Canadian household debt burden edges lower in the fourth quarter

By Matt Lundy
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The national household debt burden decreased slightly to end 2019, but could find itself under pressure in the coming year after the Bank of Canada slashed interest rates to protect the economy against COVID-19 disruptions.

The household debt load – more formally known as the ratio of credit market debt to disposable income – was 176.3 per cent in the fourth quarter, or slightly down from a revised 176.6 per cent in the third quarter, Statistics Canada said Friday.

In other words, Canadian households owe $1.76 for every dollar of after-tax income. There is total household debt of $2.3-trillion, with $1.5-trillion tied up in mortgages.

The household debt burden is closely tracked for signs of financial distress, although it has levelled off for about four years, a time in which the Bank of Canada hiked its benchmark interest rate and regulators imposed tougher lending criteria for mortgages.

However, the central bank recently cut interest rates by half a percentage point, a move that some fear will inflame debt levels, particularly as home-buying surges in various markets.

“Looking into 2020, debt ratios are potentially set to surge with the BoC’s 50 [basis point] March rate cut and housing showing signs of heating up,” said Benjamin Reitzes, a Bank of Montreal strategist, in a client note ahead of Friday’s report.

“If the virus doesn’t slow activity soon, expect March to be a huge month for home sales, in turn pushing up debt ratios,” he added. “Then if overall activity takes a big hit in [the second quarter], the resulting drop in incomes will push ratios higher still. The outlook isn’t good.”

Bank of Canada Governor Stephen Poloz has said that protecting the economy against coronavirus-related shocks outweighs any concern of fuelling debt levels, and that lower rates could mitigate a hit to demand.

“Indeed, declining consumer confidence would naturally lead to reduced activity in the housing market,” Mr. Poloz said last week in a speech. “So in this context, lower interest rates will actually help to stabilize the housing market, rather than contribute to froth.”

The Bank of Canada is widely expected to continue cutting rates. Several banks now expect the overnight lending rate to get slashed to 0.25 per cent, from its current 1.25 per cent.