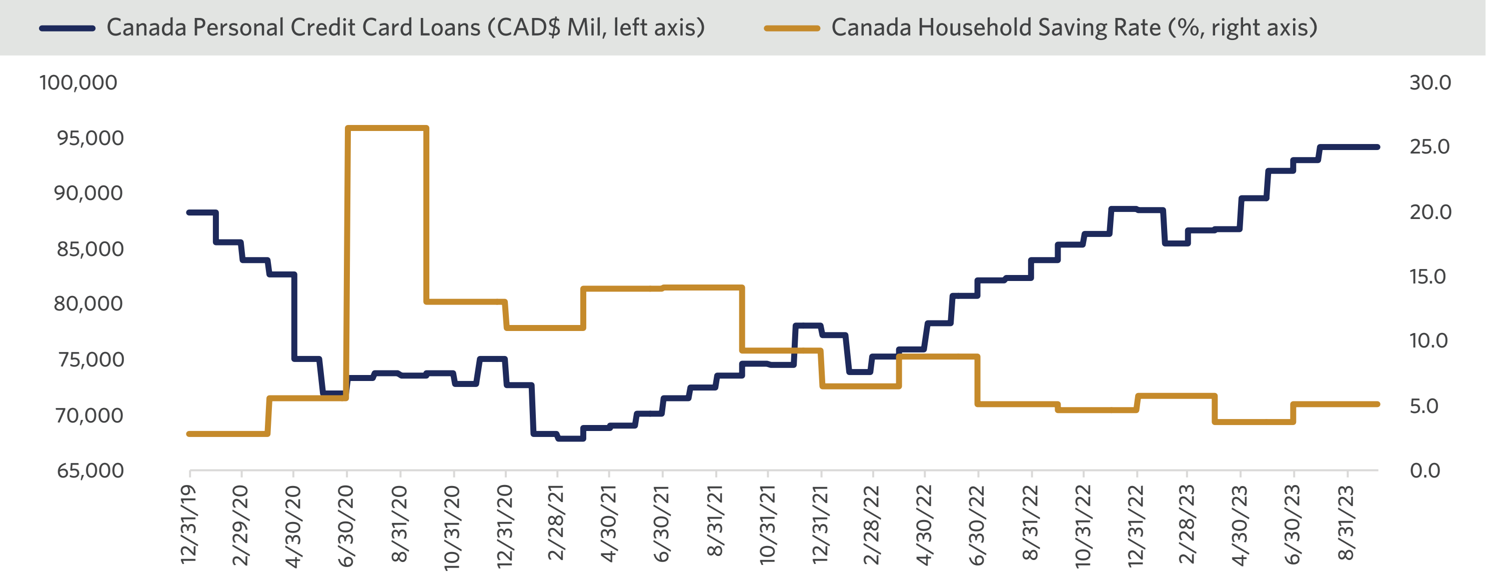
Canadian savings rate declines, while credit card loans increase



Source: Bloomberg

Economic outlook

The Canadian economy has shown early signs of slowing after a resilient first quarter of 2023. Consumption in Canada has slowed, as interest rates remain elevated and early signs of labour market cooling have emerged. While we would not anticipate a deep or prolonged economic downturn, some softening in growth remains likely in the quarters ahead, for a few key reasons.

The labour market may cool — First, the labour market has started to show some early signs of easing. While the unemployment rate remains healthy at around 5.2%, metrics like job vacancies and quit rates are declining, while labour force participation (or workers re-entering the workforce) has moved above recent lows. This may spur some softening in the tight labour market and importantly continue to put downward pressure on wage gains.

The consumer may come under some pressure — Second, keep an eye on the Canadian consumer. While the consumer has remained resilient thus far, we are seeing household savings being drawn down and credit card debt levels rising. As the summer travel season comes to an end, Canadian interest rates remain elevated, mortgage rates are rising, and oil and energy prices have been volatile. Uncertainties around labour disputes, including the UAW (United Autoworkers) strikes, and a potentially softening U.S. consumer could weigh on consumption, particularly services consumption, going forward.

Keep an eye on the Canadian housing market — The Canadian housing market is facing higher mortgage rates broadly, with the 5-year conventional mortgage approaching 7.0%. Unlike the U.S., Canadian mortgages tend to be shorter in duration, and about 30% of mortgages outstanding are variable-rate, meaning they can reset higher over time. This has led to Canadian households spending more on mortgage debt servicing than any time in recent history. Overall, while we wouldn't expect excessive defaults on mortgages, the higher debt servicing could put some pressure on household consumption, weighing on growth broadly.

▶ Action for investors

Given the risks within the Canadian economy, we recommend investors underweight Canadian large-cap stocks. Consider reallocating toward U.S. large-cap stocks, given the relative strength of the U.S. economy.

