

ECONOMIC NEWS

Canada: Household Debt on the Rise Again This Summer

HIGHLIGHTS

- ▶ Outstanding household credit market debt increased \$37.2B in the third quarter to reach \$2,417.4B in total.
- ▶ After plunging in the second quarter, consumer credit rebounded, up \$7.9B in the third.
- ▶ Mortgage debt continued its ascent, climbing \$28.6B in the third quarter to \$1,627.8B, a historic peak.
- ▶ Household credit market debt has a proportion of disposable income shifted upwards from 162.8% to 170.7%. This is still below the level reached prior to the crisis, when the ratio hit 181.0% at the end of 2019.

COMMENTS

After some significant jolts during the first six months of 2020, the debt situation began to normalize in the third quarter. On the one hand, consumer spending rose dramatically after the lockdown was lifted. So, it comes as so surprise that consumer credit was up again after pulling back by \$21.0B in the second quarter. In addition, the housing market's strength clearly helped drive the upward trend in mortgage credit.

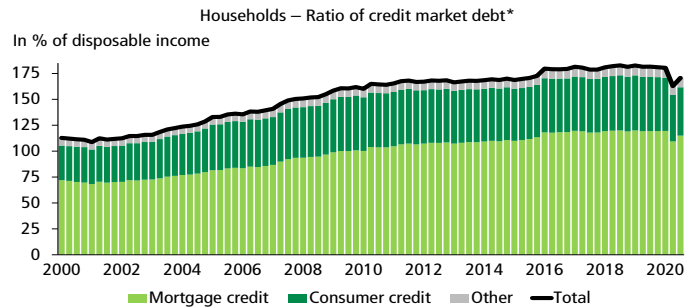
On the other hand, after the historic increase in the second quarter (+11.1%), household disposable income experienced a historic decrease (-3.1%) in the third. There's no doubt that the labour market's recovery has helped boost worker compensation, but this increase wasn't enough to offset the reduction in government transfers.

IMPLICATIONS

It will take many quarters before the pandemic's impact on household debt and income evaporates completely. Therefore, it's hard to get a true picture of the household debt situation. Still, one thing is certain: Canada's debt load coming out of this crisis will be higher, if only because of the sharp increase in public

GRAPH

Household debt started to increase again



* Seasonally adjusted.

Sources: Statistics Canada and Desjardins, Economic Studies

administration debt. After soaring \$302.1B in the second quarter, the federal government's credit market debt remained extremely high in the third quarter.

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