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TD Economics

Data Release: Canadian wealth leaning on real estate

- The plunge in oil prices has weighed on Canadian overall national net worth (assets less liabilities), which fell 1.3%, or $129.4 billion – mostly due to a massive $285 billion decline in natural resource wealth. The decline in energy prices was partially offset by continued gains in real estate wealth ($48.7 billion) and an improvement in Canada's international financial position (+$61 billion). Excluding the resource sector, net worth advanced 1.7%.
- Low oil prices weighed on household financial assets (through equity prices) in the quarter, but the weakness was largely offset by residential real estate gains. While household debt (+1.3% quarter-over-quarter) continued to grow a moderate pace, a slowing in both household income and asset growth pushed the credit market debt-to-income ratio up to a new high of 163.7% and the debt-to-asset ratio up to 17.0%. The debt-to-asset ratio is still below the 19% peak reached in 2009. Overall household net worth edged up 0.4% in the quarter and was flat on a per capita basis.
- The federal government borrowed an additional $17.8 billion in the third quarter, pushing it back into a net borrower position. The federal government's net debt rose to 30.8% of GDP, up from 30.7% in the prior quarter. Provincial governments continued to push further into net borrowing position and the debt of all provincial governments combined rose to 28.1% of GDP in the quarter.
- Weak economic growth, equity markets and resource wealth weighed heavily on the balance sheets of both financial and non-financial businesses. Assets held by financial corporations fell by 1% in the third quarter, while still up on a year-over-year basis. Meanwhile, assets for non-financial corporations were down 2.9% in the quarter and 1.5% from year ago levels. The credit market debt-to-equity ratio of non-financial corporations rose to 67% in the quarter and has been on a sharp upward trend since 2012.

Key Implications

- Looking forward, we continue to expect a further deterioration in the balance sheet position of most sectors of the economy. Oil prices have continued to tumble through the fourth quarter of the year, hitting a new low of below US$35 per barrel this morning, while equity prices are down a further 4% since the end of September. Canadian economic growth is also losing momentum, and following a disappointing 1.2% gain in 2015, real GDP growth is expected to remain sub 2% in 2016.
- The weak economic backdrop is likely to weigh most heavily on government and corporate balance sheets. While fall updates suggest that provincial governments have found ways to cope with the weaker-than-expected economic backdrop, the federal government is likely to remain in deficit territory for longer than planned in the March budget. More deficits equal more debt.
- The federal government released new down payment rules for insured mortgages on Friday. While these rules will likely impact a very small segment of the overall market, required higher down payments may result in slightly softer household debt growth and higher homeowner's equity. However, set against a backdrop of rising unemployment, the debt-to-income ratio is still likely to continue to trek higher through 2016.The combination of rising unemployment and a continued decline in home prices is an immediate concern for oil-producing regions such as Alberta and Saskatchewan.

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