Since 2014, total outstanding consumer credit has followed a path of sustained recovery; by mid-2018 its year-on-year growth rate stood at around 14% (a rate that rises to 21% in the case of credit for consumer durables), and the cumulative increase since the end of 2014 has been 47%. This contrasts with the behaviour of other segments of lending to households, in particular, credit for house purchase, the amount of which is currently still contracting, although at an increasingly moderate rate (see Chart 1). The different behaviour of consumer credit is explained by the larger increase in lending activity in this segment in the recent period, as reflected in the fact that the volume of new lending has doubled since 2014 (see Chart 2), and also by the shorter maturities of this type of loan, in comparison with lending for house purchase, which means that the outstanding amounts react more rapidly to changes in activity.

As seen in Chart 3, unlike in the cyclical upturn before the last crisis, the current recovery in consumer credit is being driven by lending to finance spending on durables. In particular, as Chart 4 shows, the dynamics of spending on durables since the beginning of the crisis can largely be explained by the behaviour of sales of cars for private use (approximated by the path of new car registrations).[1]

Charts 3 and 4 show that the behaviour of spending on durables and of lending to finance such spending is clearly cyclical. During the crisis, when economic expectations were sharply deteriorating, the contraction in these two aggregates was very intense, while, since the beginning of the recovery, they have both grown strongly. Chart 5 shows that, in comparison with spending on durables, this pro-cyclical behaviour is even more pronounced in the case of lending to finance such spending. Accordingly, the proportion of durable consumption financed out of future income is also cyclical, as is also reflected in the moderation of the household saving rate over the last few years (see Box 5 of this report).

The evidence available in the Bank Lending Survey, presented in Chart 6, suggests that the recent recovery in activity in the consumer credit market has been driven by the rise in both the supply of and the demand for funds. Both have increased, according to this source, at higher rates than those seen in the market for loans for house purchase. According to the banks that responded to the survey, the main reason for the expansion in supply was the increase in competition. This has occurred against a background of low margins and reference interest rates, with the spread between the rates on new consumer credit and credit for house purchase remaining relatively steady at around 6 pp (18 pp in the case of credit card credit, which continues to represent less than 10% of total consumer credit).[2]

Following the recent developments in consumer credit, the outstanding amount stood in mid-2018, in real terms per household, at close to its 2004 levels, although it was still well below the previous cyclical peak (32% below the level recorded in 2008 Q1, see Chart 1). At the same time, the above-mentioned evidence also suggests that financing for car purchases has also gained weight during the current upturn.

To sum up, the data analysed in this box show that the consumer credit market has contributed to the economic recovery in recent years, mainly by financing the increase in the consumption of durable goods and, in particular, that linked to the acquisition of vehicles. However, as highlighted by the last crisis, rapid increases in lending can entail risks for future financial and macroeconomic stability, by raising agents' vulnerability to adverse shocks. In the latest case, although these developments have been compatible with a pattern of deleveraging by households and consumer credit continues to have a low weight in financial institutions' total lending (around 5%), it should also be taken into account that the absence of collateral in this type of lending, except in the case of loans for car purchase, raises the risk for such institutions. To minimise these risks it is important that the decisions of lenders and borrowers that lie behind the dynamism of the consumer credit market be based on prudent expectations regarding the ability to repay this debt.

1 This is in contrast to the years leading up to 2008, when the increase in spending on durables was determined to a greater extent by the increase in spending on household appliances associated with the expanding property market.

2 Although the recent expansion in the supply of consumer credit according to the BLS seems, by historical standards, to be moderate, it should be borne in mind that this type of survey tends to underestimate movements involving an easing of supply conditions.

Chart 1
TOTAL OUTSTANDING CREDIT TO HOUSEHOLDS (a)

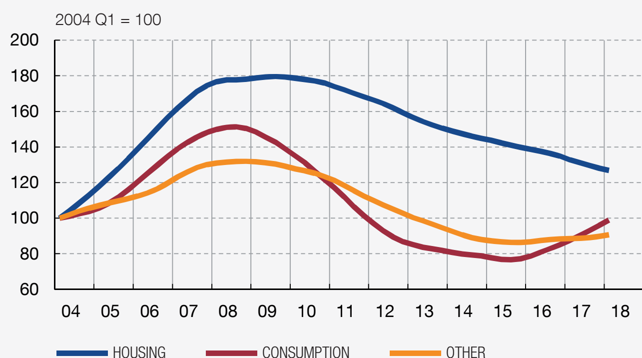


Chart 2
NEW LENDING TO HOUSEHOLDS (a) (b)

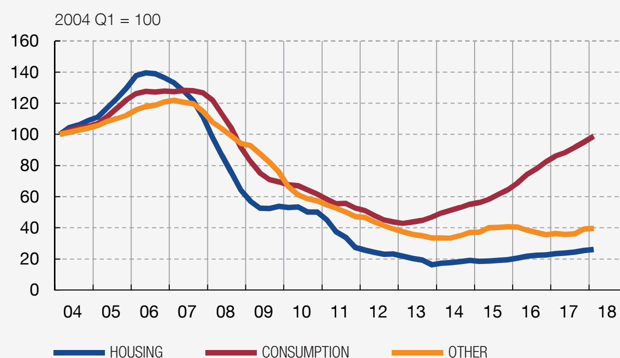


Chart 3
TOTAL OUTSTANDING CONSUMER CREDIT BY PURPOSE (a)

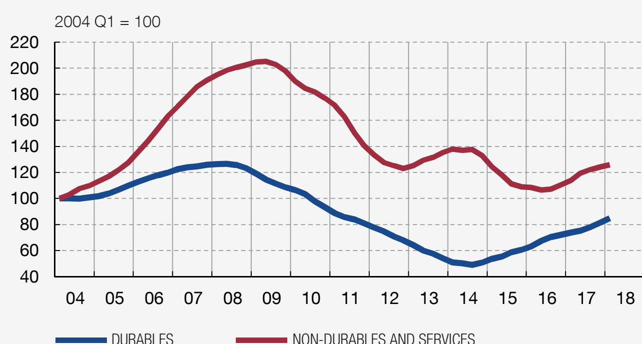


Chart 4
CONSUMPTION EXPENDITURE AND GROSS DISPOSABLE INCOME (a)

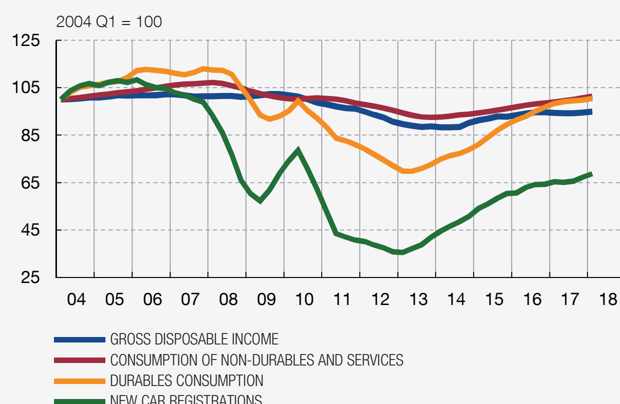


Chart 5
FINANCING OF CONSUMPTION EXPENDITURE (a)

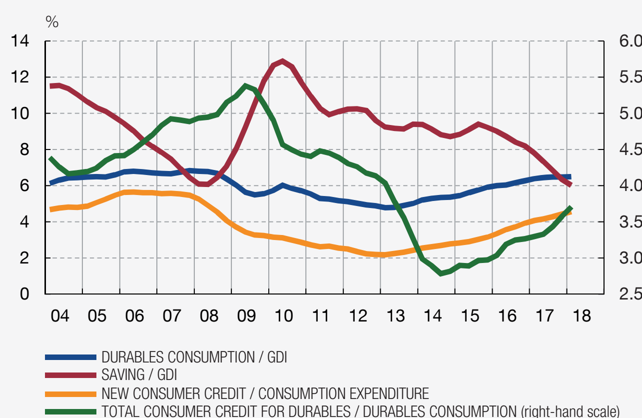
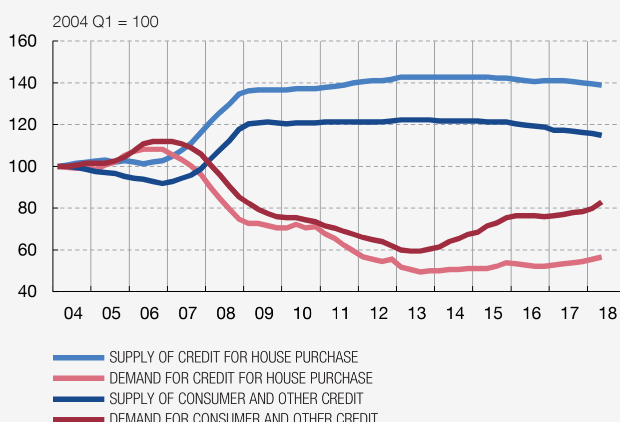


Chart 6
CREDIT SUPPLY AND DEMAND INDICATORS (c)



SOURCE: Banco de España.

a Series in real terms, at the household level. Moving average of the current and three preceding quarters.

b The series for new consumer credit and other lending are adjusted to take into account the statistical break in June 2010, when the way in which credit card transactions are reported changed. From December 2014, the series are net of renegotiations.

c Series calculated by means of accumulation of the diffusion index (InD) created on the basis of the Bank Lending Survey (BLS). An increase in the series indicates greater restrictions (supply) and greater demand for credit (demand). The indicator at each moment in time is constructed as a weighted average of the responses of the banks. (a) Supply: 1 × (% of banks that have tightened their standards considerably) + 0.5 × (% of banks that have tightened them somewhat) – 0.5 × (% of banks that have eased their standards somewhat) – 1 × (% of banks that have eased their standards considerably). (b) Demand:1 × (% of banks reporting a considerable increase) + 0.5 × (% of banks reporting some increase) – 0.5 × (% of banks reporting some decrease) – 1 × (% of banks reporting a considerable decrease).