# Canadians' debt burden rises, sparking concern

By Matt Lundy

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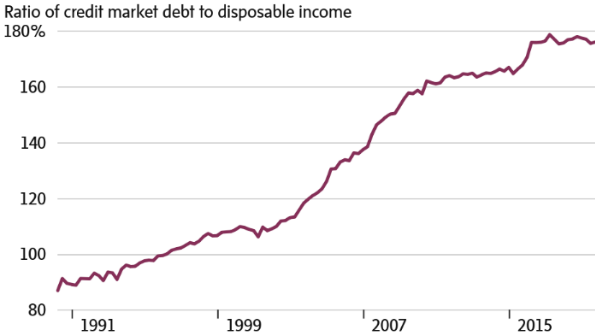
Canada's household debt burden is on the rise as individuals and families took on billions in new mortgage debt during a period of markedly lower borrowing rates.

The household debt load, more formally known as the ratio of credit market debt to disposable income, rose to 175.9 per cent in the third quarter from 175.4 per cent in the second quarter, according to seasonally adjusted figures released Friday by Statistics Canada.

In other words, households are carrying $1.76 in debt for every dollar of disposable income.

**Canada's household debt burden**

Ratio of credit market debt to disposable income




THE GLOBE AND MAIL, SOURCE: STATSCAN / SEASONALLY ADJUSTED DATA

The national debt burden is a closely watched metric of Canadians' financial health, inspiring no shortage of concern as it steadily increased through much of the decade. In recent years, however, the ratio has levelled off – and in some quarters, actually decreased – after the Bank of Canada raised interest rates and tougher mortgage lending conditions went into effect.

But this year, mortgage rates have tumbled, and Canadians have ramped up their borrowing in response. Residential mortgage credit increased at a seasonally adjusted annualized rate of 6.8 per cent in October, the fastest pace since April of 2017, according to Bank of Canada data.

Friday's report showed that overall credit market debt – which includes consumer credit, and mortgage and non-mortgage loans – rose $28.5-billion to $2.28-trillion. Mortgages accounted for most of the quarterly increase, at $18.5-billion. In total, Canadians have $1.49-trillion in outstanding mortgages, equal to 65 per cent of all household debt.

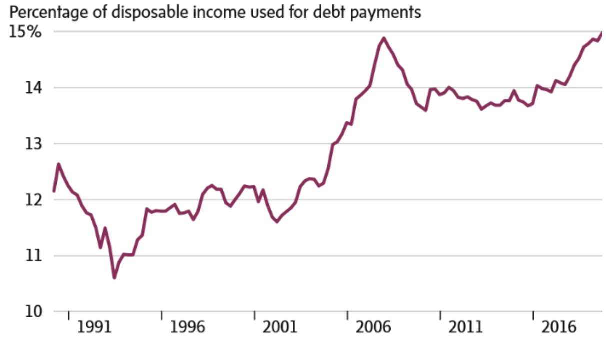
The household debt-to-income ratio reached its highest point in the first quarter of 2017, at 178.5 per cent. Friday's release included historical revisions that lowered the ratio in recent quarters from past estimates.

At the same time, Canadians are spending more than ever on debt payments. The household debt-service ratio, which represents the percentage of after-tax income used for debt payments, has risen to a record 14.96 per cent. Half of that goes toward interest.

"As such, household debt burdens will remain a crucial vulnerability for the Canadian economy for some time," said Priscilla Thiagamoorthy, economist at Bank of Montreal, in a client note.

**Household debt-service ratio**

Percentage of disposable income used for debt payments




THE GLOBE AND MAIL, SOURCE: STATSCAN / SEASONALLY ADJUSTED DATA

Insolvency data suggest there are signs of mounting financial distress at the household level. Through October, the number of personal insolvencies has climbed 10 per cent from the same period last year, with notable increases in Ontario and Alberta, federal data show.

Many economists have said the insolvency increase is somewhat confounding given the jobless rate is near an all-time low, and with some of the strongest wage gains in years.

Toronto-Dominion Bank economist Ksenia Bushmeneva said consumers could see some debt relief in the coming year.

“As long as household borrowing doesn’t continue to accelerate, the debt-service ratio should start trending lower in the coming quarters, as the decline in rates over the past year flows through to debt servicing costs,” Ms. Bushmeneva said in a client note. “And, with the Bank of Canada likely to cut its policy rate next year, households should also get a break on their unsecured debt burden.”