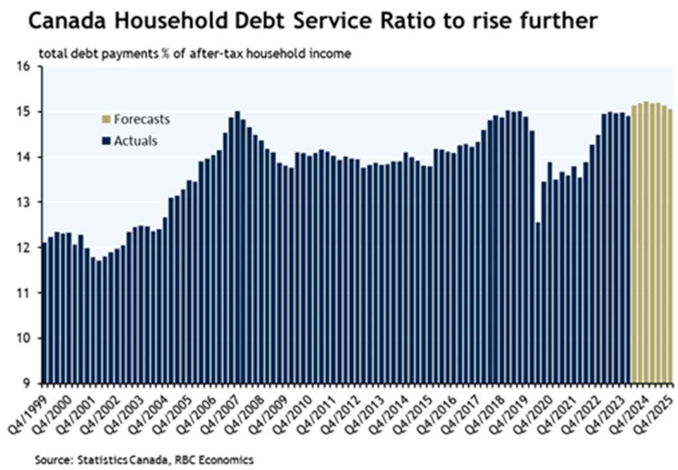
Economic Update

June 13, 2024

Canadian household debt payments rose again in Q1

- The Canadian household debt servicing ratio (the ratio of debt payments to disposable incomes) edged down to 14.9% in Q1/24 from the 15.0% in Q4/23.
- Total household debt payments grew by 7.8% year-over-year – led by an 8.4% surge in mortgage payments driven by higher interest costs. Growth in non-mortgage payments also rose sharply (+7.0%). But household disposable income including interest payments also increased significantly– expanding by 8% year-over-year to (slightly) outpace the growth in total debt payments.



- Canadian households' debt to disposable income ratio lowered again in Q1/24, from 178% in Q4/23 to 176.4%, marking a fourth consecutive decline.
- Household credit market debt edged up 0.9% in Q1 as mortgage borrowing activity was softer in the face of continually weak affordability conditions.
- Household net worth continued to expand in Q1/24, up by 4.6% from a year ago. Recent gains in asset values were largely driven by the rally in equity markets into Q1, with S&P 500 and S&P/TSX Composite Indexes both jumping higher, by 12.6% and 5.8% respectively. Additionally, residential real estate values rose $213 billion in Q1/24, following two quarterly declines in the second half of 2023.
- Canada's household savings rate rose to 6.9% in Q1/24, from 6.2% in the fourth quarter of 2023, given the household disposable income grew at a faster pace than consumption.
- **Bottom line:** Higher interest rates continue to push up household debt payments. Disposable incomes have, for now, been keeping up to hold the household debt servicing ratio essentially unchanged over the last year. But household debt payments will continue to rise even with the pivot from the BoC to cut interest rates last week as the impact of previous rate hikes feed into household debt payments with a lag. And a softer labour market means income growth won't be sustained at its recent pace. The combination of rising debt payments and softer labour markets are expected to push the household debt service ratio higher over the second half of this year and will keep a cap on consumer spending growth even as interest rates edge lower.

Abbey Xu | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-6638
For more economic research, visit our website at https://thoughtleadership.rbc.com/economics/