Canadian household debt hits $1.8-trillion as report warns of domestic risk

By Armina Ligaya
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Canadians' collective household debt has climbed to $1.8 trillion as an international financial group sounds an early warning that the country's banking system is at risk from rising debt levels.

Equifax Canada said in a new report Monday Canadian consumers now owe $1.821-trillion including mortgages as of the fourth-quarter of 2017, marking a six per cent increase from a year earlier.

Although 46 per cent of Canadians reduced their personal liabilities, roughly 37 per cent added more debt in larger amounts on average, according to the credit reporting agency's latest report. In turn, the average amount of personal debt increased 3.3 per cent to $22,837 per person, not including mortgages.

"Despite the high debt, mortgage payments are generally on time, which could be attributed to low unemployment numbers and mortgage and auto finance interest rates which are still at historically low and reasonable levels," said Regina Malina, Equifax Canada's senior director of decision insights in a statement released Monday.

The fresh numbers come as an international financial group owned by the world's central banks says Canada's credit-to-gross-domestic-product and debt-service ratios show early warning signs of potential risk to the banking system in the coming years.

The latest report by the Bank of International Settlements (BIS) said Canada's credit-to-GDP gap and debt-service ratios have surpassed critical thresholds and are signalling red, pointing to vulnerabilities.

BIS, however, cautions that these indicators should not be treated as a formal stress test, but as a first step in a broader analysis.

The country's credit-to-GDP gap is 9.6, above the group's critical red zone threshold of nine. This indicator measures the gap between the country's credit-to-GDP ratio and the overall long-term trend over time — a widening of which can indicate a possible financial imbalance. Canada is one of four countries in the red zone on this metric along with Hong Kong, China and Switzerland, at 30.7 per cent, 16.7 per cent and 16.3 per cent, respectively. The United States, for comparison, is -6.9.

As well, Canada's debt-service ratio, which measures interest payments and amortizations relative to income, is at 2.9 per cent. That surpasses BIS' critical threshold on this measure of 1.8 per cent. Canada is one of five countries in the red on this metric, again along with Hong Kong and China at 6.9 per cent and 5.1 per cent, respectively. The debt-service ratio in both Russia and Turkey were also showing signs of risk, at 1.8 per cent and 6.1 per cent, respectively.

"Canada, China and Hong Kong SAR stand out, with both the credit-to-GDP gap and the DSR flashing red," the international body said in its report, released Sunday. "For Canada and Hong Kong, these signals are reinforced by property price developments."