ECONOMIC NEWS

Canada: Slight Reduction in Household Debt

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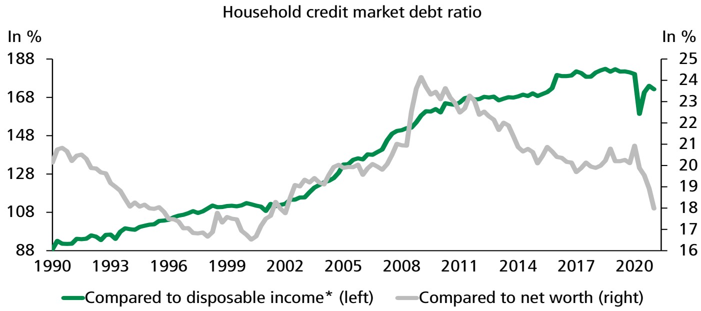
HIGHLIGHTS

- After seasonal adjustments, the ratio of household credit market debt to disposable income fell to 172.25% in the first quarter of 2021, compared to 174.00% in the previous quarter.
- This improvement is due to an increase of the debt on the credit market (+1.3%) that was lower than that for disposable income (+2.3%).
- The value of household assets increased by 5.1% during the quarter largely due to an increase in prices for residential properties.
- Households' net worth increased to an all-time high of $13,700B in the first quarter of 2021.
- The ratio of household debt compared to net worth fell to 17.98% in the first quarter of 2021, its lowest level since 2002.

GRAPH
Households' financial situation improved in the first quarter of 2021



* Seasonally adjusted.
Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

Contrary to what we had feared, the household balance sheet did not deteriorate following the surge in property prices observed in the first quarter. Mortgage credit rose steadily (+1.7%), but consumer credit growth remained anaemic (+0.2%) while restrictive health measures were in place to combat the second wave of COVID-19. Moreover, disposable income continues to benefit from the labour market recovery, which is helping to boost employee earnings while government transfers again increased.

Debt service (interest payments and principal repayments to disposable income) also fell in the first quarter from 13.55% to 13.45%. With the increase in credit, the proportion corresponding to principal repayments rose during the quarter. However, this increase was offset by a reduction in the interest payment proportion while the average interest rate on household debt fell again slightly during the quarter.

IMPLICATIONS

For now, households' financial situation is not too much of a concern. We will have to continue keeping a close eye on this situation. The danger is if the debt ratio to disposable income and debt service should increase significantly in the coming quarters. On the one hand, interest rates will probably increase in the coming quarters. On the other hand, the increase in disposable income should run out of steam when the situation is normalized. The withdrawal of government assistance could lead to an eventual drop in disposable income.