RESEARCH HIGHLIGHT

October 2010

Socio-economic Series 10-018

Changes in Household Net Worth in Canada: 1990-2009

INTRODUCTION

For many households, buying a home is the largest single purchase they will ever make. Housing accounts for a significant portion of the wealth of Canadians. This *Research Highlight* reviews changes from 1990 to 2009 in the assets, debts, and wealth of Canadian households, including developments in the period since the onset of the 2008 economic downturn. It examines the contribution of real estate to the net worth of Canadians and how the relative financial positions of homeowners and renters have changed over time.

In this *Highlight*, the terms "net worth" and "wealth" are used interchangeably. The **net worth** of a household is the difference between the value of all its assets and all its debts.

Analysis of the period from 1990 to 2009 is based on quarterly national balance sheet accounts for the persons and unincorporated business sector, which comprises households, unincorporated businesses, and non-profit institutions serving households.[1] Data cover the first quarter of 1990 through the third quarter of 2009.

National accounts estimates for the personal sector feature several asset classes related to real estate – residential structures, non-residential structures, and land. The value of structures does not include the land on which they sit; instead, the land associated with buildings is included in the total estimate for land.[2]

In its general sense, **home equity** describes the difference between what a home could be sold for and any outstanding mortgage balance. In this *Highlight*, however, owing to the structure of the national accounts, home equity equals the value of residential structures owned by the personal sector plus the value of land minus mortgage liabilities. As indicated, land subsumes residential, non-residential, and other holdings. In addition, mortgage liabilities include all mortgage loans, whether secured by residential properties, non-residential properties, or land. Mortgage liabilities do not include loans for the purchase of foreign properties.

Lines of credit, which can be used to purchase homes, are recorded by Statistics Canada as consumer credit, not mortgages. Although not included in mortgage totals, lines of credit, including those secured by the borrower's home equity, are counted among total liabilities and hence are reflected in national accounts estimates of net worth. Conclusions presented in this *Highlight* regarding relative growth rates of net worth and home equity over time are not affected by the exclusion of lines of credit from the home equity measure described above.

National accounts estimates distinguish sectors (e.g. persons, corporations) but not household types. Discussion in this *Highlight* of the distribution of wealth and variation in net worth by tenure and age is based on data from the 2005 and 1999 editions of the *Survey of Financial Security* (SFS) – the most recent of Statistics Canada's occasional surveys of household net worth.[3] Coverage of assets and liabilities in the SFS is broadly comparable to that in the national accounts.[4]

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1 Statistics Canada, *Canadian Economic Accounts Quarterly Review*, First quarter 2009 (Ottawa: Statistics Canada, 2009), p. 67.

2 National accounts estimates for the persons and unincorporated business sector exclude foreign assets and liabilities, including foreign residential property and land, mortgages on foreign property, and lines of credit secured by foreign property.

3 A review of the net worth of Canadian households based on the 1999 SFS is available in a *Research Highlight* titled *Household Income, Net Worth, and Housing Affordability in Canada* published by CMHC in 2006. That Highlight presents details that could not be explored here, including the relationship between net worth and housing affordability, net worth differences by province, and net worth of different age-tenure combinations.

4 Assets in both sources are divided into financial and non-financial classes, and liabilities comprise mortgages, consumer credit, and other debts. Net worth figures from both the national accounts and from *the Survey of Financial Security* include the estimated value of employer pension plan benefits.

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Net worth – the difference between what a household owns and owes – provides both a safety net and a potential source of funds. Cash savings or other liquid assets allow households to weather layoffs, illnesses, or other interruptions to income flow. People can tap savings to cover rent, mortgage payments, or maintenance costs. Wealth may also have an influence on housing demand. Savings provide down payments for the purchase of homes, and the equity accumulated by homeowners can finance renovations or the purchase of more expensive or second homes, as well as general spending on consumer goods and services.

Changes in net worth from 1990 to 2009

The collective net worth of Canadian households stood at \$5.7 trillion in 2009, more than double what it was in 1990 after adjustment for inflation (see Figure 1). On a per capita basis, the increase was somewhat smaller since Canada's population grew throughout the period. Real per capita net worth in the third quarter of 2009 was \$169,000, compared to \$101,000 in the first quarter of 1990.[5]

The net worth of households reflects the value of all assets – such as stocks, bonds, and real estate – less accumulated debt (liabilities). Assets fall into two broad classes – financial and non-financial. Financial holdings, which include bank deposits, stocks, and bonds, accounted for 55% of household assets in 2009 (see Table 1), with the share rising slightly since 1990. Real estate – the value of residential structures and land – makes up the bulk of non-financial assets (85% in 2009 and 77% in 1990). Mortgages account for well over half of household liabilities (62% in 2009), with the share dropping slightly over the period from 1990 to 2009, a point to which we will return later.

During the early 1990s, Canada experienced a recession followed by several years of sluggish growth. In the second half of the decade, the economy strengthened and commenced generating a string of robust employment and income gains. The strong labour market came to an end only with the arrival of the economic downturn in 2008.

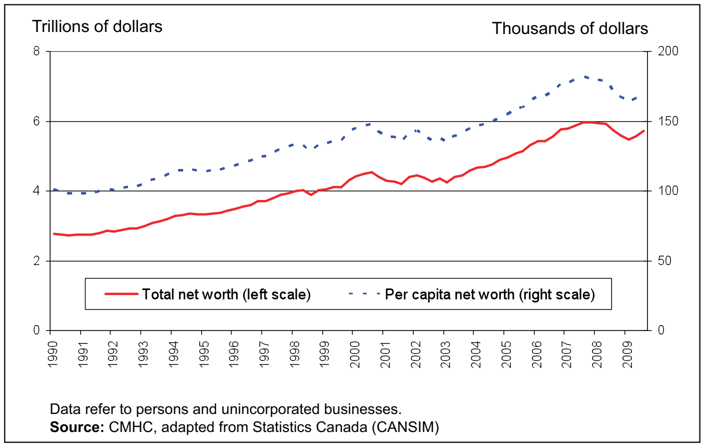


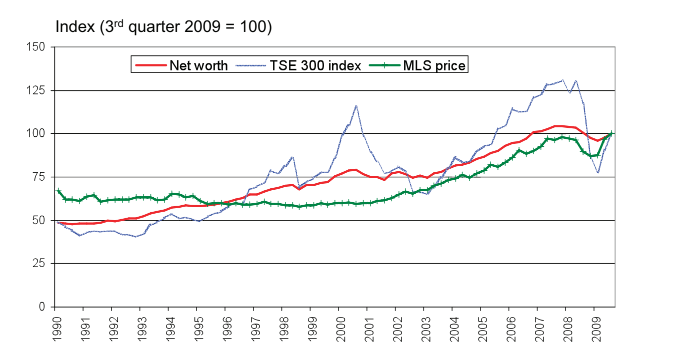
Figure 1 Household net worth, Canada, 1990-2009 (2009 constant dollars)

Table 1 Distribution of assets and debts, persons and unincorporated businesses, Canada, 1990 and 2009 (2009 constant dollars)

	1990		2009	
	$ trillions	%	$ trillions	%
Total assets	3.37	100.0	7.13	100.0
Financial assets	1.78	52.8	3.95	55.5
Non-financial assets	1.59	47.2	3.17	44.5
Residential structures	0.75	22.2	1.44	20.2
Non-residential structures	0.03	1.0	0.03	0.4
Land	0.48	14.2	1.27	17.8
Other non-financial assets	0.33	9.8	0.43	6.1
Total liabilities	0.59	100.0	1.41	100.0
Mortgages	0.38	63.5	0.88	62.4
Consumer credit	0.14	23.2	0.40	28.4
Bank and other loans	0.07	11.3	0.11	7.9
Other liabilities	0.01	1.9	0.02	1.4
Net worth	2.78	-	5.72	-

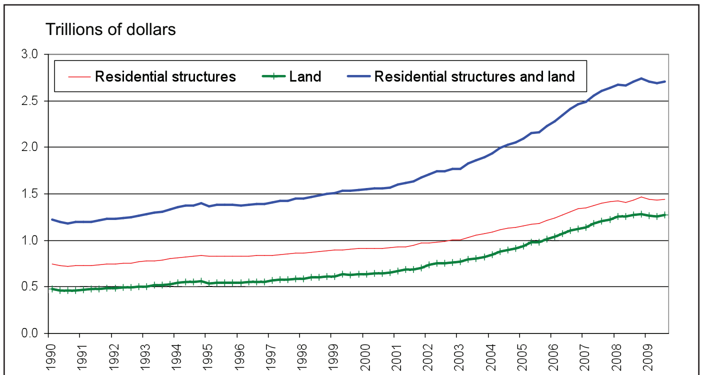
Figures may not add due to rounding. Data are for the 1st quarter of 1990 and the 3rd quarter of 2009.
Source: CMHC, adapted from Statistics Canada (CANSIM).

[5] Per capita figures are rounded to the nearest \$1,000.



Net worth data refer to persons and unincorporated businesses. MLS® is a registered trademark of the Canadian Real Estate Association.
Source: CMHC, adapted from Canadian Real Estate Association (MLS®) and Statistics Canada (CANSIM)

Figure 2 Net worth, TSE 300 Index, and MLS® average house price, Canada, 1990-2009 (2009 constant dollars)



Data refer to persons and unincorporated businesses.
Source: CMHC, adapted from Statistics Canada (CANSIM)

Figure 3 Value of residential structures and land, Canada, 1990-2009 (2009 constant dollars)

Against this economic backdrop, stock markets showed little gain in the early 1990s and notable periods of weakness early in the millennium (2001-2003) and in 2008-2009, both episodes coinciding with losses in household wealth (see Figure 2).

The performance of the economy also influenced real estate values. After finishing the 1990s below where they were at the beginning of the decade, real (inflation-adjusted) house prices began to rise early in the new millenium (see Figure 2).[6] The improving economy triggered increases in housing demand and home-building, and the rate of home ownership recorded remarkable increases (from 63.6 per cent in 1996 to 68.4 per cent in 2006).[7] For homeowners, rising property values cushioned the negative effects of any losses suffered as a result of the weak stock markets of 2001-2003. With the arrival of the 2008 recession, residential prices fell, but the decline was not nearly as sharp as the drop in equity markets, and housing prices quickly recovered.

After peaking in the third quarter of 2007, the real net worth of households dropped 4.3% (6.6% on a per capita basis) through the third quarter of 2009.[8] Over this period, the real value of residential structures and of land both increased (by 3.0% and 5.1% respectively) despite dipping slightly with the arrival of the recession in 2008 (see Figure 3).[9] The rise in the aggregate value of houses and land reflected continuing growth in the size of the residential housing stock as well as the aforementioned recovery in housing prices.[10]

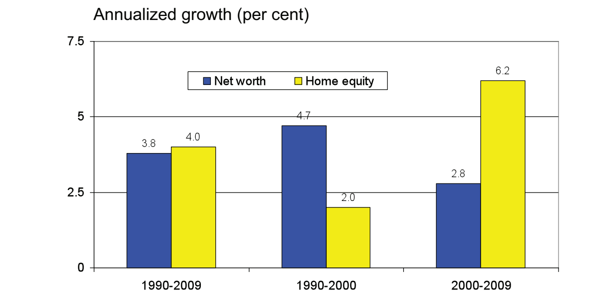
[6] After falling during the 1990s, the average MLS® resale price rose substantially from 2000 to 2007. The New House Price Index also lost ground during the 1990s and recorded gains from 2000 to 2007. MLS ® is a registered trademark of the Canadian Real Estate Association.

[7] The quoted home ownership rates are census-based estimates.

[8] In the second and third quarters of 2009, real net worth made up some of the losses from previous quarters as stock markets and housing prices rebounded.

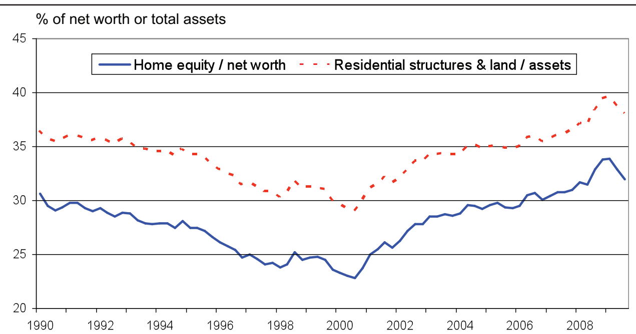
[9] From the fourth quarter of 2008 through the third quarter of 2009, the real value of residential structures dropped 1.6%, that of land 0.8%.

[10] Annual housing completions in 2007 and 2008 were well above 200,000, approaching the highest output of the past two decades.



Data refer to persons and unincorporated businesses.
Annual rates of growth are calculated from data for the 1st quarters of 1990 and 2000 and the 3rd quarter of 2009.
Home equity = residential structures + land – mortgage liabilities. Land includes residential, non-residential, and other holdings.
Source: CMHC, adapted from Statistics Canada (CANSIM)

Figure 4 Annual growth in household net worth and home equity, Canada, 1990-2009 (2009 constant dollars)



Data refer to persons and unincorporated businesses.
Home equity = residential structures + land – mortgage liabilities. Land includes residential, non-residential, and other holdings.
Source: CMHC, adapted from Statistics Canada (CANSIM)

Figure 5 Contribution of housing to net worth and total assets, Canada, 1990-2009

Contribution of real estate to net worth

Restrained by recession and bouts of financial market turbulence, growth in net worth was slower overall from 2000 to 2009 than during the 1990s (see Figure 4). With property values and homeownership rates rising significantly in the past decade, home equity followed a very different course, growing much more slowly during the 1990s (2.0% annually) than in the ensuing decade (6.2% annually).[11]

As a result, growth in home equity accounted for only 11% of the increase in net worth during the 1990s, compared to 61% from the first quarter of 2000 through the third quarter of 2009.[12]

Given these divergent growth patterns, home equity represented a declining share of the wealth of households during the 1990s and an increasing share thereafter (see Figure 5). In the third quarter of 2009, 32% of household net worth comprised home equity, and the value of residential structures and land accounted for 38% of all household assets. Both these figures were down slightly from the previous two quarters, reflecting a partial recovery of equity markets (see Figure 2), but still close to the highs for the 1990-2009 period.

Changes in household debts

The wealth of individual households can grow because of increases in the value of their assets or reductions in their debts. Households sometimes acquire assets by borrowing, for example, by taking out mortgages or other loans to pay for homes, major renovations, or investments. Households can also borrow to pay for day-to-day consumption.

[11] As explained in the Introduction (see text box), home equity equals the value of residential structures plus the value of land minus mortgage liabilities. The land component of the national accounts includes residential as well as non-residential and other holdings. Computing home equity as either residential structures minus mortgage liabilities or as residential and non-residential structures plus land minus mortgage liabilities does not alter the basic conclusions presented here regarding the acceleration in the growth of home equity in recent years.

[12] The contribution of home equity to growth in net worth could be exaggerated by the inclusion of the value of all land holdings, not just residential holdings, in the home equity measure. To check for possible exaggeration, national accounts data were compared to estimates from the 1999 and 2005 Surveys of Financial Security (SFS). The SFS shows equity in real estate accounting for 47% of the rise in net worth from 1999 to 2005, slightly less than the 51% share obtained from national accounts estimates for the same period.

Over the past two decades, the debts of households grew faster than their disposable incomes. From 1990 to 2009, the ratio of debts to personal disposable income rose by more than half (see Figure 6). Mortgage debt also increased relative to disposable income, with the bulk of the growth occurring during the housing boom of the past decade.

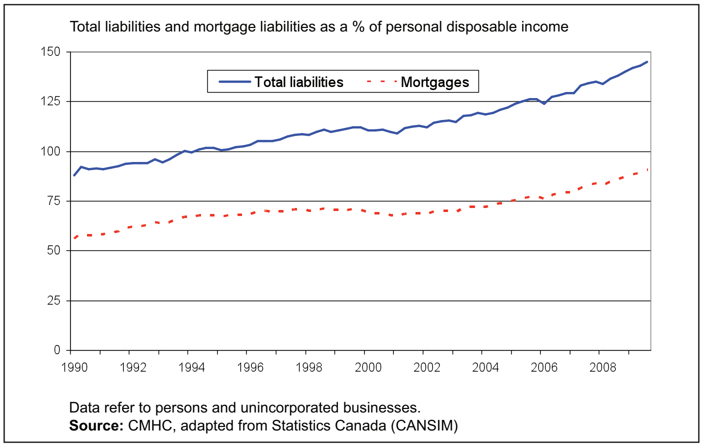


Figure 6 Debts relative to disposable income, Canada, 1990-2009

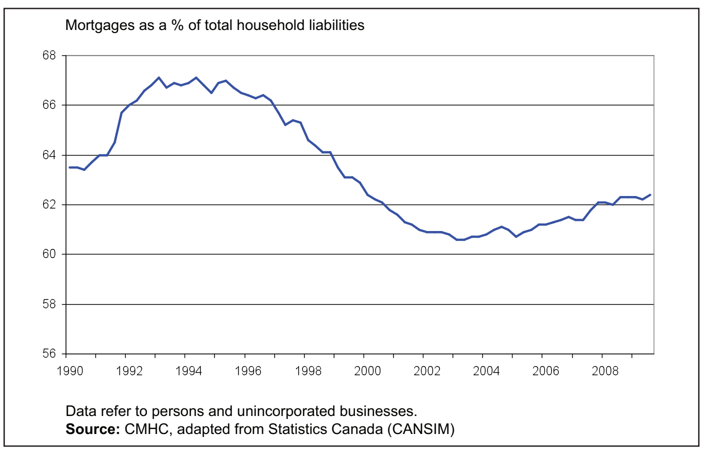


Figure 7 Mortgage share of household liabilities, Canada, 1990-2009

Even with large numbers of households opting to buy homes in recent years, mortgages accounted for a smaller share of total household debt in 2009 (62.4%) than through much of the 1990s, and the share rose only modestly in the past decade (see Figure 7). Consumer credit grew faster than mortgage debt and represented an increasing share of household liabilities (see Table 1). The aging of Canada's population helped curb the rate of increase in mortgage debt. While many households were taking on mortgages in order to buy homes, others were paying down and even discharging their mortgages. In 2001, 71% of baby boomers who owned homes had mortgages, a fraction that had declined to 66% by 2006.[13]

Debt servicing costs

The increased borrowing by households was offset by reduced interest costs. Although household debts grew faster than disposable incomes, the share of disposable income required to make interest payments on those debts fell over the 1990-2009 period (see Figure 8).[14] The same held true for mortgage debt. Falling interest rates reduced monthly outlays required of households enabling them to increase the amounts they borrowed.

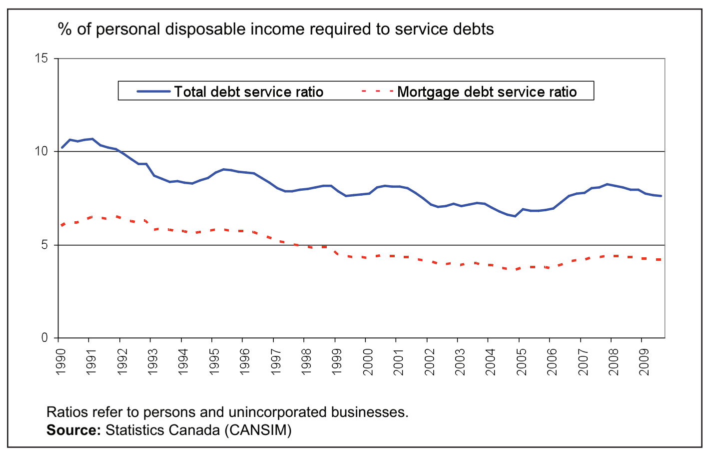


Figure 8 Total and mortgage debt service ratios, Canada, 1990-2009

[13] Census data show that 71% of homeowners aged 35 to 54 in 2001 (approximately the age of baby boomers at the time) had mortgages. In 2006, 66% of homeowners aged 40 to 59 had mortgages. Age in this context refers to the age of the primary household maintainer, the person or one of the people in the household responsible for making major household payments. Although a majority of baby boomer homeowners still had mortgages in 2006, older households on average can be expected to be paying off more debt (loan principal) with each mortgage payment than younger households since the interest portion of amortized monthly payments declines over the life of the mortgage. The Census does not collect information on the dollar amount of mortgage debt outstanding.

[14] With respect to mortgages, consumer credit, and bank loans, debt service ratios show the portion of disposable income required to make interest payments exclusive of repayment of principal. See Statistics Canada, *Canadian Economic Accounts Quarterly Review*, First quarter 2009 (Ottawa: Statistics Canada, 2009), pp. 68-69

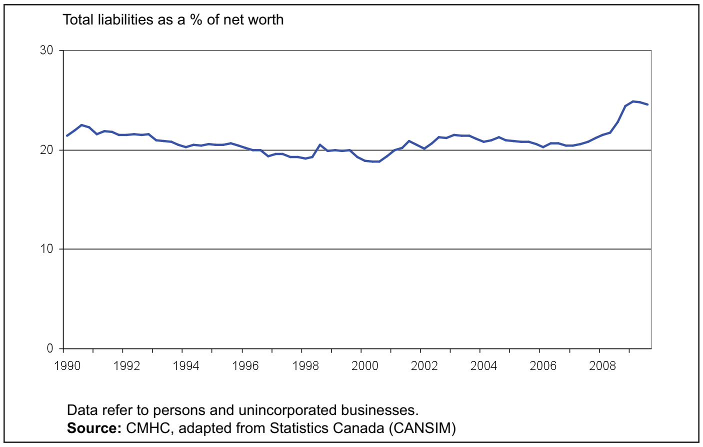


Figure 9 Debts relative to net worth, Canada, 1990-2009

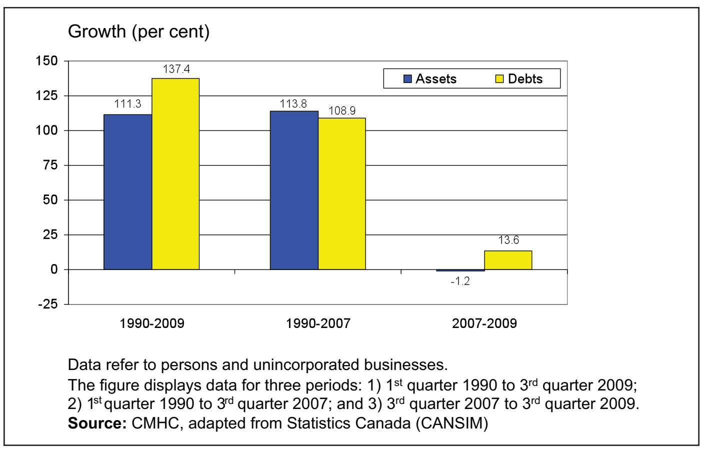


Figure 10 Real growth in assets and debts by period, Canada, 1990-2009

Debt service ratios did rise in 2006 and 2007. Subsequently, with the approach of the recession in 2008, ratios retreated (though not back to previous lows). Interest costs fell in conjunction with efforts by the Bank of Canada to stimulate the economy.

Growth of debt in relation to assets

Was the rise in household debt from 1990 to 2009 accompanied by an equivalent rise in assets?

For most of these years, the ratio of household debts to net worth was quite stable (see Figure 9). The stability of the ratio indicates that assets kept pace with growth in debts for much of the period. Up until the end of the third quarter of 2007 when net worth peaked, growth in the real value of household assets (113.8%) exceeded that of debts (108.9%) (see Figure 10). Increased borrowing was backed by assets, such as homes, that appreciated in value.

From the third quarter of 2007 through the third quarter of 2009, debts continued to grow, but the real value of assets fell. The value of financial assets dropped, especially in 2008 when stock markets fell.[15] The ratio of debts to net worth, which edged up in 2007, increased noticeably in 2008. Subsequently, stock markets rose in the second and third quarters of 2009 (see Figure 2), and the value of financial assets recovered a portion of the ground lost in previous quarters. Continued recovery of asset values would help bring the ratio of debt to net worth back in line with the levels prevailing through much of the past two decades.

[15] As discussed previously, the real value of residential structures and land increased during this period.

Table 2 Median and average household net worth by tenure, Canada, 1999 and 2005 (2005 constant dollars)

	1999	2005	Growth (%)
Median net worth			
All households	136,000	166,000	21.5
Homeowners	257,000	327,000	27.4
Owners with mortgages	169,000	219,000	29.4
Owners without mortgages	402,000	525,000	30.5
Renters	14,000	14,000	-5.1
Average net worth			
All households	296,000	383,000	29.5
Homeowners	430,000	552,000	28.2
Owners with mortgages	284,000	378,000	33.1
Owners without mortgages	599,000	764,000	27.5
Renters	71,000	69,000	-1.6

Dollar amounts are rounded to the nearest $1,000.
Source: CMHC, adapted from Statistics Canada (*Survey of Financial Security*)

Table 3 Net worth by age of household maintainer[1], Canada, 1999 and 2005 (2005 constant dollars)

	1999	2005	Growth (%)
Median net worth			
All households	136,000	166,000	21.5
15-29	15,000	17,000	15.1
30-44	98,000	110,000	12.0
45-64	253,000	310,000	22.5
65+	245,000	309,000	26.2
Average net worth			
All households	296,000	383,000	29.5
15-29	72,000	70,000	-2.1
30-44	202,000	260,000	29.0
45-64	440,000	551,000	25.2
65+	382,000	491,000	28.5

[1] The maintainer in the *Survey of Financial Security* is usually the person in the household with the highest income.
Dollar amounts are rounded to the nearest $1,000.
Source: CMHC, adapted from Statistics Canada (*Survey of Financial Security*)

Net worth of homeowners and renters

Given the strength of increases in homeownership rates since the mid-1990s, the number of households positioned to benefit financially from increasing house prices has grown significantly.[16] As noted earlier, home equity grew more rapidly than other sources of wealth during the current decade. This development suggests that the wealth of homeowners and renters may have followed different paths. National accounts data do not provide the detail needed to investigate this possibility.[17] Accordingly, the review below of the distribution of wealth is based on the two most recent surveys of household net worth in Canada (the 1999 and 2005 editions of the *Survey of Financial Security*).

From 1999 to 2005, the real net worth of a median (or typical) household rose 21.5%, reaching $166,000 (see Table 2). The median net worth of homeowners rose 27.4% after inflation, in sharp contrast to the 5.1% drop experienced by the median renter. As a result, a typical homeowner went from being 18 times wealthier than a typical renter household in 1999 to 24 times wealthier in 2005 (see Table 2).[18] The gap between the wealth of owners and renters has been widening for at least two decades.[19]

[16] According to census data, the number of homeowner households in Canada rose from 6.9 million in 1996 to 8.5 million in 2006.

[17] For more information, see the text box in the Introduction.

[18] Ratios and growth rates quoted here and later were calculated using unrounded estimates of the net worth of owner and renter households, not the rounded estimates in Table 2.

[19] From 1984 to 1999, median wealth rose for homeowners but fell for renters, the same general pattern observed from 1999 to 2005. Net worth estimates for 1984-1999 and 1999-2005 are not strictly comparable since estimates for the later period include the value of employer pension plans, whereas the earlier estimates do not. Unlike the *Survey of Financial Security*, the 1984 *Assets and Debts Survey* did not estimate the value of employer pension plan benefits.

A certain degree of inequality in the distribution of wealth is inevitable given the strong association between net worth and age. Older households have had more time than younger households to acquire assets, to pay down debts, and to benefit from appreciation in the value of their assets. Homeowners on average are older than renters, and homeowners without mortgages are older on average than those with mortgages. Net worth differences by tenure reflect this reality. People usually accumulate wealth during their working lives and draw upon their savings during retirement. Accordingly, in 2005, net worth peaked among households with maintainers aged 45 to 64 (see Table 3).[20]

Age is not the only factor underlying differences in wealth. In 2005, median and average net worth differed significantly within age groups, an indication that the distribution of wealth was far from even among those of similar age.[21] The average net worth of Canadian households increased faster than the median from 1999 to 2005 (29.5% versus 21.5%), which suggests that inequities in the distribution of net worth expanded during this period.[22]

Table 4 Median household income by age of household maintainer, Canada, 2005

	Median household income before taxes ($)		Median household income after taxes ($)	
	Owners	**Renters**	**Owners**	**Renters**
All households	67,000	31,000	57,000	29,000
15-24	46,000	24,000	41,000	23,000
25-34	70,000	37,000	59,000	33,000
35-44	78,000	37,000	65,000	33,000
45-54	83,000	36,000	70,000	32,000
55-64	68,000	30,000	57,000	27,000
65+	42,000	23,000	38,000	22,000

Dollar amounts are rounded to the nearest $1,000.
Source: CMHC, adapted from Statistics Canada (Census of Canada)

Lifetime income differences are likely the main reason for differences in wealth, including the large gap between the net worth of a typical (median) homeowner ($327,000) and a typical renter ($14,000). In 2005, homeowners had median household incomes that were close to double (and in some cases more than double) those of renters of comparable age (see Table 4). This pattern suggests that homeowners collectively earn higher incomes than renters throughout their lives. Such lifetime (or permanent) income is used to build net worth through acquiring assets, including homes and other real estate.

Averages and medians sometimes tell different stories. For example, if a few members of a group have very high and growing values, averages can increase even if medians or other measures aimed at describing mid-range (typical) values decline. Such was not the case for the wealth of renters between 1999 and 2005. The average net worth of renter households fell by about 2%, the median by about 5% (see Table 2). The consistency in the direction of change in the average and median are an indication that renters at most points of the distribution, from the relatively wealthy to relatively poor, tended to have less net worth in 2005 than their counterparts in 1999. Many households who could afford to do so bought homes during this period, leaving the less wealthy as renters.

[20] The sample size for *the 2005 Survey of Financial Security* was too small to permit reliable estimation of net worth by both tenure and age group simultaneously.

[21] Unlike the median, the average of a distribution is influenced by extreme values, in this case, households with very high net worth.

[22] The difference between the growth of the median and the average was more pronounced from 1984 to 1999, when average net worth increased at more than three times the rate of the median, than from 1999 to 2005. As noted above, however, net worth estimates for 1984-1999 and 1999-2005 are not strictly comparable since estimates for the later period include the value of employer pension plans, whereas the earlier estimates do not.

SUMMARY

From 1990 to 2009, the collective net worth of Canadian households doubled, which translated into a per capita gain of about two-thirds. Wealth grew faster during the 1990s than during the current decade, which was marked by stock market downturns and a recession. Home equity showed the opposite tendency, increasing more rapidly during the strong housing markets of recent years than during the 1990s. As a result, the share of net worth comprising home equity has risen substantially since hitting bottom in 2000, with growth in home equity accounting for over half of the increase in household net worth since 2000.

Over the past two decades, household debts grew faster than disposable incomes. Even so, the percentage of income required to service those debts, including mortgage debt, fell from 1990 to 2009 as a result of declining interest rates. For most of this period, the ratio of household debts to net worth was quite stable. Increasing debt was backed by an equivalent rise in assets. In the quarters leading up to the 2008 recession and during the recession itself, however, the ratio of debts to net worth increased.

The wealth of homeowners rose in recent years, while that of renter households declined. The gap in the wealth of owners and renters has been widening for at least two decades. During the past decade, the movement of large numbers of households out of rental housing into homeownership may have contributed to the decline in renter net worth since the households who could afford to buy homes were likely wealthier than those who continued to rent.

ACKNOWLEDGEMENTS

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Author: Roger Lewis, Housing Needs Policy and Research Group, Canada Mortgage and Housing Corporation

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Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, Ontario
K1A 0P7

Phone: 1-800-668-2642
Fax: 1-800-245-9274

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Printed in Canada
Produced by CMHC 25-10-10

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