



# HOUSEHOLD CREDIT ANALYSIS

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## Economics

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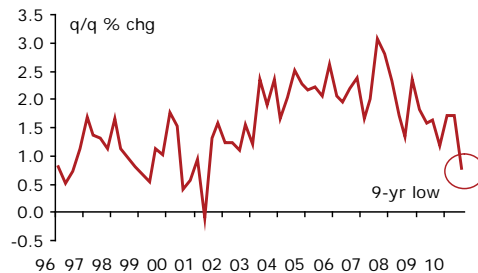
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## Highlights

- After coming through the most leveraged period of consumer spending in recent history, Canadians are getting the message that they need to cut back on their debt levels.
- The Bank of Canada continues to warn Canadians about the risk of rapidly rising household debt, but the reality is that slowly, behind the scenes, credit growth is already softening. Inflation adjusted growth in household credit in the third quarter of 2010 was the slowest in more than 9 years, while the 0.27% increase in credit during October of last year (the latest available data point) was the softest monthly reading in more than 15 years.
- Despite softening credit growth, the debt-to-income ratio continued to rise in the third quarter of the year. Note, however, that debt interest payment as a share of income continued to trend downward.
- While debt is still rising faster than income, it is no longer rising faster than assets. The net worth position of Canadians has improved in the third quarter in absolute term and relative to income.
- After rising since early 2008, consumer bankruptcies are in a clear downward trend, with the number of bankruptcies now falling on a year-over-year basis (3-month moving average) by close to 25%. On a cumulative basis, bankruptcies are now falling by close to 19%, with bankruptcies in Ontario showing the best improvement.

Real Household Credit



- Mortgage outstandings are still rising at close to 7% on a year-over-year basis, but the monthly pattern is currently running at a rate seen during the recession. The reduced demand for mortgage credit is more notable among first time home buyers—a trend that is already visible in the brokerage channel. We expect that the move to shorten amortization from 35 years to 30 years will cut the growth in mortgage originations by 2-3 percentage points in the coming 12 months.
- It seems that mortgage arrears have peaked and are now stabilizing at twice the rate seen before the recession, but well below the arrears rates we have seen in previous recessions.
- Lines of credit are now rising at a monthly clip of 0.3%, the slowest pace since 2007. Direct loans are still expanding at roughly 1% a month, but this portfolio is on a clear decelerating trend. Arrears rate in both cases are showing clear downward trends.
- Overall growth in credit cards outstandings has stabilized at below 1% (year-over-year). This pace is unlikely to accelerate in the near future.

## Benjamin Tal

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### Data Sources:

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

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

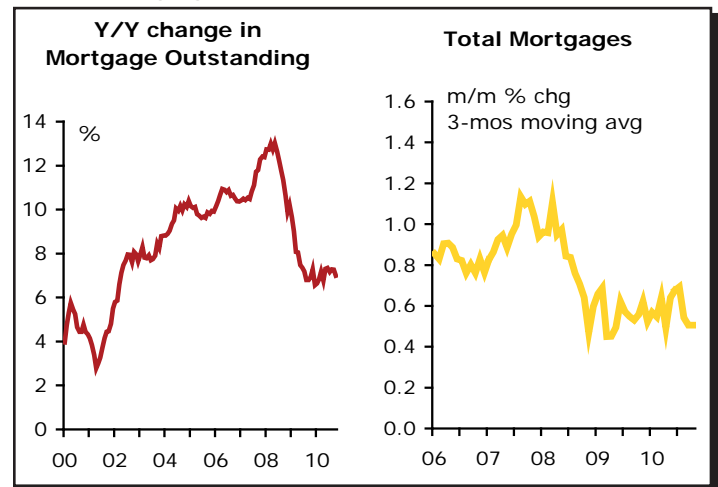
# RESIDENTIAL MORTGAGES

The mortgage market is currently expanding by 7.0% on a year-over-year basis, but a closer look at the monthly pattern reveals that the market is now growing by a monthly rate of only 0.4%-0.5%. The recent changes to the market introduced by the Ministry of Finance recently are not significant enough to derail the market, but are sufficiently targeted to soften marginal borrowing. We estimate that the move to shorten the maximum mortgage amortization from 35 years to 30 years will cut the growth in mortgage originations by roughly 2-3 percentage points in 2011. Overall we expect mortgages outstandings to rise by close to 5% in 2011 after an estimated 7.7% increase in 2010.

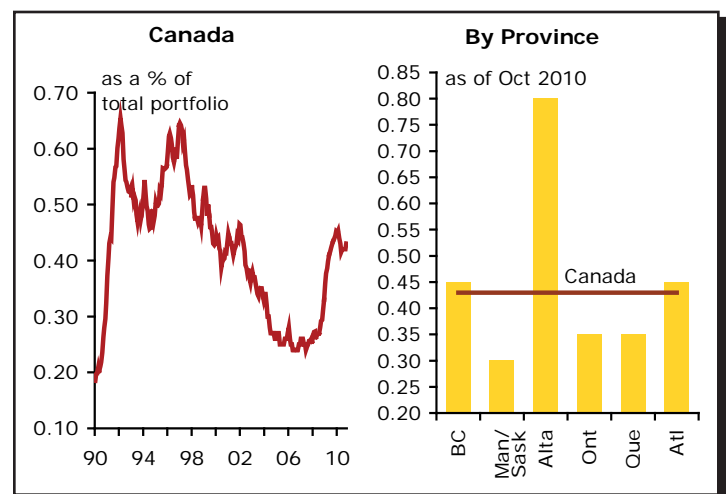
The arrears rates in the mortgage market is currently at 0.43%—up from 0.24% in early 2006. It appears that the arrears rates peaked in February of 2010 and it is now stabilizing at current level. Note that this cyclical peak is considerably lower than the ones we have seen in the past.

The recent improvement in the housing market should not be seen as the beginning of a new upward trend. In fact, we might see a repeat of last year's performance in which housing activity and prices were stronger in the first half of the year as buyers front-loaded activity (in anticipation of rate hikes and ahead of the tightening in mortgage insurance rules) — only to lose ground in the second half. Overall, while house prices might lose some ground in the near future, the overall picture is of a relatively stagnant market in the coming years.

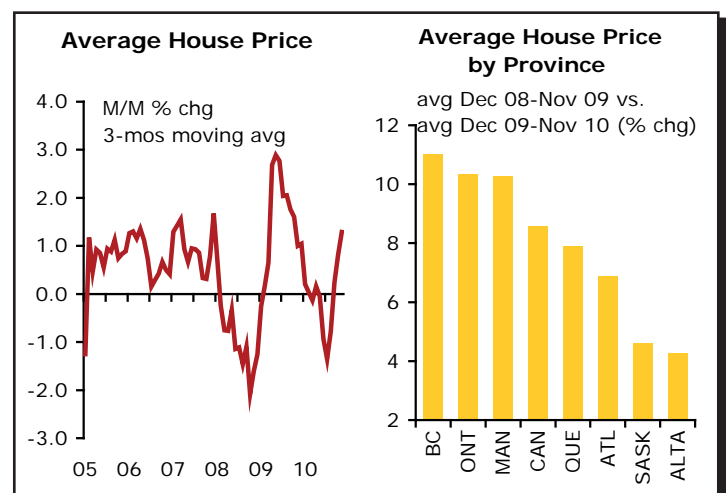
## The Mortgage Market



## Mortgage Arrears

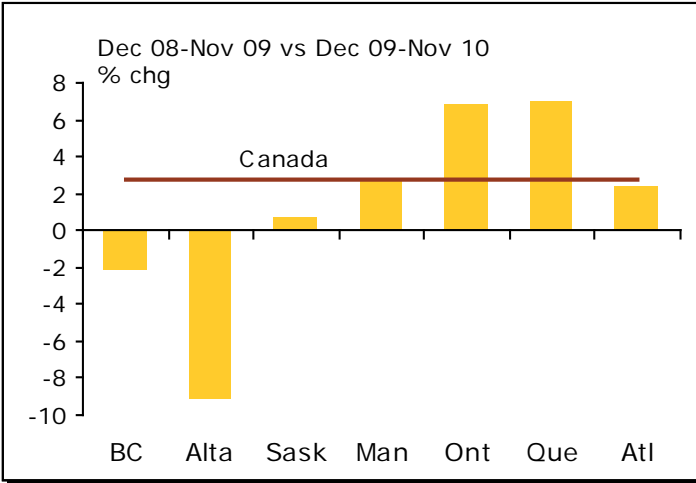


## The Housing Market



# Residential Mortgages

## MLS Resales



## National Residential Housing Data by Province (MLS Market)

For November 2010

<i>seasonally adjusted</i>	<b>Dollar Volume</b> (\$000s)	<b>Unit Sales</b>	<b>New Listings</b>	<b>Average Price</b> (\$)	<b>Ratio of Unit Sales to New Listings</b>
Canada	13,000,900	37,658	67,762	345,236	0.56
Atlantic	356,401	1,835	3,712	194,224	0.49
Quebec	1,692,061	6,790	12,437	249,199	0.55
Ontario	5,616,714	16,425	27,624	341,961	0.59
Manitoba	253,874	1,086	1,580	233,769	0.69
Saskatchewan	253,799	999	1,785	254,053	0.56
Alberta	1,486,561	4,174	8,498	356,148	0.49
British Columbia	3,332,817	6,317	12,080	527,595	0.52

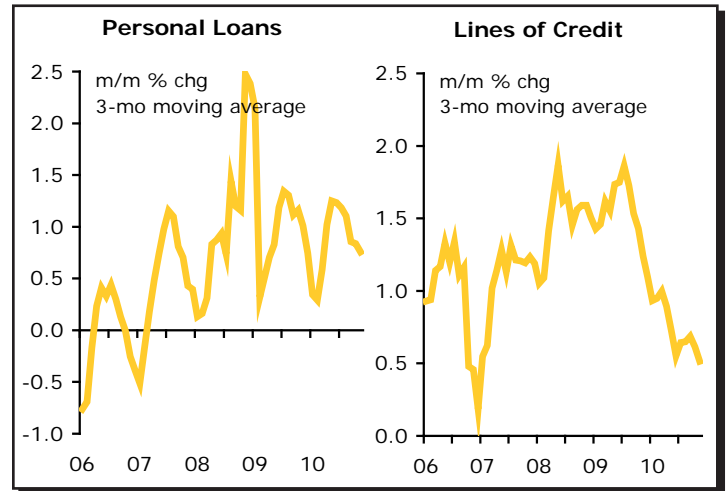
Source: CREA

# NON-CREDIT CARD PERSONAL LOANS

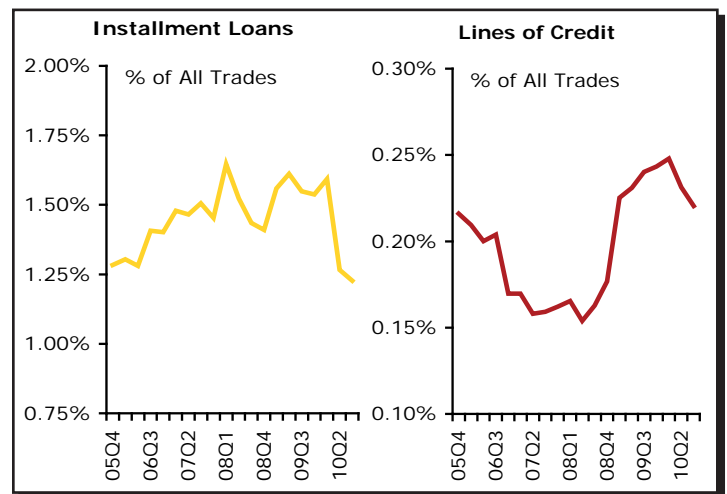
The signs of softening in consumer loans are even more visible than in the mortgage market. Lines of credit outstandings are now rising by only 0.3% on a month-over-month basis—down from close to 2% in mid-2009. At the same time, direct loans are now expanding by a month-over-month rate of 1%—down from 1.4% earlier in the year.

We are also seeing a clear downward trend in delinquencies on consumer loans with the delinquency rate on lines of credit falling to 0.22% in the third quarter of 2010 vs. 0.25% in the first quarter. A similar trend can be seen in the direct loans portfolio with the delinquency rate falling notably in recent months and is now at a record low of 1.23%.

## Consumer Credit

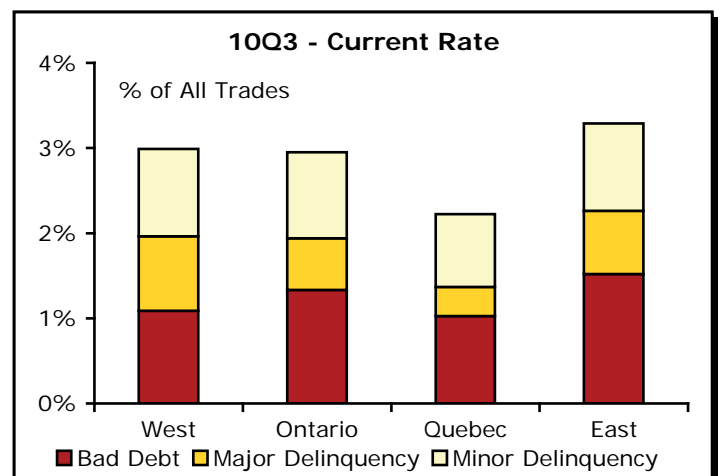


## Major Delinquency Rates



Source: Equifax Canada

## Delinquency Rates by Region



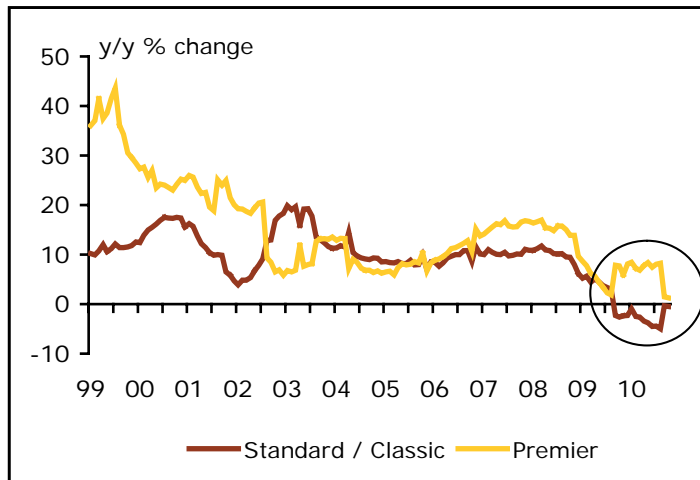
Source: Equifax Canada

# CREDIT CARDS

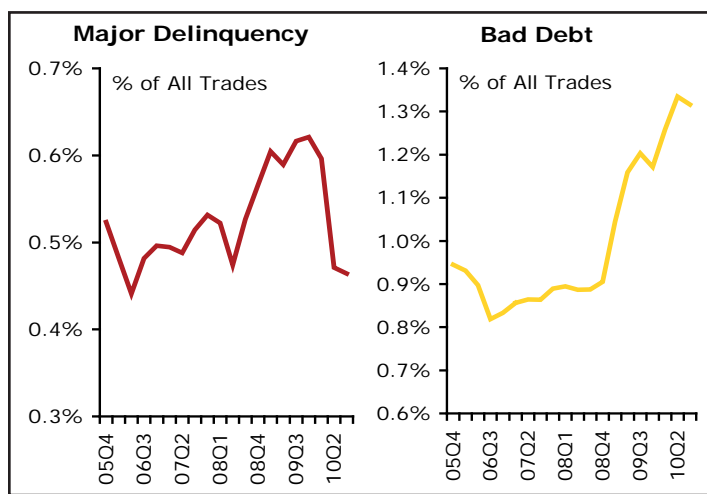
The credit card market has softened notably during the past year reflecting in part some supply factors as creditors cut limits during the recession. Note that recent months have seen a convergence in overall activity in premier and classic cards. Higher interest rates usually do not have a direct impact on this portfolio. However, given our expectations that higher rates will be very effective in limiting consumer spending growth in the coming 12 months, we expect a relatively soft credit card market in the coming quarters.

Delinquency rates and bad debt have risen notably over the past year due to the lagged impact of the recession on employment, but recent delinquency figures reveal an improving trend. Given the sensitivity of this portfolio to development in the labour market, our call for a relatively stable unemployment rate in the coming quarters suggests that delinquencies in this portfolio have already peaked and will probably improve a bit in the coming few quarters.

## Credit Cards Outstanding



## Credit Card Loss Rate



Source: Equifax Canada

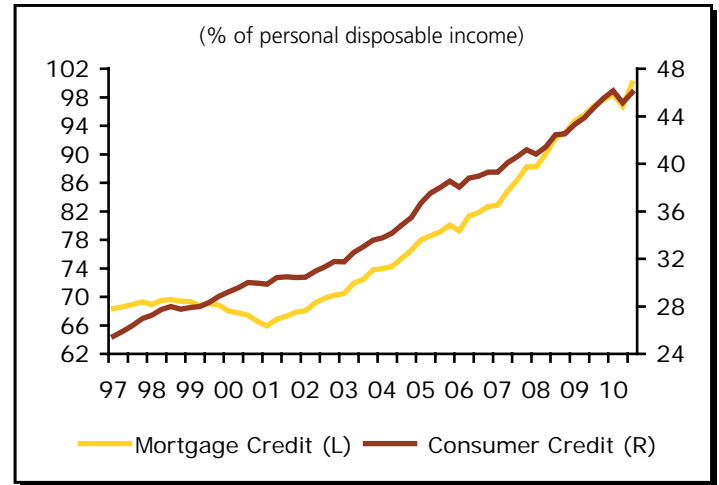
# HOUSEHOLD DEBT AND ASSETS

During the third quarter of the year, debt continued to outpace income with total credit outstandings rising by 1.3% (q/q) while income fell by 1.5% (q/q). As a result, the debt-to-income ratio rose to a new record high of 146%.

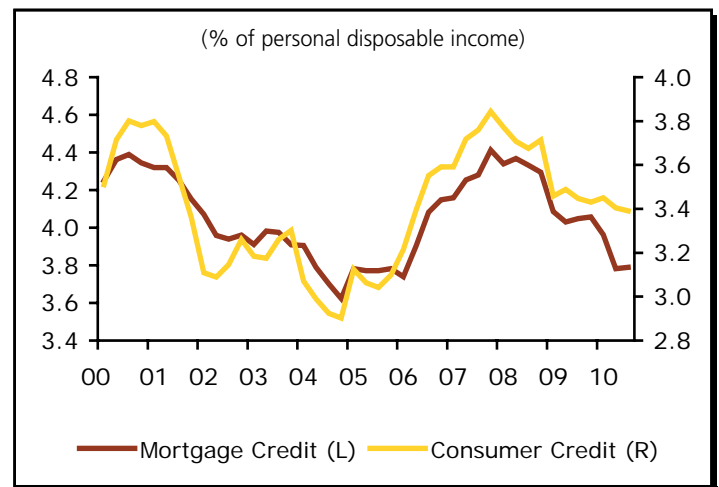
Note that debt interest payments now account for 7.2% of disposable income—the lowest debt service ratio since mid 2006.

While debt is still rising faster than income, it is no longer rising faster than assets. The net worth position of Canadians has improved in the third quarter in absolute terms and relative to income.

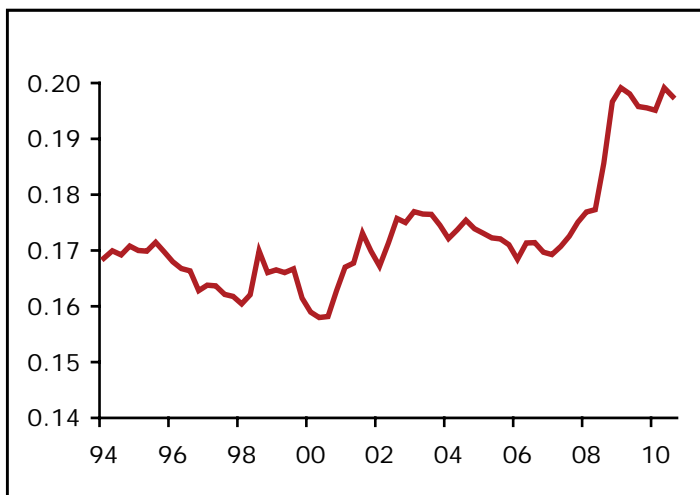
## Household Credit



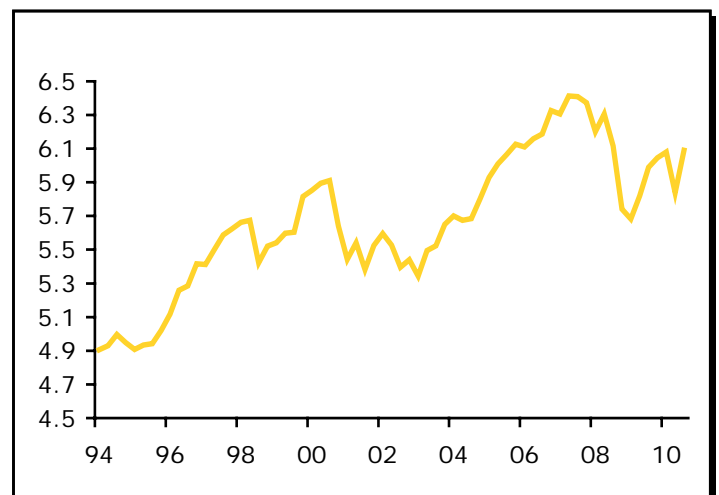
## Interest Payments



## Debt To Asset Ratio



## Net Worth To Disposable Income Ratio



## Household Balance Sheet Data

	Total Household Assets (\$Mill)	Non-Financial Assets (\$Mill)	Financial Assets (\$Mill)	Debt to Asset Ratio	Net Worth (\$Mill)	Net Worth to Disposable Income Ratio
2005:1	5,561,173	2,362,842	3,198,331	0.173	4,598,328	5.929
2005:2	5,714,011	2,428,422	3,285,589	0.172	4,729,893	6.010
2005:3	5,871,976	2,471,991	3,399,985	0.172	4,861,608	6.066
2005:4	6,008,675	2,525,422	3,483,253	0.171	4,981,146	6.127
2006:1	6,190,678	2,591,377	3,599,301	0.168	5,148,182	6.110
2006:2	6,267,139	2,676,646	3,590,493	0.171	5,193,489	6.159
2006:3	6,403,506	2,740,378	3,663,128	0.171	5,306,027	6.187
2006:4	6,624,510	2,795,558	3,828,952	0.170	5,500,366	6.327
2007:1	6,757,479	2,865,115	3,892,364	0.169	5,613,456	6.306
2007:2	6,913,568	2,952,598	3,960,970	0.171	5,733,130	6.413
2007:3	7,026,245	3,008,995	4,017,250	0.173	5,813,889	6.408
2007:4	7,068,291	3,046,249	4,022,042	0.175	5,830,735	6.372
2008:1	7,104,062	3,091,397	4,012,665	0.177	5,847,440	6.201
2008:2	7,280,307	3,148,316	4,131,991	0.177	5,989,164	6.307
2008:3	7,120,023	3,206,488	3,913,535	0.186	5,798,644	6.117
2008:4	6,842,588	3,186,918	3,655,670	0.197	5,497,189	5.742
2009:1	6,789,105	3,161,008	3,628,097	0.199	5,437,015	5.682
2009:2	6,993,266	3,178,461	3,814,805	0.198	5,608,284	5.821
2009:4	7,328,024	3,266,031	4,061,993	0.196	5,894,977	6.046
2010:1	7,434,133	3,309,846	4,124,287	0.195	5,983,731	6.079
2010:2	7,432,397	3,365,114	4,067,283	0.199	5,952,294	5.839
2010:3	7,618,860	3,402,907	4,215,953	0.198	6,113,883	6.091

## Consumer Debt Figures and Ratios

	Consumer Credit (\$Mill)	Mortgage Credit (\$Mill)	Total Household Debt (\$Mill)	Pers. Disp. Income (\$Mill)	Interest Payments (\$Mill)	Consumer Credit (% of PDI)	Mortgage Credit (% of PDI)	Total Pers. Debt (% of PDI)	Interest Payments (% of PDI)
2005:1	284,459	604,887	889,346	775,592	53,556	36.68	77.99	114.67	6.91
2005:2	295,478	618,271	913,749	787,028	53,792	37.54	78.56	116.10	6.83
2005:3	304,533	634,008	938,541	801,424	54,608	38.00	79.11	117.11	6.81
2005:4	313,239	650,861	964,100	813,032	55,944	38.53	80.05	118.58	6.88
2006:1	320,572	667,860	988,433	842,600	58,600	38.05	79.26	117.31	6.95
2006:2	327,097	685,530	1,012,628	843,172	61,544	38.79	81.30	120.10	7.30
2006:3	334,191	702,010	1,036,201	857,632	65,476	38.97	81.85	120.82	7.63
2006:4	341,623	718,669	1,060,292	869,356	67,280	39.30	82.67	121.96	7.74
2007:1	349,754	737,619	1,087,373	890,240	69,008	39.29	82.86	122.14	7.75
2007:2	358,427	758,324	1,116,751	894,012	71,272	40.09	84.82	124.91	7.97
2007:3	368,280	783,074	1,151,354	907,220	72,952	40.59	86.32	126.91	8.04
2007:4	376,864	807,496	1,184,359	915,064	75,560	41.18	88.24	129.43	8.26
2008:1	384,716	832,181	1,216,897	942,932	76,480	40.80	88.25	129.05	8.11
2008:2	393,398	855,390	1,248,788	949,664	76,692	41.42	90.07	131.50	8.08
2008:3	402,194	875,238	1,277,432	947,900	75,908	42.43	92.33	134.76	8.01
2008:4	407,207	890,264	1,297,471	957,440	76,672	42.53	92.98	135.51	8.01
2009:1	414,550	906,326	1,320,876	956,908	72,196	43.32	94.71	138.04	7.54
2009:2	422,754	920,613	1,343,366	963,492	72,452	43.88	95.55	139.43	7.52
2009:3	432,322	935,881	1,368,203	967,044	72,484	44.71	96.78	141.48	7.50
2009:4	443,784	951,911	1,395,695	975,068	73,008	45.51	97.63	143.14	7.49
2010:1	454,152	968,705	1,422,857	984,276	72,956	46.14	98.42	144.56	7.41
2010:2	460,202	986,343	1,446,544	1,019,440	73,260	45.14	96.75	141.90	7.19
2010:3	461,859	1,003,597	1,465,456	1,003,704	72,056	46.02	99.99	146.00	7.18

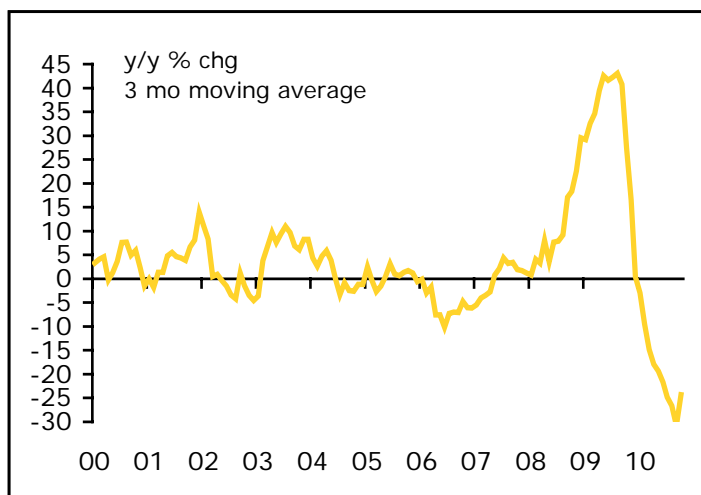
# CONSUMER BANKRUPTCIES

After rising since early 2008, consumer bankruptcies are in a clear downward trend, with the number of bankruptcies now falling on a year-over-year basis (3-month moving average) by close to 25%. On a cumulative basis, bankruptcies are now falling by close to 19%, with bankruptcies in Ontario showing the best improvement.

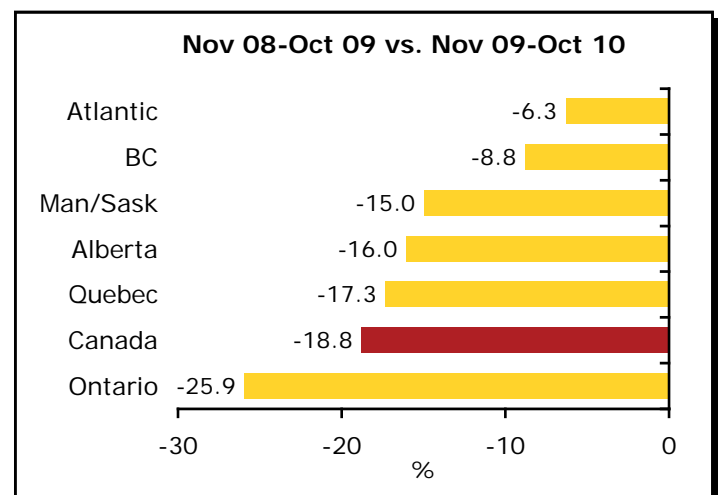
## Personal Bankruptcies

	Monthly Data	y/y % chg
2008:01	6,525	4.0%
2008:02	7,205	12.0%
2008:03	6,736	-6.1%
2008:04	8,035	18.3%
2008:05	7,364	-1.5%
2008:06	7,013	6.2%
2008:07	7,452	19.0%
2008:08	6,977	2.4%
2008:09	8,347	29.8%
2008:10	8,972	22.8%
2008:11	8,163	15.1%
2008:12	7,821	50.6%
2009:01	7,944	21.7%
2009:02	9,020	25.2%
2009:03	10,578	57.0%
2009:04	10,936	36.1%
2009:05	9,900	34.4%
2009:06	10,823	54.3%
2009:07	10,294	38.1%
2009:08	9,539	36.7%
2009:09	12,305	47.4%
2009:10	8,816	-1.7%
2009:11	8,482	3.9%
2009:12	7,744	-1.0%
2010:01	6,998	-11.9%
2010:02	7,606	-15.7%
2010:03	8,784	-17.0%
2010:04	8,633	-21.1%
2010:05	7,918	-20.0%
2010:06	8,241	-23.9%
2010:07	7,141	-30.6%
2010:08	7,115	-25.4%
2010:09	7,822	-36.4%
2010:10	7,844	-11.0%

## Personal Bankruptcies



## Growth in Personal Bankruptcies By Province



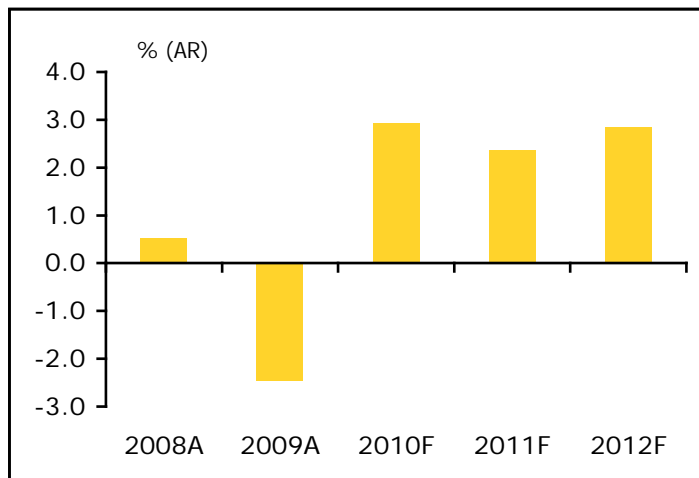


# ECONOMIC DRIVERS AFFECTING THE CONSUMER

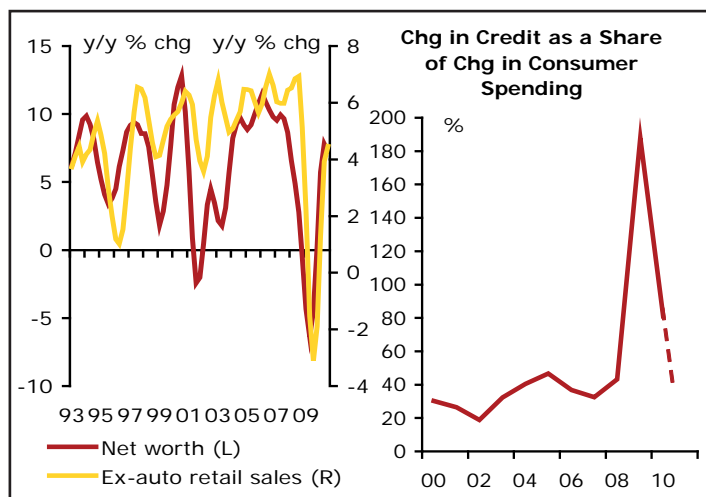
After rushing back to shop in 2010, consumers will take a well-deserved break in 2011. The softening in the monthly pace of job creation from an average of 31K in 2010 to around 20K in 2011 will single-handedly slow growth in personal spending by more than 0.4 percentage points. But as important will be the change in the propensity to spend. With the US-Canada savings rate gap at a 40-year high, and ongoing indications that monetary authorities wish to curtail the risky level of household debt, 2011 should see the beginning of an adjustment in the household balance sheet. Our expectations that the housing market will stagnate in 2011 and might even see some softening in the second half, suggest that the estimated 8% rise in net worth in 2010 will not be matched in 2011. And with consumer spending dancing to the tune of changes in net worth, this represents another source of slowing for consumers.

Consumer spending in the past two years was by far the most leveraged in recent history but this trend is starting to normalize. Growth in consumer credit is already decelerating (mainly in sources that are used largely for consumption such as credit cards and lines of credit). And as the ratio of growth in borrowing to spending returns to normal in 2011, look for growth in consumer expenditures to take an additional haircut.

## GDP

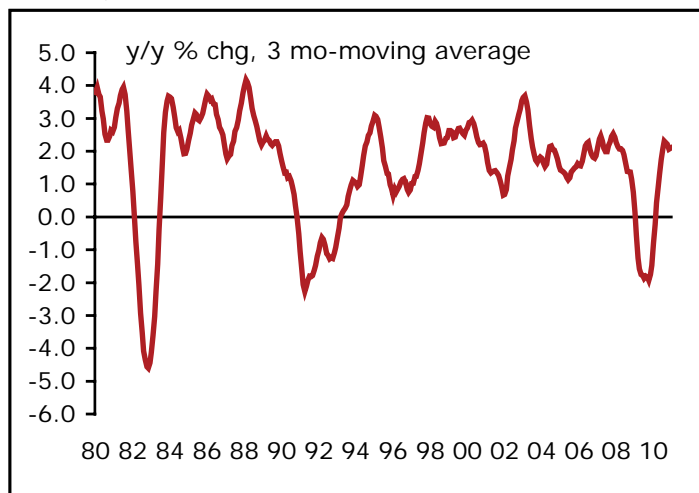


## Soft Growth in Net Worth and Borrowing Will Slow Consumer Spending



Source: Statistics Canada, CIBC

## Employment



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