TD Economics

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Data Release: Canadians wealthier, but also more leveraged

- National household wealth increased by 1.4% in the fourth quarter of 2016, largely on the back of an increase in real estate asset values (+$93 billion) and natural resource wealth (+$29.4 billion). The wealth was spread across households, governments and corporations. On the debt front, corporations saw an improvement in indebtedness, while the same cannot be said for households and government.
- While still growing at a slower pace than the 'debt heyday' of 2002 to 2007, household debt has accelerated since the trough reached in late 2013 and is now growing at a still hefty 5% y/y pace. Mortgage credit was up 5.9% y/y in the fourth quarter of 2016, and consumer credit was up 3.6%. Income growth has been slower and the credit market debt-to-disposable income ratio has been climbing, reaching 167.3% during the last quarter, up from 166.8% in the third quarter of 2016. The debt-to-income ratio was up 2.4 percentage points in 2016 overall, marking the fastest annual growth since 2010. Gains in real estate asset values, however, helped keep most other ratios of indebtedness stable, such as the debt-to-net worth and homeowner's equity ratio.
- Nonetheless, households appear to have had the ability to take on more debt thanks to low interest rates and the savings rate still edged higher (up to 5.8%, from 5.5%) while household debt payments as a share of income held steady.
- The government sector also accumulated more debt in the quarter, with the net debt-to-GDP ratio up at 44.1%, from 43.3% in the prior quarter. The increase was mainly due to provincial governments, while the federal net debt-to-GDP ratio remained stable.

Key Implications

- As home prices accelerate in some parts of Canada, particularly in Ontario, households have been getting a nice boost to their net wealth. Debt growth has accelerated somewhat, but it is not growing at the double-digit pace that would typically be considered dangerous.
- Despite the rise in the headline household debt-to-income ratio, households are still less indebted then their U.S. counterparts were during the peak of the U.S. housing bubble a decade ago. On an apples-to-apples comparison, the Canadian household debt-to-income ratio reached 154% - some 10 percentage points off the U.S. 2008 peak.
- For now, the mortgage regulations introduced in October 2016 are likely to keep debt growth in check and buffer the economy from a potential hard-landing in the GTA housing market. However, the risk is that continued low interest rates, and soaring prices lead first-time homebuyers to take on too much debt while existing homeowners increasingly draw on the equity that is rapidly accumulating in their homes.

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