RBC Economics

Daily Economic Update

June 11, 2021

Canadian household net wealth surged higher in Q1

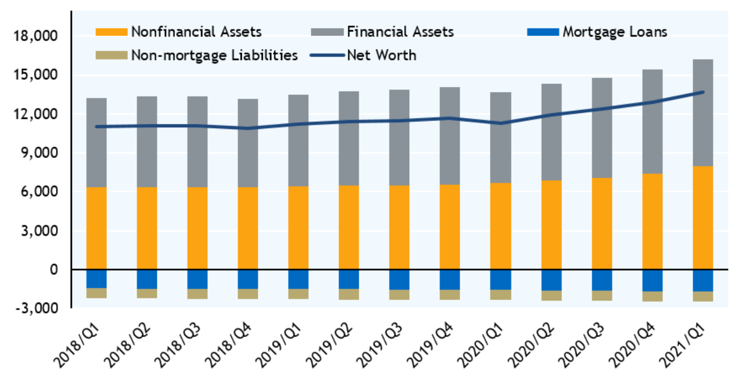
- Household net worth posted record gain in Q1, backed by rising home and land values
- Higher household disposable income meant better ability to service debt
- Overall debt mix less sensitive to interest rate risks

Canadian household net worth surged a record $774 billion in the first quarter of 2021, pushing the cumulative gain since Q4 2019 to over $2 trillion thanks to surging property values and large amounts of government support. Indeed, over 75% of the increase in assets in Q1 can be attributed to higher home and land prices, offsetting slightly higher liabilities (+0.7%). Robust performance in equity markets gave an additional boost to financial assets. On the debt side, mortgage loans rose by 1.4% in Q1, slower than the ~2% pace in each of the quarters in the second half of 2020. Outside mortgages borrowing fell by 0.8%, dragged down by a sizable decline in credit card loans (-5.3%) as larger cash holdings and restrained spending continued to curtail the demand for short-term borrowing.

13.5% of total household disposable income was deployed to serve debt payments in Q1 2021, largely unchanged from 13.6% a quarter ago. The ratio remained well below the pre-pandemic average of +15%, in part reflecting elevated household disposable income supported by large government income transfers. That, coupled with slower growth in overall debt, pushed the debt-to-income ratio lower as well. Mortgage loans, many of which are five-year fixed term, continued to take up a bigger share of total household liabilities. These loans are typically much slower to react to interest rate changes than personal or credit card borrowing, making the debt mix less sensitive to near-term changes in interest rates. The Bank of Canada recently reaffirmed their guidance to maintain interest rates at current low levels until the second half of 2022. However market borrowing rates have already started to drift higher on the expectation that exceptionally high levels of household purchasing power (reaffirmed by today's Q1 balance sheet numbers) will speed the economic recovery over the second half of the year.

Household net worth rose in Q1/21

Market Value (EOP, NSA, Bil.C$)



Source: StatCan, RBC Economics

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