

Canada: Consumer Credit Took Off in December 2019

- Total household credit growth slowed in December as mortgage underwriting pulled back a bit from its recent spike, but consumer credit surged with a 4.4% m/m gain, the fastest since October 2018.

HOUSEHOLD CREDIT KEEPS GROWING SOLIDLY

Total Canadian household credit growth slowed from recent highs in December, but continued to pull year-on-year trend growth upward (chart 1). Overall, household credit growth came down to 4.9% m/m saar in December off of 5.9% m/m saar in November. The deceleration of household credit growth in the month was driven mainly by slower, though still strong, mortgage growth (chart 2) that was partially offset by a spike in consumer credit (chart 3). Total household credit grew by 4.2% y/y in 2019 compared with 3.5% y/y in 2018.

MORTGAGE GROWTH SLOWS, BUT REMAINS QUICK

Mortgage credit growth decelerated in December, but after November's high, mortgages continued to grow at 5.1% m/m—considerably faster than the 2017–19 m/m average of 4.5% m/m. December slowed from a revised pace of 7.7% m/m saar in November—the fastest pace of mortgage growth since late-2012. Mortgage credit also grew by 4.9% y/y in December 2019, the quickest monthly rate of year-on-year expansion since March 2018 (chart 2, again).

Mortgage borrowing picked up throughout 2019 as market and qualifying interest rates fell even as the Bank of Canada kept its benchmark overnight rate target on hold at 1.75%. Five-year mortgage rates came down over the course of 2019 (chart 4), and in July, the Bank of Canada reduced its mortgage-qualifying rate for the first time since September 2016, resulting in an increase in the number of households that would be eligible to get a mortgage loan.

Mortgage growth is likely to remain strong throughout 2020. Although we expect the Bank of Canada to cut its policy rate 2 x 25 bps this year, we don't foresee that this will be the main driver of continued mortgage borrowing. The Bank's rate cut is most likely to bring down the short-end of the Canadian yield curve and have less impact on the belly of the curve that is most relevant for the five-year term—and which has already moved, as chart 4 shows. The fall in market rates has improved home affordability at the national level (chart 5). Additionally, the recent spike in the cost of renting versus owning could push more Canadians into the residential real-estate market (chart 6). With inventories still low compared with demand, and prices high in many metropolitan markets, new and outstanding mortgages will continue to be skewed toward larger loans (chart 7).

Already high levels of indebtedness appear to be pushing mortgage borrowers to seek more loans from non-bank financial institutions (chart 8), but underwriting quality remains high. Typically, non-bank mortgage growth appears to react inversely to interest-rate changes—slowing when rates fall and qualifying criteria at banks are easier to meet, and rising when interest rates come up and it becomes tougher to get a mortgage from a bank. It's notable that non-bank mortgage growth has recently surged again even though interest rates have

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Chart 1

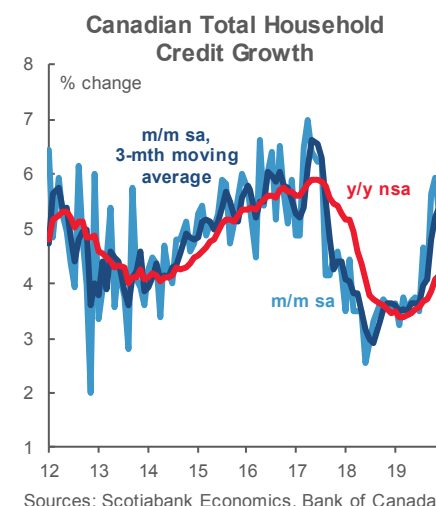
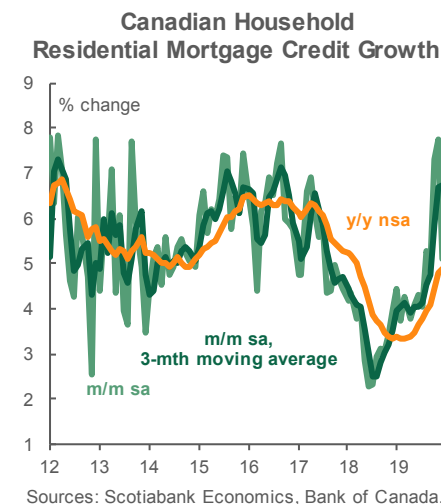


Chart 2



fallen and could go a touch lower. Still, the average credit ratings of new mortgage borrowers have progressively risen over recent years (chart 9) and mortgage delinquencies across Canada's financial sector remain exceptionally low (chart 10).

CONSUMER CREDIT GROWTH WAKES UP

Consumer credit growth revived strongly in December and rose by 4.4% m/m, the fastest monthly pace since October 2018 (chart 3, again). The relatively small decline (i.e., about 50 bps) in consumer-credit rates during 2019 (chart 11), combined with strong labour markets and rising wages, may be behind December's jump in consumer credit growth after months of waning retail and auto sales growth (chart 12). The small uptick in consumers' confidence about their future finances at the new year (chart 13) has been accompanied by a return to consumer borrowing.

Chart 3

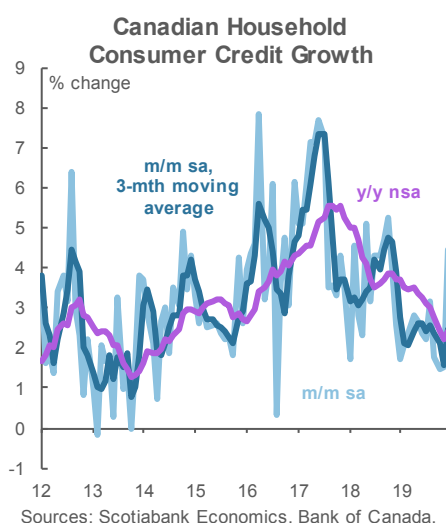


Chart 4

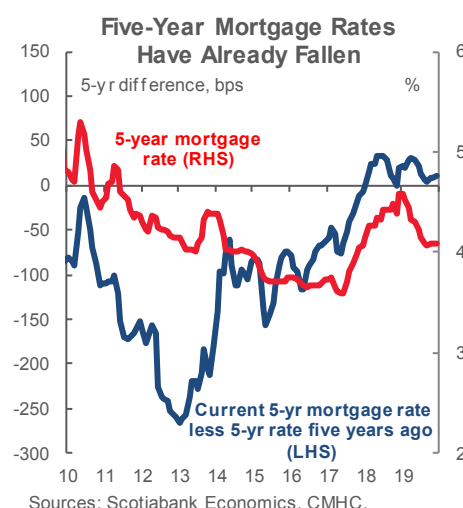


Chart 5

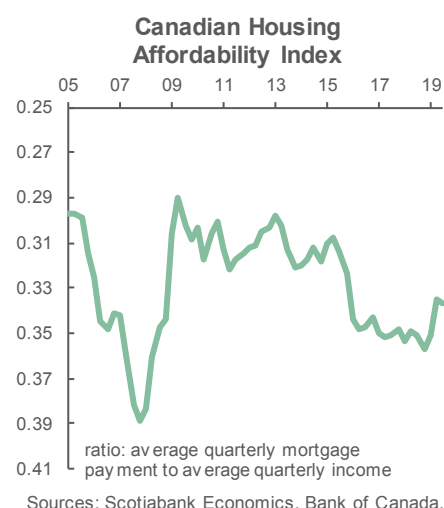


Chart 6

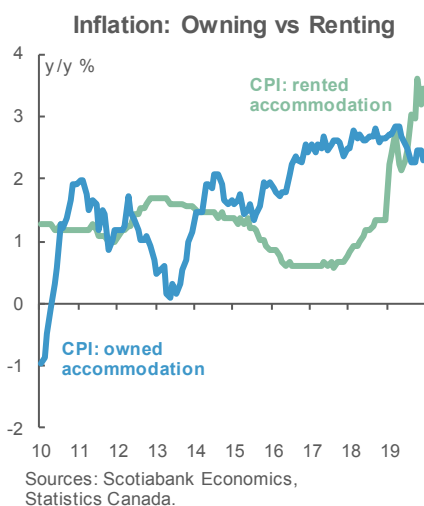


Chart 7

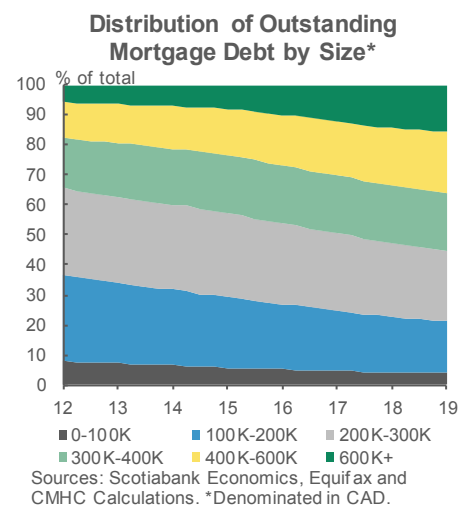


Chart 8

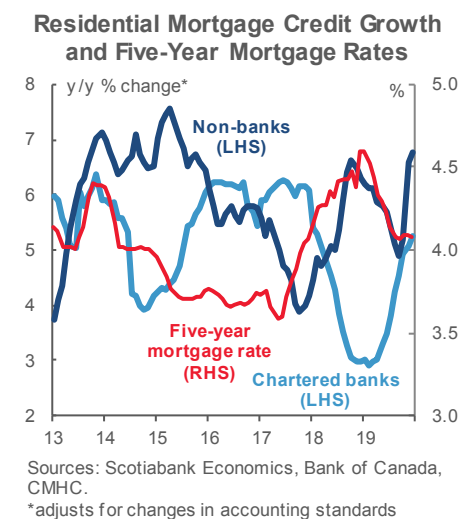


Chart 9

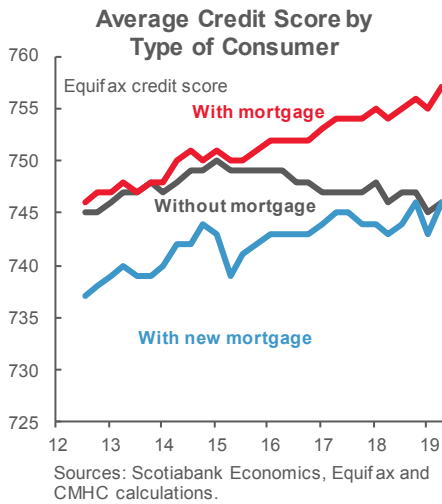


Chart 10

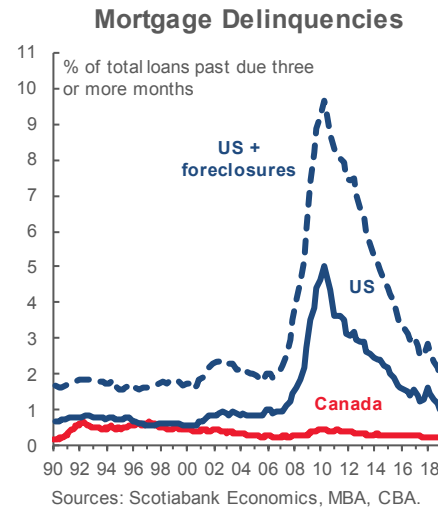


Chart 11

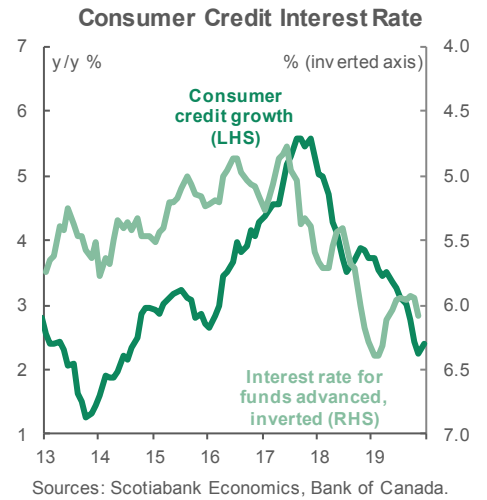


Chart 12

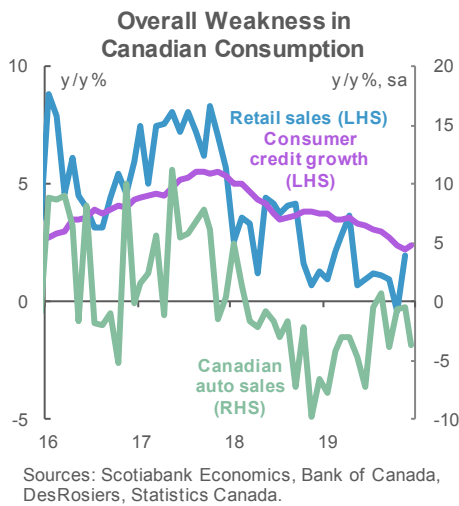
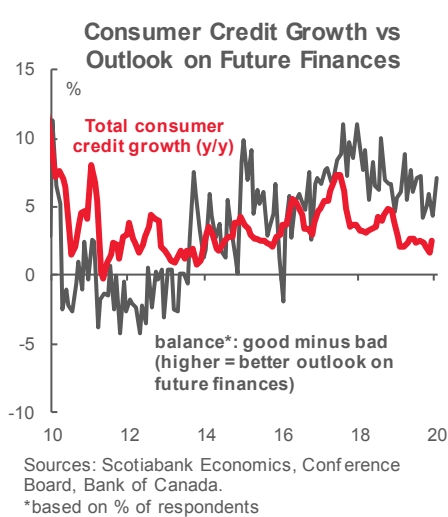


Chart 13



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