This is a direct quote from my training period some 28 years ago: “Lending is a gut feel.” It wasn’t that we didn’t analyze the data, we did, but there was considerable latitude to wield discretion. And – true story – a client once walked in to my office, presented an idea to me, and a couple of hours later walked out with a bank draft for $250,000. Things have gotten automated, complicated, and regulated a fair bit more since then, which is not necessarily a bad thing, but a lot less charming.

In the late 70’s when we were still using our innards to make loan decisions, a cowboy friend of mine went in to the bank and offered up his saddle and a 1971 Dodge as collateral to help secure his first piece of property – 160 acres with a mature forest of spruce and pine on it. He then went in to the Ministry of Something or Other and obtained a permit to hand-pick logs from crown land to build a home for his wife and young daughter. The logs – also a true story – cost him $1 each. The 50 logs for his house set him back $50. He then leased the equipment he needed, logged the property, and sold the logs to pay off the lease and bank loan. Owning the property free and clear, he cleared the stumps, built fences, and was on his way to what has since become a substantial homestead worth (insert insanely large number here).

This is a far cry from the real estate business that was unfolding simultaneously in Vancouver. Both businesses have had at least as many bumps in the road, but the massive southwest BC real estate market has become front page news and a second-nature talking point for armchair economists. Below I lay out some of the current information from RBC Economics giving a state-of-the-market feel for Canadian household debt, which is inseparable from the discussion about the area’s real estate.

**Wrestling Debt with Policy:**
Canadian households are now accumulating debt at a slower pace. Growth in households’ credit market debt eased to a three-year low of 4.5% in the first quarter. Yet for the debt-to-income ratio the bigger story here is the acceleration in disposable income growth. Household disposable income rose at its fastest annual rate (5.0%) in nine years the first quarter of 2018.

Significant deceleration in mortgage growth entirely accounts for the easing pace of debt accumulation since 2016. Macro prudential measures, rising interest rates and a cooling in Canada’s housing market restrained growth in mortgages outstanding to its weakest rate (4.5%) in almost 17 years in the first quarter. Non-mortgage debt also grew at a 4.5% rate though this further extended a slight upward trend.

Canadian households’ net worth dipped slightly in the first quarter but remains historically high. Net worth now represent 857% of household disposable income. While this is down from an all-time of 878% set a year ago, it is still 100 percentage points above the figure five years ago.

The dip in households’ net worth resulted from a marked slowdown in asset growth. Household assets grew at their slowest pace in nine years in the first quarter...

As a cooling in Canada’s housing market curbed the growth of real estate assets significantly. Households’ real estate holdings rose by just 1.3% in the first quarter relative to the same period in 2017 (the cyclical peak for Canada’s housing market). This was the weakest increase since the 2008-2009 recession.

Other ratios sizing household debt in Canada have stabilized near decade-low levels in the past year. Both the debt-to-asset and debt-to-net worth ratios were little changed in the first quarter.

In a rising interest rate environment, we’ll be looking for any signs that debt service pressure is becoming too much to handle for Canadian households. While we find that interest payments grew rapidly in the past year— they increased the most (10.5%) in ten years in the first quarter—this was tempered by slower growth in principal payments.

All-in, total debt service payments are on an accelerating path in Canada. But the good news is that they aren’t outpacing household disposable income by that much. The difference largely disappears, in fact, when increases are measured in dollars. The much larger scale of household income relative to debt service payments makes up for the divergence.

This means that debt service payments continue to be remarkably stable as a share of household disposable income. The ratio was 13.9% in the first quarter, unchanged from the previous quarter and up only marginally from 13.8% a year ago. Bottom line: rapidly rising interest payments aren't yet intensifying financially pressure for Canadian households, overall.

But large data aggregating these statistics are only part of the story. If a significant subset of borrowers -- say first time home buyers, or investors speculating on multiple properties -- are more sensitive to rises in interest rates, and thus impacted more heavily by the rise in debt service costs, they could fall out of the real estate market, potentially causing a problem which could prove contagious.

Mark Ryan is an Investment Advisor with RBC Dominion Securities Inc. (Member–Canadian Investor Protection Fund), and these are Mark's views, and not those of RBC Dominion Securities. This article is for information purposes only. Please consult with a professional advisor before taking any action based on information in this article. Mark can be reached at mark.ryan@rbc.com.