CPA CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

Household Finances in Canada

Time for a Reality Check!

ECONOMIC RESEARCH

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CANADA

Household Finances in Canada

Time for a Reality Check!

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CHAPTER 1
Executive summary

The sharp decline in oil prices since mid-2014 has resulted in considerable uncertainty about the outlook for the Canadian economy. There are signs the economy and economic fundamentals are weakening at a time when high levels of household indebtedness has been consistently identified by the Bank of Canada as one of the key vulnerabilities in the Canadian financial system.

CPA Canada has tracked the issue of Canadians' household debt for years.[1] In light of the recent economic uncertainty, we decided to look at how Canadian households now view their economic wellbeing and financial stresses. We assessed opinions of Canadian households before and after the 2014 oil price and interest rate decline. In addition, we reconciled these perceptions with statistical measures of household indebtedness and wealth.

Our surveys led to the conclusion that high levels of indebtedness continue to make Canadian households vulnerable to changes in the economy, yet few are taking the financial planning measures needed to prepare themselves for a potentially negative financial shock. This outcome may not be surprising; financial behaviours are largely driven by perceptions and, while the oil price decline may have a direct and negative affect on many Canadian households, the combination of lower gas prices and interest rates may create a feeling of greater financial comfort for others. A reality check is needed. Recent, albeit potentially short-term, changes indicate a possible deterioration in the economy is underway. Canadian households need to pay more attention to signs of changes in the economy and their financial planning needs to protect their long-term financial wellbeing.

1 Prior to October 2014, this work was carried out by one of the CPA Canada's legacies bodies – the Certified General Accountants Association of Canada.

Our conclusions include the following:

> ***Households' perceptions are not responsive to signs indicating a possible deterioration in the economic environment; however, households are aware of their susceptibility to specific negative financial shocks.***
>
> A number of recent developments suggest a possible deterioration of Canada's economic prospects; those include the decline in international oil prices and Bank of Canada's target interest rate. However, households outside Alberta did not view these changes as having the potential to affect their financial wellbeing:
>
> - Nearly half (49%) of households said these changes would not have a noticeable impact on their financial wellbeing over the next 12 months.
> - In total, 34% of households said the changes in oil prices and interest rates were likely to prompt them to decrease their current pace of savings, while 22% thought they were likely to borrow more than was initially planned as a result of the shift in economic conditions.
> - Further, households that reported having no wealth were much more likely to say that the changing economic environment would prompt them into more extensive borrowing and lesser effort of saving.
>
> While providing substantive insight into provincial or regional differences is difficult without a deeper level of data, it is clear from the survey results that households in Alberta are different than in the rest of the country, likely because Albertans will be more directly affected by the recent decline in oil prices. While only 16% of Canadians surveyed expected a negative change in their financial situation because of changes in the economic outlook, 34% of Albertans expected to be negatively affected by such change.

Our primary finding is supported by evidence that the behaviour and attitudes of households has changed very little in the face of the change in economic outlook and the increased uncertainty since mid-2014.

A comparison of the results from the two waves of CPA Canada's Households Public Opinion survey—spring of 2014 and winter of 2015—suggests that households did not noticeably change their approach to managing finances in light of the shifting economic conditions and the attention drawn to those developments by various observers. By comparison, when asked how they would react to a specific, quantifiable economic shock, households showed both understanding and the willing to take appropriate financial measures to protect their wealth.

For example:

- Seventy-nine per cent of mortgage holders agreed they would have to make adjustments to meet their mortgage obligations should their household income decline by 25% for at least three months. Forty per cent of mortgage holders said they would have to cut back on spending and the same percentage said they would have to use cash or money in savings accounts to ensure mortgage obligations were met.
- All property owners felt that a 15% decline in housing prices would be associated with some negative consequences in addition to psychological discomfort. Twenty-four per cent of property owners said the decline in housing prices would reduce their retirement savings, while 21% thought they would have to cut spending. The perceived impact of the price decline was greater for non-retired households and those with lower levels of equity in their homes.

While Canadian households rate themselves highly in terms of financial discipline, not many households are paying attention to signals of potential economic weakness and are taking measures that could help mitigate financial vulnerability.

A total of 65% of Canadian households assessed the level of their financial discipline as somewhat or very strong. However:

- Only 60% of households with debt said they paid off a portion of their outstanding debt on a regular basis (weekly, bi-weekly, monthly, etc.). Forty-one per cent of households with home equity lines of credit (HELOCs) did not make regular payments that covered both interest and principal to repay the outstanding balance. More than half (53%) of non-retired households said they did not save on a regular basis and 30% of households reported that they had no wealth.
- Few households said they kept themselves well informed regarding the value of their wealth: 25% had either never calculated their wealth or last calculated it about a year or more ago; as many as 20% of those surveyed did not remember when their household last assessed the value of its wealth.
- Few households monitored changes in external economic and regulatory conditions; 24% of households said they did not usually watch the key external factors that could affect their financial wellbeing.
- A full 51% of non-retired households said they did not have a special reserve fund for unexpected financial emergencies. About a fifth of those who had such a fund said that the emergency savings would allow their household to cover regular expenses for no longer than four weeks.

Canadian households maintain high levels of financial confidence in the face of a potential deterioration. The decline in consumer insolvencies, the strong ability to build wealth and a relative moderation in growth of debt may be factors that support household confidence.

The confidence is indicated through a number of positive findings from the survey including:

- The overwhelming majority (79%) of households said they did not fall behind on any type of payments in the past 12 months; and 59% of households gauged that they were living comfortably or doing alright financially.
- Some 70% of mortgage holders reported having no difficulties making mortgage payments.
- Only 19% of households assessed their financial situation as somewhat or very difficult, and only 7% of mortgage holders said making mortgage payments was a constant financial struggle for them.

In addition, statistical data shows:

- Canadian households accumulated net worth at an annual average rate of 5.7% from 2012 to 2014; this outpaced growth during the post-recession economic recovery and came fairly close to the 6.8% average annual rate experienced between 2003 and 2007—the period of the most robust economic growth.
- The dynamic of the net worth-to-disposable income ratio showed that household wealth grew faster than personal disposable income over the past several years and particularly from 2012 to 2014.
- The number of Canadian consumer insolvencies has consistently declined at an annual average rate of 6.2% since its recession peak in 2009; the decline in insolvencies was due solely to a significant reduction in consumer bankruptcies.
- The year-to-year growth of household debt[2] (adjusted for inflation and population growth) declined from 7.3% at the end of 2009 to as low as 1.9% at the end of 2014; at this level, the growth rate was well below its long-term average.
- The debt-to-assets ratio has also noticeably declined since 2009 and particularly over the past two years while the pace of growth of the debt-to-income ratio has slowed considerably over the same period and the debt-service ratio continued its steady decline.

2 Household debt refers to a sum of consumer credit, mortgage loans and non-mortgage loans.

Despite these positive indicators, it is important to recognize that over the last two quarters of 2014 both the rate of debt expansion (adjusted for inflation and population growth) and the debt-to-income ratio have tilted upwards, though slightly. Given the current uncertainty in the economic outlook, this emerging change in the trend may prove to be the beginning of a new growth wave of household debt. As such it is critical that Canadian households pay attention to the changes in economic indicators and take the actions needed to protect against a potential negative financial shock should it materialize. This may require behavioural change that cannot be directly influenced through a quick public policy solution. The best approach may be through initiation of a broad-based, open, national dialogue that would engage Canadians with governments and other stakeholders on the subject of financial capability with the intent to find a way for Canadians to both gain and effectively utilize financial knowledge.

CHAPTER 2
Introduction

More than five years have passed since Canada came out of the 2008/2009 recession. Although Canada quickly recovered and surpassed pre-recession levels of employment and economic activity, the recession did cause substantial damage.

Canada's economic growth has become increasingly unbalanced, relying progressively on consumption, appreciation in the housing market and increased indebtedness of Canadians. The recovery of non-energy exports was delayed because capacity in some export subsectors was permanently withdrawn from production due to recession-prompted factory closure and other restructurings.[3] Potential output growth is expected to be lower than it was in the years leading to the recession due to productivity challenges, and demographic and labour factors.[4] Inflation has remained low and is expected to drift down, depressing prices and wages, and thus suppressing growth. The labour market continues to present significant unused capacity despite improvements in economic growth. Moreover, the progress in Canada's economic activity is still assisted by the monetary stimulus that is in place.

The sharp decline in oil prices that began in mid-2014 points to considerable uncertainty in the outlook for the Canadian economy. Crude oil prices fell below $50 per barrel in January 2015, hammered by a growing supply glut and weak global demand. This marked a nearly 60% drop since the peak price of $115 per barrel in June 2014. In the short term, lower oil prices may benefit consumers and exporters through reduced gas prices and strengthening of the U.S. economy. Over the longer term, the decline in oil prices is expected to

3 Bank of Canada (2014), *The Legacy of the Financial Crisis: What We Know, and What We Don't*, Remarks by Stephen S. Poloz at the Canadian Council for Public-Private Partnerships, November 3, 2014.

4 Bank of Canada (2014), *Monetary Policy and the Underwhelming Recovery,* Remarks by Carolyn Wilkins at the CFA Society Toronto, September 22, 2014.

have a negative impact on the Canadian economy as income from oil exports will be reduced, and investment intentions and employment in the energy sector will decline, with adverse effects spilling over into industries in the energy sector's supply chain.

Early signs of weakening of the economy and economic fundamentals have emerged. Canadian real GDP fell 0.2% in November 2014 led primarily by contractions in manufacturing, mining, and oil and gas extraction. The Canadian economic outlook for 2015 has been markedly revised down to 2.1% from 2.4% projected in October 2014.[5] The Bank of Canada's policy rate was cut to 0.75% in January 2015 as "insurance" against the emerging downside risks.

Over the past years, the high level of household indebtedness has been consistently identified by the Bank of Canada as one of the key vulnerabilities in the Canadian financial system. Lower interest rates may further nudge households into increased borrowing and seeking riskier assets with higher returns; meanwhile, deteriorating terms-of-trade from lower oil prices may lead to higher unemployment and restrained income growth. The increased uncertainty in the outlook brings an additional dimension to the analysis of household indebtedness: we should look at not only how the level of indebtedness has changed over time, but what this means in the face of dynamic economic conditions.

Research[6] shows that economies with high household indebtedness suffer from more volatile consumption patterns during negative economic shocks, more severe housing busts and deeper and longer recessions compared to economies with more moderate levels of household debt. Yet, there is no clear threshold above which household leverage can be defined as excessive.

Given the importance of the issue of household debt to the economy, particularly in the current changing economic environment, CPA Canada saw it timely to examine the perceived economic wellbeing and the level of financial stress of Canadian households, and to reconcile the solicited views of Canadians with publicly available statistical information and measures of household indebtedness and wealth. In so doing, the public opinion survey

5 Bank of Canada (2015), Monetary Policy Report, January 2015, p. 15.

6 International Monetary Fund (2013), *2012 Article IV Consultations – Canada*, IMF Country Report No. 13/41; International Monetary Fund (2012), *2012 World Economic Outlook*; and Mian, A. and Sufi, A. (2011), *Consumers and the Economy, Part II: Household Debt and the Weak U.S. Recovery*, Federal Reserve Bank of San Francisco Economic Letter 2011-12.

commissioned by CPA Canada sought to examine attitudes of Canadian households to debt and wealth accumulation, their predisposition to financial vulnerabilities and the presence of precautionary measures that mitigate those vulnerabilities. The survey was done in two waves—spring of 2014 and winter of 2015—to better understand the attitudes to the changes in the economic outlook. This was integrated with an analysis of statistical information made available in large part by Statistics Canada. Appendix A contains the description of the survey methodology and selected definitions while Appendix B presents the questionnaire used for the 2015 survey.

Our analysis begins by examining households' perception of susceptibility to negative shocks and presence of measures to help mitigate financial vulnerabilities. We then review the current level of financial distress of households and discuss factors that may be supporting household's financial confidence.

The views of Canadian households presented in this report are derived from the 2015 wave of the CPA Canada Households Public Opinion survey, while Section 3.1 reports briefly on changes in household perceptions from the spring 2014 wave of the survey to winter 2015.

CHAPTER 3
Households' predisposition to increased financial stress

3.1. Perception of susceptibility to negative financial shocks

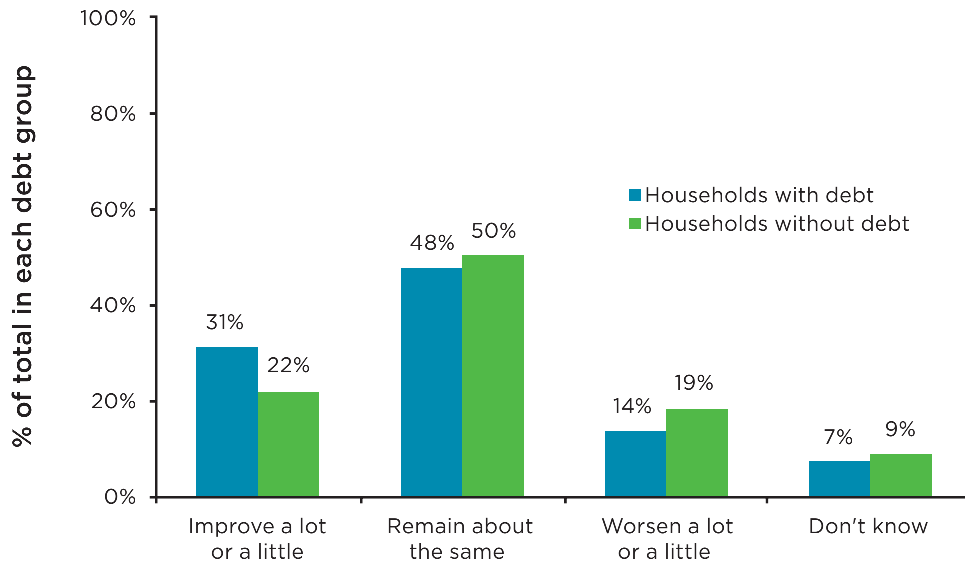
The sharp decline in oil prices in the second half of 2014 has resulted in considerable uncertainty about the outlook for the Canadian economy. The negative impact is expected to include reduced income from oil exports and a decline in employment in the energy sector, with negative effects spilling over into industries in the energy sector's supply chain. However, these shocks have not yet materialized, and signs of the potential economic slowdown may not be obvious to many people. Instead, households are seeing the positive but short-term effects of the decline in oil prices—lower prices for energy and other goods, lower interest rates and a sound labour market performance. This may boost confidence in consumer spending.

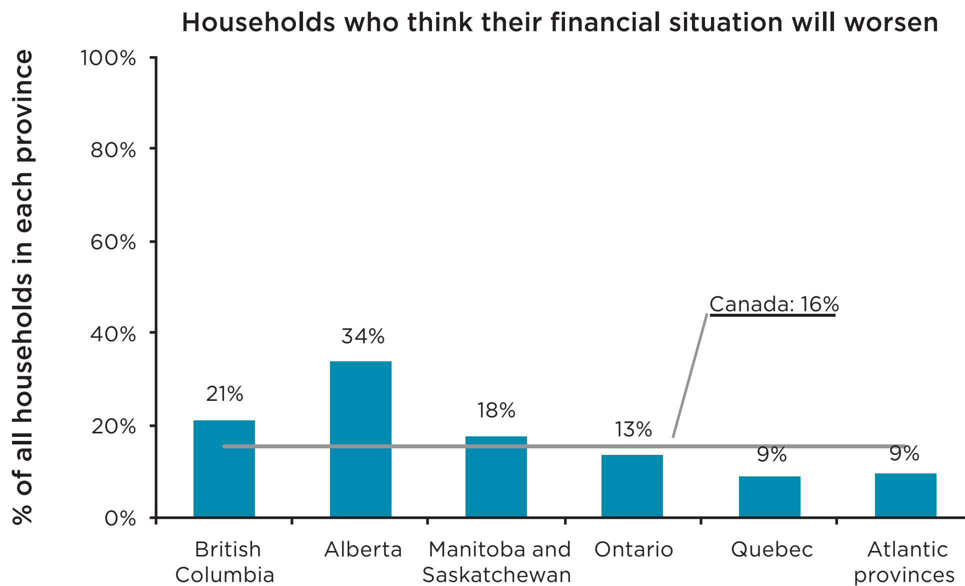
The CPA Canada Households Public Opinion survey aimed to examine households' susceptibility to negative financial shocks with respect to three areas: (i) whether households recognize the potential negative impact on their financial wellbeing of factors that suggest the deterioration of Canada's economic prospects (i.e. the decline in oil and gas prices, and the Bank of Canada's target interest rate); (ii) what consequences households perceive of some specific negative economic shocks; (iii) whether the recent changes in the economic environment had an impact on households' behaviour over the past year.

Changes in the economic outlook

The survey results show that changes in the economic environment in 2014 has not affected households' perceptions. Specifically, the decline in oil and gas prices and interest rates was not viewed by households as potentially affecting their financial wellbeing. Nearly half (49%) of households said these changes would not have a noticeable impact on their financial wellbeing over the next 12 months, while 28% thought their financial situation would improve a lot or a little. Only 16% of households expected their wellbeing to worsen. Level of income, presence of wealth and retirement status had only minor impact on households' assessment of the potential effects of the changing economic environment. Households with debt tended to be more optimistic than their debt-free counterparts regarding the possible impact that changes in the economic outlook may bring to their financial situation (top, Figure 1).

Figure 1 – Expected change in financial wellbeing due to changes in the economic outlook

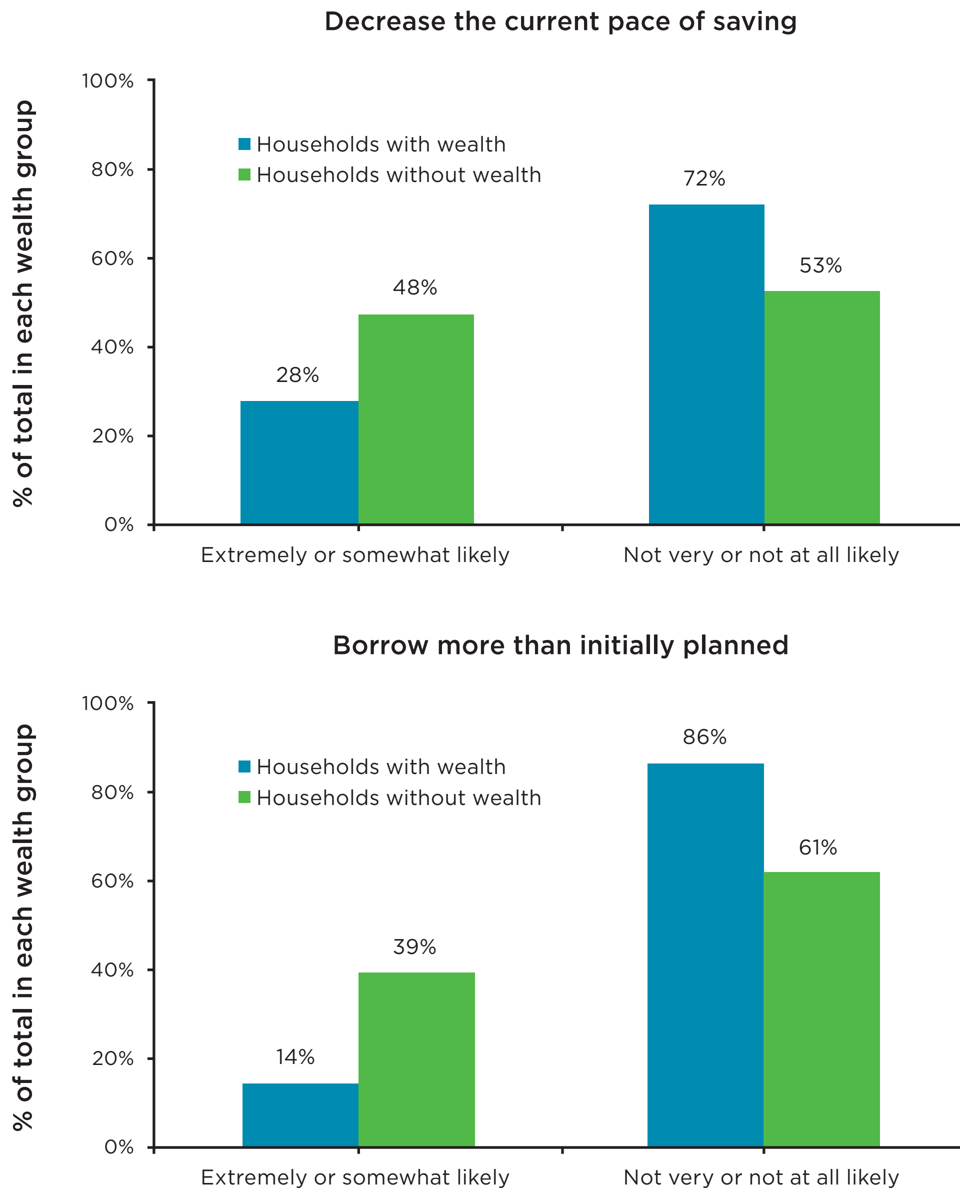




Regional differences in households' views on how their financial wellbeing would be affected due to changes in the economic outlook are worth noting. While only 16% of all Canadian households expected a negative change in their financial situation because of the outlook, 34% of Albertans expected that type of change (bottom, Figure 1). Albertans' assessment of the current level of financial wellbeing was at least as high or higher compared to that of other Canadians; as such, we are inclined to conclude that the higher propensity of Albertans to anticipate the worsening of their financial situation due to changes in the economic environment is caused by their greater exposure to the consequences the falling oil and gas prices could bring.

Roughly half of households thought that lower oil and gas prices, and falling interest rates would increase their likelihood to pay off debt faster and increase the pace of their savings. However, 34% said changes in the economic outlook were likely to prompt them to decrease their pace of savings over the next 12 months, and 22% thought they were likely to borrow more than was initially planned. Moreover, households that reported to have no wealth were much more likely to say that the changing economic environment would prompt them to borrow more and save less (Figure 2). Households whose debt had increased over the past three years said they were more likely to borrow more than initially planned, compared to households whose debt remained unchanged or decreased (28% vs. 23%).

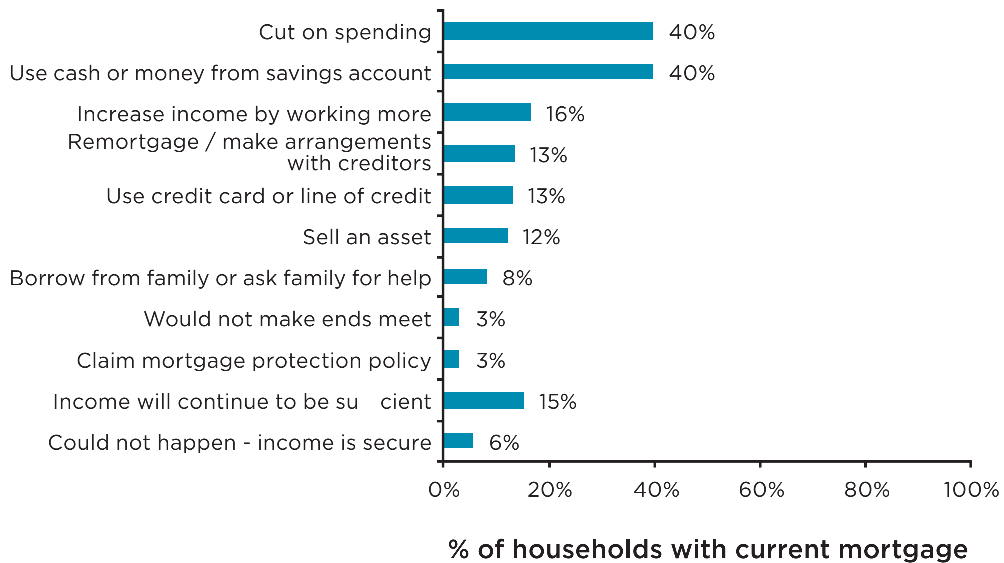
Figure 2 – Likelihood of selected behaviours due to changes in the economic outlook



Impact of specific negative shocks

Two specific negative economic shocks that may occur as a result of changes in the economic environment – a decline in income and asset price – were examined. The CPA Canada Households Public Opinion survey asked respondents with mortgages to reflect on the consequences of a temporary reduction in income. Only 15% of mortgage holders believed their household income would be enough to make regular mortgage payments should it decline by 25% for at least three months. The majority (79%) of mortgage holders agreed adjustments would have to be made to meet their mortgage obligations, especially cutting back on spending and using cash or money in savings accounts, which each was cited by 40% of mortgage holders. The third most popular option was working more to generate more revenue (Figure 3).

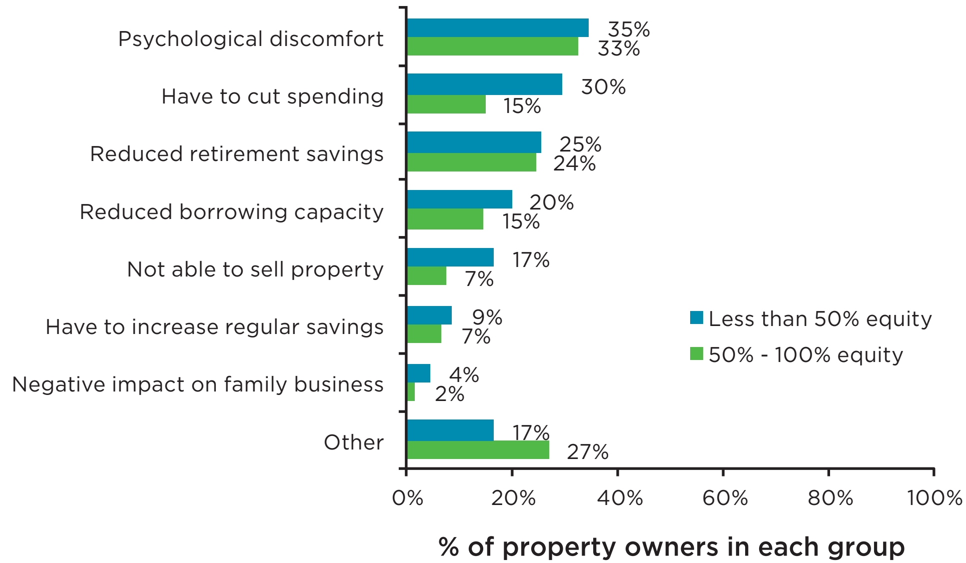
Figure 3 – Impact of a temporary 25% reduction in household income

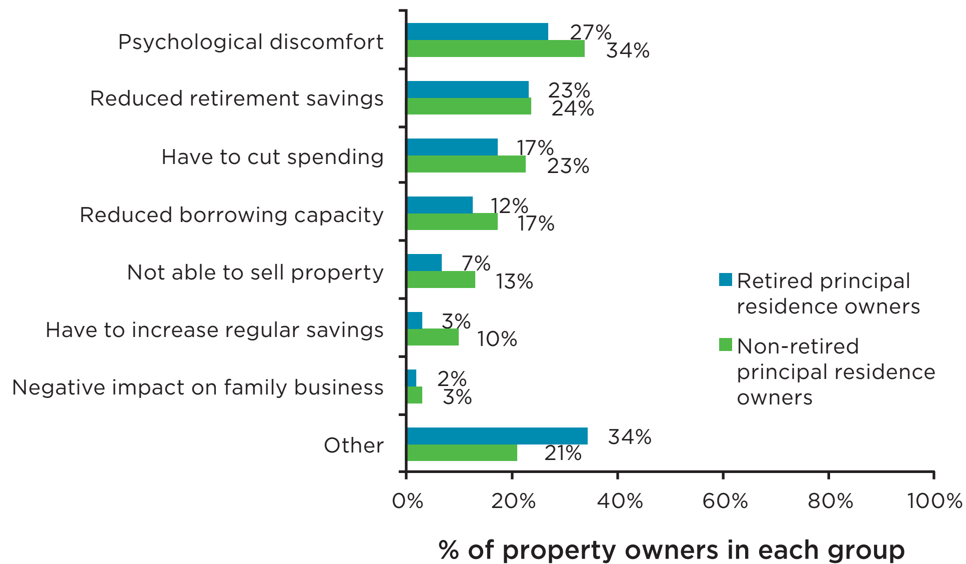


Younger mortgage holders were more likely than those in any other age group to say they would have to cut spending and increase their income by getting a second job or working additional hours in their existing job should their income temporarily decline. Mortgage holders aged 55 and over were more inclined to say that an income interruption was unlikely. Forty per cent of those who thought their income would continue to be sufficient to support mortgage payments were higher-income households.

The survey asked households that own residential property to consider consequences they could face should the market price of their property decline by 15%. Overall, psychological discomfort was the most often identified consequence of a decline in housing prices for all property owners: 32% of property owners felt they would be affected that way. Some 24% said a decline in housing prices would reduce their retirement savings, while 21% thought they would have to cut spending. The perceived impact of the price decline depended on the level of housing equity accumulated by households. Households that had less than 50% equity in their principal residence were more likely to report they would be affected by many of the consequences specified in the survey compared to households that had between 50% and 100% equity in their housing (top, Figure 4). As well, property owners who were not retired tended to report a higher likelihood of experiencing all but one of the identified consequences of the housing market decline compared to their retired counterparts (bottom, Figure 4).

Figure 4 – Impact of a 15% decline in housing prices





Changes in households' perceptions over the past year

Over the past several years, the Bank of Canada has said on many occasions that household indebtedness is the one of the most serious risks to the stability of Canada's financial system. The fact that Canada recovered quickly from the recession did not materially change the level of risk posed by household indebtedness. In turn, the persistent and sharp decline in oil prices that began in the middle of 2014 sent a clear signal that Canada's economic prospects could deteriorate due to reduced income and employment in the oil and energy sector, the spillover of which could negatively affect other sectors of the Canadian economy.

The CPA Canada Households Public Opinion survey assessing households' behaviour and attitudes in the face of the changes in the economic outlook was conducted in the spring of 2014 and then again in February 2015. If we compare the results from the two waves of the survey, we see little or no change in respondents' perceptions over the past year, which suggests that households did not noticeably change their approach to managing finances in light of the shifting economic conditions and the publicity about that shift.

In the period covered by the survey, households showed little change in perceptions and, as such, they did not take measures to protect themselves from deteriorating economic and financial conditions. The proportion of households that did not save or pay off debt on a regular basis, did not have a special reserve fund for emergency purposes, and did not own a mortgage payment protection policy remained largely unchanged over the past year. Other opinions tested by the survey (households' assessments of their financial wellbeing; the level of financial stress; and the views on the consequences they were likely to suffer from negative economic shocks) also remained nearly unchanged.

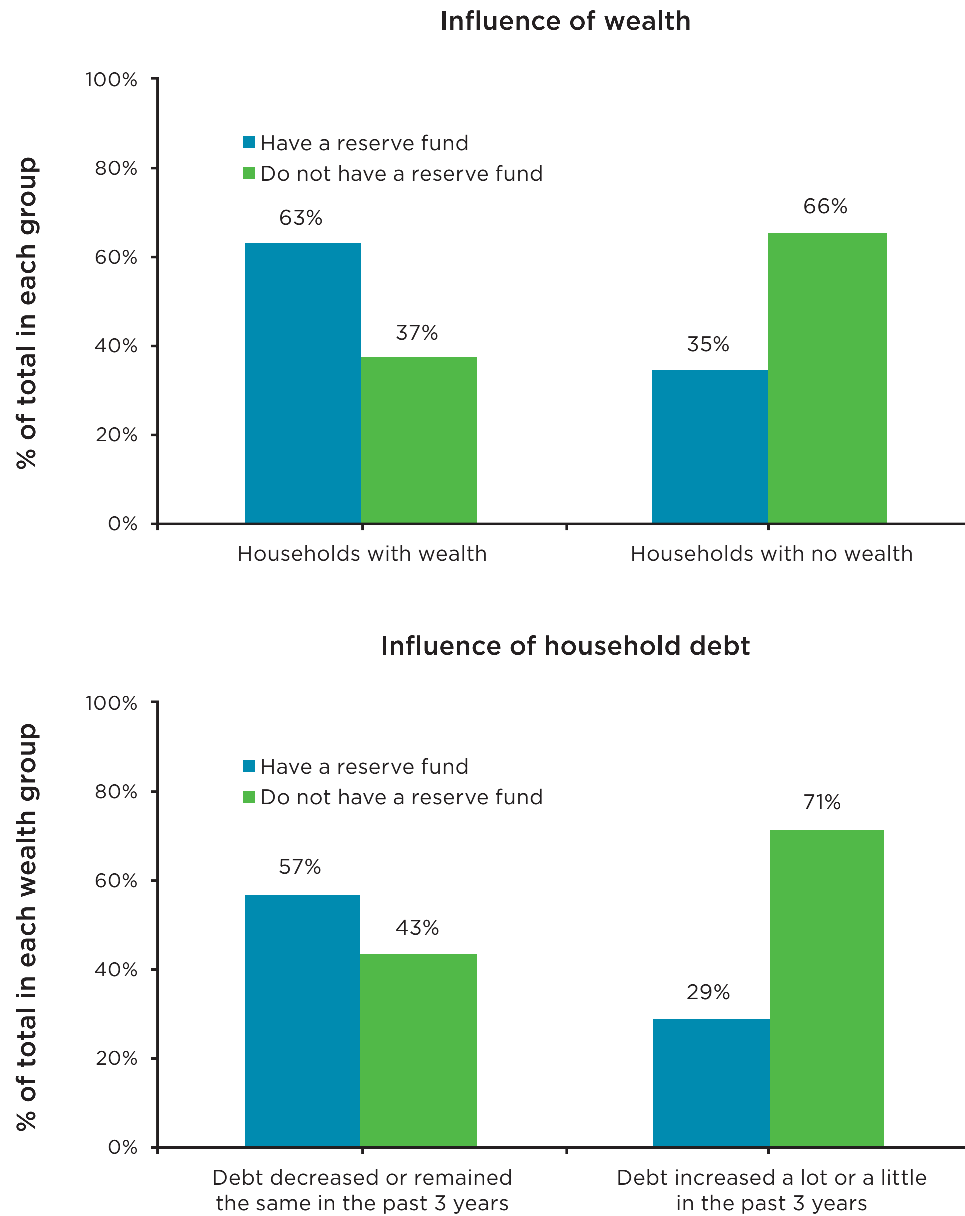
3.2. Presence of measures to help mitigate financial vulnerability

The CPA Canada Households Public Opinion survey shows that not many households are taking measures that could help mitigate their financial vulnerabilities.

Allocating a portion of household income to savings (as opposed to consumption) is an effective way to boost wealth, but 53% of non-retired households said they did not save on a regular basis. Meanwhile, 65% of households assessed their financial discipline as somewhat or very strong, and only 13% said it was weak. Household income was a factor in these results: 71% of non-retired households with moderate income did not save regularly, while this was the case for only 33% of higher-income non-retired households.

Slightly more than half of non-retired households said they did not have a special reserve fund for unexpected financial emergencies (in addition to regular savings for other purposes). Twenty-one per cent of those who had such a fund said it would allow their household to cover regular expenses for no longer than four weeks. Moreover, 36% of mortgage holders who did not have a mortgage payment protection policy did not have a reserve fund. Moderate income households were noticeably less likely (40% vs. 70%) to have a reserve fund than higher-income families. The absence of wealth and presence of household debt also diminished the likelihood of households having a reserve fund (Figure 5).

Figure 5 – Presence of a special cash reserve fund for unexpected financial emergencies



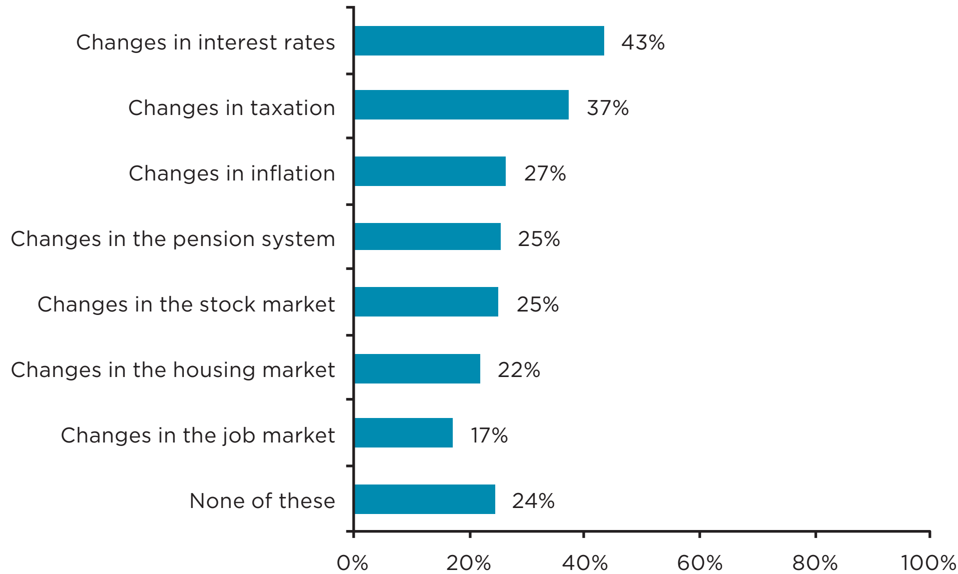
Only 60% of households with debt said they paid off a portion of their outstanding debt on a regular basis (such as weekly, bi-weekly or monthly). The likelihood of making regular payments to reduce the outstanding balance on household debt tended to increase with income. Households that saved on a regular basis were more likely to pay towards their outstanding balance on a regular basis.

Mortgage holders were not very likely to be proactive and accumulate wealth through housing equity. In the past three years, only 28% of mortgage holders increased the amount of their mortgage payments or made lump sum contributions to pay off the mortgage faster. Only 12% of households refinanced a mortgage to decrease the amortization period. Moreover, 46% of households had not set specific financial goals for themselves.

Few households kept themselves well informed regarding the value of their wealth. Only 30% said they had calculated the value of their wealth in the previous month, 25% said they had done so in the previous three to six months, 25% said it had been a year or more and 20% did not remember when they last assessed the value of their wealth. These figures were about the same among retired and non-retired households.

Many households did not monitor changes in the external economic and regulatory conditions. For example, only 25% of mortgage-holders monitored changes in the pension system and the stock market, fewer than half said they were paying attention to changes in interest rates. Twenty-four per cent of households said they did not monitor any of the key external factors that can affect their financial wellbeing, such as changes in interest rates, stock and housing markets, taxation and pension systems, inflation and the job market (Figure 6).

Figure 6 – Economic and regulatory factors typically monitored by households



3.3. Factors that may further exacerbate household financial vulnerability

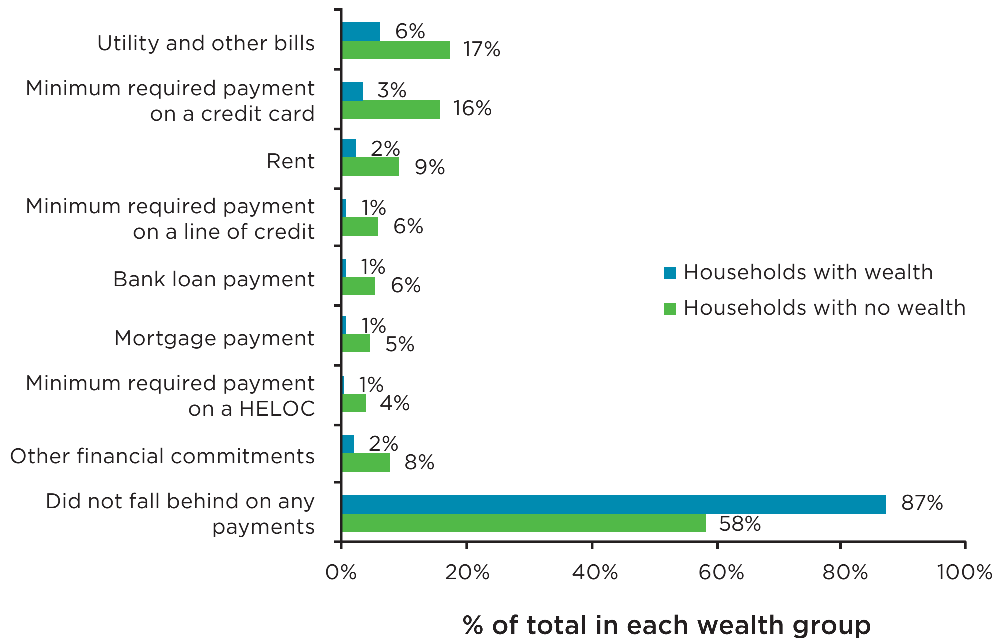
Lack of wealth and use of home equity lines of credit (HELOCs) may exacerbate household financial vulnerability.

Lack of wealth

Nearly a third (30%) of households reported they had no wealth: the value of their household assets was either less or about the same as the amount of their household debt. Age and income most affected the lack of wealth—49% of younger households reported having no wealth, while only 13% of older households reported the same; 36% of households with moderate income reported having no wealth, compared to 18% among higher-income households.

As will be discussed in Section 4.1, households that reported no wealth were much more likely to assess their financial situation as somewhat or very difficult. Such households also had a greater likelihood of falling behind on payments. While 87% of households with wealth said they did not fall behind on any payments in the past 12 months, only 58% of those with no wealth said the same. Moreover, households with no wealth were much more likely to fall behind on any form of payment identified in the survey compared to those with wealth (Figure 7).

Figure 7 – Impact of wealth on the likelihood of falling behind on payments



Presence of HELOCs

Borrowing through home equity lines of credit (HELOCs) has become fairly popular in the past 15 years. However, this type of borrowing may be particularly precarious because it is a form of "revolving credit," where only a minimum payment—payment of interest only—is required each period. In the event of rising financial stress, households may increasingly decide to postpone repaying principal, and this increases the danger that their debt will spiral.

The survey asked property owners about their HELOC use and how they managed this borrowing instrument. The results show that borrowing through HELOCs is not widespread; only 21% of all households reported to have a HELOC, and only 15% had an outstanding balance on it. However, the borrowing capacity available to households through this instrument is substantial. Thirty-four per cent of households with HELOCs reported having a credit limit of $100,000 or more on it, while 24% said they could access between $50,000 and $99,999. Some households had already leveraged their HELOCs substantially: 13% of those with an outstanding balance on HELOC said their outstanding balance exceeded $100,000. Households with a mortgage were more likely to have a HELOC and to carry an outstanding balance, compared to property owners that did not have a mortgage.

Overall, households that reduced the outstanding balance on their HELOC over the previous 12 months were outnumbered by those whose outstanding balance either increased or remained the same. Households with no wealth were twice as likely (22% vs. 10%) to say that the outstanding balance on their HELOC increased over the past 12 months. The likelihood of increasing the outstanding balance on HELOCs was about the same for households of all income groups. However, households with moderate income were noticeably less likely than higher-income households (43% vs. 65%) to decrease the outstanding balance on their HELOCs over the previous 12 months.

Moreover, strategies adopted by many households with HELOCs may not be prudent. For example, 41% of households with HELOCs did not make regular payments that covered both interest and principal in order to repay the outstanding balance, 53% paid only sporadic amounts toward the principal as funds became available, and 27% made only the minimum required payments.

CHAPTER 4

Factors that may be supporting household financial confidence (or complacency)

4.1. The current level of financial distress of households

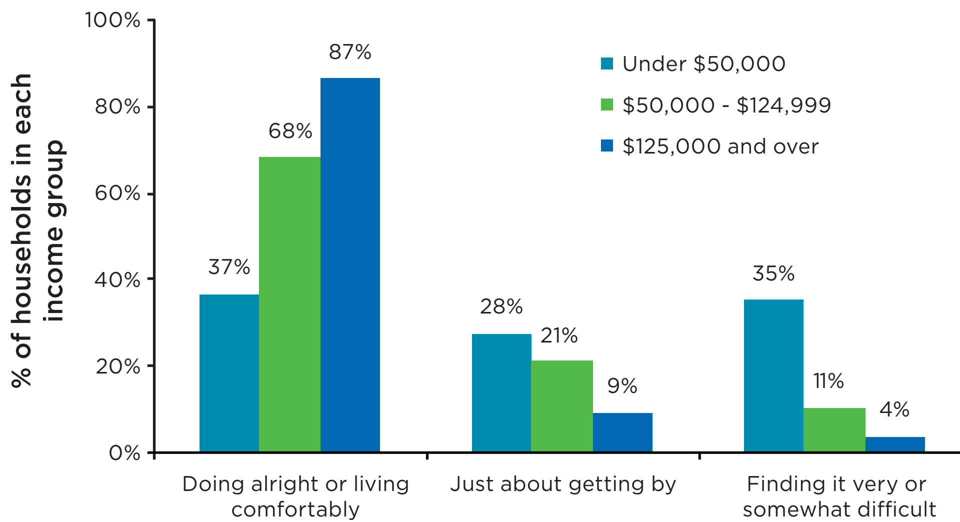
Self-assessed level of financial wellbeing

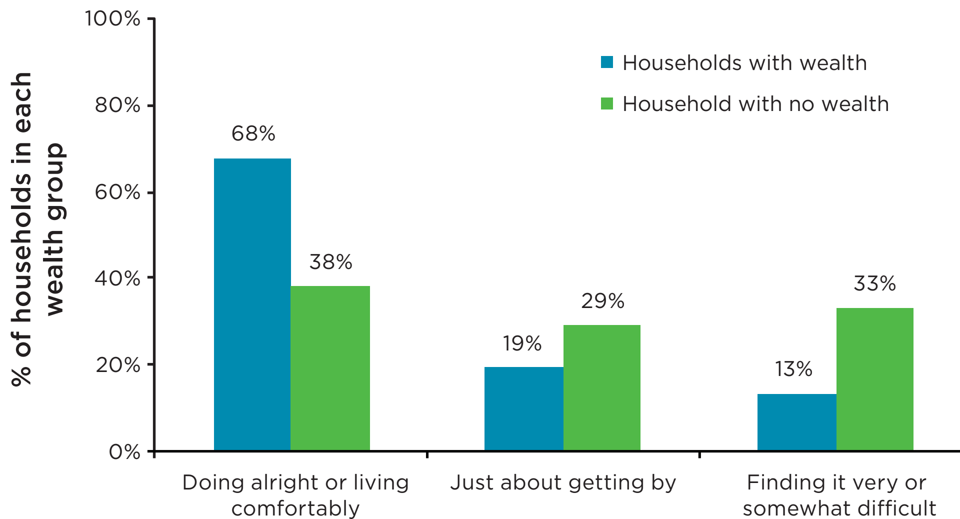
Overall, the self-assessed level of financial distress reported by households does not appear to be high. The results of the CPA Canada's Households Public Opinion survey show that over the previous 12 months, the overwhelming majority (79%) of households said they did not fall behind on any type of payments such as mortgage, rent, utility bills and minimum required payments on credit cards and line of credit. Households that fell behind on payments said they did so primarily on bills and minimum payments on their credit cards: the proportion of such households amounted to 10% and 7% respectively.

When asked to assess their current financial situations, 59% of households said they were living comfortably or doing alright. Nineteen per cent assessed their financial situation as somewhat or very difficult, but 22% said they were just getting by. As may be expected, the level of income and the presence of wealth influenced households' assessment of financial wellbeing: the self-assessed level of financial hardship progressively diminished with the improvement in the income and wealth situations (Figure 8). Home ownership

and the amount of equity in a home also tended to improve households' view on the state of their financial affairs. Among age groups, middle-age households were the most likely to gauge their financial situation as somewhat or very difficult.

Figure 8 – Household financial wellbeing

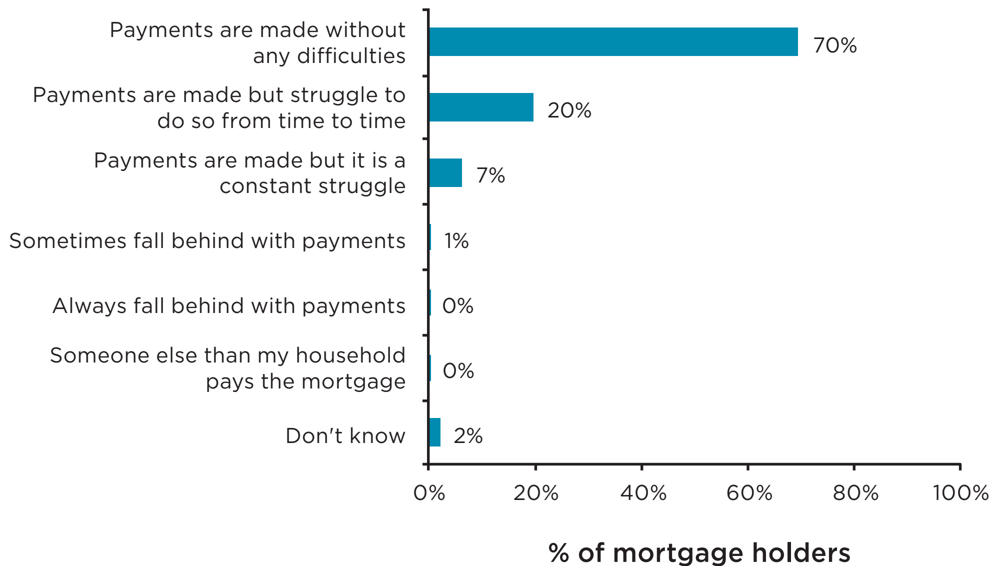




The presence of a mortgage did not noticeably influence the way households felt about their financial situation: a nearly identical proportion of households with and without current mortgages (61% vs. 58%) assessed their financial situation as living comfortably or doing alright. Interestingly, retired respondents were noticeably more likely to positively evaluate their financial conditions compared to other respondents: some 68% of retired households said they were living comfortably or doing alright while only 56% of households that have not yet retired placed themselves in the same category.

The majority (70%) of mortgage holders said they had no financial difficulty making mortgage payments and only 7% said that keeping up with mortgage payments was a constant struggle for them (Figure 9). However, households with moderate incomes were particularly susceptible to stress regarding making mortgage payments compared with higher-income households; 19% of mortgage holders with moderate income experienced a constant struggle or were falling behind on payments, and 26% of mortgage holders in this income group sometimes struggled to make mortgage payments. The figures for higher-income mortgage holders were 1% and 9%, respectively.

Figure 9 – Difficulty in keeping up with mortgage payments

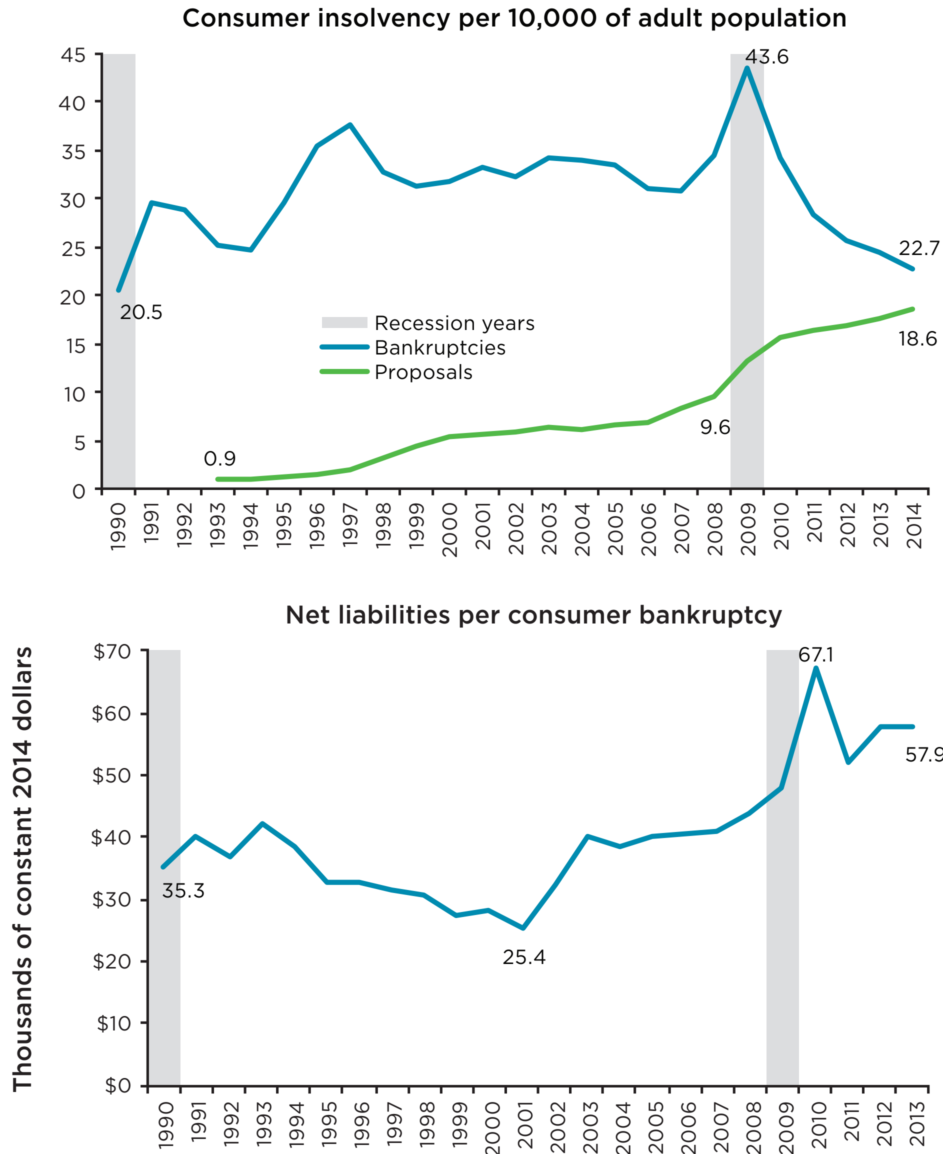


Level of financial distress as revealed in statistical data

Consumer bankruptcy is a legal process that allows financially distressed individuals to write off unsecured credit obligations, while the debtor's assets are sold to meet some debt obligations. An alternative to consumer bankruptcy—consumer proposals—allows people in debt to renegotiate their payments so they can rehabilitate their financial situation and avoid seizure of underlying assets. Consumer insolvency that involves either of these options is considered a last resort for dealing with financial distress. As such, it may be an important indicator of growing social and financial problems caused by increasing indebtedness.

Over the past two decades, consumer insolvencies followed a cyclical pattern that reflected the economic business cycle. After a very moderate average annual rate of increase of 0.9% over the decade between 1998 and 2007, the growth of consumer insolvencies (measured per 10,000 of adult population) escalated by an average 20.4% annually over 2008 and 2009. Since then, the trend has reversed, with the number of insolvencies declining at an annual average rate of 6.2%. As a result of this downward trend, the number of consumer insolvencies at the end of 2014 was very close to that of the pre-recession low reached in 2006: 41.3 vs. 37.9 per 10,000 adults. This stood in a sharp contrast with the 56.9 recession peak registered in 2009. The decline in consumer insolvencies since 2009 was achieved solely due to a significant reduction in consumer bankruptcies. Consumer proposals, on the other hand, continued to grow at an average annual rate of 7% over that period, reflecting a substitution effect between the two insolvency options (top, Figure 10).

Figure 10 – Consumer insolvency per 10,000 of adult population



Note: Adult population is composed of those 18 years of age and over.
Source: CANSIM Table 177-0003, 051-0001, 326-0021, Office of the Superintendent of Bankruptcy, *Insolvency Statistics in Canada*, annual reports for 2009 through 2013 and quarterly reports for Q1 through Q4 of 2014. CPA Canada calculations.

Costs that consumer bankruptcies bring to the economy have also moderated in the aftermath of the recession. Net liabilities of consumer bankruptcies—the value of liabilities that are not backed by assets recovered by creditors—decreased from its peak of $67,000 in 2010 to $58,000 in 2013 (bottom, Figure 10). As such, both the proportion of Canadians experiencing extreme financial distress, and the magnitude of the distress have moderated since their peaks caused by the most recent recession.

As may be expected, the pan-Canadian picture masks important regional differences. That applies for both the level of consumer bankruptcies as it stood in 2014, and the pace as which the household financial distress moderated since its peak during the most recent recession. For instance, the likelihood of people living in the Atlantic Provinces and Quebec to declare bankruptcy in 2014 was two to three times higher than of those living in western provinces and Ontario. In New Brunswick, 49 of 10,000 adults declared bankruptcy in 2014, while in Alberta only 12 of 10,000 adults did so (top, Figure 11).

Figure 11 – Consumer bankruptcies, by province

Note: Adult population is composed of those 18 years of age and over. Decline in consumer bankruptcies is computed based on the change in the number of consumer bankruptcies per 10,000 of adult population. The order of items on the horizontal axis of the bottom chart repeats the order of items appearing on the top chart.
Source: CANSIM Table 177-0001, 051-0001; Office of the Superintendent of Bankruptcy, *Insolvency Statistics in Canada*, annual reports for 2009 through 2013 and quarterly reports for Q1 through Q4 of 2014. CPA Canada calculations.

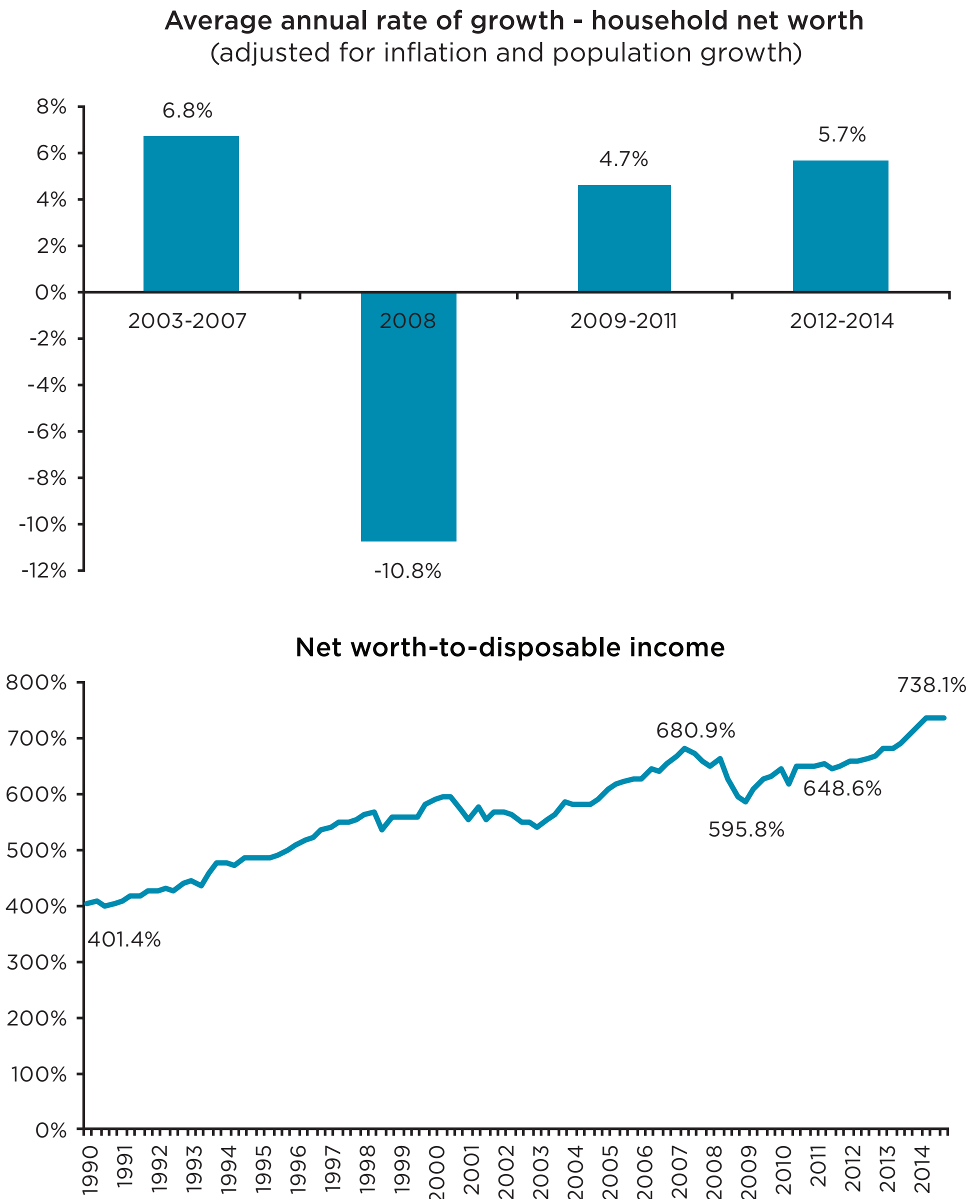
Historical trends may partially explain the regional differences in the level of consumer bankruptcies. For instance, both Newfoundland and Labrador and Nova Scotia have experienced the highest levels of consumer bankruptcies relative to other provinces for the past 15 years. Another important contributing factor to the regional variations is the rate of decline in consumer bankruptcies in the aftermath of the most recent recession. Provinces with the highest bankruptcy rates are also those that experienced the least improvement in household financial distress since the last recession (Figure 11).

4.2. Household ability to build wealth[7] and earn income

Household ability to build and accumulate wealth has strengthened over the past several years. At the end of 2014, the average Canadian had wealth totalling $233,300 – the highest amount attained in the past 20 years and more than twice as high as that observed in the early 1990s (when adjusted for inflation and population growth). Over these two decades, the mid 2000s are typically viewed as the period household wealth improved the most: from 2003 to 2007, the average growth rate of wealth was an impressive 6.8% per year after adjustments for inflation and population growth. The rate of growth in wealth in the past two years did not match that impressive figure, but was close: households accumulated wealth at an annual average rate of 5.7% between 2012 and 2014, significantly outpacing growth during the economic recovery after the most recent recession (top, Figure 12).

7 For the purpose of this study, household wealth refers to the difference between the value of household total assets and household financial liabilities.

Figure 12 – Changes in household wealth over the business cycle

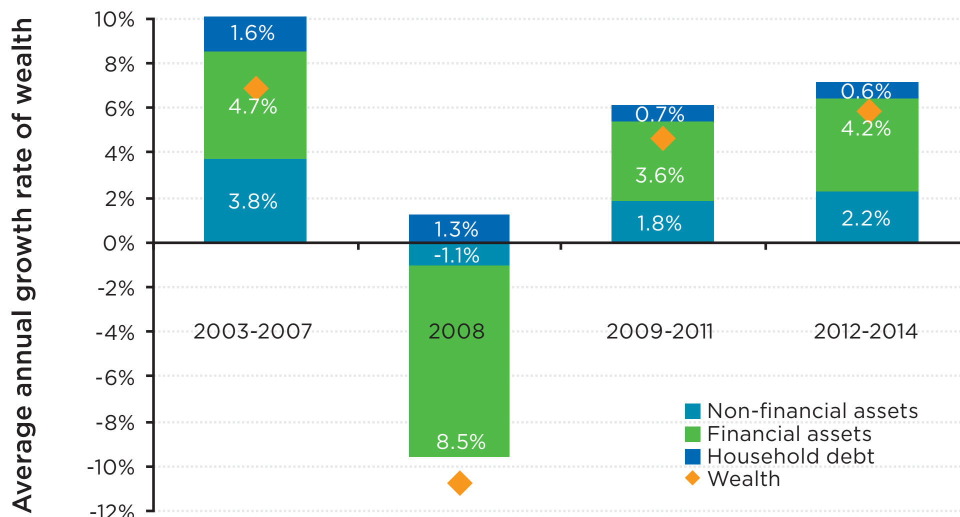


Note: Top chart: the average annual rate of growth is calculated based on data from Q1 except 2014 were Q4 is used.
Source: CANSIM Tables 378-0121, 051-0001, 326-0020 and 380-0073. CPA-Canada calculations.

The net worth-to-disposable income ratio suggests that household wealth was growing faster than personal disposable income over the past several years and particularly from 2012 to 2014, when the ratio went up by nearly 90 percentage points from 648.6% at the end of 2011 to 738.1% at the end of 2014. The ratio likewise noticeably improved over the longer term, increasing by more than one half in the past two decades (bottom, Figure 12).

Growth in household wealth during the past two decades was propelled primarily by growth in financial assets. From 2003 to 2008—the period of the most intensive wealth accumulation—the increase in the value of financial assets accounted for 4.7 percentage points (or more than two thirds) of the 6.8% average annual growth rate of household wealth, while non-financial assets played a much more subtle role in wealth accumulation. Growth in household debt has had only a moderate impact on changes in household wealth, particularly in recent years. For instance, from 2012 to 2014, growth in household debt slowed the potential rate of growth of wealth by 0.6 percentage points (Figure 13).

Figure 13 – Composition of growth of household wealth

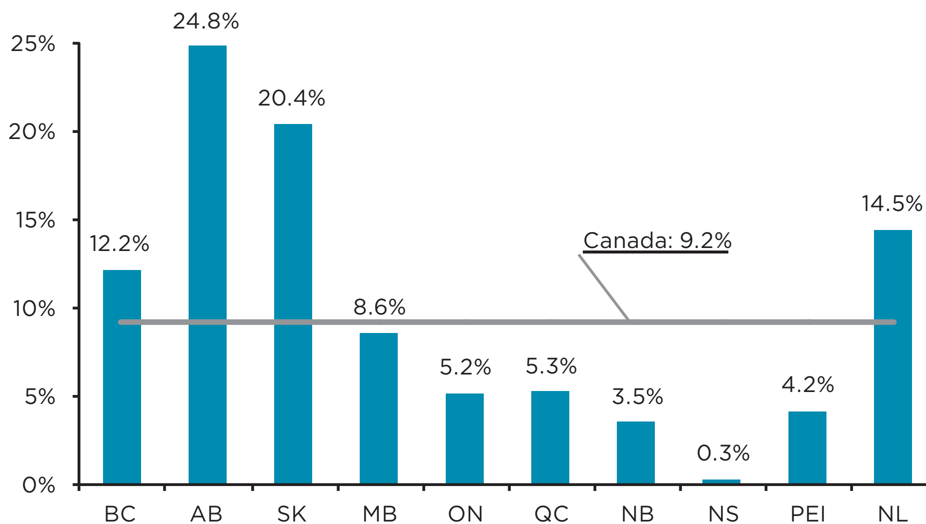


Note: The average annual rate of growth is adjusted for inflation and population growth and is calculated based on data from Q1 except for 2014 where Q4 is used; household debt refers to total financial liabilities of households.
Source: CANSIM Tables 378-0121, 051-0001 and 326-0020. CPA Canada calculations.

The results of CPA Canada's Household Public Opinion survey also show a positive household's self-assessment of the wealth situation. More households gauged that their wealth has increased over the past three years than said it had decreased: about 42% of households said they had more wealth today compared to three years ago, while about 26% said their wealth had declined over the same period. The remaining roughly 31% reported that their wealth situation remained about the same in recent years. The situation differed across income groups: only 26% of households with moderate income gauged their wealth as having increased, while among higher income households this proportion was almost three times higher at 74%. Such factors as age and presence of household debt (particularly mortgage) did not noticeably affect the way households assessed their wealth.

Unlike during previous economic downturns, household disposable income did not decline in either nominal or real terms during the most recent recession. Furthermore, households enjoyed a healthy growth in their incomes in the years since the recession: real household income increased by 9.2% between 2009 and 2013, translating into an average annual growth rate of 2.2%. However, the growth in household income differed significantly among provinces. While Albertans saw their real income surged by nearly a quarter in the post-recession years, households in Nova Scotia experienced little increase (Figure 14).

Figure 14 – Change in real household disposable income, 2009-2013



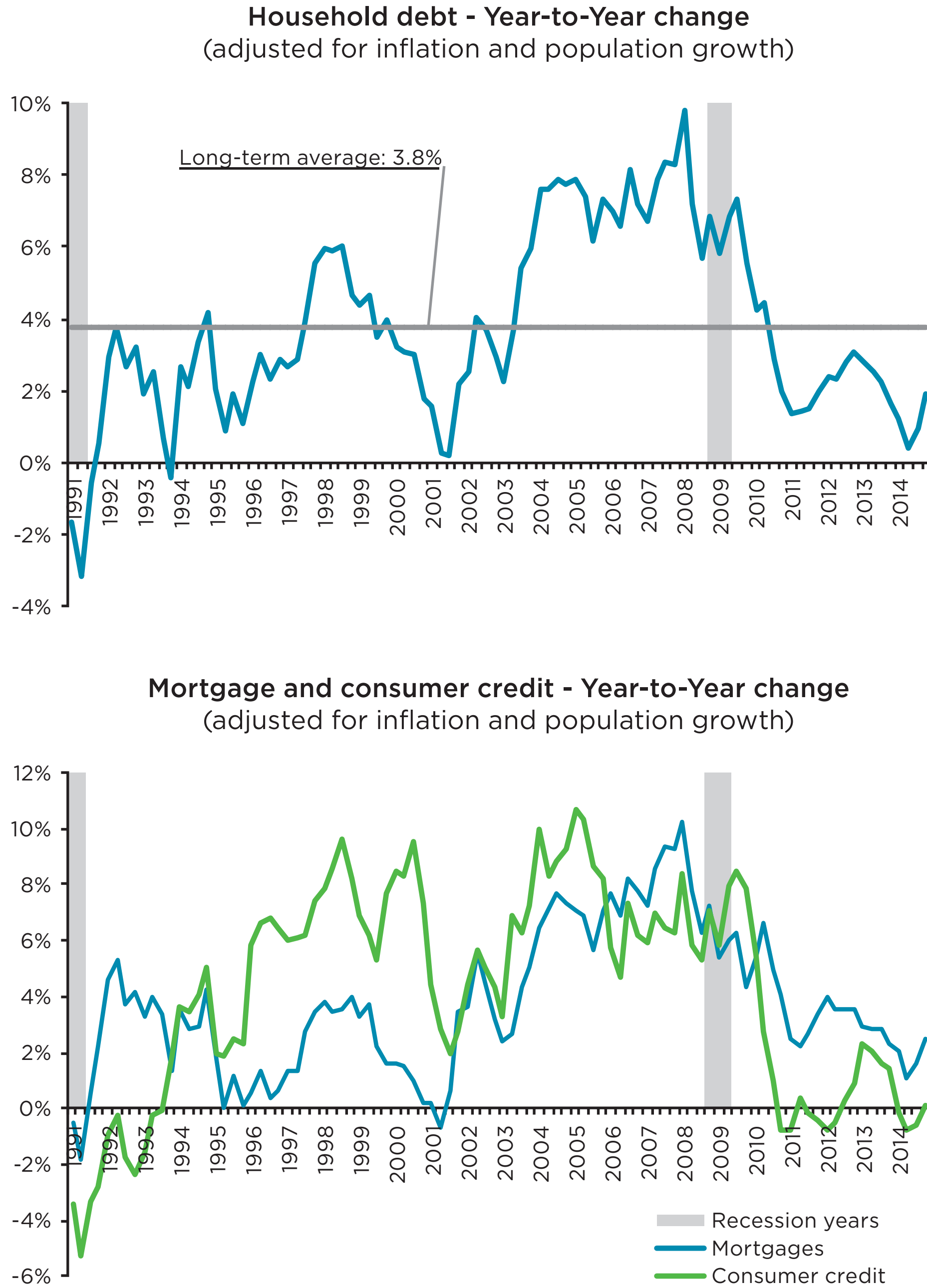
Source: CANSIM Tables 380-0040 and 326-0020; CPA Canada calculations.

4.3. Growth in household debt[8]

Total household debt reached a new high of $1.82 trillion at the end of 2014; however, the overall pace of expansion of household debt has moderated considerably in recent years. The year-to-year growth of household debt (adjusted for inflation and population growth) declined from 7.3% at the end of 2009 to 1.9% at the end of 2014. The current growth rate of debt is well below the long-term average of 3.8%; it is likewise much lower compared to the 2.1% average growth observed in post-recession years (top, Figure 15).

8 Household debt refers to a sum of consumer credit, mortgage loans and non-mortgage loans.

Figure 15 – Canadian household debt, 1990-2014

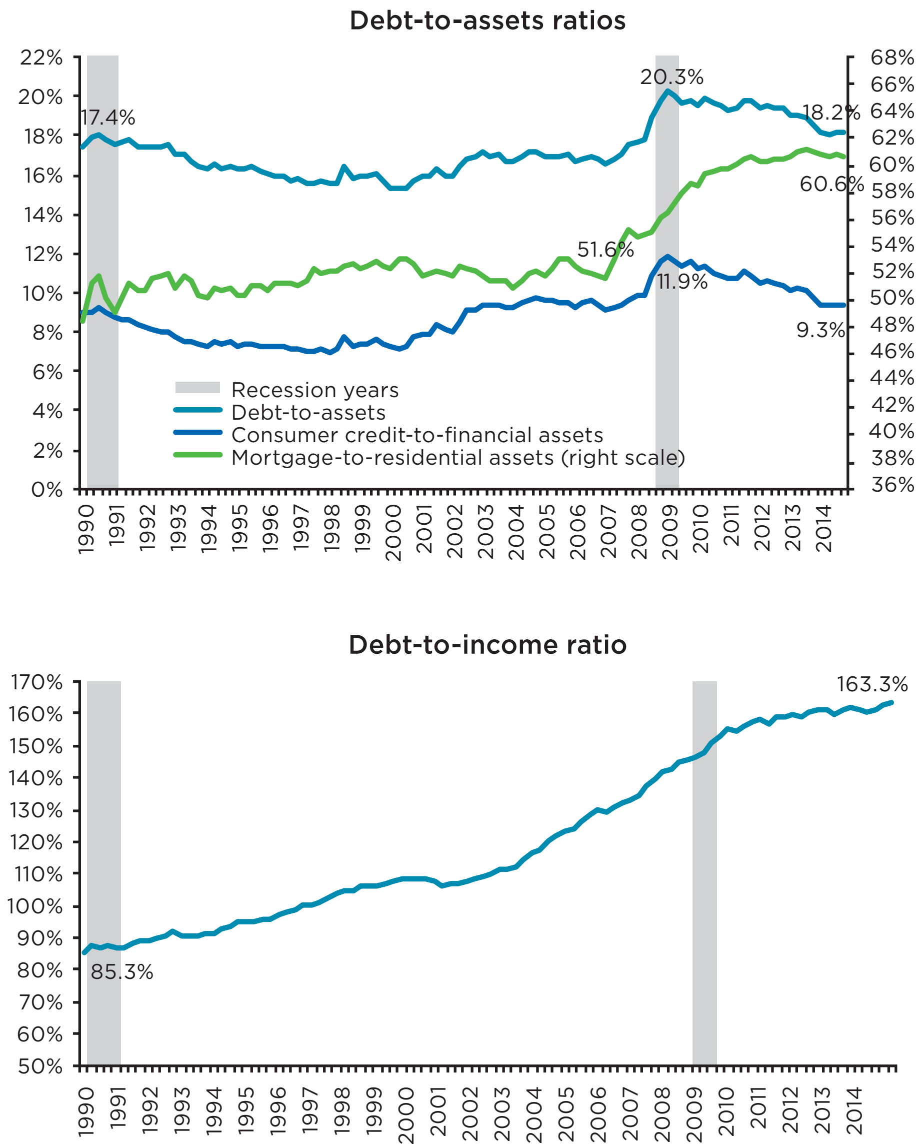


Source: CANSIM Tables 378-0121, 326-0020, 051-0005. CPA Canada calculations.

Mortgages represent the lion's share of total household debt, but the moderation in the pace of debt growth overall was primarily due to the fact that growth of consumer credit (adjusted for inflation and population growth) was negative over three quarters ending in October 2014 and it expanded at a mere 0.3% on average annually since the end of the most recent recession (bottom, Figure 15). This improved the overall composition of household debt, reducing the share of consumer and other non-mortgage loans in the overall credit mix. Such changes may be seen as encouraging as consumer and other non-mortgage loans are not backed by appreciating assets and thus are particularly disadvantageous for wealth accumulation.

Three measures are typically applied to gauge the level of household indebtedness: (i) debt-to-assets ratio, (ii) debt-to-income ratio, and (iii) debt-service ratio. The debt-to-assets ratio shows the extent to which debt diminishes household wealth; this ratio increased abruptly during the most recent recession, surging from 16.6% at the beginning of 2007 to 20.3% at the beginning of 2009. Since then however, the debt-to-assets ratio has noticeably declined; it stood at 18.2% at the end of 2014, one of the closest readings in post-recession years to its long-term average of 17.3%. Most of this decline took place over the past two years. The decline in the debt-to-assets ratio suggests that households accumulated their assets at a faster pace than the growth in their debt, contributing to building wealth; this strengthens households' resilience to negative economic and financial shocks, since a lesser proportion of assets would have to be liquidated to pay off debt. A similar positive trend was observed for the consumer credit-to-financial assets ratio, which declined to 9.3% at the end of 2014, a level very similar to that observed prior to the most recent recession. Although the extent to which residential mortgages were backed by residential assets did not present a clear downwards trend, its level has been rather stable over the past three years, hovering at around 61% (top, Figure 16).

Figure 16 – Household debt relative to assets and income

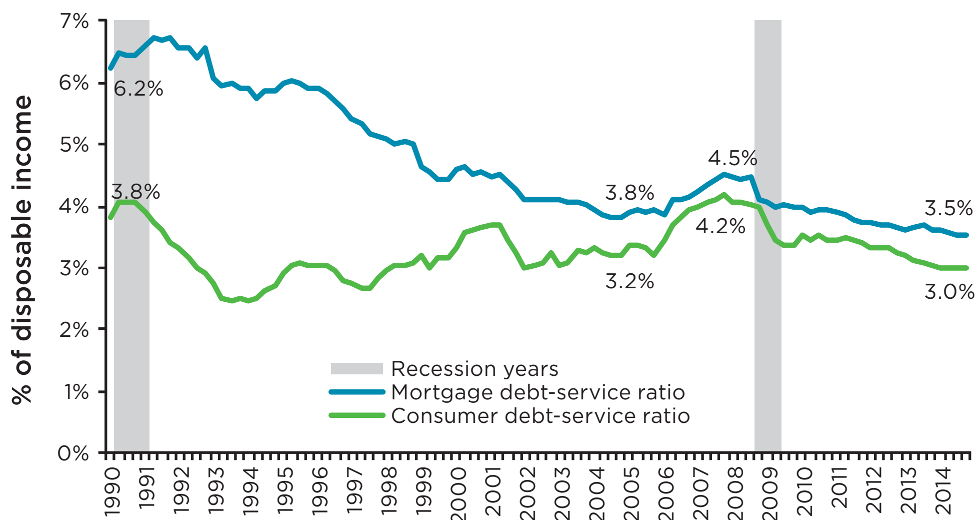


Source: CANSIM Tables 378-0121, 378-0123. CPA Canada calculations.

Although debt-to-income ratio reached a record high in 2014, the pace of this indicator's growth has slowed considerably over the past four years. The debt-to-income ratio increased by a mere 5 percentage points from 158.2% at the end of 2010 to 163.3% at the end of 2014; this contrasted sharply with a more than 50 percentage point jump between 2001 and 2010 (bottom, Figure 16). High debt-to-income ratio usually suggests an increased short-term vulnerability of households as their exposure to the risk of falling behind on payments is rising, particularly if their asset portfolio is skewed towards illiquid assets or assets with elevated price volatility. The noticeably slower growth observed in the debt-to-income ratio reduces the pace of increase in the short-term vulnerability of households and their exposure to the risk of default that would lead to depletion of wealth.

The debt-service ratio shows the current cost of servicing debt and assesses household capacity to honour debt obligations. The debt-service ratio continued its steady decline from a 7.7% peak at the end of the most recent recession to 6.9% at the end of 2014. The declining trend in the debt-service burden was present for both mortgages and consumer debt with approximately equal intensity (Figure 17). This was largely propelled by the overall decline in interest rates observed over the past years, which allowed households to lower their debt-service burden by either directly benefiting from the rate decline in the case of variable-rate credit or by renegotiating fixed-rate contracts.

Figure 17 – Household debt-service ratio



Source: CANSIM Tables 380-0073. CPA Canada calculations.

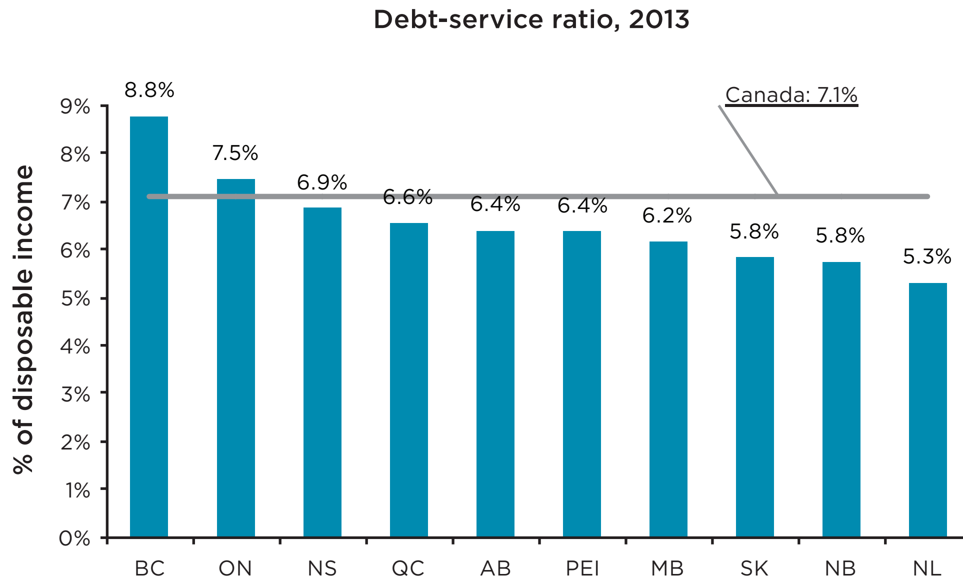
Based on the information provided above, it appears that growth in household debt has moderated considerably over the past several years and that the most indicators used to measure the extent of household indebtedness show some form of improvement or stabilization. However, it is important to recognize that over the last two quarters of 2014 the levels of both the rate of debt expansion (adjusted for inflation and population growth) and the debt-to-income ratio tilted upwards, although only somewhat. Given the current uncertainty in the economic outlook, this emerging change in the trend may prove to be the beginning of a new growth wave of household debt.

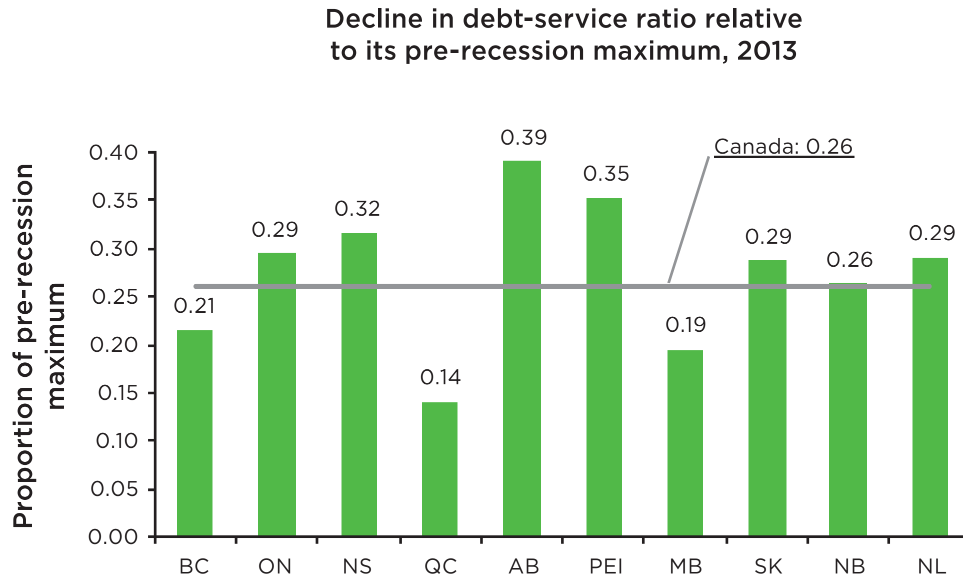
4.4. Provincial variations in household indebtedness

Household income and economic growth are not evenly distributed across Canada's regions and this may impact the level of indebtedness of households in different provinces. Cultural diversity as well as the rural/urban divide may further influence people's attitudes and habits regarding their finances.

There are noticeable provincial differences in the level of debt-service ratio. For instance, British Columbia had the highest household debt-service burden in 2013 (the latest period for which data are available at the time of writing). Households in that province paid 8.8% of their disposable income to service interest payments associated with their total debt. Residents of Newfoundland and Labrador enjoyed the lowest debt-service burden, at 5.3% of their disposable income in the same year (top, Figure 18). It is worth noting that the provincial differences largely represent a longer-term trend: over the past two decades, British Columbia has had the highest debt-service ratio, with Ontario following, though at some distance.

Figure 18 – Debt-service burden by province





Note: Bottom chart: The pre-recession maximum of the debt-service ratio is defined as the highest level of the ratio observed between 2007 and 2009. The order of items that appear on the horizontal axis replicates the order of items presented on the top chart.
Source: CANSIM Table 384-0042; CPA Canada calculations (bottom chart).

Moving in unison with the national trend, debt-service ratio has declined across all provinces compared to its pre-recession peak; however, the extent of decline was far from equal across the regions. Households in Alberta benefited the most; by the end of 2013, the debt-service ratio declined by more than one-third compared to its pre-recession maximum. In contrast, the debt-service burden of Quebecers declined by only about one-tenth over the same period of time (bottom, Figure 18).

To further highlight provincial differences in household debt, the debt-to-assets and debt-to-income ratios can be constructed for each province using data obtained from the Statistics Canada's Survey of Financial Security (SFS) and Provincial and Territorial Accounts for the years 1999 and 2012.[9] These ratios illustrate the regional variations in the level of household indebtedness and the direction of change, rather than the level of indebtedness itself. The ratios presented in this section are constructed based on a different set of data compared to ratios presented in Figure 16 and thus cannot be directly compared.

Both the debt-to-assets and debt-to-income ratios increased in all provinces between 1999 and 2012. Prince Edward Island and Alberta experienced the largest increase in the debt-to-assets ratio over that period of time, while Alberta and Nova Scotia experienced the fastest growth in the debt-to-income ratio (Figure 19). Despite significant variations in the measures of household indebtedness across regions, British Columbia, Alberta and Nova Scotia consistently appear among the top five most indebted provinces in 2012 based on such measures as debt-to-assets, debt-to-income and debt-service ratios. Ontario ranked among the top five most indebted provinces in two out of the three indebtedness measures.

9 The Survey of Financial Security (SFS) was also administered in 2005; however, that year's data provide information on total household assets and debt for only three out of 10 provinces. As such, the year 2015 was excluded from the analysis.

Figure 19 – Household debt relative to assets and income, by province, 2012

Note: Bottom chart: the order of items that appear on the horizontal axis replicates the order of items presented on the top chart.
Source: CANSIM Tables 205-0002, 384-0042, CPA Canada calculations.

CHAPTER 5
Conclusions

The analysis in the preceding sections provides insights into the views of households regarding their economic wellbeing and levels of financial stress. A number of conclusions may be derived from this examination.

Households do not immediately recognize signs of their increased financial vulnerability unless directly affected.

With the exceptions of Albertans who are directly affected by the recent decrease in oil prices, most Canadian households do not view the decline in oil and gas prices, and interest rates as potentially negatively affecting their financial wellbeing. Moreover a noticeable proportion of households think that changes in the economic outlook may prompt them to borrow more and save less. Lack of wealth and the use of home equity lines of credit (HELOCs) in some households may further exacerbate the problem. The fact that the survey's results from spring 2014 and winter 2015 are virtually the same indicates that households had not adjusted their behaviours and attitudes.

Awareness of susceptibility to specific negative financial shocks does not lead to adopting more prudent financial habits.

Overall, households agree that if their incomes or value of their assets decreased they would have to adjust their financial practices. However, not many households take measures that would help them mitigate their financial vulnerability, such as having a special reserve fund for unexpected financial emergencies, paying off a portion of their outstanding debt on a regular basis, making regular savings

contributions, keeping themselves well informed regarding the value of their wealth, and monitoring changes in the external economic and regulatory conditions.

Households do not appear to be in financial distress.

The extreme financial stress measured by the number of consumer insolvencies has moderated. As well, a large number of households positively assess their current financial wellbeing and changes in their wealth over the past several years. However, households with moderate levels of income, as well as younger households experience more financial stress than others. The declining rate of consumer insolvencies, strong growth in household wealth and a relative moderation in the expansion of household debt observed over the past several years may fuel the observed confidence (or complacency) in households' financial behaviour.

Regional differences in household indebtedness are likely profound but are difficult to monitor.

The publicly available statistical data do not allow a reasonable and timely analysis of the distribution of household debt, assets and wealth across different provinces. The regional variations in debt-service costs, changes in household disposable income, and levels of consumer insolvencies suggest that the pan-Canadian perspective may not reflect important regional differences.

The conclusions in our survey suggest that households should be focusing attention on being educated about their finances, thinking critically, disciplining themselves to save, spending prudently and retiring debt. Clearly they also need to focus more closely on the signs of changes in the economy and be prepared to act in a more timely fashion. This approach is particularly important given the choice of public policy tools that may impact household borrowing behaviour is rather limited.

Policy-makers have three options for influencing the level of household indebtedness. The first is macroprudential regulations, typically measures like limiting the mortgage amortization period, setting loan-to-value ratio limits, and establishing debt-service qualification criteria. The second option includes

fiscal measures such as property taxes and tax deductibility of interest. The third option involves monetary policy and is carried out through changes in the policy interest rate.

A number of measures aimed at addressing household indebtedness have been implemented in Canada. Since 2008, the government has tightened mortgage insurance rules on four occasions to support the long-term sustainability of the mortgage and housing market. This included limiting amortization periods, loan-to-value limits for new mortgages, changing debt-service qualification criteria, and improving mortgage underwriting practices and procedures used by federally regulated financial institutions.

Overall, the debt reduction policy measures that have been implemented in Canada have been viewed as effective, and their impact has increased with time.[10] The effectiveness of constraining the loan-to-value ratio is influenced by the interest rate (with the effect increasing with higher rates) and may be eroded in the current low interest rate environment. Moreover, any public policy measure (except for the Bank of Canada's target rate) would affect only a segment of indebted households and thus may not have a desired effect on the overall level of household indebtedness.

For these reasons it is now more important than ever that Canadian households remain alert to economic indicators and take individual responsibility for taking the financial actions needed to protect against potential negative economic shocks.

10 International Monetary Fund (2013), 2012 *Article IV Consultation – Canada, Selected Issues*, IMF Country Report No. 13/41.

CHAPTER 6

Appendix A: Survey methodology and selected definitions

The public opinion survey was first administered in the spring of 2014 and then repeated in the winter of 2015. The design of the 2014 and 2015 survey questionnaires allowed for comparison across the survey waves for the majority of the survey questions. The sampling methodology was designed to accommodate an online interview process with respondents making up a representative sample of Canadian adults aged 25 years and over. Interviews were conducted with households living in the 10 Canadian provinces. The 2014 survey sample consisted of 2,006 respondents producing in the sampling error of plus or minus 2.19% at a 95% confidence level (19 times in 20); the 2015 survey sample consisted of 1,500 respondents producing the sampling error of plus or minus 2.53% at a 95% confidence level (19 times in 20). The data was statistically weighted to accurately reflect the composition of Canadians by region, gender, age and income based on Statistics Canada's 2011 National Household Survey. The profile of the 2015 survey respondents is presented in Table 1; the profile of the 2014 survey respondents is nearly identical to that of the 2015 survey.

Table 1 – Profile of survey respondents, 2015 survey

Characteristics	% of total sample
Age	
25–34 years old	18.4%
35–44 years old	19.1%
45–54 years old	22.7%
55–64 years old	18.7%
65 years of age and over	21.1%
Geography	
British Columbia	13.5%
Alberta	10.5%
Saskatchewan and Manitoba	6.4%
Ontario	38.2%
Quebec	24.2%
Atlantic Provinces	7.2%

Characteristics	% of total sample
Household income	
Under $30,000	22.3%
$30,000 – $49,999	18.6%
$50,000 – $79,999	22.3%
$80,000 – $99,999	10.9%
$100,000 – $124,999	9.5%
$125,000 – $149,999	6.0%
$150,000 or more	10.3%
Sex	
Male	48.2%
Female	51.8%

A number of definitions were design to allow for consistency in the processing and analysing the survey results. Those definitions are presented below.

Age group

- Younger households are comprised of respondents less than 35 years of age.
- Middle age households are comprised of respondents 35 to 54 years of age.
- Older households are comprised of respondents that are 55 years of age and over.

Income group

- Moderate-income households are those with annual household income of less than $50,000.
- Middle income households are those with annual household income between $50,000 and $124,999.
- Higher-income households are those with annual household income of $125,000 and over.

Retirement status

- Retired households are those where the survey respondent as well as the spouse (where applicable) are self-identified as retired.
- Non-retired households are those where at least one member of the household is not self-identified as retired.

Property ownership

- Owners are households that own (with or without a mortgage) a principal residence and/or a residential property other than a principal residence.
- Non-owners are households that do not own either principal residence or a residential property other than a principal residence.

Wealth is defined as the difference between the value of household total assets which consist of financial and non-financial assets and household total debt which consists of mortgage credit and consumer credit. The classification of households into those with wealth and those with no wealth is based on household's self-assessment guided by the above-noted definition.

CHAPTER 7

Appendix B: Survey questionnaire

[PROG: SHOW SURVEY IN FRENCH IF RESPONDENT IS FROM QUÉBEC, ALL ELSE SHOW IN ENGLISH]

Q. 1 Into which age category do you fall? (Please select one answer only)

1. Under 25 **[PROG: THANK AND TERMINATE]**
2. 25-34
3. 35-44
4. 45-54
5. 55-64
6. 65 or older

When reflecting on the survey questions, please provide answers as they pertain to your household as a whole rather than to you personally.

Q. 2 How well off would you say your household is financially these days? Would you say you are... (Please select one answer only)

1. Living comfortably
2. Doing alright
3. Just about getting by
4. Finding it somewhat difficult
5. Finding it very difficult
6. Don't know

Q. 3 Which of the following would you say your household does regularly (e.g. weekly, bi-weekly, monthly)? (Please select all that apply)

[PROG: RANDOMIZE]

1. Limits spending to a certain amount or certain percentage of household income
2. Tracks spending
3. Sticks to the budget
4. Saves (e.g. for retirement, education, rainy day, a major expense)
5. Makes financial investment (e.g. in mutual funds, stocks, bonds, GICs, savings accounts)
6. Takes measures to minimize interest on debt
7. Takes measures to prevent financial fraud
8. Pays off a portion of outstanding debt
9. None of the above **[PROG: MUTUALLY EXCLUSIVE. ANCHOR]**

Q. 4 Has your household set specific financial goals which you would like to accomplish within a certain period of time? (Please select one answer only)

1. Yes, has a written financial plan
2. Yes, has a financial plan but it is not written down
3. No
4. Don't know

Q. 5 Does your household have a special cash reserve fund for unexpected financial emergencies (i.e. in addition to savings for other purposes)?

1. Yes
2. No
3. Don't know

[PROG: IF "NO" OR "DON'T KNOW" IN Q. 5, SKIP TO Q. 7]

Q. 6 Over which period of time would the emergency cash reserve fund allow your household to cover regular expenses? (Please select one answer only)

1. Less than one week
2. One to two weeks
3. Three to four weeks
4. 1 to 2 months
5. 3 to 4 months
6. 5 to 6 months
7. More than 6 months

Throughout the survey, household total debt is understood as consisting of mortgage credit and consumer credit (e.g. car loan, credit card debt, payday loan, borrowing through a line of credit). Household total assets are understood as consisting of financial assets (e.g. mutual funds, bonds, GICs, cash savings, private pension assets) and non-financial assets (e.g. residential and non-residential property, land, consumer goods, machinery and equipment).

Q. 7 Does your household currently have an outstanding balance on any type of loans (e.g. mortgage, car loan, credit card, payday loan, line of credit)?

1. Yes
2. No
3. Don't know

Q. 8 Thinking of the level of your household's total debt over the past 3 years, would you say it has…

1. Decreased a lot
2. Decreased a little
3. Remained about the same
4. Increased a little
5. Increased a lot
6. My household has not had any debt in the past 3 years

Q. 9 Which of the following best describes your household's current situation? (Please select one answer only)

1. Total debt of my household exceeds the value of my household's assets
2. Total debt of my household is about the same as the value of my household's assets
3. Total debt of my household is less than the value of my household's assets

Q. 10 Thinking of your household's wealth today, how would you say it compares to the amount of wealth you had 3 years ago? Wealth is understood as the difference between the value of households' total assets and the amount of household's total debt. (Please select one answer only)

1. Much more wealth today than 3 years ago
2. Somewhat more wealth today than 3 years ago
3. About the same today as 3 years ago
4. Somewhat less wealth today than 3 years ago
5. Noticeably less wealth today than 3 years ago

Q. 11 What best reflects the time when you or other members of your household last calculated the value of your household wealth? (Please select one answer only)

1. Within past month
2. About three months ago
3. About six months ago
4. About one year ago
5. More than one year ago
6. Don't remember
7. Never

Q. 12 Which of the following do you or other members of your household usually monitor? (Please select all that apply)

[PROG: RANDOMIZE, ANCHOR NONE AND DON'T KNOW]

1. Changes in the housing market
2. Changes in the stock market
3. Changes in interest rates
4. Changes in inflation
5. Changes in taxation (e.g. changes affecting personal income tax, capital gains tax, tax credits)
6. Changes in the job market
7. Changes in the pension system
8. None of these **[PROG: MUTUALLY EXCLUSIVE]**
9. Don’t know **[PROG: MUTUALLY EXCLUSIVE]**

Q. 13 How would you rate the level of your household’s financial self-discipline? (Please select one answer only)

1. Very strong
2. Moderately strong
3. Somewhat strong
4. Neither strong nor weak
5. Somewhat weak
6. Moderately weak
7. Very weak
8. Don’t know

Q. 14 Does your household currently own any of the following residential assets? (Please select all that apply)

1. Principal residence
2. Residential structure other than principal residence (e.g. cottage, second home, investment property)
3. None of the above **[PROG: MUTUALLY EXCLUSIVE]**

[PROG: IF “YES” IN BOTH “PRINCIPAL RESIDENCE” AND “RESIDENTIAL STRUCTURES”, ASK S1]
[IF YES TO ONLY “PRINCIPAL RESIDENCE” OR ONLY “RESIDENTIAL STRUCTURE”, SKIP TO Q. 15]
[PROG: IF “NONE OF THE ABOVE”, SKIP TO Q. 34]

S1 You have indicated that you have both a principal residence and another residential structure among your household assets. Which of these properties would bring your household the largest amount of money if it is sold today? Is it your... (Please select one answer only)

1. Principal residence
2. Residential structure other than the principal residence

Q. 15 Which of the following best reflects the percentage of equity that your household holds in your residential property? Equity is understood as the difference between the current market value of the property and outstanding debt related to this property (e.g. mortgage, home equity line of credit). (Please select one response for each item)

[PROG: GRID ACROSS THE TOP, LIST DOWN THE SIDE. INCLUDE AT TOP ONLY PRINCIPAL RESIDENCE OR RESIDENTIAL STRUCTURE IF OWNED AT Q.14]

1. Principal residence
2. Residential structure other than the principal residence

1. 0%
2. 1% – 9%
3. 10% – 19%
4. 20% – 34%
5. 35% – 49%
6. 50% – 74%
7. 75% – 99%
8. 100%
9. Don't know
10. Do not own this asset **[PROG: MUTUALLY EXCLUSIVE]**

Q. 16 Which of the following describes consequences your household will likely experience if the market price of your residential property declined by 15%? (Please select all that apply for each item)

[PROG: GRID ACROSS THE TOP, RANDOMIZE LIST DOWN THE SIDE INCLUDE AT TOP ONLY PRINCIPAL RESIDENCE OR RESIDENTIAL STRUCTURE IF OWNED AT Q.14]

1. Principal residence
2. Residential structure other than the principal residence

1. Will have to increase regular (e.g. weekly, monthly) savings
2. Will have to cut on spending
3. Will not be able to sell this property
4. Will have a reduced amount of retirement savings
5. Will have a reduced borrowing capacity
6. Will experience a psychological discomfort
7. Will affect family business
8. Other **[PROG: ANCHOR]**
9. Do not own this asset **[PROG: MUTUALLY EXCLUSIVE. ANCHOR]**

I will now ask you few additional questions regarding your residential property. If you own more than one residential property, please answer these questions thinking of the property that would provide your household with the largest amount of money if it is sold today.

Q. 17 Which of the following reflects your main motivation(s) for owning this property? (Please select all that apply)

[PROG: RANDOMIZE]

1. It provides higher value-to-price then renting
2. Rental property cannot provide desirable attributes (e.g. location, dwelling type, size, other characteristics)
3. It helps my household accumulate wealth
4. It helps my household mitigate investment risks
5. It provides (or will provide) a tax advantage
6. It is part of my household’s retirement plan
7. It contributes to personal fulfilment (i.e. pride of ownership)
8. It helps build credit history
9. It allows flexibility of remodeling / rebuilding to personal taste
10. Other **[PROG: ANCHOR]**

Q. 18 To what extent would you agree or disagree that owning this property… (Please select one response for each item)

[PROG: GRID ACROSS THE TOP, RANDOMIZE LIST DOWN THE SIDE]

1. Strongly agree
2. Moderately agree
3. Somewhat agree
4. Undecided
5. Somewhat disagree
6. Moderately disagree
7. Strongly disagree

1. Hinders your household in pursuing job opportunities in other cities / regions
2. Strains your household finances through costs of maintenance and repairs
3. Is a burden timewise
4. Is a burden psychologically

Q. 19 Does your household currently have a mortgage on this property? (please select one answer only)

1. Yes
2. No
3. Don't know

[PROG: IF "NO", "DON'T KNOW" IN Q. 19, SKIP TO Q. 21]

Q. 20 What best describes the main reason why you took out the mortgage(s) for this property? (Please select one response for each item)

[PROG: GRID ACROSS THE TOP, RANDOMIZE LIST DOWN THE SIDE]

1. First and only mortgage
2. Second mortgage
3. Third mortgage

1. To help purchase this property
2. To re-finance or consolidate other credit commitments
3. To make improvements or extensions to this property
4. To help purchase another asset or an investment
5. To help with everyday expenses
6. To help a family member purchase a home
7. To help a family member with a major expense other than purchasing home
8. In connection with a business
9. Other **[PROG: ANCHOR]**
10. I do not have a second mortgage on this property **[PROG: ANCHOR. MUTUALLY EXCLUSIVE FOR SECOND MORTGAGE]**
11. I do not have a third mortgage on this property **[PROG: ANCHOR. MUTUALLY EXCLUSIVE FOR THIRD MORTGAGE]**

Q. 21 Does your household currently have a mortgage on a residential property other than that we have discussed so far? (Please select one answer only)

1. Yes
2. No
3. Don't know

[PROG: IF "NO", "DON'T KNOW" IN BOTH Q. 19 AND Q. 21, SKIP TO Q. 26]

Q. 22 Thinking of your current mortgage (or the largest current mortgage if you have more than one mortgage on either single or multiple residential properties), do you have a mortgage payment protection policy?

1. Yes
2. No
3. Don't know

Q. 23 Thinking of your current mortgage (or the largest current mortgage if you have more than one mortgage on either single or multiple residential properties), have you in the past three years… (Please select all that apply)

[PROG: RANDOMIZE]

1. Refinanced the mortgage earlier to take advantage of a lower interest rate
2. Refinanced the mortgage decreasing the amortization period (i.e. the period over which the mortgage will be fully paid off)
3. Refinanced the mortgage increasing the amortization period (i.e. the period over which the mortgage will be fully paid off)
4. Paid increased amounts of mortgage payments or made lump sum contributions to pay off the mortgage faster
5. None of the above **[PROG: ANCHOR. MUTUALLY EXCLUSIVE]**

Q. 24 Thinking of your current mortgage (or all current mortgages if you have more than one), how easy is it for your household to keep up with mortgage payments? (please select one answer only)

1. Payments are made without any difficulties
2. Payments are made but we struggle to do so from time to time
3. Payments are made but it is a constant struggle
4. Sometimes fall behind with payments
5. Always fall behind with payments
6. Someone else than my household pays the mortgage
7. Don't know

Q. 25 In case your household income decreases by 25% and that lasts for at least three months, what would you do to continue paying your mortgage(s)? (Please select all that apply)

[PROG: RANDOMIZE]

1. Use cash or money from the current account
2. Use money from the savings account
3. Sell an asset
4. Cut back on spending

5. Make a claim on a mortgage payment protection policy, if owned
6. Use a credit card or line of credit
7. Remortgage or borrow against the residential property
8. Make arrangement with creditors to pay less or postpone payments
9. Borrow money from family and friends
10. Ask family and friends to help by giving money
11. Increase income by getting a second job or working additional hours in existing job
12. Would not make ends meet **[PROG: MUTUALLY EXCLUSIVE. ANCHOR]**
13. Nothing – income will continue to be sufficient to make mortgage payments **[PROG: MUTUALLY EXCLUSIVE. ANCHOR]**
14. Could not happen as income is completely secure **[PROG: MUTUALLY EXCLUSIVE. ANCHOR]**
15. Other **[PROG: MUTUALLY EXCLUSIVE. ANCHOR]**
16. Don't know **[PROG: MUTUALLY EXCLUSIVE. ANCHOR]**

Q. 26 Does your household have a home equity line of credit (HELOC)?

1. Yes
2. No
3. Don't know

[PROG: IF "NO", "DON'T KNOW" IN Q. 26 SKIP TO Q. 36]

Q. 27 Does your household have more than one HELOC?

1. Yes
2. No
3. Don't know

Q. 28 Which one of the following categories comes closest to the *credit limit* on your household's HELOC (or the *largest* HELOC if you have more than one)? (please select one answer for each item)

1. Less than $5,000
2. $5,000 – $9,999
3. $10,000 – $19,999
4. $20,000 – $29,999

5. $30,000 – $49,999
6. $50,000 – $74,999
7. $75,000 – $99,999
8. $100,000 – $149,999
9. $150,000 – $199,999
10. More than $200,000
11. Don't know

Q. 29 Which one of the following categories comes closest to the amount outstanding on your household's HELOC (or the largest HELOC if you have more than one)? (please select one answer for each item)

1. Less than $5,000
2. $5,000 – $9,999
3. $10,000 – $19,999
4. $20,000 – $29,999
5. $30,000 – $49,999
6. $50,000 – $74,999
7. $75,000 – $99,999
8. $100,000 – $149,999
9. $150,000 – $199,999
10. More than $200,000
11. Don't know
12. Do not have an outstanding balance on HELOC

Q. 30 Thinking of factors that influence your borrowing decisions, what was the main reasons why your household chose to borrow through HELOC? (please select one answer only)

[PROG: RANDOMIZE]

1. Low interest rate
2. No fixed repayment schedule
3. Availability of interest-only repayment option
4. Easy approval process
5. No approval required (i.e. HELOC was already available)
6. HELOC was the only option available
7. Other **[PROG: ANCHOR]**
8. Don't know **[PROG: ANCHOR]**

Q. 31 Thinking of the HELOC on which your household has the largest outstanding balance, what best describes the purpose of borrowing through that HELOC? (please select all that apply)

[PROG: RANDOMIZE]

1. To help purchase a residential property
2. To make improvements or extensions to residential property
3. To help purchase an asset other than residential property
4. To help with a major expense (e.g. education, vacation, large medical expense)
5. To purchase furniture or major appliances
6. To help with everyday expenses
7. To re-finance or consolidate other credit commitments
8. To help a family member purchase a home
9. To help a family member with a major expense other than purchasing home
10. In connection with a business
11. Other **[PROG: ANCHOR]**
12. Don't know **[PROG: ANCHOR]**
13. Do not have an outstanding balance on HELOC **[PROG: ANCHOR]**

Q. 32 Thinking of the HELOC on which your household has the largest outstanding balance, what best describes the way your household repays that HELOC? (please select one answer only)

[PROG: RANDOMIZE]

1. Pay minimum required payments only
2. Make regular payments that cover both interest and principal
3. Pay sporadic amounts as funds become available
4. Do not make any payments
5. Other **[PROG: ANCHOR]**
6. Don't know **[PROG: ANCHOR]**
7. Do not have an outstanding balance on HELOC **[PROG: ANCHOR]**

Q. 33 Thinking of the *net* changes that happened to your HELOC(s) in the past 12 months, have you.. (Please select one answer only)

1. Increased your HELOC(s) overall outstanding balance
2. Made no change in the overall outstanding balance of your HELOC(s)
3. Reduced your HELOC(s) overall outstanding balance

[PROG: SKIP TO Q. 36]

Q. 34 You have indicated that your household does not currently own its principal residence or any other residential structures. Has your household previously owned this type of assets? (Please select all that apply)

1. Yes, used to own the principal residence
2. Yes, used to own a residential structure other than the principal residence
3. No **[PROG: MUTUALLY EXCLUSIVE]**

[PROG: IF "YES" IN Q. 34, SKIP TO Q. 36]

Q. 35 What best describes why your household has chosen to hold back owning a residential property? (Please select all that apply)

[PROG: RANDOMIZE]

1. Family situation does not necessitate this
2. Insufficient savings for a down payment
3. Insufficient income to pay mortgage payments
4. Insufficient income to afford costs of property maintenance and repairs
5. Prefer to remain flexible for moving to another city / region
6. Prefer to remain flexible in managing household finances
7. Not ready to assume ownership responsibilities
8. Not interested in assuming ownership responsibilities
9. Economic conditions have not been favorable for purchasing residential property
10. Other **[PROG: ANCHOR]**

[PROG: ASK ALL]

Q. 36 Over the past 12 months, have your household fallen behind on any of the following types of payments? (please select all that apply)

[PROG: RANDOMIZE]

1. Mortgage payment
2. Rent
3. Bank loan payment
4. Minimum required payment on a credit card
5. Minimum required payment on a home equity lines of credit
6. Minimum required payment on a line of credit other than home equity lines of credit
7. Utility and other bills
8. Other financial commitments **[PROG: ANCHOR]**
9. Did not fall behind on any payments **[PROG: ANCHOR, MUTUALLY EXCLUSIVE]**

I will now ask you few questions related to the current economic environment.

Q. 37 International oil prices have decreased a lot over the past several months; gas prices in Canada have also gone down and some interest rates declined. What impact do you think these changes will have on your household's financial wellbeing over the next 12 months? Financial wellbeing of my household will.. (Please select one)

1. Improve a lot
2. Improve a little
3. Remain about the same
4. Worsen a little
5. Worsen a lot
6. Don't know **[PROG: ANCHOR]**
7. I am not aware of these changes **[PROG: ANCHOR]**

Q. 38 Thinking of the effect the reduction in gas prices and interest rates may have on your household finances, please indicate how likely is your household over the next 12 months..

[PROG: GRID ACROSS THE TOP, RANDOMIZE LIST DOWN THE SIDE]

1. Extremely likely
2. Very likely
3. Moderately Likely
4. Somewhat likely
5. Not very likely
6. Not at all likely

1. To borrow more than was initially planned
2. To pay off outstanding balance on mortgage and loans faster than initially planned
3. To increase the current pace of saving (e.g. for retirement, education, rainy day, a major expense)
4. To decrease the current pace of saving (e.g. for retirement, education, rainy day, a major expense)

Q. 39 In which province do you live? (Please select one answer only)

1. British Columbia
2. Alberta
3. Saskatchewan
4. Manitoba
5. Ontario
6. Quebec
7. New Brunswick
8. Nova Scotia
9. Prince Edward Island
10. Newfoundland and Labrador

Q. 40 How many people in your household are under 18 years of age? (Please select one answer only)

1. None
2. One
3. Two
4. Three
5. Four
6. Five
7. Six or more

Q. 41 Are you and your spouse/partner (if any) retired?

[PROG: GRID ACROSS THE TOP; LIST DOWN THE SIDE]

1. Yes
2. No
3. Do not have a spouse/partner **[PROG: ALLOW OPTION ONLY FOR SPOUSE/PARTNER]**

1. You
2. Your spouse/partner

Q. 42 Which of the following best describes your total annual household income, in 2014? (Please select one answer only)

1. Under $35,000
2. $35,000 – $49,999
3. $50,000 – $74,999
4. $75,000 – $99,999
5. $100,000 – $124,999
6. $125,000 – $149,999
7. $150,000 or more
8. Don’t know

Q. 43 Thinking of the level of your total household income over the past 3 years, would you say it has… (Please select one answer only)

1. Increased a lot
2. Increased a little
3. Remained about the same
4. Decreased a little
5. Decreased a lot
6. Don’t know

Thank you for your time!

CHAPTER 8
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