

Inflation vs. Pent-up Demand

Why historic inflation isn't enough to dampen Canadian consumer spending

Inflation is at a 30-year high and rising, with conventional wisdom suggesting the pragmatic, price-sensitive Canadian consumer will surely rein in spending. But this is no conventional moment, and consumer spending is unlikely to pivot purely to price.

A strange brew of easing restrictions, two years' worth of pent-up demand, and record-level household savings adds up to a tailwind that's just as potent as inflation is a headwind, meaning people are planning to spend less—and spend more.

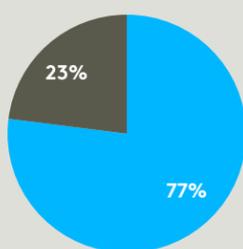
Despite the large and uneven shock that hit them two years ago, households across ... income appear on average to be in healthier financial positions than before the pandemic.

-Sharon Kozicki
Deputy Governor, Bank of Canada

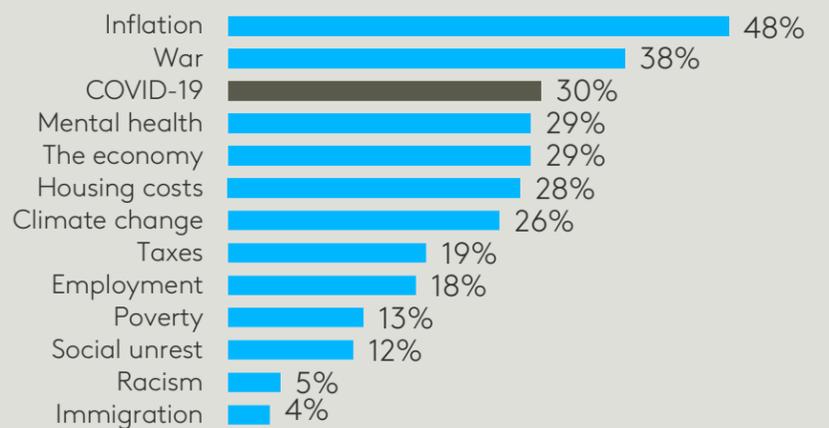
Inflation, not the pandemic, is having a bigger impact on the day-to-day lives of Canadians right now, and it's at the top of their list of concerns when thinking about the year ahead.

___ is having a much/somewhat bigger impact on my everyday life right now

■ Inflation
■ The pandemic



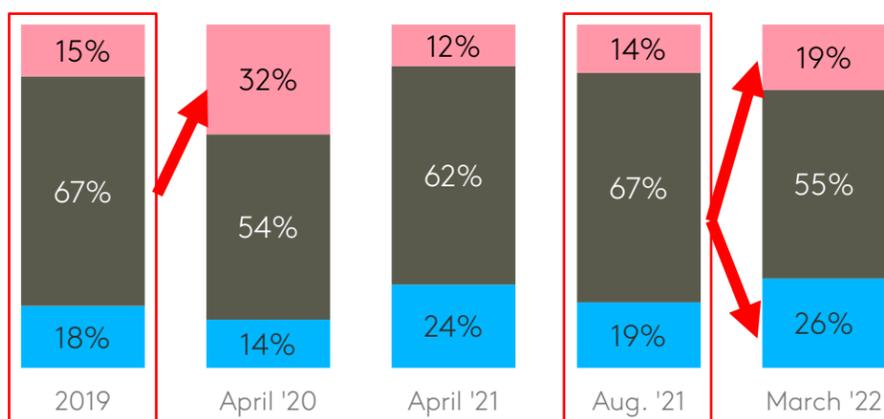
Top concerns when thinking about the next year of your life:



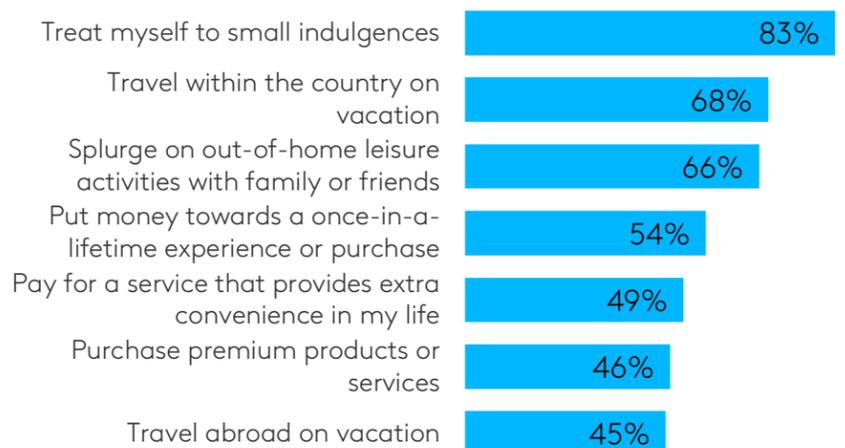
Spending intentions reflect both inflationary caution and COVID-induced pent-up demand

How do you think your spending in the next 12 months will compare to the past 12 months?

■ Probably spend less ■ Probably spend the same ■ Probably spend more



How likely are you to do the following in the next 12 months:



The Takeaway

When COVID struck, spending tightened severely before intentions came roaring back last spring and returned to the pre-COVID baseline of 2019 by last summer. But now, in the face of historic inflation, the movement is in both directions as healthy majorities of Canadians are ready to release their pent-up demand with indulgences big and small. Brands mustn't assume, then, that price is all that matters in this moment and deliver value-building solutions more than cost-reducing offers.