

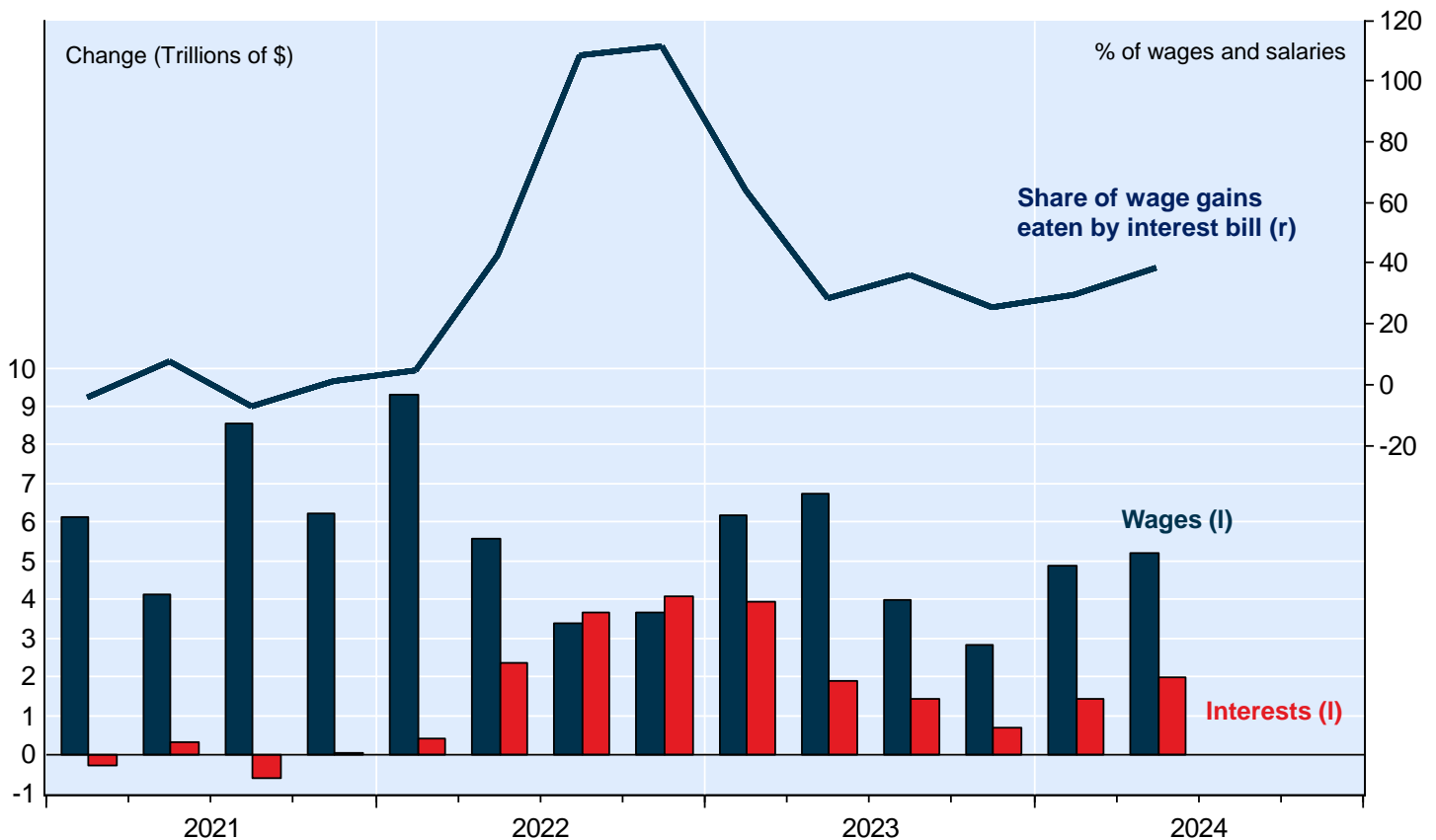
Canada Watch

By **Matthieu Arseneau**

Despite the fastest quarterly wage growth in a year, Canadian household consumption grew anemically in the Q2 2024. The national balance sheet data released yesterday by Statistics Canada sheds a little more light on the financial situation of households in the second quarter, particularly the interest bill they face. As highlighted in today's Hot Chart, the rising cost of servicing household debt consumed an amount equivalent to 40% of the additional wage growth in the second quarter, the highest share recorded in the past year. Some forecasters are pinning their hopes on an economic recovery in the wake of interest rate cuts. We have been arguing for several months that even as interest rates begin to fall, monetary policy remains far too restrictive for this upturn to occur quickly. Indeed, the data shows that the contract rate for mortgage holders with renewals due in 2025 is 2.5%, compared to 3.1% for those renewing in 2024. Despite the decline in bond yields during the third quarter in anticipation of central bank rate cuts, 5-year mortgage rates remain around 4.5%. This means that while holders of adjustable-rate mortgages are enjoying a respite, holders of fixed-rate mortgages continue to experience an interest payment shock. With the weak labour market likely to moderate wage growth, the rising interest burden is expected to remain a significant share of household income growth for the foreseeable future, limiting the potential for a strong rebound in consumer spending growth.

Canada: Rising interest bill captured 40% of wage gains in Q2

Increase in wages and interest bill by quarter (in billions \$) and share



NBC Economics and Strategy (data via Statistics Canada)



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