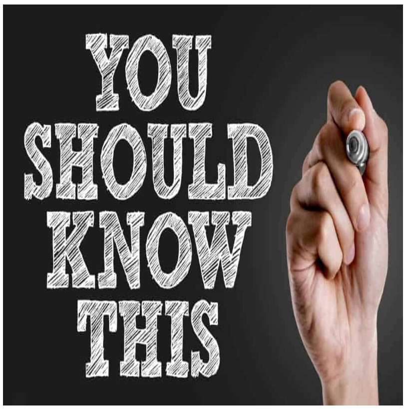

Warning: Many Canadians Are About to Make a Big Financial Mistake

Description

The pandemic may have caused economies to falter and businesses to lose money. But, according to a report by the Canadian Payroll Association, the pandemic had the opposite effect on Canadian consumers. Despite paycuts and health threats, many Canadians are emerging from the pandemic feeling, well, wealthier.

And that's not only because housing prices are skyrocketing and home equity has made us richer. Rather, it's because lockdowns and travel restrictions forced us to adopt money habits that financial pundits and talking heads have tried for decades to get us to practice: less spending and more saving.

According to the report, around 53% of Canadians have saved more money in 2020 and 2021 than in years previous. What's more exciting is that the number of Canadians living paycheque to paycheque is the lowest its been in the last 13 years (around 36%).

That's great news. Excellent, in fact. But the report isn't all celebratory. According to the Canadian Payroll Association, dark clouds are on the Canadian horizon. Let's take a look at what's happening.

How have Canadians improved their finances?

First off, before we dive into the bad news, let's look at the good news: for the majority of Canadians, their finances have never looked better.

For one, many Canadians have made significant cuts to their discretionary spending. According to the Canadian Payroll Association, 71% of working Canadians now spend less than their net pay. That's *huge*, especially since living below your means is one of the principal ways to build wealth.

A natural consequence of less spending is, *yes*, the ability to save more money. And, in this area, Canadians are crushing it. According to the survey, 40% of Canadians are now putting away 10% of their pay in savings, a six percent improvement since 2019. Increased savings has given Canadians bigger emergency funds, which is why 79% can now cover a $2,000 emergency and another 48% can manage an unexpected expense of $20,000 or more.

So what's the problem?

The problem is, well, the Canadian economy is reopening to consumers. Lockdowns and travel restrictions are easing up, and many Canadians will resume work in offices.

This is concerning for a number of reasons. For one, Canadians who commute will no longer enjoy extra savings from reduced driving. In fact, around 68% of Canadians expect to increase travel expenses to pre-pandemic levels, according to Canadian Payroll Association. It doesn't help that we're currently in a high inflationary period, which will likely make gas and car expenses higher than pre-pandemic costs.

In addition, Canadians risk engaging in a dangerously expensive activity: "letting loose." We've been bottled up for nearly two years, and many of us are ready to do things we haven't done in awhile, such as attend concerts, eat out, and go to sporting events. In short, we risk increasing our discretionary spending. Fifty-seven percent of Canadians plan to spend money on social events at pre-pandemic rates, while another 37% doubts they'll continue their savings habits after COVID lets up.

What should you do?

If the statistics cited above resembled your situation, let me tell you — you're in a unique place. Because of circumstances external to you, you've cut discretionary spending. You've saved money. Shoot, you've even amassed enough to cover emergencies. You're in a good place, and you'd be wise to maintain that position as best as you can.

While you can't always control how much you spend on certain expenses (such as commuting), you *can* control your discretionary spending. A little discretionary spending isn't bad. After all, we have to help the Canadian economy grow again, right? What *is* bad is spending above your means, a pre-pandemic practice that you have the opportunity to expunge from your life.

Perhaps the best thing you can do it make a budget. Take the amount you're saving right now (whether it's $300 or $1,500) and treat it like a fixed expense. When you treat your savings in this way, you'll naturally build the rest of your budget around it. When you begin to spend more money in certain areas, say travel, you can look at other variable expenses to cut, such as eating out.

Next, if you have credit card debt, now might be the best time to start paying it off. It's no secret that the interest rates on credit card debt are extremely high, and they can easily steal your wealth over the long run.

If you're a part of the 10% of Canadians who believe it will take five years or more to pay off credit card debt (or the 35% who think it will take one to five years), here's what you can do: get a balance transfer credit card with a low introductory APR period. As the name suggests, these cards are built to receive a balance transfer (moving debt from one card to another). They come with low interest rates for a specific period of time. If you can pay off your credit card debt within the promotional period, you can save yourself a lot in credit card interest.

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