Distributions of household economic accounts for wealth of Canadian households, third quarter 2021

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This release of the distributions of household economic accounts (DHEA), which provides new data up to the third quarter, shows that less wealthy households (the lowest two wealth quintiles) and those with a younger major income earner are holding onto gains in net worth (wealth) acquired earlier in the pandemic.

While the DHEA provide important insight into economic well-being in Canada, the results in this release focus on the trends in wealth for an average household with certain socio-economic characteristics, such as by wealth quintile and age group. Not every household, even those with similar characteristics, necessarily experience the same economic or financial situations.

Less wealthy hold onto gains in net worth acquired earlier in pandemic

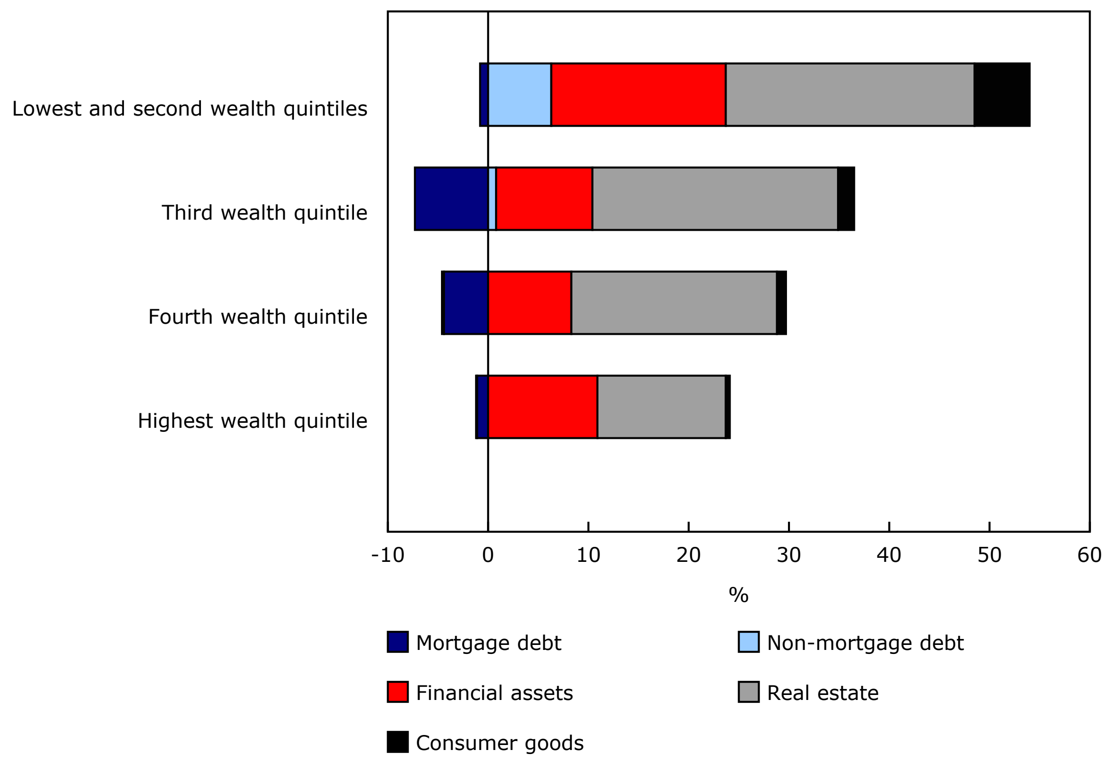
Household wealth reached $15.1 trillion as of the third quarter, up $2.1 trillion from the third quarter of 2020, and $292 billion from the second quarter of 2021. The shares of net worth by wealth quintile remained unchanged since the first quarter of 2021. The wealthiest households by quintile (top 20%) held more than two-thirds (67.1%) of all net worth in Canada, while the lowest two quintiles (bottom 40%) held 2.8%.

During the pandemic, the household wealth gap—a measure of economic well-being defined as the difference between the share of net worth for households in the highest wealth quintile and that for the two lowest wealth quintiles—declined at the fastest pace on record for DHEA estimates. As of the third quarter of 2021, due mainly to reductions in overall debt for less wealthy households, the wealth gap declined by 1.5 percentage points relative to the end of 2019—equivalent to the sum total of reductions that occurred over the 10-year period from 2010 to 2019. All of the reductions in the wealth gap during the pandemic occurred over a period of one year, from the first quarter of 2020 to the first quarter of 2021.

Despite recent gains in net worth for households in the lowest two wealth quintiles, the value of assets held by that group remained low relative to wealthier households, averaging $48,000 in financial assets and $94,900 in real estate as of the third quarter of 2021. In comparison, the highest wealth quintile averaged $2.1 million in financial assets and $1.3 million in real estate.

Households in the two lowest wealth quintiles combined were the only group that reduced their average debt during the pandemic, up to the third quarter of 2021 relative to the end of 2019, as a decrease for non-mortgage debt (-7.1%)—which includes credit cards, lines of credit, etc.—outweighed a small increase for mortgage debt (+0.6%). Over the same period, households in the fourth and in the fifth, or highest, wealth quintiles increased their mortgage debt (+27.4% and +20.0%, respectively) and non-mortgage debt (+2.7% and +5.3%, respectively).

Chart 1
Change in net worth by wealth quintile, including contribution of each wealth component, third quarter of 2021 relative to fourth quarter of 2019

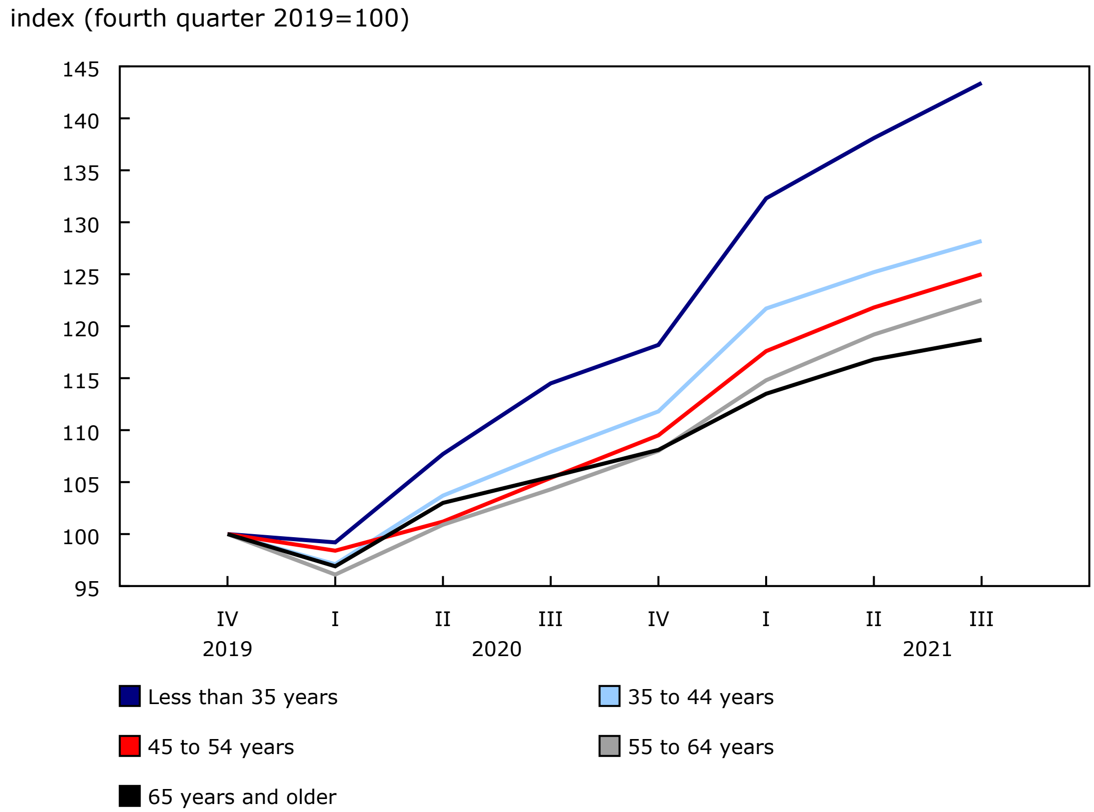


Source(s): Table 36-10-0660-01.

Youngest households continue to drive growth in net worth during pandemic, due mainly to real estate

Consistent with earlier trends during the pandemic, the wealth of the youngest age group (in which the major income earner is less than 35 years) continued to grow the most, up 3.8% for the third quarter compared with an average increase of 2.5% for all households. Since the start of the pandemic, more than 80% of the growth in net worth for the youngest age group was due to gains in the value of their real estate.

Chart 2
Change in average net worth by age group of major income earner



Source(s): Table 36-10-0660-01.

Within the youngest age group, gains in wealth were strongest for households in the lower and in the middle (or third) income quintiles. Similarly, from the end of 2019 to the third quarter of 2021, wealth for the youngest age group increased the most for those in the second income quintile (+70.3%) and the third, middle income quintile (+49.1%).

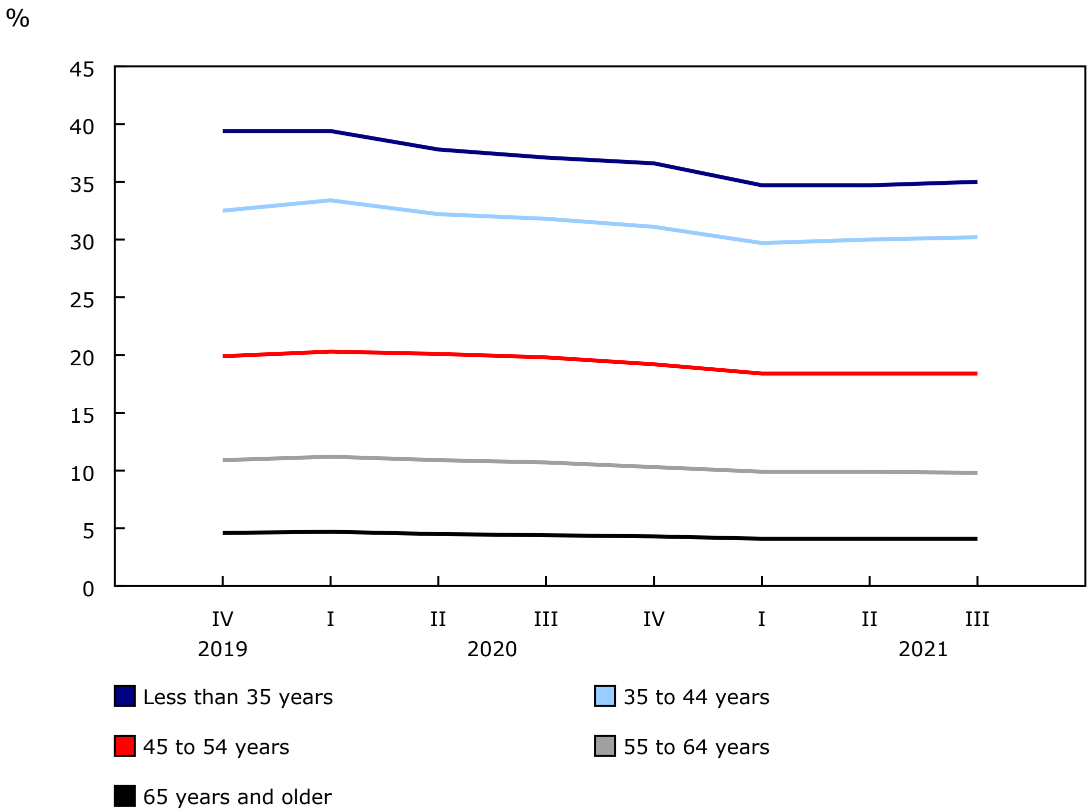
Financial risk indicators remain below pre-pandemic levels for each income quintile and age group

The debt-to-asset ratio is an indicator of the degree of leverage a household has in relation to its debt. The greater the debt leverage, the more susceptible a household may be to financial vulnerabilities in the future. On the other hand, as asset prices increase—such as real estate and financial assets like stocks and bonds—households are able to secure more debt without increasing their leverage.

Although households on average continued to increase their mortgage and non-mortgage debt throughout 2021, their leverage has remained unchanged as growth in debt matched that for assets for each household group by income quintile and age group.

The recent stability in the debt-to-asset ratio is in stark contrast to trends earlier in the pandemic. The debt-to-asset ratio declined from the first quarter of 2020 to the same quarter of 2021 for each age group and income quintile, but especially for those aged less than 35 years and those in the second income quintile (-4.7 percentage points for each).

Chart 3
Debt-to-asset ratio by age group of major income earner

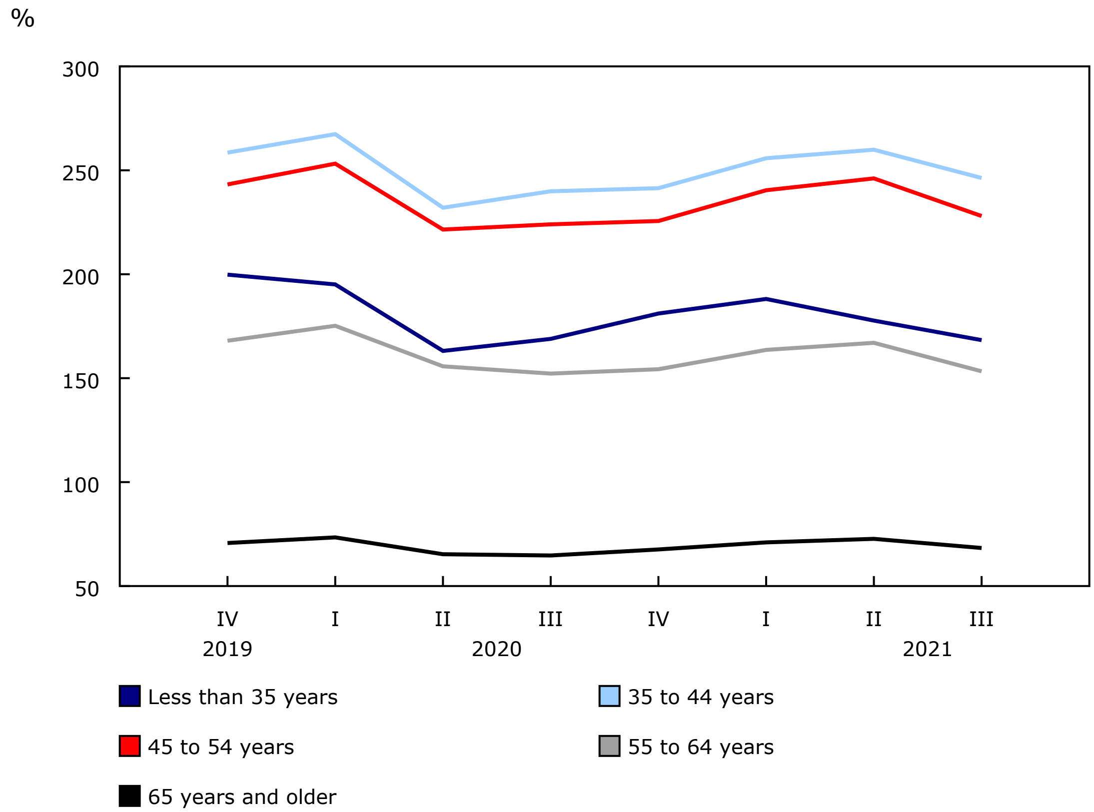


Source(s): Table 36-10-0664-01.

The debt-to-income ratio indicates the degree to which households may be able to service their debt at a given point in time. A reduction in the debt-to-income ratio implies that households are better able to manage their on-going debt payments, and may be in a better position to absorb additional debt-servicing costs in a future period as a result of rising interest rates, etc. In contrast with the debt-to-asset ratio, the debt-to-income ratio tends to have a more seasonal pattern from one quarter to the next, due mainly to fluctuations in disposable income.

The debt-to-income ratio for households with a major income earner aged less than 35 years was 168.3% as of the third quarter of 2021, equivalent to the same quarter a year earlier. While older age groups increased their debt-to-income ratio over the previous year, ratios for each household type remained below pre-pandemic levels.

Chart 4
Debt-to-income ratio by age group of major income earner



Source(s): Table 36-10-0664-01.

Quarterly fluctuations in the debt-to-income ratio were driven mainly by a combination of seasonal effects and impacts of the pandemic on employment activity. In the third quarter of 2021, younger workers saw stronger gains in income relative to older workers, as many parts of the country lifted remaining pandemic-related restrictions for sectors that tend to hire younger workers, such as in the restaurant, recreation and accommodation industries. With the recent spread of the Omicron variant and the imposition of new restrictions across the country, however, it is possible that some reversal of the trends in household economic well-being described above may occur in later periods.

Sustainable Development Goals

On January 1, 2016, the world officially began implementation of the 2030 Agenda for Sustainable Development—the United Nations' transformative plan of action that addresses urgent global challenges over the next 15 years. The plan is based on 17 specific sustainable development goals.

The distributions of household economic accounts for wealth are an example of how Statistics Canada supports the reporting on the Global Goals for Sustainable Development. This release will be used in helping to measure the following goal:

10 REDUCED INEQUALITIES

Note to readers

Statistics Canada regularly publishes macroeconomic indicators on household wealth (net worth) as part of the Canadian System of Macroeconomic Accounts (CSMA). These accounts are aligned with the most recent international standards and are compiled for all sectors of the economy, including households, non-profit institutions, governments and corporations along with Canada's financial position vis-à-vis the rest of the world. While the CSMA provide high quality information on the overall position of households relative to other economic sectors, the distributions of household economic accounts (DHEA) provide additional granularity to address questions such as vulnerabilities of specific groups and the resulting implications for economic well-being and financial stability, and are an important complement to standard quarterly outputs related to the economy.

The DHEA estimates released today provide new estimates of wealth and their sub-components by various household distributions for the third quarter of 2021. Estimates for prior reference periods have been revised to include the latest benchmarks from the National Balance Sheet Accounts (NBSA). Revisions to NBSA control totals are due mainly to the following items:

- *Other financial assets (+7.1% as of the second quarter of 2021), mainly due to the re-allocation to the household sector of shareholder equity in incorporated businesses that are not traded on public exchanges;*
- *Real estate (+3.0% as of the second quarter of 2021), which reflects the latest data from municipal property assessments and the Survey of Financial Security;*
- *Mortgage liabilities (+7.0% as of the second quarter of 2021), due mainly to the re-allocation of the mortgage loan portion contained within certain home equity line of credit products, previously included as part of non-mortgage liabilities, plus upward revisions to the household share of chartered bank residential mortgages.*

*More information on revisions applied to NBSA estimates is available within the Statistics Canada document entitled, "An overview of revisions to the Financial and Wealth Accounts, 1990 to 2021," part of the publication Latest Developments in the Canadian Economic Accounts (**13-605-X**), 2021.*

Estimates for wealth distributed by wealth quintile are combined for households in the lowest two quintiles for ease of illustration, since the average household in the lowest wealth quintile owed more in liabilities than it owned in assets, such as self-employed workers with negative net business equity and recent graduates with student loan balances.

As with all data, the DHEA estimates are not without their limitations. While some distributions are estimated using timely microdata, such as household liabilities, others, including household assets, rely on assumptions or use data from prior reference periods. Users should keep these limitations in mind when analyzing the estimates included in this release.

All values are expressed in quarterly nominal unadjusted rates, unless otherwise specified. As a result, the estimates presented in this release are not adjusted for variations over time that may occur due to seasonal patterns and/or price inflation.

Available tables: 36-10-0101-01, 36-10-0660-01, 36-10-0661-01, 36-10-0664-01, 36-10-0665-01 and 36-10-0667-01.

Definitions, data sources and methods: survey number 5369.

The data visualization product "Distributions of Household Economic Accounts, Wealth: Interactive tool," which is part of *Statistics Canada – Data Visualization Products* (**71-607-X**), is now available.

The document, "Distributions of Household Economic Accounts, estimates of asset, liability and net worth distributions, 2010 to 2020, technical methodology and quality report," which is part of the *Income and Expenditure Accounts Technical Series* (**13-604-M**), is available.

The Economic Accounts Statistics portal, accessible from the *Subjects* module of our website, features an up-to-date portrait of national and provincial economies and their structure.

The *Methodological Guide: Canadian System of Macroeconomic Accounts* (**13-607-X**), is available. See the section "Distributions of Household Economic Accounts."

The publication *Latest Developments in the Canadian Economic Accounts* (**13-605-X**) is available.

The *User Guide: Canadian System of Macroeconomic Accounts* (**13-606-G**) is available.

For more information, or to enquire about the concepts, methods or data quality of this release, contact us (toll-free 1-800-263-1136; 514-283-8300; **infostats@statcan.gc.ca**) or Media Relations (**statcan.mediahotline-ligneinfomedias.statcan@statcan.gc.ca**).