



Economics

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Household Borrowing: Elevated, But Slowing

by Benjamin Tal

We expect household credit outstanding to slow moderately in the coming years as growth in almost every credit vehicle is projected to soften relative to the performance seen over the past two years or so.

Household Credit

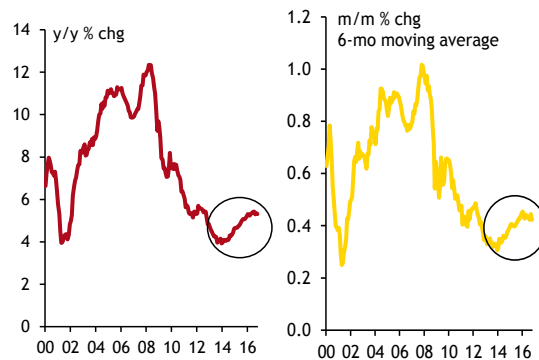
Growth in household credit in 2016 was very stable with outstanding rising by just over 5% on a year-over-year basis (Chart 1). On an inflation-adjusted basis, household credit is still rising by a full percentage point below its long-term average (Chart 2). That is, despite the drama in the housing market, the recent

pace of credit growth in Canada is not rapid by any stretch of the imagination. And we expect that pace to slow in the coming years.

Mortgage Debt

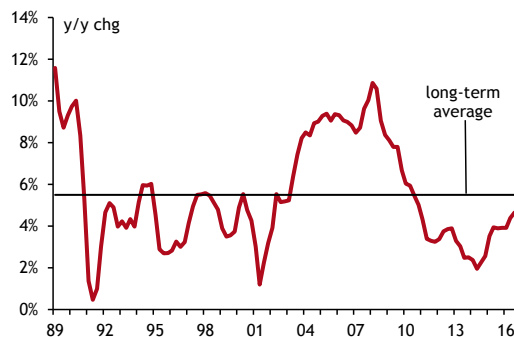
Mortgage credit is currently rising at a year-over-year pace of close to 6% (Chart 3). We estimate that for 2016 the mortgage market accounted for just over 80% of growth in household credit. As for the stock of debt, mortgages now account for just under 72% of total household credit—the highest share in almost two decades (Chart 4). We estimate that new mortgage originations in Canada

Chart 1—Household Credit



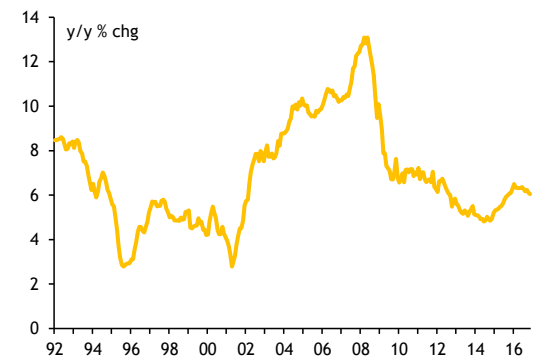
Source: Bank of Canada, CIBC

Chart 2—Household Credit (Inflation-Adjusted)



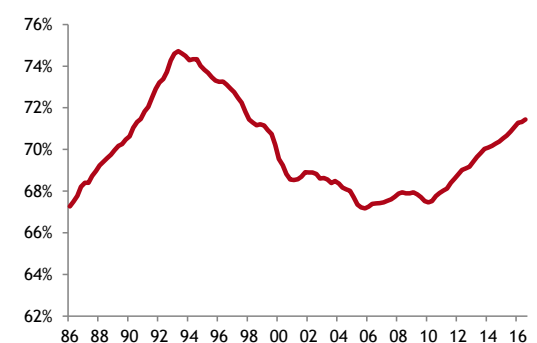
Source: Bank of Canada, Statistics Canada, CIBC

Chart 3—Mortgage Credit



Source: Bank of Canada, CIBC

Chart 4—Residential Mortgage Credit as a Share of Total Household Credit



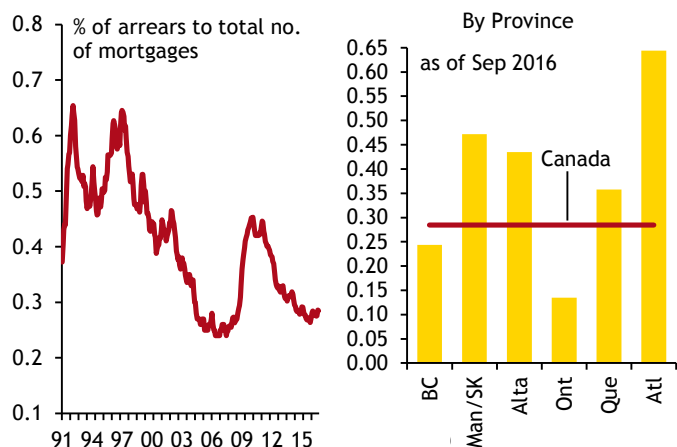
Source: Bank of Canada, CIBC

amounted to just over \$405 billion in 2016, rising by 5.5% from 2015.

As for 2017, we expect the pace of growth in mortgage originations to cool, reflecting factors such as reduced affordability due to tougher qualification criteria, increased share of less expensive (condo) units in total housing sales, marginally higher mortgage rates and slowing activity in centers such as Vancouver. Overall we expect mortgage debt outstanding to rise by an annual rate of around 5% in the coming two years.

The rate of mortgage arrears has stabilized at around 0.30%—very close to the rate seen before the recession. The arrears rate in Atlantic Canada at close to 0.65% is the highest in the nation, followed by the Prairies and Alberta. The arrears rate in Ontario at 0.14% is by far the lowest in the nation (Chart 5).

Chart 5—Mortgage Arrears



Source: CBA, CIBC

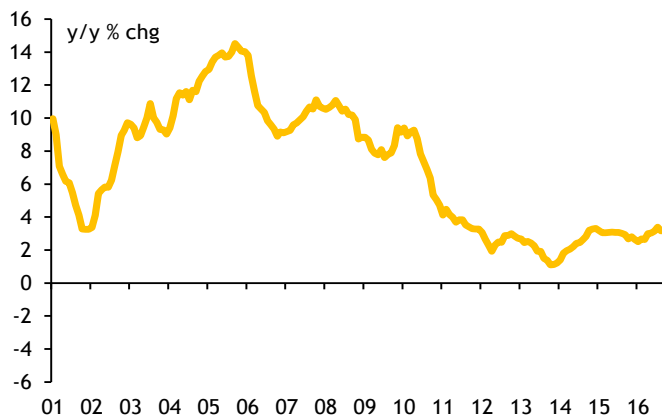
Consumer Credit

The pace of growth in consumer credit has been relatively stable with outstanding rising by 3.2% on a year-over-year basis (Chart 6). Credit card debt is now advancing at a 3.5% annual pace (Chart 7), roughly the same pace seen in the lines of credit portfolio (Chart 8).

Delinquencies continue to behave well, stabilizing at around 1% for credit cards and, in fact, declining for lines of credit.

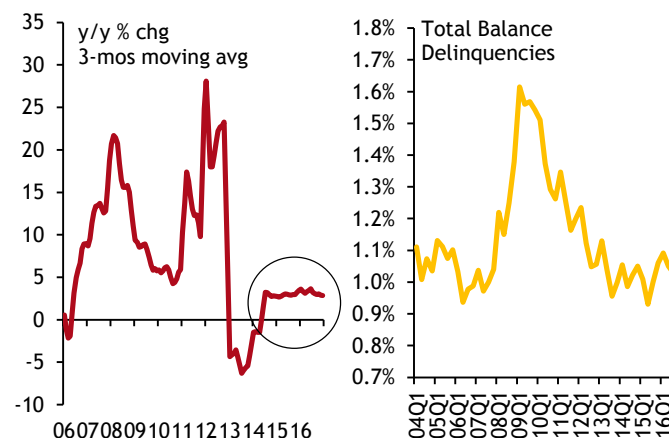
The auto loan market has seen robust growth in recent years. Currently auto loans outstanding are rising at a year-over-year rate of 6.7% (Chart 9). Close to 70% of the estimated \$155 billion market is controlled by banks. The average loan size in that space is around \$19,000, up by 22% (inflation-adjusted) since 2009.

Chart 6—Consumer Credit



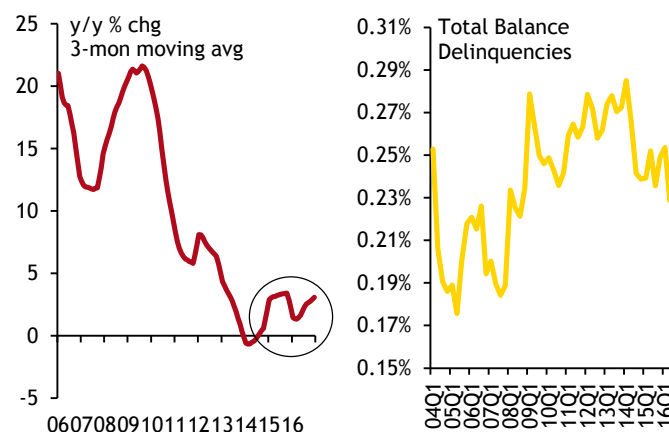
Source: Bank of Canada, CIBC

Chart 7—Credit Cards



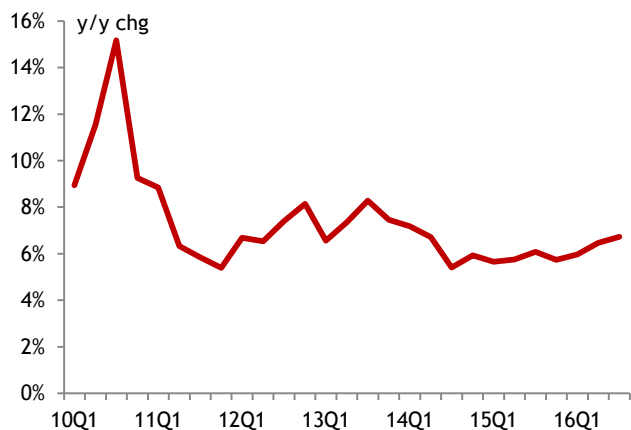
Source: Bank of Canada, Equifax, CIBC

Chart 8—Lines of Credit



Source: Bank of Canada, Equifax, CIBC

Chart 9—Total Auto Loan Outstanding



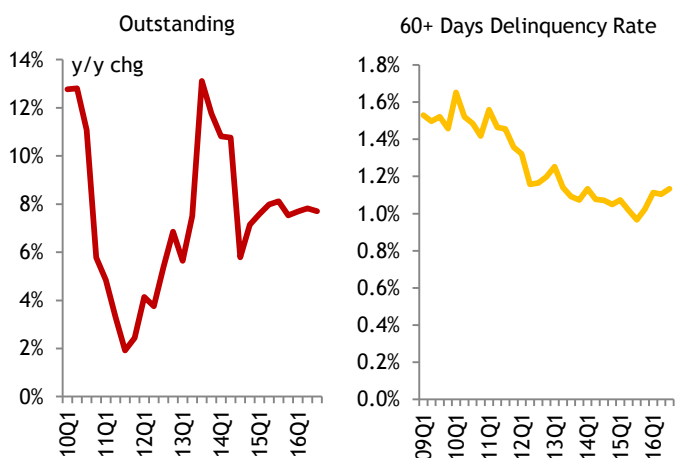
Source: Equifax, CIBC

Banks have been gaining market share because of stronger organic growth and the acquisition of firms in the space. The banks' portfolios are currently rising by more than 7% on a year-over-year basis (Chart 10, left) while non-banks have seen their growth stagnate (Chart 11, left).

The auto delinquency rate among banks is close to 1.2% (Chart 10, right), roughly in line with the rate seen among non-banks (Chart 11, right).

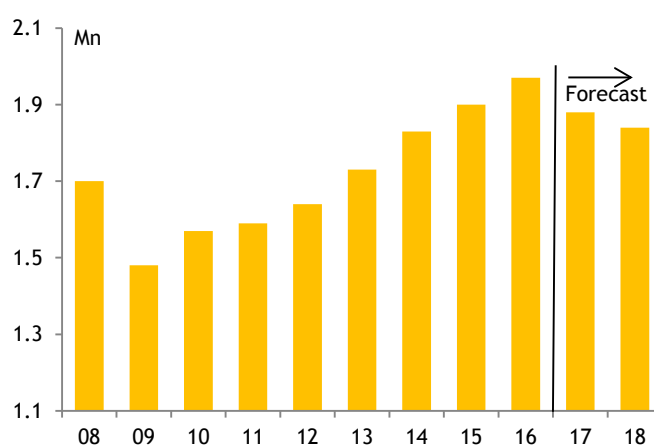
We expect growth in auto loans to moderate in the coming years reflecting some softness in auto sales (Chart 12) following a record breaking 2016. As well, after a dramatic decline during the recession, leasing activity has been on the rebound and currently accounts for close to 9% of transactions (Chart 13). We expect auto loans to advance by 4% in 2017.

Chart 10—Banks: Auto Loans



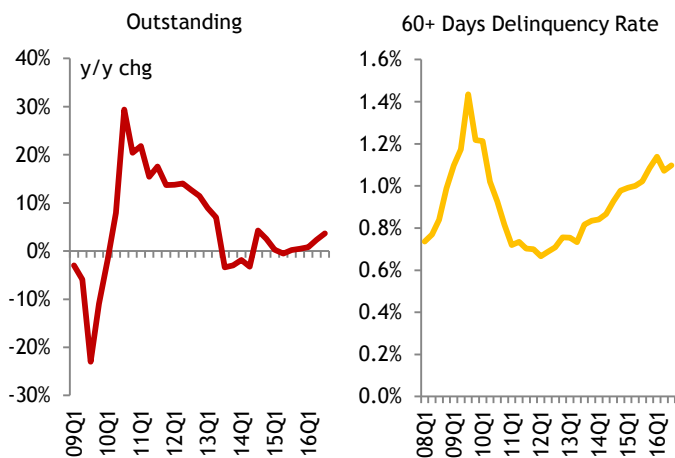
Source: Equifax, CIBC

Chart 12—Canadian Light Vehicle Sales



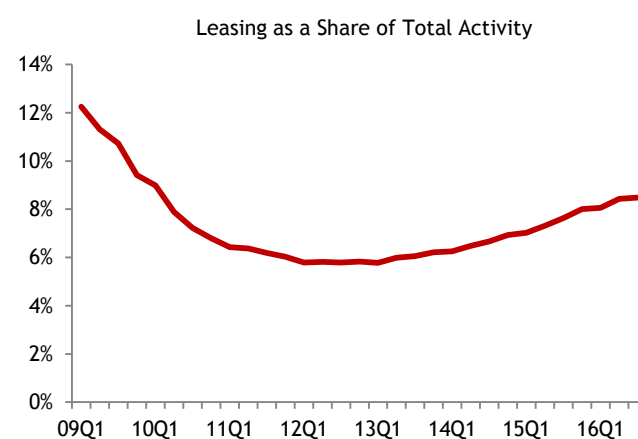
Source: Statistics Canada, CIBC

Chart 11—Non-Banks: Auto Loans



Source: Equifax, CIBC

Chart 13—Rising Leasing Activity Reduce Potential Growth in Auto Credit



Source: Equifax, CIBC

Table 1—Consumer Debt Figures and Ratios

| | Household Debt (\$Mill) | Consumer Credit** (\$Mill) | Mortgage Credit** (\$Mill) | Household Disposable Income+ (\$Mill) | Interest Payments (\$Mill) | Household Debt* (% of HDI) | Consumer Credit (% of HDI) | Mortgage Credit (% of HDI) | Interest Payments (% of HDI) |
|--------|----------------------------|-------------------------------|-------------------------------|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------|
| 2010:1 | 1,448,980 | 477,861 | 896,021 | 895,303 | 72,184 | 155.2 | 53.4 | 100.1 | 8.1 |
| 2010:2 | 1,479,608 | 481,445 | 923,029 | 905,012 | 73,588 | 156.9 | 53.2 | 102.0 | 8.1 |
| 2010:3 | 1,502,365 | 489,010 | 937,766 | 913,237 | 73,276 | 158.0 | 53.5 | 102.7 | 8.0 |
| 2010:4 | 1,523,478 | 496,210 | 952,665 | 924,174 | 74,460 | 158.3 | 53.7 | 103.1 | 8.1 |
| 2011:1 | 1,530,441 | 495,447 | 958,778 | 929,781 | 76,288 | 157.7 | 53.3 | 103.1 | 8.2 |
| 2011:2 | 1,562,665 | 503,535 | 982,987 | 938,499 | 74,740 | 159.1 | 53.7 | 104.7 | 8.0 |
| 2011:3 | 1,587,883 | 509,897 | 1,002,904 | 948,442 | 75,100 | 159.7 | 53.8 | 105.7 | 7.9 |
| 2011:4 | 1,608,410 | 514,301 | 1,017,669 | 957,957 | 75,272 | 160.1 | 53.7 | 106.2 | 7.9 |
| 2012:1 | 1,614,329 | 507,511 | 1,027,696 | 967,079 | 74,804 | 159.2 | 52.5 | 106.3 | 7.7 |
| 2012:2 | 1,640,007 | 514,921 | 1,044,628 | 976,103 | 75,632 | 160.4 | 52.8 | 107.0 | 7.7 |
| 2012:3 | 1,665,611 | 523,275 | 1,062,623 | 987,814 | 75,752 | 161.1 | 53.0 | 107.6 | 7.7 |
| 2012:4 | 1,681,199 | 527,121 | 1,075,164 | 996,857 | 74,904 | 161.0 | 52.9 | 107.9 | 7.5 |
| 2013:1 | 1,684,565 | 526,778 | 1,076,837 | 1,006,580 | 75,880 | 159.9 | 52.3 | 107.0 | 7.5 |
| 2013:2 | 1,710,873 | 534,224 | 1,095,413 | 1,017,841 | 76,156 | 160.8 | 52.5 | 107.6 | 7.5 |
| 2013:3 | 1,736,114 | 540,541 | 1,112,865 | 1,030,442 | 77,104 | 161.4 | 52.5 | 108.0 | 7.5 |
| 2013:4 | 1,749,644 | 544,606 | 1,122,502 | 1,042,078 | 77,100 | 161.0 | 52.3 | 107.7 | 7.4 |
| 2014:1 | 1,756,214 | 543,821 | 1,128,308 | 1,049,081 | 76,868 | 160.5 | 51.8 | 107.6 | 7.3 |
| 2014:2 | 1,783,185 | 552,459 | 1,146,500 | 1,058,071 | 76,608 | 161.4 | 52.2 | 108.4 | 7.2 |
| 2014:3 | 1,810,821 | 557,715 | 1,166,724 | 1,065,883 | 76,760 | 162.7 | 52.3 | 109.5 | 7.2 |
| 2014:4 | 1,828,310 | 561,392 | 1,179,321 | 1,075,330 | 77,556 | 162.8 | 52.2 | 109.7 | 7.2 |
| 2015:1 | 1,835,946 | 558,990 | 1,186,838 | 1,085,347 | 77,772 | 161.9 | 51.5 | 109.4 | 7.2 |
| 2015:2 | 1,873,208 | 567,259 | 1,209,906 | 1,096,941 | 76,340 | 163.5 | 51.7 | 110.3 | 7.0 |
| 2015:3 | 1,906,131 | 573,172 | 1,235,896 | 1,109,670 | 76,564 | 164.5 | 51.7 | 111.4 | 6.9 |
| 2015:4 | 1,928,666 | 575,609 | 1,255,020 | 1,122,564 | 75,456 | 164.5 | 51.3 | 111.8 | 6.7 |
| 2016:1 | 1,941,645 | 576,531 | 1,264,009 | 1,133,176 | 76,124 | 164.2 | 50.9 | 111.5 | 6.7 |
| 2016:2 | 1,979,738 | 588,309 | 1,289,540 | 1,141,341 | 76,904 | 166.4 | 51.5 | 113.0 | 6.7 |
| 2016:3 | 2,004,639 | 590,191 | 1,312,189 | 1,153,814 | 76,308 | 166.9 | 51.2 | 113.7 | 6.6 |

* On Oct 15, 2012, revisions by StatCan on household credit market debt to disposable income ratio was revised upward.

** Consumer and Mortgage credit quarterly data are now sourced from StatCan

+ Redefinition of household disposable income as part of StatCan historical revision of the national GDP by income and by expenditure accounts

Source: Statistics Canada, CIBC

Table 2—Household Balance Sheet Data

| | Household Assets (\$Mil) | Non-Financial Assets (\$Mil) | Financial Assets (\$Mil) | Debt to Total Assets (%) | Net Worth (\$Mil) | Net Worth as a Share of HDI |
|--------|-----------------------------|---------------------------------|-----------------------------|-----------------------------|----------------------|-----------------------------|
| 2010:1 | 7,876,027 | 3,844,129 | 4,031,898 | 18.64 | 6,408,007 | 7.16 |
| 2010:2 | 7,909,009 | 3,906,124 | 4,002,885 | 18.99 | 6,407,242 | 7.08 |
| 2010:3 | 8,154,173 | 3,941,829 | 4,212,344 | 18.68 | 6,631,088 | 7.26 |
| 2010:4 | 8,343,177 | 3,990,798 | 4,352,379 | 18.52 | 6,798,225 | 7.36 |
| 2011:1 | 8,542,398 | 4,082,575 | 4,459,823 | 18.18 | 6,989,714 | 7.52 |
| 2011:2 | 8,659,328 | 4,168,461 | 4,490,867 | 18.30 | 7,074,252 | 7.54 |
| 2011:3 | 8,624,793 | 4,241,020 | 4,383,773 | 18.66 | 7,015,358 | 7.40 |
| 2011:4 | 8,783,373 | 4,289,355 | 4,494,018 | 18.57 | 7,152,033 | 7.47 |
| 2012:1 | 9,031,202 | 4,392,075 | 4,639,127 | 18.13 | 7,393,546 | 7.65 |
| 2012:2 | 9,128,146 | 4,490,854 | 4,637,292 | 18.23 | 7,464,303 | 7.65 |
| 2012:3 | 9,327,235 | 4,548,986 | 4,778,249 | 18.10 | 7,638,803 | 7.73 |
| 2012:4 | 9,462,632 | 4,587,800 | 4,874,832 | 18.00 | 7,759,252 | 7.78 |
| 2013:1 | 9,685,145 | 4,658,522 | 5,026,623 | 17.63 | 7,977,777 | 7.93 |
| 2013:2 | 9,702,218 | 4,746,281 | 4,955,937 | 17.86 | 7,969,192 | 7.83 |
| 2013:3 | 9,893,008 | 4,836,139 | 5,056,869 | 17.78 | 8,134,334 | 7.89 |
| 2013:4 | 10,170,345 | 4,899,791 | 5,270,554 | 17.44 | 8,397,009 | 8.06 |
| 2014:1 | 10,419,365 | 4,973,672 | 5,445,693 | 17.09 | 8,638,407 | 8.23 |
| 2014:2 | 10,658,120 | 5,068,148 | 5,589,972 | 16.97 | 8,849,794 | 8.36 |
| 2014:3 | 10,791,245 | 5,129,358 | 5,661,887 | 17.02 | 8,954,623 | 8.40 |
| 2014:4 | 10,953,323 | 5,172,147 | 5,781,176 | 16.92 | 9,099,859 | 8.46 |
| 2015:1 | 11,244,301 | 5,226,630 | 6,017,671 | 16.56 | 9,382,732 | 8.64 |
| 2015:2 | 11,309,862 | 5,330,058 | 5,979,804 | 16.78 | 9,411,708 | 8.58 |
| 2015:3 | 11,335,156 | 5,416,964 | 5,918,192 | 17.03 | 9,404,227 | 8.47 |
| 2015:4 | 11,472,829 | 5,450,711 | 6,022,118 | 17.03 | 9,518,999 | 8.48 |
| 2016:1 | 11,614,563 | 5,545,449 | 6,069,114 | 16.94 | 9,647,479 | 8.51 |
| 2016:2 | 11,890,828 | 5,659,056 | 6,231,772 | 16.86 | 9,886,033 | 8.66 |
| 2016:3 | 12,162,189 | 5,728,410 | 6,433,779 | 16.69 | 10,132,685 | 8.78 |

Source: Statistics Canada, CIBC

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