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Economics

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Show me the money: Measuring wealth-driven consumption

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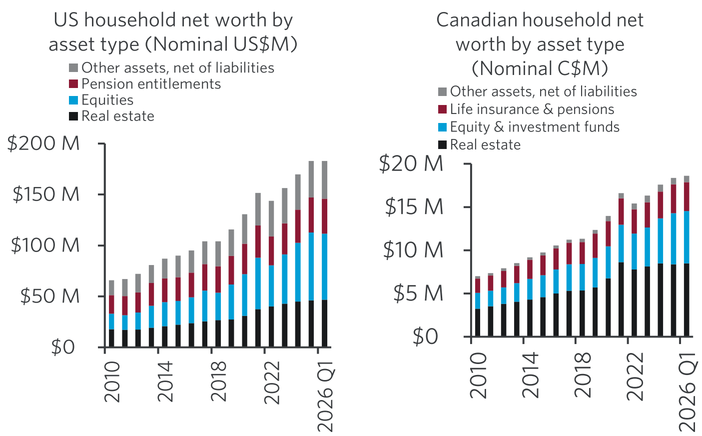
Consumer confidence surveys have rarely looked worse. Wages for many workers are barely keeping pace with prices. And yet spending keeps climbing on both sides of the border. Central banks have been using words like “solid” and “resilient” to describe consumption in Canada and the US.

The explanation isn’t a mystery — it’s sitting in household balance sheets. American net worth topped $183 trillion in the first quarter of 2026, and Canadian household wealth crossed $18.6 trillion, both fresh records. When portfolios and asset prices swell, people spend more of their income and save less of it — the textbook “wealth effect” on consumption. In both countries, rising wealth has been quietly doing the work that stagnant wages and shaky confidence can’t. The question isn’t whether the wealth effect is real, but about how large a factor it’s been, and what that might reveal about where consumption heads from here.

Chart 1: Equities have made up an increasingly larger share of household wealth in Canada and the US



Source: Board of Governors of the Federal Reserve System via FRED, Statistics Canada

Note: Following the definitions of consumption in the national accounts, US household net worth refers to the household sector which includes households and nonprofit organizations. Canadian household net worth only includes households.

Equity gains are dominant drivers of household wealth growth in both countries

In both Canada and the US, equity wealth has increasingly made up a bigger share of total household assets (Chart 1, left and Chart 1, right). In the US, equities made up about 23% of total household assets at the end of 2010, that share has increased to 35% as of 2026Q1, about 12 p.p. increase over the period. Real estate and equities represented similar shares in household wealth in the early 2010’s, but equities’ share surpassed real estate in the mid-2010’s and has been the largest component in total household wealth in the US.

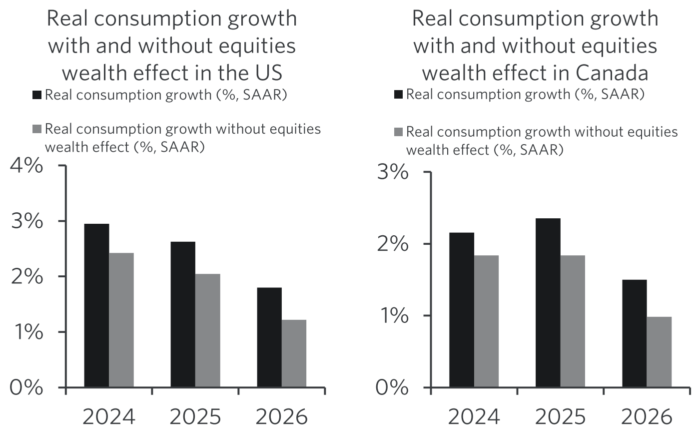
For Canada, equities have also become the fastest-growing type of wealth among households. The share of equities wealth made up about 26% of total household assets by the end of 2010, and increased to about 32% in 2026Q1, a 6 p.p. increase over the period. The current shares of equities are higher in both countries than their long run historical average of about 20% from 1995 to 2019. For Canada, although real estate wealth still makes up the largest share of total household wealth, its share peaked at 52% in 2021 as housing prices reached unsustainable highs but had steadily declined back to 46% by 2026Q1, the same share as in 2010.

Equities wealth effect is expected to account for 30 to 35% of consumption growth this year

To quantify the equities wealth effect on consumption growth in the US and Canada, we used the marginal propensity to consume (MPC) out of equities wealth based on Beach et al. (2025)[1] from the Fed who estimated that the MPC out of equity wealth is about 1.18 cents on the dollar. We then apply the MPC to the change in year-end equities wealth which gives the wealth effect boost to real consumption for a given year. We also assumed that the full impact of the increase in wealth is felt within about two years based on the FRB/US model’s

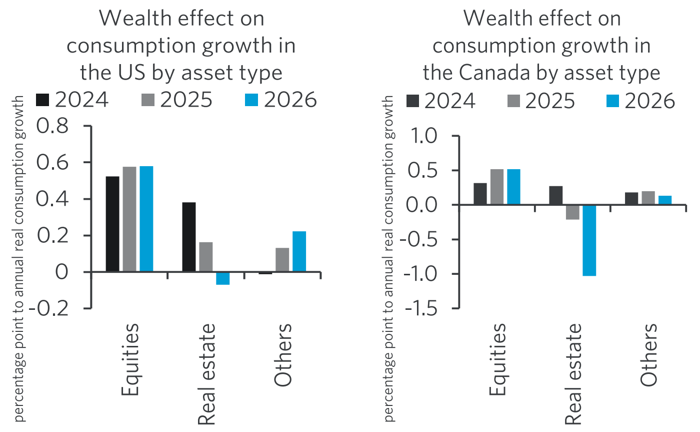
1 Beach, Samara, William Gamber, and Patrick Moran. “Wealth Heterogeneity and Consumer Spending.” FEDS Notes, Board of Governors of the Federal Reserve System, 5 Aug. 2025. They regressed consumer spending growth on wealth changes by asset type. These MPC estimates by asset type are broadly in line with estimates found for Canada by research from the IMF and Bank of Canada..

Chart 2: Equities wealth effects have boosted consumption in both Canada and the US



Source: Board of Governors of the Federal Reserve System via FRED, Statistics Canada, CIBC calculations

Chart 3: Wealth effect on consumption growth by asset type in US and Canada



Source: CIBC calculations

consumption equation. Comparing against the change in real consumption gives wealth effect accounting for 0.5 p.p. or 18% of real consumption growth in 2024, 0.6 p.p. or 22% in 2025 and is estimated to be 0.6 p.p., about 30% of real consumption growth in 2026 (Chart 2, left).

If we use the same MPC and apply that to Canadian data, this would imply that equities wealth effects accounts for about 0.3 p.p. or 18% of real consumption growth in 2024, about 0.5 p.p. or 22% of consumption growth in 2025 and is expected to account about 0.5 p.p. or 35% of real consumption growth in 2026 (Chart 2, right).

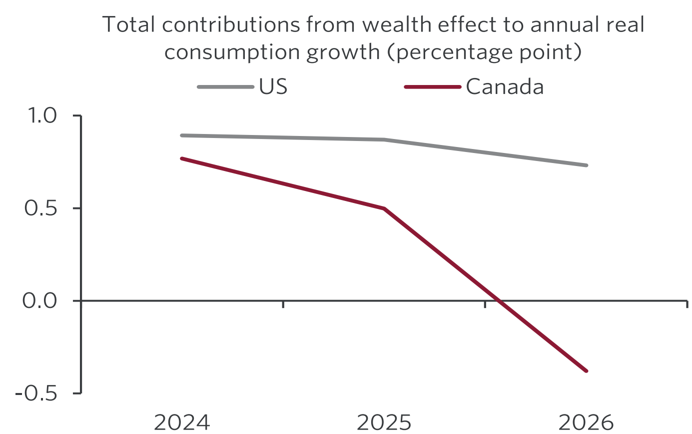
Real estate wealth effect expected to be a drag to consumption in Canada this year

In contrast to equities, real housing wealth levels have turned south in both the US and Canada, and are thereby cutting into consumer activity. In the US, using the MPC out of real estate wealth from Beach et al. (2025), which is about 5.15 cents on the dollar, and applying that to the change in real estate wealth, gives an estimated impact of 0.3 p.p. to real consumption growth in 2024 from real estate wealth effect, 0 p.p. in 2025 and -0.1 p.p. is expected for 2026. The impact gets smaller throughout these years because real estate wealth growth has been decelerating due to slower house price growth. In 2026, with annual inflation surpassing the expected annual real estate wealth growth, this means real estate wealth is expected to contract in real terms, resulting in a small negative impact on consumption growth (Chart 3, left). In Canada, annual house price growth has been slower than the US, with negative annual growth in 2025 and for 2026. Therefore, the contribution from real estate wealth to consumption growth in Canada is estimated to be about 0.3 p.p. in 2024, -0.2 p.p. in 2025 and about -1.0 p.p. in 2026 (Chart 3, right). In other words, real estate wealth is expected to be a significant drag on real consumption growth for Canada in 2026. However, while lower house prices reduce real estate wealth for homeowners, it could also reduce the amount needed to save for those who have yet to buy and reduces the debt they take on when they purchase. In addition, if lower house prices leads to lower rent growth, then it could also free up some spending power for renters.

Total wealth effect is a boost to US consumption growth but a drag for Canada this year

Adding it all up, the total impact of wealth changes will include the equity and housing effects, but also the impact of changes in other financial assets and liabilities. Other assets net of liabilities represents a smaller share of total household wealth in US and Canada, so their impact on consumption growth is smaller relative to equities and real estate. Beach et al (2025) estimated an MPC of about 2.9 cents on the dollar for other asset types in household wealth, applying this to the remaining wealth from households in the US gives an impact of 0 p.p. to real consumption growth in 2024, 0.1 p.p. in 2025 and about 0.2 p.p. in 2026 (Chart 3, left). For Canada, the estimated impact from other asset types on consumption growth is 0.2 p.p. from 2024 to 2025 and about 0.1 p.p. in 2026 since the amount from these other asset types are small with a relatively

Chart 4: Total wealth effect is supporting consumption growth in the US but likely a drag for Canada this year



Source: CIBC calculations

small MPC (Chart 3, right). Combining the contributions from all asset types, the wealth effects on consumption accounts for about 0.9 p.p. or 30% of US real consumption growth in 2024 and 2025, and 0.7 p.p. or about 40% of consumption growth in 2026. For Canada, the total wealth effect contributes about 0.8 p.p.to real consumption growth in 2024, falling to 0.5 p.p. in 2025 and is expected to decline to -0.4 p.p. in 2026 (Chart 4).

There is of course a degree of imprecision around the wealth impact as the MPC estimates and the timing of pass through are highly uncertain. However, it is safe to say that wealth effect is a tailwind for consumption growth in the US but has become a drag in Canada. Therefore, we continue to expect real consumption growth to be slightly lower in Canada than US this year. Fundamentals for consumption are weaker in Canada than the US, as evident in softer wealth growth, mainly from the drag from real estate wealth and weaker labour market conditions. Nevertheless, wealth effects are weakening in both countries, as slower house price growth is increasingly reducing real estate wealth. As a result, the wealth effect is likely to provide less support for US consumption in upcoming quarters, and remain a headwind for consumer spending in Canada.

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