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Economics Group

Interest Rate Weekly

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Bank Lending Market: A Mixed Bag

On balance, lending standards have generally eased and demand has increased during the current expansion. However, different categories of loans have experienced different fates.

The Bank Loan Potpourri

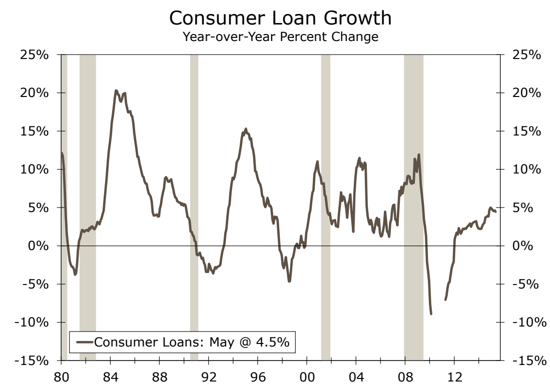
As we have mentioned in prior reports, the U.S. economy is very much a split-level economy at present. While investment spending and net exports have subtracted from GDP growth, domestic consumption has remained a key support to growth. Consumer spending has been supported by recent acceleration in consumer lending activity, even though the rate of growth has not been quite as strong as we saw in the 1980s and 90s (top chart*). Much of this growth has been driven by the well-documented boom in auto lending, which has raised concerns among some analysts, us included.

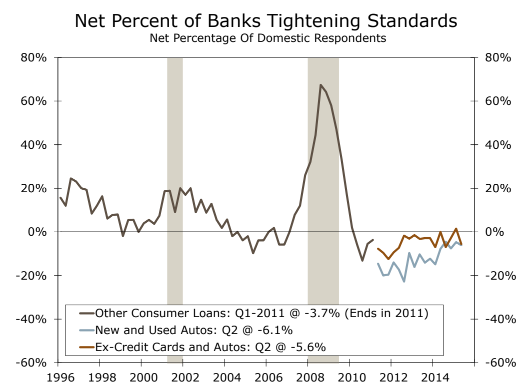
However, data from the Fed's Senior Loan Officer Opinion Survey (SLOOS) suggest that credit in the auto sector has become somewhat tighter over the past year, as the net percent of banks easing standards on auto loans has decreased to 6 percent from 15 percent in Q1 2014 (middle chart). At the same time, the data suggest that demand for auto loans remains robust, as the net percent of banks reporting stronger demand for auto loans exceeds any other consumer loan category (bottom chart). Fortunately, we have not yet seen a meaningful or sustained pickup in delinquencies in this space, which should abate some near-term concern about deterioration in this loan category.

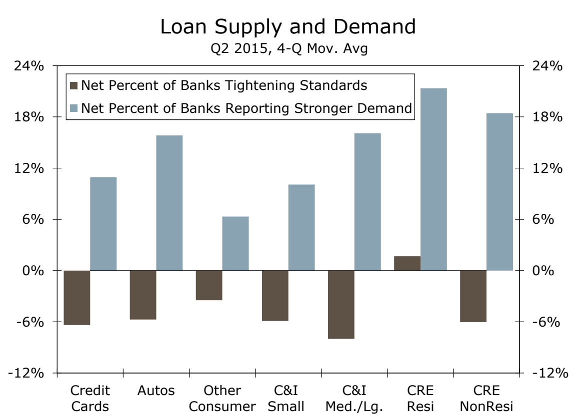
Another loan category where demand has been exceptionally strong is the commercial real estate (CRE) sector. The net percent of banks reporting stronger demand is higher for CRE loans than any other category in the SLOOS. This coincides with the apartment boom we have seen over the past few years, and fundamentals in this space suggest that demand for apartments should remain strong going forward. Interestingly, banks seem to have approached loans in this space with caution recently, as a net positive percentage of banks have been tightening standards for residential CRE loans for the past four quarters. Delinquencies and charge-offs in the CRE space continue to hover near the lows seen in the prior expansion, an encouraging sign for the health of loans in this sector.

Small Business Lending Struggles

Small business lending continues to be one of the trouble spots of the bank lending market, with total small business loans still below 2010 levels. Interestingly, the middle chart seems to suggest this is a function of supply and demand, as standards are less tight and demand is stronger for loans to medium and large enterprises relative to small business loans. However, plans to increase capital outlays among small businesses have increased in more typical cyclical fashion, suggesting some of these businesses are perhaps funding investment with cash flow rather than with loans, or are utilizing alternative non-bank lending sources.







Source: Federal Reserve Board, Federal Deposit Insurance Corporation and Wells Fargo Securities, LLC

* Accounting rules were changed in 2010 for consumer loan data, so these values are omitted

Wells Fargo U.S. Interest Rate Forecast

	Actual				Forecast							
	2014				2015				2016			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Quarter End Interest Rates												
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.75	2.25
3 Month LIBOR	0.23	0.23	0.24	0.26	0.27	0.30	0.70	0.95	1.20	1.45	1.95	2.45
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.50	3.75	4.00	4.25	4.75	5.25
Conventional Mortgage Rate	4.34	4.16	4.16	3.86	3.77	4.05	4.15	4.23	4.28	4.37	4.63	4.75
3 Month Bill	0.05	0.04	0.02	0.04	0.03	0.05	0.13	0.55	0.86	1.15	1.43	1.81
6 Month Bill	0.07	0.07	0.03	0.12	0.14	0.16	0.27	0.63	0.91	1.22	1.52	1.85
1 Year Bill	0.13	0.11	0.13	0.25	0.26	0.30	0.69	0.99	1.24	1.57	1.89	2.43
2 Year Note	0.44	0.47	0.58	0.67	0.56	0.70	0.87	1.07	1.26	1.71	2.00	2.46
5 Year Note	1.73	1.62	1.78	1.65	1.37	1.68	1.78	1.89	2.01	2.19	2.31	2.59
10 Year Note	2.73	2.53	2.52	2.17	1.94	2.25	2.35	2.41	2.46	2.53	2.77	2.89
30 Year Bond	3.56	3.34	3.21	2.75	2.54	2.95	3.07	3.15	3.18	3.29	3.53	3.69

Forecast as of: June 26, 2015

Wells Fargo U.S. Economic Forecast and FOMC Central Tendency Projections

	2015	2016	2017
Change in Real Gross Domestic Product			
Wells Fargo	2.0	2.9	N/A
FOMC	1.8 to 2.0	2.4 to 2.7	2.1 to 2.5
Unemployment Rate			
Wells Fargo	5.2	4.8	N/A
FOMC	5.2 to 5.3	4.9 to 5.1	4.9 to 5.1
PCE Inflation			
Wells Fargo	1.0	2.0	N/A
FOMC	0.6 to 0.8	1.6 to 1.9	1.9 to 2.0

Forecast as of: June 26, 2015

NOTE: Projections of change in real gross domestic product (GDP) and in inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation is the percentage rate of change in the price index for personal consumption expenditures (PCE). Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated.

Fed Data as of: June 17, 2015

Source: IHS Global Insight, Federal Reserve Board and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

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