

## Canada's Household Credit Trends Upward on Mortgage Borrowing in February 2020

- Total Canadian household credit continued to trend upward in February before the spread of COVID-19 shut down parts of the economy in the following month.
- In contrast, trend growth in Canadian business credit continued to slow in February, mainly due to a continued decline in equity financing.

### TOTAL CANADIAN HOUSEHOLD CREDIT GROWTH CONTINUED TO TREND UPWARD

Canada's total household credit growth continued on its upward trajectory expanding by 4.3% y/y in February (chart 1), just before the arrival of the pandemic. Robust overall credit growth in the month was supported by solid growth in mortgage credit, slightly offset by slowing consumer credit growth.

### CANADIAN MORTGAGE CREDIT REMAINED STRONG IN FEBRUARY

Canadian household mortgage borrowing continued to trend higher, expanding 5.0% y/y—the fastest pace of expansion since Q1-2018. Mortgage borrowing was fueled by five-year mortgage rates holding steady near their two-year lows, as well as a strong jobs market, with 30K jobs created in February.

In addition, newly announced changes to the calculation of the mortgage qualifying rate by the Office of the Superintendent of Financial Institutions (OSFI) were expected to result in an easier qualifying threshold for uninsured mortgages. While easing qualifying conditions were expected to take effect in April 2020, the anticipation of higher home prices in the future may have contributed to higher borrowing sooner.

As the five-year mortgage rate began to fall through 2019, chartered bank mortgage credit growth began to pick up once more following its slowdown in 2018 (chart 3). Through 2018, non-bank borrowing began to grow at paces exceeding chartered bank borrowing as demand for housing remained constant despite tightened borrowing conditions. However, as these conditions have showed signs of relaxing in the near future, the pace of chartered bank borrowing is now almost at-par with non-bank mortgage borrowing.

### CANADIAN CONSUMER CREDIT SLOWED AGAIN

Canadian consumer credit growth waned in February, continuing the overall trend decline after a short-lived reversal over the last two months (chart 4). Consumer credit growth decelerated in February, pulling the year-on-year trend growth down to 2.5% y/y. While consumption has been weaker in recent periods, it is anticipated that Canadian consumption of essential items will pick up greatly in the coming months. Together with reduced incomes due to the pandemic we can expect a short-term boost in consumer credit growth.

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Chart 1

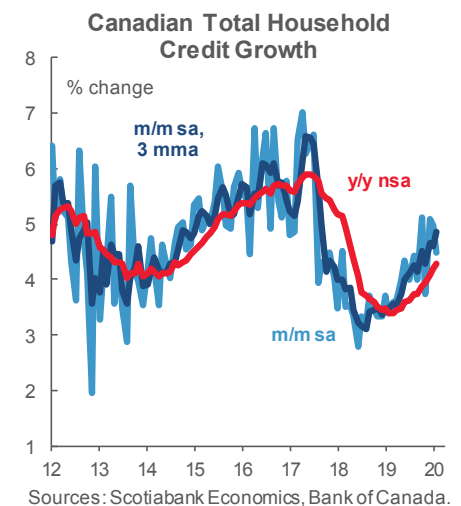
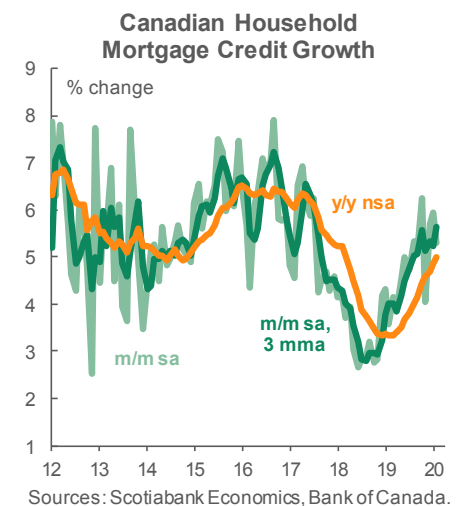


Chart 2

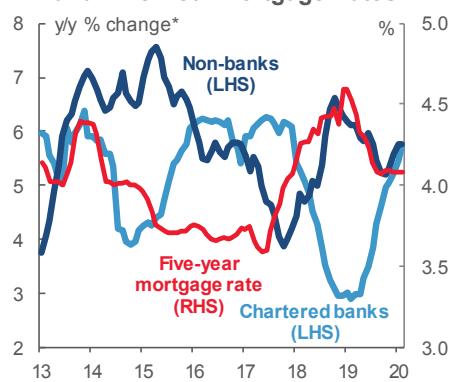


## CANADIAN BUSINESS CREDIT PULLED DOWN BY FALLING EXPECTATIONS

Canadian business credit growth continued to slow in February, pulling the year-on-year trend down further for the fifth consecutive month (chart 5). Business credit growth began to slow in 2018 during the Bank of Canada's tightening spell and increased trade policy uncertainty. This ultimately led to a decline in business sentiment and weakened business investment. The largest contributor to the overall business credit growth continues to be non-mortgage borrowing, while non-residential mortgage credit and bankers' acceptances contribute a smaller share to total business credit growth. As companies find themselves lacking cash flow in the context of pandemic-related shutdowns, we can expect demand for credit to increase going forward.

Chart 3

### Residential Mortgage Credit Growth and Five-Year Mortgage Rates

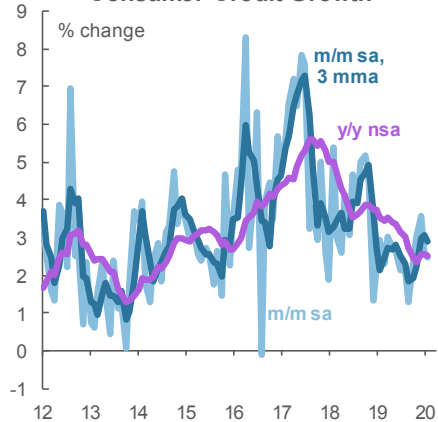


Sources: Scotiabank Economics, Bank of Canada, CMHC.

\*adjusts for changes in accounting standards

Chart 4

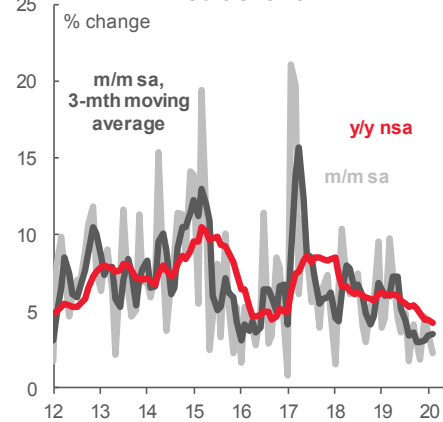
### Canadian Household Consumer Credit Growth



Sources: Scotiabank Economics, Bank of Canada.

Chart 5

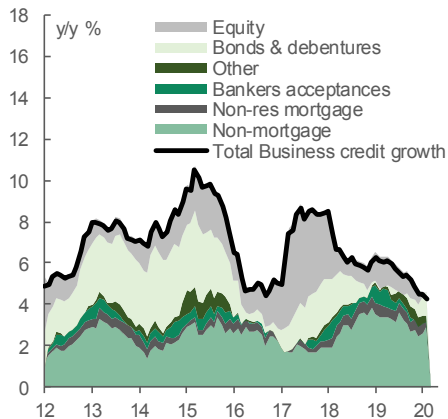
### Canadian Total Business Credit Growth



Sources: Scotiabank Economics, Bank of Canada.

Chart 6

### Contributions to Business Credit Growth



Sources: Scotiabank Economics, Bank of Canada.

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