Canada: Household Debt Remains Very High

HIGHLIGHTS

- Household credit market debt rose 1.1% in the fourth quarter of 2017, an increase similar to that of household disposable income (+1.2%).

- Under these conditions, household debt remained virtually unchanged in Q4. The ratio of credit market debt to disposable income was at 170.37% in the fourth quarter, a level slightly lower than the historical peak of 170.53% recorded in the previous quarter.

COMMENTS

This is still not a real improvement in Canadian households indebtedness. That said, the situation could gradually begin to change as of early 2018. The housing market reacted strongly since January to the new restrictions introduced by the Office of the Superintendent of Financial Institutions (OSFI), resulting in slower mortgage credit growth.

In addition, the effect of the gradual rise in interest rates is starting to show. According to our estimates, the average interest rate on household debt increased from 3.90% at the end of 2016 to 4.06% at the end of 2017. Interest payments relative to disposable income therefore went up from 6.28% to 6.55% in one year. If we also consider principal repayments, total debt service rose to 13.83% in the fourth quarter of 2017.

IMPLICATIONS

The restrictions on mortgage credit, combined with higher interest rates, should lead to some improvement in household debt loads in 2018. While this is a desired goal, a close watch will nonetheless have to be kept on how households react because they could turn out to be very sensitive to the rate hikes. This makes the case for a very gradual tightening of the country’s monetary policy.