

CANADIAN CREDIT

August 2015

Chart 1

Household & business credit growth: Canada

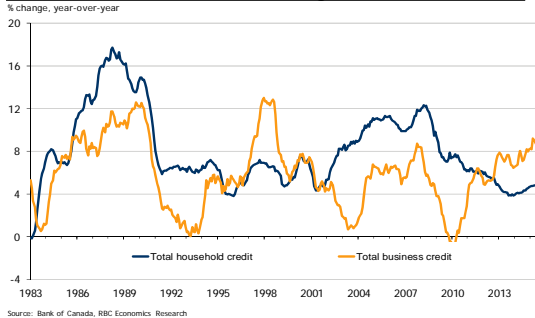


Chart 2

Household credit growth: Canada

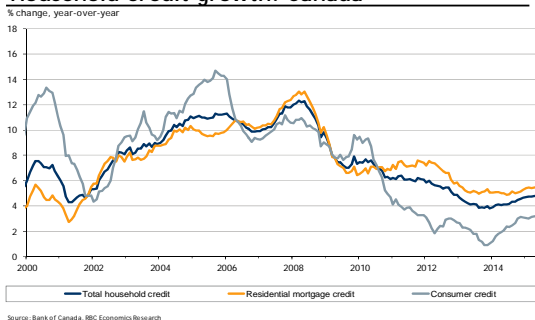
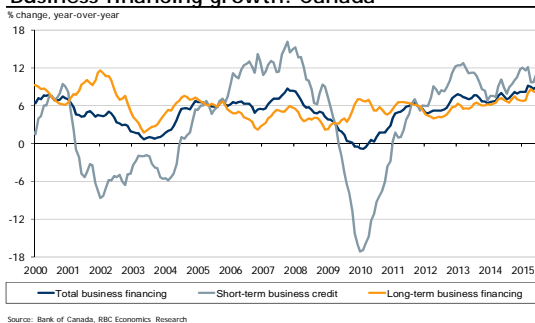


Chart 3

Business financing growth: Canada



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

Josh Nye
Economist
416-974-3979
josh.nye@rbc.com

Ongoing accumulation of credit in Canada persists

The ongoing accumulation of household debt was unimpeded in June while Canadian firms quickened their pace of business financing in the month. Total household credit increased by \$86 billion from a year ago to reach \$1.85 trillion. This represented a 4.9% increase on a year-over-year basis compared to the 4.8% advance in May (Chart 1). The persistence of highly accommodative financial conditions also abetted a strengthening in total business credit, which rose by 9.0% from a year ago compared to an 8.7% increase in May.

Residential mortgage loans and consumer credit both advance in June

Outstanding balances of residential mortgage loans increased by \$69.6 billion over the past twelve months to reach \$1.31 trillion. This marked a 5.6% increase from a year-ago to build upon the 5.5% increases recorded in each of the previous two months (Chart 2). The accumulation of consumer credit amounted to \$16.3 billion over the past twelve months to bring outstanding balances to \$537 billion in June, representing a 3.1% year-over-year increase. Personal lines of credit continued to lead the advance, rising by \$8.6 billion (3.3%) from a year-ago, followed by credit cards balances (up 2.7%). In contrast, households' appetite for personal loans eased for the second consecutive month to provide some offset.

Short-term business credit drives total business financing higher in June

Growth in short-term business credit (which mainly consists of bank loans that are used to finance inventories and receivables) jumped to 11.2% on a year-over-year basis in June after recording slower rates of growth in the previous two months (Chart 3). In contrast, longer-term business financing eased slightly, rising by 8.1% from a year ago compared to 8.3% in May. Bonds and debentures issuance (which accounts for more than 40% of longer-term credit) slowed for the second consecutive month following April's five-year high 12.9% advance. The equity and warrants component edged up to provide some offset (up 6.4%).

Weaker growth drives BoC rate cut despite financial stability concerns

The Bank of Canada's decision to lower the overnight rate at its recent policy meeting was underpinned by its assessment that weaker-than-expected growth in the first half of the year had widened the output gap and put additional downward pressure on inflation. This downside risk to the inflation outlook was seen as more than offsetting any potential risks emanating from elevated household debt. Governor Poloz acknowledged that household debt vulnerabilities could be exacerbated by the rate cut; however, in the absence of the monetary stimulus, he noted that the shock rippling through the Canadian economy would have the potential to trigger "full-blown" risks to the financial system. As positive offsets to the negative effects of lower oil prices emerge and the Canadian economy returns to above-trend growth, expectations for further easing from the Bank will diminish.

Canada

As at the end of June, 2015	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,847	100.0	7.9	5.9	4.9
Consumer credit	537	29.1	6.8	5.5	3.1
Chartered banks	457	24.7	6.5	5.4	2.6
<i>Personal loan plans</i>	93	5.0	11.4	7.0	-0.6
<i>Personal lines of credit</i>	268	14.5	2.2	1.7	3.3
<i>Credit cards</i>	76	4.1	13.4	15.8	2.7
<i>Other</i>	20	1.1	18.0	11.7	7.6
Non-banks	66	3.6	10.2	5.9	6.4
Securitized loans	14	0.7	3.1	5.0	6.3
Residential mortgages	1,310	70.9	8.4	6.1	5.6
Chartered banks	970	52.5	8.3	5.4	4.7
Non-banks	279	15.1	8.1	7.4	6.2
Securitized mortgages	61	3.3	11.7	11.3	19.2
<i>NHA MBS</i>	51	2.8	14.7	-5.6	25.7
Business markets					
Total business financing	1,688	100.0	5.6	7.3	9.0
Short-term business credit	484	28.7	10.5	6.3	11.2
Chartered banks	387	22.9	11.2	8.8	13.0
<i>Business loans</i>	308	18.3	13.6	4.6	13.3
<i>Bankers' acceptances</i>	79	4.7	1.9	27.3	12.0
Non-banks	85	5.0	18.5	8.2	7.3
Securitized loans	2	0.1	-16.0	-11.1	-12.3
Commercial paper	11	0.6	-45.5	-55.9	-10.7
Long-term business financing	1,204	71.3	3.7	7.7	8.1
Chartered banks	52	3.1	8.9	9.4	5.5
<i>Commercial mortgages</i>	41	2.4	7.8	8.7	4.7
<i>Leasing receivables</i>	10	0.6	13.2	12.3	8.9
Non-banks	94	5.6	6.8	7.1	6.4
Securitized loans	8	0.5	-15.6	-15.9	-16.6
Bonds & debentures	499	29.5	2.6	9.6	11.3
Equities & warrants	518	30.7	4.2	6.5	6.4
Trust units	34	2.0	2.0	3.4	5.7

*Annualized growth rates

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

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