

Cdn. National Balance Sheet Accounts — Q4

Borrowing Binge Builds

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After showing signs of stability over the last couple years, Canada's household credit ratios unexpectedly rose once again in Q4. The key **debt-to-disposable income ratio** climbed to a **record high of 174.0%** (178.5% seasonally adjusted) after hitting a revised 173.6% (previously 173.8%) in the prior quarter. Credit market borrowing climbed faster than income, thanks to a pick-up in home loans. Still, on an annual basis, mortgage growth slowed to the lowest since 1996. As a result, household debt burdens, while still a crucial vulnerability for the Canadian economy, could ease in 2019. Note, that the **household debt service ratio** (interest and principal as a share of disposable income) jumped to 14.9% in Q4, just a whisker below the record high reached at the end of 2017. And, a larger proportion of income was eaten up by interest payments—7.34%, the most in nine years. This will be something that bears watching after a period of remarkable stability, though the pull back in market rates could mean households will get some reprieve on this front.



Meantime, **household asset ratios**, often overshadowed by the debt headlines, dropped notably. Net worth plummeted to 844.1% of disposable income thanks to the one-two punch of softer real estate prices and lower equities in the quarter. Recall that global equity markets were hit hard in the final month of 2018. Meantime, the debt-to-asset ratio climbed to 17.3%. In other words, Canadian households now have \$5.78 of assets for every \$1 of debt, continuing to grind lower. And, owner's equity in real estate drifted down to 73.5%.

Government debt ratios edged up, after a slight improvement in the prior quarter. **Gross general government debt** (includes all levels of government) drifted higher to **111.9% of GDP**. And, net debt-to-GDP notched up to 41.4%—the slowdown in government debt was offset by weaker GDP growth.

Bottom Line: The health of Canadian balance sheets unexpectedly deteriorated in Q4 with the key household debt-to-income ratio steering back to an all-time high. But, the bigger picture is that household credit growth is still headed in the right direction, slowing to a much more sustainable rate than in previous years. Look for debt ratios to remain steady or move a bit lower this year amid a cooler housing market and softer consumer spending.

National Balance Sheet Accounts

Canada (percent : n.s.a.)

	18Q4	18Q3	18Q2	18Q1
Credit Market Debt to Disposable Income	174.0	173.6	172.6	171.7
Net Worth to Disposable Income	844.1	873.2	879.7	880.0
Debt to Total Assets	17.3	16.8	16.6	16.5
Homeowner Equity	73.5	74.0	74.4	74.6
Total Gross Government Debt to GDP	111.9	111.5	112.0	111.9
Total Net Government Debt to GDP	41.4	41.3	41.4	41.9

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