

CANADIAN CREDIT

May 2014

Chart 1

Household & business credit growth: Canada

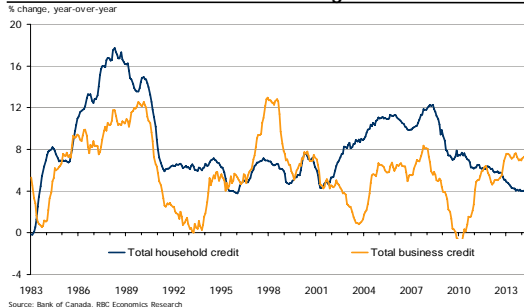


Chart 2

Household credit growth: Canada

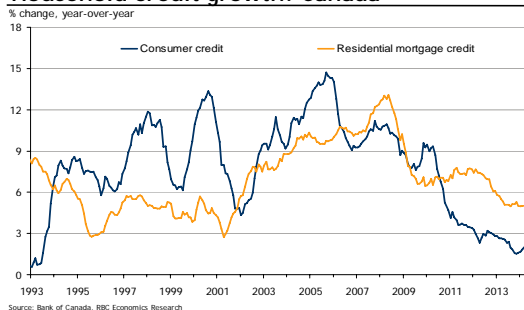
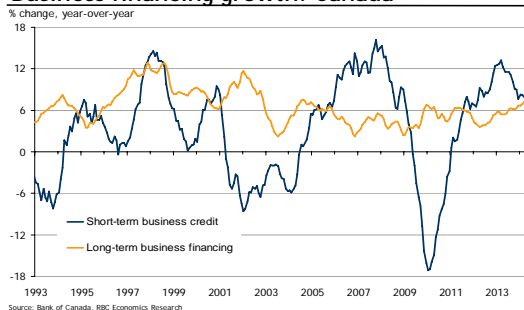


Chart 3

Business financing growth: Canada



Canadian household & business credit growth edge up in March

Canadian household credit growth edged up in March to mark the first month of acceleration following three consecutive months of steady accumulation. Growth in household borrowing rose to 4.1% on a year-over-year basis in the month from a downwardly revised 4.0% in February (initially reported as 4.1%). Business financing also edged higher to sustain an upward trend in March, rising by 7.4% from a year ago following a 7.3% increase in February and 7.1% gain in January.

Consumer credit growth picking up pace from cycle-lows

After expanding at its slowest pace in two decades in November 2013 at 1.5%, consumer credit growth appears to be emerging from cycle-lows with the rate of growth edging higher in each of the past four months. Outstanding balances of non-mortgage loans (which includes credit cards, lines of credit and other personal loans and accounts for 30% of household debt outstanding) increased by 2.0% from year-ago levels in March, a slight uptick from 1.9% in February and 1.7% in January. In contrast, residential mortgage growth held steady at 5.0% for the fourth consecutive month in March.

Longer-term financing grows at fastest pace since December 2004

A robust gain in the issuance of bonds and debentures more than offset a slowing in equities and warrants to support longer-term business financing rising at its fastest rate since December 2004. The 7.2% annual increase in March marked an acceleration from 6.9% in February and 6.7% in January. A continued slowing in short-term business lending from earlier cycle-highs provided some offset to overall business financing growth, rising by 7.9% in March following gains of 8.2% and 8.3% in February and January, respectively. Short-term business lending by chartered banks accounted for much of the moderation with total loans outstanding rising by 7.8% compared to 8.0% in February and marked the slowest increase since November 2011.

Credit growth trends warrant continued monitoring of elevated risks

Residential mortgage growth has stabilized in recent months and upside risks of renewed momentum are likely to be contained as housing activity is forecasted to gradually moderate after a prolonged period of robust price and sales gains. In contrast, the emergence from cycle-lows for consumer credit indicates households have increased their appetite for non-mortgage loans. With offsetting effects, overall low rates of household credit growth will likely be sustained supporting our view that the Bank of Canada will maintain the current level of policy stimulus in 2014. Governor Poloz recently noted that the risks of elevated household balances along with downside inflation risks are within the “zone” for the current policy stance to remain in place and a policy change will be dependent on incoming data. As a result, with inflationary pressures expected to rise, we anticipate that the Bank will reintroduce a tightening bias before raising the overnight rate in the second quarter of 2015.

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Canada

As at the end of March, 2014	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,748	100.0	3.3	1.2	4.1
Consumer credit	519	29.7	3.6	-0.6	2.0
Chartered banks	439	25.1	2.1	-2.0	1.7
<i>Personal loan plans</i>	91	5.2	-6.3	0.3	12.1
<i>Personal lines of credit</i>	258	14.8	3.4	-0.5	-0.6
<i>Credit cards</i>	71	4.1	-6.3	-17.4	-1.5
<i>Other</i>	19	1.1	83.4	42.2	-0.5
Non-banks	66	3.8	11.9	7.5	3.8
Securitized loans	14	0.8	15.4	7.1	4.6
Residential mortgages	1,229	70.3	3.1	2.0	5.0
Chartered banks	918	52.5	1.8	0.6	5.8
Non-banks	261	14.9	5.6	4.4	2.3
Securitized mortgages	51	2.9	15.6	16.2	4.2
<i>NHA MBS</i>	38	2.2	20.7	-2.0	4.3
Business markets					
Total business financing	1,530	100.0	8.7	8.1	7.4
Short-term business credit	432	28.2	18.5	16.3	7.9
Chartered banks	332	21.7	22.4	16.6	7.8
<i>Business loans</i>	266	17.4	33.4	10.8	7.6
<i>Bankers' acceptances</i>	66	4.3	-12.7	44.0	8.5
Non-banks	82	5.3	2.4	6.2	8.3
Securitized loans	5	0.3	27.2	12.4	-4.4
Commercial paper	13	0.9	26.4	104.8	12.7
Long-term business financing	1,098	71.8	5.1	5.1	7.2
Chartered banks	48	3.1	-7.3	0.9	8.2
<i>Commercial mortgages</i>	39	2.5	-8.9	0.6	9.2
<i>Leasing receivables</i>	9	0.6	-0.8	1.9	4.2
Non-banks	87	5.7	6.5	7.3	5.3
Securitized loans	14	0.9	-5.1	-5.3	-5.2
Bonds & debentures	433	28.3	15.0	6.5	11.6
Equities & warrants	484	31.6	-1.3	4.1	4.3
Trust units	32	2.1	0.0	5.6	6.3

*Annualized growth rates

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

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