

CURRENT ANALYSIS

November 2013

Chart 1  
Household & business credit growth: Canada

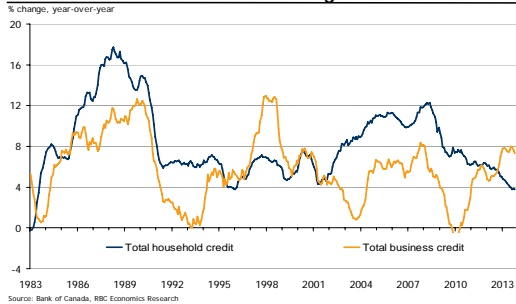


Chart 2  
Household credit growth: Canada

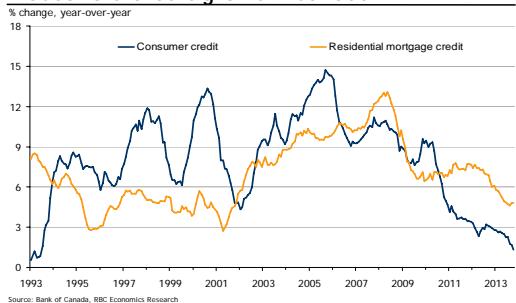


Chart 3  
Business financing growth: Canada



**Household credit growth hits slowest pace since July 1983 in October**  
Growth in both household and business credit moderated in October with the former resuming its firmly entrenched decelerating trend and the latter slowing further following a cycle-high in June. The 3.7% pace of household credit accumulation in October marked an easing in the year-over-year rate from 3.8% in the previous month (chart 1). This annual pace of expansion in personal debt represented a deceleration from the 5.4% increase recorded last October and marks the slowest growth rate since July 1983. Total business financing growth moderated for the second consecutive month rising by 7.3% on an annual basis in October (chart 1), the slowest pace this year, compared to the 7.6% growth rate in September.

**Household credit growth resumes decelerating trend**

The resumption of a moderating trend in household credit growth reflected an easing in non-mortgage debt growth while mortgage debt accumulation held steady in the month. Non-mortgage debt outstanding (which includes credit cards, lines of credit and other personal loans and totalled \$516 billion at the end of October) rose 1.3% from its year-ago level (chart 2), thereby representing the slowest year-over-year growth rate since June 1993. Residential mortgage credit was up 4.8% compared to October of 2012 (chart 2), to match the pace of growth in September and the balance of outstanding mortgages stood at \$1.2 trillion.

**Moderation in business financing growth for second consecutive month**

Business credit growth eased in October to mark the second consecutive month of moderation as the pace of both short-term and long-term credit expansion slowed. Short-term credit outstanding (which primarily consists of bank loans) expanded by 9.5% from the year-ago level in October (chart 3) compared to 10.4% in the previous month. While this rate represented the slowest pace of growth in just over a year, short-term credit growth continues to sustain levels above the long-term average rate of 5.4%. Longer-term business financing (which predominantly consists of capital market financing) was up 6.4% from its year-ago level to \$1.07 trillion at the end of October, a mild slowing from the 6.5% pace of growth in September.

**Credit trends supportive of BoC maintaining current policy stance**

The sustained slowing in personal credit growth and the resulting “constructive evolution” of household balance sheets will be taken as a welcome sign by policymakers as the risks underlying the exceptionally low interest rate environment remain contained. With inflation expected to run below the midpoint of the Bank of Canada’s target band in the near-term, the highly stimulative monetary policy backdrop is likely to persist, supporting a return to an above-potential rate of growth in 2014. Highly accommodative financial conditions are expected to support a pick-up in business investment and sustain elevated levels of business financing growth. As excess capacity in the economy is absorbed, we expect the Bank will be in a position to begin tightening policy mid-2015.

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As at the end of October, 2013	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
<b>Household markets</b>					
<b>Household credit</b>	<b>1,726</b>	<b>100.0</b>	<b>3.4</b>	<b>5.0</b>	<b>3.7</b>
<b>Consumer credit</b>	<b>516</b>	<b>29.9</b>	<b>-1.4</b>	<b>1.2</b>	<b>1.3</b>
Chartered banks**	439	25.4	-1.2	1.1	2.5
<i>Personal loan plans</i>	90	5.2	2.4	8.1	20.1
<i>Personal lines of credit</i>	259	15.0	-0.5	-0.6	0.6
<i>Credit cards**</i>	72	4.2	-7.5	4.6	-5.5
<i>Other</i>	18	1.0	-4.0	-18.3	-7.6
Non-banks	65	3.8	-1.3	3.3	-5.9
Securitized loans**	12	0.7	-6.1	-6.0	1.1
<b>Residential mortgages</b>	<b>1,210</b>	<b>70.1</b>	<b>5.6</b>	<b>6.6</b>	<b>4.8</b>
Chartered banks**	910	52.7	5.9	7.3	6.1
Non-banks	247	14.3	8.5	5.6	1.2
Securitized mortgages**	53	3.0	-12.0	0.0	1.2
<i>NHA MBS**</i>	41	2.4	-10.8	-4.8	0.0
<b>Business markets</b>					
<b>Total business financing</b>	<b>1,483</b>	<b>100.0</b>	<b>6.2</b>	<b>5.4</b>	<b>7.3</b>
<b>Short-term business credit</b>	<b>413</b>	<b>27.8</b>	<b>2.9</b>	<b>3.0</b>	<b>9.5</b>
Chartered banks**	317	21.3	1.1	1.4	10.3
<i>Business loans</i>	256	17.3	10.5	6.2	13.1
<i>Bankers' acceptances</i>	60	4.1	-30.2	-16.3	-0.1
Non-banks	80	5.4	16.7	13.1	6.4
Securitized loans**	4	0.3	-6.6	-5.7	-20.6
Commercial paper	12	0.8	-27.4	-13.5	28.7
<b>Long-term business financing</b>	<b>1,071</b>	<b>72.2</b>	<b>7.5</b>	<b>6.4</b>	<b>6.4</b>
Chartered banks**	47	3.2	4.6	7.4	11.2
<i>Commercial mortgages</i>	38	2.6	3.8	7.1	12.7
<i>Leasing receivables</i>	9	0.6	7.7	8.8	5.4
Non-banks	87	5.9	3.9	2.1	2.8
Securitized loans**	15	1.0	3.9	3.3	4.1
Bonds & debentures	417	28.1	16.0	13.1	11.2
Equities & warrants	473	31.9	1.5	1.5	2.7
Trust units	31	2.1	10.0	7.9	9.1

\*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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