ECONOMIC VIEWPOINT

How Has the Pandemic Affected Canadians' Financial Situation across the Country?

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Canadians have experienced some upheavals in their finances due to the pandemic. The rise in mortgage debt has accelerated, but some types of loans, such as credit cards, saw a notable drop last year. The situation is not the same across the country, however, with total debt rising more in certain provinces and metropolitan areas. The value of assets increased significantly owing to the accumulation of savings, good financial market performance and soaring residential real estate prices. The bottom line is that net worth, in other words, total assets less total debt, improved in all parts of Canada in 2020. The first year of the pandemic was therefore a positive one, overall, for Canadians' financial situation.

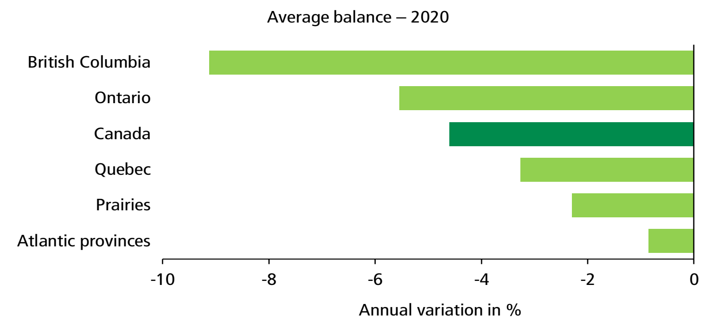
Major Upheavals

The outbreak of the pandemic, the lockdowns and the temporary closure of some sectors changed consumption, savings and investment behaviour in Canada. Individual income, boosted by support from the federal government since spring 2020, has also played an important part. Weak consumer spending and high income compared to those before the pandemic accelerated personal savings significantly last year. This was partly channelled into the residential real estate market, but mortgage debt nevertheless posted strong growth. Greater financial leeway among many borrowers was also used to reduce other types of debt that was more expensive because of interest charges.

Lighter Credit Card Debt

Although spending on goods quickly bounced back after slumping in spring 2020, spending on services was slower to recover. Many purchases were put on hold, particularly travel abroad and entertainment. The increased savings capacity also helped some pay back a portion or all of their credit card balances. This type of loan therefore declined across the country last year (graph 1). Individual credit card balances averaged between $4,500 and $6,500 per month in 2020, depending on the region. Although this loan level is high, it is lower than that of other types of non-mortgage debt, such as lines of credit and conventional loans.

GRAPH 1
Credit card balances decreased across the country during the first year of the pandemic



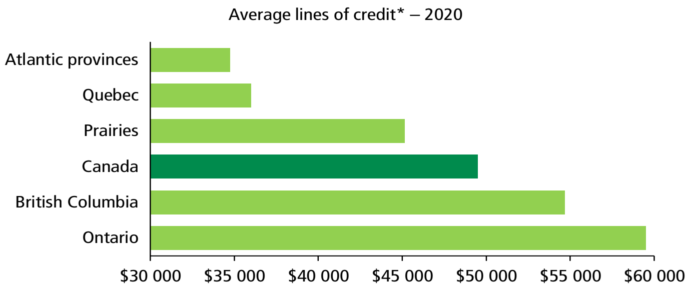
Sources: Ipsos and Desjardins, Economic Studies

Lower Use of Lines of Credit

The impact of the pandemic helped decrease the use of personal lines of credit in Quebec, the Prairies and the Atlantic provinces. However, borrowers in British Columbia and Ontario used their lines of credit more last year. Line of credit balances were around $55,000 and $60,000, respectively, the highest in Canada (graph 2 on page 2).

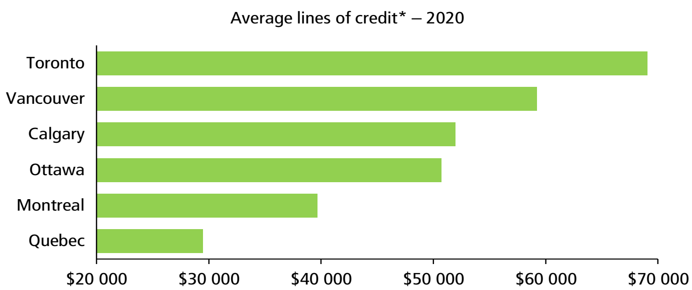
Among major census metropolitan areas (CMAs), lines of credit are higher in Toronto and Vancouver, followed by Calgary and Ottawa. They are therefore lower in Montreal and Quebec (graph 3 on page 2). This ranking is similar to the one for average

GRAPH 2
Line of credit balances are higher in Ontario and British Columbia



* Home equity and conventional lines of credit.
Sources: Ipsos and Desjardins, Economic Studies

GRAPH 3
Line of credit balances are higher in the Toronto and Vancouver CMAs



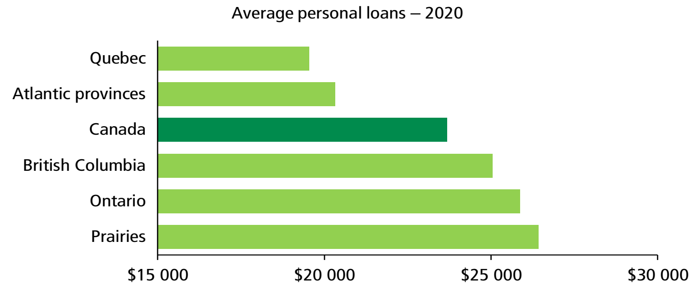
CMA: Census Metropolitan Areas; * Home equity and conventional lines of credit.
Sources: Ipsos and Desjardins, Economic Studies

home prices. Borrowers trapped to a greater extent with high mortgage payments in some parts of the country tend to use their lines of credit more. In the case of home equity lines of credit, those linked to higher value homes usually provide higher credit limits.

Personal Loans: Little Pandemic Effect

Personal loans are often tied to the purchase of durable goods such as recreational or motor vehicles or furniture, household appliances and electronics. The rapid recovery in consumer spending once lockdowns were lifted therefore fuelled this type of loan. Conventional personal loans did not decrease in 2020 despite the pandemic. Repayment plans spanning several years and fixed monthly payments do not lend themselves as well to accelerated repayment. Personal loans are therefore less flexible, which limits their use. Borrowers prefer home equity lines of credit, which generally have a lower interest rate and a higher authorized loan amount. Last year, the average personal loan amount was between $20,000 and $30,000, depending on the region (graph 4).

GRAPH 4
Personal loans are lower in Quebec



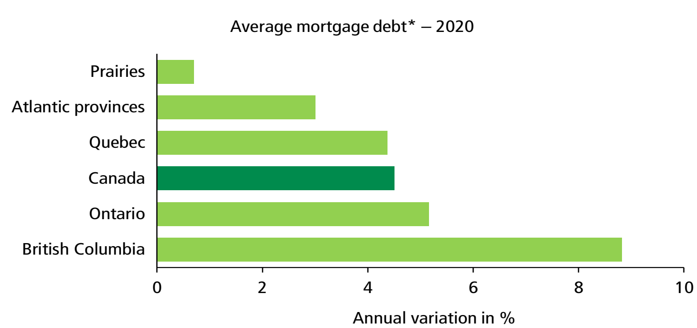
Sources: Ipsos and Desjardins, Economic Studies

Strong Growth in Mortgage Debt

According to a recent Statistics Canada survey, mortgage credit saw unprecedented growth in Canada in 2020. Bustling residential activity and soaring prices led to this acceleration. Large-scale telework, the need for many to have more space at home and the financial leeway created by lower living expenses dramatically boosted demand for new and existing homes after the start of the pandemic. Many buyers who continued to be employed were in a better financial position to take on higher debt. However, some borrowers struggled to make their mortgage payments and suspended them for a number of months through deferral programs offered by financial institutions. Their loan balances therefore did not decrease as would normally be the case.

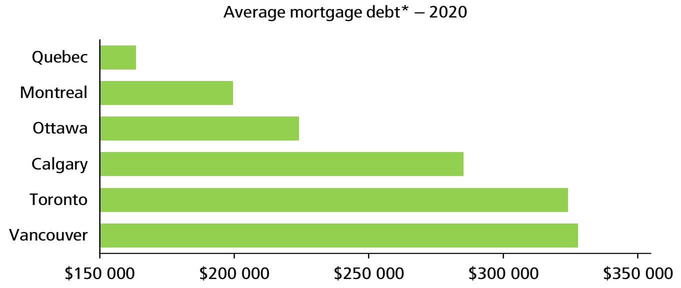
Provincially, average mortgage debt grew faster in Ontario and British Columbia, where prices are considerably higher than anywhere else in Canada (graph 5). Quebec is right on Ontario’s heels, however, followed by the Atlantic provinces and the Prairies. The average mortgage balance increased between 5% and 10% last year in three major metropolitan areas, namely Montreal, Toronto and Vancouver. However, the average mortgage amount is still much lower in Montreal due to less exorbitant prices (graphs 6 and 7 on page 3).

GRAPH 5
Mortgage debt rose more in Ontario and British Columbia



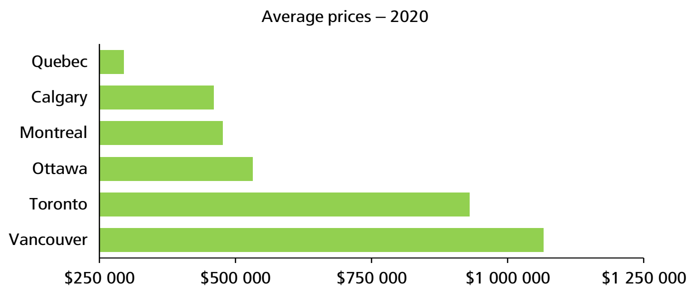
* Excluding individuals without a mortgage.
Sources: Ipsos and Desjardins, Economic Studies

GRAPH 6
Mortgage debt is still lower in the Quebec and Montreal CMAs



CMA: Census Metropolitan Areas; * Excluding individuals without a mortgage.
Sources: Ipsos and Desjardins, Economic Studies

GRAPH 7
Substantial difference in existing home prices in CMAs



CMA: Census Metropolitan Areas
Sources: Canadian Real Estate Association and Desjardins, Economic Studies

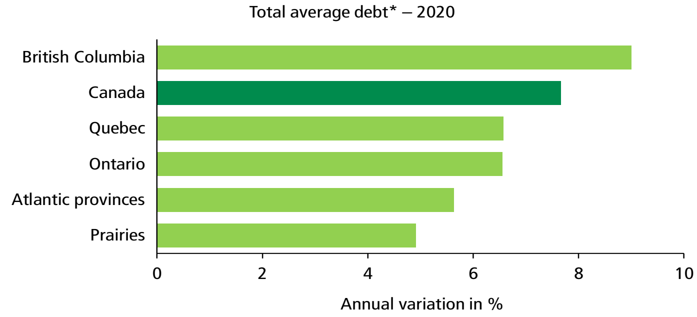
Aside from Debt, Assets Also Factor into the Equation

Despite smaller credit card and personal line of credit balances last year, strong mortgage credit growth drove up average debt as a whole across the country (graph 8). The level differs from coast to coast, however (graphs 9 and 10). Mortgage loans, which account for roughly 75% of personal debt, are behind this widespread increase in total borrowing. Canadians' overall financial situation, however, did not deteriorate last year because the value of assets outpaced that of debt.

Assets fall into two main categories: real estate assets (residential properties and recreational and motor vehicles) and financial assets, including chequing and savings accounts as well as all types of investments[1] (stocks, bonds, mutual funds and guaranteed investment certificates). Close to 60% of individuals have financial investments in Canada. This proportion is higher in British Columbia (62.6%) and Ontario (62.1%), but below 50% in Quebec and the Atlantic provinces.

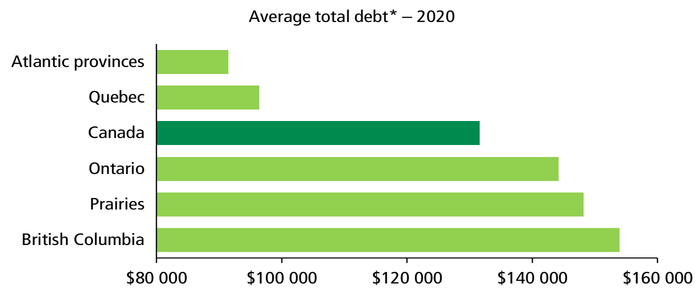
[1] Excludes the value of pension funds held with an employer.

GRAPH 8
Debt as a whole grew more in British Columbia last year



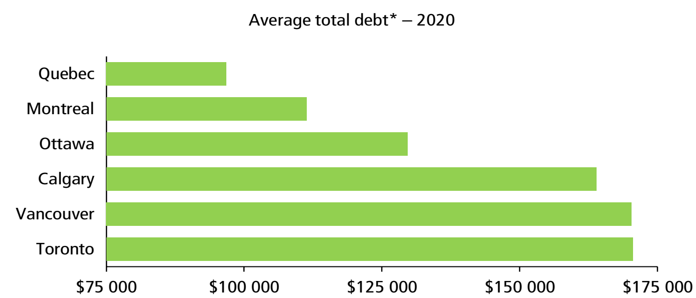
* Indebted individuals only.
Sources: Ipsos and Desjardins, Economic Studies

GRAPH 9
The value of total debt is lower in Quebec and Eastern Canada



* Indebted individuals only.
Sources: Ipsos and Desjardins, Economic Studies

GRAPH 10
Value of total debt in the country's major CMAs

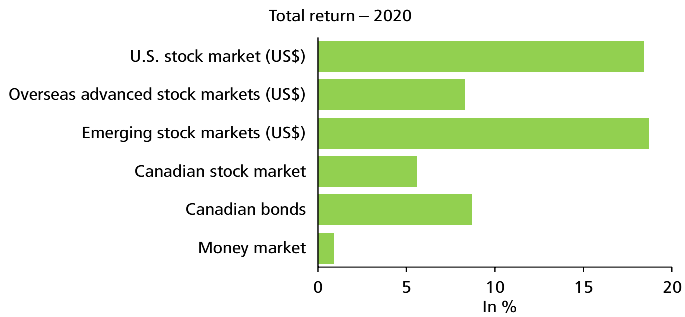


CMA: Census Metropolitan Areas; * Indebted individuals only.
Sources: Ipsos and Desjardins, Economic Studies

The value of financial assets rose sharply during the first year of the pandemic in various parts of the country. The weak spending on services and the rapid rise in income, owing to federal government emergency measures, resulted in a significant accumulation of personal savings last year. As a precaution, some of this accumulation found itself in financial institution chequing and savings accounts.

Another portion of these extra savings was invested in various investment products, whose value was boosted by solid market performance in 2020. Despite some jolts, all major asset classes saw gains last year (graph 11). Financial asset growth was even significantly more robust than growth in real estate assets, despite the strong appreciation in the residential market (table 1). Nonetheless, the value of financial assets is lower than that of real estate assets in all provinces and major CMAs in Canada.

GRAPH 11
Good financial market performance last year



Sources: Datastream and Desjardins, Economic Studies

TABLE 1
Widespread increase in the value of assets* during the first year of the pandemic

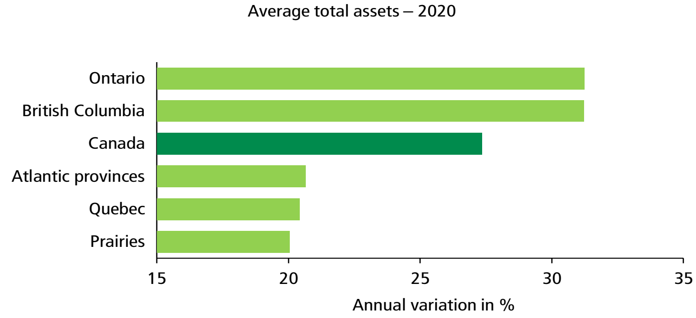
	REAL ESTATE ASSETS		FINANCIAL ASSETS**	
	Average level 2020	Variation 2019 2020	Average level 2020	Variation 2019 2020
Atlantic provinces	$300,581	+7.9%	$122,403	n/a
Quebec	$384,613	+8.4%	$111,962	+35.4%
Ontario	$859,224	+26.5%	$185,084	+40.2%
Prairies	$503,334	+10.5%	$180,732	+39.2%
British Columbia	$945,819	+23.3%	$183,808	+32.3%
Canada	$660,774	+20.2%	$162,958	+38.4%

n/a: not available; * Average asset value per individual; ** Excludes the value of employer pension plans.
Sources: Ipsos and Desjardins, Economic Studies

Key Indicator: Net Worth

To sum up, debt as a whole rose during the first year of the pandemic, but more moderately than assets (graph 12). Net worth, in other words, total assets less total debt, therefore improved in all parts of Canada in 2020 (table 2). The improvement was more significant in Ontario and British Columbia as a result of a very rapid rise in real estate prices. Net worth was up about 35% in these two provinces, compared to around 25% in Quebec, the Atlantic provinces and the Prairies. There are, however, significant disparities in net worth across Canada due mainly to property values.

GRAPH 12
Total assets saw strong growth last year, especially in Ontario and British Columbia



Sources: Ipsos and Desjardins, Economic Studies

TABLE 2
Significant increase in net worth* (assets less debt) across the country in 2020

PROVINCES	NET WORTH		CMAs	NET WORTH	
	Average level 2020	Variation 2019 2020		Average level 2020	Variation 2019 2020
Atlantic provinces	$275,865	+26.3%	Montreal	$342,069	+26.4%
Quebec	$291,263	+23.2%	Ottawa	$534,329	+41.5%
Ontario	$673,814	+36.2%	Toronto	$858,230	+35.9%
Prairies	$443,207	+24.0%	Calgary	$569,993	+19.9%
British Columbia	$703,515	+33.7%	Vancouver	$846,438	+35.1%
Canada	4520,003	+31.6%	Quebec	$284,013	+11.0%

CMA: Census Metropolitan Areas; * Average asset value per individual.
Sources: Ipsos and Desjardins, Economic Studies

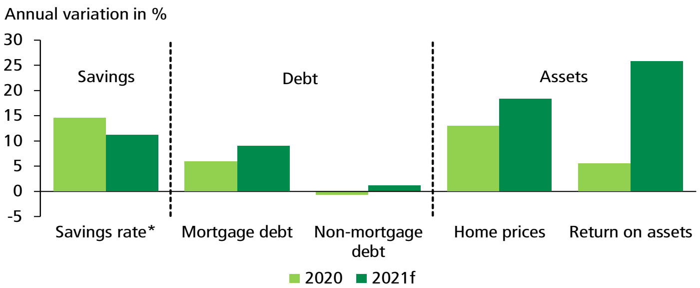
Although Canadians' financial situation improved overall since the start of the pandemic, that is not necessarily the case for all borrowers. The situation can vary depending on the income profile, employment status, debt size and savings accumulated over the years. Some borrowers are also struggling more now than before the pandemic to pay back their debt following prolonged job loss, for example. Also, it is not automatically easier to make monthly debt payments when the value of assets rises. In the case of real estate assets, the amount is not available until after the home is sold.

Financial assets are usually more liquid, but their value generally depends on market fluctuations, withdrawal timing and the tax bill associated with the sale of some types of investments. The financial situation, or net worth, is comparable to a photo that can quickly change after a major shock, such as a housing correction, a financial crisis or a significant interest rate hike. Households whose net worth depends on extensive real estate assets financed by large loans are particularly vulnerable to a spike in interest rates. This may not only increase mortgage financing costs, but also negatively affect the value of the real estate asset in the event of a price correction. These risks must be taken into account. Less vulnerable are the approximately 30% of Canadians with no debt.

What about the Second Year of the Pandemic?

Broadly speaking, the first year of the pandemic had positive effects on Canadians' financial situation across the country. The second year is different. Government assistance is less generous and is coming to an end, but savings remained unusually high in the first half of the year. Some of those extra savings will gradually be spent as services and borders reopen. Credit card and line of credit balances seem to be trending up again after the period of respite. The average price of a home will rise sharply again this year. Mortgage credit therefore continues to grow, just like the value of real estate assets (graph 13). Some financial assets are on track for good returns this year. Overall, Canadians should still see a slight improvement in their financial situation in 2021.

GRAPH 13
Canadians' financial situation should improve in 2021: assets will grow even faster than debt



f: Desjardins forecasts; * Level in percentage.
Sources: Statistics Canada, Datastream, Canadian Real Estate Association and Desjardins, Economic Studies