

Canada's National Net Worth Ticks Up in Q4 on Stronger Stock Markets

- National net worth increased in Q4-2019 by 1.5% to CAD 12.7 tn, mainly on rebounding stock markets.
- While household net worth continued to rise in Q4-2019, the share of income going to debt repayments edged to an all-time high (15% of income), and the financial market turbulence of 2020 is likely to show up in steep declines in the value of financial assets in the next print.
- The demand for funds from non-financial corporations was tepid in Q4-2019, with a rebound in borrowing expected at the start of 2020 as firms seek funding in light of economic disruptions related to the coronavirus.
- The federal government's net debt declined in Q4-2019 to just 26.2% of GDP, highlighting the ample room for fiscal measures amidst the economic fallout from the COVID-19 outbreak.

The national net worth increased in Q4 by 1.5% to CAD 12.7 tn, ending 2019 on a positive note after a slight dip in Q3. Canada's net international investment position (details [here](#)) rose by CAD 197.1 bn to CAD 1.0 tn, offsetting a decline in national (i.e., domestic) wealth of 0.1% to CAD 11.7 tn (chart 1). The decrease in national wealth was driven mainly by the value of Canada's natural resources, which fell 12.4% in Q4 due to the continued weakness in energy prices.

Household net worth continued to rebound with its fourth consecutive quarterly increase in Q4-2019, gaining CAD 186.5 bn to reach CAD 11.7 tn. After losing CAD 57.5 bn of wealth in 2018, households have gained CAD 792.0 bn over the course of 2019. Both financial and non-financial assets rose in Q4, posting 2.1% and 0.8% increases respectively. Financial assets gained on the back of increases in both foreign and domestic equity prices while non-financial wealth, which is mainly real estate, increased due to the rebound in house prices (chart 2) fueled by lower interest rates (chart 3).

Despite the increase in mortgage credit, household borrowing edged down CAD 0.4 bn in Q4. Both consumer credit and mortgages increased by 0.3 bn and 0.4 bn respectively, but they were offset by non-mortgage loans which decreased by CAD 1.1 bn (chart 4).

As a result, households (and non-profit institutions serving households) debt as a share of personal disposable income eased slightly in Q4, falling 0.4ppts to 173.7% (chart 5). When adjusted for comparability to US data, Canada remains slightly above the US's pre-great recession peak of 169.0%, but when taken as a share of GDP, Canadian household and non-profit credit market debt is currently lower than in the US at 99.9% of GDP vs 101.7% south of the border (chart 6).

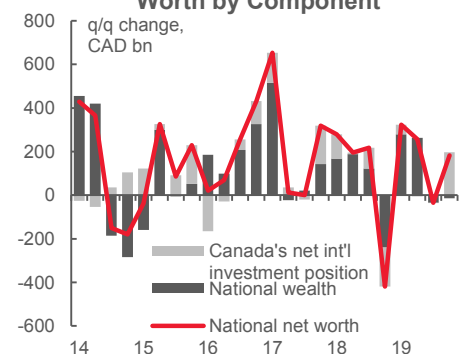
Household debt-service costs also remain at all-time highs of 15.0% of personal disposable income with mortgage and non-mortgage debt-service ratios at 6.8% and 8.2%, respectively (chart 7). Although neither component is at a record high individually, combined they make for the highest debt-service ratio since at least 1990.

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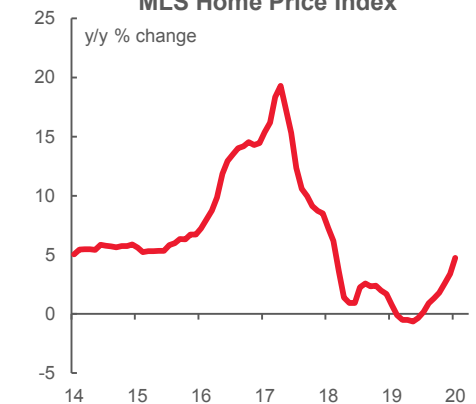
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Chart 1 Canada's National Net Worth by Component



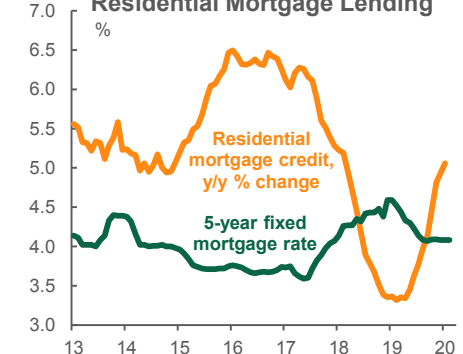
Sources: Scotiabank Economics, Statistics Canada.

Chart 2 MLS Home Price Index



Sources: Scotiabank Economics, CREA.

Chart 3 Lower Interest Rates Boost Residential Mortgage Lending



Sources: Scotiabank Economics, Bank of Canada, CMHC.

On the business side, demand for funds by non-financial private corporations was only CAD 2.5 bn, the lowest level since Q1-2016, while the financial sector provided CAD 53.0 bn in funds to the economy. Total debt-to-equity for non-financial corporations edged down slightly from 189.4% in Q3 to 187.1% in Q4, and has been relatively stable over the last decade (chart 8).

The federal government's net debt-to-gdp ratio remains low, declining to 26.2% in Q4 (chart9), putting them in relatively good fiscal position when compared to other levels of government.

While the data print paints a relatively rosy picture of Canada's balance sheet in Q4 and 2019 overall, the economic fallout from the COVID-19 pandemic and the oil price shock are likely to hit the value of assets hard and increase the demand for funding across sectors. Households, already financially stretched, could face financial stress if there is a loss of income for a prolonged period of time and need to increase debt further to stay afloat. Non-financial businesses are likely to need financing amidst a plunge in demand in certain sectors and supply chain disruptions. In these circumstances the Federal government, being in a relatively healthy financial position, should step in and help provide support to the economy during this crisis.

Chart 4

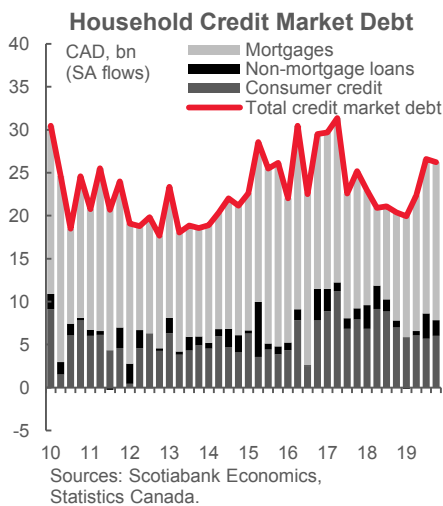


Chart 5

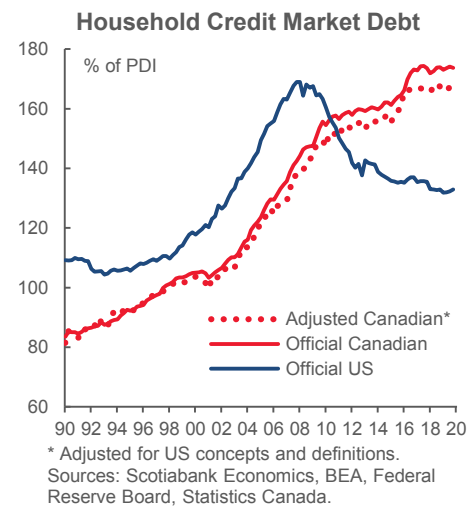


Chart 6

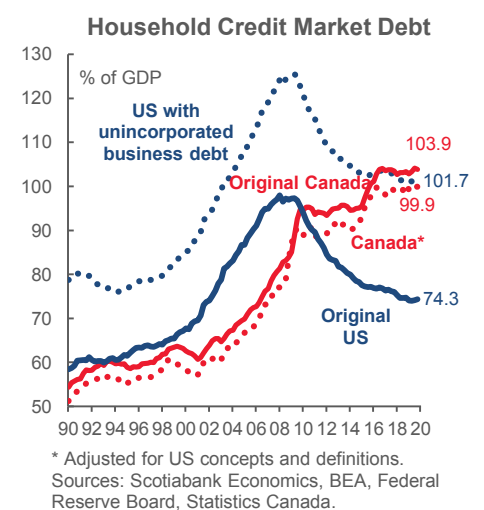


Chart 7

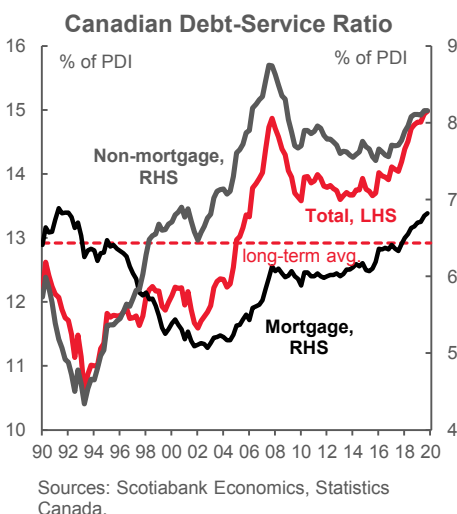


Chart 8

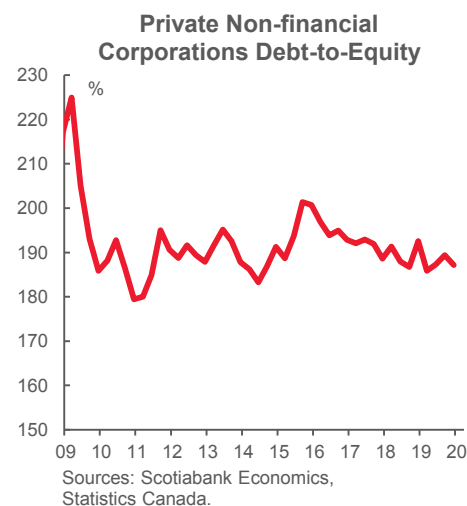
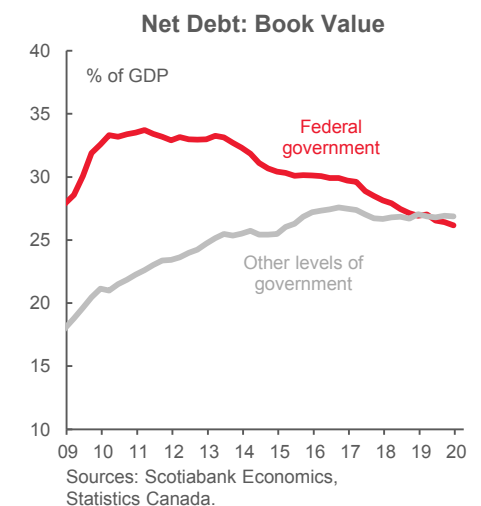


Chart 9



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