Consumer Lending Stats Lining Up Against the Canadian Banks

Description

A recently released Royal Bank of Canada report added fuel to the fire that is slowly but surely enveloping the consumer lending departments of the Canadian banks.

The study indicated that Canadian consumers continue to temper their desire to borrow at historically high levels. Several relevant stats from the piece include:

- Household debt in February stood 4.5% higher than it did last February. This compares to the 4.7% year over year growth that was experienced in the previous month and is down from the 6% year over year increase last January. Growth exists, but is clearly slowing.
- Residential mortgage debt increased 5.4% in February from one year ago to $1.16 trillion. This is down from the 7.3% growth experienced in the last February to February period and is the slowest growth in mortgage accumulation since November 2001. Growth exists, but is clearly slowing.
- Consumer credit increased by 2.5% on a year-over-year basis in February, the slowest growth rate since July 1993. Growth exists, but is clearly slowing.

Consumer lending over the past decade or so has been a huge tailwind for the Canadian banks. With shares trading near their 52-week highs, as the table below illustrates, investors appear willing to believe that either this tailwind will continue or at worst, a replacement is waiting in the wings. Consumer lending stats are increasingly making it look like a replacement is going to be needed.

Company	Current Price	52-week high	Difference
Bank of Montreal (TSX:BMO)	$64.30	$64.70	-1.0%
TD Bank (TSX:TD)	$84.18	$86.20	-2.3%

Royal Bank (TSX:RY)	$62.01	$64.92	-4.5%
Bank of Nova Scotia (TSX:BNS)	$59.04	$61.84	-4.5%
CIBC (TSX:CM)	$80.51	$84.99	-5.3%

Source: Capital IQ

The S&P/TSX Composite Index is loaded with resource and financial stocks. Because of this, investors that rely on Canadian Index funds or ETFs severely lack diversification in their portfolio, opening them to undue risks. "**Buy These 5 Companies Instead of Following a Flawed Piece of Advice**" is our special FREE report that outlines an easy to implement strategy and 5 Canadian stocks that reduce the risks involved with passively investing in the Canadian market. **Click here now** to receive the report – FREE!

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Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

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1. TSX:BMO (Bank Of Montreal)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:RY (Royal Bank of Canada)
5. TSX:TD (The Toronto-Dominion Bank)

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tmfohcanada