



HOUSING MARKET
INFORMATION

HOUSING MARKET INSIGHT

CMHC HOUSEHOLD PROJECTIONS

NATIONAL AND PROVINCIAL
ANALYSIS, 2020

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Introduction

Demographic projections are an important input to determine future housing requirements. They provide insight into trends in population growth. These trends can then be used to calculate household formation by age, geography and other factors. Uncovering patterns in household formation leads to more pointed questions around future housing supply and demand. For example, patterns showing the fastest household formation among households led by young people would require that certain factors be considered to determine the growth in the housing stock. These factors would include the present supply and demand of suitable housing and the implications of these households' changing preferences around housing type and tenure.

In general, there are three factors driving population change: fertility, mortality and migration. These factors affect population size and age structure, which influence new household growth. In Canada, there have been some notable trends in these factors over the last 75 years. The total fertility rate has been in decline with the average number of children per woman standing at 1.46 in 2019. Over the same period, life expectancy has grown, as advances in medicine have reduced mortality rates, particularly for older age groups. These trends have raised the importance of in-migration for population growth. In-migration is made up of immigration and interprovincial migration, which differ across provinces. As such, while trends in mortality and fertility may have moved in the same directions across the country, the size and age structure of the population in the provinces vary considerably according to migration trends.

This report provides projections of household formation to 2041. Our assessment is based on population projections produced by Statistics Canada at the national and provincial levels.¹ The household projections in this report pertain to the number of households as defined by Statistics Canada. They do not project starts or completions of dwellings, nor do they consider the need that may arise from the loss and conversion of units in the housing stock or the desire for second homes.

¹ See Population projections: Canada, provinces and territories, 2018 to 2068, Statistics Canada (2019), 91-520-X, <https://www150.statcan.gc.ca/n1/daily-quotidien/190917/dq190917b-eng.htm>

Methodology

This report centres on the calculation and analysis of household projections, which we distinguish from household forecasts. Often this distinction is the source of confusion regarding the appropriate use of these results. The primary difference between a forecast and a projection is that a forecast is the forecaster's best guess of a future value, while a projection is a calculation of a possible future value or range of values. Specifically, our household projections rely purely on demographic information, excluding key socio-economic data that would be necessary to estimate a forecast. As such, household projections alone are not appropriate for forecasting future housing demand, since they exclude any consideration of income, wealth and employment, to name just a few important variables. Further, by limiting our focus to demographic trends, we ignore the role that housing construction plays in determining how many people can possibly live in a region. By definition, a (net) new household requires a (net) new housing unit to be constructed. Therefore, if a region chronically underbuilds, the growth rate in households observed there is, at least partially, a consequence of that underbuilding. Instead, what

we gain from demographic work is an understanding of how people navigate the housing system. It allows us to look at how previous generations met their housing needs at different stages in life and see what implications the same behaviour has for future generations. With that knowledge in hand, we can begin to assess the feasibility or the desirability of current housing policy.

The household projections presented in this report reflect household growth under specific Statistics Canada population projections as well as assumptions regarding headship rates. For more than 45 years, Statistics Canada has been publishing population projections for Canada, the provinces and the territories approximately every five years, following the census cycle. These projections present the population by age and sex based on the latest population estimates, demographic trends and surveys of demography experts.² Statistics Canada's latest projections, published in 2019, provide nine projection scenarios based on different assumptions as detailed in its publication's technical report.³ Each scenario is determined through a cohort component method of population projection.

The **cohort component method** is an accounting model that uses the components of population change (births, deaths and migration) according to the following equation:

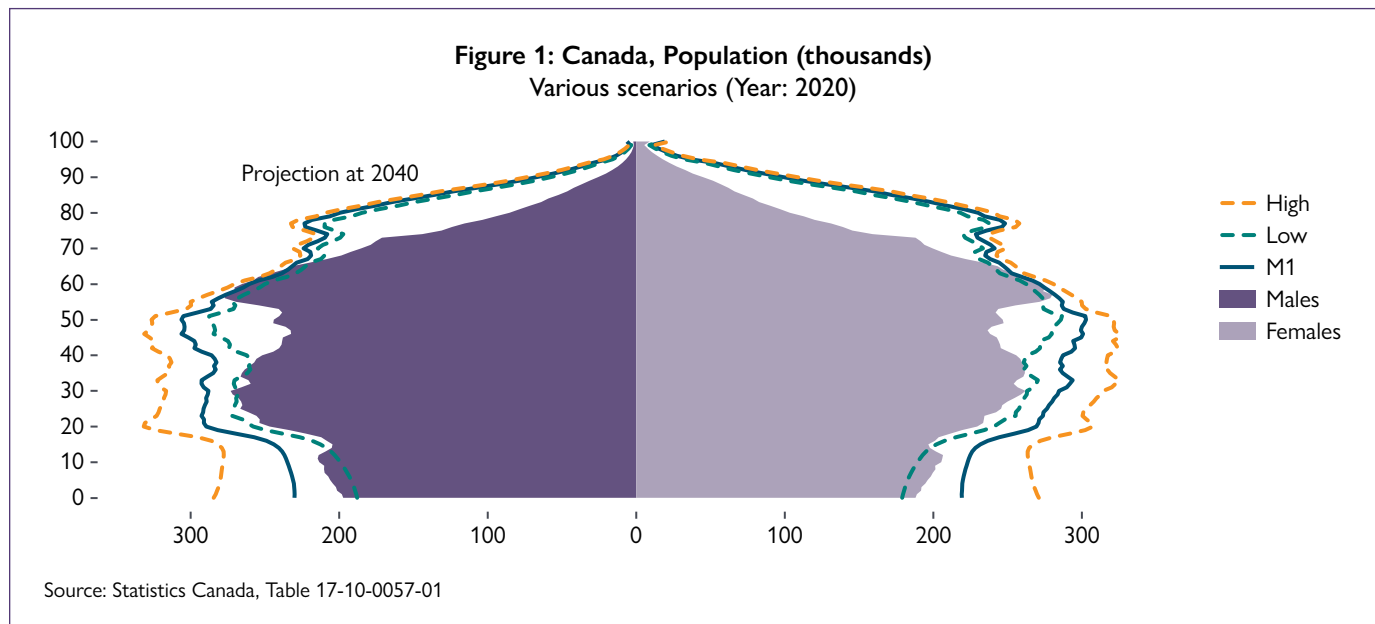
$$\begin{aligned} \text{Population}(t+1) = & \text{Population}(t) + \text{Births}(t,t+1) - \text{Deaths}(t,t+1) + \text{Immigrants}(t,t+1) - \text{Emigrants}(t,t+1) - \\ & \text{Net temporary emigrants}(t,t+1) + \text{Returning emigrants}(t,t+1) + \text{Net non-permanent residents}(t,t+1) + \\ & \text{Net interprovincial migration}(t,t+1) \end{aligned}$$

The method projects population scenarios by age and sex based on varying assumptions of fertility, mortality and migration to a base population.

² Source: Statistics Canada (2019).

³ See <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710005801>.

Figure 1 presents Statistics Canada's high, low and medium growth (M1) scenarios for Canada.⁴



In all three scenarios, the national population grows over the next 20 years with an increase in the proportion of seniors. In order to project the number of households, these projected populations must be subject to an additional household assumption: the headship rate. This is defined as the proportion of primary household maintainers (or household heads) in each population.

The **primary household maintainer** is the person in the household identified as someone who pays the rent or the mortgage, or the taxes, or the electricity bill, and so on, for the dwelling.

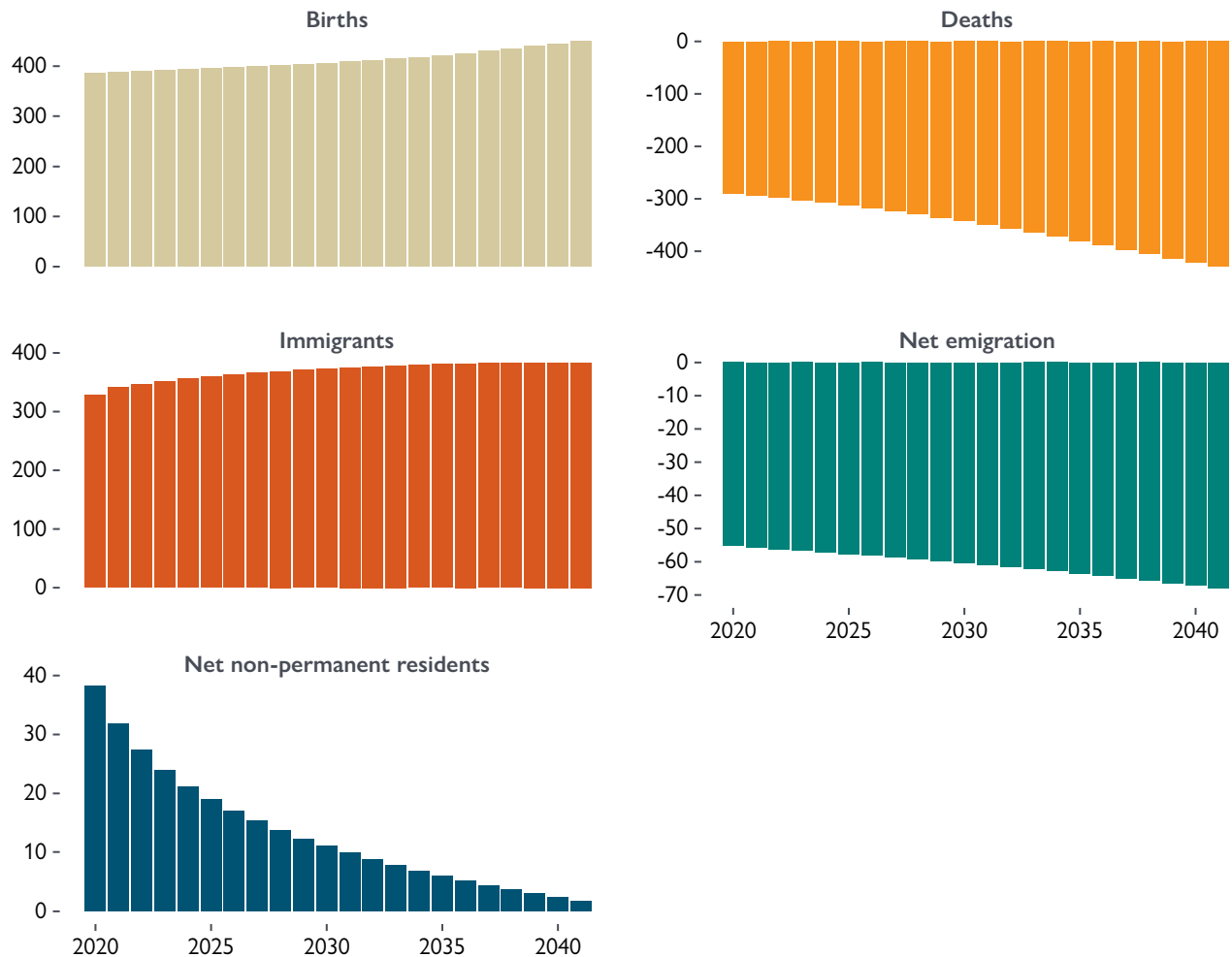
The household projections presented in this report were based on Statistics Canada's medium growth scenario, known as M1. Under this scenario, the fertility rate increases from 1.46 in 2019 to 1.59 by 2042. Life expectancy at birth rises for both men and women from 80 and 84, respectively, in 2017, to 87 and 89 by 2067. Migration continues to be the primary driver of population growth, with interprovincial migration remaining constant at the trends observed between 1992 and 2017, the immigration rate going to 0.83% and the net emigration rate reaching 0.15% by 2042. The non-permanent resident population is projected to grow to 1.4 million by 2043. Figure 2 illustrates the result of applying each of these assumptions.

Headship rates are assumed to remain the same as their 2016 levels over the projection period, resulting in household formation projections that only considered changes in the population and its age structure.⁵

⁴ Detailed assumptions are available at <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710005801>.

⁵ It is for this reason that the discussion of household formation is necessarily an analysis of population projections.

Figure 2: Components of population change, Canada (thousands)
Projection scenario M1: medium growth



Source: Statistics Canada. Table 17-10-0058-01

Impacts of the COVID-19 pandemic on the population and household projections

Both Statistics Canada's population projections and CMHC's household projections were completed before the 2020 COVID-19 pandemic. Thus far in 2020, the

pandemic has had a significant downward impact on immigration to Canada. That said, current population estimates correspond to population levels that lie within Statistics Canada's projection range. Given that the pandemic is still unfolding, it is premature to consider possible revisions.

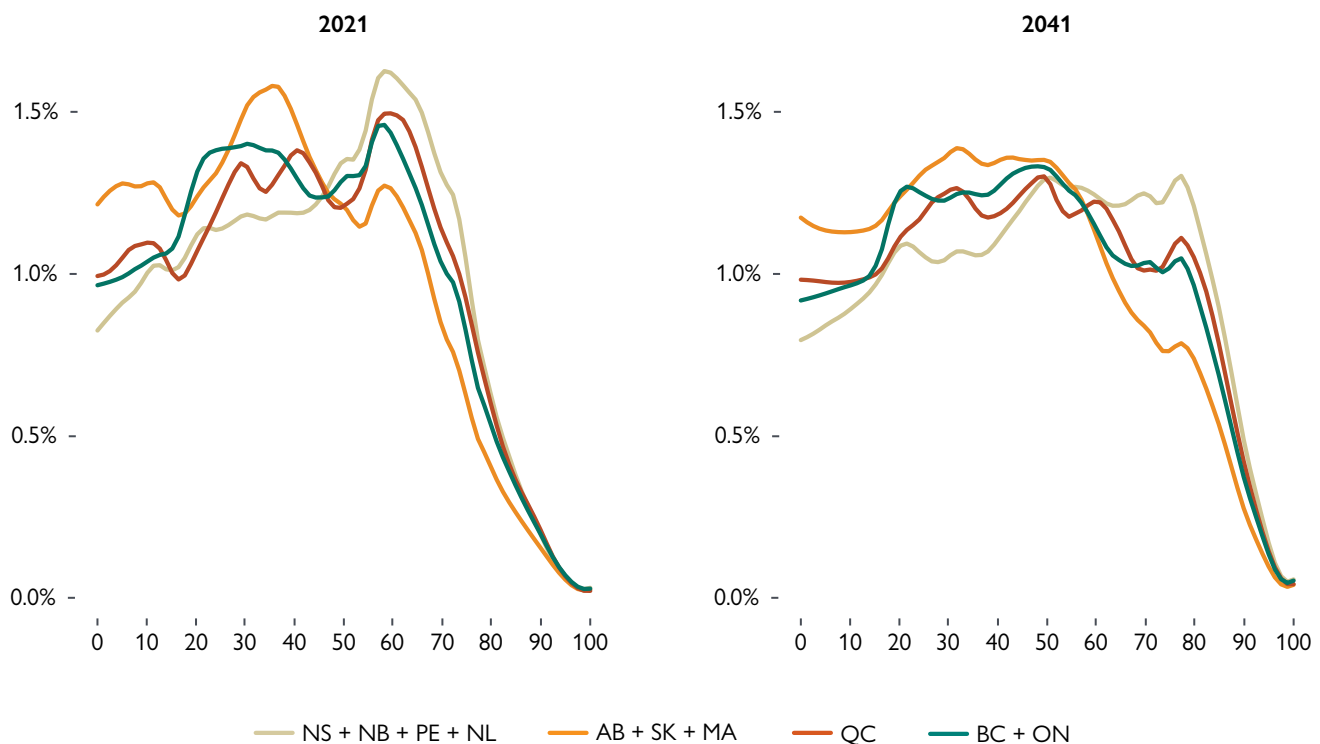
Four distinct age profiles found for Canada's provinces

We present the regional results by dividing the provinces into four distinct groups based on the shape of the provinces' age distributions: British Columbia and Ontario, Quebec, the Prairies and Atlantic Canada.

As shown in figure 3, there is a common theme across the regions. The populations are aging in all provinces. However, while this is a shared trend, there are some regional differences. The Atlantic provinces are projected to see the highest growth rate in the senior population (75 years and older), continuing to lead the other provinces in their trends

toward an increasingly older population. Quebec's population is projected to remain relatively flat, except for the shared theme of an increase in the proportion of the older population (75 years and older). British Columbia and Ontario, which have traditionally attracted many international and interprovincial migrants, are projected to show relatively stronger growth in the younger population groups (20 to 50 years). The Prairies are also projected to experience growth in the younger population groups (20 to 50 years), but notably, without the same level of growth in the proportion of seniors.

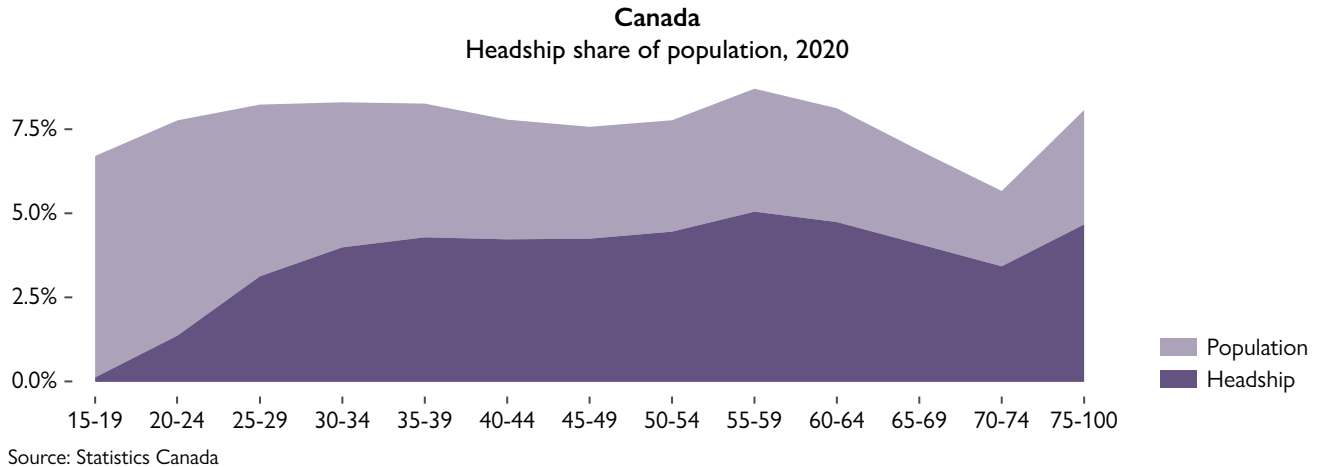
Figure 3: Share of population, all provinces
Projection scenario M1: medium growth



Source: Statistics Canada. Table 17-10-0057-01

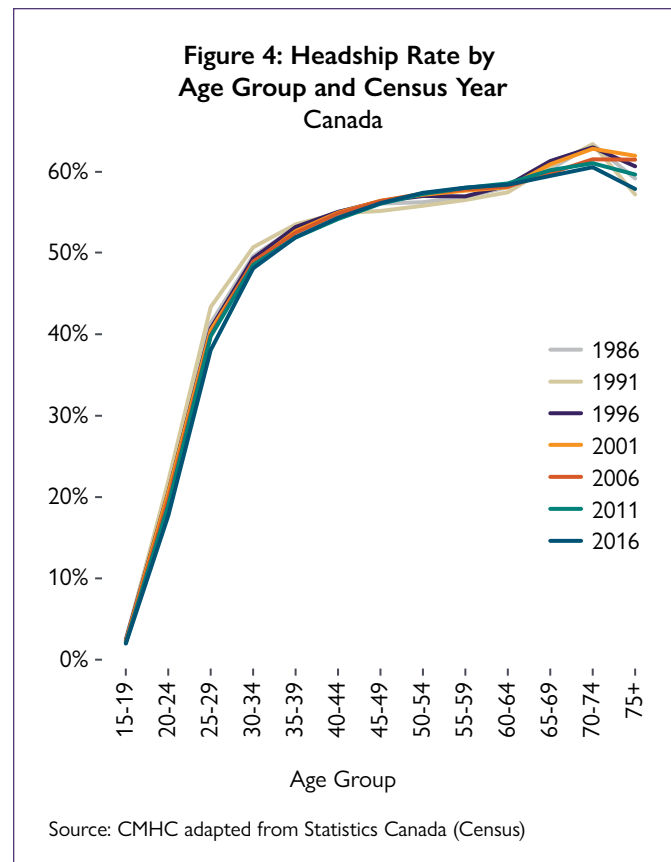
Headship rate

The **headship rate** is the ratio of the number of household heads or household maintainers to the population 15 years of age and older. The figure below shows the share of primary household maintainers compared to the share of total population, both by age group. This shows how households are counted and how the headship rate relates the population distribution to the household distribution. The household distribution can also be seen as a sub-sample of the broader population.



Our projections use the headship rate as an indicator of household formation behaviour at certain life stages. Based on the historical headship rates for specific ages and household types, we can see the ages at which people are likely to head a household or share accommodation. As illustrated in figure 4, the headship rate rises sharply until the ages of 30 to 34, observed historically as the typical ages of independence, and then grows more slowly afterwards.

Combining this concept with our underlying population projections, we turn the projected population distribution by age and sex into projected household numbers. In the absence of new data, headship rates were held constant at 2016 levels over the projection period. It is worth noting that, in the most recent census periods, headship rates have remained relatively stable, apart from those for certain younger age groups.

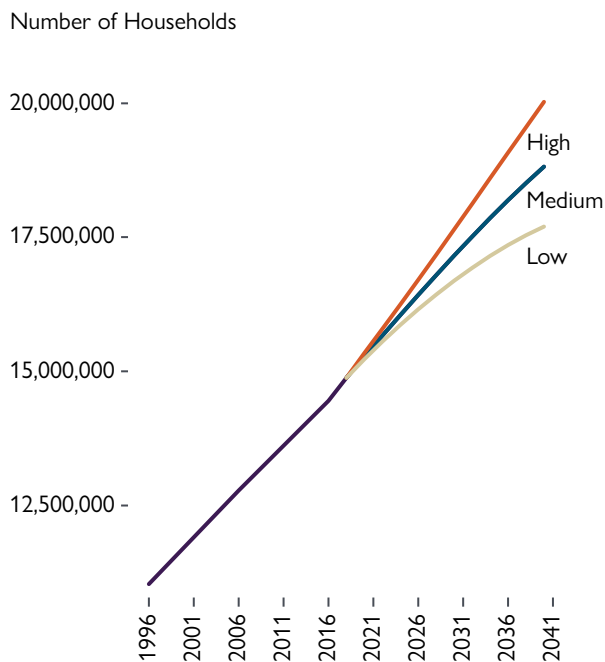


Total households

The number of households in Canada are projected to increase in the low, medium and high growth scenarios (see figure 5). Over the next two decades, between 2.4 million and 4.7 million new households are projected to be formed in Canada. In the medium growth (M1) scenario, 18.9 million households are projected in 2041.

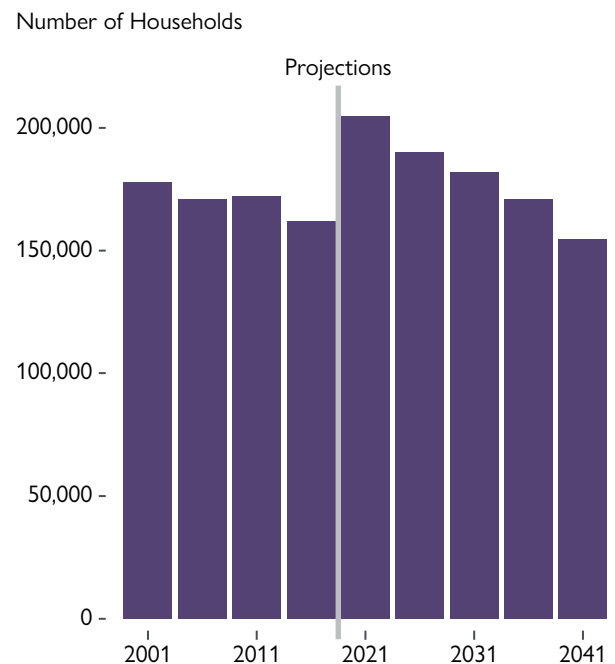
Figure 6 shows that, in this medium growth scenario, the average annual household formation rate is projected to increase in 2021, based on a spike in international migration since 2016. This level of growth is projected to decline in successive census periods because of the increasing mortality associated with population aging and lower fertility rates. While households are projected to keep growing, the speed of that growth will slow.

Figure 5: Total Household Estimates and Projections Canada



Source: CMHC adapted from Statistics Canada (population estimates and projections 2019)

Figure 6: Average Annual Household Formation, 5 Year Census Periods Canada, Medium Scenario

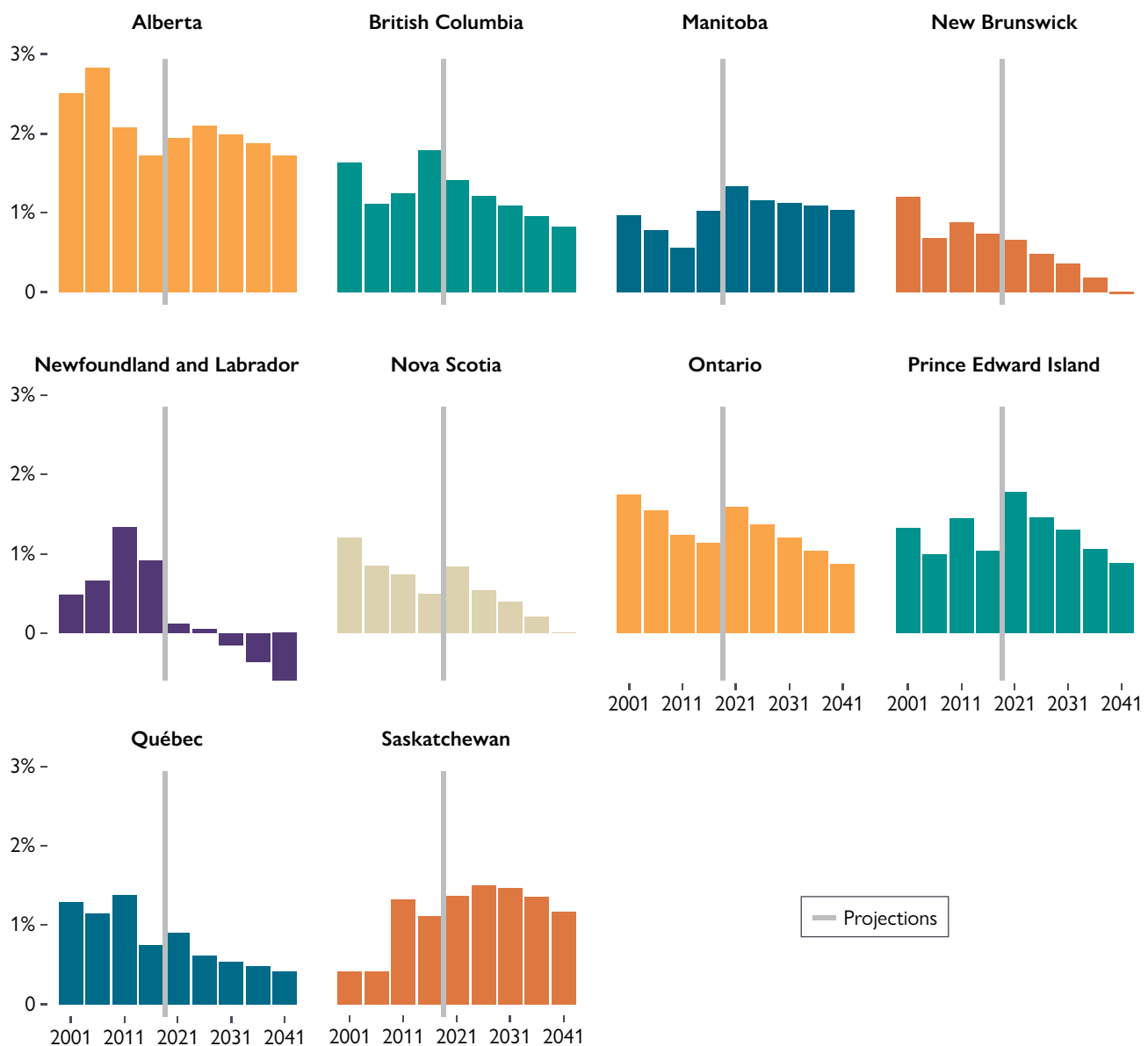


Source: CMHC adapted from Statistics Canada (population estimates and projections 2019)

As noted earlier, at the sub-national level, there are regional growth differences driven by the respective age dynamics of the regions. In the Prairies, there will be faster household growth, particularly in Alberta where a combination of relatively higher growth among family age demographics and strong interprovincial migration will underlie the increase (see figure 7). In British Columbia and Ontario, household formation is projected to be robust, yet slower than in the

Prairies. British Columbia and Ontario will experience high rates of international migration, but an aging population will dampen their natural population growth. Similarly, in Quebec, aging will also reduce natural population growth, resulting in relatively slower household formation. In Atlantic Canada, household formation is projected to grow the slowest among the regions, because of comparatively low in-migration and a larger older population.

Figure 7: Average Annual Household Growth Rate, 5 Year Census Periods
Medium Scenario



Source: CMHC adapted from Statistics Canada (population estimates and projections 2019)

Number of households by age of maintainer

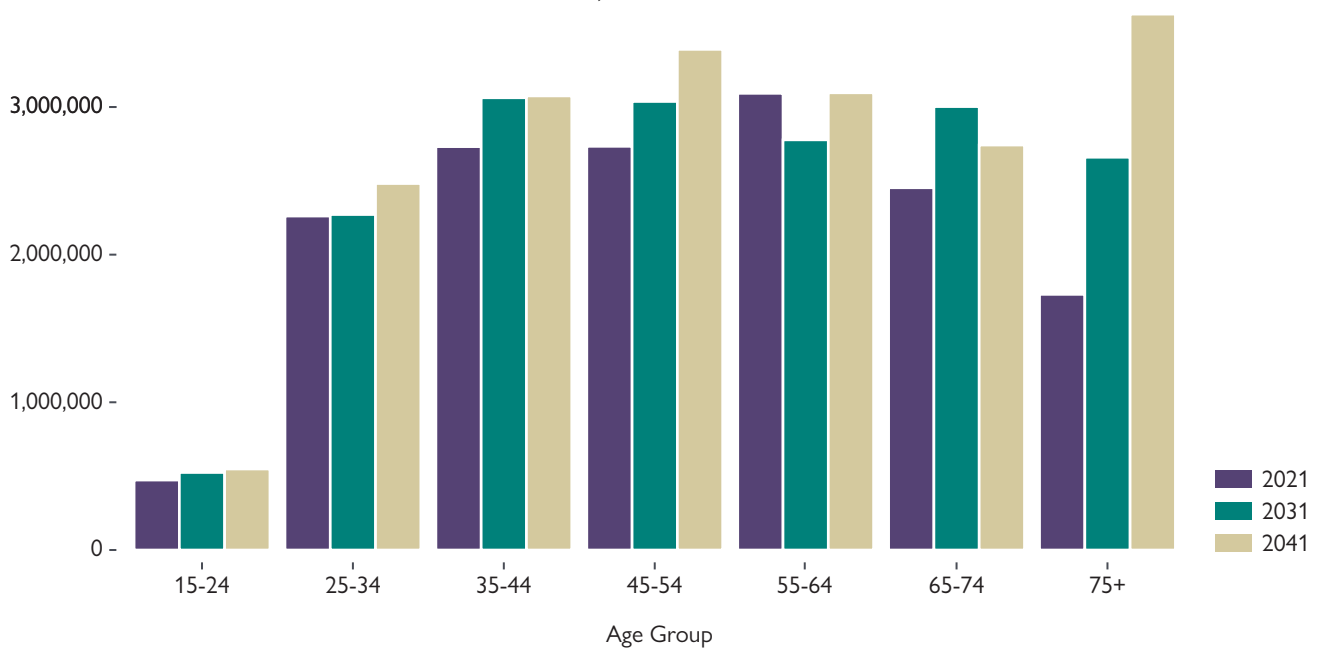
As Canada's population grows older, so will the age of household maintainers (defined by Statistics Canada as the person who pays the rent or the mortgage, or the taxes, or the electricity bill, and so on, for the dwelling). At a national level, the number of households will increase for maintainers of all ages. However, while the number of households maintained by people aged 45 to 54 years will increase notably, the greatest growth will be observed in the 75 years and over group (see figure 8). Moreover, this maintainer age group is projected to be the largest by 2040.

As in the case of total household projections, the national aggregation of household growth by maintainer age obscures sub-national differences. As can be seen in figure 9, significant

growth for households headed by people 75 years and older is projected in all provinces. However, the growth rates in that age group compared to younger cohorts vary by region.

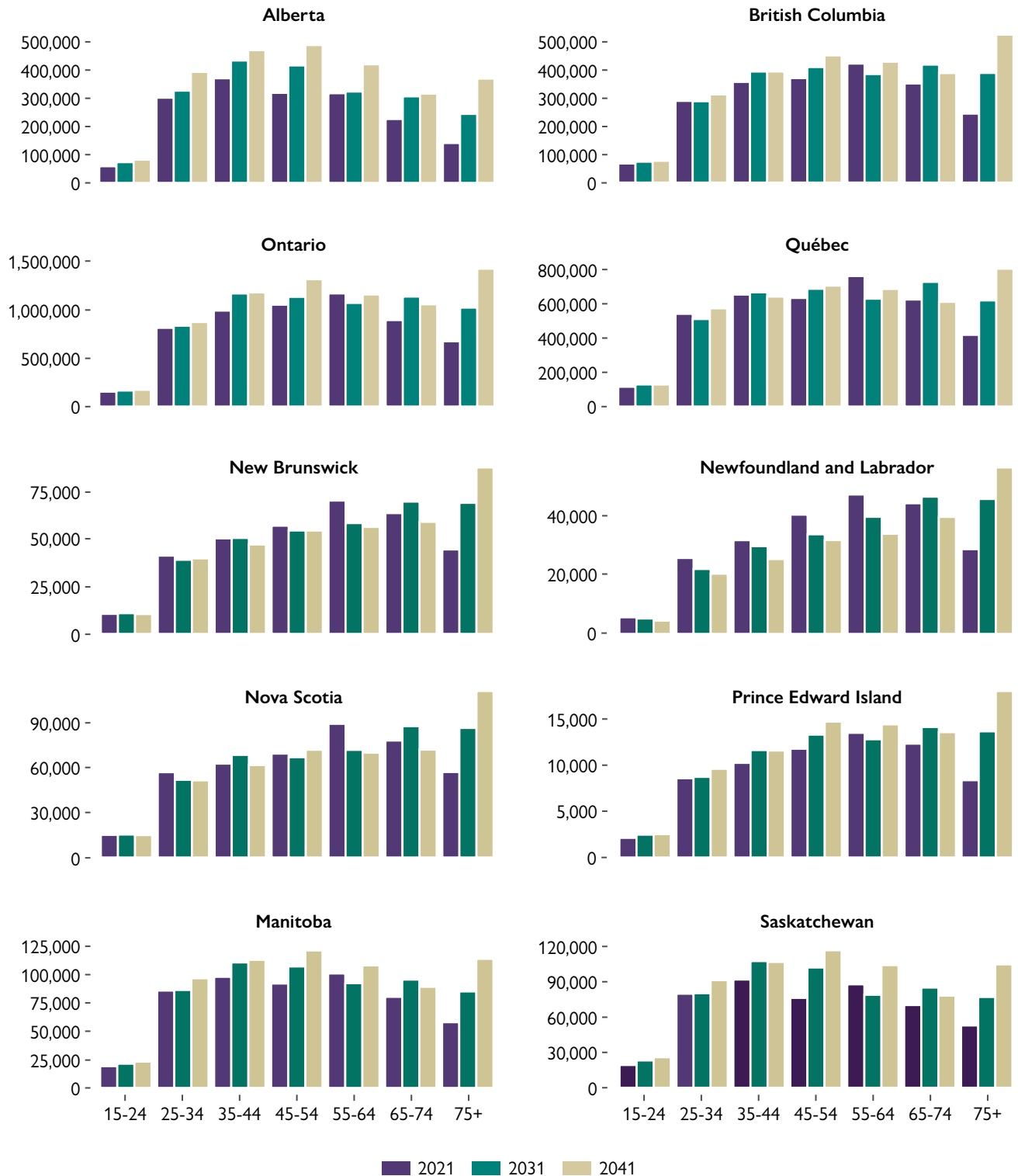
The Prairies will see the strongest proportional growth in younger households. British Columbia and Ontario will also have higher numbers of households in the younger age cohorts, but these numbers will be proportionally lower than in the Prairies. Quebec, in keeping with the relatively flat population projections for this region, will see stable household numbers in the younger age cohorts. In Atlantic Canada, however, the numbers of households in the younger age cohorts are expected to decline in some of the provinces, notably Newfoundland and Labrador.

Figure 8: Total Household Projections by Age Group
Canada, Medium Scenario



Source: CMHC adapted from Statistics Canada (population estimates and projections 2019)

Figure 9: Total Household Projections by Age Group
Medium Scenario

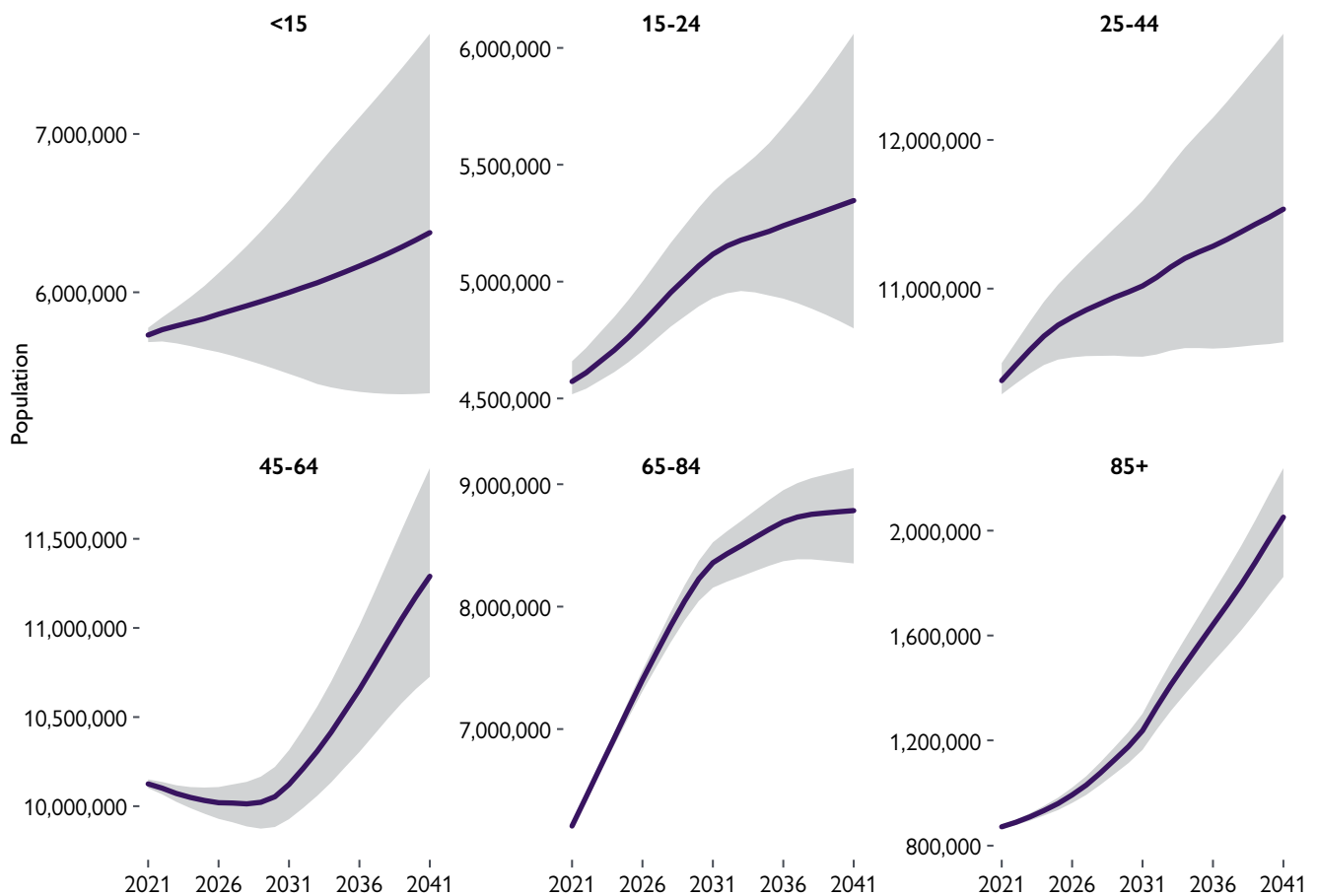


Source: CMHC adapted from Statistics Canada (population estimates and projections 2019)

There is greater uncertainty about the formation of new households than about the increase in older ones. This is because the number of younger households is more dependent on future migration trends, which are more uncertain. As such, significant shocks to migration (like that recorded thus far in 2020 because of COVID-19 travel bans) have a greater impact on the number of young households than on older ones. Figure 10 shows these differences by reflecting the variation in population projections for Statistics Canada’s high, low and medium growth (M1) scenarios.

This significantly higher number of older households raises numerous crucial questions for the housing market, the housing sector and society in general. For example, when examining this through the lens of the housing market, one can ask to what extent this higher number will translate into new housing construction. While it is likely that a considerable number of older households will opt to “age in place,” others will need or even want new housing. Depending on the outcome, the impact on other, younger, age groups will vary. For example, a high degree of aging-in-place will limit the filtering-down process. This will shift new housing toward the needs of younger households, even in areas where the growth in senior-led households will exceed that of younger ones. As with other housing dynamics, there will likely be regional differences.

Figure 10: Projected population by projection scenario and age
Canada, 2021 to 2041



Source: Statistics Canada. Table 17-10-0057-01; shaded area represents high and low scenarios.

Household formation in the broader context of housing demand and supply

It cannot be sufficiently emphasized that the household formation projections presented in this report do not directly correspond to growth in housing demand, nor do they speak to the adequacy of housing stocks. Several other factors require consideration in order to make such determinations. One such factor is the housing choices of older (non-newly formed) households. Part of future housing demand may indeed come from the changing needs and wants of older households, which cannot be satisfied by the available housing stock. Another crucial factor is the economy. Indeed, both the short-run and long-run economic dynamics will shape future housing demand and supply. Indeed, periods of economic growth (or recession) and trends in income and wealth have historically played and will continue to play a central role in determining future demand and supply. These economic factors will have an impact on both actual household formation at a given period and the housing behaviour of existing households.

Conclusion and Technical Glossary

When using Statistics Canada's medium growth (M1) population projection and holding headship rates constant, the projected number of households grows across the country over the projection period. In the Prairies, the strongest household growth is projected to be among young households, while in Atlantic Canada, there is significant growth in senior-led households with current residents aging. In British Columbia and Ontario, we see growth in both younger and older households, while in Quebec, the proportion of households in each age cohort is projected to remain relatively stable. These outcomes are the result of population aging and relatively strong immigration in these provinces.

This report also stresses the importance of the distinction between projections and forecasts, as the difference is important in the interpretation and use of its results. As projections, the household trends identified here are useful in determining the questions to ask before deciding on housing policy, the adequacy of housing stock and the location of housing growth.

We currently do not know the extent to which new households will be like previous generations when it comes to housing type preferences, so we cannot draw definitive conclusions on the future housing market from these projections alone. While densification is occurring in major cities, will we see a rise in the share of households living in denser housing? Will views around tenure change as the population grows? We will address these areas in more detail in a future *Housing Market Insight* publication.

Key demographic definitions and concepts

Age cohort refers to a group of people born around the same time. They can be organized by single year of birth or a grouping of years, as in five-year age cohorts, for example.

Fertility is a measure of the number of children that a woman will have. The total fertility rate looks at the total number of children over her lifetime, while the replacement fertility rate refers to the number of children a woman would need to have for the population to replace itself without migration.

Mortality is a measure of the number of deaths. The mortality rate is the number of deaths per 1,000 members of the population presented by age cohort.

Migration refers to the relocation of people from one area to another. It includes international migration, which captures immigration and emigration, and internal migration, which captures interprovincial migration.

Household refers to a person or group of persons who occupy the same dwelling and do not have a usual place of residence elsewhere in Canada or abroad. The dwelling may be either a collective dwelling or a private dwelling. The household may consist of a family group such as a census family, of two or more families sharing a dwelling, of a group of unrelated persons or of a person living alone.

Household formation is the net change in the number of households over the projection period.

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