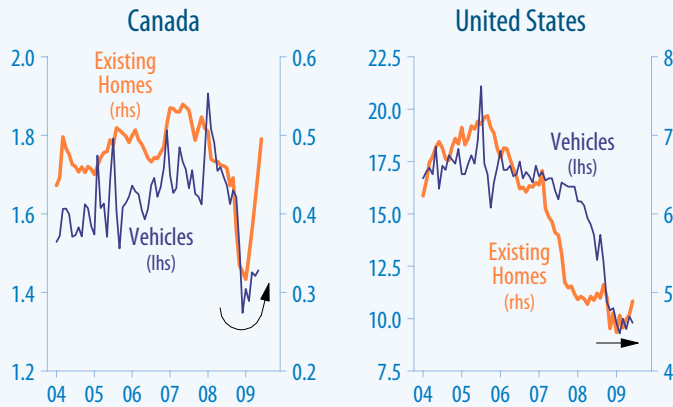


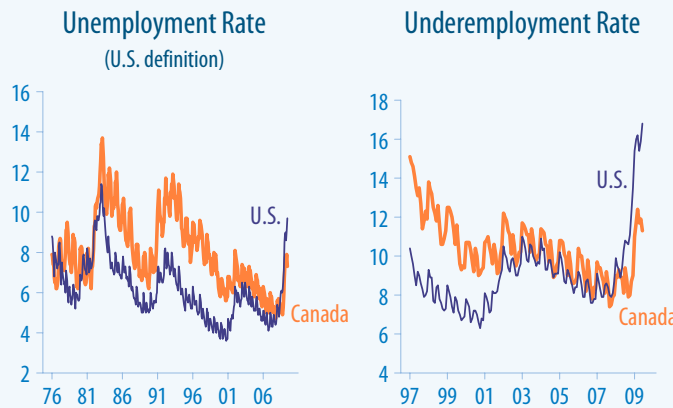
# Canadian Consumers Drive While U.S. Consumers Idle

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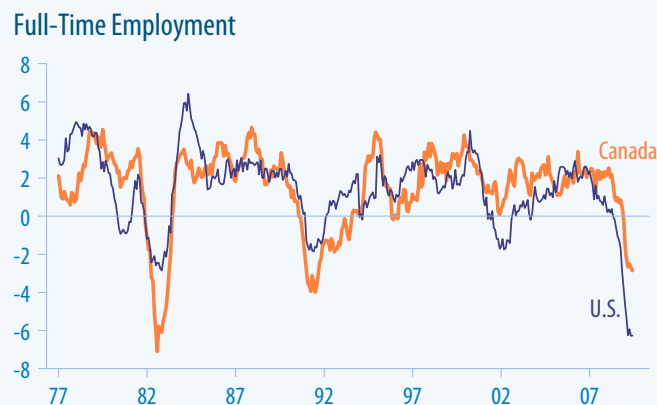
**CHART 1**  
**REVVED UP**  
Unit Sales (mlns : s.a.a.r.)



**CHART 2**  
**SLACK TRACKER**  
(percent : n.s.a.)



**CHART 3**  
**FULL TIME BEARS FULL BRUNT**  
(y/y % chng)



Fuel for a North American economic recovery was topped up as borrowing costs tumbled to recorded lows and the prices of big-ticket items like cars and homes were slashed. The resulting improvements in affordability, alongside lessening job losses and rebounding consumer confidence, got spending engines revving. However, U.S. consumers have yet to pop their engines into gear, unlike their Canadian counterparts (*Chart 1*). In Canada, these trends translated more readily into a willingness to borrow (to take advantage of affordability), owing to relatively stronger labour markets and household balance sheets.

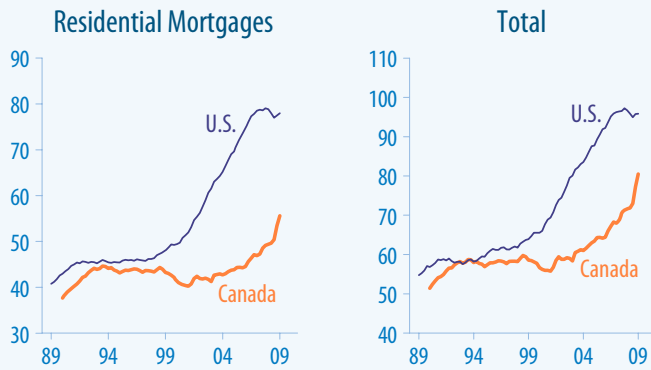
Canada's labour market has not slackened as much as in the U.S. or in past Canadian recessions. The U.S. unemployment rate is currently 9.5%, while it's 8.6% north of the border, using national definitions. However, the American definition biases down the unemployment rate, kicking jobseekers out of the "looking for work" club quicker. Employing this definition (which Statistics Canada does in seasonally unadjusted terms), the comparable Canadian unemployment rate is 2.4 percentage points below the U.S., a record (since 1976) gap (*Chart 2*). Broadening the definition of labour market slack to include discouraged workers and involuntary part-timers, the Canadian underemployment rate is 5½ percentage points below the U.S. level. The U.S. unemployment rate is pushing historic extremes: since 1948, it has been higher for one 14-month period in the early 1980s.

Furthermore, in both economies, part-time jobs have been replacing full-time jobs, so the fall in full-time employment is even steeper than the total. And, the U.S. is experiencing the worst contraction in full-time jobs since records started in 1968, a period which covers the past six recessions (*Chart 3*). Canada is not yet as bad as the 1980s' or 1990s' recession. Importantly, full-time employment is a prerequisite for credit extension, or at least it was until NINJA (No Income, No Job or Assets) mortgages emerged during the U.S. housing bubble (a practice that has since ceased).

Balance sheet room is another prerequisite for credit extension. The run-up in mortgage debt during the U.S.

**CHART 4**  
**LESS ROOM FOR MORE DEBT**

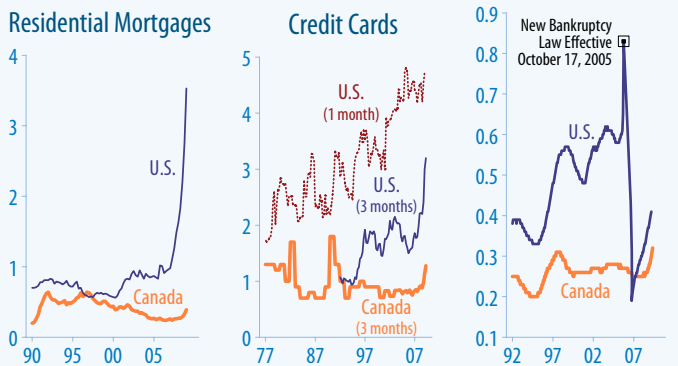
Household Sector Liabilities [includes unincorporated business] (% of GDP)



Total = [Residential Mortgages + Consumer Credit]

**CHART 5**  
**FISSURES IN HOUSEHOLD FINANCES**

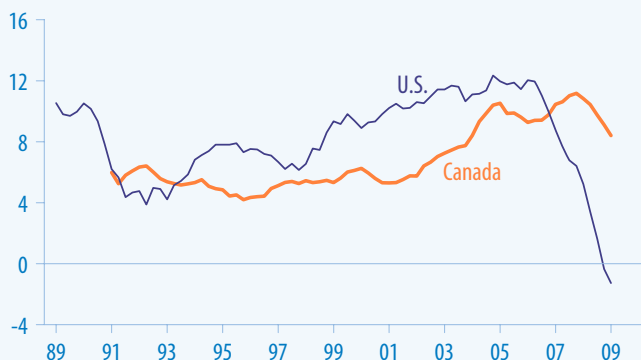
— Delinquencies —  
(% of loans past due)



**CHART 6**  
**CREDIT'S DUE**

(y/y % chng)

Residential Mortgage and Consumer Credit



housing bubble left a legacy of unmanageable debt burdens, along with sharply rising loan delinquencies and consumer bankruptcies. These were exacerbated by the surge in the unemployment rate, and are prompting balance sheet restructuring. But, paying down debt and increasing savings come at the expense of credit-based spending. In Canada, the multiyear housing boom pumped debt burdens as well (Chart 4). However, the mortgage debt-to-GDP ratio is 56%, well below the comparable U.S. ratio of 78%. Interestingly, Canadian households hold more consumer credit than their U.S. counterparts (relative to GDP), as home equity lending lagged in its popularity. Also, American households get a tax deduction for mortgage interest payments but not on consumer credit. Even so, Canada's total debt-to-GDP ratio is 80%, also well below the comparable U.S. ratio of 96%.

While Canadians have significantly lower relative debt burdens than Americans, the rise in the unemployment rate is still taking its toll. Mortgage and credit card delinquencies are creeping up, as are consumer bankruptcies (Chart 5). But these financial stress metrics remain massively below U.S. levels and, generally, below past peaks. As such, many Canadians have some capacity to take on additional debt.

Of course, while the demand for loans might pick up, there's no guarantee that the supply of loans will match, particularly since the global credit crisis flared. U.S. banks are still licking their balance sheet wounds, looking to shrink their risky loan books. Although this dovetails with household deleveraging, it also shows that the availability of credit is a constraint on U.S. credit-based spending growth. However, reflecting the strength and stability of the Canadian banking system, the supply of loans continues to rise to the occasion (Chart 6). This contrasts starkly with the contraction of U.S. household credit for the first time in recorded history.

**Bottom line:** It takes a willingness of borrowers to borrow and lenders to lend to turn improved affordability of big-ticket items into drivers of consumer spending and economic recovery, which is why Canada is racing ahead of the United States.

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