PRESS RELEASE

Potential for Interest-Rate Hike Increases Fear of Bankruptcy

Nearly Half (45%; +7pts) of Canadians are Already Feeling the Effects of the Interest Rate Increase.

Ipsos

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Toronto, ON, October 2018 — As the potential for another interest-rate hike looms over Canadians, so does the increased possibility of financial turbulence. According to a new Ipsos poll conducted on behalf of MNP LTD, the fear of a rate increase has intensified over the past few months, as one-third of Canadians express concern that rising rates could move them towards bankruptcy - a six point increase since June.

Given this, there has also been an increase (45%; +7pts) in the proportion of respondents who agree (12% strongly / 33% somewhat) that they are already feeling the effects of interest rate increases — a subsequent response to the Bank of Canada interest rate hike back in July and economic conditions which suggest another rate hike might be near. However, if interest rates continue to climb, half (52%; +3pts) of Canadians are concerned about their ability to repay their debts, and 45 percent (+3pts) say it could lead them to financial trouble.

Concern over rising rates is most prominent in the younger generation. Millennials aged 18-34 are more likely to express concern about rising interest rates, whether that be the fear of repaying debts (62% vs. 57% Gen X'ers, and 40% baby boomers), or moving them closer towards bankruptcy (46% vs. 38% Gen X'ers and 22% baby boomers). Particularly when compared to their older counterparts, millennials are most likely to say they are already feeling the effects of increase rate increases (50% vs. 48% Gen X'ers and 38% baby boomers).

Across the country, Atlantic Canadians show the most trepidation towards increasing interest rates. On balance, Atlantic Canadians are most likely to state with rising interest rates they will be more careful with how they spend their money.

		Region					
% very/somewhat agree	**Total**	**BC**	**AB**	**SK/MB**	**Ontario**	**Quebec**	**Atlantic**
With interest rates rising, I will be more careful with how I spend my money.	79%	76%	77%	86%	83%	72%	87%
As interest rates rise, I'm more concerned about my ability to repay my debts than I used to be	52%	48%	55%	53%	52%	48%	65%
If interest rates go up much more, I'm afraid that I will be in financial trouble	45%	41%	49%	41%	44%	45%	56%
I'm already beginning to feel the effects of interest rate increases	45%	45%	45%	47%	45%	41%	51%
I am concerned that rising interest rates could move me towards bankruptcy	34%	33%	34%	31%	34%	34%	39%

More specifically, respondents were asked to indicate whether they believe their ability to absorb an increase of 1 percentage point, or an additional $100 in interest payments, is improving or worsening. Most Canadians find their situation is unchanged, as 53 percent (steady since June) of respondents say their ability to absorb an increase of 1 percentage point is neither better nor worse, and 46 percent (-2pts) say this about their ability to absorb an additional $100 in interest payments on their debt. Many Canadians say their ability to absorb an increase of 1 percentage point in interest rates (17%), or $100 more in interest payments (26%) is getting worse.

Regionally, Albertans are the most likely to be on the negative side of the scale, with 24 percent saying their current ability to absorb an interest rate increase of 1 percentage point is getting worse, followed by Atlantic Canada (22%), Saskatchewan and Manitoba (19%), Ontario (18%), Quebec (14%) and British Columbia (13%). Again, following the same trend, Albertans (36%) are the most likely to say their ability to absorb an additional $100 in interest payments is becoming worse, followed by Atlantic Canada (29%), Saskatchewan and Manitoba (27%), Ontario (26%), Quebec (22%) and British Columbia (20%).

As financial strain due to rising interest rates hangs over the heads of many Canadians, it is perhaps unsurprising that their confidence to cope financially with an unexpected life-changing event is eroding. The proportion of respondents who state they are confident in their ability to cope compared to those who say they are not confident (net score), has decreased for all situations, apart from coping with a death of an immediate family member and loss of employment – these have stayed relatively unchanged. The largest drops in confidence is in the ability to cope with a change in a relationship status (-6 pts), an unexpected auto repair or purchase (-5 pts) and paying for someone else's education (-4 pts) without increasing their debt situation.

Of all mentioned life changes, residents of Saskatchewan and Manitoba are the least likely to be confident in their abilities to cope financially with these unexpected events.

		Region					
% Not Confident	**Total**	**BC**	**AB**	**SK/MB**	**Ontario**	**Quebec**	**Atlantic**
Paying for your own or someone else's education	35%	43%	39%	45%	36%	25%	37%
Loss of employment / change in wage or seasonal work	32%	33%	37%	43%	33%	25%	36%
The death of an immediate family member	30%	33%	31%	38%	32%	21%	30%
Having an illness and being unable to work for three months	29%	31%	27%	34%	32%	23%	29%
A change in your relationship status (i.e. divorce, separation)	25%	27%	28%	29%	27%	18%	27%
Unexpected auto repairs or purchase	24%	23%	32%	31%	25%	17%	24%

Most Canadians Believe Lack of Financial Literacy is Contributing to Consumer Debt Problems

Most (85%) Canadians agree (35% strongly / 50% somewhat) that financial literacy in Canada is lacking, and this lack of knowledge is contributing to Canada's consumer debt problem, as 87 percent agree (40% very / 47% somewhat). Most point to the school system to lead the charge, as 94 percent of Canadians agree (54% very / 40% somewhat) that Canada's schools need to do a better job at teaching financial literacy skills to children. In fact, 85 percent (35% very / 40% somewhat) of respondents wish they personally had the opportunity to learn more about finance and the economy while in school.

When put in the spotlight, only 16 percent of Canadians strongly agree that they personally have strong financial literacy skills, with the vast proportion (45% somewhat agree) having a softer agreement. Conversely, 4 in 10 (39%) respondents admit that they have poor financial literacy skills. While Canadians lack confidence in their own financial literacy skills, it is perhaps unsurprising that they are even more sceptical of their fellow neighbour – only one in three (35%) Canadians agree that Canadians have strong financial literacy skills, including only 6 percent who strongly agree with this sentiment.

The older generation of Canadians aged 55 and over is more likely to believe that there is a lack of financial literacy skills contributing to Canada's consumer debt problem but are also more likely say Canada's schools need to do a better job of teaching financial literacy. However, younger generations are more likely to have an opposing viewpoint indicating they believe Canadians have strong financial literacy skills, as well as believing they personally have strong financial literacy skills.

Digging deeper into Canadian's financial knowledge, respondents were asked a series of questions regarding the topic of inflation. While 8 in 10 say they have a solid understanding of how inflation impacts their cost of living (82%), financial situation (81%) and savings (79%), only 6 in 10 take inflation into consideration when planning future expenses / financial planning. For 70 percent of Canadians, rising inflation is a daunting concern on their financial situation, whereas two-thirds (66%) of respondents say they are already feeling the effects of rising inflation.

Interestingly, while older Canadians aged 55 and over are more likely to say they have a solid understanding of how inflation impacts their cost of living, financial situation and savings, they are the least likely generation to say they consider inflation for future expenses / financial planning – which is curious given the significant impact of inflation on those with fixed incomes.

Those who admit to not having strong financial literacy skills are more likely to face hard financial times – not only are they more likely to be closer to being financial insolvent, but they are likelier to be concerned about their financial future and their ability to pay their debts. Those with lower financial literacy levels are less confident in their ability to handle life changing events without going into further debt and they express more unease about being able to cover all living and family expenses in the next 12 months. With poorer literacy skills, it is perhaps unsurprising that they also lack knowledge when it comes to interest rates and inflation, and more likely to fear of the impact this will have on their finances.

% Disagree Financially Able to Cope with Unexpected Life-Changing Events	% Strong Financial Literacy	% Poor Financial Literacy
Paying for your own or someone else's education	26%	50%
Loss of employment / change in wage or seasonal work	24%	45%
The death of an immediate family member	22%	42%
Having an illness and being unable to work for three months	21%	42%
A change in your relationship status (i.e. divorce, separation)	19%	34%
Unexpected auto repairs or purchase	17%	35%

% Agree	% Strong Financial Literacy	% Poor Financial Literacy
As interest rates rise, I'm more concerned about my ability to repay my debts than I used to be	45%	62%
If interest rates go up much more, I'm afraid that I will be in financial trouble	39%	54%
I'm already beginning to feel the effects of interest rate increases	42%	49%
I am concerned that rising interest rates could move me towards bankruptcy	31%	39%
I am concerned about inflation's impact on my financial situation	67%	75%

While Cash Flow Improves Modestly, Financial Concern Still Lingers

Respondents were asked to think about the amount of after-tax income they make each month compared to the amount of their bills and debt obligations each month and determine how much is left over. At month-end, 4in 10 (40%) Canadians say they are $200 or less away from financial insolvency. While this is reported to be the lowest proportion of Canadians near financial insolvency since tracking began in February 2016, a quarter of Canadians admit they are left with nothing at the end of the month. On average, after paying their bills, Canadians are left with a total of $762, an increase of $38 since June 2018.

Regionally, Atlantic Canadians (49%) are the most likely to be $200 or less away from being unable to pay their bills, followed by Saskatchewan and Manitoba (42%), Quebec (41%), Alberta (40%), Ontario (40%) and British Columbia (35%). Women (44% vs. 36% men) are significantly more likely to be within $200 of insolvency at month-end.

Compared to June, Canadians remain more positive than negative towards their current debt situation, as nearly 3 in 10 (28%) rate their current debt situation better than a year ago, and more than 1 in 3 (35%) say their debt situation has improved compared to 5 years ago. Respondents also hold on to the hope of the future, with 4 in 10 (39%) optimistic that their expected debt situation will be better in a year time, while half (50%) foresee their debt situation improving over the next 5 years.

On trend, the spread between those who rate their personal debt situation as excellent and those who say it is terrible has held consistent. Despite this, many Canadians still lack confidence in their finances, 4 in 10 (42%) disagree that they can cover their living expenses for the next year without going further into debt, while half (50%) disagree they will be able to live debt free in retirement. In fact, a sizeable proportion (40%) are currently concerned about their level of debt, and just as many (43%) say they regret the amount of debt they have taken on in their life. For some, the fear of unemployment also lingers, as 33 percent believe there is a possibility someone in their household could lose their job.

About the Study

These are some of the findings of an Ipsos poll conducted between September 10 and 17, 2018, on behalf of MNP LTD. For this survey, a sample of 2,003 adults living in Canada was polled. Weighting was then employed to balance demographics to ensure that the sample's composition reflects that of the adult population according to Census data and to provide results intended to approximate the sample universe. The precision of Ipsos online polls is measured using a credibility interval. In this case, the poll is accurate to within ±2.5 percentage points, 19 times out of 20, had all Canadian adults been polled. The credibility interval will be wider among subsets of the population. All sample surveys and polls may be subject to other sources of error, including, but not limited to coverage error and measurement error.

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