NATIONAL BALANCE SHEET ACCOUNTS

December 2015

- **The market value of Canadian household net worth rose by 0.4% ($34 billion) in the third quarter of 2015 to $9.35 trillion, thereby building on a 0.3% increase in the second quarter. Upward adjustments to the valuation of household assets resulted in the financial position of households being revised sharply higher with the previously reported aggregate net worth of $8.75 trillion in the second quarter now a reported $9.31 trillion.**
- **The total value of household assets rose by $60 billion (0.5%) to $11.27 trillion and led by higher valuations for non-financial assets (1.1%) while financial asset values remained unchanged in Q3/15.**
- **The asset gain was partially offset by a $26 billion (1.4%) increase to $1.92 trillion in household liabilities. Credit market debt outstanding drove the quarterly increase, rising 1.4% and reflecting a $20 billion (1.7%) accumulation in mortgage debt while non-mortgage loans outstanding expanded by $5 billion (0.8%).**
- **Credit market debt growth exceeded the gains in both assets and net worth, thereby resulting in the household credit market debt-to-asset and net worth ratios deteriorating slightly to 16.8% and 20.2%, respectively. The credit market debt-to-income ratio increased more strongly in the third quarter of 2015, rising to 163.7% from 162.7% in the second quarter.**

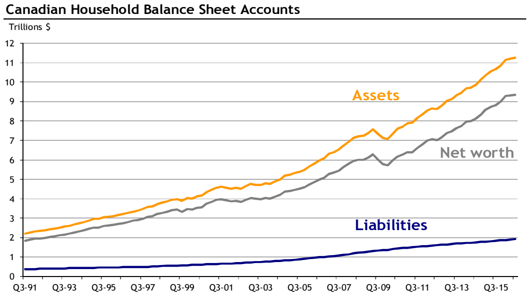
In the release of the Q3/15 National Balance Sheet Accounts, the effects of stimulative monetary policy working through the economic system as well as resilient labour markets year-to-date were evident with residential mortgage borrowing and consumer credit accumulation rising over the three-month period, although at a slightly slower pace than the previous quarter. This still contributed to household credit growth outpacing that of personal disposable incomes in the third quarter of 2015, despite the latter being revised higher year-to-date reflecting, in part, an increase in Universal Child Care Benefit (UCCB) payments distributed in July. The debt-to-income ratio jumped to a new record high of 163.7% in Q3/15 from 162.7% as a result.

At the same time, weaker growth in household asset valuations contributed to the aggregate net worth of Canadian households edging up only modestly. The net financial position of households rose to $9.35 trillion in Q3/15 from $9.31 trillion in Q2/15. Household asset valuations rose by 0.5% to $11.27 trillion, thereby matching the increase seen in Q2/15, as financial asset values were unchanged in Q3/15, with equities & bonds dragged lower by an 8.6% drop in the TSX/S&P composite over the period. In contrast, ongoing house price gains at the national level supported an increase in real estate assets, which in turn, drove an overall rise in nonfinancial asset valuations.

Of note, today's report showed significant upward revisions to real estate asset valuations (resulting from benchmark revisions to data from the 2012 Survey of Financial Security), which along with changes to how pensions assets are

Chart 1

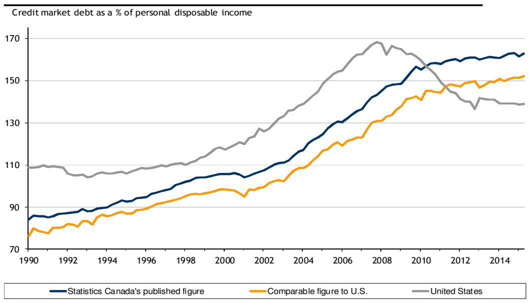
Canadian Household Balance Sheet Accounts



Source: Statistics Canada, RBC Economics Research

Chart 2

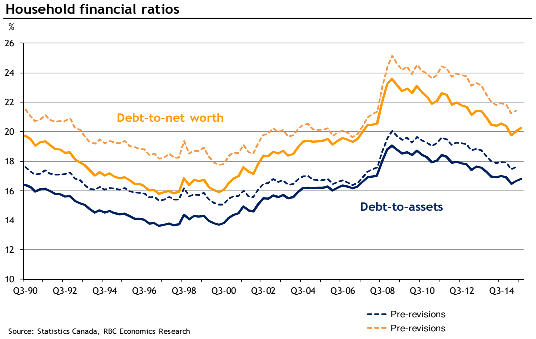
Household debt-to-income ratio



Source: Statistics Canada, RBC Economics Research

Chart 3

Household financial ratios



Source: Statistics Canada, RBC Economics Research

Laura Cooper
Economist
416-974-8593
laura.cooper@rbc.com

recorded, boosted the asset side of the household balance sheet. This resulted in total household net worth being revised notably higher in previous quarters (e.g. $9.31 trillion in Q2/15 from a previously reported $8.75 trillion).

The slower pace of household asset appreciation relative to debt accumulation resulted in the debt-to-asset ratio deteriorating slightly, rising to 16.8% in Q3/15 from 16.7% in Q2/15. Moreover, these dynamics contributed to the debt-to-net worth ratio edging higher to 20.2% from 20.0% in Q2/15 (These measures are preferred to the debt-to-income metric as the latter only encompasses one side of household balance sheets). That being said, the valuation changes to the asset side of the balance sheet resulted in a downward shift of both of these household leverage metrics. It is important to note that the National Balance Sheet Accounts data is not seasonally adjusted; although accounting for seasonal factors, the debt-to-income ratio still increased to a record high 163.1% in Q3/15 from 162.8% in Q2/15.

On an annual basis, residential mortgage balances expanded by 5.2% to represent a rate of increase only modestly below the 5.3% seen in the previous quarter and sustained the relatively steady pace seen over the past year. Consumer caution prevailed on the non-mortgage side with accumulation in this credit component slowing, rising by 2.9% over the three-month span (from an annual 3.2% in each of the past three quarters). Overall, credit market debt growth advanced 4.4% in Q3/15 from a year-ago compared to the 4.5% recorded in both Q2/15 and Q1/15 (Of note, the comparable debt-to-income measure to the U.S. - based on adjustments suggested by Statistics Canada - rose to 153.1% in Q3/15 from 152.1% in the previous quarter).

Robust housing market activity nationally and an attendant lift in residential mortgage demand drove overall household debt balances higher in Q3/15, although any deterioration in financial positions of households was limited given sizeable adjustments to household asset valuations. At the same time, today's report follows the announcement on Friday of changes to be implemented in Canada's mortgage market, which have the potential to dampen the pace of accumulation in the mortgage component and resultantly, could alter the dynamics of the evolution of household imbalances going forward (with residential mortgage debt the key contributor to rising debt balances - See our analysis of the policy changes here). The Bank of Canada is likely to view the shift in macro-prudential policies as a welcome development, particularly given its view that these measures are a key "line of defence" to target household imbalances. Resultantly, as it awaits evidence of the effects of these impending policies, the Bank is unlikely to glean much from today's report with timelier Bank of Canada data earlier indicating that households continued to add to their outstanding debt balances in the third quarter. This contributed to the Bank noting in its December policy statement that household sector vulnerabilities continued to "edge higher" while maintaining the view that overall risks to financial stability are "evolving as expected".

To date, the risks stemming from elevated household debt balances have largely been contained; the labour market nationally has remained resilient despite rising job losses in energy-exposed regions and the sustained low interest rate environment has abetted the ability of Canadian households to service rising debt levels (14.1% of household disposable income allocated to debt servicing costs in Q3/15, on a seasonally adjusted basis). While our baseline view remains that upward pressure on debt servicing costs will gradually materialize as a strengthening economy and upward inflation pressures prompt the Bank to gradually withdraw policy stimulus late in 2016, the announcement of an updated policy framework to counter financial stability risks, should they materialize, and crude oil prices recently plumbing lows not seen since the depths of the 2008/09 recession - with potential negative knock-on effects to oil-producing regions - indicates that the risks to the stability of the financial system likely remain top of mind for the central bank. A full updated assessment of the vulnerabilities stemming from household indebtedness is expected in the Bank of Canada's semi-annual Financial System Review to be released December 15, 2015.

Canadian household balance sheets

End of period	Market value ($billions) Q2-15	Q3-15	Q/Q % change	Q/Q $ change	% share	Historical share*
Total assets	**11,206**	**11,265**	**0.5**	**60**		
Financial Assets	5,937	5,937	0.0	1	52.7	54.6
Cash & deposits	1,243	1,267	1.9	23	11.2	14.3
Equities & bonds	2,319	2,260	(2.6)	(60)	20.1	17.4
Life insurance & pensions	2,298	2,336	1.7	38	20.7	20.4
Other	76	75	(1.6)	(1)	0.7	2.5
Nonfinancial assets	5,269	5,328	1.1	59	47.3	45.4
Real estate	4,630	4,675	1.0	45	41.5	36.9
Durable goods	593	601	1.4	8	5.3	7.9
Other	46	52	12.2	6	0.5	0.6
Total liabilities	**1,892**	**1,918**	**1.4**	**26**		
Credit market debt	1,866	1,892	1.4	26	98.6	98.4
Mortgages	1,214	1,234	1.7	20	64.3	62.7
Consumer credit & loans	652	658	0.8	5	34.3	35.7
Other	26	26	(0.3)	(0)	1.4	1.6
Total household net worth	**9,313**	**9,347**	0.4	34		

Financial ratios			Q/Q change (percentage points)
Credit market debt-to-PDI	162.7	163.7	0.9
Credit market debt-to-assets	16.7	16.8	0.1
Credit market debt-to-net worth	20.0	20.2	0.2
Debt service ratio (SA)	6.41	6.33	(0.1)

Source: Statistics Canada, RBC Economics Research

* Average since 1990