



# Weekly Market Insight

January 6, 2012

## NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

### A Closer Look at the Canadian Debt Situation

By Benjamin Tal

The rise in the debt-to-income ratio in Canada continues to receive a lot of attention. The record-high 151% as of the third quarter of 2011, is clearly a headline maker. But in order to have a serious discussion regarding the household debt situation in Canada we have to go much deeper than the headline number and try to assess what it really means. The following is a very brief discussion of some of our recent findings regarding this issue.

- As of the third quarter of 2011, the ratio of household debt to disposable income was 151%—a record high.
- The pace at which this ratio is rising has accelerated over the past three quarters and it is now rising by more than 1% per quarter on a three-quarter moving average basis.
- This acceleration is taking place despite a clear slowing in the pace of borrowing. As of 2011Q3, adjusted for inflation, growth in personal (non-mortgage) credit is now rising by only 1% (y/y)—the slowest pace since the early 1990s. Growth in real mortgage outstanding is currently at just over 5% (y/y)—the slowest pace since 2003. As a result, overall real household credit is now expanding at a year-over-year rate of only 4%—the slowest showing since 2001.
- So the main reason for the acceleration in the pace of the increase in the debt-to-income ratio is the income part of that measure. Real disposable income in Canada is now flat on a three-quarter moving average basis—the weakest showing since 1996. Even during the recent recession, real income was rising faster. So, at this point, it is not a debt problem. It is an income problem.
- But regardless what the source of the problem is, the debt-to-income ratio is elevated. But is there a critical threshold for this ratio that suggests an imminent derailing of the credit market as we know it? Well, focusing on other countries, we can see that among the developed world there are no less than 8 countries with a debt-to-income ratio well higher than we see in Canada. Now, granted some of these countries are welfare-economies such as Denmark, Sweden and the Netherlands where their debt-to-income ratios are well over 250%. A high level of taxation in those countries suggests a lower average disposable income and thus, an elevated debt-to-income ratio. But when we control this factor by comparing the debt level to *pretax* income, we find that the level of household debt in these countries is much higher than in Canada. For example, the ratio of debt-to-pretax income in Denmark is 188% vs. 122% in Canada.
- This is not to say that everything is ok in the Canadian debt front, but the focus on the level of the debt-to-income ratio does not suggest an imminent collapse of the system as such was not observed in countries that carry much higher household debt levels.
- But let's go deeper. The headline debt-to-income ratio measures total household debt in the economy relative to total personal income (including the income of people with no debt). A much more meaningful measure will be the debt-to-income ratio of households *with* debt. And that's exactly what we did in our micro, survey-based research. The following are some of the highlights:

- We divided the pool of Canadian households with debt into three categories: heavy borrowers, medium borrowers and light borrowers. Heavy borrowers are defined by those with a debt-to-gross income ratio of more than 160%. This group accounts for one-third of total borrowers but for over 70% of total debt outstanding.
- The number of heavy borrowers is rising. In 2007, this group accounted for 26% of borrowers, today it accounts for 34%.
- BC and Alberta have the largest proportion of heavy borrowers (40% and 38% respectively). Atlantic Canada and Quebec have the lowest proportion of heavy borrowers.
- Heavy borrowers accounted for all the increase in debt since 2007.
- Heavy borrowers are getting older. The share of heavy borrowers in the age group 45+ has risen from 36% in 2007 to 44% in 2011. No less than 30% of heavy borrowers are over the age of 50. This is significant since it implies that as those heavy borrowers approach retirement, their focus will be on deleveraging. The rising number of this group suggests that the deleveraging force will be more significant in the future.
- A look at net financial position of households also reveals a significant gap between the different groups. While the headline net financial wealth position was relatively stable over the past few years, it masks a situation in which the net financial position of heavy borrowers has worsened not only because of the increase in their debt position, but also due to the fact that the pace of appreciation of their financial assets has lagged the pace seen among light and medium borrowers.

**Bottom line:**

While the headline numbers can be misleading and do not imply an imminent derailing of the credit market any time soon, a close look at the micro data suggests that the composition of the debt situation in Canada is worsening—largely due to the fact that all the growth in the past five years was among heavy borrowers. It also means that no less than two-thirds of households with debt have a reasonable or even too low debt load (given where interest rates are) suggesting some potential opportunities for growth. With interest rates remaining low for a while, the trajectory of heavy borrowing in the coming year or two will be an important variable to focus on. To the extent that a growing portion of future credit growth comes from those with a relatively light debt load, credit can continue to expand with a very limited increase in risk.

Note: A more comprehensive version of our study will be published shortly.

## Market Snapshot

| US  | Current* | yes terday* | a week ago* | a month ago* | a year ago* |
|---|----------|-------------|-------------|--------------|-------------|
| TED SPREAD (bps)                          | 57       | 57          | 58          | 54           | 16          |
| 10Y / 2Y SPREAD (bps)                     | 171      | 169         | 172         | 178          | 270         |
| 2Y SWAP SPREAD (bps)                      | 43       | 47          | 49          | 43           | 22          |
| 3MT-Bill (%)                              | 0.01     | 0.01        | 0.00        | 0.00         | 0.14        |
| LIBOR 1 MONTH (%)                         | 0.30     | 0.30        | 0.29        | 0.28         | 0.26        |
| LIBOR 3 MONTH (%)                         | 0.58     | 0.58        | 0.58        | 0.54         | 0.30        |
| 2-YR BOND (%)                             | 0.26     | 0.26        | 0.28        | 0.22         | 0.56        |
| 5-YR BOND (%)                             | 0.87     | 0.85        | 0.94        | 0.86         | 1.87        |
| 10-YR BOND (%)                            | 1.97     | 1.95        | 2.00        | 2.00         | 3.26        |
| A Rated / 10Y TREASURY (bps)              | 221      | 220         | 220         | 217          | 158         |
| B Rated / 10Y TREASURY (bps)              | 617      | 618         | 614         | 614          | 494         |
| BB Rated / 10Y TREASURY (bps)             | 452      | 453         | 443         | 438          | 350         |
| <b>CANADA</b>                             |          |             |             |              |             |
| PRIME / BA SPREAD (bps)                   | 180      | 180         | 180         | 180          | 180         |
| CDOR 3 MONTH (%)                          | 1.36     | 1.36        | 1.35        | 1.34         | 1.25        |
| CDOR 3 MONTH / 3MT-BILL SPREAD (bps)      | 55       | 54          | 53          | 51           | 29          |
| 10Y / 2Y SPREAD (bps)                     | 102      | 100         | 108         | 115          | 146         |
| 2-YR BOND (%)                             | 0.94     | 0.95        | 0.92        | 0.89         | 1.76        |
| 5-YR BOND (%)                             | 1.27     | 1.27        | 1.29        | 1.30         | 2.52        |
| 10-YR BOND (%)                            | 1.96     | 1.96        | 2.00        | 2.04         | 3.22        |
| A Rated / 10Y TREASURY (bps)              | 147      | 147         | 139         | 140          | 119         |
| BBB Rated / 10Y TREASURY (bps)            | 249      | 250         | 241         | 239          | 188         |
| CAN Sovereign Agency / 10Y TREASURY (bps) | 52       | 55          | 45          | 47           | 42          |
| <b>COMMODITIES</b>                        |          |             |             |              |             |
| WTI CRUDE FUTURE (US\$ / bbl.)            | 101.2    | 102.7       | 99.9        | 98.5         | 90.9        |
| NATURAL GAS (US\$ / MMBtu)                | 3.0      | 3.0         | 3.2         | 3.4          | 4.4         |
| SILVER (US\$ / t oz.)                     | 28.8     | 28.8        | 29.3        | 32.0         | 28.7        |
| GOLD (US\$ / t oz.)                       | 1613.5   | 1606.0      | 1607.5      | 1710.1       | 1364.3      |
| WHEAT (US¢ / bu.)                         | 631.5    | 642.0       | 624.0       | 576.8        | 770.5       |
| SOYBEANS (US¢ / bu.)                      | 1205.0   | 1210.8      | 1165.5      | 1128.0       | 1408.8      |
| SUGAR (US¢ / lb.)                         | 23.2     | 24.1        | 23.6        | 23.9         | 31.0        |
| CORN (US¢ / bu.)                          | 643.0    | 651.8       | 618.5       | 592.3        | 637.8       |
| <b>FX</b>                                 |          |             |             |              |             |
| C\$ / US\$                                | 1.025    | 1.018       | 1.019       | 1.022        | 0.994       |
| US\$ / EURO                               | 1.271    | 1.281       | 1.304       | 1.336        | 1.337       |
| C\$ / EURO                                | 1.302    | 1.305       | 1.329       | 1.365        | 1.330       |
| YEN / US\$                                | 77.130   | 77.030      | 78.100      | 77.660       | 82.630      |
| US\$ / BRITISH POUND                      | 1.539    | 1.549       | 1.566       | 1.564        | 1.587       |
| SWISS FRANCS / US\$                       | 0.957    | 0.951       | 0.938       | 0.925        | 0.964       |

\* As of 11:00 a.m.

Note: Data is for reference only.

International Stock Indexes

Thursday, January 05, 2012

| Index (Regiona/Country)               | DAILY     |           |           |         | % Chg |      | YTD % chg | 52 WEEK   |          |       | 3-yr % chg |
|---------------------------------------|-----------|-----------|-----------|---------|-------|------|-----------|-----------|----------|-------|------------|
|                                       | High      | Low       | Close     | Chg     | -     | +    |           | High      | Low      | % Chg |            |
| <b>Global</b>                         |           |           |           |         |       |      |           |           |          |       |            |
| The Global Dow (World)                | 1839.5    | 1813.02   | 1824.21   | -13.97  | -0.76 |      | 1.2       | 2262.21   | 1669.03  | -13.3 | 4.8        |
| The Global Dow Euro (World)           | 1344.13   | 1334.28   | 1342.67   | 1.88    |       | 0.14 | 2.7       | 1548.75   | 1167.37  | -11.6 | 7.1        |
| DJ Global Index (World)               | 232.98    | 230.11    | 231.68    | -1.21   | -0.52 |      | 1.3       | 274.64    | 208.34   | -9    | 9.5        |
| DJ Global ex U.S. (World)             | 189.27    | 186.46    | 186.79    | -2.35   | -1.24 |      | 0.8       | 238.76    | 171.6    | -15.3 | 7.4        |
| <b>Asia Pacific</b>                   |           |           |           |         |       |      |           |           |          |       |            |
| DJ Asia-Pacific (Asia-Pacific)        | 120.36    | 119.34    | 119.42    | -0.98   | -0.81 |      | 1.4       | 145.35    | 112.09   | -16.4 | 8.2        |
| All Ordinaries (Australia)            | 4239.5    | 4186.7    | 4196.6    | -42.9   | -1.01 |      | 2.1       | 5064.9    | 3927.6   | -13.1 | 4.9        |
| S & P/ASX 200 (Australia)             | 4187.8    | 4131.7    | 4142.7    | -45.1   | -1.08 |      | 2.1       | 4971.2    | 3863.9   | -12.3 | 4          |
| DJ CBN China 600 (China)              | 19143.34  | 18746.55  | 18773.49  | -289    | -1.52 |      | -3.5      | 28499.08  | 18773.49 | -30.3 | 7          |
| Dow Jones China 88 (China)            | 194.14    | 190.69    | 190.99    | -0.46   | -0.24 |      | -1.8      | 267.9     | 190.99   | -22.1 | 4          |
| Shanghai Composite (China)            | 2183.4    | 2145.56   | 2148.45   | -20.94  | -0.97 |      | -2.3      | 3057.33   | 2148.45  | -23.9 | 4.5        |
| Hang Seng (Hong Kong)                 | 18821.09  | 18723.28  | 18813.41  | 86.1    |       | 0.46 | 2.1       | 24419.62  | 16250.27 | -20.9 | 6.5        |
| Bombay Sensex (India)                 | 15980.17  | 15809.31  | 15857.08  | -25.56  | -0.16 |      | 2.6       | 20184.74  | 15175.08 | -21.4 | 15.6       |
| Jakarta Composite (Indonesia)         | 3924.05   | 3893.19   | 3906.26   | -1.16   | -0.03 |      | 2.2       | 4193.44   | 3269.45  | 4.6   | 39.6       |
| Nikkei 300 (Japan)                    | 149.4     | 148.46    | 148.55    | -1.36   | -0.91 |      | 1         | 198.35    | 142.2    | -20.7 | -6         |
| Nikkei Stock Avg (Japan)              | 8519.16   | 8481.83   | 8488.71   | -71.4   | -0.83 |      | 0.4       | 10857.53  | 8160.01  | -19.4 | -2.1       |
| Topix Index (Japan)                   | 740.7     | 736.09    | 736.28    | -6.71   | -0.9  |      | 1.1       | 974.63    | 706.08   | -20.4 | -5.6       |
| Kuala Lumpur Composite (Malaysia)     | 1514.82   | 1504.54   | 1514.43   | 10.21   |       | 0.68 | -1.1      | 1594.74   | 1331.8   | -3.4  | 18         |
| NZSX-50 (New Zealand)                 | 3293.12   | 3270.64   | 3284.12   | -3.99   | -0.12 |      | 0.3       | 3577.44   | 3097.78  | -1.3  | 6.2        |
| KSE 100 (Pakistan)                    | 11368.79  | 11143.7   | 11187.88  | -174.09 | -1.53 |      | -1.4      | 12681.94  | 10842.26 | -9.2  | 23.6       |
| Manila Composite (Philippines)        | 4527.21   | 4480.06   | 4522.1    | 44.9    |       | 1    | 3.4       | 4550.53   | 3721.22  | 7.2   | 31.8       |
| Straits Times (Singapore)             | 2733.86   | 2708.21   | 2713.02   | 2       |       | 0.07 | 2.5       | 3279.7    | 2528.71  | -17.3 | 12.1       |
| Kospi (South Korea)                   | 1875.97   | 1860.57   | 1863.74   | -2.48   | -0.13 |      | 2.1       | 2228.96   | 1652.71  | -10.3 | 16.7       |
| Colombo Stock Exchange (Sri Lanka)    | 5976.43   | 5938.3    | 5939.75   | -33     | -0.55 |      | -2.2      | 7811.82   | 5805.76  | -12.8 | 56.1       |
| Weighted (Taiwan)                     | 7130.86   | 7073.32   | 7130.86   | 47.89   |       | 0.68 | 0.8       | 9145.35   | 6633.33  | -19.7 | 14.9       |
| SET (Thailand)                        | 1040.26   | 1031.76   | 1036.8    | 0.59    |       | 0.06 | 1.1       | 1144.14   | 855.45   | -1.3  | 29.4       |
| <b>Europe</b>                         |           |           |           |         |       |      |           |           |          |       |            |
| Stoxx Europe 600 (Europe)             | 250.11    | 246.87    | 247.39    | -2.23   | -0.89 |      | 1.2       | 291.16    | 214.89   | -12.1 | 5.8        |
| Stoxx Europe 50 (Europe)              | 2421.45   | 2392.78   | 2398.55   | -19.86  | -0.82 |      | 1.2       | 2768.65   | 2028.03  | -9.6  | 3.2        |
| Euro Stoxx 50 (Euro zone)             | 2354.68   | 2308.87   | 2315.75   | -34.14  | -1.45 |      | -0.03     | 3068      | 1995.01  | -18.4 | -3.2       |
| Euro Stoxx (Euro zone)                | 229.94    | 225.77    | 226.36    | -3.1    | -1.35 |      | 0.3       | 296.96    | 200.94   | -18.6 | -0.9       |
| ATX (Austria)                         | 1945.71   | 1890.94   | 1891.18   | -47.18  | -2.43 |      | -0.03     | 3000.7    | 1652.79  | -34.3 | 1.1        |
| Bel-20 (Belgium)                      | 2128.66   | 2087.27   | 2096.9    | -24.21  | -1.14 |      | 0.6       | 2770.81   | 1916.26  | -20.1 | 1.5        |
| PX 50 (Czech Republic)                | 926       | 898.4     | 901.8     | -25.6   | -2.76 |      | -1        | 1276.3    | 843      | -28   | 0.7        |
| OMX Copenhagen (Denmark)              | 366.56    | 360.43    | 365.89    | 4.99    |       | 1.38 | 2.6       | 441.74    | 311.34   | -16.5 | 13.4       |
| OMX Helsinki (Finland)                | 5558.12   | 5486.31   | 5513.83   | 6.01    |       | 0.11 | 3         | 7912.33   | 5020.54  | -29.1 | -1.9       |
| CAC 40 (France)                       | 3200.15   | 3136.75   | 3144.91   | -48.74  | -1.53 |      | -0.5      | 4157.14   | 2781.68  | -19.5 | -2.2       |
| DAX (Germany)                         | 6130.1    | 6040.94   | 6095.99   | -15.56  | -0.25 |      | 3.4       | 7527.64   | 5072.33  | -12.7 | 6.9        |
| BUX (Hungary)                         | 16517.18  | 15946.72  | 16225.09  | -349.49 | -2.11 |      | -4.4      | 24451.38  | 14929.76 | -27.7 | 8.2        |
| FTSE MIB (Italy)                      | 15377.98  | 14715.36  | 14767.22  | -559.81 | -3.65 |      | -2.1      | 23178.38  | 13474.14 | -28.4 | -10        |
| AEX (Netherlands)                     | 315.62    | 310.86    | 311.92    | -2.61   | -0.83 |      | -0.2      | 374.19    | 263.44   | -12.6 | 6          |
| All-Shares (Norway)                   | 452.77    | 448.81    | 451.08    | 2.15    |       | 0.48 | 1.9       | 513.6     | 373.47   | -7.5  | 15.6       |
| WIG (Poland)                          | 38144.84  | 37452.95  | 37739.39  | -443.7  | -1.16 |      | 0.4       | 50371.74  | 36549.47 | -19.8 | 10         |
| PSI 20 (Portugal)                     | 5608.32   | 5490.59   | 5505.65   | -87.11  | -1.56 |      | 0.2       | 8126.06   | 5185.1   | -27.9 | -5.7       |
| DJ Russia Titans 10 (Russia)          | 5958.38   | 5850.7    | 5907.53   | -30.78  | -0.52 |      | 2.9       | 7565.66   | 5234.47  | -16.2 | 29.8       |
| RTS Index (Russia)                    | 1447.34   | 1413.06   | 1415.48   | -18.71  | -1.3  |      | 2.4       | 2123.56   | 1217.21  | -20   | 30.8       |
| IBEX 35 (Spain)                       | 8598.7    | 8301.2    | 8329.6    | -252.2  | -2.94 |      | -2.8      | 11113     | 7640.7   | -14.2 | -4.8       |
| SX All Share (Sweden)                 | 313.84    | 312.17    | 313.12    | -0.86   | -0.27 |      | 2         | 375.52    | 270.24   | -15.2 | 13.4       |
| Swiss Market (Switzerland)            | 6072.88   | 6004.93   | 6026.57   | -31.51  | -0.52 |      | 1.5       | 6717.25   | 4791.96  | -7.7  | 1.5        |
| Istanbul National 100 (Turkey)        | 51661.6   | 50753.95  | 51204.58  | -327.98 | -0.64 |      | -0.1      | 70072.02  | 49621.67 | -26.1 | 22.3       |
| FTSE 100 (U.K.)                       | 5689.3    | 5614.4    | 5624.26   | -44.19  | -0.78 |      | 0.9       | 6091.3    | 4944.4   | -6.6  | 7.1        |
| FTSE 250 (U.K.)                       | 10284.98  | 10130.77  | 10144.64  | -129.13 | -1.26 |      | 0.4       | 12167.81  | 9425.93  | -13.4 | 14.6       |
| <b>Americas</b>                       |           |           |           |         |       |      |           |           |          |       |            |
| DJ Americas (Americas)                | 336.33    | 331.49    | 335.62    | 0.61    |       | 0.18 | 1.9       | 369.17    | 288.17   | -2.4  | 12.8       |
| Merval (Argentina)                    | 2738.6    | 2676.94   | 2715.19   | -0.27   | -0.01 |      | 10.3      | 3664.82   | 2286.73  | -24.7 | 33.1       |
| Sao Paulo Bovespa (Brazil)            | 59353.52  | 57962.51  | 58546.08  | -818.87 | -1.38 |      | 3.2       | 71632.9   | 48668.29 | -17   | 12.1       |
| S & P/TSX Comp (Canada)               | 12253.13  | 12137.11  | 12237.4   | 10.93   |       | 0.09 | 2.4       | 14270.53  | 11177.91 | -8.1  | 9.6        |
| Santiago IPSA (Chile)                 | 4198.12   | 4176.37   | 4188.65   | -9.47   | -0.23 |      | 0.3       | 4996.75   | 3606.31  | -16.2 | 19.7       |
| IPC All-Share (Mexico)                | 37377.3   | 36991.57  | 37017.95  | -369.68 | -0.99 |      | -0.2      | 38600.86  | 31715.78 | -4.1  | 16.8       |
| Caracas General (Venezuela)           | 116141.83 | 115546.22 | 116141.83 | ...     | ...   |      | -0.8      | 118108.62 | 65722.43 | 76.5  | 49         |
| <b>Other Countries</b>                |           |           |           |         |       |      |           |           |          |       |            |
| CASE 30 (Egypt)                       | 3655.09   | 3621.07   | 3627.8    | -26.99  | -0.74 |      | 0.2       | 7202.58   | 3586.55  | -49.6 | -8.5       |
| Tel Aviv (Israel)                     | 1117.32   | 1103.34   | 1113.23   | 1.7     |       | 0.15 | 2.5       | 1341.89   | 999.46   | -16.7 | 17.9       |
| Johannesburg All Share (South Africa) | 32899.68  | 32583.91  | 32599.06  | -300.62 | -0.91 |      | 1.9       | 33094.06  | 28391.18 | 1.5   | 13.5       |

\*Europe, Australia, Far East; U.S.-dollar terms.

Three year percent change is annualized.

Sources: Reuters; WSJ.com

---

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2012 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.