

## CANADIAN CREDIT

October 2014

### Business financing perks up as household borrowing holds steady in September

Canadian households maintained their pace of borrowing in September while still accommodative financial conditions supported a robust increase in business borrowing in the month. Outstanding household balances increased 4.3% from a year ago to just under \$1.8 trillion in September, a pace that matched the rate of growth recorded in August. In contrast, business financing accelerated in the month, rising by 7.9% on a year-over-year basis compared to 7.3% in August and 7.2% in July.

#### Steady household borrowing masks diverging underlying growth trends

An increase in demand for consumer credit and non-mortgage loans offset a marginal slowing in mortgage debt accumulation to keep the rate of overall household credit growth unchanged in September. The 2.6% rise in the former predominantly reflected continued gains in personal loan borrowing from chartered banks (which reflects financing for the acquisition of consumer goods and services) while personal lines of credit edged higher for the third consecutive month. In contrast, residential mortgage borrowing eased; albeit the 5.1% annual rise in September represented only a minimal slowing from the 5.2% year-over-year increase recorded in August.

#### Business borrowing boosted by accommodative financing conditions

Both short-term and longer-term business financing grew at robust rates in September as competitive pressures amongst lenders supported a further easing in overall business lending conditions. Short-term business borrowing increased by 9.8% on a year-over-year basis in September compared to 9.3% in August, although remained below a recent cycle high of 13.5% in March 2013. Bond and debenture issuance posted its seventh consecutive month of double-digit year-over-year increases in September as it continued to trend at cycle-highs, supporting longer-term business financing growth accelerating to 7.2% in September from 6.5% recorded in August.

#### Household imbalances persist while BoC awaits investment uptick

A sustained steady pace of mortgage growth thus far in 2014 has been accompanied by strengthening consumer credit growth, resulting in upward pressure gradually materializing for overall outstanding balances. Renewed vigour in consumer spending and the attendant rise in consumer credit prompted the Bank of Canada to caution that household imbalances could rise further. However, we expect growth in household consumption to stabilize and mortgage growth to resume a downward trend as housing affordability pressures intensify, containing the risks coming from household imbalances. Meanwhile, stronger investment by businesses following a protracted period of financing accumulation and weak investment performance is expected to support firmer economic growth. Against this backdrop, the Bank of Canada is likely to begin to tighten monetary policy with an overnight rate increase expected mid-2015.

Chart 1

Household & business credit growth: Canada

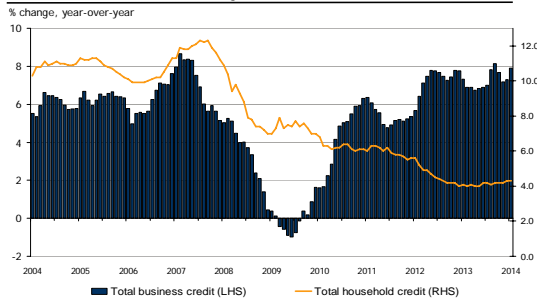


Chart 2

Contributions to household credit growth

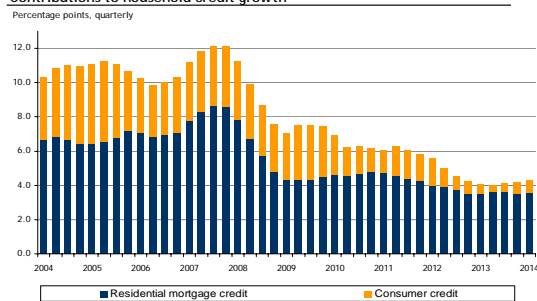
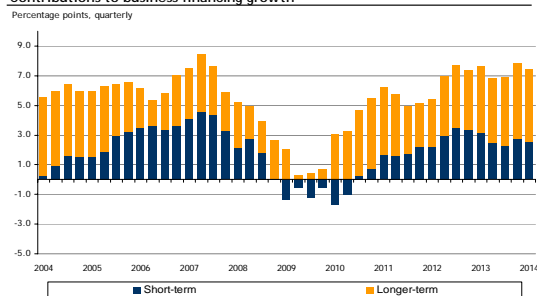


Chart 3

Contributions to business financing growth



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## Canada

As at the end of September, 2014	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
<b>Household markets</b>					
Household credit	1,796	100.0	7.0	6.8	4.3
Consumer credit	530	29.5	5.1	4.3	2.6
Chartered banks	450	25.0	4.6	3.9	2.4
<i>Personal loan plans</i>	95	5.3	8.2	5.0	6.0
<i>Personal lines of credit</i>	260	14.5	2.4	2.1	0.6
<i>Credit cards</i>	75	4.2	12.1	4.6	2.7
<i>Other</i>	20	1.1	-8.5	21.2	9.5
Non-banks	66	3.7	7.7	6.7	3.2
Securitized loans	14	0.8	8.3	7.2	6.6
Residential mortgages	1,266	70.5	8.3	8.0	5.1
Chartered banks	943	52.5	7.0	7.2	4.1
Non-banks	266	14.8	9.3	7.2	6.7
Securitized mortgages	57	3.2	26.5	26.8	16.0
<i>NHA MBS</i>	45	2.5	32.4	2.5	21.8
<b>Business markets</b>					
<b>Total business financing</b>	1,598	100.0	11.0	8.2	7.9
<b>Short-term business credit</b>	452	28.3	9.3	9.6	9.8
Chartered banks	350	21.9	9.5	9.5	10.7
<i>Business loans</i>	280	17.5	1.0	11.8	10.2
<i>Bankers' acceptances</i>	70	4.4	51.7	0.8	13.0
Non-banks	84	5.2	11.4	6.9	7.8
Securitized loans	5	0.3	-16.3	-19.9	-9.0
Commercial paper	13	0.8	2.0	50.4	6.8
<b>Long-term business financing</b>	1,146	71.7	11.6	7.6	7.2
Chartered banks	49	3.1	-5.5	-0.7	3.4
<i>Commercial mortgages</i>	39	2.4	-8.0	-2.8	2.6
<i>Leasing receivables</i>	10	0.6	5.3	8.0	6.6
Non-banks	88	5.5	9.1	7.7	5.6
Securitized loans	13	0.8	-7.7	-6.8	-6.7
Bonds & debentures	467	29.2	17.8	9.7	11.0
Equities & warrants	497	31.1	8.9	7.1	4.8
Trust units	33	2.0	12.0	5.9	7.2

\*Annualized growth rates

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

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