econoFACTS

BMO Financial Group
We're here to help.™

An analysis of the latest economic data
September 14, 2018, 8:30 am

Cdn. National Balance Sheet Accounts — Q2

Game of Loans up on Seasonality

Priscilla Thiagamoorthy, Economic Analyst • priscilla.thiagamoorthy@bmo.com • 416-359-4229

Canadian household credit burden metrics crept higher in Q2, largely on seasonal trends. The key debt-to-disposable income ratio edged up to 169.1% after hitting 168.3% in Q1. But, the 0.8 ppt bump-up was well below seasonal norms, marking one of the smallest Q2 increases since 2000, as borrowing slowed significantly. This, along with back-to-back declines the prior quarters, suggests that household vulnerabilities—while still elevated—are finally easing. Policymakers will look favourably on this shift as the one-two punch of stricter mortgage rules and higher interest rates work to slow household borrowing even as incomes continues to climb.

The household debt service ratio (interest and principal as a share of disposable income) crept up to 14.2%, the highest since 2008Q4, after holding remarkably stable above 13% for a good chunk of the last decade. Looking at mortgages specifically (roughly two-thirds of household debt), total interest payments climbed in the quarter, taking a bite out of principle payments. And, while the interest component is expected to grind higher, a healthy labour market and a rising household incomes should keep the debt load manageable and keep the BoC on a gradual rate hike path.

On the other side of the balance sheet, financial asset values rebounded 1.5% after a drop the prior quarter, offsetting softer real estate growth. Overall, household net worth climbed 1.1 ppts to 863.3% as a share of disposable income. The gains were enough to keep the debt-to-asset ratio from ticking up to 16.6%. Canadian households now have $6.02 of assets for every $1 of debt. Meantime, owner's equity in real estate held relatively steady at 74.4% for the fourth straight quarter. And, the household debt-to-GDP ratio declined, though still remained above 100%.

Finally, though most attention is given to household debt loads**, gross general government debt** (includes all levels of government) held fairly stable at 112.4% of GDP while net debt-to-GDP clocked in at 42.5%.

Bottom Line: Despite edging slightly higher in Q2, the closely watched household debt-to-income ratio appears to have finally turned the corner from all-time highs. The key takeaway here is that borrowing cooled with the housing market as households adjusted to a slew of policy changes including tighter mortgage rules and gradual rate hikes.

National Balance Sheet Accounts

Canada (percent : n.s.a.)

	18Q2	18Q1	17Q4	17Q3
Credit Market Debt to Disposable Income	169.1	168.3	169.7	170.0
Net Worth to Disposable Income	863.3	862.2	869.8	860.8
Debt to Total Assets	16.6	16.5	16.5	16.7
Homeowner Equity	74.4	74.5	74.4	74.4
Total Gross Government Debt to GDP	112.4	112.1	112.6	113.0
Total Net Government Debt to GDP	42.5	42.9	43.0	43.0