

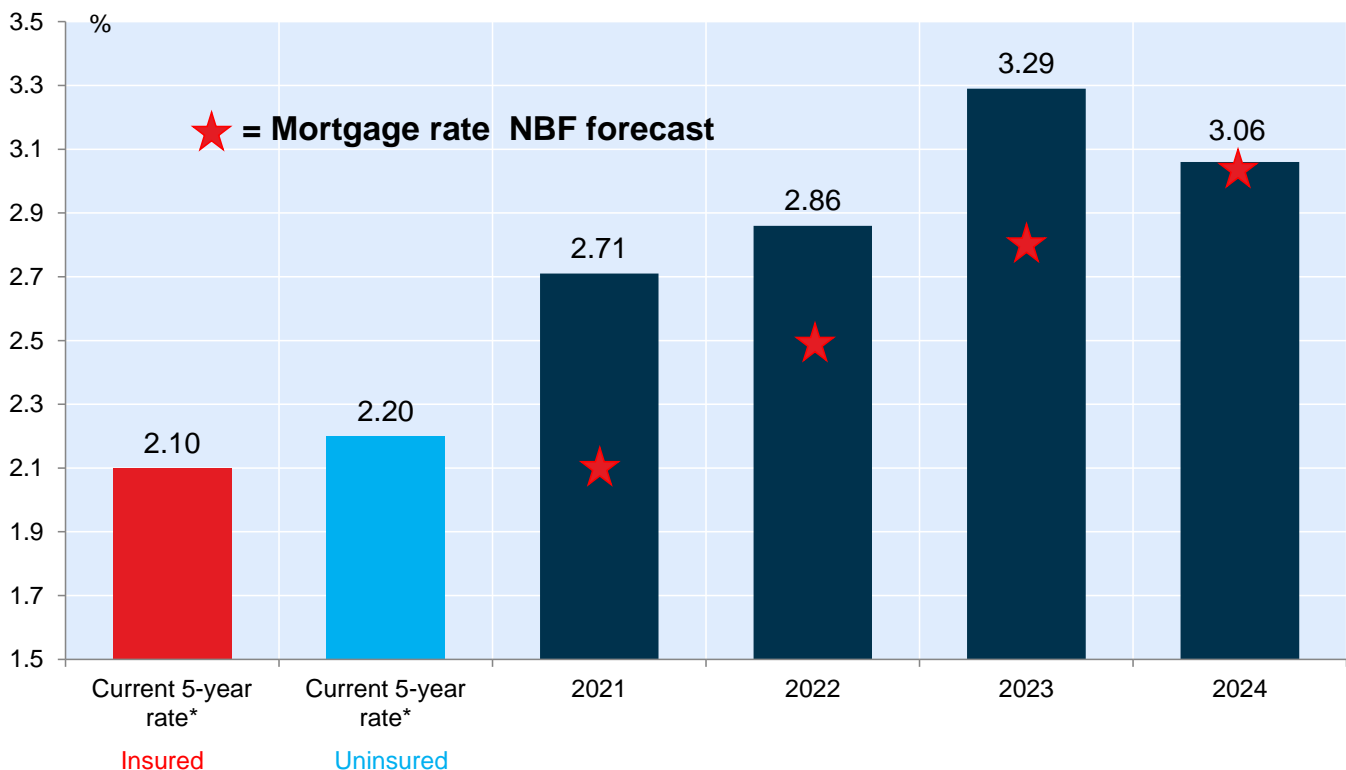
Canada Watch

By Matthieu Arseneau

The success of the economic recovery will depend on Canadian consumers in the coming months. There are several reasons to be optimistic. Households enjoyed the steepest jump on record for real disposable income in 2020 (+9.0%) and a record increase in the savings rate. Excess savings – which we currently peg at 8% of GDP – are currently hibernating in deposit accounts and are ready to be tapped by households once free of COVID-related restrictions according to research conducted by our colleague Warren Lovely (see [report](#)). In addition, households have enjoyed the strongest positive wealth effect since 2009 amid strong financial asset performance and surging home prices. The drop of debt service cost for homeowners is another important factor contributing to consumer strength. Indeed, Statistics Canada published this month data indicating a cumulative drop of 50 basis points over a year for the effective interest rate on mortgage debt. Can this trend endure? We think so. Despite the recent run-up in interest rates, it is important to keep in mind that mortgage loans maturing in 2021 have a contractual rate of 2.71% that is 60 basis points above the current market rate of 2.10% available for a 5-year mortgage. As today's Hot Chart shows, the contractual rates of loans maturing in 2022 and 2023 are even higher, averaging 2.86% and 3.29% respectively. Despite our forecast of higher interest rates, we do not expect an interest-payment shock for current homeowners through 2024.

Canada: No interest-payment shock in sight

Current 5-year mortgage rate, contractual rate of existing mortgages by year of renewal



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