Canada: Mortgage Growth Keeps Accelerating

- **Canadian household credit accelerated in October to its fastest monthly pace since July 2017.**
- **The pick-up was driven entirely by a continued rise in mortgage borrowing, which saw its fastest monthly expansion since April 2017, a time that was well before the B-20 mortgage guidelines were tightened at the beginning of 2018.**
- **Consumer credit growth slowed in the month, continuing a two-year trend deceleration in year-on-year terms.**

HOUSEHOLD CREDIT GROWTH BOOMING AGAIN

In October, total Canadian household credit expanded at its fastest monthly pace in over two years—despite a small back-up in interest rates in September and a slow-down in net hiring in the month (chart 1). Total household credit growth accelerated from 4.4% saar in September to 5.5% in October, the strongest monthly gain since July 2017. Compared with a year ago, trend growth rose to 4.0% y/y, the quickest since June 2018, which marked the fifth straight month of year-on-year acceleration.

The quickening in overall household credit growth has been led by mortgage borrowing, which accounts for nearly three-quarters (i.e., 72%) of the stock of total household credit outstanding. Robust labour markets are fueling demand with strong hiring (chart 2) and wage growth at over twice the rate of headline inflation. At the same time, five-year mortgage rates have come down since early-2019 (chart 3) and mortgage qualifying rates were reduced in July 2019.

In contrast, consumer credit has been on a slowing trend over the last two years as consumer loan rates haven't moved much (chart 4). Although the combination of rising wages and lower mortgages rates have improved housing affordability somewhat in 2019 (chart 5), housing prices remain high and are increasing robustly in Canada's major cities. Housing demand continues to run ahead of supply in Toronto, Vancouver, and Montreal—and looks set to continue doing so as immigration rates keep rising. In response, Canadians may be prioritizing borrowing to buy a home and throttling back on new consumer credit.

In recent communications, the Bank of Canada's senior leadership has noted its concern that any move to cut rates could set off a new flurry of household borrowing. This horse appears already to have left its barn—and businesses that finance their operations at the shorter end of the market are paying rates higher than the belly of the curve (chart 6). The Canadian economy remains too reliant on real-estate investment for growth, but the current mix of short-term and longer-term yields isn't aligned to change this.

CONTACTS

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

Alena Bystrova, Senior Research Analyst
416.866.4212
Scotiabank Economics
alena.bystrova@scotiabank.com

Chart 1

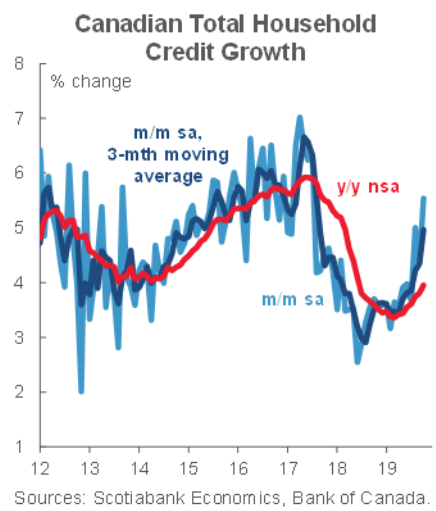
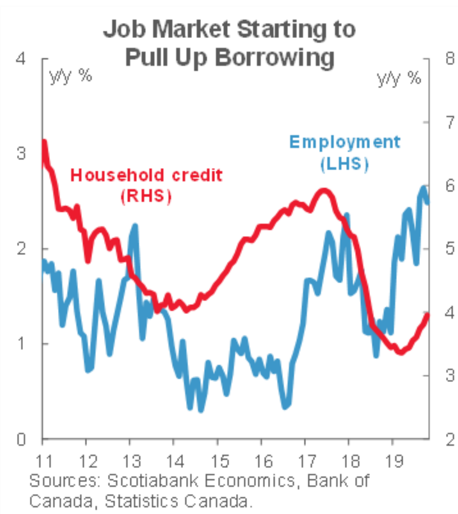


Chart 2

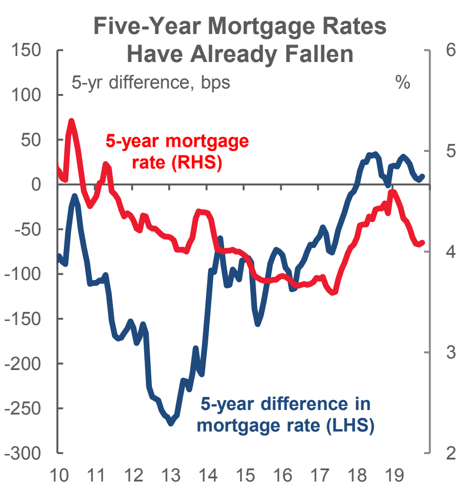


MORTGAGE CREDIT GROWTH REVISITS 2017 PACE

Residential mortgage credit growth posted another notable pick-up in October amidst still-low interest rates (chart 7). Residential mortgage growth kept accelerating, up from 4.9% m/m saar in September to 6.8% in October, the quickest monthly pace since April 2017. In year-over-year terms, growth in mortgage borrowing expanded by 4.5%, putting it back at a rate last seen in April 2018.

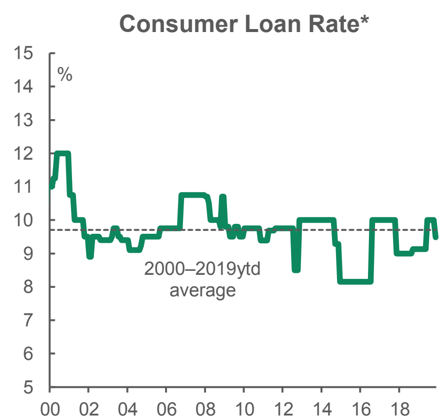
In the wake of the introduction of the tightened B-20 mortgage lending rules at the start of 2018, non-banks have seen higher growth in lending volumes than the chartered banks, but their trend growth rates have been converging over the course of 2019 (chart 8). Relative shares, however, remain stable, with non-banks accounting for about a fifth of the market (chart 9).

Chart 3



Sources: Scotiabank Economics, CMHC.

Chart 4

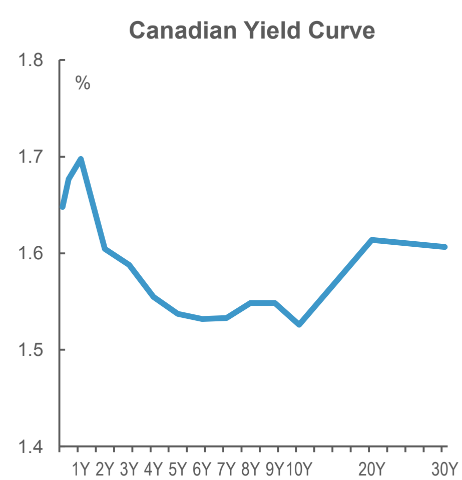


Sources: Scotiabank Economics, Bank of Canada.
*based on average loan rate of 6 major Canadian banks on a 4 year fixed term loan with 25% down and a balance of CAD 15,000 at prime risk.

Chart 5

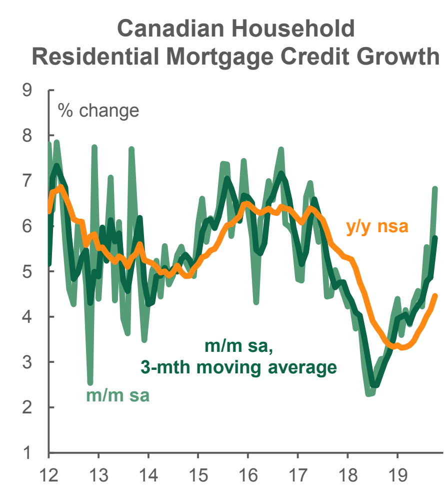
Sources: Scotiabank Economics, Bank of Canada.

Chart 6



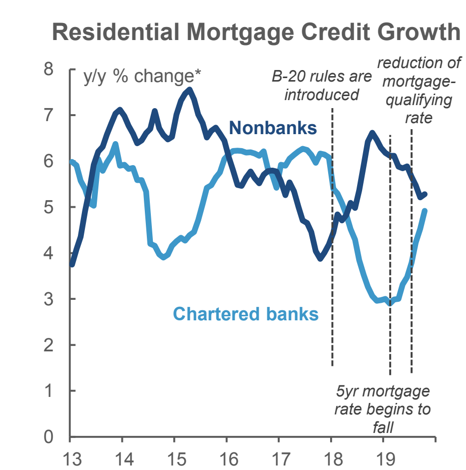
Sources: Scotiabank Economics, Bloomberg.

Chart 7



Sources: Scotiabank Economics, Bank of Canada.

Chart 8

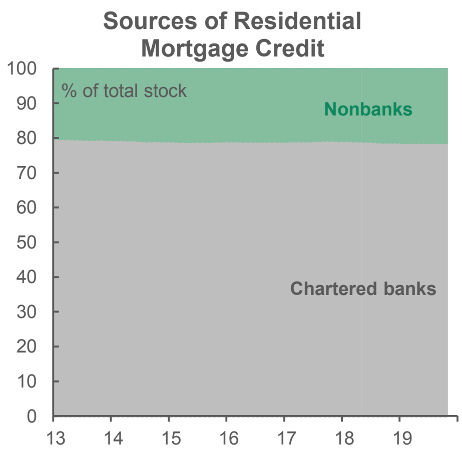


Sources: Scotiabank Economics, Bank of Canada.
*adjusts for changes in accounting standards

CONSUMER CREDIT GROWTH MORE SUBDUED

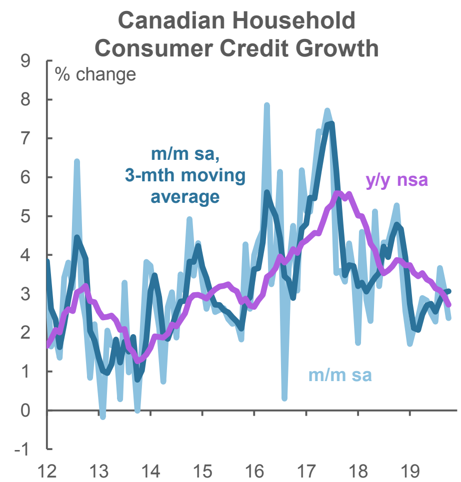
In comparison to the rebound in mortgage credit growth, consumer credit growth continues to lag, with borrowing decelerating slightly in October (chart 10). Consumer credit slowed to 2.4% m/m saar in October, down from 3.1% in September. This slowdown pulled trend growth down to 2.7% y/y, marking the sixth consecutive month of declining trend growth. Relatively weaker consumer credit growth finds some reflection in 2019's soft auto sales figures and more subdued HELOC borrowing rates.

Chart 9



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

Chart 10



Sources: Scotiabank Economics, Bank of Canada.