Canada: Household Debt Climbs Again

HIGHLIGHTS
- According to Statistics Canada, the ratio of household credit market debt to disposable income edged up from 173.18% in the second quarter to 173.80% in the third quarter.
- This increase was due to slightly weaker growth in the disposable income measurement (+0.7%) than the household credit measurement (+1.0%).
- Payments associated with consumer loans (principal repayments and interest payments) rose to $192.4B in the third quarter.
- These payments relative to disposable income, i.e. the debt service ratio, reached 14.51% in the third quarter, nearing its historic peak of 14.95%.

COMMENTS
This morning’s figures are a bit disappointing, as a slight reduction in Canadian household debt had been forecast for the third quarter, given that monthly statistics showed slower growth in credit outstanding, while growth in Canadians’ wages were picking up steam. This was clearly not reflected as expected in the measurements used to calculate the debt level, showing the extent to which adjustments are slow to appear on the household balance sheet.

We should keep in mind that the ordered rate hikes have not yet been fully felt by households. According to our estimates, the average interest rate on household debt rose to 4.37% in the third quarter of 2018, an increase of 49 basis points compared with the low recorded in the third quarter of 2016. By comparison, the target for the overnight rate climbed 100 basis points over the same period (without taking into account the most recent increase in October), whereas the benchmark 5-year mortgage rate increased by 70 basis points.

IMPLICATIONS
In light of this morning’s results, we should remain vigilant regarding the high level of household debt. This should spur the Bank of Canada to continue to raise its key interest rates to a neutral level deemed less expansionist. Nevertheless, the pace of monetary tightening is expected to remain gradual, as each key rate hike clearly take several quarters to be fully reflected by households.

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