Canadian Household Credit (May 2019): Mortgage Loans Post Largest Gain Since Late-2017

- **Canadian household credit growth picked up in May to an annualised rate of 3.8% m/m following a slight deceleration in April, at 3.0% m/m. Lending to households has maintained a steady pace of expansion since Q4-2018 following a marked deceleration in credit growth which began in the first half of 2017.**
- **Residential mortgage credit growth jumped to 4.6% m/m off April's climb of 3.2% m/m, while consumer credit growth remained subdued with a 1.9% m/m increase in May.**

TOTAL HOUSEHOLD CREDIT REBOUNDS FROM APRIL

Total household credit growth picked up in May to 3.8% m/m in seasonally-adjusted annualized rate (saar) terms following April's increase of 3.0% m/m, which had marked the slowest acceleration since July 2018 (chart 1). The 3-month-moving-average (3-mma) rate of growth has remained steady around the 3.5% m/m mark since Q4-2018 after reaching a 3.0% m/m trough during the summer of 2018. Year-on-year growth is also stable, sitting around its lowest level since the early-2000s, at 3.4% y/y. May's m/m rise was driven by a rebound in residential lending growth at 4.6% m/m (chart 2), while the expansion in consumer credit remained soft, at 1.9% m/m (chart 3, next page).

MORTGAGE LOANS POST THEIR LARGEST MONTHLY INCREASE SINCE LATE-2017

Mortgage loans rose by 4.6% m/m saar in May—their fastest pace since November 2017—after a relatively weak climb of 3.2% m/m in April (chart 2). Month-on-month mortgage credit growth has oscillated around the 4% mark since late-2018, leaving behind a recent bottom of 2.2% m/m in July 2018. Mortgage credit growth decelerated markedly through 2016–2018 owing to the introduction of additional property taxes on foreign homebuyers in the Greater Vancouver (August 2016, expanded in February 2018) and Greater Toronto (April 2017) areas, as well as the imposition of more stringent mortgage qualifying tests nationwide by OSFI on January 1, 2018. Mortgage lending rates also reached their highest point in close to eight years in late-2018 in line with rate increases by the Bank of Canada. We don't anticipate any further policy rate increases by the Bank in our forecast horizon.

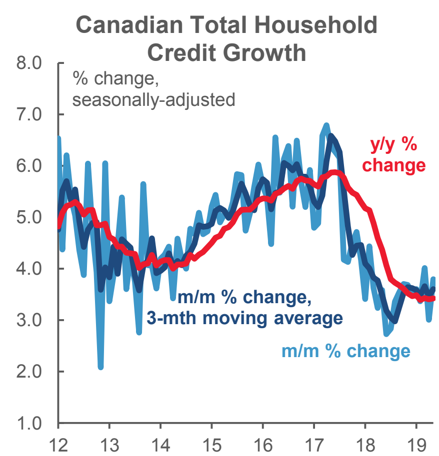
Growth in mortgage loans by chartered banks edged slightly ahead of nonbanks in May with a 5.43% m/m saar increase relative to a 5.37% m/m saar gain for the latter, although nonbanks continue to see a much stronger, albeit slowing, pace of lending growth in year-on-year terms. Mortgage credit at chartered banks rose by 3.3% y/y—its fastest rate since August 2018—while loans from other institutions climbed by 5.8% y/y—their slowest pace since August 2018. Year-on-year growth in borrowing from chartered banks began to slow in early-2018 owing to OSFI's tightening of mortgage underwriting

CONTACTS

Alena Bystrova, Research Analyst
416.866.4212
Scotiabank Economics
alena.bystrova@scotiabank.com

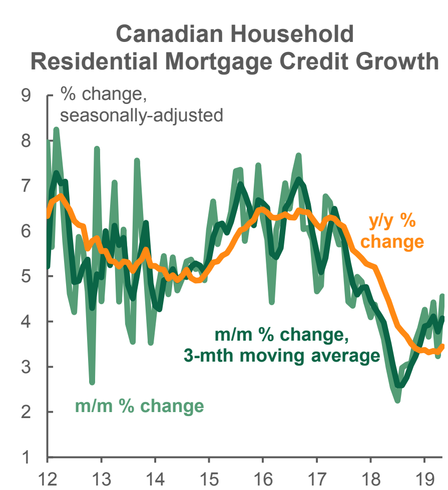
Juan Manuel Herrera, Economist
416.866.6781
Scotiabank Economics
juanmanuel.herrera@scotiabank.com

Chart 1



Sources: Scotiabank Economics, Bank of Canada.

Chart 2



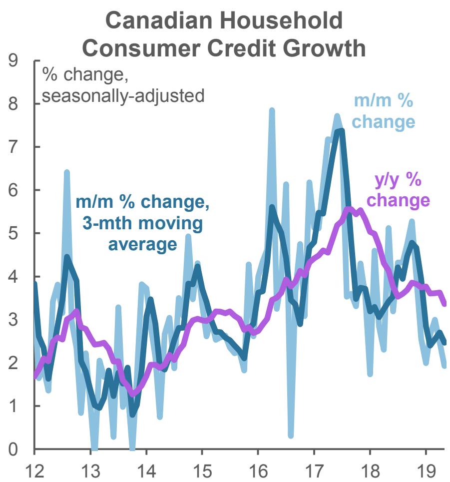
Sources: Scotiabank Economics, Bank of Canada.

standards, from a pace of 6.1% y/y in December 2017, while credit growth from nonbanks rose from 3.9% y/y to its current level of 5.8% y/y during the same period (chart 4). Despite the noticeable acceleration of nonbank credit growth alongside a near-halving of growth in chartered bank lending, banks' share of total mortgage loans outstanding has remained steady at around 80% (chart 5). The Bank of Canada, in a March 2019 staff discussion paper, highlighted that although non-bank financial institution borrowing remains relatively non-threatening due to its size, potential downside risks from its vulnerability require continuous monitoring.

CONSUMER CREDIT

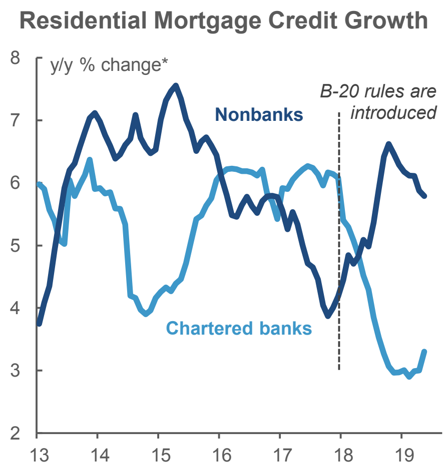
Consumer credit, which constitutes around one third of total household borrowing, continued to decelerate to a 16-month-low of 1.9% m/m saar (chart 3, again), alongside an overall slowing trend in household consumption growth. The 3-month moving average pace held steady at 2.5% m/m, only slightly above the recent three-year low of 2.4% m/m in February 2019 and continued the trend of sub-3% levels through 2019. Year-on-year, consumer credit grew by 3.4%, the slowest rate since March of 2016.

Chart 3



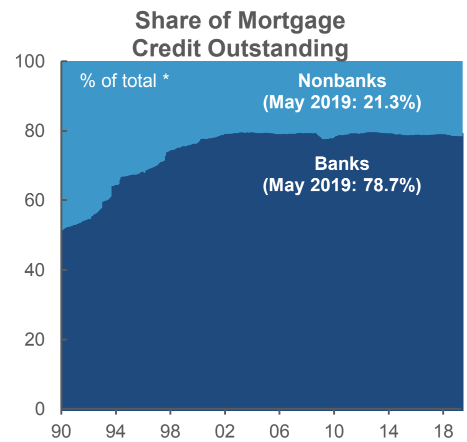
Sources: Scotiabank Economics, Bank of Canada.

Chart 4



Sources: Scotiabank Economics, Bank of Canada.
*adjusts for changes in accounting standards

Chart 5



Sources: Scotiabank Economics, Bank of Canada.
*excludes off-balance sheet securitisation and interpolates changes due to accounting standards and change in BoC's source date for National Housing Act mortgage-backed securities.