

Tight lending conditions to remain a constraint on US growth

US banks continue to tighten lending standards and expect loan quality to deteriorate with write-offs anticipated to rise through 2024. At the same time, loan demand continues to weaken. The economy performed very strongly through the second half of 2023, but high borrowing costs, tight lending conditions and a reluctance to borrow point to a slowdown



The Federal Reserve's Senior Loan Officer Opinion Survey (SLOOS) reports that through the fourth quarter of the year banks tightened their lending standards, but the proportion of banks incrementally tightening further was smaller than in recent quarters. Banks also reported weaker demand for commercial and industrial loans while banks reported "tighter standards and weaker demand for all commercial real estate (CRE) loan categories".

More specifically for commercial and industrial loans we hear that "significant net shares of banks reported weaker demand for loans from firms of all sizes. Furthermore, a significant net share of banks reported a decrease in the number of inquiries from potential borrowers regarding the availability and terms of new credit lines or increases in existing lines". This suggests US businesses

remain very cautious and are reluctant to put money to work right now with the report specifically stating that there appears to be "decreased customer investment in plant or equipment and decreased financing needs for inventories, accounts receivable, and mergers or acquisitions".

Below is a chart showing the SLOOS survey responses from banks about tightening lending conditions on commercial and industrial loans plotted against overall outstanding bank lending. It suggests bank lending may well turn negative in YoY% terms through the middle of the year before starting to improve towards the end of 2024.

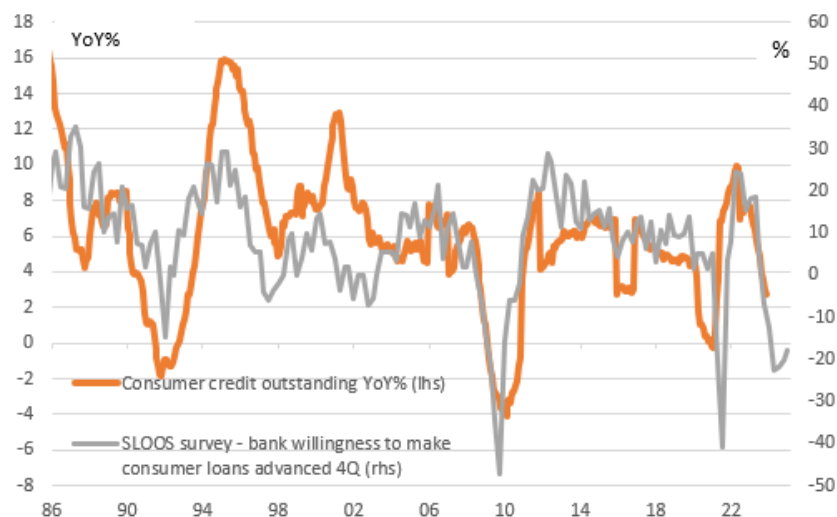
SLOOS survey on banks tightening lending standards for commercial & industrial loans against the YoY change in outstanding bank lending



Macrobond, ING

In terms of loans to the household sector, we see lending standards continue to tighten for residential mortgages and demand for loans fall. Appetite to make consumer loans (credit card, auto & personal loans) remains very weak and suggests lending growth in this area, that is so important for consumer spending, will soon contract in YoY terms and potentially continue contracting through the rest of the year. Loan quality is a particular concern for banks with the survey stating "significant net shares of banks reported expecting credit quality to deteriorate somewhat for credit card loans, loans secured by nonfarm nonresidential properties, C&I loans to small firms, auto loans, construction and land development loans, and loans secured by multifamily residential properties".

SLOOS survey on banks tightening lending standards for consumer loans against the YoY change in outstanding consumer credit



Macrobond, ING

High borrowing costs and tight lending conditions proved to be no obstruction to the US economy powering ahead strongly through the second half of 2023. Nonetheless, that was when we still had abundant savings accrued through the pandemic that we could put to use. There is more and more evidence that much of this has been exhausted and this story is likely to be less supportive for the economy in 2024. With the cost of and access to borrowing being restrictive this is a clear headwind that will help slow the economy through the first half of 2024 and make the Federal Reserve more amenable to the idea of interest rate cuts. We continue to predict a May start to the Fed's easing cycle.

Author

James Knightley

Chief International Economist

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.