

Canadian Consumer Credit Plunges in April While Mortgage Growth Climbs

- Total Canadian household credit posted a contraction in April, mainly driven by a marked drop in consumer credit borrowing in contrast to the continued rise in mortgage credit growth.
- HELOC borrowing, a subset of consumer credit, picked up in March, showing signs of reversal as households reached toward debt to support expenditures as payment relief programs were not yet in full effect.
- Business credit continued to expand strongly in April, as businesses actively raised funds to tide over the period of depressed revenues.

TOTAL CANADIAN HOUSEHOLD CREDIT DROPS

After a full month of lockdown in most Canadian provinces, total household credit as reported by the Bank of Canada dropped in April (chart 1). Total household credit fell by 2.4% m/m saar, pulling the trend growth down to 4.1% y/y. This contraction was mainly driven by a record plunge in consumer credit borrowing while mortgage credit growth remained strong.

MORTGAGE CREDIT GROWTH PICKS UP DESPITE PLUNGING HOME SALES

Total mortgage credit growth accelerated further in April, in contrast to the [plunge in home sales](#). Mortgage borrowing posted a monthly gain of 8.8% m/m saar—the fastest one-79 month acceleration since the October 2011—pulling the trend growth up to 5.8% y/y (chart 2).

It is likely that the accelerating mortgage expansion is a lagged effect of stronger housing activity earlier in the year, as transactions close with a delay relative to registered sales.

In recent months, chartered bank mortgage borrowing began to rise in lockstep with non-bank borrowing (chart 3). Before then, non-bank borrowing closely followed movements in the five-year mortgage rate, as borrowers chose non-bank lenders when mortgage rates were rising. As rates fell and the mortgage qualification barrier declined, chartered bank borrowing began to accelerate again.

CONSUMER CREDIT PLUNGES BY FASTEST PACE IN RECORDED HISTORY

Consumer credit plunged in April (chart 4), contracting by 26.3% m/m saar—the largest single-month drop in recorded history since 1969. This contraction in turn pulled the y/y trend into negative territory for the first time in 37 years with a 0.1% y/y decline.

As government support measures expanded in April, in particular with CERB payments starting to reach households (chart 5), and consumers turning more cautious amidst the economic disruption, consumer borrowing slowed. With other financial relief programs put in place such as rent and credit card payment deferral opportunities, households are able to finance essential purchases without running up debt.

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Chart 1

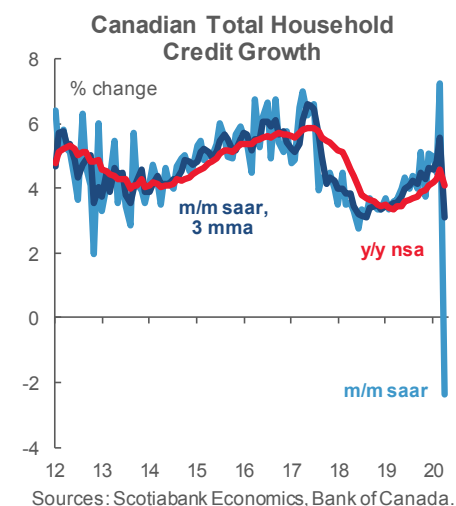
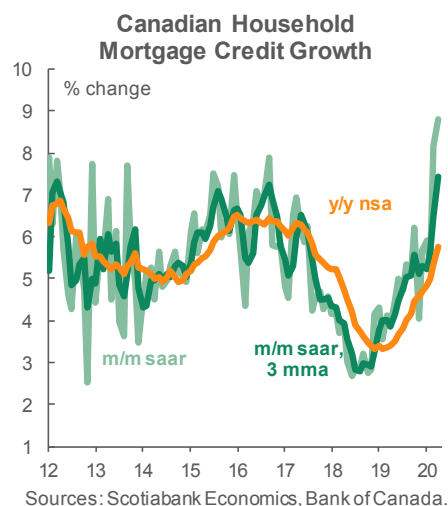


Chart 2



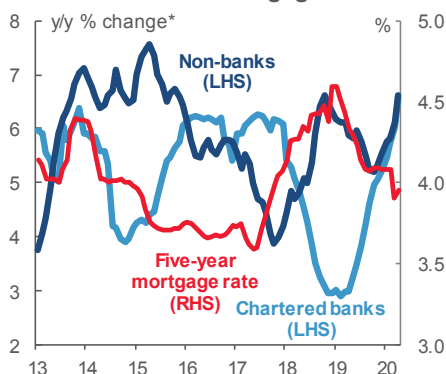
HELOC BORROWING REBOUNDED IN MARCH

HELOC borrowing, as reported by OSFI (*Office of the Superintendent of Financial Institutions*), reversed its year-long declining trend in March (chart 6). HELOC credit growth accelerated to 2.5% y/y—a significant reversal from the previous month as Canadian households found themselves reaching for built-up home equity to support essential consumption while income support programs had not yet fully taken effect.

BUSINESS CREDIT BORROWING REMAINS STRONG

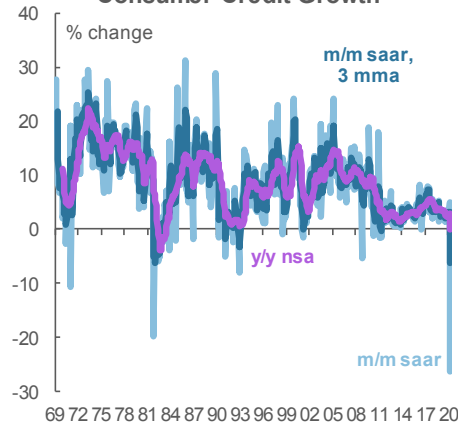
Total Canadian business credit continued its strong expansion in April while most provinces remained locked down for a full month. Despite a slight deceleration from the previous month, business credit borrowing continued to trend upward by 5.4% y/y (chart 7). The bulk of the borrowing came from non-mortgage credit growth as businesses continued to actively raise funds through borrowing to tide over the period of depressed revenues (chart 8).

Chart 3

Residential Mortgage Credit Growth and Five-Year Mortgage Rates


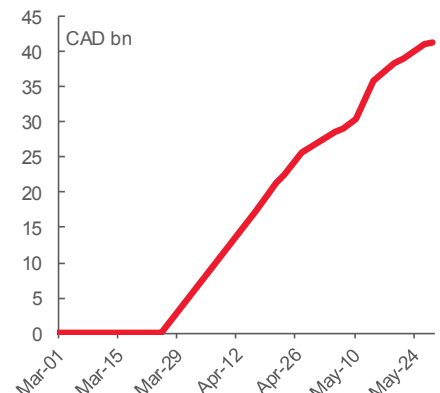
Sources: Scotiabank Economics, Bank of Canada, CMHC.
*adjusts for changes in accounting standards

Chart 4

Canadian Household Consumer Credit Growth


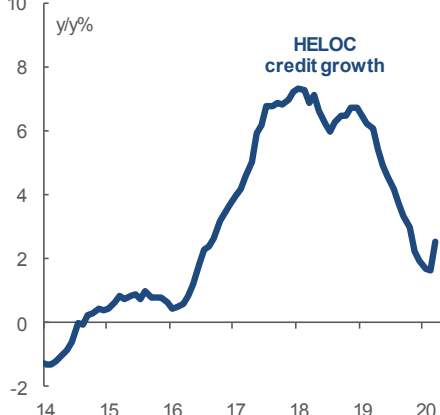
Sources: Scotiabank Economics, Bank of Canada.

Chart 5

CERB Payments*


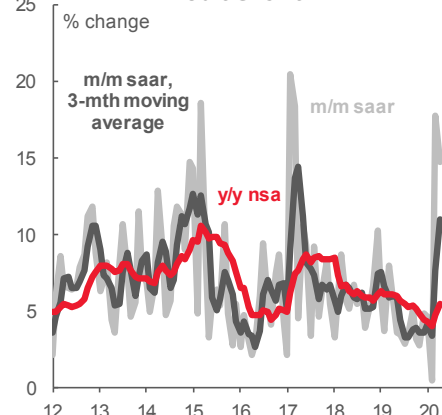
Sources: Scotiabank Economics, Government of Canada. *zero until payment program announced on March 25

Chart 6

Canadian HELOC Growth from Chartered Banks


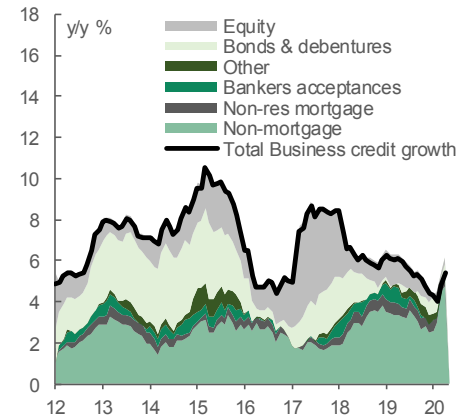
Sources: Scotiabank Economics, OSFI.

Chart 7

Canadian Total Business Credit Growth


Sources: Scotiabank Economics, Bank of Canada.

Chart 8

Contributions to Business Credit Growth


Sources: Scotiabank Economics, Bank of Canada.

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