

ECONOMIC NEWS

Canada: Household Indebtedness Hits Record High

HIGHLIGHTS

- ▶ The household credit market debt to disposable income ratio rose to 174.05% in the second quarter, a historic peak for household indebtedness.
- ▶ Mortgage and consumer credit both rose substantially over the quarter.
- ▶ As a proportion of disposable income, debt service (interest and principal payments) reached 14.93% in the second quarter. This is also at its highest point, historically.

COMMENTS

It was to be expected. With the housing market rebounding in several regions, and an ongoing uptrend in other regions, household debt continued to ascend in the second quarter. We are now seeing wall-to-wall historic peaks (debt rate and debt service).

The recent drop in some mortgage rates and extended status quo on key interest rates should provide some respite in the coming quarters. However, the situation remains very fragile. Although it could take a while to materialize, what will happen with debt service and households' financial situation when interest rates eventually go up?

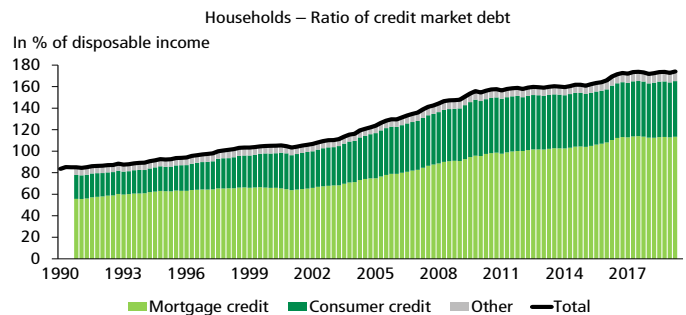
IMPLICATIONS

Given households' record indebtedness, the Bank of Canada (BoC) will be very reluctant to follow the global movement to reduce key interest rates. Rather, in order to not encourage further debt, the BoC should lean toward extending the status quo for several more quarters.

Benoit P. Durocher, Senior Economist

GRAPH 1

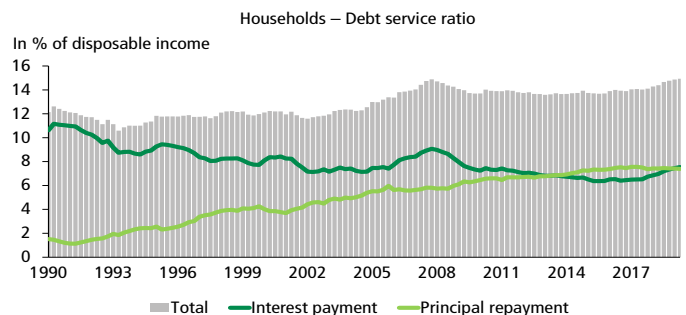
Mortgage credit is boosting household debt



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 2

Debt service is very high



Sources: Statistics Canada and Desjardins, Economic Studies

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