ECONOMIC NEWS

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FOCUS ECONOMICS ANALYST FORECAST AWARDS 2022
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Canada: Strong Household Income Keeps the Effects of Rate Hikes Muted, for Now

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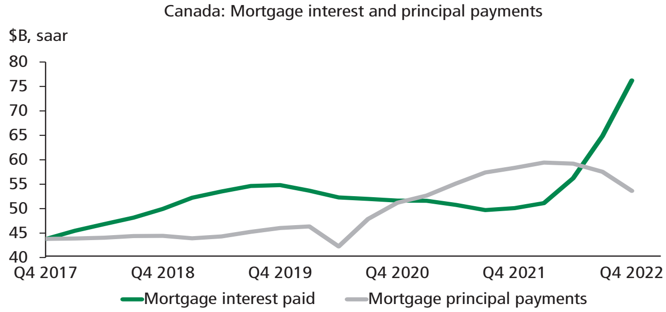
HIGHLIGHTS

- Household net worth advanced in Q4, following two consecutive quarterly declines, as a rebound in equity markets more than offset the continued contraction in the value of residential real estate. That said, household net worth ended 2022 4.7% below where it finished 2021.
- The pace of household borrowing slowed for the second consecutive quarter in Q4, as Canadians added $23.7 billion in new debt—the smallest increase since the middle of 2020. Mortgage debt made up the bulk of funds advanced. But at $17.2 billion, it was the slowest pace of mortgage funds advanced since the beginning of 2019.
- Meanwhile, household disposable income advanced a respectable pace in Q4 (3.0%), besting the 1.6% advance in nominal household consumption. As a result, the savings rate moved higher to 6.0% from a downwardly revised 5.0% in Q3. The savings rate remains higher than the 3.4% average in the decade that preceded the pandemic.
- Thanks to the slower pace of household debt accumulation and solid income growth in Q4, household credit market debt as a proportion of household disposable income fell to 180.5 % from 184.3% in Q3. This is the lowest level since Q3 2021. But this didn't do anything to hold back the household debt service ratio, which increased slightly to 14.3% in Q4. Interest payments rose by 14.1% in Q4, surpassing the record set in the prior quarter, and were up 45% from a year earlier. At the same time, principal payments declined. Statistics Canada chalked this up "the significant stock of variable rate mortgages likely allowed interest payments to further adjust without a concomitant rise in principal."

GRAPH
Canadians Are Struggling With Higher Interest Costs Even As Principal Payments Are Falling



Sources: Statistics Canada and Desjardins Economic Studies

COMMENTS

The Q4 National Balance Sheet Accounts gave a mixed picture of the state of the Canadian economy. The increase in net household wealth in Q4 could prove fleeting, given that the value of residential real estate continues to grind lower. At the same time, many households are struggling under the weight of higher borrowing costs, relying on extended amortization periods to balance their monthly bills. What has saved households thus far is the ongoing strength in labour income growth.

IMPLICATIONS

Today's release speaks to an economy that is defying the gravity of rate hikes to some extent. The question is not so much if rate hikes will be felt in full but when. If interest rates come down before households renew their variable rate mortgages en masse, some of the hit to consumer spending may be avoided. However, this is far from guaranteed, and poses a meaningful downside risk to our forecast. It no doubt helped to give the Bank of Canada pause when considering addition rate hikes as well.