Report

As the Impact of High Interest Rates Takes Hold, Growth in Consumer Spending Slows and Financial Stress Rises

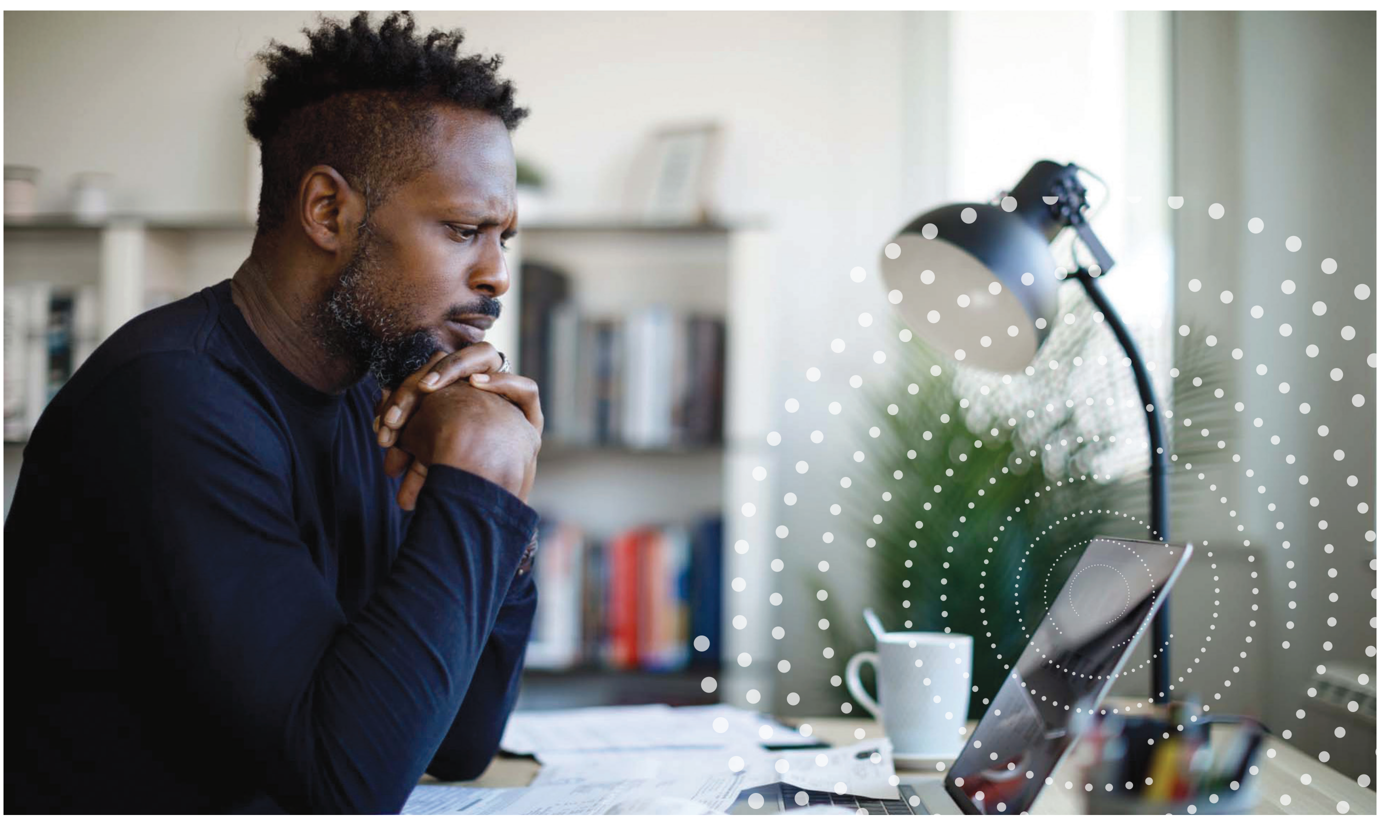
Q2 2023 | Equifax Canada Market Pulse Quarterly Credit Trends

September 2023

Canadian consumer debt reached $2.4 trillion, according to Equifax® Canada's most recent Market Pulse consumer credit trends and insights report. Despite a sluggish mortgage market, non-mortgage debt showed a seasonal rise in the second quarter of 2023, with credit card balances reaching an all-time high of $107.4 billion. Against the backdrop of rising interest rates, credit card spending growth showed signs of slowing.

"Canadians are demonstrating a shift in their spending habits due to the current economic volatility," explained Rebecca Oakes, Vice-President of Advanced Analytics at Equifax Canada. "With various factors at play, individuals and households are actively adapting their financial strategies to navigate this dynamic landscape."

Non-mortgage debt continued to grow in Q2 2023, largely due to substantial growth in credit card balances and a notable increase in debt among subprime and deep subprime consumers. While record-high credit card balances played a key role, the average non-mortgage debt per credit-active consumer only saw a marginal uptick to $21,131. This increase was masked by the influx of new credit users in Canada who have much lower debt levels when they first become credit active. The number of credit active consumers with less than 24 months of credit activity went up by 37.1 per cent while their average non-mortgage debt went down by 10.2 per cent when compared to Q2 2022. In contrast, consumers with a credit history exceeding two years had an average non-mortgage debt of $22,710, up 1.9 per cent. Mortgage debt showed a modest one per cent increase from Q1 to Q2 2023. Additionally, new credit card originations surpassed 1.5 million in Q2 2023, with an average credit limit near $6,000 for new cards, signaling evolving trends in consumer finance.



Demand for credit slowing as cost of borrowing rises

Balance growth & rising borrowing costs showed signs of impacting demand for many credit products in the second quarter. Minimum monthly payments for credit card and unsecured line of credit increased 11.7 per cent and 18.3 per cent, respectively, compared to last year. HELOC holders also saw their payments rise by over $200. Consumers purchasing a new vehicle in 2023 are experiencing much higher monthly payments. Average monthly payments on new car and used car loans are up by over $100 when compared to 12 months ago.

“Consumers are becoming more prudent with their credit related decisions,” said Oakes. “We’ve seen consumers shopping around more for the best mortgage deal at point of renewal and some switching to alternative credit products which may be lower rate to cover the costs of large purchases”

Credit card spending has been consistently growing since the end of 2021 and is finally starting to slow, partly due to inflation drops and partly due to rising financial pressure from high interest rate credit products. Average monthly credit card spend per credit card consumer increased by 3.7 per cent in Q2 2023 as compared to 22.7 per cent in Q2 2022.

“The slowdown in credit card spend seems to be more prominent among mortgage holders and higher-income segments,” said Oakes. “They may have more flexibility to scale back on discretionary spending to meet their increased credit payment obligations. However, it’s a different story for lower-income households, who are grappling with rising costs and may find it challenging to curb their spending. The divide becomes apparent when we consider savings — those with higher savings can redirect funds to cover fixed expenses like mortgages and auto loans while tightening the reins on variable expenses like credit card spending. Meanwhile, consumers with depleting savings are facing an uphill battle, resulting in a continued uptick in credit card debt.”

Fewer consumers were able to pay their credit card balance in full each month during the second quarter, with close to 500K more active credit card users not paying their balances in full as of June 2023 when compared to 12 months ago. Average monthly credit card spending rose 8.4 per cent for revolvers (those who don’t pay off their balance in full each month) and 2.4 per cent for transactors (those who do pay off their balance in full each month), while credit card payment rates showed signs of decline. Average credit card balances per credit card consumer have risen by 9 per cent, with the largest increase seen in lower credit score segments, up 13.7 per cent year-over-year.

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Rebecca Oakes
Vice-President of Advanced Analytics,
Equifax Canada

New trend in delinquencies

Oakes also points to an intriguing trend as credit card debt continues to mount — the frequency of missed credit card payments is not surging as rapidly as anticipated. This trend can largely be attributed to a significant influx of new credit card users, especially those who are new to credit, which conceals the true extent of credit card payment delinquencies. Despite a 19.8 per cent year-over-year increase in 90+ days balance delinquencies for credit cards, it's worth noting that they still stand 14.6 per cent below Q2 2019 levels, indicating that missed payments are not escalating as swiftly as expected.

Conversely, the auto loan sector tells a different story, with delinquencies surpassing 2019 levels, driven less by the influx of new credit users. While non-bank auto lenders maintain relatively low delinquency rates, there is a noticeable uptick in arrears among consumers with used cars. Additionally, financial products with variable interest rates, such as unsecured lines of credit and home equity lines of credit (HELOCs), are experiencing a faster rise in delinquencies year-over-year. The 30+ days balance delinquency rate for unsecured lines of credit significantly exceeded Q2 2019 levels, and early delinquencies in HELOCs are approaching pre-pandemic levels. Overall, the evolving credit landscape reflects a concerning increase in consumers missing at least one payment as of Q2 2023 compared to Q2 2022, with a pronounced concentration of arrears among accounts opened during the period of historically low interest rates in 2020-2021. These credit users from that timeframe are grappling with higher rates of missed payments.

Biggest impact of rates have been on the mortgage market

The impact of recent interest rate hikes on the mortgage market is evident. An increase of 475 basis points in interest rates over just 10 increments initially slowed mortgage originations towards the end of 2022. However, in Q2 2023, there has been a resurgence in new mortgages, driven by higher home sales. The brief dip in home prices has rebounded, as seen in the increased average loan amount for new mortgages compared to the previous quarter.

Interest rate hikes aren't confined to new originations; they're also affecting existing mortgage holders. The burden of high monthly mortgage costs has made many financially vulnerable, leading to a rise in mortgage delinquencies, especially in provinces like Ontario and B.C. In these regions, delinquencies have spiked by 86.9 per cent and 33.9 per cent year-over-year, respectively.

"Factors such as substantial house price increases, larger loan amounts, a higher proportion of variable-rate mortgages, and the elevated cost of living have contributed to the delinquency rise," said Oakes. "Additionally, payment shocks for newly renewed mortgages and upcoming renewals are poised to impact consumer finances, particularly for those facing mortgage terms that extend beyond their expected retirement age, leaving them with limited options for reducing monthly payment costs."

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*Equifax offers a range of innovative solutions that can help clients make more informed and confident **credit risk decisions**, and **use predictive data** to help retain mortgage clients in the current economic climate.*

Age Group Analysis

Debt & Delinquency Rates (excluding mortgages)

Age	Average Debt (Q2 2023)	Average Debt Change Year-over-Year (Q2 2023 vs. Q2 2022)	Delinquency Rate ($) (Q2 2023)	Delinquency Rate ($) Change Year-over-Year (Q2 2023 vs. Q2 2022)
18-25	$7,820	-3.11%	1.64%	18.73%
26-35	$17,123	0.09%	1.64%	28.47%
36-45	$26,136	1.69%	1.28%	31.93%
46-55	$32,772	1.92%	0.95%	32.08%
56-65	$26,844	0.72%	0.85%	30.06%
65+	$14,313	-2.03%	0.95%	23.11%
Canada	**$21,131**	**0.01%**	**1.13%**	**29.45%**

Major City Analysis

Debt & Delinquency Rates (excluding mortgages)

City	Average Debt (Q2 2023)	Average Debt Change Year-over-Year (Q2 2023 vs. Q2 2022)	Delinquency Rate ($) (Q2 2023)	Delinquency Rate ($) Change Year-over-Year (Q2 2023 vs. Q2 2022)
Calgary	$24,143	-3.09%	1.31%	17.75%
Edmonton	$23,732	-2.51%	1.65%	21.85%
Halifax	$20,828	-0.77%	1.24%	30.41%
Montreal	$16,442	0.12%	1.00%	32.76%
Ottawa	$19,142	1.31%	1.04%	32.77%
Toronto	$20,067	-1.44%	1.46%	40.04%
Vancouver	$22,282	-2.10%	0.91%	39.39%
St. John’s	$23,423	-1.07%	1.34%	24.56%
Fort McMurray	$37,549	-0.24%	1.94%	29.68%

Province Analysis

Debt & Delinquency Rates (excluding mortgages)

Province	Average Debt (Q2 2023)	Average Debt Change Year-over-Year (Q2 2023 vs. Q2 2022)	Delinquency Rate ($) (Q2 2023)	Delinquency Rate ($) Change Year-over-Year (Q2 2023 vs. Q2 2022)
Ontario	$21,593	0.88%	1.14%	37.33%
Quebec	$18,518	0.48%	0.78%	30.74%
Nova Scotia	$20,613	-0.43%	1.43%	25.21%
New Brunswick	$21,861	-0.12%	1.40%	15.75%
PEI	$22,356	0.53%	0.98%	20.22%
Newfoundland	$22,980	0.31%	1.39%	21.24%
Eastern Region	$21,615	-0.12%	1.38%	20.84%
Alberta	$24,439	-2.46%	1.48%	18.18%
Manitoba	$17,047	0.54%	1.45%	25.91%
Saskatchewan	$22,302	-1.24%	1.43%	13.35%
British Columbia	$21,765	-0.80%	1.03%	34.16%
Western Region	$22,293	-1.35%	1.28%	23.47%
Canada	**$21,131**	**0.01%**	**1.13%**	**29.45%**

* Based on Equifax data for Q2 2023

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