

## CANADA

### Household debt increases again

#### 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%.

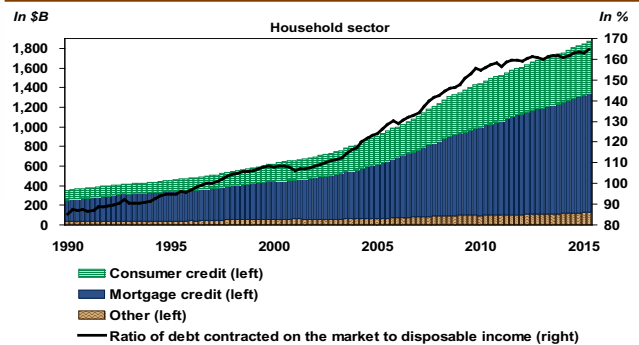
#### COMMENTS

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.

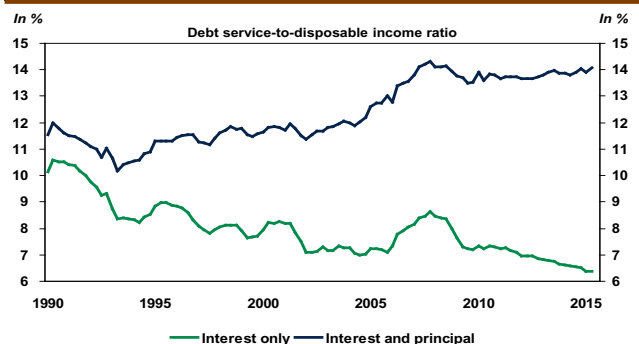
**Implications:** For now, the Bank of Canada (BoC) does not seem overly concerned with the increase in household debt. As Deputy Governor Lawrence Schembri noted recently, credit quality has improved in recent years, as the Canadian government gradually introduced several mortgage credit tightening 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

#### Household debt continues to climb



Sources: Statistics Canada and Desjardins, Economic Studies

#### Low interest rates curb the increase on debt service



Sources: Statistics Canada and Desjardins, Economic Studies

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

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

**Hélène Bégin**  
Senior Economist

**Benoit P. Durocher**  
Senior Economist

**Francis Généreux**  
Senior Economist

514-281-2336 or 1 866 866-7000, ext. 2336  
E-mail: [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com)