

Canada: HELOC Growth Ticks Up in September Amidst Longer-Run Slowdown

- Echoing the comprehensive September data on Canadian household credit [released at end-October](#), household credit growth from the subset of OSFI-monitored banks remained strong in September and slowed only slightly from August, owing to marginally weaker residential mortgage borrowing in the midst of a back-up in rates. In contrast, banks' extension of non-mortgage credit grew at the highest rate since end-2015, albeit on much smaller volumes than in the mortgage sector.
- The most salient new information in today's release concerns growth in home equity lines of credit (HELOCs), whose month-on-month growth ticked up from August, but remained well below averages of the last five years. Compared with a year ago, HELOC volumes are expanding at their slowest pace since October 2016.

HOUSEHOLD CREDIT GROWTH FROM CHARTERED BANKS REMAINS STRONG

In September, household credit growth at chartered banks monitored by OSFI decelerated only slightly from 6.0% m/m saar in August to 5.5%, but overall trend growth climbed in both the short-term (chart 1) and compared with a year ago (chart 2). Growth in total borrowing by individuals from chartered banks exceeded its twelve-month average rate by 60 bps. Total household credit growth was supported by continued strength in mortgage credit extension and a recent acceleration in non-mortgage consumer credit growth.

MORTGAGE GROWTH RESPONDS TO LOW RATES

Mortgage credit growth slightly decelerated from last month, but trend growth continued to climb in both three-month moving average and year-on-year terms. Growth in mortgage borrowing from chartered banks decelerated from 6.9% (revised) in August to 5.6% m/m saar in September. Nevertheless, trend growth rates continued to nudge back up to the numbers posted prior to the implementation of tighter mortgage-lending rules (charts 1 and 2, again), supported by strong labour markets and low interest rates (chart 3).

SMALL SEPTEMBER UPTICK DOESN'T STOP TREND DECELERATION IN HELOCs

HELOC growth picked up in month-on-month terms in September, but not sufficiently to avoid registering a broader three-year low in year-on-year growth (charts 1 and 2, again). HELOC volumes grew at 2.3% m/m saar in September, enough to nudge up the short-term trend (chart 1, again), but September's expansion was still much slower than the monthly average for nearly any one- to five-year window since 2013. Through the course of 2019, HELOC borrowing growth has consistently decelerated from its recent peak of 6.7% y/y near end-2018, to its current low at 3.3% y/y, the slowest pace since end-2016 (chart 2). HELOCs appear to be stabilizing at about half of the stock of all consumer credit from chartered banks, and at around one-seventh of total household borrowing from the banks (chart 4). HELOCs may see some further renewed interest if the Bank of Canada proceeds with the two 25 bps cuts to its overnight rate target that we anticipate (chart 5).

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Chart 1

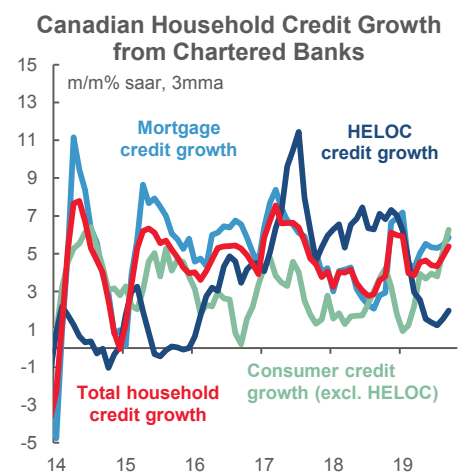
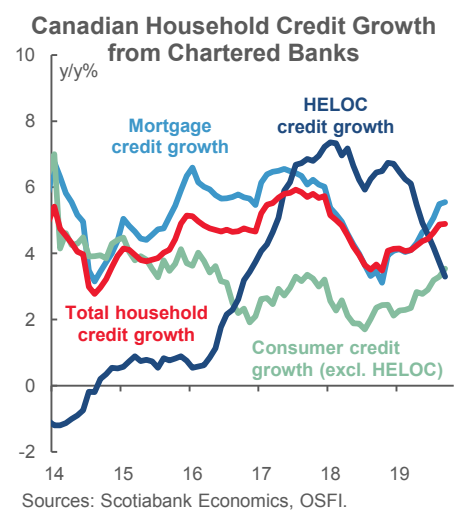


Chart 2



As HELOC growth rates have moderated, the number of households with HELOCs has also flattened out (chart 6). Only about one-tenth of Canadian households have both a HELOC and a mortgage, in a broader market in which less than half of Canadian households have any housing-related debt at all (chart 7). Amongst all HELOC borrowers, about one quarter remain current on their credit lines by making only interest payments (chart 8).

CONSUMER CREDIT GROWTH KEEPS ACCELERATING

Non-mortgage consumer credit growth (excluding HELOCs) has continued to show strength through 2019, following a slowdown in the second half of 2018 (charts 1 and 2, again). In September, consumer credit (excluding HELOCs) posted an expansion of 7.9% m/m saar—the fastest pace since end-2015. Trend year-on-year growth also continued to climb to the fastest pace since mid-2016. It's not obvious what households are using this borrowing for when retail sales figures have weakened (chart 9).

Chart 3

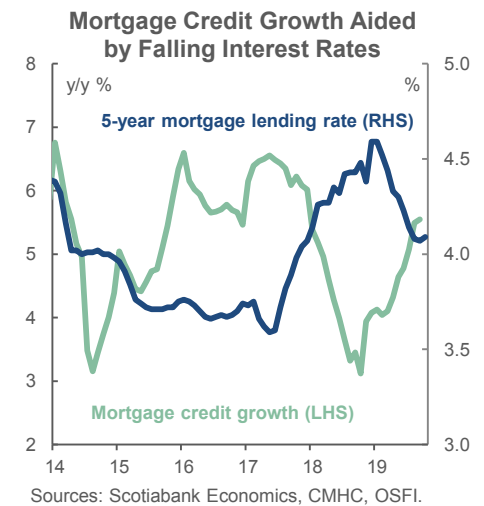


Chart 4

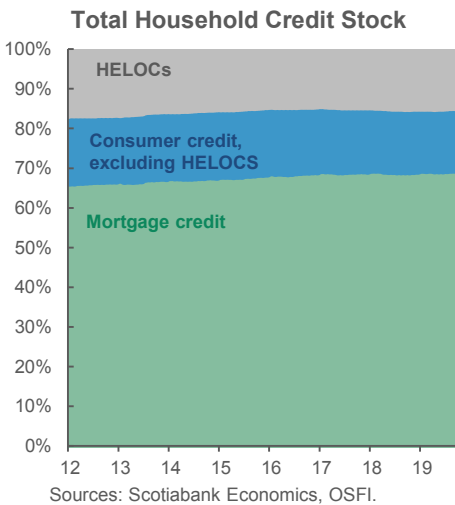


Chart 5

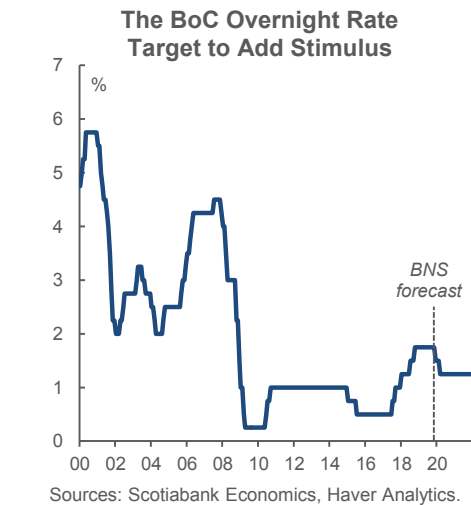


Chart 6

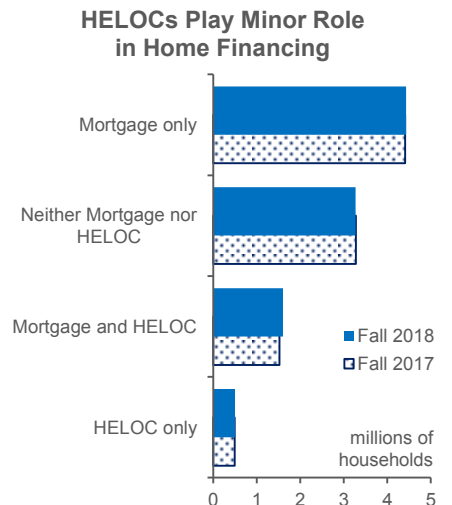


Chart 7

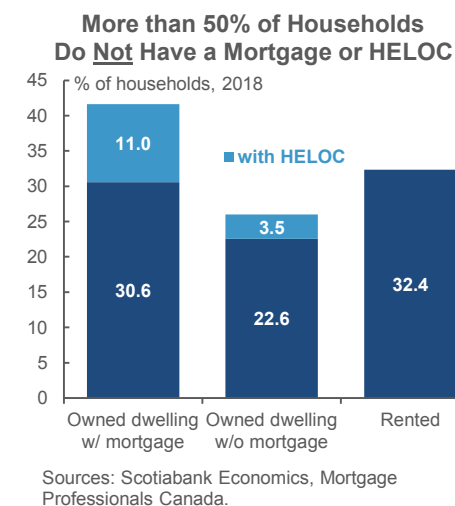


Chart 8

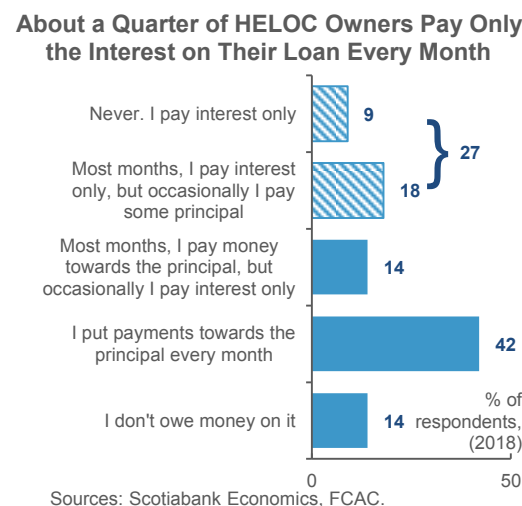
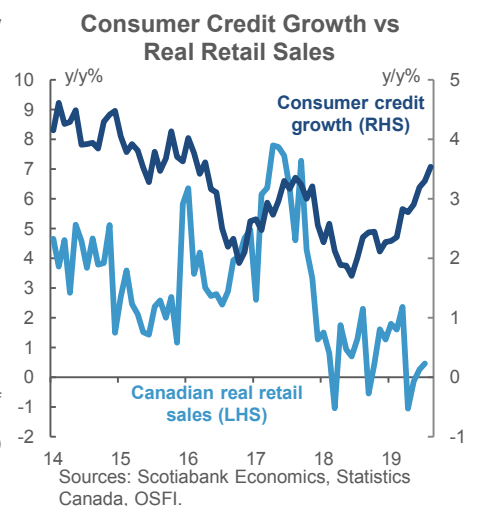


Chart 9



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