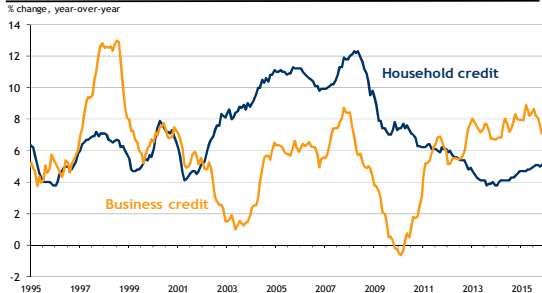


CANADIAN CREDIT

March 2016

Chart 1

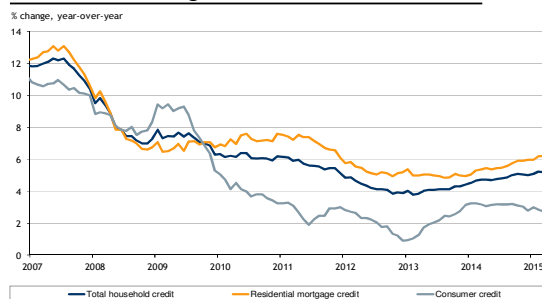
Household & business credit growth



Source: Bank of Canada, RBC Economics Research

Chart 2

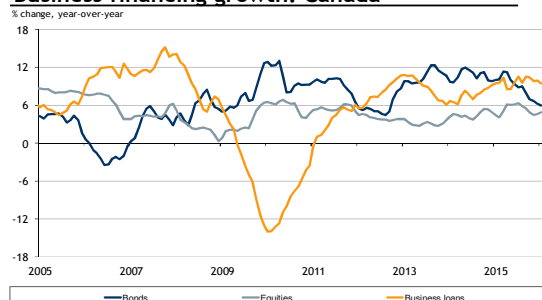
Household credit growth: Canada



Source: Bank of Canada, RBC Economics Research

Chart 3

Business financing growth: Canada



Source: Bank of Canada, RBC Economics Research

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Diverging credit growth trends becoming firmly entrenched

After expanding at the fastest pace in four years in 2015 as a whole, outstanding household debt balances sustained momentum to kick off 2016 with the 5.2% annual rate of increase in January matching the overall pace recorded in 2015. Canadian households owed \$1.91 trillion in personal debt in the first month of 2016 which represented a \$94.2 billion increase from the year prior. At the same time, total business financing growth continued to trend lower after posting a cycle-high rate of increase in early 2015. The 6.7% advance from a year-ago marked the slowest rate of expansion since March 2014 and compared to the annual 6.9% increase recorded in 2015 as a whole (Chart 1).

Consumer credit growth slows as residential mortgage borrowing expands

Canadian households continued to pare back their accumulation of non-mortgage loans with growth in this credit component sustaining a slowing trend in the first month of the year. Even with consumer credit easing, robust residential mortgage borrowing is keeping overall household credit growth on an upward trend. Rising home prices and low interest rates are underpinning demand for property loans with balances expanding by 6.2% in January. This matched the rate of increase seen in December and marked the quickest pace of accumulation since September 2012 (Chart 2).

Business loans and debt issuance slow as equity financing ticks higher

Non-mortgage loan balances expanded at a slower annual pace in January relative to December, contributing to an easing in total business loan growth in the latest month. Outstanding business loan balances (which account for close to 40% of overall business credit) increased by 9.2% from a year-ago in January down from the 9.7% seen in December. Equity financing growth ticked up to a 4.8% annual rate of increase from 4.6% in the previous month; although this was more than offset by a further pullback in the issuance of debt securities (up 5.9% year-over-year in January from 6.2% in December) (Chart 3).

Household credit trends unlikely to allay Bank of Canada's concerns

While mortgage balances continue to rise at a solid pace, evidence of household fatigue in consumer credit borrowing is emerging with outstanding balances expanding at the slowest pace since August 2014 in January. This suggests consumers are starting to heed the Bank of Canada's perpetual warnings about the vulnerabilities created by elevated debt levels and will be a welcome development for policymakers; although rising mortgage balances will dampen the enthusiasm. A recent BoC speech noted that households with high debt levels disproportionately cut back on spending in times of stress and resultantly, could amplify a shock to the financial system during these periods. An uptick in economic activity on its own will not be sufficient to mitigate this with the Bank emphasizing the need for other policies beyond the scope of their mandate. The implementation of new mortgage regulations in February may help to temper the appetite for mortgage loans; although given the elevated levels of outstanding debt, these evolving household credit trends are unlikely to materially alter the Bank's concerns about the level of vulnerability in the financial system.

Canada

As at the end of January, 2016	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,912	100.0	0.4	4.3	5.2
Consumer credit	548	28.7	-4.2	1.2	2.7
Chartered banks	466	24.4	-7.9	0.3	2.3
<i>Personal loan plans</i>	96	5.0	-6.7	0.1	4.8
<i>Personal lines of credit</i>	269	14.1	-3.2	-0.9	1.3
<i>Credit cards</i>	77	4.1	-23.0	4.8	3.5
<i>Other</i>	19	1.0	-13.9	-4.6	-1.5
Non-banks	68	3.5	23.6	7.6	5.2
Securitized loans	14	0.7	6.8	1.3	4.1
Residential mortgages	1,364	71.3	2.2	5.6	6.2
Chartered banks	1,013	53.0	1.4	5.7	6.1
Non-banks	287	15.0	4.2	5.4	5.6
Securitized mortgages	64	3.3	7.4	3.4	10.6
<i>NHA MBS</i>	54	2.8	9.4	-4.6	12.9
Business markets					
Total business financing	1,749	100.0	5.0	4.3	6.7
Business loans	645	36.9	10.0	8.4	9.2
Non-mortgage loans	447	25.5	11.0	12.6	10.6
Chartered banks	331	18.9	11.3	14.3	12.5
Non-banks	112	6.4	8.5	7.5	6.1
Securitized loans	3	0.1	-42.9	-35.8	-15.2
Commercial mortgage loans	122	7.0	7.8	6.6	5.3
Chartered banks	44	2.5	17.6	15.3	11.3
Non-banks	72	4.1	3.6	5.0	5.2
Securitized loans	5	0.3	-26.3	-26.3	-26.6
Bankers' acceptances	76	4.3	8.1	-10.2	7.5
Debt securities	541	31.0	0.0	-1.0	5.9
Short-term (Commercial paper)	12	0.7	184.1	31.1	-5.2
Long-term (Bonds)	530	30.3	1.5	-0.4	5.7
Equities	563	32.2	4.5	4.8	4.8
Equities & warrants	530	30.3	2.8	4.9	4.8
Trust units	35	2.0	5.4	4.2	4.6

*Annualized growth rates

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

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