October 15, 2019

Canada: HELOC Growth Continues to Slow in August

- **Echoing already-released Bank of Canada data, total chartered bank household credit growth accelerated in August in OSFI's numbers, supported by an expansion in both residential mortgage credit and non-mortgage credit that was the fastest in about two years.**
- **Growth in home equity lines of credit (HELOCs) has slowed since its peak in late 2018, and HELOC borrowing is now expanding at its slowest rate since end-2016.**

HOUSEHOLD CREDIT GROWTH FROM CHARTERED BANKS ACCELERATES FURTHER

Household credit growth at chartered banks monitored by OSFI accelerated in August, supported by continued strength in mortgage credit growth as well as a continued pickup in non-mortgage consumer credit growth. Total borrowing by individuals from chartered banks rose by 5.8% month-over-month at a seasonally adjusted annualized rate (m/m saar), above the six-month average of 4.7% (chart 1).

This pickup mirrors more comprehensive data previously released by the Bank of Canada, but OSFI's numbers provide detail on recent developments in home equity lines of credit (HELOCs), which has been a persistent target of concern. Mortgage loan growth accelerated to 6.8% m/m saar, reflecting the recent revival in Canadian housing market activity after a weak start to the year. Meanwhile, growth of consumer credit excluding HELOCs slightly decelerated to 4.4% m/m saar and growth in HELOCs slowed to 1.4% m/m saar, well below the 2019 year-to-date average of 2.0% m/m saar, and double-digit m/m growth rates seen in 2017. Six-month average growth rates continued to trend upward in mortgages and consumer credit, while falling in HELOCs (chart 1, again).

MORTGAGE CREDIT TREND GROWTH REMAINS STRONG WHILE HELOC BORROWING WANES

Mortgage credit trend growth sped up from July, while HELOC borrowing decelerated. Total mortgage credit trend growth from chartered banks accelerated to 5.5% y/y in August (chart 2), in line with rising home sales as labour markets have continued to perform and interest rates have fallen (chart 3).

In year-on-year terms, HELOC borrowing has continued to consistently decelerate from its recent peak of 6.7% y/y near the end of 2018, reaching in August its slowest rate of expansion since the end of 2016 (chart 2, again). However, with growth at 3.7% y/y in August, HELOC borrowing is not stagnant by any means. HELOCs continue to account for almost half of the stock of all consumer credit, and around one-seventh of total household credit borrowing from chartered banks—down slightly from levels seen in 2012 (chart 4).

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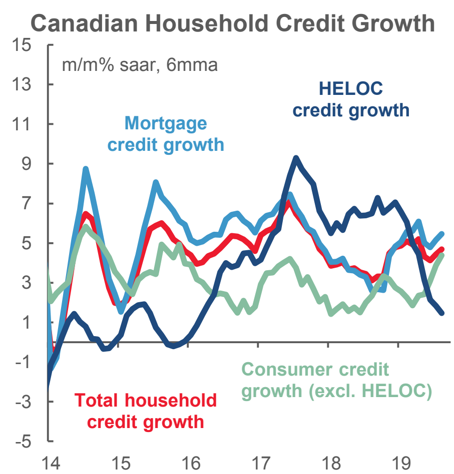
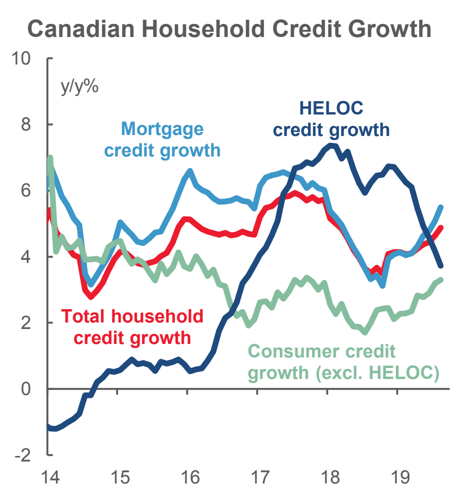
Chart 1



Sources: Scotiabank Economics, OSFI.

Chart 2



Sources: Scotiabank Economics, OSFI.

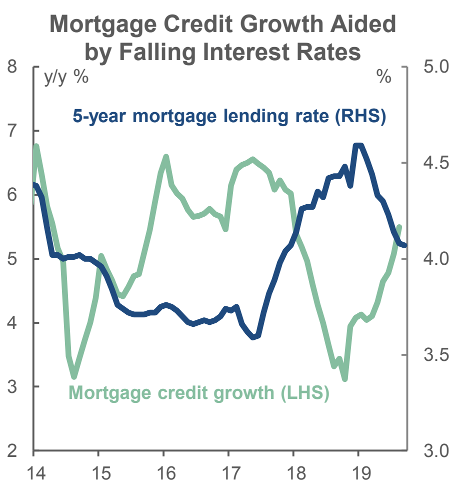
The use of HELOCs in Canada remains centralized around self-investment in the form of renovation, home repair, and debt consolidation (chart 5). In Canada, renovation spending has been on a rather steep upward trajectory for the last eighteen years (chart 6). In fact, Canadians have been spending 1.2% of their annual disposable income on home improvement since 2014, a higher share than the average of 0.7% that prevailed through the 1990s. This increasing investment in home renovation is occurring as unsold inventories of homes remain low and housing affordability is challenging—all of which favour renovation over relocation.

Overall, the number of Canadians in the Greater Toronto Horseshoe Area who own more than one property has been consistently trending upward through the last decade (chart 7), financed in part by the 15% of HELOCs that are being devoted to residential property purchases (chart 5, again). Despite the rising level of multiple-property ownership, less than half (i.e., about 45%) of households have a mortgage and/or HELOC (chart 8). With strong HELOC growth in recent years, the share of households that have a HELOC and a mortgage was 11.0% in 2018, up only slightly from 10.6% in 2017.

NON-MORTGAGE CREDIT TREND GROWTH AT TWO-YEAR HIGH

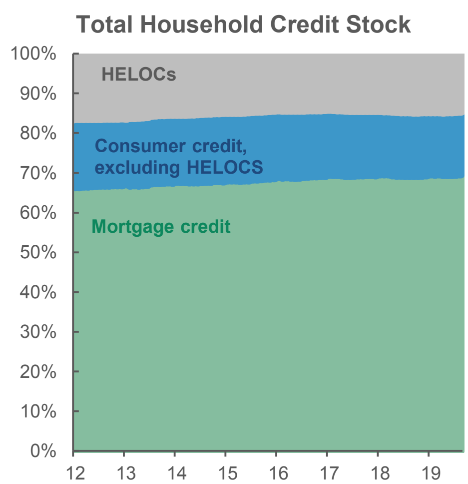
Non-mortgage credit trend growth (excluding HELOCs) in Canada has shown relative strength in recent months, following a recent low in the second half of 2018. Currently, non-mortgage credit (excluding HELOCs) accounts for roughly one-sixth of all household credit outstanding. In August, non-mortgage credit grew by 3.3% y/y—a two-year high—despite some recent weakness in Canadian real retail sales (chart 9).

Chart 3



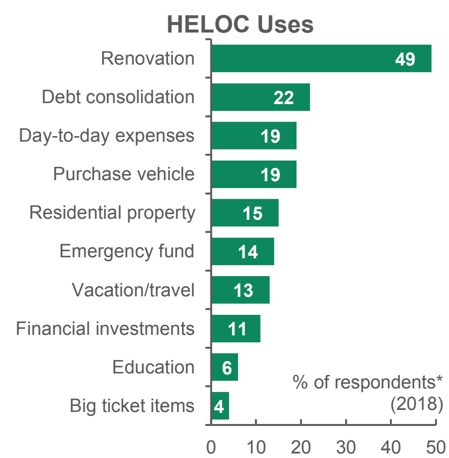
Sources: Scotiabank Economics, OSFI,

Chart 4



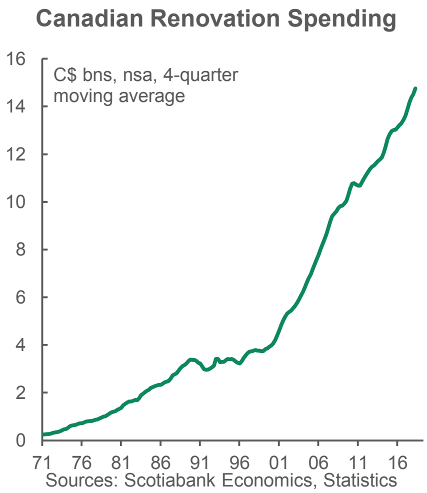
Sources: Scotiabank Economics, OSFI.

Chart 5



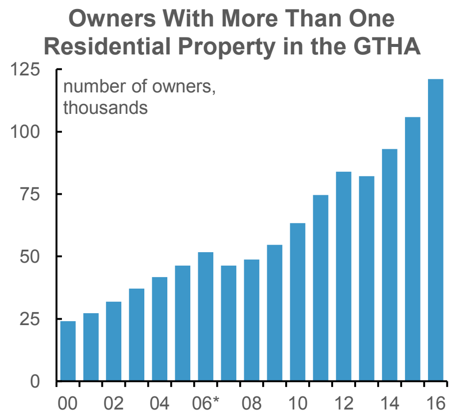
Sources: Scotiabank Economics, FCAC.
* Multiple choices allowed.

Chart 6



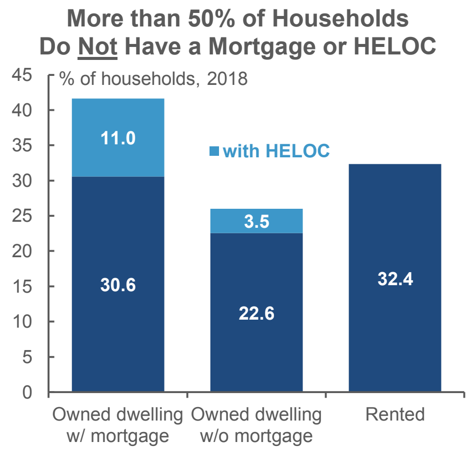
Sources: Scotiabank Economics, Statistics Canada.

Chart 7



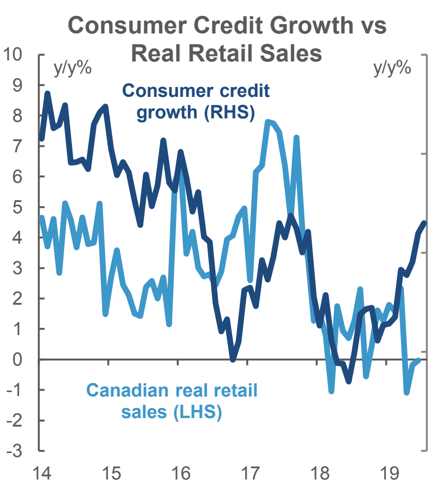
*Decrease from 06 to 07 likely caused by change in data recording method.
Sources: Scotiabank Economics, Ministry of Finance, MPAC Property Assessment Records.

Chart 8



Sources: Scotiabank Economics, Mortgage Professionals Canada.

Chart 9



Sources: Scotiabank Economics.