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GLOBAL ECONOMICS

INSIGHTS & VIEWS

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Contributors

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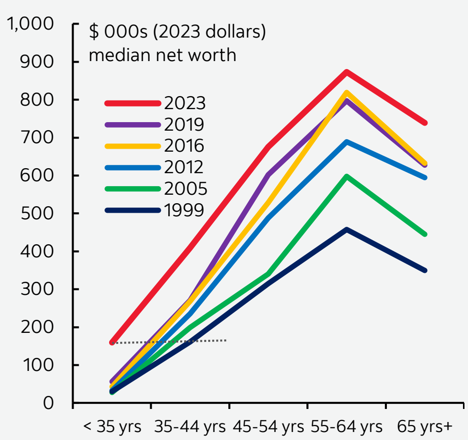
Chart 1

Lifting All Boats

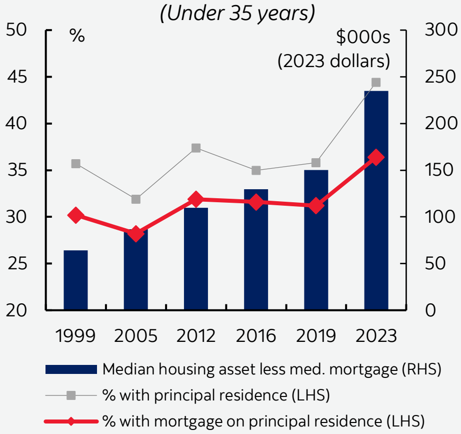


Sources: Scotiabank Economics, Statistics Canada.

Chart 2

Home Equity For Young Households

(Under 35 years)



Sources: Scotiabank Economics, Statistics Canada.

Taking *One* Brick Out of the Worry Wall

NEW DATA CONFIRM MOST CANADIAN HOUSEHOLDS HOLDING UP (BUT NOT ALL)

- **For the first time since 2019, Canada provided a more granular peak at the financial health of households with the release of the *2023 Survey of Financial Security*. It corroborates our earlier effort to piece together such a picture using more timely but aggregated data.**
- **The picture is remarkable. The *median* net worth of all households jumped by over a third (to $520 k) in 2023 relative to its pre-pandemic (inflation-adjusted) level. The imputed annual pace of wealth accumulation at 8% was twice the average of the previous two decades. And survey data would already reflect house price corrections that occurred mostly in 2022.**
- **Younger households (under 35 years) experienced a *near-tripling* in median net worth since the last measure in 2019—and the first material improvement since the initial observation point at the turn of the century (chart 1).**
- **More broadly, wealth gains were particularly pronounced among traditionally less-wealthy households: younger households, non-economic families, and other more vulnerable socio-demographics with double-digit annual growth rates.**
- **Real estate continues to dominate household balance sheets—and its 'healthy' share can be debated—but there are some reassuring signs that gently push back against a narrative of growing disparities.**
- **An increasing share of households under 35 years have a stake in housing markets with primary ownership up almost 9 ppts—to over 44%—in 2023 relative to 2019 (chart 2). *(That still means 56% of younger households may feel locked out.)***
- **But there are new cracks emerging. Private pension assets largely flatlined for the first time ever with a serious contraction in employee-sponsored pension assets, masked by otherwise exceptional financial asset gains. Lifetime renters also continue to confront compounding vulnerabilities (though the statistical agency notes more young households are amassing wealth outside home ownership).**
- **Sentiment remains weak and these data points are not going to tip the balance. Nor are they likely to repeat given exceptional pandemic-related drivers behind the broad-based gains.**
- **Policymakers should double-down on fixing the cracks—not plastering the walls—while reinforcing the foundational drivers of sustainable wealth creation.**

REDUX

Sentiment remains downbeat. While recent geo-political events may have cast more shadows of doubt on resilience and rebounds ahead, there is still a contrast between hard macro data and soft sentiment in Canada (and elsewhere). Earlier this year, we attempted to unpack this apparent disconnect using the only-available data at the time from national accounts, while acknowledging limitations to drawing disaggregated conclusions.[1]

In Defying the Doomers, we pushed back against some common narratives. This earlier work found that most Canadian households were better off across a range of indicators

[1]The earlier analysis used balance sheet data from the System of National Accounts (SNA) given its timeliness (quarterly) whereas the latest Survey of Financial Security (SFS) had been dated at 2019. SNA is suitable to analyse macroeconomic trends whereas SFS is preferable for microeconomic perspectives on individuals and households. All values in the report are in 2023 constant dollars. Rates of growth are calculated as an average annual compound rate of growth between reference periods.

from net worth to real disposable income relative to their pre-pandemic positions even if these metrics had softened against elevated interest rates. A range of possible explanations for the disconnect were explored across the domains of economics, demographics, psychology, and politics. The analysis landed on 'all-of-the-above', closing with a final word of caution on the self-fulfilling nature of sentiment.

New (and better) data reaffirm this picture of remarkable resilience. Statistics Canada recently released its long-awaited **2023 Survey of Financial Security** that provides a disaggregated snapshot of balance sheets across Canadian households. Its methodological approach captures rooftop views, coupled with median metrics, that better reflect the dynamics of typical households that can otherwise get lost in averages and aggregation. The last time Canadians had such a peak at pocketbooks was in 2019.

Public use micro data is not yet available, but there is enough in the first installment to pull out a few pertinent points to inform a more data-driven dialogue.

LOOK UP

First, a bird's-eye view provides useful context. Net assets across *all* households stood at $16.8 tn at survey time in 2023 for a ***near-quarter gain*** since the pre-pandemic print in 2019 (2023 dollars). Real estate comprised about 48% of the $19.2 tn in total assets, followed by pension and non-pension financial assets (at 23% and 13%, respectively). On the other side of the ledger, mortgage debt made up the vast majority (82%) of the $2.5 tn debt across households. (None of this is surprising as it is consistent with national accounts data—and net worth has since propelled past $17 tn as of mid-2024).

More germane, the *median* net worth of Canadian households soared by over a third—to $520 k—since pre-pandemic. This works out to an average compound annual growth rate (cagr) of over 8% between 2019 and 2023—twice the average rate since the turn of the century. The math comes down to median household asset growth at 5.4% materially outpacing annual debt accumulation at 2.3%. In the two decades prior, that breakdown was 3.6% average annual asset growth against 3.3% debt expansion for the typical household (all figures cagr).

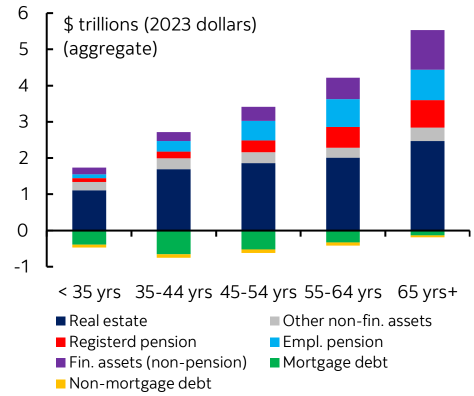
Canadian households have never been wealthier across the ages. Recall, there is an expected life cycle to wealth: a progressive accumulation in pre-retirement years before pivoting to decumulation in later years (chart 3). In 2023, the median net worth of young households (e.g., <35 yrs) stood at $159 k versus $873 k for pre-retirement households (e.g., 55–64 yrs), falling to $739 for senior households (e.g., 65+ yrs). In 2023, generations across the age curve saw step-changes in net worth after essentially no change between the 2016–2019 surveys (chart 1, front).

Gains for the youngest households were unprecedented. Under-35 households saw a near-tripling in net worth since the last measure in 2019. Advances had otherwise largely stagnated for this cohort since the turn of the century (when the series starts). While data preclude perfect generational matches, figures suggest that today's Gen Zs and the younger tail of Millennials (i.e., those captured in <35 yrs) enjoy a higher net worth than the Boomer population in 1999—mostly aged 35–44 yrs at that time.

More broadly, relative gains in net worth were sharpest for the lowest wealth cohorts. Whether data are spliced by age, wealth quintile, or other traditionally disadvantaged socio-demographic category, the pace of wealth accumulation stands in the double-digits (chart 4). There are still substantial variations in *levels* across various socio-demographic factors (chart 5), but even that picture is evolving. Traditionally, the net worth of economic families has

Chart 3

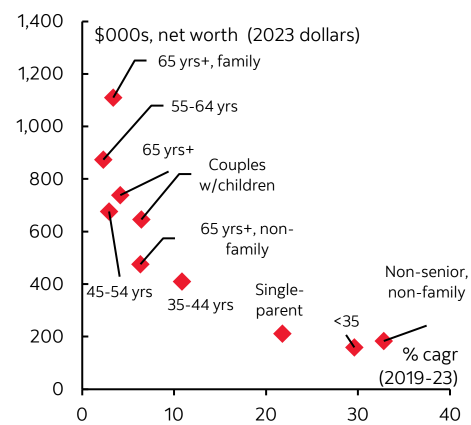
The Perks of Ageing
(net household assets)



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

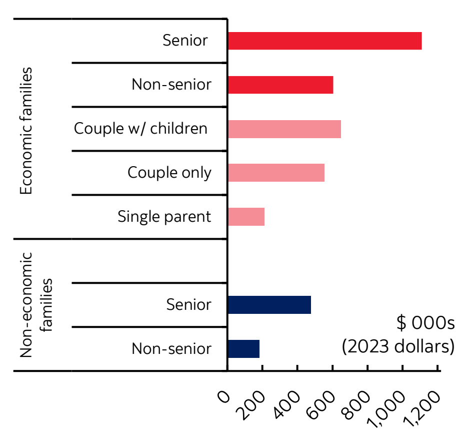
Biggest Gains for Least Wealthy



Sources: Scotiabank Economics, Statistics Canada.

Chart 5

Unequal Among Equals



Sources: Scotiabank Economics, Statistics Canada.

been substantially higher than non-economic families, especially for younger households but those disparities are rapidly narrowing (chart 6).

Other metrics of financial resilience also displayed material improvements. Just over 71% passed the 3-month asset resilience mark in 2023 versus 67% in 2019. Canada's recent labour force survey corroborates these trends with 29% of households reporting financial difficulties meeting core spending needs from a high of almost 36% in 2022.

Admittedly, these are glass half-full, half-empty statistics. They may be improving on a trend basis, but the numbers are still high and particularly acute for pockets of the population. Less than half of single parents, for example, meet that asset resilience threshold. Complementary approaches like that of the [Financial Resilience Institute] point to increasing financial hardship and challenges for 'extremely vulnerable' households while also exploring complex interlinkages with broader aspects of well-being.

NOT *ALL* ROADS LEAD TO HOME

It is no surprise that real estate continues to dominate household balance sheets. Housing as a share of median household assets edged up slightly to 47.5% (from 46% in 2019), though this share actually declined for younger households since the last survey. It was not for a lack of housing asset accumulation for these younger households—where median annual gains paced 3.3%—rather it was the exceptional growth in financial assets (non-pension) at 16% (cagr) that drove the adjustment in asset mix.

Contrary to much hype, an increasing share of young (and youngish) households have a stake in housing markets. For those under 35, primary residence asset ownership jumped almost 9 ppts to 44.4% in 2023 (and 49.2% with any form of real estate asset). A greater share of younger households also acquired secondary real estate assets, whereas the general population saw a pullback. While the vast majority of young households debt-financed these purchases, asset accumulation materially outpaced debt accretion (chart 2, front). This faster pace of housing equity growth plays out across the age curve as mortgages are progressively paid down, borne out in national accounts data (chart 7).

The story doesn't stop at real estate—the growth in financial assets (non-pension) was outstanding. The median household value of financial assets outside pension plans soared by 60% since the last survey, equating to an average annual pace of growth at 13%. Even though these assets represent only 13% of the asset base for the typical household, financial gains since 2019 accounted for 21% of total asset advances. This comes as little surprise given the combination of household income developments (government- and market-driven) as well as the evolution of stock markets over this period.

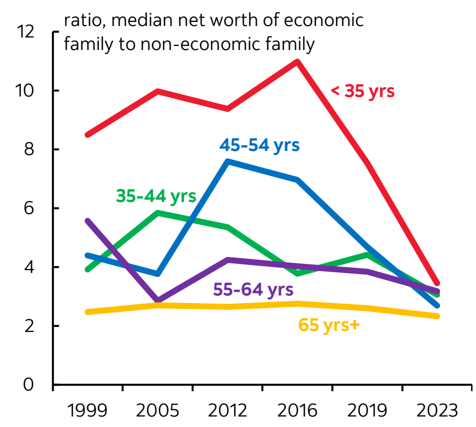
And the biggest *relative* gains in financial assets outside pensions accrued to younger households. Albeit from a lower base, the under-35 cohort saw a near-doubling in financial assets since 2019 (chart 8). Though micro data are pending, Statistics Canada observed that more young families are amassing wealth outside principal home ownership. The agency reported that 15% of those under 35 who rented their principal residence and had no employer pension plan had a net worth greater than $150 k. That share was just 5% in 2019.

MIND THE GAP(S)

Not all was picture perfect. There were serious red flags for pension assets. Notably, employer-sponsored pension assets declined for the first time in the series' history both in aggregate terms (-12%) and median household values (from $191 k to $157 k) since the last survey. There was a contraction in median values across all ages, albeit with a higher share of younger households (<45) with these plans that may account for some of the headwinds to

Chart 6

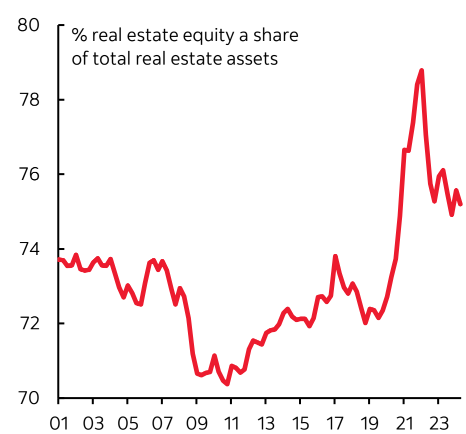
Family Matters (Less)



Sources: Scotiabank Economics, Statistics Canada.

Chart 7

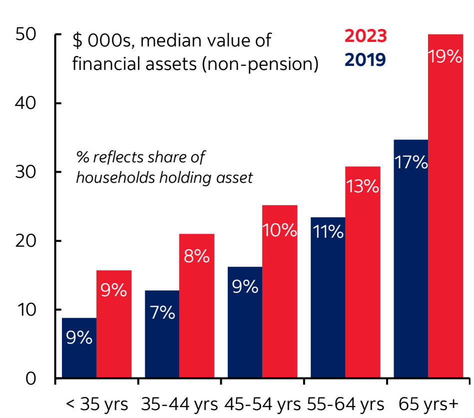
Canadians Hold More Equity In Homes



Sources: Scotiabank Economics, Statistics Canada.

Chart 8

Financial Asset Gains Across the Ages

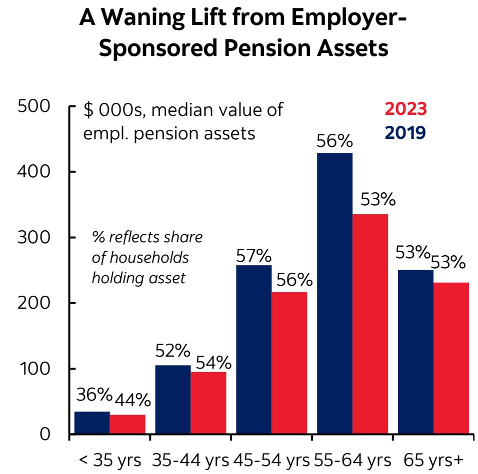


Sources: Scotiabank Economics, Statistics Canada.

median metrics. Among older households, both the share and the median value declined. Registered pension assets increased marginally, but not quite enough to keep private pension assets whole (chart 9).

Lifetime renters are also seriously exposed to financial vulnerabilities over the long run. While Statistics Canada has not yet released the full data set in this regard, these gaps have been well-channeled for some time. It is a safe bet that differentials have deteriorated since the last print against home equity appreciation and escalating rent prices eating into disposable income. In Canada, failure to get on the housing ladder in younger years has traditionally had a compounding impact on financial security at pre-retirement. Causality is far more complex, but the end-effect is gaping: Statistics Canada notes that a pre-retirement household with a primary residence and employer-sponsored pension plan had a median net worth of $1.4 mn versus one with neither at just $11.9 k.

Chart 9



Sources: Scotiabank Economics, Statistics Canada.

DON'T BLINK

Sentiment remains subdued and this data release will not shift that mood. Canadians are still preoccupied with a broad array of real and perceived economic, social and geo-political issues. But households and policymakers cannot likely bank on a repeat of that 2023 snapshot. There were a host of pandemic-related factors at play behind many of the drivers of income and wealth creation, as well as unique circumstances that dampened debt accumulation. As pandemic factors drop out, wealth accumulation is likely to revert to fundamental drivers.

Policymakers would be wise to focus on fixing some of the cracks instead of fueling broad-based discontent. A short list would be exploring new savings incentives for lifetime renters; modernising the private pension landscape, and better targeting household transfers to those most deeply vulnerable. Reinforcing the foundational drivers of sustainable wealth creation is also an imperative if Canadian households hope for an *encore* (if they noticed the first act).