



## Canada Loans Rebound as Government Pares Liquidity (Update1)

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By Greg Quinn

Sept. 1 (Bloomberg) -- Canadian household and corporate borrowing rebounded in the second quarter, spurred by lower interest rates, while the federal government scaled back borrowing related to emergency credit programs.

Household loans rose to an annualized pace of C\$98.3 billion (\$89.8 billion) between April and June from C\$70.1 billion in the previous quarter, the first increase in a year, Statistics Canada said today in Ottawa. Non-financial company borrowing jumped to C\$62.2 billion from C\$14.6 billion, led by new bonds. Both figures were less than the second quarter a year earlier, before the economy went into a **recession**.

The report suggests normal credit markets are returning after the federal government and the Bank of Canada offered emergency **cash** to pull the country through the worst global credit crisis since the Great Depression. Companies took advantage of "favorable bond rates" and consumers borrowed to buy new homes and cars, the report said.

"Canada remains head and shoulders above a number of other markets such as the U.S. and U.K. by way of the functioning of overall financial markets," said **Derek Holt**, an economist at Scotia Capital in Toronto, in a note to clients.

Mortgage loans rose to C\$64.4 billion in the second quarter, from C\$49.1 billion in the prior three months, Statistics Canada said. That figure was less than the C\$85.9 billion from the second quarter of 2008.

### Lower Mortgage Rates

The average **five-year** mortgage rate fell from a peak of 7.2 percent in October to a low of 5.25 percent in April. The average yield on a corporate bond with an A credit rating fell to 4.73 percent at the end of the second quarter from 5.34 percent at the start of the year, according to data compiled by Bloomberg.

Total borrowing by the federal government was C\$34.7 billion, falling from C\$183 billion in the first quarter as the government pared back "temporary measures to enhance liquidity in financial markets," the report said.

The Bank of Canada scaled back the size of its short-term purchases of securities from major bond dealers and money-market investors in July. Finance Minister **Jim Flaherty** offered to buy as much as C\$125 billion of mortgages from banks, which have declined to take the full amount as market conditions improved.

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*Last Updated: September 1, 2009 11:59 EDT*