

## CANADIAN CREDIT

July 2015

Chart 1

### Household & business credit growth: Canada



Chart 2

### Contributions to consumer credit growth

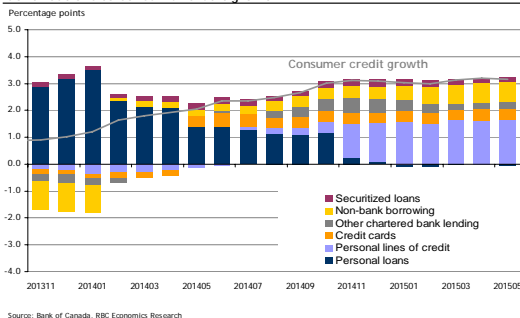
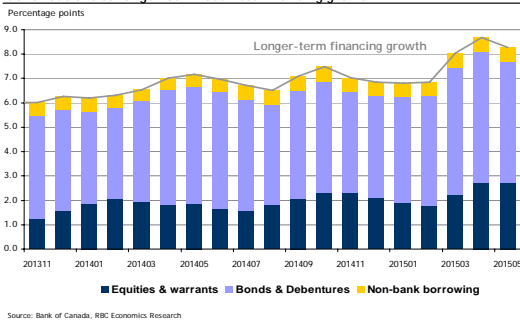


Chart 3

### Contributions to longer-term business financing growth



### Household debt growth gradually edges higher as business credit eases

Canadian household credit growth extended its gradual march higher thus far in the second quarter after plumbing cycle-lows late in 2013 (Chart 1). The 4.8% annual increase in May matched the rate of growth recorded in April as the quickest pace of accumulation since December 2012. Outstanding household credit balances are now at \$1.83 trillion. In contrast, business financing growth eased modestly in May, although remained elevated following a 9.0% increase in April and 9.2% expansion in March, the highest rate of growth since October 1998 (Chart 1). Total business financing now sits at \$1.68 trillion.

### Consumer credit growth extending its upward trend

Residential mortgage loans increased by 5.5% from a year ago in May to \$1.3 trillion. Growth in this component has trended sideways since January, albeit within a 5.4%-5.5% range that marks the strongest rates of increase since early 2013. Consumer credit growth continued to gradually drift higher in May, up 3.2% from a year ago, after spending much of 2014 climbing from cycle-lows recorded late in 2013. Households continued to tap into personal lines of credit with outstanding balances rising at the fastest pace in two years to reach \$267 billion (accounts for more than 50% of consumer credit). Credit card balances also rose for the thirteenth consecutive month in May and non-bank lending increased to round out the main drivers of consumer credit growth in the month.

### Longer-term business financing growth eases, albeit remains elevated

A hesitancy to deploy excess funds to capacity-enhancing initiatives, as evident in disappointingly weak non-residential investment, did not deter businesses from accessing longer-term financing sources in May. A near-record lift in the dollar value of bond and debenture issuance and continued gains in equities and warrants led long-term business financing to rise by \$92 billion from a year ago. The 8.3% annual increase represented only a slight slowing from the 13-year high 8.7% increase recorded in April. Short-term business borrowing increased by 9.7% on a year-over-year basis in May to match the pace recorded in April and follows six consecutive months of double-digit annual increases.

### Bank of Canada facing a balancing act in advance of next policy move

The ease in borrowing conditions sparked by the January rate cut firmly entrenched a strengthening household credit growth trend, prompting the Bank to assess that financial stability risks are edging higher in the June *Financial Systems Review*. At its upcoming July meeting, the BoC will be tasked with balancing these stability risks stemming from rising household debt balances and offsetting the protracted weakness that is afflicting the Canadian economy. We remain of the view that the disappointing outturn in the first quarter and lack of evidence for a meaningfully rebound in Q2/15, will be viewed by the Bank as transitory. The eventual return to an above-potential pace of growth, expected through the latter half of the year, will likely temper the need for additional stimulus and set the foundation for a shift to policy tightening in 2016.

## Canada

As at the end of May, 2015	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
<b>Household markets</b>					
Household credit	1,834	100.0	5.6	4.0	4.8
Consumer credit	534	29.1	7.2	4.5	3.2
Chartered banks	455	24.8	7.9	4.5	2.7
<i>Personal loan plans</i>	92	5.0	8.2	4.2	-0.2
<i>Personal lines of credit</i>	267	14.6	3.9	2.6	3.3
<i>Credit cards</i>	75	4.1	21.1	9.6	3.0
<i>Other</i>	20	1.1	15.5	12.6	6.7
Non-banks	66	3.6	2.6	4.3	5.9
Securitized loans	14	0.7	6.7	5.2	6.4
Residential mortgages	1,301	70.9	5.6	4.1	5.5
Chartered banks	964	52.5	4.7	3.0	4.5
Non-banks	277	15.1	7.1	5.7	6.2
Securitized mortgages	61	3.3	13.1	13.3	19.5
<i>NHA MBS</i>	51	2.8	17.7	-10.7	26.9
<b>Business markets</b>					
<b>Total business financing</b>	1,681	100.0	3.3	12.2	8.7
<b>Short-term business credit</b>	480	28.5	5.6	10.8	9.7
Chartered banks	384	22.8	10.0	16.0	11.4
<i>Business loans</i>	305	18.2	7.0	11.5	11.4
<i>Bankers' acceptances</i>	78	4.7	22.3	35.9	11.6
Non-banks	83	5.0	-0.5	2.8	6.6
Securitized loans	2	0.1	-15.8	6.9	-17.6
Commercial paper	11	0.7	-55.6	-55.4	-12.7
<b>Long-term business financing</b>	1,201	71.5	2.4	12.8	8.3
Chartered banks	51	3.0	11.1	8.2	5.0
<i>Commercial mortgages</i>	41	2.4	10.6	8.9	4.2
<i>Leasing receivables</i>	10	0.6	13.4	5.7	8.5
Non-banks	93	5.5	7.3	6.4	6.4
Securitized loans	8	0.5	-17.6	-14.1	-16.3
Bonds & debentures	497	29.6	-0.2	20.3	11.9
Equities & warrants	517	30.8	3.5	8.6	6.3
Trust units	34	2.0	2.7	5.2	6.4

\*Annualized growth rates

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

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