Economic Viewpoint

Desjardins Economic Studies
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Update*: Quebec households' financial situation

Debt and asset value have both increased over the last 15 years

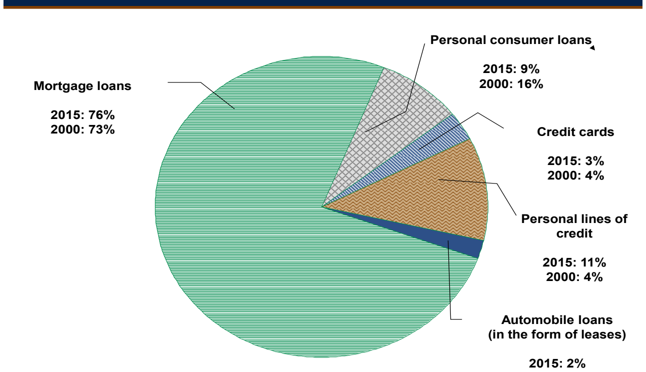
It is a well-known fact that Quebecers' debt loads have risen rapidly since 2000. The rise by average home prices and home-buying have, among other things, inflated mortgage credit over this time. This has also led to an increase in the value of assets, so that the balance sheets of borrowers as a whole have stayed relatively healthy in the province. Still, the context could deteriorate quickly if a major unforeseen event were to affect the value of their assets. Households are never completely safe from a brutal stock market shock or a major correction in home prices. Yet their financial standing is just as solid as it was 15 years ago. The risks are no greater now than they were then, as the proportion of vulnerable households has not gone up.

RISE BY DEBT

According to the data from the Ipsos Reid survey for Quebec, average debt per household was around $80,000 in 2015; it was around $42,000 in 2000. The loans held by indebted households have nearly doubled in 15 years, while the general level of consumer prices have risen about 30%. This includes all types of debt: mortgages, consumer loans, credit cards, personal lines of credit and automobile loans in the form of leases. Over the years, the composition of the borrowing has not shifted much (graph 1). Borrowing to buy a home still accounts for about three-quarters of household debt. Debt from credit cards and automobile loans in the form of leases still account for the smallest portion. The only major change: personal lines of credit have grown to the detriment of conventional consumer loans due to the rise of mortgage credit lines.

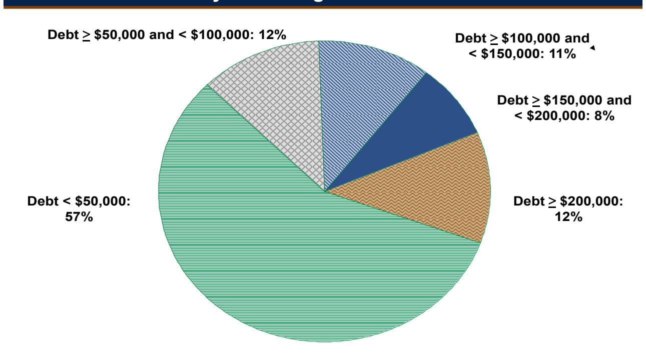
In tandem with the rise by average debt, loan amounts have shot up for many households. The move toward home buying and sharp increase in home prices have helped inflate mortgages for many and, accordingly, their total financial commitments. Today, approximately 20% of households have loans greater than $150,000 compared with 3% in 2000. In 12% of cases, the debt load is above $200,000, and it ranges between $150,000 and $200,000 for 8% of households (graph 2). Conversely, those who bought property before prices skyrocketed in the 2000s and have only gradually paid down their mortgages in the last 15 years have decreased their debt loads. More than half of indebted households had less than $50,000 in loans in 2015.

Graph 1 Composition of loans of indebted Quebec households



Sources: Ipsos Reid and Desjardins, Economic Studies

Graph 2 Breakdown of indebted Quebec households by borrowing level in 2015



Sources: Ipsos Reid and Desjardins, Economic Studies

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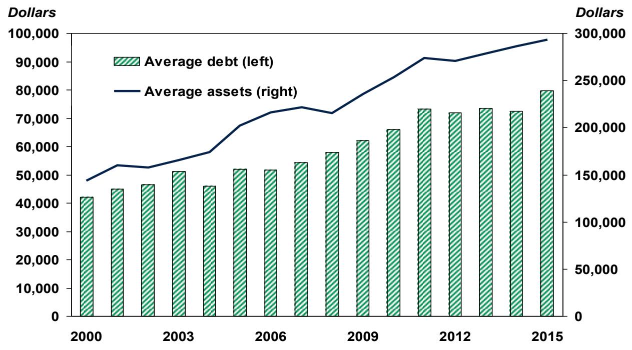
QUICK RISE BY ASSETS

What about assets? On average, total assets were close to $300,000 per household last year, compared with $145,000 in 2000 (graph 3). The average value of indebted households' assets has therefore more than doubled, rising a little more quickly than the value of loans. Assets include both financial and non-financial assets, such as homes, cars, furniture and personal property.

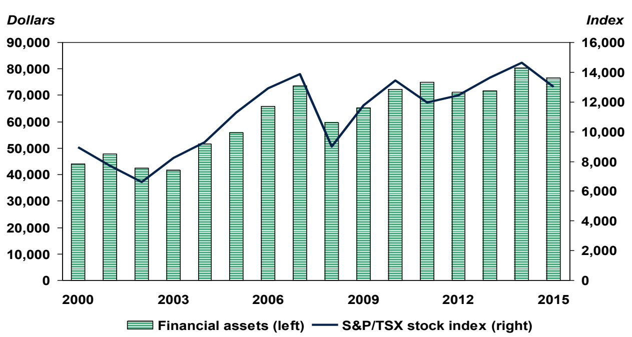
Graph 3 In Quebec, indebted household debt has almost grown at the same pace as household assets



Sources: Ipsos Reid and Desjardins, Economic Studies

The value of financial assets[1] held in the form of chequing and savings accounts and by investment type (bonds and other guaranteed investments, mutual funds and equity) has increased moderately. More than almost 20% of households' total assets are held as investments. Despite the major stock market correction in 2007-2008, financial assets have increased in the last 15 years (graph 4). Their average value increased from about $45,000 in 2000 to more than $75,000 last year.

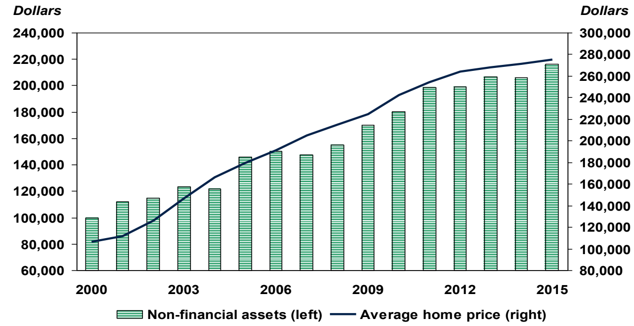
Graph 4 In Quebec, the financial assets of indebted households are closely linked to stock market movement



Sources: Ipsos Reid, Datastream and Desjardins, Economic Studies

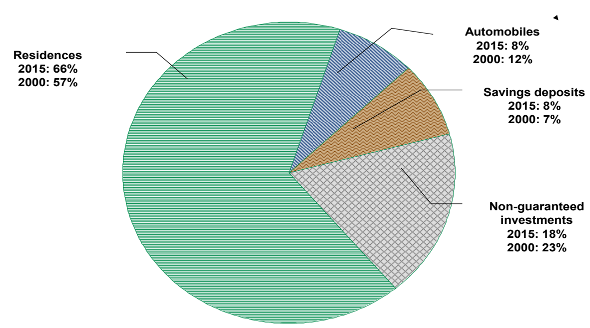
The rise in the average home price, which went from about $100,000 in 2000 to $275,000 last year, is the main reason behind the solid increase in households' non-financial assets (graph 5). Homes account for two-thirds of the assets of indebted Quebecers, a greater proportion than 15 years ago (graph 6). Given that properties have gained more value than other items in Quebecers' assets, the share of other types of assets (non real estate) has lessened over time.

Graph 5 In Quebec, the non financial assets of indebted households have grown with the rise in home prices



Sources: Ipsos Reid, Fédération des chambres immobilières du Québec via the Centris® system and Desjardins, Economic Studies

Graph 6 Asset composition of indebted Quebec households

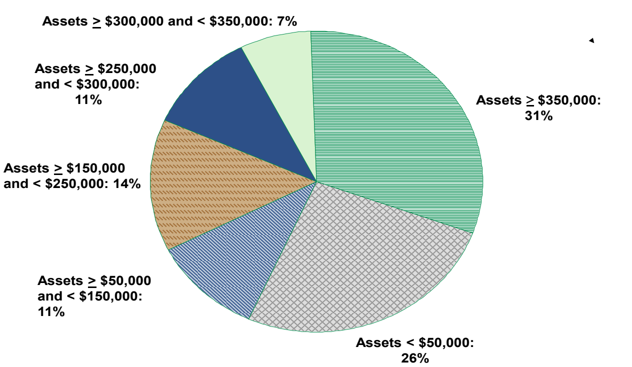


Sources: Ipsos Reid and Desjardins, Economic Studies

[1] Assets held in pension funds were not considered: this type of asset is not liquid, i.e. it cannot be used to pay off debts during the employee's working life.

The increase in the total value of household assets has changed the distribution of households by asset level substantially. More than 30% of households now have more than $350,000 in assets; 15 years ago, they accounted for less than 10% (graph 7). The proportion of indebted households with assets ranging from $250,000 to $350,000 went from 8% in 2000 to 18% in 2015. Lastly, about one-quarter of households have less than $50,000 in assets, a much smaller number than previously.

Graph 7 Breakdown of indebted Quebec households by total assets in 2015

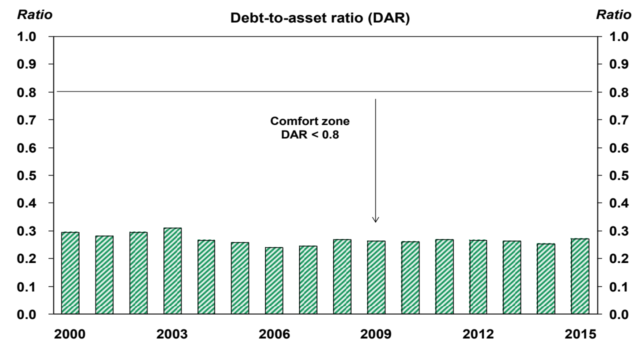


Sources: Ipsos Reid and Desjardins, Economic Studies

WEIGHT OF VULNERABLE HOUSEHOLDS

Over the last 15 years, the rise in Quebecers' debt has come with an almost equivalent increase in their assets. Accordingly, the debt-to-asset ratio (DAR) has been almost stable, oscillating in a band of 0.2 to 0.3 (graph 8), a level deemed comfortable. According to a study by Statistics Canada,[2] a ratio of 0.8, or 80%, is considered high. Beyond that level, households are in the discomfort zone, as their assets could not be enough to cover their loans.

Graph 8 The indebted household debt to asset ratio has been quite low for the last 15 years in Quebec



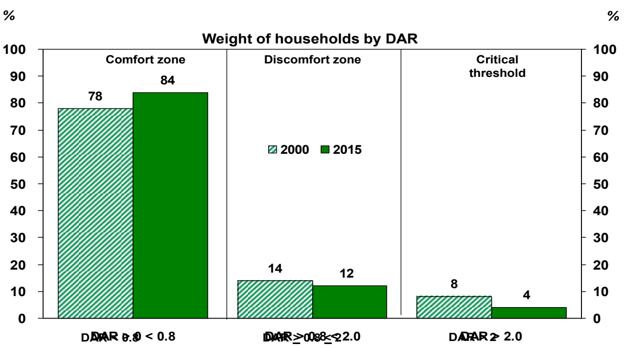
Sources: Ipsos Reid and Desjardins, Economic Studies

Beyond the general debt-to-asset ratio trend, it is its distribution that helps better pinpoint the proportion of households that may not be able to meet their financial obligations. Work by the Bank of Canada and Statistics Canada has established criteria to better identify how vulnerable households are. The ratio that assesses the degree to which households can cover their debts through their assets can be associated with a financial comfort zone (DAR < 0.8), a financial discomfort zone (DAR ≥ 0.8 and ≤ 2), and the insolvency threshold (DAR > 2). The bigger debt load a household has, the more vulnerable it is to events that could affect the value of its assets. A sudden, ongoing devaluation of its assets, such as a plunge by home prices or sharp stock market correction, could lead to major financial difficulties for households that already have a high debt-to-asset ratio. If revenue decrease caused by job loss, seraration or a serious illness, the situation can quickly become critical when the debt burden is high.

[2] MATT, Hurst, "Debt and family type in Canada," Statistics Canada, Canadian Social Trends, catalogue no 11-008-X, 21 April 2011.

The vast majority of Quebec households—about 84%—are in the financial comfort zone, which is rather reassuring (graph 9). The proportion of households in the discomfort zone is still considerable, at about 12%, and merits special attention. Households with DARs above 2 are in the minority. More specifically, 4% of households were above the insolvency threshold in 2015, only half as many as there were 15 years ago. While households in this category are not all struggling financially, those who become insolvent usually have debts that are double their assets.

Graph 9 Breakdown of indebted households by debt to asset ratio (DAR)



Sources: Ipsos Reid and Desjardins, Economic Studies

CONCLUSION

Quebecers' debt loads have risen rapidly in the last 15 years, but the value of their assets has gone up just as much. Overall, households' financial situation does not seem any more precarious than it did in the early 2000s, as the debt-to-asset ratio has barely changed. However, the breakdown of households shows that more than 12% are out of their financial comfort zone. Nearly 4% have debt-to-asset ratios above the critical threshold that is usually associated with financial insolvency. The situation seems no riskier than it did at the start of the 2000s, since the proportion of vulnerable households is half what it was 15 years ago.

Regardless of what happens to the value of assets, households still have an obligation to repay their debts. Their ability to meet their monthly payments could be tested if household income were to drop sharply or interest rates unexpectedly increase. The impact of such events will be analyzed in an upcoming Economic Viewpoint.

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* Publications précédentes: Desjardins, Economic Studies, Economic Viewpoint *"Financial position of households in Quebec and Ontario"*, April 7, 2015 https://www.desjardins.com/ressources/pdf/pv1504e.pdf?resVer=1428416507000 and Economic Viewpoint *"Simulation results: If residential property prices were to decline, what impact would this have on the financial position of Quebec's households?"*, May 6, 2014 https://www.desjardins.com/ressources/pdf/pv140506e.pdf?resVer=1399381726000