

ECONOMIC VIEWPOINT

Was the Improvement in Quebecers' Financial Situation during the Pandemic Widespread?

By H  l  ne B  gin, Senior Economist, and Lorenzo Tessier-Moreau, Senior Economist

The pandemic enabled Canadians to improve their financial situation in 2020, as demonstrated in a recent [Economic Viewpoint](#). Detailed data for Quebec provide a better understanding of how these changes have taken place and how they have affected various groups of the population. Regardless of their employment situation, Quebecers had higher incomes in 2020. Lower spending made it possible for many, including those less well off, to save more cash than in the past. This additional money was used to invest and buy real estate, but also to pay down debt. Even though this influx of new homeowners caused average mortgage debt to rise, net worth grew owing to the rise of property prices and to the growth of financial assets. However, homeowners are not the only ones who have seen their assets grow; gains are well distributed, whether it be for tenants, for Quebecers of different income level, different age groups and from different regions.

An Atypical Crisis with Unusual Effects

The COVID-19 pandemic has had surprising effects on the financial situation of Quebec households. Despite the closures entire parts of the economy and an unprecedented jump in unemployment, income and savings exploded at the height of the first lockdown as a result of government assistance programs and a significant drop in consumer spending (graph 1). Lower interest rates also initially made properties more affordable, while reducing the weight payments on indebted individuals. Many Quebecers used this additional flexibility to invest and to buy

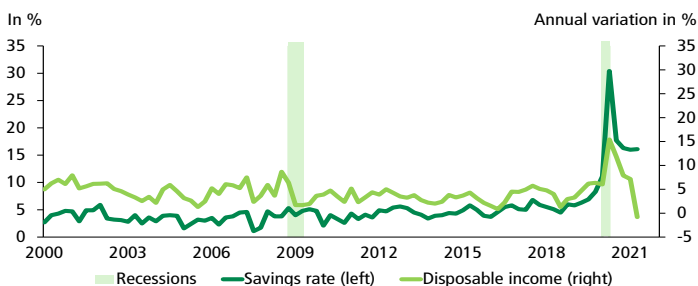
properties and durable goods, but also to reduce their debt. This unprecedented crisis obviously made winners out of some and losers out of others, but an in-depth analysis of household debt and assets reveals that the improvement in the financial situation is fairly well shared.

Greater Flexibility, despite the Crisis

By cutting back on much of their current consumer spending, many households were able to save more money in the initial months of the pandemic. Teleworkers, who accounted for 30% of employees in Quebec between April 2020 and June 2021 according to [Statistics Canada](#), for the most part kept the same income level, while significantly reducing their work, transportation, recreation and travel expenses.

The introduction of the Canada Emergency Response Benefit (CERB) and many government programs for businesses also enabled those individuals hardest hit by the public health restrictions to maintain or even increase their income as their expenses also decreased. Data from the Ipsos Canadian Financial Monitor survey reveal that Quebecers' average personal income was higher in 2020, regardless of employment status (graph 2 on page 2), but the increase was even more marked for self-employed and jobless workers. The enhancement of government assistance programs and

GRAPH 1
An atypical crisis marked by an unprecedented surge in disposable income and savings rate in Quebec

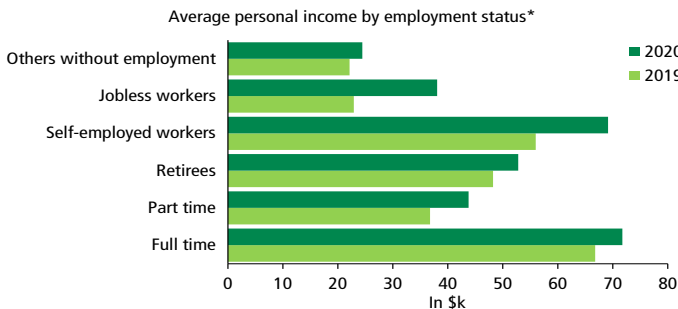


Sources: Institut de la statistique du Qu  bec and Desjardins, Economic Studies

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.
IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright    2021, Desjardins Group. All rights reserved.

GRAPH 2
Average personal income was higher in 2020, regardless of employment status



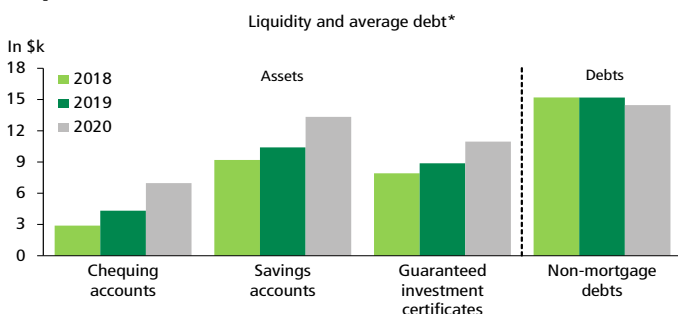
* Including individuals who reported no income.
Sources: Ipsos and Desjardins, Economic Studies

the introduction of CERB appear to have definitely played an important role in increasing income for these categories.

More Disposable Cash and Savings

The first visible effect of the pandemic on household finances was the accumulation of significant amounts of liquidity. Overall, individuals were able to accumulate more money in their accounts as well as in traditional savings products in 2020, while paying down their consumer debt, particularly credit card and line of credit balances.¹ Money accumulated in chequing accounts therefore jumped impressively by over 60% between 2019 and 2020 from an average of \$4,300 to close to \$7,000 (graph 3). Another interesting fact is that the positive effects of the pandemic on disposable cash affected those less well off as much as those who are more affluent. The proportion of individuals with less than \$2,000 in total financial assets dropped from 39% in 2019 to 31% in 2020. Conversely, the proportion of individuals with between \$2,000 and \$5,000 was pretty much

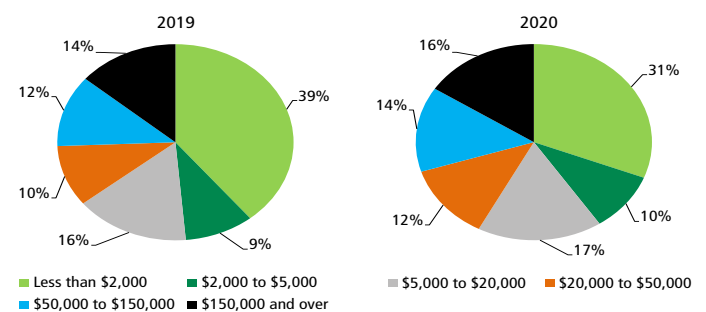
GRAPH 3
Disposable cash and savings jumped, while consumer debt fell in Quebec



* For all individuals, including those with no assets or debt.
Sources: Ipsos and Desjardins, Economic Studies

¹ For more details, see: [How Has the Pandemic Affected Canadians' Financial Situation across the Country?](#), Desjardins, Economic Studies, *Economic Viewpoint*, November 1, 2021, 5 p.

GRAPH 4
The proportion of individuals with a total of less than \$2,000 in financial assets declined in Quebec



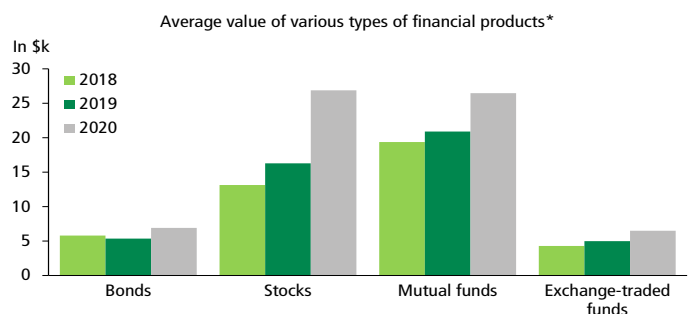
Sources: Ipsos and Desjardins, Economic Studies

stable, whereas all the other sub-categories with more total financial assets saw their share increase (graph 4).

Solid Growth for Investments

It is not just cash and traditional savings that increased in Quebecers' portfolio, as all types of investments rose significantly in 2020. Out of all types of investment products, stocks and mutual funds saw the most significant growth (graph 5). In that respect, 2020 also differs from previous years. In 2019, growth in the average value of Quebecers' stock portfolio was 23.9%, following very closely the total returns of the Canadian S&P/TSX stock market index, which was at 22.9%. In 2020, however, despite much lower returns of 5.6% for the stock market index, the average stock portfolio in the population surveyed by Ipsos grew by 65%, meaning that new investments rather than returns were the main driver of growth.

GRAPH 5
The average value of Quebecers' investments rose sharply in 2020



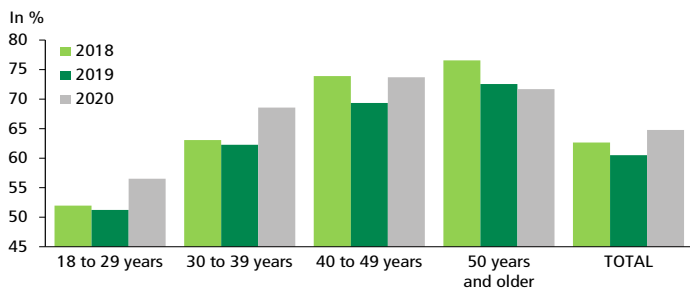
* For all individuals, including those without financial assets.
Sources: Ipsos and Desjardins, Economic Studies

Additional Savings Made Ownership Accessible to Many

Although many types of investments were popular during the pandemic, few made as many headlines as real estate. The additional flexibility unblocked by Quebecers allowed many to access ownership or invest in a secondary residence. Among the

population sampled by Ipsos, close to 65% of individuals were homeowners in 2020, compared to around 60% in 2019. The youngest age groups, that is, from 18 to 29 years of age and from 30 to 39 years of age, account for the largest share of this increase in the number of homeowners (graph 6). High demand for properties on the housing market quickly drove up mortgage debt. New homeowners must generally use more credit to finance the purchase of a home than individuals who already have capital accumulated with their property.

GRAPH 6
Proportion of Quebecers who are homeowners



Sources: Ipsos and Desjardins, Economic Studies

Higher Mortgage Debt, but Also Higher Assets for Homeowners

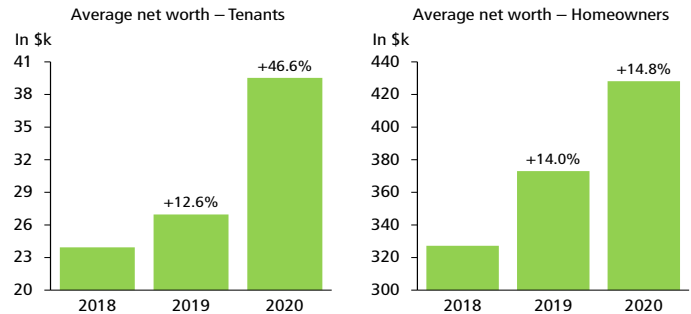
Although mortgage debt rose, the value of the associated assets also saw strong growth in 2020 due to a 16.5% increase in property prices in Quebec. Moreover, the spike in the value of financial assets added to the surge in the value of real estate assets. It therefore follows that net worth, that is, the sum of all assets held less all debts, rose substantially last year.

The evolution of this key indicator of the financial situation are very different for homeowners and tenants. In the case of homeowners, a significant share of their assets lies in the value of their home, but they generally have much more debt in the form of mortgage loans. Tenants are generally much less indebted, but their assets are also much lower. In 2020, Quebecers who owned properties saw their average net worth increase from \$373,000 to \$428,000, whereas tenants saw theirs rise from \$27,000 to \$40,000. Although the level is significantly lower for tenants, their net assets nevertheless jumped \$13,000 on average, or 46.6%, over the past year. Homeowners clearly made more, with a gain of \$55,000 on average. However, this 14.8% increase is more comparable to the one seen in 2019 (graph 7).

Widespread Improvement in the Financial Situation

It is reassuring to see that the improvement in Quebecers' net worth in 2020 is well distributed across the various categories of individuals. Even though major disparities remain between Quebecers' net worth based on their income level, it increased

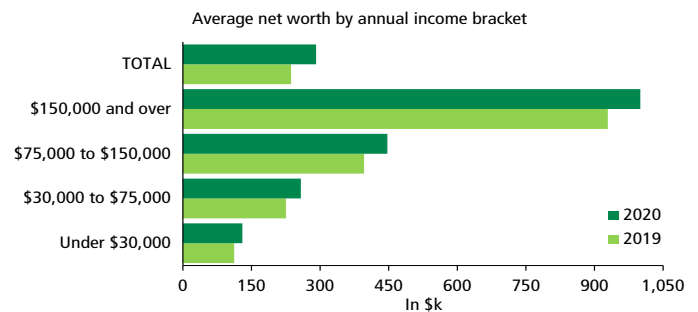
GRAPH 7
Although homeowners have much higher net worth, the net worth of tenants grew considerably in 2020



Sources: Ipsos and Desjardins, Economic Studies

in each of the sub-groups we identified (graph 8). The increase for individuals with an income below \$30,000 annually even reached 15.9% between 2019 and 2020. Relative to 2019 net worth, this is the strongest growth of all the income brackets. Quebecers with the lowest incomes have no doubt benefited the most from the enhancement of government assistance programs, such as CERB. Some low-income essential workers also received premiums to encourage them to work despite more difficult conditions during the pandemic. It is also worth noting that for low-income individuals, a small improvement in flexibility can make a big difference in their ability to save.

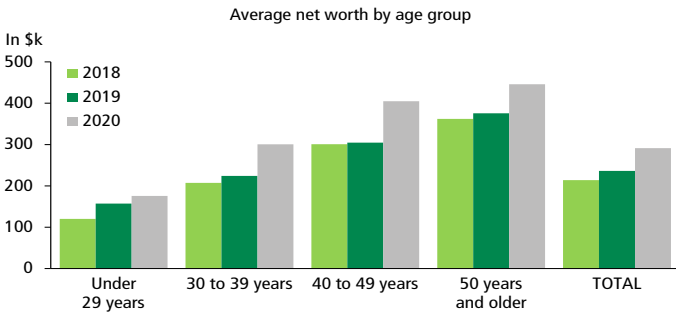
GRAPH 8
Net worth increased for all income brackets



Sources: Ipsos and Desjardins, Economic Studies

All age groups saw their net worth rise (graph 9 on page 4). However, the increase was significantly lower for the youngest (under 29 years of age). First, this is the group with the lowest proportion of homeowners. Fewer of them therefore benefited from the increase in property values. Furthermore, as discussed earlier, the increase in the number of homeowners was more marked in this group. It seems likely that more of them went into debt to buy their first property, without necessarily profiting from gains in its value.

GRAPH 9
The increase in net worth was significantly lower for the youngest age group

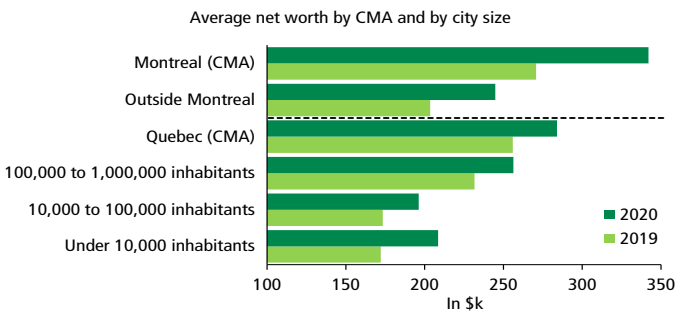


Sources: Ipsos and Desjardins, Economic Studies

What Regions Stand Out?

The rise in individuals’ net worth was widespread in Quebec, but some differences can be seen by region. First, the increase in net worth was more notable in the Montreal census metropolitan area (CMA) than in the rest of the province (graph 10). The metropolis posted 26.4% growth from one year to the next due to the increase in financial assets as well as the value of real estate.

GRAPH 10
Net worth increased in Montreal and rural areas in particular



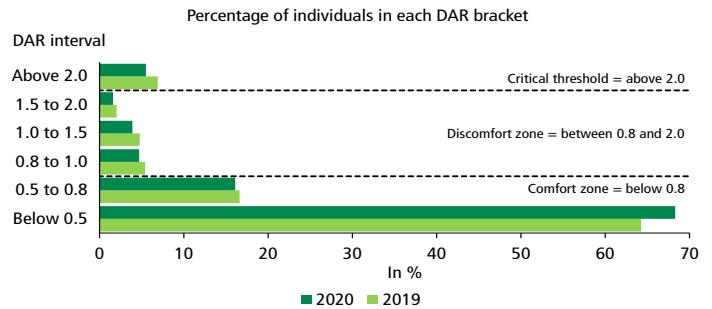
CMA: Census metropolitan area
Sources: Ipsos and Desjardins, Economic Studies

In the rest of the province, growth in net worth was 20.3%. Mid-size cities, from 10,000 to 1,000,000 inhabitants, including the Quebec CMA had the smallest increase in average net worth. The net worth of individuals living in rural areas (under 10,000 inhabitants) also experienced good growth, so much so that it even surpassed that of small cities (10,000 to 100,000 inhabitants) in 2020. Here, the effect of the exodus of city dwellers to the countryside is clear. It is primarily growth in the value of real estate assets in a context of strong demand for secondary residences and country homes that explains the increase in net worth in less densely populated areas.

What about the Most At-Risk Individuals?

Beyond regional differences and major categories of age and income, it may be worth looking at the importance of individuals whose debt levels pose the greatest risk. The debt-to-asset ratio (DAR), calculated as total debt relative to total assets, can help better identify vulnerable individuals. Again, developments regarding this indicator were encouraging in 2020. The proportion of indebted individuals with a low DAR (under 0.5%) rose from 64.2% to 68.4%, whereas all higher DAR categories saw decreases (graph 11). The percentage of individuals with a DAR above the 2.0 critical threshold identified by the Bank of Canada² (BoC) declined from 6.9% in 2019 to 5.5% in 2020. Although this development is positive, this does not necessarily mean that we should stop worrying about the risk posed by rising debt.

GRAPH 11
Distribution of indebted individuals by DAR



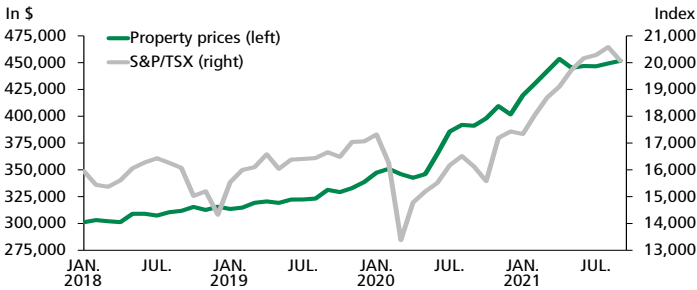
DAR: Debt-to-asset ratio
Sources: Ipsos and Desjardins, Economic Studies

Outlook for 2021 and Onward

Some trends that started in 2020 should continue in 2021. Although income growth has slowed and the savings rate has decreased compared to the first year of the pandemic, growth in the value of financial and real estate assets continued in 2021, which will keep driving Quebecers’ asset growth. Over the first three quarters of the year, the S&P/TSX index has already posted a cumulative growth of 15.1%, whereas home prices have risen 12.5% in Quebec (graph 12 on page 5). Savings accumulated in chequing accounts and in term savings products have also continued to grow, but at a much more moderate pace. According to the Institut de la statistique du Québec (ISQ), total cumulative deposits in Quebecers’ accounts appearing on the balance sheet of chartered banks and the Desjardins Group posted an annual growth rate of 7.2% in the second quarter of 2021, a slowdown from the 12% recorded in 2020.

² For more details, see: [Financial System Review](#), Bank of Canada, December 2006, 73 p.

GRAPH 12
The value of financial and real estate assets continued to increase in 2021



Sources: Canadian Real Estate Association, Datastream and Desjardins, Economic Studies

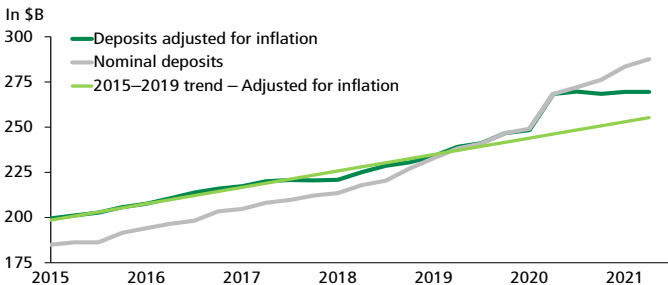
Next year should also bring the first key rate hikes, which may worsen the debt burden for the most indebted individuals. Growth in the value of assets, whether financial or real estate, played a big part in improving Quebecers' financial situation, but that value nevertheless remains exposed to the risk of corrections. In a recent [speech](#), BoC Deputy Governor Paul Beaudry highlighted some of the vulnerabilities affecting Canadian households. Among which, risks of overvaluation of the housing market and the high indebtedness of first buyers. A forthcoming *Economic Viewpoint* will address the question of household debt in Quebec. In short, while the improvement in Quebecers' financial situation that came with the pandemic is a positive development, many vulnerabilities nonetheless persist, and some risks are still very much present.

In terms of debt, the trends that began in 2020 continued in 2021. Still according to the ISQ, residential mortgages issued by banks and the Desjardins Group in Quebec started the year up sharply, posting a 10.7% annual growth rate in the second quarter of 2021, compared to a 6.5% increase in 2020. Although it is on the rise again, non-mortgage debt has shown a slight increase since the beginning of the year. Its annual growth rate reached 3.5% in the second quarter of 2021, compared to a total decline of 1.8% in 2020.

All in all, Quebecers' financial situation should improve further in 2021 owing to more gains in the value of assets. However, debt will quickly become a concern again with high property prices leading the average mortgage debt to new all-time highs. The greater flexibility and additional savings accumulated by Quebec households will also be eroded by the effect of inflation, which in October was at its highest in 30 years (graph 13).

GRAPH 13
Savings accumulated by Quebecers have been partly eroded by the effect of inflation

Individuals' deposits on the balance sheets of banks and the Desjardins Group in Quebec



Sources: Institut de la statistique du Québec, Statistic Canada and Desjardins, Economic Studies