

### EXPLAINING THE RECENT DECOUPLING BETWEEN GROWTH IN MFI LOANS FOR HOUSE PURCHASE AND CONSUMER CREDIT

The recovery in the annual growth rate of MFI loans to households observed since the last quarter of 2009 has coincided with a decoupling of developments in loans for house purchase and consumer credit. While the growth of mortgage loans increased to rates of close to 4%, that of consumer credit remained broadly unchanged in negative territory (see Chart A). The difference in the growth patterns of these two types of loan to households is relatively pronounced by comparison with the otherwise high degree of co-movement observed since 1999. This box reviews available indicators as the basis for possible explanations of the current divergence.

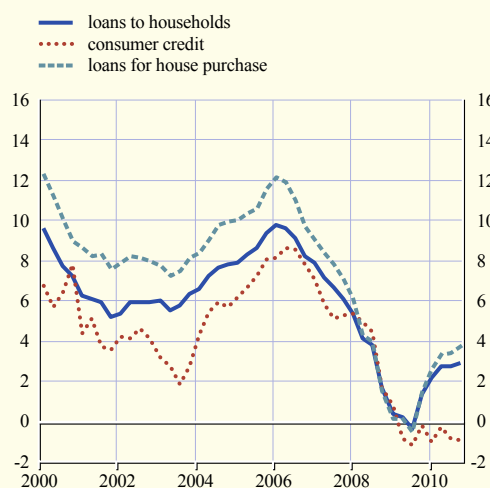
#### Information from credit standards and bank lending interest rates

The results of the euro area bank lending survey suggest that banks have not been discriminating between mortgage loans and consumer credit with regard to the tightening of credit standards (see Chart B). In particular, there seems to be no difference in the impact on tightening coming from banks' cost of funds and balance sheet constraints, which can be seen as more narrowly defined supply factors in credit provision. Nevertheless, there seems to be some difference in the way that banks have implemented this tightening, as since autumn 2009 they seem to have increased margins more on loans for consumer credit than on mortgage loans.

Indeed, while bank lending rates for consumer credit are typically higher than those for loans for house purchase – reflecting the fact that loans for house purchase tend to be better collateralised – the difference between the interest rates applied to each type of loan was particularly

Chart A MFI loans to households for house purchase and consumer credit

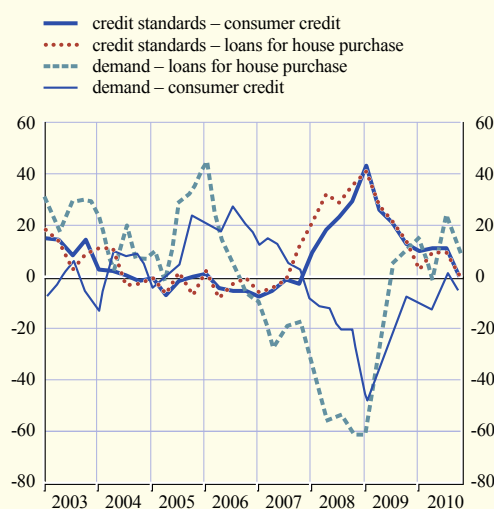
(annual percentage changes)



Source: ECB.

Chart B Bank lending survey: changes in banks' credit standards and households' demand for loans for house purchase and consumer credit

(net percentage balances)



Source: ECB.

large in the period between the second half of 2009 and the first half of 2010 when the decoupling of the two loan growth series started (see Chart C). More recently, the spread between the interest rates has been narrowing, but this has not yet resulted in a pattern of growth for consumer credit similar to that for loans for house purchase.

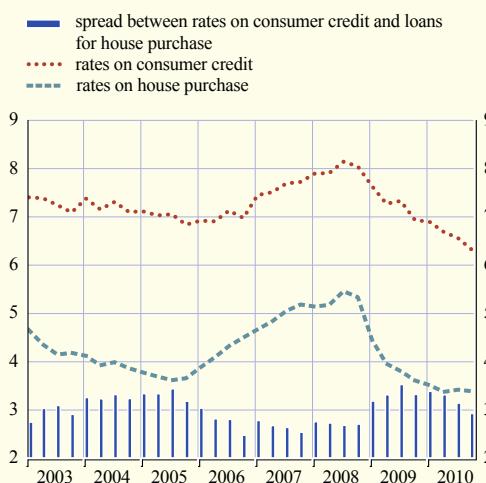
### Information from demand indicators

In the bank lending survey, banks report a broadly similar evolution in the demand for consumer and mortgage loans, with a turning point in both cases in early 2009. However, some difference remained visible, as the growth in demand for loans for house purchase became positive as of the third quarter of 2009, whereas it remained slightly negative in the case of consumer credit (see Chart B).

The relatively weak demand for consumer credit also seems to be in line with results of consumer surveys. While consumer confidence has recovered substantially since the trough reached in the fourth quarter of 2009, the willingness to make major purchases – which displays a higher correlation with consumption of durable goods and purchases of big-ticket items and hence can be expected to mirror more closely the demand for consumer credit – has declined again after an initial upturn. Much of this may be related to the developments in car sales, a prominent component in the consumption of durable goods, which were characterised by a renewed weakness in most of 2010 following the expiry of the vehicle scrapping schemes (see Chart D).<sup>1,2</sup> Subdued growth in real household disposable income and the still very high levels of household

Chart C Developments in MFI lending rates on loans to households

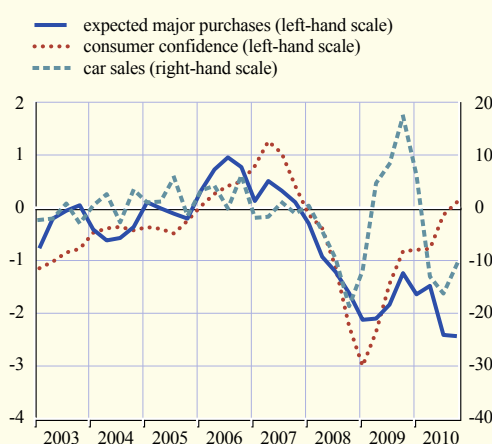
(percentages per annum)



Sources: ECB and ECB calculations.

Chart D Expected major purchases, consumer confidence and car sales

(consumer surveys in standardised net percentage balances; car sales in annual percentage changes)



Sources: European Commission Business and Consumer Surveys, Eurostat and ECB calculations.

1 For further information, see the box entitled “The effects of vehicle scrapping schemes across euro area countries” in the October 2009 issue of the Monthly Bulletin.

2 In principle, if the current negative growth in car sales is seen as holding back consumer credit growth then the strongly positive growth in car sales during the vehicle scrapping programmes should have boosted consumer credit growth. However, there are several possible reasons why this symmetry did not hold at the time. First, the scrapping programmes ultimately implied a high proportion of purchases of smaller cars, which in turn implied lower financing needs. Second, the financial incentives provided by the programmes may have implied less need to offer attractive terms and conditions in specific car finance deals. Third, the high level of liquid monetary assets held by households at the time when the scrapping programmes were in operation, and the low level at which they were being remunerated, may have led households to finance car purchases using cash rather than consumer credit.

indebtedness are likely to be additional factors dampening demand for consumer credit. The reason why this does not appear to be having an equally dampening impact on the demand for mortgage loans is likely to be the fact that house purchases also reflect investment considerations. In this respect, the renewed dynamism in real estate markets in a number of euro area countries after the falls in house prices observed during the crisis, together with the uncertainties and high cost of longer-term financial investment alternatives, may make real estate particularly attractive to households in the current situation.

### **Conclusions**

The set of indicators examined in this box suggest that the recent decoupling of growth rates for mortgage loans and consumer credit is due to demand factors which specifically impact on consumer credit. By contrast, supply factors, such as bank credit standards and interest rates, do not seem to have played a significant role.