



November 14, 2017

Canada: Money klutzes?

Clients have asked us to comment on a front-page column in last week's Globe and Mail. According to this piece, Canadians are financial illiterates who borrow money "despite weak economic growth that has kept a tight lid on income growth" (see below).

Globe Investor

Low interest rates have turned us into a country of money klutzes

??



ROB CARRICK
rcarrick@globeandmail.com

The single worst thing to happen to this country's personal finances in the past 10 years is the decline in interest rates.

Remember that as we make our way through another Financial Literacy Month, with its helpful suggestions from government agencies, banks and others. There's a view that we can teach our way to better standards of financial literacy, and it's valid for sure as long as it's done in a way that engages people.

But we also have to recognize that high debt loads and modest savings rates aren't personal choices made in a vacuum. They're also a response to economic condi-

tions that would have seemed freakish a decade or more ago. In a sense, we have the level of financial savvy we deserve, based on the country's economic policies.

This is a world problem, not something unique to Canada. The global financial crisis that began 10 years ago drained the energy from large parts of the global economy and interest-rate cuts were used to keep individuals and businesses spending. The response from Canadians was massive. Almost immediately, people started borrowing money to buy houses, cars and other things.

The ratio of debt-to-disposable income has risen steadily and sits at a record 167.8 per cent as of the most recent tally. In a sense, this earns us a failing grade on financial literacy. We borrowed more despite weak economic growth that has kept a tight lid on income growth and put many people into temporary instead of permanent jobs.

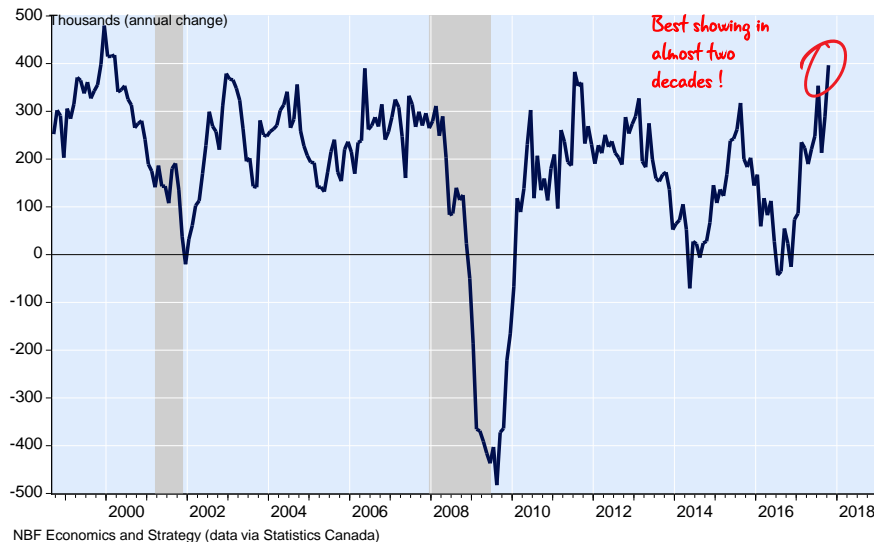
Carrick, Page 12

Front page of
Globe & Mail
Nov. 7, 2017



We beg to differ. First, the growth of full-time employment has been stellar in the last 12 months. The country has created 400,000 full-time jobs over the past year, the best performance in two decades (chart).

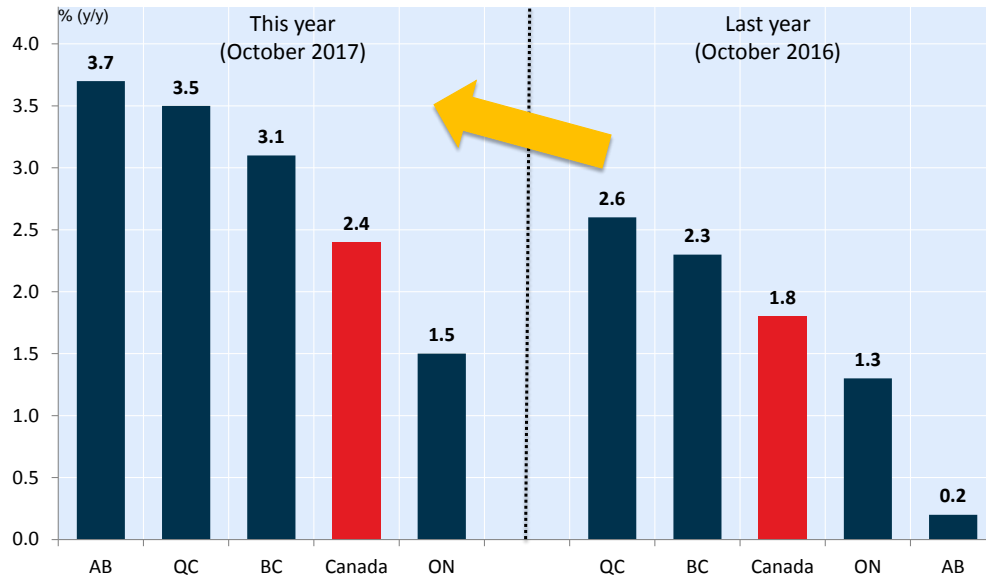
Canada: Growth of full-time employment



One would expect wage growth to heat up a little in these conditions, and that's exactly what's happening. In October, as the chart below shows, the 12-month growth of the average hourly wage stood at 2.4% countrywide, up from 1.8% a year earlier. Note that Ontario is the only one of the big-four provinces trailing the national average (1.5%). We think it's a matter of time before Canada's largest province catches up, given the 100,000 surge of full-time jobs reported in the last two months.

Canada: Accelerating wage growth

Growth in average hourly wages in the big-four provinces: 2017 vs 2016

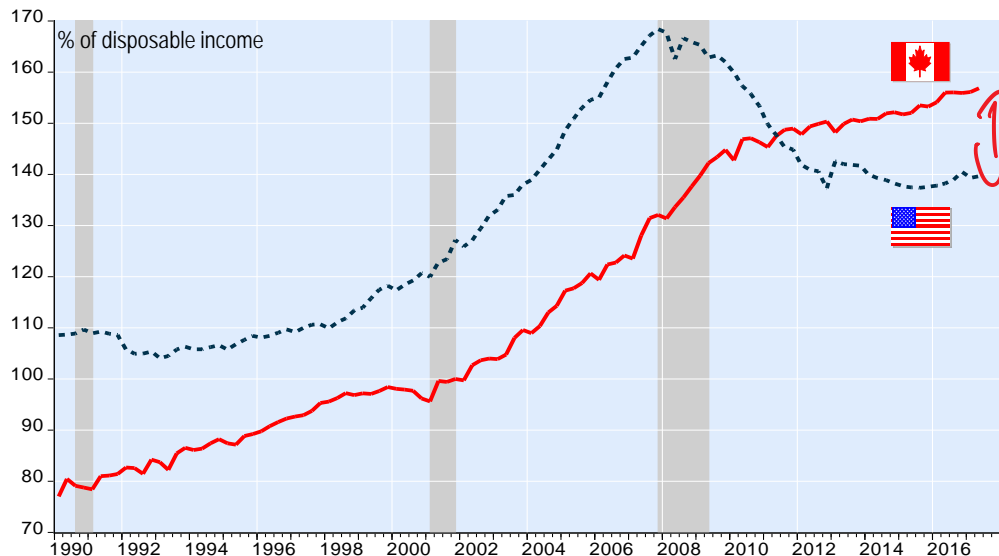


NBF Economics and Strategy (data via Statistics Canada, Teranet-NBC, CREA)

Okay, so labour markets are doing well and wage growth is picking up. But that's not enough to explain the current disconnect between Canada and the U.S. in their ratios of debt to disposable income. After all, labour markets in the U.S. have also improved and household indebtedness is not rising south of the border (chart).

Household indebtedness: Canada vs. the U.S.

Households & non-profit organizations debt-to-disposable-income

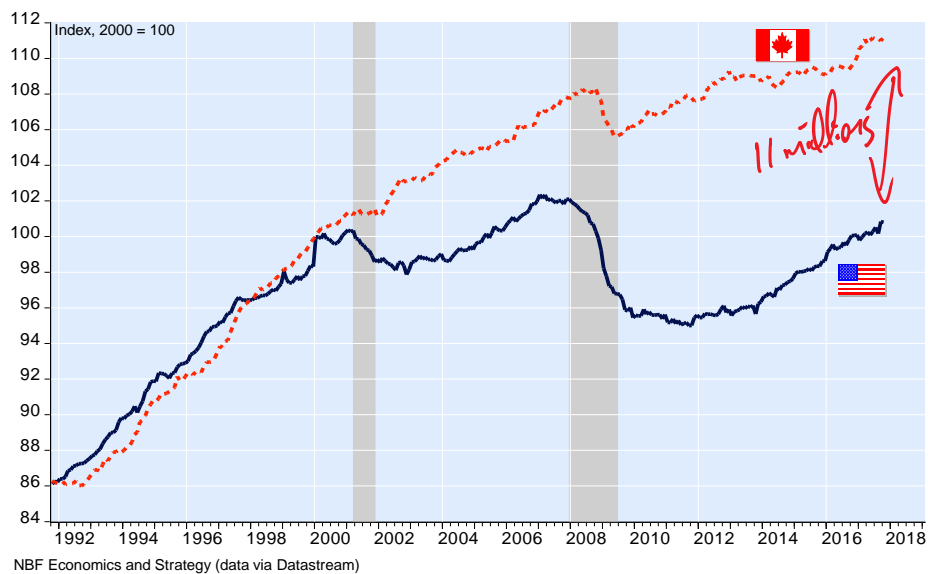


NBF Economics and Strategy, data from Statistics Canada, Federal Reserve and BEA through Thomson-Reuters

To understand this divergence of debt ratios we need to look at the underlying demographics. The propensity to use leverage varies with age. The more jobs created for prime-age workers (people aged 25-54), the greater the ratio of debt to disposable income. And in Canada, a record number of people aged 25-54 were employed last month. As the chart below shows, prime-age employment in Canada is up 11% from 2000. In the U.S., on the other hand, employment of that cohort of workers is no higher now than it was 18 years ago. If the U.S. had performed like Canada, its prime-age workforce would be 11 million larger than it is now. The divergence is accounted for by a decoupling not only of the labour force participation rate but also of prime-age population growth. As the second chart below illustrates, the U.S. population aged 25-54 is essentially the same as it was a decade ago while Canada's is almost 8% higher.

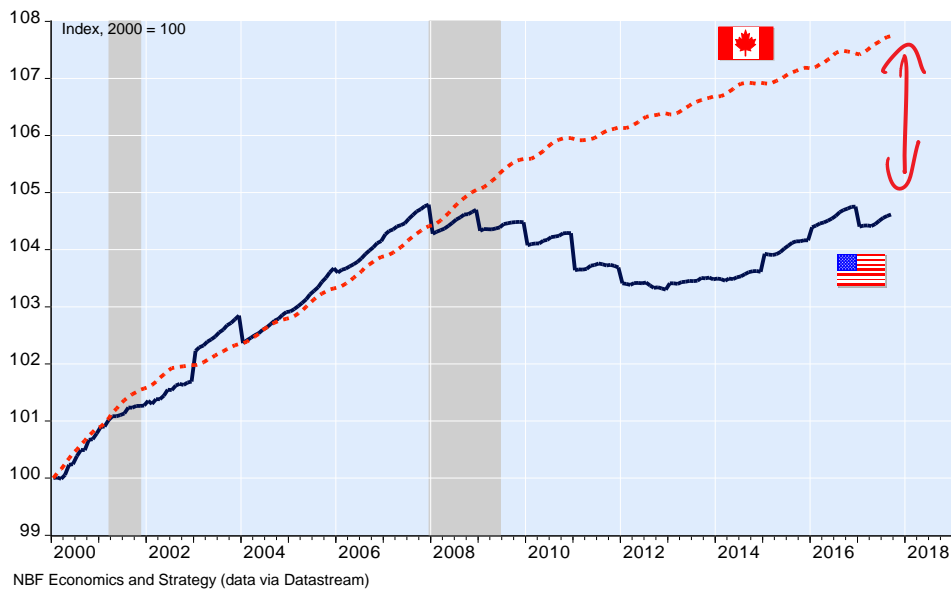
Prime age employment since 1992

Employment for people aged 25-54: Canada vs. the U.S.



Prime-age population since 2000

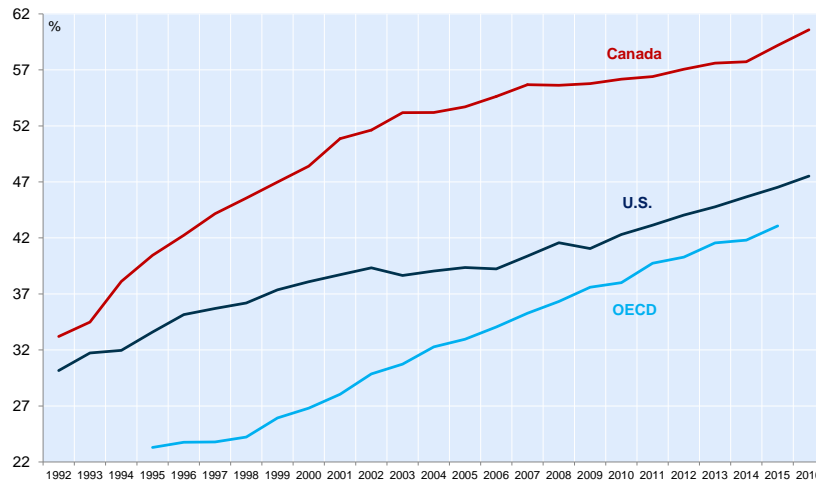
Population aged 25-54: Canada vs. the U.S.



There's more. The higher your education level, the more likely you are to support a higher debt load because your income will tend to be higher. Here too we see a significant Canada-U.S. difference. As the chart below shows, the proportion of 25- to 34-year olds with post-secondary education rose to a record 61% last year. The gap between Canada and the U.S., which was slight in the early 1990s, is now a whopping 13 percentage points. This divergence coupled with a the higher proportion of student debt south of the border helps explain why the homeownership rate for people aged less than 35 is 43.1% in Canada vs. 34.6% in the U.S. (chart).

Canada: Education rate is still rising

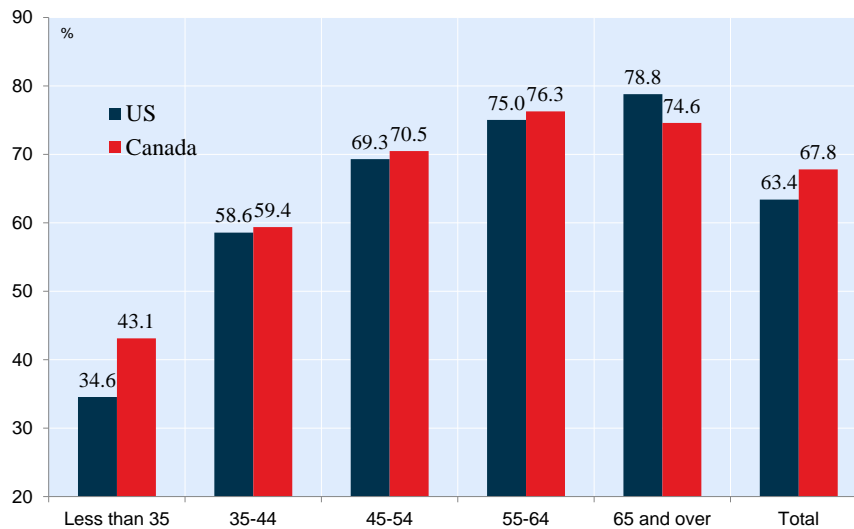
Share of population aged 25-34 with post-secondary education



NBF Economics and Strategy (OECD data via <https://data.oecd.org/eduatt/population-with-tertiary-education.htm>)

Canada: Perspective on homeownership rate

Homeownership rate in Canada and United States (2016)



NBF Economics and Strategy (data via Statistics Canada and U.S. Census)

Bottom line: Much of the uptrend in Canada's ratio of debt to disposable income can be explained by the type of jobs being created (full-time) and the age cohort accounting for the bulk of new employment (people aged 25-54). Are Canadians money klutzes? We don't think so.

Economics and Strategy

Montreal Office

514-879-2529

Stéfane Marion

Chief Economist and Strategist
stefane.marion@nbc.ca

Paul-André Pinsonnault

Senior Fixed Income Economist
paulandre.pinsonnault@nbc.ca

Krishen Rangasamy

Senior Economist
krishen.rangasamy@nbc.ca

Marc Pinsonneault

Senior Economist
marc.pinsonneault@nbc.ca

Matthieu Arseneau

Senior Economist
matthieu.arseneau@nbc.ca

Angelo Katsoras

Geopolitical Analyst
angelo.katsoras@nbc.ca

Kyle Dahms

Economist
kyle.dahms@nbc.ca

Jocelyn Paquet

Economist
jocelyn.paquet@nbc.ca

Toronto Office

416-869-8598

Warren Lovely

MD, Public Sector Research and Strategy
warren.lovely@nbc.ca

General – National Bank Financial (NBF) is an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on Canadian stock exchanges.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein.

Research Analysts – The Research Analyst(s) who prepare these reports certify that their respective report accurately reflects his or her personal opinion and that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views as to the securities or companies.

NBF compensates its Research Analysts from a variety of sources. The Research Department is a cost centre and is funded by the business activities of NBF including, Institutional Equity Sales and Trading, Retail Sales, the correspondent clearing business, and Corporate and Investment Banking. Since the revenues from these businesses vary, the funds for research compensation vary. No one business line has a greater influence than any other for Research Analyst compensation.

Canadian Residents – In respect of the distribution of this report in Canada, NBF accepts responsibility for its contents. To make further inquiry related to this report, Canadian residents should contact their NBF professional representative. To effect any transaction, Canadian residents should contact their NBF Investment advisor.

U.S. Residents – With respect to the distribution of this report in the United States, National Bank of Canada Financial Inc. (NBCFI) is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC). This report has been prepared in whole or in part by, research analysts employed by non-US affiliates of NBCFI that are not registered as broker/dealers in the US. These non-US research analysts are not registered as associated persons of NBCFI and are not licensed or qualified as research analysts with FINRA or any other US regulatory authority and, accordingly, may not be subject (among other things) to FINRA restrictions regarding communications by a research analyst with the subject company, public appearances by research analysts and trading securities held a research analyst account.

All of the views expressed in this research report accurately reflect the research analysts' personal views regarding any and all of the subject securities or issuers. No part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. The analyst responsible for the production of this report certifies that the views expressed herein reflect his or her accurate personal and technical judgment at the moment of publication. Because the views of analysts may differ, members of the National Bank Financial Group may have or may in the future issue reports that are inconsistent with this report, or that reach conclusions different from those in this report. To make further inquiry related to this report, United States residents should contact their NBCFI registered representative.

UK Residents – In respect of the distribution of this report to UK residents, National Bank Financial Inc. has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). National Bank Financial Inc. and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this report, or may act or have acted as investment and/or commercial banker with respect thereto. The value of investments can go down as well as up. Past performance will not necessarily be repeated in the future. The investments contained in this report are not available to retail customers. This report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. National Bank Financial Inc. is authorised and regulated by the Financial Conduct Authority and has its registered office at 71 Fenchurch Street, London, EC3M 4HD.

National Bank Financial Inc. is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

HK Residents – With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) regulated activity, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including NBF, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

Copyright – This report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of National Bank Financial.