

CANADIAN CREDIT

August 2014

Chart 1

Household & business credit growth: Canada

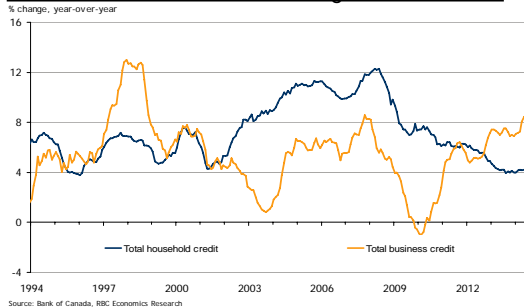


Chart 2

Household credit growth: Canada

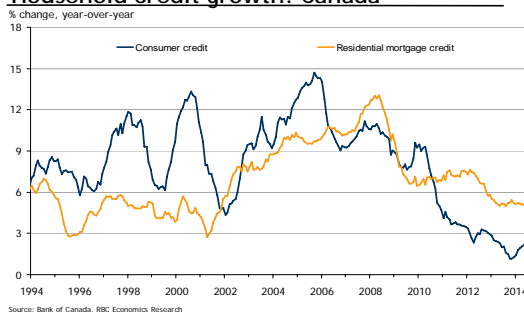
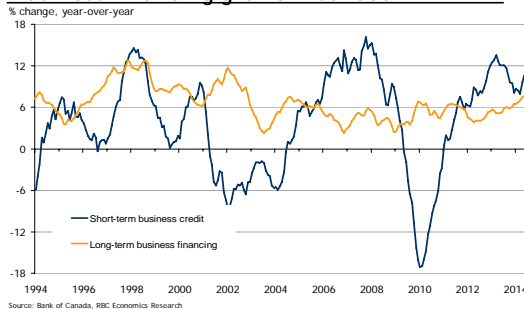


Chart 3

Business financing growth: Canada



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Canadian household credit growth remained unchanged in June

A steady pace of household debt accumulation was sustained in June, with the year-over-year rate of increase remaining unchanged at 4.2% for the fifth consecutive month. In contrast, businesses eased their reliance on borrowing, with growth in outstanding balances of total business financing slowing after reaching the quickest pace of year-over-year growth since October 2007 in May. The 8.1% increase from one year ago marked a modest deceleration from the 8.4% recorded in May and stemmed five consecutive months of acceleration.

Slowing mortgage accumulation helping to offset consumer credit gains

Overall household credit growth held steady for the fifth consecutive month in June as a quickening pace of consumer credit growth helped to offset a slowing in mortgage accumulation in the month. Outstanding balances of consumer credit (which consists of loans, credit cards and lines of credit) rose 2.5% in June, thereby representing a modest acceleration from the 2.2% recorded in the previous month and a cycle-low 1.2% in November 2013. In contrast, outstanding mortgage balances stood at \$1.24 trillion in June, a 5.0% increase from a year-ago. This compares to the 5.1% increase in each of the previous two months, although continues the sideways trend (within a 5.0-5.4% range) that has largely been in place since the spring of 2013.

Longer term business financing slows from decade-high in previous month

The modest slowing in total business financing in June reflected moderation in both short-term and longer-term borrowing. Sustained robust increases in bond and debenture issuance was insufficient to offset a slight moderation in borrowing from equities and warrants, resulting in longer-term financing slowing in June. That said, the 7.5% increase compared to a year ago marked only a slight moderation from 7.6% seen in May that represented the fastest rate of growth since August 2004. Short-term business borrowing also eased in the month, rising by 9.7% on year-over-year basis from an eight-month high 10.6% in May led by a slowing in chartered bank lending.

Constructive evolution of household balance sheets supportive of outlook

Longer-term business financing continues to grow at robust rates despite a lack of material pickup in business investment (funding is typically used to invest in longer-term capital projects). That said, businesses are expected to begin to deploy excess cash holdings towards productive investments in the coming quarters, providing a lift to overall GDP growth. While elevated household imbalances continued to support the Bank of Canada's neutral policy bias in its July policy statement, the strengthening economic backdrop as a result of businesses spending, along with gradually improving household balance sheets, are expected to create the conditions for the Bank of Canada to shift its policy bias towards tightening; although this is not expected until later this year with the overnight rate rising shortly thereafter, expected in Q2/15.

Canada

As at the end of June, 2014	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,767	100.0	7.3	5.4	4.2
Consumer credit	525	29.7	7.5	5.8	2.5
Chartered banks	445	25.2	7.5	5.6	2.2
<i>Personal loan plans</i>	94	5.3	16.0	10.6	7.9
<i>Personal lines of credit</i>	259	14.7	2.0	1.1	-0.1
<i>Credit cards</i>	74	4.2	17.7	16.6	3.5
<i>Other</i>	19	1.1	6.9	4.5	1.6
Non-banks	65	3.7	5.4	4.5	3.5
Securitized loans	14	0.8	17.5	17.3	8.4
Residential mortgages	1,242	70.3	7.2	5.2	5.0
Chartered banks	927	52.4	5.9	4.0	5.4
Non-banks	262	14.8	8.6	7.7	2.4
Securitized mortgages	54	3.0	24.7	15.1	11.4
<i>NHA MBS</i>	41	2.3	30.8	-2.0	13.8
Business markets					
Total business financing	1,566	100.0	3.8	8.7	8.1
Short-term business credit	442	28.2	-3.7	10.8	9.7
Chartered banks	343	21.9	-5.2	13.2	10.0
<i>Business loans</i>	273	17.4	-5.8	10.4	9.9
<i>Bankers' acceptances</i>	70	4.5	-2.5	24.9	10.7
Non-banks	82	5.2	10.8	6.9	8.4
Securitized loans	6	0.4	51.0	50.5	21.7
Commercial paper	12	0.8	-52.8	-31.8	3.5
Long-term business financing	1,124	71.8	7.0	7.8	7.5
Chartered banks	49	3.1	2.9	6.1	8.5
<i>Commercial mortgages</i>	39	2.5	1.5	4.8	9.0
<i>Leasing receivables</i>	10	0.6	8.6	11.5	6.8
Non-banks	87	5.6	5.1	4.4	4.6
Securitized loans	13	0.8	-7.7	-7.5	-6.3
Bonds & debentures	453	28.9	9.7	15.5	12.4
Equities & warrants	489	31.2	5.4	2.6	4.0
Trust units	32	2.1	10.9	6.5	8.0

*Annualized growth rates

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

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