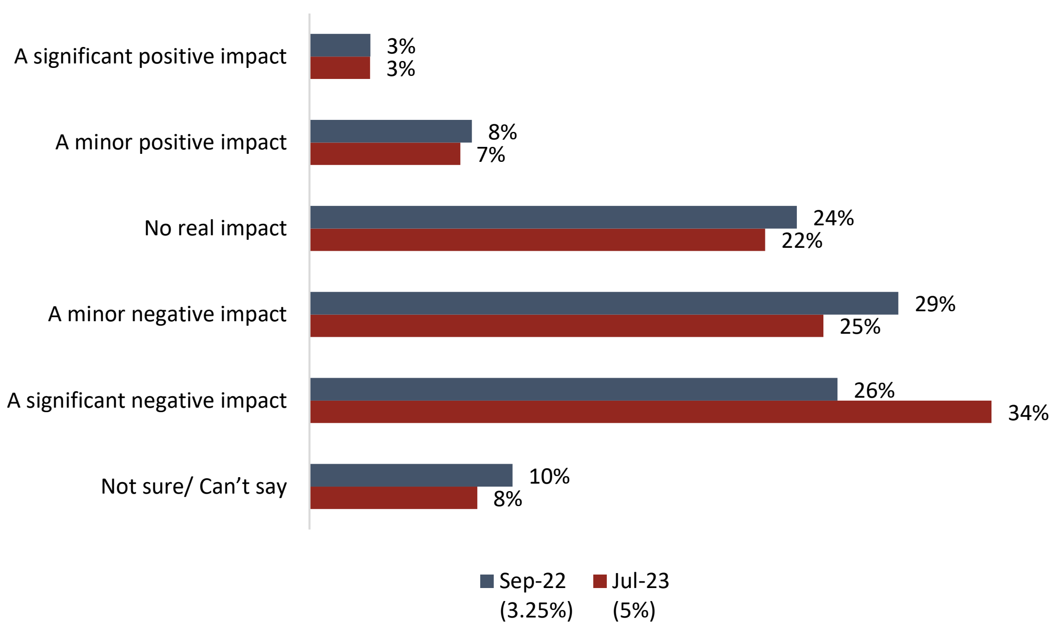
A higher policy rate increases the cost of borrowing – including credit cards, mortgages, lines of credit – for all Canadians. Eventually, it should also have benefits for Canadians' savings accounts, but interest rates on those have been slower to adjust than they have in the past.

Three-in-five say rate hike will hurt them financially

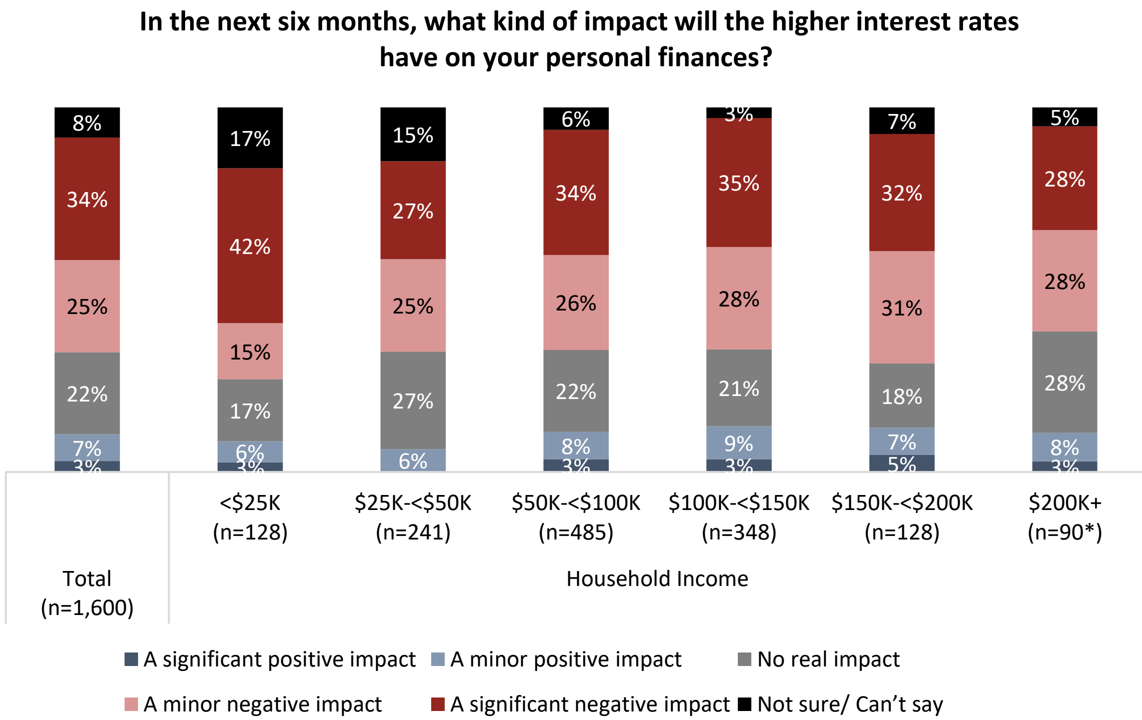
With that in mind, few Canadians – one-in-ten (10%) – expect the latest rate hike to have a positive impact on their finances. Instead, the expectation for a majority of Canadians is higher interest rates will have a minor negative (25%) or major negative (34%) financial consequences for them personally. One-quarter (25%) expect no real personal impact from the BoC's latest policy rate increase.

ARI last asked Canadians how they expected higher interest rates would affect their finances in Sept. 2022, five rate hikes ago. Overall, there's been an eight-point jump in the proportion of Canadians who expect higher interest rates to have "a significant negative impact" on their personal finances:

In the next six months, what kind of impact will the higher interest rates have on your personal finances? (BoC policy rate at the time noted in brackets)



Canadians living in the lowest income households are the most likely to report they expect higher interest rates will have a severe negative impact on their personal finances at two-in-five (42%). However, a majority of Canadians of all income brackets believe the latest rate hike will have a negative financial effect on them:



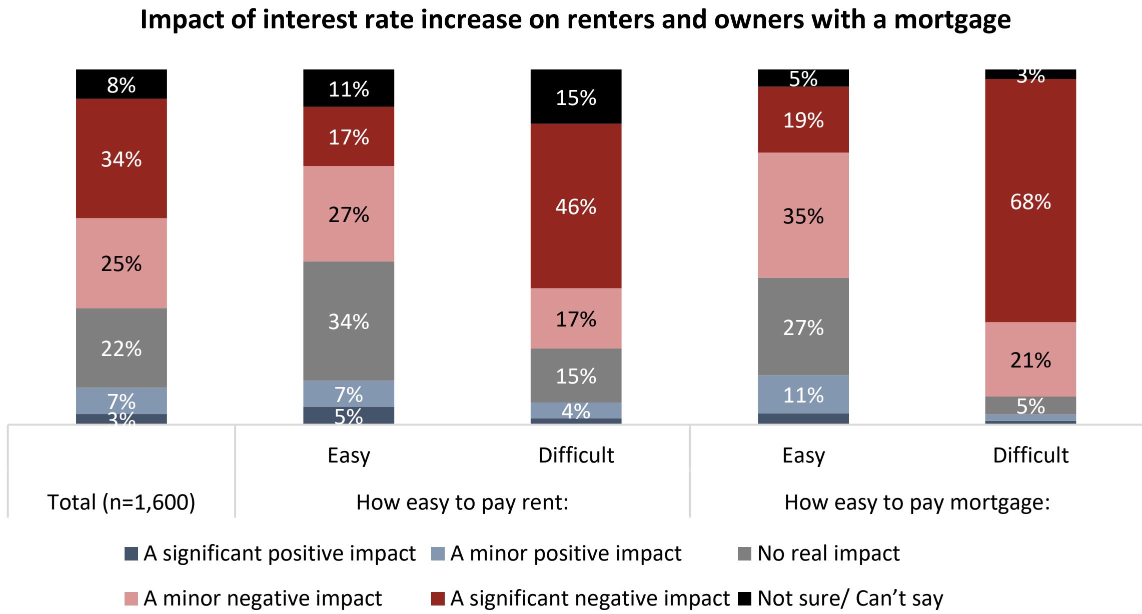
Renters and homeowners alike bracing for impact

Many Canadians feel a direct impact of the BoC's policy rate decisions through their monthly mortgage payments, whether it is on a variable rate or a fixed one that must eventually be renewed at higher rates. As it stands, one-third (36%) of owners say they find their mortgage to be difficult to accommodate financially. Approaching half (45%) of renters say the same of their monthly rent (see detailed tables).

Nearly all (89%) of those who say they are already having a difficult time paying their mortgage month to month also say they expect the higher interest rates to have a negative financial impact on themselves personally, including seven-in-ten (68%) who expect that impact to be significantly negative.

Renters, too, feel a more indirect impact from higher interest rates on their cost of housing, as landlords often pass along increases to the cost of their mortgages. Two-thirds (63%) of renters who say they are struggling with their monthly rent believe that higher interest rates will have a deteriorating effect on their finances. Some renters have not suffered their recent troubles lightly – in Toronto more than 300 tenants withheld their rent to protest their landlord allegedly ignoring rent control rules.

CONTACT:
Shachi Kurl, President: 604.908.1693 shachi.kurl@angusreid.org @shachikurl
Dave Korzinski, Research Director: 250.899.0821 dave.korzinski@angusreid.org



Enthusiasm for rate hikes diminishes

There are three more windows for the BoC to change rates this year, as the market expects another increase in September.

Canadians are divided as to how they believe the Bank of Canada should proceed from here. One-third (36%) would lower rates. A similar number (32%) would maintain the status quo and assess the effect of the latest increase. A handful (11%) would raise rates further.

At the beginning of the BoC's rate hiking spree, there was more appetite among Canadians for interest rate hikes as they felt the effect of high inflation not seen in three decades. One-quarter (27%) in May 2022 wanted the BoC to raise its policy rate higher than the one per cent it had set the month previous. Three hikes later in September, there were still one-quarter (25%) who wanted further hikes to quell inflation, which had spiked that summer at 8.1 per cent.

At the same time the proportion of Canadians who want further rate hikes has fallen, the percentage who want rates to fall has nearly tripled:

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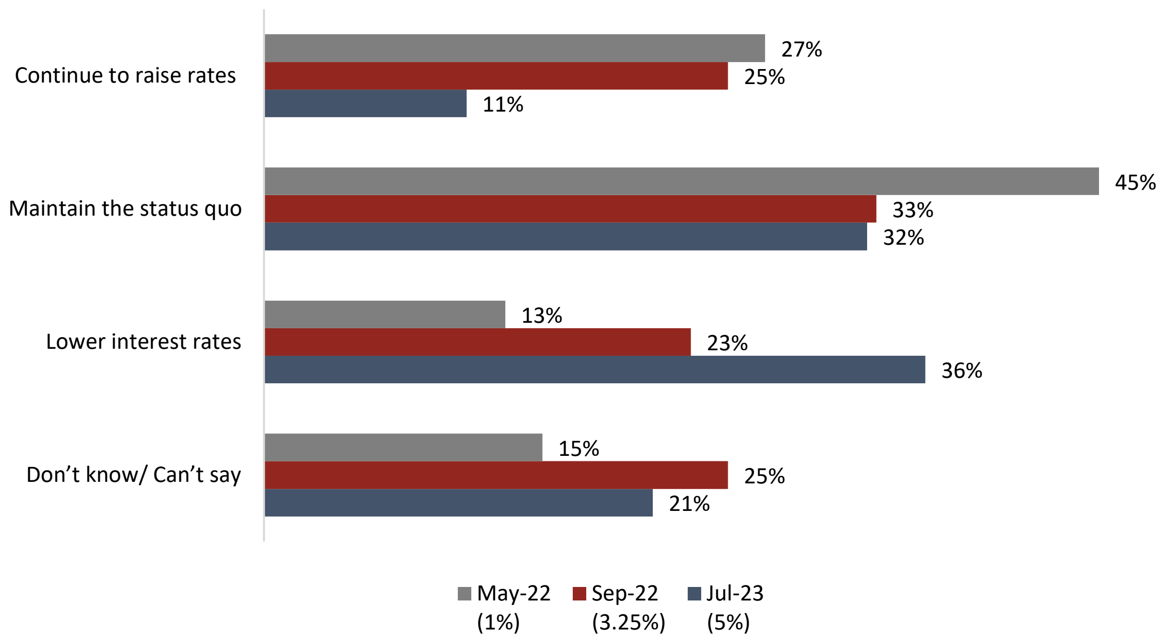
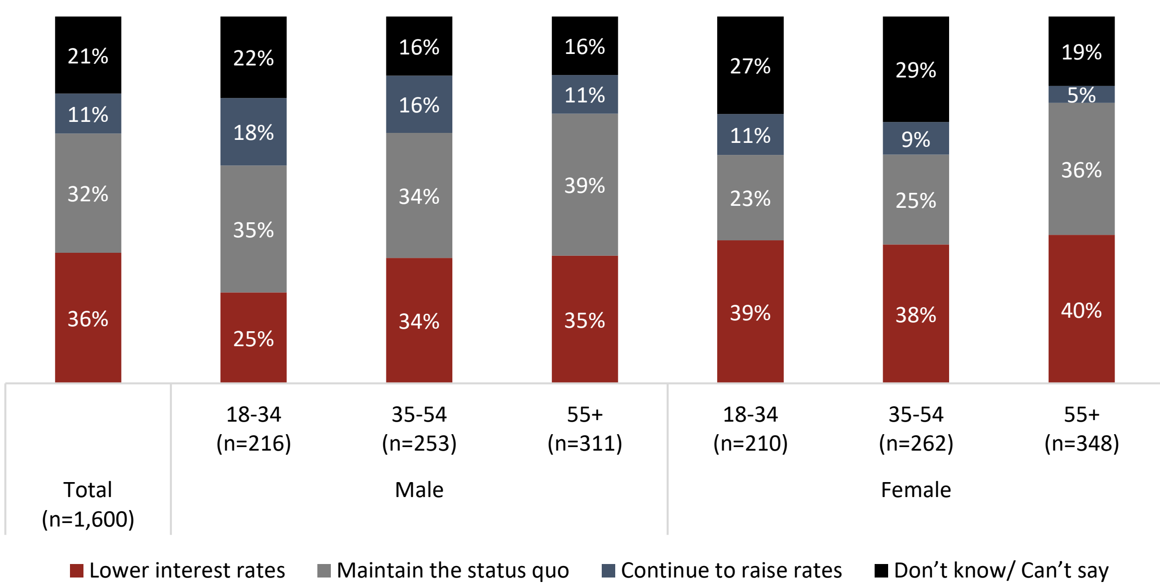
**Suppose you were governor of the Bank of Canada. Would you…
(BoC policy rate at the time noted in brackets)**



Women are more likely than men to want the BoC to lower rates. Men, instead, are more likely to believe the BoC should stand pat and assess the effect of the latest hike before taking further action:

Suppose you were governor of the Bank of Canada. Would you…



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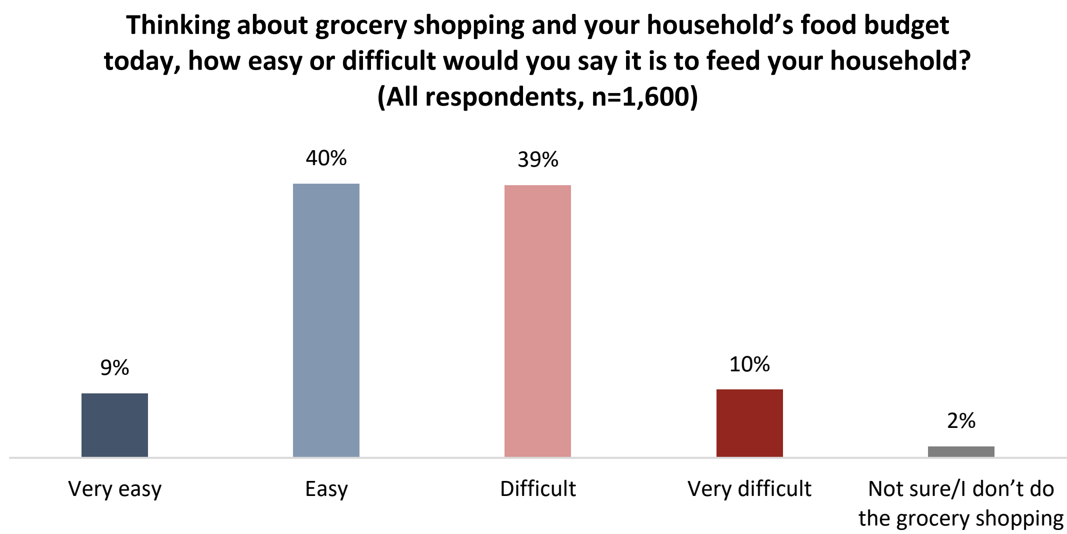
Part Two: Canadians assess their budgets, finances

The beast the Bank of Canada is trying to slay is protracted inflation, which has increased the prices of nearly everything in the country over the past two years. Perhaps the greatest source of sticker shock has been at the grocery store. While overall inflation had cooled to 2.8 per cent, grocery prices rose more than nine per cent year-over-year. Between May 2021 and May 2023, grocery prices had increased nearly 18 per cent according to Statistic Canada's consumer price index tracker.

Half having difficulty feeding their household

Half of Canadians (49%) say they are finding it difficult to feed their household, a proportion more or less similar to that registered over the past two years:



Three-quarters (77%) of Canadians living in households with less than $25,000 in annual income say they are struggling to feed their family. Though higher income households report less trouble, at least one-quarter in all income brackets say they find food prices difficult to cope with:

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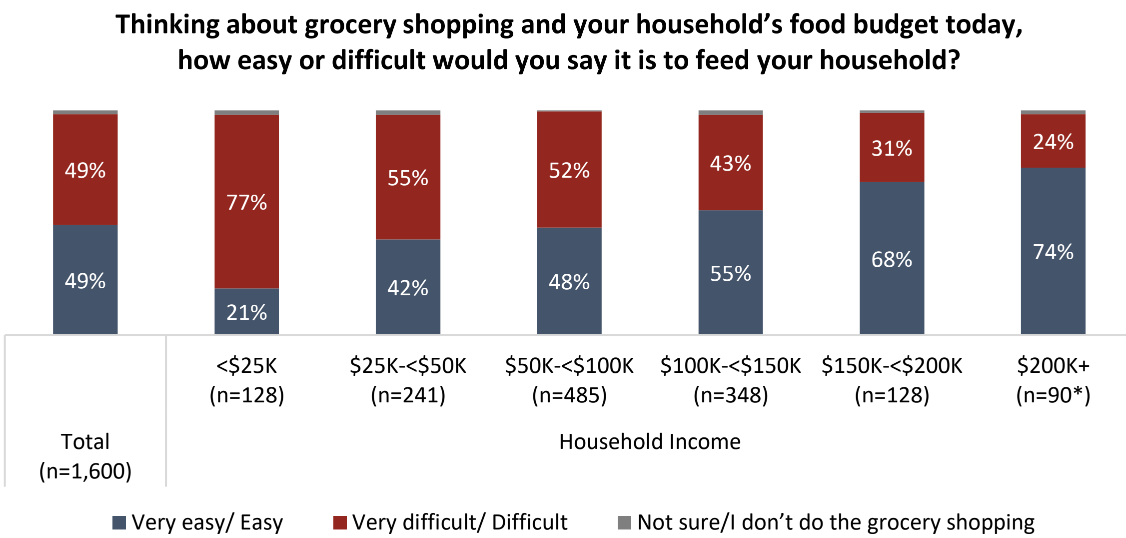
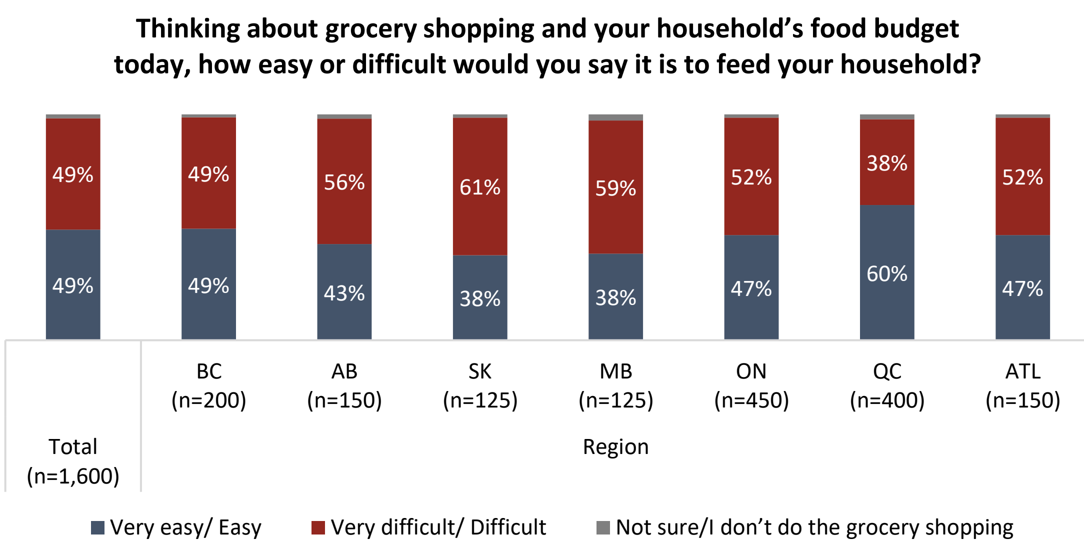


Smaller sample size, interpret with caution

Three-in-five (60%) in Quebec say they find it easy to feed their family currently, the only province where a majority say this. For all other regions in the country, at least half say it is difficult, topping out in Saskatchewan and Manitoba, where three-in-five say they are struggling to feed their household:



Half delaying major purchases, donations dry up for charities

One of the effects that the Bank of Canada hopes to generate with increasing interest rates is a diminishing of demand for goods and services, which in modern economic theory, is suggested to lead to a decline in prices and thus inflation decreasing. In some respects, a lessening of demand is already evident in the data.

Overall, three-in-five Canadians report cutting back on discretionary spending. A further one half (50%) say that they are delaying a major purchase. This equals a similar mark from last September, suggesting this trend is sustaining itself while Canadians wait for more economic certainty.

For charitable organizations, challenges remain while Canadians cut back. Two-in-five (40%) say they have scaled back their contributions. This comes as 30 per cent of charitable organizations in Canada say they have noticed a significant drop in revenue:

In the last few months, have you or your household done any of the following to cut back on spending?					
	Feb-22	Aug-22	Sep-22	Mar-23	Jul-23
Cutting back on discretionary spending	53%	57%	66%	67%	63%
Delaying a major purchase, e.g., home, car, major appliance	41%	42%	50%	43%	50%
Driving less	31%	41%	42%	n/a	30%
Cancelling/scaling back planned travel	29%	32%	40%	n/a	43%
Scaling back donations/charitable giving	n/a	27%	37%	n/a	40%
Deferring/not contributing to an RRSP or TFSA	22%	19%	26%	35%	28%
Other, specify:	3%	5%	4%	8%	5%
None of these/Prefer not to say	26%	20%	12%	19%	15%

In addition to those adjustments that were listed, Canadians had their own statements about how their lives have been affected recently. Below are some direct quotes from this study:

- *"Gone with out normal groceries and switched to a cheaper meal plan"*
- *"Sold items we had to pay down debt."*
- *"Cut off last two monthly subscriptions, altered the way I buy groceries (less junk food, only buy things on sale, buy things I can batch prepare and freeze when meat is on sale.)"*
- *"Remettre a plus tard des réparation de la maison urgente, pas assez d argent tout est trop cher"*
- *"Rarely eating out, tipping less when we do."*
- *"Walking instead of public transit"*

Seven-in-ten say now is not the time for a major purchase

For two years now, the number of Canadians saying it is a bad time to make a major purchase has remained elevated well above levels seen in 2019 and 2020.

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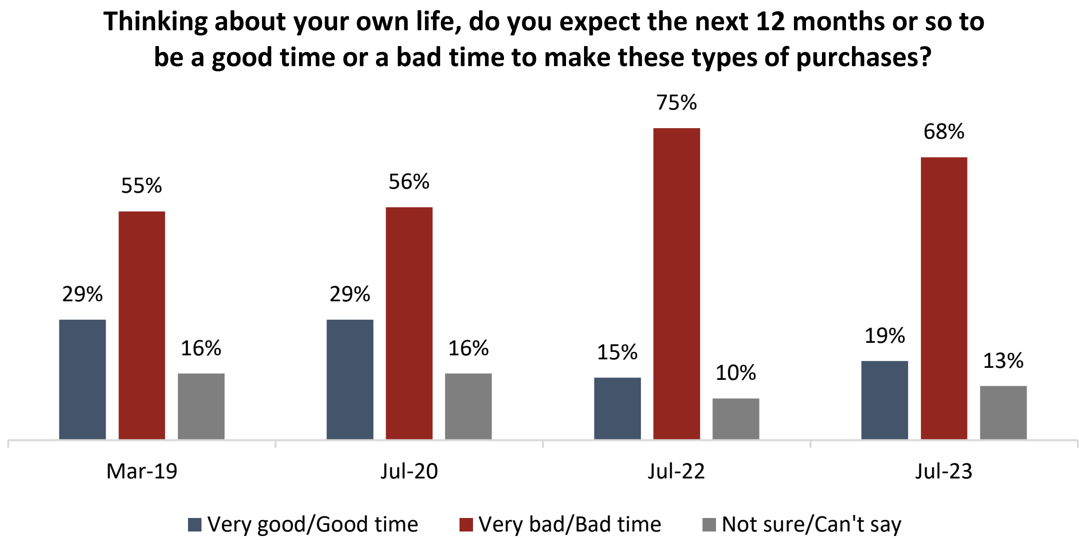
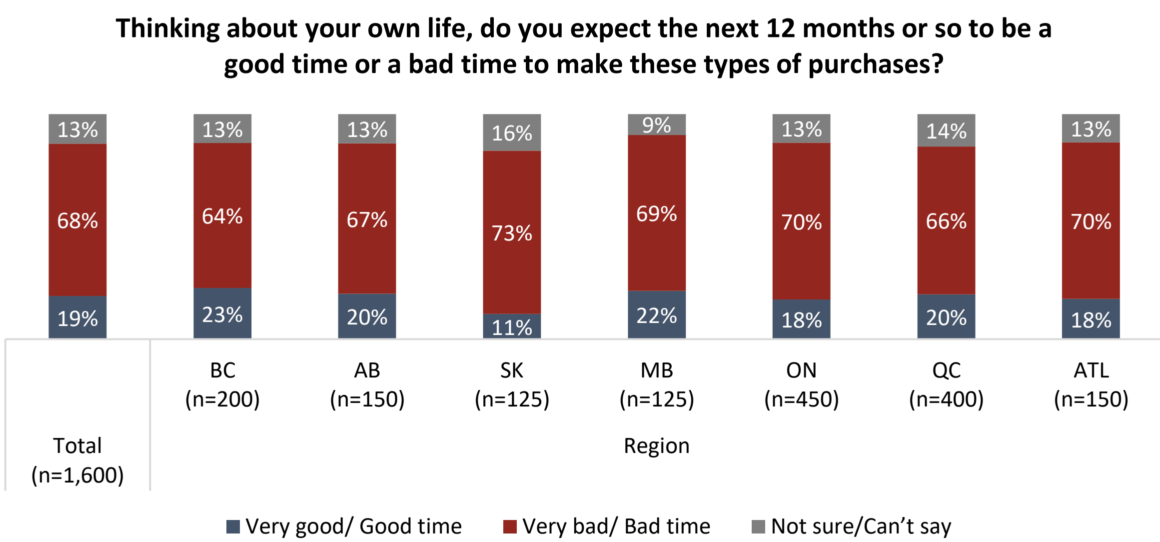


At least two-thirds in every region across the country believe it is a bad time to make a major purchase such as a buying a home or car or taking an expensive vacation. There is at least one-in-five in every region who disagree, except in Saskatchewan, where just one-in-ten (11%) believe it is a good time for such a financial outlay:



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

For detailed results by renters, owners and how difficult respondents find their monthly rent or mortgage, click here.

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