

## CANADIAN CREDIT

September 2015

Chart 1

### Household & business credit growth

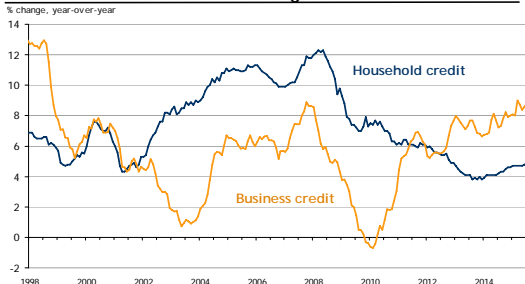


Chart 2

### Household credit growth: Canada

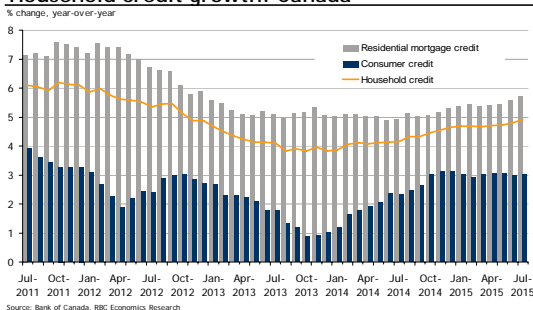
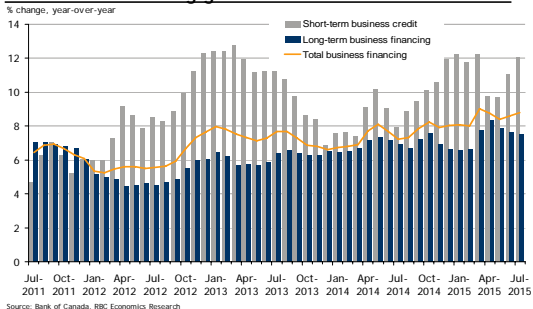


Chart 3

### Business financing growth: Canada



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### No signs of economic weakness in household borrowing trends

Outstanding household debt balances kicked off the third quarter at an annualized 5.2% above the Q2/15 average and came in 4.9% above the amount recorded in July 2014 at \$1.86 trillion. An upward trend in household credit growth is becoming more firmly entrenched with the annual increase marking the quickest pace since December 2012 (Chart 1). At the same time, firms continued to seek out financing with overall business credit advancing 8.8% from a year ago in July to mark an annual pace just shy of the cycle-high 9.0% recorded in March.

### Lean mortgage rates spark an upswing in residential mortgage borrowing?

The role of household spending in underpinning economic activity is flowing through to the Bank of Canada's monthly credit data with both consumer borrowing and residential mortgage loans increasing in the latest month. Household borrowing through consumer credit products marked the third consecutive month of 3.0% increases with outstanding balances rising to \$0.54 billion. Further, ongoing housing market activity set against a backdrop of lean mortgage rates abetted a 5.7% jump in mortgage loans in July, the strongest pace since December 2012. This component is contributing more meaningfully to the headline advance as it accounts for 71% of total balances at \$1.32 trillion.

### Firms continue to tap into various sources of business financing

A confluence of factors weighing on business sentiment —notably, a spillover of energy sector weakness to the rest of the economy and more recent uncertainty in global markets—is contributing to a protracted period of weak non-residential investment; however, firms continued to take advantage of accommodative borrowing conditions. Short-term business borrowing accelerated to a 12.1% pace in July to build upon the average 10.2% increase posted in Q2/15. Growth in longer-term financing slipped slightly to record an annual rate of 7.5% from 7.6% in June, although remained at a relatively lofty level following the 8.0% advance recorded in Q2/15 as a whole.

### Conditions set for these household borrowing trends to persist

The ongoing expansion of outstanding household credit balances is occurring against a backdrop of factors that are supportive of the Canadian consumer acting as the key support to economic activity. Labour markets have held up despite weak performance in the broader economy, low gasoline prices are providing a modest lift to real household incomes and monetary policy stimulus is working its way through the economy. These conditions set the stage for the solid household spending that underpinned economic activity in Q2/15 to continue. The strengthening in the economy and attendant rise in inflation will result in the Bank of Canada starting to reduce policy stimulus by raising the overnight rate; although the Bank of Canada is unlikely to be in a position to do so until the latter part of next year, thereby providing further scope for these household borrowing trends to persist.

## Canada

As at the end of July, 2015	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
<b>Household markets</b>					
Household credit	1,858	100.0	8.4	7.5	4.9
Consumer credit	538	29.0	4.0	6.0	3.0
Chartered banks	458	24.6	2.7	5.7	2.5
<i>Personal loan plans</i>	93	5.0	0.6	6.7	-1.1
<i>Personal lines of credit</i>	268	14.4	3.1	3.0	3.3
<i>Credit cards</i>	76	4.1	3.1	12.3	3.0
<i>Other</i>	20	1.1	7.1	13.4	7.7
Non-banks	66	3.6	12.8	8.4	5.7
Securitized loans	14	0.7	7.3	5.7	6.5
Residential mortgages	1,320	71.0	10.2	8.1	5.7
Chartered banks	979	52.7	11.2	8.0	5.0
Non-banks	280	15.1	6.9	7.7	5.9
Securitized mortgages	62	3.3	10.9	11.9	18.5
<i>NHA MBS</i>	52	2.8	12.7	-3.1	23.8
<b>Business markets</b>					
<b>Total business financing</b>	1,724	100.0	8.5	5.3	8.8
<b>Short-term business credit</b>	489	28.4	15.5	10.0	12.1
Chartered banks	393	22.8	21.2	14.0	14.7
<i>Business loans</i>	317	18.4	37.8	18.8	15.0
<i>Bankers' acceptances</i>	76	4.4	-27.8	-3.4	13.2
Non-banks	83	4.8	-13.0	-2.4	4.3
Securitized loans	2	0.1	-16.2	-16.0	-6.3
Commercial paper	11	0.7	87.0	-18.0	-6.2
<b>Long-term business financing</b>	1,235	71.6	5.9	3.5	7.5
Chartered banks	52	3.0	10.7	10.2	6.7
<i>Commercial mortgages</i>	41	2.4	8.8	9.1	6.1
<i>Leasing receivables</i>	11	0.6	18.5	15.0	9.2
Non-banks	94	5.5	7.8	5.2	6.1
Securitized loans	8	0.5	-14.9	-16.0	-16.5
Bonds & debentures	525	30.5	6.0	2.1	9.5
Equities & warrants	521	30.2	5.4	4.3	6.6
Trust units	34	2.0	4.7	3.8	5.9

\*Annualized growth rates

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

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