

Debt-laden consumers take the wind out of recovery's sails



Stock markets weaken households' net worth as rising borrowing costs put the squeeze on Canadians

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Canadian consumers are about to rein in their spending, cutting off some of the blood flowing to the economic recovery. Tapped out and debt-burdened, with net worth slipping, the all-important shopper will have to juggle the budget to allocate more to repayment and less to discretionary spending as borrowing costs rise. The expected pullback comes in a key selling season for retailers in the run-up to Christmas. Consumer spending, on everything from cars and coffee to furniture and clothes, makes up about two-thirds of the economy, and a slowdown in growth would hamper the economic rebound.

While **U.S. consumers** have adjusted their habits since the recession – saving more, and curbing credit-card debt – Canadians' appetite hasn't diminished, perhaps because the economic shock wasn't as great. **The ratio of household debt to net worth is the highest on record**, Statistics Canada said Monday, as tumbling stock markets eroded household net worth in the second quarter, while liabilities rose thanks to more mortgage and consumer credit debt.

"It's a worry," said Benjamin Tal, deputy chief economist at CIBC World Markets. "Consumer spending will be positive, but it will be nowhere near where it was before." Rising borrowing costs – the Bank of Canada has already hiked its benchmark rate three times recently – will force Canadians to put more money into servicing debt and "for the next five years, consumers won't be as strong or powerful as in the past."

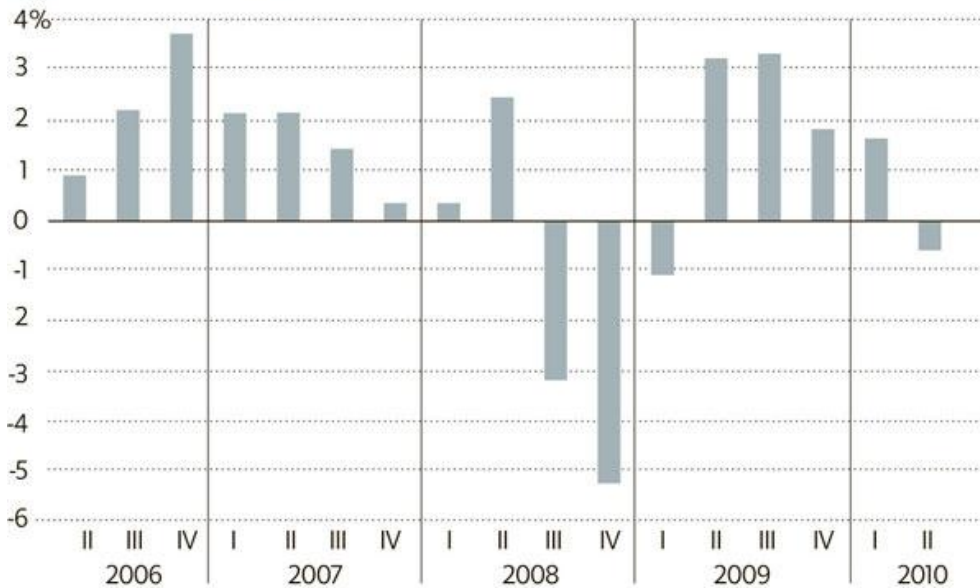
“Weak asset growth in combination with still strong liability growth will likely have households feeling buried under more debt than they ever have,” said Toronto-Dominion Bank economist Diana Petramala. “Households will likely feel a need to constrain spending and repair the damage done to their balance sheets. As such, quarterly consumer spending growth is expected to remain in a range of 2-2.5 per cent over the next year, well below the 3.5-4 per cent growth registered over the last five years.”

Ballooning debt levels leave many Canadians vulnerable to financial shocks, the OECD noted Monday. National surveys back that up – six in 10 Canadian workers are surviving from paycheque to paycheque, a proportion that hasn’t improved since the recession ended, one survey found Monday.

Debt also means overextended consumers will be far less of a contributor to the recovery than they were before the recession.

Household net worth

By quarter, not seasonally adjusted



THE GLOBE AND MAIL » SOURCE: STATISTICS CANADA

As statistics point to a recovery, personal struggles are worsening, even compared with last year’s recession, said Scott Hannah, president of the Credit Counselling Society in the Vancouver suburb of New Westminister, with six other offices in Western Canada. In 2008, the service had about 7,000 new clients, which spiked roughly 50 per cent to 10,000 in 2009. This year, it is up another 5 per cent – and the pace of increase is rising, with 11 per cent more clients last month compared with August, 2009. “A lot of people thought 2010 was a better year and things were getting better. We’re not seeing it,” Mr. Hannah said. “This year it’s consumers who have been fighting debt for a long time and haven’t made any headway.” For credit cards alone, the average client arrives with \$35,000 in debt on six different cards.

Mr. Hannah cites several factors, including credit-card companies that have slowly reduced the required minimum payments – allowing people to dig deeper holes – and a general lack of savings among Canadians. “The only thing in many savings accounts is cobwebs.”

Laurie Campbell, executive director at Toronto-based Credit Canada, is seeing a similar trend. Her agency is seeing more recent grads seek help, loaded with student and credit card debt, who haven't been able to secure full-time work. Older people with fixed incomes are also frequent clients – partly because many are now supporting those recent grads.

Reasons range for the debt explosion, to a rush to buy houses in a low interest-rate environment, to a generational shift away from saving. Some peg it to a lack of financial literacy, others to banks too willing to lend. Middle-class incomes haven't kept up with the cost of living in the past few decades, and in the past year, much of the job growth has been in part-time positions.

Meanwhile, balancing the household budget is still a long way off, Ms. Campbell said. “As Canadians, we need to find some sustainable middle ground between spending, debt, consumerism and financial stability. Have we found it? Absolutely not.”
