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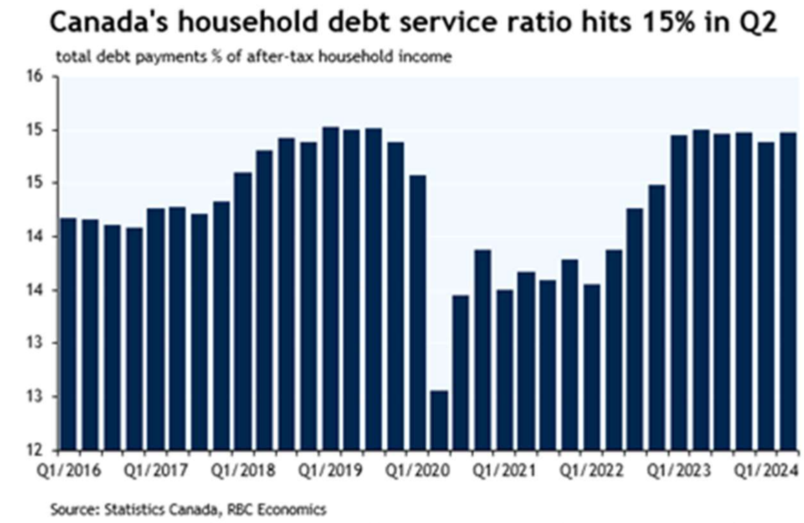
Canada's debt servicing ratio ticked up to 15% in Q2



- Canada's debt servicing ratio rose to 15% at the end of Q2 from 14.9% at the end of Q1. This was driven by a greater surge in debt payments (+2.3%) relative to growth in disposable income (+1.8%).
- Non-mortgage debt servicing costs pulled back in Q2 as the Bank of Canada initiated their first 25-basis point rate cut in June, but not by enough to offset the increase in mortgage debt payments. Canada's mortgage debt-service-ratio reached a record high in Q2, as households continued to renew fixed-rate mortgages at significantly higher rates.
- Household credit market debt rose by $0.8% in Q2 and is approaching $3 trillion. Growth in mortgage borrowing remained slow (0.8%), consistent with softer home resale markets, and consumer credit growth slowed to 0.5%. Mortgage debt accounts for three quarters of Canadian households' outstanding credit market debt.
- Canadian households' debt-to-disposable income ratio fell for the fifth consecutive quarter to ~176%, implying $1.76 worth of credit market debt for every dollar of disposable income earned by Canadian households. Since the beginning of 2023, household disposable income growth has outpaced credit market debt accumulation.
- Household net worth grew a subdued 0.2% to $17 trillion in Q2 with the value of household assets surpassing $20 trillion for the first time. This was entirely driven by an appreciation in financial assets (up $94 billion). Life insurance and pensions accounted for the largest share of the uptick,

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with gains in equities and currencies and deposits accounting for ~30% of the accumulation each. The gains in equities would have bene driven by an appreciation in foreign investments, as Canadian equity markets declined in Q2 but the S&P 500 rose. The value of non-financial assets fell by $12 billion largely due to a decline in the value of residential real estate.

- Canada's household savings rate rose by 0.5 percentage points to 7.2% in Q2 from 6.7% in Q1. Growth in household disposable income surpassed consumption growth in the second quarter. Household consumption remains weak on a per capita basis with Canadian retail sales outright declining in Q2 as households still grapple with mortgage payment shocks at renewal.

- **Bottom line:** Household debt payments rose faster than the pace of disposable income growth in Q2. This translated to a small (and widely expected) uptick in Canada's debt-servicing ratio to 15% from 14.9%. The BoC's shift to a gradual interest rate cutting cycle will help to cap that ratio in the year ahead, but interest rates are still at relatively high levels and debt payments will continue to rise, on average, in the near-term as additional waves of mortgage renewals (with significantly higher corresponding payments) are expected into 2025.

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