

CANADIAN CREDIT

May 2015

Chart 1

Household & business credit growth

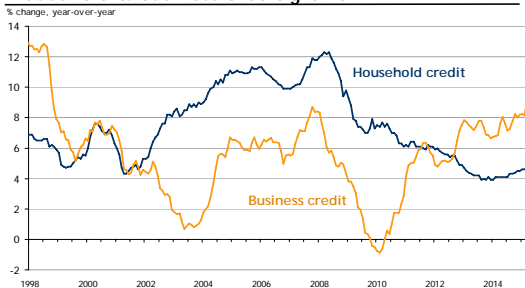


Chart 2

Household credit growth: Canada

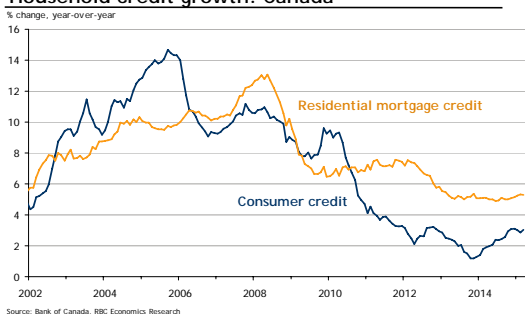
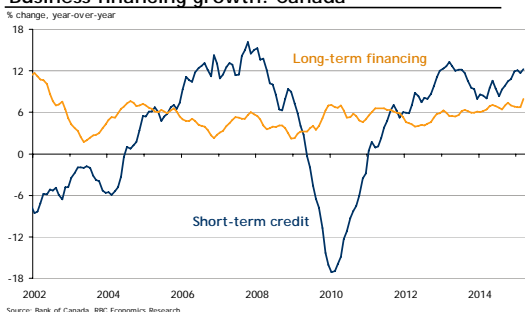


Chart 3

Business financing growth: Canada



Laura Cooper
Economist
416-974-8593
laura.cooper@rbc.com

A growth spurt for business credit as household debt keeps up pace

Ongoing economic uncertainty resulting from the crude oil price decline did little to dissuade Canadian households from continuing to boost their outstanding debt balances in March. Household credit growth recorded a 4.6% increase for the third consecutive month led by a sustained increase in residential mortgage loans and an upturn in consumer credit growth. March also saw business financing growth pop up to its highest rate of annual growth in more than sixteen years, rising by 9.1% following three consecutive months of 8.2% growth (Chart 1).

Broad-based increases see consumer credit growth resume upward trend

After showing signs of slowing in the early part of the year, consumer credit growth resumed an upward trend in March with all components rising on a year-over-year basis. Acceleration in outstanding balances on personal lines of credit accounted for more than half of the annual increase with an uptick in non-bank borrowing and credit cards accounting for the bulk of the remainder. There was \$1.29 trillion in outstanding balances of residential mortgages in March (which accounts for 70% of household credit), a 5.3% increase from a year ago, a rate that matched the two-year high pace recorded in February.

Business financing growth jumps to highest rate since 1998

Business financing recorded its fastest year-over-year increase since October 1998 in March led by a sharp upturn in demand for longer-term financing (accounts for more than two thirds of total business credit). Following three consecutive months of 6.8% increases, longer-term financing growth accelerated to 7.9%, the fastest annual pace since June 2002. Two thirds of the increase reflected robust issuance of bonds and debentures (growth of 12.8% and the highest since April 2010) while a strong gain in equity and warrants ended three consecutive months of slowing in this component. Short-term business credit also remained elevated, rising 12.2% in March compared to 11.7% in February and 12.1% in January.

Interest rate cut feeding through to credit channels

Sustained rates of elevated growth for business financing support the recent *Business Outlook Survey's* assertion that business credit conditions remain accommodative and point to firms remaining in a position to deploy these funds for capacity-enhancing investments, particularly outside of the oil & gas sector. An easing in financial conditions since the January rate cut is further evident with households continuing to leverage borrowing despite the cautious tone of the Bank of Canada towards the impact of the oil price decline on household incomes. We remain of the view that deterioration in labour market performance resulting from cutbacks in the energy sector will be contained at the national level; thus, limiting the negative flow-through to household incomes nationally. As offsets to the oil price impact materialize and as a weather-related hit to growth in Q1/15 unwinds, a return to above-potential growth is expected to keep the BoC on hold with the overnight rate held at 0.75% through 2015.

Canada

As at the end of March, 2015	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,821	100.0	3.3	1.5	4.6
Consumer credit	532	29.2	4.8	-1.4	3.1
Chartered banks	451	24.8	4.1	-2.5	2.7
<i>Personal loan plans</i>	92	5.0	3.0	-1.0	0.3
<i>Personal lines of credit</i>	266	14.6	4.9	0.5	3.2
<i>Credit cards</i>	73	4.0	-3.8	-16.3	2.9
<i>Other</i>	20	1.1	32.1	8.9	6.6
Non-banks	67	3.7	9.4	5.0	4.8
Securitized loans	14	0.7	7.2	5.0	7.7
Residential mortgages	1,289	70.8	2.7	2.8	5.3
Chartered banks	957	52.6	1.1	1.2	4.3
Non-banks	272	14.9	5.4	5.3	5.9
Securitized mortgages	59	3.3	17.3	17.8	18.8
<i>NHA MBS</i>	50	2.7	26.8	-14.3	27.2
Business markets					
Total business financing	1,660	100.0	20.6	11.0	9.1
Short-term business credit	481	29.0	25.6	18.0	12.2
Chartered banks	379	22.8	34.1	21.6	14.0
<i>Business loans</i>	305	18.4	36.6	19.1	14.6
<i>Bankers' acceptances</i>	74	4.5	24.1	32.9	11.4
Non-banks	87	5.3	6.8	6.8	8.5
Securitized loans	2	0.1	-15.6	3.7	-31.3
Commercial paper	13	0.8	-38.5	-0.7	-0.7
Long-term business financing	1,179	71.0	18.6	8.3	7.9
Chartered banks	50	3.0	6.0	8.4	4.8
<i>Commercial mortgages</i>	40	2.4	8.3	9.3	3.7
<i>Leasing receivables</i>	10	0.6	-2.7	4.7	9.0
Non-banks	90	5.4	-1.1	0.8	5.6
Securitized loans	8	0.5	-24.8	-27.9	-24.2
Bonds & debentures	485	29.2	35.6	14.2	12.8
Equities & warrants	511	30.8	10.5	5.1	5.2
Trust units	34	2.0	7.7	7.0	6.6

*Annualized growth rates

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

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.