Economic News
Desjardins Economic Studies
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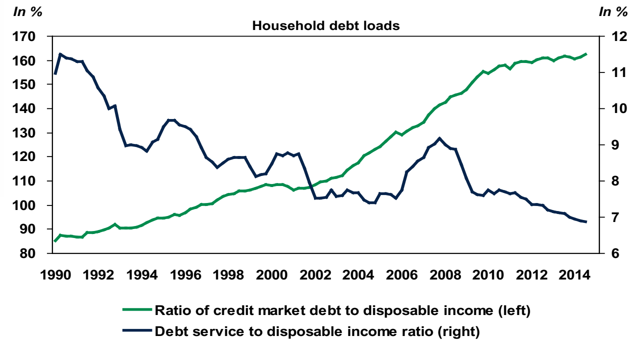
CANADA

Household debt hits a new peak!

HIGHLIGHTS

- This morning, Statistics Canada released its revised figures for the national balance sheet. Household credit market debt reached $1,805B in the third quarter, up $27.1B from the previous quarter.
- Nearly 75% of this increase comes from mortgage loans.
- The ratio of household credit market debt to disposable income climbed to 162.6% in the third quarter, a record peak according to the revised data.
- The debt service ratio (interest paid on mortgage and non-mortgage loans divided by disposable household income) dropped to 6.88% in the third quarter.

Despite high household debt, the service ratio remains under control



Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

Despite the historic revision, the overall picture of Canadian household debt has not changed much. The debt ratio remains quite high from a historical standpoint. Once again, mortgage loans are behind most of this growth.

For now, the situation is not causing too many problems. Despite the very high debt level, ongoing very low interest rates mean that the interest paid on mortgage and non-mortgage loans has not been this low compared to disposable income in nearly 25 years. The amounts going to principal payments are clearly much higher, but consumer financial obligations are generally still under control.

The concerns raised by the Bank of Canada (BoC), the Department of Finance and, to some extent, all observers come from the potential impact that raising the key rate would have on household financial obligations. Monetary authorities recently mentioned that “household imbalances present a significant risk to financial stability.”

Implications: The key to stabilizing and therefore improving the debt ratio is in the movement by mortgage loans. They have been following the uptrend in home prices in several regions of the country. According to the Canadian Real Estate Association, the annual change to average existing property prices rose to 5.7% in November for Canada as a whole. Ontario continues to stand out with a 6.2% increase. Property prices are currently overvalued by 10% to 30%, according to BoC estimates.

The Department of Finance has tightened mortgage credit criteria several times over the last few years. This has certainly helped to slow the real estate market. Some parts of the country are already slowing, such as Quebec and the Atlantic Provinces. Under these conditions, it is difficult to foresee any new nationwide restriction measures. In fact, the lever that is missing is undoubtedly an interest rate hike. Given the many uncertainties, though, we may have to wait several more months before the BoC institutes monetary firming.

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