

Canada: HELOC Borrowing Contracts in November for the First Time Since 2015

- In November, HELOC borrowing from Canadian banks contracted for the first time since 2015, amidst a broader slowing in mortgage growth and stable consumer credit.

In November, total household credit borrowing as reported by the Office of the Superintendent of Financial Institutions (OSFI) slowed to the slowest month-on-month pace since the end of 2014 (chart 1). Total household credit growth edged down from 4.5% m/m saar in October to 2.2% m/m saar—the weakest pace of expansion since December 2014. The year-on-year trend slowed from 5.0% in October to 4.3% y/y November, the first decline in trend growth since the beginning of 2019 (chart 2).

HELOC BORROWING PULLS BACK

In November, home-equity-line-of-credit (HELOC) borrowing from chartered banks contracted for the first time since October 2015. The contraction of 0.4% m/m saar continued to pull the year-on-year trend lower for the eleventh month in a row to the slowest pace since mid-2016—at which point HELOC borrowing was in the beginning stages of a rapid expansion (chart 2, again).

Over the last decade, HELOC borrowing has become popular with consumers as their homes steadily appreciated in value. When the housing market entered a period of turbulence in 2018 as a result of tax and regulatory changes meant to cool activity, HELOC borrowing growth began to trend slow, and has not recovered despite the stabilization of several major urban real-estate markets (chart 3).

While home prices are rising again in several large cities, average housing affordability, albeit still challenging, has also improved (chart 4) owing to the decline in market interest rates over the course of 2019 (chart 5). In 2018, when affordability was particularly challenging, a survey conducted by the Financial Consumer Agency of Canada (FCAC) indicated that almost half of funds borrowed through HELOCs were used to finance renovations rather than relocations or the purchase of additional properties (chart 6). Although listings in some markets remain low, HELOC borrowing has come down concurrent with the recent rebound in sales (chart 7). Improved affordability may have made moving more attractive than renovating—and/or it may simply be the case that a wave of renovation projects designed to improve homes' attractiveness for sale have been completed and the properties are slowly moving to market.

MORTGAGE BORROWING SLOWS, TOO

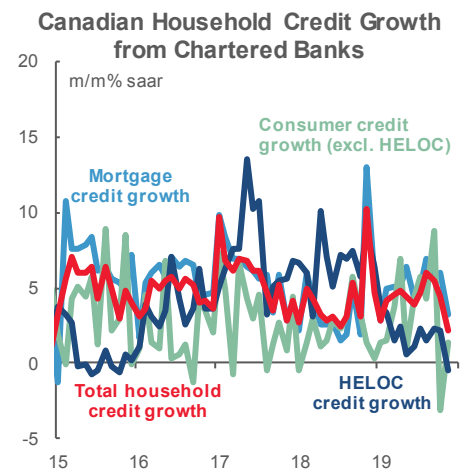
Consistent with November household credit data from the Bank of Canada that includes both bank and non-bank borrowing, mortgage borrowing from OSFI-regulated banks slowed in November despite a heated housing market (our full analysis of these data is available [here](#)). Mortgage borrowing from chartered banks slowed to 3.2% m/m saar in November from 6.1% m/m saar in October, pulling the year-on-year trend down to 5.1% y/y. Through mid-2019,

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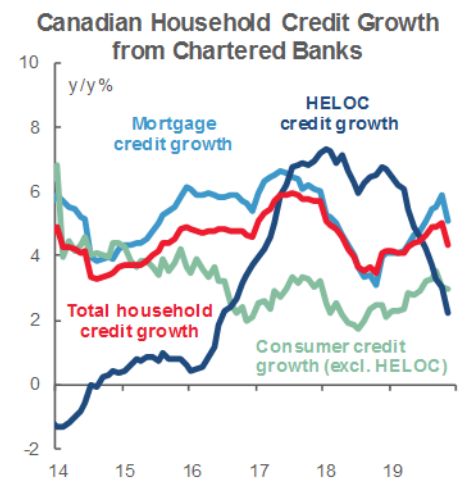
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Chart 1



Sources: Scotiabank Economics, OSFI.

Chart 2



Sources: Scotiabank Economics, OSFI.

mortgage credit enjoyed a quickening expansion on the back of added stimulus from falling market interest rates (chart 5, again). The mortgage qualifying rate was reduced in July 2019 from 5.34% to 5.19%.

Despite November’s slowdown in mortgage borrowing, 2019 saw solid growth in credit to finance home purchases.

Strong employment and wage gains (charts 8 and 9), put Canadians in a position to take on more borrowing despite already high debt levels. Although Canadian debt-service burdens remain at record highs, household balance sheets have strengthened in recent years and mortgage arrears remain low (charts 10 and 11).

CHARTERED BANK CONSUMER CREDIT REMAINS STABLE

Bank non-mortgage consumer credit growth (excluding HELOCs) picked up in November, following a contraction in October. Consumer credit borrowing accelerated by 1.4% m/m saar, leaving the year-on-year trend unchanged from last month at 3.0% y/y (chart 2, again). Though consumer credit growth has remained relatively stable, consumption patterns do not reflect this trend as Canadian auto sales and real retail sales have shown particular weakness during 2019 (chart 12). As a result, it’s not immediately clear how households are using their new consumer borrowing.

Chart 3

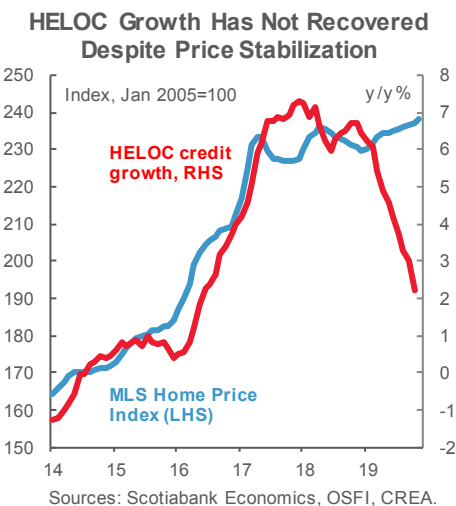


Chart 4

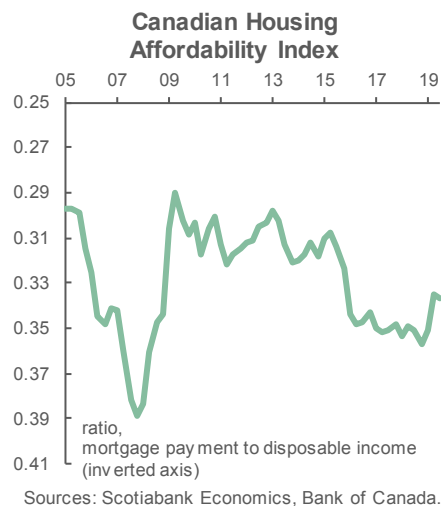


Chart 5

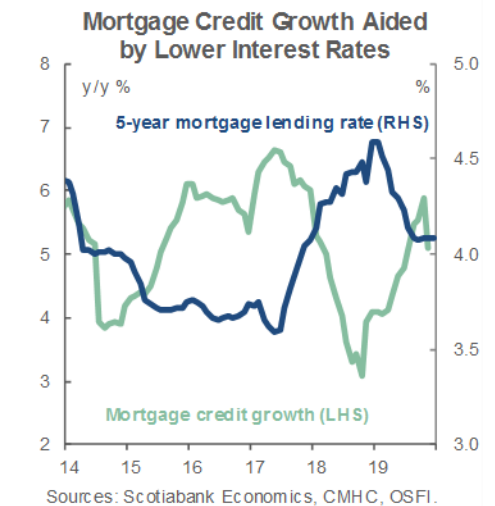
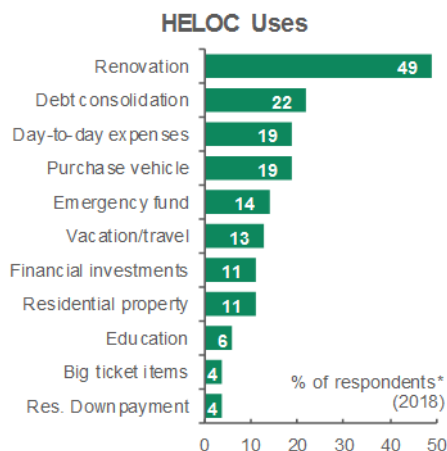


Chart 6



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

Chart 7

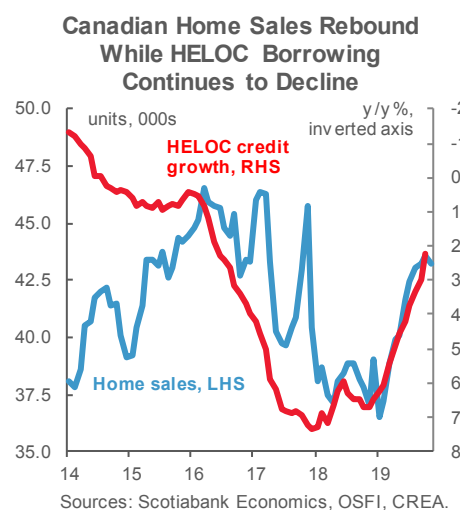


Chart 8

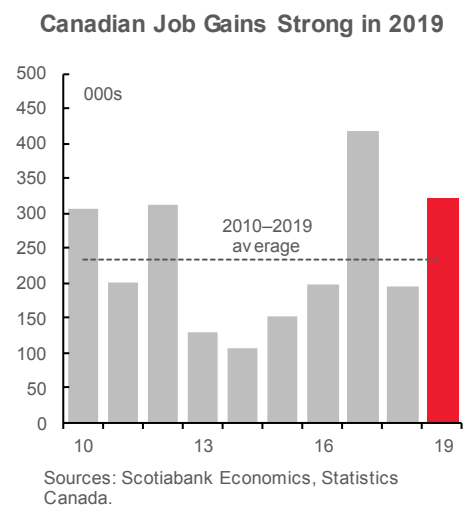


Chart 9

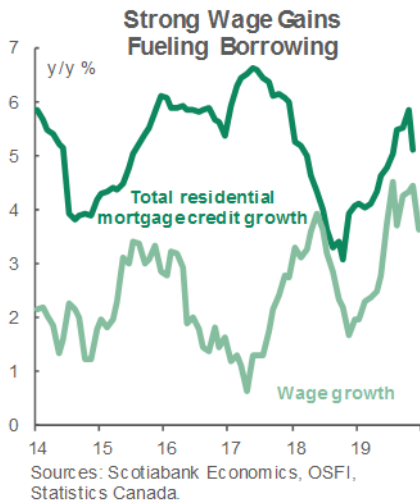


Chart 10

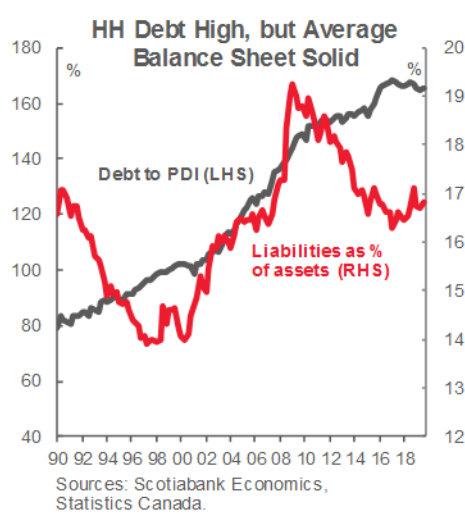


Chart 11

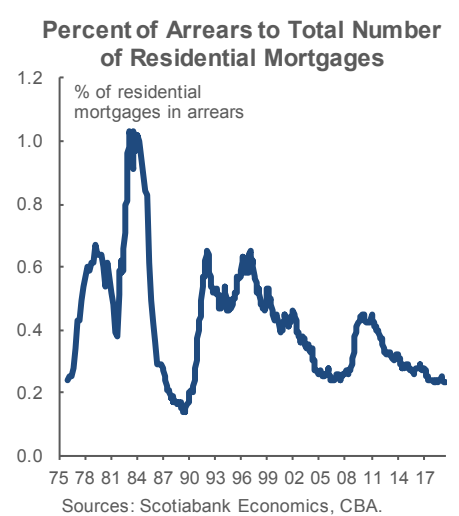
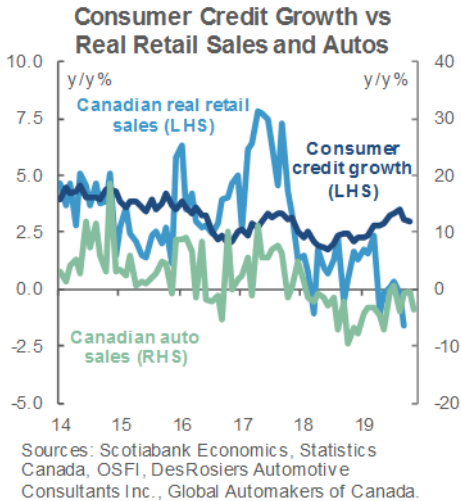


Chart 12



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