

## Canada: Household Credit Growth Spikes in August

- Canadian household credit growth accelerated to a 2-year high in August at 5.1% m/m saar.
- Residential mortgage credit growth posted a 2-year high at 5.4% m/m saar, supported by a mid-July reduction in the mortgage qualifying rate and a continued decline in headline mortgage rates.
- Consumer credit growth hit a 10-month peak at 4.3% m/m saar, but overall y/y trend growth was unchanged from last month.

### CANADIAN HOUSEHOLD CREDIT GROWTH SURGES

Total Canadian household credit growth shot up in August as Canadians continue to unwind the trough in borrowing from the beginning of 2019. In August, total household credit growth grew by 5.1% m/m saar, a 2-year high (chart 1), about 145 bps faster than the 3.67% growth recorded in July, with 87 bps coming from mortgages and 58 bps from consumer credit. The expansion in total household credit was boosted by easier borrowing conditions, which led to a strong acceleration in both residential mortgage and consumer credit growth.

Despite an all-time high household debt-service ratio and a near-record ratio of debt to personal disposable incomes (chart 2), Canadians are still responding to lower market interest rates and strong labour markets by borrowing more. The Bank of Canada (BoC) is unlikely to step in—at least immediately—to tighten macroprudential measures on mortgage and consumer loans as the BoC is focused on preventing the Trump slowdown from spilling over into Canada. With uncertainty remaining at elevated levels and global demand weakening, business investment and exports are going to be further delayed in picking up the Canadian growth baton from consumers. With housing inventories in Toronto and Vancouver still at or near 20-year lows and prices set to remain firm, the BoC shall be inclined to let Canadians go deeper into debt to sustain growth.

### RESIDENTIAL MORTGAGE CREDIT EXPANSION REACHES 2-YEAR HIGH

Residential mortgage credit growth shot up again in August, following the mid-July reduction in the mortgage qualifying rate from around 5.34% to 5.19%, the first cut since 2016. Mortgage loan growth accelerated by 5.4% m/m saar in August—the fastest pace in two years, and trend growth reached a one-year-high of 4.0% y/y (chart 3). With the BoC looking to insure against a Trump-imposed slowdown, residential mortgage credit growth is expected to remain robust as the popular five-year rate returns to the same level as five years ago (chart 4).

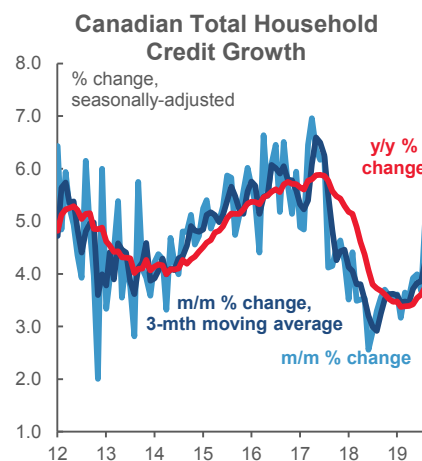
Mortgage loan growth from chartered banks has continued to accelerate while nonbank lending growth kept slowing—continuing their trends from the second half of 2018 (chart 5). While the tightening of the B20 lending rules initially shifted mortgage growth to the less-regulated non-bank sector and away from regulated banks, growth in lending by both groups appears to be returning to underlying trends. Chartered banks remain the primary source of mortgage credit, with almost 80% of home loans sourced from them—consistent with the five-year average.

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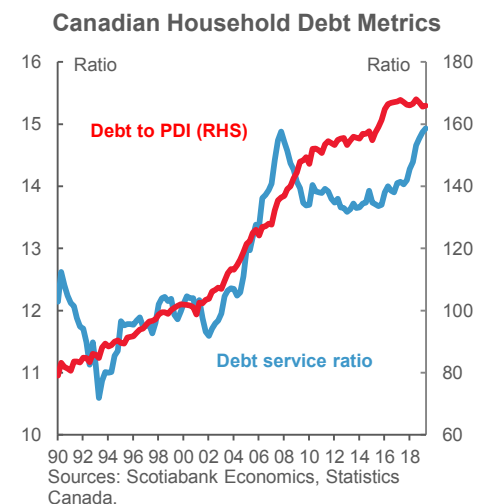
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Chart 1



Sources: Scotiabank Economics, Bank of Canada.

Chart 2



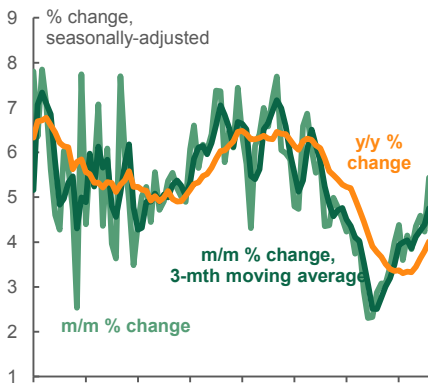
Sources: Scotiabank Economics, Statistics Canada.

**CONSUMER CREDIT GROWTH ALSO SHOOTS UP, BUT LONG-TERM TREND STILL WEAKER**

Consumer credit growth in August jumped to a 10-month-high of 4.3% m/m saar, but long-term trend growth remained at 3.1% y/y, the same growth rate as July (chart 6). Consumption growth has cooled since end-2017 (chart 7) and consumer borrowing has decelerated along with it. The August spike in consumer borrowing implies that lower consumer rates could help lift consumption growth going forward (chart 8).

Chart 3

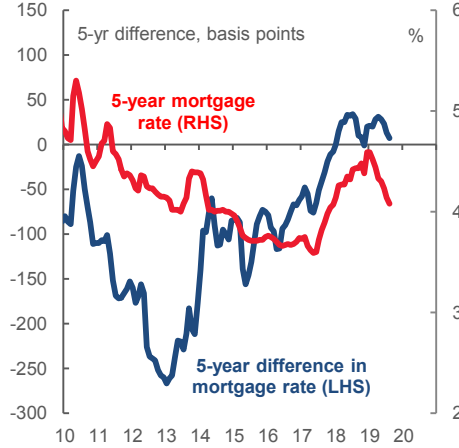
**Canadian Household Residential Mortgage Credit Growth**



Sources: Scotiabank Economics, Bank of Canada.

Chart 4

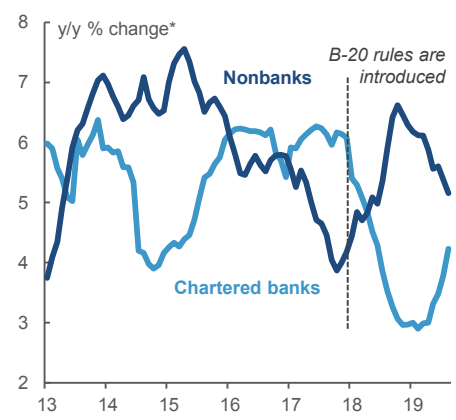
**5-yr Mortgage Rates Falling**



Sources: Scotiabank Economics, CMHC.

Chart 5

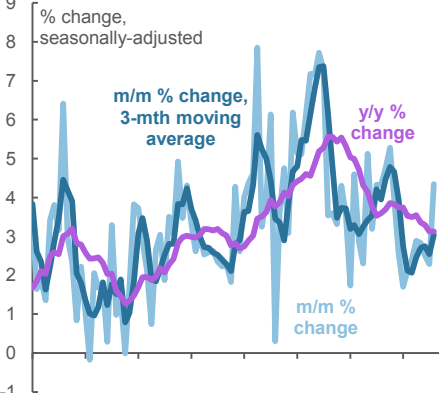
**Residential Mortgage Credit Growth**



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

Chart 6

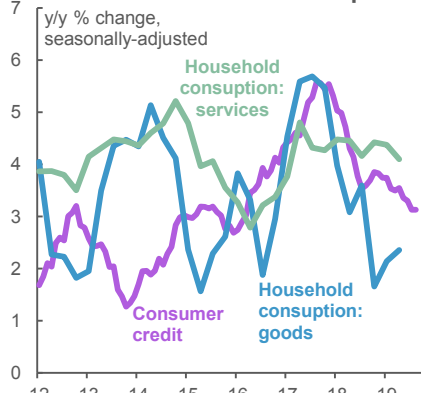
**Canadian Household Consumer Credit Growth**



Sources: Scotiabank Economics, Bank of Canada.

Chart 7

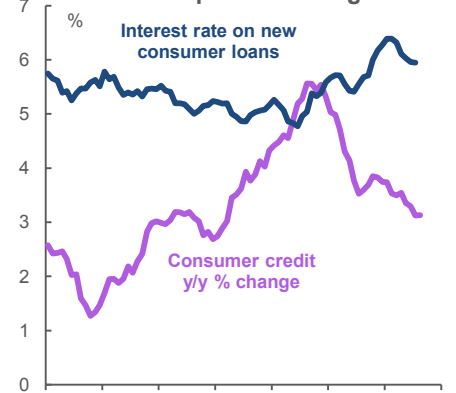
**Canadian Household Consumer Credit Growth and Consumption**



Sources: Scotiabank Economics, Bank of Canada, Statistics Canada.

Chart 8

**Consumer Loan Rates Set to Spur Borrowing**



Sources: Scotiabank Economics, Bank of Canada.

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