

## ECONOMIC NEWS

# Canada: More bad news just in time for the holidays

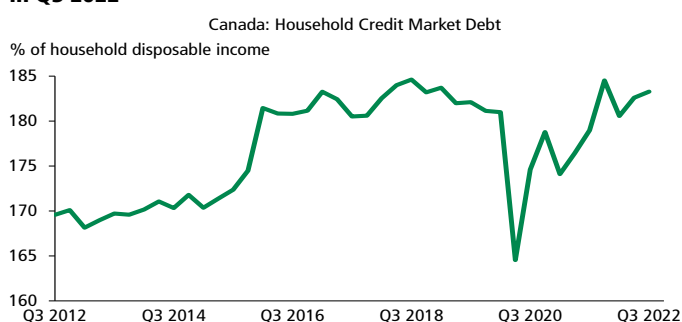
By Randall Bartlett, Senior Director of Canadian Economics

### HIGHLIGHTS

- ▶ Canada's national net worth declined by 3.3% q/q in the third quarter of 2022 – the largest quarterly drop since Q4 2008 – shedding half a trillion dollars to reach \$17.2 trillion. The weakness in Q3 is the result of falling values of real estate and Canada's international investment position as well as a reversal in fortunes in natural resource wealth after a hefty gain in Q2.
- ▶ After strong growth in asset values throughout the pandemic, equity, bond and housing markets all posted declines for the second consecutive quarter in Q3. The impact on household financial assets was further exacerbated by a 6.0% depreciation in the Canadian dollar in the quarter – the largest decline since Q1 2020.
- ▶ Meanwhile, the pace of household borrowing took a significant step back in Q3, as Canadians added \$33.0 billion in new debt – a 1.2% increase. This is well below the near-record amount of \$56.8 billion posted in Q2. Mortgage debt made up the bulk of funds advanced, at \$26.6 billion, with the share going to variable rate mortgages falling further in the quarter.
- ▶ Despite the slower pace of debt accumulation, household credit market debt as a proportion of household disposable income increased to 183.3% in Q3 from 182.6% in Q2. While not the near-record of 184.5% reached in Q4 2021, it is certainly moving in the wrong direction, in part reflecting a more modest 0.8% increase in disposable income in the most recent quarter. At the same time, interest payments expanded 16.2% in the third quarter, the largest increase in total interest payments on record.
- ▶ This moderate pace of disposable income growth still managed to best the 0.5% advance in nominal household consumption in Q3. As a result, the savings rate moved higher to 5.7% from a downwardly revised 5.1% in Q2. The savings rate remains higher than the 3.4% average in the decade that preceded the pandemic.

### GRAPH

#### Household debt as a share of income moves higher again in Q3 2022



Sources: Statistics Canada and Desjardins, Economic Studies

### IMPLICATIONS

It is clear that rate hikes by central banks the world over are taking a bite out of household finances. With asset values falling and liabilities still increasing, Q3 is likely the first clear indication of what lays ahead for Canadians. While we don't think the Bank of Canada is blind to these considerations, it made clear with last week's outsized hike that there is more pain to come. And just in time for the holidays. Indeed, while the debt service ratio increased to 14% in Q3 – the highest level since Q3 2020 – we haven't yet felt the full effects of past interest rate increases. With that said, we believe the Bank of Canada is finished hiking interest rates for this cycle, and has just settled down to a long winter's pause.