September 3, 2019

Canadian Household Credit Growth Slows in July

- **Canadian overall household credit growth held at 3.6% y/y from June to July, but its leading edge slowed from 4.0% m/m in June to 3.5% m/m in July as m/m mortgage credit growth came down from June's 4.8% to 4.0%.**
- **Residential mortgage credit continued to drive the trend in overall household credit growth with a 3.8% y/y increase in July, up 10 bps from June. Meanwhile, trend consumer credit growth slowed 20 bps to only 3.1% y/y, its lowest rate in 4 years.**
- **July's still-high, but slightly slower, m/m mortgage-credit growth rate will likely be greeted with some relief by the Bank of Canada, which we expect to prepare ground tomorrow for a rate cut at its October meeting.**

HOUSEHOLD CREDIT GROWTH SLOWS ON STILL-STRONG TREND

Canadian trend household credit growth held constant at 3.6% y/y from June to July as credit demand continued to turn the corner from its spring pause. On a m/m annualized basis total household credit decelerated in July to 3.5% compared to June's 4.0%, but the 3-month moving average trend continues to point upward (chart 1). Demand for residential mortgages has been the primary driver behind household credit borrowing as consumer credit generation has flagged.

MORTGAGE GROWTH SLOWS FROM JUNE, TREND STILL SOLID

Residential mortgage credit, which accounts for about 71% of total household credit, slowed from 4.8% m/m growth in June to 4.0% m/m in July, but continues to trend strongly with July's 3.8% y/y increase the highest 12-month gain in just over a year. The more recent trend is also solid at 4.4% on a 3-month moving average basis (chart 2). Falling market interest rates (chart 3) and still-moderate house price growth (chart 4) have been a boon to demand for mortgage credit so far this year. With long-term rates lower than short-term rates, home buyers have had a rare opportunity to lock in longer maturity fixed-rate mortgages at lower rates than if they had opted for variable rate mortgages. While the Bank of Canada lauded the role of lower rates in stabilizing Canada's housing markets in its July 10 statement, the Bank will be relieved to see the deceleration in mortgage credit growth from June to July as it prepares to cut its target rate.

CONSUMER CREDIT GROWTH TRENDS STILL WEAKENING

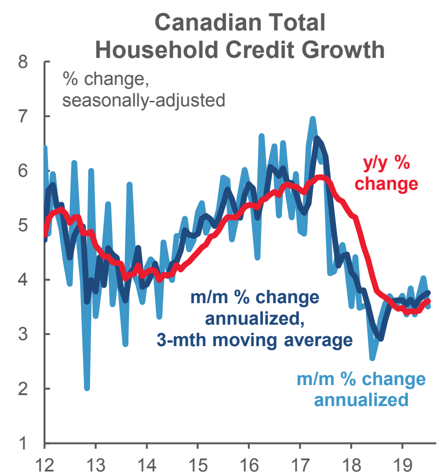
While overall household credit is trending higher on the back of residential mortgage growth, consumer credit is trending in the opposite direction and posted a 3.1% y/y growth rate in July, its lowest 12-month growth rate since March 2016. Despite a 20 bps month-on-month uptick from 2.1% in June to 2.3% in July, consumer credit has been trending downward in year-on-year terms since end-2017 and in its 3-month moving average since mid-2018 (chart 5). Although lower market interest rates have increased demand for residential mortgage credit (chart 6), rates on consumer credit have come down less and only more recently, and have not spurred an increase in consumer credit growth from a four-year low (chart 7).

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com
@BrettEHouse

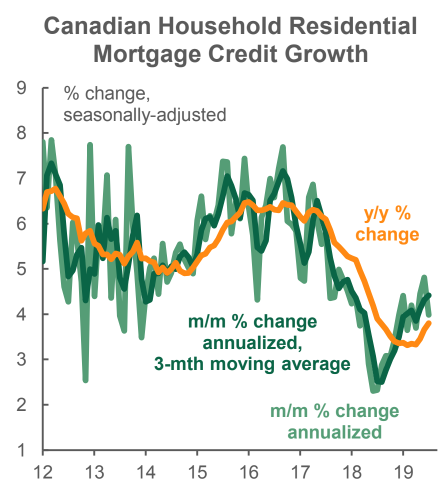
Raffi Ghazarian, Senior Research Analyst
416.866.4211
Scotiabank Economics
raffi.ghazarian@scotiabank.com
@RaffiMGhazarian

Chart 1



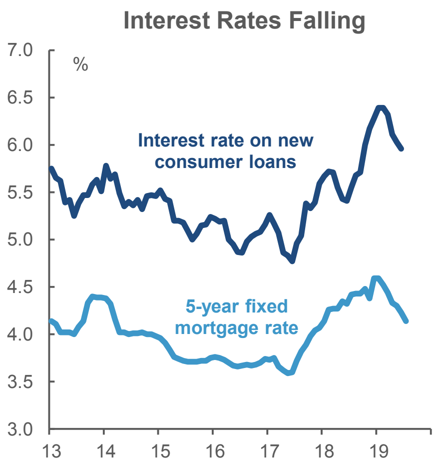
Sources: Scotiabank Economics, Bank of Canada.

Chart 2



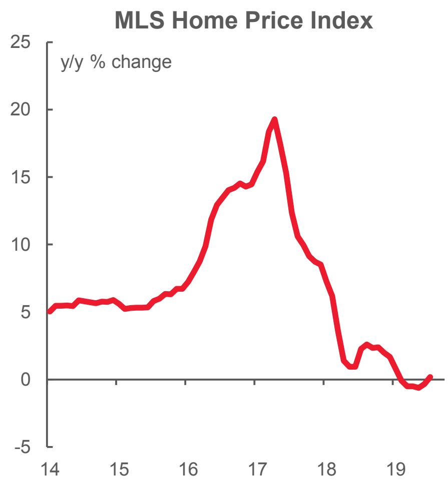
Sources: Scotiabank Economics, Bank of Canada.

Chart 3



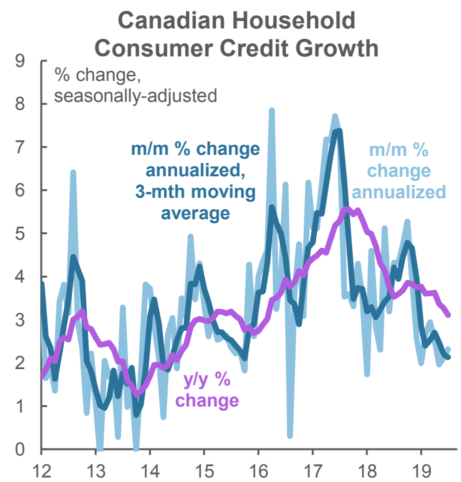
Sources: Scotiabank Economics, Bank of Canada, CMHC.

Chart 4



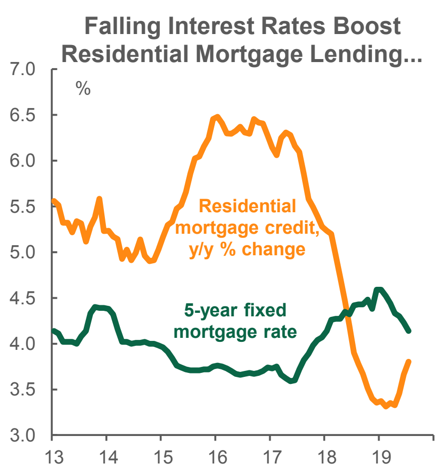
Sources: Scotiabank Economics, CREA.

Chart 5



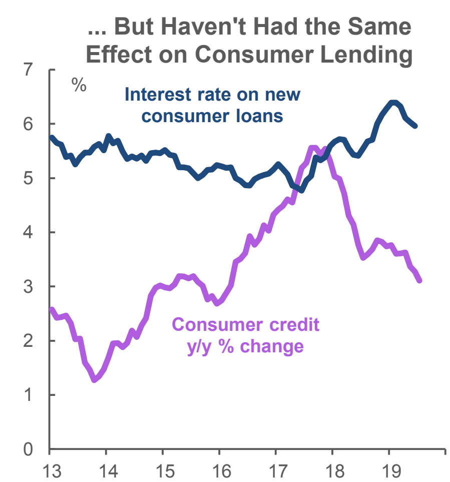
Sources: Scotiabank Economics, Bank of Canada.

Chart 6



Sources: Scotiabank Economics, Bank of Canada, CMHC.

Chart 7



Sources: Scotiabank Economics, Bank of Canada,