

CANADIAN CREDIT

January 2015

Chart 1

Household & business credit growth: Canada

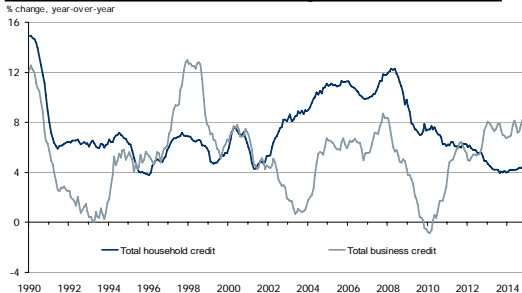


Chart 2

Household credit growth: Canada

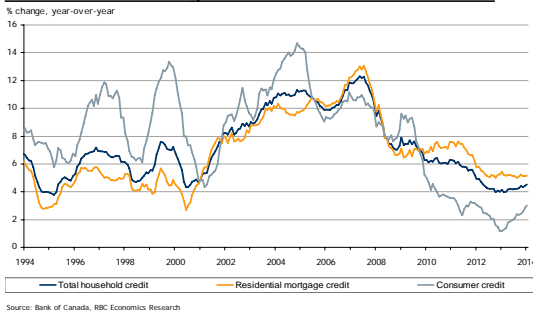
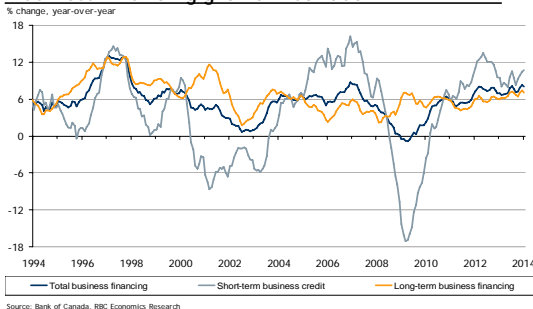


Chart 3

Business financing growth: Canada



Canadian household debt balances continued to rise in November

Canadian households continued to add to their balances of outstanding credit in November with household debt expanding by 4.5% for the second consecutive month. This rate of growth represents a near two-year high as households gradually ramped up their accumulation of debt following cycle-low increases of 4.0% recorded in the latter half of 2013 (chart 1). In contrast, total business financing continued to trend near cycle-highs with November's 8.1% increase marking only a slight moderation from the 8.3% seen in October that represented the fastest pace of expansion since January 2008.

Both residential mortgages and non-mortgage borrowing edge higher

The overall increase in total household borrowing in November reflected an ongoing strengthening in non-mortgage credit while residential mortgage loan growth edged higher for the first time since August. The former continued to gain ground with the 3.0% year-over-year increase in November marking the fourth consecutive month of acceleration and compared to the cycle-low 1.2% recorded a year-ago. Outstanding residential mortgage balances also increased in November, rising 5.2% on a year-over-year basis to \$1.28 trillion. This marked a slight pickup from the 5.1% recorded over the previous two months.

Rate of business borrowing slows, but remains elevated

Canadian firms continued to access short-term business credit at a robust rate in November while longer-term financing increased more modestly following a decade high rate of growth recorded in October. A 10.7% year-over-year increase in the former in November built upon a 10.5% rise in the previous month to mark the fourth consecutive month of acceleration. In contrast, longer-term business financing eased to 7.0% in November following October's 7.4% increase that represented the fastest rate of increase since September 2004. Capital markets remained a predominant source of funding, consistent with the Senior Loan Officers survey's assessment that lending conditions remained highly competitive in the final quarter of 2014.

Oil price weakness unlikely to trigger key domestic risk

The downside risks posed by the precipitous drop in oil prices in the latter half of 2014 and into 2015 adds a layer of uncertainty to the confluence of factors facing the Bank of Canada; one of which is key domestic risk posed by highly leveraged households' ability to service debts in the face of an income shock. With household incomes nationally likely to remain resilient in the absence of a larger or more widespread commodity shock, the sharp and persistent price drop is unlikely to trigger the materialization of this risk. Overall, we remain of the view that strengthening export demand and a lift to consumer spending resulting from lower fuel prices will offset the unambiguous hit to the energy sector to sustain an above-potential pace of economic growth. As this transpires and the need for a highly stimulative monetary policy environment subsides, we expect that the Bank will be in a position to raise the overnight rate in Q3/15.

Canada

As at the end of November, 2014	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,810	100.0	4.5	5.4	4.5
Consumer credit	532	29.4	2.3	3.3	3.0
Chartered banks	451	24.9	1.9	3.0	2.8
<i>Personal loan plans</i>	92	5.1	-39.5	-10.5	1.2
<i>Personal lines of credit</i>	265	14.7	23.0	8.6	2.6
<i>Credit cards</i>	75	4.1	4.3	3.1	2.9
<i>Other</i>	20	1.1	-9.5	-2.8	13.4
Non-banks	66	3.7	6.5	5.3	3.3
Securitized loans	14	0.8	-2.0	4.9	8.1
Residential mortgages	1,278	70.6	5.4	6.3	5.2
Chartered banks	951	52.5	4.7	5.8	4.1
Non-banks	268	14.8	4.6	4.8	6.2
Securitized mortgages	59	3.3	20.2	22.9	20.0
<i>NHA MBS</i>	46	2.6	25.2	6.0	26.6
Business markets					
Total business financing	1,613	100.0	9.0	10.2	8.1
Short-term business credit	459	28.5	13.0	10.1	10.7
Chartered banks	357	22.1	16.6	10.9	11.6
<i>Business loans</i>	286	17.8	21.5	9.7	10.4
<i>Bankers' acceptances</i>	70	4.4	-1.1	16.0	16.9
Non-banks	85	5.3	6.4	9.0	8.0
Securitized loans	4	0.3	-16.1	-16.1	-10.5
Commercial paper	13	0.8	-19.9	7.1	14.1
Long-term business financing	1,153	71.5	7.4	10.3	7.0
Chartered banks	49	3.0	0.2	0.1	3.0
<i>Commercial mortgages</i>	39	2.4	0.3	-1.5	2.2
<i>Leasing receivables</i>	10	0.6	0.0	6.5	6.5
Non-banks	89	5.5	9.4	7.9	5.6
Securitized loans	13	0.8	-7.6	-7.5	-6.6
Bonds & debentures	469	29.1	7.3	10.8	10.3
Equities & warrants	505	31.3	5.9	7.7	5.0
Trust units	33	2.0	2.9	6.6	6.4

*Annualized growth rates

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

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