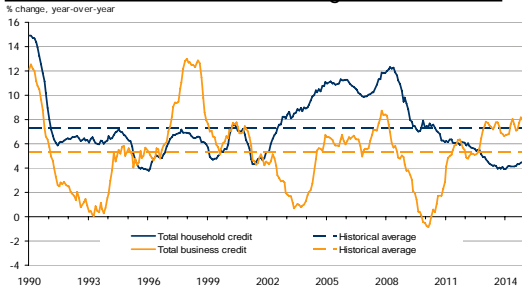


## CANADIAN CREDIT

February 2015

Chart 1

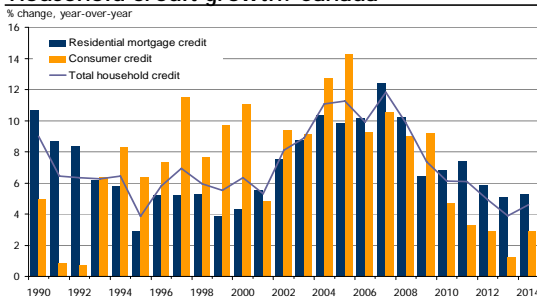
### Household & business credit growth: Canada



Source: Bank of Canada, RBC Economics Research

Chart 2

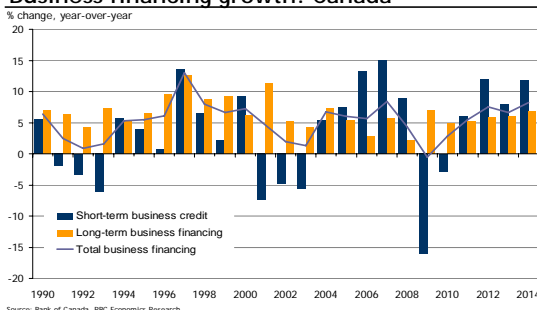
### Household credit growth: Canada



Source: Bank of Canada, RBC Economics Research

Chart 3

### Business financing growth: Canada



Source: Bank of Canada, RBC Economics Research

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### Canadian household credit growth picked up the pace in 2014

Outstanding debt balances of Canadian households increased at a moderately quicker pace in 2014 than the year prior as evidenced by household credit rising 4.6% over the twelve months ended December compared to the 3.9% rate of increase recorded in 2013. Even with the acceleration, the accumulation of debt continued to trend near cycle-lows, remaining below the 4.9% rate recorded in 2012 and modestly above the 2013 rate that represented the slowest calendar year increase since 1995. Similarly, an 8.2% year-over-year increase in business financing growth in December marked acceleration from the 6.6% rate seen in December 2013 and was the fastest calendar year increase since 2007.

### Household borrowing accelerates from multi-year low rates of growth

Residential mortgage credit expanded by \$64.6 billion in 2014 to reach \$1.28 trillion in December, a 5.3% increase from the balance recorded in the year prior. This represented a slight uptick from the 5.1% increase recorded in 2013 that was the slowest percentage increase in mortgage accumulation since 2000 (Chart 2). The upturn in nonmortgage credit growth was more pronounced in 2014 with the rate of increase accelerating to 3.0% in December 2014 from a cycle-low 1.3% recorded in December 2013. The resumption of an upward growth trend in personal lines of credit following a decline in 2013 predominantly contributed to the increase (accounts for 50% of non-mortgage loans).

### An upward trend in business financing growth continues

The persistence of highly accommodative business credit conditions continued to support borrowing by Canadian firms in 2014. Short-term business credit (which predominantly consists of bank loans) accelerated in 2014, rising by 11.8% on a year-over-year basis in December, up from 10.7% in the previous month and approached the cycle-high 12.0% recorded in December 2012. Longer-term business financing also increased in 2014, with balances up 6.8% in December, a modest dip from 6.9% recorded in the previous month but above the 6.1% year-over-year increase recorded in December 2013.

### Presence of downside risks likely to result in another rate cut by the BoC

The surprise shift in monetary policy by the Bank of Canada in January in response to the sharp drop in oil prices was in part intended to provide insurance against the heightened downside risks to financial stability. The energy price decline was assessed by the Bank to be sufficient to have a negative impact on Canadian incomes, which could thereby impede the ability of households to maintain interest payments associated with elevated debt balances and potentially trigger a sharp correction in the housing market. The likelihood of this risk materializing superseded the potential for household imbalances to intensify in response to a decline in borrowing costs. We remain of the view that downward household income pressures will be contained nationally; however, with crude oil prices remaining below the Bank's \$60/barrel assumption, we anticipate that a further 25bp cut in the overnight rate is in the cards for March.

## Canada

As at the end of December, 2014	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
<b>Household markets</b>					
Household credit	1,815	100.0	5.8	5.2	4.6
Consumer credit	533	29.4	5.5	3.5	3.0
Chartered banks	454	25.0	6.8	3.7	2.8
<i>Personal loan plans</i>	92	5.1	2.5	-12.1	0.6
<i>Personal lines of credit</i>	266	14.7	3.9	9.2	2.9
<i>Credit cards</i>	76	4.2	35.3	9.8	2.6
<i>Other</i>	19	1.1	-25.6	-9.3	13.1
Non-banks	66	3.6	-2.8	1.9	2.9
Securitized loans	13	0.7	7.8	5.0	10.0
Residential mortgages	1,282	70.6	5.9	5.9	5.3
Chartered banks	954	52.6	4.8	5.0	4.2
Non-banks	270	14.9	5.7	5.7	6.4
Securitized mortgages	58	3.2	27.6	23.5	21.1
<i>NHA MBS</i>	47	2.6	33.9	3.1	26.7
<b>Business markets</b>					
<b>Total business financing</b>	1,616	100.0	8.0	9.3	8.2
<b>Short-term business credit</b>	461	28.5	11.6	11.1	11.8
Chartered banks	361	22.3	14.5	12.6	12.8
<i>Business loans</i>	292	18.1	26.3	18.2	12.6
<i>Bankers' acceptances</i>	69	4.3	-23.8	-7.8	13.7
Non-banks	86	5.3	7.0	8.4	7.9
Securitized loans	2	0.1	-23.1	-30.4	-29.4
Commercial paper	13	0.8	-25.4	-4.2	18.6
<b>Long-term business financing</b>	1,155	71.5	6.6	8.6	6.8
Chartered banks	49	3.1	8.9	4.9	2.8
<i>Commercial mortgages</i>	39	2.4	8.1	3.9	1.6
<i>Leasing receivables</i>	10	0.6	12.4	8.9	7.5
Non-banks	90	5.6	9.8	9.0	5.6
Securitized loans	9	0.5	-20.7	-20.0	-18.2
Bonds & debentures	469	29.0	7.3	10.8	10.3
Equities & warrants	506	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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