

## FOCUS ON CANADA'S HOUSEHOLD DEBT

June 21, 2018

### A winning combination for Canadian households' indebtedness profile

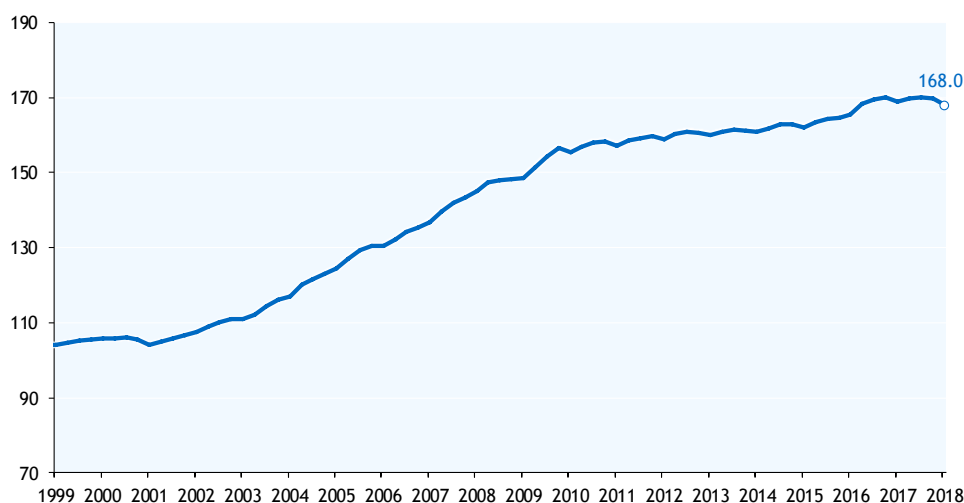
Concerns about household debt in Canada came down a notch last week when balance sheet accounts revealed the first real signs of easing indebtedness in decades. These included the largest quarterly drop in the debt-to-income ratio since 2001 (on a seasonally adjusted basis). Clearly, macro prudential measures and the cooling of Canada's housing market are having the desired effect on the liabilities' side of the ledger. Rising interest rates also help restrain debt accumulation though at the same time they pose a risk to Canadian households' ability to manage their debt service costs. Yet to date, rapidly rising household income is keeping that risk in check.

In this report, we dig into a number of key metrics on household debt in Canada. We find that accelerating disposable income and slowing mortgage growth are the driving forces behind the recent improvement in household indebtedness. This bodes well for further improvement in the near term because both trends are likely to persist amid tight labour markets and cooler housing market activity in Canada. The flip side of a cooler housing market, however, is that slower growth in the value of real estate holdings tempers the asset side of the ledger and causes households' net worth to erode slightly. Still, this shouldn't be a big worry at this stage considering how much both assets and net worth increased over the past several years.

***Back to back declines in the last two quarters hint that household debt-to-income ratio might have turned a corner last year after increasing fairly steadily for decades. Still, at 168.0% in the first quarter of 2018, the ratio remains near record-high levels and continues to flag elevated vulnerabilities in the household sector.***

#### Household debt-to-income ratio: Canada

Credit market debt as a % of household disposable income



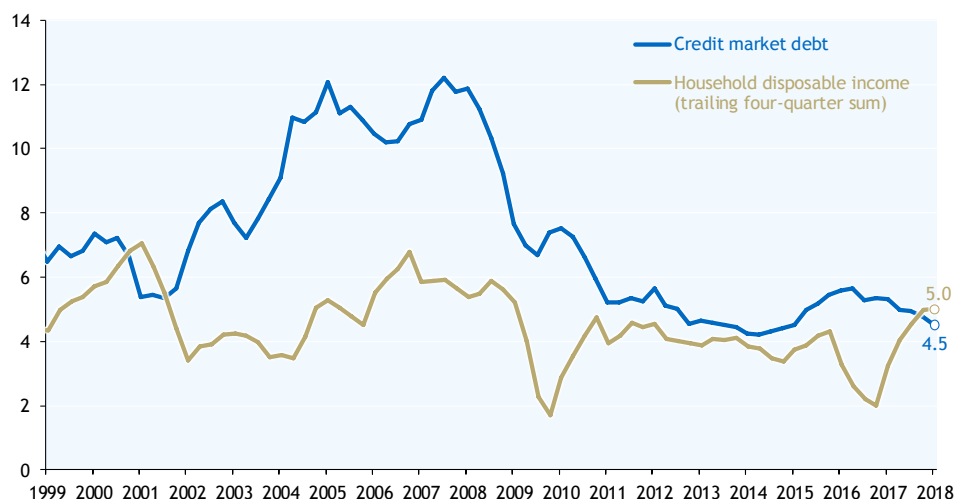
Source: Statistics Canada, RBC Economics Research



**Canadian households are now accumulating debt at a slower pace. Growth in households' credit market debt eased to a three-year low of 4.5% in the first quarter. Yet for the debt-to-income ratio the bigger story here is the acceleration in disposable income growth. Household disposable income rose at its fastest annual rate (5.0%) in nine years the first quarter.**

### Household debt and disposable income: Canada

Annual % change

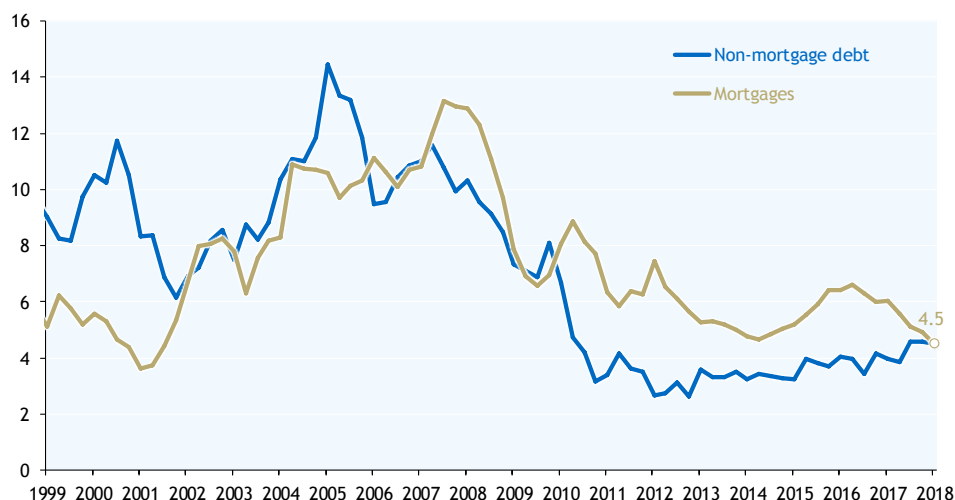


Source: Statistics Canada, RBC Economics Research

**Significant deceleration in mortgage growth entirely accounts for the easing pace of debt accumulation since 2016. Macro prudential measures, rising interest rates and a cooling in Canada's housing market restrained growth in mortgages outstanding to its weakest rate (4.5%) in almost 17 years in the first quarter. Non-mortgage debt also grew at a 4.5% rate though this further extended a slight upward trend.**

### Household debt: Canada

Annual % change



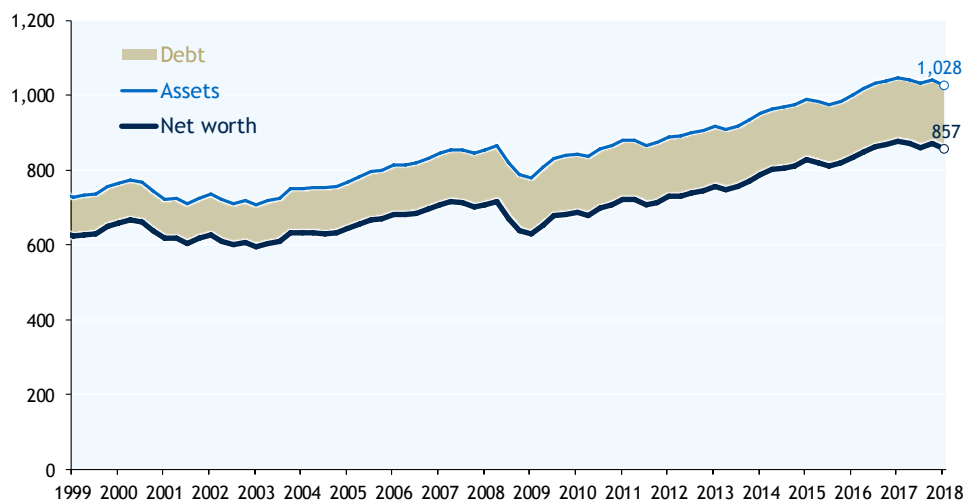
Source: Statistics Canada, RBC Economics Research



*Canadian households' net worth dipped slightly in the first quarter but remains historically high. Net worth now represent 857% of household disposable income. While this is down from an all-time of 878% set a year ago, it is still 100 percentage points above the figure five years ago.*

## Household balance sheet: Canada

As % of household disposable income

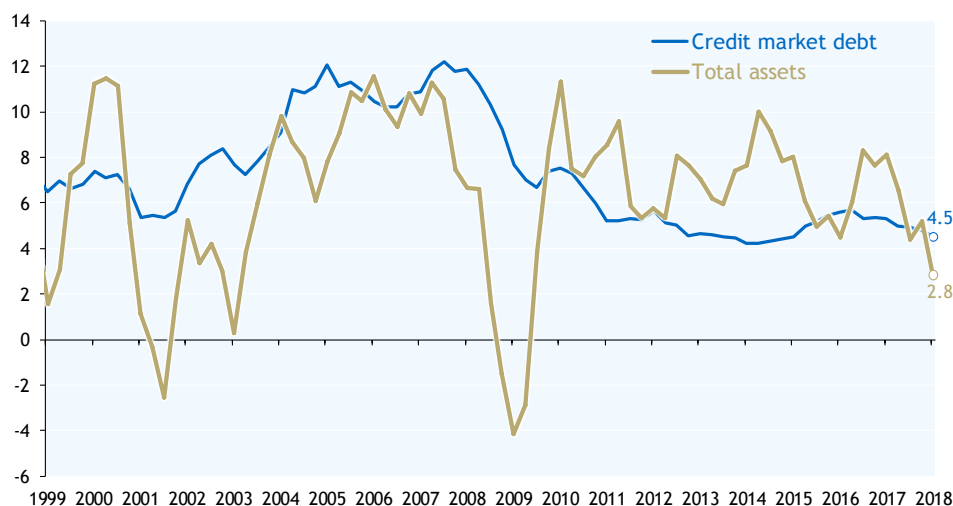


Source: Statistics Canada, RBC Economics Research

*The dip in households' net worth resulted from a marked slowdown in asset growth. Household assets grew at their slowest pace in nine years in the first quarter...*

## Household balance sheet: Canada

Annual % change



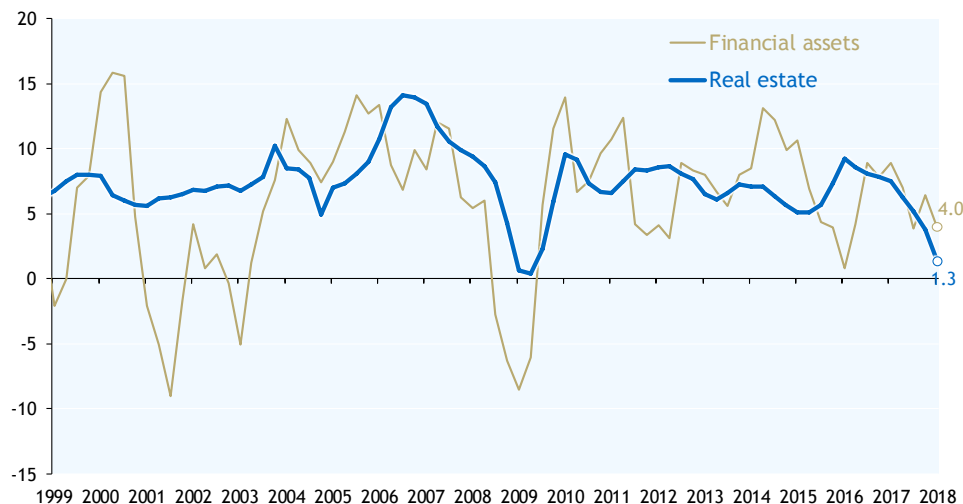
Source: Statistics Canada, RBC Economics Research



*...as a cooling in Canada's housing market curbed the growth of real estate assets significantly. Households' real estate holdings rose by just 1.3% in the first quarter relative to the same period in 2017 (the cyclical peak for Canada's housing market). This was the weakest increase since the 2008-2009 recession.*

### Household assets: Canada

Annual % change

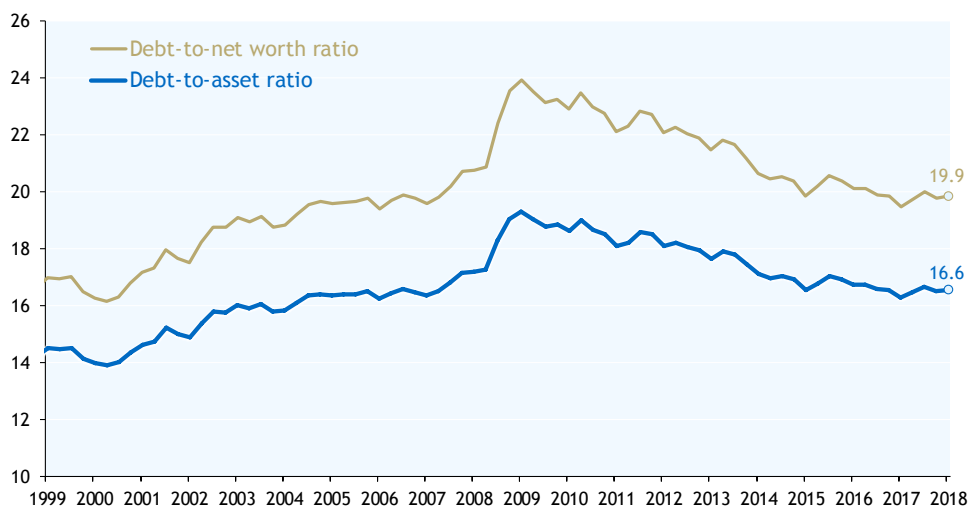


Source: Statistics Canada, RBC Economics Research

*Other ratios sizing household debt in Canada have stabilized near decade-low levels in the past year. Both the debt-to-asset and debt-to-net worth ratios were little changed in the first quarter.*

### Household debt ratios: Canada

%

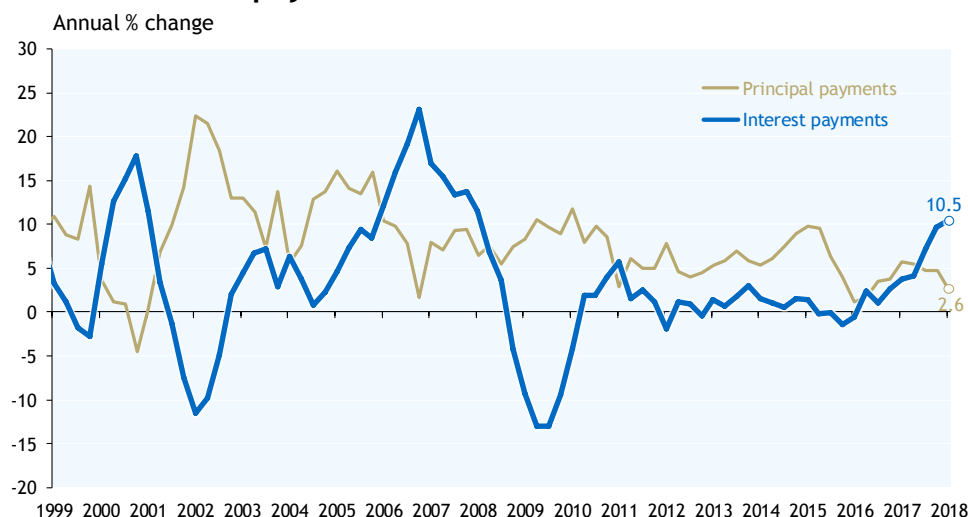


Source: Statistics Canada, RBC Economics Research



*In a rising interest rate environment, we'll be looking for any signs that debt service pressure is becoming too much to handle for Canadian households. While we find that interest payments grew rapidly in the past year—they increased the most (10.5%) in ten years in the first quarter—this was tempered by slower growth in principal payments.*

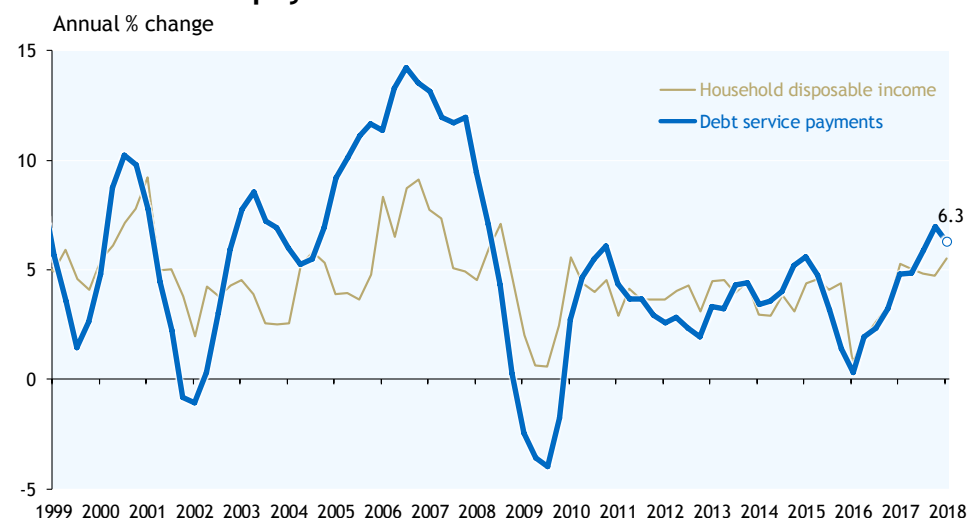
### Debt service payments: Canada



Source: Statistics Canada, RBC Economics Research

*All-in, total debt service payments are on an accelerating path in Canada. But the good news is that they aren't outpacing household disposable income by that much. The difference largely disappears, in fact, when increases are measured in dollars. The much larger scale of household income relative to debt service payments makes up for the divergence.*

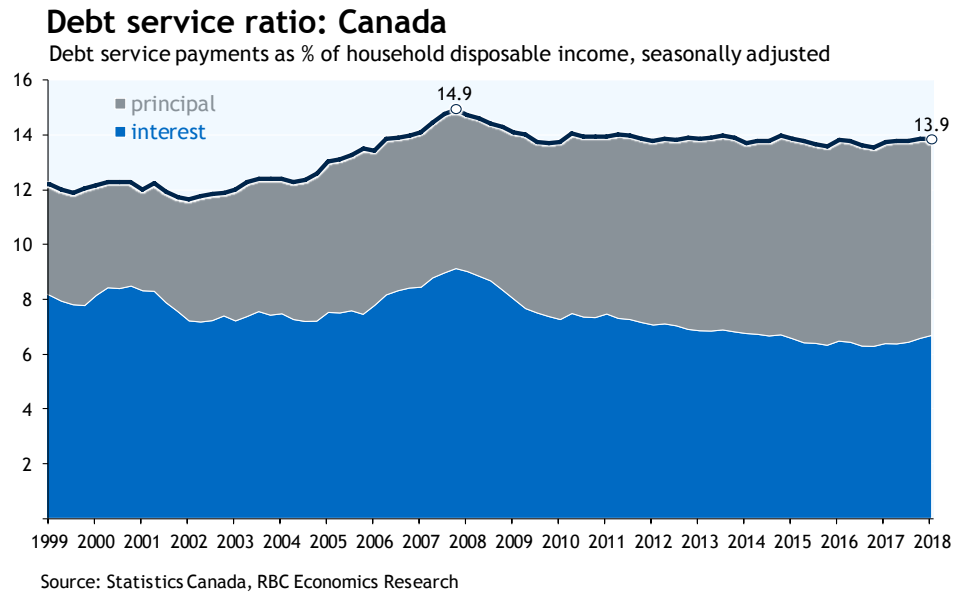
### Debt service payments: Canada



Source: Statistics Canada, RBC Economics Research



*This means that debt service payments continue to be remarkably stable as a share of household disposable income. The ratio was 13.9% in the first quarter, unchanged from the previous quarter and up only marginally from 13.8% a year ago. Bottom line: rapidly rising interest payments aren't yet intensifying financial pressure for Canadian households, overall.*





## Canadian household balance sheet accounts

Balance sheet	Market value at end of period (\$billions)					Q/Q change, %				
	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18
<b>Total assets</b>	<b>12,694</b>	<b>12,768</b>	<b>12,797</b>	<b>13,067</b>	<b>13,054</b>	<b>2.2</b>	<b>0.6</b>	<b>0.2</b>	<b>2.1</b>	<b>-0.1</b>
Financial Assets	6,602	6,657	6,675	6,891	6,864	2.0	0.8	0.3	3.2	-0.4
Cash & deposits	1,357	1,373	1,382	1,397	1,411	-0.1	1.2	0.7	1.1	1.0
Equities & bonds	2,660	2,676	2,724	2,817	2,791	3.1	0.6	1.8	3.4	-0.9
Life insurance & pensions	2,494	2,515	2,472	2,583	2,569	1.9	0.8	-1.7	4.5	-0.5
Other	92	94	96	94	92	0.6	1.9	2.3	-1.9	-2.0
Nonfinancial assets	6,091	6,111	6,122	6,175	6,190	2.4	0.3	0.2	0.9	0.2
Real estate	5,394	5,404	5,405	5,449	5,466	2.7	0.2	0.0	0.8	0.3
Durable goods	648	661	667	673	674	0.6	2.0	0.8	1.0	0.2
Other	49	46	51	53	50	-2.7	-6.5	11.0	3.8	-5.0
<b>Total liabilities</b>	<b>2,069</b>	<b>2,104</b>	<b>2,133</b>	<b>2,156</b>	<b>2,162</b>	<b>0.6</b>	<b>1.7</b>	<b>1.4</b>	<b>1.1</b>	<b>0.3</b>
Credit market debt	2,042	2,078	2,106	2,128	2,134	0.6	1.7	1.4	1.1	0.3
Mortgages	1,341	1,363	1,383	1,397	1,402	0.8	1.6	1.4	1.0	0.4
Consumer credit & loans	701	714	723	731	732	0.2	1.9	1.2	1.2	0.1
Other (including account payables)	26	27	27	28	28	1.0	0.9	2.9	2.3	0.1
<b>Total household net worth</b>	<b>10,625</b>	<b>10,664</b>	<b>10,664</b>	<b>10,910</b>	<b>10,892</b>	<b>2.5</b>	<b>0.4</b>	<b>0.0</b>	<b>2.3</b>	<b>-0.2</b>

Financial ratios	Percent (unless otherwise indicated)					Q/Q change, percentage points				
	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18
Credit market debt-to-PDI	168.8	169.7	170.0	169.7	168.0	-1.2	0.9	0.2	-0.3	-1.7
Credit market debt-to-assets	16.1	16.3	16.5	16.3	16.3	-0.3	0.2	0.2	-0.2	0.1
Credit market debt-to-net worth	19.2	19.5	19.8	19.5	19.6	-0.4	0.3	0.3	-0.2	0.1
Financial assets-to-credit market debt (quick ratio)	3.2	3.2	3.2	3.2	3.2	0.0	0.0	0.0	0.1	0.0
Net worth-to-total assets (equity ratio)	83.7	83.5	83.3	83.5	83.4	0.3	-0.2	-0.2	0.2	-0.1
Debt service ratio	13.8	13.8	13.8	13.9	13.9	0.2	0.0	0.0	0.1	0.0
Debt service ratio - interest payments	6.4	6.4	6.4	6.6	6.7	0.1	0.0	0.1	0.1	0.1
Debt service ratio - principal payments	7.4	7.4	7.4	7.3	7.2	0.1	0.0	-0.1	-0.1	-0.1
Owners' equity as a % of residential real estate	75.1	74.8	74.4	74.4	74.4	0.5	-0.4	-0.4	0.0	0.0
Nonfinancial assets as % of total assets	48.0	47.9	47.8	47.3	47.4	0.1	-0.1	0.0	-0.6	0.2
Real estate as a % of nonfinancial assets	88.6	88.4	88.3	88.2	88.3	0.2	-0.1	-0.1	0.0	0.0
Financial assets as % of total assets	52.0	52.1	52.2	52.7	52.6	-0.1	0.1	0.0	0.6	-0.2
Cash & deposits as % of financial assets	20.5	20.6	20.7	20.3	20.6	-0.4	0.1	0.1	-0.4	0.3
Market-exposed (ex cash & other) assets as % of financial assets	78.1	78.0	77.9	78.4	78.1	0.4	-0.1	-0.1	0.5	-0.3
Credit market debt as a % of total liabilities	98.7	98.7	98.7	98.7	98.7	0.0	0.0	0.0	0.0	0.0

Source: Statistics Canada, RBC Economics Research

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