TD Bank Financial Group

# TD Economics

Special Report

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# DESPITE CRUNCH, BANK CREDIT IS FLOWING TO CANADIANS

**HIGHLIGHTS**

- **Despite perceptions of tightening conditions, bank credit continues to flow at a strong pace to households and firms.**
- **Business credit expanded by 13.2% Y/Y in December fuelled by Canadian-denominated business loans and much expanded reliance on Bankers' Acceptances.**
- **Household credit increased 12.4% Y/Y in December, spurred by exceptional growth in mortgage lending and lines of credit.**

Credit continues to flow from banks to Canadian businesses and households at a strong pace. Bank business credit rose 13.2% Y/Y in December 2008 and credit growth to households accelerated to 12.4% Y/Y.

On the household side, mortgages saw a strong advance in December, rising at 1.8% M/M and lifting mortgage lending 11.6% Y/Y. Although banks' on-balance sheet mortgages contracted slightly (-0.7% M/M), banks' mortgage lending through National Housing Act Mortgage-Backed Securities (NHA MBS) expanded by 7.6% M/M or a whopping 55.4% Y/Y. For reference, NHA MBS bundle mortgages are insured against borrower default by the Canadian Mortgage and Housing Corporation (CMHC), a crown-corporation of the federal government. Over December 2008, outstanding NHA MBS expanded significantly and, from CMHC data, banks increased their share of outstanding issues under the program. In November 2008, the federal government allowed CMHC to purchase up to $75 billion NHA MBS from banks in order to increase liquidity in the financial system. The continuing expansion of mortgage credit demonstrates that this program is indeed boosting homebuyers' access to funds.

Lines of credit have continued to expand at a strong pace, but growth in personal loans has somewhat slowed month-over-month. This latter category includes loans to purchase consumer durables. With auto sales in decline, we would expect to see this category slow in the near future. Credit card balances jumped higher in December by 1.9%, but the series is quite volatile on a monthly basis. On a year-over-year basis there are signs that growth in credit card borrowing is moderating.

On the business lending front, traditional business loans continued to drive growth in overall business credit. Banks' business lending in foreign currency had spurred growth in business lending the two past months, helped by a depreciating Canadian dollar. In December, foreign-currency loans expanded slightly, but the overall growth in banks' business loans came from a 1.1% increase in Canadian-currency loans. Growth in business loans remains robust at 14.2% Y/Y and this channel drove continuing growth in business credit. Non-residential mortgages have slowed from their former break-neck month-over-month pace, but year-over-year growth remains at a historically elevated rate.

Bankers Acceptances appear an increasingly popular source of short-term credit. Outstanding Commercial Paper from Canadian corporations has fallen 4.9% Y/Y and the very strong 10.5% Y/Y growth in BAs looks to be more than picking up this slack. This is consistent with our belief in a strong "reintermediation" trend: borrowers are unable to raise funds on shaky open markets and seek the safety of bank credit.

Overall, despite the perception of tightening credit conditions in the fourth quarter, December witnessed robust growth in business and household credit. Firms certainly face difficulty in raising funds in open markets, and the contraction of securitized financing has created great difficulties for non-bank lenders. However, we view the rapid expansion of business credit as evidence that more firms are turning to banks, and that banks are filling these gaps. On the household side, there is no doubt that good-quality borrowers can still access loans and mortgages.

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**FINANCING BY BANKS**
**FOR BUSINESSES RESIDENT IN CANADA**

| | Bus Loans* (ex. Interbank) | Non-Res. Mortgages | Leasing Receivables | Bankers' Acceptances | Total |
|---|---|---|---|---|---|
| **Oustanding Amount (CDN millions)** | | | | | |
| Sep/2008 | 214,416 | 24,104 | 7,582 | 66,033 | **312,135** |
| Oct/2008 | 226,561 | 24,441 | 7,667 | 65,765 | **324,434** |
| Nov/2008 | 235,267 | 24,741 | 7,541 | 67,806 | **335,355** |
| Dec/2008 | 237,523 | 24,774 | 7,810 | 69,317 | **339,424** |
| **Month-over-Month Percentage Change** | | | | | |
| Sep/2008 | 1.5% | 1.6% | 0.3% | -0.2% | **1.1%** |
| Oct/2008 | 5.7% | 1.4% | 1.1% | -0.4% | **3.9%** |
| Nov/2008 | 3.8% | 1.2% | -1.6% | 3.1% | **3.4%** |
| Dec/2008 | 1.0% | 0.1% | 3.6% | 2.2% | **1.2%** |
| **Year-over-Year Percentage Change** | | | | | |
| Sep/2008 | 8.8% | 17.0% | 6.9% | 4.0% | **8.3%** |
| Oct/2008 | 14.1% | 17.9% | 7.0% | 1.7% | **11.4%** |
| Nov/2008 | 16.8% | 16.4% | 4.4% | 4.6% | **13.8%** |
| Dec/2008 | 14.2% | 14.5% | 7.2% | 10.5% | **13.2%** |

* Includes loans to Canadian businesses in Canadian dollars and in foreign currencies
Source: Bank of Canada

**FINANCING BY BANKS**
**TO CANADIAN HOUSEHOLDS**

| | Personal Loans | Credit Cards | Lines of Credit | Other | Consumer Credit | Total Mortgages* | Household Credit |
|---|---|---|---|---|---|---|---|
| **Oustanding Amount (CDN millions)** | | | | | | | |
| Sep/2008 | 47,084 | 51,243 | 162,917 | 23,306 | **284,550** | 655,565 | **940,115** |
| Oct/2008 | 47,475 | 51,621 | 165,639 | 22,873 | **287,608** | 658,263 | **945,871** |
| Nov/2008 | 47,593 | 50,687 | 167,877 | 21,609 | **287,766** | 660,424 | **948,190** |
| Dec/2008 | 47,620 | 53,390 | 170,380 | 21,828 | **293,218** | 672,566 | **965,784** |
| **Month-over-Month Percentage Change** | | | | | | | |
| Sep/2008 | 0.3% | 2.6% | 1.8% | -1.0% | **1.4%** | 0.7% | **0.9%** |
| Oct/2008 | 0.8% | 0.7% | 1.7% | -1.9% | **1.1%** | 0.4% | **0.6%** |
| Nov/2008 | 0.2% | -1.8% | 1.4% | -5.5% | **0.1%** | 0.3% | **0.2%** |
| Dec/2008 | 0.1% | 5.3% | 1.5% | 1.0% | **1.9%** | 1.8% | **1.9%** |
| **Year-over-Year Percentage Change** | | | | | | | |
| Sep/2008 | 8.8% | 15.7% | 18.8% | 5.1% | **15.3%** | 12.7% | **13.5%** |
| Oct/2008 | 8.9% | 13.7% | 19.4% | 0.7% | **14.8%** | 11.5% | **12.5%** |
| Nov/2008 | 9.1% | 9.4% | 19.6% | -6.3% | **13.6%** | 10.7% | **11.6%** |
| Dec/2008 | 8.8% | 10.1% | 19.9% | -4.0% | **14.0%** | 11.6% | **12.4%** |

* Mortgages include both those on banks' balance sheets and estimated securitization by banks
(Note: Updated from Dec. 23, 2008 report, based on revised CMHC data on NHA MBS)
Source: Bank of Canada, Canadian Mortgage and Housing Corporation