Study: Financial Expectations and Household Debt

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The interplay of factors underlying the long-term increase in Canadian household debt is a central theme in public discussion. A new Statistics Canada study shows that families' expectations about their financial situation in the near future appear to be a key correlate of their own debt accumulation patterns.

The study shows that even after controlling for a large set of socio-economic characteristics, such as family income as well as the age and education of the major income earner, homeowner families who expected their financial situation to improve over the next two years held roughly $6,800 (in 2016 dollars) more in non-mortgage debt than other homeowner families during the period from 1999 to 2016. This represents more than one-third of the average non-mortgage debt of $18,100 of other homeowner families.

Families with positive expectations about their financial situation also carried larger mortgage debt. Homeowner families with these expectations held about $27,900 more in mortgage debt than other comparable families during the period from 1999 to 2016. This gap represents 38% of the average mortgage debt of $74,400 for other homeowner families.

As a result, homeowner families with positive expectations had higher debt-to-income ratios than other homeowner families. All else being equal, the debt-to-income ratios of families with positive expectations were 32 percentage points higher than those of other comparable families, which averaged 89%.

These patterns are generally observed in each family income quintile. They are consistent with the notion that families who expect their income to rise in the near future may increase their consumption expenditures in advance and carry more non-mortgage and mortgage debt.

While families' expectations about their financial situation were, in a given year, strongly correlated with their amount of debt and debt-to-income ratio, changes over time in families' expectations did not account for the increase in household indebtedness from 1999 to 2016.

The reason is that the percentage of families with positive expectations remained relatively stable over the reference period, at 46% in 1999 and 44% in 2016. This suggests that other factors—for example, a preference for bigger houses, a lower aversion to high debt levels, favourable borrowing conditions, and relatively low growth in employment income for some groups—may underlie the growth in household debt since the late 1990s.

Definitions, data sources and methods: survey number 2620.

The research article "Financial Expectations and Household Debt," which is part of the *Economic Insights* (**11-626-X**) series, is now available.

A recently published study on "Indebtedness and Wealth Among Canadian Households" is available, as well as the infographic "Spotlight on Canadians and Debt: Who's Vulnerable?," which highlights debt-to-income ratios in Canada and how they have continued to rise since the 2008-2009 recession.

For more information contact us (toll-free 1-800-263-1136; 514-283-8300; **STATCAN.infostats-infostats.STATCAN@canada.ca**).

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