



# Economics Group

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## Supply Side Credit: U.S. Banks Report Stable Conditions

*Supply side credit dynamics point to stable conditions. Recent data suggest business lending demand has improved while consumer demand remains basically unchanged.*

### Equipment Investment Leads Business Loan Demand

In the January 2018 Senior Loan Officer Opinion Survey (SLOOS), released by the Federal Reserve, we received a snapshot of Q4 credit standards among businesses and households. This report, which surveys banks in the United States, focuses on supply side reporting of credit dynamics.

While banks reportedly continued to ease standards on commercial and industrial (C&I) loans, demand for such loans has picked-up slightly after remaining weak for more than a year (top graph). Increased demand is likely attributable to the rise in business fixed investment, specifically the surge in capital spending in the second half of 2017. With equipment spending up 10.8 percent and 11.4 percent in Q3 and Q4, respectively, the surge in investment likely contributed to the increased demand banks experienced for C&I loans over the period. However, increased competition among lenders was the most cited reason for an easing of credit standards, intimating that businesses have increasingly turned to alternative forms of funding to fuel capital spending.

Weaker demand for commercial real estate (CRE) loans was reported by banks, while banks continued to tighten standards on such loans. Cautious CRE lending has helped keep a fairly tight rein on the supply of credit throughout this recovery.

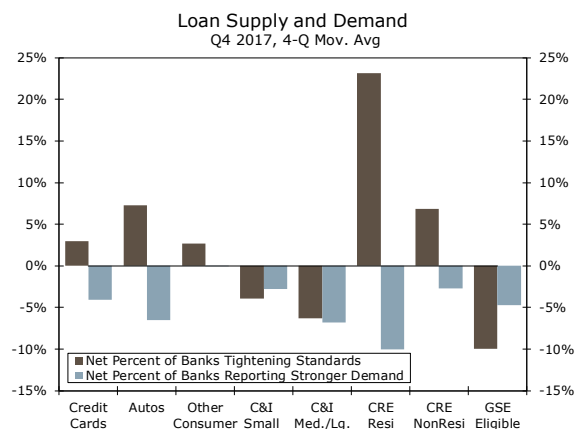
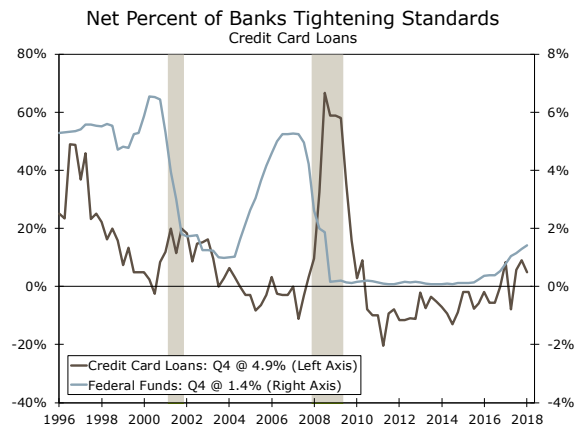
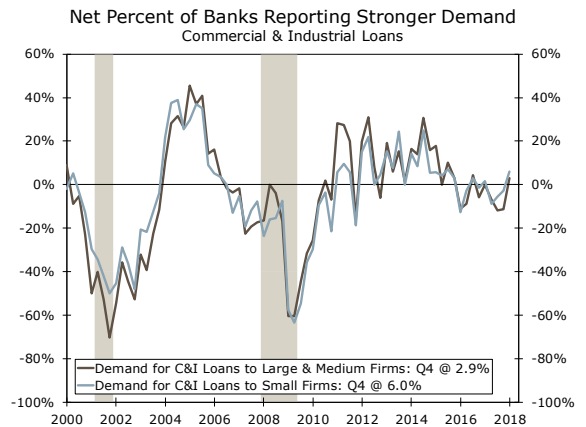
### Tightening Consumer Standards as Interest Rates Rise

Banks' willingness to make consumer loans continued to slow in the fourth quarter. On net, banks increased the minimum required credit scores to receive a loan, resulting in a modest decrease in loans, which were granted to consumers (middle graph). This overall tightening of standards is expected to persist as interest rates are expected to trend higher, which will likely lead to marginally higher loan delinquency rates. Likewise, after years of near-zero interest rates, demand for consumer loans has weakened as the Federal Reserve continues to tighten monetary policy. Demand for auto and credit card loans weakened in Q4, continuing the downward trending demand for these types of loans over the past couple of years (bottom graph).

### Deteriorating Consumer Performance Ahead?

The SLOOS report included a special section regarding the outlook for credit standards in 2018. Next year, banks expect to ease standards on residential mortgage and C&I loans, while tighten terms on CRE and credit card loans. On net, banks anticipate improved credit performance among businesses, while they expect deteriorating conditions for the consumer.

Continued growth in personal consumption expenditures coupled with modest income gains demonstrates that consumers will continue to take advantage of low-cost borrowing to fund consumption. However, as interest rates continue to rise, and borrowing becomes increasingly more costly, we may see a gradual shift in the credit market.



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