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Unshackled? How the constraints on Canadian consumers should loosen in '27

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Canadian consumer spending has been held back by a number of restraints in recent years. Facing high inflation for essentials such as food, mortgages refinancing at higher rates, and most recently, a spike in gasoline prices, households have had less money to spend on more discretionary items. However, that could change, with some of the restraints to spending likely to loosen in 2027.

The here and now

Firstly, we need to establish the current situation for per capita spending, and it may not be quite as bad as it's purported to be. Consumer spending in the GDP data should, in theory at least, track only the expenditures of citizens and permanent residents, not non-permanent residents (NPRs) whose spending is instead included in exports of services. While this may be difficult to accurately track in real time, upward revisions to services exports during the years of peak NPR growth suggests that historic data should now reflect this reality.

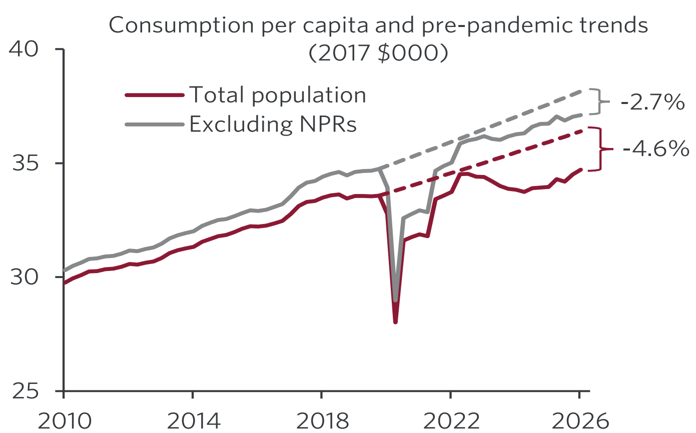
What that means is that the shortfall in real consumer spending per capita, relative to its pre-pandemic trend, isn't as large as it at first appears, because the population data, but not the spending data, include these NPRs. Indeed, rather than a very wide 4.6% gap, underspending in real terms relative to that prior trend is a much slimmer 2.7% when NPRs are excluded from the population count (Chart 1).

However, with the NPR population now retreating, it also means that the most recent trend in per capita spending may not have been as strong as perceived, with population growth excluding NPRs not as weak as if you include that group. Moreover, the growth that we have seen in consumer spending recently has been supported by a reduction in savings (Chart 2, left), which is a trend that cannot be sustained indefinitely. The good news is that the saving rate has yet to fall to a level that is unsustainably low, as was perhaps the case at times in the prior economic cycle, suggesting that savings don't necessarily need to be replenished (Chart 2, right). Remember, as well, that the income data used in these savings calculations exclude capital gains, which have been lifted by healthy equity markets.

Push and Pull

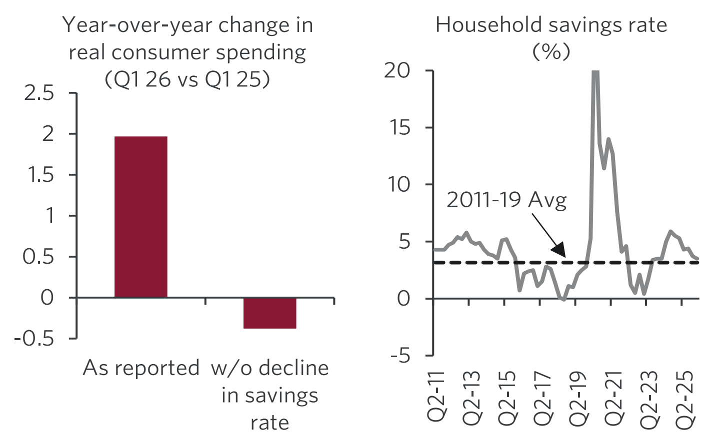
We would also hope that one of the factors that drove the most recent decline in savings during the first half of 2026, namely

Chart 1: Consumption per capita shortfall not as bad when NPRs excluded



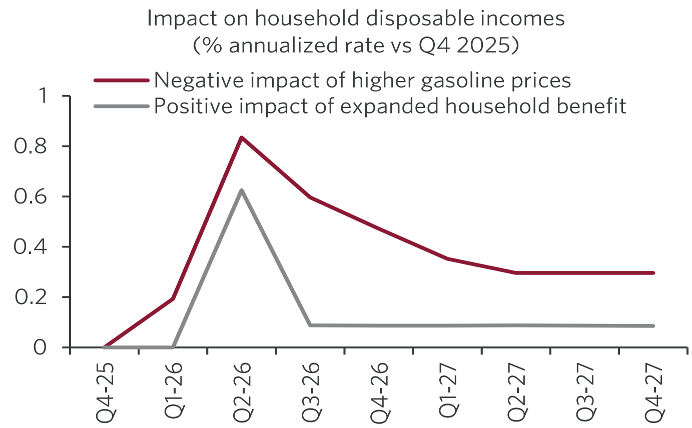
Source: Statistics Canada, CIBC

Chart 2: Consumption driven by savings drawdown (l); but saving rate not unsustainably low (r)



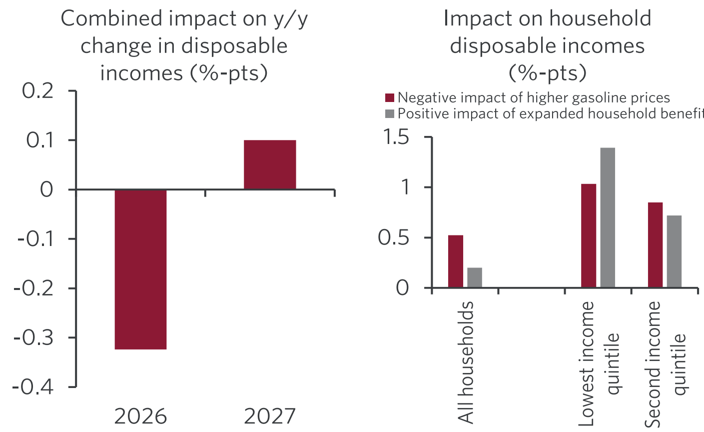
Source: Statistics Canada, CIBC

Chart 3: Government benefit outweighed by squeeze from gasoline prices



Source: PBO, Statistics Canada, CIBC

Chart 4: Annual impact of gasoline price squeeze fading (l); especially for those in lower income quintiles (r)



Source: Statistics Canada, CIBC

the surge in gasoline prices that restricted disposable incomes in real terms, will at least partly reverse in the second half of the year and into 2027.

On aggregate, the increase in gasoline prices had a negative impact on disposable incomes during the first half of 2026, and was large enough to outweigh the one-time bonus payment from the federal government's Groceries and Essentials Benefit (Chart 3). Obviously, there is a great deal of uncertainty still regarding the path of oil and gasoline prices, with a sustained reopening of the Strait of Hormuz far from guaranteed. Moreover, even under our assumption for WTI oil to average US$73/bbl next year, gasoline prices may stay somewhat more elevated due to refinery capacity issues. So even by 2027, higher gasoline prices relative to where they were prior to the Iran conflict will still be restricting disposable incomes and, on aggregate, outweighing the positive benefits from expanded household benefits.

However, there are some positives ahead. While admittedly not guaranteed, the tightest restraint from high gasoline prices may have passed, and an easing of inflation from here should flip the year-over-year impact on real disposable incomes from a slight negative in 2026 to a marginal positive in 2027 (Chart 4, left).

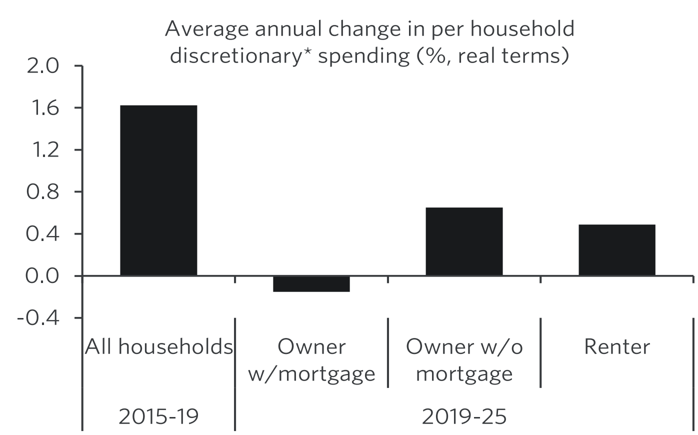
Moreover, while on aggregate expanded household benefits may not have outweighed the cost of higher gasoline prices this year, that's not necessarily the case for the individual households that are actually receiving the payments. For those groups, the benefit enhancements this year may have outweighed or matched the increase in their cost of gasoline (Chart 4, right). This is important as those household groups have a higher propensity to consume out of extra income, while higher income groups who aren't receiving the benefit may have a greater ability to lower their savings, or draw on portfolio wealth gains, to absorb the cost of higher pump prices.

The ease in the squeeze from mortgages

While there's still plenty of uncertainty regarding how quickly the restraint on households from higher gasoline prices will ease, there's a little more clarity over how a longer-term constraint — mortgage payments — will evolve. Having mortgaged to the hilt at low interest rates during the pandemic, households have been refinancing those mortgages at generally higher interest rates in recent years. While past interest rate cuts from the Bank of Canada helped ease the pressure on some households, as shown by a cooling of the MIC component in CPI, prior fixed mortgages taken out during the pandemic are continuing to refinance at higher rates.

True, the impact of higher mortgage payments hasn't resulted in a surge in delinquencies or the "mortgage cliff" that was a popular concern a few years ago. But the impact on discretionary spending is quite clear. While all households have seen slower growth in real discretionary spending in recent years, due to inflationary pressures for a number of essentials, it's only in the spending of homeowners with a mortgage where an outright decline can be seen (Chart 5).

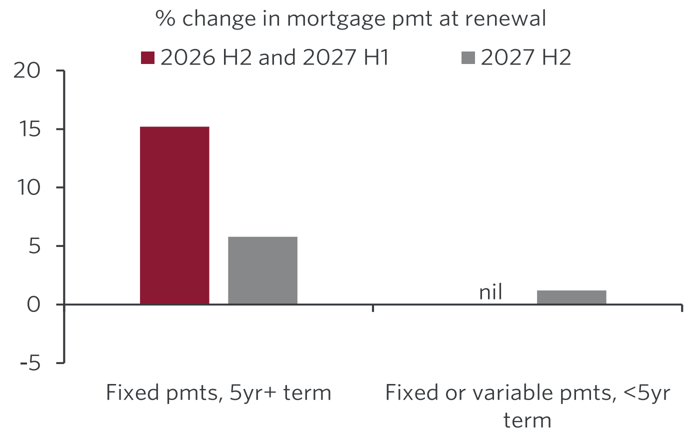
Chart 5: Homeowners' spending weighed on by mortgage renewals



Source: Statistics Canada, CIBC

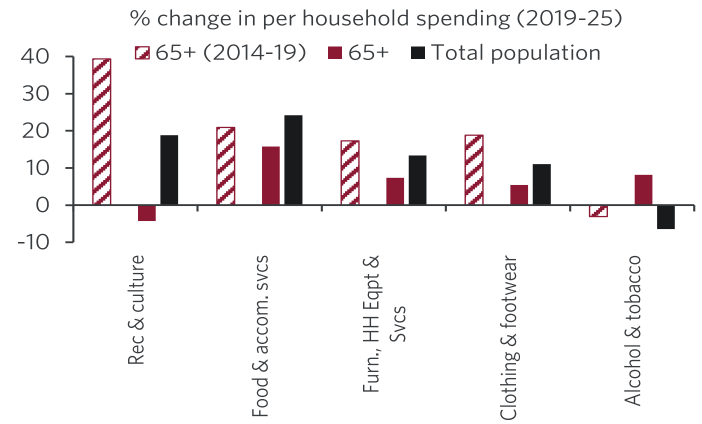
Note: includes clothing & footwear, household furnishing, communications, recreation & culture, food & accommodation services and miscellaneous goods & services

Chart 6: Moving beyond the mortgage renewal squeeze in 2027



Source: BoC.

Chart 8: 65+ years spending more cautiously on discretionary items relative to rest of the population



Source: Statistics Canada, CIBC

The good news is that, looking ahead, the pressure from mortgages renewing at higher rates should start to ease, with recent Bank of Canada research showing much more modest increases at the time of renewal by the second half of 2027 (Chart 6). There is a little uncertainty still regarding those on variable rate mortgages, which have become more common again in recent quarters due to elevated fixed rates. However, given our expectation is for only a modest 50bp increase in the overnight rate next year, that shouldn't present a material headwind to 2027 spending.

Help from the aged

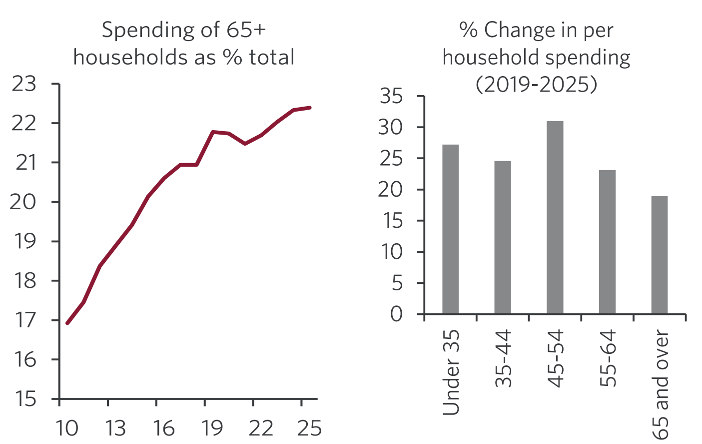
As well as help from an easing of prior restraints, consumer spending could also get a boost going forward from increased spending by older Canadians. Given the aging demographics, spending among households aged 65+ has become increasingly important as a share of total spending (Chart 7, left). But it's interesting to note that this proportion has risen solely because of aging demographics. When we look at per household spending across age groups, older households have been more restrained (Chart 7, right).

That reflects slower spending growth across a number of discretionary areas, most notably recreation & culture, and food services, rather than necessities where inflationary pressures may differ across age groups. Interestingly, that slower spending growth is not just in contrast with the trend for the population as a whole, but also a deviation from the pre-pandemic trend of older households (Chart 8).

It's hard to determine exactly why this is. It could be due to concerns about how far pensions will stretch in a world where the cost of living has increased substantially. It could also reflect a desire to save and help their children with homeownership. Whatever the reason, it is at odds with trends in income and wealth, which even on a per household basis have generally shown larger increases for older age groups (Chart 9). What this does indicate, though, is that older households may have a longer runway to raise spending ahead.

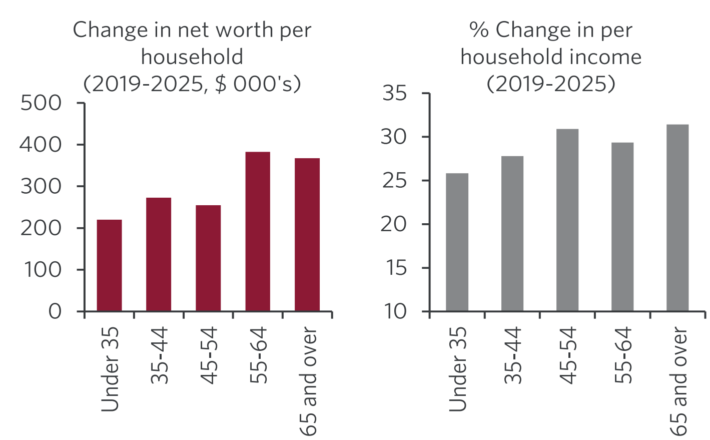
The final point on household wealth brings us to a more recent restraint on consumer spending that should be easing in 2027 — the wealth effect. As our colleague detailed in an earlier article (Show me the money: Measuring wealth-driven consumption), declines in Canadian home prices in real terms

Chart 7: Spending by 65+ years group increasingly important (l), but per household spending has lagged (r)



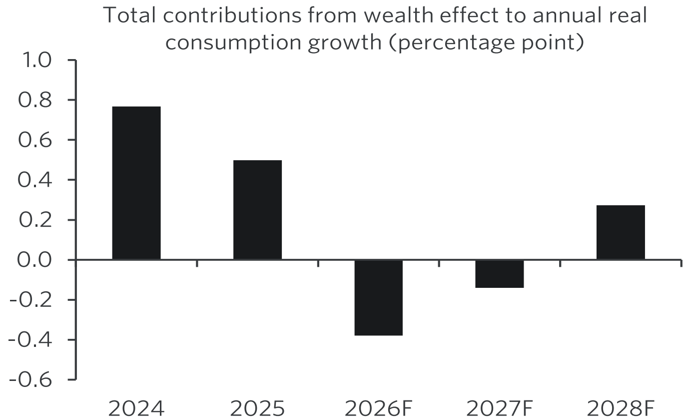
Source: Statistics Canada, CIBC

Chart 9: Older households seeing loftier wealth (l) and income (r) gains



Source: Statistics Canada, CIBC

Chart 10: Wealth impact could turn into a positive for consumption by 2028



Source: Statistics Canada, CIBC

have outweighed the boost from equity markets and caused the wealth impact on consumption to flip from a positive to negative this year. However, the good news is that home prices appear to be stabilizing which, even without assuming a return to the strong price gains of the past, should help to stabilize the wealth effect and possibly see it return to a mild positive by 2028 (Chart 10).

Unshackled?

Admittedly, there is still plenty of uncertainty regarding how much looser the shackles of higher gasoline prices, mortgage payments, and declining home valuations will get over the coming year. Without being unshackled completely, per-capita spending could well remain below the trend that persisted pre-pandemic. However, looking ahead to 2027, the trend does appear to be in favour of less strain on household incomes, leaving a little more room for discretionary spending.

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