Report

Economic Headwinds Impacting Debt Levels and Credit Payment Behaviour

Q4 2022 | Equifax Canada Market Pulse Quarterly Credit Trends

March 2023

Canadians are facing increasing financial pressure due to high inflation and rising costs of borrowing. According to Equifax® Canada's most recent **Market Pulse consumer credit trends and insights report**, total consumer debt in Q4 2022 has risen to $2.37 trillion, up 6.2 per cent from the same period in 2021.

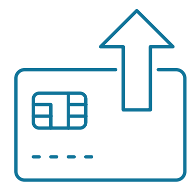
Mortgage debt contributes to 75 per cent of overall consumer debt in Canada but rising interest rates and the cost of borrowing has slowed the Canadian housing market leading to a significant drop in new mortgage originations during the last quarter of 2022. Non mortgage debt levels continued to rise and were up by 5.4 per cent compared to Q4 2021. This increase was visible across all consumer segments but especially among millennials aged 27-42 which saw an above average jump of 8.4 per cent in non-mortgage debt levels.

"Millennials are entering the most credit-active phase of their lives in a very challenging economic period," said Rebecca Oakes, Vice-President of Advanced Analytics at Equifax Canada. "They may need to budget accordingly to deal with the higher cost of day-to-day necessities, as well as increasing high-interest loans."

The final quarter of 2022 also saw a continued increase in the number of credit-active consumers (had at least one open credit product), rising by 3.2 per cent compared to Q4 2021 and up by 4.7 per cent compared to the pre-pandemic period of Q4 2019. The additional take-up in credit usage was primarily from two areas: new entrants to the country via immigration and refugee programs, and the impact of higher costs of living on demand for credit.

"Canada has strong immigration targets with an aim to welcome 500k per year into the country by 2025," added Oakes. "These individuals have credit needs, which adds to the growing demand for products."

Increased usage and reliance on credit cards was a key driver in the overall growth of non-mortgage debt in the fourth quarter. Total consumer credit card balance showed a year-over-year increase of 15.3 per cent and crossed $100 billion for the first time. Younger consumers 35 years and under saw the greatest movement in overall credit card debt but all age groups saw balances rise. High volume of new cards also contributed to the overall balance growth with over 1.4 million new cards issued in the last three months.



Total consumer credit card balance showed a year-over-year increase of 15.3 per cent and crossed $100 billion for the first time.

Mortgage market feeling the heat of high interest rates

Higher interest rates helped to slow the housing market — new mortgage originations fell 38.5 per cent from Q4 2021 and 30.9 per cent from Q4 2019. Hot housing markets such as Toronto and Vancouver saw the most significant movements, where average new mortgage amounts fell by $51k and $36k respectively and where volumes were down 44.3 per cent and 52.3 per cent compared to Q4 2021.

As interest rates continue to rise, many mortgage holders are also starting to feel the financial pinch. An analysis of data from Q4 2022 found that the average mortgage holder is paying close to $170 more in monthly mortgage payments than before the pandemic which is expected to rise further. Other variable rate products like home equity lines of credit (HELOCs) are also being heavily impacted with minimum monthly payments rising by 24 per cent compared to pre-pandemic levels.

“As more mortgages come up for renewal, future payment shocks for homeowners are a real concern,” added Oakes.“ There are thousands of fixed-rate mortgages expected to be renewed in the next 12 months and this will likely lead to either an increase in the monthly mortgage payments for these consumers or a need to extend mortgage terms to maintain existing payment levels.”

The average mortgage holder is paying close to $170 more in monthly mortgage payments than before the pandemic.

Consumer Delinquencies on the Rise

Despite the continuing market concern of rising interest rates for homeowners, it was consumers without a mortgage that saw the greatest jump in missed payments during the fourth quarter of 2022. Compared to 12 months prior, the proportion of non-mortgage consumers who missed a payment on a credit product was up by 11 per cent in Q4 2022. In the same time period, consumers with a mortgage only saw a 6 per cent rise in their proportion of missed non-mortgage payments.

"We are starting to see increases in missed payments on credit cards and auto loans, particularly for lower-income consumers," said Oakes. "The ability to manage finances through a sustained period of high inflation with rising living costs is unfortunately proving too much for some individuals. We are also seeing additional early warning signs that this may be the start of things to come. "

The report found that in the last 12 months, the 90+ day volume delinquency for credit cards and auto loans rose 23 per cent and 11 per cent respectively. Levels remain lower than before the pandemic, but this gap is getting smaller.

Credit card spending remained high while credit card payments started to slow down, with over 300K more consumers revolving on their credit card as of December 2022 compared with the year before. Revolving credit card behaviour refers to using credit cards to make purchases and then carrying over an unpaid balance from one month to the next rather than paying off the full balance at the end of each billing cycle. The average revolving credit card balance was up by 9.3 per cent compared to the same period in 2021.

The report also warns that severe financial stress is mounting for some individuals, with a higher proportion of consumers filing for consumer proposals, a type of insolvency, than 12 months ago. Consumer proposals were up by 26.4 per cent in Q4 2022 compared to last year but remained lower than pre-pandemic levels. The exception is with seniors (aged 65+), where proposal intake is now higher than 2019 levels.

Oakes also notes that Equifax offers a range of innovative client solutions that can help in the current economic climate, including a **credit monitoring solution** that helps identify potential changes in a consumer's financial status and enables lenders to manage potential risk quickly, as well as a **solutions suite** which allows lenders and agencies to prioritize collections activities, improve recovery rates, and reduce write-offs over the entire collections lifecycle.

Age Group Analysis

Debt & Delinquency Rates (excluding mortgages)

Age	Average Debt (Q4 2022)	Average Debt Change Year-over-Year (Q4 2022 vs. Q4 2021)	Delinquency Rate ($) (Q4 2022)	Delinquency Rate ($) Change Year-over-Year (Q4 2022 vs. Q4 2021)
18-25	$8,091	-2.73%	1.47%	30.59%
26-35	$17,191	2.24%	1.49%	23.16%
36-45	$26,048	4.54%	1.11%	16.73%
46-55	$32,508	3.96%	0.83%	14.50%
56-65	$26,628	2.31%	0.74%	10.80%
65+	$14,338	-0.14%	0.87%	10.94%
Canada	**$21,121**	**2.10%**	**1.01%**	**17.09%**

Major City Analysis

Debt & Delinquency Rates (excluding mortgages)

City	Average Debt (Q4 2022)	Average Debt Change Year-over-Year (Q4 2022 vs. Q4 2021)	Delinquency Rate ($) (Q4 2022)	Delinquency Rate ($) Change Year-over-Year (Q4 2022 vs. Q4 2021)
Calgary	$24,461	-2.48%	1.20%	6.92%
Edmonton	$24,058	-1.05%	1.52%	13.73%
Halifax	$20,964	0.23%	1.10%	18.34%
Montreal	$16,416	2.99%	0.87%	13.40%
Ottawa	$19,033	3.98%	0.91%	18.43%
Toronto	$20,137	1.97%	1.25%	23.98%
Vancouver	$22,502	2.35%	0.79%	21.53%
St. John's	$23,577	-1.01%	1.21%	7.99%
Fort McMurray	$37,908	-0.21%	1.74%	14.52%

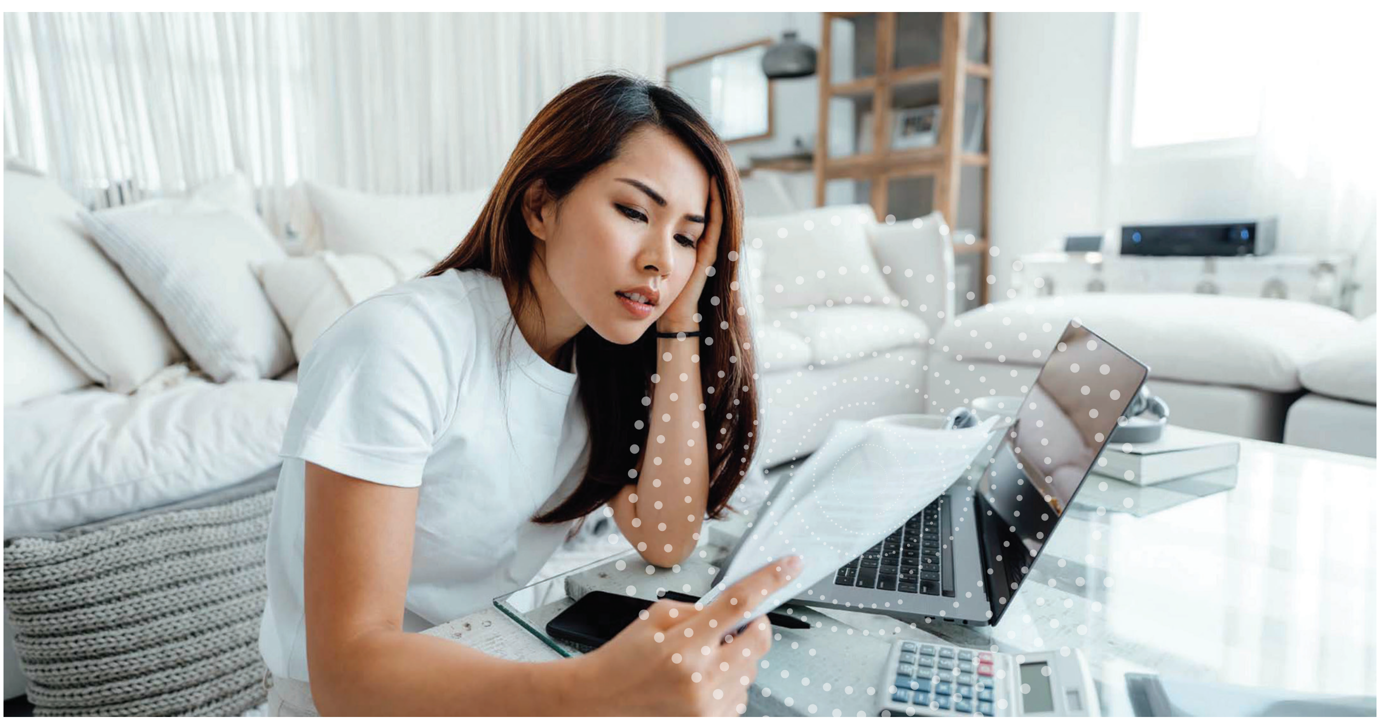
Province Analysis

Debt & Delinquency Rates (excluding mortgages)

Province	Average Debt (Q4 2022)	Average Debt Change Year-over-Year (Q4 2022 vs. Q4 2021)	Delinquency Rate ($) (Q4 2022)	Delinquency Rate ($) Change Year-over-Year (Q4 2022 vs. Q4 2021)
Ontario	$21,474	3.56%	0.98%	23.24%
Quebec	$18,495	2.47%	0.69%	14.38%
Nova Scotia	$20,705	0.00%	1.31%	18.00%
New Brunswick	$21,916	-0.43%	1.29%	5.52%
PEI	$22,349	1.76%	0.91%	25.79%
Newfoundland	$23,008	-0.01%	1.29%	11.45%
Eastern Region	$21,678	-0.04%	1.27%	12.43%
Alberta	$24,724	-1.78%	1.37%	9.01%
Manitoba	$17,073	1.50%	1.33%	21.44%
Saskatchewan	$22,428	0.01%	1.34%	16.08%
British Columbia	$21,810	2.58%	0.91%	18.58%
Western Region	$22,425	0.54%	1.16%	13.43%
Canada	**$21,121**	**2.10%**	**1.01%**	**17.09%**

Note:

- Based on Equifax data for Q4 2022



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