

## 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.

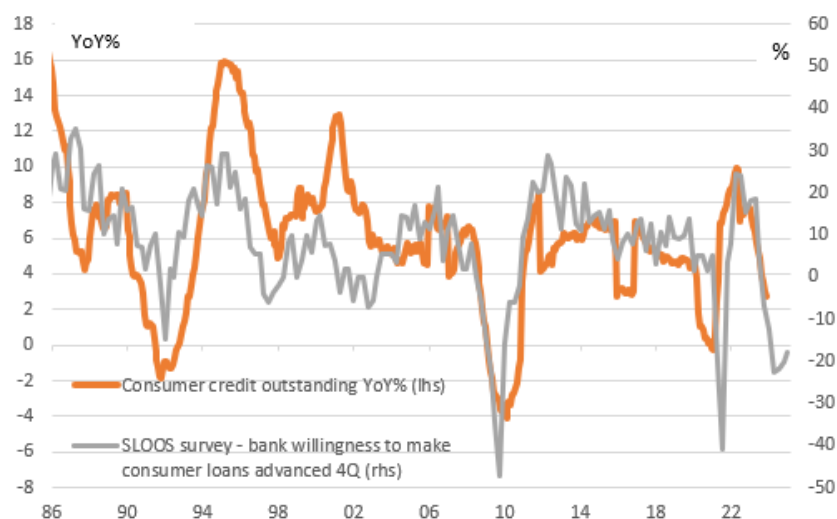
## SLOOS survey on banks tightening lending standards for commercial & industrial loans against the YoY change in outstanding bank lending



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



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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.

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