

CURRENT ANALYSIS

October 2013

Chart 1
Household & business credit growth: Canada

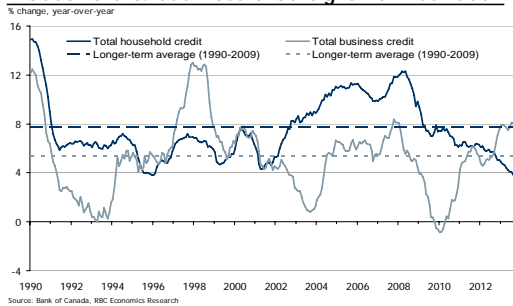


Chart 2
Household credit growth: Canada

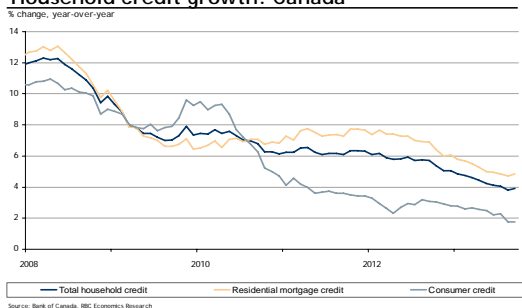
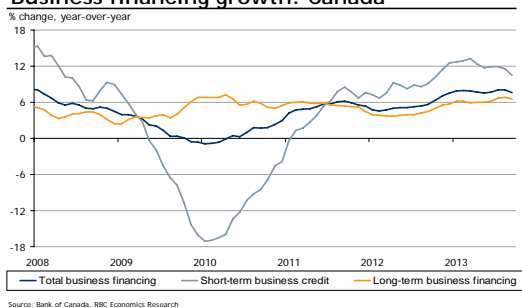


Chart 3
Business financing growth: Canada



Household & business credit growth take a breather in September

Canadian household and business credit each took a turn from their respective growth trends in September with the established trends that have been in place since the end of the financial crisis reversing course in the month. Total household credit outstanding increased 3.9% on a year-over-year basis (chart 1) in September, a slight pick up from the 3.8% pace in August though still well below its longer-term average. In contrast, business financing growth eased in September to 7.6% on an annual basis (chart 1) following two consecutive months of cycle-high rates. The measure, however, remains elevated relative to its historical average.

Household debt ticks higher on account of residential mortgage debt

The uptick in total household debt growth reflected an expansion in residential mortgage debt while non-mortgage debt growth held steady at the previous month's rate. There was \$1.21 trillion in residential mortgage debt outstanding at the end of September, up 4.9% from its year-ago level (chart 2). This followed a 4.7% reading in August that marked the slowest pace of mortgage growth since October 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 September (chart 2), matching the year-over-year increase in August and representing the slowest pace of annual growth of non-mortgage debt since July 1993.

Moderation in both short-term and longer-term financing

After sustaining a five and a half year high in July and August, the pace of overall business financing growth moderated in September due to an easing in both short-term and longer-term credit activity. Short-term credit outstanding (which primarily consists of bank loans) expanded by 10.5% on a year-over-year basis in September (chart 3), down from the 12.0% and 11.5% annual increases recorded in July and August, respectively. This moderation was supported by a deceleration in growth of long-term business financing (which accounts for almost three-quarters of outstanding business balances) to 6.6% in September (chart 3) after reaching a three-year high of 6.8% in August.

Credit dynamics supportive of the economic outlook

The recent release of the Bank of Canada's *Monetary Policy Report* attributed a recent run up in housing activity to a rush by households to lock in lower rates ahead of a rise in mortgage rates. This likely contributed to a faster pace of debt accumulation in the month. That being said, household credit growth remains well below its longer-term average and the historically slow pace of expansion is expected to prevent a worsening in household imbalances. While the persistence of an exceptionally low interest rate environment presents some risks to policymakers, the excess capacity in the Canadian economy is helping to keep a lid on inflationary pressures and the highly accommodative financial conditions should continue to support robust growth in business financing particularly as the economic backdrop improves. We expect monetary policy will remain unchanged next year with a gradual normalization beginning thereafter.

As at the end of September, 2013	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,722	100.0	6.7	5.8	3.9
Consumer credit	517	30.0	4.2	3.4	1.8
Chartered banks**	439	25.5	2.4	2.8	2.8
<i>Personal loan plans</i>	89	5.2	11.3	14.1	20.7
<i>Personal lines of credit</i>	259	15.0	-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	6.0	4.8	-5.5
Securitized loans**	12	0.7	-20.7	-10.6	-0.9
Residential mortgages	1,205	70.0	7.7	6.8	4.9
Chartered banks**	906	52.6	9.8	12.7	6.0
Non-banks	246	14.3	3.0	-8.6	1.2
Securitized mortgages**	53	3.1	-0.7	-1.7	4.1
<i>NHA MBS**</i>	42	2.4	30.7	-3.1	2.8
Business markets					
Total business financing	1,477	100.0	3.9	7.1	7.6
Short-term business credit	412	27.9	2.1	8.0	10.5
Chartered banks**	316	21.4	2.3	6.4	11.0
<i>Business loans</i>	254	17.2	7.4	10.1	13.6
<i>Bankers' acceptances</i>	62	4.2	-15.8	-7.0	1.5
Non-banks	79	5.3	5.3	11.9	6.6
Securitized loans**	4	0.3	-6.0	-5.2	-21.5
Commercial paper	12	0.8	-17.7	30.8	46.3
Long-term business financing	1,065	72.1	4.6	6.8	6.6
Chartered banks**	47	3.2	8.1	20.6	11.4
<i>Commercial mortgages</i>	38	2.6	7.1	23.6	13.1
<i>Leasing receivables</i>	9	0.6	12.5	9.1	5.1
Non-banks	87	5.9	1.9	-3.7	2.8
Securitized loans**	15	1.0	3.7	2.5	4.0
Bonds & debentures	412	27.9	8.8	12.7	11.4
Equities & warrants	473	32.0	1.5	2.6	2.8
Trust units	31	2.1	0.5	10.3	9.2

*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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