

CANADIAN CREDIT

November 2015

Canadian household and business credit growth mixed in September

The stimulative effects of earlier monetary policy easing set against tight supply conditions in some major housing markets in Canada is abetting an upward trend in residential mortgage loan growth. This trend is the driving force behind a gradual rise in overall household credit growth (Chart 1). Canadians owed \$1.88 trillion in outstanding debt balances in September, thereby marking a 7.4% annualized increase over the balance at the end of the second quarter of 2015 and a 5.0% advance from a year-ago. On the business side, total financing increased 8.2% on a year-over-year basis in September, which marked a slight easing from the cycle-high growth rates recorded earlier this year (Chart 1).

Residential mortgage growth driving upward household borrowing trend

A seasonal bounce in housing market activity this spring lingered into the summer months to help drive residential mortgage growth higher. Households accumulated \$74.7 billion in mortgage debt over the twelve months ending in September (up 5.9% year-over-year) and balances climbed an annualized 9.0% from the level recorded in June (increased by 6.0% annualized from March to June on an unadjusted basis). In contrast, consumer credit growth slowed over the three-month period ending in September with outstanding balances up an annualized 3.6% (versus 5.4% over the March through June period).

Tighter financing conditions tempering business credit growth

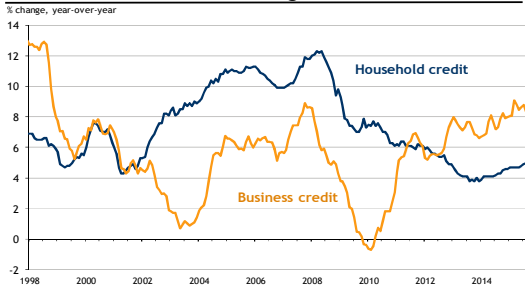
Total business financing growth edged up modestly over the three-months ended September, at an annualized 6.6% from 6.4% in Q2/15. Short-term business credit advanced while long-term financing eased, albeit continued to run faster than its long-term average. The former increased at a 10.5% annualized pace in September over June led by growth in business loans. Longer-term financing increased by an annualized 5.2% over the same time period, thereby marking a slowing from the 7.0% seen at the end of Q2/15 likely reflecting a tightening of credit conditions in sectors adversely affected by the oil price shock.

Rebound in economic activity to limit the need for further policy rate cuts

The slower rate at which businesses tapped into financing sources in September is consistent, as the Bank of Canada pointed out, with a tightening in borrowing conditions evident in the recent Business Outlook Survey. The pace of accumulation remained near cycle-highs, however, as the rate cuts earlier this year helped to offset a global tightening in financial conditions. On the household side, record low mortgage rates resulting from the policy actions have supported the strength in mortgage demand; although households showed reluctance to accelerate borrowing in non-mortgage sources. On the whole, household debt balances continue to climb as the effects of the earlier monetary policy actions work through the economy and support household spending. This strength of the consumer along with a turnaround in other sectors of the economy is expected to support a rebound in real GDP growth in the second half of the year, thereby limiting the need for further policy cuts by the Bank of Canada.

Chart 1

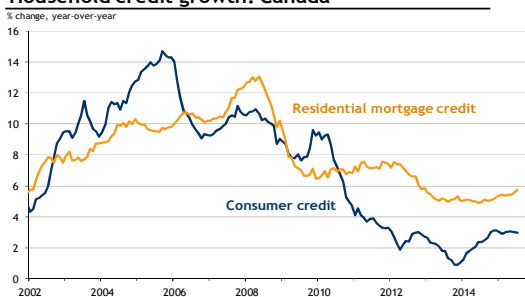
Household & business credit growth



Source: Bank of Canada, RBC Economics Research

Chart 2

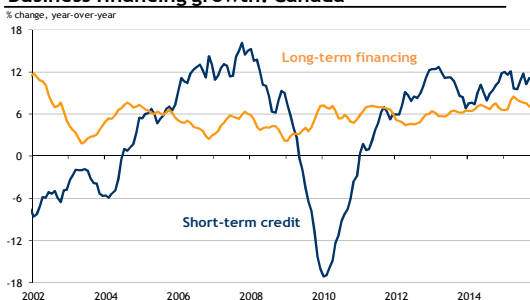
Household credit growth: Canada



Source: Bank of Canada, RBC Economics Research

Chart 3

Business financing growth: Canada



Source: Bank of Canada, RBC Economics Research

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Canada

As at the end of September, 2015	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,879	100.0	6.2	7.4	5.0
Consumer credit	541	28.8	3.9	3.6	2.8
Chartered banks	461	24.5	4.8	3.6	2.5
<i>Personal loan plans</i>	96	5.1	14.2	11.0	0.8
<i>Personal lines of credit</i>	269	14.3	2.5	2.5	3.4
<i>Credit cards</i>	77	4.1	12.7	5.4	2.9
<i>Other</i>	19	1.0	-29.1	-19.0	-3.0
Non-banks	66	3.5	-1.7	3.5	4.4
Securitized loans	14	0.7	3.4	4.5	5.5
Residential mortgages	1,338	71.2	7.1	9.0	5.9
Chartered banks	993	52.8	7.9	9.7	5.3
Non-banks	282	15.0	3.8	5.4	5.9
Securitized mortgages	63	3.4	10.0	13.8	16.5
<i>NHA MBS</i>	53	2.8	12.8	0.5	21.3
Business markets					
Total business financing	1,741	100.0	9.0	6.6	8.2
Short-term business credit	495	28.4	19.3	10.5	11.2
Chartered banks	399	22.9	24.7	13.2	14.0
<i>Business loans</i>	326	18.7	33.3	24.2	16.3
<i>Bankers' acceptances</i>	74	4.2	-7.0	-23.2	4.6
Non-banks	83	4.8	5.1	-2.4	3.9
Securitized loans	1	0.1	-30.1	-47.6	-25.8
Commercial paper	11	0.6	-30.5	28.8	-14.9
Long-term business financing	1,246	71.6	5.2	5.2	7.1
Chartered banks	53	3.0	10.4	9.7	8.1
<i>Commercial mortgages</i>	42	2.4	11.4	9.7	7.9
<i>Leasing receivables</i>	11	0.6	6.5	9.7	8.9
Non-banks	95	5.5	8.1	7.5	6.1
Securitized loans	8	0.5	-9.8	-10.0	-10.7
Bonds & debentures	532	30.6	5.9	5.8	9.1
Equities & warrants	524	30.1	4.0	4.1	5.6
Trust units	34	2.0	0.7	2.7	5.0

*Annualized growth rates

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

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