

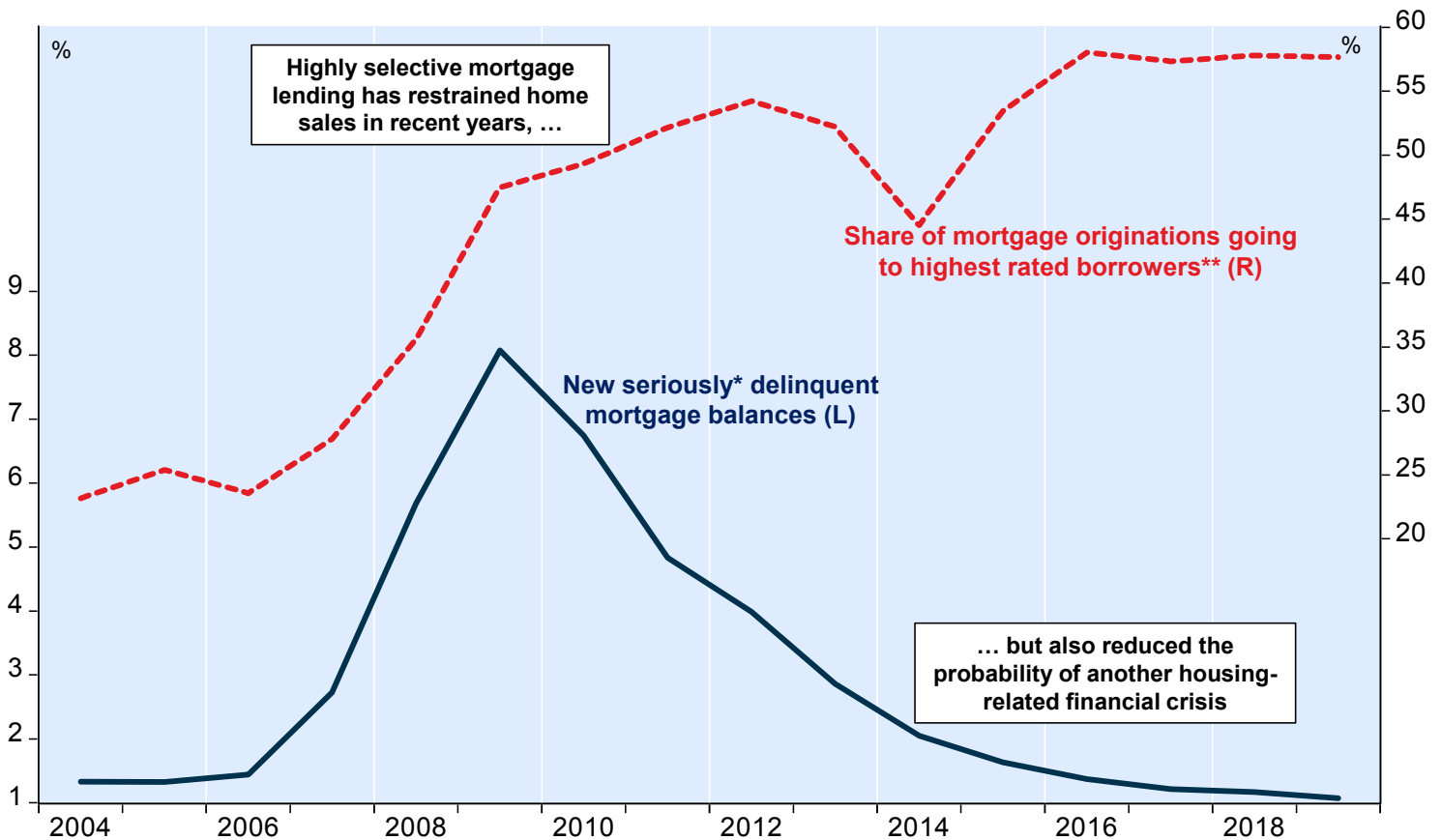
## U.S. Watch

By Krishen Rangasamy

There's a lot of talk these days about a U.S. economic downturn, with investor concerns fuelled by the ongoing trade war but primarily by yield curve inversion – the 10-year U.S. Treasury yield is already below the 3-month yield and within a hair of dropping under the 2-year yield –, the latter often in the past signaling a recession. Yield curve inversions are indeed not favourable to financial intermediation and can lead to a moderation in credit and hence slower GDP growth (see last *Monthly Economic Monitor* for details). But so far, credit continues to grow at a healthy pace. Federal Reserve data indeed suggests commercial and industrial loans continued to expand in Q3. And this morning's data from the New York Fed shows that household credit is growing at the fastest pace since 2017, even excluding student loans – at the end of Q2, household debt stood at a record US\$13.86 trillion or US\$12.4 trillion excluding student loans, both up more than 4% from year-ago levels. Delinquency rates have moved up slightly in products such as credit cards and student loans but have stabilized for auto loans and declined further for mortgages. Overall, less than 2.4% of new loans to households are seriously delinquent, i.e. near 12-year lows. The drop in mortgage delinquencies should not be surprising in light of tighter lending standards in recent years. As today's *Hot Chart* shows, roughly 58% of mortgage originations since 2016 have gone to highest rated borrowers. While that has restrained U.S. home sales, it has also reduced the probability of another housing-related financial crisis.

### U.S.: Household credit growth healthy, delinquencies remain low

Share of mortgage originations going to highest rated borrowers versus New seriously delinquent mortgage balances



\* Seriously delinquent is 90 or more days delinquent  
NBF Economics and Strategy (data via New York Fed)

\*\* Borrowers with a credit score of 760 or above



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