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Economics Group

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Support for Economic Growth: Bank Lending Improves

Commercial banks are continuing to see loan growth improve, although the rates of growth remain well below what was seen in the last expansion. Liquid assets are rising, while money velocity remains depressed.

Commercial Bank Lending Continues to Pick Up

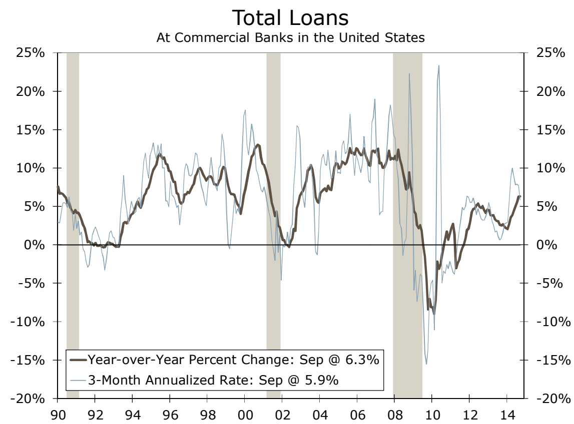
Total loans outstanding at commercial banks in the United States expanded in September, growing 6.3 percent year-over-year, as gradual easing of credit standards continues to improve the lending environment (top chart). Commercial and Industrial (C&I) lending leads growth in overall loans higher, while consumer loans have recovered a bit more slowly. C&I lending was up 12.3 percent year-over-year in September, experiencing a distinct upward trend since December of last year. Consumer lending has also been improving, albeit more slowly, growing just 3.9 percent. However, we expect to see continued improvement in consumer lending as consumer confidence has trended sharply higher and is beginning to get within reach of prerecession levels.

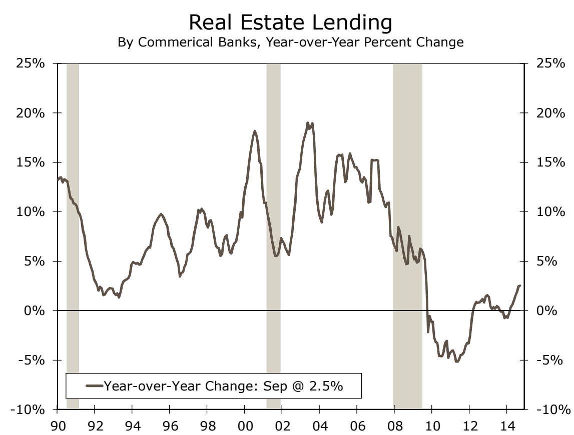
Unsurprisingly, real estate lending has had a rather difficult recovery following the housing bubble burst, but lending has recently showed an encouraging upward trend so far this year. That being said, real estate lending only grew 2.5 percent in September, compared to average year-over-year growth rates of 12.7 percent per month in the previous expansion (middle chart). While we would not expect lending growth to return to pre-recession rates due to the depth of the Great Recession and the large role that the housing market played—as well as the extreme tightening of lending standards as a result—recent growth is encouraging and signals that traditional buyers are returning to the housing market. Lending has improved at both large and small domestic banks, as well as foreign banks.

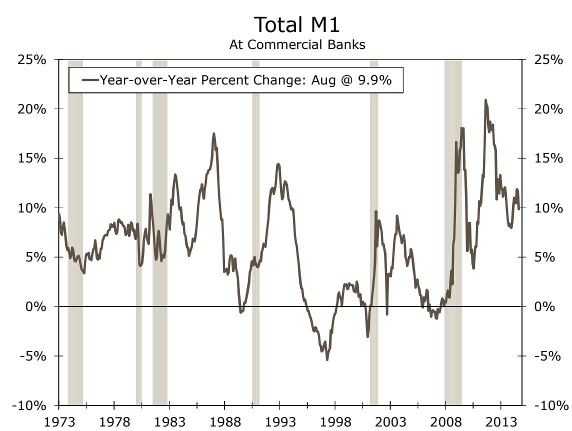
Money Supply Expands, Velocity Remains Depressed

Despite the Fed winding down its asset purchases, as monthly bond buying now stands at only $15 billion, the M1 measure of the money supply continues to grow at historically high rates. The M1 grew 9.9 percent in August (bottom chart) as liquid assets continue to expand and may help support growth in consumer spending going forward. As the money supply grows, bank lending expands while the savings rate remains elevated—leaving consumers room to draw down savings—we should find ourselves in an environment where consumer spending could ramp up.

We would caution, however, that despite growth in the M1 money supply in this recovery, the velocity of money has continued to trend lower and is at levels last seen nearly 30 years ago. As long as velocity continues to decline, the impact of the money supply should be relatively muted when it comes to the rise in. Easing lending standards, as evidenced by the Fed's Senior Loan Officers' Opinion survey and recently-strong growth in both revolving and non-revolving consumer credit should be a boon for lending and spending, and may be what is needed to reverse the downward trend in money velocity, leading to an upside risk for overall economic growth.







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