HOUSEHOLD DEBT CONTINUES TO CLimb

**HIGHLIGHTS**

- Household debt (mortgage credit, consumer credit and other loans) was up 1.8% in the second quarter due to a generalized rise in all components.
- Disposable income grew less than credit; the ratio of household credit market debt to disposable income ticked up again from 163.01% to 164.63%.

**COMMENTS**

With very favourable borrowing conditions (interest rates at historic lows), it really is no surprise that households continue to take on debt. In addition, property prices continue to climb, pushing mortgage loan amounts even higher.

That said, the financial situation for households seems under control, as low interest rates are reining in rises in interest paid on loans. As such, the second quarter saw the ratio of interest payments to disposable income fall to 6.37%, its lowest level. This offsets the growth in principal payments, which have been inflated by an increase in mortgage loan amounts. Therefore, the total debt service ratio (including interest and principal payments) rose to 14.07% in the second quarter, similar to the level prevailing for several years.

**Implications:** For now, the Bank of Canada (BoC) does not seem overly concerned with the increase in household debt. As Deputy Governor Lawrence Schembri noted recently, credit quality has improved in recent years, as the Canadian government gradually introduced several mortgage credit tightening measures, thereby excluding borrowers with less favourable credit histories. That said, everyone is worried about the potential consequences of an possible increase in interest rates. The total debt service ratio could then reach historic highs and endanger the financial situation of certain households. Caution is therefore in order, and the BoC will have to proceed very gradually with future rate increases to ease adjustments. Households will still enjoy a reprieve, as an initial increase in key rates is not expected before 2017.

**Benoit P. Durocher**
Senior Economist

---

**Francois Dupuis**
Vice-President and Chief Economist

**Hélène Bégin**
Senior Economist

**Benoit P. Durocher**
Senior Economist

**Francis Généreux**
Senior Economist

---

**Note to readers:** The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

**Important:** This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document’s authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2015, Desjardins Group. All rights reserved.