Fact Sheet #7

Household debt: At all-time high

Many Canadians struggle with debt. Over the past decade, through a long period of low interest rates, families turned to credit to finance spending – up to and through the recession. As a result, the Canadian debt-to-income ratio has surpassed American levels for the first time since the late 1990s, exceeding 1.6 dollars of debt for every dollar of income. Canada's total household debt is now three times the size of the national debt – more than 1.6 trillion dollars.

Low- and modest-income families are especially vulnerable, with fewer resources to draw upon to deal with economic shocks (such as a rise in interest rates) and high debt servicing costs. The Bank of Canada Governor, Mark Carney, continues to warn that very high levels of household debt are the most pressing medium-term threat to economic stability in Canada.[1]

Household debt has been on an upward climb for 30 years

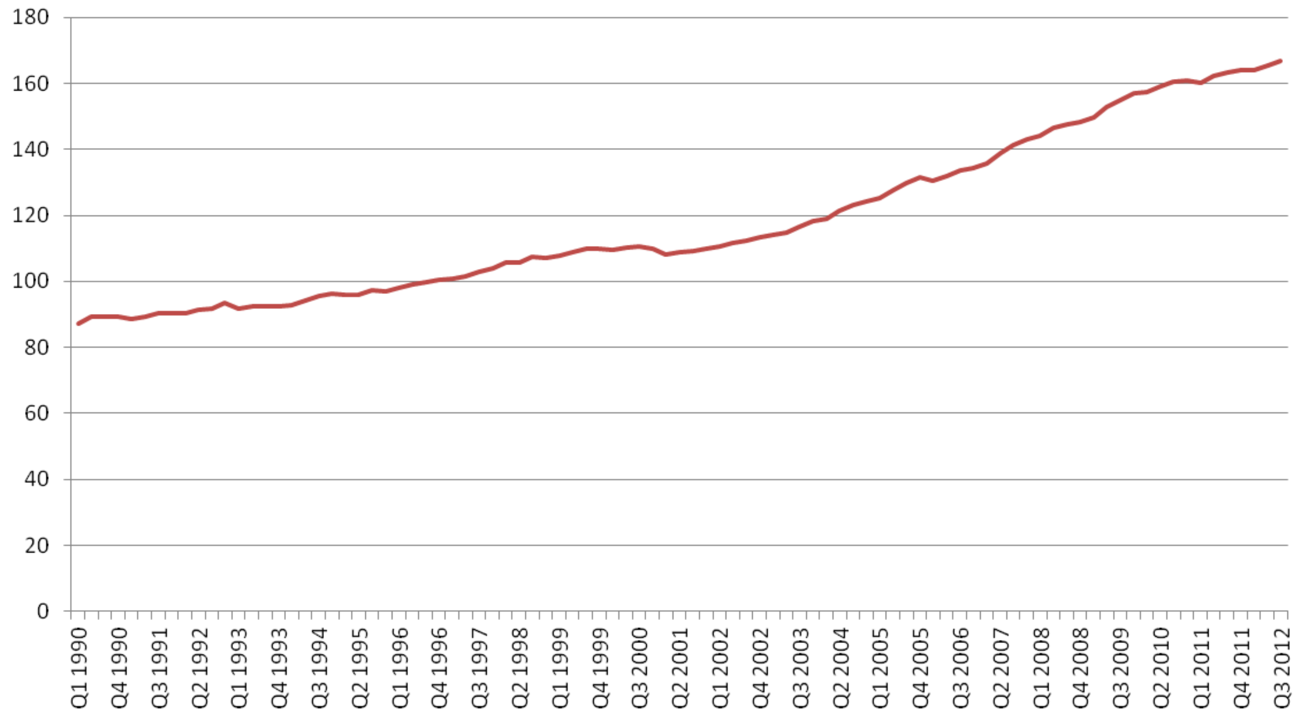
- The debt-to-income ratio of Canadian households has been trending upward over the past 30 years, reflecting steady growth in mortgage debt, and more recently, a significant increase in consumer credit card debt as well.
- The average debt per household reached a record high in 2012, bringing the debt-to-income ratio to 166%.[2] The debt-to-income ratio has increased by over 90% since 1990 and by 13% since the third quarter of 2008. Canada's debt-to-asset ratio is also one of the highest among Organization of Economic Cooperation and Development (OECD) countries.
- Since the recession, the low interest rate climate in Canada has continued to spur consumer spending, even as wages and incomes have stagnated. This has helped to offset sluggish economic growth but many households are very vulnerable to future economic shocks.

Individuals nearing retirement taking on more debt

- The incidence and amount of debt was higher in certain groups: younger homeowners, young families with children, the better-educated, and those with high household incomes. Over 60% of household debt was held by those under 45 years of age, and nearly one-half was held by couples with children.[3]
- That said, those nearing retirement have been taking on more debt in recent years. According to a CIBC study, people over the age of 45 have been driving the increase in household debt loads – especially those who are already heavily indebted.[4] This group is turning to credit to keep up with bills and other financial commitments.

Low-income families carry highest debt serving loads

- Households with incomes of less than $50,000 are six times more likely to have a high debt service ratio and 1.6 times more likely to have a high debt-to-income ratio, compared to middle-income households ($50,000 to $79,999).[5]
- The Bank of Canada estimates that as many as 10% of households with very high debt service ratios could be put into a financially difficult position when interest rates rise.[6]
- Low-income Canadians are especially vulnerable. In 2010, 59% of Toronto-area food bank users reported that they needed to borrow money from family or friends in order to pay their bills, while 28% had to use a credit card or line of credit.[7]


Household debt as a percentage of disposable income, 1990–2012 Q3
Percent
180
160
140
120
100
80
60
40
20
0
Q1 1990
Q4 1990
Q3 1991
Q2 1992
Q1 1993
Q4 1993
Q3 1994
Q2 1995
Q1 1996
Q4 1996
Q3 1997
Q2 1998
Q1 1999
Q4 1999
Q3 2000
Q2 2001
Q1 2002
Q4 2002
Q3 2003
Q2 2004
Q1 2005
Q4 2005
Q3 2006
Q2 2007
Q1 2008
Q4 2008
Q3 2009
Q2 2010
Q1 2011
Q4 2011
Q3 2012
Source: Statistics Canada, Table 378-0123 - National Balance Sheet Accounts, financial indicators, households and non-profit institutions serving households, quarterly (percent)