June 14, 2016

TD Economics

Data Release: National wealth declines, but households benefit from rising home prices

- Total national household wealth fell 1.5% q/q in the first quarter of 2016, as an appreciation in the loonie reduced the value of assets held abroad. However, most of the currency impact was felt by businesses and governments, with total household net wealth actually advancing 1.2% (or $9.6 trillion) on the back on hot real estate prices. Meanwhile, indebtedness among all sectors of the economy took a pause in the quarter.
- Household debt grew at a pace similar to that of income and assets, holding most measures of indebtedness steady in the quarter. The household debt-to-income ratio stood pat at 165%, while the debt-to-asset ratio edged slightly lower to 16.9%, from 17.0% in the prior quarter. The homeowner's equity ratio also ticked up a notch to 73.7% during the quarter, from 73.4% at the end of last year. The majority of the improvement in household wealth has been driven by real estate assets (+6.2% y/y) while financial assets (+2.3%) were up more modestly. The composition of debt told the same story. Household mortgage credit accelerated sharply on a year-over-year basis to 6.5% in the quarter, while other debt was up by just 3% y/y.
- The federal government increased debt at a modest pace, but the federal government net debt-to-GDP ratio barely budged in the quarter and remains at 30.9%. With debt growing somewhat faster at the provincial level, total debt among all levels of government as a share of GDP rose to 44.2% in Q1, from 43.7% in the prior quarter.
- Business actually reduced their borrowing requirements, and the non-financial corporate debt-to-equity ratio backed off a high hit at the end of last year. The debt-to-equity ratio fell to 68.1% in Q1, from 69.3% in the fourth quarter of last year.

Key Implications

- The national balance sheet position in Q1 reflects an economic environment of low oil prices that has spilled over into weak business investment while only modest employment gains keep households from a spending binge despite the very low interest rates. Indeed, the significant drop in business borrowing may reflect a tighter lending standards for businesses, with debt becoming very expensive and scarce, particularly for oil and gas companies.
- The household situation doesn't seem all that bad on the surface, with improvements in the balance sheet also coupled with a record low cost of carrying debt. Even with household debt-to-income at an elevated level, households are repaying more principal than interest on a monthly basis. However, mortgage borrowing is starting to accelerate and the risk that rapidly rising home prices will encourage a deeper accumulation of debt through 2016 is rising. The fear of missing out, referred to as "FOMO," is a developing trend amongst first-time homebuyers who may choose to jump into the market despite the high prices rather than risking being priced out in the future. This could leave them with too much debt, particularly in Toronto and Vancouver housing markets where homes are increasingly expensive. As such, we expect the household debt-to-income ratio to continue to rise through the rest of the year.

Diana Petramala, Economist
416-982-6420

@TD_Economics