

CANADIAN CREDIT

April 2015

Chart 1

Household & business credit growth: Canada

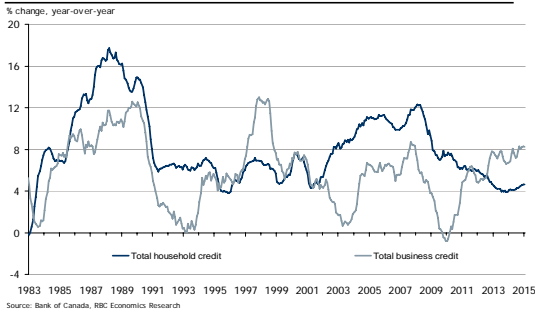


Chart 2

Household credit growth: Canada

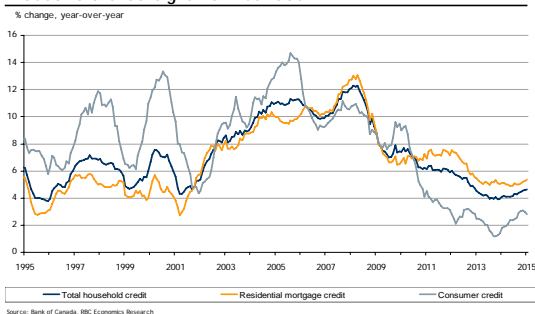
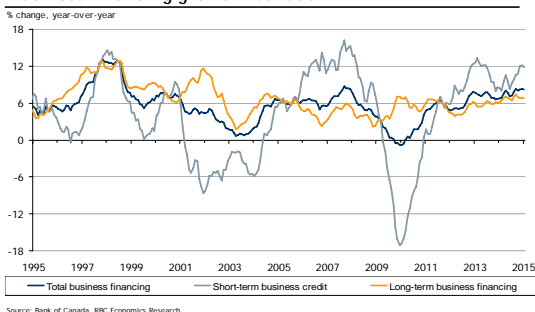


Chart 3

Business financing growth: Canada



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Competing factors keep household credit growth steady in February

The competing factors of stimulative borrowing conditions stemming from January's interest rate cut and economic uncertainty resulting from the crude oil price slump came into focus in the Bank of Canada's monthly credit data for February. Canadian households added to their outstanding debt balances in the month, although caution prevailed as the rate cut did not generate an upswing in borrowing (the 4.6% year-over-year increase matched the pace recorded in the previous two months). In contrast, total business financing growth eased marginally in February, rising by 8.2% from a year ago compared to a cycle-high 8.3% recorded in the previous two months.

Diverging impacts on components of household credit

The first full month of credit data since the January 21st rate cut indicate households did not ramp up their pace of borrowing to fund non-housing purchases, consistent with our monitoring for weaker consumer spending in the first quarter. Consumer credit accumulation eased in February to a 2.8% annual pace following a marginal slowing to 3.0% in the previous month with all components of borrowing easing or matching the pace recorded in January. In contrast, residential mortgage loans sustained an ongoing acceleration, expanding 5.4% on a year-over-year basis in February to mark the fourth consecutive month of strengthening gains and the fastest annual pace since November 2013. With a balance nearing \$1.3 trillion, mortgage loans account for the largest share of household debt (at 70.8%) since August 1999.

Business financing growth remains robust in February

Growth in short-term business credit (which mainly consists of bank loans that are used to finance inventories and receivables) slowed in February for the first time since July 2014, although remained elevated rising 11.8% on a year-over-year basis compared to the eighteen-month high 12.1% recorded in January (Chart 3). Robust gains in capital market-based financing such as bond and equity issuance predominantly contributed to longer-term business financing expanding 6.8% on a year-over-year basis. This matched the rate of increase recorded in the previous month as financial conditions remained accommodative in February.

The Bank of Canada comfortable with current "insurance" policy

The risk to financial stability posed by the sharp decline in oil prices prompted the Bank of Canada to act "sooner than later" by cutting the overnight rate in January. Governor Poloz acknowledged that debt levels would rise at the margin as a result; however, the action was seen as mitigating the drop in income that the oil price decline implied. The Bank is "increasingly comfortable" with the amount of insurance taken out in January, although it continues to monitor the situation as it evolves with the negative effects of oil prices expected to preempt the emergence of positive offsets. We anticipate that the weakness will be temporary with lower energy prices feeding through to a recovery in consumer spending and export demand, returning the economy to an above-potential pace in Q2/15 and consequently, reducing the need for additional policy stimulus.

Canada

As at the end of February, 2015	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,817	100.0	1.5	2.4	4.6
Consumer credit	530	29.2	-3.1	-0.8	2.8
Chartered banks	449	24.7	-4.6	-1.7	2.5
<i>Personal loan plans</i>	91	5.0	0.9	-1.2	-0.5
<i>Personal lines of credit</i>	265	14.6	-1.8	0.2	3.0
<i>Credit cards</i>	73	4.0	-21.9	-6.3	2.7
<i>Other</i>	19	1.1	5.6	-10.2	8.5
Non-banks	67	3.7	5.8	4.0	4.4
Securitized loans	13	0.7	7.7	4.8	8.9
Residential mortgages	1,287	70.8	3.5	3.8	5.4
Chartered banks	957	52.6	2.0	2.4	4.4
Non-banks	272	15.0	5.7	5.4	6.2
Securitized mortgages	59	3.2	18.6	20.2	19.1
<i>NHA MBS</i>	49	2.7	25.7	-10.4	26.6
Business markets					
Total business financing	1,635	100.0	5.9	7.0	8.2
Short-term business credit	472	28.9	10.6	13.8	11.8
Chartered banks	370	22.6	11.0	15.4	13.2
<i>Business loans</i>	297	18.2	4.9	16.0	14.4
<i>Bankers' acceptances</i>	73	4.4	40.4	13.0	8.2
Non-banks	87	5.3	6.9	8.4	8.4
Securitized loans	2	0.1	10.7	22.4	-25.1
Commercial paper	13	0.8	22.4	3.7	4.5
Long-term business financing	1,162	71.1	4.0	4.4	6.8
Chartered banks	50	3.1	5.6	9.3	3.4
<i>Commercial mortgages</i>	40	2.4	8.2	9.2	2.3
<i>Leasing receivables</i>	10	0.6	-4.2	9.6	8.4
Non-banks	90	5.5	-0.9	3.3	5.6
Securitized loans	8	0.5	-26.2	-32.1	-24.1
Bonds & debentures	474	29.0	6.8	5.8	11.3
Equities & warrants	507	31.0	2.6	3.5	4.2
Trust units	33	2.0	6.5	5.4	5.9

*Annualized growth rates

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

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