

# OBSERVATION

## TD Economics



December 18, 2013

## COMPARING AND CONTRASTING CANADIAN AND AMERICAN CONSUMERS

### *Some Stylized Facts*

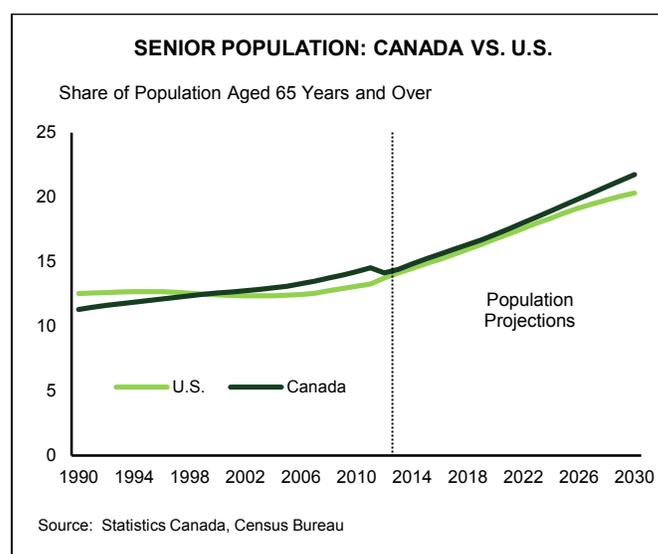
A recent trend over the past decade has been a greater push for companies to span North American borders. A case in point, U.S. retailers have been extending into Canada, while Canadian financial institutions have been moving into the United States. But, Canada and America are two very different landscapes and the two nations possess a different customer base. What has almost certainly been confirmed in these ventures is that despite similar cultures and language, Canadian and U.S. consumers are quite different. In this report, we compare and contrast consumer bases in both countries in terms of demographics, financial positions and spending behaviours.

### Demographics

**America's population is nine times larger, but Canada's population is growing faster.** Annual Canadian population growth (+1.3%) outpaced that of the U.S. (+0.7%) in 2013. Part of the difference is attributed to a slower pace of immigration in the United States. However, natural population growth has been slower in Canada. Over the past thirty years, the total fertility rate in Canada has been below the replacement level (couples are no longer having enough children to replace them). On average, each Canadian woman has 1.6 children. In the U.S., the fertility rate is 1.9 children per woman.

**The Canadian consumer is greyer.** The median age in America is 37 years old, while it is 40 in Canada. The share of the population that is 65 and older is slightly larger in Canada than in the United States. In both countries, the prime working age (defined as those aged 30-54 years old) is the largest segment of the population.

**Canada has more foreign born.** Canada possesses nearly seven million foreign-born residents or 20.6% of the population. On this metric, it has the highest share in the G-8. By comparison, the United States had 12.9% foreign born population. In 2011, Mexican-born immigrants accounted for approximately 29% of the foreign born residing in the United States, making them by far the largest immigrant group in the country. Meanwhile, Asians account for almost 60% of the immigrant population in Canada in 2011. In light of the demographic make-up, there is a difference in the prevalence of official language spoken at home. In Canada, 76%

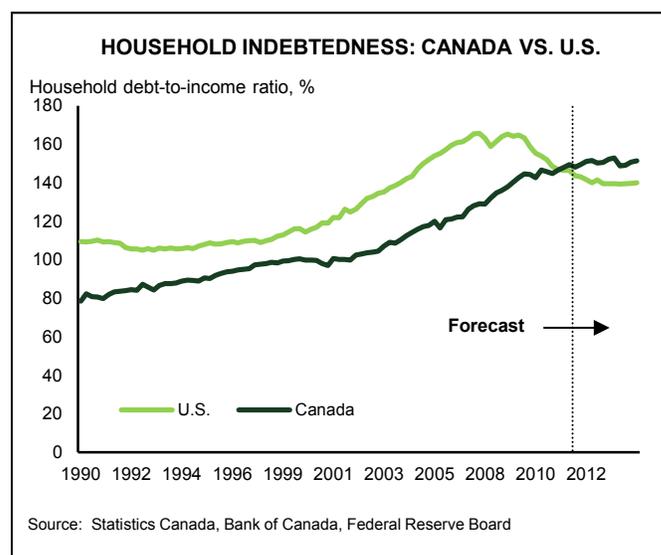


of households state that either official language – English or French – is primarily spoken at home. In the U.S., 80% of households indicate that they speak English at home.

### Income and wealth

**Americans are richer.** On a per capita basis, Americans have higher income and higher wealth than Canadians. The numbers speak for themselves. The average personal disposable income for a Canadian was US\$26,888 in 2013; it was US\$35,950 in the United States. However, Canadians have been closing the income gap. Since 2007, household income in Canada has grown faster than that in the U.S. It also takes a lot more to be in the top 1% in America than it does in Canada. The 1% in America earn an income of over US\$369,000. In Canada, those in the top 1% have an income of greater than \$191,000.

**Canadians are more likely to own a home.** Canadians currently have a higher homeownership rate than do Americans. This has not been the case historically, but the recent financial crisis has eroded homeownership rates in the United States. Homeownership in Canada has risen due to low interest rates and better access to credit since 2008. In particular, younger Canadians have a homeownership rate that is double that of their counterparts south of the border. As previously cited, new immigrants in Canada indicated



that homeownership is a key goal upon settling down in the country. The larger share of immigrants in Canada relative to the U.S. contributes to the homeownership rate differences across the two countries.

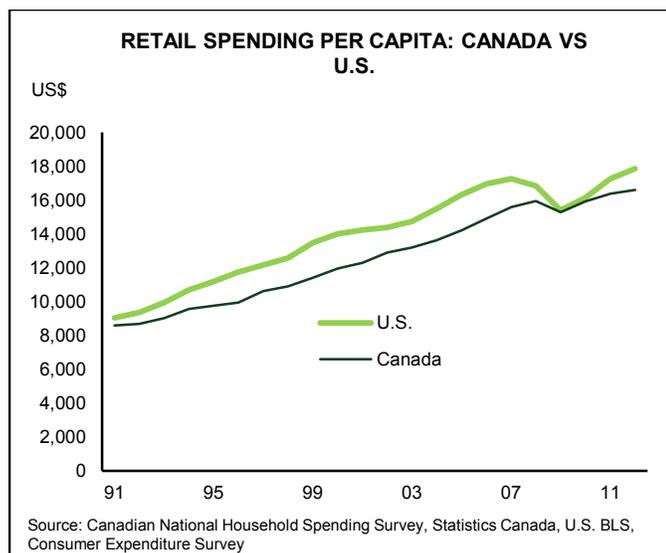
**Canadian households remain more indebted than Americans.** While this is true, it is only the case after the U.S. economy went through a painful deleveraging process. On an apples-to-apples comparison, the adjusted average debt level in Canada is significantly below the pre-recession peak recorded in the United States.

**Homeowner's equity is markedly higher in Canada.** Another key difference between Canadian and American balance sheets is the share of homeowner's equity (i.e. the value of one's home less the mortgage attached to the house) relative to the value of the residential property. Canadians hold significantly more equity in their homes than their U.S. counterparts, and this was even true heading into the crisis. This has been the case since the early 1990s, however the gap between the two countries has noticeably widened in recent years, in sync with the 2008-09 financial crisis and the U.S. housing market crash. However, mortgage interest is tax deductible in the U.S., meaning there is less incentive for Americans to become mortgage free. In turn, and in the absence of any policy changes, we expect that Canadians will continue to possess more equity in their homes going forward.

**Canadians and American's have similar saving rates.** The Canadian personal savings rates only surpassed those of Americans within the last few months, although not by much. The savings rate metric in Canada is at a sixteen year high. The savings rate gap may continue to widen between

Household Balance Sheets, 2013 Year-to-Date Annualized		
	Canada	U.S.
<b>Avg. Personal Disposable Income Per Person (U.S. \$)</b>	26,888	35,950
<b>Household Debt-to-Disposable Income Ratio (%)</b>	137	141
<b>Personal Savings Rate (%)</b>	5.2	4.7
<b>Homeowner's Equity as a % of Real Estate</b>	69.3	50.8
<b>Household Net Worth per Capita (U.S.\$)</b>	252,543	314,112
<b>Household Total Assets (Billions of U.S. \$)</b>	9,003	90,938
Assets per Capita (U.S. \$)	313,404	369,726
Homeownership Rates		
	Canada	U.S.
<b>Homeownership Rates (%)</b>	69.0	65.3
Aged 25 years and under	23.8	15.0
25 to 34	46.2	40.0
35 to 44	69.1	62.0
45 to 54	74.7	72.0
55 to 64	77.1	79.0
65 plus	73.6	80.0

Source: U.S. Bureau of Economic Analysis, Statistics Canada Household Spending Survey, National Household Survey and BLS Consumer Expenditures Survey



the two countries, as Canadians look to curb their pace of debt accumulation and repair their overstretched balance sheets, and American consumers satiate some of their pent-up demand.

### Contrasting the American and Canadian consumer

**Americans spend more than Canadians, on a per capita basis.** U.S. retail sales total US\$17.9 billion, almost ten times the amount of spending that occurs in Canada. On a per capita basis, however, American's spend an average of \$17,900 per year in retail outlets, versus an average Canadian who spends \$17,000. Americans have always spent more than Canadians – however, the difference has narrowed since the 2008-09 recession.

**General merchandise stores (the WalMarts of the world) are the store of choice for Americans.** Households south of the border spend almost US\$600 more at these types of stores than Canadians do. General merchandise stores are certainly more popular in the U.S. and offer a greater variety of items – for less. There are also likely more of them than in Canada, but that trend is changing, as noted at the outset of the report.

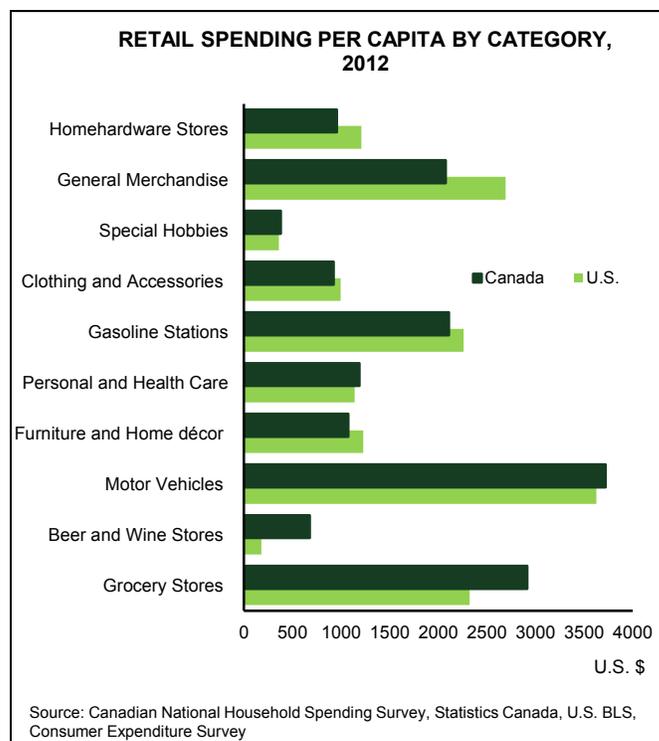
**Americans get more bang for their buck.** It's of no surprise that Americans pay less for just about every consumer good around – including motor vehicles and clothing. Adjusting average spending for price and exchange rate differences reveals that Canadians would have to spend an additional US\$4,000 per year to purchase the same amount of stuff as an average American. On average, a Canadian household spends significantly more on clothing and footwear, and reading materials (like books, magazines and

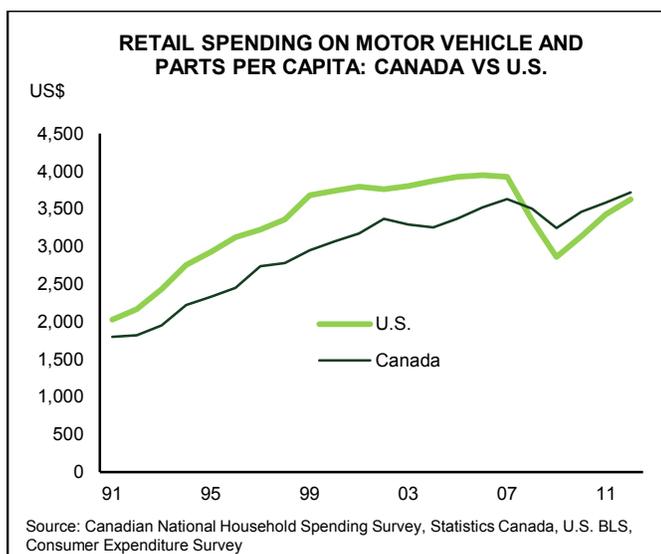
newspapers) than U.S. households. However, these latter items are renowned for having much higher prices in Canada than in the U.S., even after accounting for the exchange rate.

**Canadians dedicate more of their budget to non-discretionary items,** whereas Americans allocate a larger share of their spending to discretionary items. Households in both countries spend more on private transportation (owning a car), then using public transportation (taking the bus).

**Americans drive more.** And as a result, Americans spend more on gasoline, yet pay almost US\$0.40 less per litre (or US\$1.50 less per gallon). Historically, Americans have spent US\$400-600 more on gasoline than Canadians. 2012 was an exception, as the difference lessened to US\$150. The narrowing largely reflects the fact that less people are driving in the U.S. than has historically been the case, with the number of cars per person at a record low and the average age of a vehicle at a record high. And, gas prices in Canada have grown quicker than in the United States.

**2007 was the first year on record in which Canadians spent more on motor vehicles and parts per capita** – although not by much. And, Americans are making a comeback. Canadians spent an average of US\$3,700 on autos versus US\$3,600 spent by Americans in 2012 – which reflects the fact that prices are much higher in Canada than they are in the United States. The average age of a vehicle in America is currently 11.3 years old, noticeably above





import tariffs than many states in the U.S. However, higher taxes surely do not account for the additional US\$600 spend per year. In fact, adjusted for price differences, Canadians still spent US\$317 more on beer and wine than Americans.

### Spending by age

**Higher spending in the U.S. is largely driven by those in their prime working age.** Americans who are 35-54 years old, not only earn more than Canadians in the same age group, but they spend about US\$50,000 more per year. Americans in the age group spend significantly more on just about everything, with the exception of clothing and footwear – in which spending is roughly similar across borders. Other than that, prime working aged Americans spend six times more on health care (insurance), three times more on entertainment and almost twice as much on transportation.

**Canadians in all other age groups spend more than Americans of similar age.** Canadian young adults spend twice the amount of their Americans counterparts. Spending habits are very similar across borders among older consumers who are closer to or in retirement. In particular, Americans and Canadians who are 55 and older spend similarly on discretionary items (like autos and entertainment). However, older Canadians tend to spend more on items that are typically viewed as non-discretionary – for instance, they typically spend US\$2,000 more per year on food.

the long-run historical average. As pent-up demand for new vehicle sales is unleashed in the U.S. over the coming years, the vehicle spending gap across the two countries is poised to narrow.

**Canadians spend almost US\$1,200 more on food and beverage per capita than Americans do.** Interestingly, the additional money is spent equally on groceries and alcohol. Canada's food and beverage consumption has always been higher than in the U.S., but it was abnormally greater in 2012. Canadians spent almost three times more per capita on beer and wine than Americans in the year. In large part, alcohol sold in Canadian liquor stores in certain parts of the country (like Ontario) are subject to higher taxes and

**Household Spending Patterns by Life Stage 2011/2012, U.S. \$**

Item	U.S.					Canada				
	Young Adults (under 25)	Early Career (25-34)	Prime Working (35 to 54)	Pre-Retirement (55-64)	Retirement (65 years and older)	Young Adults (under 30)	Early Career (30 to 39)	Prime Working (40 to 54)	Pre-Retirement (55 to 64)	Retirement (65 and over)
<b>Nondiscretionary</b>	<b>19,131</b>	<b>28,742</b>	<b>65,981</b>	<b>30,424</b>	<b>24,320</b>	<b>33,849</b>	<b>41,055</b>	<b>43,083</b>	<b>36,512</b>	<b>26,006</b>
Food	4,412	6,513	15,618	6,800	5,059	6,517	8,354	9,105	7,926	6,303
Store	2,529	3,680	9,197	4,012	3,273	4,131	5,870	6,578	5,749	4,758
Food purchased at restaurants	1,883	2,833	6,420	2,788	1,785	2,386	2,485	2,526	2,177	1,546
Shelter	7,285	10,458	23,093	9,728	7,605	15,259	18,679	17,900	14,001	10,265
Owned dwelling	1,307	4,552	15,301	6,991	5,101	6,194	11,020	11,240	7,572	4,587
Rented Dwellings	5,748	5,603	6,403	1,788	1,828	6,870	4,530	2,478	2,192	2,563
Transportation	6,410	9,724	20,635	9,519	6,538	10,732	12,178	13,797	11,988	6,829
Private	6,119	9,235	19,489	8,828	6,066	9,348	10,976	12,584	10,859	6,194
Public	291	489	1,146	691	472	1,384	1,202	1,213	1,129	635
Health Care	1,024	2,047	6,635	4,377	5,118	1,341	1,844	2,281	2,597	2,609
<b>Discretionary</b>	<b>12,280</b>	<b>20,802</b>	<b>54,191</b>	<b>25,212</b>	<b>16,090</b>	<b>22,379</b>	<b>27,541</b>	<b>30,588</b>	<b>25,085</b>	<b>15,857</b>

Source: Canadian National Household Spending Survey, Statistics Canada, U.S. BLS, Consumer Expenditure Survey

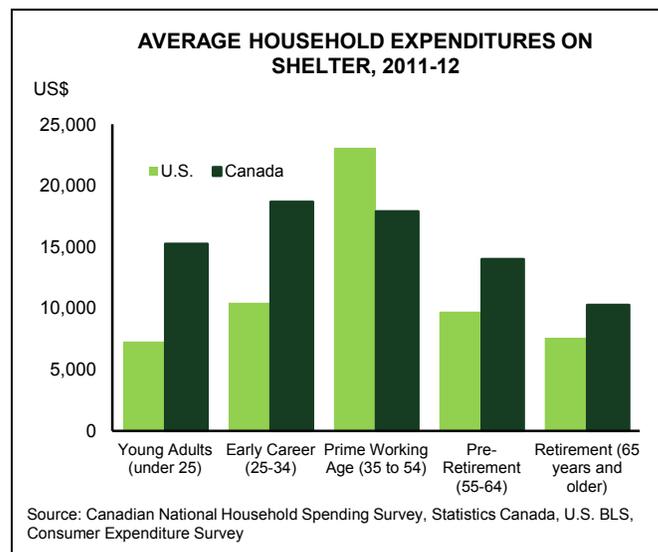
## Costs related to homeownership and food are the top two spending categories in both countries.

Housing captures three out of five top spending categories in Canada. U.S. household spending on health care is almost double that of a Canadian household, obviously in part due to different health care systems in the two nations. Most of the difference can be chalked up to American spending on health insurance. While many Canadians also have out-of-pocket health insurance expenditures, premiums are less given the presence of a public health care system which applies to many medical services like hospitals.

### Canadians dish out more for housing

**Canadians devote a significantly larger share of their budget to housing-related items and services.** Costs associated with owning a home are the largest component of household expenditures in both countries. However, Canadians spend roughly US\$2,500 more a year on these expenditures than Americans, which is not surprising given higher homeownership (particularly for the younger population) rates in Canada. Canadians aged 34 and younger spend US\$8,000 more a year on housing-related services than a similar aged American. Mortgage payments account for a large chunk of the difference, but household operations (internet, phone, cable, daycare, etc.) also take a bite out of young Canadian household budgets. Household operations are the one item that Canadians of all ages pay significantly more for (including those in their prime working age). A case in point, Canada is renowned for its expensive cable, internet and telephone services. Spending on rent is roughly similar across the two countries for most income and age groups.

**While Canadians dedicate more to shelter costs, on a per capita basis, Americans spend more on renovating and decorating their homes.** In 2012, Americans spent US\$200 more on furniture, home furnishings and appliances and electronics. Meanwhile, Americans also spent US\$250 more at home hardware stores.



### Bottom line

For businesses looking to grow on a North American basis, it is important to know your customer. For those selling goods and services, the characteristics of Canadians and Americans can affect success. On balance, Canada has a more diverse population. Americans appear to be more prolific in their spending, but their money goes further. Canadians have a stronger focus on homeownership, which constrains spending on other items, except apparently alcohol.

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