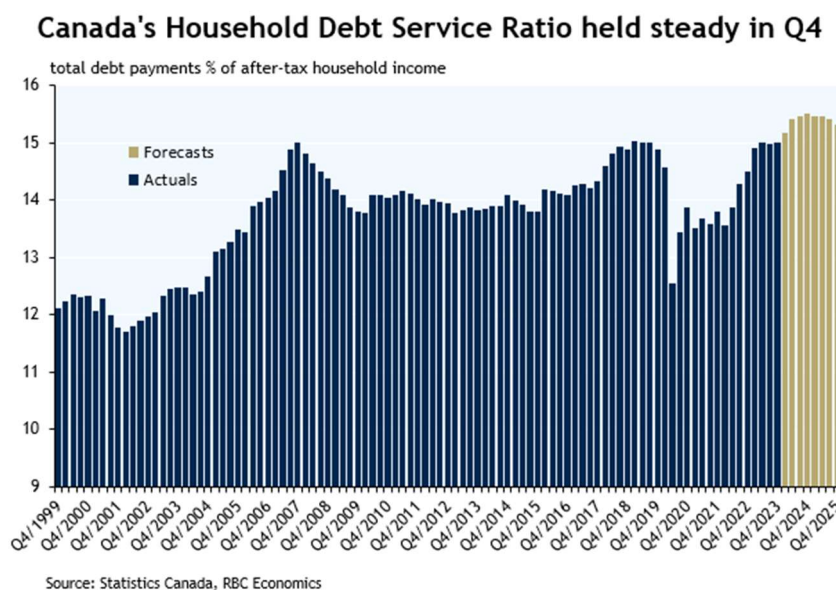


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Canada's debt servicing ratio held steady despite massive accumulation in new consumer credit

- Canada's debt servicing ratio (DSR) was essentially unchanged in the fourth quarter of 2023—ticking up to 15.0% from 14.99% in Q3. Since the Bank of Canada began hiking interest rates, mortgage interest payments have nearly doubled (+97.2%) prompting Canada's DSR to rise from 13.6% to current levels. After declining since 2022, mortgage principal payments remained unchanged in Q4 at \$12.4 billion.



- Household credit market debt rose by \$29.5 billion in Q4, hitting \$2.9 trillion (up ~3 year-over-year). While the recent uptick in Q4 was predominantly driven by a \$20 billion increase in the value of residential mortgages, the quarterly pace of growth in consumer credit drastically exceeded that of both mortgage and non-mortgage loans. Q4 marked the largest net origination of consumer credit since 2009. Mortgage borrowing slowed. Despite rapid growth in the pace of accumulation of consumer credit, household credit market debt as a share of household disposable income declined for a third consecutive quarter, as gains in household disposable income outpaced the accumulation of credit market debt.
- Canadian households' debt to disposable income ratio declined for the third time in 2023 to ~179%. Growth in Canadians' household disposable income (+1.3% quarter-over-quarter)

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exceeded growth in credit market debt (+1.0% quarter-over-quarter) as mortgage borrowing activity was softer in the face of continually weak affordability conditions.

- Household net worth increased 3.1% year-ago levels to \$16.4 trillion as of Q4, with recent gains largely driven by the rally in both equity and bond markets in Q4 after a softer Q3. The value of Canadian financial assets held by households hit a record high \$9.7 trillion. Weaker residential real estate values offset some of this appreciation from financial assets on household balance sheets in Q4. Still, the appreciation in wealth was not evenly distributed. As of Q3, the top 20% wealthiest Canadians held more than two-thirds of household assets.
- Canada's household savings rate remained largely unchanged from Q3 at 6.2%- up from 5.6% at the end of 2022. Both household disposable income and consumption rose at roughly the same pace. Canadian households acquired \$11.8 billion worth of mutual funds in Q4 2023 after reporting a net outflow of mutual funds over the previous three quarters. Since the Bank of Canada began raising rates, exchange-traded funds and money market funds have been more popular than non-money market mutual funds.
- **Bottom line:** Household debt levels continued to rise in Q4, but an appreciation in household disposable income meant Canada's debt servicing ratio held steady. Canada's debt servicing ratio has surprisingly been stagnant for three quarters- this can entirely be explained by stronger than expected income growth. Moving forward, we do not expect the current pace of income growth to be sustained. We continue to expect Canada's debt service ratio to rise from recent levels. Pressures will remain intense for many Canadian households still grappling with the delayed impact of previous interest rate hikes.