



CANADA

The household debt ratio is still close to its historic peak

HIGHLIGHTS

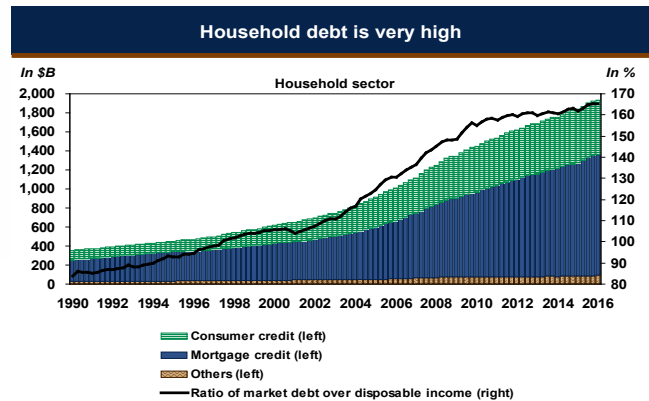
- The ratio of household credit market debt over disposable income fell to 165.29% in the first quarter of 2016, after reaching a historic peak of 165.42% in the fourth quarter of 2015.
- The reason for this dip is that disposable income grew a little faster than credit market debt.
- Mortgage credit rose by 0.7% during the quarter, while consumer credit dropped by 0.3%.
- The debt service ratio (i.e. interest payments and repayments of principal in relation to disposable income) edged down from 14.05% to 14.04%.

COMMENTS

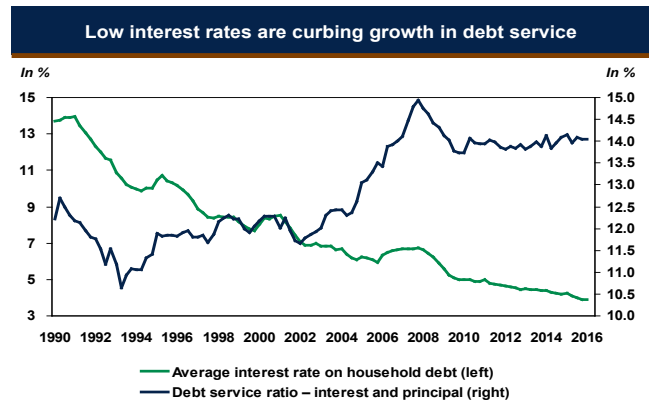
The first-quarter data show little change in the size of household debt. Households are still carrying very high debt from a historical perspective, mainly due to the impact of sharp growth in real estate prices on outstanding mortgage debt.

At 3.88%, the average interest rate on household debt reached another record low in the first quarter of 2016. This downward trend in interest rates is doing a lot to limit growth in the debt service ratio. However, many forecasters are anticipating that Canadian key interest rates will start heading up as of mid-2017. Households would therefore be well advised to begin preparing for that possibility now, and to adjust the growth of their debt levels accordingly. Given the current debt levels, a rise of just 60 basis points in the average interest rate on household debt would push the debt service ratio above its historic peak.

Implications: Given these high household debt levels, the debt service ratio is quite sensitive to interest rate fluctuations. In these circumstances, the Bank of Canada will have to take very gradual steps when it starts raising its interest rates. To maintain that leeway, the monetary authorities must not wait too long before taking action. Obviously, any further lowering of key interest rates is to be



Sources: Statistics Canada and Desjardins, Economic Studies



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avoided, even if the coming months bring us disappointing news on the economic front.

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