



BIANNUAL SURVEY OF SUPPLIERS OF BUSINESS FINANCING DATA ANALYSIS, SECOND HALF 2016

September 2017

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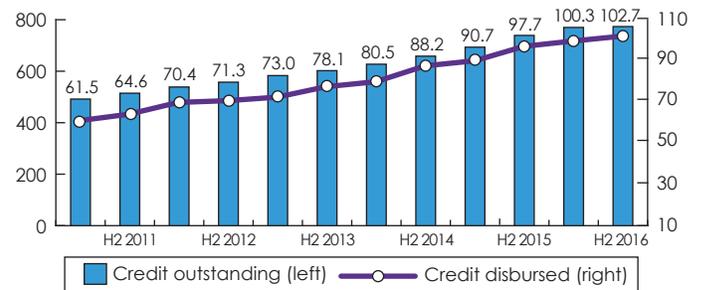
This document presents data on business lending activities gathered from the Statistics Canada *Biannual Survey of Suppliers of Business Financing*, the Bank of Canada *Senior Loan Officer Survey* and *Business Outlook Survey*, and the PayNet Canadian *Business Lending Index*.

SUMMARY

- Overall lending conditions in Canada improved in the second half of 2016 (July to December) as suppliers continued to lend across all business size categories and most industry sectors.
- According to data from *Biannual Survey of Suppliers of Business Financing*, lending conditions improved the most for small businesses (those with loan authorization levels less than \$1 million) and medium-sized businesses (those with loan authorization levels between \$1 million and less than \$5 million), with the value of loan disbursements increasing by 3.3 percent and 3.1 percent respectively, from the first half of 2016 (January to June) to the second half of 2016.
- Results from Bank of Canada's *Senior Loan Officer Survey* and *Business Outlook Survey* are consistent with results from the *Biannual Survey of Suppliers of Business Financing*, which indicated easing in credit lending conditions in H2 2016.

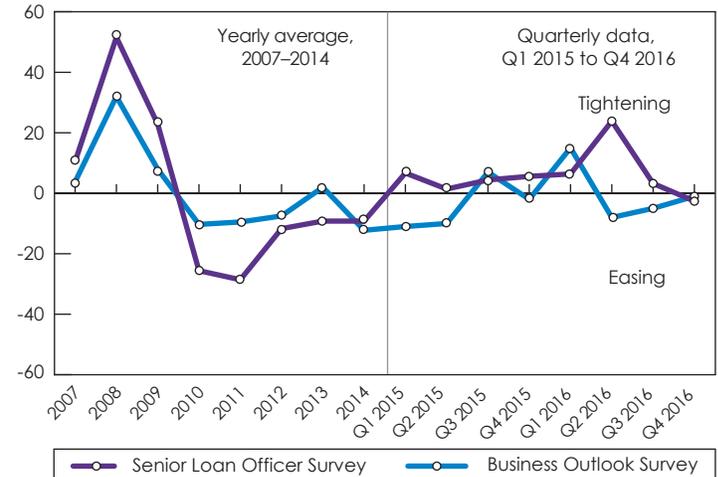
Officer Survey and *Business Outlook Survey* are consistent with results from the *Biannual Survey of Suppliers of Business Financing*, which indicated easing in credit lending conditions in H2 2016. As can be seen in Figure 2, both lending indices reported eased credit conditions in H2 2016.

Figure 1: Value of Credit Outstanding (\$ billions) and Disbursed (\$ billions) to All Businesses



Source: Statistics Canada, *Biannual Survey of Suppliers of Business Financing*, 2017.

Figure 2: Credit Lending Conditions in Canada



Note 1: The *Senior Loan Officer Survey* lending index shows the difference between the weighted percentage of financial institutions reporting tighter credit conditions and the weighted percentage reporting easier credit conditions in the preceding 3 months. The *Business Outlook Survey* lending index shows the percentage of firms reporting tighter lending terms and conditions minus the percentage reporting easier terms and conditions compared with the previous 3 months.

Note 2: Positive values indicate a tightening of credit. Negative values indicate a loosening of credit.

Sources: Bank of Canada, *Senior Loan Officer Survey*, 2017; and Bank of Canada, *Business Outlook Survey*, 2017.

OVERALL LENDING CONDITIONS

Results from the *Biannual Survey of Suppliers of Business Financing* highlight a continued increase in value of credit disbursements between July and December 2016 (H2 2016). In total, lenders disbursed approximately \$102.7 billion in new loans¹ to Canadian businesses in H2 2016, compared with approximately \$100.3 billion in new loans disbursed between January and June 2016 (H1 2016) (Figure 1). This translates into a slight increase in new loan activity of 2.4 percent from H1 2016 to H2 2016 and reflects six consecutive years of increases in loans disbursements since 2011.

The total value of credit outstanding also continued to increase by 4.2 percent on average annually since 2011. Between H1 2016 and H2 2016, the value of credit outstanding increased slightly by 0.4 percent.

The financial crisis/recessionary period of 2007 to 2009 is quite evident in Figure 2 as the Bank of Canada's *Senior Loan Officer* and *Business Outlook Survey* reported credit market conditions that were clearly in a state of tightening. Since 2010, overall credit conditions in Canada have generally eased as both businesses and financial institutions reported eased lending terms and conditions. Results from Bank of Canada's *Senior Loan*

¹ New loans include term loans and non residential mortgages that generally have a fixed repayment schedule of greater than one year.

Table 1 presents data from the *Biannual Survey of Suppliers of Business Financing* on total loan disbursements to businesses by supplier type. Domestic banks, which account for 54.0 percent of Canada's new loans market, continued lending aggressively in H2 2016 (Table 1), increasing loan disbursements to businesses by 5.8 percent from H1 2016 to H2 2016. "Other banks", credit unions and Caisses populaires, and insurance companies and portfolio managers accounted for 20.0 percent, 10.0 percent and 4.0 percent respectively, of the overall new loans market decreased. These financial institutions decreased their lending by 8.5 percent, 3.5 percent and 14.3 percent respectively, between H1 2016 and H2 2016. Loan disbursements by finance companies rebounded by a sharp 26.5 percent increase in H2 2016. This is compared to a 13.2 percent drop in disbursements in H1 2016.

Table 1: Value of Credit Disbursed (\$ billions) to All Businesses by Supplier Type

Supplier Type	2014		2015		2016	
	H1	H2	H1	H2	H1	H2
Domestic banks	37.5	43.1	44.2	48.9	52.1	55.1
Other banks	18.3	18.6	20.0	21.0	22.8	20.9
Credit unions and Caisses populaires	8.6	9.5	10.0	10.7	10.9	10.5
Finance companies	9.4	9.5	10.0	10.8	9.3	11.8
Insurance companies and portfolio managers	6.6	7.5	6.3	6.4	5.2	4.5
All suppliers	80.5	88.2	90.7	97.7	100.3	102.7

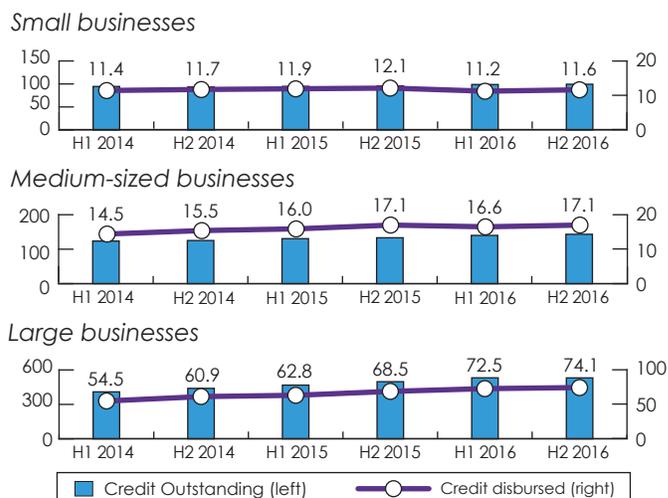
Source: Statistics Canada, *Biannual Survey of Suppliers of Business Financing*, 2017.

LENDING CONDITIONS BY BUSINESS SIZE

Data from the *Biannual Survey of Suppliers of Business Financing* showed an overall increase in lending activity for all sizes of businesses in H2 2016. The increase was slightly more pronounced among small businesses (those with loan authorization levels of less than \$1 million) and medium-sized businesses (those with loan authorization levels between \$1 million and less than \$5 million), to which lenders disbursed approximately \$11.6 billion and \$17.1 billion respectively. This represents a 3.3 percent increase in new loans to small businesses and a 3.1 percent increase in new loans to medium-sized businesses. Lending to large businesses (those with loan authorization levels of \$5 million or more) increased slightly to \$74.1 billion, representing a total increase of 2.1 percent between H1 2016 and H2 2016 (Figure 3).

In general, results from the *Biannual Survey of Suppliers of Business Financing* have been consistent with findings from the PayNet's *Canadian Business Lending Index* (CBLI) up until H1 2015 (quarter 1 and quarter 2). As can be seen in Figure 4, index values for small and medium-sized businesses have been trending upwards between 2010 and H1 2015, which coincided with the increase in lending reported by *Biannual Survey of Suppliers of Business Financing*. The upward trend also coincided with a decreasing trend in business loan defaults over the period.

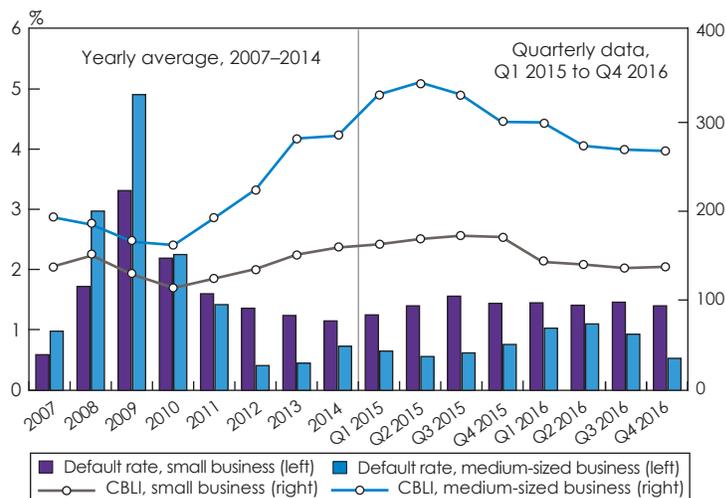
Figure 3: Value of Credit Outstanding (\$ billions) and Disbursed (\$ billions) by Size of Business



Source: Statistics Canada, *Biannual Survey of Suppliers of Business Financing*, 2015.

Contrary to data from *Biannual Survey of Suppliers of Business Financing*, a drop in PayNet lending indices for small and medium-sized businesses was noted since the beginning of H2 2015. The decline was more pronounced for medium-sized businesses, representing a drop of 16.2 percent between Q4 2015 and Q4 2016. In comparison, small businesses experienced a decline in lending by 4.5 percent over the same period.

Figure 4: Loan Default Rate (percentage) and Canadian Business Lending Index for Small and Medium-Sized Businesses



Note 1: The CBLI measures the net volume of loans to small and medium-sized businesses.

Note 2: Defaults are totaled for each quarter and are divided by the average current balance outstanding for the quarter. The result is then annualized. The CBLI is calculated based on the dollar weighted percentage change in qualifying new originations from the prior quarter to the current quarter, for qualifying lenders with data in both quarters. It is then presented on an absolute index basis, indexed so that January 2005 equals 100.

Source: PayNet Inc., *Canadian Business Lending Index*, 2017.

The slowdown in lending to small and medium-sized businesses can partly be explained by soaring default rates between 2015 and 2016, with the highest rate recorded at 1.1 percent for medium-sized businesses in Q2 2016 and 1.5 percent for small business in Q3 2015. Since Q2 2016, default rates for both small and medium-sized businesses have dropped significantly. In particular, in Q4 2016, default rates were recorded at 0.5 percent for medium-sized businesses and 1.4 percent for small businesses. This represents a considerable drop of 38.4 percent in the default rate for medium-sized businesses and 5.4 percent decline for small businesses between Q4 2015 and Q4 2016.

LENDING CONDITIONS BY SECTOR

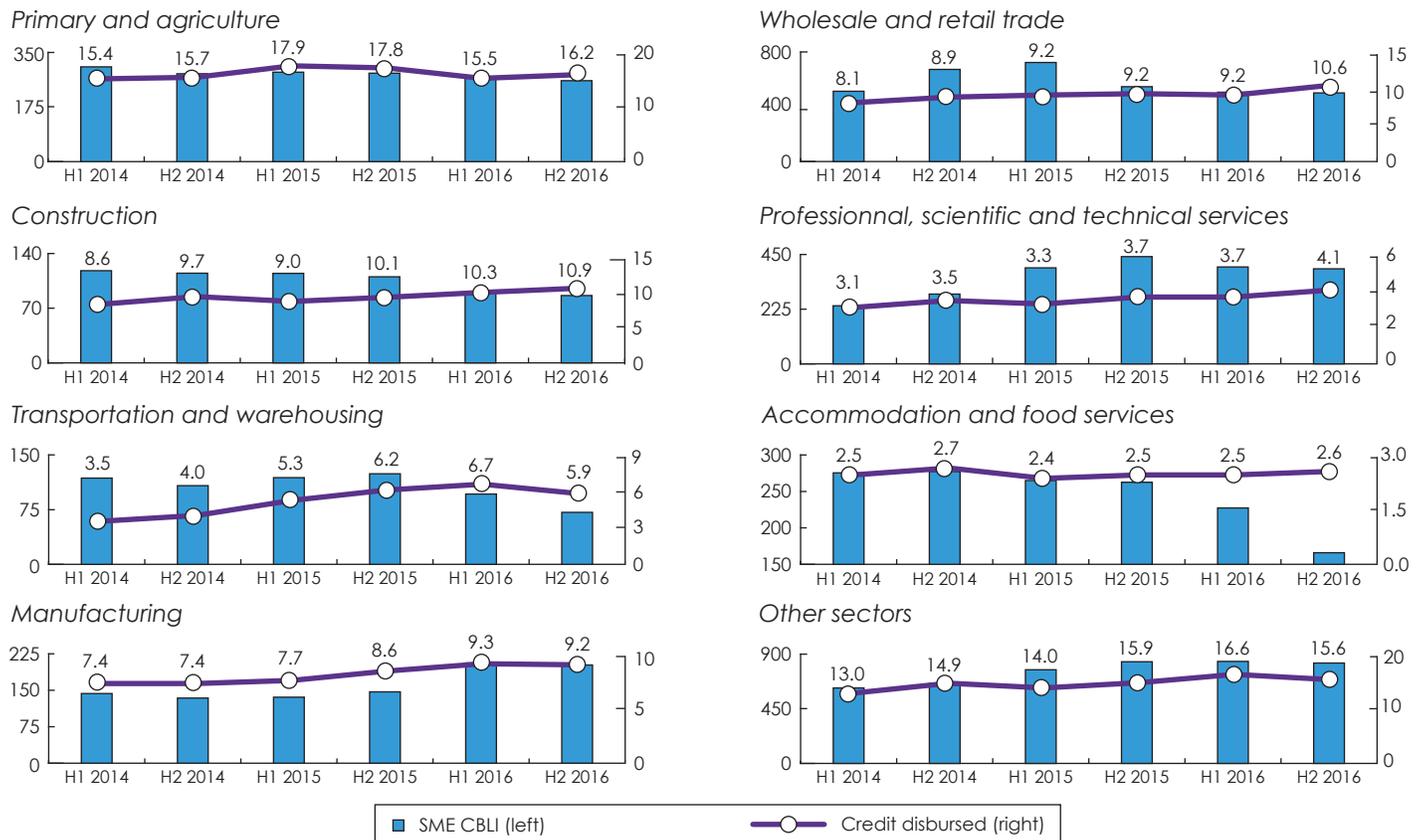
Findings from the *Biannual Survey of Suppliers of Business Financing* (Figure 5) show an increase in lending to firms in primary and agriculture, construction, wholesale and retail trade, professional, scientific and technical services and accommodation and food service sectors in H2 2016. Sectors experiencing the strongest increases in disbursements

were wholesale and retail trade and professional, scientific and technical services sectors, to which lenders disbursed approximately \$10.6 billion respectively, in new loans in H2 2016. This represents an increase in disbursements of 15.1 percent and 12.2 percent respectively, between H1 2016 to H2 2016.

On the other hand, firms in manufacturing, "other" industries and transportation and warehousing sectors experienced a decline in lending as lenders decreased their disbursements by approximately 1.0 percent, 5.9 percent and 12.2 percent respectively between H1 2016 and H2 2016.

Over the same period, based on the PayNet's CBLI, SMEs in all sectors experienced a decline in lending, with firms in accommodation and food services and transportation and warehousing sectors being hit the hardest as lenders decreased their lending by 27.0 percent and 26.0 percent, respectively. In comparison, SMEs in wholesale and retail trade, "other industries" and professional, scientific and technical services experienced a slight drop in lending by 1 percent, 1.6 percent and 1.9 percent respectively, between H1 2016 and H2 2016.

Figure 5: SME Canadian Business Lending Index and Value of Credit Disbursed (\$ billions) by Sector to All Businesses



Note: Value of credit disbursed to firms in finance, insurance, real estate, and rental sector was excluded from "other sectors".

Sources: PayNet Inc., *Canadian Business Lending Index*, 2017; and Statistics Canada, *Biannual Survey of Suppliers of Business Financing*, 2017.

ABOUT THE SOURCES

The Statistics Canada [*Biannual Survey of Suppliers of Business Financing*](#) is the result of commitment by the Government of Canada to improve the availability of information about financing of businesses in Canada. Data is collected from 120 major suppliers of financing, including domestic banks and credit unions and Caisses populaires, representing over 90 percent of all lending to businesses in Canada.

The Bank of Canada [*Senior Loan Officer Survey*](#) collects information on the business-lending practices of Canadian financial institutions. In particular, the survey gathers the perspectives of respondents on price and non-price terms of business lending and on topical issues of interest to the Bank of Canada. The survey is conducted quarterly, near the end of the quarter for which the results are reported.

The Bank of Canada [*Business Outlook Survey*](#) consists of interviews conducted by the bank's regional offices with the senior management of about 100 firms, selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity.

The PayNet [*Canadian Business Lending Index*](#) is built using PayNet's proprietary database, which is updated weekly, and represents a growing collection of commercial loans and leases encompassing more than 909 thousand reported contracts worth over \$70 billion.