WATT STRATEGIC ECONOMIC ADVISORS

14 SEPTEMBER 2025

Musings on household savings

Last week as part of the [Q2 2025 National balance sheet and financial flow accounts](), it was reported that Canada's savings rate fell to 5.0% in Q2 2025, its lowest level since Q1 2024. It was also reported that the ratio of household credit market debt to GDP rose to 174.9%, its highest level in four quarters, though still down from readings above 184% in early 2023.

Rather than debt, we want to focus on savings — the sum of the difference between disposable income and consumption plus the change in pension entitlements.

Sources of savings: Income and consumption

Chart 1 shows disposable income and consumption. The income/spending contribution to savings is the gap between these two series (chart 2). The gap can be positive or negative — there might be times when disposable income exceeds consumption and times when consumption is larger. For example, during recessions, people might suffer a decrease in income via a spell of unemployment, but they will smooth their consumption, possibly by dipping into savings. Conversely, during a period of strong income growth, people might not spend all the income gain but instead increase their savings. There are many other potential factors that can affect the spending/saving decision.

Sources of savings: Change in pension entitlements

The gap between income and consumption is not the only factor contributing to savings. There is also the "change in pension entitlements." This is the difference between transfer TO corporations minus the transfers FROM corporations (chart 3). It reflects the difference between pension contributions (forced or mandatory savings) and pension benefits paid to households. Typically, the change in pension entitlements is around CAD40-45bn per quarter — that is, there is regularly CAD40-45bn more in pension contributions than is paid in pension benefits.

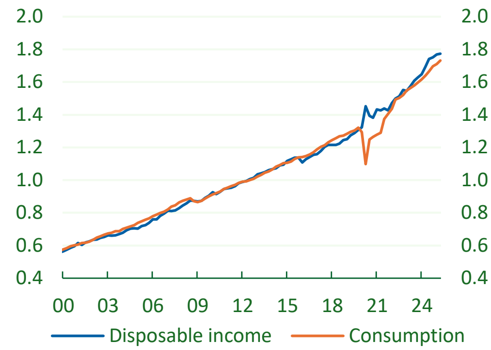
Some savings stylized facts and historical anomalies

Prior to the pandemic, consumption would often equal or exceed disposable income. Quite regularly, therefore Canada's household sector spent all that was earned. As a result, the contribution of income/consumption to savings was essentially zero.

Since the pandemic, however, income has tended to remain above consumption. There has thus been a sustained positive contribution of income/consumption to savings in the past few years. As a result, post-pandemic, the savings rate has been persistently close to, or above, 6% of disposable income — until Q2 2025 when it fell to 5.0%.

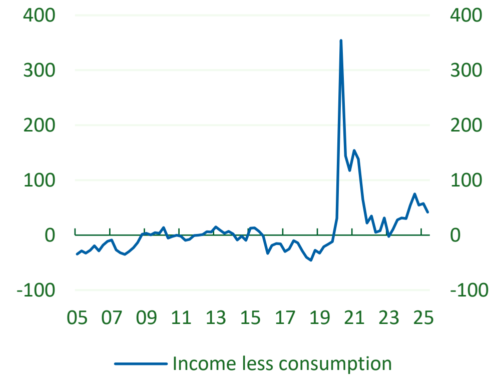
Chart 4 shows the contributions to the household savings rate from income/consumption and the change in pension entitlements. Note that for the past three decades, since the contribution of income/consumption to savings was negligible, most savings came via mandatory savings.

1. Income and consumption
(CADtn)



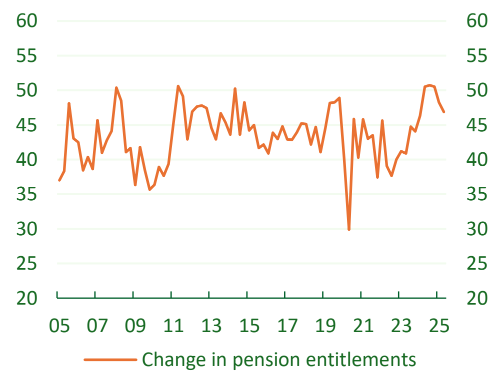
Source: Macrobond, Statistics Canada

2. Source of savings
(CADbn)



Source: Macrobond, Statistics Canada

3. Sources of savings
(CADbn)



Source: Macrobond, Statistics Canada

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The change in the income/consumption dynamic that has helped boost savings post-pandemic could represent a precautionary savings motivation. That is, given the shock of the pandemic and the realization that after years of basically spending every dollar of disposable income, it might be prudent to save more. It is also possible that people might have felt that high interest rates provided a greater incentive to save and chose to delay spending. Either way, current spending is restrained.

"Excess" savings continue to grow

How we got here is important. Where we are is that Canada's household sector is sitting on a large amount of savings. As way to think about this is to think back to discussions of "excess savings."

Chart 5 is one estimate of "excess" savings. We estimate cumulative "excess savings" to be CAD420bn at the end of Q2 2025. That is a lot of potential spending (more than 13% of GDP) sitting on the sidelines

The estimation of "excess" savings starts with the savings rate observed between 2015 and 2019 (2.2% of disposable income), which we treat as "normal." During the post-pandemic period, the savings rate has tended to be elevated — it has averaged 7.3% — and was 5.0% in Q2 2025. Savings above the 2.2% normal rate are deemed to be "excess."

One might ask why the average savings rate for 2015 to 2019 was used as the reference point? In part, this was because early work on "excess savings" came from the Federal Reserve and their models started in 2015. To track the evolution of cross-border "excess savings," Canadian estimates used a similar starting point. That said, if one used a longer-term average of the savings rate, the estimate of "excess savings" would, nonetheless, remain elevated.

The notable development in tracking "excess savings" in the US, however, was not their accumulation of excess savings per se, but instead their draw down (see Pandemic-Era Excess Savings - San Francisco Fed). Hence, from very elevated levels, US "excess savings" were drawn down to help provide key support to the US economy during the post-pandemic recovery. From a peak in mid-2021, US "excess savings were eliminated by mid-2024. That is US households had burned through their "excess savings."

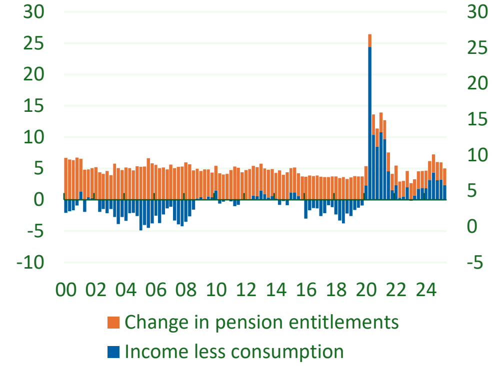
The key point we wish to highlight here is that in Canada, there has been no drawdown. That is, overall, Canadian households have not started to burn through their "excess savings." Instead, "excess" savings continued to accumulate. Stories about when, how quickly, or if, those funds will flow through to spending have gone unanswered since mid-2022.

So who is saving?

The last four charts (chart 6, 7, 8 and 9) show the evolution of savings by income quintiles in the post pandemic era and show "who" is doing all that saving.

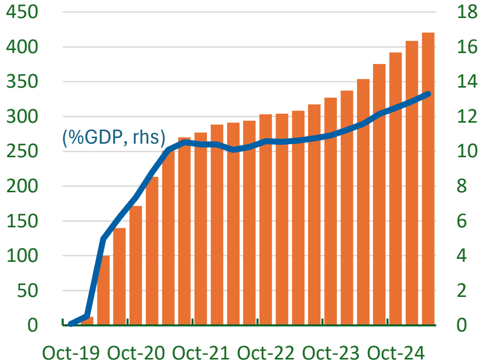
Charts 6 and 7 show the accumulation of net savings by income quintile and the contribution to the household savings rate. Much of the increase in savings, and the largest contribution to the savings rate, has come from the higher income quintiles. While those in lower income quintiles have been drawing down savings, the overall

4. Sources of savings
(contributions to savings rate)



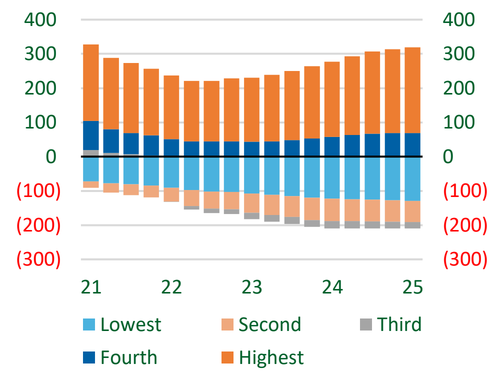
Source: Macrobond, Statistics Canada

5. "Excess" savings
(CADbn)



Source: Macrobond, Statistics Canada

6. Net saving by income quintile
(CADbn 4q ma)



Source: Macrobond, Statistics Canada

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effect on total household savings has been more than offset by increased saving by higher income households.

Higher income households are the key drivers of "excess savings."

Charts 8 and 9 drive this point home. These charts show the reaction of quintiles (the top 40% of income earning households and the bottom 40%) to the higher interest rate environment.

When interest rates rose, property income paid among lower income households increased — this reflected higher interest payments on debt. Lower income households thus faced elevated inflation pressures and higher in interest payments. It is no wonder many felt many felt like they were getting punched in the face by the economy every morning.

Notably, property income paid rose above property income received. That was the sting of the higher interest rate environment. Since Q1 2021, property income paid by the bottom 40% of income earning households was CAD131.5bn. Property income received was CAD117.6bn — a net OUTFLOW of CAD13.9bn.

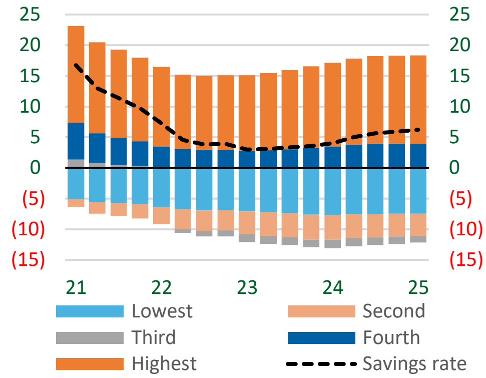
Among the top 40% of income earning households, things were quite different. While property income paid did rise — so they did feel some financial pressure from rising rates — property income received rose, and, overall, more than offset higher interest payments (that is earnings from things such as elevated personal deposits, and the widely reported increase in term deposits). Hence, as a cohort, they did OK during the period of higher rates. Since Q1 2021, property income paid by the top 40% of income earning households was CAD244.4bn. Property income received was CAD937.0bn — A net INFLOW of CAD632.5bn.

A key question for the economy, as we face heightened uncertainty due to US tariffs, is will the savings stockpile be rundown?

There does seem to be scope for higher income households to carry the economy on their backs for a while. Will they?

7. Net saving by income quintile

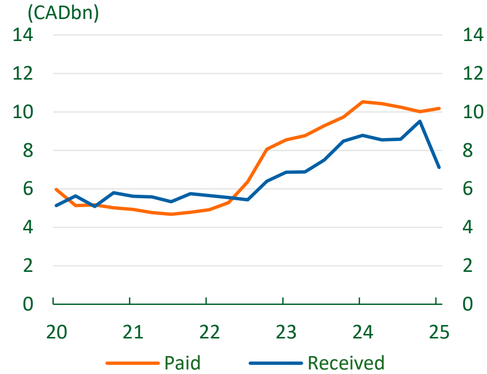
(% of disposable income, 4q ma)



Source: Macrobond, Statistics Canada

8. Household property income: Bottom 40%

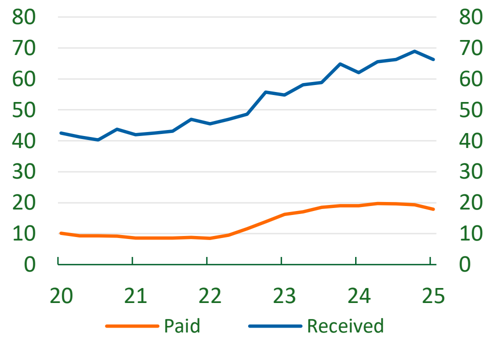
(CADbn)



Source: Macrobond, Statistics Canada

9. Household property income: Top 40%

(CADbn)



Source: Macrobond, Statistics Canada

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