

**CIRANO note based on a report by Maxime Desmarais-Tremblay and  
François Vaillancourt, March 2012**

This report examines the evolution of the balance sheets, i.e. the assets and liabilities, of individuals and sole proprietorships in Canada since 1961. Over the past fifty years, cultural and regulatory changes, along with financial innovation made possible by the opening of international markets, have transformed how individuals relate to financial wealth and indebtedness. On one hand, Canada's economic growth has allowed households to become wealthier in real terms and, on the other hand, individuals' perception of debt has changed—it is no longer seen as morally dubious, but rather as mainstream and accepted behaviour. Therefore, in light both of these changes, which have created easy access to credit and thus contributed to indebtedness, and of financial innovation, this type of analysis has acquired a particular relevancy.

The first finding is that per-capita net aggregate worth (the difference between assets and liabilities) on the balance sheet of Canadian individuals has shown virtually uninterrupted growth since 1961. This growth is less attributable to the acquisition of new assets (active saving) than to an increase in the value of residences and financial assets (passive saving). This increase in wealth has also contributed to an increase in consumption and a decline in the active savings rate in the past 20 years.

Nonetheless, assets have grown more slowly than debt. This gives rise to another finding, to wit that the household debt load, mostly in the form of consumer credit and mortgages, is high and rising. Thus, the average balance on lines of credit has

risen by 230 %. This is due to an increase of 77 % in the number of households running a balance on their lines of credit, especially thanks to the proliferation of home equity lines of credit. If Canadians wish to maintain their net worth over the long term, they will have to reduce their debt level.

The authors also find that the economic crisis of 2008 had little impact on households' balance sheets and consumption, but that it did result in a small increase in their active savings rate.

In order to better understand and forecast the link between net value, indebtedness, and saving, the authors recommend improving measures of (i) the evolution of the Canadian real estate market (e.g. prices) and, in particular, its impact on the rest of the economy; and (ii) the extent, causes, and consequences of the shortfall in savings among some categories of households, which could be done by carrying out more regularly Statistics Canada's Survey of Financial Security. They also advocate better financial education of the public and a reform of the pension plan to adapt it to a changing labour market and demographic shifts.

The full study (French only) is available on CIRANO's Website at:

<http://www.cirano.qc.ca/pdf/publication/2011RP-17.pdf>