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TD Economics

Data Release: National balance sheets showing an improvement, but household debt still elevated

- Rising real estate values and oil prices helped lift Canadian national wealth in the first quarter of 2017, while debt continued to rise but at a slower pace than in the last year.
- The biggest improvement in net worth was among the household sector, where assets (+8.5% y/y) benefited equally from strong gains in real estate and equity markets. Meanwhile, despite booming housing activity, households eased their pace of borrowing and debt grew at a slower pace than income for the first time in a year. The household debt-to-income ratio edged down to 166.9% from 167.2% in the prior quarter. All other measures of indebtedness also saw improvements, with the homeowner's equity ratio climbing to the highest level since 2008 and the debt-to-asset ratio dipping to 16.4% in Q1, from 16.6% in the prior quarter. The slowdown in borrowing remains concentrated in non-mortgage consumer credit (+3.2% y/y), while mortgage credit (+6.0%) continued to grow at twice the pace.
- Household debt service ratios have also remained stable. Total debt payments account for 14.2% of household after-tax income. However, a greater share of that is being devoted to principal repayment. Interest only costs account for just 6.1% of household after-tax income, a new record low.
- Consistently with a broad improvement in budgets over the last year, government indebtedness remained stable in the first quarter of this year. In contrast, debt grew the fastest among non-financial corporations, where financial liabilities grew by 11.5% y/y – a third quarter in a row of double-digit growth. Still, the improvement in equity markets has helped push the debt-to-equity ratio edge lower to 68.8%, from 71.5% as this sector experienced the biggest improvement in indebtedness.
- In a separate release yesterday, CMHC shared Equifax data on new mortgage lending by province and major metropolitan area which showed that the accumulation in debt may be more of a distributional story. The report showed that while the average home price topped $500,000 by late last year, the average new mortgage loan in Canada only reached $271,895 in Q4 of last year (including refinancing and new mortgage origination). This was up $16,494 from year ago levels, but that gain was largely skewed to Ontario where the average new mortgage balance rose by $32,000 (+10% y/y) and particularly in Toronto where the gain was roughly $50,000.

Key Implications

- The release of the national balance sheet underpins our view that the momentum in the Canadian economy seen in the first half of the year should largely carry forward into the rest of 2017. Businesses continue to take on borrowing, which should help underpin a pick-up in business investment. Meanwhile, despite a slowdown in housing activity since April of this year, households still have some room to continue to support economic activity through consumer spending and renovation activity amid still low debt servicing costs. This also gives the Bank of Canada some room to start gradually lifting interest rates later this year.
- Still, there are risks with substantial uncertainty surrounding the household debt story. While indebtedness has recently stabilized for Canada as a whole, it still remains elevated leaving households particularly sensitive to rising rates. Moreover, averages do not tell the full story, with risks still rising in Ontario.

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