

## **NEW INDEX IDENTIFIES PROVINCIAL HOUSEHOLDS MOST VULNERABLE TO ECONOMIC RISKS**

### **TD Economics offers first glimpse of financial vulnerability at regional level**

TORONTO – The first index to rank the financial vulnerability of households by province was published today by TD Economics.

British Columbia, Alberta, Ontario and Saskatchewan households were found to be at greatest risk to negative economic events such as a substantial correction in housing prices, a major disruption in incomes or an unexpected large increase in borrowing rates. Manitoba households are least vulnerable. The Atlantic region and Quebec fall in between. Detailed provincial assessments are included in *Assessing the Financial Vulnerability of Households Across Canadian Regions* ([www.td.com/economics](http://www.td.com/economics)).

The probability of one or more of these negative events occurring in the coming years is relatively low according to TD Economics. However, the Household Vulnerability Index does note that risks related to household finances have been rising broadly across all regions over the past few years, and with higher interest rates on the horizon set to boost the cost of servicing debt, this upward trend in vulnerability is almost certain to continue.

“The focus nationally on household debt has raised questions about which regions face the most significant challenge,” according to Craig Alexander, TD’s Chief Economist and co-author of the report. “This new index does not predict events, but it does shed light on those provinces that are most susceptible to downside risks.”

Since 2007, the increasing vulnerability has reflected in large part by the rising trend of household debt relative to income across the country. This development is an indication of the strength in housing markets and real estate related borrowing. More recently, however, there has been growing evidence that many Canadians have been turning to credit as a way to finance consumption rather than invest in their homes.

Despite rising indebtedness, home price increases have supported the asset side of the personal balance sheet ledger. Even more importantly the falling cost of borrowing has been pulling down the share of income households have been shelling out to service obligations. Low interest rates have also helped to keep a lid on the share of vulnerable households in recent years. As such debt-service ratios have been falling and remain in a comfortable range.

TD Economics’ Household Financial Vulnerability Index takes into account six key metrics of household financial position. TD Economics assigns a weight to each metric based on perceived importance. Metrics include debt-to-income ratio (combined total of residential mortgages, lines of credit and other consumer loans as a percentage of personal disposable income); debt service ratio (interest and principal payments as a percentage of income) and the proportion of households with a debt service ratio of 40 percent or higher.

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