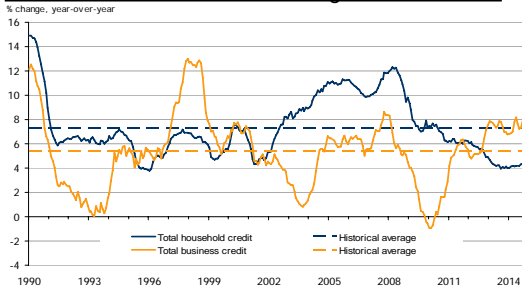


CANADIAN CREDIT

December 2014

Chart 1

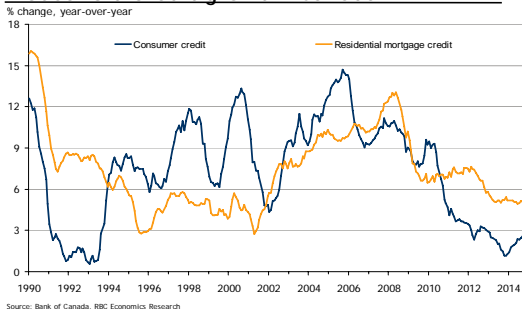
Household & business credit growth: Canada



Source: Bank of Canada, RBC Economics Research

Chart 2

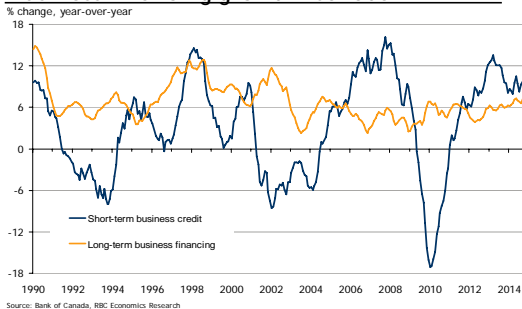
Household credit growth: Canada



Source: Bank of Canada, RBC Economics Research

Chart 3

Business financing growth: Canada



Source: Bank of Canada, RBC Economics Research

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Upward trend in household credit growth emerging

Canadian households' insatiable appetite for credit was evident in October with the most recent Bank of Canada data indicating that household debt expanded by \$77.5 billion and stood 4.5% above the level recorded in October 2013. Household credit growth appears to be emerging from cycle-lows as the year-over-year rate of growth represents the quickest pace of increase since February 2013. Rising demand for funds also saw businesses add \$125.4 billion to their balances of outstanding credit over the twelve-month period, with the 8.4% rise representing the fastest rate since December 2007.

Upward pressure on personal debt stemming from non-mortgage loans

A sustained period of low interest rates set against a strengthening economic backdrop is likely abetting a pickup in non-mortgage credit growth while residential mortgage borrowing continues to hold steady. Non-mortgage debt (which includes credit cards, lines of credit and other personal loans) rose by 2.9% over the twelve months ended October, up from the 2.6% increase recorded in September. Lending by chartered banks supported the rise and reflected a broadening out of consumer credit growth with all components rising from year-ago levels. In contrast, residential mortgage growth remained unchanged in October, rising by 5.1% for the third consecutive month.

Business financing growth remains elevated

The robust pace of business financing growth in October reflected strong annual gains in both short-term and longer-term borrowing. Short-term business borrowing (which largely consists of bank loans) popped up to 10.4% on a year-over-year basis following a 9.8% increase recorded in September. Capital markets also continued to be a source of funding for Canadian businesses as the pace of growth in longer-term financing (which primarily consists of bonds, debentures, equities and warrants) accelerated to 7.7% on a year-over-year basis compared to 7.2% in the previous month. This represents the highest growth rate since November 2002.

Awaiting signs of sustainable upward pressures before rates lift-off

Strong consumer spending and a resilient housing market supported an above-potential pace of economic growth for two consecutive quarters in Canada as of Q3/14. Firm hiring gains and a strengthening in household disposable income buttressed this improvement and is reflected in Canadian households adding to their outstanding credit balances. We expect that against an improving external backdrop and further weakening in the Canadian dollar, net exports and business investment will contribute more solidly to a sustained above-potential pace of growth in the coming quarters, thereby reducing the need for households to carry the load. As upward inflation pressures become more broad based, we anticipate that the Bank of Canada will be poised to begin to gradually raise interest rates in mid-2015. This, in turn, is expected to temper demand for household credit and return consumer spending to more trend-like growth.

Canada

As at the end of October, 2014	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,803	100.0	5.3	6.3	4.5
Consumer credit	531	29.4	2.6	3.8	2.9
Chartered banks	451	25.0	2.4	3.6	2.7
<i>Personal loan plans</i>	96	5.3	9.6	5.7	6.6
<i>Personal lines of credit</i>	261	14.5	1.8	1.8	0.8
<i>Credit cards</i>	74	4.1	-6.1	2.7	2.8
<i>Other</i>	20	1.1	11.0	23.2	10.9
Non-banks	66	3.7	1.9	4.4	2.8
Securitized loans	14	0.8	8.9	8.5	8.1
Residential mortgages	1,272	70.5	6.2	7.2	5.1
Chartered banks	947	52.5	5.7	6.5	4.1
Non-banks	267	14.8	5.1	6.3	6.3
Securitized mortgages	58	3.2	21.9	24.9	18.0
<i>NHA MBS</i>	46	2.5	26.2	4.3	24.3
Business markets					
Total business financing	1,614	100.0	11.2	10.1	8.4
Short-term business credit	454	28.2	7.5	11.1	10.4
Chartered banks	352	21.8	6.9	11.3	11.2
<i>Business loans</i>	282	17.5	7.6	9.5	9.9
<i>Bankers' acceptances</i>	71	4.4	4.1	19.1	16.8
Non-banks	84	5.2	6.4	6.9	7.9
Securitized loans	4	0.3	-16.1	-16.2	-11.6
Commercial paper	13	0.8	47.0	49.0	13.2
Long-term business financing	1,159	71.8	12.7	9.8	7.7
Chartered banks	49	3.0	5.8	2.4	3.5
<i>Commercial mortgages</i>	39	2.4	3.6	0.9	2.6
<i>Leasing receivables</i>	10	0.6	14.9	8.3	7.1
Non-banks	89	5.5	10.1	8.1	6.4
Securitized loans	13	0.8	-7.2	-7.6	-6.8
Bonds & debentures	475	29.4	19.1	12.6	11.4
Equities & warrants	500	31.0	8.6	8.7	5.4
Trust units	33	2.0	14.6	9.4	7.7

*Annualized growth rates

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

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