

CANADIAN CREDIT

June 2014

Chart 1

Household & business credit growth: Canada

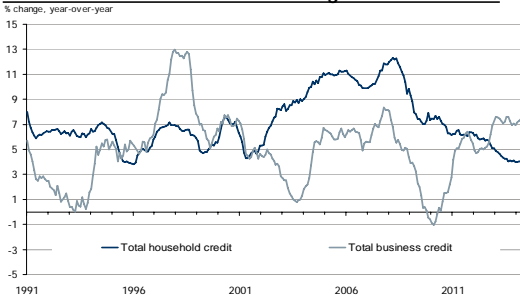


Chart 2

Household credit growth: Canada

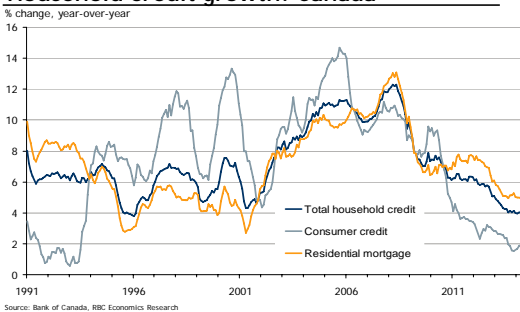
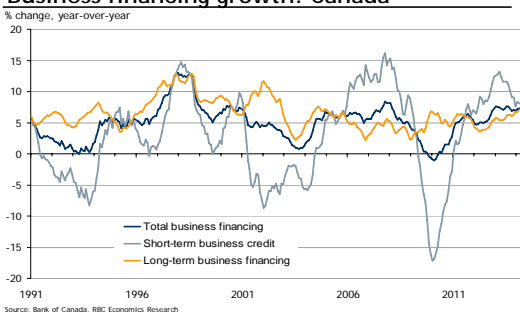


Chart 3

Business financing growth: Canada



Household debt growth holds steady as business financing accelerates

Outstanding household credit balances continued to rise in April with the rate of increase matching March's revised 4.0% pace (initially reported as 4.1%). The April reading marked the fifth consecutive month of steady year-over-year gains with growth in both residential mortgage and non-mortgage loans remaining unchanged in the month. In contrast, overall business financing surged in April at the fastest year-over-year pace since December 2007, rising by 8.2% compared to 7.4% in March.

A pause for consumer credit and residential mortgage growth

Personal lines of credit from chartered banks (which account for 50% of non-mortgage loans) eased for the sixth consecutive month in April to stem an earlier upward trend in the accumulation of consumer credit. The 1.9% increase in total non-mortgage loans in April matched the rates of growth in both March and February, although remained above a recent low of 1.5% in November 2013. Residential mortgage credit growth also held steady in April despite an uptick in resale activity in the month, with the 4.9% increase matching the rate of accumulation in March (was 5.0%). This represents the slowest rate of mortgage debt accumulation since November 2001.

Capital market financing supports an acceleration in longer-term financing

After trending lower following a cycle-high 13.2% peak in March 2013, short-term business borrowing (which predominantly consists of bank loans) surged in April, rising by 9.7% compared to a 7.9% increase in the previous month. Longer-term financing (which accounts for nearly three-quarters of outstanding business balances) also accelerated in April with the 7.7% rate of growth representing the quickest annual pace since November 2002 and follows a 7.2% increase in March. Capital market financing, the predominant vehicle for longer-term borrowing, continued to post robust year-over-year increases in April led by bonds and debentures financing rising at a four-year high 12.8% rate of growth.

Improving conditions but not a near term game changer

Canadian consumers have continued to slow the pace of residential mortgage borrowing, further entrenching a stable trend for household credit growth that has been in place since August 2013. At the same time, an acceleration in business financing demand supports our expectation that business investment will ramp up this year as excess slack present in the economy is absorbed. The persistent slowing in household debt accumulation will likely allay the Bank of Canada's concern about the overall state of household balance sheets. While this is not a near term game changer for the policy outlook, an improvement in the condition of household balance sheets will insure it is not an obstacle to the Bank of Canada taking action to reduce policy stimulus when inflation pressures warrant.

Canada

As at the end of April, 2014	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,751	100.0	2.9	2.1	4.0
Consumer credit	519	29.6	1.0	0.8	1.9
Chartered banks	440	25.1	1.4	0.3	1.7
<i>Personal loan plans</i>	92	5.2	4.4	-0.1	11.8
<i>Personal lines of credit</i>	258	14.7	-1.5	0.7	-0.5
<i>Credit cards</i>	72	4.1	9.1	-7.0	-1.4
<i>Other</i>	19	1.1	-1.0	30.6	0.1
Non-banks	65	3.7	-5.0	1.8	2.4
Securitized loans	14	0.8	18.1	12.5	5.9
Residential mortgages	1,232	70.4	3.8	2.7	4.9
Chartered banks	919	52.5	1.9	1.6	5.7
Non-banks	262	15.0	8.9	4.8	2.3
Securitized mortgages	51	2.9	11.8	13.9	5.2
<i>NHA MBS</i>	39	2.2	16.5	-0.2	6.0
Business markets					
Total business financing	1,549	100.0	15.7	10.7	8.2
Short-term business credit	442	28.6	32.3	21.7	9.7
Chartered banks	342	22.1	41.5	23.9	9.9
<i>Business loans</i>	272	17.6	33.0	20.1	9.9
<i>Bankers' acceptances</i>	70	4.5	80.7	40.7	9.8
Non-banks	83	5.3	9.0	8.5	9.3
Securitized loans	5	0.3	24.8	26.1	-2.1
Commercial paper	13	0.8	-20.0	55.1	10.8
Long-term business financing	1,106	71.4	9.7	6.7	7.7
Chartered banks	49	3.1	9.5	-0.3	9.0
<i>Commercial mortgages</i>	39	2.5	7.1	-1.5	9.6
<i>Leasing receivables</i>	10	0.6	20.2	4.9	6.4
Non-banks	88	5.7	5.2	6.2	5.3
Securitized loans	14	0.9	-5.8	-4.9	-5.0
Bonds & debentures	442	28.5	26.0	15.1	12.8
Equities & warrants	483	31.2	-1.5	0.9	4.1
Trust units	32	2.1	1.4	3.2	7.2

*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.