THE VANIER INSTITUTE OF THE FAMILY

The Current State of Canadian Family Finances 2008 Report

by Roger Sauvé
People Patterns Consulting

Family Finances Series

With the publication of the Vanier Institute of the Family's 10th annual report on the *Current State of Canadian Family Finances*, I would like to take the opportunity to express our sincere gratitude to author Roger Sauvé, President of People Patterns Consulting. For ten years running, Mr. Sauvé has provided Canadians with a comprehensive, clear, and insightful analysis of the latest trends in family incomes, spending, savings, debt and net worth. On behalf of the Board and staff of the Institute, we thank Roger for his hard work and on-going dedication to Canada's families.

Clarence Lochhead

Executive Director, Vanier Institute of the Family

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TECHNICAL NOTE

We are back again. This 10th annual report updates the current state of family and household finances up to the year 2008. 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 Statistics Canada family income indicators only go to the year 2006. More timely information is available for the total personal sector and this data is used to provide many of the estimates for all households up to the year 2008. Most of the 2008 estimates are based on the first 9 to 11 months of the year. 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. Estimates for personal disposable incomes and family incomes are after government transfers and after income taxes.

For ease of understanding and to make the results more relevant, all measures have been converted to a per-household or per-family basis. Household numbers for the years 1990 to 2006 are derived from Statistics Canada, *Income in Canada, 2006*. Household numbers for 2007 and 2008 are assumed to grow at the same percentage rate as in 2006.

In this report, all dollar estimates are in 2006 dollars and thus 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.

This year, most of the analysis relates to the period 1990 to 2008, with emphasis on the time period that is labeled "so far this decade" and 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. The appendices provide the percentage change over the entire period, for the period so far this decade and for the latest year. Readers are urged to examine the Appendix Tables A, B and C at the back to get a more detailed perspective of the changes experienced by families and households.

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

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HIGHLIGHTS OF THE 2008 REPORT – January 2009

- ***Recessions are very hard on families*** – We are in recession.
    - About 350,000 jobs were lost during each of the last two recessions. In the 1990s, it took five years for jobs to return to the 1990 level.
    - Average household incomes fell by $3,800 during the last recession and incomes did not return to the 1990 levels for 10 years.
    - Poverty reached a new high during the last recession and did not return to the 1990 level for 11 years.
    - Insolvencies doubled during the last recession.
    - The "most severe crisis since the 1930s" suggests that families may be hit even harder this time.
- ***Debt loads are in the danger zone*** – Average household debt soared to over $90,000 in 2008. The total debt to disposable income ratio climbed to 140% in 2008. The ratio of consumer debt plus mortgage debt climbed to 127% of disposable income in 2008 and has now crept up to "only" three percentage points below the US rate. This ratio is now above what the US rate was in 2006, just before the bubble burst.
- ***Spending and debt rise much faster than incomes*** – The average household income rose to $65,200 in 2008 and was up by 11.6% since 1990. Spending increased twice as fast (+24.4%) over the same period while total debt (+71%) increased more than six times faster than incomes. Annual savings shrank.
- ***The wealth that went up has now come down*** – Average net worth (wealth) declined in 2008 as the stock market sank, house prices began to slip and debt increased. Even so, wealth per household averaged $393,000 in 2008.
- ***Unattached individuals aged 18-64 are the forgotten poor*** – The number of unattached 18-64 years olds is still more than 50% higher than was the case in 1990. This group, which includes many "single employable" people, would get welfare payments equal to only 46% of poverty level incomes. Lone-parents with one child now get welfare payments equal to at least the poverty level in Quebec and Newfoundland and Labrador. These two provinces have specific anti-poverty strategies.
- ***Family finances report celebrates its 10th anniversary*** - The author presents 10 musings and reflections concerning serious and not-so serious issues from a personal perspective. He offers some advice to families and individuals as well as revealing that he does have a life outside of this report.

ATTENTION FAMILIES! … It will take years to fully recover from this recession

Canada is in recession. The U.S. has been in a recession since December 2007. Many countries across the world are in recession. "… the global financial system is experiencing its most severe crisis since the 1930s[2]."

This 10th annual report attempts to achieve two main objectives.

1. Provide an update on the latest trends in household finances, including some comparisons to what is happening in the US. The main message is that the financial trends for households in Canada are not that different from those in the US. Perhaps a bit better but not a whole lot better.

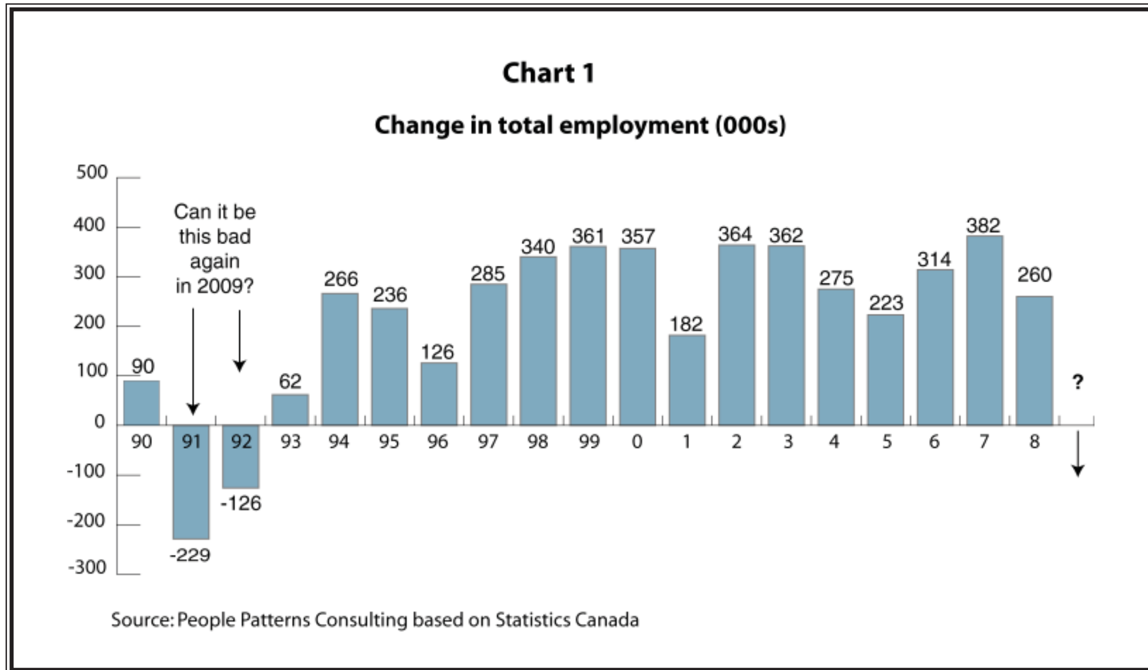
2. Attempt to paint a picture of what a recession might imply for Canadian household finances over the next several years. The simple message is that it takes years and years to return to pre-recession conditions.

About 350,000 jobs lost in each of last two recessions … it could be worse this time

For over a decade, the strong and steady growth in jobs helped thousands of households to increase their incomes and wealth and kept many others from the brink. The latest indicators suggest that this employment support has run its course.

The last serious recession occurred in the early 1990s. As can be seen in the Chart 1, employment grew slowly in 1990, plunged by 229,000 in 1991 and then slumped by another 126,000 in 1992 … a total loss of 355,000 jobs. Based on annual numbers, the number of jobs in the economy did not return to the 1990 level until 1995 … or a whole five years later. As this was happening, the unemployment rate soared from 7.2% in June 1990 to a peak of 12.3% in early 1994 and did not return to 7.2% again until June 1999 … or a whole nine years later. During the recession of the early 1980s, over 360,000 jobs were lost in 1982 alone. In that recession the unemployment rate peaked at 14% during the first quarter of 1983.

The job outlook for 2009 does not look promising. Based on the experience during the last two recessions employment could easily drop by 350,000. It could be less than 350,000, but the odds are that the job losses will be even larger. Many international organizations have characterized the current slowdown as the worst since the 1930s.

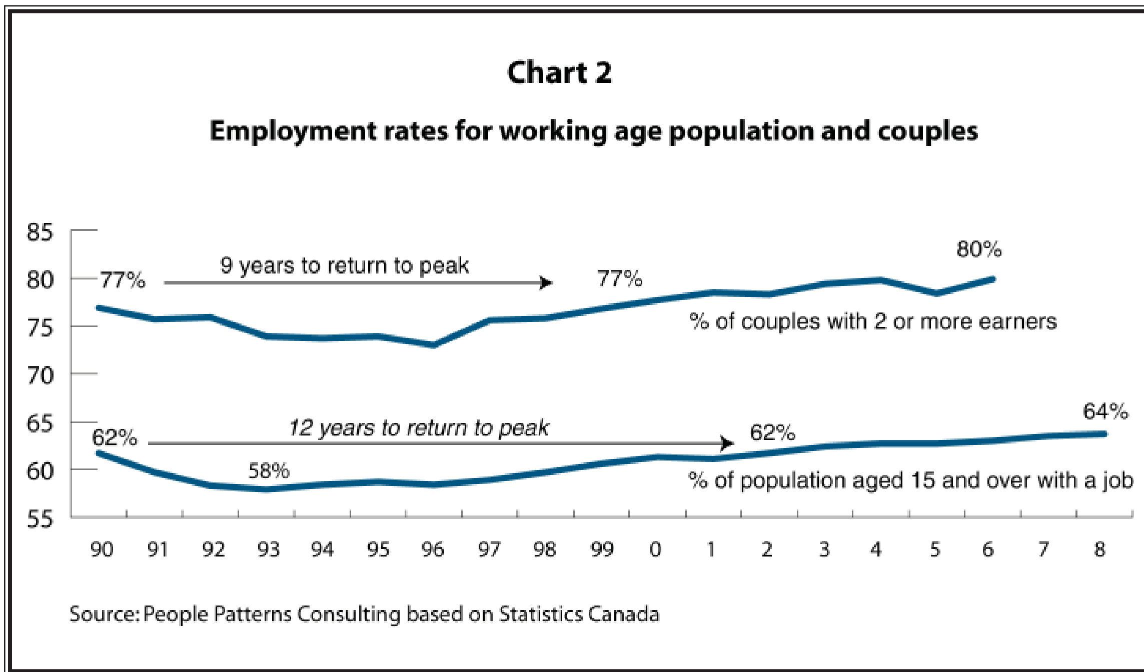


Only one pay cheque … or no pay cheque common in recession

Declines in employment during a recession have a long-term effect on the ability of families to have at least one job or to be two-income families.

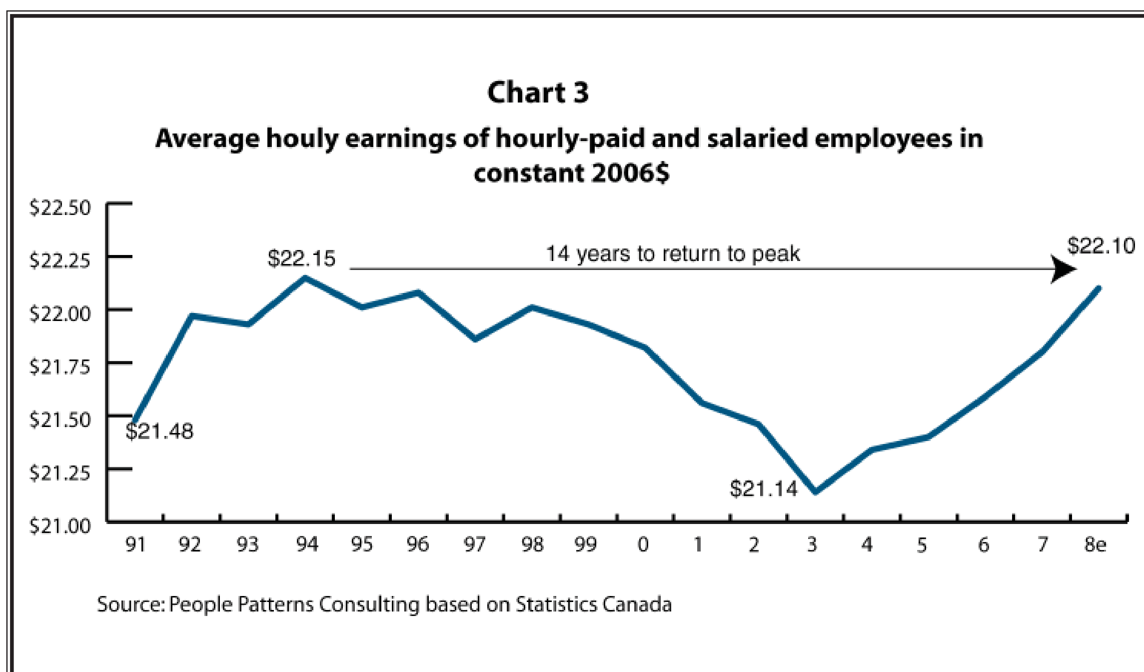
During the early 1990s recession, the total employment rate (percentage of all persons aged 15 and up who have a job) stood at 62% in 1990 and declined to only 58% in 1993. It took a total of 12 years to return to the previous peak.

For couples, moving from a one-income to a dual-income family has provided support in times of inadequate incomes or to improve their standard of living. This is much more difficult in times of recession. In 1990, 77% of couples had two or more earners in the family. As a result of the recession, this ratio fell to 73% by 1996 and did not return to the previous peak level until 1998 … or a whole nine years later. A recent statement by Henrietta Ross of the Ontario Association of Credit Counsellors is appropriate to what will happen to many families in this recession “Double income families will become single income families but with a double income debt load.” Not an easy problem to solve.



Wages were recovering - hourly wages outpaced inflation for fifth year

A real wage increase signifies that earnings rise faster than average prices as measured by the consumer price index. Based on a survey of large employers, real hourly earnings were on a downward slide from 1994 to 2003 (Chart 3). Since 2003 and into 2008, hourly earnings improved significantly. In spite of the recent up-tick, real hourly wages in 2008 were still down about a nickel from 1994 and up by only 60 cents from 1991. It took about 14 years for the average hourly wage to return to the 1994 peak. Over the entire period, the swings in hourly earnings increased the need for more second earners and more moonlighting. In 2007, the rate of moonlighting was at a record level[3]. Second earners provide both incomes and a form of insurance against job loss.



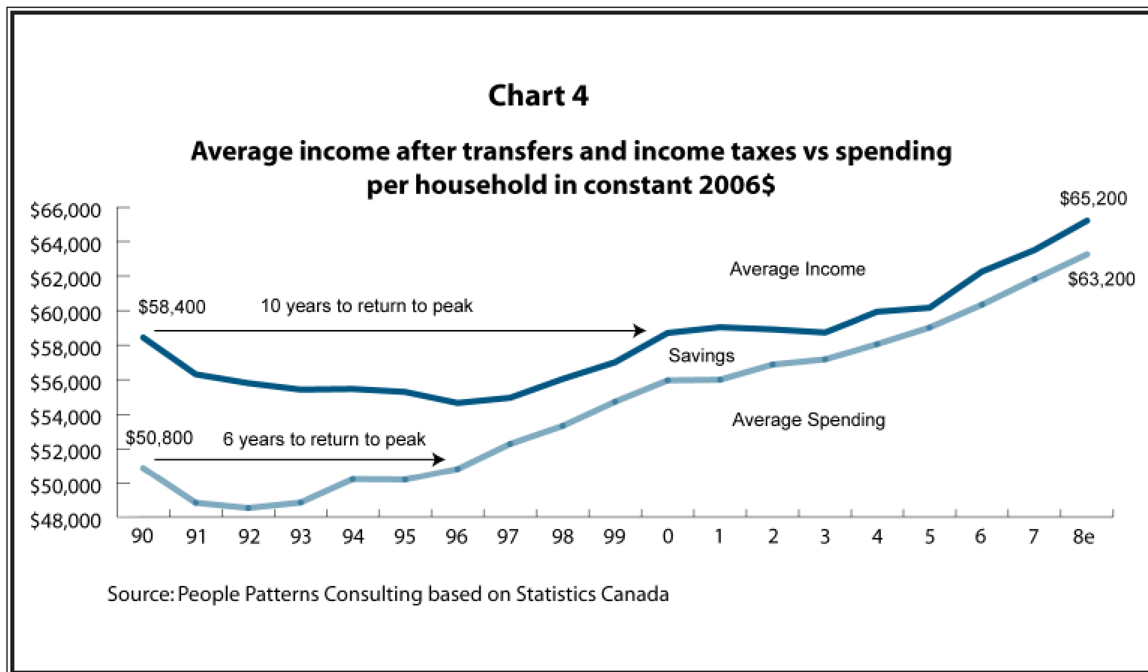
The flat earnings trend raises a key policy issue for Canada. A new report by the Centre for the Study of Living Standards[4] found that while "the median real earnings of Canadians barely increased between 1980 and 2005; over the same period, labour productivity rose by 37.4%." This is in contrast to much of the industrial world. "Broadly speaking, the trend among OECD countries has been for labour productivity and real product wages to grow at almost the same rate." The report continues "If most Canadians are not seeing the benefits of labour productivity growth in the form of higher real wages, why should they support policies favouring productivity growth?"

An increase in productivity is supposed to improve the standard of living over the long-term ... in Canada, it has not done so.

Household incomes and spending follow divergent paths

The recession of the early 1990s was not kind to household incomes. Real average household incomes fell from $58,400 in 1990 to $54,600 in 1996 or by 6.5% (Chart 4). That represents $3,800 less in after tax incomes. The 1990 level was not reached again until the year 2000 or 10 years later. This was followed by a flat period until 2003 and healthy increases since then. The increase over the entire period was 11.6% in real terms.

(A more detailed table of incomes for unattached individuals, for families of two or more persons, by province and other characteristics is found in appendix A. The results are a bit different due to different methodologies and survey approaches. This *Family Finances* report updates appendix A and B each year, both of which are derived from the latest (2006) Statistics Canada's *Income in Canada* survey.)



The spending side followed a somewhat different path. Households cut back on spending in 1991 and just a bit more in 1992. Households then began to increase their spending and within six

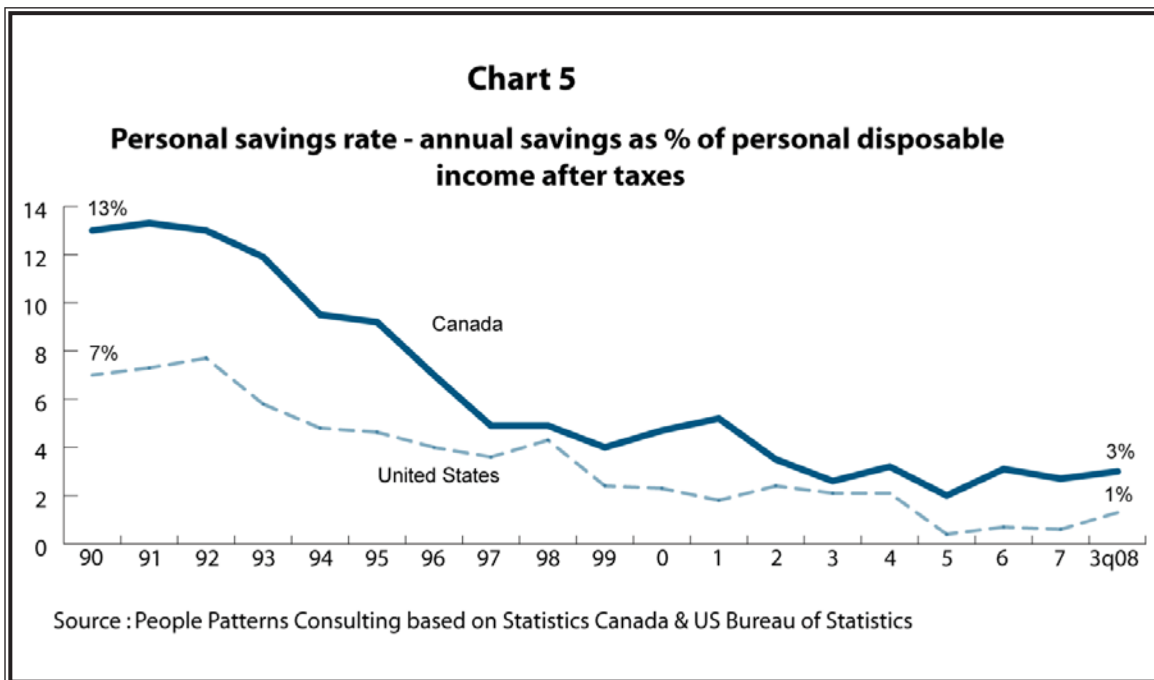
years, average spending had already returned to the 1990 peak. As noted above, it took 10 years for incomes to do the same. Beginning in 1993, average spending per household grew each year, up to and including 2008. The increases were especially strong during the last five years. Covering the 1990 to 2008 period, average spending in real terms grew by 24.4% or more than twice as fast as did average household incomes.

Savings almost as low as in the US

The gap between incomes and spending is a rough estimate of the annual level of savings by households. In 1990, the typical household was saving about $7,600 per year. The early 1990s recession was hard on households, and by 1997, average savings had fallen below $3,000. Savings fell again to below $2,000 by 2003 and have remained below that level ever since.

This shrinking savings can also be measured as a rate. In 1990, the average Canadian household saved 13% of their disposable income. This savings rate fell sharply during most of the 1990s and averaged just below 3% near the end of 2008 (Chart 5).

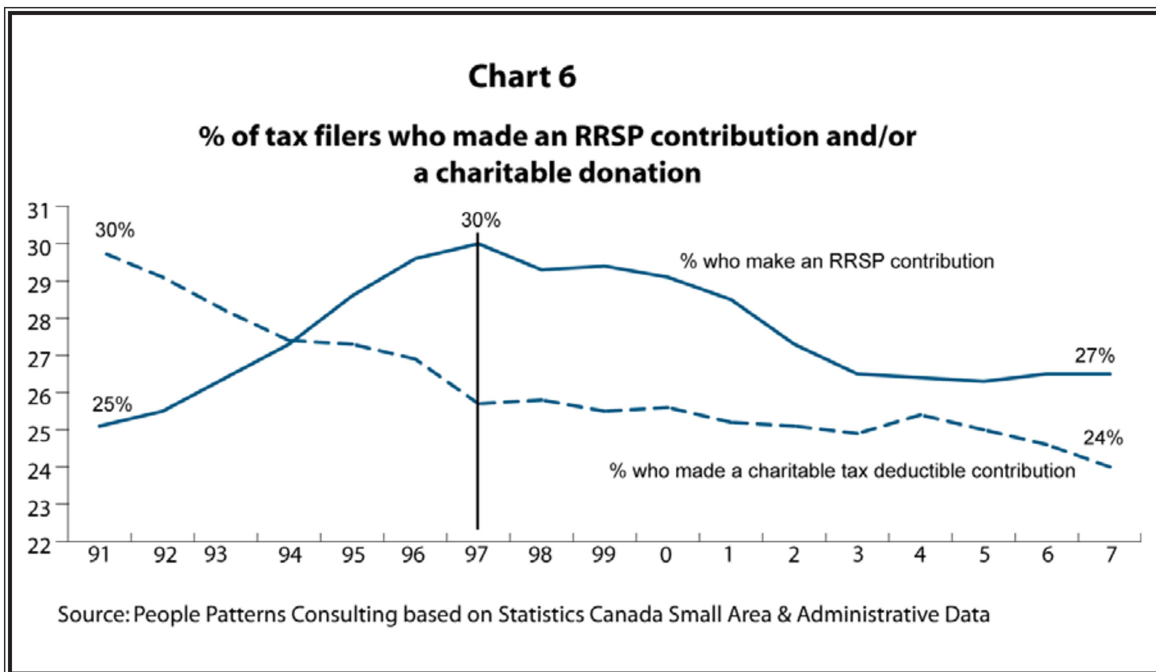
The US personal savings rate started at a much lower rate in 1990 (7%) but it too moved down roughly in line with the Canadian rate. Both reflect stress in household budgets and perhaps a feeling that households really didn't need to save as much, given that the market value of their homes was climbing rapidly. The latter is often called "the wealth effect" and many homeowners used this new wealth to take out additional lines of credit against the equity in their homes. According to the OECD database[5], Canada has a relatively low savings rate among industrial countries. For the latest year available, the savings rate was highest in France (12%), Russian Federation (11%), Germany (11%), Austria (10%), Italy (9%) and Belgium (8%) … all much higher than for Canadian and US households.



Stress shows in charitable donations and RRSP contributions

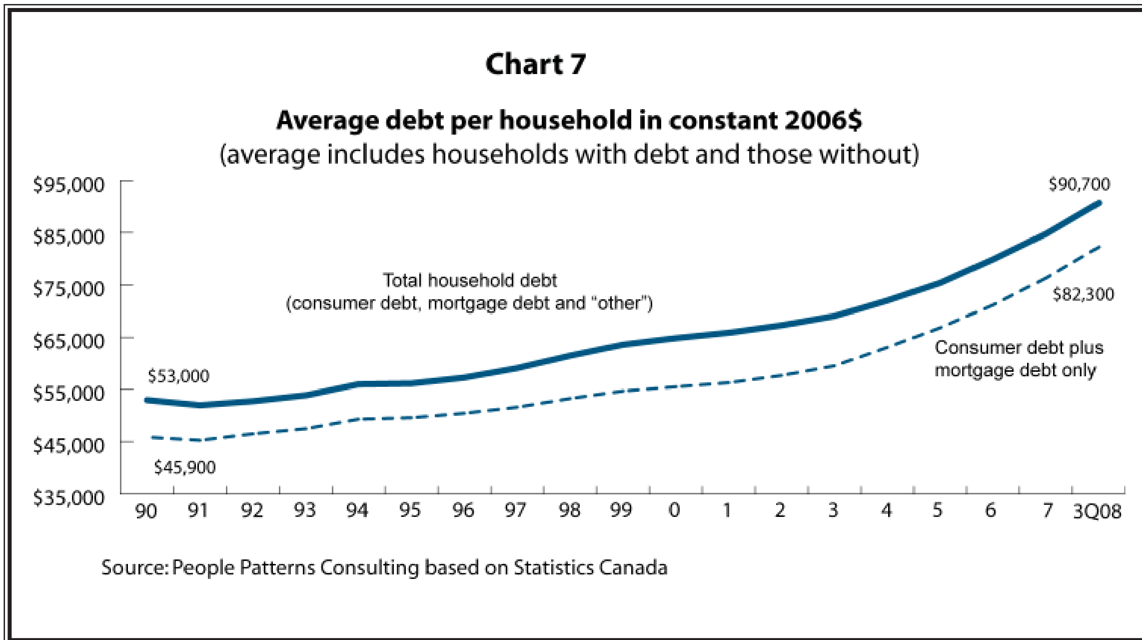
The stress on family budgets can be seen in other ways. The percentage of tax filers who recorded a charitable donation in their income tax returns dipped gradually from 30% in 1990 to 24% in 2007 (Chart 6). The good news is that, even if fewer tax filers were donating, the median (half gave more and have gave less) amount of those who did donate increased by almost 50% in constant dollars to about $250 in 2007. Many other donations such as money, food, clothing and volunteer time are made every year, even if they do not show in the tax forms.

More signs of stress on savings. The percentage of tax filers who made an RRSP (Registered Retirement Savings Plan) contribution also peaked at 30% in 1997 and declined to 27% in 2007. The median RRSP contribution was about $2,800 in 2007, or 13% less in real terms than the median contribution in 1997.



Debt load soars to $90,700 per household

In late 2008, the average total debt load (solid line in chart 7) per household was about $90,700. This is up by 71% in real terms between 1990 and 2008. This is over six times faster than the increase in incomes. Total debt is now equal to a record of 140% of disposable household income … this compares to only 91% in 1990.

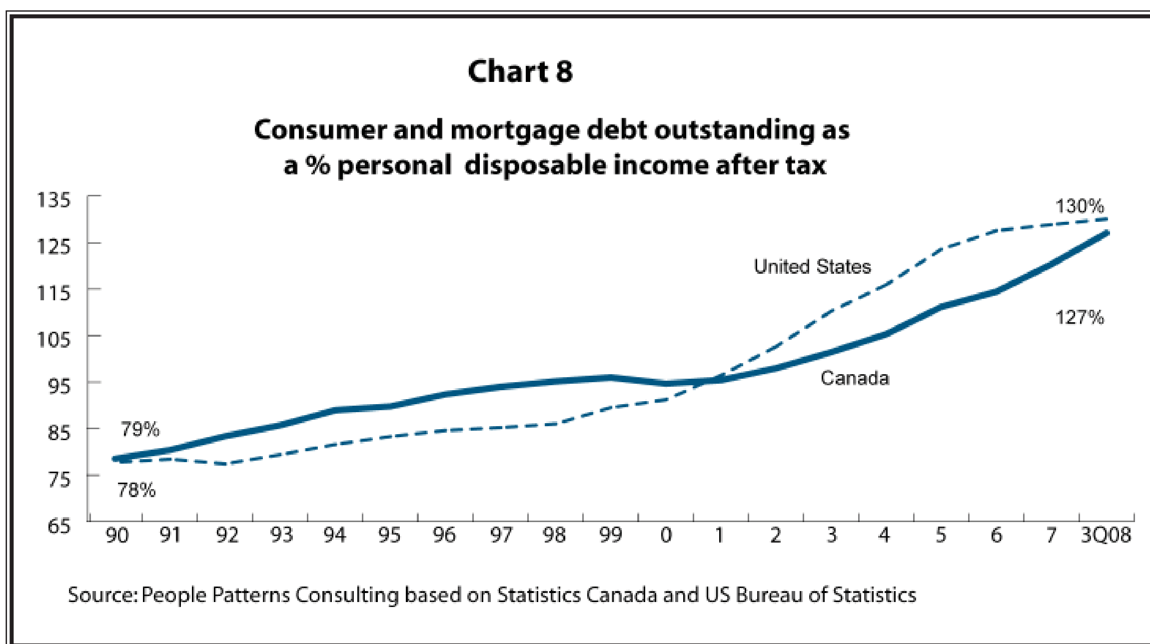


The latest debt load is $82,300 if "only" mortgage and consumer debt are included. This sub-total is up by 79% from 1990. If only consumer debt and mortgages are included, the ratio of debt to disposable income is now at 127%. Many analysts prefer to use this mortgage and consumer debt sub-total, mainly because the data is available more quickly.

BOTH Canadian and US households in a debt danger zone

Chart 8 provides a Canada/US comparison of consumer and mortgage debt loads. In 1990, the debt ratio was almost identical, with Canada at 79% and the US at 78%. The Canadian ratio was actually above the US until 2001, when the US surpassed the Canadian rate. By the third quarter of 2008, the US rate was at 130% with the Canadian rate at 127% … not that different. In 2005 and 2006, the Canadian rate was about 12.5 percentage points lower than the US rate, but by the third quarter of 2008 the gap had narrowed to only 3 percentage points. It is notable that the Canadian rate is now about the same as the US rate was in 2006, which, in part, led to serious problems for US households. The recession will likely push many more Canadians over the edge.

Canadian households have clearly entered the "danger zone" and might be subject to more difficult household financial difficulties than most analysts suggest. We often hear that lending institutions in Canada have stricter guidelines in granting credit. Only time will tell if this is the reality, especially relative to credit cards, lines of credit and zero-down and 40-year mortgages. Chart 13 shows that personal insolvencies are already rising, and rapidly.



Debt stress hardest on lower income households

For those for still have doubts, the level of debt, as measured by the debt to income ratio is one of the best measures with which to gauge the ability of households to support the debt that they have. The Office of the Superintendent of Bankruptcy agrees.

> *"The determinant having the greatest effect on the increase in the number of consumer insolvencies during the 1987-2003 period is the total debt-to-income ratio. According to our calculations, this variable accounted for 88% of the increase in consumer insolvency during this period.*[6]"

An exploratory report[7] by Umar Faruqui of the Bank of Canada has constructed a Debt Service Ratio (DSR) which measures the percentage of gross income spent on interest on household debt plus payments on the principal. In 2004, about 6.3% of US households had a dangerous DSR above 40% compared to 4.4% in the same situation in Canada. While this is a hopeful sign for Canada, the 4.4% still represents over 600,000 households with dangerously high DSRs.

But there is more to the story. Within Canada, the percentage of households, in the lowest third in terms of income, who had a dangerously high DSR above 40% rose from 6.6% in 2004 to 7.8% in 2007. The recession will make it even more difficult for the less well-off. On the positive side, the DSR ratio actually improved from 2004 to 2007 for both those in the middle third and those in the upper third of incomes.

A survey conducted in the fall of 2008 for the Canadian Centre for Policy Alternatives[8], clearly shows that the less well-off struggle the most to keep their personal debt under control. The survey found that 62% of households with incomes under $30,000 struggle to keep their per-

sonal debt under control. This ratio fell to 54% for those with incomes of $30,000 to $60,000, to 46% for those with incomes of $60,000 to $80,000, to 41% for those with incomes of $80,000 to $100,000 and to 31% for households with incomes of more than $100,000.

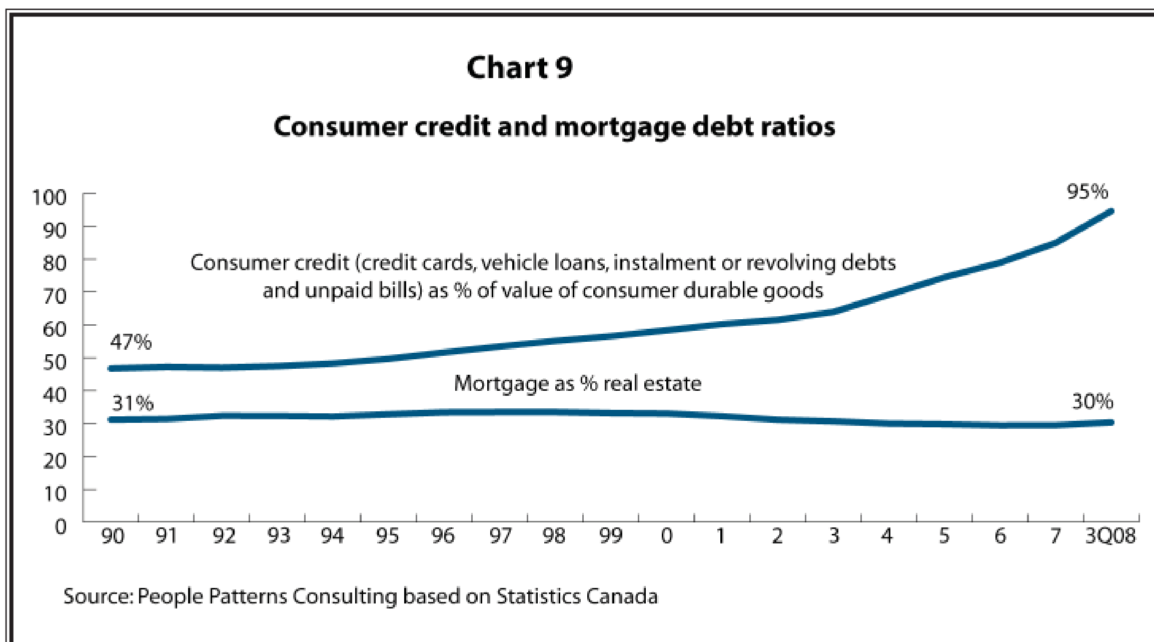
Another survey[9] for The Ontario Association of Credit Counselling Services found a similar trend. "The proportion reporting poor or not very good financial fitness declines as incomes rise, with only 2% of those earning $100,000 plus feeling they are in poor shape." A much higher 30% of those with incomes under $25,000 felt that their financial fitness was poor.

Other debt ratios also rise to record levels

Other ratios are also useful to measure financial stress for households. These are shown in Chart 9 and 10 are calculated based on the data appendix table C.

The most troubling ratio is the amount of consumer credit (excluding mortgages and "other") outstanding compared to the value of household durables. This ratio more than doubled from 47% in 1990 to 95% in 2008. Some of this debt is backed by motor vehicles, appliances, financial assets, etc., but much of it has no security backing it at all. This ratio increased by 10 percentage points in 2008 alone.

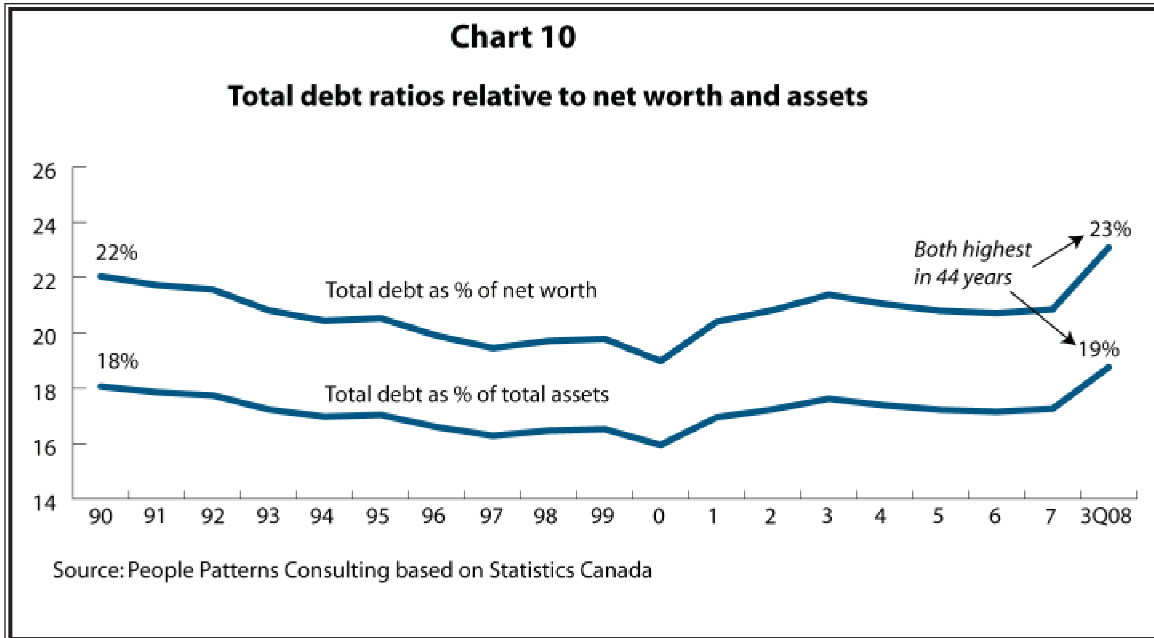
A second ratio reveals that mortgage debt as percentage of the value of real estate actually declined from 31% in 1990 to 30% in 2008. While this is re-assuring, it is important to remember that real estate values were rising rapidly in recent years and have now started to head the other way. As such, this ratio will begin to rise.



Total debt to net worth ratio reached 23% during the third quarter of 2008. The third quarter result was due to a continued increase in debt while net worth dropped sharply. This pushed the

ratio above its previous peak in 1990 and it is now higher than at any time over the last 44 years during which this ratio can be calculated.

Total debt as a percent of total assets increased to 19% by the third quarter of 2008. This is also above the previous peak set in 1990 and is also higher than at any time over the last 44 years.



Fascinating credit card facts

There are now over 64 million Visa or MasterCard credit cards circulating in Canada (table 1). On average, Canadians carry 2.6 of these and other credit cards compared to an average of five per person in the US.

It is clear that credit cards are becoming an increasingly important way to transact the purchase of goods and services. By any standard, the rate of increase is staggering.

In just five years to 2007, the number of Visa or MasterCard transactions jumped by 60%, while the value of the transactions soared by 77%. In 2007, the value of the transactions was equal to 76% of the value of retail sales (excluding automobiles), up from 55% just five years earlier. In 2007, the transactions were equal to 27% of total consumer spending compared to 20% in 2002.

At the same time, the number of debit card users advanced by "only" 15% while the number of transactions paid using cheques actually shrank by 15%. In 2002, there were 112 Visa or MasterCard credit card transactions per 100 cheques cleared … by 2007, there were 211 credit card transactions per 100 cheques cleared.

In 2005, about 73% of households paid off their balances in full each month. In 2003, 10% of credit card holders reached their credit card limits. The latest estimate for 2007 reveals that only 1% of the outstanding balance was delinquent at the end of that fiscal year.

These statistics speak to the dramatic changes in the way Canadians use, rely on, take advantage of, and sometimes misuse credit.

TABLE 1
VISA AND MASTERCARD CREDIT CARDS IN CANADA
(INCLUDING CORPORATE CARDS)

	2002	2007	% change
Credit cards in circulation (millions)	49.4	64.1	+30%
Number of credit card transactions (billions)	1.39	2.22	+60%
Value of credit card transactions (billions $)	$135.7	$240.5	+77%
As % consumer spending	20%	27%	+7 pp
As % of retail sales (excluding autos)	55%	76%	+ 21 pp

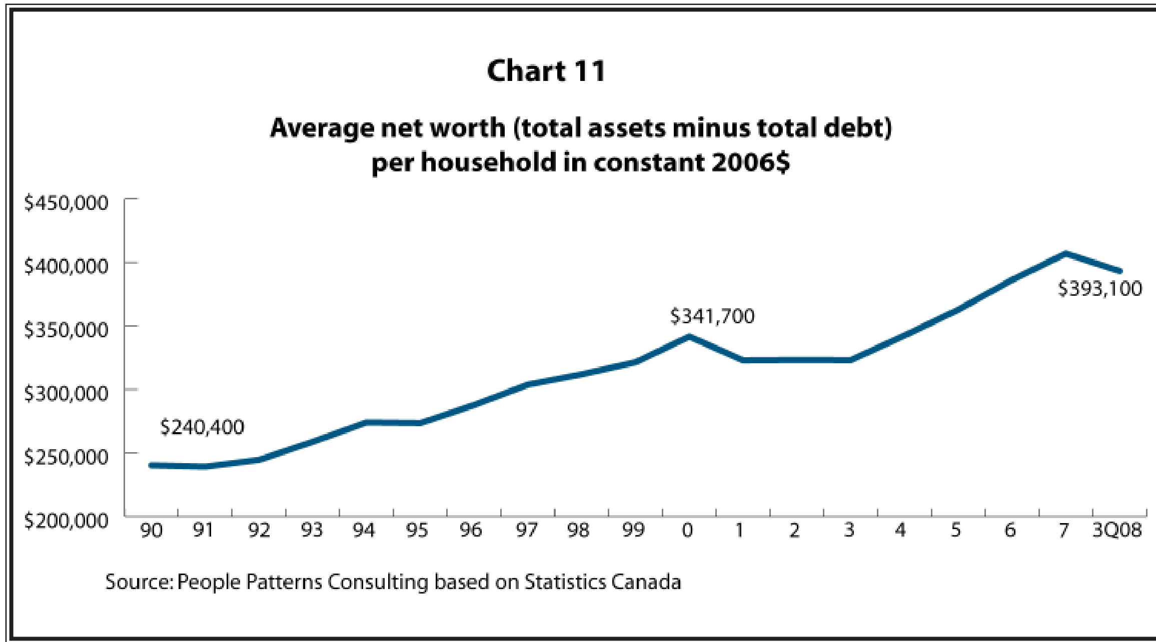
Source: People Patterns Consulting based on data from Canadian Bankers Association (*Credit Cards*, November 2008 and *Credit Card Statistics – VISA and MasterCard* and *Fast Stats*) and Statistics Canada.

Wealth slides in 2008 with more downside on the way

It has taken a while … but household net worth (wealth) declined sharply between 2007 and in the third quarter of 2008 (Chart 11). The decline mainly reflects a sagging stock market during the first nine months of the year.

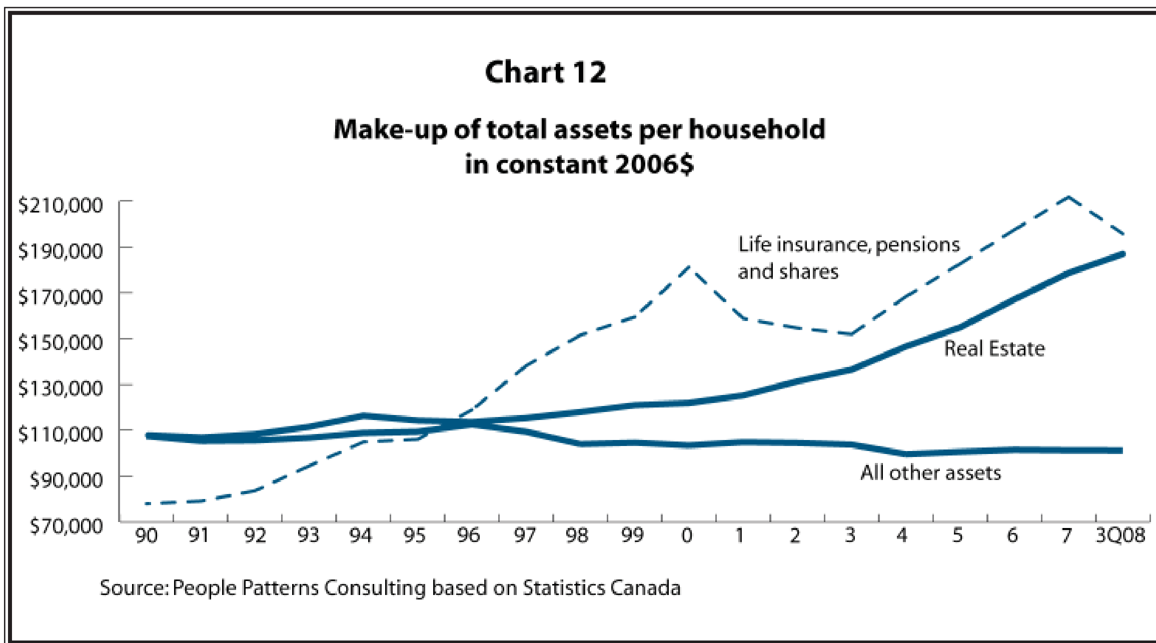
Net worth likely shrank further during the last quarter of 2008 (Chart 11). The S&P/TSX composite index in Canada and the S&P 500 in the US declined some 15%-25% from the end of September to mid-December. Households with more balanced portfolios will not have suffered as badly as those who were totally into equity investments.

Real estate prices have also fallen significantly since the end of September and this too will push the net worth level down even further when the year-end numbers are available.



Household assets now mostly in shares, pensions and real estate

In the mid 1990s, the amount of household wealth was about equally distributed between "life insurance, pensions and shares" and "real estate" and all "other assets" which include bonds, cash, loans to others and equipment of small unincorporated businesses (Chart 12). By the end of third quarter of 2008, "life insurance, pensions and shares" and "real estate" each comprised about 40% of all assets, while all "other assets" shrank to about 20% of the total.

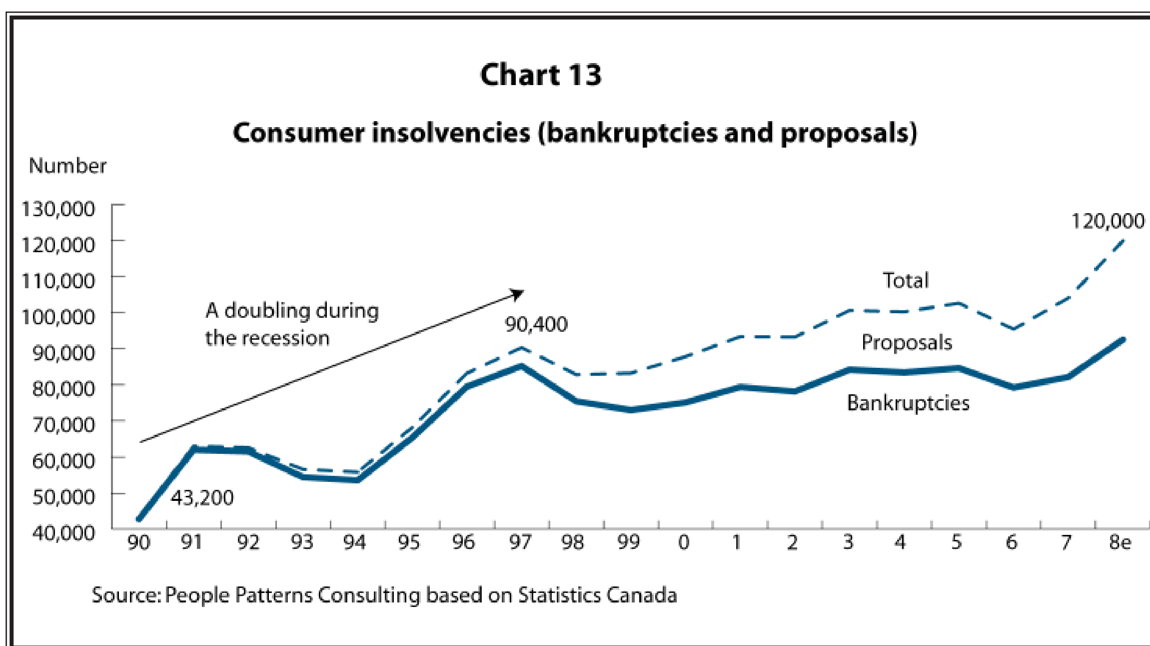


As noted in reference to Chart 11, both of the life insurance, pensions and shares and the real estate components likely fell further in the final quarter of the year.

In a general sense, the risk level of household assets has increased and thus net worth has and will tend to be more volatile than in the past. This suggests that householders must keep a closer watch on their basket of wealth.

Sharp upturn in insolvencies

Now more insights on what happens during a recession. The number of insolvencies more than doubled from 43,200 in 1990 to 90,400 by 1997 (Chart 13). Much of this was due to the recession. Except for a few years in the late 1990s, the number of insolvencies continued to creep up slowly. This has now turned into a renewed upward surge. In October 2008, insolvencies jumped by almost one-quarter from the same month the year before. At this pace, the number of insolvencies could hit 120,000 in 2008 and 130,000 to 140,000 in 2009 and rise further in subsequent years. The financial stress of recession lasts many years.

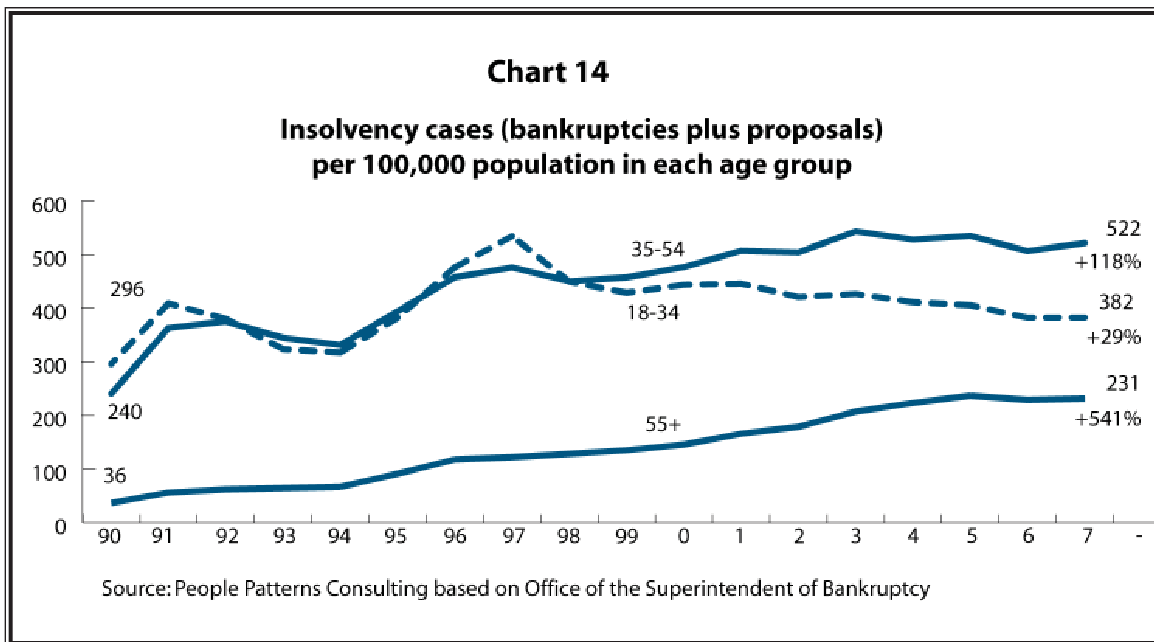


Overextension of credit main cause of insolvencies for the 55+ age group

The rate of insolvencies for the under 35 and the 35-54 age groups increased rapidly during the last recession (Chart 14). The 35-54 age group has followed a slow upward trajectory to 2007. Insolvencies for the under 35s experienced a gradual decline. According to Douglas Welbanks[10], the latter was due, in part, to a 1998 amendment to the Bankruptcy and Insolvency Act, which introduced a 10-year prohibition against bankruptcy discharges for student loans.

The biggest constant has been the gradual climb in insolvencies for the 55 and over age group. In 1990, the rate of insolvency for this group was only one-eight of the rate for those aged 35-54. By 2007, the rate was just about half of what it was for the 35-54 age group. The rate for the 55 and over group soared by 541% from 1990 to 2007.

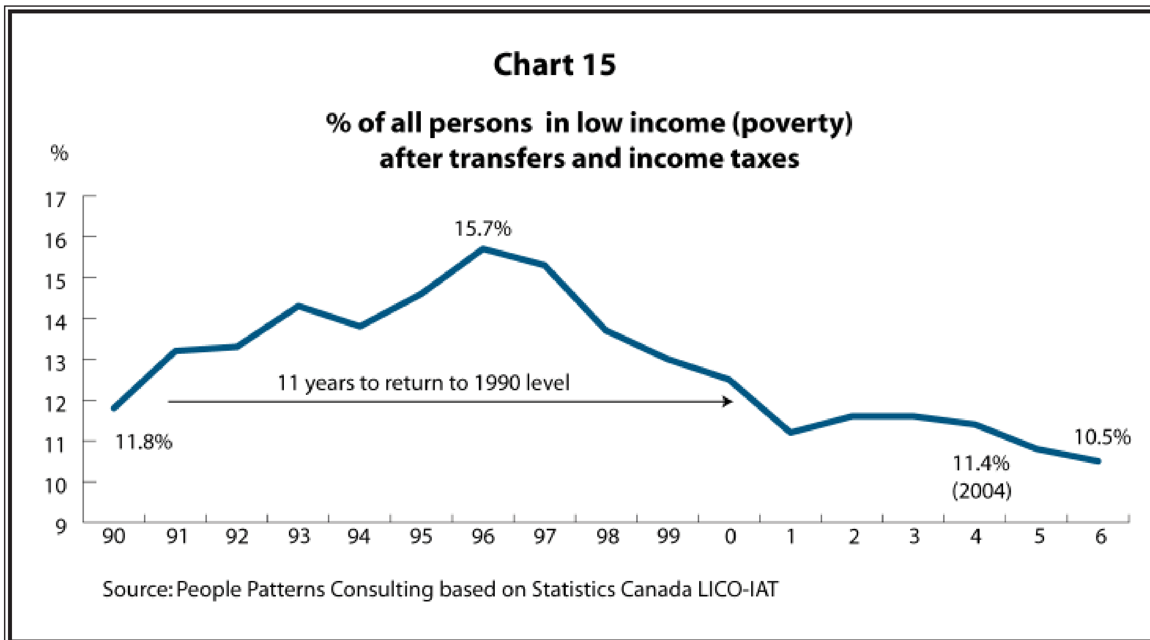
A study[11] funded by the Office of the Superintendent of Bankruptcy examined the causes for the rapid rise of bankruptcies among those aged 55 and over. The study found that the number one cause was an overextension of credit (29%), followed by medical reasons (15%), insufficient income (12%), loss of employment income (11%), money mismanagement (9%), investment in a failed business (7%) and marriage breakdown (4%). Even more startling was that the overextension of credit was the main cause for 38% of bankruptcies among people aged 75 and over. A personal survey of some of those who had gone bankrupt found "that 100% of those surveyed said that it was difficult to tell family or friends about the bankruptcy, some discussing at quite length feelings of shame, fear and humiliation, particularly in having to tell their children." Not a good way to live the latter years of life.



Shame … it took 11 years for poverty to return to pre-recession levels

As noted many times in other charts in this report, it takes many years to recoup damages caused by a recession. This is even more so when it comes to the most disadvantaged in society ... the poor. The poverty rate stood at 11.8% in 1990 (Chart 15). The recession pushed this rate up to 15.7% by 1996 and was at its highest level over the previous two decades. The poverty rate did not return to the 1990 level for 11 years. In 2006, the rate was still much too high at 10.5%.

This is sad given that a new report[12] for the Ontario Association of Food Banks found that huge savings could be achieved by reducing poverty and its burdensome social costs and that governments could very likely pay for the needed mix of policies without asking taxpayers for anything more.



Unattached adults aged 18-64 losing out in poverty fight

The total number of people who live in poverty rose from 3.1 million in 1990, to 4.6 million in 1996 and 3.4 million in 2006.

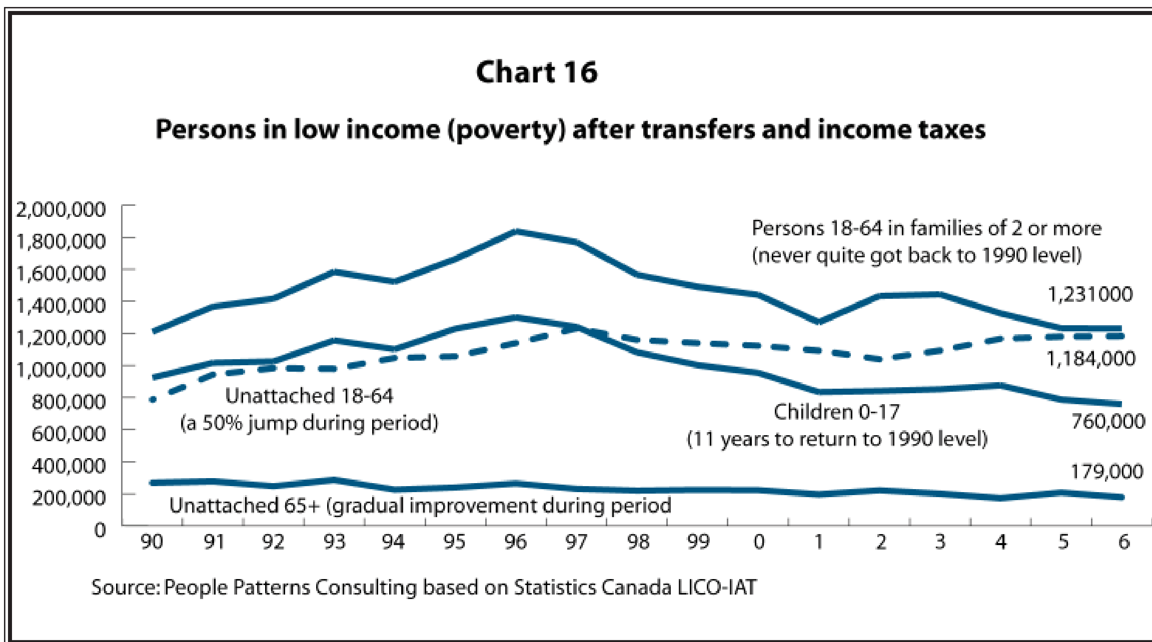
Chart 16 indicates that not all age segments followed the same path. Children under 18 years of age suffered greatly due to the early 1990s recession. The number of children living in poverty rose from 925,000 in 1990 to 1.3 million in 1996. The number of poor children only returned to the 1990 level by 2001 … this was 11 years later. The number fell to 760,000 by 2006 and remains unreasonably high.

The number of poor persons aged 18-64, who are part of a family of two or more, followed a similar path, rising during the recession and falling thereafter. In spite of the improvement, there was still more of this group living in poverty in 2006 than was the case in 1990.

Unattached persons aged 65 and over experienced a slow and gradual decline from 1990 to 2006. Bravo.

One group experienced no improvement over the period. These were unattached individuals aged 18-64. The recession had a devastating effect on this group as the number living in poverty soared from 788,000 in 1990 to 1.2 million in 1997. The recovery period resulted in minimal improvement in poverty for this group. In 2006, the number of unattached individuals living in poverty was still 50% higher than it was in 1990.

In spite of these grim statistics, unattached individuals have been left out of almost all discussions relating to poverty. They are the forgotten poor, are placed at the bottom of the priority scale or shoved off with a "get a job" rebuff. The oldest among this group have been classified[13] as being one of five of the "most at risk" adult groups regarding poverty. Using the Market Basket Measure (MBM) of poverty, unattached individuals aged 45-64 had a poverty rate of 34% in 2004, they were the furthest below the poverty line among the five high risk groups and were the second most likely to have been poor over the entire period from 2000 to 2004. Table 2 reveals that individuals who are classified as "single employable" receive welfare incomes that, on average, are equal to only 46% of the Market Basket Measure of poverty. This is the lowest average among the four groups that the National Council of Welfare examined in their most recent report. Certainly not all, but many of these Canadians end up as street-people and homeless. (The other groups classified as high risk adult groups were lone-parents, work-limited disabled persons, recent immigrants and Aboriginals living off-reserve.)



Newfoundland and Quebec have highest welfare payments … Alberta the lowest

Two provinces have welfare incomes that are closest to the MBM poverty thresholds. Covering the four programs listed in Table 2, Newfoundland and Labrador provides welfare incomes equal to 81% of the poverty threshold, while Quebec provides incomes equal 79% of the poverty threshold. This is no accident. According to the National Council of Welfare "Quebec and Newfoundland and Labrador have specific anti-poverty strategies and clear objectives to improve the lives of people living in poverty and we see it having a positive impact.[14]" Both of these provinces provide assistance to lone parents (with one child in this example) which bring them up to at least the poverty line.

Alberta welfare incomes are, on average, the least supportive (53%) relative to the Market Basket Measure of poverty. They are the least supportive for each of the four groups.

TABLE 2

TOTAL WELFARE INCOME AND AS A % OF MARKET BASKET MEASURE (MBM) POVERTY THRESHOLDS BY PROVINCE AND TYPE OF HOUSEHOLD, 2007

	Single employable		Person with disability		Lone-parent, one child		Couple, two children		% MBM Avg
	Income	% of MBM	Income	% of MBM	Income	% of MBM	Income	% of MBM	
NL	$9,348	67%	$10,878	78%	$18,788	102%	$21,662	77%	81%
PEI	6,577	43	8,623	57	15,781	80	22,906	75	64
NS	6,247	42	9,088	62	14,725	77	20,464	70	63
NB	3,574	27	8,275	63	15,451	90	18,849	71	63
QC	7,099	54	10,500	80	17,068	100	21,890	83	79
ON	7,204	44	12,382	75	16,439	77	21,058	64	65
MB	5,827	42	9,026	65	14,664	81	21,177	76	66
SK	9,105	64	9,772	69	16,545	90	22,544	80	76
AB	5,059	31	8,440	52	13,703	65	20,319	62	53
BC	7,365	45	11,125	69	16,230	77	20,283	62	63
% MBM Avg		46		67		84		72	67

Source: People Patterns Consulting based on National Council of Welfare, *Welfare Incomes, 2006 and 2007*, Winter 2008, Volume #128.

AUTHOR MUSINGS – 10 reflections on 10th Anniversary

I have now done 10 of these family finances reports plus one exploratory study before that. Over the years, this report has generated a lot of interest, applause, and yes, even some controversy. The reports have been widely covered in the media. They have been used and quoted by progressive organizations, by community groups, academics, business publications and others. I list 10 (10th anniversary after all) serious and not-so serious reflections on the past 10 years.

1. *Thank you* - I thank the Vanier Institute of the Family for providing the opportunity and the resources to enable me to do these annual reports. I love doing the report each year, whether the times are good or bad. I always feel like a detective, uncovering clues as to what is really happening. I thank you the readers and friends for your attention and comments. My mother (90 years) does not read these reports, but I thank her anyway.

2. *Don't just spend … save some … lower your debt* - Whenever the economy is in trouble, governments, business and money lenders ask consumers to support the economy by spending more. It is even better for them if you actually borrow to save Canada. You are told (not by me) to forget about your record debt loads and your low or non-existent annual savings. Who cares if it means that you need to a find a second job or convince another member of the family to do more paid work. Don't fall for it. Spend a bit less, save a bit more and pay down some debt. How you allocate incomes between, spending, saving and debt reduction depends on your financial situation. Act responsibly.

3. *I am not an alarmist … I am a realist* – Throughout much of the last decade, warnings about excessive household debt were met with denials. The typical rebuttal was that the warnings were alarmist (ouch) and that the warnings were based on myths. The growth in debt, they claimed, was due to those wonderful credit market innovations that allowed lucky householders the same flexibility in managing their finances as did businesses. Not more than two years ago, many non-alarmists denied that there was a housing bubble in the US and Canada. These bubbles did exist and they have now burst. Excessive debt is not a myth, it is a reality. I have been saying this for the last three years.

4. *But they say the fundamentals are strong* – The media places far too much emphasis on the day-to-day or even the minute-to-minute signals emanating from the economy. This is so, even if the latest data is already a few weeks or even several months old. It seems that it is much easier to report the very latest data point or "noise" rather than to look at the underlying situation. Aren't we all tired of the tendency, at the end of a story or speech, for writers, analysts and, yes, even some politicians to feel the need to recite soothing words that say that the fundamentals are still strong. They might be right and they should say it. But, if they don't really believe that the fundamentals are strong, then they shouldn't say it, OK.

5. *Stop the wage bashing* – There is a general tendency among economists to view rising wages as being a negative factor relative to inflation, while rising profits are usually viewed as a positive. Over the last two decades, wages, salaries and supplementary incomes have fallen as a percent of the total economy while profits have risen. Let's be fair.

6. *Canada needs an official poverty rate* – It is very sad that governments in Canada have not been able to agree on how to even measure poverty. Some organizations actually use this indecisiveness to divert attention from the reality of poverty. My many years in the private and corporate sector have taught me that you need agreement on how to measure reality before you can develop action plans to change that reality. Poverty is still where it was back in 1990. Comparisons of poverty rates at the tail end of the recession in 1996 with the boom years up to 2006 are misleading the public.

7. *The generational wealth transfer* – My spouse and I paid $30,000 for a lovely 1,800 square foot semi-detached home in suburban Toronto in 1970. I was 26 years old at the time and the purchase price was about three times our combined annual household salary. In mid-summer of 2008, this same house was priced at $400,000. As economists are prone to do, let me assume that another 26 year-old with a partner buys the house from me. They give me my $400,000 and I walk away with my rich prize. The new 26-year olds now have a house that is probably equal to about six times their annual household income. They are now really cash poor, not just on paper, but in reality. This is an example of how young people are transferring wealth that they don’t have (they have to borrow it) to a bunch of older boomers who have benefited from the housing inflation bandwagon. Something is wrong here.

8. *Non-profits are an essential part of a mixed economy* - There is a need for both the business and the government sector to help build and support a strong and fair economy. Governments have to encourage a vibrant entrepreneurial class, help protect the middle class and assist the less fortunate so that they have a chance to survive and better their situations. The non-profit sector also plays a very important role in creating a just and fair society. There are an estimated 160,000 non-profit and voluntary organizations in Canada. Collectively, they are supported by more than 19 million volunteers who donate more than 2 billion hours or the equivalent of more than one million full-time jobs. They need our support. Together we stand.

9. *Thank you to a concerned retiree* - One of my favourite websites is a freebie (www.canadiansocialresearch.net) created by Gilles Séguin. The site, aimed at the social research community, was started in 1997 and now has close to 50,000 unique links and over 400 pages. It is truly a research goldmine. I recommend that you subscribe to his timely and totally free weekly updates. And best of all, this guy has a sense of humour.

10. *I do have poetic license* – I do have another life you know. When people ask me what I do, I often say that I am a writer. I especially like to write poetry. That usually leads to a very short conversation. I wrote this little piece last summer in Taos, NM, where I attended a one-week writers’ retreat. By the way, I rode the 8,100 km round-trip on my motorbike. See, I do have a life. I hope you enjoy it. It seems to mean different things to different people. I suppose the same thing can be said of most economic verbiage.

Reflections in my coffee cup

I lay my coffee cup down on the flat stone in front of my garden bench
I look into the cup
The reflections are clear
The coffee is as blue as the sky
A bird slowly flies across the surface
The coffee forms one perfect circle near the outer edge of the cup
The patterns are clear
I see an undisturbed reflection of my face

A large black ant leisurely circles the cup
A smaller ant follows with more twists and turns
I begin to move … the ants scatter

I lower my right hand
I put my index finger in the handle
I press down with my thumb and grip tightly
I lift the coffee cup towards me and look inside
The images begin to blur
The outer ring begins to twist and turn
There are new patterns of shifting centers, ovals and spider-like webs
My face is wrinkled and worn

Live life outside the cup

Roger Sauvé

APPENDIX A - Average incomes of families and unattached individuals, low-income gap and share of incomes after transfers and income taxes						
	constant 2006$			**% change over selected periods**		
				Entire period	**So for this decade**	**Latest year available**
	1990	2000	2006	2006 /1990	*2006 /2000*	*2006/ 2005*
All households	$47,000	$49,600	$54,300	*15.5%*	*9.5%*	*2.5%*
All families of 2 persons or more	56,800	61,600	67,600	*19.0*	*9.7*	*2.4*
Senior families of 2 persons or more (65 and over)						
Senior couples	42,000	43,100	48,300	*15.0*	*12.1*	*2.3*
Other senior families	55,400	49,200	56,600	*2.2*	*15.0*	*1.1*
Non-senior families of 2 persons or more (under 65)						
Couples without children	53,900	58,600	65,800	*22.1*	*12.3*	*3.0*
One earner	45,900	47,500	52,600	*14.6*	*10.7*	*-1.3*
two earners	60,000	66,300	73,700	*22.8*	*11.2*	*3.1*
Couples with children	62,200	69,600	76,400	*22.8*	*9.8*	*2.6*
One earner	45,500	50,800	54,900	*20.7*	*8.1*	*2.2*
two earners	61,800	70,600	75,800	*22.7*	*7.4*	*0.8*
Female lone-parent	27,600	32,100	37,000	*34.1*	*15.3*	*0.8*
Male lone-parent	42,500	46,000	54,500	*28.2*	*18.5*	*3.8*
All families of 2 persons or more by province						
Newfoundland	46,600	48,300	53,200	*14.2*	*10.1*	*3.7*
Prince Edward Island	48,300	50,500	56,000	*15.9*	*10.9*	*3.1*
Nova Scotia	50,500	53,000	58,900	*16.6*	*11.1*	*1.7*
New Brunswick	48,000	51,800	54,600	*13.8*	*5.4*	*2.4*
Quebec	50,600	54,000	59,100	*16.8*	*9.4*	*1.7*
Ontario	63,400	70,100	72,400	*14.2*	*3.3*	*0.8*
Manitoba	52,400	54,700	62,100	*18.5*	*13.5*	*2.8*
Saskatchewan	49,500	53,000	63,200	*27.7*	*19.2*	*4.8*
Alberta	58,300	65,700	80,400	*37.9*	*22.4*	*7.6*
British Columbia	57,900	58,200	68,000	*17.4*	*16.8*	*2.6*
Unattached individuals (living alone or with someone who is not related)						
Total	25,000	25,100	28,500	*14.0*	*13.5*	*3.6*
Senior males (65 and over)	23,900	24,600	27,800	*16.3*	*13.0*	*1.1*
Senior females (65 and over)	20,900	22,000	25,500	*22.0*	*15.9*	*8.1*
Non-senior males (under 65)	28,300	28,200	31,700	*12.0*	*12.4*	*3.9*
Non-senior females (under 65)	23,700	22,900	26,000	*9.7*	*13.5*	*1.2*
Average income gap - $ needed to escape poverty (low-income cutoff)						
All families of 2 persons or more	7,700	7,800	7,000	*-9.1*	*-10.3*	*-12.5*
Unattached individuals	5,500	6,400	6,500	*18.2*	*1.6*	*3.2*
% 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*	*0.3pp*
Lower-middle fifth of families	13.4%	12.6%	12.6%	*-0.8pp*	*0.0 pp*	*0.0 pp*
Middle fifth of families	18.2%	17.4%	17.3%	*-0.9pp*	*-0.1 pp*	*-0.1 pp*
Upper-middle fifth of families	23.8%	23.3%	23.2%	*-0.6 pp*	*-0.1 pp*	*-0.2 pp*
Richest fifth of families	37.1%	39.8%	39.6%	*+2.5 pp*	*-0.2 pp*	*0.0 pp*
Source: People Patterns Consulting based on Statistics Canada, *Income in Canada*, 2006						

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 for this decade	Latest year available
	1990	2000	2006	*2006/ 1990*	*2006/ 2000*	*2006/ 2005*
All households	15.9%	16.8%	14.6%	*-1.3 pp*	*-2.2 pp*	*-0.6 pp*
All families of 2 persons or more	9.1	9.0	7.0	*-2.1*	*-2.0*	*-0.4*
Senior families (65 and over)						
Senior couples	2.4	1.2	1.2	*-1.5*	*0.0*	*+0.2*
Other senior families	3.2	10.1	6.1	*+2.9*	*-4.0*	*+2.0*
Non-senior families (under 65)						
Couples without children	6.7	6.9	5.7	*-1.0*	*-1.2*	*+0.7*
One earner	9.5	10.2	7.2	*-2.3*	*-3.0*	*0.0*
two earners	2.7	2.2	2.8	*+0.1*	*+0.6*	*-0.2*
Couples with children	7.2	8.3	6.6	*-0.6*	*-1.7*	*-0.1*
One earner	16.6	22.3	19.7	*+3.1*	*-2.6*	*+3.5*
two earners	4.4	4.1	3.6	*-0.8*	*-0.5*	*-0.1*
Female lone-parent	47.8	36.3	28.2	*-19.6*	*-8.1*	*-0.9*
Male lone-parent	18.4	12.3	7.2	*-11.2*	*-5.1*	*-4.4*
All households by age of major income earner						
Under 25	47.3	48.2	45.4	*-1.9*	*-2.8*	*-4.6*
25-34	15.9	17.8	14.4	*-1.5*	*-3.4*	*+0.6*
35-44	12.2	13.1	13.2	*+1.0*	*+0.1*	*-0.2*
45-54	10.1	13.4	11.6	*+1.5*	*-1.8*	*-1.0*
55-64	15.6	21.1	16.7	*+1.1*	*-4.4*	*+0.3*
65 and over	14.8	11.5	8.3	*-6.5*	*-3.2*	*-1.1*
Children 0-17 by province						
Canada	13.8	13.8	11.3	*-2.5*	*-2.5*	*-0.4*
Newfoundland	18.1	17.7	9.3	*-8.8*	*-8.4*	*-1.5*
Prince Edward Island	6.7	7.7	4.0	*-2.7*	*-3.7*	*+0.7*
Nova Scotia	11.6	12.5	8.7	*-2.9*	*-3.8*	*-1.7*
New Brunswick	13.5	10.6	11.3	*-2.2*	*+0.7*	*+1.0*
Quebec	14.5	16.0	9.7	*-4.8*	*-6.3*	*+0.1*
Ontario	11.8	12.8	11.8	*0.0*	*-1.0*	*-0.8*
Manitoba	19.1	16.7	12.4	*-6.7*	*-4.3*	*-1.7*
Saskatchewan	17.1	13.0	14.4	*-2.7*	*-1.4*	*+1.5*
Alberta	14.9	12.3	6.9	*-8.0*	*-5.4*	*-1.7*
British Columbia	14.7	14.1	16.1	*+1.4*	*+2.0*	*-0.9*
Unattached individuals						
Total	31.3	32.9	29.2	*-2.1*	*-3.7*	*-1.2*
Senior males (65 and over)	20.7	17.6	14.0	*-6.7*	*-3.6*	*+0.4*
Senior females (65 and over)	30.5	21.7	16.1	*-14.4*	*-5.63*	*-4.2*
Non-senior males (under 65)	29.4	32.1	31.2	*+1.8*	*-0.9*	*-1.1*
Non-senior females (under 65)	36.8	44.3	37.1	*+0.3*	*-7.2*	*0.0*

Note: A 4-person family living in a city of 500,000 or more with less than $33,216 ($8,304 per person) and a 4-person rural family with less than $21,728 ($5,432 per person) annually are classified as being low-income.

Source: People Patterns Consulting based on Statistics Canada, *Income in Canada*, 2006

APPENDIX C - Major components of average net worth per household based on market value in constant 2006$

	Value in 2006$			% change over selected periods		
				Entire period	*So far this decade*	*Latest year available**
	1990	2000	2008(3Q)	*2008(3Q) /1990*	*2008(3Q) /2000*	*2008(3Q) /2007*
Total assets	**$293,350**	**$406,497**	**$483,834**	***64.9%***	***19.4%***	***-1.6%***
Financial assets	156,418	255,500	267,442	*71.0*	*4.7*	*-5.5*
of which shares	27,512	90,735	98,766	*259.0*	*8.9*	*-9.5*
of which life ins./pensions	50,475	90,432	96,941	*92.1*	*7.2*	*-5.6*
of which “all other” **	78,431	74,333	71,735	*-8.5*	*-3.5*	*0.5*
Real (non-financial) assets	136,932	150,996	216,392	*58.0*	*43.3*	*3.8*
of which real estate	107,890	121,905	186,934	*73.3*	*53.3*	*4.6*
of which consumer durables	26,084	26,130	27,038	*3.7*	*3.5*	*-3.0*
of which “all other” ***	2,958	2,961	2,420	*-18.2*	*-18.3*	*18.8*
MINUS Total debt	**52,981**	**64,834**	**90,723**	***71.3***	***39.9***	***7.0***
of which consumer credit	12,190	15,242	25,563	*109.7*	*67.7*	*8.0*
of which mortgages	33,670	40,284	56,732	*68.5*	*40.8*	*7.7*
of which “other debt”****	7,122	9,308	8,428	*18.3*	*-9.5*	*-0.4*
EQUALS Net worth	**240,368**	**341,662**	**393,111**	***63.5***	***15.1***	***-3.4***
Selected ratios						
Total debt as % of disposable income	91%	111%	140%	*+49 pp*	*+29 pp*	*+6.4 pp*
Consumer and mortgage debt as % of disposable income	79%	95%	127%	*+48 pp*	*+32 pp*	*+6.7 pp*
Consumer credit as % consumer durables	47%	58%	95%	*+48 pp*	*+37 pp*	*+ 10 pp*
Total debt as % of total assets	18%	16%	19%	*+1 pp*	*+3 pp*	*+2 pp*
Total debt as % of net worth	22%	19%	23%	*+1 pp*	*+4 pp*	*+2 pp*

* The changes for the latest period (3Q-2008) are from the annual average for 2007.

** 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

1 Key Statistics Canada data sources used in the report.

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- *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*
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7 Umar Faruqui, *Indebtedness and the Household Financial Health: An examination of the Canadian Debt Service Ratio Distribution*, Bank of Canada Working Paper 2008-46, December 2008.

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