Household Credit Analysis

September 16, 2015

ECONOMICS

Avery Shenfeld
(416) 594-7356
avery.shenfeld@cibc.ca

Benjamin Tal
(416) 956-3698
benjamin.tal@cibc.ca

Andrew Grantham
(416) 956-3219
andrew.grantham@cibc.ca

Royce Mendes
(416) 594-7354
royce.mendes@cibc.ca

Nick Exarhos
(416) 956-6527
nick.exarhos@cibc.ca

Highlights

by Benjamin Tal

- Household credit is now rising at the fastest year/year pace since late 2012.
- Judging by the recent monthly trajectory, monetary easing by the Bank of Canada did little to stimulate household borrowing.
- Mortgage credit accounted for 80% of debt accumulation over the past year. The gap between housing activity and mortgage activity is still wide.
- The acceleration in mortgage outstandings is largely due to higher average mortgage sizes.
- The gap between activity in Toronto and Vancouver and the rest of the country is widening.
- Within Toronto and Vancouver, the asymmetrical price trajectory between detached and condo units is still very evident. There is also clear asymmetry even within the surging detached space, with prices of more expensive properties rising faster than less expensive properties over the past decade.
- The surge in Toronto's unsold condo inventory, highlighted by the Bank of Canada in its June Financial System Review, was due largely to technical factors and not fundamentals.
- Mortgage arrears continue to trend lower reaching just under 0.3% as of June. Arrears in Alberta are still trending lower—but that should change soon.
- After reaching a low of 2% y/y growth in late 2013, the pace of consumer credit growth has accelerated with credit now rising by just under 3% (y/y)—the strongest showing since late 2012.
- Both credit cards and lines of credit portfolios showed improvement over the past year while the term-loan portfolio continued to decelerate.
- The recent acceleration in credit card activity reflects, at least in part, reduced transfers of credit card debt into the lines portfolio.
- Delinquency rates in all consumer credit portfolios are trending downward.

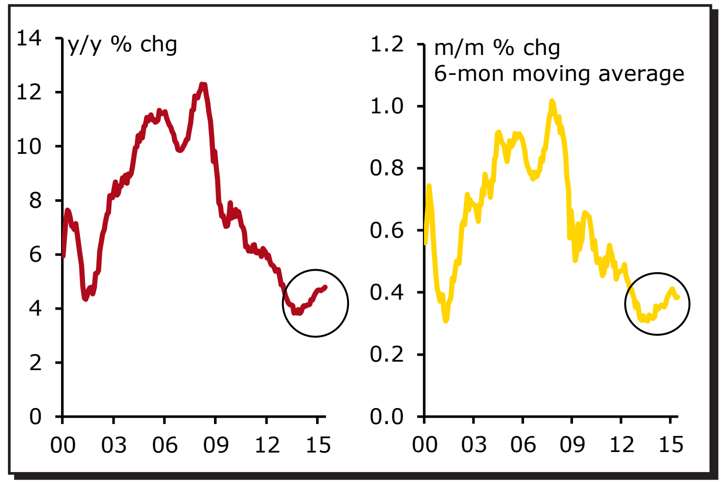
Sources:
Bank of Canada
CBA
CREA
CIBC World Markets Inc.
Equifax Canada
Industry Canada
Statistics Canada

http://research.cibcwm.com/res/Eco/EcoResearch.html

Household Credit—On The Rise

The pace of growth in household credit is building on the trend established in early 2014, with total outstanding now rising by 4.8%—the fastest pace since late 2012 (Chart 1). During the year ending June 2015, 80% of the build-up in debt was due to increased mortgage debt outstanding.

*Chart 1—**Household Credit***



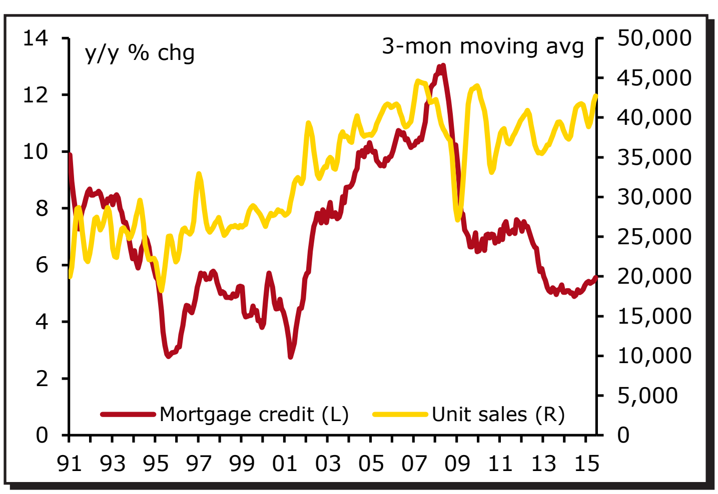
Source: Bank of Canada, CIBC

Mortgage Debt—Rising Faster

The recent increase in the pace of growth in mortgage debt should not come as a surprise, given the still substantial gap between housing activity (as measured by MLS sales) and mortgage activity (Chart 2). In part, the recent acceleration reflects stabilizing loan-to-value ratios following a period in which CMHC tightening led to an increase in the share of low-ratio (over 20% down payment) mortgages. So in many ways, the recent acceleration reflects more of an increase in average mortgage sizes than an increase in home-buying activity.

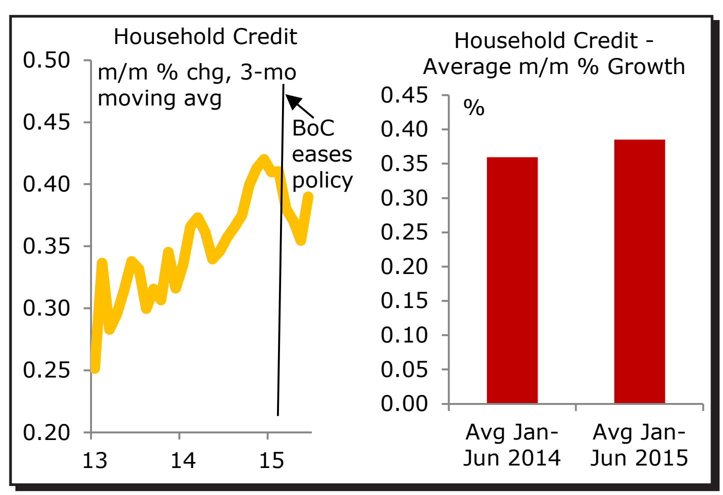
In that context, in a recent communication the Bank of Canada suggested that the simulative effects of previous monetary policy actions are working their way through the Canadian economy. However, given that the Bank eased policy from an already low level of interest rates, it's doubtful that much stimulus came from the household credit channel. In fact, growth in household credit did not show any notable acceleration after the January easing move (Chart 3).

*Chart 2—**A Wide Gap Between Housing Activity and Mortgage Activity***



Source: Bank of Canada, CREA, CIBC

*Chart 3—**BoC's Cut Did Little to Accelerate Household Borrowing***



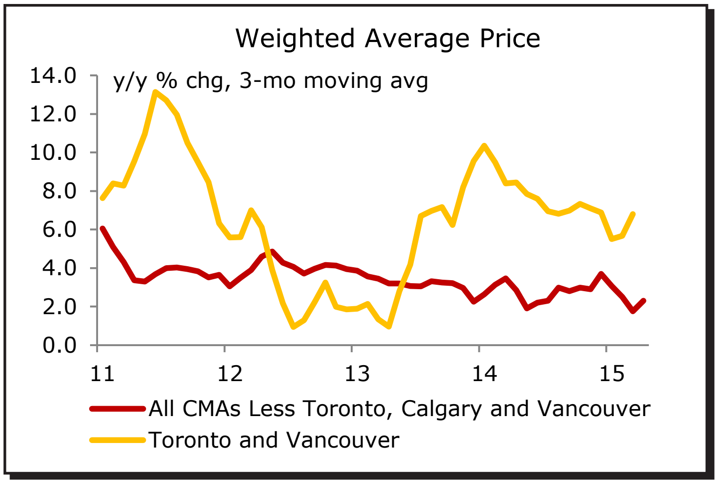
Source: CIBC

House Price—Highly Asymmetrical

The gap between activity in Toronto and Vancouver and the rest of the country is widening (Chart 4). It is fair to say that outside those two centres, the housing market in Canada is already in the midst of a soft landing (with Calgary obviously dancing to a different tune altogether).

Zooming in on Toronto and Vancouver, it is well established that in both cities the increase in the average house price masks a widening gap between surging prices of detached properties and relatively muted increases in the price of condo units. In fact, in both cities that price gap is currently at a record high.

*Chart 4—**A Tale of Two Markets***



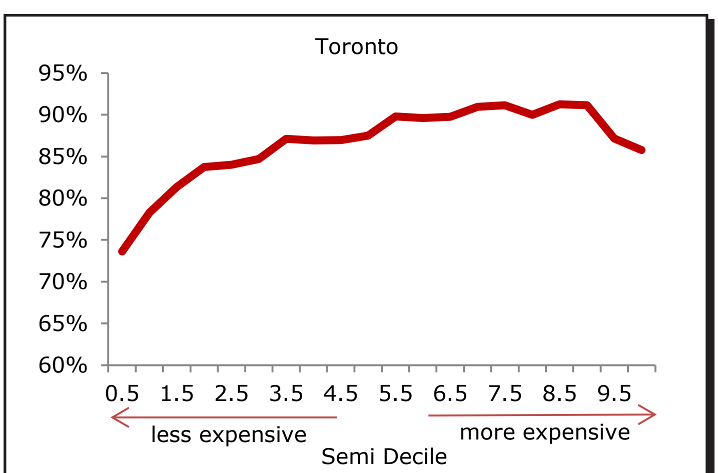
Source: CREA, CIBC

However, the price asymmetry goes well beyond that. Even in the detached space the price trajectory is far from uniform. Over the past decade, prices of more expensive detached properties in general, have risen faster than prices of less expensive properties. In Toronto (CMA) (Chart 5), the price of properties in the lowest semi decile bracket (lowest 5%) rose by a cumulative 74% over the past decade—which is less than the 87% increase seen in 50th percentile mark, which in turn, is less than the 91% price appreciation seen in the 90th percentile. The only exception to an otherwise very linear trajectory here is that, prices at the highest-end (top 10%) have risen somewhat more slowly than in the 90th percentile.

In Vancouver (Chart 6), the asymmetrical price appreciation trajectory is even more prominent, with the price gap widening the fastest at the highest end of the market—a fact that might reflect the impact of foreign investment activity in that space. This asymmetrical trajectory has major implications for the move-up market and the growth in the renovation market in both cities.

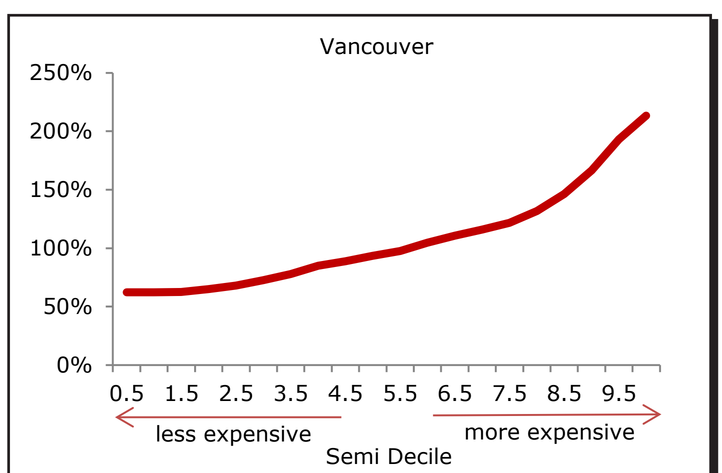
On the issue of the widely discussed condo market in Toronto, the Bank of Canada's June Financial System Review highlighted a dramatic surge in the number of completed and unabsorbed condo units in the city (up from less than 1,000 in December 2014 to just under 3,000 in May 2015). That commentary by the Bank and more so, the chart

*Chart 5—**Cumulative Increase in House Prices by House Value (Detached, past decade)—Toronto***



Source: Brookfield, CIBC

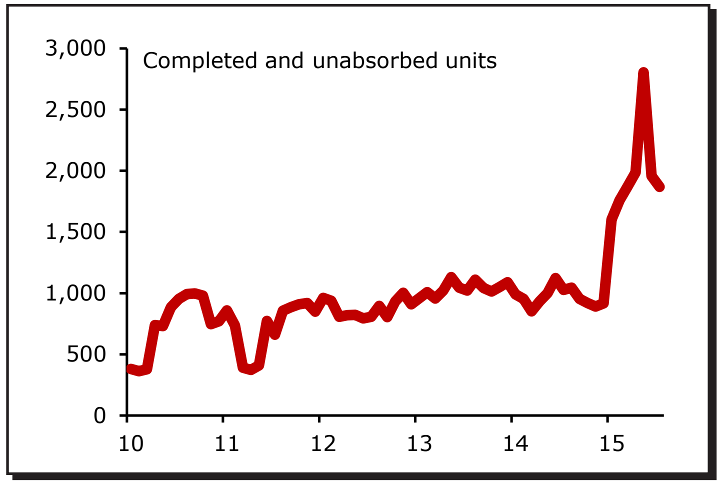
*Chart 6—**Cumulative Increase in House Prices by House Value (Detached, past decade)—Vancouver***



Source: Brookfield, CIBC

that accompanied it, led to increased speculation both in Canada and abroad about the bubbly Toronto condo market. However, for the purpose of the report, the Bank utilized information from CMHC—information that was inconsistent with data collected by private sector providers (Chart 7). A closer look reveals that the main reason for the dramatic jump in the CMHC indicator was technical in nature and did not represent any fundamental issue. In fact, more recent observations reveal a notable decline in that indicator, a trend that probably will continue in the coming months.

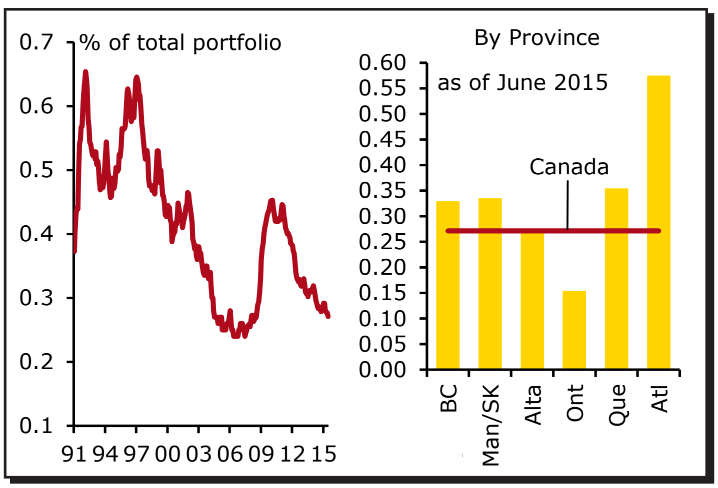
Chart 7—***Toronto's Condo Market***



Source: CMHC, CIBC

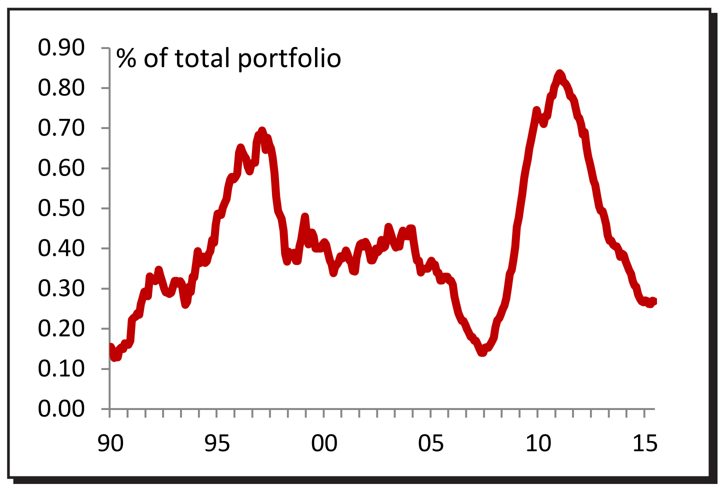
Mortgage arrears continue to trend lower, reaching just under 0.3% as of June 2015. By far, the highest arrears rate is in Atlantic Canada while the lowest is in Ontario (Chart 8). So far the damage in Alberta is not visible in the arrears rate which, in fact, continued to fall during the first half of the year (Chart 9).

Chart 8—***Mortgage Arrears***



Source: CBA, CIBC

Chart 9—***Mortgage Arrears: Alberta***

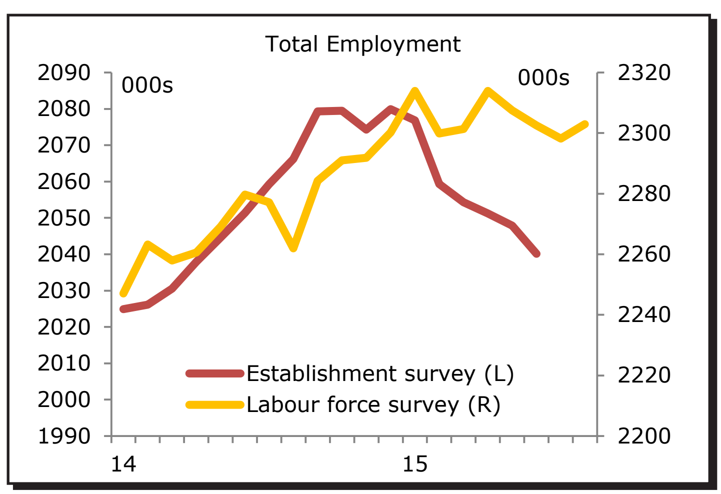


Source: CBA, CIBC

In this context, how bad is the damage in Alberta's labour market? According to Statistics Canada's Labour Force Survey, the job market in the province is weathering the storm very nicely. Overall employment has been relatively stable despite the turmoil in the energy sector. However, the other survey (the Establishment Survey) is showing a clear downward trajectory in employment (Chart 10).

Which survey should we believe? Looking at Chart 11 reveals that the relative stability of the labour force survey is masking substitution between private and public sector jobs. We find it hard to believe that the public sector in Alberta is currently engaged in a hiring spree. Given the volatility of the Labour Force Survey, it is reasonable to assume that the downward trend seen in the establishment survey is a better reflection of the true picture.

Chart 10—***What is Really Happening in the Alberta Job Market?***

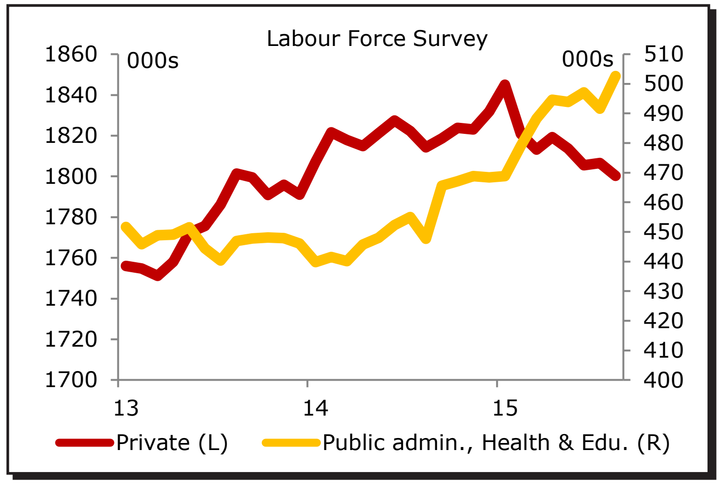


Source: Statistics Canada, CIBC

Consumer Credit—Rising Slowly

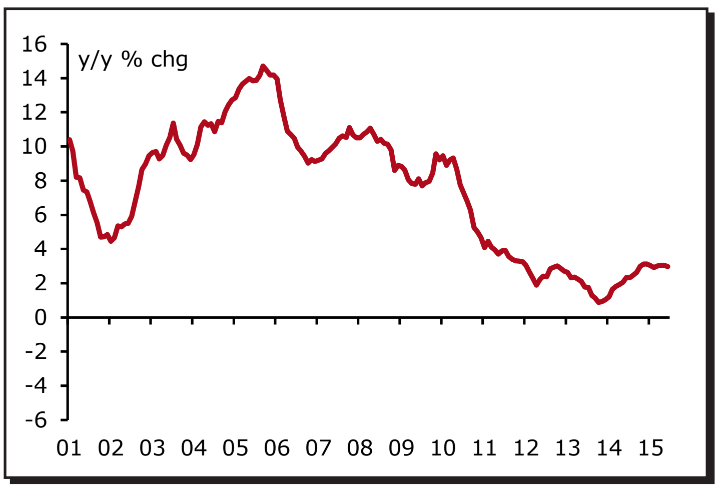
After reaching a low year/year growth of 2% in late 2013, the pace of consumer credit growth has accelerated with credit now rising by just under 3% (y/y)—the strongest showing since late 2012 (Chart 12). Both credit card and lines of credit portfolios showed improvement over the past year while the term-loan portfolio continued to decelerate (Chart 13). The recent acceleration in credit card activity reflects, at least in part, reduced transfer of credit card debt into the lines portfolio as the pace of debt optimization is slowing down. That process is visible in the delinquency trajectory of the lines portfolio which is now trending lower (Chart 14). That reflects reduced risk due to the slowing of the transfer of funds from the credit card portfolio, as well as an increased share of secured loans within the lines portfolio.

*Chart 11—**Alberta: Substituting Public for Private Sector Jobs***



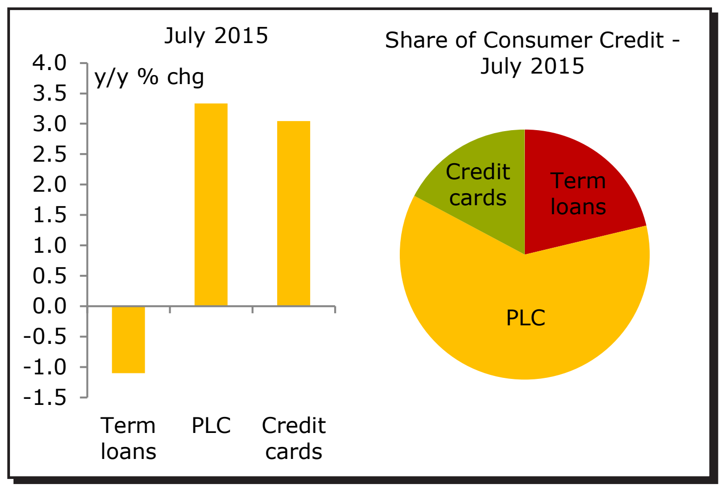
Source: Statistics Canada, CIBC

*Chart 12—**Consumer Credit***



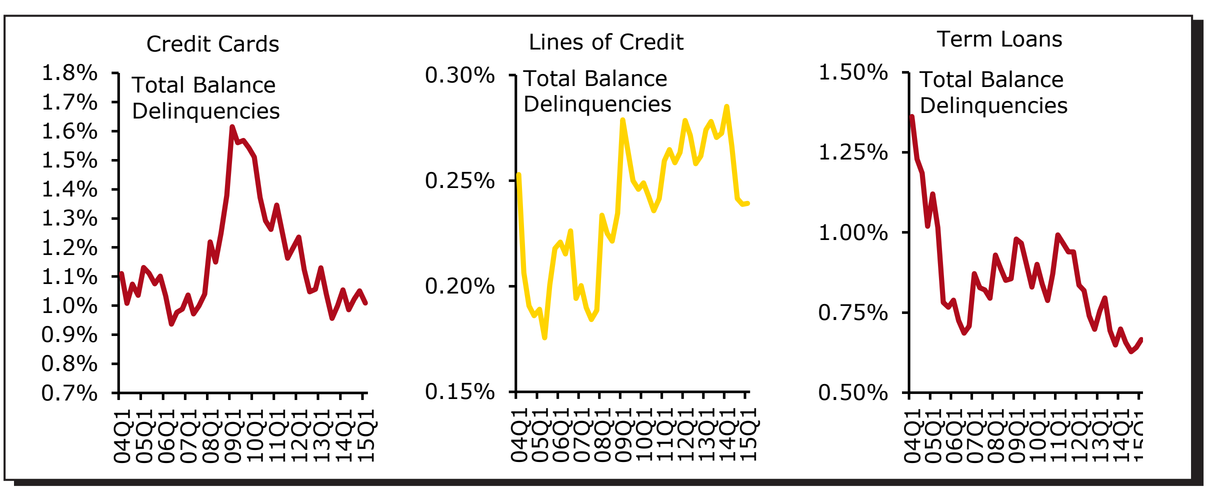
Source: Bank of Canada, CIBC

*Chart 13—**Consumer Credit***



Source: Bank of Canada, Statistics Canada, CIBC

*Chart 14—**Deliquency Rates***



Source: Equifax, CIBC

Table 1—**Consumer Debt Figures and Ratios**

	Household Debt ($Mil)	Consumer Credit** ($Mil)	Mortgage Credit** ($Mil)	Household Disposable Income+ ($Mil)	Interest Payments ($Mil)	Household Debt* (% of HDI)	Consumer Credit (% of HDI)	Mortgage Credit (% of HDI)	Interest Payments (% of HDI)
2010:1	1,435,251	443,061	896,021	928,359	73,888	154.6	47.7	96.5	8.0
2010:2	1,467,999	445,355	923,029	940,217	75,444	156.1	47.4	98.2	8.0
2010:3	1,490,010	452,619	937,766	945,776	75,412	157.5	47.9	99.2	8.0
2010:4	1,512,714	459,193	952,665	956,311	76,620	158.2	48.0	99.6	8.0
2011:1	1,518,702	458,762	958,778	969,748	77,376	156.6	47.3	98.9	8.0
2011:2	1,550,193	465,436	982,987	976,983	78,028	158.7	47.6	100.6	8.0
2011:3	1,575,774	470,824	1,002,904	988,996	77,196	159.3	47.6	101.4	7.8
2011:4	1,594,202	472,609	1,017,669	999,704	77,332	159.5	47.3	101.8	7.7
2012:1	1,602,943	469,189	1,027,696	1,008,142	76,872	159.0	46.5	101.9	7.6
2012:2	1,629,098	475,523	1,044,628	1,017,078	77,600	160.2	46.8	102.7	7.6
2012:3	1,657,978	483,544	1,062,623	1,029,483	78,368	161.1	47.0	103.2	7.6
2012:4	1,676,354	486,574	1,075,164	1,041,318	77,712	161.0	46.7	103.3	7.5
2013:1	1,683,501	490,506	1,080,691	1,051,948	78,276	160.0	46.6	102.7	7.4
2013:2	1,709,521	496,697	1,099,332	1,061,218	77,956	161.1	46.8	103.6	7.3
2013:3	1,733,020	502,149	1,117,223	1,071,668	78,356	161.7	46.9	104.3	7.3
2013:4	1,745,691	505,453	1,126,896	1,080,866	78,092	161.5	46.8	104.3	7.2
2014:1	1,753,480	503,632	1,134,408	1,090,220	78,312	160.8	46.2	104.1	7.2
2014:2	1,780,241	510,874	1,152,599	1,100,734	78,184	161.7	46.4	104.7	7.1
2014:3	1,807,804	515,778	1,173,143	1,109,183	78,548	163.0	46.5	105.8	7.1
2014:4	1,828,421	519,728	1,187,674	1,117,717	78,808	163.6	46.5	106.3	7.1
2015:1	1,840,464	519,016	1,196,229	1,129,069	78,396	163.0	46.0	105.9	6.9
2015:2	1,873,988	526,331	1,218,637	1,138,289	78,032	164.6	46.2	107.1	6.9

* *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*

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	7,459,113	3,524,656	3,934,457	19.50	6,004,822	6.47
2010:2	7,471,125	3,568,326	3,902,799	19.95	5,980,967	6.36
2010:3	7,684,555	3,588,715	4,095,840	19.66	6,173,825	6.53
2010:4	7,847,503	3,627,160	4,220,343	19.55	6,313,315	6.60
2011:1	7,977,725	3,695,331	4,282,394	19.32	6,436,780	6.64
2011:2	8,071,825	3,762,563	4,309,262	19.48	6,499,221	6.65
2011:3	8,047,714	3,818,117	4,229,597	19.85	6,450,388	6.52
2011:4	8,179,675	3,849,706	4,329,969	19.77	6,562,543	6.56
2012:1	8,381,589	3,927,382	4,454,207	19.40	6,755,319	6.70
2012:2	8,459,535	4,002,426	4,457,109	19.54	6,806,601	6.69
2012:3	8,631,516	4,042,444	4,589,072	19.47	6,950,717	6.75
2012:4	8,758,489	4,071,533	4,686,956	19.39	7,059,954	6.78
2013:1	8,987,088	4,126,079	4,861,009	18.99	7,280,784	6.92
2013:2	9,066,562	4,207,707	4,858,855	19.10	7,334,888	6.91
2013:3	9,249,738	4,287,027	4,962,711	18.98	7,494,158	6.99
2013:4	9,511,187	4,345,154	5,166,033	18.60	7,741,804	7.16
2014:1	9,753,609	4,411,720	5,341,889	18.23	7,975,385	7.32
2014:2	9,972,445	4,499,555	5,472,890	18.10	8,167,063	7.42
2014:3	10,083,317	4,558,207	5,525,110	18.18	8,249,712	7.44
2014:4	10,217,446	4,605,395	5,612,051	18.14	8,363,871	7.48
2015:1	10,534,153	4,661,564	5,872,589	17.72	8,667,713	7.68
2015:2	10,646,627	4,743,828	5,902,799	17.85	8,746,269	7.68