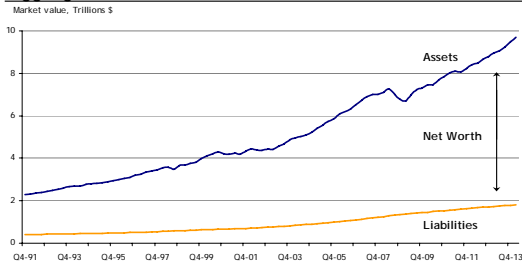


## NATIONAL BALANCE SHEET ACCOUNTS

June 2014

Chart 1

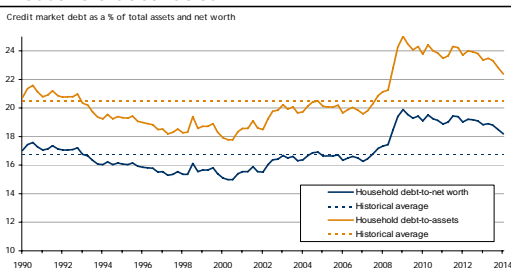
### Aggregate Net Worth of Canadian Households



Source: Statistics Canada, RBC Economics Research

Chart 2

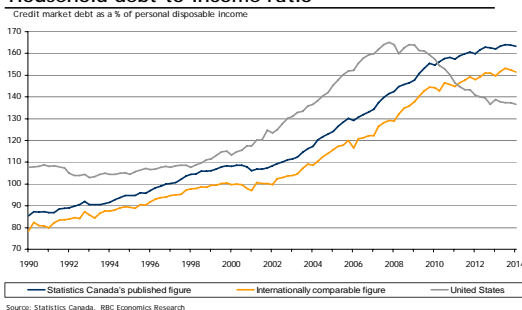
### Household debt ratios



Source: Statistics Canada, RBC Economics Research

Chart 3

### Household debt-to-income ratio



Source: Statistics Canada, RBC Economics Research

The market value of Canadian household net worth rose by 2.5% (\$196 billion) to \$7.89 trillion in the first quarter of 2014 as a result of household assets rising more strongly than liabilities. The gain in net worth builds on the 3.0% (\$223 billion) increase seen in the previous quarter and pushes the aggregate wealth of Canadian households to a new record high. Per capita net worth also reached an all-time high in the quarter, rising to \$223,200 from \$217,900 in the previous quarter.

The total value of household assets rose 2.1% (\$202 billion) to \$9.68 trillion as both financial and nonfinancial asset values gained in the quarter. The market value of household financial assets (which include cash, equities, bonds and pension assets) rose 2.6% (\$131 billion) led by increases in the values of equity and investment fund shares (3.2% or \$62 billion) and life insurance and pension assets (3.6% or \$63 billion). Nonfinancial assets increased by a more modest 1.6% (\$71 billion) from their Q4/13 levels as ongoing activity in Canada's resilient housing market supported a \$74 billion increase in the value of total real estate assets in the quarter (real estate accounted for approximately 87% of household nonfinancial assets). 'Other assets' edged down by \$3 billion to provide some offset.

With respect to household financial obligations, total liabilities edged up by 0.4% (\$7 billion) to \$1.79 trillion in Q1/14. Credit market debt outstanding (which includes mortgages, consumer credit and loans and accounts for 99% of liabilities) increased by 0.4% (\$7 billion) in the quarter, thereby representing a slowing from the 0.8% gain recorded in Q4/13. This expansion of credit balances was entirely led by a \$7 billion (0.6%) increase in mortgage debt while consumer credit & other nonmortgage loans outstanding edged down slightly (down 0.1% or \$0.3 billion).

The growth in asset values and net worth outpaced that of credit on a percentage basis in the first three months of 2014, resulting in modest decreases in the household credit market debt-to-asset and net worth ratios. The measures declined to 18.3% and 22.5%, respectively, from 18.6% and 23.0%, respectively in the previous quarter and while they remain historically elevated, have sustained mild downward trends since reaching their respective peaks in Q1 2009 indicating a declining proportion of household assets are being funded by credit. As well, household disposable income growth was stronger than that of household debt growth in Q1/14, resulting in the oft-cited debt-to-income ratio edging lower for the second consecutive quarter, with the measure falling to 163.2% from a downwardly revised 163.9% (was 164.0%) in the previous quarter. The comparable measure to the U.S. (based on adjustments suggested by Statistics Canada) similarly fell to 151.5% in Q1/14 from 152.4% in the previous quarter.

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

Today's release of the National Balance Sheet Accounts supports the Bank of Canada's recent observation that, while elevated levels of household indebtedness continue to leave Canadian households vulnerable to adverse macroeconomic shocks, a "constructive evolution of imbalances" is gradually underway. The oft-cited debt-to-income ratio edged lower and appears to be stabilizing as household credit growth eased in the first three months of the year to its slowest year-over-year rate at 4.2% since 2001. With housing market activity set to cool after a likely short-lived weather-related bounce in the spring, a further slowing in mortgage credit growth along with firmer income gains are expected to keep a lid on the debt-to-income ratio in the quarters ahead. As well, accompanying the paring back of Canadians' debt accumulation, the seasonally-adjusted debt service ratio touched an all-time low of 6.97% in the quarter as the exceptionally low interest rate environment continued to contain the burdens of financing record debt levels. The sustained slowing pace of credit accumulation should afford some comfort to policymakers' concerns as highlighted in the June *Financial System Review* over the risks that excessive household leverage poses for the financial system and, more broadly, the economy as a whole. While the debt-to-income ratio remains historically elevated, the mild improvement in the condition of household balance sheets will insure that a precipitous deterioration in households' ability to service their debts is less likely. To that end, this key vulnerability is expected to be less of an obstacle to the Bank of Canada taking action to reduce policy stimulus as above-potential growth is sustained, with the overnight rate expected to remain at 1.00% until mid-2015.

### Canadian household balance sheets

End of period	Market value (\$billions)				% share	Historical share*
	Q4 2013	Q1 2014	Q/Q % change	Q/Q \$ change		
<b>Total assets</b>	<b>9,481</b>	<b>9,683</b>	<b>2.1</b>	<b>202</b>		
Financial Assets	5,140	5,272	2.6	131	54.4	54.8
Cash & deposits	1,243	1,250	0.6	7	12.9	14.0
Equities & bonds	2,015	2,077	3.1	62	21.4	17.7
Life insurance & pensions	1,774	1,837	3.6	63	19.0	20.5
Other	141	138	(2.3)	(3)	1.4	3.2
Nonfinancial assets	4,341	4,412	1.6	71	45.6	45.2
Real estate	3,757	3,831	2.0	74	39.6	36.7
Durable goods	551	551	(0.0)	(0)	5.7	7.9
Other	32	30	(7.4)	(2)	0.3	0.6
<b>Total liabilities</b>	<b>1,789</b>	<b>1,796</b>	<b>0.4</b>	<b>7</b>		
Credit market debt	1,766	1,772	0.4	7	98.7	98.5
Mortgages	1,146	1,153	0.6	7	64.2	62.6
Consumer credit & loans	619	619	(0.1)	(0)	34.5	35.9
Other	24	23	(1.6)	(0)	1.3	1.5
<b>Total household net worth</b>	<b>7,692</b>	<b>7,888</b>	<b>2.5</b>	<b>196</b>		
<b>Financial ratios</b>	<b>Q/Q change (percentage points)</b>					
Credit market debt-to-PDI	163.9	163.2	(0.7)			
Credit market debt-to-assets	18.6	18.3	(0.3)			
Credit market debt-to-net worth	23.0	22.5	(0.5)			
Debt service ratio (SA)	7.04	6.97	(0.1)			

Source: Statistics Canada, RBC Economics Research

\* Average since 1992

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.