

Canadian Household Credit (June 2019): Largest Mortgage Expansion in Two Years

- Canadian household credit growth picked up in June to an annualised rate of 4.3% m/m, reaching a 16-month high. This pace marks an upturn from the period of deceleration which began around mid-2017.
- Residential mortgage credit soared to 5.2% m/m saar, meeting levels of growth that were last seen in mid-2017, while consumer credit growth climbed to 2.1% m/m saar after a moderate pace of 1.9% m/m saar in May.

CANADIAN HOUSEHOLD CREDIT CONTINUES ITS REBOUND

Total household credit growth accelerated to 4.3% m/m at a seasonally-adjusted annualized rate (saar) in June as it continued to reverse from a period of slower growth, marking its fastest monthly acceleration since February 2018 (chart 1). The 3-month-moving-average (3-mma) pace of credit growth has also accelerated to 3.7%, marking its fastest pace since April 2018. Year-on-year growth broke through to 3.6% from the recent trough of 3.4% in February of 2019, and matching the pace it saw in October of 2018. The month-on-month rebound in June was propelled by an acceleration in residential lending growth at a strong pace of 5.2% m/m, and a positive, but relatively subdued, acceleration of consumer credit growth to 2.1% m/m, from 1.9% in May.

MORTGAGE LENDING GROWTH SOARS TO MID-2017 RATES

Mortgage loan growth jumped to 5.2% m/m saar in June—its fastest pace since July 2017 (chart 2). Mortgage growth has surely rebounded after a period of deceleration from early-2017 to its mid-2018 trough which was induced by a series of measures aimed at tackling runaway home prices: foreign buyers taxes in Vancouver and Ontario and OSFI's tightened mortgage underwriting standards (chart 3). Real estate markets continue to adjust to regulatory changes and are now benefitting from a decline in borrowing rates after reaching an eight-year high in late-2018, alongside a tightening spell by the Bank of Canada (chart 4). Mortgage lending growth in year-on-year terms also posted a marked acceleration, which had not been observed in this magnitude since early-2017.

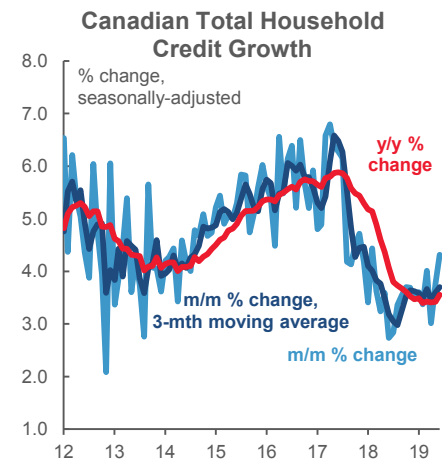
Mortgage loan growth accelerated in both banks and non-bank institutions this month (chart 5). Borrowing from nonbank institutions posted a rate 6.0% y/y, in line with the 6-month average. Chartered bank lending grew at 3.5% y/y, marking a 10-month high. Despite the faster pace of nonbank borrowing growth, it still occupies less than one quarter of market share at 21.3%, consistent with the 5-year average, and is well below the long term average of 25.5%. After increased regulatory control in January 2018, chartered bank borrowing began to slow while nonbank borrowing continued to accelerate through the same period. On July 19, the Bank of Canada announced a 15 bps drop in its mortgage qualifying rate, to 5.19% from 5.34%. Given that the BoC's benchmark rate underlies the stress tests carried out under OSFI's guidelines, the decrease should slightly benefit mortgage lending going forward.

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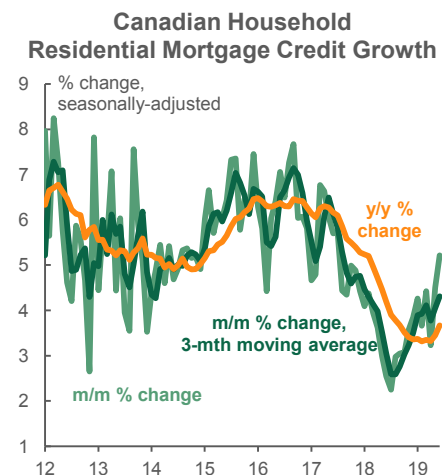
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Chart 1



Sources: Scotiabank Economics, Bank of Canada.

Chart 2



Sources: Scotiabank Economics, Bank of Canada.

CONSUMER CREDIT

Consumer credit, which constitutes around one third of total household borrowing, picked up to 2.1% m/m saar from last month's 16-month-low of 1.9% m/m saar (chart 6), consistent with slowing household consumption growth on goods over the same period while consumption growth on services remained resilient. The 3-month moving average slowed to 2.2% m/m, marking the slowest pace since October 2015. Year-on-year, consumer credit grew by 3.3%, the slowest rate since March of 2016.

Chart 3

The Evolution of Tighter Conditions

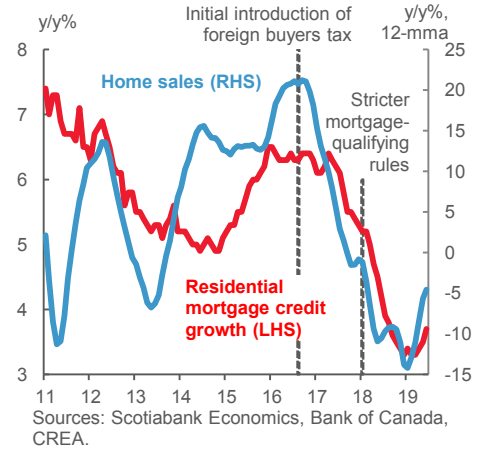


Chart 4

5-Year Mortgage Rates Falling

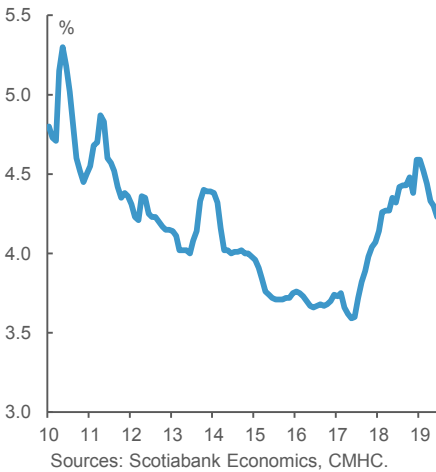


Chart 5

Residential Mortgage Credit Growth

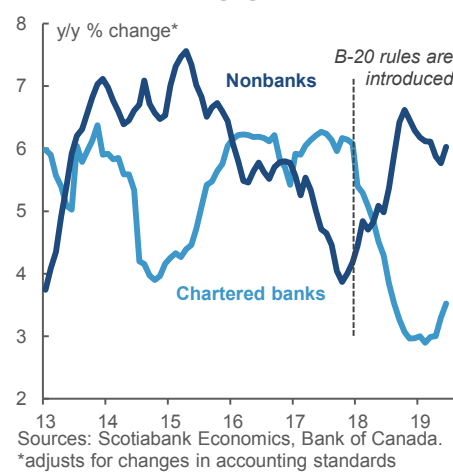
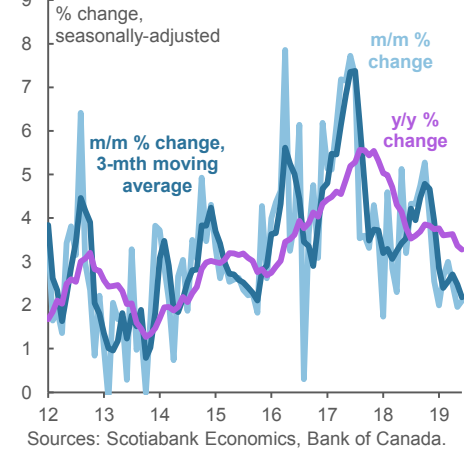


Chart 6

Canadian Household Consumer Credit Growth



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