

Canada: Q3-2018 National Balance Sheet Update

Canada's Q3-2018 National Balance Sheet Accounts released today by Statistics Canada show that Canadians owe relatively more for every dollar of personal disposable income (PDI) than had been previously thought. Revisions to Statistics Canada's data bring the household debt-to-personal-disposable-income ratio to 176.0% in the third quarter (chart 1). This is up from a pre-revision reading of 171.3% in Q2, a figure which has also been revised upward to 175.4%. StatsCan's revision is mainly the result of updated household earnings figures which now incorporate tax filings information for 2016 as opposed to previous estimates derived from labour-survey data.

The debt-to-PDI ratio has remained stable around the 175% mark since the second half of 2016. Canadian household credit growth has decelerated in response to successive federal policy changes aimed at making any new household debt more resilient and sustainable in changing economic conditions (charts 2 and 3). At recent levels, the debt-to-PDI ratio still remains below that seen in the US prior to the financial crisis: after one adjusts for methodological differences, Canada's debt-PDI ratio of 159% in Q3 is ten percentage points below that of the US at its peak in late-2007 (chart 4).

Canadian households' balance sheets look relatively better, on average, than those in the US on a range of additional complementary metrics. Liability-to-asset ratios, a better measure of solvency than the ratio of debt-to-PDI, remain consistently stronger in Canada than amongst our neighbours to the south (chart 5). Canadian households' average debt loads sit at only about a fifth of Canadians' net worth, a point at which they have remained since late-2014, owing to solid increases in the value of Canadian household assets. Although some of the recent run-up in Canadians' average asset values has been driven by real estate in the Toronto and Vancouver areas, housing markets in the rest of the country have been more balanced. Moreover, Canadian households maintain equity stakes in their residential real-estate assets near to 75%, well north of their American counterparts at around two-thirds (chart 6).

Higher interest rates and data revisions have nevertheless pushed the household debt-servicing ratio (DSR) to 14.5% of PDI in Q3, up from 14.40% in Q2 (or 14.15% before these most recent revisions; chart 7). The latest data point represents a roughly 0.75 percentage-point (ppt) increase in the DSR since late-2015 and is around 0.40 ppts from its level prior to the beginning, in July 2017, of the current Bank of Canada cycle of rate increases.

Today's updates do not imply, however, that Canadian households are set to face meaningful new debt distress. On average, the interest rates at which existing mortgage-holders are renewing their loans has come down (chart 8) and less than half of Canadian households have either mortgages or home-equity lines of credit (HELOCs; chart 9).

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Chart 1

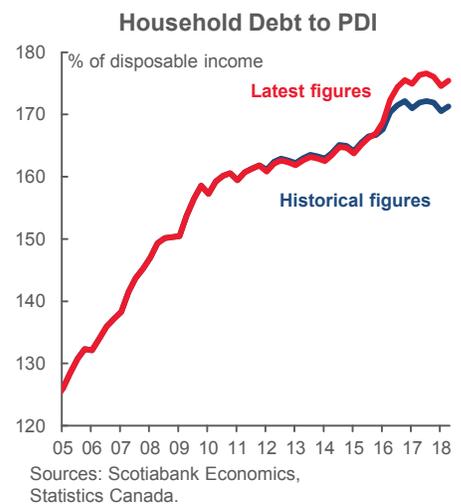


Chart 2

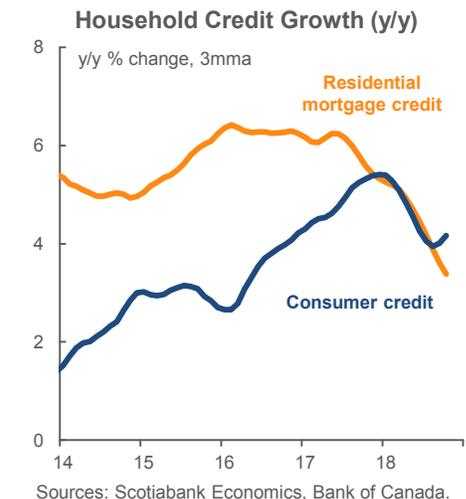


Chart 3

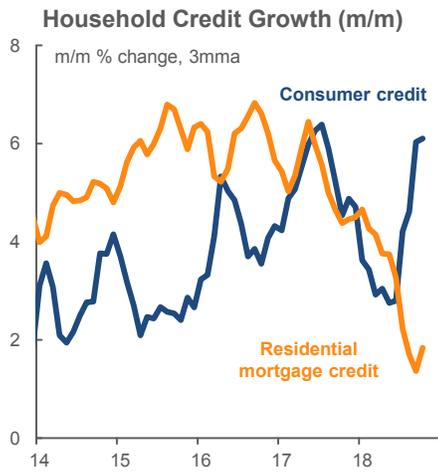


Chart 4

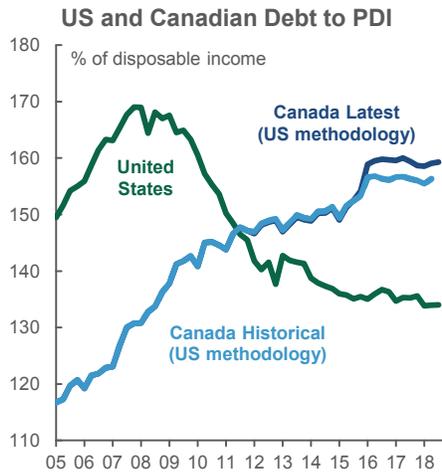


Chart 5

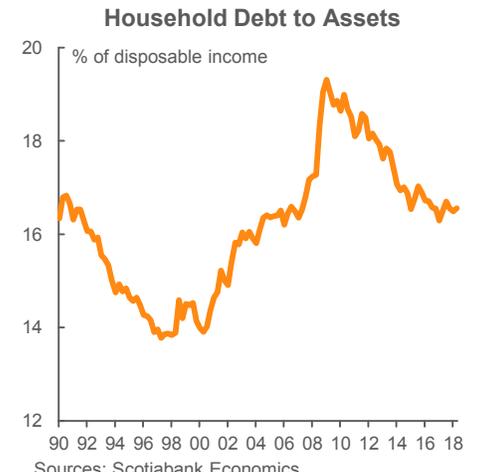


Chart 6



Chart 7

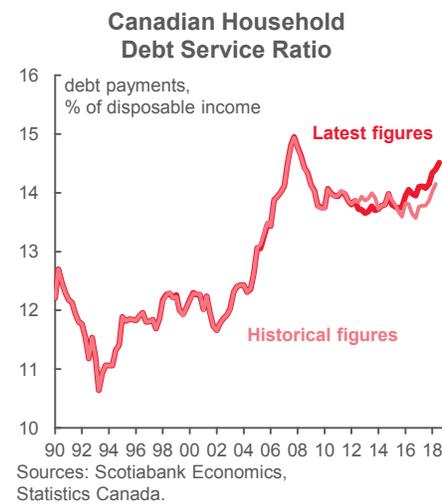


Chart 8

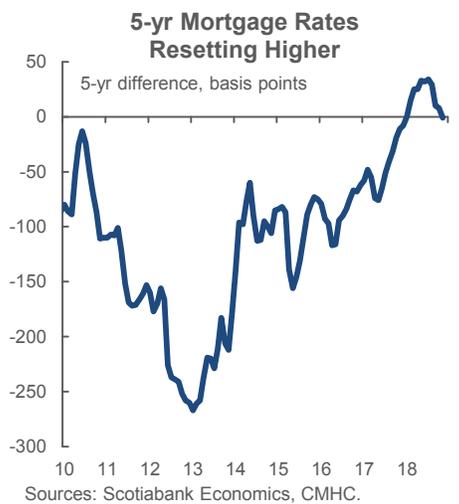
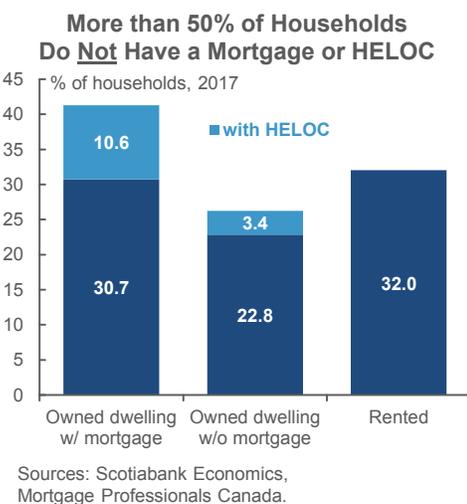


Chart 9



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