Economic News

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# CANADA

## Consumers took on more debt last spring

### HIGHLIGHTS

- Household debt contracted in the credit market (consumer credit, mortgage and non-mortgage loans) hit $1,797B in Q2, up $23.4B from the previous quarter.
- This takes the consumer credit market debt to disposable income ratio to 163.6% from 163.1% the previous quarter.
- Consumer debt went up 1.3% in Q2.
- Household assets advanced 2.1%. Among other things, residential real estate assets advanced 1.5%.
- The consumer debt to asset ratio went to 18.4% in the second quarter from 18.6% the previous quarter.

### COMMENTS

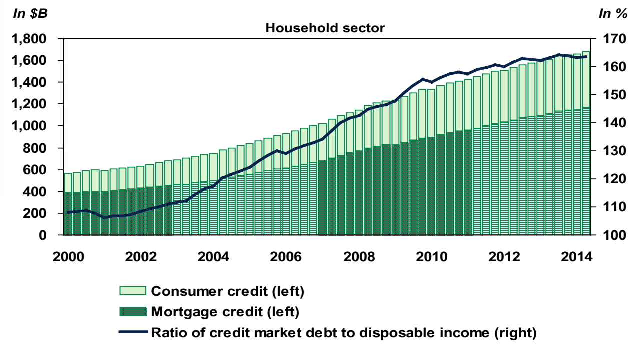
The Q2 uptick in the household debt to disposable income ratio comes as no surprise. Not only did the real estate market rebound during that time, but growth in consumer spending was faster than income growth, with a big surge in durable goods.

However, this does not mean the household debt situation eroded substantially last spring. Instead, the debt to income ratio has been stabilizing somewhat since early 2013. Without improving, the household debt issue is not really worsening either.

Some positive signs are evident, nonetheless. The sharp drop in the debt to asset ratio shows households are being more cautious. Moreover, growth in credit outstanding has clearly slowed since the start of 2013.

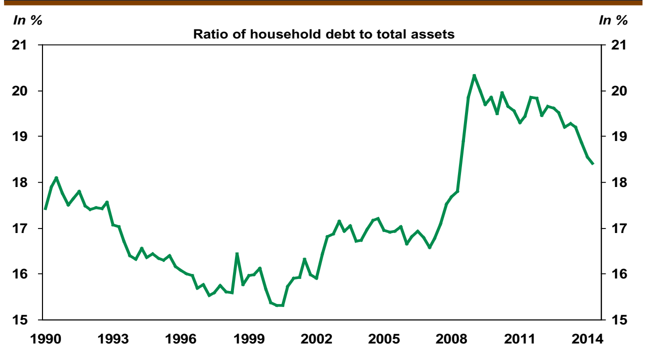
**Implications:** Despite some more reassuring results, the magnitude of household debt is still a big issue. The high debt to income ratio highlights households' vulnerability to labour market fluctuations and eventual interest rate increases. Note that there will be little incentive to pay down debt as long as key interest rates stay where they are, a risk the Bank of Canada must take into consideration.

**The household debt ratio ticked up in Q2 2014**




Sources: Statistics Canada and Desjardins, Economic Studies

**Household debt is rising slower than the value of household assets**




Sources: Statistics Canada and Desjardins, Economic Studies

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Note to readers: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.