



**Bank
Financial
Group**

TD Economics

Commentary

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DESPITE ECONOMIC SLOWDOWN, LENDING BY BANKS REMAINS STRONG

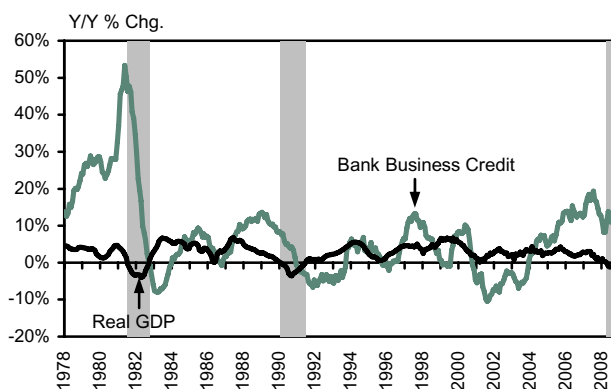
With Canada having entered a recession in the fourth quarter of 2008, we have expected credit growth to slow. Nonetheless, bank credit to households increased 11.7% Y/Y in January while business credit from banks was up 10.8% Y/Y. This does represent a slightly decreased year-over-year pace from December. As previously noted, Canada's banks have picked up the slack as lending from other credit sources have slowed dramatically (see graph over).

On the household side, consumer credit in January expanded at a heightened pace of 14.1% Y/Y, owing to ongoing robust growth of 20.7% Y/Y in consumers' lines of credit. Growth in mortgage lending halted on the month, but mortgage loans were still up 10.6% Y/Y. In general, fewer households change homes in January, and thus the month's mortgage growth is usually slower. Moreover,

HIGHLIGHTS

- **Canada's 2009 recession will result in slowed borrowing, and all economic indicators point to diminished demand for credit.**
- **Even as plunging house sales dampened mortgage growth, household credit still expanded 11.7% Y/Y, owing to strong increases in lines of credit.**
- **Business credit from Canada's banks expanded at a pace of 10.8% Y/Y – a surprisingly resilient rate given contractions in business credit witnessed in previous recessions.**
- **However, with Canadian businesses both accumulating undesired inventories and reining in their capital expenditures, we expect that demand for business credit will fall in the coming months.**

BUSINESS CREDIT OVER BUSINESS CYCLES



Source: Bank of Canada, Statistics Canada, TD Economics

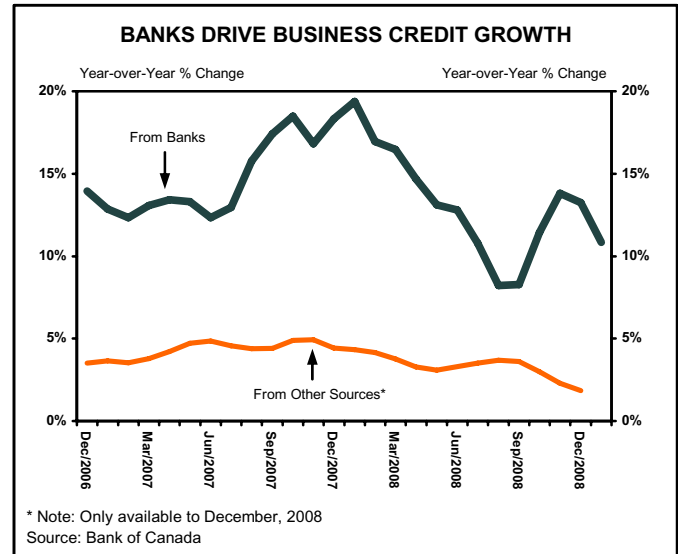
house sales were down 40% Y/Y in January 2009 and, with households pausing on big ticket purchases, the demand for new mortgages will wane. Credit cards fell on the month, but, even in good times, a negative monthly print is common given the usual constraints on spending following the holidays. Other loans are witnessing a steep contraction; however, auto loans are included in this category and, given the 23% Y/Y decline in auto sales, a pull-back is unsurprising.

On the business credit side, growth was 10.8% Y/Y in January – a decline from 13.2% Y/Y in December but still surprisingly resilient. As in past downturns, demand for business credit is certainly expected to slow and all signs point this way: Manufacturers' inventory-to-shipments ra-

tios spiked in January to their highest level since 2001, demonstrating an involuntary build-up of inventories. Imports of machinery and equipment have also rapidly declined, showing a diminished drive for business investment. As demand for their products slow, Canadian businesses will demand less credit for stocking inventories and purchasing new capital goods. Even so, Bankers Acceptances, which are commonly used to finance commercial transactions, have continued to climb at 8.2% Y/Y. With money markets still shaky, firms appear to be substituting BAs for Commercial Paper, which has contracted by 11% Y/Y.

January witnessed a month-over-month contraction in business lending, but this is not unexpected. The series is not seasonally-adjusted and the monthly shifts are highly volatile. January usually witnesses a decline in business credit, as retailers pause on new inventories after the holiday sales and businesses rebalance their books for year-end. Both foreign-denominated and Canadian-currency business loans did fall on the month, and business loans now have grown 11.5% Y/Y. Nonetheless, last month's decline in business lending was similar to that witnessed in January 2003 and January 2005.

The Bank of Canada's Financial Statistics provide a good snapshot of monthly credit flows from banks. As we have highlighted, this release shows continued year-over-year growth in bank credit during January. However, with



Canada's economy contracting, we expect to see diminished demand for credit on both the household and business fronts ahead. Moreover, while Canada's banks have been filling the gap for credit, they cannot carry the full weight of Canadians' credit requirements. Financing on open markets must regain traction. On March 2nd, Statistics Canada will release its Financial Flows Accounts, providing statistics on overall credit flows in the Canadian economy during the fourth quarter. This release will provide additional clarification on credit flows from all sources.

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FINANCING BY BANKS TO CANADIAN HOUSEHOLDS							
	Personal Loans	Credit Cards	Lines of Credit	Other	Consumer Credit	Total Mortgages*	Household Credit
Outstanding Amount (CDN millions)							
Oct/2008	47,475	51,621	165,639	22,873	287,608	654,375	941,983
Nov/2008	47,593	50,687	167,877	21,609	287,766	656,335	944,101
Dec/2008	47,620	53,390	170,380	21,828	293,218	668,268	961,486
Jan/2009	47,699	52,464	172,838	21,282	294,283	668,015	962,298
Month-over-Month Percentage Change							
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%	1.8%
Jan/2009	0.2%	-1.7%	1.4%	-2.5%	0.4%	0.0%	0.1%
Year-over-Year Percentage Change							
Oct/2008	8.9%	13.7%	19.4%	0.7%	14.8%	11.4%	12.4%
Nov/2008	9.1%	9.4%	19.6%	-6.3%	13.6%	10.6%	11.5%
Dec/2008	8.8%	10.1%	19.9%	-4.0%	14.0%	11.4%	12.2%
Jan/2009	9.0%	8.6%	20.7%	-5.8%	14.1%	10.6%	11.7%

* 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

FINANCING BY BANKS FOR BUSINESSES RESIDENT IN CANADA					
	Bus Loans* (ex. Interbank)	Non-Res. Mortgages	Leasing Receivables	Bankers' Acceptances	Total
Outstanding Amount (CDN millions)					
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	237,527	24,774	7,810	69,317	339,428
Jan/2009	230,731	24,861	8,064	70,224	333,880
Month-over-Month Percentage Change					
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%
Jan/2009	-2.9%	0.4%	3.3%	1.3%	-1.6%
Year-over-Year Percentage Change					
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%
Jan/2009	11.5%	13.3%	9.4%	8.2%	10.8%

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