



Economics Group

John E. Silvia, Chief Economist
john.silvia@wellsfargo.com • (704) 410-3275
Alex V. Moehring, Economic Analyst
alex.v.moehring@wellsfargo.com • (704) 410-3247

Unexpected Slip in Revolving Credit

Consumer credit growth slowed to begin 2016, largely due to a decline in revolving credit. We suspect this was transitory and continued income growth should support revolving credit moving forward.

Revolving Credit Declines to Begin 2016

Consumer credit increased a lower-than-expected \$10.5 billion to begin the year. The slowdown in growth came as a result of an outright decline in revolving credit, the first decline since February 2015. Nonrevolving credit, however, posted another gain, increasing \$11.6 billion (top chart). On a year-over-year basis, however, the growth rate of revolving credit is catching up to that of nonrevolving credit. We expect the gap between growth rates of revolving and nonrevolving credit to narrow further, as nonrevolving credit's two largest components—student and auto loans—are unlikely to continue to grow at the rapid rates we have seen in this cycle.

The labor market has improved further in recent months, with nonfarm payrolls increasing by an average of 207,000 jobs in the first two months of the year. Labor costs also have risen, which, when combined with improving employment and hours worked, translate to higher incomes and implies stronger consumer spending. This would likely lead to faster revolving credit growth, which is largely comprised of credit card spending.

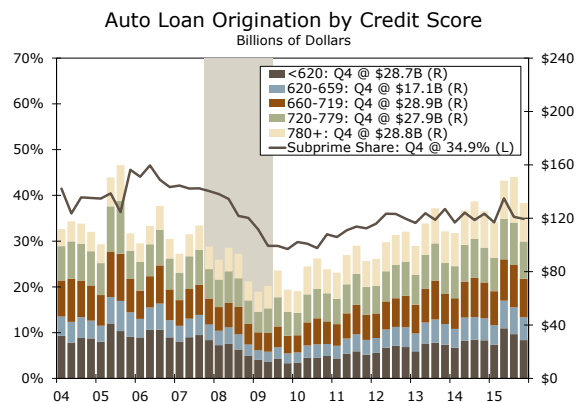
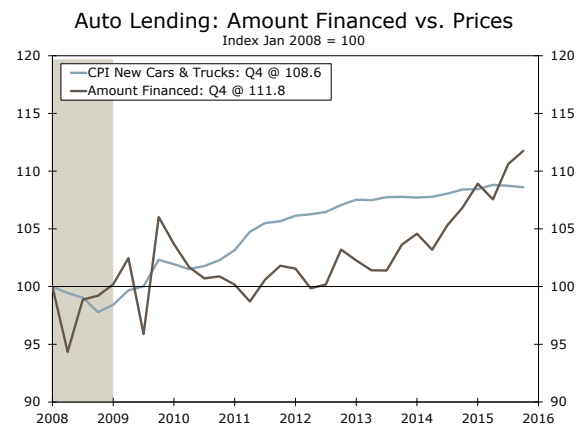
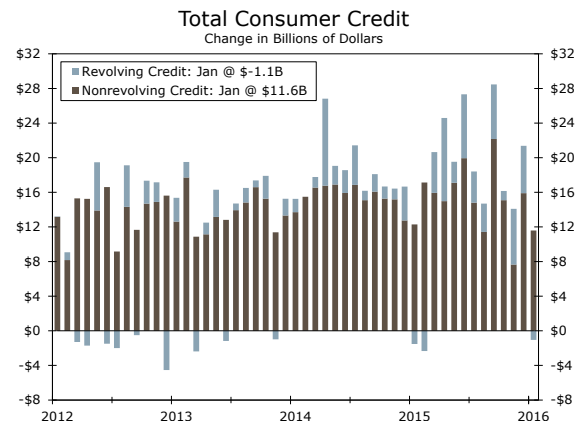
Auto Terms—Disagreement Among Surveys

Contained in this month's consumer credit release were the terms of credit data for new car loans made by finance companies. It appears that lending terms for autos were slightly less favorable in the fourth quarter. The average maturity of auto loans decreased to 65 months and the average interest rate ticked up to 5.0 percent. The average amount financed, however, increased while car prices held steady (middle chart).

Contrasting the tighter standards implied by the consumer credit release, the Federal Reserve's Senior Loan Officer Opinion Survey reported the net percentage of banks tightening standards on auto loans was again in negative territory in the first quarter. Lending standards for autos have eased considerably since the recession ended.

Demand for auto loans, on the other hand, continued to expand, as a net 1.6 percent of banks reported stronger demand. The breadth of improvement in auto demand has clearly narrowed recently, which suggests that the pace of growth in auto lending is set to slow over the coming year. This is consistent with our forecast for auto sales, which we expect to moderate in 2016, albeit from a historically high level. A moderation in auto sales would further contribute to the narrowing in the growth rates of revolving and nonrevolving credit.

Delinquency rates for auto loans, as reported by the New York Fed, appear to have stabilized at a level slightly above their prerecession trend (bottom chart). The subprime share of new auto loans, however, has held steady, so we are not overly concerned about this market for the time being. Loan performance is highly cyclical, however, and a material downshift in economic growth would negatively impact delinquencies. In addition, the rapid pace of credit growth in this sector merits vigilance.



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
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloría@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@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
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com

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