

## CANADIAN CREDIT

July 2014

Chart 1

### Household & business credit growth: Canada

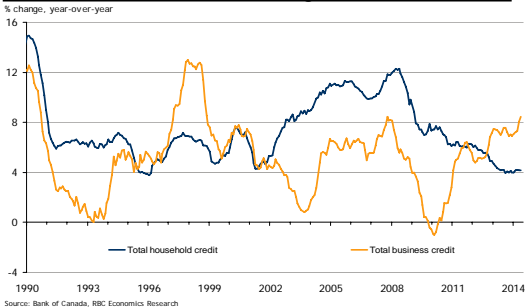


Chart 2

### Household credit growth: Canada

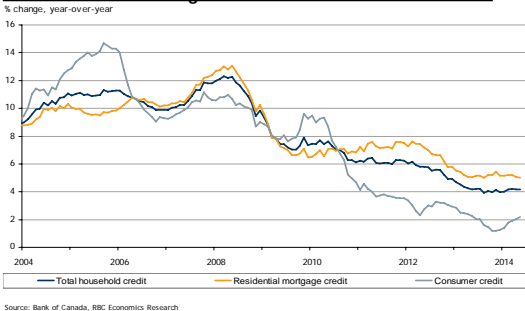
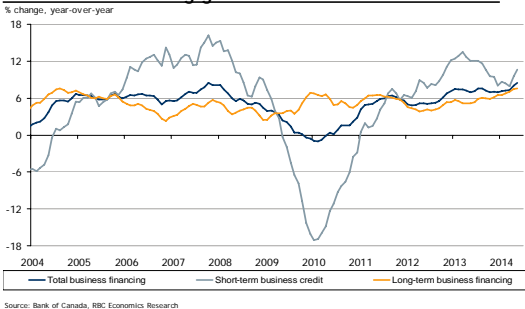


Chart 3

### Business financing growth: Canada



### Household credit growth maintains steady pace in May

The pace of debt accumulation by Canadian households continued to hold steady in May, as indicated by the Bank of Canada monthly credit data, while business financing accelerated further in the month. The 4.2% rate of expansion in household borrowing marked the fourth consecutive month of steady year-over-year gains with this component effectively trending sideways since the latter half of 2013. In contrast, total business financing outstanding expanded by 8.5% from one year ago, up from the 8.1% rate seen in April to mark the fifth consecutive month of acceleration.

### Diverging trends support household credit growth remaining unchanged

A modest slowing in the accumulation of residential mortgage debt helped to offset rising demand for consumer credit in May, resulting in the overall household credit growth rate remaining unchanged in the month. Outstanding mortgage balances stood at \$1.23 trillion, up 5.0% on a year-over-year basis compared to the 5.1% recorded in April and marked the second consecutive month of moderation. In contrast, households increased their pace of non-mortgage borrowing for the sixth consecutive month in May after growth eased to a cycle-low of 1.2% in November 2013. The year-over-year increase in consumer credit rose from 2.0% in April to a twelve-month high 2.2% in May.

### Favourable financial conditions continue to support business borrowing

Total business financing increased at a faster clip in May than the month prior reflecting gains in both short-term and longer-term borrowing. Short-term business borrowing (consisting primarily of loans from financial institutions) rose by a solid 10.6% year-over-year in May to build upon the 9.6% increase in April and represented the fastest pace of increase in eight months. As well, a prolonged period of low corporate bond yields supported continued robust bond and debenture issuance, resulting in longer-term business financing increasing 7.6% on a year-over-year basis in May. This compares to 7.5% growth in the previous month and marks the fastest pace of increase since August 2004.

### Steady pace of household credit growth, steady policy... for now

The sustained steady pace of debt accumulation should afford some comfort to policymakers' concerns as highlighted in the June *Financial System Review* over the risks that excessive household leverage poses for the financial system and, more broadly, the economy as a whole. With housing market activity expected to moderate over the coming quarters, slowing mortgage debt accumulation is likely to offset further strengthening in consumer credit growth associated with an improving economic backdrop and sustain overall low levels of household credit growth. Consequently, the vulnerability posed by indebted households is unlikely to intensify and is expected to be less of an impediment to the Bank of Canada changing its policy stance when economic conditions warrant. We anticipate that the tightening bias will return later this year with the overnight rate rising from 1.00% shortly thereafter, beginning in mid-2015.

## Canada

As at the end of May, 2014	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
<b>Household markets</b>					
Household credit	1,756	100.0	5.6	3.8	4.2
Consumer credit	522	29.7	8.1	4.3	2.2
Chartered banks	443	25.2	8.0	3.8	1.8
<i>Personal loan plans</i>	93	5.3	11.7	3.0	7.8
<i>Personal lines of credit</i>	259	14.7	2.9	1.6	-0.3
<i>Credit cards</i>	73	4.1	23.3	8.1	2.8
<i>Other</i>	19	1.1	7.9	24.6	-0.1
Non-banks	65	3.7	7.1	5.1	3.6
Securitized loans	14	0.8	16.8	16.7	7.1
Residential mortgages	1,234	70.3	4.5	3.6	5.0
Chartered banks	922	52.5	4.3	2.7	5.6
Non-banks	260	14.8	5.6	5.7	2.4
Securitized mortgages	52	3.0	2.8	10.4	8.7
<i>NHA MBS</i>	40	2.3	4.2	-0.9	10.6
<b>Business markets</b>					
<b>Total business financing</b>	1,557	100.0	7.2	10.3	8.5
<b>Short-term business credit</b>	444	28.5	7.3	19.0	10.6
Chartered banks	344	22.1	8.1	23.2	11.0
<i>Business loans</i>	274	17.6	7.5	23.9	11.3
<i>Bankers' acceptances</i>	70	4.5	10.6	20.4	9.9
Non-banks	82	5.2	5.4	6.3	8.5
Securitized loans	5	0.3	24.0	25.3	1.0
Commercial paper	13	0.8	-7.5	-3.5	17.3
<b>Long-term business financing</b>	1,114	71.5	7.1	7.1	7.6
Chartered banks	49	3.1	6.0	2.5	9.5
<i>Commercial mortgages</i>	39	2.5	5.9	1.1	10.2
<i>Leasing receivables</i>	10	0.6	6.2	8.2	6.9
Non-banks	87	5.6	5.1	3.4	4.6
Securitized loans	13	0.9	-5.6	-5.5	-5.4
Bonds & debentures	448	28.8	11.7	17.2	12.5
Equities & warrants	485	31.1	3.9	0.3	4.2
Trust units	32	2.1	7.6	2.8	8.7

\*Annualized growth rates

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

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