Economic News
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CANADA

Household indebtedness remains stable

HIGHLIGHTS

- Outstanding consumer loans rose 3.1% (quarterly annualized) in the fourth quarter of 2013.
- Mortgage credit grew by 4.7% while consumer credit grew just 1.8%. Other household debts were down 6.0%.
- Growth in household disposable income gained a vigorous 4.4% in the fourth quarter.
- The ratio of household debt contracted on the credit market to disposable income fell slightly from 164.20% to 163.97%.
- Household assets added 10.8% in value in the fourth quarter. Major increases were noted in the value of residential real estate (+5.0%), land (+8.0%) and financial assets (+15.2%). Moreover, the value of stocks and shares in investment funds shot up 25.6% during the quarter.
- The ratio of household debt contracted on the credit market to their net value slipped to 22.94%, compared with 23.45% in the previous quarter.

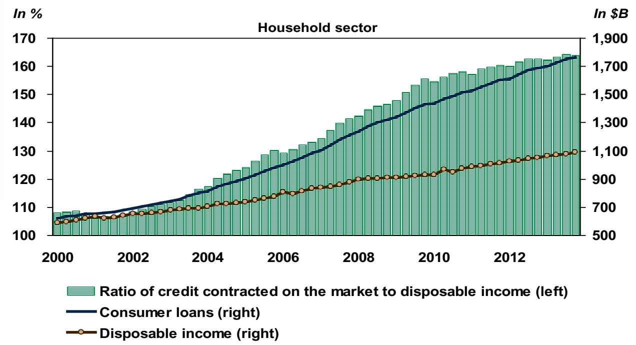
COMMENTS

For over a year, the ratio of household debt to household income has remained practically at the same level, with small quarterly reductions and increases alternating. For lack of improving, households' financial position seems to be stabilizing.

It's definitely a step in the right direction, but we must conclude that household debt loads are still at a historic high. Worries surrounding this problem remain intact. The data released today are once again clear: to see real improvement in household indebtedness, house prices will have to stop rising, putting an end to the ascending mortgage credit spiral. Unfortunately, average existing home prices are still not showing any signs of stabilizing.

Under these conditions, it is easy to understand why the Canadian government remains highly vigilant. In light of this, the Canada Mortgage and Housing Corporation (CMHC) announced that the cap for the mortgage-backed securities program would be lowered in 2014. This will limit

The household debt ratio fell slightly at the end of 2013



Sources: Statistics Canada and Desjardins, Economic Studies

Canadian financial institutions' financing opportunities and in turn trigger a slight tightening of mortgage credit conditions for households. In addition, the premiums charged by the CMHC to insure mortgage loans will go up starting on May 1, 2014.

Implications: Our scenario continues to call for a gradual slowing of the real estate market in 2014. Therefore it should only be a question of time before mortgage credit growth slows, thereby making room for real improvement in the household debt ratio. Until then, the federal government and the Bank of Canada will be on alert. Under these conditions, even if there is some disappointing economic data in the coming months, the possibility of a reduction in key interest rates should be ruled out for fear of further stimulating indebtedness.

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