Canada: Debt Growth Slows

Despite the gradual introduction of several restrictive measures in the last few years, household debt in Canada remains very high and is a major source of concern. Recent data suggests that this situation might be changing, however.

The 3-month change in outstanding household debt has slowed significantly in recent months, especially since the start of 2018. A less sustained advance in mortgage growth is behind this change, while the new restrictive measures introduced last January by the Office of the Superintendent of Financial Institutions (OSFI) have dented existing property sales significantly. That said, a slowdown in consumer credit has also been noted. This suggests that interest rates, which started to climb gradually last July, had a role to play in the credit slowdown.

In the meantime, all the signs suggest that household incomes continued to make significant gains. Employment continued to climb and wage growth accelerated recently. As a result, households’ debt-to-income ratio could start to show some improvement. It is still too soon to say so with any degree of certainty, however. What’s more, the housing market could once again show its resilience by rebounding in the coming months, pulling mortgage credit in its wake.

IMPLICATIONS

The recent slowdown in household credit growth seems to be supporting the adjustments Canadians are making at the moment to deal with higher interest rates. Note that the Bank of Canada leaders have often reiterated that households are more highly sensitive to interest rate fluctuations. The recent slowdown in household credit therefore calls for caution, and argues in favour of very gradual increases to the overnight rate. In such conditions, an increase in July rather than May seems like a better fit.

Benoit P. Durocher, Senior Economist