Canadian’s Love Affair With Debt Could Cause a Housing Crash

### Description

Statistics Canada said that Canada’s consumer debt has increased to unbelievably high levels as the second quarter of 2020 ended. The agency reported that a key measure of household debt rose in the first quarter as the pandemic took hold of the economy.



Based on the household credit market debt, the disposable income rose to 176.9% from 175.6%, which means that there was $1.77 in credit market debt for each dollar of household disposable income.

## Canadians owe more than $2.3 trillion

The total credit market debt in Canada was over $2.33 trillion by the end of the last quarter — debt that included $802.1 billion in consumer credit and non-mortgage loans. The remaining $1.53 trillion is in mortgage debt. These are staggering figures that come with very little good news for Canadians.

Perhaps the only silver lining based on Statistics Canada’s findings was that the debt servicing costs declined for the first time in more than two years. The decline was due to a decrease in interest rates across various types of loans. Deferrals and low interest rates helped lower expenses related to debt servicing. However, this is a disaster waiting to happen.

## Try to protect yourself

These factors are combining to create a situation that could devastate the entire economy and the housing market. There is an increasing fear that a wave of bankruptcies can emerge. Mortgage loan defaults could become more common. As the household debt keeps rising, there will come a tipping point where the housing market could come to a grinding halt.

It is necessary to improve your position as soon as possible, so you do not get caught up in the next storm. Consider trying to pay down your debts with the highest interest rates and consolidating your debts, so it is more manageable to allocate a budget to paying debts. Try to cut down on non-essential expenses as much as you can. The idea is to free up more cash that can come in handy for a rainy day.

## Improve your liquidity

As you free up more cash, you can use your savings to generate more income for you. Investing your savings in the right assets can help you gradually overcome your debt and live a debt-free life. Consider allocating some of your savings toward a dividend-paying stock like **Fortis Inc.** (TSX:FTS)( NYSE:FTS).

Fortis is part of the esteemed Canadian Dividend Aristocrats list. The list contains companies that consistently increase dividend payouts each year. Fortis enjoys a substantial 47-year dividend growth streak as one of the top Canadian Dividend Aristocrats. It is one of the ideal utility stocks that you can consider investing in due to its regulated nature of income.

Additionally, the company provides an essential service that does not see much of a change in demand regardless of how the economy is doing. Purchasing shares of the company can allow you to leverage its modest capital gains. The real hero with investing in Fortis is its reliable dividends that can keep adding cash to your account balance for just holding onto the stock.



## Foolish takeaway

The housing market could soon be in a lot of trouble as the debt crisis worsens. We are beginning to see the true economic effects of COVID-19 in Canada. It would therefore be wise to improve your financial position by paying off as many debts as possible while strengthening your liquidity.

Investing in a stock like Fortis could help you generate passive revenue and increase your chances of enjoying long-term financial freedom. The stock pays a decent 3.71% dividend yield that you could lock in at its current $54.51 share price.

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**Date**
2025/08/26
**Date Created**
2020/10/01
**Author**
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