

Canada: HELOC Growth Slows as Housing Markets Pick Up

- Bank HELOC lending growth continued to trend downward in October, likely reflecting the pick-up in residential real-estate markets during 2019 and a return to mortgage borrowing to finance new homes.
- Bank mortgage lending growth is accelerating, while consumer credit is slowing in the face of high household debt burdens.

HELOC USE SLOWING, NON-BANK LENDING OUTPACING BANKS

Today, the Office of the Superintendent of Financial Institutions (OSFI) released data on lending to households by the chartered banks it oversees. Total household credit growth by banks decelerated for the third consecutive month, falling from 5.6% m/m saar in September to 4.8 % m/m saar in October. OSFI's October bank data show that mortgage growth continues to accelerate, offset by slowing growth in both home-equity lines of credit (HELOCs) and other non-mortgage consumer credit (chart 1). The principal value of the OSFI data lies in the detail they provide on credit extension by banks and specific details on Canadians' use of HELOCs that are not available elsewhere. In year-on-year trend terms, the pace of HELOC borrowing continues to slow (chart 2).

OSFI's data broadly corroborate numbers for October previously provided by the Bank of Canada (BoC) on November 29 regarding household credit growth by Canada's entire financial sector—that is, both banks and non-banks—that showed that October notched up Canada's fastest monthly expansion in household credit since July 2017 (chart 3). The financial-sector-wide pick-up in household credit was driven entirely by faster growth in mortgage borrowing, while consumer credit growth in the month continued its two-year trend deceleration in year-on-year terms. Our dissection of the BoC data is available [here](#).

The contrast in overall household credit growth between the mild deceleration amongst the banks (chart 1, again) and continued acceleration in growth from the financial sector as a whole (chart 3, again) implies that non-banks are likely still seeing faster growth in both mortgage and non-mortgage lending than the more heavily regulated banks (chart 4). Nevertheless, their respective shares in the residential mortgage market remain stable (chart 5).

BANK MORTGAGE LENDING GROWTH ACCELERATES

Mortgage credit growth from Canada's banks accelerated from 5.7% m/m saar in September to 6.0% m/m saar in October, despite the slight backup in 5-year mortgage lending rates in October following eight straight months of decreases (chart 6). The July 2019 reduction from 5.34% to 5.19% in the Bank of Canada's qualifying rate for mortgage stress tests—the first cut since September 2016—remains stimulative for lending. Strong labour markets and wage growth are also giving support to bank mortgage lending (chart 7). Trend

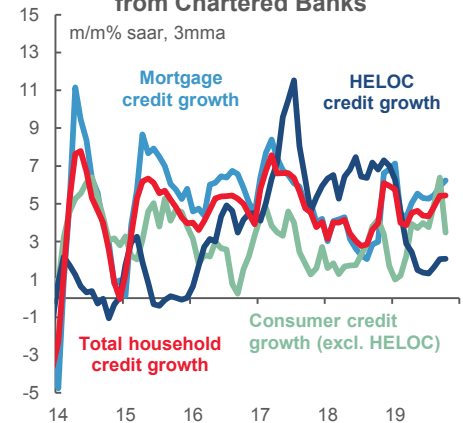
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Chart 1

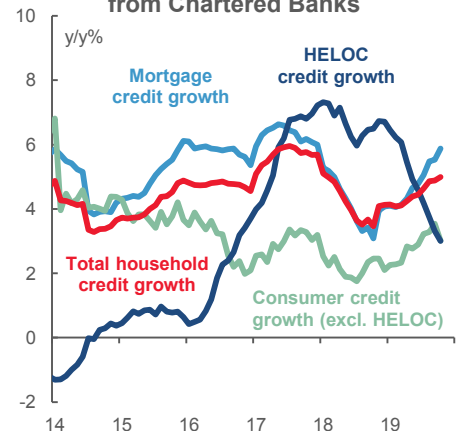
Canadian Household Credit Growth from Chartered Banks



Sources: Scotiabank Economics, OSFI.

Chart 2

Canadian Household Credit Growth from Chartered Banks



Sources: Scotiabank Economics, OSFI.

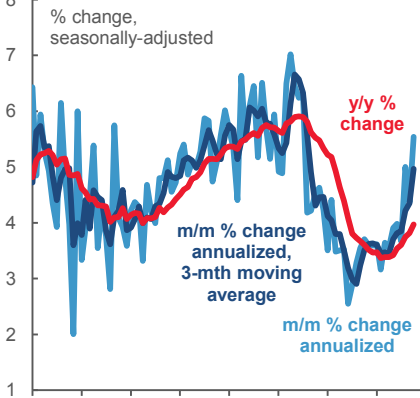
year-on-year growth in bank mortgage lending continued to rebound from its late-2018 trough of 3.1% y/y to 5.9% y/y (chart 2, again)—the fastest year-on-year expansion since end-2017.

BANK HELOC LENDING CONTINUES TO TREND DOWNWARD

Bank HELOC lending growth held steady in October at 2.4% m/m saar, the same pace as in September, (chart 1, again), but trend year-on-year growth slowed for an eleventh consecutive month (chart 2, again) to 3.0% y/y, its slowest pace since September 2016. Bank HELOC lending took off near the end of 2016 and accompanied an overall decline in housing unit sales (chart 8) as inventories tightened in major markets. Housing affordability became more challenging (chart 9) in this period and Canadians appear to have opted to continue to borrow to renovate and upgrade existing homes rather than move (chart 10). Chart 8 implies that, as housing markets have picked up again in 2019, Canadians have reduced their recourse to HELOCs and instead moved back into mortgage borrowing for new homes.

Chart 3

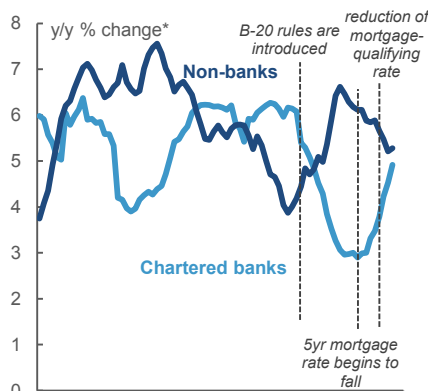
Canadian Total Bank and Non-Bank Household Credit Growth



Sources: Scotiabank Economics, Bank of Canada.

Chart 4

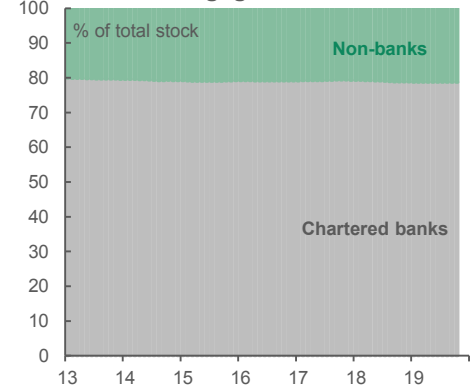
Residential Mortgage Credit Growth



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

Chart 5

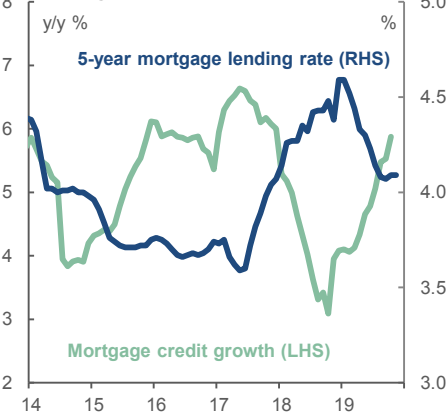
Sources of Residential Mortgage Credit



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

Chart 6

Mortgage Credit Growth Aided by Lower Interest Rates



Sources: Scotiabank Economics, CMHC, OSFI.

Chart 7

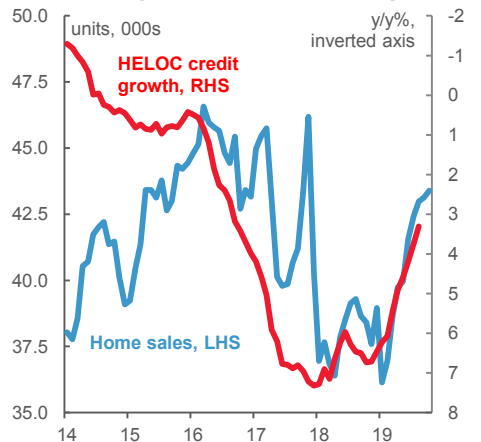
Strong Wage Gains Fueling Borrowing



Sources: Scotiabank Economics, OSFI, Statistics Canada.

Chart 8

Housing Market Shows Strength



Sources: Scotiabank Economics, OSFI, CREA.

BANK CONSUMER CREDIT CONTRACTS IN OCTOBER

Bank non-mortgage consumer credit growth (excluding HELOCs) contracted in October on a month-on-month basis for the first time since the beginning of 2018, following a relatively strong period of consumer credit growth over the course of 2019. Consumer credit growth (excl. HELOCs) contracted by 2.8% m/m saar in October, pushing trend growth down to 3.0% y/y. Throughout 2019, bank non-mortgage consumer lending has consistently outpaced retail and auto sales growth (chart 11). With household debt-service ratios at record highs and residential real-estate prices rising again, Canadians may be cutting back on consumption in order to stretch to afford housing.

Chart 9



Chart 10

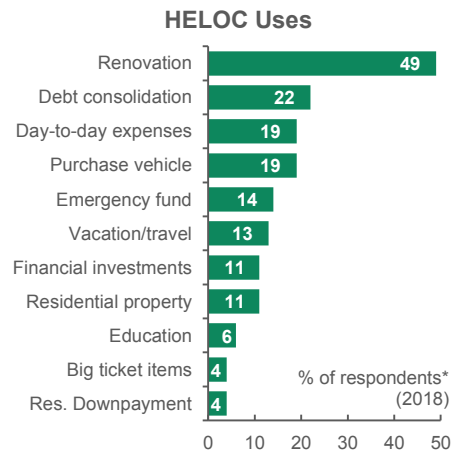
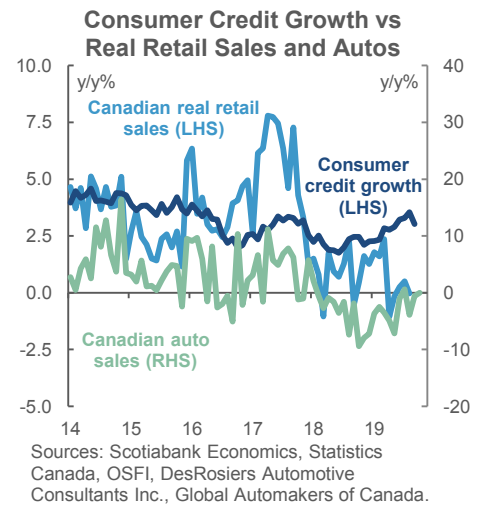


Chart 11



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