

***ASSOFIN - CRIF - PROMETEIA***

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**CONSUMER CREDIT SURVEY**

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**ABSTRACT**

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## REPORT TOPICS

In 2002 families' overall demand for credit from the banking sector and specialised banks and financial houses showed the following trends:

- a new acceleration, despite the poor performance of the main macroeconomic drivers and the dampening effect caused by the current market situation on families' confidence and expectations;
- the persistence of a tendency to replace short-term credit with medium- and long-term loans.

In particular, in an economic context by no means favourable, we witnessed:

- only slight growth in disposable income, which rose barely 0.9% in real terms;
- a reduction in the propensity to consume, reflected in a slowdown in the nominal growth of family consumption as well as a slight decrease in real terms:
  - a delay in economic recovery and persistence of uncertainty in financial markets, which negatively impacted consumer confidence, as manifested through the more cautious buying behaviour of families
  - an increased propensity to save as families attempted to make up for losses in financial wealth;
- a redistribution of family spending, with a reduction in the purchase of durable goods in favour of spending on services (which by now represent nearly 48% of total consumption), as well as a shift toward the purchase of durable goods traditionally less covered by consumer credit, a trend that is ascribable, at least in part, to the continuing crisis in the mobility sector;
- a real estate market still on the rise, with prices increasing further.

However, the negative impact of the recession was more than offset by structural improvements on the supply side, which continued to show increases in effectiveness and efficiency, and by the financial behaviour of families, whose propensity to borrow increased significantly: the borrowing rate<sup>1</sup> rose to approximately 35% (as we shall see, this figure is still well below that reported in other major European countries).

As regards families' growing preference for longer-term forms of credit, the data show that short-term loans underwent a reduction of about 1.2%<sup>2</sup>. The increase in stocks continues to be driven by longer maturities, both in the case of consumer credit and property loans.

In the consumer credit market, despite the contraction in durable goods consumption, we observed an acceleration in the growth of outstanding balances (from +12.9% in 2001 to about +13.6% in 2002), which shows that this segment continues to enjoy a strong uptrend compared to other forms of financing. This was reflected in an increased reliance on credit to cover consumption (+1.5 p.p.) in all product sectors; it is worth noting, in particular, the increased penetration with respect to the auto sector (an indication that in an unfavourable macroeconomic context, families took advantage of ecological incentives and borrowed money

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<sup>1</sup> Calculated as the ratio between total lending to households (as of December of each year) and gross disposable income.

<sup>2</sup> Source: Banca d'Italia Annual Report – 2002.

to buy cars) and other goods and services purchasable on credit (this should probably be interpreted as a tendency to disassociate the demand for credit from spending in durable goods).

This trend equally affected banks (+12.4% compared to +11.7% in December 2001) and specialised banks and financial houses (at December 2002 growth stood at about +14.3%, versus +13.6% in 2001).

As far as product segments are concerned, both types of lending institutions continued to see an increase in non-purposive loans and further growth in the use of credit cards, trends already highlighted in the previous edition of the Observatory<sup>3</sup>.

In the mortgage market as well, the increase in outstanding amounts reflected an intense acceleration (+11.7% versus +8.3% del 2001). Consumer credit showed more dynamic growth compared to mortgages and outperformed other forms of households borrowing to an even greater extent, which led to a redistribution of households debt. With regard solely to bank credit, consumer credit accounted for about 14%, compared to about 70% for mortgages, 11% for current account overdrafts and around 5% for other forms of loans.

Given the macroeconomic scenario as it is presently unfolding, in the near future we may expect to see only a moderately more favourable impact on growth within the sector, i.e.:

- disposable income should show more dynamic growth, but only starting from next year;
- purchases of durable goods are expected gradually to resume growing at a higher rate than overall consumption, though they will show a less marked increase than in the past as well as a reorientation toward sectors where recourse to consumer credit is less frequent.
- spending on services, on the other hand, should continue to manifest vigorous growth, especially in segments like organized tour holidays and medical services and treatment in clinics, where reliance on consumer credit is on the rise;
- the recovery in financial markets, which is expected to gain momentum over the next two years, could induce savers to shift their focus from real estate back to investments in financial assets;
- in the real estate market, moreover, property values are expected to stabilise.

However, other factors besides the macroeconomic context could favourably impact the consumer credit market, namely, structural changes: on the demand side, the persistence of an upward trend in families' propensity to borrow, and, on the supply side, the intensification of policies targeting under penetrated product sectors, characterised by greater dynamism.

In the consumer credit market we will thus continue to see steady, though somewhat slower growth in outstanding balances<sup>4</sup>, (+10.3% in the current year, +9.0% in 2004 and +7.9% in 2005); specialised banks and financial houses will benefit from the highest rate of increase.

With respect to the mortgage market, the foreseen stabilisation in property values will be reflected in the unit value of loans; however the effects will be offset both by the previously mentioned increase in family borrowing and the profound changes occurring on the supply side, where we are seeing increasing product flexibility and broader and broader ranges. Moreover, the real cost of medium- and long-term borrowing should remain at relatively low levels. To this

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<sup>3</sup> *The year-end data for 2001 relative to the number of credit cards in circulation shows they have picked up momentum once again, with a growth rate of 17.8%.*

<sup>4</sup> *When assessing the increase in outstanding balances, one must also consider the statistical effect deriving from increased volumes.*

we might add a further increase in home buying generated by increased mobility in the job market.

The scenario emerging from our survey suggests that we will see a 10% increase in the demand for mortgages in 2003, whereas over the following two years the average annual growth rate should level off at +8%. This forecast also takes into account a possible increase in the securitisation of performing mortgage portfolios.

Notwithstanding the forecasted slowdown in growth, we should note the existence of potentialities yet to be expressed, especially as far as demand is concerned. In fact, lenders are now pursuing policies aimed at stimulating demand through the offer of products with longer maturities and higher loan-to-value ratios and this trend should continue throughout the period to which the forecast pertains, also in consideration of the greater attention being paid by banks to the regulatory capital requirements associated with different assets.

This edition of our survey features a comparison of consumer credit markets in Italy and other major European countries. An analysis conducted on the French, Spanish, German and British markets shows that Italy continues to be characterised by important structural and behavioural differences but that the behaviours of Italian families are gradually converging, as regards both consumption and financial decisions. More specifically:

- over the past decade, Italian families have spent an increasing portion of their income on consumption, as their habits have come increasingly into line with those of their European counterparts; however, a breakdown of spending reveals a lower ratio of durable goods to total consumption; given the close correlation between the purchase of this type of goods and consumer credit, it is reasonable to expect a further expansion in the volumes of credit demanded;
- the propensity to borrow of Italian families is significantly lower than that observed in all other major European economies; Italy is the country where consumer credit has the lowest incidence on total family consumption. However, we are witnessing a progressive structural change in financial behaviour, as families make growing recourse to borrowing to finance both durable and non-durable goods;
- in Italy the ratio of consumer credit to total family borrowing is comparable to that of the other countries considered; this reveals the necessity of stimulating demand by channelling credit toward new segments of families and of ascribing to consumer credit a broader meaning, one that is not tied to perceptions of convenience and above all is capable of reaching applicants in a continuous manner.

In conclusion, the existing differences between Italy and other European countries should be interpreted as opportunities for growth in the consumer credit market. In order to seize such opportunities, both general banks and specialised banks and financial houses must be able to effectively steer family behaviours. Changes in borrowing habits are in fact far from being automatic and independent from external influences: such changes must be consciously stimulated through a better differentiation of products, such as to modify Italian families' perception of consumer credit.