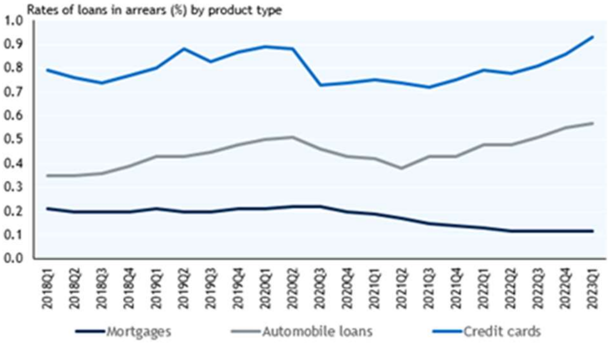
RBC Economics & Thought Leadership

Economic Update

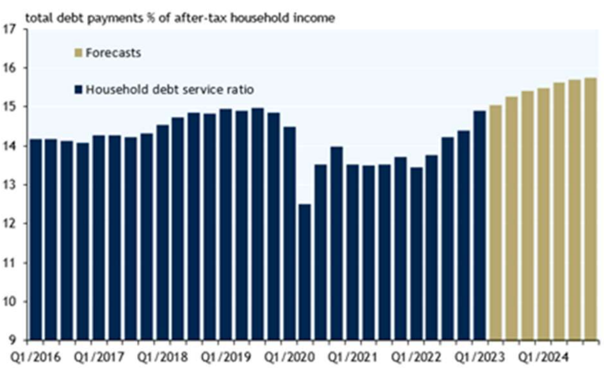
June 14, 2023

Canadian household debt servicing costs rose again in Q1

- Household net worth was still 3% below peak levels ahead of last year's slowdown in housing markets, but rose in Q1 (+$520 billion) for a second straight quarter. Stronger equity markets boosted financial market returns and mortgage debt growth remained slow.
- Debt levels were essentially unchanged, but payments on that debt continued to rise (+17% from a year ago) as sharp increases in interest rates continue to feed into household debt servicing costs with a lag.
- The debt service ratio (ratio of debt payments to disposable income) rose to 14.9% - just shy of the record 15.0% ratio pre-pandemic, and up from a low of 12.5% during the pandemic when interest rates were low and government transfers were dramatically boosting household incomes.
- Separately reported data from the Bank of Canada shows consumer delinquency rates for products like credit cards and auto loans still low, but back above pre-pandemic levels in Q1. And debt servicing costs will continue to rise as mortgages are gradually renewed at higher rates.
- **Bottom line:** The combination of higher inflation and debt payments already soaked up all of the growth in household after-tax incomes last year, and looks likely to do so again in 2023. The household debt service ratio is set to hit record levels, potentially already in Q2 as the lagged impact of higher interest rates continues to filter through to household borrowing costs. The economy's resilient performance early in 2023 and sticky core inflation pressures pushed the BoC to hike interest rates in June for the first time since January, but headwinds from higher interest rates continue to build and we continue to expect a softer labour market and weaker GDP data over the second half of this year.



Source: Bank of Canada, RBC Economics Research



Source: Statistics Canada, RBC Economics Research

Nathan Janzen | Assistant Chief Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-0569

For more economic research, visit our website at *https://thoughtleadership.rbc.com/economics/*