

Weak lending highlights tough outlook for UK

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Reuters

Hopes for a bounce in Britain's ailing economy were dealt a blow on Monday after data showing a slowdown in mortgage lending alongside a modest pick-up in unsecured lending highlighted the tough conditions faced by hard-pressed consumers.

Rising unemployment, soaring prices, below-inflation wage growth and a darkening economic outlook have depressed morale among British consumers to its lowest since the nation was in recession two years ago, and stoked fears the country could be heading back into another downturn.

Bank of England data showed unsecured borrowing by consumers rose by its biggest amount in 7 months in September, led by a pick-up in credit-card spending, which could indicate Britons may have to resort to putting everyday items on their cards.

The figures also showed approvals for home loans -- a gauge of house prices 6 months down the line -- and net mortgage lending weakened in September, pointing to a further softening in the housing market, which is likely to dent morale even more.

"Both secured and unsecured lending have been very low since mid 2008 and remain well below pre-recession levels," Blerina Uruci, economist at Barclays Capital, said.

"We expect demand for consumer credit to remain weak over the coming months as the subdued economic outlook and low consumer confidence make consumers cautious about spending and borrowing," she said.

Mortgage approvals numbered 50,967 in September, down from 52,347 in August. That was broadly in line with analysts' forecasts for a reading of 50,600, but still well below the pre-crisis long run average of around 90,000.

Net mortgage lending also weakened, to rise by 0.3 billion pounds in September from 0.5 billion in August, half the amount forecast by analysts.

House prices have been falling on an annual basis throughout this year according to two of Britain's biggest mortgage lenders, and economists say a lack of credit is partly to blame.

"September's lending figures confirm that constraints on the supply of credit are still acting as a major brake on the economic recovery," said Samuel Tombs of Capital Economics.

Property data firm Hometrack said house prices fell at their fastest monthly pace in eight months in October, and noted that while demand for properties had eased, the number of homes being put on the market had rise by 11 percent over the last six months.

Concerns that Britain may be heading for another recession prompted the Bank of England to resume quantitative easing earlier this month with a 75 billion pound cash injection.

Data on Tuesday are expected to show Britain's economy grew by 0.4 percent between July and September, but many experts reckon there is a strong chance the economy will shrink in the final quarter, and some are calling on the government to ease the pace of its fiscal cuts.

Prime Minister David Cameron rejected those calls on Monday and warned that talking down the economy could lead to a self-fulfilling prophecy in financial markets.

"Businesses, investors and families all over the country can rest assured that we will not falter. We will stay the course," Cameron wrote in an article for the Financial Times.

UNSECURED CREDIT UP

Despite a slowdown in secured lending, unsecured lending rose by a bigger-than-expected 0.6 billion pounds last month -- its highest since February.

Credit card lending accounted for one third of the increase in unsecured lending, which coincided with a surprisingly strong rebound in retail sales in September, and suggests Britons may have racked up much of those purchases on their cards.

Britons have suffered the biggest drop in real incomes in 30 years as wages have failed to keep pace with soaring inflation, currently at a 3-year high of 5.2 percent, and economists reckon many people are being forced to resort to credit cards just to finance their daily living costs.

"The rise in unsecured consumer credit suggests increased "stressed borrowing" is occurring with more people having to borrow to help finance their spending," said Howard Archer, economist at IHS Global Insight.

Sportswear retailer JJB Sports became the latest store chain to report higher than expected losses and warn of a grim outlook as Britons cut back spending on non-essential items. (Editing by Ron Askew).

<http://uk.reuters.com/article/2011/10/31/uk-britain-lending-idUKTRE79U2S020111031>