

ECONOMIC NEWS

Canada: The Pandemic Jolts the National Balance Sheet

HIGHLIGHTS

- ▶ According to the national balance sheet data released today by Statistics Canada, household debt slowed sharply right in the middle of the lockdown, that is, in the second quarter.
- ▶ Financial flows from loans on the household credit market totalled just +\$0.9B in the second quarter, compared to the previous quarter's +\$26.0B.
- ▶ This slowdown stems from a \$21.5B decline in consumer credit and other non-mortgage loans. By contrast, mortgage credit rose \$22.3B, a result slightly higher than in the previous quarter (+\$21.7B).
- ▶ Combined with the record increase in disposable income noted in the second quarter, this fostered a considerable drop in household debt. The ratio of credit market debt to disposable income therefore slid to 158.21% from 175.37%. This is the lowest level since early 2010.
- ▶ From a national standpoint, however, this improvement was offset by a steep increase in government debt.
- ▶ Federal government debt on the credit market rose \$302.0B in the second quarter primarily to finance generous support plans implemented to counter the adverse effects of the pandemic. New loans among other orders of government totalled \$62.0B during the period.
- ▶ Demand for funds among private non-financial corporations amounted to \$38.0B in the second quarter, compared to the previous quarter's \$44.5B.

by \$13.7B. The gain in net worth from households (+\$567B), due largely to their higher financial assets, was almost entirely offset by reductions in corporate (-\$437B) and government (-\$120B) net worth.

IMPLICATIONS

With so much turmoil, it is difficult to paint an accurate picture of the financial situation of economic agents in the country. We will have to wait for the dust to settle in the coming quarters to get a clearer idea of the pandemic's permanent effects on the national balance sheet. A certain trend already seems to be emerging, however. The effects on the financial situation of households appear to be quite limited, all things considered, whereas government debt will have increased considerably. Although the net impact on non-financial corporations is still uncertain, it is clear that Canada will emerge from the crisis more indebted overall than it was before.

Benoit P. Durocher, Senior Economist

COMMENTS

The major upheaval caused by the lockdown and pandemic had a significant impact on the behaviour of economic agents in the second quarter and, therefore, on changes in national balance sheet components. The value of some assets also fluctuated wildly. Overall, national net worth (that is, all assets less liabilities) increased just slightly in the second quarter for Canada as whole

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