

 **CANADA**

## High household debt weakens the country

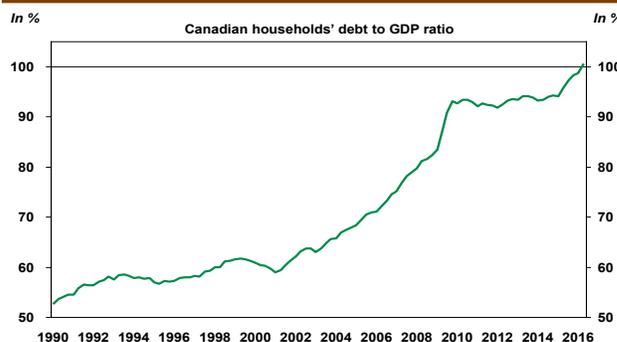
Canadian household debt has risen sharply in recent years, largely due to the impact of the sustained rise in real estate prices on outstanding mortgage debt. According to Statistics Canada, the total household debt relative to the gross domestic product (GDP) exceeded the symbolic 100% mark in the second quarter of 2016, reaching 100.6%. Put simply, total household debt slightly exceeded the size of Canada's economy.

Based on the harmonized international data compiled by the Bank for International Settlements (BIS), Canada's household debt to GDP ratio was the highest among the G7 countries. This offers a fairly troubling snapshot of Canadians' financial position. The concern is that some households will have difficulty meeting their financial obligations if interest rates rise.

However, the household sector represents only a portion of the overall debt in an economy. If we also take government and business debt into account, the rate of debt in Canada is fairly similar to that in the other G7 countries. This is explained by the relative debt of all public administrations in Canada which is the weakest of the G7 countries. The cleanup of federal public finances over the last few decades is clearly behind Canada's advantageous position on public debt. In terms of non-financial business debt, Canada ranks above average in the G7, bested only by France.

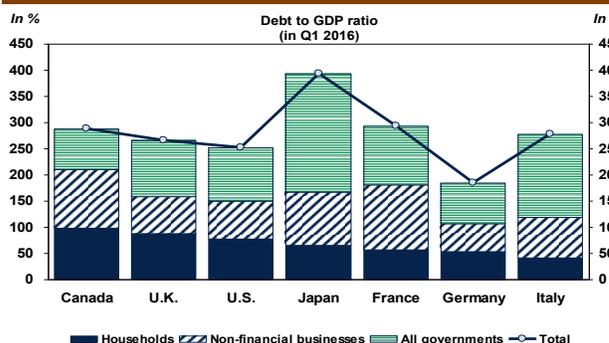
**Implications:** Even if Canada's total debt ratio is comparable to that of most other industrialized nations, the makeup of Canada's debt among the different economic agents raises concerns. Because of their extensive borrowing power, governments are less sensitive to the adverse effects of potentially rising interest rates. In contrast, households and businesses are more sensitive to interest rate fluctuations.

**Household debt versus the size of Canada's economy exceeds 100%**



Sources: Statistics Canada and Desjardins, Economic Studies

**Low level of government debt in Canada offsets high household and business debt**



Sources: Bank for International Settlements and Desjardins, Economic Studies

In such conditions, the high level of household debt is undermining the Canadian economy and this represents a significant risk over the medium and long terms. In fact, the federal government is quite concerned about this issue, as the new measures recently announced to limit mortgage credit confirm.

**Benoit P. Durocher**  
Senior Economist

**François Dupuis**  
Vice-President and Chief Economist

**Mathieu D'Anjou**  
Senior Economist

**Benoit P. Durocher**  
Senior Economist

**Francis Généreux**  
Senior Economist

**Jimmy Jean**  
Senior Economist

**Hendrix Vachon**  
Senior Economist

514-281-2336 or 1 866 866-7000, ext. 5552336  
E-mail: [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com)