Growth by household credit outstanding continued to slow in recent months. Its annual change was only 4.7% last January, its weakest growth since the end of 2001. This downward trend should continue in the coming months, for two main reasons.

Firstly, mortgage credit will continue to feel the effects of the real estate market slowdown. Introduced by the federal government last summer, the fourth series of measures to rein in mortgage credit seems to be working. As mortgage credit is the main source of growth by household debt, this slowdown is clearly good news and will ease some of the fear associated with overly high debt loads for Canadian households. It is also interesting to note that the last time that mortgage credit growth was this low was during the last real estate market slump, in the late 1990s and the turn of the millennium.

Secondly, Canadians seem to have heard the repeated calls for caution from the Bank of Canada (BoC) and the Canadian government. Consumer credit growth has stayed at a remarkably low level, historically speaking, for some months now. However, factors that favour credit persist, such as very low interest rates and an improving labour market.

Implications: As has been the case in several industrialized nations, the current process to improve Canadian household balance sheets reflects the reduction of some imbalances in the country. This should soon translate into lower household debt ratios, which will ease concerns for BoC leaders. Under these conditions, it should be less and less necessary to warn loudly about an eventual key rate hike.

However, the slowdown by household credit means that Canadians will be less active participants in economic growth in the coming quarters. On one hand, residential investment will likely lose ground. On the other, consumer spending on durable goods will be slowed by consumers’ desire to reduce their debt. Thus, the annual change to retail sales just slipped back into negative territory.