

## 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.

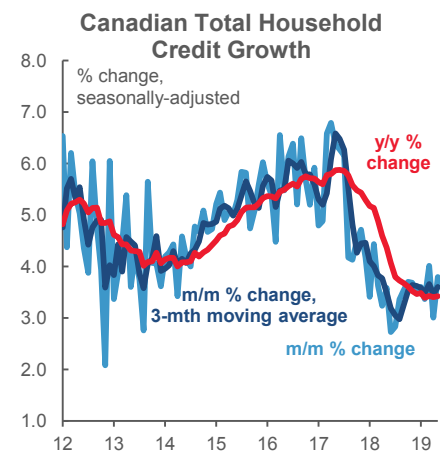
Growth in mortgage loans by chartered banks edged slightly ahead of nonbanks in May with a 5.43% m/m saar increase relative to a 5.37% m/m saar gain for the latter, although nonbanks continue to see a much stronger, albeit slowing, pace of lending growth in year-on-year terms. Mortgage credit at chartered 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](mailto:alena.bystrova@scotiabank.com)

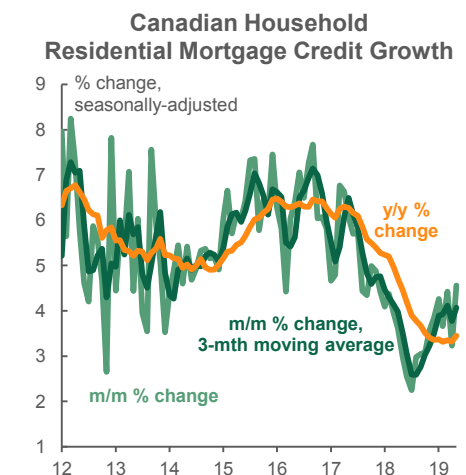
Juan Manuel Herrera, Economist  
416.866.6781  
Scotiabank Economics  
[juanmanuel.herrera@scotiabank.com](mailto:juanmanuel.herrera@scotiabank.com)

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

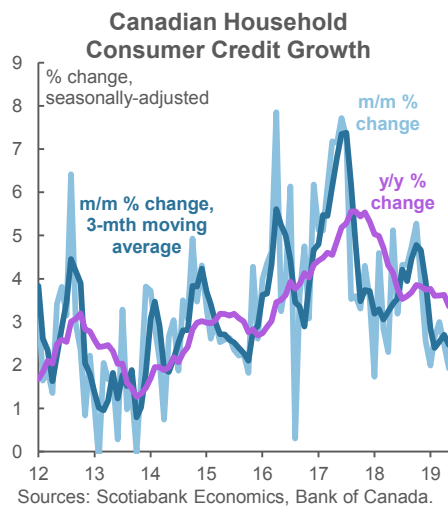


Chart 4

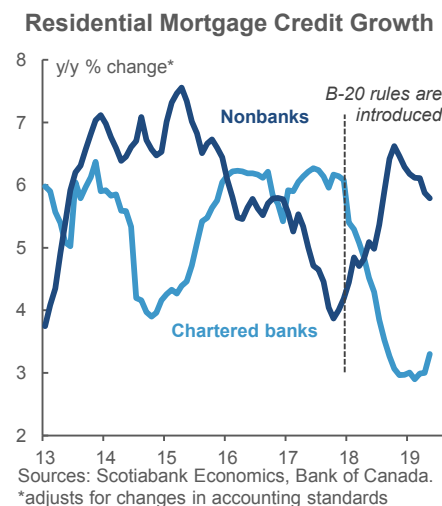
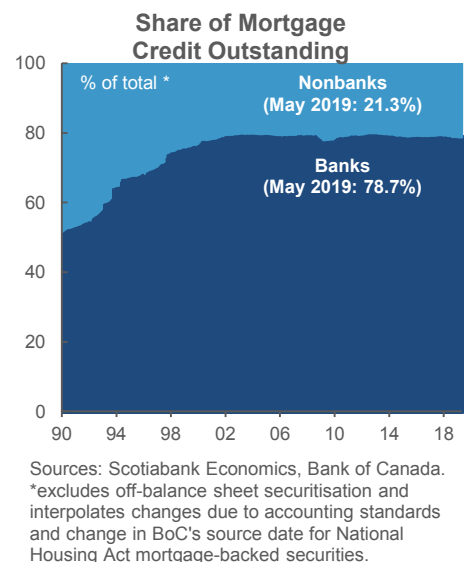


Chart 5



This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

**This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.**

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia’s regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.