

Canadian Households Take Priority: Their Budget is Your Bottom Line

Households are constantly juggling their expenses, re-organizing their priorities. Aside from personal cash flow shifts, changes in the market directly impact how Canadian households allocate and direct their spending. Understanding the balance and breakdown of household expenses, and how households prioritize them, enables businesses to make better decisions and enhance their ability to respond to changing household needs.

With the current global state of economic uncertainty, Canadians are putting their budgets under increased scrutiny. Frugality is the word du jour, but as the situation unfolds over the coming months, how exactly will Canadians adjust their budgets? The impacts of a shaky economy go beyond just spending cut-backs, extending further to shifts in spending priorities. Could the act of keeping budgets in-check mean that when one area is reduced, another inevitably compensates some of the difference?

How Canadians spend their monthly budgets affects choices: remodel the home, or go on vacation? Celebrate that special event at a restaurant or host a dinner party? Keep buying the premium environmental friendly laundry detergent or pick up that bargain brand? And it also affects business – if Canadians are staying in to save on entertainment costs, which retailers or services benefit from entertaining happening within, rather than outside, the home?

Looking to the past as a benchmark, the *Canadian Household Expenditure Report* from Ipsos Reid surveyed 8,400 Canadian households via mail, 700 per month, collecting an in-depth understanding covering a comparison of urban vs. rural Canada, average household expenditure in total and by category, share of total expenditure by category, average household expenditure and share of expenditure by category within key demographic groups – broken down by household income, age of female head and household size.

Understanding household expenses helps you or your business:

- Understand how changes in the market influence consumer spending (e.g. real estate, foodservice, utilities)
- Gain valuable insight in the cash flow of consumers
- Identify spending patterns of consumers by key demographics (e.g. age of female head, income, region, city size, household size, etc.)
- Track category performances to identify trends and opportunities
- Estimate the opportunity within own sector or target market

Some insights from the *Canadian Household Expenditure Report* from Q2, 2008 show one picture of spending, but how will this differ from today? Some highlights and questions answered:

Proportionally, what is the largest household expense?

The *Canadian Household Expenditure Report* has found that in Q2, 2008, Canadians, on average, spent two-thirds of their monthly expenses on housing, food, transportation, and utilities. At 30%, housing is the single largest monthly expenditure. While it is the largest expenditure facing most Canadians, the good news is that Canadian housing affordability remains intact.

Proportionally, what expenses decrease as income increase?

While the adage seems to be “make more, spend more,” and this remains to be true for the influence of income – the greater the income, the lower the percentage of monthly expenditure devoted to utilities and food.

How does age affect expenses?

As people age, the total monthly expenditure becomes lower, primarily due to lower housing costs. Buying into real estate at lower prices coupled with declining or paid-off mortgages contribute to this change. But, one inevitable reality about getting older is that so does the body – spending on health services grows as people age. The proportion of monthly expenses on gifts or donations increases as well.

Rural vs. Urban – how much cheaper?

It's true! Life in a smaller town is cheaper than that in an urban metropolis. Average monthly household expenditures for those living in larger cities with populations of one million or more are about 23% higher than those living in smaller towns with populations of 10,000 or less. The greatest reason for difference is the higher cost of housing in big cities. Those in small towns though do pay the price in a different way – a higher share of monthly spending is devoted to transportation. Overall, while it may cost more to commute in a rural area, those costs are offset by more affordable housing.

What is the most expensive region in Canada?

The most expensive province in Canada is Ontario. Much of the higher cost of living is attributed to those two factors: housing and transportation.

Home or away – build equity or memories?

It's a tie – 60% of Canadian households have taken a vacation over the past twelve months; 60% of Canadian households have spent money on home improvement/renovation. It appears there is a trade-off between spending on home vs. vacation, as household size increases. Larger households may hold back their vacation spending and instead invest in their home.

How does debt affect expenses?

When comparing the spending habits of households with different debt levels, the biggest difference is housing. Households without debt are mortgage free. The only housing expenses are rent or condo fees and property/municipal taxes, which bring their total housing costs down substantially. Households without debt are generally older in terms of age. On the other hand, households with above-average debt spend significantly more on housing. These are generally young families with high income. Of these families, 37% of their monthly expenditure goes to housing, mostly mortgages.

Much of this reflects what the Canadian household looked like a year ago, before credit crunches and global financial woes became prime-time news. How Canadian households respond to this, how they adjust their budget, and how they prioritize their spending, is vital to how your business responds, adjusts, and prioritizes.

For more information about the *Canadian Household Expenditure Report*, please contact:

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About the Canadian Household Expenditure Report:

The *Canadian Household Expenditure Report* collects data each month from 700 households across Canada. Information is gathered alongside our well established Canadian Financial Monitor panel of households, a continuous syndicated research service providing detailed information across a wide range of issues related to Canadian household finances. It is the premier source of consumer financial information in Canada, with many major financial institutions having used it to help them with their business decisions.



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