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

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Data for the fourth quarter from the distributions of household economic accounts (DHEA) show that less wealthy households (the lowest two wealth quintiles) increased their average net worth at a faster pace than wealthier households, while wealth for younger major income earners (under 35 years) declined for the first time since the start of the pandemic.

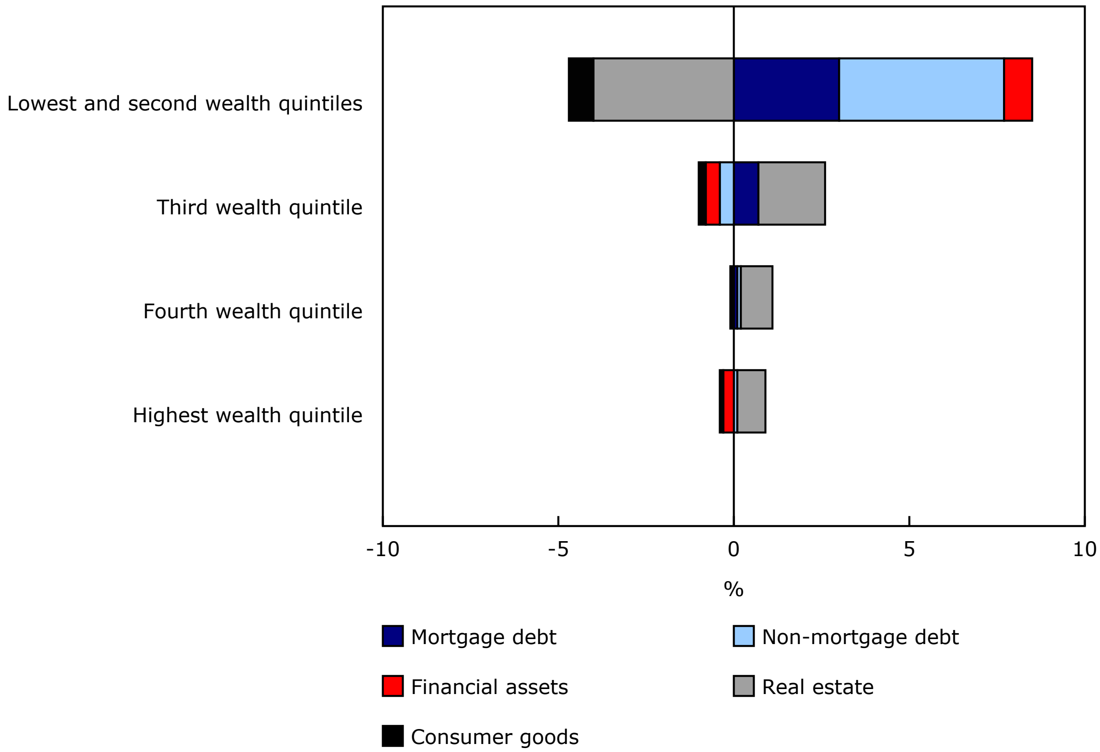
While the DHEA provide important insight into economic well-being in Canada, the results in this release focus on the trends in wealth for an average household with certain socio-economic characteristics, such as by wealth quintile and age group. Not every household, even those with similar characteristics,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

Less wealthy continue to increase their net worth at a faster pace than wealthier households as their debt declines

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 fourth quarter of 2021, the wealth gap declined by 1.7 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.

Similar to earlier periods of the pandemic, in the fourth quarter of 2021, households in the two lowest wealth quintiles increased their net worth as they paid down their mortgage and non-mortgage debt instead of acquiring real estate or other non-financial assets, such as cars and appliances. More than half of all households in the lowest two wealth quintiles were also in the lowest two income quintiles. For those lower-income households, most have either a major income earner who is younger (aged less than 35 years) and more likely to be unable to afford their own home, or who is older (aged 65 and older) and more likely to be downsizing their principle residence and drawing down their pension assets in retirement.

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

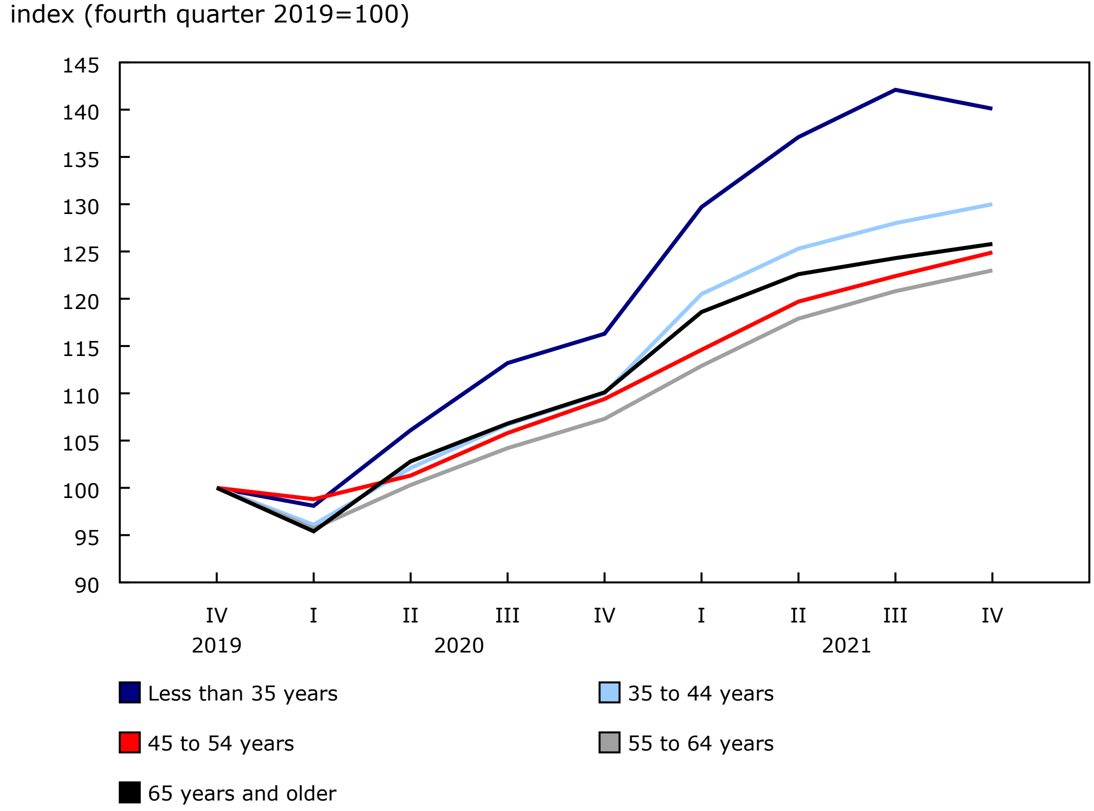


Source(s): Table 36-10-0660-01.

Youngest households decrease their wealth as they avoid home purchases and reduce their financial assets

Contrary to earlier trends during the pandemic, the average wealth of the youngest age group (in which the major income earner is less than 35 years) decreased by 1.4% in the fourth quarter of 2021, while all other households increased their wealth by an average of 0.8%. For the first time during the pandemic, real estate values were little changed in the fourth quarter for the youngest age group, as these households avoided home purchases. While the youngest age group reduced their average debt by 2.8% in the fourth quarter, more than any other age group, the value of their non-pension financial assets—such as cash held in savings accounts, mutual funds and other investments—declined at an even faster pace (-3.3%).

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



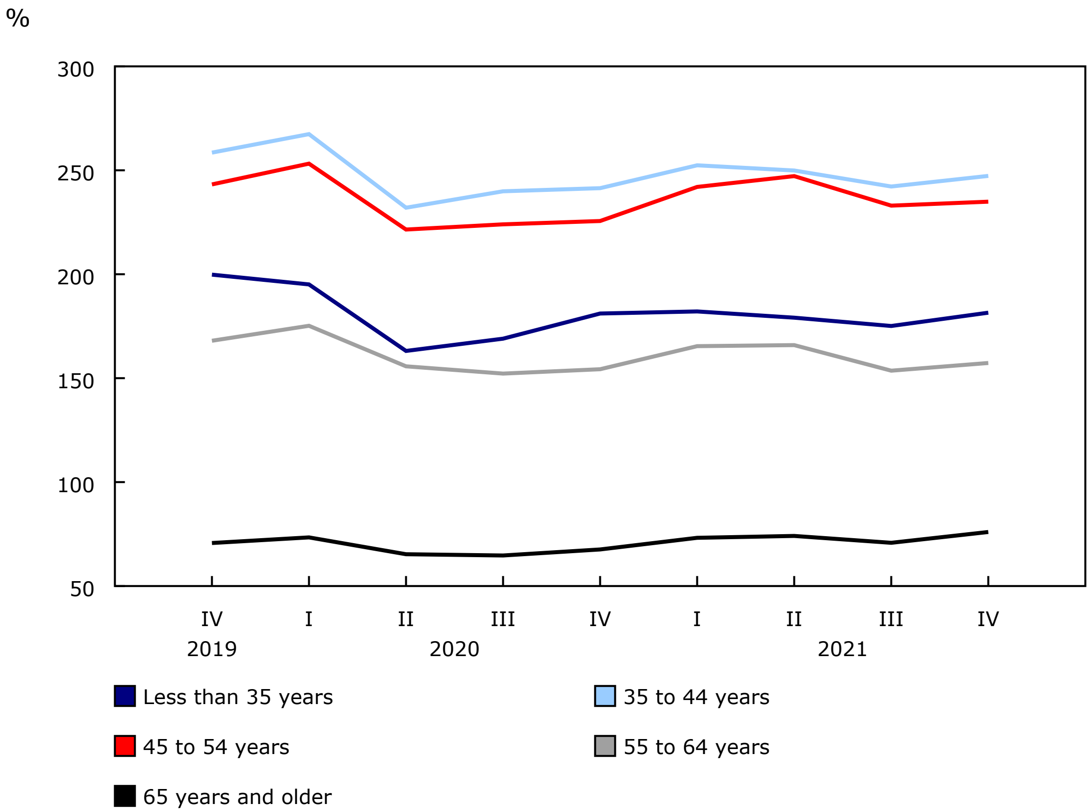
Source(s): Table 36-10-0660-01.

Households in each age group increase their debt-to-income ratios, but their debt-to-asset ratios remain stable

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 things like rising interest rates.

The debt-to-income ratio for households in each age group moved closer to pre-pandemic rates for most household types in the fourth quarter relative to the same quarter in 2020. Increases in the debt-to-income ratio were especially high for the middle-age group (+9.3 percentage points for those aged 45 to 54 years) and seniors (+8.4 percentage points for those aged 65 years and older). While growth in debt outpaced income for the middle-age group, mainly though increases in mortgage debt, debt for seniors remained stable, while their disposable income decreased along with reductions in most of their sources of income, such as from employment income and transfer benefits. For seniors, increases in their debt-to-income ratio may not necessarily indicate an increase in financial risk, as they tend to have accumulated significant pension assets from which they may draw to fund their consumption.

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



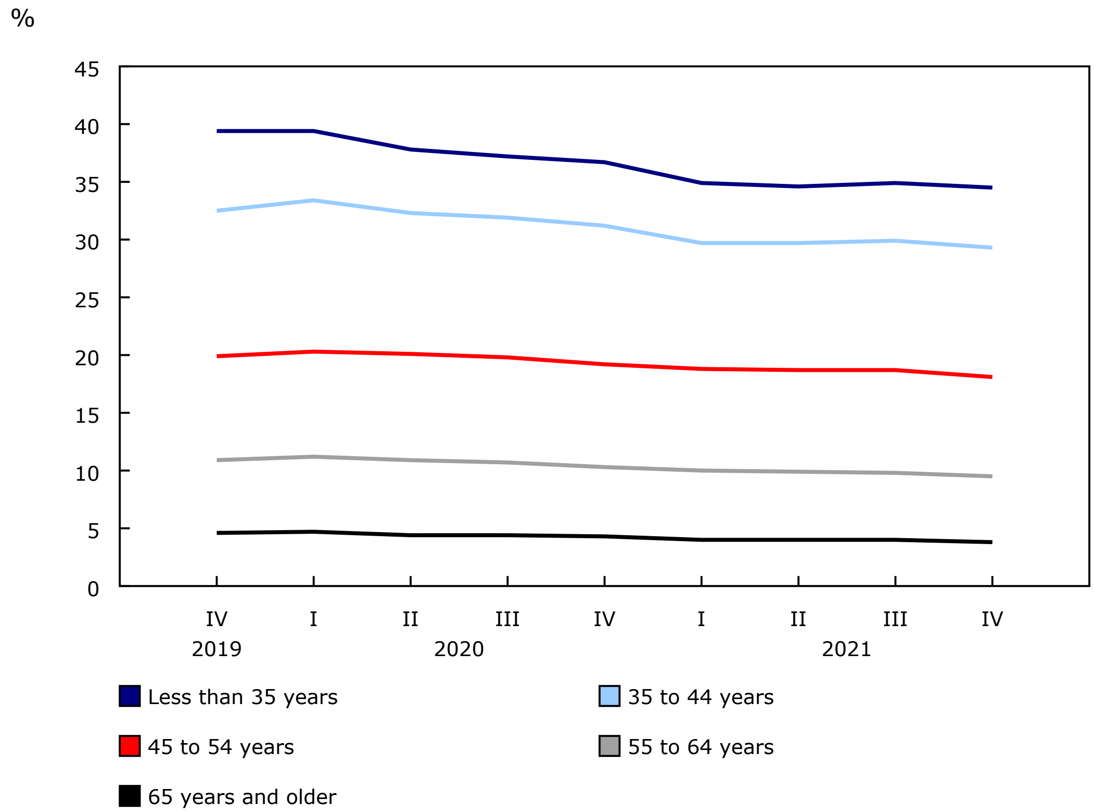
Source(s): Table 36-10-0664-01.

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.

In contrast with the debt-to-income ratio, the debt-to-asset ratio remained stable throughout 2021 across all different household types. Although households continued to increase their aggregate mortgage and non-mortgage debt values throughout 2021, their leverage remained stable as similar gains occurred for asset values.

The recent stability in the debt-to-asset ratio is in stark contrast with 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, but especially for those aged less than 35 years (-4.6 percentage points).

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



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

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 fourth quarter of 2021. Estimates for prior reference periods have been revised to include the latest benchmarks from the National Balance Sheet Accounts (NBSA). 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**).