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Western European Indicators and Insights

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Andrew Wroblewski
Chief Economist, Eurozone and UK

London
+44 20 7959 3244
awroblewski@decisioneconomicsinc.com

UK: Flat credit supply (continues).

The latest of the BoE's quarterly Credit Conditions Survey (conducted between May 17 and June 9) pointed to a broadly unchanged supply of credit.

In more detail on the supply side, the availability of secured credit to households was reported to have been broadly unchanged in the three months to early June, and lenders expected availability to remain flat in the next three months. Lenders also reported that the availability of unsecured credit to households was little changed. A similar situation was evident in regard to the availability of credit to corporates (of all sizes) and availability was expected to remain broadly unchanged in Q3.

As for demand, the survey noted that secured lending for house purchases had increased a little in Q2, after having fallen in the previous two quarters. However, lenders expected demand to fall in the coming quarter, although demand for buy-to-let lending was reported to have risen substantially in Q2 and was expected to continue to increase in Q3. Demand for unsecured lending was reported to have been broadly unchanged over the past three months. Lenders reported that they expected a slight increase in demand for credit card lending in the next three months. Lenders reported a moderate increase in demand for credit from large companies and a more marked increase from small and medium-sized businesses in 2011 Q2. Lenders did not expect demand for credit from the corporate sector to continue to increase in Q3.

Elsewhere, and possibly most notably, the survey reported no further rise in the default rate on secured loans to households (having increased unexpectedly in the previous survey). However, expectations were for a fresh increase over the next three months.

There is nothing in this survey that would serve to increase the appetite of BoE policy-makers to alter policy. Instead, the lack of bank lending to small companies and continued signs of vulnerability in regard to mortgage defaults, merely underscores that any hike in rates may have a clear and immediate impact on what are increasingly troubled households, the latter very much highlighted by the depths to which consumer confidence has fallen. Indeed, the MPC will be wary about the default backdrop, aware (and as the new BoE Financial Policy Committee recently highlighted) that banks are actually being unusually reluctant to define mortgages as being in arrears or default, possibly in order not to have to make the necessary provisions on its balance sheets.