

## ECONOMIC NEWS

# Canada: Household Debt Edges Up

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### HIGHLIGHTS

- ▶ Seasonally adjusted, household credit market debt increased 2.0% in the third quarter. This increase is largely due to mortgage credit, which once again advanced substantially. That said, consumer credit also edged up after declining for three straight quarters.
- ▶ Households' disposable income also grew during the quarter, rising 1.7%.
- ▶ As income rose less than debt, the household debt ratio increased during the quarter. The ratio of credit market debt to disposable income went from 176.72% to 177.15% (once seasonally adjusted).
- ▶ The debt service ratio (interest and principal payments in proportion to disposable income) declined somewhat over the period thanks to a slight decrease in the average interest rate on loans.

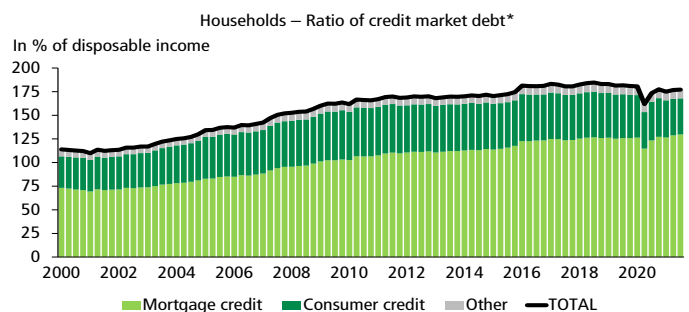
### COMMENTS

While sales of existing properties and housing starts have pulled back from last March's record peaks, the fact remains that the third quarter saw many real estate transactions. Combined with the rise in property prices, all the conditions were in place to push household debt up in the third quarter.

However, the debt load is below the peak recorded prior to the pandemic, which is a good thing. As economic conditions gradually normalize, interest rates should start to go up gradually over the coming quarters, making debt service more onerous. For example, for the debt now outstanding, an increase of about 100 basis points in the average rate on loans would put the debt service ratio back at its historic peak. That said, savings for many households are very high, which should help them cope with interest rate increases.

### GRAPH

#### Household debt continues to edge up



\* Seasonally adjusted.

Sources: Statistics Canada and Desjardins, Economic Studies

### IMPLICATIONS

The high household debt load must not keep the Bank of Canada from normalizing its monetary policy in the coming months. However, it will have to move very slowly in raising its key interest rates, so that it can assess the impact on households. For now, our forecasts only call for two 25-basis-point increases to the target for the overnight rate in 2022.