Distributions of household economic accounts for wealth of Canadian households, first quarter of 2022

Released at 8:30 a.m. Eastern time in The Daily, Wednesday, August 3, 2022

This release of the distributions of household economic accounts (DHEA) shows that households in the lowest two wealth quintiles and those aged younger than 45 years increased their average net worth at a faster pace than wealthier and older households up to the first quarter of 2022. Net worth for wealthier and older households remained relatively stable, because increases in their real estate values were offset by reductions in the value of their financial assets. While younger households' economic well-being may be affected by higher debt-to-income ratios, recent stability in debt-to-asset ratios may serve as a means to offset these risks.

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 socioeconomic 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.

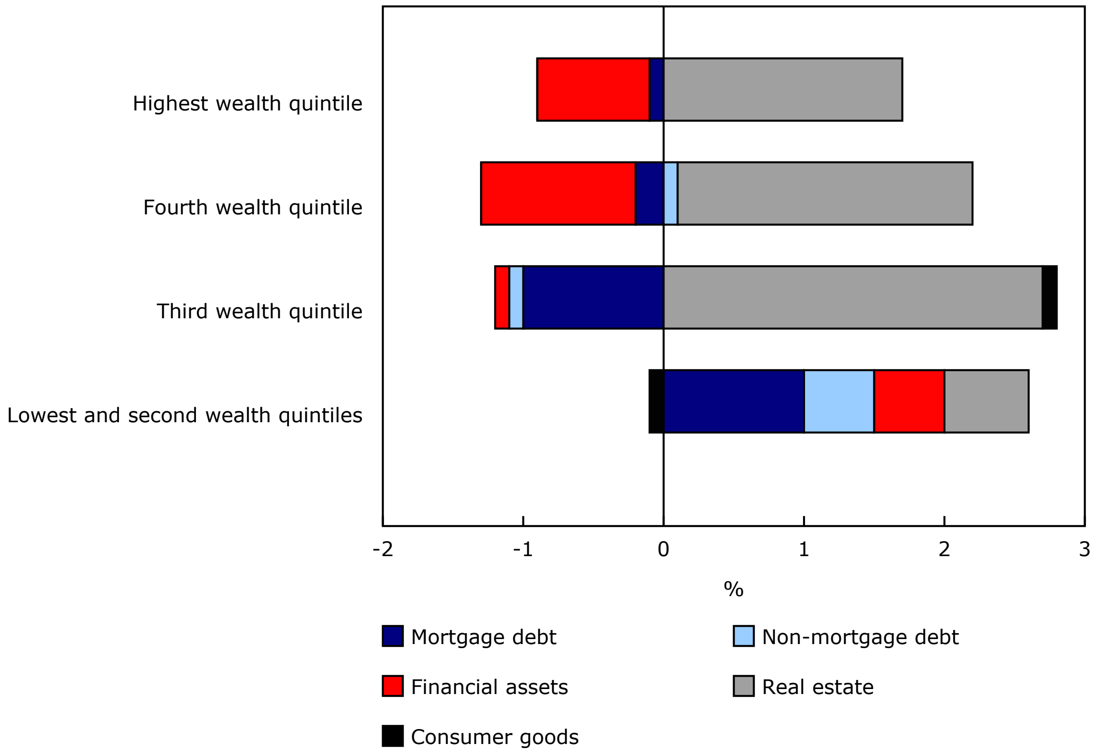
Less wealthy households grow net worth as debt declines, while financial market losses weigh on wealthier households

For the average across all households, gains in net worth in the second quarter of 2022 relative to the previous quarter were driven by increases in real estate values (+3.6%), while the recent downturn in financial markets dragged the value of financial assets down by 1.3%. By observing the trends in the distributions of wealth, key differences are revealed across household groups.

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 by 0.2 percentage points in the first quarter of 2022 relative to the previous quarter, continuing a trend observed earlier in the pandemic. Households in the two lowest wealth quintiles (the bottom 40% in terms of wealth), who held an average of $73,661 in assets less liabilities in the first quarter of 2022, increased their net worth by $1,786 (+2.5%), while those in the highest wealth quintile (the top 20% in terms of wealth), who held an average of $3,352,083 in assets less liabilities, increased their wealth by $27,304 (+0.8%).

Increases in net worth for households in the lowest two wealth quintiles were derived from most asset categories including financial assets (+0.7%) and real estate (+0.5%), while reductions in mortgage debt (-1.3%) and non-mortgage debt (-1.0%) also had a positive influence on net worth. For those in the highest wealth quintile, however, all of the growth in their net worth was explained by increases in real estate values (+4.2%), while reductions in financial assets (-1.3%) and increases in mortgage debt (+2.6%) negatively contributed to the change in their net worth.

Chart 1
Change in net worth by wealth quintile, including contribution of each wealth component, first quarter of 2022 relative to the fourth quarter of 2021



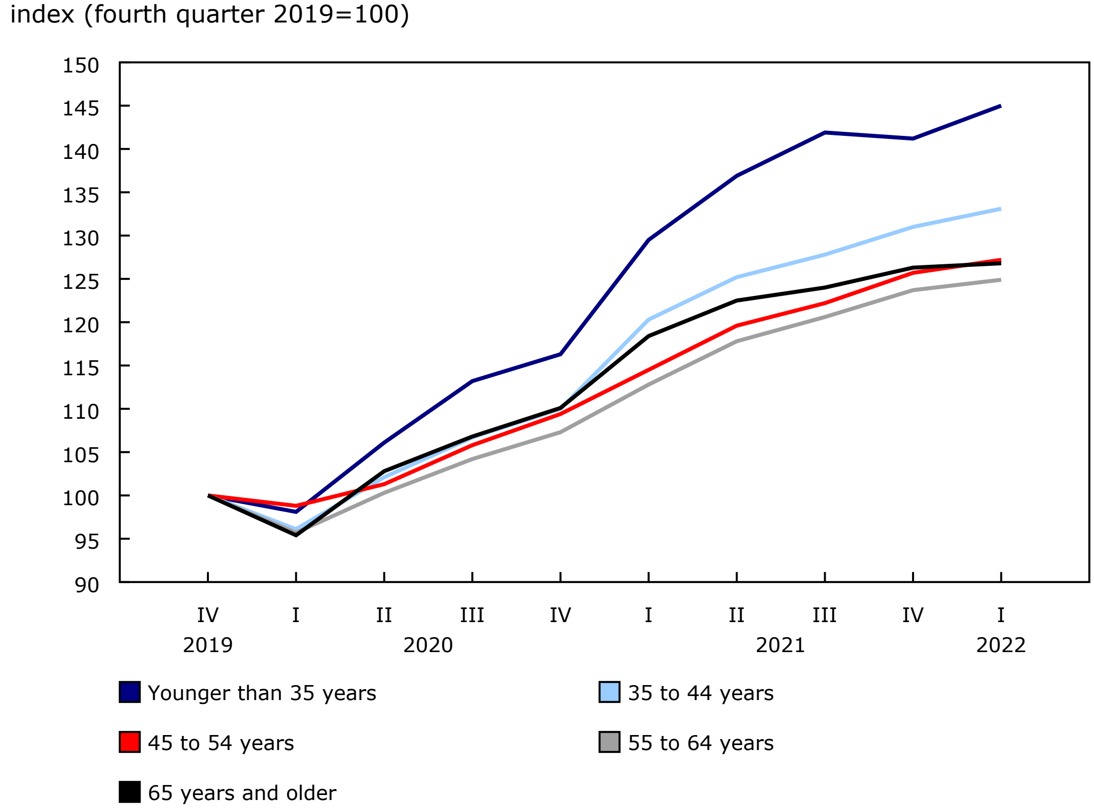
Source(s): Table 36-10-0660-01.

Households in the highest wealth quintile tend to derive more of their wealth from mutual fund shares and life insurance and pension funds than less wealthy households, and so their wealth tends to be more susceptible to volatility in financial markets. Financial assets accounted for 56.9% of all assets for households in the highest wealth quintile, compared with 29.3% for those in the lowest two wealth quintiles. Conversely, real estate accounted for 40.2% of all assets for households in the highest wealth quintile, compared with 55.5% for those in the two lowest wealth quintiles.

Youngest households resume increases in wealth largely because of the housing market

Reversing course from the end of 2021, the average wealth of the youngest age group (in which the major income earner is younger than 35 years) reached $337,568 in the first quarter of 2022, up by $8,694 (+2.6%) from the previous quarter, while average wealth for those aged 35 to 44 years was $672,798, up by $10,332 (+1.6%), and those aged 65 years and older held $1,137,502, up by $4,141 (+0.4%). Younger households tend to benefit more from increases in real estate values, because they derive more of their net worth from that asset category, while older households have had more time over their life cycle to diversify their asset portfolio. Real estate accounted for 59.4% of total assets for the youngest age group, while that share ranged from 55.7% for those aged 35 to 44 years to 40.5% for those aged 65 years and older.

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



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

The decline in financial asset values in the first quarter of 2022 weighed more heavily on older age groups, because they tend to rely more on that asset category as a source of wealth. The share of financial assets to total assets as of the first quarter of 2022 ranged from 55.7% for those aged 65 years and older to 33.3% for those aged younger than 35 years. The average value of financial assets declined by 1.5% for those aged 65 years and older, by 1.2% for those aged 35 to 64, and by 0.2% for those aged younger than 35 years.

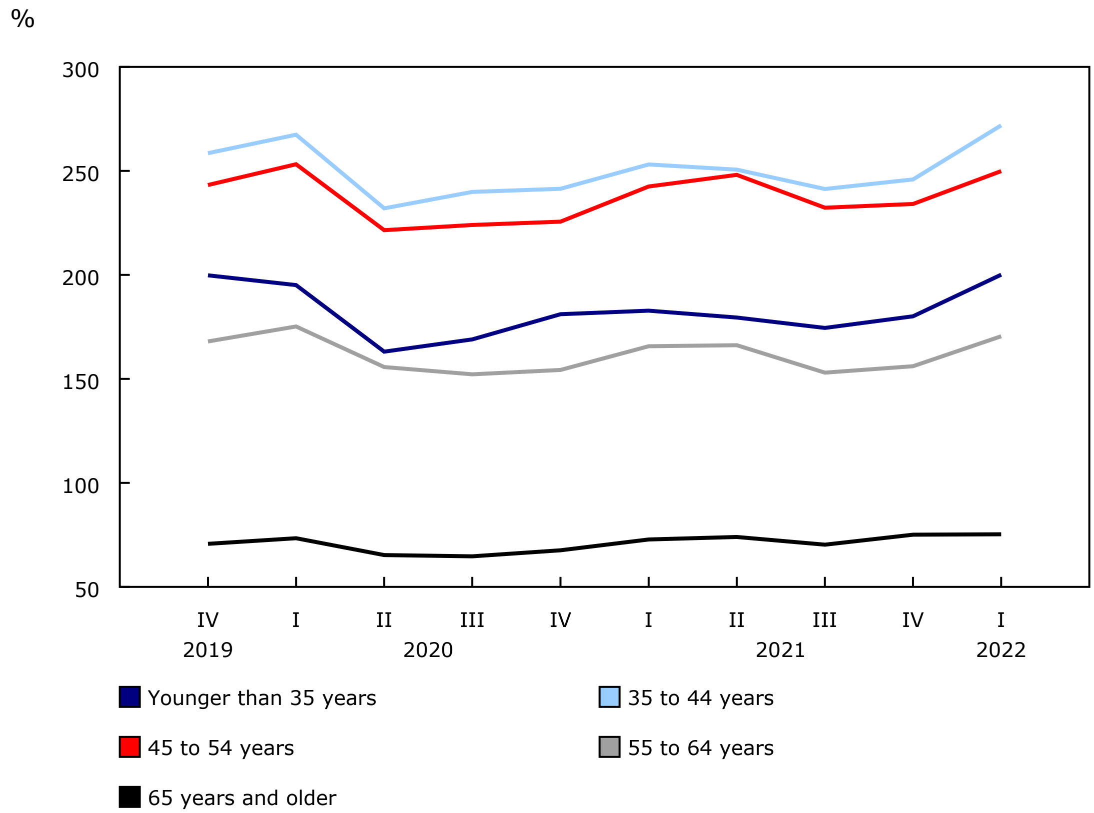
A key factor in the increase of net worth for younger households is mortgage debt, which grew the least of any age group despite having a comparably large gain in average real estate values. Average mortgage debt increased by 1.6% for those younger than 35 years, compared with around 2.0% for those aged 55 years and older. This finding suggests that real estate revaluations drove increases in wealth for younger households, because they tended to avoid purchasing a home in the first quarter of 2022.

Debt-to-income ratios for younger age groups surpass the ratios at beginning of the pandemic

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 ongoing 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.

The debt-to-income ratio surpassed pre-pandemic levels for younger households in the first quarter of 2022, with the debt-to-income ratio increasing by 5.0 percentage points for those aged younger than 35 years and by 4.5 percentage points for those aged 35 to 44 years. While growth in income over the last two years outpaced debt for households aged 45 to 64 years, mainly attributable to increases in wages and salaries, the debt-to-income ratio for seniors remained relatively stable.

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



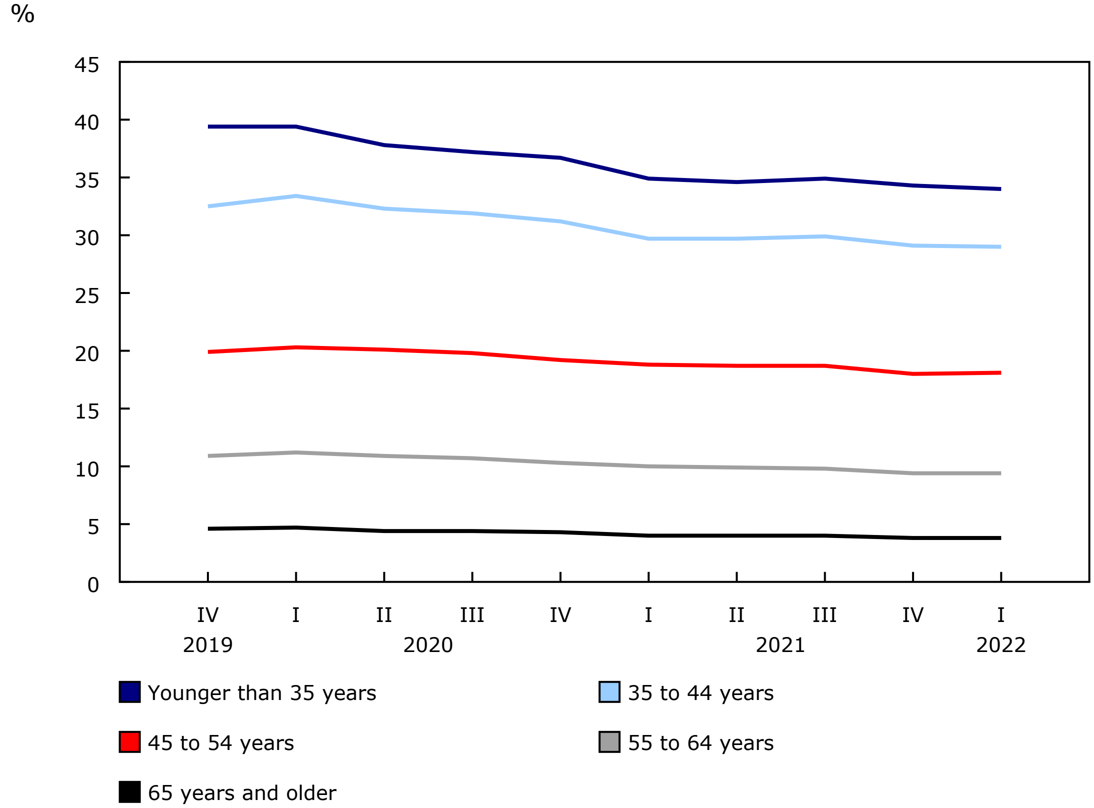
Source(s): Table 36-10-0664-01.

Despite increases in debt-to-income ratio for younger age groups, debt-to-asset ratio remains stable

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 and into the first quarter of 2022 across different household types. Although all household groups continued to increase their average debt up to the first quarter of 2022, mainly through mortgage debt, debt-to-asset ratios have been declining since the start of the pandemic, especially for those aged younger than 35 years (-5.4 percentage points since the fourth quarter of 2019).

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



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

With debt-to-income ratios for households in younger age groups now surpassing rates last observed at the beginning of the pandemic when interest rates fell to historic lows, younger households may face increased financial pressures, on average, along with ongoing efforts by the Bank of Canada to tame inflation through interest rate increases. Assuming that asset values, derived mainly from real estate and financial investments, do not decline substantially from current levels, and in light of the recent stability in debt-asset ratios, households may be able to access the equity in their assets or seek alternative financing arrangements to minimize the impact of potential increases in future debt obligations.

Table 1
Net worth by wealth quintile, average dollars per household, first quarter of 2022 relative to fourth quarter of 2021

	Fourth quarter 2021	First quarter 2022	Fourth quarter 2021 to first quarter 2022	Fourth quarter 2021 to first quarter 2022
	dollars			%
All households	**995,364**	**1,005,108**	**9,744**	**1.0**
Lowest and second wealth quintiles	71,875	73,661	1,786	2.5
Third wealth quintile	473,243	481,243	8,000	1.7
Fourth wealth quintile	1,033,403	1,043,231	9,828	1.0
Highest wealth quintile	3,324,779	3,352,083	27,304	0.8

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

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 in relation to 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 first quarter of 2022. Estimates for prior reference periods have been revised to include the latest benchmarks from the National Balance Sheet Accounts.

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, other distributions, including household assets, rely on assumptions or use data from previous 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 because of seasonal patterns 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 2021, 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**).