

Leery lenders

By Warren Lovely & Taylor Schleich

Don't confuse the onset of a notional pause in policy rate tightening with more relaxed lending conditions. That's the message from the Bank of Canada's [Senior Loan Officer Survey](#), and you'd pick up similar intonations from related surveys conducted by the Fed, the ECB and others.

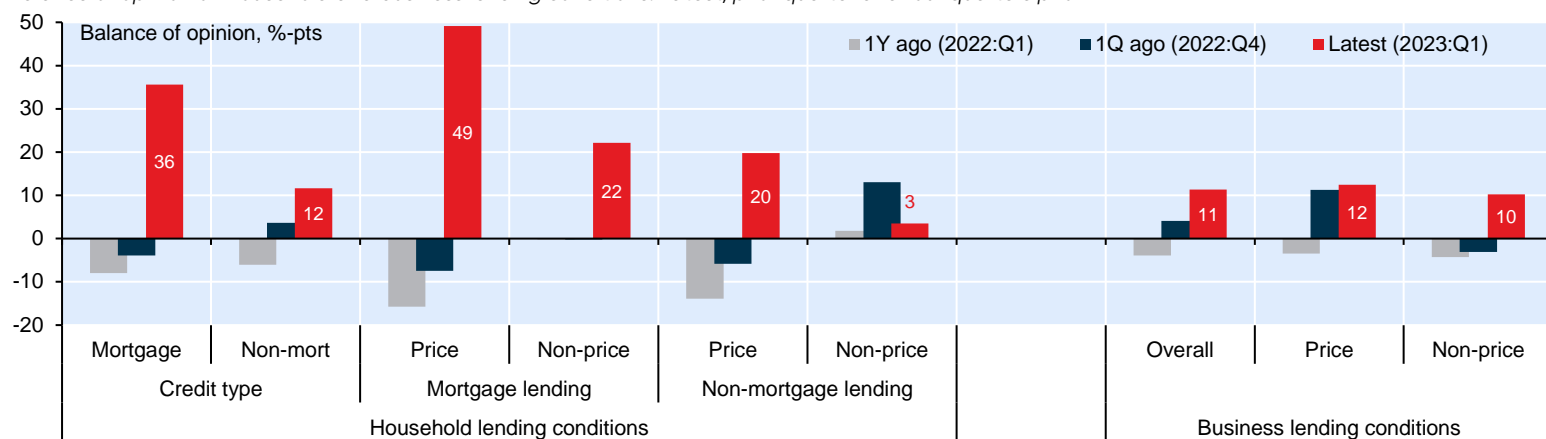
The BoC may not bother to write-up results of its survey anymore, but there's some interesting (chilling?) stuff here. Of note, senior loan officers at major Canadian financial institutions have tightened the screws when it comes to lending to households. Nowhere is this more apparent than for mortgages, where the balance of opinion of this survey—+36 percent tightening—is the most restrictive reading in the admittedly short sample (data only back to 2017). Notwithstanding a reported firming in housing activity (aided no doubt by a tidal wave of new immigrants needing a place to live), tight(er) mortgage lending conditions, should they persist, could well keep the housing market from *sustainably* powering back up. For a housing-dependent economy like Canada, that's no small consideration.

Business lending conditions might not be as tight (the corresponding balance of opinion reads +12 tightening). Still, more restrictive lending practices in Canada—via pricing and other loan covenants—could hamper another driver of domestic economic growth: real business investment. Note: If you're in search of more alarming tightening, just look south of the border where banking failures and broader anxiety is keeping U.S. loan officers on edge, a posture that is likely to crimp growth even more severely. It's also worth noting that the BoC's [own analysis](#) suggests that the impact of tighter business lending conditions is often felt with the lag, perhaps as much as 4–6 quarters. If history is any guide, then it might be a sluggish investment environment well into 2024.

We don't aim to overreact to these or other soft data—like the Business Outlook Survey or today's Financial System Survey. But these surveys may give us a better idea of what's to come for the economy, given the long lags with which monetary policy operates and impacts more traditional 'hard' data. Clearly, these recent sentiment indicators suggest the housing market and business investment could be short of the fuel (i.e., credit) really needed to get the economy firing on all cylinders. It all fits with our sub-consensus growth call for Canada, which alongside anticipated relief in inflation could move the BoC to action, in the form of outright rate cuts, before the year is out.

Chart 1: Despite the BoC moving to the sidelines, tightening is still clearly underway

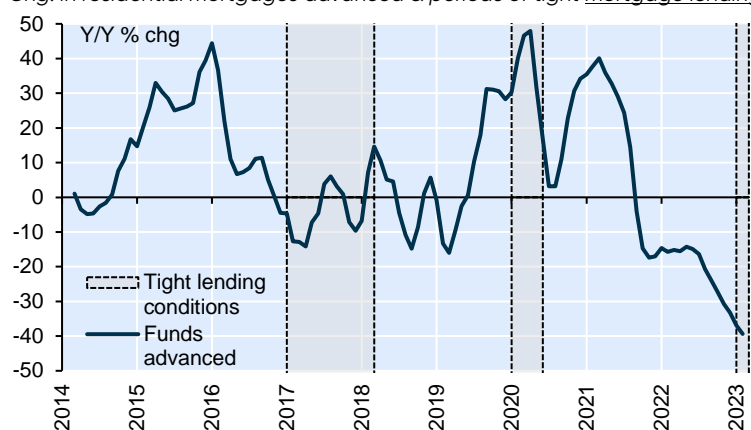
Balance of opinion on household and business lending conditions: Latest, prior quarter and four quarters prior



Source: NBF, Bank of Canada

Chart 2: Tightening may limit sustainability of housing recovery

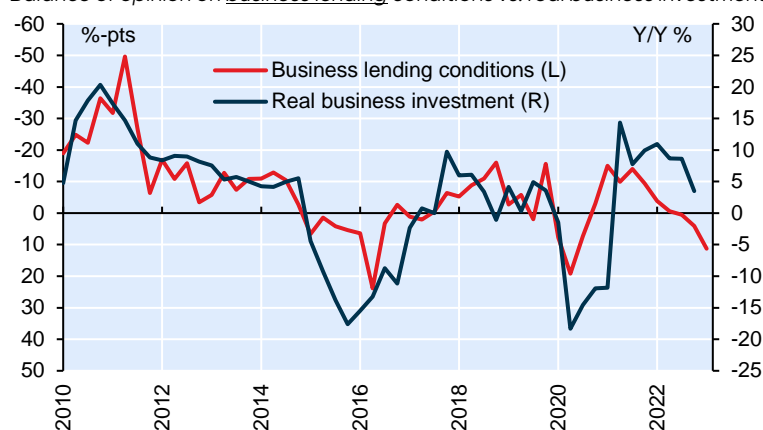
Chg. in residential mortgages advanced & periods of tight mortgage lending



Source: NBF, Bank of Canada | Note: Reporting coverage for mortgage activity encompasses Canadian banks & foreign bank branches. Latest data as of Feb 2023

Chart 3: Lending conditions point to sluggish biz investment

Balance of opinion on business lending conditions vs. real business investment



Source: NBF, Bank of Canada, StatCan | Note: Last data point for real business investment is 2022:Q4. Last data point for business lending conditions is 2023:Q1.

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