

CURRENT ANALYSIS

January 2014

Chart 1

Household & business credit growth: Canada

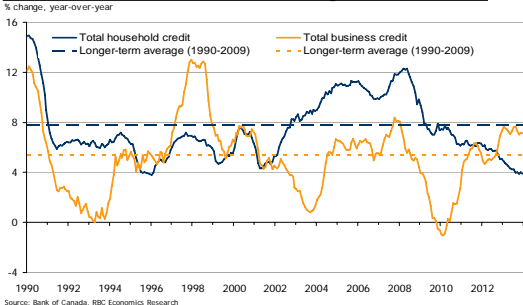


Chart 2

Household credit growth: Canada

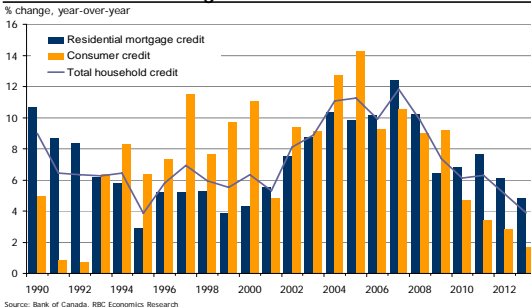
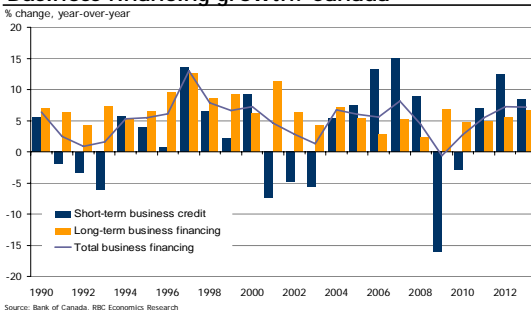


Chart 3

Business financing growth: Canada



Household credit rose at slowest pace since 1995 in 2013

Outstanding balances of household credit expanded by 3.9% over the twelve months ended December to resume a moderating trend following a 5.1% year-over-year uptick in November (chart 1). This 3.9% annual rate of growth marked a sharp moderation from the 6.3% increase in December 2012 and represented the slowest pace of calendar year accumulation since 1995. In contrast, business financing increased by 7.1% from its year-ago level in December, thereby matching the rate of growth in November (chart 1). That said, business financing growth eased from the 7.3% rate in December 2012 to mark the first annual slowing following three consecutive years of acceleration (chart 3).

Residential mortgage credit resumes moderating trend

Residential mortgage credit increased by \$56.5 billion in 2013 to reach a total of \$1.22 trillion in December, a 4.8% rise from the stock of mortgage debt outstanding at the end of 2012 (chart 2). This marked the slowest annual pace of growth since 2000 while the accumulation over the twelve months ended December in dollar terms represented a nine-year low. The moderation in consumer credit growth was even more prominent, with the \$8.5 billion rise during the year representing the smallest annual increase in debt since 1995 and the 1.7% pace of expansion was the slowest since 1992.

Diverging trends persist between short-term and longer-term financing

Short-term business credit (which primarily consists of bank loans) expanded by 8.4% on a year-ago basis in December following a 9.3% gain in the previous month as this financing component continued to moderate from cycle-highs earlier this year. In contrast, longer-term business financing grew at a faster pace to end 2013, with balances rising 6.7% from December 2012 compared to the 6.3% year-over-year rate in November. This increase in longer-term financing represented the quickest pace of annual accumulation since 2009 (chart 3) and was supported by a robust 11.1% rise in the issuance of bonds and debentures over the year.

Credit dynamics supportive of an economic rebalancing

The key drivers of growth in the Canadian economy are shifting away from a reliance on households, and the slowing in the accumulation of credit in 2013 is evidence of this. Even with housing market activity showing resilience throughout much of the year, residential mortgage debt growth slowed to a more than decade low in 2013. Households scaling back on borrowing helps to allay concerns surrounding the exacerbation of elevated risks posed by record high levels of household indebtedness and supports the expectation that the Bank of Canada will keep the overnight rate unchanged in 2014. On the other side of this rebalancing, the slight moderation in business financing in the year affirms that despite financial conditions remaining accommodative, the ‘great rotation’ away from households to international trade and business investment is in a slow transition. With global uncertainty diminishing and financial conditions remaining accommodative, we expect the diverging trend between household and business credit growth will continue in 2014.

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Canada

As at the end of December, 2013	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,741	100.0	4.9	4.1	3.9
Consumer credit	520	29.9	4.9	2.1	1.7
Chartered banks**	441	25.3	5.2	1.6	2.5
<i>Personal loan plans</i>	91	5.2	0.9	5.2	20.7
<i>Personal lines of credit</i>	259	14.9	0.3	-0.3	-0.5
<i>Credit cards**</i>	75	4.3	41.0	10.5	-1.3
<i>Other</i>	17	1.0	-22.7	-20.0	-11.7
Non-banks	65	3.7	2.6	2.4	-5.7
Securitized loans**	14	0.8	5.4	17.6	12.6
Residential mortgages	1,221	70.1	4.9	4.9	4.8
Chartered banks**	916	52.6	3.5	4.6	6.0
Non-banks	256	14.7	7.6	6.7	1.7
Securitized mortgages**	48	2.8	19.3	1.6	0.9
<i>NHA MBS**</i>	36	2.1	27.2	-1.9	-0.2
Business markets					
Total business financing	1,503	100.0	8.4	9.2	7.1
Short-term business credit	419	27.9	5.1	6.1	8.4
Chartered banks**	320	21.3	3.2	5.3	9.4
<i>Business loans</i>	260	17.3	2.6	9.3	10.9
<i>Bankers' acceptances</i>	61	4.0	5.9	-10.1	3.2
Non-banks	82	5.5	24.9	17.0	4.1
Securitized loans**	5	0.3	6.0	11.9	8.8
Commercial paper	11	0.7	-49.8	-34.9	13.0
Long-term business financing	1,084	72.1	9.8	10.4	6.7
Chartered banks**	48	3.2	12.4	7.5	9.4
<i>Commercial mortgages</i>	39	2.6	15.6	8.1	10.5
<i>Leasing receivables</i>	9	0.6	0.1	5.0	4.9
Non-banks	84	5.6	5.9	5.4	3.3
Securitized loans**	14	0.9	-2.0	-1.7	-4.2
Bonds & debentures	427	28.4	9.2	16.1	11.1
Equities & warrants	479	31.9	11.3	7.1	3.5
Trust units	32	2.1	5.8	10.4	8.9

*Annualized growth rates

**Beginning January 2011, the Canadian Accounting Standards Board (AcSB) adopted International Financial Reporting Standards (IFRS). Chartered banks with December 31st year-end converted to IFRS on January 1st, 2011, while chartered banks with October 31st year-end convert on November 1st, 2011. The most significant effect relates to the inclusion of securitized loans on banks' balance sheets, which were previously shown as loans held by Special Purpose Corporations (securitized loans) or NHA mortgage-backed securities.

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

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