

United Kingdom

Bank lending disappoints in January as mortgage approvals drop and businesses continue to repay debt

- **Mortgage approvals down 14% year-on-year in January**
- **Non-financial businesses make net repayment of loans**
- **Lending subdued by adverse weather**

There was little evidence of the government's Funding for Lending Scheme driving more bank lending in January, according to statistics from the British Banker's Association.

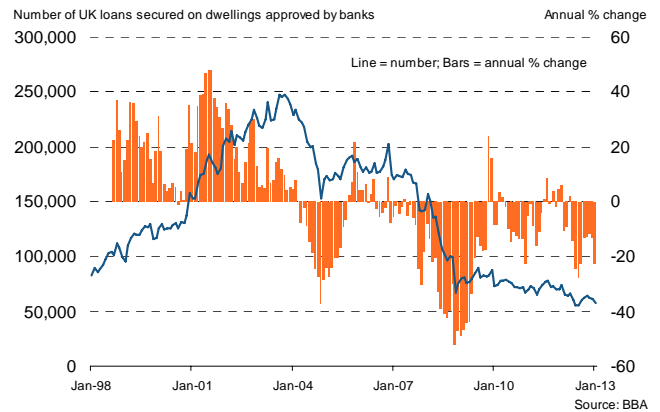
The scheme is seen as a key element of the government's economic growth initiative, designed to encourage banks to increase their lending to both households and businesses. However, the data for January showed that non-financial sector businesses repaid a net £0.2bn of loans, while net mortgage borrowing by households rose a mere 0.2% compared to a year ago. Mortgage approvals were down some 14% on a year ago, while total loans (including unsecured lending) were down some 23%, the steepest annual decline since last July.

The BBA linked the weakness to the weather, and adverse cold and snowy conditions may well have deterred housing market activity and therefore mortgage borrowing during the latter half of the month. The weather was certainly seen to have hit retail sales, which fell 0.6% during the month and therefore adds some weight to possibility that the weather was a factor behind the weakness. However, the net repayment of loans by businesses is a big disappointment, and suggests that businesses do not have the appetite to borrow to invest and expand.

Some consolation can be sought from the fact that the £0.2bn net repayment in January was far lower than the £3.1bn paid back by businesses to the banks in December, and below the average of £1.4bn seen in the six months leading up to December. But the very fact that businesses are more comfortable reducing their debt than having the appetite to borrow more is a further indication of either how weak business

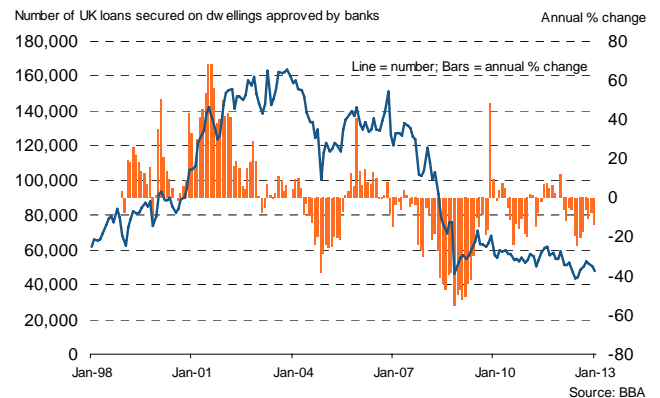
confidence is at the moment, or how banks are still failing to offer businesses loans with acceptable terms and conditions. Some combination of the two seems likely.

Bank lending secured on dwellings*



* for house purchases, remortgages and unsecured lending

Mortgage approvals**



** for house purchases and remortgages

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

For further information, please visit www.markit.com