Household Debt for Canadians Is Going Haywire: Here’s Why That’s Bad

Description

The global health crisis and subsequent lockdowns took a toll on economies worldwide. The Canadian economy also took massive hits with the pandemic. Like any other country dealing with the unprecedented situation, Canada’s economy suffered massively throughout 2020.

It is no secret that with the historically high unemployment rates and drastic change in how we live our lives, the Canadian economy has slowed down. While that should be an alarming issue in and of itself, there is an increasing concern elsewhere that you should be aware of.

Growing household debt

Canadian individuals have long played an intricate dance between their income and debt. For some reason, most Canadians just love incurring debt. Most Canadians are alarmingly overleveraged. The debt is manageable when the economy is alright and people are making money. However, the situation has taken a turn for the worse amid the pandemic.

Yes, the economy is slowing down, but the debt is rising rapidly. According to the Bank of Canada, the ratio of household debt to the Gross Domestic Product (GDP) in Canada saw a sharp increase in the second quarter of fiscal 2020.

The household debt has been growing faster than the GDP for a few years. However, it shifted gears this year.

Why is this a problem, you ask?

Essentially, the debt anybody incurs is them using their future income in the present. You are buying something right now and paying for it at a later date. Incurring some debt can be useful. The short-term benefit of this is the ability to pull future purchases into the current window and boost the economy. Sooner or later, you need to repay it.

If you have pulled too many future purchases to the current window, you may end up paying for it for years or even decades to come.

Now scale this situation up nationwide. When the debt increases too quickly, the economy will feel the pain for several years. The rising household debt leads to an overall slowdown in the economy, it can lead to higher unemployment and send the entire country reeling. We might not feel the impact immediately, but it will come sooner or later.

Are you wondering how bad it is? The household debt-to-GDP ratio climbed to 115% in Q2 2020 — a 14% jump from the previous quarter. The same ratio was at 97% year over year.

Stability amid volatile market

The increasing household debt and growing risk in the housing market mean that things are not looking too bright for the medium term. The housing market has been a decent investment with excellent long-term returns for Canadians over the last couple of decades. Amid the current situation, it might not be wise to dole out the cash on a house either.

If you are interested in the real estate market, but you want to reduce your risks from a housing market crash, you can consider a real estate investment trust (REIT). A REIT like **True North Commercial REIT** (TSX:TNT.UN) can provide you with a better alternative to owning properties.

You might think that owners of commercial properties would find the situation challenging. However, TNT operates in a class of its own. The company's revenue increased by 34% in the nine months that ended in September compared to the same period last year. Its net operating income increased by 40%, and it continues to generate decent rental income.

The company has an almost 100% rent collection rate due to high profile tenants, and it has a 98% occupancy rate. The company can generate much safer income than its peers in the housing segment of the real estate market.

Foolish takeaway

TNT's shares are trading for $6.66 per share on the TSX at writing, and it pays its shareholders at a juicy 8.92% dividend yield. The payout might be alarmingly high, but the company managed to continue its dividends six years ago when its payout ratio reached over 300%.

I think True North Commercial could be a decent addition to your investment portfolio to provide you with a boost to your dividend income portfolio.

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