COVID-19 Will Cause a Huge Increase in Bankruptcies

Description

Statistics Canada reports that Canadians' debt to disposable income ratio slid 152% between April and June versus the 175.4% reading in the first quarter of 2020. By the end of June, households owed $1.58 for every dollar spent. Since 2017, the ratio stayed at the 170% range until the surprise drop this year.

The debt picture is encouraging, according to consumer insolvencies firm Hoyes & Michalos. However, the firm also says it's misleading because of what lies beneath. A wave of bankruptcies might emerge and change the complexion in the ensuing months.

What lies beneath

Consumer insolvencies were already growing by the double digits since the start of 2019. People were borrowing extensively because of the low interest-rate environment. It came to a halt beginning in March. Court shutdowns also prevented debtors from taking legal action.

Canadians didn't stumble in financial misery because of government intervention. The rollout of massive income-support programs nationwide kept people afloat during the pandemic. One of every six Canadian homeowners with outstanding mortgages also took advantage of payment deferral programs.

Economists fear household indebtedness and delinquency rates could begin to rise in late 2020 and extend to 2021. The government's COVID-19 Response Plan averted a collapse of the economy and pushed savings rate to a record-high 28%. Although signs of recovery are evident, people should still brace for more challenging times.

Durable investment income

Investment income provides added economic support during emergencies. Canadians can mitigate the risks by owning shares of an enterprise with quality earnings and strong dividend growth. **Toronto-Dominion Bank**

(TSX:TD)(NYSE:TD) is noteworthy for its durable dividend payouts.

The second-largest lender in Canada was the only company that reported revenue and profit growth in the 2008 financial crisis. Similarly, its dividend track record is an incredible 16 decades. TD's banking operations in its home country of Canada and the U.S. contribute to its growth and stability.

COVID-19 and the low interest rate environment are the headwinds banks are facing in 2020. But because TD is a strong brand that possesses strong pricing power. You can purchase this rare income-producing asset and hold forever.

This $100 billion banking institution is playing a crucial role in averting a housing crisis. TD Charitable Foundation has earmarked $4.9 million as monetary grants to renters at risk of losing their homes. The rent relief is vital as eviction bans end. The foundation's goal is to stabilize renters as they navigate through economic uncertainty.

For prospective investors, TD pays a 5.05% dividend. If you invest today, the price is trading at a discount (11.5% off year-to-date). An $80,000 position will produce $1,010 in quarterly passive income. More important, your dividend earning is for a lifetime.

Post-pandemic outlook

The 2020 health crisis is eclipsing the impact of the 2008 financial crisis. The scale is unprecedented that federal deficit and national debt are swelling to epic proportions. No can is sure when normalcy will return. Some businesses might not be around to see the new normal.

Canada was in good economic and fiscal shape before the pandemic. Now, it will take a couple of years before its fiscal track returns to pre-corona levels. COVID-19 will leave higher levels of debt in its wake.

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