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Households now owe more than Canada's entire GDP, housing agency warns

Households in other countries are paying down debt, but that's not the case in Canada



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CBC News spoke to several people in downtown Toronto about the financial challenges they're contending with, including housing, food and child care, and what they're doing to keep expenses down.

Canadian households are more in debt than those in any other G7 country, and the amount they owe is now more than the value of the country's entire economy.

That was one of the main takeaways of a new report from Canada's housing agency, the Canada Mortgage and Housing Corporation, which backstops much of the country's housing market via mortgage insurance.

In a report published Tuesday, the CMHC's deputy chief economist Aled ab Iorwerth said Canada's economy is more at risk to whatever crises may arise because of how much debt Canadian households have racked up.

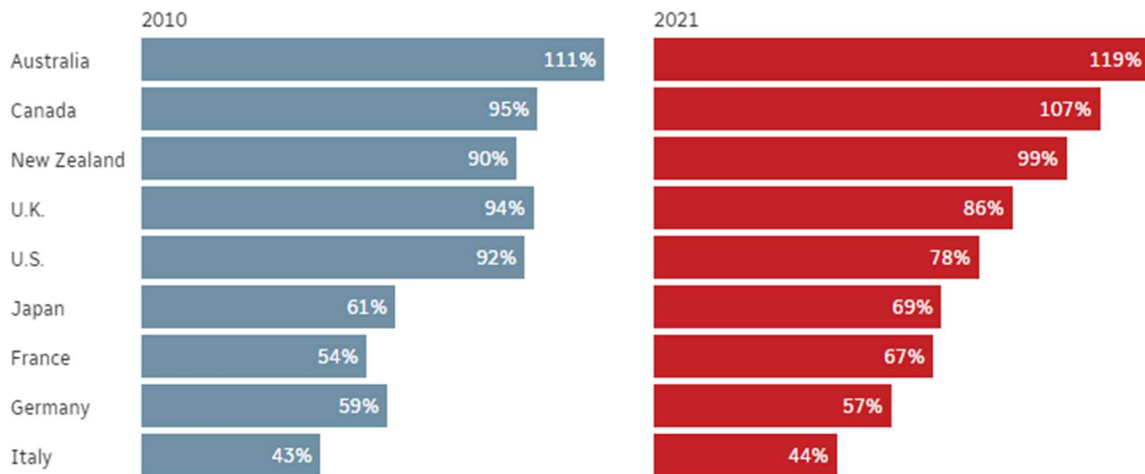
"Canada's very high levels of household debt — the highest in the G7 — makes the economy vulnerable to any global economic crisis," he said. "When many households in an economy are heavily indebted, the situation can quickly deteriorate, such as what was witnessed in the U.S. in 2007 and 2008."

Household debt now sits at 107 per cent of Canada's GDP, the report notes, a ratio ab Iorwerth said has marched "inexorably" higher in recent years. As recently as 2008, household debt in Canada was 80 per cent of GDP, before rising to 95 per cent by 2010 and eclipsing 100 per cent during the pandemic.

"By contrast, household debt in the U.S. fell from 100 per cent of GDP in 2008 to about 75 per cent in 2021," he said, adding that the ratio also dropped in places like the U.K. and Germany. "While U.S. households reduced debt, Canadians increased theirs and this will likely continue to increase unless we address affordability in the housing market."

While some households are paying down debt, Canadians are borrowing more

The numbers below show household debt levels as a percentage of that country's GDP, according to the IMF



Source: CMHC (CBC)

The CMHC report is the second in as many weeks to sound the alarm on debt loads. The Bank of Canada's Financial System Review last week warned that the sharply higher cost of carrying a mortgage is a major risk to the economy in the coming years.

The central bank has raised its benchmark lending rate aggressively in recent months in an attempt to bring down record-high inflation.

Variable rate mortgage holders have felt the pinch of higher rates immediately, but the central bank warned that fixed-rate holders should brace for a similar impact when they renew in the coming years.

While many families manage to stay on top of their debt loads as long as their income level stays the same, it becomes a problem for the entire economy when that suddenly and unexpectedly changes, the CMHC warned.

"We see early warning signs that more and more consumers are getting into financial difficulties," the report said. "It becomes difficult, if not impossible, for many mortgage holders to service their debt."

Mortgage debt the biggest problem

The CMHC report noted that three quarters of Canadian household debt is tied to mortgages. The housing agency said that any desire to address a looming debt problem is closely linked to the country's housing market.

"As house prices increase in Canada, households take on debt leading to a rise in the total amount of debt in the economy," ab lorwerth said. "Longer term, reestablishing housing affordability in Canada will be key to reducing household debt if they want to become homeowners."



Canadians are seeing unexpected inflation increases for the first time in almost a year largely driven by the rising costs of rent, mortgages and groceries.

Benjamin Tal, an economist with CIBC, said Canada is in the midst of an "affordability crisis" when it comes to housing, and it's one that has been years in the making.

The current surge in immigration is drawing attention to the problem and spurring provincial, municipal and federal governments to do whatever they can to get more housing units built, but he said at least part of the solution must come from ending the obsession with home ownership in the first place.

"We need to create a situation in which you are 35 years old, you're married, you have two kids and you are renting — nothing is wrong with you," he told CBC News in an interview.

"The situation is getting worse and worse and worse so we have to treat it as a crisis — and the rental solution must be part of it."