

September 15, 2016

## **TD Economics**

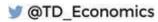
## Data Release: National wealth largely unchanged as real estate boosts household wealth

- National net worth was essentially unchanged in Q2, as an increase in the value of real estate was offset by a decline in the net foreign asset position.
- Household sector net worth was up 1.9% in Q2, and on a per capita basis sits at \$271,300. Once again, the rise was mainly attributable to a 2.2% increase in non-financial assets primarily real estate. Debt rose (+2.0% q/q) by less than assets, so the ratio of household debt-to-assets ratio was essentially unchanged at 16.9%.
- However, weak disposable income growth (+0.5%) meant that the ratio of household credit market debt to disposable income rose once again to 167.6% in Q2, up from 165.2% in Q1. This also meant that the burden of debt relative to income increased. The household debt service ratio, as measured by total obligated payments of principal and interest as a share of disposable income rose to 14.2% in Q2, up from 14.1%. This measure has been on an upward trend since mid-2012. Increased household borrowing in Q2 was driven by both mortgages and consumer credit, but the latter actually saw a larger increase in the quarter.
- While the federal government's debt burden remained unchanged at 31%, other level of governments continued to increase their debt burdens, not at 29.5%.
- Corporations increased their financing activity in Q2. On a book value basis the credit market debt-to-equity ratio ticked up again to 70%. This measure of leverage has been on a steady upward trend since 2001, and is now at its highest level since Q2 2009.

## **Key Implications**

- Canadians love debt and with interest rates this low, why wouldn't they? Households, governments, businesses, all saw larger debt burdens in the second quarter. Most attention focuses on the household sector, which saw another increase in household debt burdens. Growth in household borrowing has picked up since the Bank of Canada cut interest rates in 2014. It may be somewhat reassuring to point out that at 5.5% y/y, the pace of debt accumulation is well below its pre-recession pace. The trouble is, so is income growth.
- The growth in debt in recent quarters has been driven by hot housing markets in certain regions of the country Toronto and Vancouver. While the Vancouver market is showing signs of slowing since recent regulations were put in place (please see our <u>report on Canada's regional housing markets</u>), Toronto has more room to accelerate over the near term, and we expect the household debt-to-income ratio to continue to rise through the rest of the year.

Leslie Preston, Senior Economist 416-983-7053



## **DISCLAIMER**

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other

factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.