

## BUSINESS

# Canadians carrying heavy debt load

We're second only to Americans in ratio of debt vs. what we own

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BUSINESS REPORTER

Canadian households carry the second highest debt load relative to what we own of the G7 countries, according to a report from Scotia Capital.

The first place belongs to households in the U.S.

"On household leverage, we're not so bad — compared to the worst example in the developed world," economists Derek Holt and Gorica Djerić said Thursday.

In the second quarter of 2010 the

average amount of debt carried by Canadians was about 20 per cent of the value of everything they owned, compared to about 26 per cent for the U.S. in the first quarter in 2010.

Debt included mortgages, credit cards and lines of credit, and the assets measured included homes, cars and financial assets.

Canada's leverage ratio jumped when the federal government "liberalized the mortgage insurance sector" in spring 2007, hit a plateau in late 2008 to 2009 and has recently begun marching upwards again, according to the report.

"The result is that Canadian households are slightly more leveraged than U.K. households, and significantly more leveraged than households in Japan, Germany,

France and Italy," said the authors.

"We only look good compared to the U.S., and that may well not last," said the authors, noting the ratio in Canada is expected to increase as debt rises and home prices soften.

The authors acknowledged that home ownership could potentially skew studies comparing debt and wealth in G7 countries. But they said looking at debt as a percentage of total assets essentially neutralizes that effect.

Kul Bhatia, professor of economics with the University of Western Ontario, cautioned against giving too much weight to any activity that took place during the recession.

"Those were extraordinary times, with all kinds of things happening in the economy and the job front

and the housing market and so you really cannot say very much looking at these numbers."

**6** *Canadians (are) . . . significantly more leveraged than households in Japan, Germany, France and Italy*

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Compared to the rest of the G7 countries, the Canadian economy came through the recession rela-

tively unscathed and has better economic prospects, he said.

"So the best thing is to wait and watch and see how the Canadian economy fares in the next few quarters."

While the economy continues to improve, Canadians are not proving to be frugal.

On Monday, Statistics Canada reported that in the second quarter of 2010 Canadians had racked up \$148 trillion in household debt, up 6.9 per cent or an increase of \$96 billion from the same time last year.

The same day the Canadian Payroll Association said that 59 per cent of Canadians expect they would be in financial difficulty if their pay was cut or delayed by one week.