DESPITE A CHALLENGING ECONOMIC OUTLOOK, CONSUMER CREDIT MARKET FOR 2023 REMAINS POSITIVE

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CONSUMER OPTIMISM DESPITE PENDING RECESSION OUTLOOK … Despite a challenging economic environment, a study conducted by TransUnion found that more than half (52%) of Americans are optimistic about their financial future during the next 12 months. Remarkably, the youngest generations – Millennials (64%) and Gen Z (61%) – are most optimistic.

This optimism even comes within a backdrop where 82% of consumers believe the U.S. is currently in or will be in a recession before the end of 2023. While unemployment is expected to rise next year, it should remain low enough to retain a relatively healthy consumer credit market.

INCREASED LOAN DEMAND BUT HIGHER DELINQUENCIES … After two years of fairly heavy loan growth, particularly for credit cards and personal loans, and delinquency rates that mirrored pre-pandemic levels, the consumer credit market will most likely experience some interesting challenges in 2023. While we expect demand for most lending products to increase - especially for both auto and home equity loans, we also expect delinquency rates for credit card and personal loans to rise to levels not seen since 2010.

Serious credit card delinquencies are expected to rise by about 60 basis points from 2.10% to 2.60% by the end of 2023. Unsecured personal loans delinquency increase a smaller amount - most likely 20 basis points from 4.10% to 4.30%. Serious auto loan delinquency is expected to have a more modest increase of 5 basis points from 1.90% to 1.95%.

RATES, INFLATION, RECESSION, BUT GOOD DEMAND (WHAT?) … We've seen a sharp increase in market rates combined with a 40-year high in inflation and recession fears right around the corner that, collectively, are presenting a unique challenge that most consumers haven't faced in awhile. So it should not be a surprise that we expected increases in delinquency rates for two of the more popular credit product - credit card and personal loans.

Despite this expectation, most consumers are in a stronger credit situation today that they were in previous times. Therefore, we expect credit demand to continue to be relatively positive next year - at least for lenders who have positioned themselves properly to meet that demand - namely, those institutions that have made good strategic choices over the past year regarding their liquidity profiles.

AUTO AND HOME EQUITY GROWTH BUT LOWER CREDIT CARD BALANCES … We anticipate optimism to flow toward auto loan and home equity demand, expecting both to rise next year. While credit card originations are expected to drop in 2023, the number of new cards opened will remain much higher than at any time in the last decade.

TransUnion's survey shows that about one in four Americans (26%) reported plans to seek new credit or refinance in the next year. Of those, 53% plan to apply for a credit card, more than double all other credit types; car loan/lease (23%), personal loan (22%), mortgage (17%), new HELOC (14%) and refinance mortgage (14%).