



Economics Group

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Consumer Credit Bounces Back in December

December saw solid gains in both revolving and nonrevolving credit. The growth rates between the two continued to converge in 2015, as revolving credit accelerated amidst a slowdown in student loans.

Strong Gains in Both Components of Credit

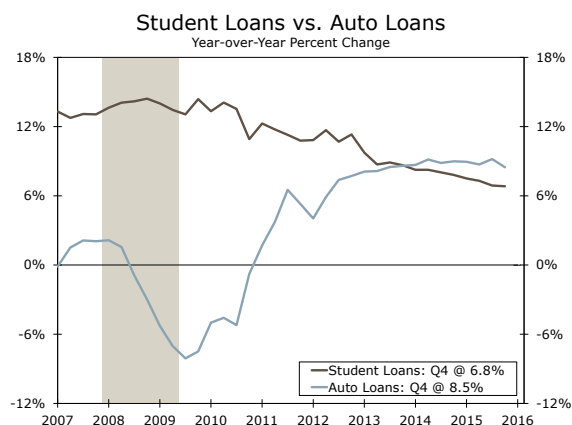
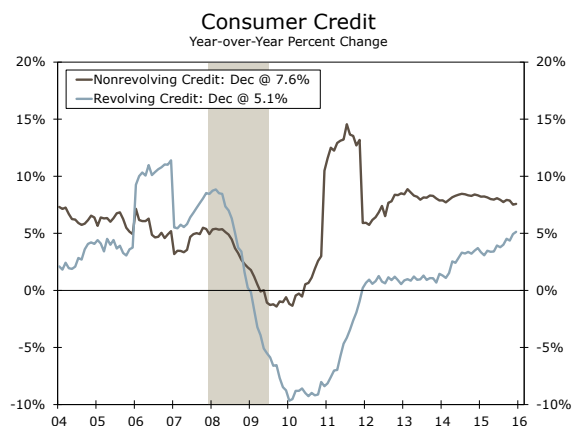
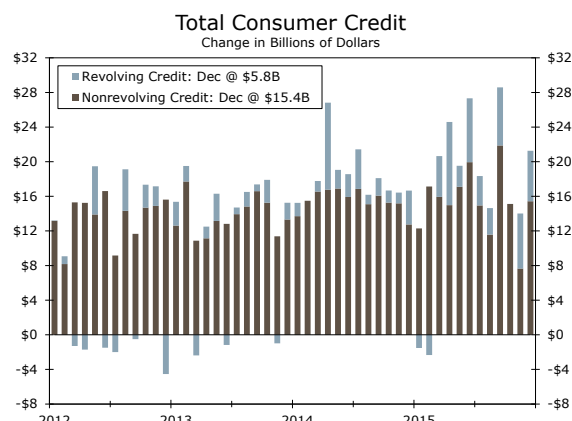
Total consumer credit outstanding increased \$21.3 billion in December, bringing the annual increase to \$229.6 billion (top graph). This put total credit outstanding 6.9 percent higher than its 2014 level. December's gain was fueled by a bounce-back in nonrevolving credit. Looking through the month-to-month volatility, we can see that the pace of gains in nonrevolving credit has downshifted during the past year, for reasons that we will discuss shortly. Revolving credit, on the other hand, accelerated during the year, increasing 5.1 percent during 2015 (bottom graph). This was consistent with our expectations, as student loan growth continues to slow and revolving credit—largely credit card lending—accelerated on the back of improved confidence and incomes. We will monitor the behavior of revolving credit following the financial market volatility during January, which may negatively impact attitudes towards making purchases on credit in the short-run. Looking at 2016 as a whole, we expect the gap between revolving and nonrevolving credit to narrow further. The labor market continues to tighten, evidenced by this morning's decline in the unemployment rate and the higher-than-expected increase in average hourly earnings. This, in our view, should support revolving credit as consumers feel more comfortable using their credit cards.

Student Lending Slows in Q4

This month's data release also contained the Q4 breakdown for student and auto loans, the two largest components of nonrevolving consumer credit. As expected, the gain in student loans outstanding moderated in Q4 relative to the previous quarter. Much of this can be attributed to the fact that the student loan breakdown is not seasonally adjusted, meaning Q1 and Q3 typically show larger increases corresponding with the academic calendar. That said, on a year-over-year basis, it is clear that the pace of gains in student loans outstanding has slowed substantially from earlier in the cycle (bottom graph).

Auto Lending Set to Moderate in 2016

Thus far, the acceleration in auto lending has largely offset the moderation in student loan origination and supported nonrevolving credit growth. The pace of light vehicle sales downshifted somewhat in December, although it remains elevated relative to history. We believe auto sales will continue to be a bright spot in the economy, but improvement should be more modest moving forward. The rapid pace of auto sales has reduced much of the pent-up demand following the Great Recession and fears about slower growth may also weigh on auto sales. That said, plans to buy improved in January's consumer confidence release, so some short-term acceleration cannot be ruled out.



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