Fat debts, inflated home prices: The warnings grow ever louder

By Michael Babad
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The chorus grows ever louder as yet another major group warns of the threat to Canada from swollen household debts.

Putting Canada second only to Australia in a ranking of household debt as a percentage of gross domestic product, global bank HSBC singled out a handful of countries in a quarterly economic report.

“In the large developed economies, credit growth may have picked up, but the growth rates are not yet ringing alarm bells,” HSBC said.

Not so fast ...

“Instead, it is the smaller more indebted developed markets where the financial stability risks are growing,” the bank added.

“In Norway, Sweden, Australia, New Zealand and Canada house prices have risen quite substantially (especially in recent years) and credit growth is reasonably strong. These countries may be vulnerable to the sort of slowdown that the BIS refer to.”

HSBC was citing the Bank for International Settlements, a body of central banks that warned in a recent report of the growing risk of a financial crisis in Canada.

In a separate section of HSBC’s study, its chief economist in Canada, David Watt, noted household debt is now at a record, above 100 per cent of GDP, amid “signs of overvaluation” in the housing market.

Mr. Watt thus joined a chorus of voices from Bay Street to Basel, where the BIS is based, with his alarm.

The main focus in Canada has been on Vancouver, where sales are tumbling but home prices remain exceptionally high, and Toronto and other parts of southern Ontario, where prices are rising at a fantastic pace.

“We believe household debt and real home price gains are unsustainable,” Mr. Watt said, citing, like others, how this is the biggest risk to Canada.

“The recent increase in longer-term interest rates emphasizes in our view of the vulnerability of the household sector,” he added.