Daily Economic Update

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Canadian household net worth inched lower in the second quarter of 2017

Our Take

The key takeaway from today's snapshot on Canadian household finances is not the usual headline of another record high for the debt-to-income ratio, which did surge to an all-time high of 167.8%. Instead a decline in household net worth, albeit modest, alongside a sharp increase in consumer credit growth are notable as together they suggest that the ability of households to absorb higher interest rates continued to deteriorate. Beyond this, overall debt accumulation by Canadian households jumped in the second quarter of 2017 while asset appreciation slowed sharply led by poor equity market performance.

A seasonal bounce in mortgage borrowing is typical as the spring thaw spurs home buying activity, yet adjusting for seasonal factors, mortgage growth slowed sharply in Q2/17 reflecting a pullback in national housing market activity. But the sharp rise in consumer credit balances leading up to the Bank of Canada's rate hikes in July and September indicates financial pressure on households' pocket books will intensify. The Bank of Canada committed to paying close attention to how sensitive households are to interest rate increases following a prolonged period of benign conditions. We anticipate that households on the whole will be able to absorb rising costs given ongoing hiring gains and an expected shift to a more gradual pace of policy tightening. But it is worth noting that before any removal of the "considerable monetary policy stimulus", consumer credit interest payments exceeded that of mortgage payments for three consecutive quarters with this debt—typically lines of credit and personal loans– often tied to variable rates.

Today's report provides a baseline for how Canadians were positioned heading into the interest rate hikes by the Bank of Canada this summer. As we have noted previously, one third of households in Canada are debt-free, household assets exceed outstanding debt by a measure of 6 to 1 and in aggregate, households have sizeable equity in their homes (74.3% in Q2/17). These factors, alongside a tick up in the savings rate in recent months, should help to contain household risks. But vulnerabilities continue to brew under the surface of the headline $10.5 trillion in household net worth and a notable shift in major housing markets alongside elevated household indebtedness and tighter financial conditions point to the borrowing binge coming to an end.

Highlights

- Household net worth dipped slightly to $10.50 trillion in Q2/17 from $10.51 in Q1/17
- The debt-to-income ratio jumped to 167.8% from 166.6% in Q1/17, but after adjusting for seasonal factors, the metric edged up to 167.7% from 167.5%
- Household assets grew by $29B to $12.6 trillion in Q2/17 led by non-financial assets (up $20B following a $88B gain in Q1/17) with financial asset values rising only $9B (vs. $132B in Q1/17)
- Household debt balances reached $2.1 trillion with $1.36 trillion tied up in mortgage loans
- Consumer credit balances jumped $38B to $0.72 trillion, accounting for 34% of outstanding debt
- The pace of debt accumulation exceeded that of both assets and net worth to drive the credit market debt-to-asset and debt-to-net worth ratios to one-year highs of 16.5% and 19.8%, respectively

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