



CANADA

Household debt continues to worry

Even though households have exhibited a little more caution in the first quarter of 2015, shown through nearly zero growth in consumer credit, mortgage loans continued to rise due to a hot real estate market. As such, household credit market debt increased 0.7% in the first quarter of 2015.

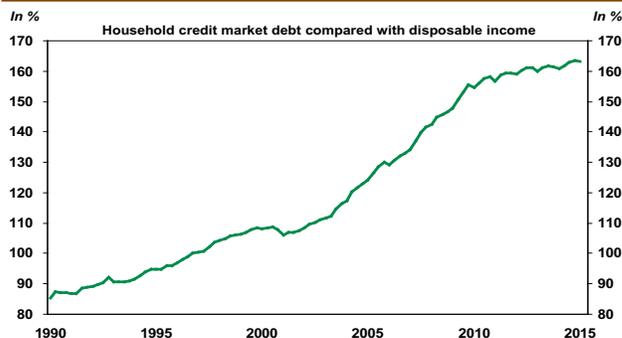
That said, household income also grew significantly in the first quarter. Disposable income was up 1.5% in the winter due to a large advance in compensation and income from properties, as well as a decrease in income taxes.

Under these circumstances, the key indicator of household debt levels, the ratio of debt contracted in the market compared with their disposable income, improved slightly in the first quarter of 2015, going from 163.59% to 163.25%. Since the level observed in the fourth quarter of 2014 was a historic peak, it cannot really be said that the household debt situation has improved.

As the first-quarter results demonstrate once again, the problem continues to be the same, namely the vitality of the real estate market. Mortgage credit and household debt will increase as long as property prices increase significantly. According to the Canadian Real Estate Association, the average sale price for an existing home in Canada rose at a very fast annualized pace of 9.5% in April.

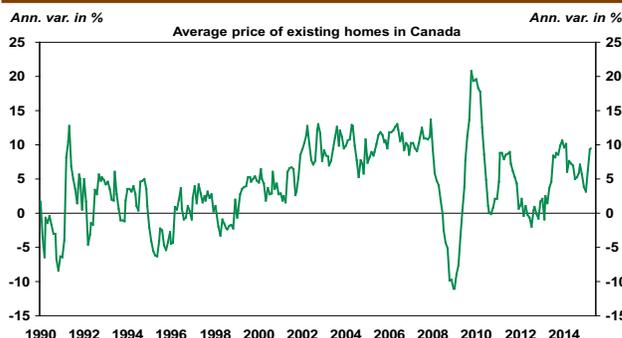
Implications: Even though an improvement in the household debt ratio can result from a sustained increase in income, the results of the first quarter prove that a real decrease in household indebtedness will occur by a capping, i.e. reduction, in outstanding credit. It seems critical that real estate prices stabilize for this to happen. Under these circumstances, even though the country's economic growth is disappointing, the Bank of Canada should take a long moment before ordering a new reduction in key interest rates for fear of further stimulating credit. The most likely scenario is therefore a continuation of the status quo on monetary policy until the end of 2016.

The household debt ratio continues to be near its historical high



Sources: Statistics Canada and Desjardins, Economic Studies

Home price growth stays high



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

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