

CURRENT ANALYSIS

March 2014

Chart 1

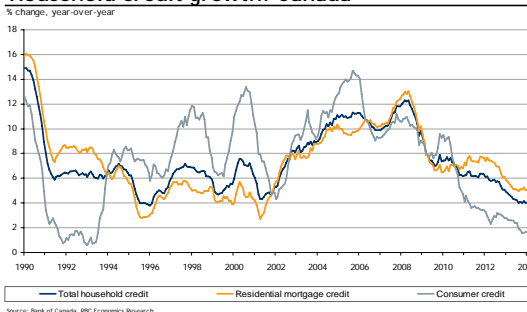
Household & business credit growth: Canada



Source: Bank of Canada, RBC Economics Research

Chart 2

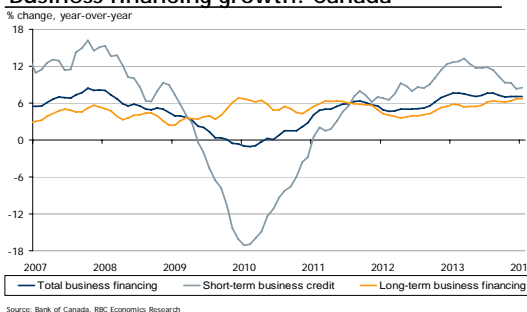
Household credit growth: Canada



Source: Bank of Canada, RBC Economics Research

Chart 3

Business financing growth: Canada



Source: Bank of Canada, RBC Economics Research

Household & business credit growth hold steady to start 2014

After expanding at its slowest pace in nearly two decades in 2013 as a whole, Canadian household credit growth held steady in January over the previous month. Outstanding personal debt balances rose by 4.0% over the twelve months ended January (chart 1), an unchanged growth rate from December although represents a deceleration from 4.9% in January 2013. Business financing growth remained unchanged for the third consecutive month in January, rising by 7.1% on a year-over-year basis. This compares to 7.6% in January 2013 and matches the 7.1% increase for 2013 as a whole.

Residential mortgage credit trends sideways

Beneath the steady headline rate, household credit growth inched up by 0.06 percentage points to 4.04% reflecting slight increases in both components. Residential mortgage credit rose 5.1% above its year-ago level in January from 5.0% the previous month. Growth in this component has effectively trended sideways over the past nine months however the January rate did represent a slowing from 5.8% in January 2013. Consumer credit growth edged up in January to a 1.7% rate of growth from 1.6% in December and compares to 2.8% in January 2013. A sharp year-over-year increase in personal loans helped to offset declines in personal credit lines and credit cards.

Short-term and longer-term financing edge up slightly in January

The overall unchanged business financing growth rate in January disguised a 0.06 percentage point rise in the measure (to 7.11% from 7.05%). Longer-term business financing (which accounts for nearly three-quarters of outstanding business balances) increased 6.8% in January compared to 6.7% in the previous month as capital market financing (bonds, debentures, equities and warrants) expanded. Outstanding short-term business credit balances stood at \$422 million in January, up 8.5% compared to a year-ago. Short-term business loans from chartered banks were largely responsible for the increase, which represented a modest acceleration from an 8.3% rate of growth in December 2013 and a moderation from a near-cycle high 12.6% in January 2013.

Low household credit growth supportive of current policy stimulus

The steady rate of growth in household credit in January is supportive of overall low rates of household credit gains likely being sustained. A transition to lower, more sustainable levels of housing market activity is expected to subsequently temper the accumulation of mortgage debt by Canadian households and contribute to further subdued growth in overall household credit. With the risks associated with elevated household imbalances having “not materially changed”, the absence of a pick-up in household credit growth supports our expectation that the Bank of Canada will maintain the current level of policy stimulus in 2014. In turn, the persistence of an exceptionally low interest rate environment and lessening global uncertainty leaves businesses poised to increase investment and contribute to strengthening economic growth in 2014.

Laura Cooper
Economist
416-974-8593
laura.cooper@rbc.com

Canada

As at the end of January, 2014	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,743	100.0	0.1	2.9	4.0
Consumer credit	518	29.7	-4.3	0.6	1.7
Chartered banks**	438	25.2	-7.3	-0.2	2.6
<i>Personal loan plans</i>	91	5.2	1.2	6.4	22.1
<i>Personal lines of credit</i>	257	14.8	-5.0	-1.9	-0.8
<i>Credit cards**</i>	73	4.2	-23.6	3.7	-1.5
<i>Other</i>	17	1.0	-6.7	-20.8	-11.6
Non-banks	66	3.8	13.4	3.1	-5.6
Securitized loans**	14	0.8	17.9	15.2	9.8
Residential mortgages	1,225	70.3	2.0	3.8	5.1
Chartered banks**	915	52.5	-1.0	2.3	6.0
Non-banks	261	15.0	11.1	8.3	2.9
Securitized mortgages**	49	2.8	12.5	9.6	0.8
<i>NHA MBS**</i>	37	2.1	28.6	-10.6	1.2
Business markets					
Total business financing	1,510	100.0	6.3	9.1	7.1
Short-term business credit	422	28.0	10.5	8.6	8.5
Chartered banks**	323	21.4	9.7	8.2	9.8
<i>Business loans</i>	259	17.2	-4.3	4.2	10.6
<i>Bankers' acceptances</i>	64	4.2	93.7	26.4	6.9
Non-banks	83	5.5	5.9	13.9	3.5
Securitized loans**	5	0.3	9.8	9.7	3.2
Commercial paper	11	0.8	83.7	-14.2	11.4
Long-term business financing	1,089	72.2	4.7	9.6	6.8
Chartered banks**	49	3.2	13.4	10.5	10.4
<i>Commercial mortgages</i>	39	2.6	14.3	11.6	11.8
<i>Leasing receivables</i>	9	0.6	10.0	5.8	5.0
Non-banks	86	5.7	6.5	8.1	4.7
Securitized loans**	14	0.9	-2.0	-1.6	-4.2
Bonds & debentures	427	28.3	-0.1	10.5	10.4
Equities & warrants	482	32.0	8.0	9.2	4.0
Trust units	32	2.1	8.7	10.0	8.4

*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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