Canadian Consumer Credit Trends
Q3 2013
Prepared by: Equifax Analytical Services
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Contributors

Regina Malina, Director, Modeling & Analytics

Regina’s background is in statistical analysis, campaign management and research with over 15 years of experience across various industries. Before joining Equifax as Director of Modeling and Analytics, she held senior analytics, customer and data insights roles at various organizations including Bank of Montreal, Loyalty One, and Intact Insurance (formerly ING Insurance), and brings knowledge from many industries including retail, financial, pharmaceutical, CPG and insurance. In her past roles she developed statistical solutions, oversaw analytical and measurement projects, and assisted in the specification of best CRM practices related to campaign management, business intelligence application and data mining ensuring optimal targeting for marketing communications. Regina holds a Master of Science degree in Statistics.

Tara Zecevic, Vice President, Technology and Analytic Services

Tara has over 17 years of progressive experience within the financial services sector with a strong consultative approach to crafting solutions in both established and emerging markets. Tara’s career has spanned marketing solutions, sales and product management for fraud, analytic and decisioning solutions. Tara has a Hon. B. Sc. and Certificate in Human Resources from University of Toronto. She currently sits on the Credit Canada Debt Solutions board is also a member of the IAFCI, CSRSA and Credit Association.
Introduction

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Introduction

Equifax is one of the most reliable sources of Canadian consumer credit data available. This report will help companies dealing with consumers assess where the market is trending in terms of indebtedness and credit worthiness.

This is the Q3 2013 Equifax report on Canada’s consumer credit industry, including national credit cards, revolving and installment loans, as well as personal, retail, sales, auto finance and mortgages.

Methodology

Data for this report, including scores, are sourced from the Equifax Canada data warehouse, which stores the majority of credit transactions that occur in Canada. There over 24 million unique consumer files. Transaction volumes for data are estimated at 105 million per month.

Highlights

Macro Economic Indicators

Canada Real Gross Domestic Product (GDP) increased 0.8% in Q2 2013, the fastest pace in the past seven quarters.

Canada’s unemployment rate is slightly down: 0.2 percentage points to 6.9% in Q3 2013.

The over-night lending rate remains at 1% as of Q2, 2013 since Q3, 2010.

Consumer Credit Indicators (compared to the same period last year):

Average debt (outstanding balances) has increased by 3.7%.

Consumer demand for new credit has increased by 5.0%.

The 90 day+ delinquency rate has decreased to 1.13%.

Consumer bankruptcies have increased by 2.1% in August 2013.

The average loss per consumer resulting from bankruptcies (excluding mortgage debt) was $35,151 in August 2013, increased by 2.8%.
The Canadian economic environment forecast, consumer behaviour and policymakers’ approach did not change significantly since the previous quarter. Stability and slow growth accurately describe the current state. In the first half of 2013, the unemployment rate decreased to 6.9%, annual inflation rate stayed low, GDP expanded by 0.8% and the Bank of Canada kept the lending rate at 1%, where it has been since September 2010. As consumer confidence increases, they continue to take on debt but with continued responsibility. The national delinquency rate has consistently decreased in the past three years, reaching the lowest number on record of 1.13% in Q3 of 2013. While consumer spending has been a key aspect of the economic recovery so far, there is still an expectation that exports will be doing more of the heavy lifting in the future.

Demand for New Credit:  
After some declines, consumer demand for new credit continues to pick up quickly: in the third quarter of 2013 it is 5% higher than in the same quarter last year. Year-over-year increases in new credit are seen in all regions, with the highest experience in the Western region of over 7%. Average balances, limits and utilization of newly opened accounts are lower than at the same period last year. A couple of patterns to note:  
- While utilization of newly opened installment loans indicates a stable trend, average balances and limits have increased again compared to the same period last year.  
- Newly opened revolving loans have decreased significantly on all accounts: limit, balance and utilization.  
The average balance, limits and utilization of newly opened auto loans are stable.

Total Debt:  
Consumer debt continues to grow. On a debt classification basis, the auto sector shows the most significant increase of 7.9% year-over-year.

The national delinquency rate has consistently decreased in the past three years, reaching the lowest number on record of 1.13% in Q3 of 2013, while consumer debt continues to increase.
Summary

**Average Debt:**
Overall, while average balance and limits steadily increase, utilization continues to show stability. A couple of patterns to note:
- The average utilization of revolving loans has decreased steadily.
- Average bank installment loan balances and limits continue to increase.
- Auto loans continue to increase, although at a lower pace than in previous quarters.

**Consumer Level:**
Average balance and limit per consumer continues to increase in all regions, while the average utilization is unchanged compared with the same period last year. Average debt is increasing in all age groups, but the 26-45 age group has the lowest debt growth rate.

**Delinquency:**
The national 90 day+ delinquency rate has consistently decreased over the past three years. As of Q3/2013, it has reached the lowest number on record of 1.13%.
The national trend is observed in all regions and major cities, with Quebec having the lowest delinquency rate and the Eastern region having the highest rate.
Although decreased by almost 29% compared to a year earlier, personal finance loans have the highest delinquency rate of 4.94%. Revolving and auto loan delinquency rates are the lowest.

**Bankruptcies:**
The number of bankruptcies has decreased since 2009.
Ontario and the Western region continue to lead in terms of the rate of decrease in the number of bankruptcies, while Quebec lags behind.
The average bankruptcy balance has been decreasing in 2013.
Canada Overview

- Canada Real GDP
- Unemployment Rate
- Interest Rate
Real gross domestic product (GDP) expanded 0.8% in the second quarter 2013, the fastest pace in the past seven quarters, driven mainly by an increase in exports. However, the growth is very nominal.

Source: Statistics Canada
Compared to the second quarter 2013, the unemployment rate was decreased slightly to 6.9%.

Source: Statistics Canada
The Bank of Canada overnight interest rate has remained unchanged at 1% since Q3 2010.

This constant low-interest rate environment has been a main driver for the continued increase in consumer credit indebtedness over the past few years.

Source: Bank of Canada
New Credit Demand
Consumer demand for new credit continues to increase and is now 5.0% more when compared to the same quarter last year.
Consumer Debt Trends

- Total Debt
- Average Debt - Major Cities
- Average Debt - New Accounts
- Average Debt - Consumer Level
Consumer debt continues to grow. As of Q3 2013, Canadian consumers owe $1,360.7 billion, compared to $1,345.5 billion in Q2 2013 and $1,291.2 billion a year earlier, an increase of 1.1% and 5.4%, respectively.

On a debt classification basis, the Auto, Mortgage, and Installment Loan sectors continue to show significant increases of 7.9%, 6.4%, and 5.7% year-over-year, respectively.

Mortgage figures are based on information reported to Equifax and do not include the entire Mortgage market.
Total Debt – All Credit Products (Except Mortgages)

While volumes were unchanged, moderate year-over-year growth is observed in total credit balances and credit limits – 3.7% and 3.8%, respectively.

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<tbody>
<tr>
<td>Total Balance</td>
<td>16.0%</td>
<td>15.0%</td>
<td>14.3%</td>
<td>11.2%</td>
<td>8.5%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Total Limit</td>
<td>16.5%</td>
<td>16.4%</td>
<td>16.3%</td>
<td>13.8%</td>
<td>10.2%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Number of Accounts</td>
<td>2.9%</td>
<td>4.0%</td>
<td>3.2%</td>
<td>1.2%</td>
<td>-0.8%</td>
<td>-0.3%</td>
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</table>
In contrast to the overall debt trend, National Credit Cards show an increase in number of new accounts. Balances continue to increase after a two-year period of negative or no change.
Outstanding balances and limits continue to increase for Bank Installment Loans. Given that Bank Auto Finance is a significant portion of this segment, this increase correlates with overall record Q3 automotive sales.

**Total Debt – Bank Installment Loans**

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<tbody>
<tr>
<td><strong>Total Balance</strong></td>
<td>10.0%</td>
<td>6.5%</td>
<td>6.2%</td>
<td>6.4%</td>
<td>-3.6%</td>
<td>-1.3%</td>
</tr>
<tr>
<td><strong>Total Limit</strong></td>
<td>8.7%</td>
<td>5.9%</td>
<td>5.6%</td>
<td>5.8%</td>
<td>-2.8%</td>
<td>-0.6%</td>
</tr>
<tr>
<td><strong>Number of Accounts</strong></td>
<td>3.6%</td>
<td>1.8%</td>
<td>1.7%</td>
<td>2.2%</td>
<td>-1.4%</td>
<td>1.4%</td>
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</table>
Limits for Revolving Loans are increasing, while volumes are also increasing but at a slower pace.

Outstanding balances are staying at the same levels as consumers are not fully utilizing available credit limits.
The total debt increase for Revolving Loans are mainly due to the growth in secured loans.
Unsecured loan volumes and limits continue to increase at a very slow pace, while outstanding balances remain flat.
Auto Finance sector growth continues this quarter at a very robust rate.
Consumer Debt Trends

- Total Debt
- Average Debt - Major Cities
- Average Debt - New Accounts
- Average Debt - Consumer Level
Average Debt – Toronto

Average balances and limits show steady increases, while utilization decreases slightly.

% Changes

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<tbody>
<tr>
<td>Year-over-Year</td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>Q1</td>
</tr>
<tr>
<td>Average Balance</td>
<td>7.3%</td>
<td>9.8%</td>
<td>9.9%</td>
<td>10.1%</td>
<td>9.4%</td>
</tr>
<tr>
<td>Average Limit</td>
<td>5.5%</td>
<td>5.7%</td>
<td>5.3%</td>
<td>5.4%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Average Utilization</td>
<td>1.8%</td>
<td>3.9%</td>
<td>4.4%</td>
<td>4.4%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>
Average balances and limits show steady growth.

Average utilization has been flat over the last two quarters.
Average balances remained unchanged versus the same quarter last year.

Average Debt – Vancouver

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<tbody>
<tr>
<td>Average Balance</td>
<td>14.5%</td>
<td>5.1%</td>
<td>4.9%</td>
<td>11.3%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Average Limit</td>
<td>9.6%</td>
<td>4.4%</td>
<td>4.1%</td>
<td>3.3%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Average Utilization</td>
<td>4.4%</td>
<td>0.6%</td>
<td>1.7%</td>
<td>1.5%</td>
<td>4.1%</td>
</tr>
</tbody>
</table>
Average balances and limits show steady growth.

Average utilization have shown little change over the last few quarters.

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<tbody>
<tr>
<td>Average Balance</td>
<td>10.6% 11.6% 10.4% 9.3%</td>
<td>9.2% 9.9% 8.6% 7.0%</td>
<td>4.5% 2.9% 3.2% 3.4%</td>
<td>3.4% 0.8% -1.3% -1.4%</td>
<td>2.1% 3.6% 3.8%</td>
</tr>
<tr>
<td>Average Limit</td>
<td>7.0% 6.7% 5.9% 5.0%</td>
<td>5.2% 6.4% 5.5% 4.7%</td>
<td>3.7% 3.3% 3.9% 3.1%</td>
<td>3.6% 1.8% 0.6% 1.3%</td>
<td>3.2% 4.2% 4.7%</td>
</tr>
<tr>
<td>Average Utilization</td>
<td>3.4% 4.5% 4.2% 4.1%</td>
<td>3.8% 3.3% 3.0% 2.2%</td>
<td>0.8% -0.4% -0.6% 0.3%</td>
<td>-0.2% -1.0% -1.9% -2.7%</td>
<td>-1.0% -0.6% -0.9%</td>
</tr>
</tbody>
</table>
Average balances and limits grew steadily.

Average utilization has been flat over the last few quarters.
Average balances and limits show the fastest growth among all major cities, with 7.5% and 6.6% year-over-year increases respectively.
Average debt – Halifax

Average balances and limits continue to increase.

Average utilization has been flat over the last few quarters.
Consumer Debt Trends

- Total Debt
- Average Debt - Major Cities
- Average Debt - New Accounts
- Average Debt - Consumer Level
Average balances, limits and utilization of newly opened accounts are lower than at the same period last year.
Consumer Debt Trends

- Total Debt
- Average Debt - Major Cities
- Average Debt - New Accounts
- Average Debt - Consumer Level
Average debt per consumer is increasing in all regions.
Average debt is increasing in all age groups. The ‘26-45’ age group has the lowest debt growth rate.

Even though their average debt is one of the smallest, ‘65+’ age group continues to accumulate debt at the highest rate.

### Average Balance – By Age (Except Mortgages)

#### Consumer Level

Average debt is increasing in all age groups. The ‘26-45’ age group has the lowest debt growth rate.

Even though their average debt is one of the smallest, ‘65+’ age group continues to accumulate debt at the highest rate.

#### Table: Average Balance by Age (Except Mortgages)

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</thead>
<tbody>
<tr>
<td>0-25</td>
<td>7.3%</td>
<td>8.3%</td>
<td>7.6%</td>
<td>6.4%</td>
<td>2.2%</td>
<td>1.1%</td>
</tr>
<tr>
<td>26-35</td>
<td>15.0%</td>
<td>11.2%</td>
<td>10.7%</td>
<td>7.4%</td>
<td>4.8%</td>
<td>3.4%</td>
</tr>
<tr>
<td>36-45</td>
<td>17.2%</td>
<td>13.9%</td>
<td>13.8%</td>
<td>10.6%</td>
<td>9.5%</td>
<td>7.9%</td>
</tr>
<tr>
<td>46-55</td>
<td>17.2%</td>
<td>13.7%</td>
<td>13.8%</td>
<td>10.8%</td>
<td>10.4%</td>
<td>8.9%</td>
</tr>
<tr>
<td>56-65</td>
<td>16.2%</td>
<td>13.4%</td>
<td>13.9%</td>
<td>11.4%</td>
<td>11.1%</td>
<td>9.4%</td>
</tr>
<tr>
<td>65+</td>
<td>16.6%</td>
<td>14.6%</td>
<td>15.4%</td>
<td>13.8%</td>
<td>13.5%</td>
<td>12.0%</td>
</tr>
<tr>
<td>Overall</td>
<td>14.8%</td>
<td>13.0%</td>
<td>13.1%</td>
<td>10.3%</td>
<td>9.2%</td>
<td>7.8%</td>
</tr>
</tbody>
</table>
Credit Risk Trends

- Delinquency
- Bankruptcy
The National 90+ delinquency rate has consistently decreased in the past three years. As of Q3/2013, it has reached the lowest number on record of 1.13%.

Note:
Delinquency is defined as 90 + Days or worse on a trade.
Delinquency Rate = Total Delinquent Balance/Total Balance
All major cities in Canada are showing the same trend of reduced serious delinquency.

Note:
Delinquency is defined as 90 + Days or worse on a trade.
Delinquency Rate = Total Delinquent Balance/Total Balance
Credit Risk Trends

- Delinquency
- Bankruptcy
The number of bankruptcies have decreased since 2009.

<table>
<thead>
<tr>
<th></th>
<th>August 2013</th>
<th>July 2013</th>
<th>August 2012</th>
<th>% Change 1</th>
<th>% Change 2</th>
<th>12-Month Period Ending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>9,719</td>
<td>9,842</td>
<td>9,522</td>
<td>-1.25%</td>
<td>2.07%</td>
<td>118,611</td>
</tr>
</tbody>
</table>

% Change: -2.86%
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