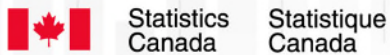




Research to Insights: Perspectives on Affordability and Inequality

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Delivering insight through data for a better Canada



About *Research to Insights*

The *Research to Insights* series of presentations features a broad range of findings on selected research topics. Each presentation draws from and integrates evidence from various studies that use innovative and high-quality data and methods to better understand relevant and complex policy issues.

Based on applied research of valuable data, the series is intended to provide decision makers, and Canadians more broadly, a comprehensive and horizontal view of the current economic, social and health issues we face in a changing world.

Context

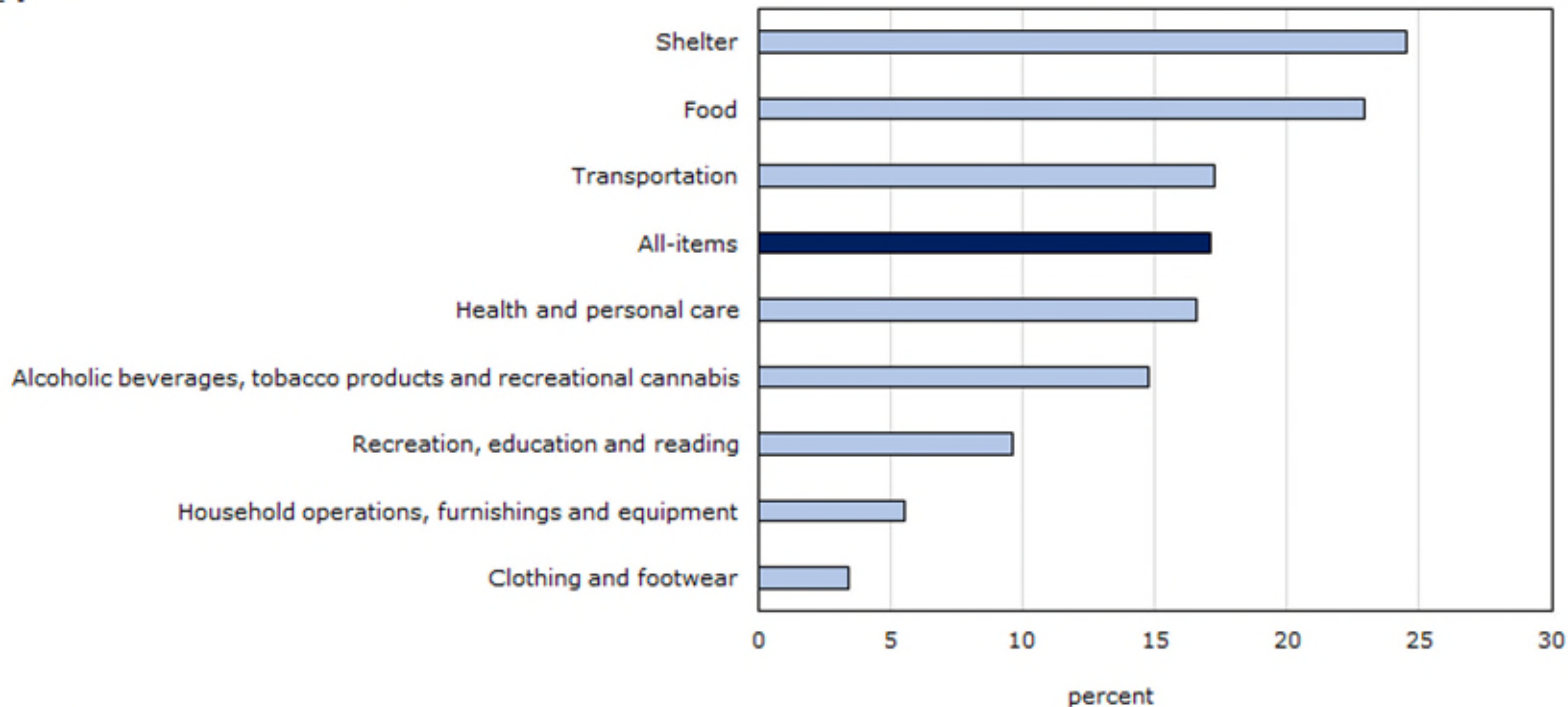
- While headline inflation has cooled to the mid-point of the Bank of Canada's target range, cumulative increases in prices over the past three and a half years have created ongoing affordability challenges for many families.
- In early 2024, nearly half of Canadians reported that rising prices were greatly affecting their ability to meet day-to-day expenses. While robust wage gains have provided some relief, income and wealth inequality have widened over the past year.
- Stresses from elevated prices and pressures related to housing and rental affordability have extended beyond bank accounts, with self-reported life satisfaction declining sharply among more economically vulnerable populations, even as wages have increased.
- Older households and homeowners continue to remain resilient in terms of asset security, while lone parent families, renters and younger households are facing a more difficult financial situation.
- This presentation highlights data and analysis conducted by Statistics Canada that underscore the affordability challenges facing Canadian households during the period of high inflation that followed the COVID-19 pandemic. It draws on recent data from Statistics Canada's Distribution of Household Economic Accounts, the Survey of Financial Security (SFS) and the Canadian Social Survey (CSS).

Struggling to keep up: Sustained price pressures have challenged affordability for many Canadians

- While headline inflation has cooled, cumulative price increases over the past three and a half years have created ongoing affordability challenges for many families.
- 45% of Canadians reported that rising prices were greatly affecting their ability to meet day-to-day expenses in the spring of 2024, up 12 percentage points from two years earlier.
- From January 2021 to October 2024, the all-items Consumer Price Index (CPI) rose 17.1%, equalling the cumulative increase in consumer prices that occurred over the previous 10 years.
- Price increases have been more pronounced for many products and services that weigh heavily on living costs, such as shelter, rental costs, and groceries.

Chart 1

Cumulative increase in the Consumer Price Index by major component, January 2021 to October 2024



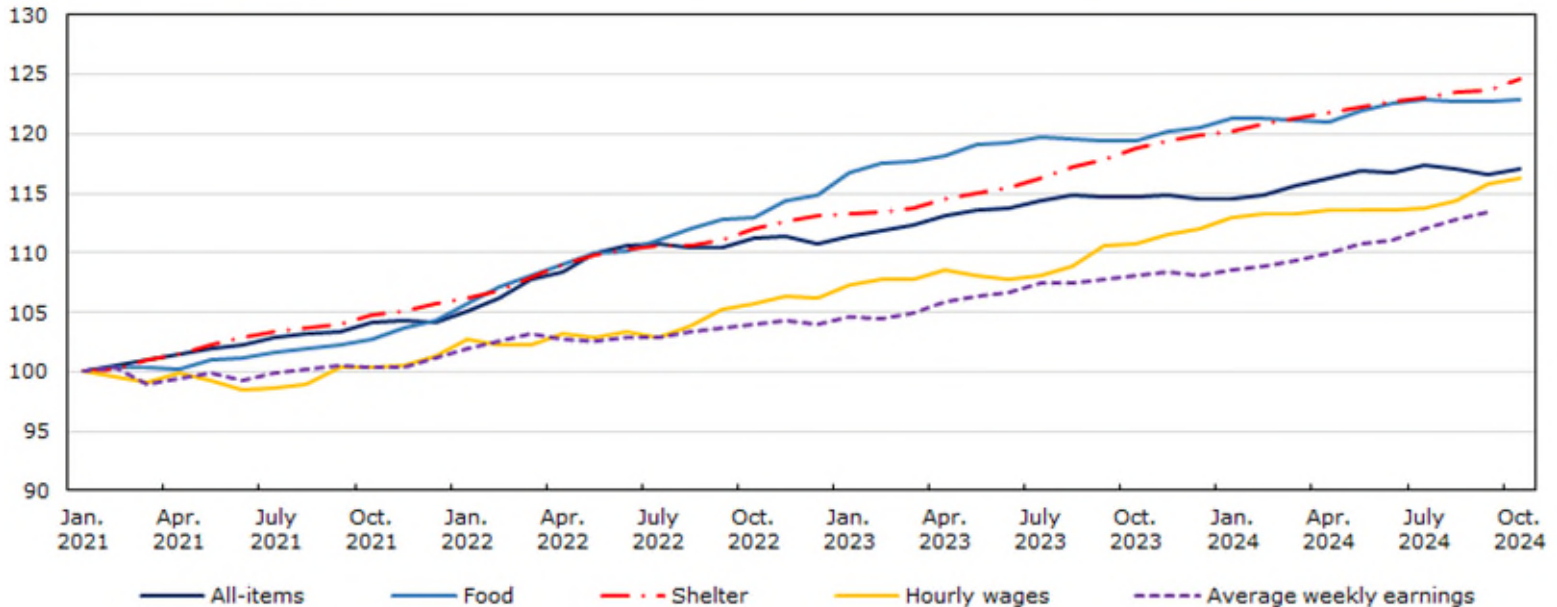
Source: Statistics Canada, table 18-10-0004-01.

While wage gains have provided some relief, shelter and food costs have put sustained pressure on family budgets

- The initial stages of the high inflation period resulted in steep declines in purchasing power for many families, as price increases exceeded earnings growth. Inflation peaked at 8.1% in June 2022.
- Headline inflation has slowed since mid-2022, easing to the midpoint of the Bank of Canada's target range in August 2024. Wage growth accelerated as inflation eased, providing some relief to consumers. Average hourly wages have increased 16.3% since early 2021.
- The sharp rise in housing-related costs have outpaced average wage gains. From early 2021 to October 2024, owned accommodation costs have risen by 25.1%. Rent prices, reflecting new and existing rental agreements, were narrowly behind at 24.0%. Mortgage interest costs rose 56.7% during this period, as homebuyers faced higher borrowing costs and debt service payments.
- Increases in food prices have exceeded wage growth for much of the inflationary period, rising a total of 24.5%. Overall food price increases in the United States have been similar during this period.

Chart 2
Index of Consumer Price Index components, hourly wages and average weekly earnings

index (January 2021 = 100)

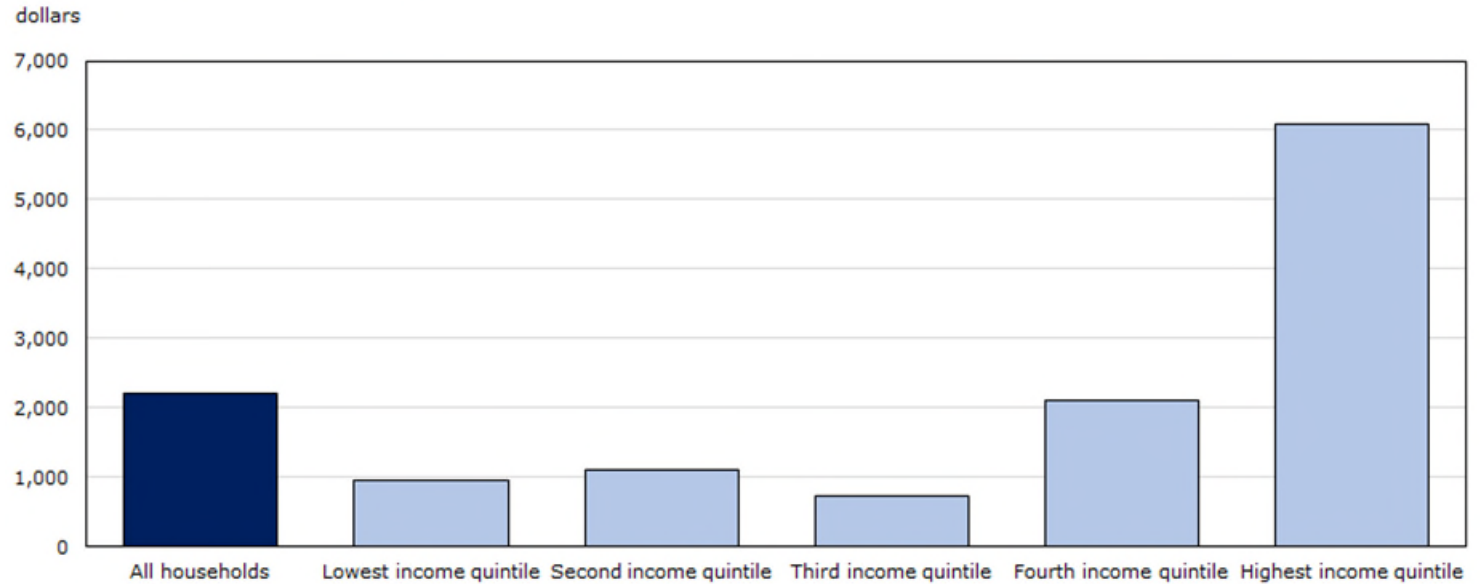


Source: Statistics Canada, tables 18-10-0004-01, 14-10-0065-01 and 14-10-0223-01.

Higher interest rates benefiting top earners while bottom households see gains from wages

- While average household disposable income rose across all household income quintiles during the inflationary period from early 2021 to early 2024, cumulative income gains were most pronounced at the top and bottom of the income spectrum.
- As interest rates rose, households faced higher borrowing costs to service their debt and higher yields on savings and investments. Households better positioned to benefit from investment income experienced strong income growth.
- Households in the top 20% of the income distribution experienced much stronger disposable income growth than the Canadian average from the second quarter of 2023 to the second quarter of 2024, with incomes rising by 7.6% on the strength of wage growth and higher investment returns. Average disposable income grew as gains in investment income (+\$1,763) vastly outpaced the increase in interest paid (+\$291).
- Average disposable income for households in the lowest income quintile rose by 9.4%, primarily from wage gains. These households experienced above-average disposable income growth over the past year, as wage gains (+\$417), primarily from service sector jobs, outpaced interest paid on debt (+\$218).

Chart 3
Total increase in average household disposable income, second quarter of 2021 to second quarter of 2024, by household income quintiles



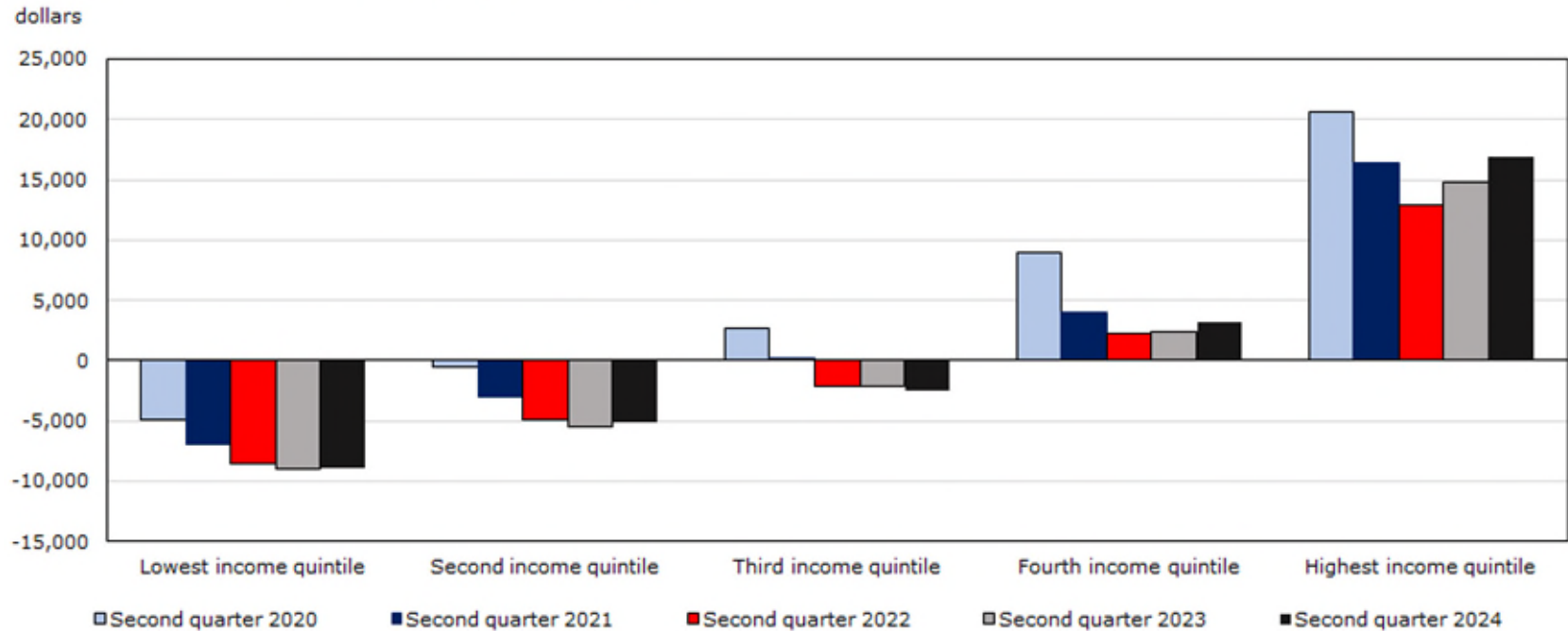
Source: Statistics Canada, Distribution of Household Economic Accounts, table 36-10-0662-01.

Top heavy growth: A recent study by the [Parliamentary Budget Officer](#) (2024) noted that households in the two highest quintiles saw their market incomes grow three times faster, on average, over the course of the pandemic, compared with those in the two lowest quintiles. This difference can be explained, in part, by stronger increases in compensation for top-earning households combined with investment gains.

Middle income families faced savings squeeze on slower growth in disposable income

- Households within the middle 60% of the income distribution experienced modest disposable income gains throughout the inflationary period when compared with low and high earning households.
- On a year-over-year basis, the overall share of disposable income held by families in the middle 60% declined by one percentage point as investment gains did not keep pace with the growth in interest paid on mortgages and consumer credit.
- Middle-income families in the third income quintile were the sole group whose net saving position did not improve over the past year, as higher spending on shelter and utilities costs continued to outpace income growth.
- Meanwhile, the highest income households experienced the largest increase in average net saving over the past year, rising by \$2,166. Households in the bottom 40% of the income distribution reduced their net dissaving as income gains outpaced spending.

Chart 4
Average household net saving by income quintile



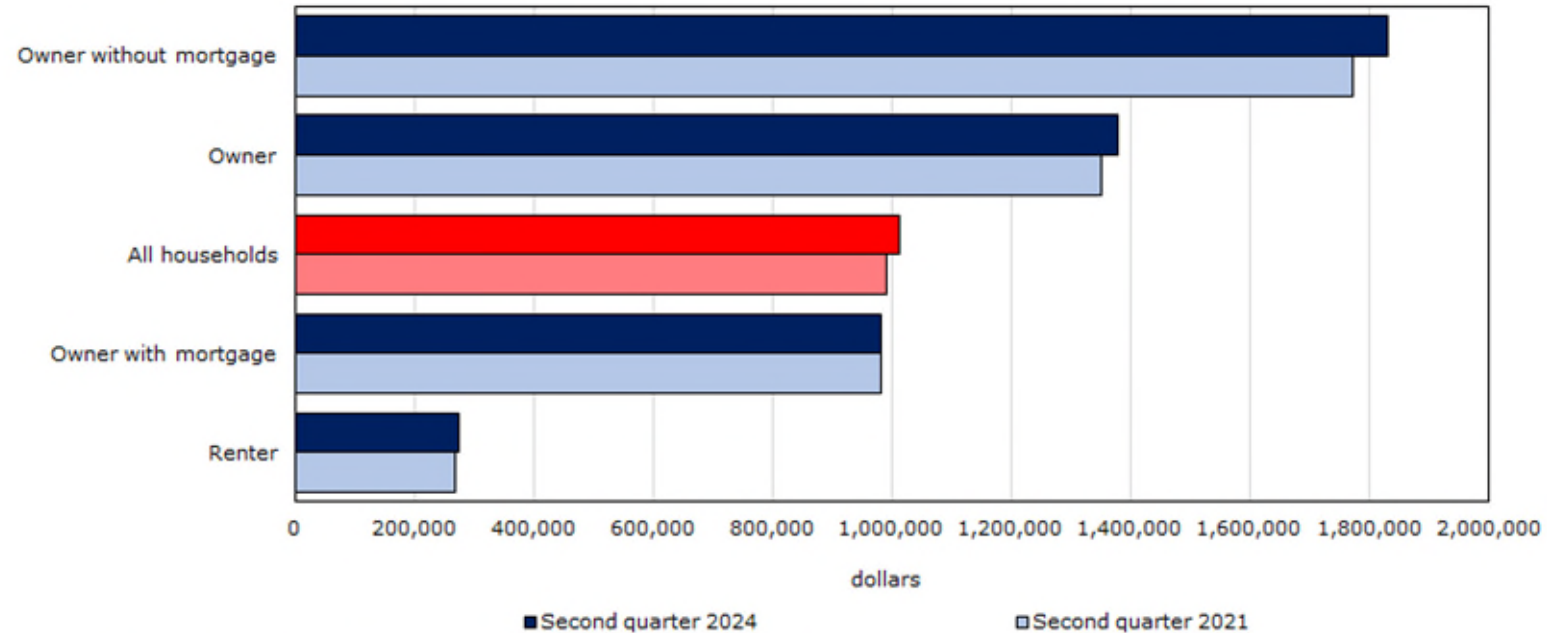
Source: Statistics Canada, Distribution of Household Economic Accounts, table 36-10-0662-01.

Further out of reach: Sustained periods of savings growth are crucial for building towards traditional middleclass milestones, such as purchasing a vehicle or a first home. Over the past three years, about one in three Canadians experiencing financial difficulty have had to draw on savings to pay expenses (Canadian Social Survey). Milestone purchases, once considered reasonably accessible for most Canadians, are becoming increasingly difficult to afford, potentially affecting the well-being of younger households as they start up.

Net worth has increased across all demographic groups throughout the inflationary period—but not to the same extent

- Although many types of households experienced increases in their net worth since the second quarter of 2021, gains in wealth were more muted for renters, with wealth only rising from \$267,700 to \$275,000 on average.
- Meanwhile, homeowners without a mortgage experienced the largest average increase, with wealth rising from approximately \$1.77 million to \$1.83 million.
- The financial returns from homeownership varied across the wealth distribution over the past year amid declining real estate values. Despite acquiring real estate, the least wealthy cohort's average net worth declined by 1.4% on a year-over-year basis in the second quarter of 2024, as rising mortgage debts outweighed the value of their homes.
- In contrast, the wealthiest households increased their average net worth by 2.3%, as appreciating financial assets and stable debt burdens outweighed depreciating real estate assets.

Chart 5
Average household wealth has risen for owners and renters since inflationary pressures began



Source: Statistics Canada, Distribution of Household Economic Accounts, table 36-10-0660-01.

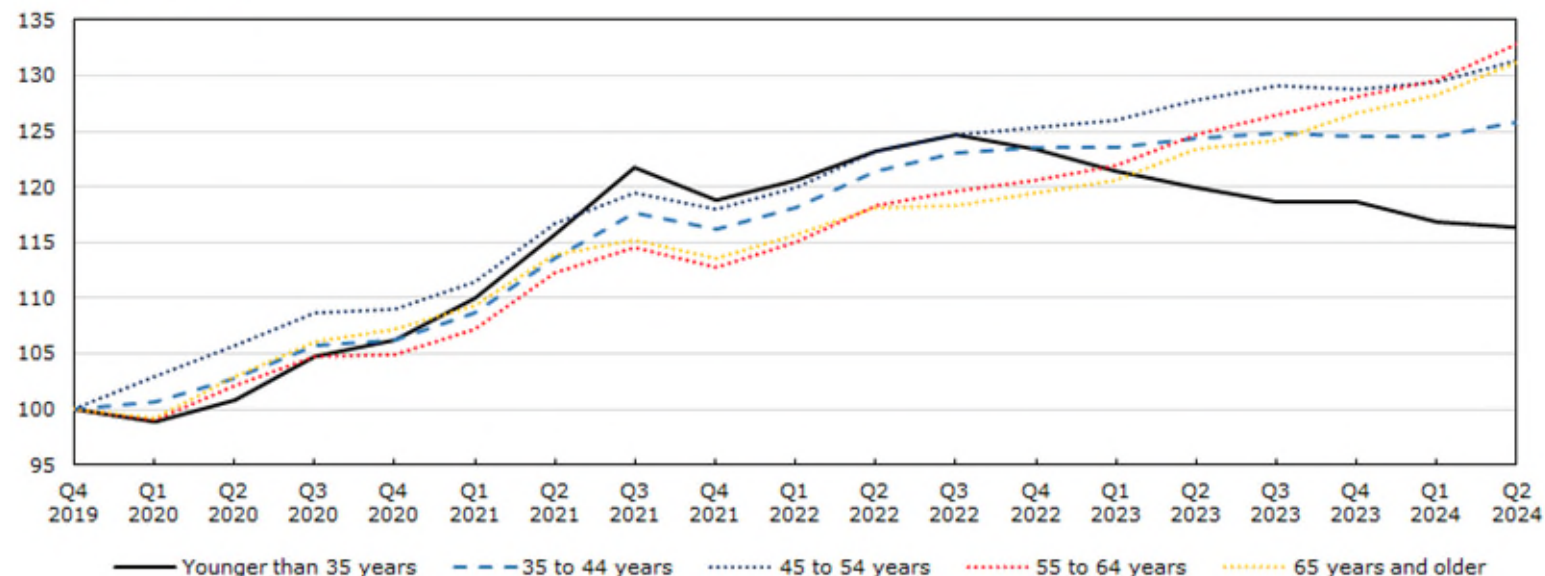
Widening wealth gap: The wealthiest 20% of households accounted for more than two-thirds (67.7%) of Canada's total net worth in the second quarter of 2024. These households have an average net worth of \$3.4 million. The wealth gap between the top 20% of households and the bottom 40% widened to 64.9 percentage points, as the gain in the average value of financial assets, which comprise more than half of all asset holdings amongst the wealthiest households, more than offset a reduction in real estate values ([Distribution of Household Economic Accounts](#)).

Younger households continue to reduce mortgage balances as debt servicing costs rise

- Household mortgage holdings data from the Distributions of Households Economics Accounts highlight the extent to which younger households have deleveraged their housing debt during the high-inflation period.
- Households aged 35 years and younger were the only age cohort to reduce their mortgage holdings since the end of 2022, as rising interest rates and housing cost pressures made homeownership less affordable.
- The reductions in mortgage balances over the past two years mark a sharp contrast from earlier in the pandemic when young families rapidly increased their mortgage holdings amid much more favourable borrowing conditions.
- There are many potential reasons why young households have been reducing their mortgage balances. Prospective homeowners may be turning away from the housing market because of affordability concerns, while existing homeowners may be paying off their existing mortgage balances or downgrading their accommodations.

Chart 6
Change in average household mortgage debt by age group of major income earner

index (Q4 2019=100)



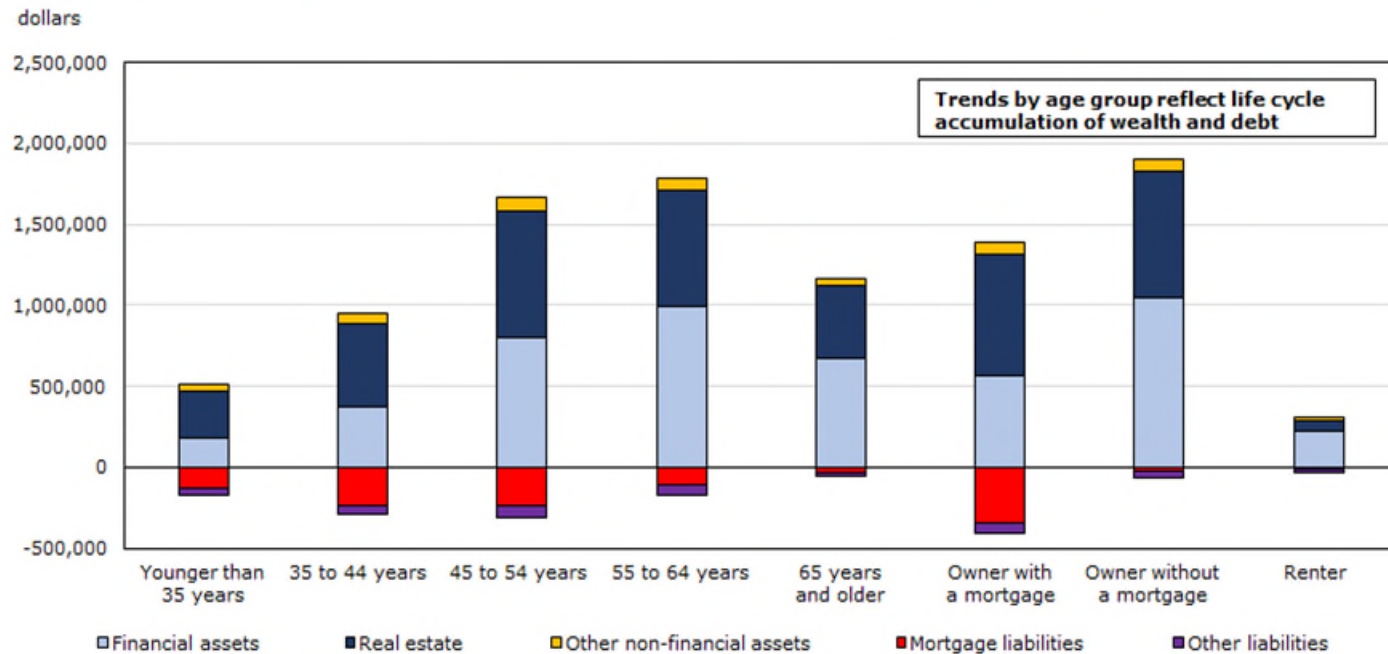
Source: Statistics Canada, Distribution of Household Economic Accounts, table 36-10-0660-01.

Older households taking on debt: While young households have been lowering their mortgage debt, older households have increased their average mortgage holdings amid higher interest rates and persistent housing-cost pressures. Households aged 55 to 64 years increased their average mortgage balances by 6.5% on a year-over-year basis in the second quarter of 2024, while those aged 65 and older increased theirs by 6.4%. Older households may be taking on mortgage debt for various reasons, such as buying an investment property or helping younger family members reduce their debt obligations.

Family gifts becoming increasingly important for first-time home buyers to access the housing market

- The risk to well-being posed by sustained barriers to shelter mobility may be amplified over the longer run if access to homeownership becomes fundamentally more unequal.
- As housing affordability has deteriorated, many Canadian first-time home buyers have relied on parental gifts or inheritances to enter the housing market. Mortgage gifting has increased substantially, particularly in the overheated housing markets in Ontario and British Columbia.
- Recent data from the SFS show that 30.0% of families who own their home received an inheritance in 2023, compared with 19.5% of families in rental housing. The share of homeowners younger than age 35 whose property was part of an inheritance or gift has risen from 4.0% in 2019 to 6.2% in 2023, while the median share of young homeowners who reported that some of their downpayment was from a gift or inheritance has risen by 5.5 percentage points to 17.9%.
- CIBC Economics reported that 31% of first-time home buyers received a gift from family to help purchase their first home in 2024, up sharply from 20% in 2019. During this time, the average gift size increased by 73% to \$115,000 (CIBC). These trends are more pronounced in Ontario and British Columbia, where 36% of home buyers received a gift, with an average gift size of \$204,000 in British Columbia (CIBC).

Chart 7
Distribution of average household wealth, by characteristics, second quarter of 2024



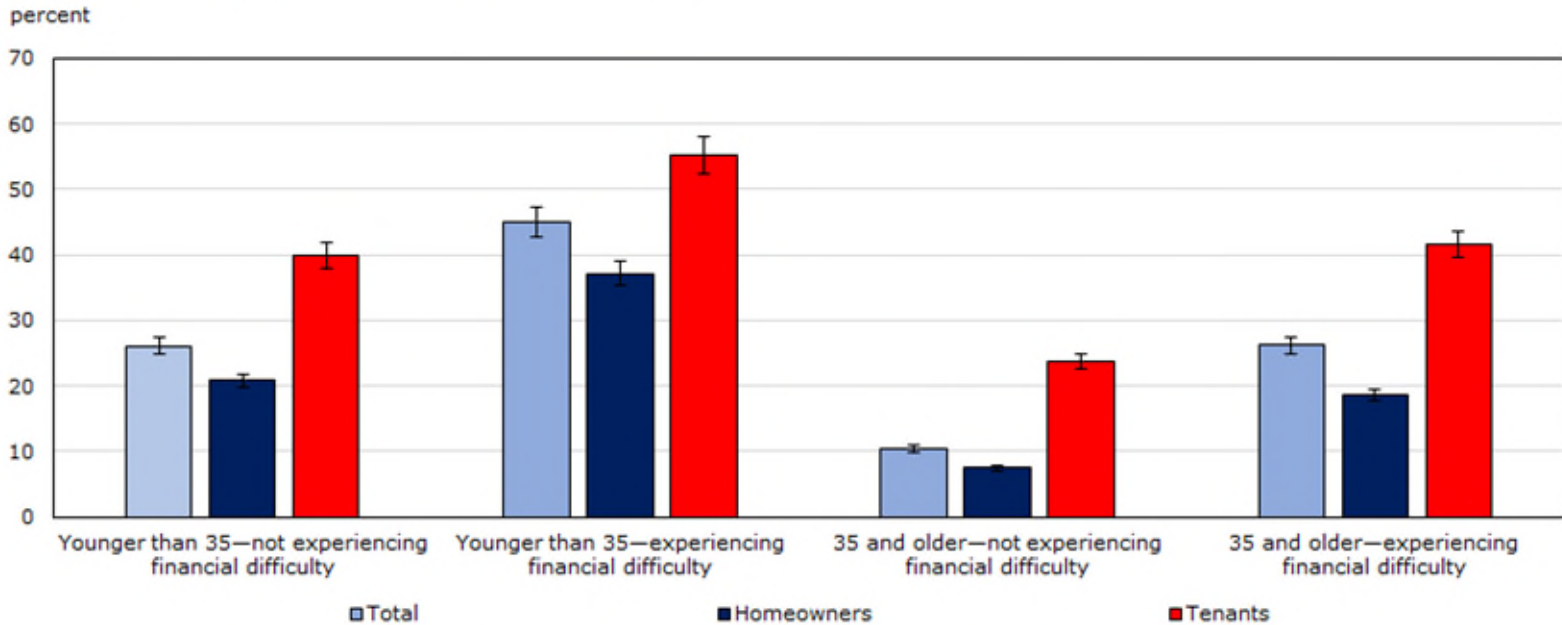
Source: Statistics Canada, Distribution of Household Economic Accounts, table 36-10-0660-01.

Risks to mobility: Increasingly tying the likelihood of homeownership to intrafamily transfers may have adverse implications for socioeconomic mobility. With 61% of all net wealth in Canada held by those aged 55 and older, a significant wave of familial wealth transfers is set to occur as baby boomers age. Disparities among inheritance rates within vulnerable populations are likely to contribute to a widening wealth gap.

Stuck in place: Barriers to housing and rental affordability limit moving decisions

- Heightened financial barriers to homeownership have relegated many younger Canadians to the rental market at a time when many current and potential tenants were contending with sharp increases in asking rents.
- One direct consequence of the deterioration in housing and rental affordability is the creation of substantial barriers to shelter mobility, impeding or delaying the ability of families to move.
- Data from the Canadians Social Survey (CSS) underscore how higher prices have disproportionately affected the moving decisions of young Canadians, particularly those experiencing financial hardship.
- Among Canadians under 35 who indicated they were not experiencing financial difficulty, about one-quarter reported wanting to buy a home or move to a new rental but being unable to because of rising prices. Among young Canadians experiencing financial difficulty, 45% reported they were unable to move due to rising prices, with 55% of renters reporting being unable to move.

Chart 8
Percentage of Canadians reporting that their moving plans were affected by rising prices, by homeownership status and financial difficulty



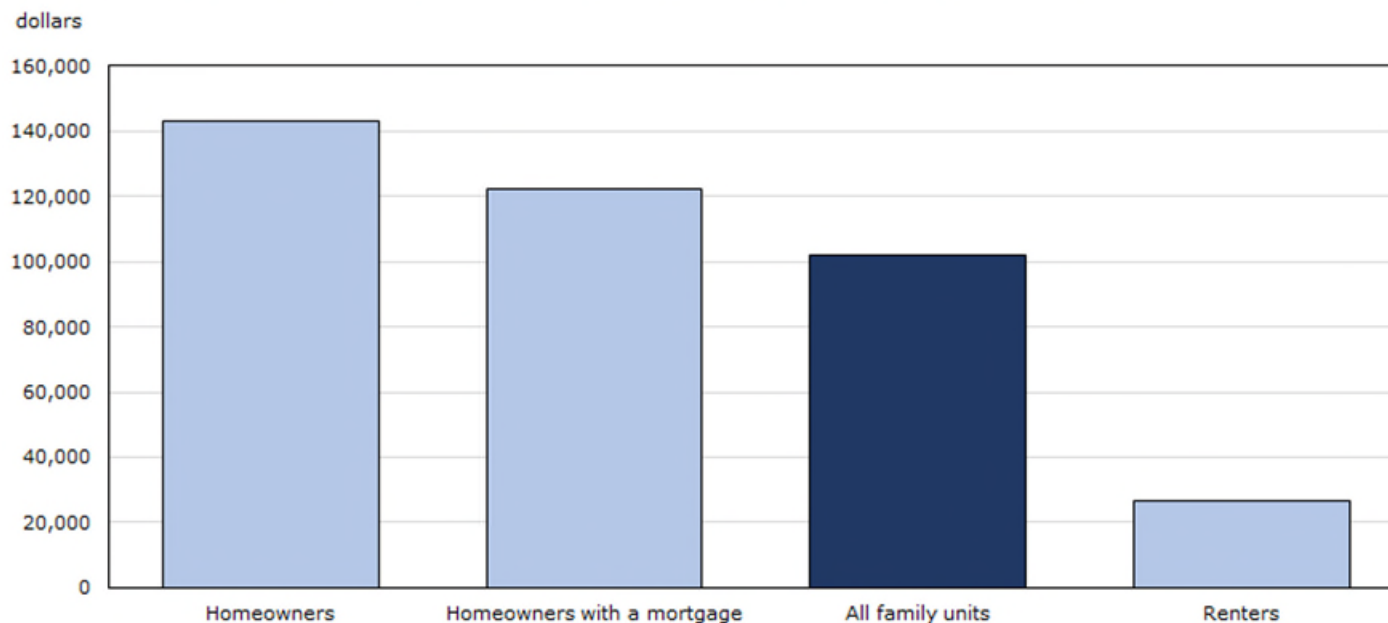
Source: Statistics Canada, Canadian Social Survey, data are from Q4 2022 to Q2 2024, special tabulations.

Arrested development: One factor potentially jeopardizing the recovery in life satisfaction among younger households is the persistence of high housing and rental costs, which continue to impede shelter mobility and delay important life transitions, such as relocating to other parts of the country. Compared with those living in a home owned by someone in the household, people living in rental housing report lower quality of life across several dimensions of well-being.

Housing continues to be a critical source of wealth creation for young families

- Housing has long been a critical source of wealth creation and financial security for Canadian families, and its importance is more pronounced for younger households. Recent data from the SFS highlight the extent to which real estate has supported gains in wealth among young families.
- Families where the highest income earner was younger than age 35 experienced the largest percentage increase of their real median net worth from 2019 to 2023, which rose by 179% to \$159,100. Nearly half of this overall increase was attributable to the growth in real estate net equity. The share of young households that owned their principal residence rose from 36% in 2019 to 44% in 2023.
- Homeowners experienced the largest increase in median net worth among young families, rising by \$142,800 in 2019 to \$457,100 in 2023. Meanwhile, the median net worth of younger families who rented their principal residence increased by \$26,700 to \$44,000.
- The longstanding expectation on the part of many Canadians is that families build up their assets and reduce their debts over their working years then spend down their assets during retirement. Canadian families with low net worth may need to work longer, need more government support and be at greater risk of poverty.

Chart 9
Total gain in median net worth for family units younger than age 35, 2019 to 2023



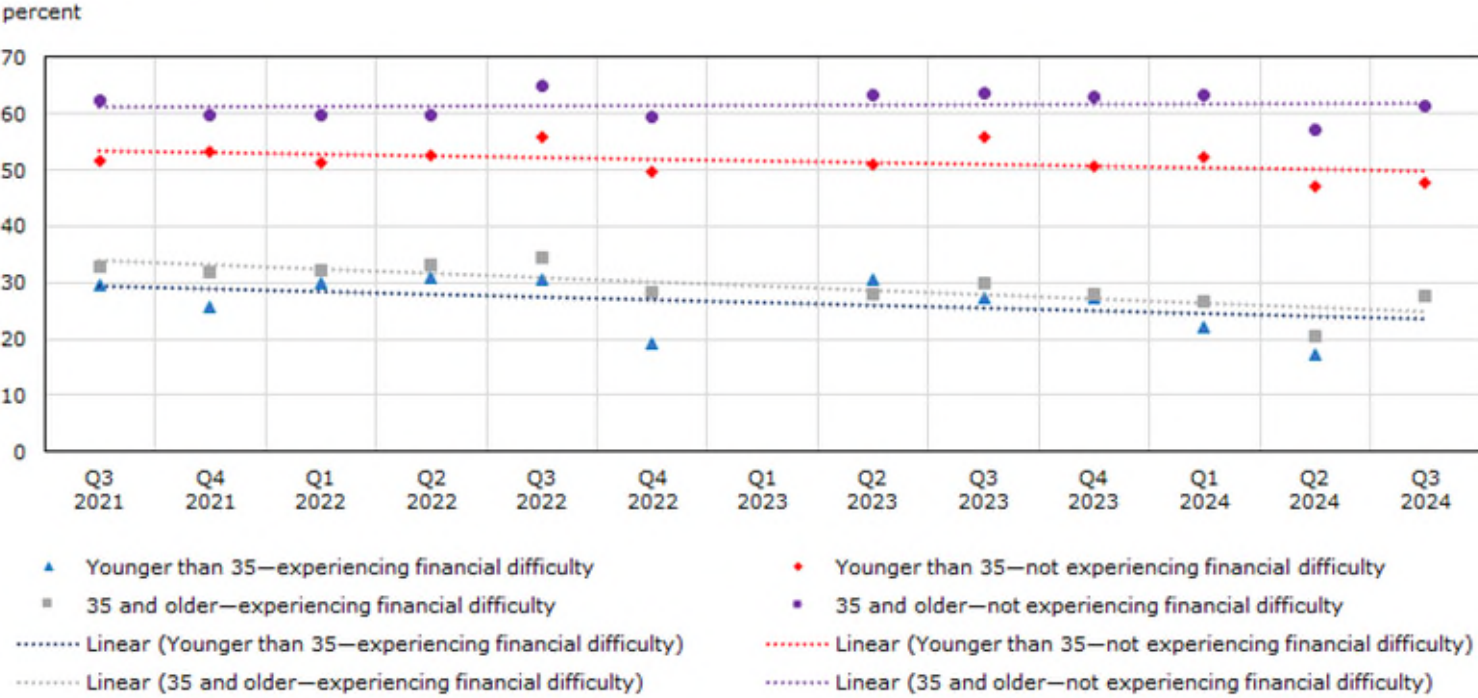
Source: Statistics Canada, Survey of Financial Security.

Building wealth outside of the home: As entering the housing market becomes more challenging, particularly for those who do not have access to familial support, some young families have looked to other ways to build their wealth. Among young families who rented their principal residence and did not have an employee-sponsored pension plan, 15% had a net worth greater than \$150,000 in 2023, compared with 5% in 2019. Members of this group commonly held assets in real estate that was not their principal residence and registered retirement saving plans or tax-free savings accounts.

Financial stress impacting life satisfaction of Canadians feeling affordability pressures

- The prevalence of Canadians who report high levels of life satisfaction has trended lower since inflationary pressures began to build. In early 2024, 48.6% of Canadians aged 15 years and older reported that they were highly satisfied with their lives, a decline of more than 5 percentage points from three years earlier.
- The gradual deterioration in life satisfaction has been unevenly felt, with more sizable declines among young adults, racialized Canadians and those living in larger urban centers. Canadians aged 25-34 reported a decline of over ten percentage points during this period, falling from 47.2% to 36.9%, while racialized Canadians experienced a decline of over 12 percentage points to 40.6%.
- As noted in [Foran \(2024\)](#), life satisfaction can be considered a pulse check on the overall well-being of Canadians and is strongly associated with their self-reported financial needs. Despite robust income gains during this period, the share of Canadians experiencing financial difficulties rose from 18.6% in 2021 to 32.8% in 2024. Among those experiencing financial difficulties, rates of high life satisfaction fell 2.1 percentage points per year.
- Financial well-being is also closely tied to perceptions of the future outlook. Among those who experienced financial difficulties, less than half (45%) reported a hopeful outlook, compared to more than two in three (67%) of those who were not experiencing financial difficulties.

Chart 10
Percentage of Canadians reporting high levels of life satisfaction, by age group and financial difficulty, 2021 to 2024



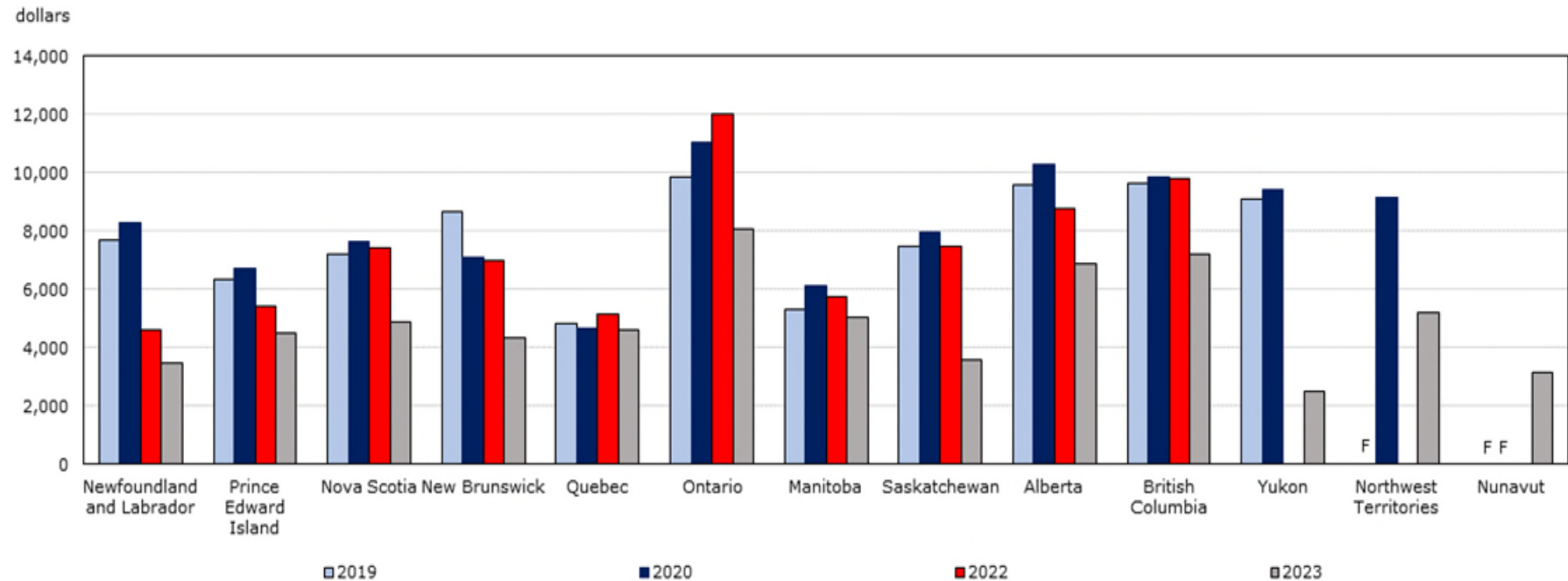
Source: Statistics Canada, Canadian Social Survey, waves 2 to 14.

Downwardly mobile: A recent report from the [Environics Institute \(2024\)](#) highlights the waning optimism among younger age cohorts that they will be better off than their parents. The youngest cohort polled, those aged 18 to 29, experienced the sharpest decline in optimism, with the share of those believing they would be worse off than their parents rising by 32 percentage points since 2012 to 54% in 2024.

Child care costs have fallen across the country

- In 2023, just over half (56%) of children aged 0 to 5 years were in licensed or unlicensed child care in Canada. This marks an increase from 2021 and 2022 but remains below the pre-pandemic level of 60%.
- The proportion of parents who used child care and who reported having difficulty finding it increased from 36% in 2019 to 49% in 2023.
- Difficulty finding available care remained the top challenge for parents, and the proportion of those reporting this difficulty increased from 53% in 2019 to 62% in 2023.
- Finding affordable care also remained a common concern among parents, but the proportion of those reporting this declined from 48% in 2019 to 41% in 2023. Childcare costs have fallen in every province and territory since 2019.
- Expenses for children attending full-time centre-based child care decreased from an average of \$663 per month in 2022 to \$508 in 2023 ([Child care arrangements, 2023](#)).

Chart 11
Mean cost per year for full time care of a child aged 0-5 in a daycare centre, preschool, or childcare centre



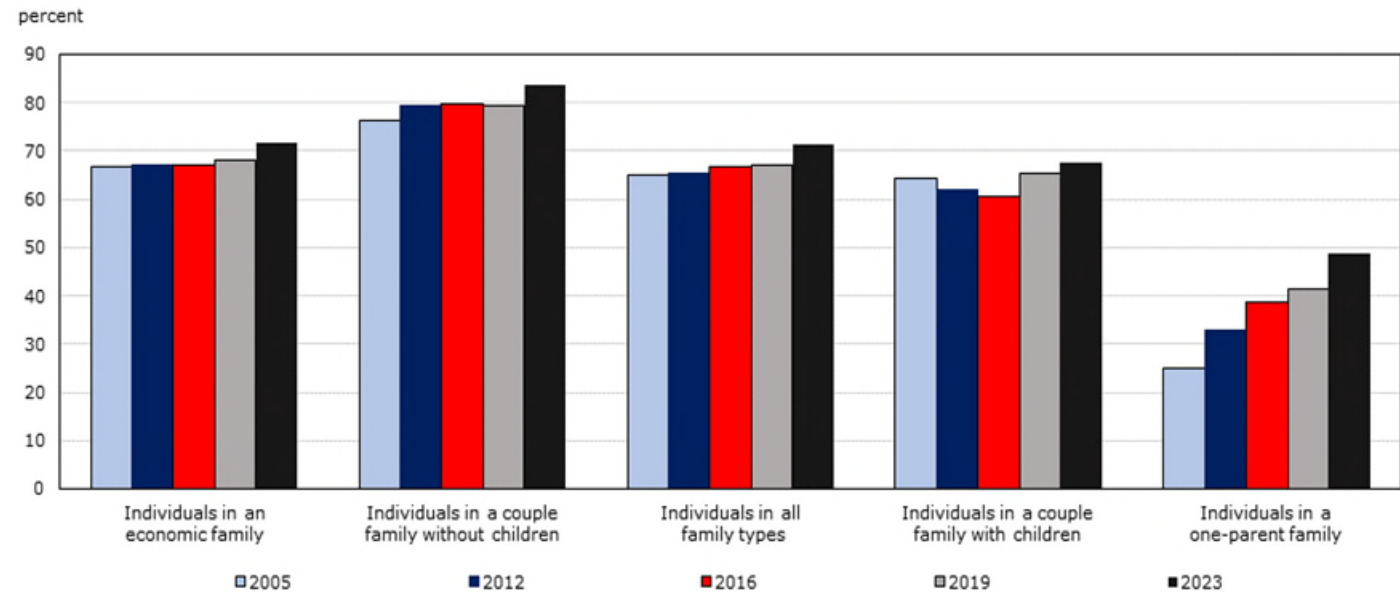
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Source: Statistics Canada, Survey on Early Learning and Child Care Arrangements, table 42-10-0053-01.

Despite financial hardships, economic resilience indicators improving for most households

- Even as affordability pressures ramped up, more Canadians than ever were considered asset resilient in 2023. To be deemed asset resilient in that year, a person living alone would require liquid assets of approximately \$6,900. A household of four would require \$13,500 or \$3,500 per person to meet the minimum after-tax, low income measure (LIM-AT) threshold for three months.
- Asset resilience is a measure of the financial safety net families have built to withstand sudden economic hardships. At the national level, seven-in-ten Canadians were asset resilient for at least three months in 2023, up slightly from about two-thirds in 2019 (67.1%).
- The proportion of renters with sufficient liquid assets to absorb a loss of income for three months increased from four in ten in 2019 to five in ten in 2023. Persons living in a home they own were much more likely to be asset resilient, with four in five having sufficient assets to cover expenses.
- Family dynamics play a key role in asset resilience. Couples without children were the most likely to be asset resilient in 2023, with over 83% of those households reporting sufficient assets to make up for a loss of income for three months.
- A promising trend amongst one of the most vulnerable family groups: persons in lone parent households, have experienced steady progress in asset resilience since the low of 25% reported in 2005. Lone parent households had the largest percentage increase in asset resilience of all family types since 2019, rising by 7.4 percentage points to just under one in two.

Chart 12
Percentage of individuals who are financially resilient for at least three months, by family type



Source: Statistics Canada, table 11-10-0082-01.

Hanging in while not moving up: The rise in asset resilience since before the pandemic is an encouraging trend. However, it reflects the sense of “surviving” rather than “thriving” that many vulnerable households, such as renters and lone parent families, may be experiencing, as indicated by declining well-being indicators.

Takeaways

- Households at the top of the income distribution have fared better than other household groups given that they were better positioned to benefit from the higher interest rate environment. Robust wage gains have bolstered disposable incomes among low-income households, while the net savings of middle-income households were squeezed as expenses outpaced gains in disposable income.
- The risk to well-being posed by sustained barriers to moving may be amplified over the longer run if access to homeownership becomes fundamentally more unequal. The share of Canadians who received a proportion or the entirety of their primary residence in the form of an inheritance has increased markedly since before the pandemic. The looming wealth transfer from baby boomers to younger generations is likely to widen wealth inequality further.
- Even as acquiring housing has become more challenging, particularly for those without family support, homeownership remains a critical source of wealth creation among young families. From 2019 to 2023, nearly half of the overall increase in median net worth for households younger than age 35 was attributable to the growth in real estate net equity.
- The gradual deterioration in life satisfaction throughout the inflationary period has been unevenly felt, with more sizable declines among those experiencing financial difficulties and younger Canadians.
- While accessing available childcare remained a top priority for many families, the share of families reporting difficulty finding affordable childcare declined in 2023 as average childcare costs have fallen across the country.
- Despite declining optimism and general cost pressures, more Canadian households are asset resilient than ever before. Significant improvements in asset resilience among more vulnerable populations, such as lone parent households and renters, are an encouraging sign that households have built up a financial safety net during the inflationary period.

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