

CANADIAN CREDIT

December 2015

Chart 1

Household & business credit growth: Canada

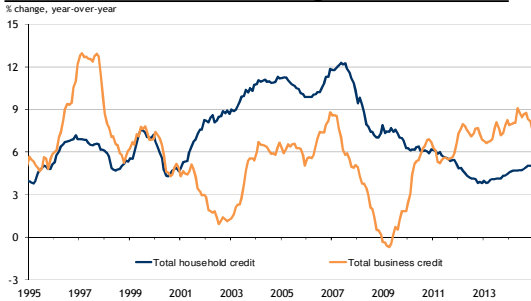


Chart 2

Household credit growth: Canada

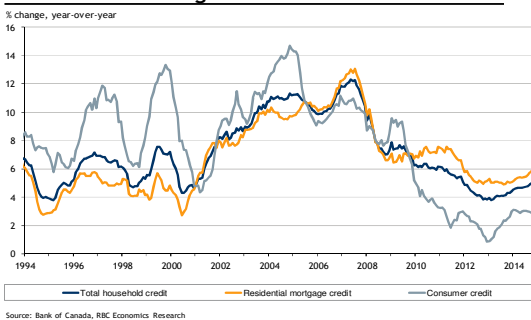
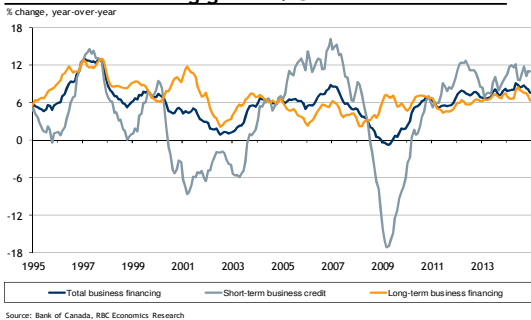


Chart 3

Business financing growth: Canada



Laura Cooper
Economist
416-974-8593
laura.cooper@rbc.com

Diverging trends emerging amongst Canadian credit components

Canadian household credit growth remained unchanged in October from the month prior, rising by 5.0% on a year-over-year basis for the third consecutive month. This was above the cycle-low 3.8% seen in October 2013 and marked a stronger pace of increase than the 4.5% recorded in October 2014. In contrast, business credit growth slowed in October, thereby sustaining a downward trend that has been in place since July. The 7.7% year-over-year increase in October marked the third consecutive month of slowing and compared to the cycle-high 9.1% recorded in March (Chart 1).

Slower consumer credit accumulation offsetting residential mortgage gains

Canadian households accumulated debt at the same pace in October as the month prior, although the headline advance masked diverging trends emerging between credit components. Consumer credit growth (includes personal loans, lines of credit, credit cards) marked the slowest pace of increase in a year in October, easing to a 2.7% annual rate from 2.9% recorded over the previous two months. In contrast, residential mortgage borrowing advanced by 6.0% from a year-ago to mark the fastest pace of accumulation since October 2012. After recording a 5.4% rate of growth for five consecutive months to kick off 2015, this component of household credit has gradually accelerated against a backdrop of accommodative borrowing conditions and strong housing activity in a handful of markets across the country.

Longer-term business financing eases as short-term credit remains robust

After strengthening to a near eight-year high of 9.1% in March, total business financing growth has since eased, in large part driven by a slowing in longer-term business financing. This component (predominantly made up of bonds, debentures, equities and warrants) recorded a sharp pullback in October, rising by 6.4% from a year-ago in the latest month from 7.1% in September and a cycle-high 8.5% recorded in March. At the same time, short-term business credit sustained a relatively robust pace of growth in October, rising by 11.0% compared to 11.1% in September and 10.3% in August.

Rising debt levels contributing to household vulnerabilities “edging higher”

In its recent policy statement, the Bank of Canada acknowledged that while financial conditions remain accommodative, bond yields are “slightly higher”, thereby likely contributing to the pronounced slowing in the pace at which businesses tapped into longer-term financing sources in the latest month. At the same time, it noted, for the second consecutive statement, that vulnerabilities in the household sector continue to “edge higher”. In the June *Financial System Review*, the Bank attributed this characterization to the increase in the level of household debt and the ongoing effect on incomes of the sharp decline in oil prices. The resiliency of labour markets has limited the negative energy-price hit to household incomes, however, household debt levels continue to rise. The next iteration of the *FSR*, slated to be released on December 15th, will provide a full update on the BoC’s views on this key financial system vulnerability.

Canada

As at the end of October, 2015	Outstandings (C\$ billions)	Share of total %	m/m % change*	3-month % change*	y/y % change
Household markets					
Household credit	1,888	100.0	5.4	6.6	5.0
Consumer credit	542	28.7	1.3	3.2	2.7
Chartered banks	461	24.4	0.7	2.9	2.3
<i>Personal loan plans</i>	96	5.1	0.1	10.8	0.1
<i>Personal lines of credit</i>	270	14.3	2.3	2.2	3.4
<i>Credit cards</i>	77	4.1	-4.4	2.8	3.1
<i>Other</i>	19	1.0	2.3	-20.3	-4.0
Non-banks	67	3.6	11.9	7.9	5.4
Securitized loans	14	0.7	-25.2	-7.4	2.4
Residential mortgages	1,346	71.3	7.1	8.0	6.0
Chartered banks	999	52.9	7.9	8.7	5.5
Non-banks	284	15.0	6.7	5.5	6.1
Securitized mortgages	63	3.3	-3.3	8.8	14.3
<i>NHA MBS</i>	53	2.8	-2.8	-2.0	18.6
Business markets					
Total business financing	1,746	100.0	4.2	5.2	7.7
Short-term business credit	497	28.5	6.6	7.6	11.0
Chartered banks	401	23.0	5.2	8.0	13.9
<i>Business loans</i>	323	18.5	-9.7	7.9	14.7
<i>Bankers' acceptances</i>	78	4.5	102.4	8.3	10.6
Non-banks	83	4.8	2.6	4.1	3.3
Securitized loans	1	0.1	-1.9	-26.9	-23.8
Commercial paper	12	0.7	125.7	27.0	-14.2
Long-term business financing	1,249	71.5	3.2	4.3	6.4
Chartered banks	54	3.1	23.9	13.9	9.5
<i>Commercial mortgages</i>	43	2.5	26.6	15.3	9.7
<i>Leasing receivables</i>	11	0.6	13.8	8.2	8.5
Non-banks	96	5.5	6.9	7.6	6.1
Securitized loans	8	0.5	-9.8	-9.9	-9.9
Bonds & debentures	533	30.6	3.1	4.8	8.0
Equities & warrants	524	30.0	0.7	2.6	5.0
Trust units	34	2.0	7.4	3.6	4.4

*Annualized growth rates

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

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.