

## **Canadians back away from borrowing**

**Owe Canada.** It's not our anthem any more.

Crazy borrowings on lines of credit? History. The gotta-buy-now housing market? Toast. Credit card debt? Slowing down, too.

Many months ago, it was fashionable to question how Canada's profligate borrowers would hold up when interest rates began to rise. Today, after the Bank of Canada raised its trendsetting overnight rate for the second time in the past two months, we're starting to see the answer.

In virtually all forms of borrowing, the rate of increase has slowed drastically. "I've been saying for a while that this is the most logical display of behaviour on the part of the consumer that I've seen in a long time," said Benjamin Tal, senior economist at CIBC World Markets and an expert on household finances.

Mr. Tal's take is that consumers ramped up their borrowing to take advantage of the historically low rates that were used by central banks around the world to fight the recession and global financial crisis. The likelihood of a rate rebound was widely discussed, and people took notice. When he looked at borrowing data for the first quarter of 2010, the rate of growth was down across the board.

"What we need to see now is a continuation of the softening in credit in order for people not to get into trouble," Mr. Tal said.

This appears to be happening. The latest mortgage data has prompted him to forecast growth in outstanding mortgage debt of 3 to 4 per cent in 2011, down from 10 to 12 per cent in the first half of this year. He said growth in line-of-credit balances has fallen to about 7 per cent on an annual basis from 30 per cent two years ago. As for credit cards, growth in balances has fallen to 3 to 4 per cent from 12 to 14 per cent two years ago.

"All credit vehicles are slowing significantly," Mr. Tal said.

This responsible attitude toward debt came through as well in the results of a survey by Genworth Financial Canada, which competes with Canada Mortgage and Housing Corp. to provide mortgage default insurance. It indicates that one-quarter of homeowners with mortgages have either made a lump-sum payment against principal or accelerated their payments in the past year.

There's no better way to prepare yourself for the impact of rising interest rates on your mortgage than to make a lump-sum payment or speed up your pace of repayment.

In a way, the Bank of Canada's latest move to raise rates is a gift to people with debts. They'll have to pay a bit more in interest on their lines of credit, variable-rate mortgages and floating rate loans, but the increase is mild and the pace of further increases will be muted. It could be a lot worse.

In fact, lots of market watchers thought it would be worse last year when they looked ahead to 2010. They saw all the government stimulus pumped into the economy during the recession producing a significant uptick in inflation, which in turn would send interest rates marching higher.

Now, there's talk of deflation, or falling prices. The Bank of Canada's not outwardly concerned about this, but it did throw a mention into its latest statement on rates about how it expects economic growth to slow next year and in 2012 from the 3.5-per-cent growth of 2010. Back in April, the bank expected 3.7-per-cent growth this year.

Borrowers would undoubtedly argue in favour of keeping rates steady at current levels, but that promotes an unhelpful complacency. Rates are still close to the unsustainable emergency lows they hit in the financial crisis and recession. By increasing them by a quarter-point in June and then another quarter-point on Tuesday, the Bank has signalled to people that it's time to take control of their debts.

Lots of people have obviously got the message already, and good for them. But let's remember that less borrowing means less of the consumer spending that's essential to economic growth.

Mr. Tal said lower levels of consumer spending are one of the reasons why his firm sees growth slowing, just as the Bank of Canada does. But he still thinks both the economy and borrowers are benefiting from the central bank's early action on rates.

"By October, I think we'll have reached a point where interest rates have gone up enough to slow down economic momentum without the risk of punishing the consumer too much."

That seems fair, given how much less Owe Canada's being sung these days.