Economic News

HIGHLIGHTS

• Total household debt edged up to $1,719B in the first quarter of 2013, a 0.4% increase over the previous quarter.
• The value of household assets rose by 1.6% in the first quarter of 2013, to $8,915B. Non-financial assets advanced by 0.8%. Moreover, the value of residential buildings was up 0.4% and land values grew by 1.5%. Financial assets recorded a 2.3% gain (with shares and life insurance showing the biggest advances).
• Household net worth (assets minus liabilities) reached $7,195B, an increase of 1.9% over the previous quarter.
• The ratio of household credit market debt vs. disposable income fell to 161.77%, compared with 162.62% in the fourth quarter.
• The ratio of household net worth vs. disposable income climbed to 686.35%—the highest level since the last recession.

COMMENTS

Overall, the results of the household balance sheets are fairly encouraging. Even if the drop in the household debt to disposable income ratio was a bit timid, this still marks two consecutive quarters where slight declines were seen, meaning that the uptrend seen in recent years is starting to lose steam. Repeated calls for caution about burdensome debt appear to be having an impact.

The recovery in the net worth of households is also encouraging. The wealth effect is likely to boost consumer confidence, which has the potential to bolster domestic demand. Worth noting: domestic demand posted exceptional growth rates just before the recession while the net worth over disposable income ratio was at a level similar to where it is today.

Implications: Despite some positive signs, the improvement in the debt ratio is quite modest, so concerns related to the risks of excessive debt remain intact. The Bank of Canada and the Minister of Finance will have to remain vigilant in the coming quarters, especially now that the downturn in the real estate market has eased in recent months.