

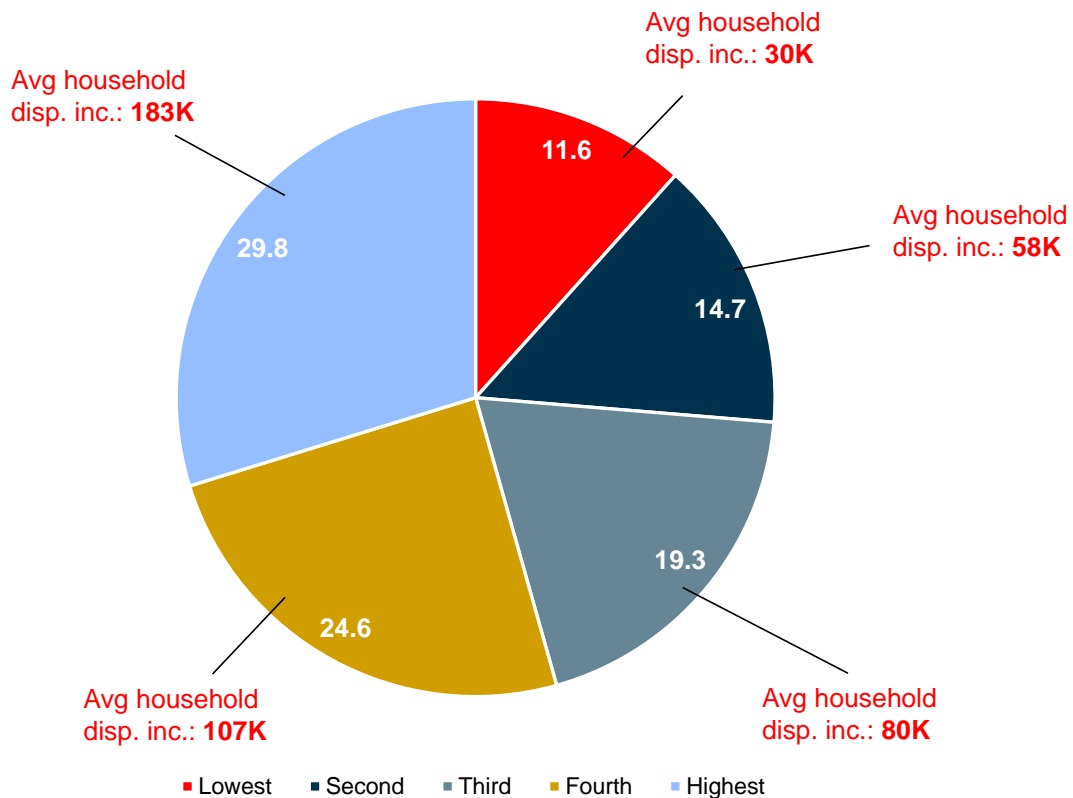
## Canada Watch

By Matthieu Arseneau and Alexandra Ducharme

Households have accumulated excess savings amounting to \$277 billions (12% of GDP) since the beginning of the pandemic. Some pundits argue that these savings are heavily concentrated in the assets of better-off people, whose lower marginal propensity to consume (MPC) means that these amounts could have only a limited effect on consumption. We are not of this view. It is true that the savings are concentrated in higher-income households, but not in a completely disproportionate way. As today's Hot chart shows, almost half (46%) of the excess savings are in the hands of the three lower income quintiles, and they have a potential to use a sizable share of them to consume. Moreover, it turns out that MPC is not nil for high income earners. A [study](#) by the Federal Reserve of Boston indicated that in the U.S., the MPC drops from 97% for the lowest quintile to 48% for the highest<sup>1</sup>. For illustrative purpose, applying these estimated MPC to the current distribution of excess savings in Canada, we obtain a weighted average MPC of 62%. Assuming that excess savings would have been equally distributed, the weighted average MPC would have been only slightly higher at 67%.

### Canada: All income quintiles have firepower to support growth in 2022

Distribution of excess savings from 2019, by income quintile, as of 2021Q2 (% of total)



NBF Economics and Strategy (data via Statistics Canada 36-10-0587-01 and 36-10-0662-01)

<sup>1</sup> Median marginal propensity to consume by quintile: 97% (lowest), 74% (second), 63% (third), 54% (fourth), 48% (highest).

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