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# *Economics Group*


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# 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.

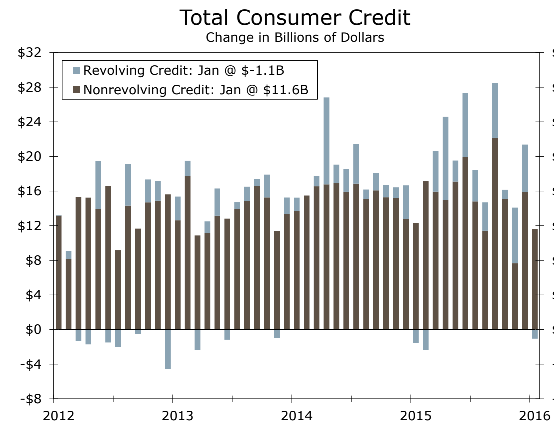
## Auto Terms—Disagreement Among Surveys

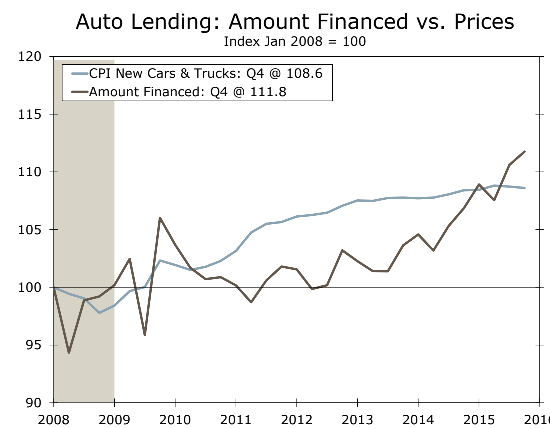
Contained in this month's consumer credit release were the terms of credit data for new car loans made by finance companies. It appears that lending terms for autos were slightly less favorable in the fourth quarter. The average maturity of auto loans decreased to 65 months and the average interest rate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

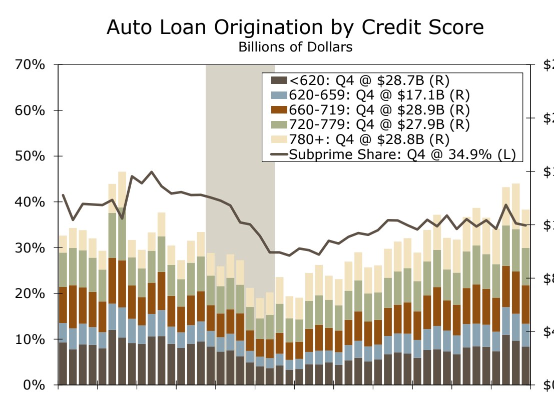
Contrasting the tighter standards implied by the consumer credit release, the Federal Reserve's Senior Loan Officer Opinion Survey reported the net percentage of banks tightening standards on auto loans was again in negative territory in the first quarter. Lending standards for autos have eased considerably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




Source: Federal Reserve Board, Federal Reserve Bank of New York and Wells Fargo Securities, LLC

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