

ECONOMIC NEWS

Quebec: Savings Rate at a 20-Year High

HIGHLIGHTS

- ▶ The saving rates rose to 6.2% in 2016 compared with 5.4% the previous year.
- ▶ After-tax income grew 4.5% in nominal terms, the fastest increase in many years.
- ▶ Consequently, the share of nominal net income saved increased faster than the share represented by consumer spending.

COMMENTS

The savings rate of Quebecers, which was weak for many years, returned to an uptrend. Better after-tax income growth provides some flexibility to households. Major job gains, which led to a faster rise in employment income, coupled with federal government tax relief, made the difference in 2016.

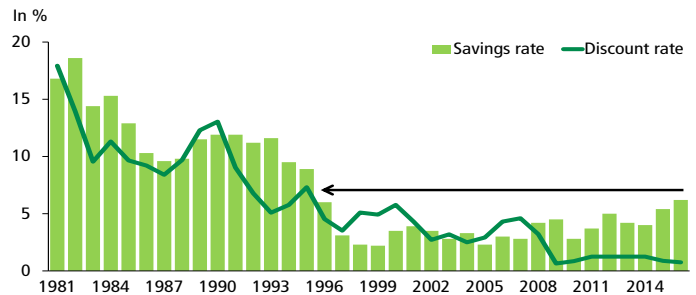
Stronger growth in household income led to an increase in both spending and saving. Consumers, who limited their spending for several years, were more active last year. Quebecers successfully set aside a larger share of their incomes, which raised the savings rate to a 20-year high.

From a structural perspective, a high savings rate generally coincides with a period when interest rates are relatively high. Savings can therefore earn more, while consumer spending slows due to the higher cost to access credit. This was the case in the 1980s and early 1990s. The inflation rate was hovering around 4.0% and at one point even reached 12.3% in 1981, which ate away at interest income. The rise in the savings rate in recent years took place in a completely different context of low interest rates and weak inflation.

IMPLICATIONS

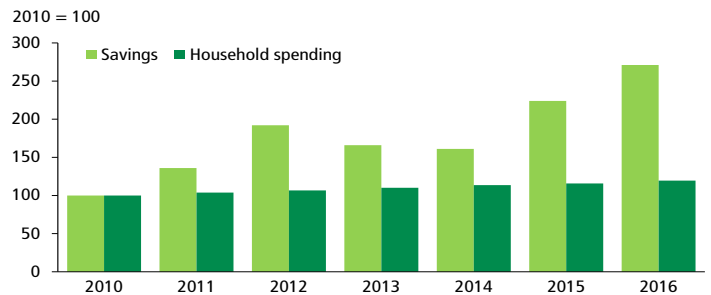
The rise in household savings rates is good news. Savings make it easier to weather the unexpected on the personal front, or a

GRAPH 1
Savings rate rises despite low interest rates



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

GRAPH 2
Savings rose faster than spending



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

sudden deterioration in economic conditions. Some households are still vulnerable because of the fragility of their financial situation.

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