Despite the real estate market downturn, household balance sheets are not yet improving

**HIGHLIGHTS**

- Canadian consumer debt continued to rise in Q4 2012, reaching $1,717B.
- Consumer credit increased 0.6% during the quarter, while mortgage credit advanced 1.0%.
- The value of assets rose 1.3% on gains in the real estate (+1.7%) and financial (+1.9%) sectors.
- As household incomes also increased in Q4, the ratio of household debt contracted in the credit market to disposable income was steady at 165%.
- The consumer debt to net worth ratio was also almost unchanged at 24%.
- According to figures from the Canadian Real Estate Association, which were also released this morning, sales of existing properties fell 2.1% Canada-wide in February. Over one year, they are down 15.8%.

**COMMENTS**

The data released today once again confirms that a downturn is well underway in Canada’s real estate market. Home resales in the Toronto, Vancouver and Montreal areas fell 13.3% in August 2012 to February 2013 compared with January to July 2012. Housing starts have been declining since last summer.

The cooling housing market is still not having a convincing impact on household balance sheets, as shown by the rise in mortgage credit. That said, its growth in Q4 2012 is slower than it had been in previous quarters, representing one step towards stabilization by household debt. Moreover, the debt to disposable income ratio was almost exactly where it was in the last quarter. Let us hope that it will now decline gradually throughout 2013.

**Implications:** We cannot really declare that the debt problem has been dealt with. On the contrary, concerns will persist until the debt ratios show satisfactory improvement. The Bank of Canada will therefore continue to worry about the condition of household balance sheets in the coming quarters. Unlike what many investors are currently thinking, this should prevent any key interest rate cut.

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