Canadian Household Credit Growth Remained Strong In June

- **Household credit growth decelerated in June as the slowing pace of mortgage expansion more than offset an acceleration in consumer credit.**
- **HELOC loans remained flat in June, remaining on a weaker trajectory following strong increases through 2017 and 2018.**

HOUSEHOLD CREDIT GROWTH SLOWS FOR A SECOND MONTH

Household credit growth at chartered banks slightly decelerated in June for the second month in a row, owing to a deceleration in mortgage loans partially offset by an expansion in consumer borrowing. Total borrowing by individuals rose by 3.7% m/m at a seasonally adjusted annualized rate (saar) following a 4.4% m/m increase in May—below the average monthly increase of 4.1% over the last six months (chart 1). Mortgage loan growth remained relatively strong at 4.2% m/m saar, on the hills of the last month's six month high of 6.4% m/m saar, signaling an overall pick up in Canadian housing market activity after a weak start to the year. Meanwhile, growth of consumer credit excluding HELOCs climbed to 4.4% m/m saar.

CONSUMER CREDIT: HELOC LOAN GROWTH CONTINUES ON A MODERATING PATH DESPITE FALLING BORROWING RATES

Growth in total consumer credit, including HELOCs, reversed from last month's slight contraction and accelerated in June, owing to a continued acceleration in the growth rate of non-HELOC consumer loans, while HELOC borrowing remained flat. Total consumer credit accelerated to 1.9% m/m from last month's slight contraction. Despite this month's pickup, consumer credit growth remained on its overall declining trajectory since late-2018 with the six month-moving average (6mma) pace holding at 2.8% m/m in June, the slowest pace since January 2018, and lower than its pace of 4.0% m/m twelve months before (chart 2). Following a slight deceleration in the previous month from strong non-HELOC borrowing growth, borrowing picked back up to a moderate pace of 4.4% m/m saar.

In year-on-year terms (y/y), total consumer credit growth took a further drop to 3.7%, an eleven month low (chart 3). Non-HELOC borrowing held steady at 2.9% y/y, close to its five-year average of 3.1% y/y while HELOC borrowing growth continued on its descending trend to 4.6% y/y, marking its slowest y/y expansion since February 2017. The average growth rate of the last three months slowed markedly this month, posting a mere 0.3% change from the previous month—equivalent to the pace seen in December 2015, before HELOC borrowing rates began their relatively steep ascent (chart 4).

Despite the previous rapid acceleration of HELOC borrowing since early-2016, these loans are now sitting only 2.1 ppts higher as a share of total consumer

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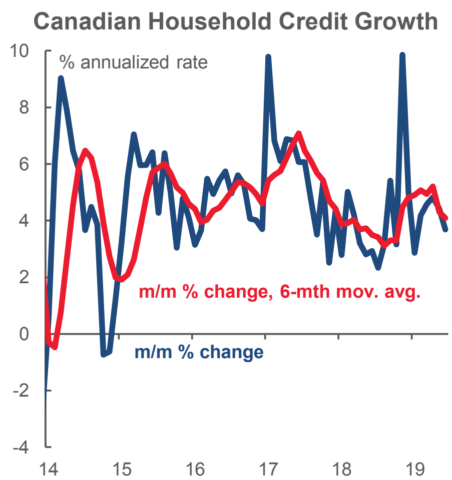
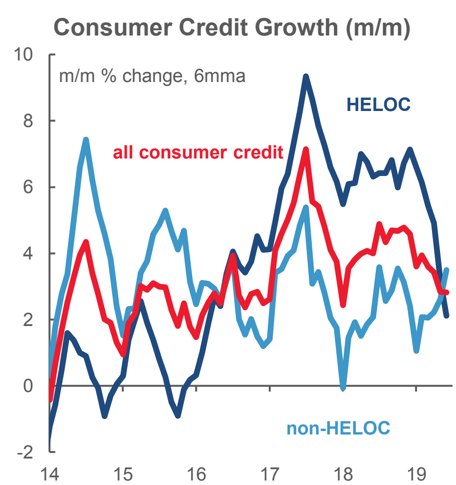
Chart 1



Sources: Scotiabank Economics, OSFI.

Chart 2



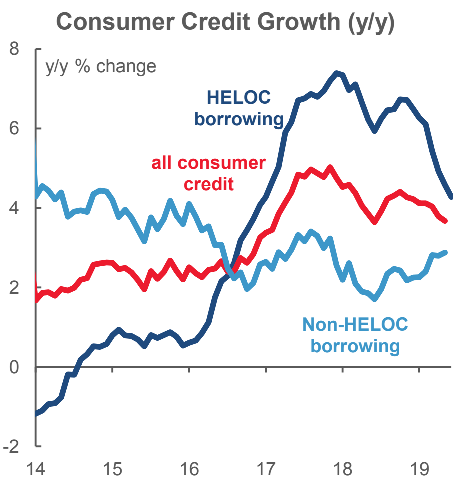
Sources: Scotiabank Economics, OSFI.

credit compared to the trough reached three years ago and only slightly below the recent peak of 47.4% reached in January of 2019 (chart 4). The vast majority of households (86%), however, do not have a HELOC and just over 10% of Canadians have both a HELOC and a mortgage (chart 5).

MORTGAGE CREDIT

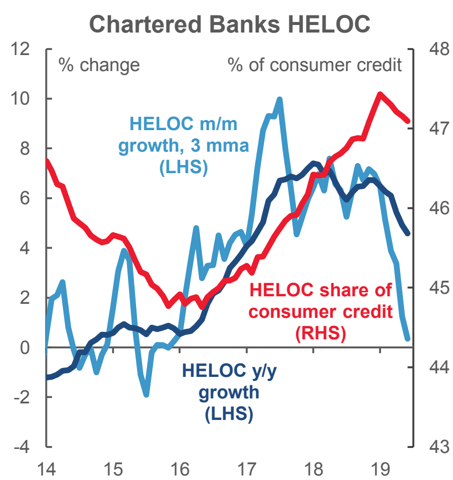
Mortgage credit growth has picked up in recent months, following a recent low in the second half of 2018. Chartered bank mortgage credit grew by 4.2% m/m saar in June, though lower than its 6.3% m/m saar increase in May—a growth rate comparable to those observed at the peak reached in the summer of 2017. The recent up-tick is in line with an apparent recovery in Canadian real estate markets, particularly in the Greater Vancouver and Greater Toronto areas, following the slump brought about by tighter mortgage underwriting standards in early-2018 as well as the introduction of foreign buyers taxes aimed at curbing speculative activity. Five-year mortgage lending rates have also continued to fall since the start of 2019 (chart 6). In addition, we now expect the Bank of Canada to cut rates over the next few quarters in response to rising global trade uncertainty. This should be eventually reflected in lower variable mortgage rates further supporting credit growth.

Chart 3



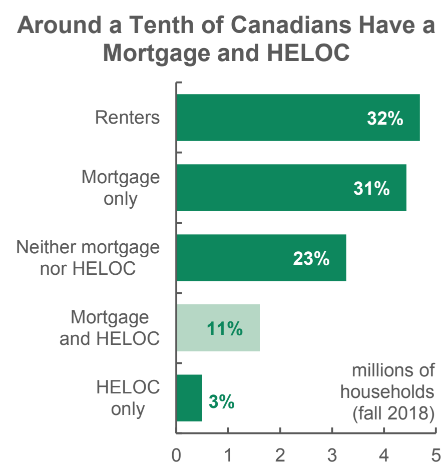
Sources: Scotiabank Economics, OSFI.

Chart 4



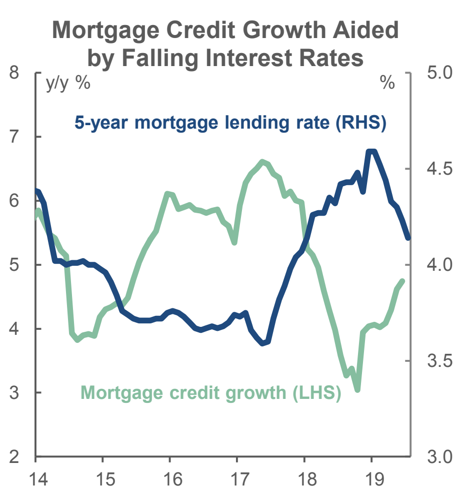
Sources: Scotiabank Economics, OSFI.

Chart 5



Sources: Scotiabank Economics, Mortgage Professionals Canada.

Chart 6



Sources: Scotiabank Economics, OSFI, CMHC.