Charting a Course to a Brighter Future

Housing Affordability and Young People's Major Life Decisions

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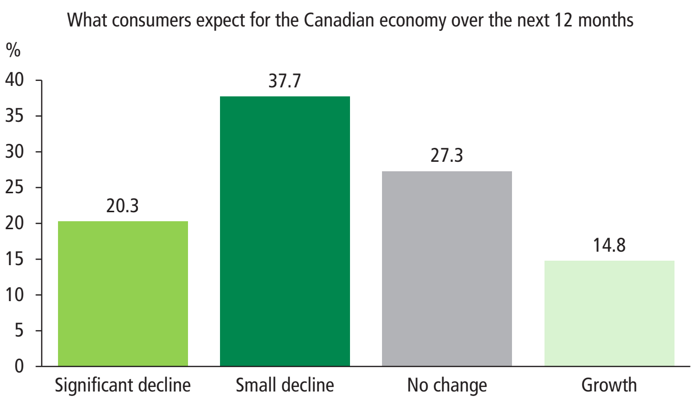
Desjardins

Executive Summary

This note is the second in a series on the economic opportunities and challenges facing youth in Canada. Our first report focused on the path being navigated by younger Canadians as they leave home to pursue an education and embark on their careers. We have followed it up with a note that looks at the difficulties being experienced by young adults as they look to put down roots in their communities. A third and final note will focus on the circumstance that will come to define their generation over the come decades.

While many Canadians are concerned about their financial prospects, that anxiety is even more pronounced among youth in Canada. With economic uncertainty running high and a possible recession around the corner, these concerns are particularly acute today (graph A).

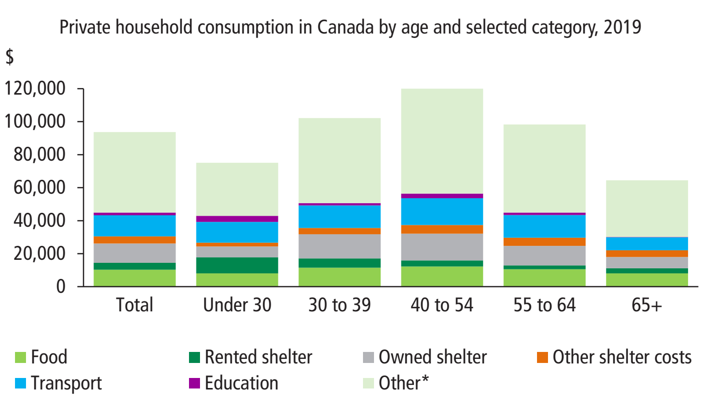
GRAPH A
Many Canadians Expect a Recession but Are Uncertain about It



Sources: Bank of Canada and Desjardins Economic Studies

Youth in Canada have less financial security than older Canadians. Youth employment is typically less resilient to changes in the economic cycle than employment among older workers, which means recessions affect their earnings more directly. Young people also tend to allocate a greater share of their consumption to necessities (graph B). They generally have much higher levels of non-mortgage debt relative to their incomes as well, be it in the form of student debt or other consumer debt.

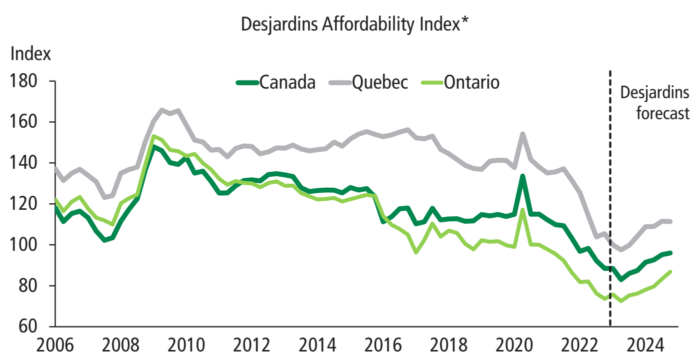
GRAPH B
A Larger Share of Youth Consumption Goes to Necessities



*Other includes household operations, clothing and accessories, recreation, health care and vice
Sources: Statistics Canada and Desjardins Economic Studies

Housing is much less affordable for today's youth than it was for prior generations. Young Canadians are less likely to own a home, as the long-time erosion of affordability in Canada accelerated during the pandemic and has yet to recover (graph C). Unfortunately, renting for extended periods tends to have material negative implications for long-term savings and wealth accumulation. And if youth do own a home, they typically have a larger mortgage than their older neighbours, particularly relative to their income, leaving them more at the mercy of rising interest rates. As such, governments need to get serious about increasing the housing supply.

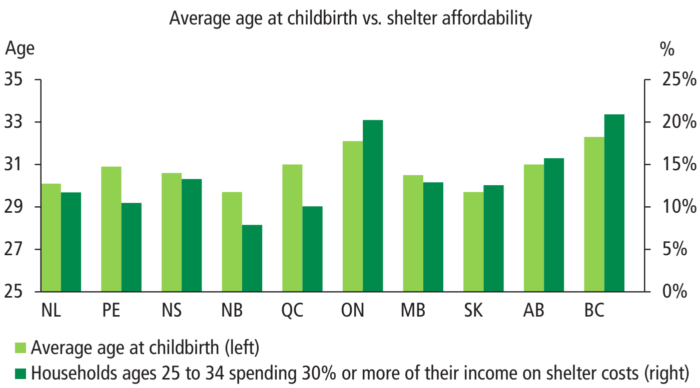
GRAPH C
Affordability Should Improve but Not to Pre-COVID Levels



*Forecast begins in Q1 2023 for Canada and Q4 2022 for Ontario and Quebec
Sources: Statistics Canada, Canadian Real Estate Association, Conference Board of Canada and Desjardins Economic Studies

Together, these crosscurrents compound the challenges faced by younger Canadians, with knock-on consequences for family planning and other major life decisions. Despite doing all the right things to start their futures off on the right foot, young adults in Canada are more likely than ever to live with a parent. It's also taking them longer to form long-term relationships, which is leaving youth more likely to live alone than ever before. Not surprisingly, this has led to a sustained increase in the age at which women have their first child, and women are having fewer children than they say they would like to have (graph D). The push for universal subsidized childcare has gone a long way to improve the affordability of having children and to allow young people to have the families they want. But more needs to be done, including providing more flexible work arrangements to support parents.

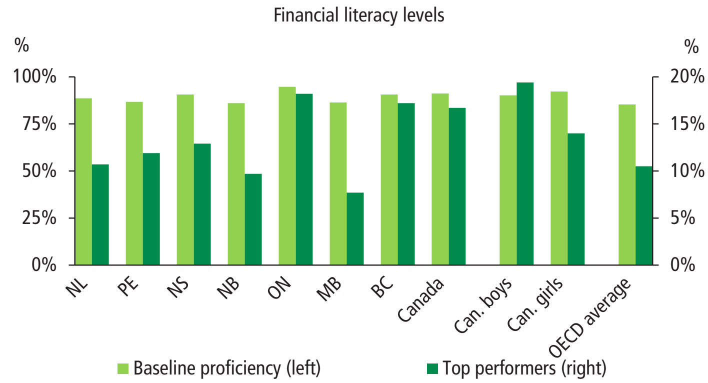
GRAPH D
Housing Affordability Influences Family Planning Decisions



Sources: Statistics Canada and Desjardins Economic Studies

Some have tried to pin the blame on youth for their own financial challenges, but that's misguided. On average, young people in Canada are highly financially literate when compared to past generations and their international peers (graph E). They're also more likely to pursue a postsecondary education, thereby increasing their likelihood of having a higher income. Life has just become increasingly unaffordable for Canadian youth, particularly around housing. But more can be done to support financial literacy starting at a young age by including it in the mathematics curriculum at all levels. Raising awareness and providing information after graduation would also support lifelong learning.

GRAPH E
Most 15-Year-Old Canadians Are Financially Literate



Sources: Council of Ministers of Education, Canada and Desjardins Economic Studies

As Desjardins Economic Studies has discussed in a variety of analyses—most notably in a note by our Chief Economist Jimmy Jean—the solution to the long-term erosion of Canadian housing affordability is to increase supply. But Canada's youth need more than just policy announcements and prayers; they need urgent action. Unfortunately, while governments at all levels have recognized that the housing shortage in Canada has reached crisis levels, there's been more talk than action. This is one of the most pressing issues of our time, and governments of all levels need to take it seriously if young Canadians are going to achieve the same level of financial security as Canadians who came before them.

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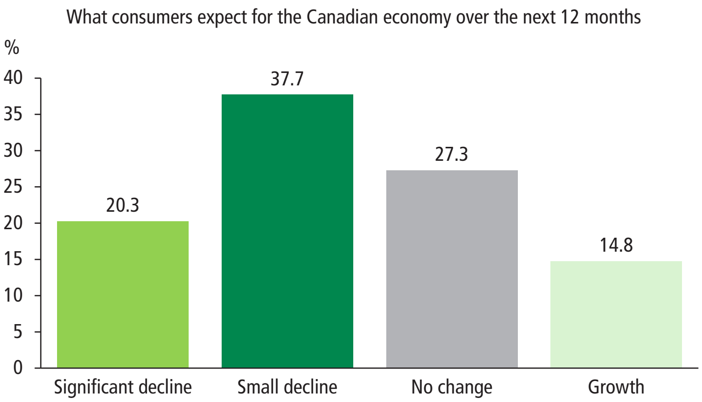
Many Canadians are concerned about the economic outlook. According to the Bank of Canada's most recent Canadian Survey of Consumer Expectations, a plurality of Canadians expect a recession in 2023 (graph 1). This aligns with our outlook for the Canadian economy, which is forecasting a recession in the second half of this year.

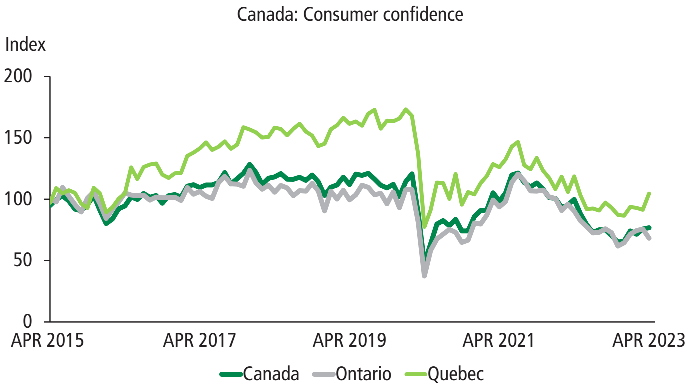
GRAPH 1
Many Canadians Expect a Recession but Are Uncertain about It



Sources: Bank of Canada and Desjardins Economic Studies

Many factors explain the anxiety Canadians face. High interest rates have weighed heavily on asset values, particularly home prices—the largest store of wealth for most Canadian households. At the same time, elevated borrowing costs and inflation have reduced the purchasing power of incomes. Lower-income households are finding it more difficult to afford the basic necessities, meet their debt obligations and accumulate savings. These concerns are reflected in consumer confidence indexes, which have been trending lower since mid-2021 (graph 2).

GRAPH 2
Consumer Confidence Has Stabilized and Is Inching Higher



Sources: Conference Board of Canada and Desjardins Economic Studies

While Canadians in general are concerned about their financial prospects, that anxiety is even more pronounced among younger Canadians (Statistics Canada, 2023). There are a few reasons for this. First, youth employment is typically less resilient to changes in the economic cycle than employment among older workers, which means recessions affect their earnings more directly. Young people also tend to have less savings set aside for a rainy day since they entered the labour market more recently. They generally have much higher levels of non-mortgage debt relative to their incomes as well, be it in the form of student debt or other consumer debt. Finally, young Canadians are less likely to own a home, as the long-time erosion of affordability in Canada accelerated during the pandemic and has yet to recover. And if they do own a home, youth typically have a larger mortgage than their older neighbours, particularly relative to their income, leaving them more at the mercy of rising interest rates. Together, these crosscurrents compound the challenges faced by younger Canadians, with knock-on consequences for family planning and other major life decisions. And while some have tried to pin the blame on youth for their own financial challenges, that's misguided as the average young person in Canada is highly financially literate.

Economic Anxiety

In our previous note on the economics of youth in Canada, we highlighted that Canadian youth are doing a lot of the things needed to start their future off on the right foot. Indeed, they are better educated, more entrepreneurial and more international in their perspective than any generation that came before them.

But when young people are finishing up school and preparing to kickstart their career, timing is everything. It's well documented that young people who struggle to get a foothold in the labour market after graduating are subject to more precarious employment and lower earnings for years after (Schwandt, 2019). And with a possible recession on the horizon, young Canadians are right to feel concerned.

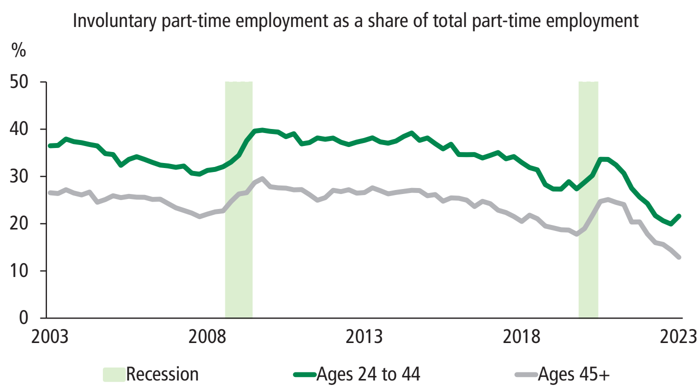
Recessions and Youth Labour Market Outcomes

The unemployment rate has always been higher among younger Canadians than older cohorts, specifically among youth ages 25 to 34. And during recessions, an even wider gap opens up (graph 3). But that doesn't fully explain why the labour market is so weak for Canada's youth. For instance, while involuntary part-time employment is lowest among young people ages 15 to 24, older youth are much more likely to work part-time involuntarily (graph 4). And the share of involuntary part-time employment rises across all age cohorts during recessions, including among youth. All of this weighs on incomes, both in the near and long term.

GRAPH 3
Workers Ages 15 to 34 Have Faced More Employment Uncertainty

*Seasonally adjusted using the Census X12 method
Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 4
Recessions Lead to Higher Involuntary Part-Time Employment

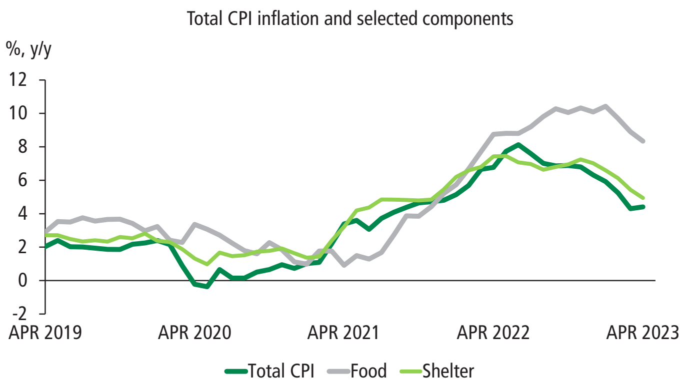


Sources: Statistics Canada and Desjardins Economic Studies

The Rising Cost of Living Has Hit Youth Especially Hard

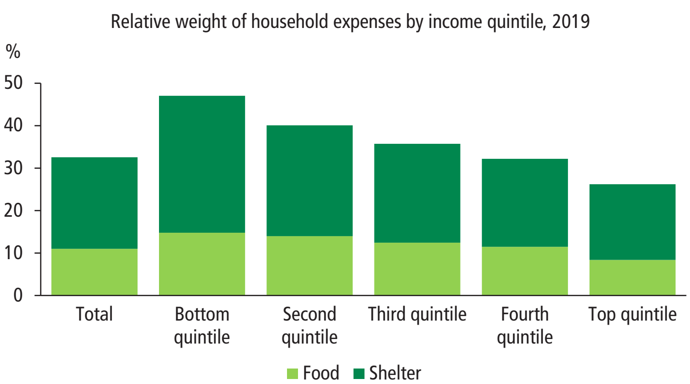
With the possibility of a recession around the corner, high inflation has only exacerbated the woes facing young Canadians (graph 5). Specifically, [our research]() has found that food and shelter inflation are felt most acutely among lower-income Canadians (graph 6). And since Canadian youth are more likely to fall into this group, we can infer that the recent run-up in food and shelter inflation has had a particularly adverse impact on them. Indeed, Canadians under 30 are the only age group to have over half of their consumption go toward food, shelter, transportation and education (graph 7).

GRAPH 5
Food and Shelter Have Seen Some of the Strongest Price Growth



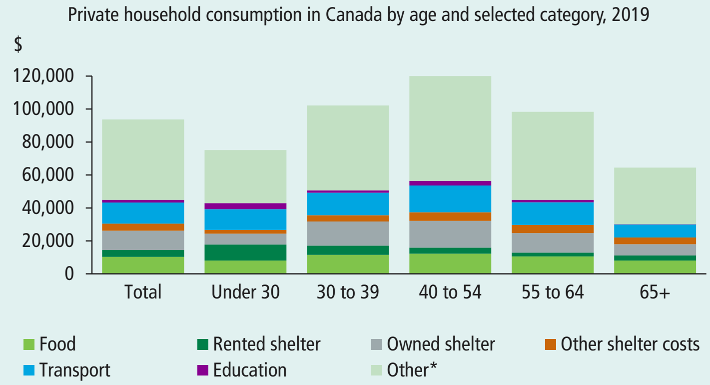
Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 6
Lower-Income People Spend More of their Income on Food and Shelter



Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 7
A Larger Share of Youth Consumption Goes to Necessities



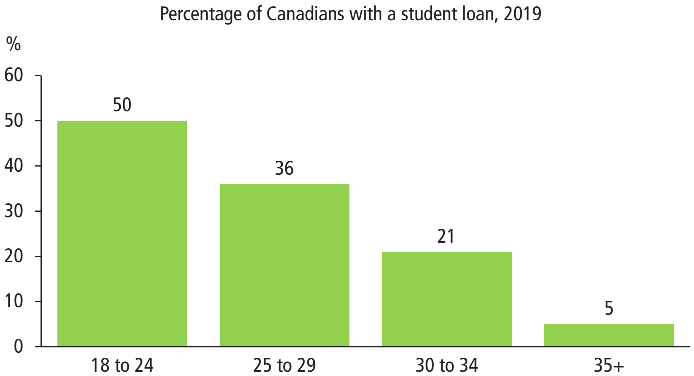
*Other includes household operations, clothing and accessories, recreation, health care and vice
Sources: Statistics Canada and Desjardins Economic Studies

Youth Are Often Saddled with Substantial Debt

For younger Canadians, economic uncertainty compounds the challenges already posed by high levels of non-mortgage debt, particularly student debt (graph 8). As we discussed in our previous report, student debt continues to climb in Canada. In 2015, the last year for which Statistics Canada data is available, Canadian students completed their studies with nearly $30,000 in debt, including student loans and other types of debt, with roughly half carrying debt related to their education at graduation (graph 9).

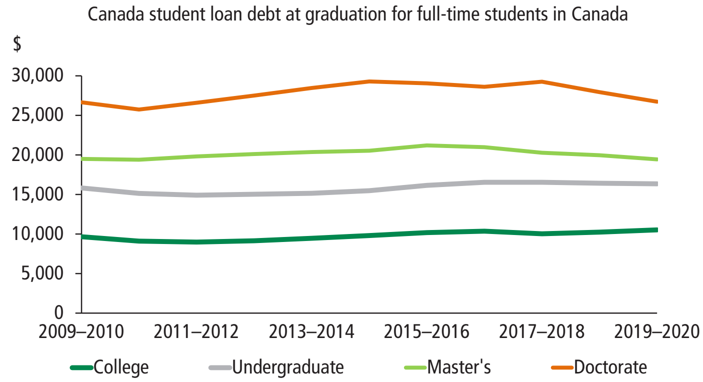
More recent data on Canada Student Loans (graph 10) tells a similar story. Notably, postsecondary tuition fell considerably for Canadian students in the 2019–2020 academic year (graph 11). This was entirely the result of a near double-digit decline in Ontario that year. In contrast, international students studying in Canada pay much higher tuition. That said, it's important to recognize that tuition is only a portion of the total costs incurred by Canadian students in pursuit of their education.

GRAPH 8
A Substantial Share of Canadian Youth Carry Student Debt



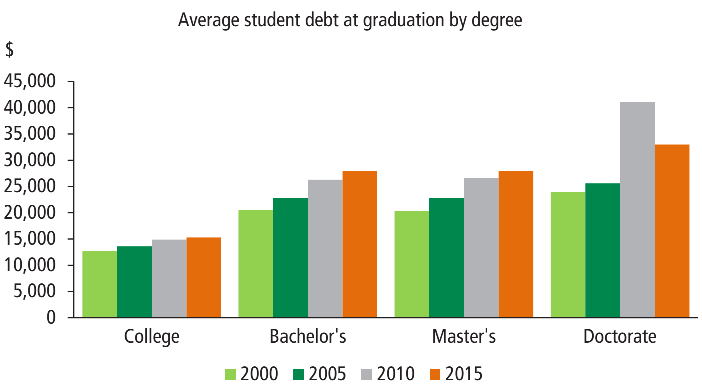
Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 10
Canada Student Loan Debt Has Broadly Stabilized in Recent Years



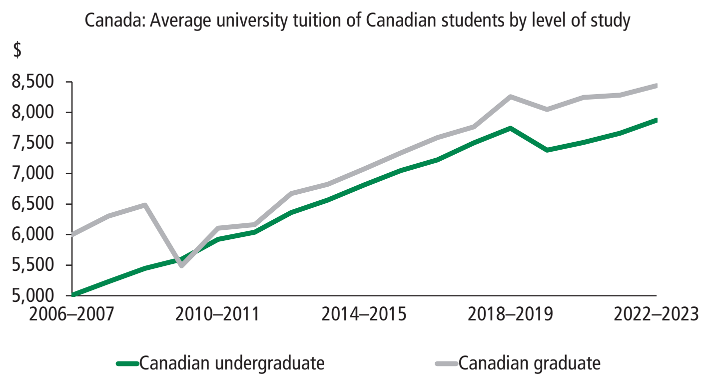
Sources: Government of Canada and Desjardins Economic Studies

GRAPH 9
Student Debt Is Gradually Moving Higher



Sources: Statistics Canada and Desjardins Economic Studies

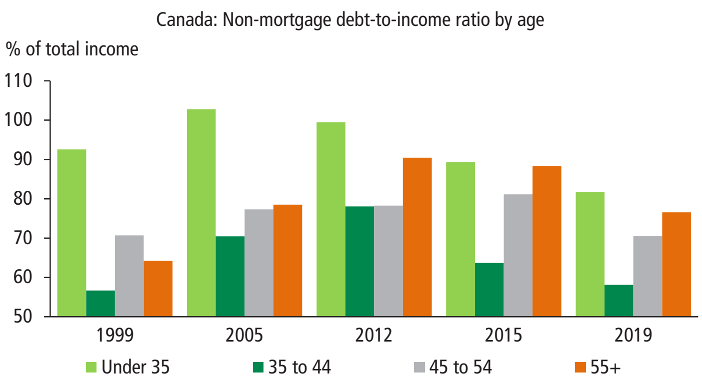
GRAPH 11
Tuition for Canadian Students Has Risen Only Modestly Recently



Sources: Statistics Canada and Desjardins Economic Studies

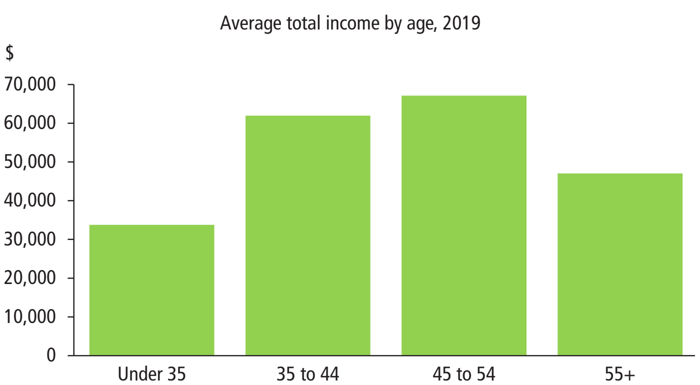
What's more, youth have the highest ratio of total non-mortgage debt to income, although that ratio has gradually declined over the past decade (graph 12).[1] This is in part because younger Canadians have a much lower average income (graph 13).[2]

GRAPH 12
Youth Have Had the Highest Non-mortgage Debt-to-Income Ratio



Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 13
Younger Canadians Have Lower Average Incomes

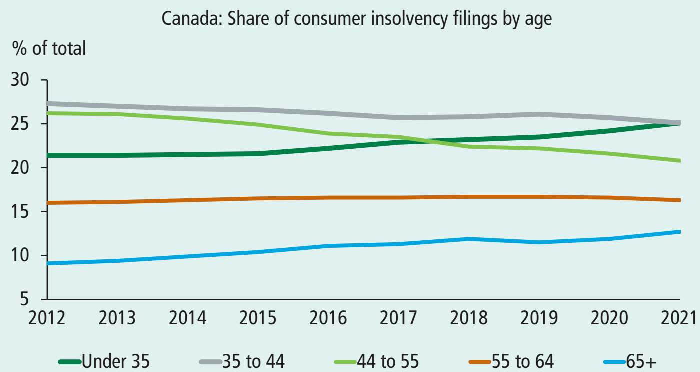


Sources: Statistics Canada and Desjardins Economic Studies

Insolvencies Are Starting to Slowly Inch Higher

Between economic uncertainty, the rapidly rising cost of living and elevated debt-to-income ratios, it's no surprise that more and more young Canadians are filing for insolvency. As interest rates and inflation remain high, household finances nationwide are being stretched. This is particularly true for the lowest-income and most-indebted Canadians, many of whom are younger people (graph 14).

GRAPH 14
Consumer Insolvencies Are Rising Most Quickly among Youth



Sources: Innovation, Science and Economic Development Canada and Desjardins Economic Studies

1 Student debt is a form of non-mortgage debt.

2 These aggregated numbers mask the difference between the much lower average income among Canadians ages 16 to 24 versus those 25 to 34.

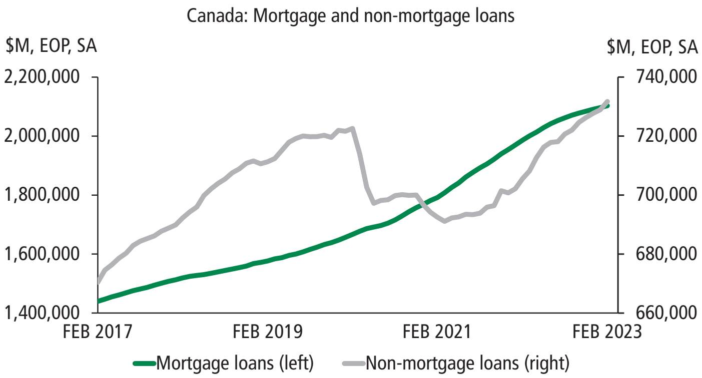
Housing and Affordability

If the finances of young Canadians are stretched now, they're likely to become even more challenging going forward.

Canada's Housing Market Is Rebounding

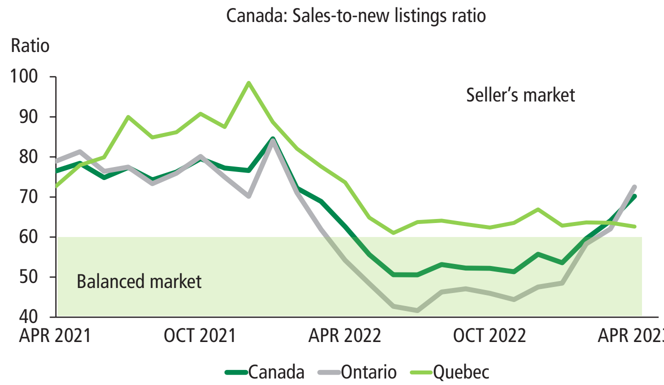
As non-mortgage credit has rebounded sharply from its pandemic lows, mortgage credit outstanding has remained very elevated (graph 15). While the pace of mortgage credit growth has slowed lately, this could change soon. That's because the Canadian housing market correction looks to be about over (graph 16). And with new listings falling faster than sales are rising, the Canadian housing market recently moved back into seller's territory (graph 17). That means a rebound in prices likely isn't far off.

GRAPH 15
Mortgage Loan Growth Has Slowed, but the Level Remains High



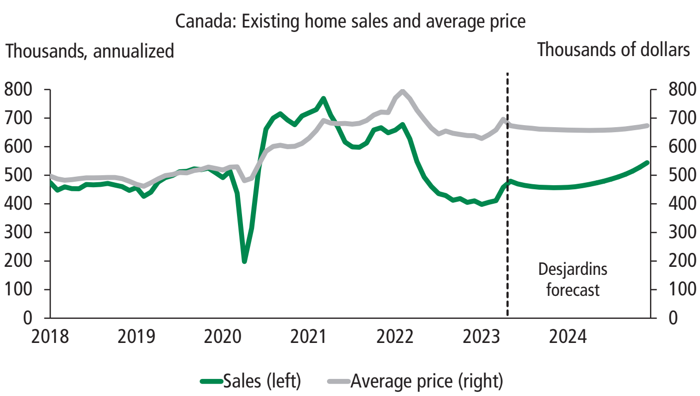
EOP: End of period; SA: Seasonally adjusted
Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 17
Lack of Supply and Strong Demand Are Pushing Home Prices Higher



Sources: Canadian Real Estate Association and Desjardins Economic Studies

GRAPH 16
The Housing Market Correction May Be Over in Canada

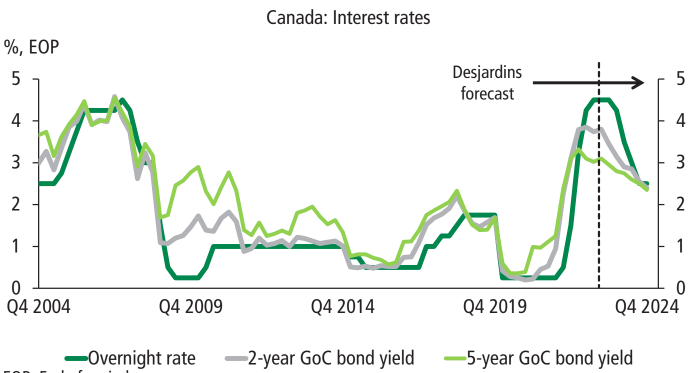


Sources: Canadian Real Estate Association and Desjardins Economic Studies

There are a few fundamental drivers of the anticipated rebound in the Canadian housing market. The first is interest rates. We are of the view that the Bank of Canada is done hiking interest rates for this cycle. With inflation likely approaching its target, the Bank of Canada may begin to gradually reduce interest rates (graph 18). This should help certain borrowers who are currently unable to qualify for a mortgage to become eligible. The second driver is demographics. Canada's population has grown at a record-setting pace in the last year as a result of a nearly unprecedented level of international immigration (graph 19). Many of these new Canadian residents are also young, which has increased the population of Canadians in their prime homebuying years, spurring demand (graph 20).

GRAPH 18

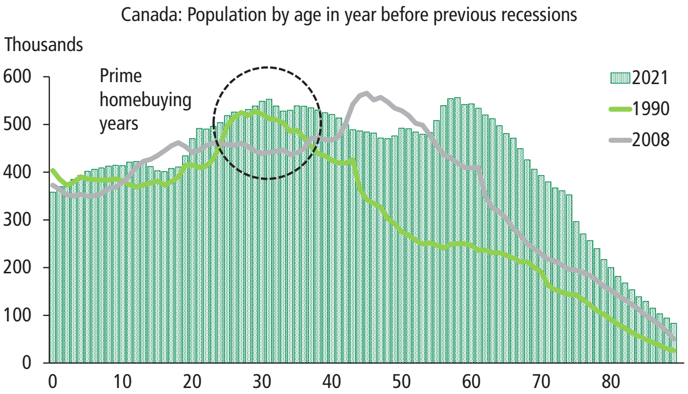
We Expect the Bank of Canada to Cut Rates as Early as Q4 2023



EOP: End of period
GoC: Government of Canada
Sources: Bank of Canada and Desjardins Economic Studies

GRAPH 20

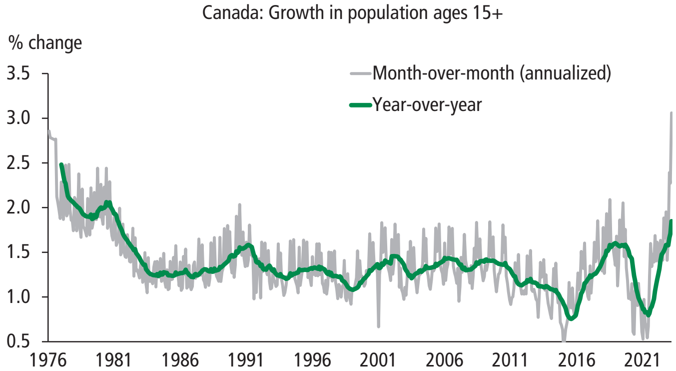
The Population Is More Housing-Favourable than in Past Downturns



Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 19

The Working-Age Population in Canada Is Soaring



Sources: Statistics Canada and Desjardins Economic Studies

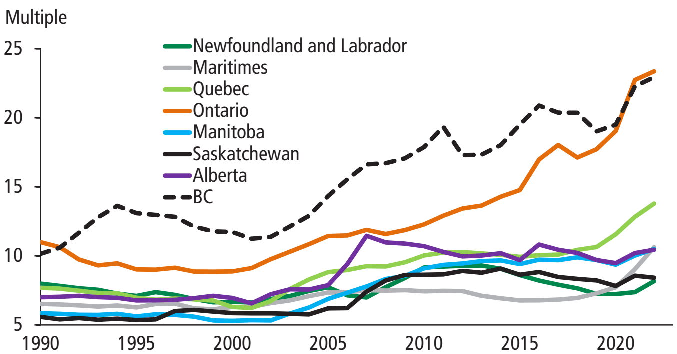
Housing Remains Unaffordable in Canada

Unfortunately, rebounding home prices will quickly erode any relief from lower interest rates and put further pressure on already stretched affordability in Canada. The data is clear: Canada is dealing with historically severe housing affordability constraints. Real estate prices surged just about everywhere during the pandemic. Home prices as a share of disposable income per person hit record highs in 2022 in all oil-consuming provinces. This was particularly true in the hot real estate markets of British Columbia and Ontario. This ratio also rose in Alberta, Saskatchewan, and Newfoundland and Labrador, albeit later and to a lesser extent (graph 21).

While home prices have dropped meaningfully in most jurisdictions since the Bank of Canada began hiking interest rates, overall housing affordability has not improved. The Desjardins Affordability Index—which incorporates the costs of mortgage debt and household operations—reached an all-time low in Q4 2022, indicating historically stretched affordability (graph 22). That's because higher interest rates have led to much higher debt servicing costs, more than offsetting the impact of falling sale prices (graph 23). Meanwhile property taxes and the costs of household goods and services have spiked amid decades-high inflation, contributing to a further deterioration in affordability.

GRAPH 21
Housing Affordability Eroded across the Board during the Pandemic

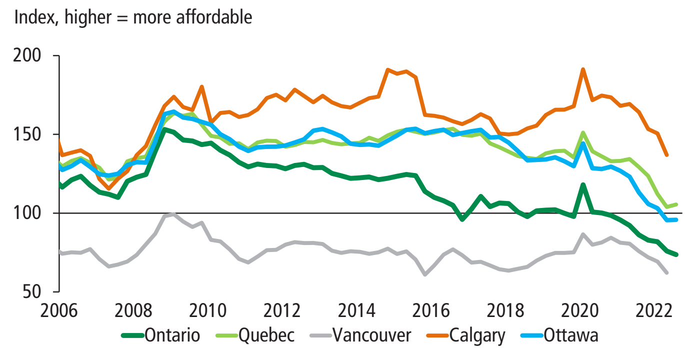
Average home resale price as a multiple of disposable income per person*



* 2022 household income based on quarterly Statistics Canada estimates
Sources: Statistics Canada, Canadian Real Estate Association and Desjardins Economic Studies

GRAPH 22
Housing Affordability Was Historically Stretched at the End of 2022

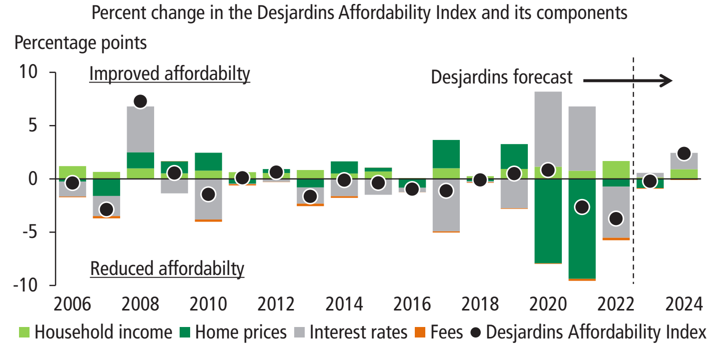
Desjardins Affordability Index



Sources: Statistics Canada, Canadian Real Estate Association, Institut de la Statistique du Québec, Ontario Ministry of Finance and Desjardins Economic Studies

GRAPH 23
Interest Rate Cuts Should Mean a Modest Improvement in Affordability

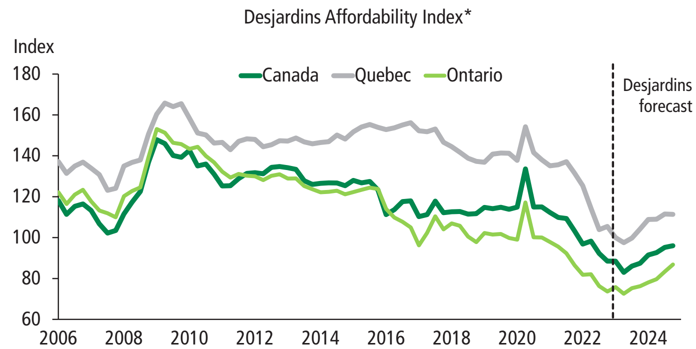
Percent change in the Desjardins Affordability Index and its components



*Forecast begins in Q1 2023 for Canada and Q4 2022 for Ontario and Quebec
Sources: Statistics Canada, Canadian Real Estate Association, Conference Board of Canada and Desjardins Economic Studies

We don't anticipate any significant improvement in affordability in the next couple of years (graph 24). Lower sale prices, easing inflation and interest rate cuts by the Bank of Canada later this year should help. But in most major markets, we're not expecting a return to pre-pandemic housing affordability.

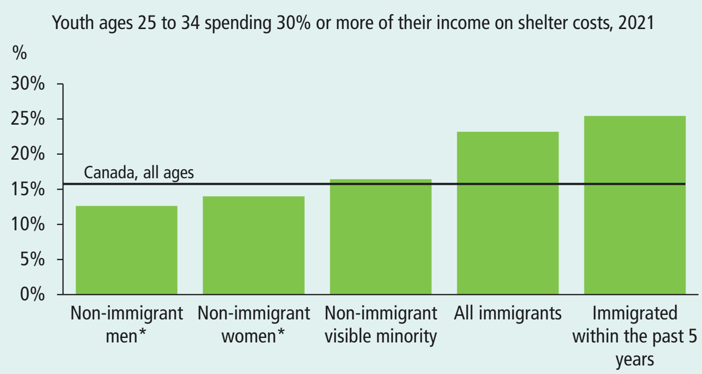
GRAPH 24
Affordability Should Improve but Not to Pre-COVID Levels



*Forecast begins in Q1 2023 for Canada and Q4 2022 for Ontario and Quebec
Sources: Statistics Canada, Canadian Real Estate Association, Conference Board of Canada and Desjardins Economic Studies

A rough start for Canadian newcomers:
Immigrant and visible minority youth in particular struggle with shelter affordability, with many spending more than 30% of their income on shelter costs (graph 25). This tracks with the analysis in our first youth report, which found that this group of young people faces unique challenges breaking into the Canadian labour market.

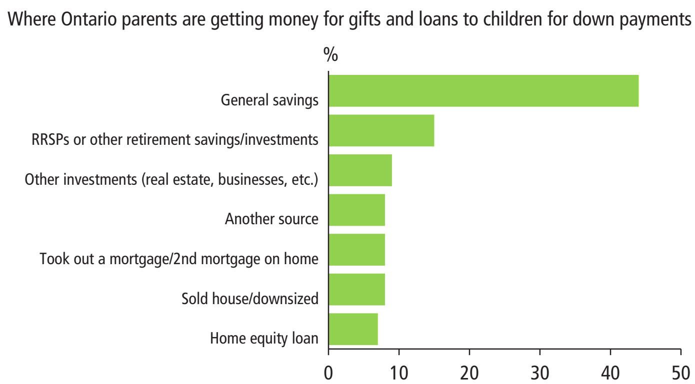
GRAPH 25
Young Immigrants and Visible Minorities Struggle More with Housing Affordability



* Includes some non-binary
Sources: Statistics Canada and Desjardins Economic Studies

Canadian youth are using every means available to get a foothold in Canada's increasingly unaffordable housing market. According to the Ontario Real Estate Association, "4 in 10 parents of those 18 to 38 years of age provided financial support to facilitate their home purchase as parents recognize the difficulties their kids face entering the housing market." Over 70% of these Ontario parents provided help in the form of a gift, with the average size being just north of $73,000 in 2019. At the same time, over 60% loaned money to help with the down payment, with an average loan amount of over $40,000. Worryingly, while much of this support came from general savings, a not insignificant share was from parents taking on more debt (graph 26).

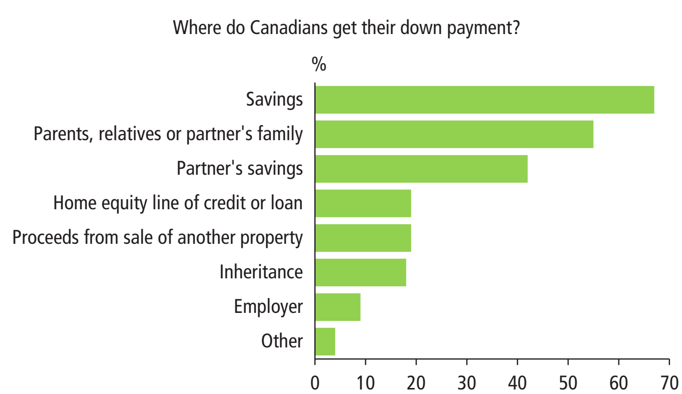
GRAPH 26
Some Parents Are Borrowing to Help Their Kids Buy a Home



Sources: Ontario Real Estate Association and Desjardins Economic Studies

At the same time, Zolo—an independent real estate marketplace—found that two thirds of Canadians dip into their own savings to come up with a down payment, with half taking funds from a Tax-Free Savings Account. However, more concerning is that nearly one in five Canadians have used a home equity line of credit or loan to round out their down payment (graph 27).

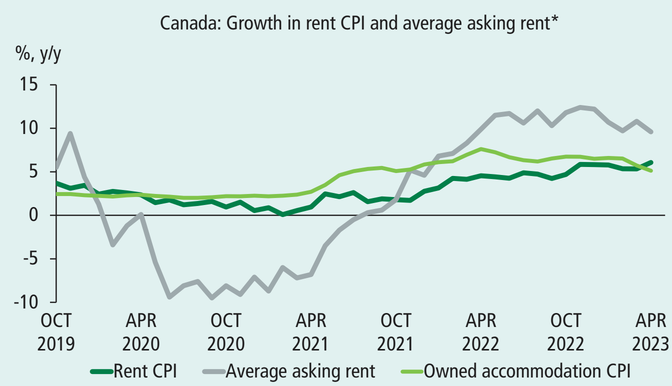
GRAPH 27
Most People Get Their Down Payment from Savings and Parents



Sources: Zolo and Desjardins Economic Studies

Of course, as we outlined earlier, young adults in Canada rent at a much higher rate than older Canadians. And while rents have been rising less than home prices since the start of the pandemic, that may soon change. Indeed, owned accommodation CPI inflation slowed meaningfully in March 2023 to a still-elevated 5.7%, whereas rent CPI inflation held roughly steady at 5.3% in the month (graph 28). Importantly, the average asking rent increased 10.8% in March, not far off the recent peak of 12.4% in November of last year. But even this increase masks the challenges youth are facing in Canada's largest cities. According to the Canada Mortgage and Housing Corporation in its January 2023 Rental Market Report, rent growth for turnover units in Toronto was 29.1% in 2022 versus 2.3% for non-turnover units. For Montreal, these numbers were 14.5% and 3.5% respectively, and 23.9% versus 3.9% in Vancouver. This—in addition to the sustained erosion in housing affordability—helps to explain the observed decline in turnover rates in 2022, to 13.6% from 15.5% in 2021.

GRAPH 28
Asking Rents Have Been Hitting New Highs



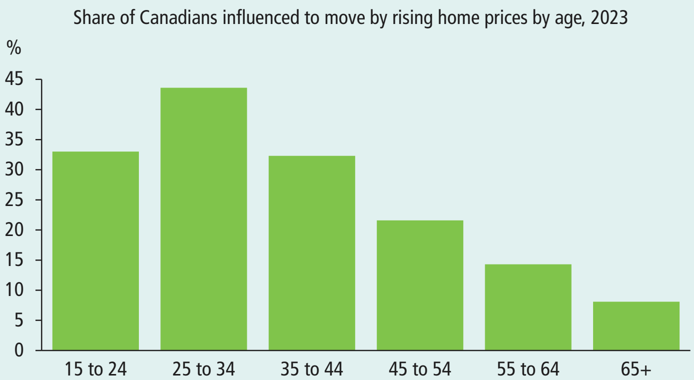
CPI: Consumer Price Index; *Average asking rent for all unit types
Sources: Statistics Canada, Rentals.ca, Urbanation and Desjardins Economic Studies

Youth Are Chasing Affordable Housing

Recent analysis by Workopolis found that millennials[3] held an average of 3.9 jobs in the first 12 years of their careers, staying an average of 2.7 years in each position. This compares to 3.2 jobs for Generation X, with an average tenure of 3.4 years. And with only 11% of employees being promoted within a company, some feel compelled to change employers in order to move up to a higher level. The same study found that there has been a 30% increase in people changing provinces for work over the past 20 years.

With affordability so stretched and new opportunities created by telework, Canadian youth appear to be choosing to live and work in less expensive destinations. Indeed, Statistics Canada found that affordability—and rising home prices specifically—disproportionately influences younger Canadians' decision to move (graph 29).

GRAPH 29
Rising Home Prices Are Pushing Young Canadians to Move

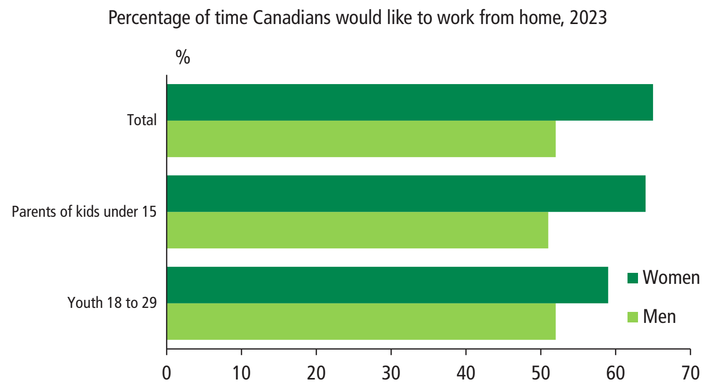


Sources: Statistics Canada and Desjardins Economic Studies

A recent poll by the Ontario Real Estate Association found that 86% of Ontarians definitely or probably expect many people to move out of larger cities in Ontario into smaller communities to find more affordable housing. More than 6 in 10 felt that the movement of people out of larger centres will have an impact on housing affordability in their own community. And over half believed that this would impact the availability of services such as transit and recreation, as well as the overall quality of life in their community.

As discussed in our previous note on the economics of youth, the preference for hybrid work among women and parents has encouraged people to move to communities with greater affordability (graph 30). But employers must get on board with more flexible working arrangements, and they have been increasingly doing so to address labour market challenges (graph 31).

GRAPH 30
Canadians Want to Work More from Home, Particularly Women



Sources: Abacus Data and Desjardins Economic Studies

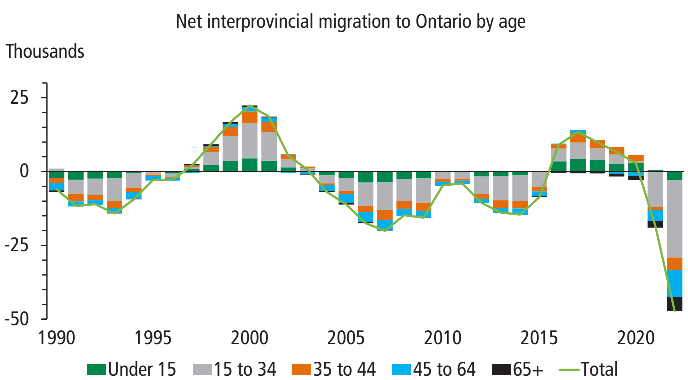
GRAPH 31
Firms Intend to Address Labour Challenges with Greater Flexibility

Sources: Statistics Canada, Canadian Chamber of Commerce and Desjardins Economic Studies

[3] Millennials in this study were defined as the graduating class of 2002, while Generation X was defined as graduating university in 1992.

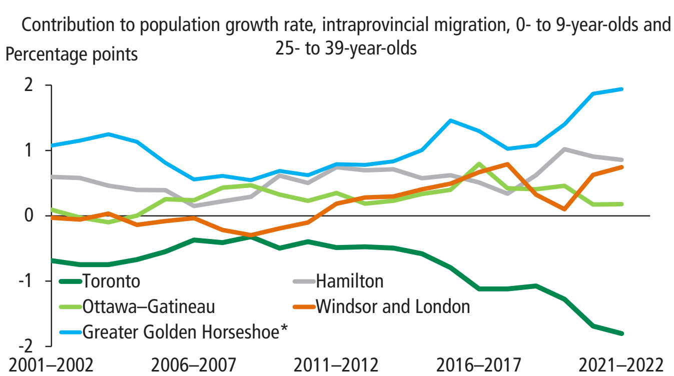
In 2021–2022, record numbers of Canadians ages 15 to 34 left Ontario—one of the priciest provincial markets (graph 32). Atlantic Canada was the primary beneficiary early in the pandemic, but those flows now look to be easing. Alberta has become a more attractive destination recently given its strong economic prospects and greater affordability than even PEI and Nova Scotia as a multiple of per-person disposable income. The pandemic appears to have accelerated these trends. Wild Rose Country had already experienced net inflows of youth from other provinces in the three years before the pandemic. Meanwhile in Ontario, the data also suggests that young families are increasingly settling farther away from larger, pricier cities (graph 33).

GRAPH 32
Ontario's Youth Are Flocking to Other Provinces



Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 33
Young Ontario Families Are Fleeing Toronto



*Excludes Toronto and Hamilton
Sources: Statistics Canada, Canadian Real Estate Association and Desjardins Economic Studies

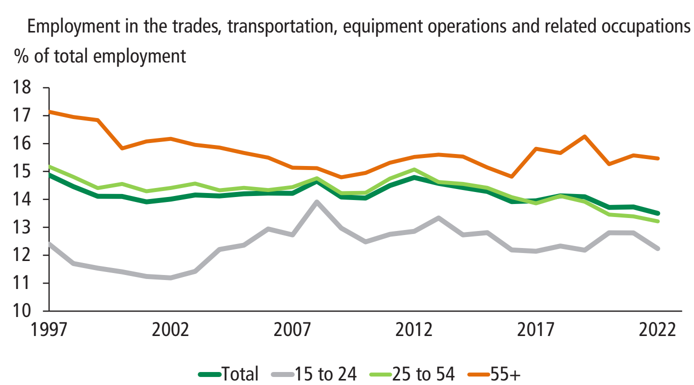
Young people are leaving Toronto and Ontario, and housing affordability is largely to blame:
In 2021 and 2022, record numbers of Canadians ages 15 to 34 left Ontario—one of the priciest provincial markets. And Ontario families are increasingly settling farther away from larger, pricier cities.

Inflows from other provinces to Quebec have also picked up since the pandemic began. Though net youth interprovincial migration remained negative in 2021–2022, the size of outflows has subsided considerably since the mid-2010s. While Quebec's housing market reached its least affordable level in history late last year, it remains inexpensive relative to markets in most other Canadian jurisdictions. Going forward, we don't expect that to change. Over time, an aging population and less international immigration than in other provinces should result in less upward pressure on home prices than in other Canadian jurisdictions.

Policies to Improve Housing Affordability

As Desjardins Economic Studies has discussed in a variety of analyses—most notably in a note by our Chief Economist Jimmy Jean—the solution to the long-term erosion of Canadian housing affordability is to increase supply. But Canada's youth need more than just policy announcements and prayers; they need urgent action. High borrowing and construction input costs along with falling presales are putting more development projects on hold. Labour shortages are also becoming more acute, as skilled tradespeople are aging and continue to decline as a share of overall employment (graph 34). This needs to be addressed as housing starts are on the wane and a lack of new supply will only exacerbate the current affordability crisis.

GRAPH 34
The Share of Tradespeople Is Declining as the Population Ages



Sources: Statistics Canada and Desjardins Economic Studies

At the federal level, measures such as the Tax-Free First Home Savings Account announced in Budget 2023 will do little to increase supply and largely make matters worse. Instead, policies like the long-delayed Housing Accelerator Fund are a step in the right direction given the limited levers the federal government has to incent increased supply. The federal government could also eliminate GST/HST on purpose-built rental housing (Evergreen CityWorks, 2016), as increasing the rental stock could help take pressure off the housing market.

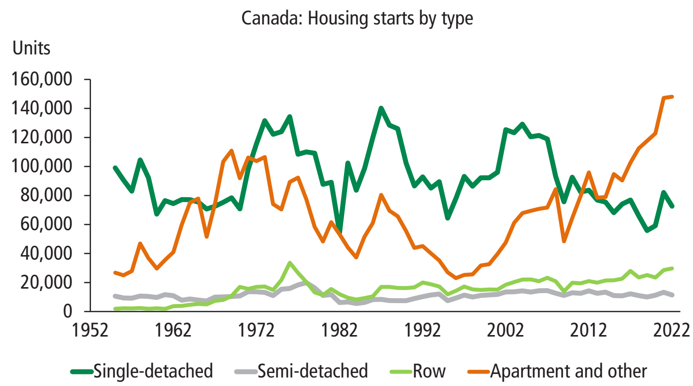
However, the imperative is really on provincial and municipal governments to not only reduce the barriers to building, but also to leverage federal dollars to get more shovels in the ground. Canada's largest cities are among the least dense in the developed world. Changing zoning to allow for greater density along transit routes would go a long way to supporting affordability while reducing the per capita cost of delivering services.

Some may argue that there has been a sharp increase in starts of apartments and other types of multifamily units such as apartment-style condos since the turn of the century (graph 35). Indeed, they now trump starts of every other type of owner-occupied housing combined.

However, many seem to be built with the needs of investors in mind as opposed to the needs of Canadians hoping to buy a home. This makes sense, as analysis by Teranet has found that multi-property owners in Ontario have become the dominant group of home buyers. And condos tend to make relatively more affordable investments than other types of housing because they're smaller (graph 36). That means they're also cheaper to buy and maintain, despite being more expensive to purchase on a per square foot basis (graph 37). As such, new housing has become increasingly concentrated in the smallest and—to a lesser extent—largest dwelling types.

GRAPH 35

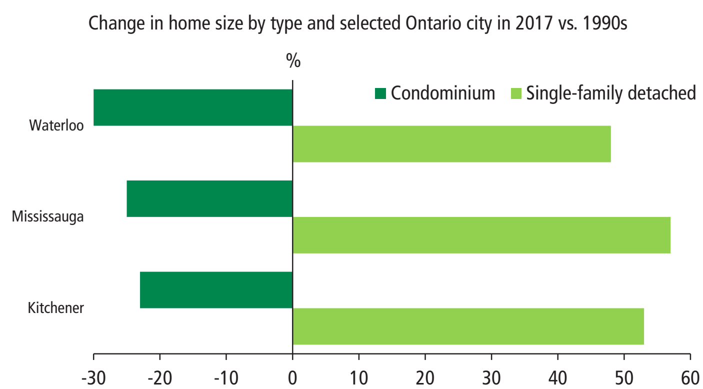
Apartments and Condos Have Come to Dominate New Housing



Sources: Canada Mortgage and Housing Corporation and Desjardins Economic Studies

GRAPH 36

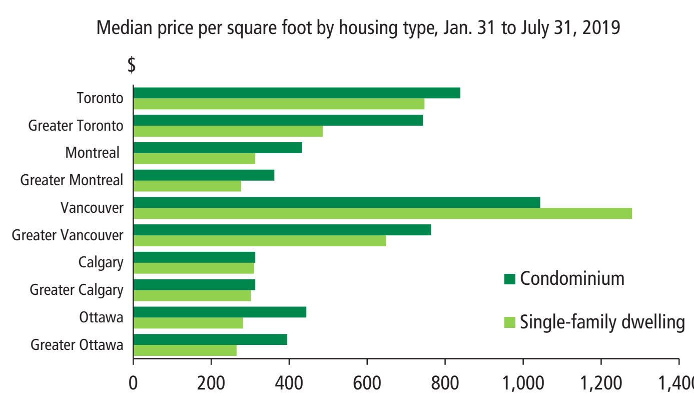
Condos Keep Getting Smaller While Detached Homes Get Larger



Sources: Municipal Property Assessment Corporation and Desjardins Economic Studies

GRAPH 37

Condos Are More Expensive to Purchase per Square Foot



Sources: Royal Lepage and Desjardins Economic Studies

Consequently, what were historically considered starter homes are increasingly few and far between. This is known as the "missing middle." The [Canada Mortgage and Housing Corporation] notes that there hasn't been enough missing middle housing built for 60 or 70 years, including duplexes, triplexes, fourplexes, rowhouses and townhouses. These housing types fill the gap between condo high-rises and single-family detached homes. Zoning changes in some cities have tried to address this by requiring a minimum share of condos with three-plus bedrooms or affordable units. There have also been zoning changes to allow for a higher concentration of smaller apartment buildings such as triplexes on residential lots, and other creative solutions such as laneway housing. However, the impact is generally considered to be modest. Zoning changes could help reduce the trend of small and aging detached housing stock—low-value houses on high-value land—being razed to build single-family housing with higher price points.

Helping Canadian youth get a foothold in the housing market is key to ensuring they can build up sufficient wealth to one day retire in relative comfort. Young households that are renting need to save much more than those who own homes to have a reasonable income in retirement. [Statistics Canada] notes that the median net worth of homeowners ages 55 to 64 was over $950,000 in 2019, whereas for renters it was a mere $40,000. For those under age 35, homeowners had a median net worth of over $270,000, but only 1 in 20 renters had achieved at least this level of net worth. Soaring rents make saving for retirement even more difficult. Such circumstances only work to exacerbate wealth inequality within and across generations, thereby reducing broad-based opportunity.

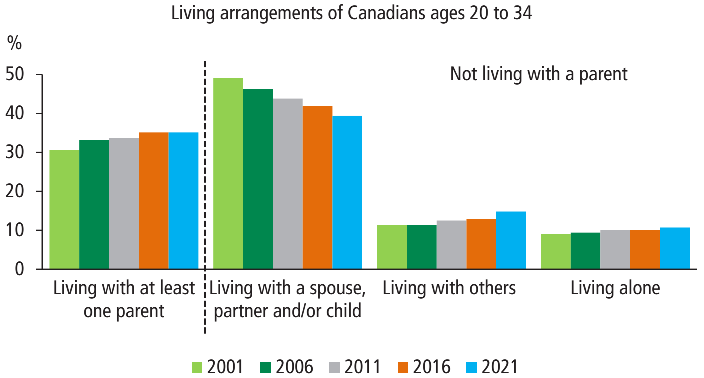
Affordability Is Weighing on Life Decisions

Debt burdens and affordability struggles affect life choices other than where to live and whether to rent or buy a home. They also influence who Canadian youth live with, when they get married and when they start a family.

Youth Are Putting a Ring on It Later than Ever

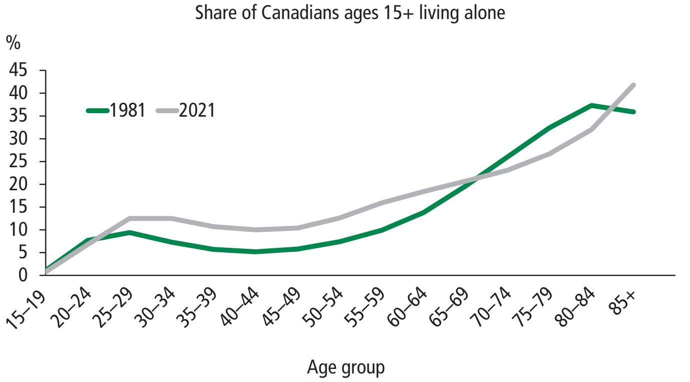
In 2021, just over 35% of youth were living with their parents. This was the same share as in 2016, when the two-decade-long uptrend stalled (graph 38). However, it should be noted that a greater share of Canadian youth is also living alone today than a generation ago (graph 39). The biggest driver of this change seems to be the decline in youth living with a spouse, partner and/or child.

GRAPH 38
The Share of Youth Living with Their Parents Has Plateaued



Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 39
Living Alone Is More Prevalent among Young Canadians

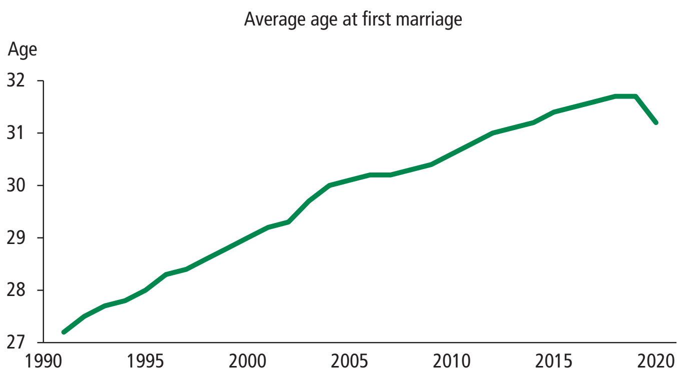


Sources: Statistics Canada and Desjardins Economic Studies

[Statistics Canada](https://www.statcan.gc.ca) has found that young people have been increasingly delaying the transition to adulthood since the 1970s. That means the ongoing change in living arrangements reflects more than just a lack of affordability. It also seems to be attributable to cultural changes such as the postponement of committed relationships as more youth—especially young women—pursue a postsecondary education.

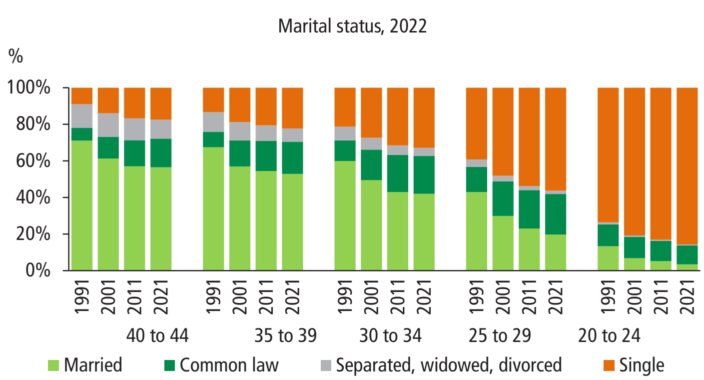
Not unrelated, the average age at first marriage in Canada has steadily increased over the past three decades to over age 31 (graph 40).[4] Some may say youth are simply living in common law relationships without being legally married. However, the biggest increase has been among youth remaining single (graph 41).

GRAPH 40
First Marriages Are Happening Later



Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 41
Youth Are Putting Off Tying the Knot

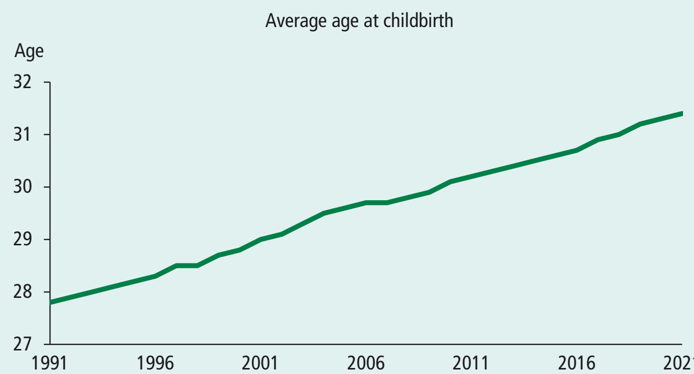


Sources: Statistics Canada and Desjardins Economic Studies

Canadians Are Having Fewer Children and Having Them Later

Youth in Canada are also putting off having children. As noted in our first report in this series on youth in Canada, the fertility rate for women under 30 has fallen over the past three decades. The average age of women at childbirth has risen from 27 to 31 over that time (graph 42).

GRAPH 42
Women Are Delaying Having Children



Sources: Statistics Canada and Desjardins Economic Studies

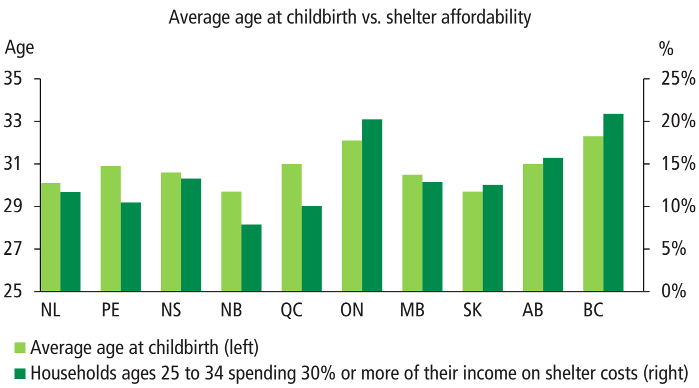
A recent survey by [Cardus](https://www.cardus.ca) revealed that on average, women in Canada are having fewer children than they would prefer. Overall, women surveyed wished to have 2.2 children but intended to have only 1.85 children. The Cardus survey breaks down the reasons for having fewer children into several categories. These include financial worries, such as housing and childcare costs and low income, as well as concerns about the economy. But lifestyle choices also play a role, such as wanting to focus on their career and wanting more time for leisure activities. External forces like climate change, global overpopulation and the pandemic were also mentioned.

[4] The dip in age at first marriage in 2020 should be interpreted with caution, as this was the first year of COVID. The number of marriages dropped by about a third that year.

Those who dream of one day having children running around the yard may find it financially challenging to save enough for a down payment while also spending more on rent and paying off their student loans. And life in a high-rise apartment is often not conducive to having a large family. The average age at childbirth is in fact highest for those in Ontario and BC (graph 43). These are also the provinces with the worst housing affordability in the country, as measured by the share of households ages 25 to 34 spending 30% or more of their income on shelter costs.

GRAPH 43

Housing Affordability Influences Family Planning Decisions



Sources: Statistics Canada and Desjardins Economic Studies

The financial cost of having children can be a consideration when deciding when to have children and how many to have. There are the obvious costs such as daycare in the early years and groceries for teenagers with voracious appetites. Then there's clothing, braces, extracurricular activities and summer camp. Less obvious costs may include buying a larger car or home to accommodate a growing family. On top of that, there's the drop in income while one or both parents take time off after children are born. Some parents may also see their income fall if they need to stay home with a sick child.

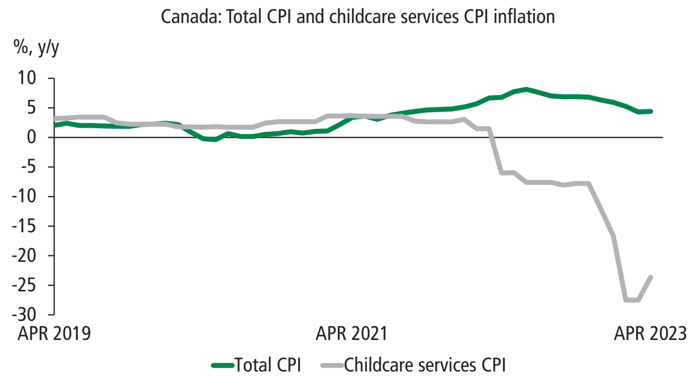
Social Policy Is Providing Some Relief

This is where recent Government of Canada budgets with plans to deliver $10 per day childcare in all provinces can make a significant impact for young families. Indeed, the savings are already showing up tangibly in lower inflation (graph 44). Budget 2023 estimates savings of up to $8,500 per year per child in Ontario (table 1). Quebec, where subsidized daycare has been around since the late 1990s, will see 30,000 new childcare spaces by 2026. Quebec's experience with subsidized childcare has demonstrated that it boosts women's labour force participation (graph 45). We expect to see similar results nationwide as these subsidized spaces become available.

On the other hand, traditional daycare doesn't meet the needs of the estimated 28% of working Canadians who work evening, night, split, rotating or irregular shifts. This group, which tends to be lower income, may be less likely to be benefit from these new programs than Canadians working more traditional hours, which should be addressed during the policy design process.

GRAPH 44

The Cost of Childcare Has Fallen Sharply Due to Subsidies



Sources: Statistics Canada and Desjardins Economic Studies

TABLE 1

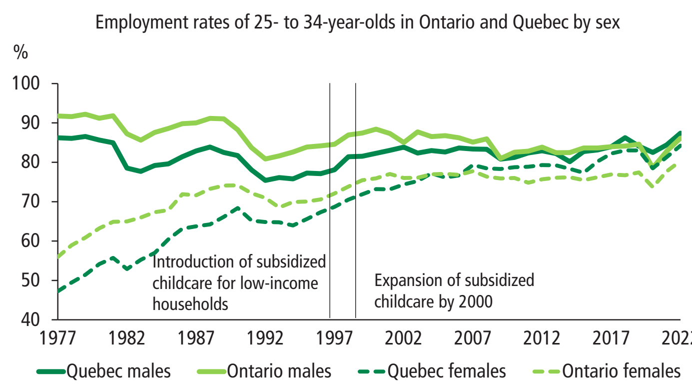
Government of Canada's Childcare Savings Estimates

Province/ Territory	Status of Fee Reduction	Estimated Savings per Child per Year
BC	50% on average reduction achieved as of December 2022	$6,600
AB	50% on average reduction achieved as of January 2022	$10,330
SK	$10-a-day effective April 1, 2023	$6,900
MB	$10-a-day effective April 2, 2023	$2,610
ON	50% on average reduction achieved as of December 2022	$8,500
NB	50% on average reduction achieved as of June 2022	$3,900
PEI	50% on average reduction achieved as of October 2022	$2,000
NS	50% on average reduction achieved as of December 2022	$6,000
NL	$10-a-day achieved as of January 1, 2023	$6,300
YK	$10-a-day achieved in April 2021, prior to Budget 2021	$7,300
NWT	50% on average reduction achieved as of January 2022	$4,950
NU	$10-a-day achieved as of December 2022	$14,300
QC	Under its asymmetrical agreement, Quebec has committed to creating 30,000 new child care spaces by March 2026.	

Sources: Government of Canada and Desjardins Economic Studies

GRAPH 45

Subsidized Childcare Has Boosted Female Employment in Quebec



Sources: Statistics Canada and Desjardins Economic Studies

Focus on Financial Literacy

"If you want a house, stop buying avocado toast." That was the advice given to Australian millennials in the mid-2010s. This criticism has largely been debunked, since it would take about 175 years to build a 20% down payment in Sydney by cutting out the weekly brunch favourite.

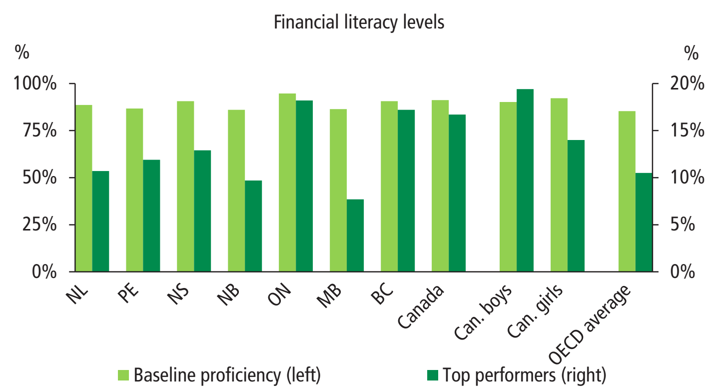
Sill, the question lingers: Are today's youth financially literate enough to understand budgeting, or do they spend frivolously on luxury items they can't afford and then carry high-interest credit card debt?

Many provincial governments in Canada have added more financial literacy to the high school math curriculum, but is it making a difference? Part of the problem is that not every student is enrolled in this curriculum. In Ontario, where students must earn three math credits before graduation, university-bound grade 11 students study functions. Only workplace-bound students get practical financial literacy training.[5] This could and should be expanded to all students.

On the other hand, there are unlimited online resources available for anyone who wants to learn about financial literacy. That means youth can find the information they need when they need it. Learning how to save for a down payment and the additional costs of home ownership is much more relevant at age 25 than 15. The Government of Canada has declared November of each year Financial Literacy Month. While the campaign is only one month long, there are numerous links to resources covering a broad range of personal finance topics.

The OECD measures the performance of 15-year-olds in financial literacy every three years, both within Canada and around the globe. The results are reported by the Council of Ministers of Education, Canada in their report Measuring Up: Canadian Results of the OECD PISA 2018 Study. In 2018, 91% of Canadian 15-year-old students scored at level 2 or above, which is considered baseline proficiency on a scale of 0 to 5. This included 17% who scored a 5 (graph 46). The results across provinces were unchanged from the previous survey in 2015.

GRAPH 46
Most 15-Year-Old Canadians Are Financially Literate



Sources: Council of Ministers of Education, Canada and Desjardins Economic Studies

[5] According to the Ontario Ministry of Education, U-level grade 11 math is a course on functions, where expectations include "demonstrate an understanding of equivalence as it relates to simplifying polynomial, radical, and rational expressions". In contrast, grade 11 mathematics for work and everyday life includes learning about different types of remuneration; payroll deductions and their impact on purchasing power; and how to make informed purchasing decisions.

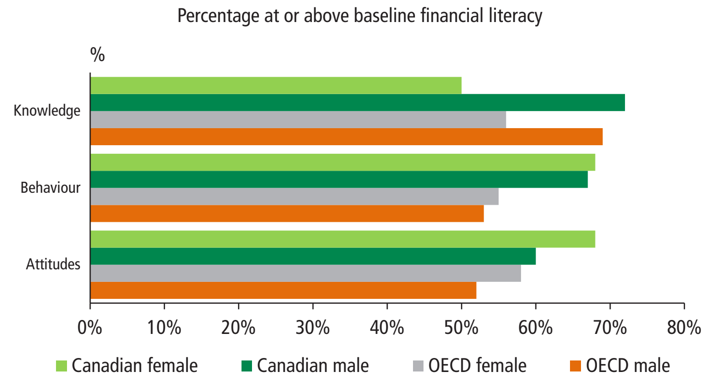
Canadian students scored well in several measures of financial behaviour, such as checking that they were given the right change when they bought something (83.2%) and always or sometimes comparing prices in different shops (80.3%) or between a shop and online (76.4%).

On the other hand, Canadian students were not very confident or not at all confident about paying a bill (50.4%), understanding a bank statement (59.3%) or understanding a sales contract (69.4%). However, they were much more confident about using digital financial services.

The OECD/INFE International Survey of Adult Financial Literacy Competencies shows that Canadian adults typically score above the OECD average in baseline financial literacy. The glaring exception is Canadian women's financial knowledge (graph 47). Looking back at Canadian high school students, girls were about the same as boys in baseline proficiency, but significantly less likely to be top performers. A recent study from Université du Québec à Montréal examined the gender gap in financial literacy. While some of the gap can be closed by increasing confidence, being self-employed and taking part in financial planning, most of the gap can't be explained.

GRAPH 47

Most Canadians Outpace the OECD Average on Financial Literacy Measures



Sources: OECD and Desjardins Economic Studies

Conclusion

There's a lot of economic uncertainty ahead, particularly for Canadian youth. A looming recession against the backdrop of strained affordability has led many young adults to push key life events further out into the future than in past generations. And this despite having done many of the things necessary to start off on the right foot, such as pursuing a postsecondary education and finding a good job early on.

Some recent public policy initiatives have done a lot to improve affordability for younger Canadians. Subsidized childcare is a leading example. If the economic impact on Quebec is any guide for the rest of the country, this could help to reverse the gradual decline in the fertility rate, allowpeople to have the family size they want and keep more mothers in the labour force.

Unfortunately, while governments at all levels have recognized that the housing shortage in Canada has reached crisis levels, there's been more talk than action. Housing starts are declining in Canada, and presales are moribund. And as the Canadian housing market correction looks to have ended, this lack of new supply means the affordability crisis could get worse before it gets better. This is one of the most pressing issues of our time, and governments of all levels need to take it seriously if young Canadians are going to achieve the same level of financial security as Canadians who came before them.

Desjardins