

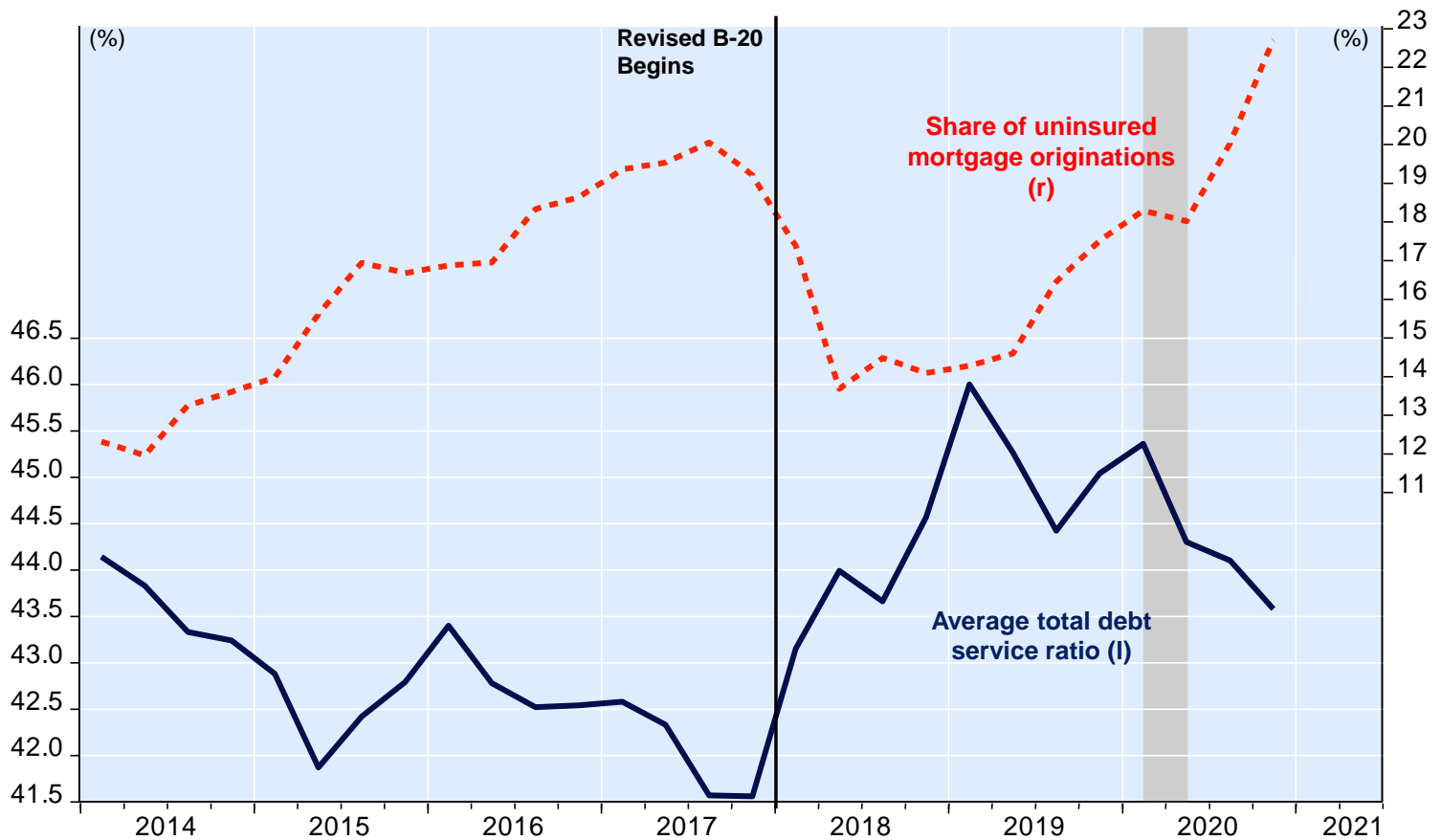
## Canada Watch

By Matthieu Arseneau and Daren King

In the Q&A following yesterday's speech, Bank of Canada Governor Tiff Macklem noted that early signs of excess exuberance were observed in housing but maintained that the market was a long way from the 2016/2017 boom. Really? All 32 markets covered by the Teranet – NBC House Price Index experienced a price acceleration over the past year, a first since August 2010 (see [note](#)). No less than 69% of markets are increasing at a double-digit pace (a record high) compared to 55% during the 2016/2017 boom. In the Bank of Canada's Financial System Review of June 2016, it mentioned that the loan-to-income ratio is a useful measure because it contributes to a through-the-cycle assessment of the vulnerability of indebted households unlike the debt-service ratio. During the 2016-2017 boom, the central bank was closely tracking borrowers with loan-to-income ratios exceeding 450% due to their risk to the financial system. As today's Hot chart shows, with two months of data in Q4 2020, the proportion of high-indebted uninsured mortgage borrowers reached a record high of 23%, surpassing the peak seen during 2016-2017 boom. True, average debt service ratio for those borrowers is in a downward trend thanks to record low mortgage interest rates but a through-the-cycle perspective calls for caution. In 2016-2017, these concerns were addressed via a tightening of macroprudential measures.

### Canada: Share of vulnerable borrowers surpassing 2017 peak

Share of originations with loan-to-income ratio (LTI) greater than 450% and the average debt service ratio



NBF Economics and Strategy (data via OSFI)



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