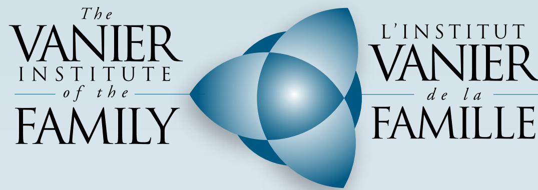


FAMILY FINANCES

The Current State of Canadian Family Finances

2009 REPORT

Roger Sauvé
People Patterns Consulting

FEBRUARY 2010

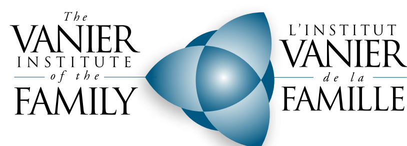
About the Institute

The Vanier Institute of the Family was established in 1965 under the patronage of Their Excellencies Governor General Georges P. Vanier and Madame Pauline Vanier. It is a national voluntary organization dedicated to promoting the well-being of Canada's families through research, publications, public education and advocacy. The Institute regularly works with businesses, legislators, policy-makers and program specialists, researchers, educators, family service professionals, the media and members of the general public.

The Current State of Canadian Family Finances is an annual report which monitors trends in family income, expenditures, savings and debt.

The opinions expressed in this report are those of the author and do not necessarily reflect the views of the Vanier Institute of the Family.

Ce rapport est disponible en français.



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The Current State *of* Canadian Family Finances

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TECHNICAL NOTE

We are back again. This 11th annual report updates the current state of family and household finances up to the year 2009. The report examines incomes, spending, savings, debt, and net worth across family and household types.

Families are the main focus of this report, but the latest detailed Statistics Canada family income indicators only go to the year 2007. (See appendix tables A and B) More timely information is available for the total personal sector and these data are used to provide many of the estimates for all households up to the year 2009. Households include both families and unattached individuals. About two-thirds of households are family households and, thus, the recent trends for households provide a good "directional" guide to what is happening for families.

For ease of understanding and to make the results more relevant, most measures have been converted to a per-household or per-family basis. Household numbers for the years 1990 to 2007 are derived from Statistics Canada*, Income in Canada, 2007*. Household numbers for 2008 and 2009 are assumed to grow at the same percentage rate as in 2007.

In this report, many dollar estimates are in 2007 dollars and, as such variations over several years represent changes in real purchasing power after inflation. The term "real" indicates what would have happened if there had been no inflation. Inflation is measured using the Consumer Price Index. All measures incorporate updates and any recent revisions by Statistics Canada.

Much of the analysis relates to the period 1990 to 2009, with emphasis on the time period that is labeled "so far this decade" or on the latest year available, depending on the data series. The year 1990 was chosen as the beginning year in order to highlight longer term changes.

Almost all of the background data comes from Statistics Canada.[1] The author did many additional calculations. Any opinions, errors and omissions are the responsibility of the author.

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HIGHLIGHTS OF THE 2009 REPORT – FEBRUARY 2010

The recession came and a recovery now seems to be underway - The global economy was hit hard. Canada was hit hard. Canadian households were hit hard. It seems that the economy is now in a slow recovery. Even so, many challenges remain. Several features will help shape the economic outlook in Canada.

- Interest rates are at record low levels and are likely to remain there for at least several more months before moving up again.
- Government deficits are at record high levels with ongoing deficits and growing debt foreseen for several more years.
- Governments will begin to apply "exit" strategies to reduce deficits, and pull back on the monetary and fiscal levers. This will involve rising interest rates, spending cuts, tightening mortgage terms, and tax increases.

Households faced difficult recession realities - Employment fell sharply, aggregate wages shrank, net worth dipped, households held back, and saving has come back in dramatic style. Bankruptcies and arrears climbed.

Average debt loads climbed to $96,100 in 2009 - In contrast to past recessions, households continued to borrow more this time. The debt to income ratio jumped to a new high of 145%. Under one scenario, some 1.3 million households could have a vulnerable or dangerously high debt service load by the end of 2011.

Housing prices likely in a bubble - House prices in October-November 2009 increased to about $340,000, equal to 5 times the average after tax incomes of Canadian households. The long-term average is 3.7 times. Higher interest rates, possible changes in mortgage terms, more new listings, and the realization that current prices are unsustainable may cause the bubble to burst.

The 2000s was a decade of debt while the 1990s was a decade of sagging savings - In the 2000s, asset growth was less than half the pace of the 1990s while the growth in debt was twice as rapid. The opposing trends for assets versus debt brought about a much reduced growth in wealth in the 2000s. The 1990s were a decade of sagging savings.

Poverty on the rise and the rich get a growing piece of the pie - Poverty levels jumped during each of the last two recessions and are likely doing so now. Only the richest fifth of families increased their share of total family incomes ... the rest got less over the last two decades.

Special report on household spending in the 2000s decade - Out of pocket medical expenditures far outpaced all other major groups of expenditures. At the detailed level, pet care grew the fastest and child care expenses at home declined the most. The recession contributed to a 6% dip in personal income tax payments.

INTRODUCTION - *It has been quite a year*

The global economy was in a real mess when we were preparing the 10th annual report a year ago. There was a freeze in world financial markets and banks were even afraid to lend to themselves.

At that time, the Bank of Canada in its *Financial System Review* suggested that "the global financial system is experiencing its most severe crisis since the 1930s."[2] Many have since labeled the aftermath as The Great Recession.

Beginning in earnest in the middle of 2008, governments and central banks everywhere began to take concerted actions to unblock the credit markets and to provide stimulus to stop or at least slow the economic downfall. Canada was quick to follow suit on monetary actions but delayed much of its fiscal stimulus until the passage of the 2009 federal budget.

Now a year later, the Bank of Canada in its December 2009 *Financial System Review* is cautiously optimistic, noting that "[a]lthough the uncertainty surrounding the global economic outlook has diminished, it nevertheless remains elevated."[3] This is cautious optimism.

Of particular interest to readers of *The Current State of Canadian Family Finances* is the Bank of Canada's conclusion that, among five key risks to the Canadian financial system, only one has become more pronounced. That risk concerns household balance sheets in households that continue to take on more and more debt relative to income. This annual report has warned about this alarming trend in previous issues.

Many Canadians are worried about their debt loads. A recent Manulife Financial poll found "that paying down credit cards and lines of credit is a growing financial priority among Canadians."[4] About 28% pegged debt elimination as their main goal, up from 24% a year earlier, and marking a five-year high. The second priority is paying down the mortgage, and the third is saving for retirement. Will Canadians follow through with corrective actions … or is this just wishful thinking?

The global economy was hit hard by the recession. Canada was hit hard. Canadian households and families were hit hard.

The economy has clearly moved off the bottom and a slow recovery seems to be the consensus outlook. Even so, many difficulties and challenges remain. So far, much of the recovery has been the result of government fiscal and monetary stimulus. The global economy is still waiting for the private sector to play a bigger role.

Key features characterize the economic outlook in Canada:

- Interest rates are at record low levels and are likely to remain there for at least several more months.
- Government deficits are at record high levels with ongoing deficits and growing government debt foreseen for several more years.

- The Federal and Provincial governments, the Bank of Canada and CMHC (Canada Mortgage and Housing Corporation) will likely begin to formulate and apply "exit" strategies to reduce deficits and pull back on the monetary and fiscal levers that are now in place. This will involve hard choices, including rising interest rates, spending cuts, tightening mortgage terms *and* tax increases.

There are long years of recovery ahead.

PART ONE – *HOUSEHOLD RECESSION REALITIES*

How economists define recessions, bottoms, recoveries and expansions
Before looking at the impact of the recession on households, a few definitions are appropriate.

From an economist's perspective, a *technical recession* is deemed to occur when total output, usually measured by GDP and other major economic indicators, is clearly dropping and does so for at least two quarters in a row. Canadian output was in a downfall from the last quarter 2008 and into early summer 2009. That was the *recession*. The effects of the recession on such things as employment and family incomes will linger much longer.

When output stops falling, the economy has reached the *bottom* (technically the *trough*). Signs of growth typically begin to appear at the *bottom*. These signs did begin to appear in summer 2009 and continue to accumulate.

The next phase is called the *recovery* and lasts until the economy returns to where it was before the recession. October 2008 was probably the output peak in Canada. Thus Canada will be in a technical *recovery* until the economy gets back to that level. This could take several quarters or years and the path is far from certain.

The last phase is called an *expansion* and occurs when the economy grows beyond the previous peak.

This section looks at the short-term recession realities on individuals and families at the household level.

At the household level... the recession is* not *over
It is becoming more evident that a *technical* recession has ended and that a *technical* recovery is underway at the total economy level. But, no one should conclude that recession worries are over in the homes across Canada. From a household perspective, there will continue to be high unemployment for some time, income growth will remain weak, and there is an urgent underlying need for many families to repair and/or strengthen their household balance sheets. For far too many, there is too little income, too much spending, too little saving and too much debt.

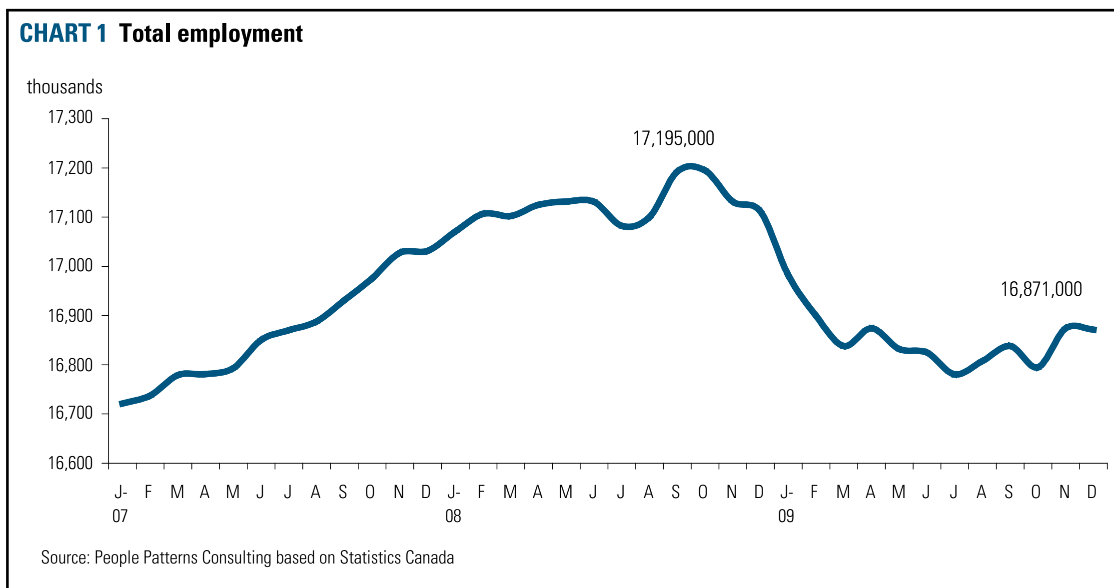
Luckily, families and individuals are not restrained by economist's narrow definitions. They use their

own definitions and what they see and hear around them. According to 4,283 respondents to a Pollara poll taken during the second week of December 2009, 61% of Canadians felt that Canada was still in recession.[5] This is a bit better than the 64% who said so a year earlier, but still in sharp contrast to only 19% who said so in 2007. The same survey found that 60% felt the recession had a negative impact on their family. Of those who said it had a negative impact, one in four said the negative impact was major.

In this section, the realities of the recession at the household level are presented in a series of six charts. The charts cover the years 2007, 2008 and include the latest information available for 2009. Other recession realities are examined in a medium to longer-term perspective elsewhere in this report.

Household recession reality #1 - Employment fell sharply

For many people, having a job, or not, is a very personal indicator of economic hardship. The peak for jobs was in October 2008 when employment numbers hit the all time high of 17,195,000. From the peak to the bottom in July 2009, on a net basis, over 410,000 jobs disappeared. Since July, a hesitant recover is underway. The Pollara survey noted above found that in December 2009, 25% of respondents still believed that it was either "somewhat or very likely they or someone in their household may lose his/her job in the next 12 months."[6] This is not much better than the reading of 31% a year earlier.



There were some clear losers and winners. From the peak to the bottom in July 2009, half of the job losses were among youth aged 15-24 as their unemployment rate reached its highest level since 1977. Men aged 25-54 saw about 200,000 jobs evaporate while women aged 25-54 lost over 100,000 jobs. The job winners were women aged 55 and up (+61,000 jobs) and men in the same age group (+27,000 jobs). Many older workers held on to their jobs in the face of worsening financial prospects for retirement.

The official unemployment rate was at a 30-year low in October 2008 (6.2%) and jumped to about 8.5% by mid-summer 2009, and has remained near there. An alternate unemployment rate (which includes discouraged persons who have given up looking for a job plus those waiting for recall and those working part-time until a full-time job becomes available) increased to almost 12% in July from less than 9% in October 2008.

The number of unemployed was still at a staggering 1.6 million in December 2009 compared to "only" 1.2 million in October 2008.

The number of people receiving employment insurance cheques in October 2009 stood at over 800,000 and was 62% higher than a year earlier. Many of these have seen their payments expire without having found a new job. Many others who did lose their jobs never qualified to collect. The stress has or will worsen for these unemployed persons.

Household recession reality #2 - Aggregate wages shrank

Aggregate wages and salaries (the total wage pie) earned by all workers were increasing at an annual rate of 6% to 7% during much of 2007 and into 2008. This was due to growing job numbers, respectable hours and moderate increases in wages per worker. At the peak in October 2008, aggregate wages and salaries were still 5% above the previous year. Then the recession hit and the slide began. By mid-summer 2009, the increases had turned into decreases of about 1% relative to the previous year.

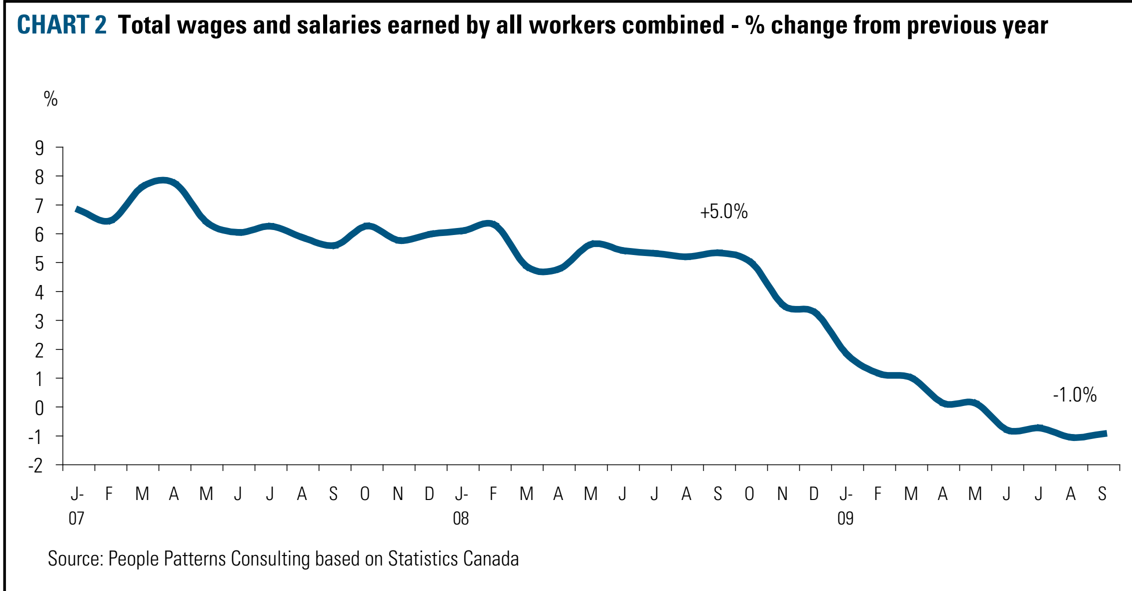
Pay hikes, as measured by average weekly wages and salaries, also decelerated sharply beginning in November 2008. By April 2009, the annual increase had shrunk to only 1% and holding. Even this 1% may not be sustainable as wage settlements in the private sector in September 2009 were only half of what they were a year earlier.

Prior to the recession and the job losses it entailed, there was widespread concern about labour shortages, particularly within the business community. This is no longer the case.

A Bank of Canada quarterly survey asks firms whether a shortage of labour is affecting their ability to meet the demand from their customers. During the third quarter 2008, some 36% of firms indicated that they had a labour shortage. This plunged to only 7% in the fourth quarter 2009, the lowest reading since the survey started in 1997.

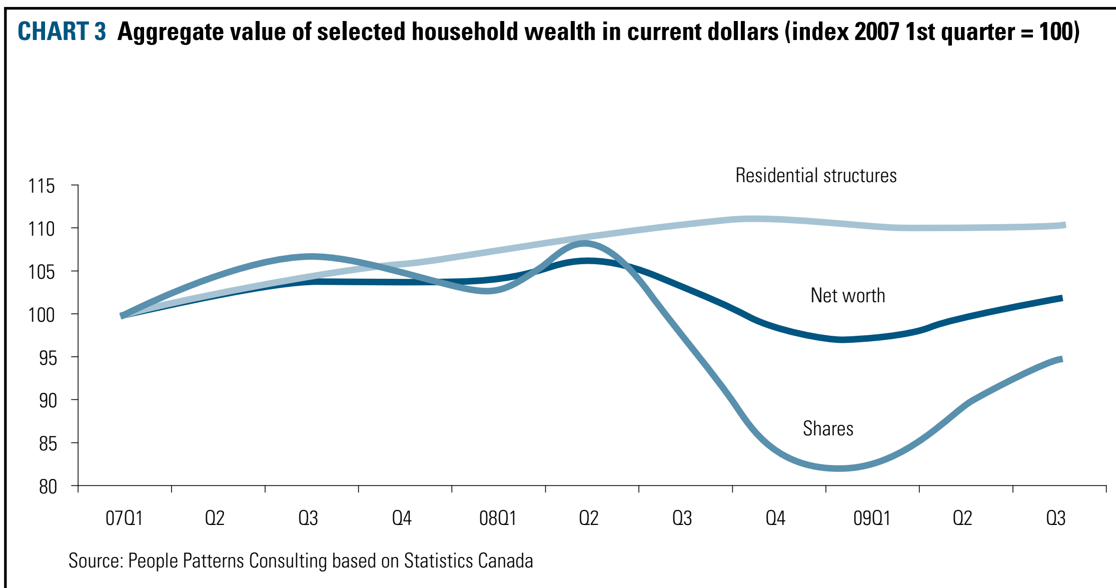
Demand will need to pick up sharply before significant progress is made in reducing unemployment and slowing the downward trend in wages.

There is a positive side to this recession. Inflation, as measured by the Consumer Price Index, dipped into negative territory during much of 2009. Even so, the "core" inflation rate (excludes volatile items such as fruit, vegetables and gasoline) continued to increase within the 1% to 2% range during much of the year.



Household recession reality #3 - Net worth dipped

Many families and individuals have gone through agonizing periods over the last few years. Many, who once felt rich suddenly felt poor, or felt that they were "not as rich as you think" as their wealth plummeted. The decline and increased volatility in net worth is of great concern to many seniors and near-seniors that are relying on their investment portfolios to support their retirement.



The total net worth or wealth of the personal sector hit $6 trillion dollars at the end of the second quarter 2008. It then dipped to $5.4 trillion by the end of March 2009, a fall of 10%. Net worth recovered about half of the decline by the end of September 2009 and improved further in the fourth quarter 2009.

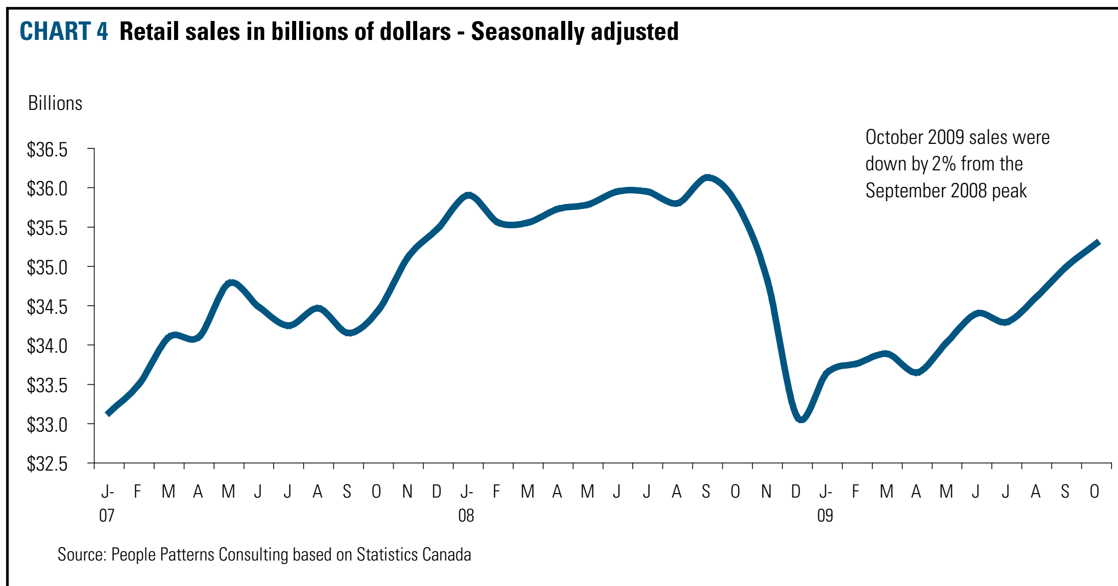
Much of the dip in net worth was caused by the steep decline in the value of shares, that dropped by almost one-quarter in value between the end of the second quarter 2008 and the end of the first quarter 2009. This was followed by a 15% recovery by the end of the third quarter 2009, with further improvements since then.

The deterioration in net worth would have been much worse had the housing market moved in line with the economic fundamentals ... it did not. Housing may have entered a *bubble* marked by rapidly escalating prices. A recent Nanos Research survey found that "Canadians are six times more likely to say the value of real estate in their neighbourhood will gain in the next six months than they say it will fall, with 46 per cent of respondents saying they expect prices to increase."[7] (See chart 10 for more on house prices.)

Household recession reality #4 - Households cut back

Given the downturn in the economy, in jobs and in wages, it should come as no surprise that households cut back on their spending. Retail sales plummeted by about 8% from their September 2008 peak to December 2008. Spending has been on a slow, erratic, recovery since then. Retail sales in October were still down by 2% from the previous peak. Some of this spending was financed by more debt.

CHART 4 Retail sales in billions of dollars - Seasonally adjusted



Source: People Patterns Consulting based on Statistics Canada

The special report in PART THREE provides a more comprehensive look at the divergent personal spending patterns over the 2000 to 2008 period and during the recession year from the third quarter of 2008 to the third quarter of 2009.

Household recession reality # 5 – Saving... back in style to stay?

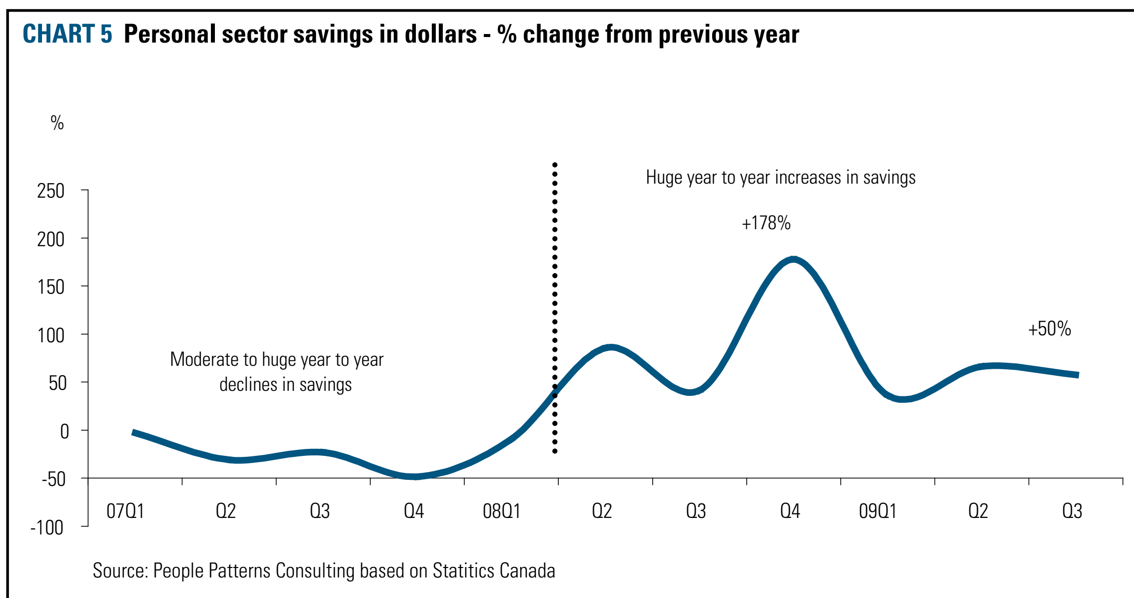
One of the most startling features of the recession has been the huge push to higher savings. Frugality may be back in style. Let's hope so. Many families need to maintain this frugality for much longer to restore their frail financial situations. This is impossible for those who, even now, can only afford the basic necessities of life.

This savings binge started early in the recession, as the actual number of dollars saved jumped by 178% in the fourth quarter 2008 (the first quarter of recession) over the same quarter a year earlier. Much of this reflected the panic felt by families and individuals as jobs disappeared, incomes shrank, and net worth declined. Year over year growth in savings moderated somewhat over the next three quarters, but even so, households were saving 50% more in the third quarter 2009 than they did a year earlier. This has been good for personal bank accounts and a sense of family security but much more still needs to be done.

Before the recession started, the personal savings rate was about 2% and has now more than doubled to nearly 5% during the last four quarters. This is a huge shift in attitude and behaviour by households. The critical question is whether or not families and individuals are convinced, scared enough, and/or prudent enough to permanently reverse the negative saving trends of the last two decades.

While some households are saving a lot more, others are increasing their debt loads. Some may be doing both. The growth in household debt continues to advance at a pace of 7% to 8% relative to the previous year. This has been the case since since early 2008. This increase in debt and the decline in incomes pushed the debt to income ratio to a new record high of 145%.

CHART 5 Personal sector savings in dollars - % change from previous year



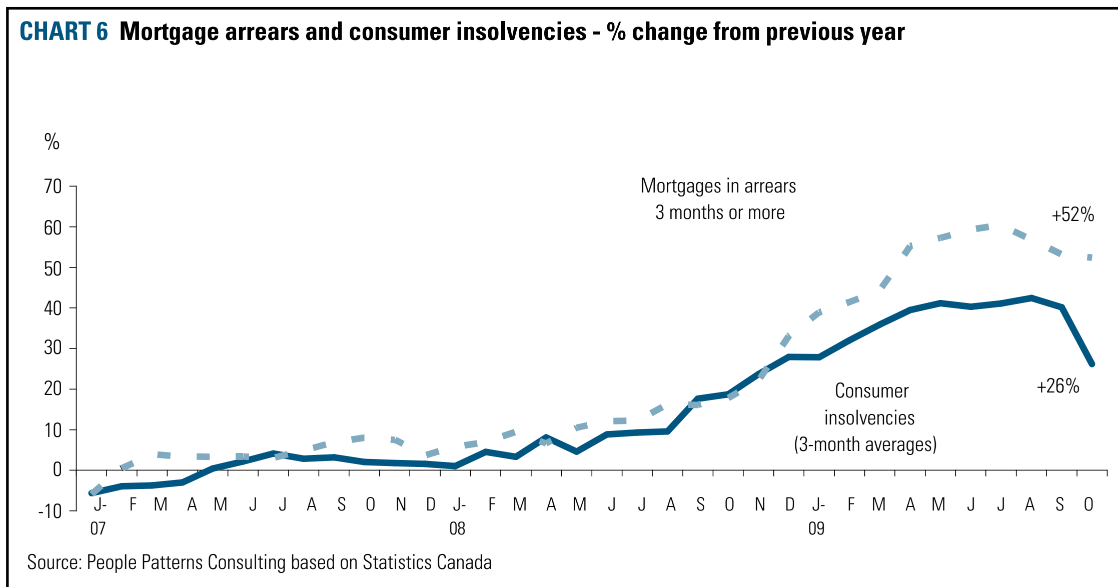
Source: People Patterns Consulting based on Statitics Canada

Household recession reality # 6 – Bankruptcies and arrears climb

The recession has been especially hard on many people who owe money or who have very little money to begin with. A December survey by Ipsos Reid found that 26% of respondents earning less than $30,000 per year said the recession affected them a lot, compared to 18% for families making $30,000 to $60,000, and to only 15% for households earning over $60,000.[8]

The number of consumer insolvencies was up by 26% (3-month moving average) in October 2009 from a year earlier. The year to year increase had been as high as 42% in mid-summer 2009.

Delinquencies rose. Mortgages held by chartered banks, which are 90 or more days in arrears, were up by over 50% in October from a year earlier. Visa and Mastercard credit card holders, who were delinquent for at least 90 days, were up by over 40% in July from a year earlier.



PART TWO – *THE MEDIUM-TERM PERSPECTIVE*

A few differences this time around

The current recession has some of the markings of the last recession. During the last recession in the early 1990s, household incomes fell and spending fell. This has happened again. *(See Chart 7.)*

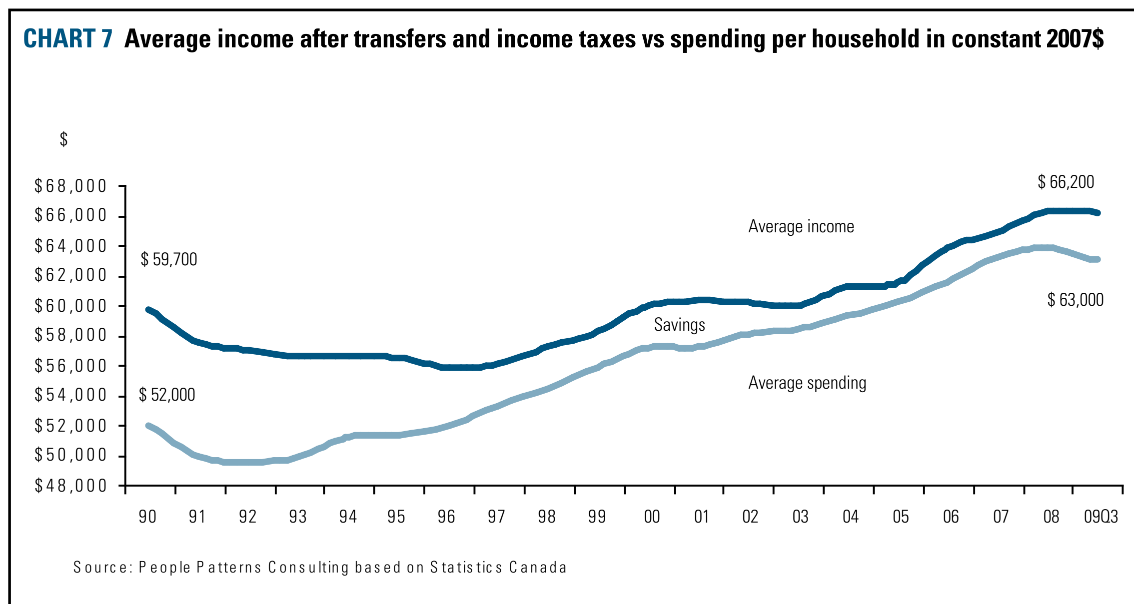
The difference this time around was occurrence of *both* a rapid jump in savings and continued growth in personal debt.

Are the people doing the extra savings the same people who are taking on the additional debt? Are they different groups? It is not clear, and the answers will not be known for several years, if ever.

There are indeed a lot of people in Canada who have the ability to save more and/or cut back on discretionary spending. They have likely held on to their jobs throughout the recession (over 90% of labour force participants are still employed), even if they probably lost some of their wealth over the last year or so.

There are many other people who do not have the luxury of either saving more and/or cutting back. Many live pay cheque to pay cheque and are using credit as a security blanket. In time, many accumulate more debt than they can handle. A September 2009 survey by the Canadian Payroll Association found that "59% of Canadian employees report that they would have trouble making ends meet if their pay cheque was delayed by even one week."[9]

CHART 7 Average income after transfers and income taxes vs spending per household in constant 2007$



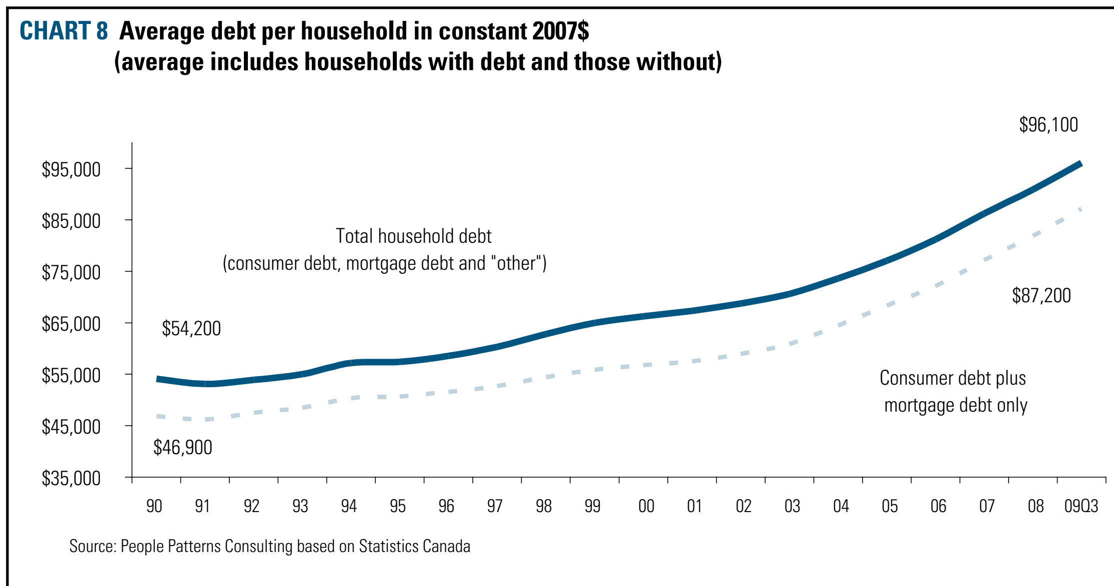
Source: People Patterns Consulting based on Statistics Canada

There is one group that has clearly taken on additional debt. These are young first-time home buyers. Many in this group have recently assumed high ratio mortgages at record low interest rates and with long amortization periods. Will they be able to afford their monthly payments when interest rates go up? Many are already having problems. The survey noted above found that about two-thirds of those

aged 18-34 would be pinched if their pay cheque was delayed by even one week. Many of these are the first-time home buyers.

Debt loads continue to expand

The average debt per household hit $96,100 in the third quarter 2009 or $87,200 if only consumer debt and mortgage debt are included. Both are at new record highs. Total debt per household advanced 5.7% in real terms during the last year. (See appendix C.) In the latest year, consumer credit advanced by 7.5% per household while mortgage debt advanced by 6%. "Other debt" held mostly by unincorporated businesses, which are part of the household sector, actually declined. This suggests that small businesses may be having some difficulties accessing credit.



Debt to income ratio jumps again

The debt to income ratio moved up to 145% at the end of the third quarter 2009. This is another new record. (See appendix C.) Given the trends evident in the first part of 2009, the Bank of Canada estimates that this ratio could be up to 160% by the end of 2012.[10] This ratio has been found to be a key determinant of personal bankruptcies.[11]

A more precise indicator of the burden of debt has been developed by the Bank of Canada. In the third quarter 2009, about 6% of all Canadian households (about 825,000 households) had a DSR (Debt Service Ratio) that exceeded 40%. The DSR measures the percentage of gross income spent on household debt plus payments on the principal. These high DSR households are in a very vulnerable position and the Bank of Canada model assumes that one out of every four households in this situation will eventually default.

The Bank of Canada created two scenarios to see what percentage of households would be in this vulnerable situation given current trends in the debt to income ratio, and if the average cost of borrow-

ing increased by the end of 2011. In the first scenario, interest rates increase by about half a percentage point, and, in the second scenario, they increase by about one percentage point.

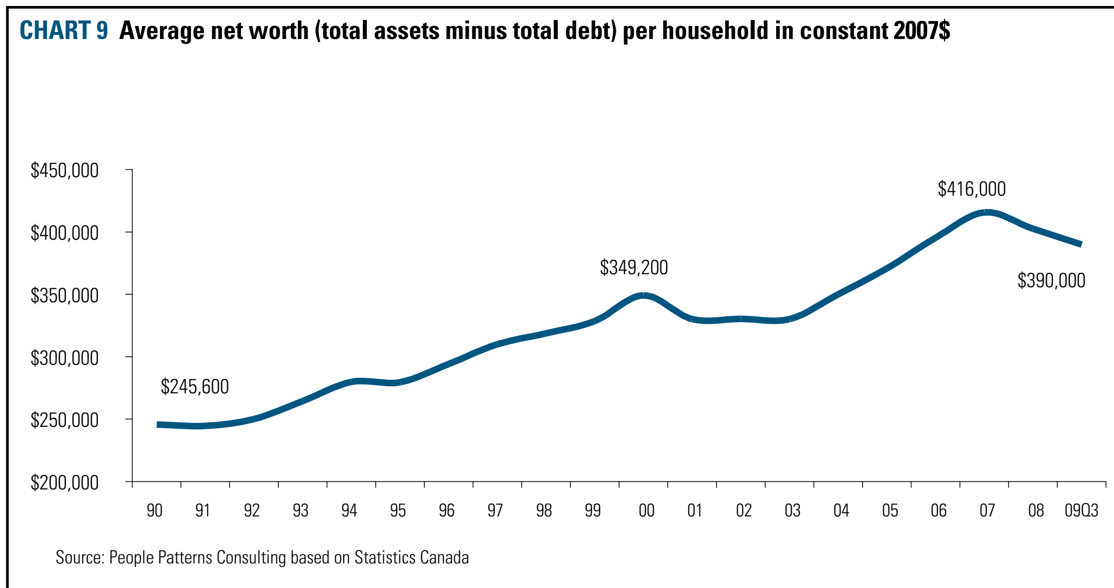
Under the first scenario, there would be about 1.1 million households with a high DSR at the end of 2011. Under the second scenario, there would be approximately 1.3 million households with a high DSR at the end of 2011. These are increases of 30% or 50% from the third quarter 2009 situation.

As worrisome as these numbers are, the average cost of borrowing could easily increase by much more than the percentages assumed in these two scenarios. A two percentage point hike could easily cause the number of households with this dangerously high DSR to climb to 1.5 million or so. This would represent an increase of about 80% from the situation in the third quarter 2009 in the number of households with a dangerously high DSR.

Net worth still below 2007 peak

As of the end of the third quarter 2009, the average net worth (total assets minus total debt) per household stood at about $390,000 in constant 2007 dollars. This was down by approximately 6% from the peak of about $416,000 in 2007. That is a substantial decline of $26,000 per household. The decline was much deeper at the end of the first quarter 2009, but was reduced by a rapid improvement in share prices and the rebound in house values.

CHART 9 Average net worth (total assets minus total debt) per household in constant 2007$

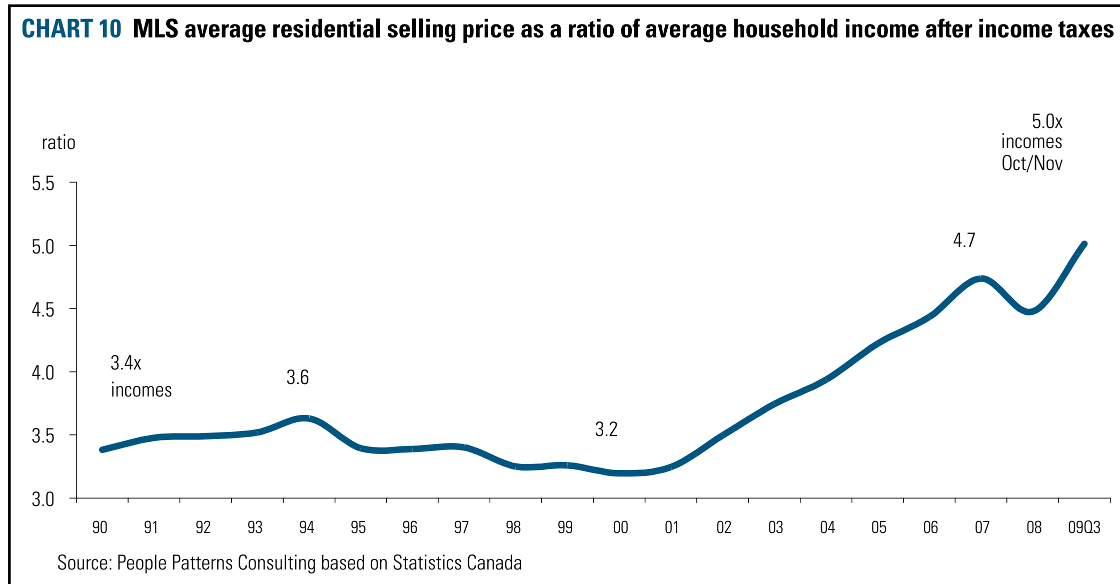


Source: People Patterns Consulting based on Statistics Canada

House prices way out of line with incomes... a housing bubble?

Average house prices in October-November 2009 increased to a new high of about $340,000. [12] This is equal to five times the average after tax incomes of Canadian households (all in current dollars). This

compares to only 3.2 times in 2000 and an average of 3.7 times over the two decades. Using this measure, Canada may already be in a housing price bubble. And bubbles do burst at some point.



Speculative buying seems to be playing a role in pulling up prices. A November 2009 Royal Lepage survey of 1,225 real estate agents found that 28% of the agents felt that sales for investment purposes had either increased "substantially or somewhat" over the latest three months while only 21% indicated that sales for investment purposes had declined "substantially or somewhat."[13]

Real estate assets now comprise 48% of the net worth of Canadian households and are the highest in two decades. A significant housing correction would clearly damage the balance sheet of many households.

House prices had corrected for a few months in late 2008 and early 2009 but took off again. Among several factors, the pickup reflects record low interest rates and the little reported fact that the Canadian government, via CHMC (Canada Mortgage and Housing Corporation), is now purchasing and/or insuring most new or renewed mortgages from banks. The statistics reveal that, over the last year, outstanding mortgages held by banks have basically been flat while NHA (National Housing Act) securitized holdings (held by CMHC) are up by one-third and thus represent almost all of the growth in residential mortgages outstanding in the last year. As such, the risk of falling house prices is increasingly held by the taxpayer.

What might happen if the average house price was only 3.7 times (the two decade average) the average household income after income taxes? The house price would be about $250,000 or back down to 2005 levels. This $250,000 price is 26% below the October-November price of $340,000. A quick return to the "traditional" house-price to income ratio would be very difficult for people who recently purchased at high prices.

CMHC has designed an affordability model to help potential buyers calculate how much house they can afford.[14] Their model is based on gross income, which is before payment of income taxes. With a gross income of $86,200 (the average in the third quarter 2009), a buyer could handle monthly mortgage payments of approximately $1,500 plus $800 in monthly property taxes and heating bills. This total monthly payment ($2,300) is equal to 32% of monthly gross income ($7,180). A 32% guideline has traditionally been used as the benchmark for a safe and conservative mortgage. Other debts or leasing costs could potentially bring the monthly payment up to 40% of gross income and still qualify for the mortgage insured by CMHC.

Using this model, a potential home buyer, with a gross income of $86,200, with a 5% down payment, who borrows at 5% interest, with a 35 year amortization period could buy a home worth $316,000 or 7% below the prices in October-November.

Now what might happen if mortgage rates increased to 7.5%? This is a reasonable assumption given that interest rates on chartered bank 5-year conventional mortgages were 7.5% as recently as December 2007. Keeping all the same assumptions, the buyer could only afford a home worth $242,000 or 29% below the October-November price. Rising interest would surely cause a downward pull on prices… and interest rates will rise.

There are many potential scenarios that would also tend to deflate house prices, including higher down payment requirements or shorter amortization periods. The possibility of these changes are under discussion.

Other analysts are also beginning to worry about a housing price bubble. A December report by David Rosenberg of Gluskin Sheff suggests that “housing values are anywhere between 15 per cent and 35 per cent above levels we would label as being consistent with the fundamentals.”[15] A fascinating website hosted by Garth Turner, former MP and author of The Greater Fool is also raising serious concerns about high house prices.[16]

The conditions are in place for a correction in house prices; when and by how much is the difficult question.

Decade of sagging savings followed by a decade of debt

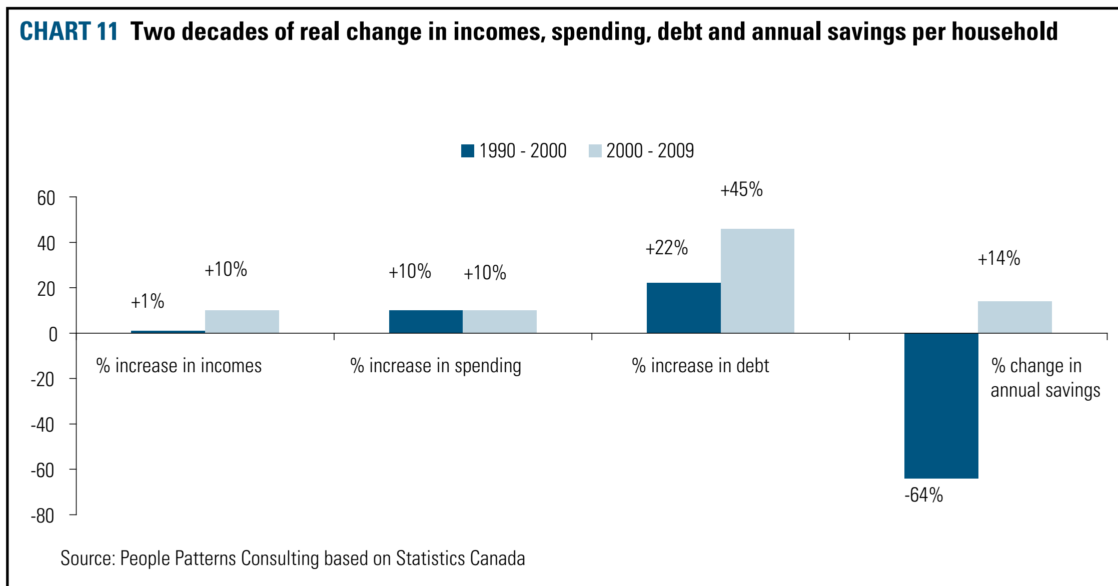
From a household and family finance perspective, how can we categorize the last two decades? Were these two decades different? Yes, they certainly were. Charts 11 and 12 use the starting and ending years of each decade to examine changes in household income, spending, debt, savings, assets, and net worth. There is a clear pattern that makes each decade unique.

From a household perspective, the 1990s was a decade of *sagging savings* as annual savings plummeted by two-thirds between 1990 and 2000. Annual savings per household collapsed from about $7,700 in 1990 to only $2,800 in 2000. The rather small increase of 14% in annual savings in the 2000s was totally due to advances in the last two years. *(See chart 5.)*

The 2000s was *a decade of debt*. In percentage terms, debt per household advanced by 45% during the 2000s - more than double the 22% advance in the 1990s. In real dollars terms, average total debt per household increased by about $30,000 during the 2000s compared to a much smaller $12,000 during the previous decade.

Both the 1990s and the 2000s saw spending per household rise by about 10%. In the 1990s, this increase was financed by both rising debt and a sharp decline in annual savings. In the 2000s, this spending growth was paid for by a modest 10% advance in incomes and soaring debt (up 45%). This trend was mediated by a positive turnaround in annual savings, that occurred at the end of the period.

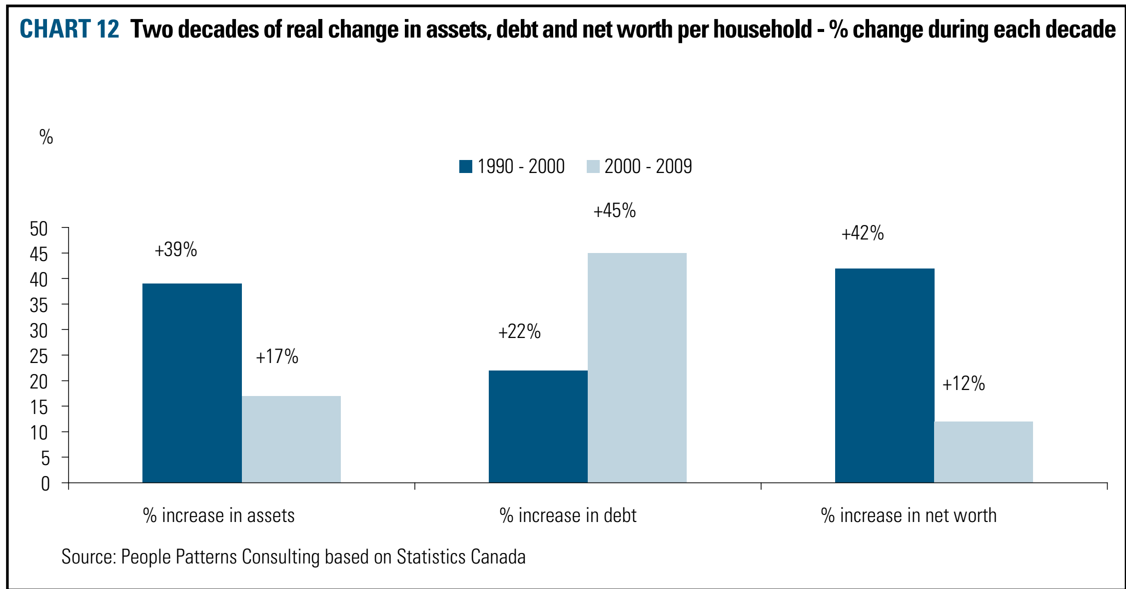
CHART 11 Two decades of real change in incomes, spending, debt and annual savings per household



Source: People Patterns Consulting based on Statistics Canada

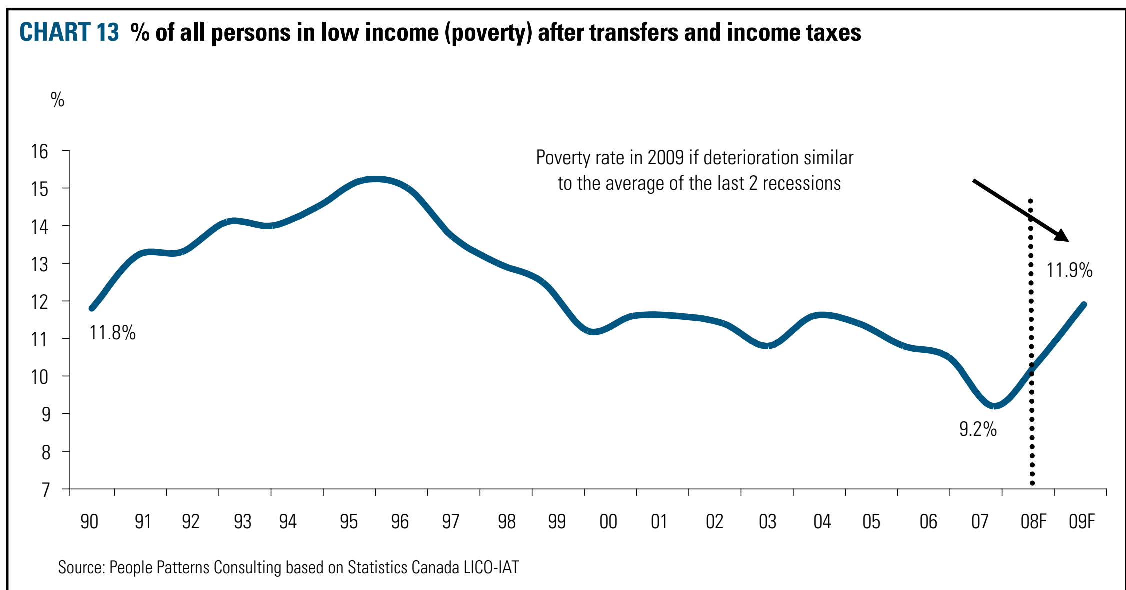
In the 1990s, real asset accumulation grew by 39%. Many of these assets were acquired using debt and some were paid for by reduced annual savings. The end result, on average, was a significant increase in wealth or net worth.

The 2000s were much different. Asset growth was less than half the pace of the 1990s while the growth in debt was twice as rapid. The opposing trends for assets (declining growth rate) versus debt (increasing growth rate) brought about a much reduced growth in wealth.



Poverty likely on the increase... again

The poverty rate tends to move up or down in relation to general economic conditions. This was so during the recession of the early 1990s: the poverty rate for all persons rose from 11.8% in 1990 to 15.2% in 1996, measured by Statistics Canada's low-income cutoff after income taxes. Subsequently, the rate declined fairly consistently until 2007 when it fell to 9.2%. The 2007 poverty rate was the lowest rate recorded over the period since 1976, when these data were first available. (Appendix B provides additional information on poverty in 2007.)



The exact impact of the recession on poverty for 2008 and 2009 will not be known until the new numbers are tallied a few years from now. It is very likely that poverty is already moving up. The experience of

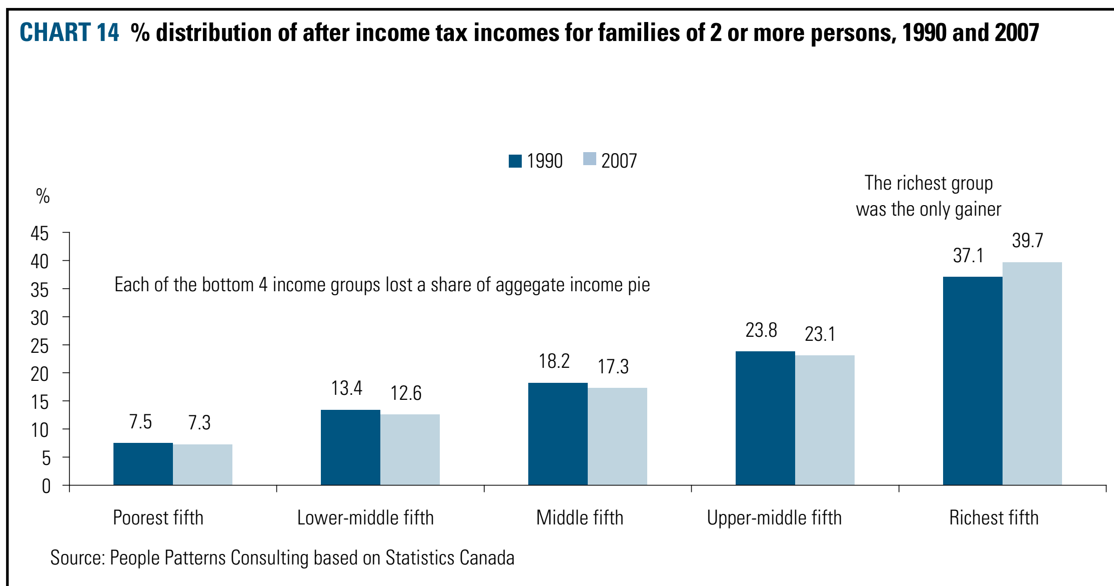
the past two recessions has shown that the poverty rate continued to rise *several years* after the low point in the economy, well after the turnaround in stock markets and economic growth.

If the poverty rate in the current recession merely moved up, on average, in line with the past two recessions, the rate could be expected to average 11.9% in 2009, essentially back to where it was in 1990. Further increases are likely in 2010 and beyond. A report by the Institute of WellBeing concludes that "[i]t will most probably take many years, possibly up to a decade for poverty in Canada to return to its 2007 level."[17]

An early indication of current and future poverty trends may be found in the data on food bank usage. In March 2009, the number of people assisted by Canadian food banks was up by 18% from a year earlier. Conditions have worsened since then. A report prepared in October 2009 by the Ontario Association of Food Banks, *In the Midst of the Storm: The Impact of the Economic Downturn for Ontario's Food Banks in 2009*, revealed that "Ontario's food banks are under pressure due to growing unemployment, continually increasing food prices and rising demand. They have been forced to purchase more food, and in some cases ration the available supply of donations."[18] Conditions are difficult on the home front.

The richest gain an even bigger piece of the income pie

While average family incomes have risen over the last two decades, not all families have benefited equally. The long-term trends are fairly clear. The top fifth of families of two or more got a bigger share of all the incomes after income tax in Canada.



In 1990, the top fifth of families took in 37.1% of the incomes generated by all families in the economy. This increased to 39.7% by 2007.

In contrast, the share of total after tax incomes decreased for *each* of the other four income groups. The smallest loss was by the one fifth of families that already had the least. They garnered 7.5% of the pie in 1990 and 7.3% of the income pie in 2007. The three middle income groups all lost about the same proportion of the total income pie.

Other measures, such as the Gini coefficient, reach similar conclusions, albeit using a more complex analytical approach. More of the income pie is going to those that already have the most.

PART THREE – *SPECIAL REPORT ON HOUSEHOLD SPENDING IN THE 2000S*

The end of the first decade of the 21st century provides an opportunity to examine the buying trends of Canadian households during this last decade. There are a few surprises to be found.

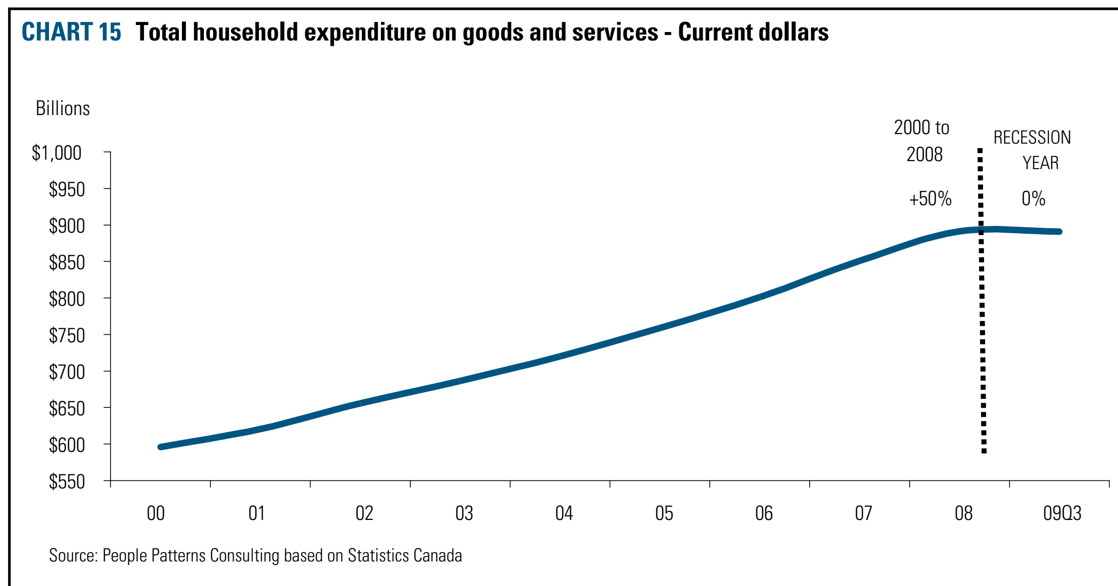
The major growth trends are highlighted for the years 2000 to 2008 as complete annual data are available for each of those years. Also included is the rate of growth (positive or negative) for the *recession year*, which is assumed to run from a peak in the third quarter 2008 to the third quarter 2009. The *recession year* data tells us a bit more about how households reacted to the recession…some expenditures declined but many increased.

The detailed growth estimates are presented in current dollars, including taxes paid. They are based on aggregate spending and not on a per household basis.

The analysis uses unpublished[19] National Economic Accounts data for 130 expenditure series based on a comprehensive and often complex Statistics Canada methodology.[20] Not all of the 130 series are included in this analysis since some are merely methodological in nature or are captured by other series.

Steady spending growth until 2008… then flat

The total amount of spending, in current dollars, rose from near $600 billion in 2000 to near $900 billion in 2008, a 50% increase. All growth numbers are based on aggregate spending in current dollars. (On a per household basis, the spending increase was about 30% in current dollars and 15% in volume terms.)



Total household spending increased every year from 2000 to 2008. There was a break in the recession year, as spending was basically flat from the third quarter of 2008 to the third quarter of 2009. Total spending was more stable than was evidence by the decline in the retail sales. (See Chart 4.) Retail sales comprise about one-half of all household expenditures. Retail sales exclude some of the more basic purchases such as housing, heating, childcare and other items that are not available in retail outlets.

Trends by major groups of expenditures – Medical care up the most

Table 1 provides spending growth estimates for eight major groups of expenditures. The groups are ranked according to their rates of growth in current dollar over the 2000 to 2008 period.

The recession year numbers indicate that expenditures rose in four of the eight major groups and fell in the other four. The biggest increase in the recession year was for medical care and health services (+6%) while a drop in oil prices caused the transportation and communications group (-7%) to fall.

TABLE 1 Change in household expenditures by major group, 2000 to 2008 plus recession year

Ranking of major groups of expenditures by rate of increase from 2000 to 2008	2000 to 2008 % change in expenditures	RECESSION YEAR % change in expenditures 3rd Q 2008 to 3rd Q 2009
Total expenditures	**50%**	**0%**
1- Out of pocket medical and health services	75	6
2- Furniture, furnishings, equip, maintenance	49	-1
3- Shelter, fuel and power	49	2
4- Miscellaneous goods and services	47	1
5- Transportation and communications	46	-7
6- Recreation, entertainment, cultural services	43	-1
7- Food, beverages and tobacco	42	5
8 - Clothing and footwear	29	-3

Source: People Patterns Consulting based on Statistics Canada, *Income and Expenditure Accounts*

Over the 2000 to 2008 period, the fastest growth was the 75% jump in out of pocket expenditures on medical care and health services. As noted above, growth continued in the recession year as expenditures advanced by another 6%. This major group is comprised of items that cannot be easily postponed, even in a recession.

The next six groups of expenditures all grew within a relatively narrow range of 42% to 49% over the 2000 to 2008 period.

For two of these groups (furniture, etc. and recreation, etc.), most of the growth (both +49%) came from advances in volume terms with very little coming from price increases.

In sharp contrast, the increased expenditures for the food, beverages and tobacco group (+42%) mostly reflected price increases.

The 29% advance in expenditures on clothing and footwear group might have been much higher if prices had not dropped sharply. The price declines were mainly due to the influx of lower-priced imported goods.

While not part of this data base, it is noteworthy that total income taxes paid by the household sector advanced by 33% from 2000 to 2008. This is significantly less than the growth of total expenditures which increased by 50%. In the recession year, income tax payments dropped by 6%. This, in part, contributed to growing government deficits in the recession year.

Expenditure growth: The Fastest 20 and Slowest 20

Tables 2 and 3 list the *Fastest 20* and *Slowest 20* growth items among 130 goods and services purchased by households over the 2000 to 2008 period.

The last column indicates how these items fared in the recession year.

It is noteworthy that only 6 out of the *Fastest 20* items (30%) shrank during the recession year while 12 of the *Slowest 20* items (60%) either shrank or did not grow at all during the recession year. This suggests that the items in the *Fastest 20* may be viewed as less discretionary and/or simply more desirable than are the items in the slower growing category.

Pet care expenses outpaced all other items in the decade

If you are among those who guessed the top growth item, you are probably a pet owner.

The fastest growing item from 2000 to 2008 was pet care, booming ahead by 123% and growing by another 9% in the recession year. Related purchases of pets and pet supplies ranked high in 13th spot. In 2008, exactly half of all Canadian households had pet expenses of one kind or another - roughly the same as a decade earlier.

Domestic services grew the second fastest (+96%) over the period. This largely reflects the increasing number of dual-worker households. These expenditures also continued to increase rapidly (+11%) during the recession year.

The move to “user pay” financing by governments was the major push behind the 93% jump in bridge and highway tolls.

Huge increases in lodging costs at universities (+93%), combined with rising university fees, including tuition and other fees (+79%), are certainly placing additional financial pressures on students and their parents.

TABLE 2 ***Fastest 20*** **growing expenditures (including taxes paid), 2000 to 2008 plus recession year**

Ranking out of 130 series by fastest increases from 2000 to 2008	% change in expenditures from 2000 to 2008	RECESSION YEAR % change in expenditures 3rd Q 2008 to 3rd Q 2009
Total expenditures	**50%**	**0%**
1 - Pet care	123	9
2 - Domestic services	96	11
3 - Bridge and highway tolls	93	-15
4 - Lodging in universities	93	4
5 - Pharmaceutical products, medical goods	91	4
6 - Cable television and pay television	88	8
7 - Taxis	83	9
8 - Stoves, ranges and microwave ovens	79	-2
9 - University fees	79	7
10 - Water, Sewage and Garbage services	79	11
11 - Motor fuels and lubricants	78	-22
12 - Moving and storage	77	-4
13 - Pets and supplies	75	5
14 - Property insurance	72	3
15 - Hospital care and the like	72	8
16 - Special care facilities	71	7
17 - Medical care, dental care and the like	70	7
18 - TV sets, video equipment, accessories	69	-7
19 - Parking	66	8
20 - Furniture	66	-6

Source: People Patterns Consulting based on Statistics Canada, *Income and Expenditure Accounts*, purchased data.

Four of the *Fastest 20* growing expenditures relate to out of pocket medical expenditures (#5, #15, #16 and #17). In Table 1, this major grouping was the fastest growing (+75%) among the major groups. Pharmaceutical products and medical goods purchases soared by 91%. Hospital care, special care, medical care, and dental care outlays all advanced by 70% to 72%.

Cable and pay television expenses ranked 6th (+88%) in terms of growth. Related expenditures on television sets, video equipment and other accessories ranked 18th (+69%).

Items ranked 7th (taxis at +83%), 11th (motor fuels and lubricants at +78%), 12th (moving and storage at +77%) and 19th (parking at +66%) all advanced much more rapidly in current dollars than in volume terms. There were significant price increases for all of these items.

The purchases of stoves, ranges and microwave ovens (8th), and furniture (20th) all increased more in volume terms than in current dollars. In both cases, prices declined over the 2000 to 2008 period.

Property insurance costs, ranked 14th in terms of growth, advanced by 72%, almost equally divided between additional purchases and price increases.

Child care in the home registers biggest decline in decade

Someone who is not up on both demographic and labour market trends might not have guessed the weakest item in our *Slowest 20* list.

Expenditures on child care in the home dipped by 15% from 2000 to 2008 and thus ranked as the biggest drop during the decade. Child care outside the home grew by 25% but still ranked 16th in the *Slowest 20* in terms of expenditure growth. Both grew during the recession year. In 2008, about 11% of households had child care expenses, roughly the same as in 2000.

Part of this slow growth in care expenses reflects the flat number of children under the age of five over the period. There were approximately 1.8 million of these young children in both 2000 and 2008. The decline in child care in the home combined with growth outside the home is due to the growing reality that more and more women are working outside the home. According to the latest *Canada Job Trends Update* report[21], 58% of lone-parents mothers with children under six years of age were in the labour force, 70% of mothers of young children with an employed spouse were in the labour force, as were 81% of lone-parent fathers.

The second biggest (-10%) decline was in pari-mutuel betting on horse races. Several race tracks have closed in recent years.

Only two other items (photographic services and office machines and computer equipment) registered absolute declines of 6% over the 2000 to 2008 period. Some of this decline was due to falling prices throughout the decade.

All of the other 16 items in the *Slowest 20* registered small or relatively small increases during the period. All of these growth numbers are much smaller than the 50% gain for all 130 items combined.

TABLE 3 ***Slowest 20*** **growing or declining expenditures (including taxes paid), 2000 to 2008 plus recession year**

Ranking out of 130 series by biggest declines or slowest growth from 2000 to 2008	% change in expenditures from 2000 to 2008	RECESSION YEAR % change in expenditures 3rd Q 2008 to 3rd Q 2009
Total expenditures	**50%**	**0%**
1 - Child care in the home	-15	3
2 - Pari-mutuel betting (horse racing)	-10	-4
3 - Photographic services	-6	3
4 - Office machines, computer equipment	-6	-8
5 - Furniture and appliance rentals	2	0
6 - Musical instruments and supplies	2	-1
7 - Laundry and dry cleaning	6	1
8 - Life insurance	11	2
9 - New automobiles	12	-19
10 - Men's clothing repairs and alterations	16	0
11 - Thread, yarn and sewing accessories	18	-3
12 - New trucks and vans	20	-9
13 - Men's and boys' clothing	23	-2
14 - Commissions paid to tour operators	24	-4
15 - Newspapers, books, mags, stationery	24	1
16 - Child care outside the home	25	4
17 - Alcoholic drinks in licensed premises	25	0
18 - Air transport	26	-5
19 - Paid lodging (excluding universities)	27	5
20 - Undertaking and other funeral services	27	3

Source: People Patterns Consulting based on Statistics Canada, Income and Expenditure Accounts, purchased data.

Items ranked 5th slowest (furniture and appliance rentals) and 6th slowest (musical instruments and supplies) both grew by only 2% in current dollars. These items also experienced significant price declines.

The item ranked 9th on the slow side was new automobiles sales which increased by only 12% from 2000 to 2008. This gain was all wiped out, and more, in the recession year as automobile purchases dropped by 20% in that one year alone.

Expenditures on men's and boy's clothing sales (+16%) and repairs and alterations (+23%) were moderate during the decade. Prices of men's clothing also declined during the decade.

Items ranked 14th to 20th all grew only half as fast as the average for all items.

Alcoholic beverages purchased in licensed premises (ranked 17th) increased by 25% during the 2000 to 2008 period, while alcoholic beverages purchased in stores (not listed) increased by about 50%.

Final thought

Tracking how families and individuals are doing financially is always a challenging task. The trends are influenced by current economic conditions, by the changing labour market, by the introduction or demise of products and services, by changing tastes, by the changing distribution of incomes and wealth, and by changing demographics.

It is our hope that the annual reports produced (11 so far) have provided a better understanding of the many diverse forces influencing Canadian family finances.

See you again next year.

APPENDIX A - Average incomes of families and unattached individuals, low-income gap and share of incomes after transfers and income taxes

	constant 2007$			% change over selected periods		
				Entire period	So far this decade	Latest year available
	1990	2000	2007	2007/1990	2007/2000	2007/ 2006
All households	$48,000	$50,700	$57,400	*19.6%*	*13.2%*	*3.6%*
All families of 2 persons or more	58,100	63,000	71,900	*23.8*	*14.1*	*4.1*
Senior families of 2 persons or more (65 and over)						
Senior married couples	42,900	44,000	52,700	*22.8*	*19.8*	*6.9*
Other senior families	56,600	50,300	59,300	*4.8*	*17.9*	*2.4*
Non-senior families of 2 persons or more (under 65)						
Married couples without children	55,100	59,900	70,000	*27.0*	*16.9*	*4.2*
One earner	46,900	48,500	56,400	*20.3*	*16.3*	*5.0*
two earners	61,300	67,800	77,500	*26.4*	*14.3*	*2.9*
Married couples with children	63,600	71,100	82,000	*28.9*	*15.3*	*5.1*
One earner	46,500	51,900	58,700	*26.2*	*13.1*	*4.6*
two earners	63,100	72,200	81,400	*29.0*	*12.7*	*5.0*
Female lone-parent	28,200	32,800	39,500	*40.1*	*20.4*	*4.5*
Male lone-parent	43,500	47,000	52,100	*19.8*	*10.9*	*-6.5*
All families of 2 persons or more by province						
Newfoundland	47,600	49,400	59,500	*25.0*	*20.4*	*9.4*
Prince Edward Island	49,400	51,600	58,300	*18.0*	*13.0*	*1.7*
Nova Scotia	51,600	54,100	60,900	*18.0*	*12.6*	*1.2*
New Brunswick	49,100	53,000	57,800	*17.7*	*9.1*	*3.6*
Quebec	51,700	55,200	61,800	*19.5*	*12.0*	*2.3*
Ontario	64,800	71,700	76,600	*18.2*	*6.8*	*3.5*
Manitoba	53,600	55,900	67,100	*25.2*	*20.0*	*5.8*
Saskatchewan	50,600	54,100	67,700	*33.8*	*25.1*	*4.8*
Alberta	59,600	67,200	86,600	*45.3*	*28.9*	*5.4*
British Columbia	59,200	59,500	73,700	*24.5*	*23.9*	*6.0*
Unattached individuals (living alone or with someone who is not related)						
Total	25,500	25,600	29,800	*16.9*	*16.4*	*2.4*
Senior males (65 and over)	24,400	25,100	31,000	*27.0*	*23.5*	*8.8*
Senior females (65 and over)	21,400	22,500	25,800	*20.6*	*14.7*	*-1.1*
Non-senior males (under 65)	28,900	28,800	32,700	*13.1*	*13.5*	*0.9*
Non-senior females (under 65)	24,200	23,400	27,800	*14.9*	*18.8*	*4.5*
Average income gap - $ needed to escape poverty (low-income cutoff)						
All families of 2 persons or more	7,900	7,900	7,200	*-8.9*	*-8.9*	*1.4*
Unattached individuals	5,600	6,600	6,500	*16.1*	*-1.5*	*-1.5*
% share of after transfer and income tax incomes - all families of 2 persons or more by income groups (change is in percentage points (pp))						
Poorest fifth of families	7.5%	6.9%	7.3%	*-0.2 pp*	*0.4 pp*	*0.0 pp*
Lower-middle fifth of families	13.4%	12.6%	12.6%	*-0.8 pp*	*0.0 pp*	*0.0 pp*
Middle fifth of families	18.2%	17.4%	17.3%	*-0.9 pp*	*-0.1 pp*	*-0.0 pp*
Upper-middle fifth of families	23.8%	23.3%	23.1%	*-0.7 pp*	*-0.2 pp*	*-0.1 pp*
Richest fifth of families	37.1%	39.8%	39.7%	*+2.6 pp*	*-0.1 pp*	*0.1 pp*

Source: People Patterns Consulting based on Statistics Canada, Income in Canada, 2007

APPENDIX B - Families and unattached individuals with low-incomes (poverty) after transfers and income taxes

	% with low-incomes (poverty)			change in percentage points during		
				Entire period	So far this decade	Latest year available
	1990	2000	2007	2007/1990	2007/2000	2007/2006
All households	15.9%	16.8%	13.3%	*-2.6pp*	*-3.5 pp*	*-1.3 pp*
All families of 2 persons or more	9.1	9.0	5.8	*-3.3*	*-3.2*	*-1.2*
Senior families (65 and over)						
Senior married couples	2.7	1.2	0.9	*-1.8*	*-0.3*	*-0.3*
Other senior families	3.2	10.1	3.6	*+0.4*	*-6.5*	*-2.5*
Non-senior families (under 65)						
Married couples without children	6.7	6.9	4.7	*-2.0*	*-2.2*	*-1.0*
One earner	9.5	10.2	6.3	*-3.2*	*-3.9*	*-0.9*
two earners	2.7	2.2	2.3	*-0.4*	*+0.1*	*-0.5*
Married couples with children	7.2	8.3	5.1	*-2.1*	*-3.2*	*-1.5*
One earner	16.6	22.3	18.9	*+2.3*	*-3.4*	*-0.8*
two earners	4.4	4.1	2.3	*-2.1*	*-1.8*	*-1.3*
Female lone-parent	47.8	36.3	23.6	*-24.2*	*-12.7*	*-4.6*
Male lone-parent	18.4	12.3	10.8	*-7.6*	*-1.5*	*+3.6*
All households by age of major income earner						
Under 25	47.3	48.2	41.9	*-5.4*	*-6.3*	*-3.5*
25-34	15.9	17.8	14.4	*-1.5*	*-3.4*	*0.0*
35-44	12.2	13.1	11.3	*-0.9*	*-1.8*	*-1.9*
45-54	10.1	13.4	11.0	*+0.9*	*-2.4*	*-0.6*
55-64	15.6	21.1	14.3	*-1.3*	*-6.8*	*-2.4*
65 and over	14.8	11.5	7.3	*-7.5*	*-4.2*	*-1.0*
Children 0-17 by province						
Canada	14.0	13.9	9.5	*-4.5*	*-4.4*	*-1.9*
Newfoundland	18.1	17.9	6.5	*-11.6*	*-11.4*	*-2.8*
Prince Edward Island	6.7	7.7	4.7	*-2.0*	*-3.0*	*+0.7*
Nova Scotia	11.7	12.6	8.4	*-3.3*	*-4.2*	*-0.4*
New Brunswick	13.7	10.8	9.4	*-4.3*	*-1.4*	*-2.1*
Quebec	14.6	16.1	9.5	*-5.1*	*-6.6*	*-0.4*
Ontario	12.0	13.0	9.4	*-2.6*	*-3.6*	*-2.5*
Manitoba	19.4	16.9	11.1	*-8.3*	*-5.8*	*-1.6*
Saskatchewan	17.2	13.2	8.9	*-8.3*	*-4.3*	*-5.7*
Alberta	15.3	12.5	6.3	*-9.0*	*-6.2*	*-0.7*
British Columbia	14.9	14.2	13.0	*-1.9*	*-1.2*	*-3.5*
Unattached individuals						
Total	31.3	32.9	27.4	*-3.9*	*-5.5*	*-1.8*
Senior males (65 and over)	20.7	17.6	13.0	*-7.7*	*-4.5*	*-1.0*
Senior females (65 and over)	30.5	21.7	14.3	*-16.2*	*-7.4*	*-1.8*
Non-senior males (under 65)	29.4	32.1	29.7	*+0.3*	*-2.4*	*-1.5*
Non-senior females (under 65)	36.8	44.3	35.1	*-1.7*	*-0.2*	*-2.0*

Note: A 4-person family living in a city of 500,000 or more with less than $33,946 ($8,486 per person) and a 4-person rural family with less than $22,206 ($5,551 per person) annually are classified as being low-income.
Source: People Patterns Consulting based on Statistics Canada, Income in Canada, 2007

APPENDIX C - Major components of average net worth per household based on market value in constant 2007$

	Value in 2007$			% change over selected periods		
				Entire period	So far this decade	Latest year available*
	1990	2000	2009(3Q)	2009(3Q) / 1990	2009(3Q) / 2000	2009(3Q) / 2008
Total assets	**$299,800**	**$415,440**	**$485,930**	***62.1%***	***17.0%***	***-1.5%***
Financial assets	159,860	261,120	269,600	*68.6*	*3.2*	*-1.7*
of which shares	28,120	92,730	93,690	*233.2*	*1.0*	*-5.1*
of which life ins./pensions	51,590	92,420	96,450	*87.0*	*4.4*	*-2.5*
of which "all other" **	80,160	75,970	79,460	*-0.9*	*4.6*	*3.9*
Real (non-financial) assets	139,940	154,320	216,330	*54.6*	*40.2*	*-1.4*
of which real estate	110,260	124,590	186,890	*69.5*	*50.0*	*-1.4*
of which consumer durables	26,660	26,700	27,400	*2.8*	*2.6*	*-1.1*
of which "all other" ***	3,020	3,026	2,040	*-32.6*	*-32.7*	*-2.7*
MINUS Total debt	**54,150**	**66,260**	**96,080**	***77.4***	***45.0***	***5.7***
of which consumer credit	12,460	15,580	27,250	*118.7*	*74.9*	*7.5*
of which mortgages	34,410	41,170	59,920	*74.1*	*45.5*	*6.0*
of which "other debt"****	7,280	9,510	8,910	*22.5*	*-6.3*	*-1.1*
EQUALS Net worth	**245,660**	**349,180**	**389,840**	***58.7***	***11.6***	***-3.2***
Selected ratios						
Total debt as % of disposable income	91%	111%	145%	*+54 pp*	*+34 pp*	*+8 pp*
Consumer and mortgage debt as % of disposable income	79%	95%	132%	*+53 pp*	*+37 pp*	*+8 pp*
Consumer credit as % consumer durables	47%	58%	100%	*+53 pp*	*+42 pp*	*+ 8 pp*
Total debt as % of total assets	18%	16%	20%	*+2 pp*	*+4 pp*	*+1 pp*
Total debt as % of net worth	22%	19%	25%	*+3 pp*	*+6 pp*	*+2 pp*
Real estate as % of net worth	45%	36%	48%	*+3pp*	*+12 pp*	*+1 pp*

* The changes for the latest period (3Q-2009) are from the annual average for 2008.
** Bonds, cash, loans to others, etc.
*** Machinery and equipment of unincorporated small business owners, etc.
**** Mortgages on non-residential buildings, small business lines of credit, etc.
Source: People Patterns Consulting based on Statistics Canada

ENDNOTES AND SOURCES

Key Statistics Canada data sources used in the report.

- *Employment Earnings and Hours Report*
- *Labour Force Survey*
- *Consumer Price Index*
- *Income Trends in Canada*
- *Survey of Household Spending*
- *Survey of Financial Security*
- *National Income and Expenditure Accounts and National Balance Sheet Accounts*
- *Various electronic sources and CANSIM tables*

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