

Canadian National Balance Sheet: COVID-19 Pandemic Setting Records

- Canada's national net worth ticked up slightly in Q2 due to the recovery in global equity markets.
- Household savings rate spikes to record 28.2%, while debt-service ratio and credit market debt to personal income fall by record amounts.
- Record levels of government borrowing boosted household income, softening the economic shock to households.

NET WORTH EDGES UP IN Q2

Canada's national net worth increased CAD 13.7 bn to CAD 12.7 tn in Q2, with increases in Canada's net foreign asset position offsetting the decrease in national wealth (chart 1). Net foreign assets increased 17.0% to CAD 1.1 tn, mainly on the back of the rebound in global stock markets since a large proportion of assets are held in equities. National wealth on the other hand decreased 1.3% to CAD 11.6 tn due to the continued weakness in energy prices and draw down in inventories in the face of supply chain disruptions. Residential real estate partially mitigated these losses, increasing 1.4% for the quarter.

RECORD UPS & DOWNS

The Federal Government introduced new policy measures, while continuing or expanding on measures introduced at the end of the first quarter, designed to mitigate the economic impact of mandatory lockdowns instituted throughout most of Q2. As a result, household disposable income increased 10.8% despite the fact that employee compensation dropped significantly. **This increase, coupled with a 13.7% decrease in household spending during the quarter, pushed the household savings rate to a record high of 28.2% in Q2 (chart 2).**

Credit market borrowing decreased to CAD 0.9 bn, with a drop in consumer credit and non-mortgage loan borrowing of CAD 21.5 bn only barely offset by CAD 22.3 bn in mortgage loans (chart 3). **With the demand for new debt slowing, household income rising while spending decreased, and interest rates falling, the household debt-service ratio fell a record amount from 14.54% in Q1 to 12.40% in Q2 (chart 4). Also, since credit market debt hardly moved and personal income spiked, the ratio of household credit market debt to disposable income saw its greatest decrease on record, falling 175.4% to 158.2% for the quarter (chart 5).**

The government stimulus implemented to help mitigate the economic shock of the pandemic resulted in record levels of net government borrowing, with funding raised mainly through the sale of government debt. **This increase in government debt, coupled with the sharp contraction in economic output over the quarter, led to the largest quarterly increase in federal government net debt on record to 32.0% (chart 6).**

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Chart 1

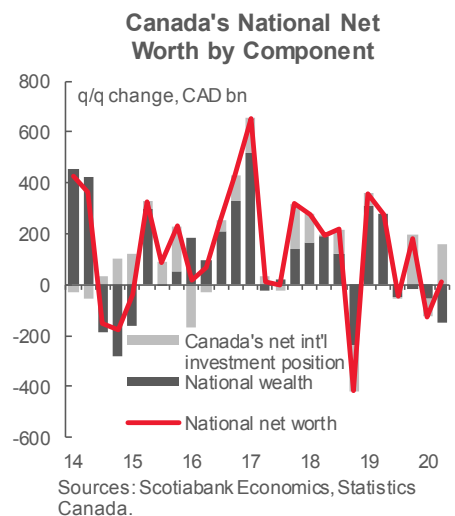
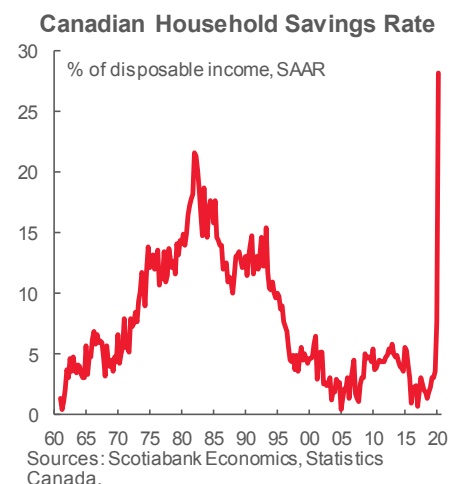


Chart 2



Private non-financial corporations saw a modest improvement in their balance sheets as a result of the equity market recovery over the quarter. **The increase in stock prices outpaced the increase in debt, resulting in the debt-to-equity ratio falling from a decade high level of 213.2% to 199.7% (chart 7).**

As we move into Q3, we should see a further improvement in financial assets as global equity markets continued to improve over the summer (provided the recent pullback begins to reverse), and some normalization to take place in these numbers. However, as the specter of a second wave continues to loom in the Fall and no vaccine available yet for mass distribution, these records could potentially prove to be short-lived.

Chart 3

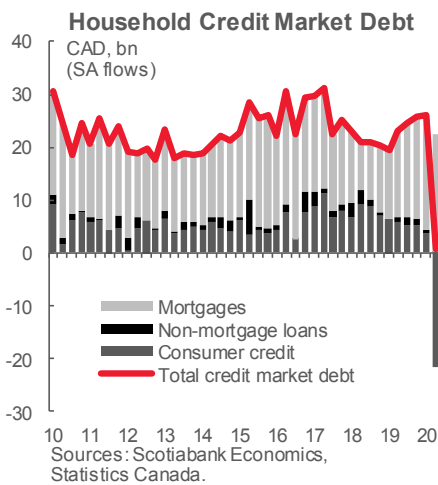


Chart 4

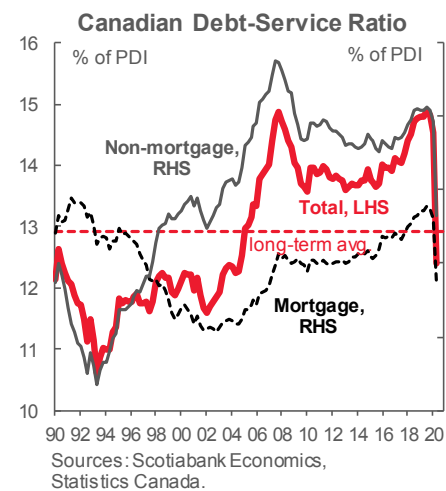


Chart 5

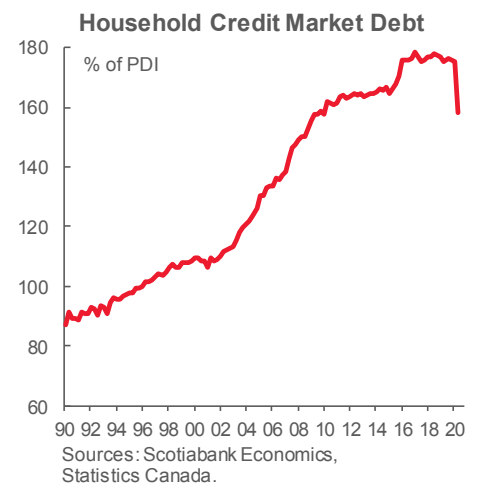


Chart 6

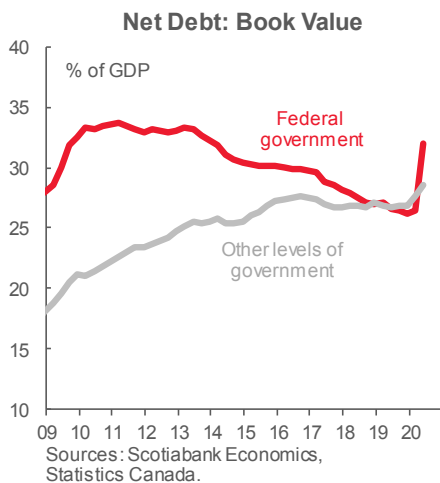
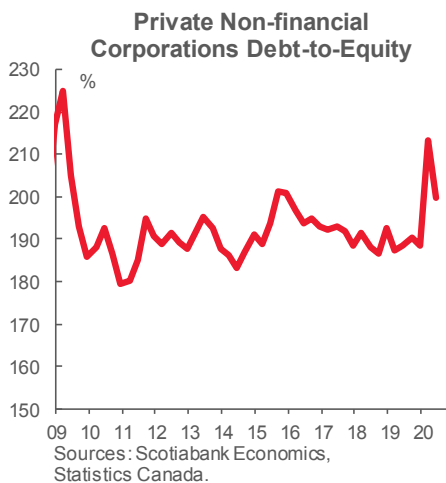


Chart 7



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