

How Does Your Debt Compare to the Average Canadian's Debt?

# **Description**

In August Statistics Canada reported having its best census since 1666. Coining the survey as its "best census ever," 98.4% of the Canadian population filled out their questionnaires this year.

Its latest debt survey was also its "best ever," but in a horrifying way.

According to the survey released on September 15, the average Canadian's debt continued to rise in the second quarter with debt-to-incomes hitting 167.6% from 165.2% in the first quarter. National net worth was flat at \$9.59 trillion due to what Statistics Canada called a "weaker-than-normal" rise in disposable income.

In total, Canadians now owe about \$1.68 for every dollar of their disposable income.

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## A ticking time bomb

Canada has seen the largest increase in household debt relative to income of any major developed country since 2000. The biggest reason has been the proliferation of mortgages, aided by historically low interest rates.

"As interest rates have remained at historical lows, the amount of mortgage principal paid by households has increased, steadily approaching the total amount of mortgage interest paid," wrote Statistics Canada. A future of rising interest rates is a question of when, not if. When that happens, Canada could be in big trouble.

According to the parliamentary budget office, "Household debt-servicing capacity will become stretched further as interest rates rise to 'normal' levels over the next five years," the report said. "Based on PBO's projection, the financial vulnerability of the average household would rise to levels beyond historical experience."

A TransUnion report released on September 13 stated that up to one million Canadian borrowers may

not be able to absorb the increase in their monthly payments if interest rates rise by just one percentage point. A staggering seven million Canadian consumers carry a variable-rate mortgage or a line of credit with a variable interest rate. They will be the first group hit by rising debt costs.

Expect these issues to grow in importance over the coming years. These trends will inevitably impact Canadian equities at some point; banks such as Royal Bank of Canada (TSX:RY)(NYSE:RY) and National Bank of Canada (TSX:NA) are likely to face pressure from non-performing loans.

According to Bank of Montreal (TSX:BMO)(NYSE:BMO), the rapidly rising real estate market will end poorly for consumers, lenders, and the economy as a whole. "Odds are that if this kind of price growth continues, it will end badly," a bank analyst said in a research note. Bank of Canada governor Stephen Poloz has said that over 720,000 households could struggle to make debt payments during a downturn.

If you're a buyer in this market, tread carefully.

#### CATEGORY

- 1. Bank Stocks
- 2. Investing

### **TICKERS GLOBAL**

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  2. NYSE:RY (Royal Bank of Canada)
  3. TSX:BMO (Bank Of Montreal)
  4. TSX:NA (National Processing Control of Canada)
  5. TSY:
- 5. TSX:RY (Royal Bank of Canada)

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