Data Release: Canadian households pack on more debt

- Canadian national net worth increased 2.6%(q/q) in the fourth quarter of 2014 and 7% year-over-year – mostly on the back of the depreciation of the Canadian dollar and rising home prices. While governments scaled back their debt, household indebtedness hit new records.
- Much of the gain in national net worth was driven by a massive $129 billion increase in Canada's net international position – the largest gain on record. The gain was due in part to the fact that international equity markets have been outperforming Canadian markets, as well as the lower Canadian dollar. Investments held in most foreign currencies (particularly U.S. dollars) are now worth a whole lot more once converted back into Canadian dollars.
- Household net worth rose 0.9% in the quarter and is up 7.5% from year ago levels as higher real estate values outweighed rising debt loads. While household credit (+4.5% y/y) continues to grow well below its 10-year average, it did pick up modestly in the fourth quarter of 2014, led by an acceleration in non-mortgage debt (+7.6% y/y).
- With debt growth surpassing income growth in the quarter, the household credit market debt-to-income ratio reached a new high of 163% in the fourth quarter of 2014. However, household assets continued to grow faster than debt, and other measures of indebtedness, like the debt-to-asset ratio and homeowner's equity ratio held steady in the quarter.
- The federal government slowed its rate of borrowing in the fourth quarter of 2014 and the government net debt-to-GDP ratio inched down to 31% in the fourth quarter, from 31.5% in the third quarter. Note, this ratio is still well above the low of 28.5% recorded in 2008. Meanwhile, the debt position for non-financial corporations remained relatively stable during the quarter.

Key Implications

- The modest pick-up in household borrowing over the second half of 2014 is largely consistent with accelerating consumer spending and a robust turnaround in the Canadian housing market in the summer of last year. Looking forward, a combination of lower interest rates and weak income gains are expected to translate into a further increase in the debt-to-income ratio in the first half of 2015. However, this trend is expected to be short lived, as income gains ultimately pick up, and housing activity tapers off following the strong run seen at the end of last year.
- Despite the acceleration in household debt, Canadian households on average are still in a good position to keep up with their debt payments. Interest payments as a share of overall income, while up marginally in the fourth quarter, remain near historically low levels. Credit card delinquency rates are also at record low levels and only 0.28% of Canadian mortgages were in arrears 90 days or more in October. Meanwhile, on an apples-to-apples comparison, the household debt-to-income ratio is almost 15 percentage points below the level hit in the U.S. before the financial crisis. However, an even lower interest rate environment poses the risk that household debt could accelerate more than expected in 2015, making households even more vulnerable to higher interest rates and economic shocks. With pent-up demand in the housing market largely exhausted, households are likely to rely more heavily on credit to finance purchases of non-housing related consumer items, such as cars.

Diana Petramala, Economist
416-982-6420

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