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Economics Group

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Consumer Credit: Outlook for Autos Lending Still Positive

Consumer credit rose at a slightly slower-than-expected pace in August. Revolving credit appears to be accelerating while nonrevolving growth slowed. We expect the gap between growth rates to narrow further.

Revolving Credit Is Picking Up

Consumer credit continued to rise in August, rising $16.0 billion in the month. Both revolving and nonrevolving credit rose and it appears as if the gap between the growth rates in revolving and nonrevolving credit continues to narrow. On a year-over-year basis, the growth rate of nonrevolving credit has slowed to 7.9 percent and revolving credit has jumped to 4.0 percent on a three-month moving average basis (top chart). We expect this gap to narrow further as an improving labor market and higher expected income for consumers prompts them to begin spending more on their credit cards.

This month's release also contained data on the terms of credit from commercial banks. The interest rate on a new car decreased to 4.11 percent, just off the series low reached in the fourth quarter of 2014 (middle chart). Interest rates on credit cards increased in the third quarter, marking the third rise in the past four quarters.

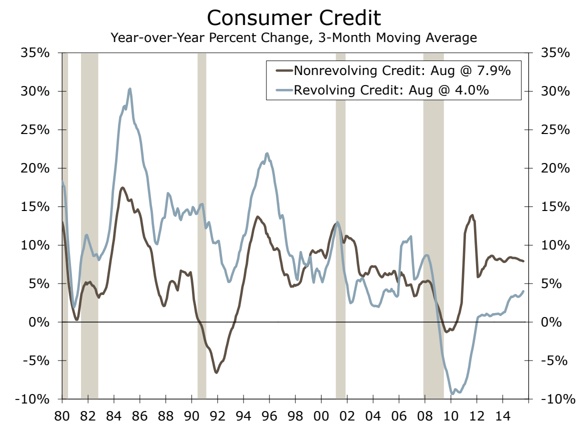
Auto Lending Still Increasing

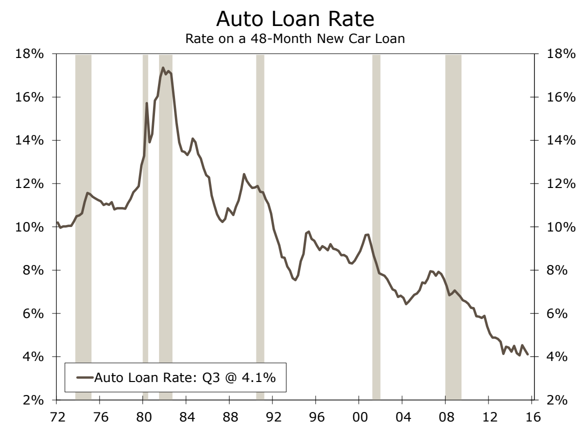
Auto lending, along with student loans, has been a major driver for the strong pace of growth in nonrevolving consumer credit since the recession ended, and the data show no signs of slowing. To begin, auto sales data continue to show improvement, with total light vehicle sales coming in at an annualized 18.1 million in September (bottom chart). This puts auto sales at the highest levels in over a decade. In addition, in the most recent reading on consumer confidence from The Conference Board, consumers noted that plans to buy an automobile within the next six months increased 1.9 percentage points to 12.7 percent of respondents. Although we have noted in the past that some of the recent gains in the automotive sector may have reflected individuals pulling consumption forward in anticipation of higher interest rates, the stronger buying plans point to underlying strength as well.

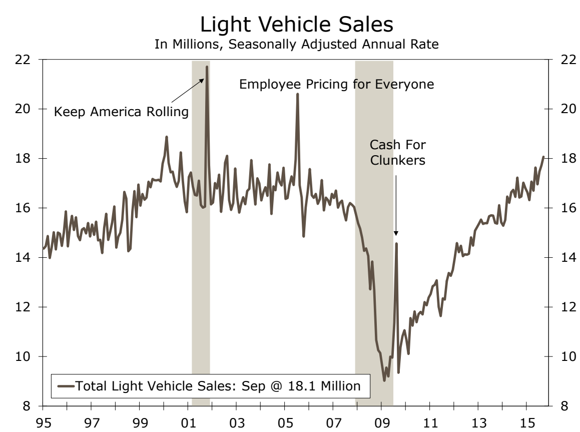
Risks Remain in the Automotive Sector

Despite the strong growth in auto lending, there have been some concerns surrounding it as well. Namely, the increased share of subprime and near-prime lending has caught the attention of many analysts. Other indicators also point to less stringent lending requirements, such as the share of banks easing standards on auto loans and a steadily increasing average maturity on new car loans.

Our forecast for continued economic growth, including improved income and wages, should support the healthy trend in delinquency rates for auto loans. A marked downshift in growth, however, and the risks associated with increased subprime lending in this sector could cause the downward trend in delinquencies to reverse, although this is not our baseline outlook.







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

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