

# OBSERVATION

## TD Economics



February 13, 2013

## YOUNGER CANADIANS PUT BRAKES ON DEBT IN 2012, OLDER KEEP BORROWING

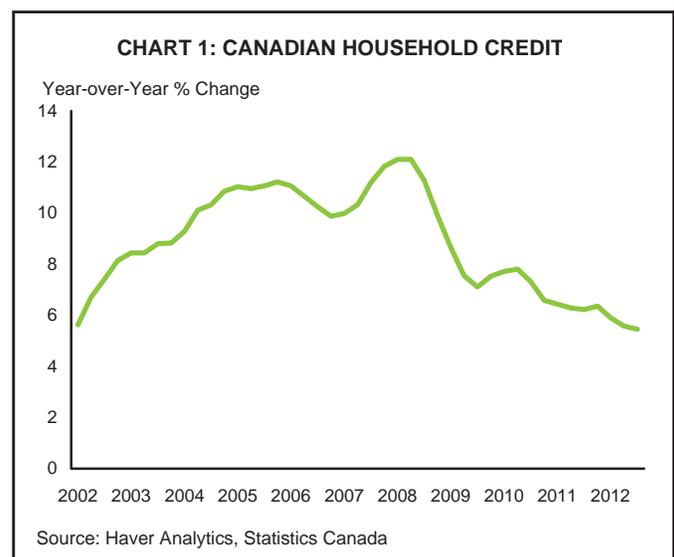
### Highlights

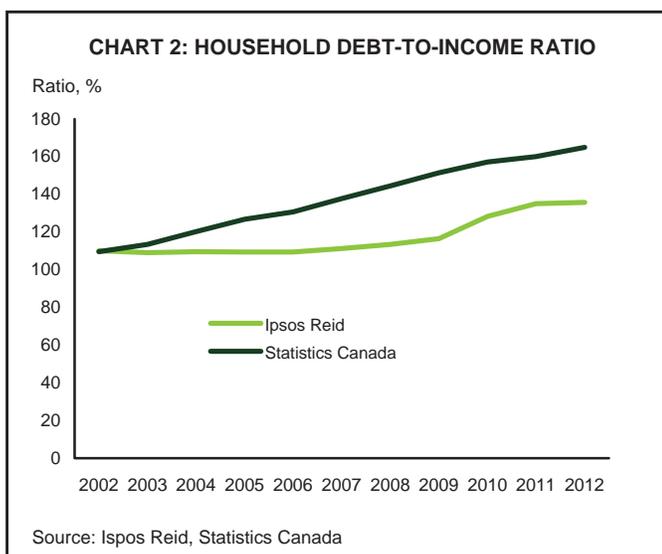
- In 2012, Canadian household debt grew at its slowest pace since 2003 and the upward trend in the household debt-to-income ratio ebbed. Ipsos Reid survey data suggests that there was diverging borrowing behaviour across age groups and by region in 2012.
- At the national level, the moderation in household debt in 2012 was broad based across most age groups, with the exception of those 65 years and older. Debt among the 65 plus age group increased 15% in 2012.
- Households in the majority of provinces practiced more debt restraint in 2012. Ontario is one province where households appear to be making a particular effort to reduce debt, whereas indebtedness in Alberta continued to grow rapidly across all age groups, likely reflecting firm labour and housing market conditions.
- At the regional level, the run-up in debt and the average borrowing level for those 65 years and older was highest in Ontario, Alberta and Québec in 2012.
- The Ipsos Reid data reveals that the slowdown in debt growth is occurring most notably among age groups and provinces with relatively high levels of indebtedness. The slowing in debt growth is encouraging, however, there is a concern that Canadians are entering retirement more financially vulnerable than they have in the past.

One of the biggest domestic news stories of the past year was the moderation in the rate of household borrowing. In 2012, personal debt grew by its slowest pace since 2003 and the upward trend in the household debt-to-income ratio ebbed. In this report, we leverage survey data from Ipsos Reid to shed light on which segments of the population, both by age and province, have been leading the moderation in debt and which have been lagging.

We note that using survey data has its limitations, such as sample bias and the quality of the data being highly dependent on the accuracy of the responses. Another limitation is that given small sample size, Atlantic provinces have been aggregated, as have the statistics for Manitoba and Saskatchewan. However, Ipsos Reid's Canadian Financial Monitor provides the most detailed and timely regional household financial snapshot, surveying roughly 12,000 households across Canada in a given year. The survey is highly reputable and often used by the Bank of Canada in its analysis of household balance sheets.

Readers should also note that there are differences between debt and income measures provided by the Ipsos Reid survey





and the most commonly cited Statistics Canada data (see chart 2) due to methodological differences. For instance, Ipsos Reid provides us with pre-tax income data, while Statistics Canada uses disposable income to calculate their debt-to-income ratio, which subtracts both taxes and debt payments from incomes. In addition, the Ipsos Reid data presented in this report represents the average value for those who hold debt, whereas Statistics Canada's aggregate measures include both households who are indebted and those that are debt free. Despite these differences, the survey does broadly follow the trends observable in Statistics Canada's debt measures. Overall, the survey suggests diverging borrowing behaviour across age groups and by region in 2012.

### Older Canadians continue to rack up debt

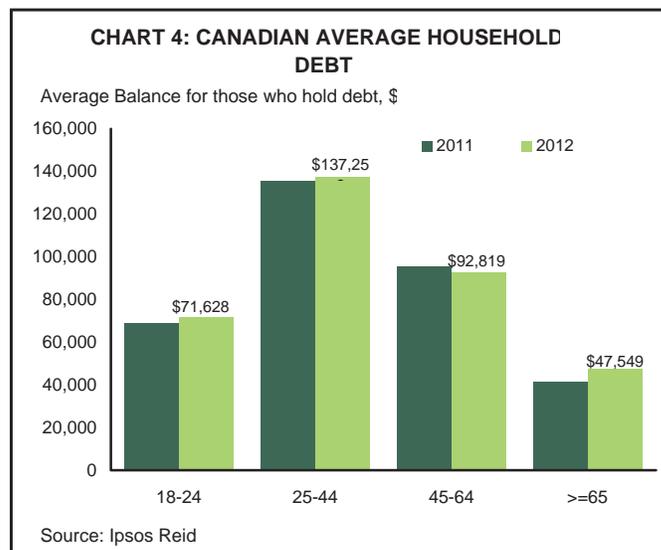
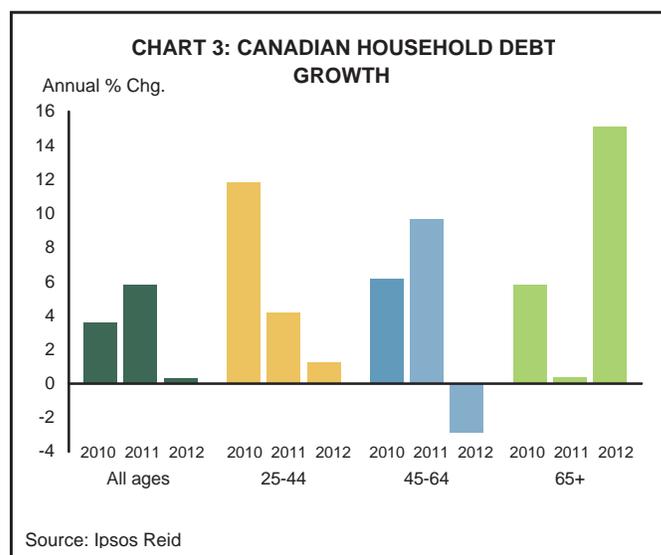
As Chart 3 shows, at the national level, the moderation in household debt growth in 2012 was broad based across most age groups, with the exception of those 65 years and older. On average, households in the 65 plus age group bucked the national trend, accumulating almost \$6,000 in new debt, or equivalent to a 15% increase. The survey data suggest that the increase in debt was mostly used to fund consumer spending, either on discretionary items (out of want) or nondiscretionary items (out of need). Meanwhile, the assets of those 65 years and older (including real estate) grew little in the year, pointing to a further deterioration in their financial position in 2012 (see Table 1 at end of the report). Canadians 65 years and older continue to have the lowest level of debt, both in absolute terms and relative to their incomes, when

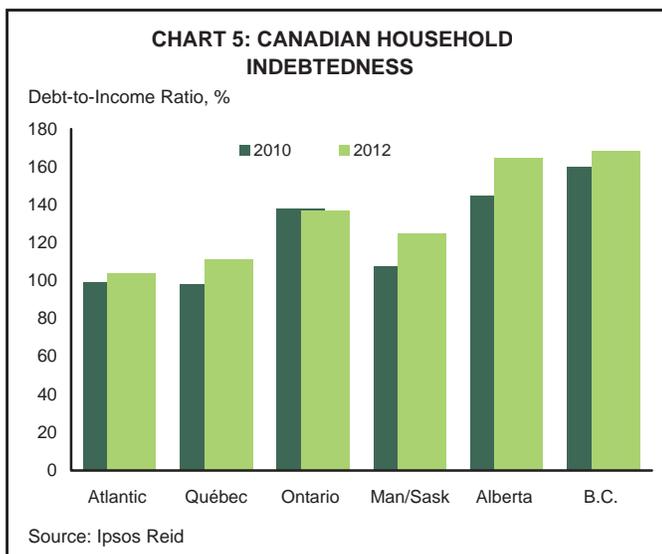
compared to other age groups. However, the updated figures add credence to the recent theme that Canadians are entering retirement more indebted than ever.

Other age groups have scaled back their rate of borrowing, or have reduced debt outright. In particular, those aged 45 to 64 years paid down all types of debt for the first time since the survey began in 2002. Meanwhile, debt growth slowed for those 25 to 44 years of age. Canadians in this age group continued to take on some additional mortgage credit, but drew down other forms of debt, such as credit cards and personal lines of credit.

### Regional divides also exist

Table 1 shows that while households across Canada practiced more restraint in 2012, there were some diverging





trends by province. Household credit contracted the most in Ontario and British Columbia in 2012, two provinces with some of the highest levels of household indebtedness. Households in these provinces scaled back their borrowing of all types of credit in the year. Ontario is one province where households appear to be making a particular effort to reduce debt, as this is the second consecutive annual decline in credit outstanding.

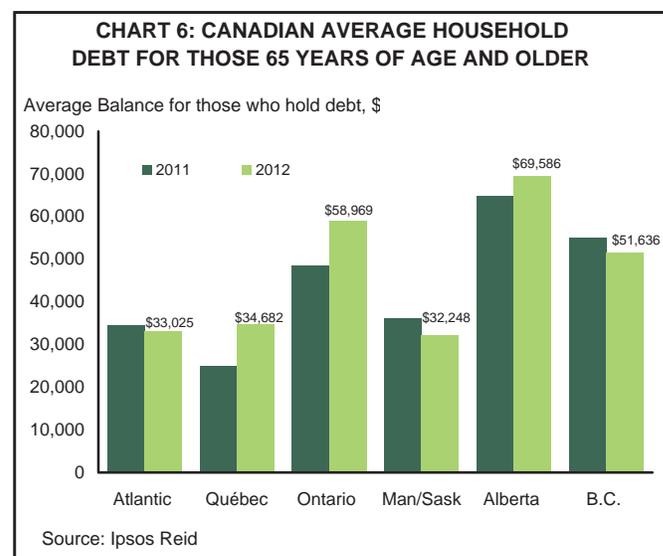
Meanwhile, debt continued to grow in provinces with the lowest debt-to-income ratios, like Québec, Manitoba and Saskatchewan. While debt also contracted in the Atlantic Provinces, the decline followed a sharp double-digit gain in 2011. The increased indebtedness in the above three regions has been fuelled by mortgage credit, mostly as the younger population has been investing in real estate. Meanwhile, Alberta is one province where debt continued to grow faster than income in 2012, as households added \$16,000 in mortgage balances to their stock of debt. The increase in mortgage debt can be attributed to relatively robust home sales in Alberta in 2012.

The age picture also changes by province. The run-up in debt and the average borrowing level for those 65 years and older was highest in Ontario, Alberta and Québec in 2012 (see chart 6). In contrast, seniors in the Atlantic region and Manitoba and Saskatchewan cut back their debt. The moderation in debt growth across other age groups was consistent among provinces, with the exception of Alberta. Those between the ages of 25 to 44 years old in Alberta added roughly \$26,000 worth of mortgage debt to their balance sheets in 2012, contributing to a 13% gain in overall

household debt for this age group. Coincidentally, those aged 25 to 44 years in Alberta have the highest debt-to-income ratio across Canada and the age groups.

### Bottom Line

There is no denying that the level of household debt in Canada is excessive and leaves Canadians more vulnerable to the risk of a future rise in the unemployment rate or interest rates. Nonetheless, while the Canadian household debt-to-income ratio continues to rise, the underlying trend of slowing debt growth is positive. The Ipsos Reid data reveals that the moderation in debt growth is occurring most notably among age groups and provinces with the highest levels of indebtedness. More importantly, households are reigning in their borrowing of non-mortgage credit (credit cards and personal lines of credit), which is debt that tends to be more expensive and risky. Highly indebted younger Canadians appear to be heeding the Bank of Canada's warnings of taking on too much debt. And, tighter mortgage insurance rules and lending regulations have certainly done their part in curbing borrowing. The exception to the story are those 65 years and older in Ontario, Quebec and Alberta. Older Canadians, on average, still hold relatively little debt and many have significant assets to fall back on. Debt growth among older Canadians, however, is a concern because it still raises questions as to whether higher debt burdens will affect their standard of living in retirement. However, we would need to look at the rising debt burdens among older Canadians on a case-to-case basis to understand how both the debt and assets are evolving for individuals in this age group in order to assess the future risks.



**Table 1: Provincial Summary of Canadian Household Debt in 2012**

	Average Debt per Household				Average Mortgage per Household **		Average Assets per Household		Average Real Estate Assets per Person		Average Debt-to-Income Ratio per Household
	Annual Average % chg. 2002 to 2010	Annual % Change in 2012	Annual \$ Change	Balance \$	Annual % Change	Balance \$	Annual % Change	Balance \$	Annual % Change	Balance \$	% Level
<b>Canada</b>											
<b>All ages</b>	<b>5.7</b>	<b>0.3</b>	<b>\$301</b>	<b>\$102,263</b>	<b>2.5</b>	<b>\$158,642</b>	<b>-0.8</b>	<b>\$357,859</b>	<b>0.4</b>	<b>\$336,954</b>	<b>135.7</b>
18-24	7.5	4.4	\$3,030	\$71,628	4.7	\$176,217	9.3	\$128,660	5.9	\$227,518	146.7
25-44	7.0	1.2	\$1,654	\$137,259	3.0	\$184,805	-0.8	\$296,226	1.3	\$323,491	168.5
45-64	6.6	-2.9	-\$2,731	\$92,819	1.8	\$136,013	-1.3	\$421,503	-0.2	\$359,440	116.2
>=65	9.6	15.1	\$6,236	\$47,549	8.6	\$104,196	-1.1	\$398,630	0.6	\$324,823	86.3
<b>Atlantic Region</b>											
<b>All ages</b>	<b>5.4</b>	<b>-5.4</b>	<b>-\$4,066</b>	<b>\$71,468</b>	<b>2.7</b>	<b>\$108,793</b>	<b>-6.2</b>	<b>\$232,916</b>	<b>-4.5</b>	<b>\$204,461</b>	<b>103.9</b>
18-24	5.6	-6.0	-\$2,826	\$44,460	-20.0	\$85,618	-10.2	\$86,221	15.9	\$162,081	71.3
25-44	6.3	-8.9	-\$9,587	\$97,549	-2.8	\$122,554	-15.6	\$181,223	-16.1	\$183,850	121.7
45-64	7.7	-2.2	-\$1,565	\$68,034	13.8	\$100,332	-6.4	\$244,889	-6.9	\$198,945	102.5
>=65	9.2	-4.3	-\$1,498	\$33,025	11.1	\$80,030	2.2	\$318,206	20.5	\$259,679	61.5
<b>Québec</b>											
<b>All ages</b>	<b>6.2</b>	<b>2.5</b>	<b>\$1,850</b>	<b>\$75,154</b>	<b>2.3</b>	<b>\$123,284</b>	<b>-1.1</b>	<b>\$270,652</b>	<b>-0.8</b>	<b>\$250,400</b>	<b>111.3</b>
18-24	10.0	11.8	\$6,201	\$58,623	-8.5	\$134,339	-5.3	\$83,036	-5.2	\$123,765	121.6
25-44	8.2	5.4	\$5,336	\$104,603	5.0	\$145,976	-10.5	\$206,725	-6.2	\$231,230	148.2
45-64	6.2	-8.4	-\$6,030	\$65,569	-7.5	\$96,364	1.8	\$331,546	3.1	\$275,375	86.6
>=65	11.8	38.9	\$9,720	\$34,682	29.6	\$92,091	4.6	\$322,276	2.0	\$258,182	70.1
<b>Ontario</b>											
<b>All ages</b>	<b>4.5</b>	<b>-1.8</b>	<b>-\$1,916</b>	<b>\$106,919</b>	<b>-1.2</b>	<b>\$160,289</b>	<b>-2.1</b>	<b>\$389,991</b>	<b>0.2</b>	<b>\$364,803</b>	<b>137.0</b>
18-24	1.5	15.8	\$8,548	\$62,809	1.8	\$184,174	40.8	\$141,604	-1.5	\$315,791	143.8
25-44	5.1	-4.8	-\$6,898	\$137,022	-3.9	\$179,824	1.2	\$323,132	4.2	\$352,452	162.5
45-64	6.4	-0.1	-\$85	\$102,227	2.9	\$147,225	-0.9	\$452,546	-0.9	\$381,224	123.9
>=65	10.3	21.7	\$10,507	\$58,969	8.6	\$112,348	-8.2	\$441,701	-4.2	\$352,696	98.6
<b>Manitoba/Saskatchewan</b>											
<b>All ages</b>	<b>8.1</b>	<b>1.7</b>	<b>\$1,506</b>	<b>\$92,097</b>	<b>6.1</b>	<b>\$138,280</b>	<b>1.5</b>	<b>\$338,197</b>	<b>6.0</b>	<b>\$309,072</b>	<b>125.1</b>
18-24	5.5	15.5	\$8,958	\$66,650	52.3	\$165,308	14.5	\$138,878	43.1	\$221,195	147.3
25-44	11.4	10.3	\$12,872	\$138,345	11.5	\$168,276	10.1	\$302,045	2.3	\$296,192	169.7
45-64	6.5	-5.6	-\$4,501	\$75,691	2.0	\$111,933	-6.7	\$388,477	9.8	\$336,696	96.7
>=65	8.2	-10.8	-\$3,919	\$32,248	-13.6	\$66,605	3.6	\$375,856	5.8	\$303,910	60.8
<b>Alberta</b>											
<b>All ages</b>	<b>7.9</b>	<b>5.1</b>	<b>\$7,332</b>	<b>\$150,057</b>	<b>8.0</b>	<b>\$211,850</b>	<b>-0.9</b>	<b>\$435,763</b>	<b>-0.5</b>	<b>\$400,122</b>	<b>165.1</b>
18-24	18.1	11.8	\$13,362	\$126,821	14.6	\$288,508	-0.9	\$176,425	-25.2	\$268,491	197.5
25-44	9.3	12.7	\$22,533	\$199,388	11.5	\$249,068	11.5	\$395,670	7.0	\$391,106	205.9
45-64	6.0	-11.2	-\$13,775	\$109,173	-8.3	\$152,253	-10.6	\$501,941	-5.2	\$425,339	117.1
>=65	11.8	7.1	\$4,626	\$69,586	20.8	\$127,462	7.7	\$488,558	4.7	\$392,417	107.2
<b>B.C.</b>											
<b>All ages</b>	<b>5.2</b>	<b>-0.1</b>	<b>-\$181</b>	<b>\$126,132</b>	<b>6.1</b>	<b>\$208,230</b>	<b>3.9</b>	<b>\$454,477</b>	<b>3.1</b>	<b>\$458,350</b>	<b>168.4</b>
18-24	12.5	-5.7	-\$6,512	\$107,348	-5.3	\$178,059	-13.8	\$151,032	-19.0	\$235,128	202.9
25-44	6.1	-2.9	-\$4,866	\$161,077	6.0	\$250,699	-6.1	\$356,917	3.4	\$455,002	200.3
45-64	5.9	4.5	\$5,276	\$121,903	11.0	\$182,379	7.9	\$545,946	2.0	\$484,104	154.3
>=65	7.6	-6.3	-\$3,469	\$51,636	-13.3	\$115,332	2.0	\$476,152	1.8	\$403,219	99.4

Source: Ipsos Reid, 2012 Canadian Financial Monitor

\*\*Outstanding Balance for those holding mortgage debt

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