# TD Economics

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**Data Release: Household net worth growth constrained by high household debt**

- Canadian household net worth edged up 1.0% in the first quarter of 2011. On an annual basis, net worth increased 6.1%. While household borrowing has slowed significantly over the last six months, household credit growth (+6.6% y/y) continued to outpace income and asset growth (6.2% y/y), leaving the household balance sheet highly leveraged when compared to historical experience.

- On the asset side, a 5.1% increase in S&P/TSX prices in the quarter helped bolster growth in household assets. Meanwhile, nonfinancial assets grew by 4.9% year-over-year, of which real estate assets were up 4.5% - the slowest gain for non-financial assets since late 2009.

- Household borrowing through consumer credit (+5.2% y/y) (credit cars, personal lines of credit etc.), cooled to the slowest pace since 1995. While, mortgage credit ticked up to 7.4% y/y, following growth of 7.2% in the prior quarter, on a trend basis, mortgage credit is tracking the slowest pace since 2004.

- Measures of indebtedness and indicators of leverage have stabilized, but remain weak. The household debt-to-income ratio remained stable, but elevated at 147%. Meanwhile, ratios of debt-to-net worth (24%) and debt-to-assets (20%) retraced improvements made in the prior quarter. The share of homeowner's equity deteriorated for a 5th consecutive month, reaching a 10 year low in the quarter.

**Key Implications**

- While household credit has slowed, and indebtedness has stabilized, households remain highly leveraged. In our view, a debt-to-income ratio of 147% is still excessive, with a more optimal level for indebtedness in the range of 138%-142%. Despite strong home price gains over the last year and a half, household real estate assets are highly leveraged as households continue to borrow strongly through mortgage credit.

- The level of debt has become a constraint to net worth growth, which is growing at a pace that is more than three percentage points slower than the average annual rate of 9.7% recorded in the four years spanning between 2004-2007. Furthermore, households must devote more of their income to paying off their debt, leaving less room for saving and consumption. Given the growth in debt relative to income, the household debt service ratio rose in the first quarter of the year, despite low consumer borrowing rates.

- Households should also plan for a slower pace of asset growth going forward. In particular, with a large share of financial assets tied to equity gains, the household balance sheet is likely to suffer a set back in the second given that the S&P/TSX has retreated roughly 9% since the end of the quarter.

- Overall we expect households will continue to cool their pace of borrowing, but household the household balance sheet will remain highly leveraged for sometime. This will thereby constrain consumer spending growth into a range of 2.0-2.5% over the next three years.

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