GLOBAL ECONOMICS UPDATE

Credit data point to recessions in DMs

- **Bank lending data from the major advanced economies confirmed that lending was very subdued in September and the latest bank lending surveys show that banks have since tightened their lending criteria further. With demand for loans also falling, the drag from monetary policy tightening is set to intensify.**
- **Although several areas of economic activity have proven to be resilient so far in the wake of higher interest rates, lending activity is clearly feeling the pinch from tighter financial conditions.** Net bank lending to the private sector has fallen sharply over the past year across DMs. And even though lending ticked up in September, it remained much weaker than before the pandemic. (See Chart 1.) Accordingly, the "credit impulse" – i.e. the change in the flow of credit to the private sector – is deeply negative and suggests that GDP growth should slow markedly from here. (See Chart 2.)
- **The latest bank lending surveys from the US Fed, ECB and Bank of England point to further weakness in credit growth over the coming months.** A net majority of banks surveyed reported that they had continued to tighten lending standards for both households and firms in Q3. (See Chart 3.) Admittedly, the share of banks tightening standards fell slightly compared to Q2, especially in the US where the share tightening lending standards for firms fell to a one-year low as concerns over a broader banking crisis eased. Nonetheless, previous periods when banks have restricted credit availability at this scale have tended to coincide with recessions. **And to make matters worse, a small majority of UK and euro-zone banks expected to restrict credit availability further in Q4.** (Note: this question was not asked in the US survey).
- **Tighter lending standards are clearly weighing on households' and firms' demand for credit.** According to the surveys, households' demand for loans fell sharply in Q3, especially in the UK. (See Chart 4.) And across all DMs, demand for mortgages fell particularly sharply given the big rise in interest costs on new mortgages. **Altogether, the latest credit data and bank lending surveys support our view that most DMs will experience mild recessions or at least a period of weak GDP growth in the coming quarters.**

Chart 1: Net Bank Lending to the Private Sector (3MMA)

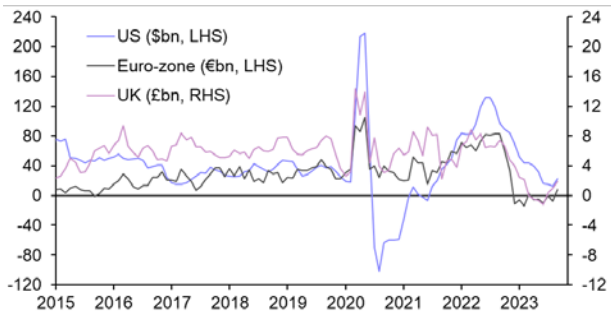


Chart 2: G4 Private Sector Credit Impulse & GDP (% y/y)

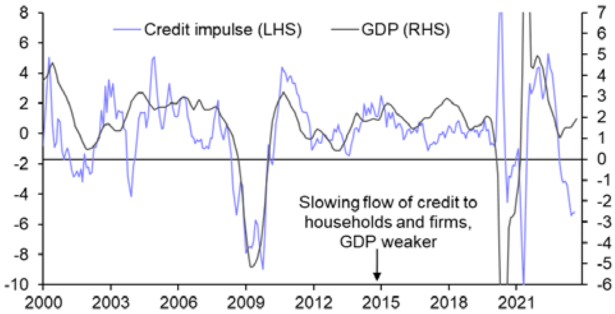


Chart 3: Net % of Banks Reporting Tighter Criteria For Loans on Average in G4

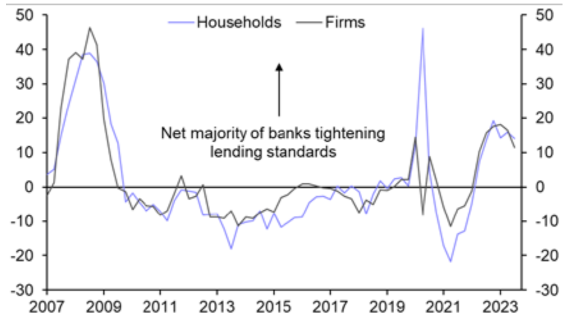
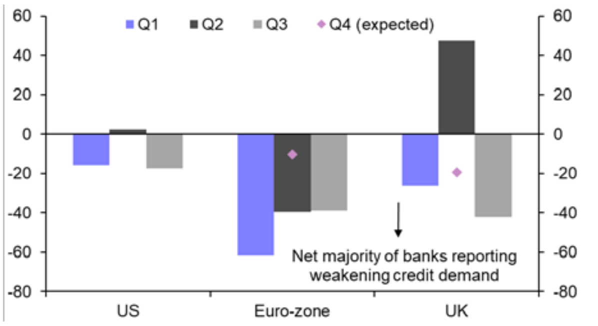


Chart 4: Net % of Banks Reporting Stronger Demand For H'hold Loans



Sources: Refinitiv, Capital Economics

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