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Economics Group

John E. Silvia, Chief Economist
john.silvia@wellsfargo.com • (704) 410-3275
Mackenzie Miller, Economic Analyst
mackenzie.miller@wellsfargo.com • (704) 410-3358

Consumer Credit Moderates: Still Supports Consumer Gains

Despite the smaller-than-expected gain in consumer credit in August, there is little room for concern in the lending market. Conditions continue to improve for both revolving and nonrevolving credit.

Total Credit: Smaller Than Expected Gain

Consumer credit increased $13.5 billion in August, the smallest monthly gain in 9 months and substantially lower than the consensus expectations of $20.0 billion. Data for July were also revised down more than $4 billion to $21.6 billion. All gains were seen in nonrevolving credit, which increased $13.7 billion, while revolving credit declined $0.2 billion. Despite this moderation, conditions still look strong for the consumer credit environment.

Nonrevolving Credit: Back to School Growth

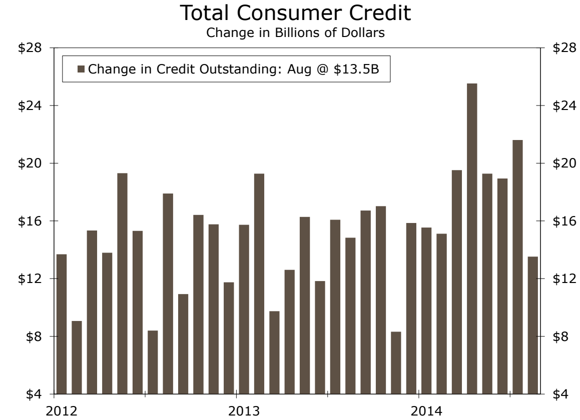
Nonrevolving credit is made up of student loans and auto loans, and has typically been the main driver of overall consumer credit since the past recession. August was no exception, as nonrevolving credit increased at an 8.2 percent year-ago pace, remaining in the 8.0-8.5 percent growth range seen over the past 6 months.

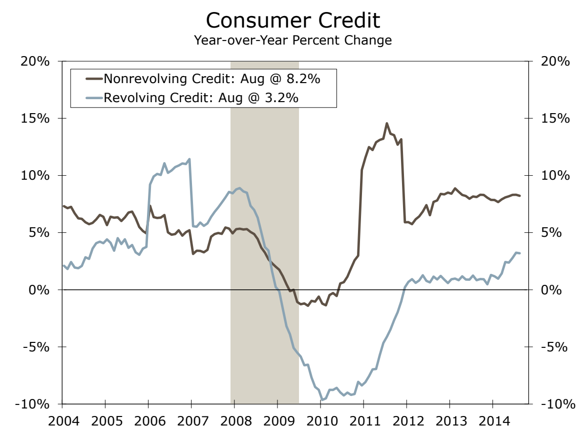
The Federal Government is the largest holder of nonrevolving credit—mostly in the form of student loans—and in August increased lending at an annual rate of $238.3 billion. This August increase was far higher than the $36.8 billion annual-rate increase in July, and more than four times the increase seen by the second- and third-largest nonrevolving credit holders: credit unions and depository institutions. Given that August is a big month for student loans as many borrowers return to school, this large gain in Federal Government lending was expected.

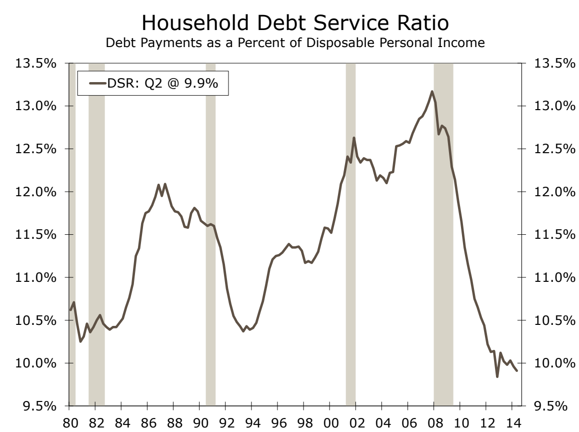
Revolving Credit: Still Set to Expand

Revolving credit increased 3.2 percent from a year ago, despite the monthly decline of $0.2 billion (middle chart). Made up of loans for credit cards and other discretionary spending, revolving credit is often volatile and has seen sluggish growth since the past recession. A recent uptrend in year-over-year growth has indicated that acceleration may be underway for revolving credit, particularly as consumers become more confident in the economic environment and are more comfortable making purchases on their credit cards. August was no exception, as it marked the second-largest year-over-year growth rate seen since October 2008. We see the monthly decline as a slight payback from the unusually-large gain of $5.4 billion in July.

As a percent of disposable personal income, debt payments made by households remain historically low. At just 9.9 percent in Q2 (far below the 12-13 percent range seen in the decade leading up to the past recession) consumers are far less leveraged than in the past and should have some opportunity to increase borrowing as economic conditions continue to improve. The past several quarters of the Senior Loan Officer Opinion Survey have indicated that banks and other lending institutions have, in general, eased lending standards while becoming more willing to lend. If these trends continue, the lending market will be poised to expand further in the coming months.







Source: Federal Reserve Board, U.S. Department of Commerce and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloria, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah Watt House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Michael T. Wolf	Economist	(704) 410-3286	michael.t.wolf@wellsfargo.com
Zachary Griffiths	Economic Analyst	(704) 410-3284	zachary.griffiths@wellsfargo.com
Mackenzie Miller	Economic Analyst	(704) 410-3358	mackenzie.miller@wellsfargo.com
Erik Nelson	Economic Analyst	(704) 410-3267	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Cyndi Burris	Senior Admin. Assistant	(704) 410-3272	cyndi.burris@wellsfargo.com