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No longer cocky over debt

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Canadians are catching up to debtor America

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No matter how you look at it, there is no mistaking the fact that Canadian debt is rising fast, and we can no longer thumb our noses at Americans as reckless spenders with little regard for savings.

A report released yesterday by professional services firm Deloitte said Canadian consumers had a debt-to-disposable-income ratio of more than 130% at the end of the second quarter of 2008. At that ratio we have surpassed our U. S. cousins, who had a ratio of just less than 125%.

Economists argue about how to calculate that ratio based on what constitutes debt. But what isn't subject to debate is that Canadian debt is rising quickly, in part because consumers just didn't feel the recession would hit here.

Sal Guatieri, senior economist with BMO Capital Markets, says U. S. household debt as a percentage of personal disposable income has flattened out and is actually starting to edge down. But he maintains debt levels in the United States are still higher than in Canada.

"Canadian household debt has been continuing to rise in 2008. American consumers have simply stopped spending," says Mr. Guatieri.

"Americans reduced their household debt [last quarter] for the first time in a century and that's largely because the recession has been ongoing for a year now. Canada likely slipped into a recession just at the end of the last year."

In other words, we still have jobs and we just kept spending, thinking the recession wouldn't come to Canada.

Canadians have been told for too long that we don't have to worry about our debt problems, says Laurie Campbell, executive director of Credit Canada.

"Around September or October, what was [Prime Minister] Stephen Harper telling us? We are not like the Americans; we are not going to be in a recession. We are so much stronger ..." says Ms. Campbell. "The mindset of Canadians has been [that] we can continue to spend. The result has been neglect, arrogance and denial."

All you really have to do is look at what poor savers we have become, says Ms. Campbell, whose non-profit group counsels Canadians with debt problems. Our savings rate is now less than 1%, but was about 10% in 1990.

We don't have the subprime mortgage mess in Canada, but we've come up with our own way of increasing debt during this economic cycle. Increasingly, Canadians have used longer amortizations to buy houses. Where we once planned to pay down a mortgage over 25 years, it is now 35 years and that was only after the government banned a 40-year amortization.

CIBC World Markets senior economist Benjamin Tal maintains that while Canadians have increased their debt, they are more likely to pay it back than Americans. "It's not just the level of debt, it is the quality of debt. We know the quality of debt has been better in Canada. There is no subprime market. We have 1% of mortgages in Canada that are interest-only; it is 25% in the U. S. market."

Jeremy Kroll, a partner with bankruptcy firm A. Farber & Partners, says he's seeing more clients who have used too much debt to finance their lifestyle. "I speak to people in the U. S. and the feedback I get is [the debt problems] are far worse and have been going on for much longer," he says.

Is it because Canadians are that much more prudent when it comes to saving and borrowing money? Or is it that our banks won't give us as much rope?

"It is just more rigid here. We gave out less garbage credit to people who couldn't manage it," said Mr. Kroll.

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