The Current State of Canadian Family Finances

2011-2012 REPORT | BY ROGER SAUVÉ

A Vanier Institute of the Family Publication

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This is the 13th annual report on the current state of Canadian family finances. Once again, the report examines incomes, expenses, savings, debt and net worth across family and household types.

Families are the main focus of this report. The most up-to-date and detailed Statistics Canada data on family income indicators is available up to 2009 only (see Appendix A and Appendix B). More timely information covering the total personal sector is used to provide many of the estimates for all households up to and including the year 2011.

Households include both families and unattached individuals. About two-thirds of households are family households, making recent income trends for households 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 2009 are sourced from Statistics Canada, *Income in Canada*. Household numbers for 2010 and 2011 are assumed to grow in line with total population.

In this report, most dollar estimates are in 2009 dollars. 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 (CPI). All measures incorporate updates and any recent revisions released by Statistics Canada.

Much of the analysis relates to the period from 1990 to 2011, including the latest year available. The year 1990 was chosen as the start point in order to highlight long-term trends.

Based on timely and accurate data from Statistics Canada[1] and other reputable sources, many of the calculations and interpretations presented in the report were developed by the author, based on years of experience and a deep understanding of the broad range of economic and social factors that influence family finances in Canada.

Foreword

Among the many important events that will take place in 2012, there is one in particular that will recast the social and economic fabric of our country: this year, the first of Canada's Baby Boomers celebrate turning 65. Made famous for their use of the phrase *Trust no one over thirty*, this greying cohort will now roll into life as seniors, defining anew what it means to be living in retirement. And, whereas this year's celebrants represent the thin edge of this generational wedge, they deserve our full attention as the harbinger of things to come. If we have learned anything from the experience of the Boomer's journey through life, it is that they leave an indelible mark wherever they go.

The Gerber baby food company is among the more iconic examples of Boomer influence. At the start of the Baby Boom, between 1948 and 1950, Gerber's sales doubled in response to the demand generated by this very large generation. Once out of diapers, Boomers went on to exert equal pressure on educational and recreational systems to accommodate their size and to meet their unique needs. Like a wave building momentum, they engulfed the job market – eliciting wage and price controls in the early 70s – then, they went on to redefine real estate, money markets and the stock market well into the 21st century.

And now, they are turning their gaze toward retirement. What this means to Canadians, in general, and to the plurality of Canadian families, in particular, is yet to be fully understood. Perspective comes only with experience.

What we can do, though, is search for meaning in the economic and social trends and patterns of yesterday and today. In so doing, we see that it isn't just the Boomers who have aged, but the country as a whole. In 1965, when the Vanier Institute was founded, the average age in Canada was below 30. By 2015, when the Institute celebrates its 50th anniversary, that average will be hovering around 40 years of age.

The impact of an aging population in Canada has been keenly felt in financial markets, where Boomers have flocked in a bid to secure their retirement. Years ago, Boomers were told that "freedom" was waiting when they reached age 55. While early retirement may have been the focus for many marketing campaigns, few Canadians can or do retire in their 60s, let alone their 50s.

Boomers are now turning retirement on its ear and redefining how and when to work. Some "retire" from their full-time jobs only to go back on contract as term employees, mentors or consultants; some find full-time or part-time work in the same field or find work in a new sector or community, while others join the ranks of the self-employed. Even those who do retire from paid employment often apply their skills, talents and expertise in the voluntary sector.

As we look forward and plan for the future, we need to remember that the Baby Boomers have a profound habit of pressuring the status quo. We also need to remind ourselves that, relative to earlier generations, the Boomers have been "late" their whole lives – late to graduate, late to settle down, late to the job market, late having children, late to save… So, it is unlikely that Boomers will see early retirement as either possible or preferred.

Boomers have also brought their own brand of decision making to bear on the housing market. Over the last decade, we have witnessed unprecedented ascendance of real estate across the country. Disinclined to adopt their parents' more practical approach to shelter, the Boomers have combined their interest in wealth accumulation with record low interest rates to help generate an arguably overheated housing market within which to house themselves in their later years.

As Dr. Leonard Steinhorn states in his book *The Greater Generation*, the Baby Boomers fundamentally altered the social fabric in North America. Minority rights, sexual and gender rights, liberal social values and a profound shift in the lens with which we view the world have been created by a generation that was destined to change the status quo by sheer numbers alone. Countries adapt as they age and we continue to bear witness to changing realities and attitudes as we collectively get older.

In this, the 13th annual ***The Current State of Canadian Family Finances: 2011–2012 Report***, we see the impact of Boomers working or expecting to work well into their 60s or even their 70s and how the Boomers' children seem to be paying the price with very limited entry-level jobs as the economy struggles to recover from recession. We examine the ups and downs in incomes and their distribution and the general tendency for prices to increase. We look once again at how debts have continued to rise, how savings have decreased and how family net worth has declined. And, we see how the most vulnerable Canadians – low-income, single parents, one-income families with children and unattached individuals (both seniors and non-seniors) – face the biggest economic and social challenges of all.

David Cork
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Highlights

FAMILY INCOMES & EXPENSES

Disposable incomes dropped in late 2011

While the recovery may have continued for the economy as a whole, this is not the reality, on average, for Canadian households. The good news is that real personal disposable incomes per household recovered in 2010 from the recession a year earlier. The bad news is that the real change from the 2010 average to the third quarter of 2011 indicates that personal disposable incomes per household may have slipped back to recession levels.

Inequality growing in Canada

In real dollar terms, the *increase* in incomes for the richest 20% of families of two or more (+$39,000) from 1990 to 2009 was almost 50% bigger than the total *annual* income ($26,500) of the poorest 20% in 2009 and was almost equal to the total *annual* income ($46,200) of the lower-middle 20% of families.

Employment by Canadians 55+ squeezing youth out of the job market

Both during and after the recession, employment conditions for youth aged 15–24 have been weak, while Canadians aged 55+ have had, and continue to experience, employment growth.

More Canadians include self-employment as a supplemental income source

In the 1990s, the number of Canadians using self-employment to supplement employment was statistically irrelevant, but that number has now grown to more than 350,000 people. For many others, more than one full-time or part-time job has become the norm.

FAMILY SAVINGS & DEBT

Debt loads at new record levels

The average debt load per household now stands at $103,000, up by more than 80% in real terms since 1990. At the same time, annual savings per household plummeted by two-thirds. Approximately one million Canadian households now have a total debt service ratio of 40% or more, leaving them very vulnerable to adverse events, such as rising unemployment and rising interest rates.

The highest insolvency and bankruptcy rate increase is among Canadians 65+

The insolvency rate for those aged 55–64 and 65+ has been on a consistent upward trend over the last two decades. The rate of insolvencies among 55–64 year olds jumped by almost 600% over the period while the rate for those aged 65+ soared by 1747%. Seniors were 17 times more likely to become insolvent in 2010 than they were in 1990.

Highlights

FAMILY WEALTH AND NET WORTH

Real estate was responsible for ALL the wealth increase in the 2000s
Over the last decade, the increase in housing wealth was larger than the total increase in wealth from all other financial and non-financial assets. Real estate now comprises half of the net worth of households, up from 36% in 2000. Based on historical house-to-income ratios, house prices may now be overvalued by as much as 35%.

On average, it is likely that many of the households that did not own property in the last decade did not experience an increase in their net worth.

SPECIAL FEATURE

The price is not always right – costs for basics up significantly… for extras, down dramatically
This year's Special Feature examines the significance of inflation on the Canadian economy and for individual households. From 2002 to December 2011, the overall Consumer Price Index (CPI) increased by 20.2%, reflecting price increases for many basic items as high as 140% (home fuel oil). At the same time, several items experienced large price declines, such as recreational equipment and services, decreasing by more than 42%. Model results suggest that over the period, the lower the family income was, the greater the impact of the increase in consumer price.

Introduction

UNCERTAINTY IN A TURBULENT ECONOMY

Forecasts for key economies around the world and for Canada are cautiously optimistic and suggest continued but hesitant growth.

Many of the world's economies and households are climbing down from high debt loads. The corporate sector is doing fairly well but has been slow to invest as uncertainties about the future continue. Much of Europe is struggling. China's growth momentum may be slowing. Revolutions, protest movements, political unrest and posturing are making it more difficult to enact solutions.

Canada could be dragged down, or pulled up, depending on how other economies perform and on Canadian domestic fiscal and monetary policies. Over the long term, Canada also faces the impacts of an aging population and growing economic inequality.

In Canadian households, both families and unattached individuals need to make tough choices regarding incomes, expenses, savings and debt. For many Canadians, the primary goal in 2012 will be to reduce expenses and debt to meet their short-term and the long-term financial goals.

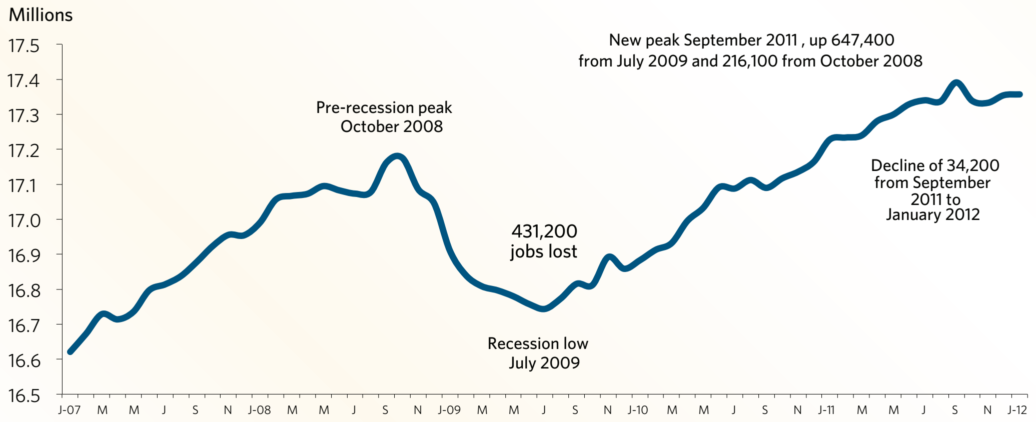
Family Incomes and Expenses

EMPLOYMENT INCOME BECOMES MORE PRECARIOUS IN RECENT MONTHS

The dip, the recovery and the subsequent expansion in the job market (Chart 1) over the last few years were all rapid by historical standards. Some 431,000 Canadians lost their jobs during the recession period. It took about a year and a half to get back to the October 2008 peak. Job levels continued to rise until September 2011, finding a new peak 647,000 above the recession low. The path now seems more uncertain as 34,000 jobs disappeared in the period from October 2011 to January 2012.

Over the last four months, the number of unemployed Canadians jumped by 75,000, with the unemployment rate rising from 7.2% to 7.6%. The January unemployment rate would have been more than 9% if the participation rate (the percentage of the population 15+ working or looking for work) was back to its pre-recession level. Many people have become discouraged in their job search and have dropped out and, as such, are not counted as being unemployed by Statistics Canada.

CHART 1 - Total employment levels in millions of persons
January 2007 - January 2012



Source: Statistics Canada, *Labour Force Survey*, Catalogue no. 71-001-X, Calculations by People Patterns Consulting

CANADIANS AGED 55+ INCREASE EMPLOYMENT LEVELS WHILE YOUTH STAGNATE

The recent job picture has been dismal for youth aged 15–24 while those aged 55+ have done remarkably well. During the downturn, 229,500 jobs disappeared among youth aged 15–24, comprising more than half of all the lost jobs in the downturn. In contrast, employment among those aged 55+ actually increased by 83,100 during this time.

Since the low point of the recession in July 2009, youth employment increased by 1,300 net jobs to January 2012 while employment among those aged 55+ soared by 350,000.

Since the low point of the recession in July 2009, youth employment increased by 1,300 net jobs to January 2012 while employment among those aged 55+ soared by 350,000, representing more than half of all the net jobs created since the low point.

The labour force participation rate of youth 15–24 was even lower in January 2012 (63.9%) than it was at the low point in July 2009 (65.3%). Many youth have simply dropped out of the labour market. Overall, the current youth employment situation is worse than it was at the height of the downturn… for youth; the recession has dragged on for more than three long years.

At the same time, the participation rate for those aged 55+ has been above 36% since mid-2010, a rate not previously seen for any month over the entire period dating back to 1976. More and more Boomers are remaining in the paid labour force and others are entering or re-entering the job market.

WAGE GAP NARROWING BETWEEN OLDER AND YOUNGER WORKERS

Based on consistent age level data available for 1997 and 2011, early Boomers (Canadians 55+) in the paid labour force are now more competitive in terms of wages, notably for full-time jobs.

- Those aged 55+ garnered a greater share (65% in 2011) of all the full-time jobs held by those aged 15–24 and 55+ combined, up sharply from 48% in 1997. In 2011, the 55+ group in **full-time jobs** earned *only* 70% more per hour than those aged 15–24, down significantly from 82% in 1997. As such, the 55+ group is now more competitive in relative terms. The narrowing of the wage gap for those aged 55+ relative to those aged 15–24 occurred in almost all full-time occupations but was especially evident in construction trades, child care services, teaching and transport operators.
- Those aged 55+ also now hold a much greater share (37% in 2011) of all the part-time jobs held by those aged 15–24 and 55+ combined, up from 25% in 1997. In 2011, the 55+ group in **part-time jobs** earned *only* 70% more per hour than those aged 15–24, down a bit from 74% in 1997. As with full-time jobs, those aged 55+ have also become more competitive in relative terms in obtaining part-time jobs.

THE BABY BOOMERS KEEP ON WORKING

A recent survey[2] for CIBC suggests that Canadians 55+ may be working longer for economic reasons. *"Boomers on the verge of retirement in the 55 to 64 age group were less likely to believe they would be able to choose to retire based on their savings only (21%) and more likely to believe they would have to carry debt into retirement (31%)."*

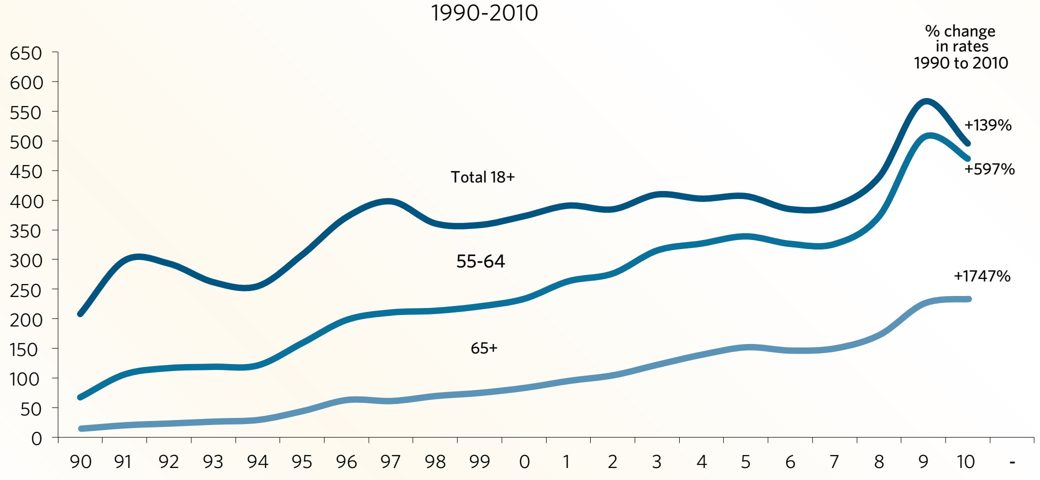
Seniors were over 17 times more likely to become insolvent in 2010 than they were in 1990.

The financial stress that many seniors or near-seniors face is evidenced by alarming insolvency (bankruptcies and proposals) statistics. However, the total number of Canadian personal insolvencies fell by 11% in 2010 to 135,000 and the number of insolvencies by those aged 55–64 fell by only 4%; for Canadians 65 years and over, insolvencies moved up another 6%.

The *insolvency rate* (insolvency cases per 100,000 population) increased for all adults aged 18+ in the 1990s, stabilized for almost a decade, rose sharply in 2009 and fell back in 2010 and in 2011 (not shown). From 1990 to 2010, the total insolvency rate increased by 139% (see Chart 2).

In contrast, the insolvency rate for those aged 55–64 and 65+ has been on a fairly consistent upward trend over the entire 20-year period. The rate of insolvencies for those aged 55–64 jumped by almost 600% over the same period while the rate for those aged 65+ soared by 1747%. Seniors were over 17 times more likely to become insolvent in 2010 than they were in 1990.

CHART 2 - Insolvency cases per 100,000 population by age
1990-2010



Source: Office of the Superintendent of Bankruptcy Canada. Calculations by People Patterns Consulting.

WHEN PAID EMPLOYMENT INCOME WENT DOWN, SELF-EMPLOYMENT WENT UP

Self-employment plays a significant role in household incomes. Some Canadians are self-employed on a full-time basis by choice; some are self-employed because they can't find paid employment while others use self-employment to supplement their income from other paid employment (see Chart 3).

According to the Statistics Canada Labour Force Survey, the number of individuals who are officially considered self-employed peaked at 2.7 million in mid-2009, when many individuals used self-employment to recover some lost income in the short term or took the opportunity to pursue a lifelong dream.

While total employment fell by 431,200 from October 2008 to its low point in July 2009, self-employment increased by about 67,000. By the time total employment had regained its pre-recession peak in January 2011, self-employment had fallen and returned to its October 2008 level. Self-employment provided an income buffer in difficult times.

Based on annual Labour Force Survey numbers, self-employment by those who consider it their main source of employment now comprises about 15.4% of all jobs in Canada compared to 14% in 1990.

MORE CANADIANS USE SELF-EMPLOYMENT TO SUPPLEMENT PAID EMPLOYMENT INCOME

Statistics Canada collects data[3] on the sources of incomes of individuals. This tracks the number of Canadians who report *any* income from self-employment. The difference between the two lines in Chart 3 represents an estimate of those who likely consider self-employment as a sideline activity.

In 2010, 5.3% of all employed people held a second job.

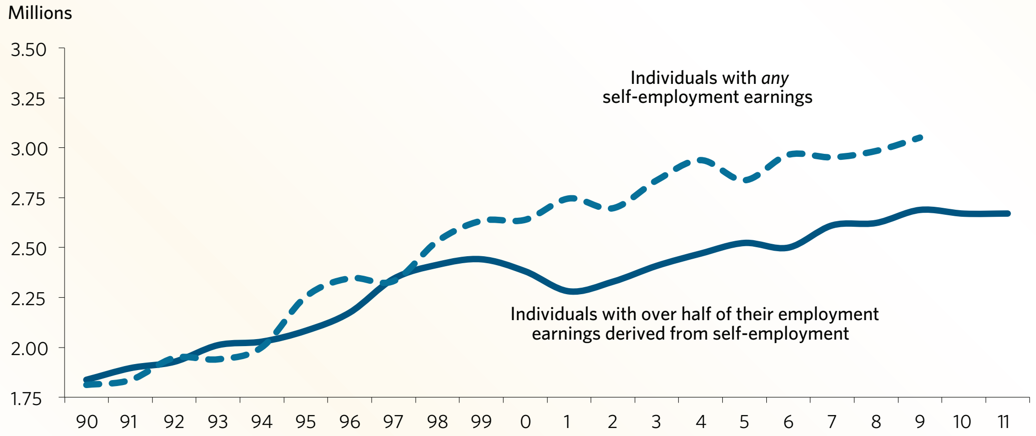
The group that likely sees self-employment as a sideline has grown from statistical irrelevancy in the 1990s to encompassing more than 350,000 people (the difference between the broken line and the solid line in the chart) in the last two years for which data is available. This, in part, also reflects a trend in the record number of job holders who hold down more than one job.[4] In 2010, 5.3% of all employed people held a second job. Many of these second jobs could have been in self-employment.

The actual number of self-employed Canadians aged 55+ has increased by over 150% since 1990.

About 30% of self-employed Canadians are aged 55+, including those who report self-employment as a supplemental source of income. The actual number of the self-employed aged 55+ increased by more than 150% since 1990 while the total number of self-employed increased by *only* 68% over the same period.

Based on the total number of Canadians that have *any* self-employment income, self-employment earnings comprise about 15.7% of all employment earnings.

CHART 3 - Two estimates of the self-employed, 1990-2012



Source: Statistics Canada, *Labour Force Survey*, Catalogue no. 71-001-X, *Income in Canada*, Catalogue no. 13-F0022XIE. Calculations by People Patterns Consulting

SELF-EMPLOYED CANADIANS EARN LESS THAN TWO DECADES AGO

At the individual level and before income taxes, the self-employed in 2009 earned $19,400 or about half as much as the $39,100 earned by those in the paid labour force. The income from self-employment is calculated after business operating expenses.

The self-employed earn less income on an annual basis even if they still work longer hours. In real terms, the average earnings of the self-employed are not only volatile but have actually declined by 3.5% since 1990 and by 13.8% since the peak ($22,500) in 2002. In contrast, real average earnings from wages and salaries advanced, with some interruptions, by 16% since 1990, and in 2009 were near their peak. The average usual hours worked by the self-employed dipped from 43.5 hours per week in 1990 to 39.5 hours in 2010. Usual hours worked by paid employees fell much less, from 36.5 hours in 1990 to 35.3 hours in 2010.

SELF-EMPLOYED CANADIANS ACCUMULATE MORE WEALTH

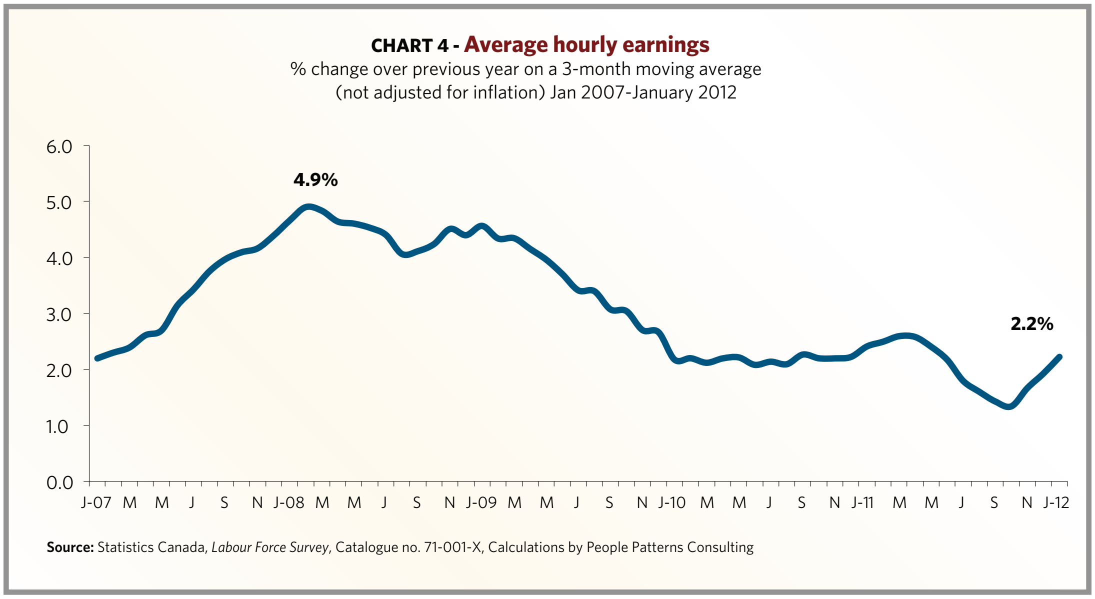
There is, however, a big plus to self-employment. A Statistics Canada study[5] found that the median net worth of self-employed households was $520,000 in 2009 or 2.7 times the median of $195,000 for paid employees. The comparison was for households aged 25–59 where the respondent was self-employed more or less on a full-time basis. As might be expected, the self-employed had significantly more business assets but also carried more debt than employed Canadians. In part, the higher wealth is a reward to the higher level of risk borne by the self-employed.

RECENT HOURLY EARNINGS GAINS NOT KEEPING UP WITH INFLATION

Hourly wage gains have been below the rate of inflation during most of the last 12 months. In January 2012, wages lagged inflation by *only* 0.3% following a six-month period when wages lagged inflation by more than 1%. Negotiated wage settlements[6] averaged 1.7% during the fourth quarter of 2011, which was below the rate of inflation (see the Special Feature).

Hourly wage gains slipped shortly after the recession began (see Chart 4). Before the pre-recession peak, hourly earnings were rising by almost 5% relative to the previous year. The period from 2003 to 2008 had been marked by occupational shortages and strong labour demands in many parts of Canada.

In late 2011, some 29% of employers indicated that shortages of labour restricted their ability to meet the demand for their products or services.[7] While this is a definite improvement from the depths of the recession (7%), it is still much lower than the 40% of firms who reported shortages before the recession. The following occupations had an unemployment rate below 3% (an indicator of shortages) in 2011: management occupations; professional occupations in business and finance; health occupations at both the professional and technical levels; wholesale, technical, insurance and retail sales specialists; and contractors and supervisors in trades and transportation.



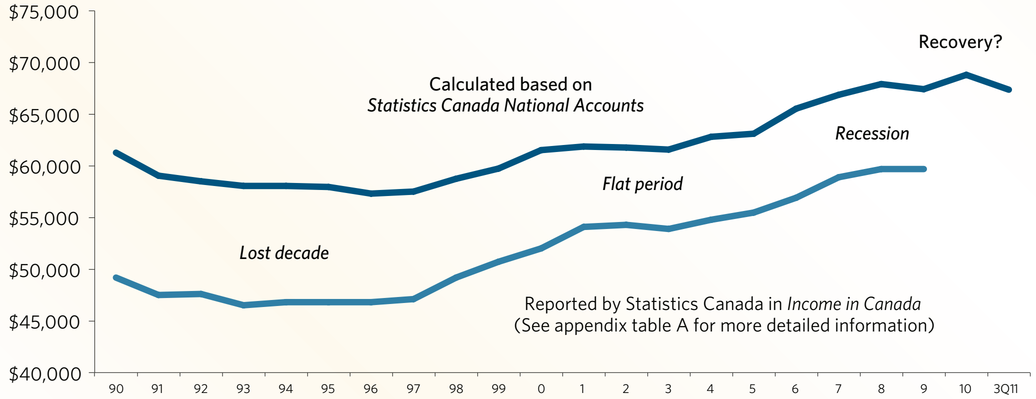
BUMPY ROAD FOR DISPOSABLE INCOMES

Real personal disposable incomes in 2010 more than recovered (+2.1%) from the recession losses (-0.7%) of the previous year (see Chart 5). The bad news is that the change from the 2010 average to the third quarter of 2011 was negative by 2.1%, dropping back to the recessionary levels. While the recovery may have continued for the economy as a whole, this has not been the reality, on average, for Canadian household incomes.

In 2011, inflation rose more quickly than hourly earnings.

Some of the drag on disposable incomes per household in 2011 was due to the fact that payments to governments, especially for income taxes, rose twice as fast as total incomes in the latest period. This was a reversal from the previous year. Also, hourly earnings were rising by less than the rate of inflation for most of 2011.

CHART 5 - Average real disposable income per household using two measures in 2009 dollars
(disposable income is after income taxes and transfers)
1990-2011



Source: Statistics Canada, *National Income and Expenditure Accounts*, Catalogue no. 13-019-XWE, *Income in Canada*, Catalogue no. 13-F0022XIE, *Consumer Price Index*, Catalogue no. 62-001-X. Calculations by People Patterns Consulting

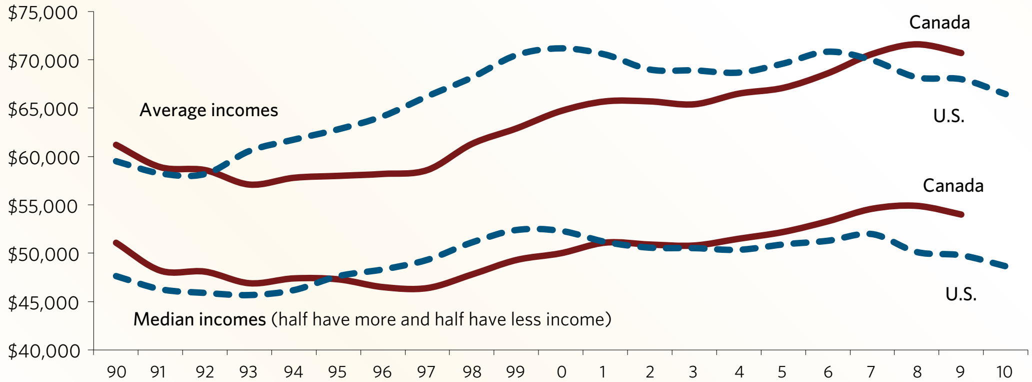
CANADIAN HOUSEHOLD INCOMES RISE ABOVE THOSE OF AMERICANS

In contrast to the early 1990s, Canadian households now have more money coming in than do American households (see Chart 6). This is true for both average incomes and for median incomes (half of households have more incomes and half have less). The measures are in domestic currencies before income taxes and make no adjustment for exchange rates or the reality that it costs more to live in Canada than in the U.S.

Based on median incomes, Canadian households edged ahead of Americans in 2002 and, by 2009, had total money incomes $4,200 above the American median. From 1997 to 1999, Canadian households had lagged American households by more than $3,000 each year. Median incomes provide a better measure of how the "middle class" is doing. Based on average incomes, Canadian incomes did not surpass those of Americans until 2007.

A downward trend for both median and average incomes is evident in the U.S numbers.[8] The median household income in the U.S. peaked in 1999 while the average income peaked a year later. That is more than a decade ago in both cases. President Obama recently commented that *"This is a make-or-break moment for the middle class and all those who are fighting to get into the middle class."*[9] Canadian incomes have generally been moving slowly upwards since the late 1990s on both measures despite declines during the recession in 2009. Much of the 1990s was a lost decade for Canadian household incomes.

CHART 6 - Comparison of Canadian and U.S. total money incomes before income taxes per household in constant 2009$ in domestic currencies, 1990-2010



Source: Statistics Canada, *Income in Canada*, Catalogue no. 13-F0022XIE. U.S. Census Bureau, *Income, Poverty and Health Insurance Coverage in the United States*, 2010, P60-239 Calculations by People Patterns Consulting.

INCOME INEQUALITY GROWS IN CANADA AND THE U.S.

In both Canada and the U.S., the growing gap between median and average money incomes (earnings plus government transfers to persons) points to a worsening inequality of incomes in both nations. Average income measures are usually higher as they include households with very high incomes that pull the averages up.

In Canada, the gap between median and average household incomes grew from $10,100 in 1990 to $16,700 in 2009. This is very similar to the situation in the U.S. where the gap grew from $11,900 in 1990 to $18,200 in 2009.

According to a recent Organisation for Economic Co-operation and Development (OECD) report,[10] several factors have caused growing inequality in market incomes (before transfers and income taxes) in Canada:

- The number of annual hours worked by the lowest 20% of earners declined by 15% from the mid-1980s to the most recent year compared to a decline of *only* 5% among those in the top 20% of earners.
- Increased earnings inequality has also been driven by a rise in self-employment, as a whole, the self-employed earned less than full-time workers.

THE INCOME NUMBERS BEHIND THE "WE ARE THE 99 PERCENT" MOVEMENT

The richest 1% of Canadians saw their share of total income increase from 8.1% in 1980 to 13.3% in 2007. At the same time, the total income share of the richest 0.1% more than doubled, increasing from 2% to 5.3%.

The OECD report cited above shows that *"The richest 1% of Canadians saw their share of total income increase from 8.1% in 1980 to 13.3% in 2007. Moreover, the share of the richest 0.1% more than doubled, from 2% to 5.3% over the same period.* At the same time, the top federal marginal income tax rates saw a marked decline: dropping from 43% in 1981 to 29% in 2010."

The OECD report also notes that the redistribution system has weakened in Canada.

> *"Prior to the mid-1990s, the Canadian tax-benefit system was as effective as those in the Nordic countries in stabilizing inequality, offsetting more than 70% of the rise in market income inequality. The effect of redistribution has declined since then: taxes and benefits only offset less than 40% of the rise in inequality."*
>
> Source: OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*, Country Note Canada, December 5, 2011.

INCOME INCREASES OF RICHEST SURPASS THE TOTAL ANNUAL INCOMES OF THE POOREST

Incomes among the richest 20% of families increased (+$39,000) between 1990-2009 to a level almost 50% higher than the total average annual income ($26,500) earned by the poorest 20% in 2009.

In percentage terms, the bottom 60% of households all had real income increases within a range of 16%–19% from 1990 to 2009. This compares to 23% for upper-middle-income families and a 35% increase for the richest 20% of families. (See Table 1 for the latest (2009) estimates of after-tax incomes by quintiles for families of two or more. Each quintile is comprised of 20% of all Canadian households.)

In dollar terms, the *increase* in incomes for the richest 20% of families (+$39,000) from 1990 to 2009 is almost 50% higher than the total *annual* income ($26,500) of the poorest 20% in 2009 and is almost equal to the total *annual* income ($46,200) of the lower-middle 20% of families.

In 1990, the average income of the richest 20% of families was 5.0 times larger than the average income of the poorest 20% of families and remained near this multiple until the second half of the 1990s when it began to rise. In 2009, this ratio of the richest 20% to the poorest 20% was at 5.6 times and has been near this level for about a decade.

Table 1. Average Canadian Incomes

AVERAGE INCOMES AFTER TRANSFERS AND INCOME TAXES FOR FAMILIES OF TWO OR MORE IN CONSTANT 2009 DOLLARS				
	Average income in 2009$		**Change from 1990 to 2009**	
	1990	2009	In dollars	% change
All families of two or more	$59,600	$74,700	+$15,100	+25%
Poorest 20% of families	$22,300	$26,500	+$4,200	+19%
Lower-middle 20% of families	$40,000	$46,400	+$6,400	+16%
Middle 20% of families	$54,300	$64,300	+$10,000	+18%
Upper-middle 20% of families	$70,900	$87,100	+$16,200	+23%
Richest 20% of families	$110,400	$149,400	+$39,000	+35%
Ratio of richest 20% to poorest 20%	*5.0*	*5.6*		

Source: Statistics Canada, *Income in Canada*, Catalogue no. 13F002XIE. Calculations by People Patterns Consulting.

CHILD POVERTY UP DURING THE RECESSION

Canada's unofficial *(because there is no official one)* poverty rate increased to 9.6% in 2009 from 9.4% in 2008 (see Appendix B).

The poverty rate among children under the age of 18 increased from 9.1% in 2008 to 9.5% in 2009. Among one-earner families with children, the poverty rate jumped from 17.8% in 2008 to 21% in 2009.

PROLONGED PERIODS LIVING IN POVERTY LESS LIKELY THAN BEING POOR FOR A YEAR

Many people assume that the poor will always be poor. This is not so. There are transitions into and out of poverty.

Statistics Canada tracks how long people stay in poverty.[11] Based on low-income cut-offs after income taxes, about one-fifth (4,381,000) of all Canadians experienced poverty for at least one year during the period from 2002 to 2007:

- About 300,000 people experienced living in poverty during each of those five years.
- 431,000 people experienced living in poverty for four years.
- 649,000 people experienced living in poverty for three years.
- 1,047,000 (over 1 million) people experienced living in poverty for two years.
- 1,954,000 (nearly 2 million) people experienced living in poverty for a period of one year.

TWO EARNERS REDUCES LIKELIHOOD OF POVERTY

The lowest poverty rates during the recession were among senior couples (1.2%), two-earner couples without children (2.4%) and two-earner couples with children (3.4%).

The low rate of poverty (as measured by the low-income cut-off) for coupled seniors stands in sharp contrast to the more difficult situation faced by unattached seniors, where poverty rates were 15.2% for females and 12% for males in 2009.

The highest poverty rates in 2009 were among couples with children with no earner (67% were in poverty), in households where the major income earner was under the age of 25 (33.8%) and among non-senior unattached individuals (32.5% for females and 30.1% for males).

DISPOSABLE INCOMES PER HOUSEHOLD UP BY ONLY 10% IN TWO DECADES

Assessing household net worth requires an understanding of the relationships between household incomes, expenditures, savings and debts. Table 2 illuminates these variables by examining selected indicators of incomes and wealth from 1990 to the third quarter of 2011 (see Table 2). Overwhelmingly, Canadians are spending much more and saving much less now than was the case 20 years ago, despite modest increases in overall earnings.

Family Incomes and Expenses

Between 1990 and 2011, total household incomes increased by a relatively small 9.6%, the equivalent of less than one-half a percentage point per year. Over the same period, average household spending jumped by 21.6% and debts soared by 80.9%.

Total incomes include earnings, transfers from governments and other incomes. Over the entire 21-year period, total incomes increased by a relatively small 9.6%, or by less than half a percentage point per year. Over the same period, average household spending jumped by 21.6%, while debt loads soared by 80.9%

After deductions for payments to governments (income taxes, social insurance, pensions) and to corporations (mostly interest) and transfers to non-residents, the result is what is referred to as disposable income (see Chart 5). Over the entire period, disposable incomes in real terms increased by just a bit more (10%) than did total incomes (9.6%) because deductions increased by less (8%) than did total incomes. Most of the income growth occurred in the 2000s decade. In Chart 5, the 1990s are labelled as the "lost decade" (or at least to 1997 or so) relative to disposable incomes.

10% INCREASE IN INCOMES DOESN'T MEAN A 10% INCREASE IN SPENDING

Based on the income trends, it could be assumed that consumer expenditures would also increase by about 10%. The reality is that expenditures from 1990 to 2011 increased by 21.6%, or more than double the rate of income growth.

This extra spending was financed by a drastic reduction (-66.5%) in annual savings from more than $8,000 in 1990 to about $3,000 in 2000 and to below $2,700 in the third quarter of 2011. In addition, households bumped their debt load from $56,900 in 1990 to $103,000 at the end of the period. This is an 80.9% increase, or a factor of more than EIGHT relative to the increase in disposable incomes.

Family Savings and Debt

DEBT-TO-INCOME RATIO AT ALL-TIME HIGH WITH ONE MILLION HOUSEHOLDS BEING VERY VULNERABLE

The average debt load per household now stands at $103,000. The average includes households that have debt and those that do not. The average includes both mortgage debt and consumer debt.

A key general indicator of financial stress for the household sector is the ratio of their debt to their after-tax incomes. While other measures are also useful in measuring financial stress, a study by the Office of the Superintendent of Bankruptcy Canada concluded that the rising debt-to-income ratio was responsible for 88% of the increase in consumer bankruptcies from 1987 to 2003.[12]

By the end of the third quarter of 2011, the debt-to-income ratio after income taxes reached 153%, another new all-time high. The Canadian rate has been rising rapidly while the U.S. rate has been falling. The Governor of the Bank of Canada[13] states that *"In an environment of low interest rates and a well-functioning financial system, household debt has risen by another 13 percentage points, relative to income. Canadians are now more indebted than the Americans or the British."* Another more specific measure finds that approximately one million Canadian households now have a total debt service ratio of 40% or more and are very vulnerable to adverse events, such as rising unemployment and rising interest rates.

Table 2. The Big Picture on Income and Wealth per Household

THE BIG PICTURE ON INCOME AND WEALTH PER HOUSEHOLD IN CONSTANT 2009 DOLLARS, 1990–3Q2011						
				% change over selected periods		
	Value in 2009$			**Entire period**	**Since 2000**	**Latest year available**
	1990	2000	2011(3Q)	2011(3Q)/1990	2011(3Q)/2000	2011(3Q)/2010
Incomes and expenditures						
Total income including transfers	$78,545	$80,847	$86,049	*9.6*	*6.4*	*-1.0*
Payments to governments, corporations and non-residents	17,296	19,319	18,681	*8.0*	*-3.3*	*3.4*
Disposable income	61,249	61,528	67,368	*10.0*	*9.5*	*-2.1*
Consumer expenditures	53,208	58,466	64,676	*21.6*	*10.6*	*-0.7*
Annual saving	8,041	3,062	2,692	*-66.5*	*12.1*	*-26.2*
Assets, debt and net worth*						
Total assets	312,681	425,633	505,548	*61.7*	*18.8*	*-4.4*
Total debt outstanding	56,929	69,296	103,000	*80.9*	*48.6*	*-0.3*
Net worth	255,752	356,337	402,549	*57.4*	*13.0*	*-5.4*
Selected ratios						
Debt-to-disposable income	93%	113%	153%	*+60 pp*	*+40 pp*	*+2 pp*
Debt-to-net worth	22%	19%	26%	*+4 pp*	*+7 pp*	*+0 pp*
Real estate as % of net worth	45%	36%	50%	*+5 pp*	*+14 pp*	*+0 pp*

*See Appendix C for a more detailed look at assets, debt and net worth.
Source: Statistics Canada, *Canadian Economic Accounts Quarterly Review*, Vol. 10, no. 3 Catalogue 13-010-X. Calculations by People Patterns Consulting.

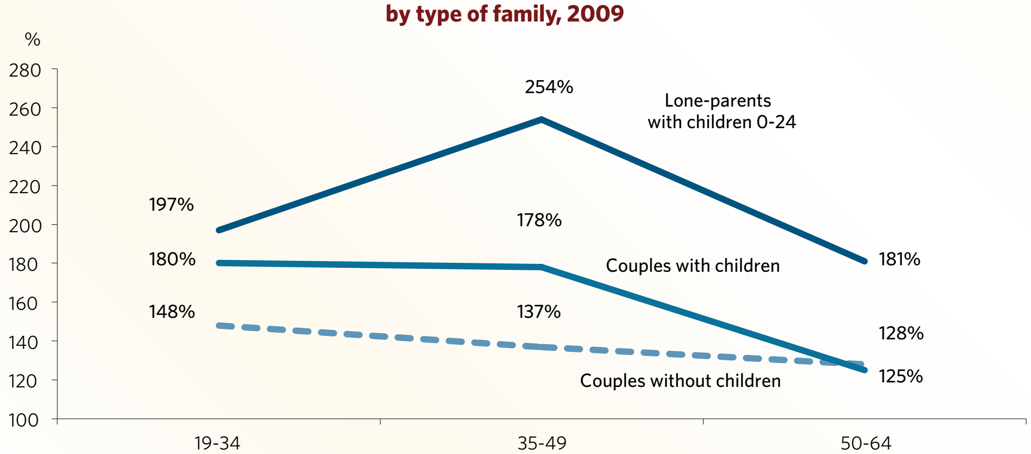
AS MIGHT BE EXPECTED, LONE PARENTS ARE THE MOST FINANCIALLY STRAINED

Statistics Canada[14] has found that, based on the ratio of total debt to total incomes *before* income taxes, lone-parent families aged 35–49 have the highest debt pressures among families with a debt-to-income ratio of 254% (see Chart 7). The ratio is similarly high (181%) for lone parents aged 50–64.

About 9.6% of all lone-parent families have a debt payment cost that is equal to 40% or more of their incomes and, as noted above, are very vulnerable to adverse events. They also have the highest debt-to-asset ratios, ranging from 42% for those aged 19–34, to 25% for those aged 35–49 and to 13% for those aged 50–64.

Couples with children have higher debt-to-income ratios than couples without children.

CHART 7 - Debt as a percent of total incomes before income taxes by type of family, 2009



Source: Statistics Canada (2011), *Debt and family type in Canada*, Catalogue no. 11-008-X, April 21, 2011. Calculations by People Patterns Consulting.

HOW REDUCED SAVINGS AND DEBT SUPPORTED SPENDING AND INVESTING

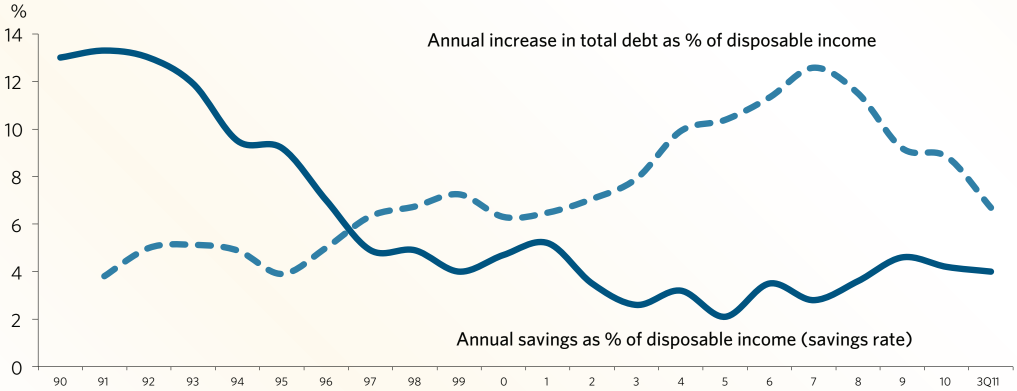
Another way to look at the role of saving and debt in households is to look at how both increase or decrease relative to disposable household incomes (see Chart 8). In general, annual household debt as a proportion of disposable income has trended upward over the last two decades, while savings have all but disappeared.

It is not readily apparent how families are using the additional resources freed by reducing savings and borrowing more money. In some cases, reduced savings and additional debt might be used to support current spending and/or for investment purposes. Many people save less and/or borrow to invest in the stock market, RRSPs, TFSAs, RESPs, the CPP, to contribute to company pension plans, small businesses and other investment activities. Borrowing to buy a house is also often viewed as a long-term investment… depending on when housing is purchased.

During much of the 1990s, the decline in annual savings (from 13% of disposable income in 1990 to 5% in 1997) provided support to spending and/or investing beyond the capacity of the current incomes generated. During these early years, *new* debt taken on each year was fairly steady at about 4% of disposable income each year. Beginning in about 2002, the savings rate fell further while new debt soared to more than 12% of disposable income in 2007. The new debt could have been used for consumption purposes and/or investing.

Due in part to the recession in 2008–2009, the savings rate moved higher for a few years, but returned to only 4% by the fourth quarter of 2011. The annual increase in *new* debt relative to disposable income slowed markedly over the last five years, but even so, was still much larger (6.6%) at the end of the period than during most of the 1990s.

CHART 8 - Annual savings and annual debt increases as % of disposable income, 1990-3Q2011



Source: Statistics Canada, *Canadian Economic Accounts Quarterly Review*, Vol. 10, no. 3 Catalogue 13-010-X. Calculations by People Patterns Consulting.

Family Wealth and Net Worth

NET WORTH GROWTH DUE TO STOCK MARKETS IN THE 1990S AND HOUSING IN THE 2000S

In spite of the rapid growth in debt, net worth per household advanced by 57.4% from 1990 to the third quarter of 2011. This was due to a rapid improvement in the value of shares and pensions in the 1990s, followed by the rapid growth in the value of real estate, especially in the 2000s decade (54.9%). It is noteworthy that the average value of real estate increased by very little (14%) from 1990 to 2000. Thus, relative to disposable income, net worth increased by a factor of almost SIX. (See Appendix C for more details on wealth.)

NO DOUBT ABOUT IT… WE ARE EXPERIENCING A HOUSING BUBBLE

Over the last 22 years, house prices have averaged 3.8 times disposable incomes. The ratio was 3.4 times in 1990 and declined to a low of 3.2 times in both 2000 and 2001. In 2011, the ratio of average house prices to disposable incomes was 5.1 times.

Chart 9 shows what the average price might have been if prices had averaged 3.8 times disposable incomes each year. Using this ratio, house prices were below the normal price during the first dozen years of the period. Beginning in 2004, the actual price rose above what might be expected based on incomes and was way above the expected price by 24% in 2007, before the recession-related dip. In 2011, the actual price was 35% above what might be expected based on incomes alone. If this overvaluation was erased, prices would return to 2006 levels. This is what happened in the U.S. In a falling market, equity in homes is more difficult to access or liquefy compared to other financial assets.

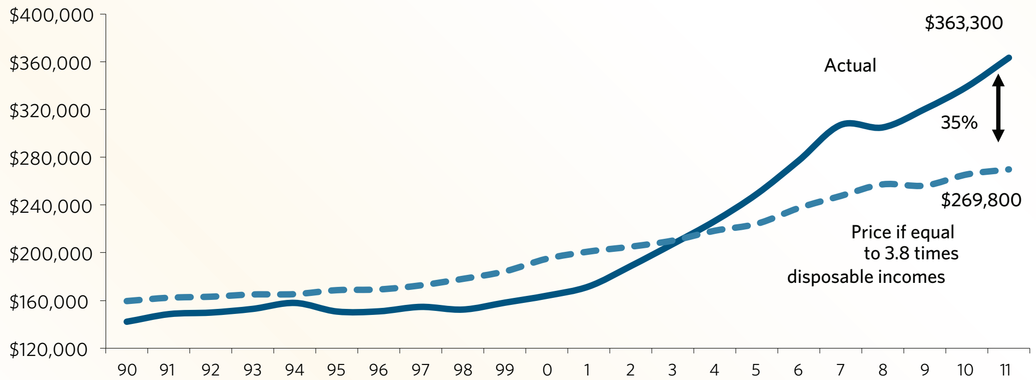
The Economist[15] magazine suggests that Canadian housing prices are overevaluated by 29% relative to their measure of income and much more relative to the rent a home owner would get if the home was rented.

Much of the housing bubble has been caused by record low interest rates over an extended period of time. Interest rates will rise sometime in the future. Will those who borrowed at low interest rates be able to support their payments when rates rise or amortization periods are reduced?

A recent report[16] by The Canadian Association of Accredited Mortgage Professionals found that the average principal on a new mortgage taken out in the last 12 months was $216,000 while renewals averaged a smaller $157,000. The average interest rate charged was 3.92%, which was well below posted rates.

The report concluded that 21% of mortgage holders would be challenged by an interest rate increase of up to 2%. The latter represents some 1.2 million mortgage holders. In dollar terms, 8% of mortgage holders would be concerned if their monthly payment increased by as little as $100 and 32% (1.9 million mortgage holders) would be concerned with an increase up to $300.

CHART 9 - MLS average selling price versus what it would be if prices were equal to 3.8 times disposable incomes
1990-2011



Source: Canadian Real Estate Asoociation and calculations by People Patterns Consulting

REAL ESTATE RESPONSIBLE FOR ALL GROWTH IN WEALTH SINCE 2000

Net worth per household, in constant 2009 dollars, increased by $46,200 from 2000 to the third-quarter of 2011 (see Appendix C). Over the same period, the *net* value of real estate advanced by $49,099 (a value gain of $71,321 minus an additional $22,222 in mortgages outstanding).

The increase in housing wealth is just a bit larger than the total increase in wealth from all sources since 2000. Real estate now comprises half (50%) of the net worth of Canadian households, up from 36% in 2000 and similar to 1990. This 50% ratio is the highest it has been over the entire period (since 1990) for which data is available. A fall in house prices, which is likely, would have a negative impact on the size of the total family wealth.

Special Feature:
Consumer Prices and Inflation

ARE RISING PRICES DRAGGING YOU DOWN?

The CPI (Consumer Price Index) is a measure of the changes in consumer prices experienced by the average Canadian household. Along with the unemployment rate, the CPI is one of the most quoted and used indicators of what is happening to households and the Canadian economy. In this feature, the terms “rising prices” and “inflation” are used interchangeably.

The CPI is obtained by comparing, through time, the cost of buying a fixed basket of goods and services purchased by Canadian consumers. The basket that is currently used refers to the year 2009. The prices for most of the items in this basket are tracked every month. Individual prices are collected for some 600 items. The latter is then collapsed into 180 subgroups and then into eight major components.

Purchasing power improves when earnings and/or wealth increases by more than the prices of the goods and services purchased or owned. Purchasing power falls when the opposite occurs. If hourly earnings increase at the same rate as consumer prices, individual purchasing power remains largely unchanged. If inflation rises faster than hourly earnings, then real purchasing power drops. The declines were worse during the previous six months with earnings trailing inflation by more than 1% each month.

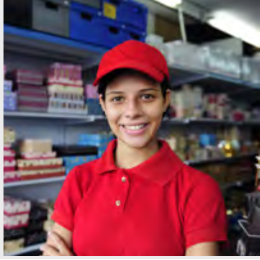
Money-based indicators in this Family Finances report are frequently expressed in real terms, which means that the author or others have removed the price changes. This enables the reader to quickly measure how households are doing in real terms. Average household incomes can be charted over time by controlling for the regular fluctuations in price inflation (see Chart 5). This enables a more accurate comparison of apples to apples and oranges to oranges across the decades.

SENIOR PENSION BENEFITS REGULARLY ADJUSTED FOR CHANGES IN PRICES

The CPI affects seniors directly. Old Age Security (OAS), the Guaranteed Income Supplement (GIS) and the Allowance for the Survivor are reviewed quarterly as required by law to compensate for increases in the cost of living as measured by the CPI.

Benefits under the Canada Pension Plan (CPP) are reviewed and adjusted annually to reflect the increase in the CPI over the previous year.

For many others, negotiated labour agreements may have clauses that include scheduled adjustments to wages based on changes in the CPI. These adjustments may reflect all or part of the increase in prices.



PRICE INCREASES SLOWED IN RECENT DECADES

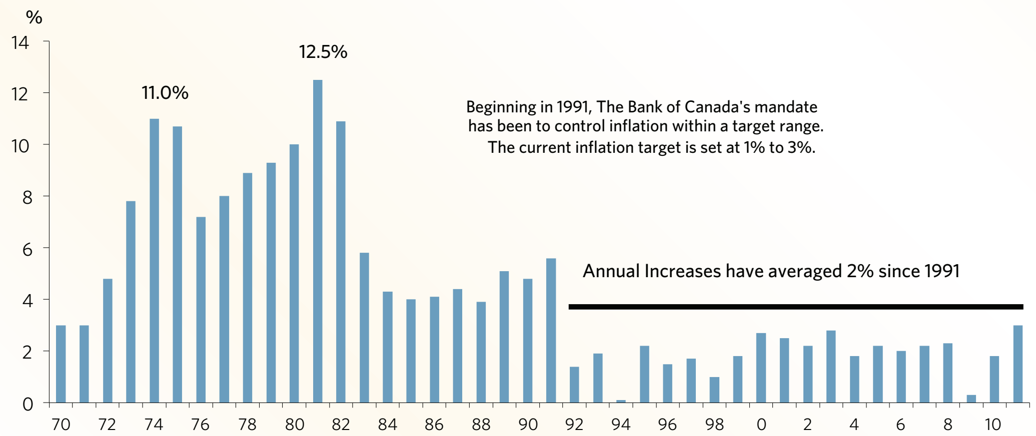
Over the last four decades, Canadian households have experienced wide-ranging fluctuations in consumer prices. The annual rate of change in consumer prices over the last four decades are plotted in the next chart (see Chart 10). The largest increases all occurred in the mid-1970s and early 1980s when average prices rose by as much as 12.5%. From October 1975 to April 1978, the Canadian government imposed mandatory wage and price controls in an attempt to lower the rate of inflation, but with only limited success.

Since 1991, the Bank of Canada has used monetary policy to control inflation. Currently, the targeted rate of inflation is 2%, which is the midpoint of a control range of 1% to 3%. On an annual basis, the rate of inflation has been within this control range every year, except one (2009), for almost two decades.

According to the Bank of Canada[17] *"price stability is a situation where inflation is low enough that it no longer has a material effect on people's economic decisions.... Sustained low inflation is self-reinforcing. If businesses and individuals are confident that inflation is under long-term control, they do not react as quickly to short-term price pressures by seeking to raise prices and wages. This keeps inflation low."*

Some, but not too much, inflation for the basket of goods and services is viewed as a positive. In contrast, declining prices (deflation) across the economy over a long period could cause households to delay purchases and bring about or worsen recessionary tendencies in the economy.

CHART 10 - Consumer Price Index (CPI)
% change from previous year, 1970-2011



Source: Statistics Canada, *The Consumer Price Index*, Catalogue 62-001-X. Calculations by People Patterns Consulting.

FOOD REPRESENTS A DECLINING SHARE OF THE BASKET

The makeup of the major components of the fixed basket of goods and services used to measure the CPI has changed over the last decade (see Table 3). The composition of the basket represents the consumption patterns of all households combined. In reality, the makeup of the basket can vary significantly based on age, family structure and incomes.

Some of the shifts in the basket have been due to changing lifestyles and some have been due to the changing cost of some major items. Columns two and three in Table 3 show the composition of the fixed the basket in 2001 and 2009. The last two columns indicate how prices for each of the selected items have changed from 2002 to December 2011.

Table 3. Household Spending

WEIGHTING (%) OF FIXED HOUSEHOLD SPENDING BASKET BY MAJOR COMPONENTS RANKED BY IMPORTANCE IN 2009 PLUS ASSOCIATED % CHANGES IN PRICES

Major components	Basket – % of total expenditures in selected years		% change in consumer prices over selected periods	
	2001	2009	2002 to December 2011	12 months to December 2011
Total	100%	100%	20.2%	2.3%
Shelter	26.3	27.5	26.8	1.8
Rented accommodation	*6.3*	*6.2*	*12.6*	*1.0*
Owned accommodation	*15.5*	*16.9*	*29.5*	*1.2*
Water, fuel, electricity	*4.5*	*4.5*	*40.3*	*4.8*
Transportation	19.4	19.3	25.2	3.3
Private transportation	*17.8*	*17.4*	*25.1*	*3.2*
Public transportation	*1.6*	*1.9*	*26.8*	*5.1*
Food	16.8	16.0	29.3	4.4
From stores	*11.7*	*11.2*	*29.4*	*5.0*
From restaurants	*5.1*	*4.8*	*29.0*	*2.8*
Household operations and furnishings	11.1	11.8	11.8	2.3
Recreation, education, reading	12.5	11.8	4.1	0.2
Clothing and footwear	6.0	5.6	-10.9	0.3
Health and personal care	4.6	5.0	18.1	2.0
Health care	*2.2*	*2.6*	*20.3*	*1.2*
Personal care	*2.4*	*2.4*	*16.1*	*2.7*
Alcoholic beverages and tobacco products	3.3	3.0	35.8	0.9

Source: Statistics Canada, *The Consumer Price Index,* Catalogue no. 62-001-X. Calculations by People Patterns Consulting.

Items are added or deleted every five years or so when a new basket is calculated. The latest detailed basket now includes a new class called "multipurpose digital devices," such as tablet computers and smartphones that represent products that were not widely available previously. Canvassers from Statistics Canada survey the prices of some 600 items each month.

The price of the total fixed CPI basket increased by 20.2% from 2002 to December 2011 and by 2.3% in the latest year to December. In some cases, prices doubled or nearly doubled (as with home fuel, bread and water for homes), causing an increase to the total CPI and leaving homeowners and families stretched to meet existing needs (see Table 4). In other cases, prices fell for what might be considered more discretionary items, such as recreational equipment and clothing (see Table 5).

The provision of shelter now comprises the biggest (27.5%) share of all expenditures for all households, up from 26.3% in 2001. This item includes rental accommodation costs, owned accommodation costs and utilities. The average price of the items, within this component, increased by 26.8% since 2002 and by 1.8% during the latest year available.

The amount spent on household operation and furnishings now represent 11.8% of annual household expenditures. Household operation expenses include items such as communications, child care, cleaning, paper products and furnishings and equipment. Prices for this major component are up by *only* 11.8% from 2002 to December 2011 and by 2.3% during the last year.

The percentage of total spending that is allocated to food has declined significantly from 16.8% in 2001 to 16% in 2009. The declining importance of food in total expenditures has been evident for several decades. Within the food component, the share purchased in restaurants was about 30% in both years but has been increasing over the longer term. Food price increases (29.3%) have outpaced the total CPI and this was especially so in the last year.

There has also been a drop in the percentage of expenditures going to alcoholic beverages and tobacco. The rate of price increases (35.8%) for this component has outstripped the total CPI. Within this component, spending on tobacco products slipped significantly. Expenditures on alcoholic beverages in licensed establishments dropped while spending on alcoholic beverages for home consumption increased.

Transportation prices (25.2%) have been above the rate for all items since 2002.

Out-of-pocket health costs (20.3%) have moved up in line with total inflation while personal care costs (16.1) have increased by less than the total CPI since 2002.

The only major component to see falling prices (-10.9%) over the medium term has been clothing and footwear. Recreation, education and reading prices have increased slowly (4.1%) over the period from 2002 to December 2011.

ONE-FIFTH OF BASIC HOUSEHOLD COSTS UP SHARPLY FROM 2002

As noted above, the total CPI increased by 20.2% from 2002 to December 2011. The total hides wide variations in prices at the more detailed level.

The 19 items in Table 4 all had price increases that were at least double (or almost), sometimes triple, quadruple and even six times more rapid than the total CPI advance. Together these items represent about one-fifth of the consumer basket.

The biggest increase (140%) since 2002 was for home fuel oil. Home fuel oil costs were up 20% in the latest year to December 2011. This series is highly volatile as it moves in line with world oil prices.

Table 4. Prices That Have Jumped by 40% or More Since 2002

ITEMS WITH BIGGEST INCREASES IN PRICES
% change for primary items for which prices increased by at least double the rate for all items in the Consumer Price Index from 2002 to December 2011

Primary items	Basket – % of total expenditures in 2009	% change in consumer prices over selected periods	
		2002 to December 2011	12 months to December 2011
Home fuel oil	.4%	140.0%	20.0%
Bread (including rolls and buns)	.6	79.5	8.8
Water for homes	.5	76.8	6.0
Homeowners home and mortgage insurance	1.2	71.9	3.4
Gasoline for passenger vehicles	4.4	70.0	7.6
Services related to household furnishings	.2	64.6	6.8
Passenger vehicle insurance premiums	2.7	59.6	3.9
Parking fees	.2	59.1	2.2
Cigarettes	1.1	56.5	1.8
Drivers' licenses	.1	53.6	2.2
Pasta products	.1	52.7	9.9
Cablevision and satellite services	1.1	52.5	3.8
Fats and oils	.1	49.8	6.0
Tuition fees	1.9	47.0	4.2
Homeowners replacement cost (rent payable if rented)	4.1	45.9	2.3
Eggs	.1	45.8	14.2
Postal and other communications services	.1	42.9	3.6
Housekeeping services	.3	42.3	2.6
Sugar and confectionery	.5	41.0	1.4
Double increase as a % of total basket	19.7	Na	Na

Source: Statistics Canada, *The Consumer Price Index,* Catalogue no. 62-001-X. Calculations by People Patterns Consulting.

Tuition fees have ballooned by 47% since 2002.

Bread prices jumped by 79.5% since 2002 and up by 8.8% during the last year alone. Other food items also registered large price increases since 2002, namely pasta products (52.7%), fats and oils (49.8%), sugar and confectionery products (41%) and eggs (45.8%).

Tuition fees for all levels combined ballooned by 47% since 2002 and have produced rising student debt loads and difficult educational decisions.

Of all these 15 items, gasoline for passenger vehicles represents the largest component in the consumer basket (4.4%). An increase in prices of 70% since 2002 and 7.6% in the last year is certainly hard on household budgets. Other items related to transportation are also in this high inflation table. Prices for passenger vehicle insurance, parking fees and drivers' licenses all increased in a range from 53% to 60%.

Table 5. Consumer Items That Cost Less Than in 2002

ITEMS WITH PRICE DECLINES % change for primary items in the Consumer Price Index for which prices declined from 2002 to December 2011			
Primary items	Basket – % of total expenditures in 2009 prices	% change in consumer over selected periods	
		2002 to December 2011	12 months to December 2011
Recreational equipment and services (except vehicles)	1.8%	-42.5%	-5.4%
Home entertainment equipment and services	1.3	-34.3	-7.5
Children's clothing (including infants)	.5	-27.9	-2.3
Traveler accommodation	1.3	-25.3	0.0
Women's clothing	2.0	-24.4	-2.3
Non-electric kitchen utensils, tableware, cook wear	.1	-23.7	-4.9
Household appliances	.8	-14.6	2.2
Men's clothing	1.3	-11.8	0.9
Furniture	.6	-10.2	-3.6
Purchase or lease of passenger vehicles	7.7	-8.2	-0.1
Footwear	.9	-7.8	1.4
Prescribed medicines	.6	-3.2	-2.4
Decliners as a % of total basket	19.0	na	na

Source: Statistics Canada, *The Consumer Price Index,* Catalogue no. 62-001-X. Calculations by People Patterns Consulting.

The second biggest item (4.1%) is homeowners' replacement costs, which are assumed to increase in line with what it would cost to rent the home. This increased by 45.9% since 2002. Other home-related items include homeowners' home and mortgage insurance (71.9%), services related to household furnishings (64.6%), cablevision and satellite services (52.5%) and housekeeping services (42.3%).

SOME ITEMS ARE NOW A LOT CHEAPER THAN IN 2002

A total of 12 items in the consumer basket registered price declines from 2002 to December 2011. These price declines represent about 19% of the total consumer basket. It is interesting that those items that increased by at least double the rate of the total CPI also represent a similar share (19.7%) of the total shopping basket.

Recreational equipment (-42.5%) and home entertainment equipment (-34.3%) registered the biggest dip in prices from 2002 to December 2011.

Children's clothing (-27.9%), women's clothing (-24.4%), men's clothing (-11.8%) and footwear (-7.8%) all became much cheaper to buy compared to 2002.

Kitchen utensils (-23.7%), household appliance prices (-14.6%) and furniture (-10.2%) all became less costly over the period.

While the previous table indicated that the operation of passenger vehicles became much more expensive, the purchase or lease of these passenger vehicles dipped (-8.2%) since 2002.

The price of prescribed medicines declined by -3.2% since 2002, most of which occurred in 2011.

INFLATION FOR SENIORS JUST A BIT HIGHER THAN FOR THE TOTAL CPI

A recent Statistics Canada report[18] found that the change in prices experienced by seniors in a 12-year period was close but still slightly above the increase in the total CPI. *"Between 1992 and 2004, seniors experienced no major differences in inflation from the overall average. Prices rose 26.1% for seniors between January 1991 and February 2004, compared with 24.4% for all other households."*

Similar results were obtained in an American study. A U.S. Bureau of Labor Statistics report[19] compared the increase in prices for Americans 62 years of age and over to all households living in urban areas. The study covered the period from December 1997 to December 2009 and showed that seniors experienced an increase in prices of 36.1% compared to an increase of 33.9% for all households.

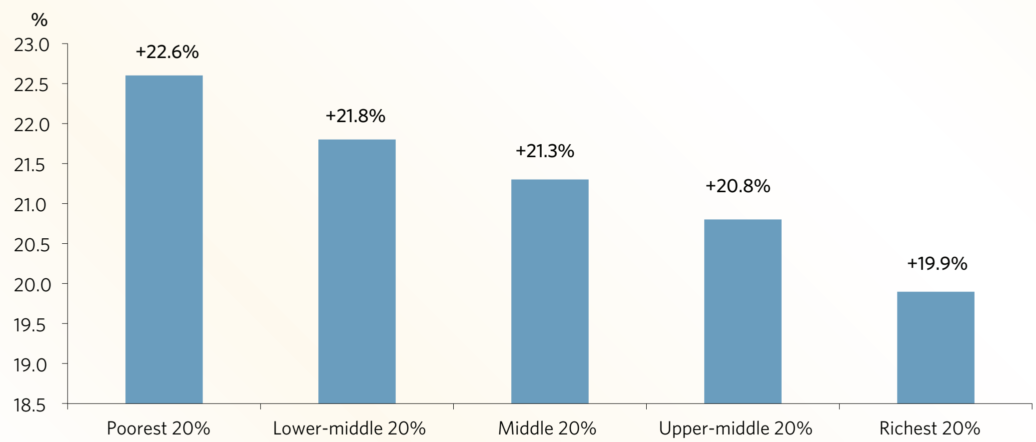
INFLATION HAS A BIGGER DRAG ON THE POOR THAN THE RICH

Using similar methodologies as above, it is possible to calculate how various groups have fared relative to inflation over the period from 2002 to December 2011. The calculations used expenditure baskets specific to each type of household. The all-items price index for the major components over the same period was applied to each of the different expenditure baskets. The calculations were done by household type, by age of household maintainer and by income groups. The only results that produced significant differences were by income group.

The results suggest that, over the period from 2002 to December 2011, the lower the income level was, the higher the increase in consumer prices. Based on this model, the price increases for the poorest 20% of households over the period was 22.6%. In contrast, the price increase for the richest 20% was the smallest at 19.9%.

This suggests that the lowest income group, apart from having low incomes, felt more financial stress because of rising prices than the general population.

CHART 11 - Percentage increase in consumer prices by household income 2002-December 2011



Source: Calculations by People Patterns Consulting.

PRICES THAT CHANGE MORE FREQUENTLY ALSO GO UP FASTER

Another Statistics Canada study[20] found that the rate of inflation is higher for items that consumers purchase frequently (such as food, gasoline, tobacco products, etc.) compared to those that consumers purchase infrequently (passenger vehicles, maintenance costs, clothing, etc.). The study revealed that over the period from 2000 to 2009, the prices of frequently purchased items rose by 3.2% annually compared to 2.1% for the all-items CPI or about 50% faster. As such, many consumers, who see the frequent price changes, don't feel that the total CPI truly represents their changing price situations.

Appendix A:
Average Family and Individual Incomes

AVERAGE INCOMES OF FAMILIES AND UNATTACHED INDIVIDUALS, AND SHARE OF INCOMES AFTER TRANSFERS AND INCOME TAXES						
				% change over selected periods		
Shaded areas indicate a deterioration during selected periods	Constant 2009 dollars			Entire period	Since 2000	Latest year available
	1990	2000	2009	2009/1990	*2009/2000*	*2009/2008*
All households	$49,200	$52,000	$59,700	*21.3%*	*14.8%*	*0.0%*
All families of two people or more	59,600	64,600	74,700	*25.3*	*15.6*	*-0.1*
Senior families of two people or more (65 and over)						
Senior couples	44,000	45,100	53,900	*22.5*	*19.5*	*0.6*
Other senior families (relatives, etc)	58,100	51,600	60,500	*4.1*	*17.2*	*-7.5*
Non-senior families of two people or more (under 65)						
Couples without children	56,500	61,400	72,300	*28.0*	*17.80*	*0.6*
one earner	48,200	49,800	58,100	*20.5*	*16.7*	*2.3*
two earners	62,900	69,600	79,700	*26.7*	*14.5*	*-1.2*
Couples with children	65,300	73,000	84,800	*29.9*	*16.2*	*-0.4*
one earner	47,700	53,300	60,900	*27.7*	*14.3*	*-0.8*
two earners	64,800	74,100	85,600	*32.1*	*15.5*	*0.7*
Female lone parent	29,000	33,700	43,300	*49.3*	*28.5*	*4.6*
Male lone parent	44,600	48,300	55,300	*24.0*	*14.5*	*1.7*
All families of two people or more by province						
Newfoundland	48,800	50,600	63,500	*30.1*	*25.5*	*0.5*
Prince Edward Island	50,700	52,900	62,100	*22.5*	*17.4*	*0.5*
Nova Scotia	53,000	55,500	64,300	*21.3*	*15.9*	*3.9*
New Brunswick	50,300	54,300	62,100	*23.5*	*14.4*	*4.9*
Quebec	53,100	56,600	65,300	*23.0*	*15.4*	*1.6*
Ontario	66,500	73,500	78,100	*17.4*	*6.3*	*-1.0*
Manitoba	54,900	57,400	69,900	*27.3*	*21.8*	*0.4*
Saskatchewan	51,900	55,500	76,700	*47.8*	*38.2*	*4.1*
Alberta	61,200	68,900	90,400	*47.7*	*31.2*	*-0.8*
British Columbia	60,700	61,000	76,300	*25.7*	*25.1*	*-2.3*
Unattached individuals (living alone or with someone who is not related)						
Total	26,200	26,300	31,500	*20.2*	*19.8*	*1.3*
Senior males (65 and over)	25,100	25,800	32,300	*28.7*	*25.2*	*-2.1*
Senior females (65 and over)	22,000	23,100	28,400	*29.1*	*22.9*	*5.6*
Non-senior males (under 65)	29,700	29,500	33,500	*12.8*	*13.6*	*-2.9*
Non-senior females (under 65)	24,800	24,000	30,400	*22.6*	*26.7*	*7.4*
% share of after transfer and income tax incomes – all families of two people or more by income groups						
				Percentage point change (pp)		
Poorest fifth of families	7.5%	6.9%	7.1%	*-0.4 pp*	*0.2 pp*	*-0.0 pp*
Lower-middle fifth of families	13.4%	12.6%	12.4%	*-1.0 pp*	*-0.2 pp*	*-0.0 pp*
Middle fifth of families	18.2%	17.4%	17.2%	*-1.0 pp*	*-0.2 pp*	*-0.0 pp*
Upper-middle fifth of families	23.8%	23.3%	23.3%	*-0.5 pp*	*-0.0 pp*	*0.2 pp*
Richest fifth of families	37.1%	39.8%	40.0%	*+2.9 pp*	*0.2 pp*	*-0.2 pp*

Source: People Patterns Consulting based on Statistics Canada, *Income in Canada*, 2009.

Appendix B:
Low-Income Families and Unattached Individuals

FAMILIES AND UNATTACHED INDIVIDUALS WITH LOW INCOMES (POVERTY) AFTER TRANSFERS AND INCOME TAXES							
					Percentage point change (pp)		
Shaded areas indicate a deterioration during selected periods		% of people with low incomes (poverty)			Entire period	Since 2000	Latest year available
		1990	2000	2009	2009/1990	*2009/2000*	*2009/2008*
All households		11.8%	12.5%	9.6%	*-2.2 pp*	*-2.9 pp*	*+0.2 pp*
All families of two people or more		9.0	9.3	6.5	*-2.5*	*-2.8*	*+0.2*
Senior families (65 and over)							
Senior couples		2.7	1.2	1.2	*-1.5*	*0.0*	*+0.3*
Other senior families (relatives, etc)		3.0	9.4	6.8	*+3.9*	*-2.6*	*-0.3*
Non-senior families (under 65)							
Couples without children –	no earner	28.8	33.6	26.9	*-1.9*	*-6.7*	*-6.5*
	one earner	9.5	10.2	8.3	*-1.2*	*-1.9*	*+0.9*
	two earners	2.7	2.2	2.4	*-0.3*	*+0.2*	*+0.4*
Couples with children –	no earner	75.3	84.1	67.0	*-8.3*	*-17.1*	*-4.2*
	one earner	17.1	23.1	21.0	*+3.9*	*-2.1*	*+3.2*
	two earners	4.9	4.6	3.4	*-1.5*	*-1.2*	*+0.2*
Female lone parent		48.2	36.2	19.9	*-28.3*	*-16.3*	*-1.0*
Male lone parent		18.4	12.3	9.1	*-9.3*	*-3.2*	*+2.1*
All households by age of major income earner							
Under 25		42.2	39.4	33.8	*-8.4*	*-5.6*	*-1.2*
25–34		13.8	16.0	13.8	*0.0*	*-2.2*	*+3.0*
35–44		10.4	10.5	7.4	*-3.0*	*-3.1*	*-1.0*
45–54		6.7	9.1	7.4	*-0.7*	*-1.7*	*+1.7*
55–64		11.2	13.8	8.8	*-2.4*	*-5.0*	*-2.6*
65 and over		10.0	8.5	6.0	*-4.0*	*-2.5*	*-0.5*
Children 0–17 by province							
Canada		14.0	13.9	9.5	*-4.5*	*-4.4*	*+0.4*
Newfoundland		18.1	17.9	9.3	*-8.8*	*-8.6*	*+0.2*
Prince Edward Island		6.7	7.7	6.4	*-0.3*	*-1.3*	*+1.9*
Nova Scotia		11.7	12.6	8.2	*-3.5*	*-4.4*	*+0.3*
New Brunswick		13.7	10.8	7.5	*-6.2*	*-3.3*	*+2.1*
Quebec		14.6	16.1	7.7	*-6.9*	*-8.4*	*-2.5*
Ontario		12.0	13.0	10.1	*-1.9*	*-2.9*	*+1.0*
Manitoba		19.4	16.9	9.1	*-10.3*	*-7.8*	*+0.3*
Saskatchewan		17.2	13.2	9.7	*-7.5*	*-3.5*	*+0.6*
Alberta		15.3	12.5	9.3	*-6.0*	*-3.2*	*+2.5*
British Columbia		14.9	14.2	12.0	*-2.9*	*-2.2*	*+1.6*
Unattached individuals							
Total		31.3	32.9	26.7	*-4.6*	*-6.2*	*-0.5*
Senior males (65 and over)		20.7	17.6	12.0	*-8.7*	*-5.6*	*-0.1*
Senior females (65 and over)		30.5	21.7	15.2	*-15.3*	*-6.5*	*-1.9*
Non-senior males (under 65)		29.4	32.1	30.1	*+0.7*	*-2.0*	*+2.2*
Non-senior females (under 65)		36.8	44.3	32.5	*-4.3*	*-11.8*	*-3.8*

Source: People Patterns Consulting based on Statistics Canada, *Income in Canada*, 2009.

Appendix C:
Average Family Net Worth

MAJOR COMPONENTS OF AVERAGE NET WORTH PER HOUSEHOLD BASED ON MARKET VALUE IN CONSTANT 2009$						
	Value in 2009$			% change over selected periods		
				Entire period	Since 2000	Latest year available*
	1990	2000	2011(3Q)	2011(3Q)/1990	*2011(3Q)/2000*	*2011(3Q)/2010*
Total assets	**$312,681**	**$425,633**	**$505,548**	***61.7%***	***18.8%***	***-4.4%***
Financial assets	167,132	264,407	274,449	*64.2*	*3.8*	*-7.0*
of which shares	27,646	90,543	91,777	*232.0*	*1.4*	*-12.3*
of which life ins./pensions	54,764	94,703	99,229	*81.2*	*4.8*	*-6.3*
of which "all other" **	84,722	79,162	83,443	*-1.5*	*5.4*	*-1.2*
Non-financial assets	145,549	161,226	231,099	*58.8*	*43.3*	*-1.1*
of which real estate	114,522	129,824	201,145	*75.6*	*54.9*	*-0.7*
of which consumer durables	27,813	28,141	27,700	*-0.4*	*-1.6*	*-4.1*
of which "all other" ***	3,214	3,261	2,255	*-29.8*	*-30.9*	*5.7*
Total debt outstanding	**56,929**	**69,296**	**102,999**	***80.9***	***48.6***	***-0.3***
of which consumer credit/loans	19,397	25,372	36,522	*88.3*	*43.9*	*-1.6*
of which mortgages	36,243	42,834	65,056	*79.5*	*51.9*	*0.5*
of which "other debt"****	1,289	1,090	1,421	*10.2*	*30.4*	*-2.3*
EQUALS Net worth	**255,752**	**356,337**	**402,550**	***57.4***	***13.0***	***-5.4***
			Selected ratios			
Total debt as % of disposable income	93%	113%	153%	*+60 pp*	*+40 pp*	*+2 pp*
Consumer credit/loan and mortgage debt as % of disposable income	91%	111%	151%	*+60 pp*	+40 pp	+2 pp
Consumer credit/loans as % consumer durables	70%	90%	132%	*+62 pp*	*+42 pp*	*+1 pp*
Total debt as % of total assets	18%	16%	20%	*+2 pp*	*+4 pp*	*+0 pp*
Total debt as % of net worth	22%	19%	26%	*+4 pp*	*+7 pp*	*+0 pp*
Real estate as % of net worth	45%	36%	50%	*+5 pp*	*+14 pp*	*+0 pp*
Interest payments as % of disposable income	10.5%	8.0%	7.1%	*-3.4 pp*	*-0.9 pp*	*-0 pp*

* The changes for the latest period (3Q-2011) are from the end of year for 2010.
** 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, *National Income and Expenditure Accounts and National Balance Sheet Accounts*

Endnotes

[1] Key Statistics Canada data sources used in the report:

- *Employment Earnings and Hours Report*
- *Labour Force Survey*
- *Consumer Price Index*
- *Income 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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About Roger Sauvé

President of People Patterns Consulting, Roger Sauvé brings more than 35 years of research, writing and leadership experience to his analysis of economic, demographic and social trends as they relate to family finances. Roger has worked with the Institute for 15 years as an independent researcher developing the much anticipated annual report *The Current State of Canadian Family Finances.*

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