

## Economics Group

### Interest Rate Weekly

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## Mixed Credit Trends Among Businesses and Consumers

*In the ninth year of the current economic expansion, credit standards point to a varied, but stable, outlook. Recent data suggest business lending demand has fallen, while consumer demand has seen modest gains.*

### Banks Optimistic (Yet Cautious) Approach to Lending

Banks continue to relax lending standards on business, commercial and industrial (C&I) loans and mortgages, as banks' willingness to make loans has gained some stability. A slowdown in banks' willingness to lend is customary with late cycle expansion. As seen in the top graph, banks' willingness to extend credit follows a cycle-like trend. At the start of an economic expansion, banks appear very willing to extend credit. But as the cycle matures, they become less willing to extend credit, and, in turn, tighten their standards in a cautionary nature.

Banks have reported increased competition from other bank and nonbank lenders, which in part, has led to the easing of standards. Continued loosening of lending standards of C&I and mortgage loans points to sustained confidence in the current state of the expansion. However, banks continue to tighten standards on credit card and auto loans, which may signal some caution in the consumer sector as the economic cycle ages.

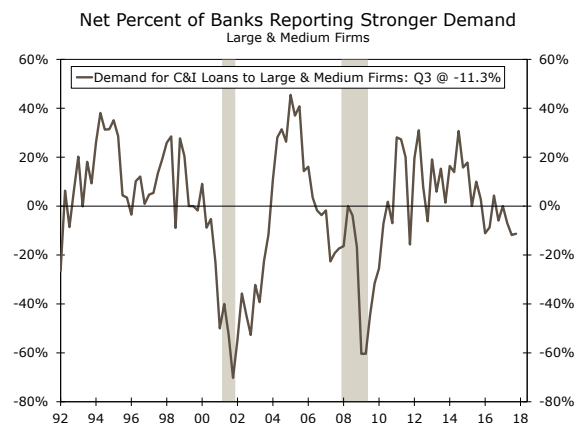
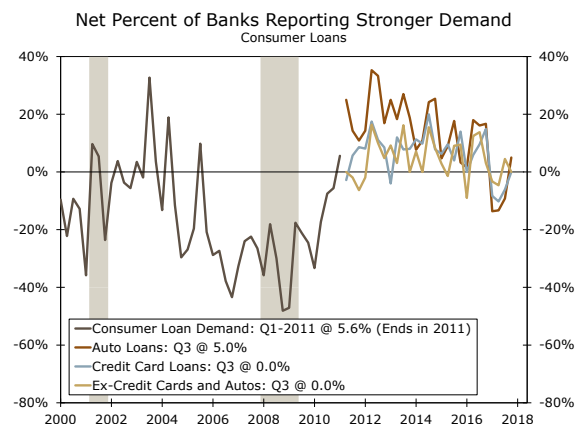
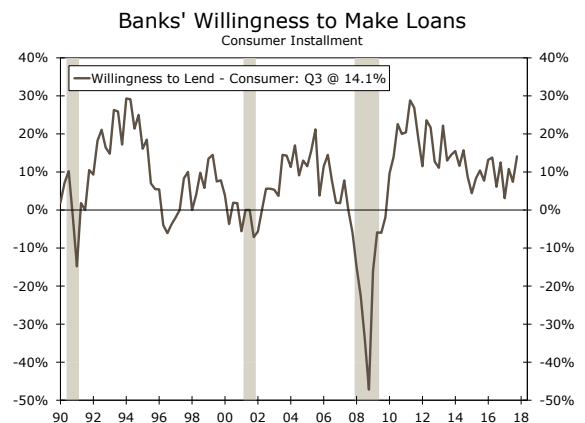
### Slowly Growing Consumer Demand for Loans

With an unemployment rate of just 4.1 percent, and in an environment of modest income growth and surging consumer confidence, theory would suggest robust loan demand. Loan demand, however, remains muted, pointing to a change in consumer sentiment towards debt. Credit card demand has remained unchanged, while we have seen a recent uptick in auto loan demand (middle graph). The rise in demand for auto loans is likely attributable to rebound effects in auto-sales due to damage from the recent hurricanes in Texas and Florida. Consumer demand for mortgage loans has slowed, which is expected to reverse as existing home sales edge higher off a recent slowdown.

Without an increase in income growth, loan demand should continue to increase modestly. Our forecast calls for an uptick in disposable personal income in Q2 2018, due to the effects of the proposed tax reform, followed by a slowdown in disposable personal income growth through the last year of our forecast (2019). Such slowing in income growth suggests consumers may increasingly turn to borrowing to fund their consumption habits in the future.

Demand for business loans remains weak, yet increased strength in business investment suggests that firms have turned to other sources of funding to fuel capital spending (bottom graph). The loosening of lending standards, coupled with our positive outlook for business investment, should drive C&I loan demand higher in the near future. However, as the cycle continues to mature, we project equipment spending to slow, likely resulting in a reduction in business demand looking further ahead.

The current credit climate insinuates stability within lending practices as growth continues in the ninth year of the current economic expansion.



## Wells Fargo U.S. Interest Rate Forecast

	<b>Actual</b>				<b>Forecast</b>							
	<b>2017</b>				<b>2018</b>				<b>2019</b>			
	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>
Quarter End Interest Rates												
Federal Funds Target Rate	1.00	1.25	1.25	1.50	1.50	1.75	1.75	2.00	2.00	2.25	2.25	2.50
3 Month LIBOR	1.15	1.30	1.33	1.65	1.65	1.90	1.90	2.15	2.15	2.40	2.40	2.65
Prime Rate	4.00	4.25	4.25	4.50	4.50	4.75	4.75	5.00	5.00	5.25	5.25	5.50
Conventional Mortgage Rate	4.20	3.90	3.81	3.89	3.97	4.06	4.11	4.18	4.22	4.28	4.31	4.40
3 Month Bill	0.76	1.03	1.06	1.30	1.45	1.60	1.67	1.85	1.95	2.10	2.15	2.30
6 Month Bill	0.91	1.14	1.20	1.40	1.55	1.70	1.77	1.95	2.05	2.20	2.25	2.40
1 Year Bill	1.03	1.24	1.31	1.55	1.68	1.80	1.87	2.05	2.15	2.25	2.30	2.45
2 Year Note	1.27	1.38	1.47	1.72	1.83	1.93	2.00	2.15	2.23	2.33	2.38	2.50
5 Year Note	1.93	1.89	1.92	2.20	2.29	2.39	2.45	2.58	2.65	2.75	2.80	2.90
10 Year Note	2.40	2.31	2.33	2.49	2.57	2.66	2.71	2.78	2.82	2.88	2.91	3.00
30 Year Bond	3.02	2.84	2.86	3.19	3.29	3.41	3.49	3.58	3.64	3.71	3.75	3.85

Forecast as of: November 8, 2017

## Wells Fargo U.S. Economic Forecast and FOMC Central Tendency Projections

	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>
<b>Change in Real Gross Domestic Product</b>			
Wells Fargo	2.4	2.5	2.5
FOMC	2.2 to 2.5	2.0 to 2.3	1.7 to 2.1
<b>Unemployment Rate</b>			
Wells Fargo	4.1	3.9	3.7
FOMC	4.2 to 4.3	4.0 to 4.2	3.9 to 4.4
<b>PCE Inflation</b>			
Wells Fargo	1.5	1.6	2.0
FOMC	1.5 to 1.6	1.8 to 2.0	2.0 to 2.0
<b>"Core" PCE Deflator</b>			
Wells Fargo	1.4	1.7	1.9
FOMC	1.5 to 1.6	1.8 to 2.0	2.0 to 2.0

Forecast as of: November 8, 2017

NOTE: Projections of change in real gross domestic product (GDP) and in inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation is the percentage rate of change in the price index for personal consumption expenditures (PCE). Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated.

Fed Data as of: September 20, 2017

Source: IHS Global Insight, Bloomberg LP, Federal Reserve Board and Wells Fargo Securities

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