Is the Banking Industry in Trouble?

Description

Consumer debt levels have been rising for years, and higher interest rates have compounded the issue lately. Although we didn't see any big warning signs from the banks with some solid performances this past quarter, that doesn't mean there isn't trouble brewing ahead.

On Tuesday, **Equifax** Canada released a report that showed non-mortgage delinquency rates are on the rise. What's most concerning is that seniors had the highest year-over-year increases at 9.4%. Normally, we expect younger generations to be the most cash-strapped, but it's clear that the problems are much broader. However, at 0.99%, seniors were still well below the delinquency rates for the 18-25 age bracket, which was at 1.68%.

And according to Bill Johnston, who is the vice president of data and analytics for the company, the problem could get even worse: "With more consumers growing their average debt, we expect to see further increases in delinquencies in the coming months." He notes that credit card spending has been on the rise, and it's not something that appears to be slowing down any time soon.

Many headwinds could add to these problems

There are many factors that could make concerns around debt even greater. Tariffs, higher interest rates, and higher minimum wages can all drive up expenses for the average consumer. And now with the government looking to ban single-use plastics as early as 2021, that's yet another cost that companies will likely be forced to pass on to consumers in the near future.

Although the impact of these and other factors may not be imminent, it's something that investors need to consider, as it could lead to more default risk in the months and years ahead. Rising interest rates, for instance, won't impact people who have fixed mortgage rates and are locked in for multiple years. It won't be until they go to renew at a higher rate that they'll start to feel the effects.

Although **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and other banks might still be doing well and not seeing any ill effects on their financials, we still haven't seen the full impact of higher interest rates and rising debt levels just yet. This could still be the calm before the storm, as the numbers from

Equifax certainly suggest things aren't getting any better.

While that doesn't mean RBC investors need to sell their shares today, it's a reminder that maybe they should monitor the situation closely and keep an eye on their investments. It doesn't mean that bank stocks aren't going to remain good, long-term investments, but in the near term, there might be better options for investors, especially those looking to secure dividends that might be a bit more recession-proof.

Investors have shown some hesitation with bank stocks this year, as RBC's share price has risen around 11% since the start of the year when many other stocks have had much stronger rallies, recovering from last year's struggles. The danger is that if a big bank like RBC reports an underwhelming quarter, it could be what sends bank stocks into a tailspin.

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