

Canadian households continued to add hefty quantities of debt in May, led by mortgages, according to new data from Statistics Canada. Total household borrowing rose by 0.8% for the second straight month to over \$2.5 trillion, with mortgage debt and home equity lines accounting for 80% of that. In May, mortgage debt rose by \$16.3 billion, leading the growth in overall indebtedness. Of this, total mortgage debt was up 1% and was 8.3% higher than this time last year. Non-mortgage debt also rose by 0.4% in May to almost \$800 billion, with credit card debt and other personal loans accounting for much of this.



"Sure we have mortgage money. It's just that you can't have any."

Curiously though the household debt-to-income ratio **fell** in the first quarter, while the household savings rate rose. Higher wages and government support programs are behind this. Statistics Canada reported this week that household financial assets rose for a fourth consecutive quarter (thanks to rising stock markets), resulting in the amount Canadians owe compared to their income to fall. Whether this positive trend continues though, remains to be seen. Once the economy re-opens, spending on services -which was largely unavailable during the pandemic- will likely restart. This includes dining out, clothing, entertainment and travel. All of these are tied to credit card spending (and the reason MasterCard and Visa are in the investment funds that make up our retirement portfolios).

While this improvement in average household debt-to-income for Canadians is a step in the right direction, it is important to note that this improvement is from 174% to 172%. This means that Canadians still owe a buck-seventy two for every dollar of disposable income they have. So we've overspent by 70%, effectively taking a significant advance on lifestyle. Reigning in spending to factor in the repayment of this debt will be something economist watch closely, to gauge its



impact on the overall economy and the capital market that measure it. Mark Twain is credited with saying *worrying is like paying a debt you don't owe*, but lifestyle debt is a heavy burden to carry. Our advice to clients is to be sure that debt retirement is part of their financial plan, because freedom from debt is worth more than any amount you can earn.

Be safe, be well!

Martin

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