



Snapshot: Household credit growth accelerated through the July hike

September 2017

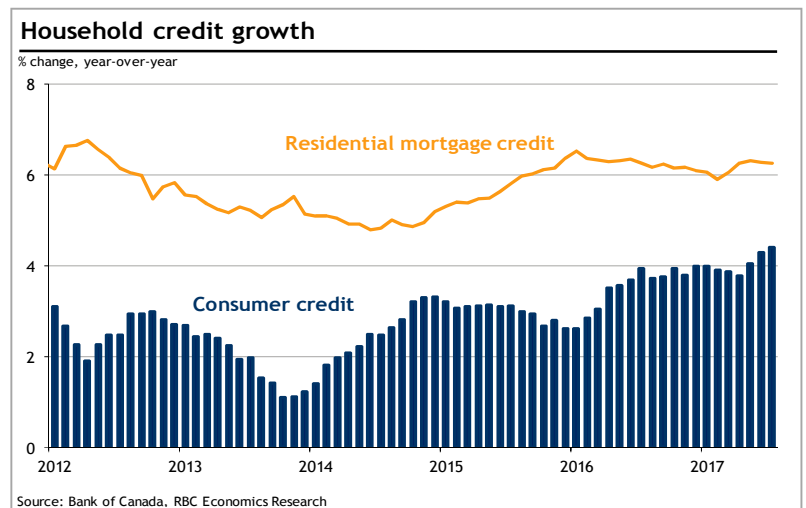
A rise in the Bank of Canada's policy rate in 2017 seemed like a long-shot earlier this year. But a string of strong economic data prompted a shift in tone mid-June with the Bank hiking rates shortly thereafter. Higher borrowing costs and larger interest payments on outstanding debt were far from the minds of Canadians, however, as households increasingly added to their debt loads in July. With economic growth continuing to clock in at a stellar pace, additional policy hikes and the ensuing rise in borrowing rates will put pressure on households to absorb rising costs. The period marked by a voracious appetite for debt accumulation may thus be nearing its end.

Households bulk up debt loads into July

Households accumulated credit at the quickest pace in July 2017 since October 2011, with outstanding balances rising by 5.7% from a year-ago. This compared to a recent low of 2.6% in January 2016 and resulted in the amount of debt owed by Canadians climbing to nearly \$2.1 trillion.

Consumers loving consumer credit

Household appetite for consumer credit—made up largely of personal lines of credit, personal loans and credit cards—continued its upward trend in July, with annual growth accelerating to 4.4%, the quickest rate since February 2011. An uptrend in consumer credit accumulation has continued relatively unimpeded since early 2016 and is now well above the cycle-lows seen in the latter half of 2013—before the Bank of Canada cut policy rates in response to the crude oil price plunge.



Slower mortgage growth...the new normal?

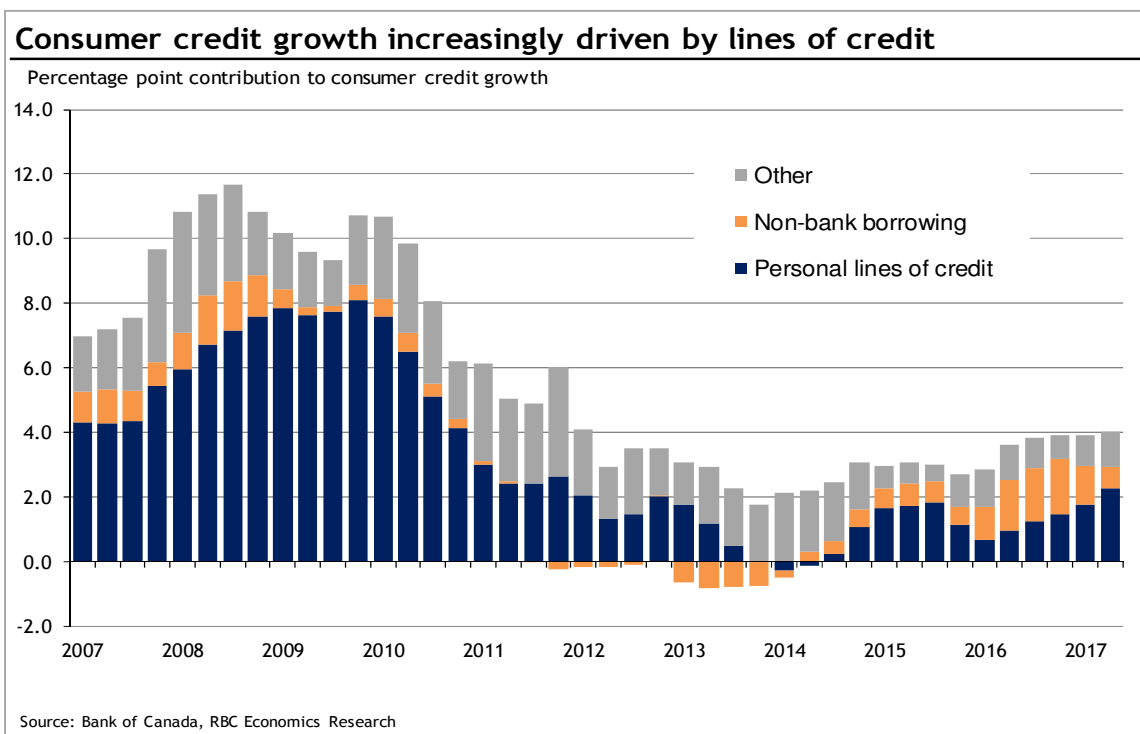
Residential mortgage growth picked up in the first half of 2017 after slowing through 2016. The introduction of mortgage qualifying standards by the federal government in October 2016 ostensibly had a minimal dampening effect on mortgage loan growth. Instead robust home sales in early 2017 appeared to drive a strong uptick in mortgage demand earlier this year. The drop in national home sales that occurred in the second quarter has not yet had a material slowing impact on mortgage demand—given a typical lag between the sale of a home and a mortgage loan. But higher borrowing rates against a backdrop of regulatory changes—notably Ontario's Fair Housing Plan introduced in April—are expected to dampen housing demand and consequently, slow mortgage growth over the coming quarters.

Diverging credit trends unlikely to persist

The economy's strong performance in the first half of 2017 sets up for the Bank of Canada to follow up the July rate hike. As support builds for further monetary tightening, the borrowing binge evident in recent quarters is likely to subside. A notable shift in major housing markets alongside elevated household indebtedness and tighter financial conditions are likely to dampen credit growth and eventually temper consumer spending growth. We anticipate that households on the whole will be able to absorb rising costs given an expected gradual pace of policy tightening and ongoing hiring gains. But as is the case with all goods things—the borrowing binge is likely coming to an end.

Recent trend worth highlighting: Rising balances on personal lines of credit

Households added \$10-\$12 billion to their consumer credit balances in each of the past four quarters. Borrowing from banks accounted for the bulk of the rise led by personal lines of credit, notably home equity lines of credit. This component made up more than half of the uptick in the second quarter of 2017—its greatest contribution since 2011.



As at the end of July, 2017	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	2,074	100.0	9.0	8.8	5.7
Consumer credit	590	28.4	8.4	10.4	4.4
Chartered banks	497	24.0	8.7	11.1	4.4
<i>Personal loan plans</i>	101	4.8	12.8	9.3	2.5
<i>Personal lines of credit</i>	290	14.0	10.7	11.6	5.3
<i>Credit cards</i>	81	3.9	0.8	11.7	3.8
<i>Other</i>	21	1.0	11.4	20.2	6.7
Non-banks	80	3.8	7.9	7.8	5.0
Securitized loans	13	0.6	0.5	0.5	0.9
Residential mortgages	1,485	71.6	9.3	8.1	6.3
Chartered banks	1,104	53.2	10.7	8.2	6.2
Non-banks	310	15.0	6.1	8.0	3.7
Securitized mortgages	70	3.4	2.3	8.3	19.8
<i>NHA MBS</i>	60	2.9	2.7	0.3	23.9

*Annualized growth rates

Source: Bank of Canada, Haver Analytics, RBC Economics Research

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