

Banking Analysis

Consumer Credit Growth Slows Further in January

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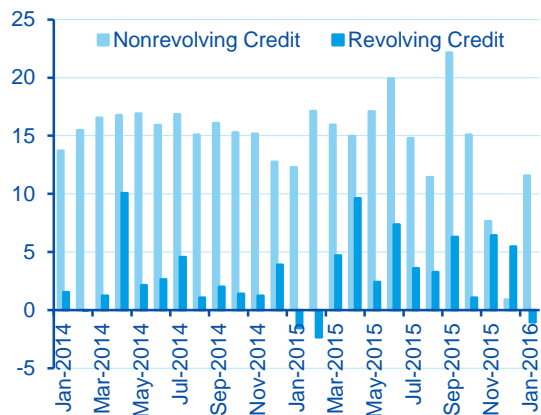
- **Consumer credit grew less than expected. Its year-on-year growth was lowest in 22 months**
- **Revolving credit contracted compared to last month, but this is likely transitory**
- **Nonrevolving credit increased solidly**

Consumer credit in January increased by \$10.5 billion (seasonally adjusted), which even though 6.5% year-on-year, was less than expected, and was accompanied by a large downward revision for December 2015. While the revision is likely due to a change in source data or methodology, the slow growth in January was due to a contraction in revolving credit of \$1.1 billion compared to the previous month. Nonrevolving credit, on the other hand, grew by \$11.6 billion (Chart 1).

The contraction in revolving credit follows relatively strong showings in the previous two months, and is similar to what happened at the beginning of last year. While the contraction coincides with the decline in consumer confidence in February, we believe that this is transitory due to the positive recent labor market developments: February’s payrolls increased more than expected, the participation rate rose, and the unemployment rate in January and February represents an eight-year low. Furthermore, the latest Senior Loan Officer Survey showed that banks are continuing to ease credit standards and credit limit terms and conditions for credit cards. Despite the month-on-month contraction, revolving loans increased by 5.3% on a year-on-year basis, the highest in almost five-years. We expect this growth to continue and further intensify as the year progresses.

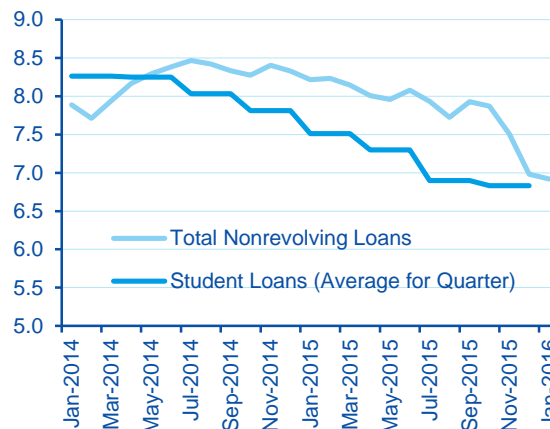
Nonrevolving consumer credit grew solidly after posting modest gains in November and especially December. Today’s FRB release did not contain details on auto loans and student debt – the two large nonrevolving consumer loan categories. That said, auto sales likely contributed to the positive gains in nonrevolving consumer credit, as they increased by 1.4% month-on-month in January, according to Autodata, after two consecutive

Chart 1
Break-Adjusted Consumer Credit Outstanding
\$ Billion MoM Change



Source: Federal Reserve Board & BBVA Research

Chart 2
Nonrevolving Credit and Student Loans
% YoY



Source: Federal Reserve Board & BBVA Research

months of decline. The increase in auto sales was driven by cheap fuel, employment growth and low interest rates. We expect the growth in auto loans to continue in the coming months, especially as the latest Senior Loan Officer Survey showed that credit standards and the maximum maturity terms and conditions for auto loans are still easing. The growth in student debt has been slowing down consistently on a year-on-year basis over the last several years (Chart 2) and has possibly continued doing so in January, but the data on student loans in the first quarter will not be available for two more months.

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