

ECONOMIC VIEWPOINT

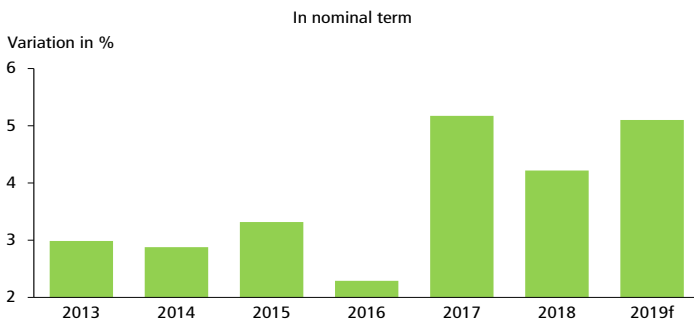
Financial Situation of Quebecers: Improvement in Some Indicators

Quebec's economy has been enjoying outstanding economic growth in recent years, and households are reaping the rewards. Incomes are rising faster, so much so that debt levels have stopped increasing, which has resulted in higher savings. Consumers therefore seem to have more financial leeway in a context of persistently low interest rates. Quebec differs from Ontario and Canada in that the latter two have seen a deterioration in some indicators of the financial situation of households.

Income Growth Has Made a Difference

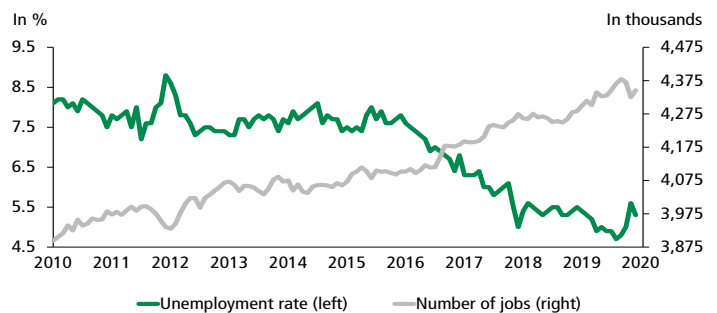
In the space of three years, the faster rise in Quebecers' after-tax income marked a turning point (graph 1). A tighter labour market is the main reason behind this improvement. The strong economic expansion over the past few years has led to sustained employment growth and has sent the unemployment rate tumbling. The demographic trends in Quebec, where the population is ageing more rapidly than in Canada and Ontario, also contributed to the fall in the unemployment rate. While this rate was close to 7.5% in early 2016, it gradually slid to 5.5% in early 2018. The unemployment rate even dropped below 5% for the better part of 2019 (graph 2).

GRAPH 1
Quebecers' after-tax income has been rising quickly in the last three years



f: Desjardins forecasts
Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 2
Quebec's unemployment rate has declined a lot since 2016



Sources: Statistics Canada and Desjardins, Economic Studies

This drained the pool of available labour and sent the number of vacancies soaring, putting pressure on wages. In the past, annual increases were between 1 and 2%. For the past three years, the increase in employee earnings has been closer to 3% (graph 3 on page 2). Household incomes are therefore growing faster owing to more favourable labour market conditions.

In the past few years, federal and provincial tax relief for individuals, also helped to increase after-tax income and government transfers. For example, more generous child tax benefits have helped support families financially. Other measures, such as tax cuts and various adjustments, have also had a positive effect on household disposable income.

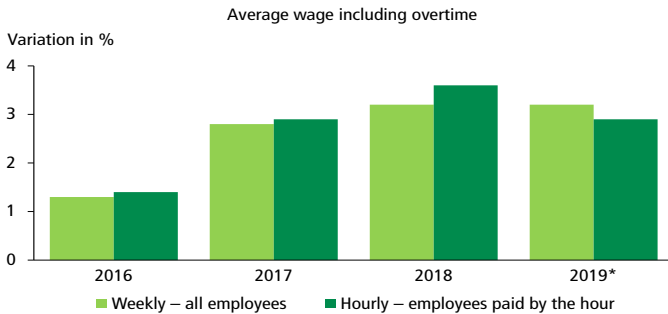
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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GRAPH 3
In Quebec, wage growth has accelerated around 3% in the last three years



* Average for the first ten months of 2019 compared to the same period in 2018.
Sources: Statistics Canada and Desjardins, Economic Studies

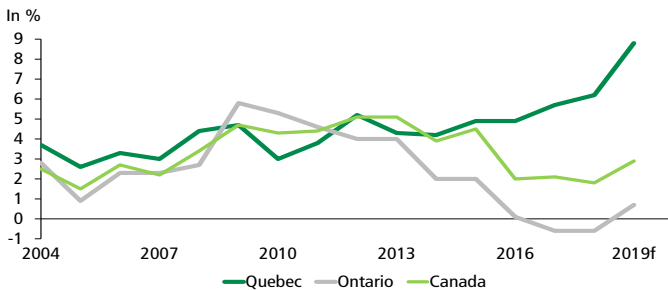
Quebecers Are Saving More

Faster growing income has given Quebecers more financial leeway. They are also saving a larger share of their income. Household savings is the share of income not dedicated to consumer spending. Savings can therefore be money set aside in an account in a financial institution, placed in various investment and savings products, or used to pay down debt. Income growth has been so strong over the past three years that households are not only maintaining a good pace of consumption, but are also allocating a larger proportion of their income to savings. The savings rate, or the share of after-tax income saved, has increased considerably in Quebec and is now near 8%.

In the past, Quebec households had a savings rate similar to that of Canada and Ontario, but that is no longer the case (graph 4). In the span of five years, the savings rate in Ontario dropped from 4.0% to -0.6%, whereas Canada’s rate fell from 5.1% to 1.8%. Quebec has outperformed a number of provinces when it comes to savings, driven by a very favourable economic situation and a tightening of the labour market, two factors that have enabled faster wage growth than in the rest of the country.

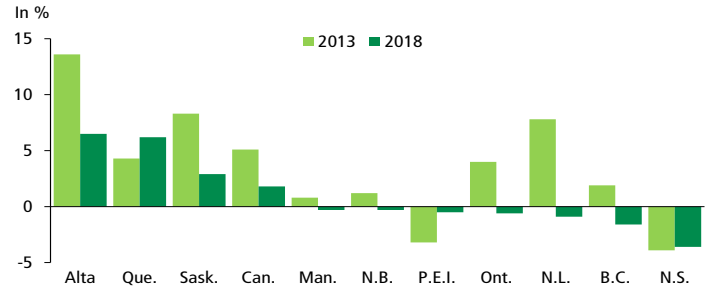
Only Alberta saving was more than Quebec in 2018 (graph 5). However, their ratio has been dropping considerably over five

GRAPH 4
The savings rate went up strongly in Quebec



f: Desjardins forecasts
Sources: Institut de la statistique du Québec, Statistics Canada and Desjardins, Economic Studies

GRAPH 5
The savings rate has declined in many provinces over five years, but it has increased in Quebec



Sources: Statistics Canada and Desjardins, Economic Studies

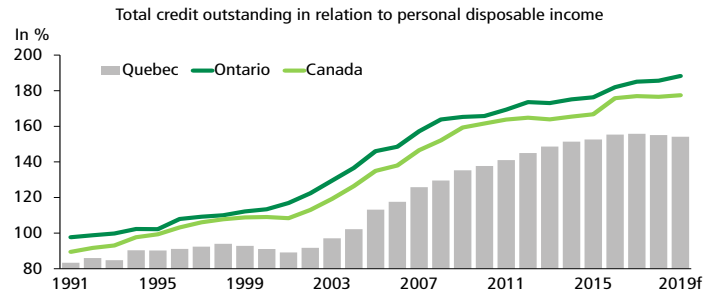
years due to a struggling oil sector, which has affected household income. Many provinces have a negative savings rate. This simply means that household consumer spending is higher than income. These households must therefore dip into the savings they have accumulated over the years or fall deeper into debt to maintain their lifestyle.

Quebec’s Debt Ratio Has Reached a Ceiling

Faster income growth has also contained household debt in Quebec. This indicator takes into account all types of outstanding personal debt: mortgage, personal line of credit, student loan, credit card balance, car loan and conventional consumer loan. It is therefore the sum of debt that must be repaid over a number of years, up to 25 in the case of a mortgage, relative to annual after-tax income.

Quebecers’ debt load is closer to 155%, that of Ontarians is 188% and that of Canadians reaches about 175% (graph 6). The wide spread in home prices, which affects the level of mortgage debt, is the main reason for the difference in total debt. In November 2019, the average home price in Quebec was \$331,525, compared to \$628,234 in Ontario and \$526,303 in Canada. More affordable prices in Quebec mean a lower total debt ratio.

GRAPH 6
Quebec’s debt ratio is no longer rising



f: Desjardins forecasts
Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Bank of Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

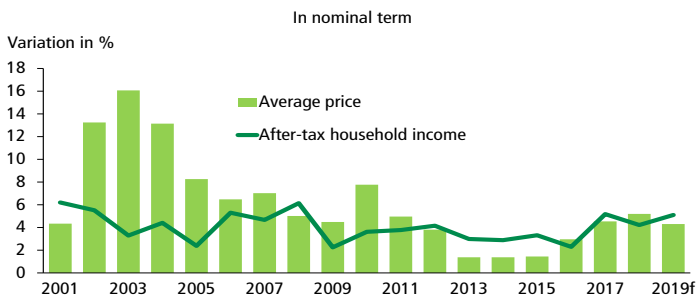
Since mortgage loans account for approximately 75% of personal debt, on average, changes in home prices have a significant impact on debt. In the early 2000s, the average price of a home in Quebec jumped more than 10% for three years in a row (graph 7). This growth was much higher than that of household income, which caused the value of new mortgage loans and, by extension, outstanding total credit to balloon.

In Short

Some indicators of Quebecers’ financial situation have improved in the past few years. Households are seeing their incomes grow faster than before, which frees up financial space for savings and, by extension, for debt repayment. Household debt has decreased slightly, while savings have surged. The opposite is true for Ontario and Canada because average home prices inflated mortgage debt after a long period of strong upward momentum. The recent residential market correction does not appear to have had significant effects on the debt and savings landscape for Ontario and Canada.

Hélène Bégin, Senior Economist

GRAPH 7
Quebec home prices have previously risen faster than household income in the early 2000s



f: Desjardins forecasts
 Sources: Quebec Professional Association of Real Estate Brokers by the Centris system, Statistics Canada and Desjardins, Economic Studies

For three years, income growth has been similar to growth in the average price of a home. This has helped put an end to the increase in debt in Quebec. Households may have also used their greater financial leeway to make one or more additional payments on their mortgage to pay it down faster. The accelerated ageing of Quebec’s population may mean that many households are about to pay off their mortgage, or are on their way to doing so. According to this logic, outstanding mortgage credit is no longer rising as much as in the past. Quebecers’ debt has therefore been decreasing slightly for the past few years for a number of reasons.

The gap with Ontario and Canada has widened as a result because their debt levels have continued to rise. After the 2018 home price correction, home prices resumed their upward momentum at a faster pace than income. Given the high average price, a substantial share of after-tax income must be put towards mortgage payments. That share is 40% in Ontario and 35% in Canada. This leaves little room for savings—much less than in Quebec especially, since mortgage payments account for 28% of disposable income.

In this context, the option to make early payments in order to reduce the mortgage balance is out of reach for most Canadians and Ontarians. The population’s age structure, younger than in Quebec, means that fewer borrowers are at an advanced stage of their life and of repaying their mortgage.