

ECONOMIC NEWS

Canada: Corporate and Government Debt Soars

HIGHLIGHTS

- ▶ Households didn't see their debt increase too much in the first quarter of 2020. The value of their credit market loans rose 0.5% during the period. Nonetheless, their debt relative to disposable income edged up slightly from 175.62% in the fourth quarter of 2019 to 176.93% in the first quarter of 2020.
- ▶ Still, non-financial private corporation debt jumped considerably in the first quarter, rising 5.4% (which represents a \$83.3B increase). As a result, the total debt to capitalization ratio rose sharply from 188.59% to 212.32%.
- ▶ Government debt also increased in the first quarter. Federal government public administration debt increased \$29.5B (+3.9%) in the first quarter while the debt of the other public administrations grew \$20.4B (+2.0%).

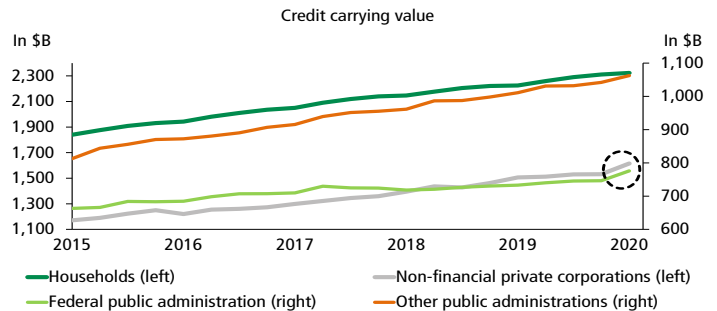
COMMENTS

The support measures introduced by governments to reduce the adverse effects of COVID-19 upended the snapshot of the country's debt. In the case of households, government measures resulted in their disposable income rising in the first quarter despite the many job losses. This prevented household debt ratio in particular from surging.

In the case of businesses, the proposed government aid consisted mostly of loan guarantees. This prompted many businesses to increase their debt in order to access cash and get through the crisis. As a result, non-financial private corporate debt ratio rose significantly in the first quarter of 2020 without hitting the peak noted during the Great Recession of 2008–2009. All of the support measures obviously resulted in public administration debt soaring in the first quarter of 2020.

GRAPH

Non-financial corporations and the federal government in particular saw debt rise



Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

The total debt of all of the country's economic agents (households, businesses, governments, etc.) climbed 3.6% in the first quarter, which was one of the biggest increases since the beginning of these historical data in 1990. And it's not over. Given the ongoing difficulties in April and the slow return to normal in May, debt will continue to rise in the second quarter. Since interest rates are at a historic low, this won't create too many problems in the short term. However, it does pose a risk in the medium- to long-term because higher debt could weaken the Canadian economy's situation should interest rates suddenly and unexpectedly increase.

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