Intelligence MEMOS

From: Parisa Mahoubi

To: Concerned Canadians

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Re: **Dissecting Income Inequality**

Canadians today are richer than ever, but the gap between average and median household wealth has also grown. The main drivers of wealth inequality between Canadian households between 2005 and 2016 have been rising real estate prices and an aging population, according to Statistics Canada's 2016 Survey of Financial Security.

The good news is that over that period, Canadian families' net worth –total assets minus total debts – rose to $10.3 trillion, a 76 -percent growth rate when adjusted for inflation. Indeed, the median household's net wealth – the net assets held by a household in the middle of the distribution – reached $295,100 in Canada in 2016, up 66 percent from 2005. This increase is remarkable given that the period encompasses the Great Recession of 2008-09 and the oil price downturn of 2014-15, which contributed to sluggish annual growth of 1.1 percent in the inflation-adjusted median income of Canadian families between 2005 and 2015.

So whereas the median Canadian family holds net assets of $295,100, the 2016 average household net worth is $669,300, a gap that has increased by 44 percent since 2005. To what extent is that a problem and what can be driving this rise in wealth inequality?

Some inequality between households is easy to understand and economically sound, for example between older households about to enter retirement and those at earlier stages of their careers or family formation.

Predictably, the results of the recent survey show that younger people hold fewer assets and borrow more while older people own more assets and have less debt. Further, the median wealth is substantially lower among lone-parent families and persons living alone, whose numbers have risen.

In particular, since people nearing or beginning retirement tend to hold, on average, higher net assets, their population growth over the past 10 years has pushed the average wealth up.

More than 61 percent of the rise in total household net assets since 2005 is related to real estate, including principal residences and other properties. Soaring house prices can explain a large part of the increasing wealth inequality since households from the lower quintiles are less likely to own real estate. Only about 2 percent of the bottom 20 percent owned a principal residence in 2016 while 96 percent of the top quintile owned their home and 43 percent held other real estate.

These statistics speak to the need to remove barriers to quality education and to economic opportunities. In addition, given that real estate has played such a major role in wealth accumulation, policies that make housing more affordable through expanding supply warrant special consideration. Another approach to reducing the wealth gap is increasing financial literacy, since people with greater financial knowledge are more likely to make better decisions with their money. Such a multifaceted approach can reduce inequality by removing barriers to upward mobility for those at the lower end of the wealth scale.

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