

CANADIAN CREDIT

February 2016

Chart 1

Household & business credit growth: Canada

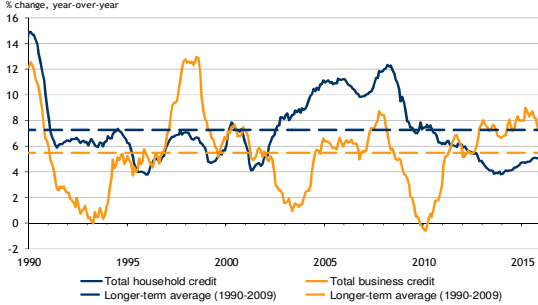


Chart 2

Contribution to household credit growth

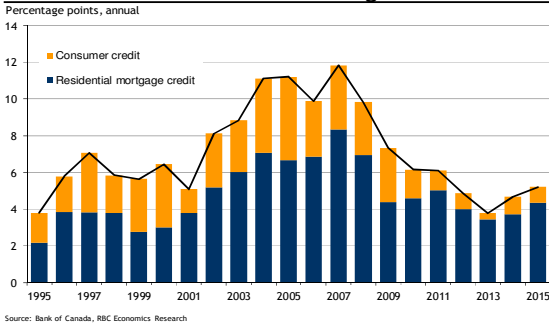
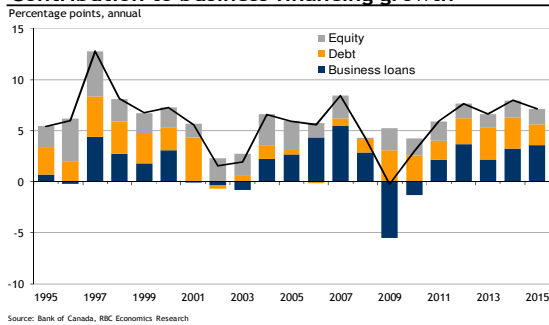


Chart 3

Contribution to business financing growth



Mortgage borrowing outshines the competition in 2015 credit trends

The downturn in crude oil prices did little to impede an upswing in household credit growth in 2015 as monetary policy stimulus and rising employment boosted households' appetite for borrowed funds. Canadians added to their outstanding debt balances in 2015 at the fastest pace since 2011 (5.2%) which boosted the total amount owing to \$1.91 trillion in December. By way of contrast, increasing deterioration in business sentiment through the year resulted in Canadian firms modestly paring back their overall financing needs. Total business credit advanced at a 7.1% annual rate, down from 8.0% in 2014.

Residential mortgage borrowing accelerates to the fastest pace since 2011

A near record level of existing home sales across Canada in 2015 boosted demand for residential mortgage loans while heightened economic uncertainty likely tempered gains in non-mortgage borrowing. Outstanding mortgage balances expanded by \$79 billion in 2015, representing a 6.2% increase from the year prior and the fastest pace of accumulation since 2011. At the same time, consumer credit growth took a step back in 2015 with outstanding balances increasing by 2.9% compared to 3.2% in 2014, although this was above the cycle-low 1.1% recorded in 2013. A slower pace of accumulation in the personal lines of credit component accounted for the bulk of the deceleration and offset advances in the personal loans and credit card components.

Mixed performance amongst business financing components in 2015

A slowdown in the issuance of debt securities in 2015 contributed to overall business financing growth easing from the cycle-high 8.0% pace recorded in 2014. The increase in the issuance of debt securities (which account for close to one third of total business credit) amounted to \$33.1 billion in 2015 (6.5%) compared to \$46.0 billion in 2014 (9.9%). Equity financing growth remained broadly unchanged with balances rising by \$25.2 billion from a year-ago (4.7%) compared to \$25.1 billion (4.9%) in 2014. In contrast, outstanding balances of business loans increased at the fastest rate since 2012, rising by 10.0% in 2015 to mark the third year of acceleration.

Highly accommodative financing conditions supported credit trends in 2015

Overall financing conditions remained highly stimulative in 2015 contributing to business credit growth remaining elevated; however, as noted in the Bank of Canada's *Senior Loan Officer Survey*, corporate debt issuers in energy and resource sectors faced increasingly tighter conditions, which likely contributed to the modest slowing in overall financing relative to the year prior. At the same time, the combination of low interest rates and higher house prices fuelled demand for mortgage credit, which in turn, drove overall household credit growth to outpace household incomes in 2015. The Bank of Canada expects that these trends will push the debt-to-income ratio higher in the near-term. The eventual normalization of borrowing rates prompted by a strengthening economy along with an attendant pickup in income growth is expected to stabilize the oft-cited ratio. Resultantly, the Bank is expected to maintain the current policy stimulus as it awaits signs that the economy is transitioning to non-resource sectors as a key source of growth.

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Canada

As at the end of December, 2015	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,912	100.0	7.4	6.1	5.2
Consumer credit	551	28.8	5.8	3.7	2.9
Chartered banks	470	24.6	5.3	3.2	2.5
<i>Personal loan plans</i>	96	5.0	-0.6	2.5	4.8
<i>Personal lines of credit</i>	270	14.1	0.3	1.0	1.4
<i>Credit cards</i>	79	4.1	33.1	12.6	3.6
<i>Other</i>	19	1.0	8.2	1.0	-0.9
Non-banks	68	3.5	12.3	7.3	5.4
Securitized loans	14	0.7	-6.1	1.9	4.7
Residential mortgages	1,361	71.2	8.0	7.0	6.2
Chartered banks	1,012	52.9	9.4	8.0	6.0
Non-banks	285	14.9	4.1	5.5	5.5
Securitized mortgages	63	3.3	4.1	-0.2	11.3
<i>NHA MBS</i>	54	2.8	6.0	-5.8	14.1
Business markets					
Total business financing	1,747	100.0	6.4	4.1	7.1
Business loans	641	36.7	13.4	7.3	10.0
Non-mortgage loans	444	25.4	30.6	6.7	11.5
Chartered banks	328	18.8	38.5	5.6	13.1
Non-banks	112	6.4	10.5	9.1	7.4
Securitized loans	3	0.2	-40.9	-18.0	-7.2
Commercial mortgage loans	122	7.0	6.4	7.7	5.2
Chartered banks	44	2.5	13.1	18.2	10.8
Non-banks	72	4.1	3.9	6.6	5.2
Securitized loans	5	0.3	-26.3	-28.7	-26.8
Bankers' acceptances	75	4.3	-43.7	10.7	9.5
Debt securities	543	31.1	-2.0	0.7	6.5
Short-term (Commercial paper)	11	0.7	-55.5	23.6	-12.0
Long-term (Bonds)	532	30.5	-0.3	0.3	7.0
Equities	562	32.2	7.3	3.7	4.7
Equities & warrants	528	30.2	7.7	3.6	4.7
Trust units	35	2.0	0.9	5.2	4.7

*Annualized growth rates

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

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