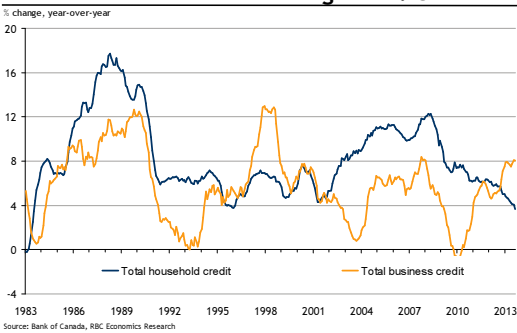


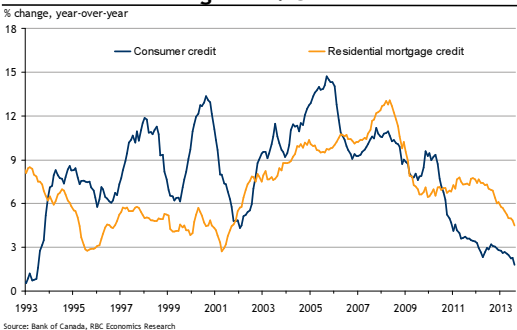
CURRENT ANALYSIS

September 2013

**Chart 1
Household & business credit growth: Canada**



**Chart 2
Household credit growth: Canada**



**Chart 3
Business financing growth: Canada**



Canadian household credit growth hits three-decade low in August

The Bank of Canada’s monthly credit data for August continue to highlight the contrasting trends in growth in borrowing by households and businesses as the former slowed to generationally-low rates while the latter remained at cycle-highs. The year-over-year increase in outstanding household credit balances moderated to 3.7% in August from 4.0% in the previous month (chart 1). This represents the eighth consecutive monthly easing in personal debt growth and the slowest rate of credit growth since July 1983. Business financing increased by 8.1% on an annual basis in August (chart 1), matching July’s rate that represented the fastest pace of credit accumulation since January 2008.

Household credit growth continues to trend lower

The ongoing moderation in total household debt growth reflects slowing in both of the main components. Residential mortgage credit expanded by 4.5% on a year-over-year basis in August (chart 2), down from the 4.8% annual growth rate recorded in July and the slowest rate of mortgage growth since September 2001. Non-mortgage debt (which includes credit cards, lines of credit and other personal loans and accounts for 30% of household debt outstanding) rose by 1.8% over the twelve months ended August (chart 2), down from the 2.3% year-over-year increases seen in both July and June. The annual growth of non-mortgage debt in August was the slowest since July 1993.

Business financing growth at a cycle-high

The robust pace of overall business financing growth in August was due to strong annual increases in both short-term and long-term credit. Short-term credit outstanding (which primarily consists of bank loans) expanded by 11.5% on a year-over-year basis in August (chart 3), roughly double the long-term average growth rate, although it was down from the 12.0% annual increase recorded in July. This moderation, however, was offset by an increase in growth of long-term business financing (which accounts for almost three-quarters of outstanding business balances) to a three-year high of 6.8% in August (chart 3) from an annual increase of 6.7% in July.

Credit dynamics supportive of the economic outlook

While the recently reported deterioration in household debt-to-income ratio in Q2 raised some eyebrows, the further slowing personal credit growth in the second quarter and the indications that these trends persist through Q3 continue to support the view that the Canadian household sector is seeing a “constructive evolution” of imbalances. Combined with still-elevated excess capacity in the Canadian economy keeping inflationary pressures muted, it thus remains appropriate for the Bank of Canada to maintain the “considerable monetary policy stimulus currently in place”. These efforts by the Bank of Canada to support highly accommodative financial conditions are benefitting other areas of the economy as businesses are readily able to access capital which should support increased investment and an above-potential rate of growth in the near-term. As economic momentum picks up, the Bank will be in position to begin tightening policy in mid-2014.

David Onyett-Jeffries, CFA
Economist
416-974-6525
david.onyett-jeffries@rbc.com

As at the end of August, 2013	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,710	100.0	2.6	5.0	3.7
Consumer credit	515	30.1	2.0	3.0	1.8
Chartered banks**	438	25.6	2.0	3.1	3.0
<i>Personal loan plans</i>	89	5.2	11.3	14.1	20.7
<i>Personal lines of credit</i>	259	15.1	-1.8	-0.9	1.3
<i>Credit cards**</i>	72	4.2	10.5	6.9	-5.5
<i>Other</i>	19	1.1	-16.7	-2.5	-7.7
Non-banks	65	3.8	7.6	5.3	-5.4
Securitized loans**	12	0.7	-20.7	-10.6	-0.9
Residential mortgages	1,195	69.9	2.8	5.9	4.5
Chartered banks**	896	52.4	2.9	10.8	5.5
Non-banks	246	14.4	3.4	-8.5	1.2
Securitized mortgages**	53	3.1	-0.7	-1.7	4.1
<i>NHA MBS**</i>	41	2.4	-3.6	-3.1	1.6
Business markets					
Total business financing	1,473	100.0	6.3	8.8	8.1
Short-term business credit	411	27.9	4.1	10.2	11.5
Chartered banks**	316	21.4	0.8	7.5	12.5
<i>Business loans</i>	253	17.2	1.0	11.0	14.5
<i>Bankers' acceptances</i>	63	4.3	-0.1	-5.1	5.0
Non-banks	79	5.3	17.9	16.4	6.6
Securitized loans**	4	0.3	-4.6	-29.0	-19.5
Commercial paper	12	0.8	11.5	75.7	38.5
Long-term business financing	1,062	72.1	7.1	8.3	6.8
Chartered banks**	47	3.2	9.6	22.9	11.2
<i>Commercial mortgages</i>	38	2.6	10.4	26.8	13.2
<i>Leasing receivables</i>	9	0.6	6.3	8.0	3.8
Non-banks	87	5.9	3.1	-1.6	3.0
Securitized loans**	15	1.0	2.4	2.0	3.5
Bonds & debentures	410	27.8	14.7	13.2	11.6
Equities & warrants	473	32.1	1.2	4.5	3.1
Trust units	31	2.1	13.6	16.9	11.3

*Annualized growth rates

**Beginning January 2011, the Canadian Accounting Standards Board (AcSB) adopted International Financial Reporting Standards (IFRS). Chartered banks with December 31st year-end converted to IFRS on January 1st, 2011, while chartered banks with October 31st year-end convert on November 1st, 2011. The most significant effect relates to the inclusion of securitized loans on banks' balance sheets, which were previously shown as loans held by Special Purpose Corporations (securitized loans) or NHA mortgage-backed securities.

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

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