Economic News
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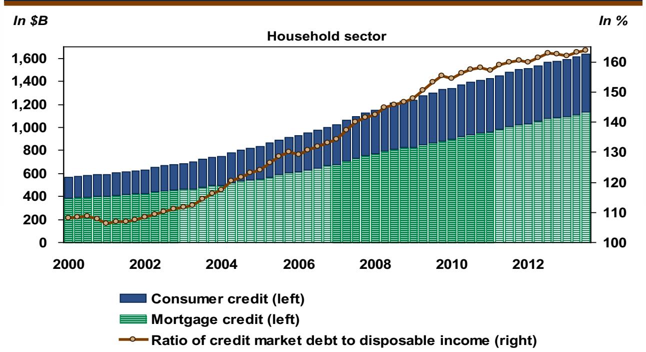
CANADA

Household debt continues to rise

HIGHLIGHTS

- Total household credit increased 6.2% (quarterly annualized) in the third quarter of 2013.
- Consumer credit was up 3.9%.
- Mortgage credit jumped 7.5%.
- Other loans ascended 3.0%.
- Household disposable income advanced 5.0% for the period, a pace slower than that recorded for total household credit.
- The ratio of credit market debt to disposable income has therefore edged up again from 163.1% to 163.7% in the third quarter.

Household debt ratio reaches a new peak in Q3 2013



Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

Those who were hoping for eased concerns about Canadian households bearing too much debt will be disappointed this morning. This new deterioration in household balance sheets drove the ratio of credit market debt to disposable income to a new historic high, reviving concern about households' financial situation.

For now, however, the risks remain limited. Keeping the interest rate very low from a historical point of view will help keep debt service growth in check. In addition, household assets also appreciated significantly in the third quarter (+8.6%) mainly due to the 10.5% rise in the value of financial assets and a 3.6% gain in assets related to residential real estate. Accordingly, the ratio of credit market debt to households' net worth fell slightly, from 23.6% to 23.5% in the third quarter.

Concerns stem from the impacts of a potential shock on Canadian households in the coming quarters. On one hand, property prices could go down slightly as a widespread slowdown is expected in the housing market, thereby affecting the asset value of Canadian households. On the other, interest rates will inevitably go up at some point. Although the increases are not expected before several more quarters, the fear is that an increasing number of households will have difficulties meeting their financial obligations when rates do go up again. To limit these risks, the Bank of Canada (BoC) and the Department of Finance have been trying to get households to improve their balance sheets for some time. Clearly, results in this area are not sufficient.

Implications: Of course, the anticipated slowdown of the real estate market could by itself substantially reduce the advance of household debt. However, it is clear that the Department of Finance and the BoC will remain on alert. Despite what some investors think, the possibility of a reduction in key interest rates in the months to come can be ruled out, since the risks of inciting households to take on even more debt appear too great compared to benefits to the Canadian economy.

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