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Income of Canadian Households, 1981 to 2010

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Economic INSIGHTS

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.	not available for any reference period
..	not available for a specific reference period
...	not applicable
0	true zero or a value rounded to zero
0^s	value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
^{p}	preliminary
^{r}	revised
x	suppressed to meet the confidentiality requirements of the *Statistics Act*
^{E}	use with caution
F	too unreliable to be published
*	significantly different from reference category ($p < 0.05$)

Income of Canadian Households: 1981 to 2010

by Sonya Coward, Guy Gellatly, and Karim Moussaly

This *Economic Insights* article presents new income data on Canadian households from the revised Canadian System of National Accounts (CSNA12). It is one of a series of *Economic Insights* articles designed to emphasize key aspects of the new national accounts data and their utility for analyses of the Canadian economy.

The Canadian System of National Accounts had for many years combined the incomes and expenditures of non-profit institutions and certain other institutions with those of households. Over the years, this has led users to ask whether the economic picture of Canadian households would be similar if the data on non-profit institutions were no longer combined with the household data. One of the important changes with the current revisions is that data based on a "pure" measure of the household sector are now available.

The new data, which provide more detail on the transactions of households with other sectors of the economy, tell fundamentally the same story as to the evolution and composition of household incomes and expenditures.

The revised Canadian System of National Accounts (CSNA12) provides improved estimates of the income of Canadian households over the past three decades. These more articulated economic accounts make it easier to distinguish households from other institutional units[1], and thus provide new, more detailed information on the incomes that flow between households and other institutional sectors. The development of more precise, or "purer", estimates of household income represents an important step forward for the CSNA12. These new data have some distinct advantages for users. Importantly, they more clearly distinguish between household income that is derived from economic production and the income transfers that households receive and pay out to other sectors of the economy. As a result, they more readily facilitate the analysis of different income measures, such as primary income and disposable income, which can be used to evaluate changes in the sources and composition of household income over time. Finally, these data also facilitate the extent to which they can be linked with data from household surveys to address broader research questions pertaining to the household sector.

Based on CSNA12, this article highlights data on the main sources of Canadian household income from 1981 to 2010, and examines shifts in their relative importance over this period.

Primary household income

Primary household income includes "incomes that accrue to households as a consequence of their involvement in processes of production or ownership of assets that may be needed for purposes of production" (2008 SNA 7.2). Between 1981 and 2010, the largest component of primary income—compensation of employees—remained relatively constant at around 76%. Employee compensation consists of wages and salaries as well as employers' contributions to social benefits such as health plans, life insurance plans and pension plans. The relative importance of employers' contributions has changed over time. From 1981 to 2010, these benefits grew at an annual rate of 6.7%, while the annual growth in nominal wages and salaries was 4.9%. Consequently, the share of employee compensation accounted for by employers' contributions increased from 8.7% in 1981 to 13.3% in 2010.

1. Institutional units included in the previous version of the CSNA under the 'personal and unincorporated businesses' sector included non-profit institutions serving households, Aboriginal general governments, life insurance companies, credit unions, fraternal organizations, pension schemes and mutual funds.

Estimates of primary household income also include estimates of mixed income, based on the contribution of various forms of self-employment or self-directed activity. For these estimates, it is difficult to separate the returns to labour from the returns to capital. Computationally, these estimates of net mixed income include gross operating income from unincorporated businesses, farms and rentals, less the consumption of fixed capital by unincorporated businesses[2]. Over 1981 to 2010, this component accounted for around 14% of primary income. The share of primary income coming from unincorporated businesses increased slightly from 5.3% in 1982Q4 to 5.7% in 2009Q2, following the strong growth in self-employment between 1987 and 1999[3],[4].

The other components of mixed income exhibited more variation over the period. Income from farms accounted for a declining share of primary household income, falling from 1.4% in 1982Q4 to 0.3% in 2009Q2. This reflected a decline in the percentage of farm owners operating as sole proprietors during this period; 55% of farms were operated by a sole proprietor in 2011, down 87% in 1981.[5]

As a share of primary household income, rental income rose from 6.2% from 1982Q4 to 7.3% in 2009Q2. Rental income has accounted for nearly half of net mixed income in recent years. It includes income earned from owner-occupied dwellings and from leased dwellings. The former captures the implicit income associated with homeownership.

A new income variable that is featured prominently in the revised national accounts is property income. Households earn property income by putting financial assets or natural resources (such as land) at the disposal of others. Estimates of property income capture the payments from the users of these assets to the owners of these assets. Net property income—household receipts of property income less household payments of property income—account for about 10% of primary income. This share has been relatively constant over the last three decades. Receipts of property income by households consist of investment income and rent on natural resources, and have accounted for about 15% of primary income received by households in recent years. Growth in the dividends received by households has been especially strong during the 2000s. By the end of 2010, the share of property income received from dividends by households was close to 36%. In contrast, this dividend share was below 20% from 1981 until the end of the 1990s. Changes were also apparent in the relative importance of mortgage and consumer debt. Interest paid on mortgage debts declined between 1990 and 2005, consistent with the decline in interest rates between 1999 and 2005, while the interest paid on consumer debt rose. Interest paid on both mortgage and non-mortgage debts increased sharply between 2005 and the start of the last economic recession in 2008.

The sum of primary income from all resident sectors yields estimates of net national income. The share of net national income coming from households declined from 89% in 1991 to 76% in 2005, and subsequently increased during the late 2000s, to 80% in 2010.

Transfers received and paid

Households receive income in the form of transfers from other sectors of the economy, but also pay part of their income as transfers to other sectors. Overall, households pay positive net transfers to other sectors of the economy, mainly to governments.

Legislation enacted since 1981 changed the relative importance of the various transfers received from governments. Reforms to the Employment Insurance program in the early 1990s affected eligibility, and the wage replacement rate was lowered from 60% to 55%. Employment Insurance benefits fell during the decade both in absolute terms and as a share of transfers received by households: by 2000, they accounted for 10% of transfers received by households, down from 19% in 1990. Conversely, the relative importance of transfers from social security plans, including public pension plans (CPP/QPP), has risen over time. Other transfers from governments include Old Age Security, child tax benefits, social assistance at the provincial and local levels, and ad hoc transfers. Together, these sources accounted for 50% to 60% of the transfers received by households each year since 1981.

From 1981 to 2010, the composition of transfers paid to governments also shifted, with a declining share paid as personal income tax, and an increasing share paid as contributions to social insurance plans. Since 1995, the annual growth in contributions to social insurance plans generally remained near or below 5%. The exception was from 2000 to 2003, when annual growth rates were higher, coinciding with reforms to the Canada Pension Plan that raised the combined employer-employee contribution rate from 5.85% in 1997 to 9.9% in 2003.

Households receive close to 3% of their transfers from non-profit institutions serving households (NPISH). In terms of transfers paid, close to 5% of the transfers that households pay go to these volunteer organizations. Since the end of the 1990s, transfers from households to NPISH have increased at a slower pace than those flowing from governments to NPISH. It is important to note that transfers to and from the voluntary sector may also include non-monetary transfers that are not directly measured in these data.

2. Households which operate unincorporated businesses cannot generally provide complete separate financial information for the household and the business and are thus grouped with other households for the national accounts.
3. Specific quarters highlighted in this document are troughs in economic cycles and aim to highlight long-term trends.
4. Rispoli (2009).
5. Statistics Canada (2012a).

Table 1
Percentage distribution of sources of income of Canadian households, selected years and quarters, 1982 to 2009

	1982 Fourth quarter	1991 First quarter	2001 Third quarter	2009 Second quarter
	percent			
Primary Income	100.0	100.0	100.0	100.0
Employee compensation	76.6	74.9	76.5	77.6
Net mixed income	12.9	13.3	13.9	13.4
Non-farm	5.3	5.3	5.9	5.7
Farm	1.4	0.7	0.5	0.3
Rental income	6.2	7.3	7.6	7.3
Net property income	10.5	11.8	9.6	9.0
Property income received	18.8	20.8	15.2	14.5
Dividends	1.9	1.9	3.2	5.3
Interest	16.4	18.7	11.8	9.0
Others	0.4	0.2	0.2	0.1
Property income paid	8.3	9.1	5.6	5.5
Interest unincorporated businesses	1.3	0.7	0.4	0.2
Mortgage interest	4.8	5.8	3.4	3.2
Non-mortgage interest	2.2	2.6	1.8	2.0
Transfers received from	100.0	100.0	100.0	100.0
Non-profit institutions serving households	2.5	3.1	2.5	2.3
Corporations	0.0	0.0	0.0	0.0
Governments	96.1	95.2	95.7	96.4
Employment insurance benefits	28.1	22.1	11.1	12.3
Social security benefits	15.9	24.4	29.8	29.2
Non-residents	1.4	1.7	1.8	1.3
Transfers paid to	100.0	100.0	100.0	100.0
Non-profit institutions serving households	5.7	4.9	4.4	4.8
Corporations	0.0	0.0	0.0	0.0
Governments	93.8	94.6	94.7	93.9
Personal income tax	68.4	68.4	66.2	62.5
Social insurance contributions	19.9	22.6	24.3	26.4
Non-residents	0.5	0.5	0.9	1.2

Note: Detail may not add to totals due to rounding.
Source: Tabulations are derived from Statistics Canada CANSIM table 380-0072.

Impact of the new data on household income

The CSNA12 provides detailed information on the changing composition of household incomes over the past three decades. It integrates data from various sources into a coherent framework such that the relative importance of different income flows can be readily assessed.

The income data reported above show that the main sources of primary household income—employee compensation, net mixed income, and net property income—have each accounted for relatively stable shares of primary household income over the last three decades. Some change in the relative importance of different sources is more apparent when more detailed income sources are examined—most notably the increasing importance of dividends as source of net property income and the declining share of farm income attributable to sole proprietorships.

Some changes in the underlying composition of transfer income are also evident over recent decades, as social insurance benefits have increased in relation to employment insurance benefits, and social insurance contributions have grown relative to personal income taxes paid.

The estimates published in CSNA12 reflect a series of improvements concerning how the income data for households are compiled and presented. Statistics Canada is now using a more comprehensive data source to estimate the income of unincorporated businesses, which has resulted in an upward revision of their net income. Methodological improvements, coupled with the use of new administrative data, have increased the quality of the data on dividends received by households. The recent conversion of many income trusts into corporations, along with the creation of a tax-sheltered investment vehicle in which Canadians accumulate investment income, are developments that are potentially germane to the analysis of these investment income data.

The new data on household income also set the stage for statistical assessments of household saving and wealth. The net savings rate is published for the household sector in the CSNA represents the share of household disposable income that is not used for current household consumption. In Canada and many other developed countries, changes in the intensity of household saving have garnered considerable attention in assessments of financial security and retirement preparedness. Previous data published by the CSNA on persons and unincorporated businesses combined household saving with the saving of the volunteer sector (NPISH). In 2010, the saving rate for persons and unincorporated businesses was 4.8%. As the CSNA12 now publishes separate economic accounts for households and volunteer organizations, separate estimates of the saving rate are now available. In 2010, households saved 4.5% of their disposable income.

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This article in the *Economic Insights* series is based on research carried out by the Economic Analysis Division. For more information, see:

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