Canadians Are in Huge Debt and Owe Almost $2 For Every $1 They Have to Spend

Description

Canadians have an alarming relation with debt. Consumer debt in Canada has risen to unbelievable highs over the years. The economic impact of COVID-19 in 2020 has also done a number on these figures.

Statistics Canada reported that a key measure of household debt rose during the first quarter as the pandemic came along. Based on the household credit market debt in the country, the disposable income rose to 170.7% in the third quarter from 162.8% in the second quarter. It means that for every dollar a Canadian makes, they are almost $2 in debt.

Canadians owe over $2 trillion already

Canadians owe more than $1.5 trillion in mortgage debts and over $800 billion in consumer credit and non-mortgage loans. These are staggering figures for Canadians who owe more than $2 trillion.

Slightly positive news

Despite the incredibly high household debt, there is some good news for Canadians. With Canadians spending more time at home and spending less money, households have managed to pay down some of their debts. The $1.77 to $1 household debt is lower than the $1.81 owed for each $1 in the fourth quarter of 2019.

Canadians continue to recover from job losses. However, disposable household incomes fell 3.1%, as unemployment went down. Lower-income households have a higher debt-to-disposable income ratio. The unemployment rates have gone down to almost 3.7% of pre-pandemic levels during the third quarter.

Government employment insurance benefits fell almost 50% in the quarter. While many Canadians have started going out again, the overall savings remained high. The Canadian household savings were at $56.8 billion in the third quarter, down from $90.1 billion in the second quarter.

Statistics Canada also reported good news when it comes to mutual fund shares. A 3.9% return on the TSX over the three months allowed the net worth of Canadian households to rise to $12.3 trillion.

Wealthier individuals have had the better end of the stick when it comes to increased savings. Generally speaking, wealthier Canadians experienced better savings, because they are more likely to retain their income while cutting discretionary expenses like restaurants and traveling.

A stock to protect your capital

If you belong to a lower income household and don't have significant savings, there is a way you can protect your capital and grow your savings to more substantial amounts. It is all about investing your savings in the right stocks trading on the TSX. **Hydro One** (TSX:H) is one such stock that you can consider for this purpose.

Hydro One is one of my favourite passive-income stocks. It is a utility company that generates its income by delivering power to customers in Ontario. Hydro One's utility lines cover 98% of Ontario. The highly regulated utility market in Ontario means Hydro One's income is predictable. Unlike most other companies trading on the TSX, utilities like Hydro One already know what their income will be regardless of the economic conditions.

Hydro One is trading for $28.65 per share at writing. At its current valuation, the stock pays its shareholders at a juicy 3.54% dividend yield. Investing your capital in the stock can help you benefit from the company's capital gains and reliable dividends.

Foolish takeaway

Paying down your debt and increasing your savings rates should be among your top priorities right now. With the alarmingly high Canadian household debt levels, protecting your cash can be vital for your long-term financial freedom. Investing in Hydro One can help you grow the value of your savings in the long run.

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2. Energy Stocks
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