Canadian Household Credit Growth Slows (May 2019)

- **Household credit growth decelerated in May with a strong rise in mortgage loans offset by flat consumer credit growth.**
- **HELOC loans fell month-on-month for the first time since May 2016 as they remain on a slowing trajectory following strong increases through 2017 and 2018.**

CREDIT GROWTH SLOWS DOWN IN MAY

Household credit growth at chartered banks decelerated slightly in May as flat consumer credit levels offset a solid pick-up in mortgage loans. Total borrowing by individuals rose by 4.4% m/m following a 4.8% m/m increase in April, in line with an average monthly increase of 4.3% over the last six months in seasonally adjusted annualised rate (saar) terms (chart 1). Non-mortgage credit was unchanged in May after three months of robust growth. Mortgage loan growth climbed up to 6.3% m/m saar for its largest expansion since November 2018 as Canadian housing market activity picked up from a weak start to the year.

CONSUMER CREDIT: FIRST DROP IN HELOCs SINCE MAY 2016

Consumer credit growth stalled in May, owing to a contraction in HELOC borrowing and a marked deceleration in the growth rate of non-HELOC loans. Total consumer credit growth slowed from April's rate of 4.9% m/m to 0.0% m/m in May, its lowest pace of expansion since January's 0.5% m/m contraction. After posting a 7.3% m/m jump in April, non-HELOC borrowing growth slowed markedly to 1.2% m/m in May, while HELOC loans contracted for the first time since May 2016 by 1.3% m/m. Consumer credit growth has been on a declining trajectory since late-2018 with the six month-moving average (6mma) pace falling to 2.9% m/m in May compared to 4.1% m/m twelve months back (chart 2).

In year-on-year terms (y/y), total consumer credit growth took a slight dip to 3.8%, reaching a ten month low (chart 3). Non-HELOC borrowing remained steady at 2.8% y/y, unchanged from April, though overall below its five-year average of 4.2% y/y. HELOC borrowing growth continued on its descending trend to 4.9% y/y after a recent peak of 6.7% y/y in November 2018, marking its slowest annual expansion since March 2017.

Despite the rapid acceleration of HELOC borrowing since early-2016, these loans have gathered 'only' an additional 2.4 ppts share of total consumer credit with chartered banks over the last three years (chart 4). At a current level of 47.1% in May, the share of consumer credit accounted for by HELOC borrowing is only slightly below the recent peak of 47.4% in January of 2019 (chart 4, again). The vast majority of households (86%), however, do not have a HELOC and just over 10% of Canadians have both a HELOC and a mortgage (chart 5).

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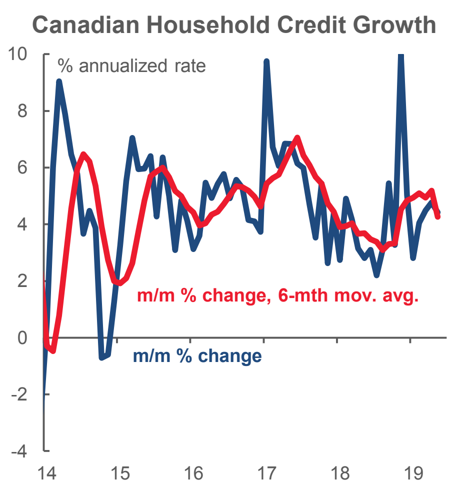
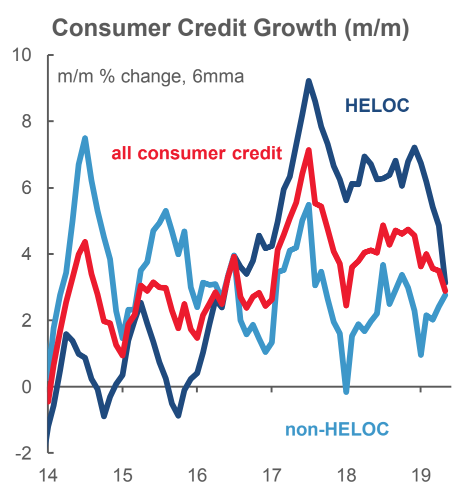
Chart 1



Sources: Scotiabank Economics, OSFI.

Chart 2



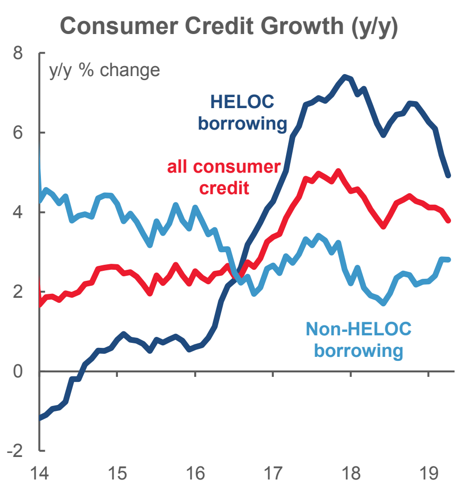
Sources: Scotiabank Economics, OSFI.

According to a survey conducted by the Financial Consumer Agency of Canada (FCAC), over half of HELOC owners pay down the principal on their loans every or most months, while 14% report that they do not owe money on their lines of credit (chart 6). On the other hand, slightly under a tenth indicated that they only make interest payments on their loans. Around 50% of the respondents to the survey indicated that they borrowed on their HELOC to fund home renovations (chart 6), thereby likely increasing the value of the residential asset used as a collateral for the line of credit.

MORTGAGE CREDIT

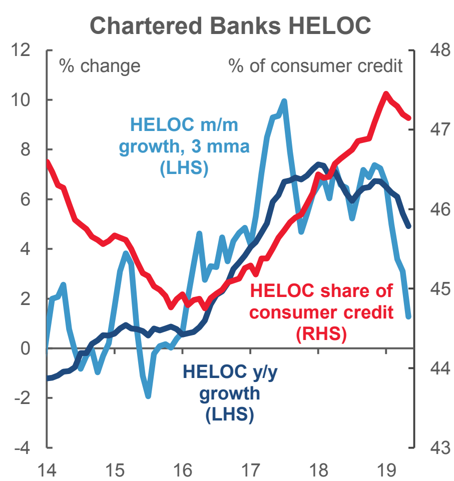
Mortgage credit growth has picked up in recent months, following a recent low in the second half of 2018. Chartered bank mortgage credit grew by 6.3% m/m saar in May—following a 5.0% m/m saar increase the previous month—comparable to growth rates observed in the summer of 2017. The recent up-tick is in line with an apparent recovery in Canadian real estate markets, particularly in the Greater Vancouver and Greater Toronto areas, following the slump brought about by tighter mortgage underwriting standards in early-2018 as well as the introduction of foreign buyers taxes aimed at curbing speculative activity. Five-year mortgage lending rates have also fallen as of late (chart 8), with the Bank of Canada now expected to remain on hold in the foreseeable future as global trade uncertainty weighs on the economic outlook.

Chart 3



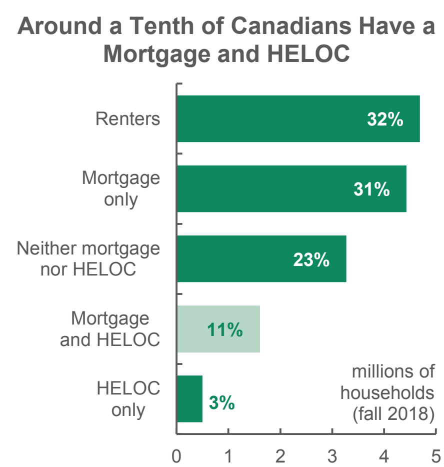
Sources: Scotiabank Economics, OSFI.

Chart 4



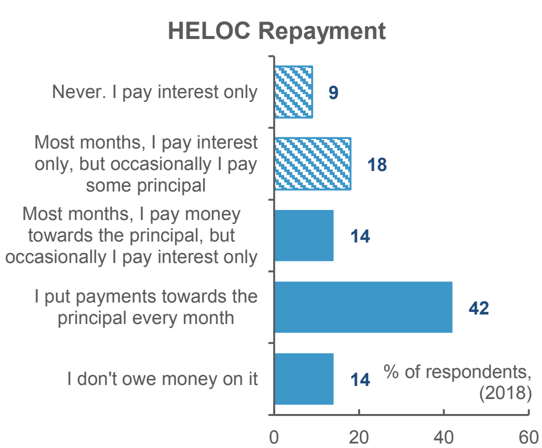
Sources: Scotiabank Economics, OSFI.

Chart 5



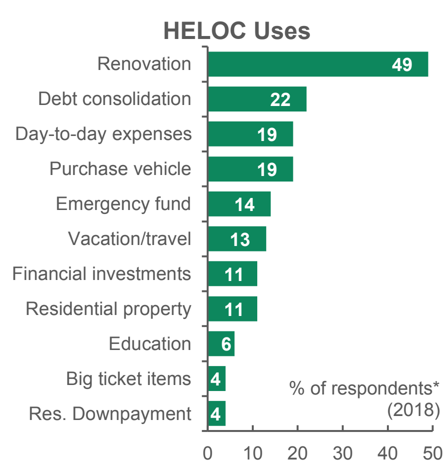
Sources: Scotiabank Economics, Mortgage Professionals Canada.

Chart 6



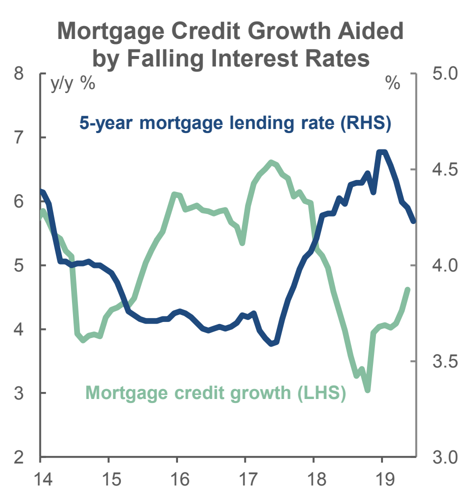
Sources: Scotiabank Economics, FCAC.

Chart 7



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

Chart 8



Sources: Scotiabank Economics, OSFI, CMHC.