



MAY 2023

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Our Monthly Index on the State of UK Credit



The view from Experian

Despite the Bank of England acknowledgment of a wage-price spiral in the UK economy and vowing to raise interest rates to bring inflation back to the bank's target of 2%, the news of the UK economy improving at a faster pace than expected and avoiding a technical recession this year provides commercial lenders with some reason to be positive.

There is optimism about positive income statistics and rising consumer confidence. However, the continued increase in debt levels and delinquency rates sends a clear warning that those businesses who are yet to lock in debt within fixed rate structures may find the coming months even harder, increasing the risk of further defaults and failures.

Demand for external finance will likely continue, as businesses seek liquidity provisions to counteract supply chain issues, wage increases and increasing energy bills now that government energy support has been dropped. The increasing cost to borrow and the lack of available finance is constricting growth. This, coupled with the Bank of England's plans to revamp UK bank capital rules as part of the final package of Basel rules in the UK, which could result in a 25% cut in small business lending, presents an increasingly challenging period for UK's businesses.

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A portrait of Gareth Rees, a middle-aged man with short dark hair, wearing a light-colored shirt and a dark sweater. The image is partially obscured by a large, semi-transparent pink circle on the right side of the page.

Resilient
but diverse
sector
outlook

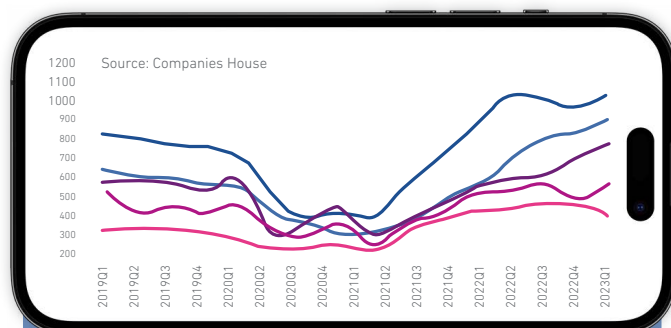
Cost-of-living
pressures

Higher
business
costs



Key UK Commercial Credit Metrics

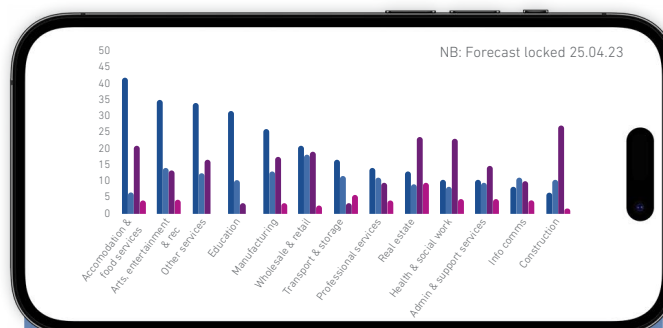
Number of insolvencies, England and Wales



The number of insolvencies exceeded pre-pandemic (2019Q4) levels in all of the main sectors in 2023Q1. In total, insolvencies were the highest since 2009. Accommodation & food service saw the largest increase between 2022Q1 and 2023Q1, followed by wholesale & retail, reflecting the acute impact of high energy costs and labour shortages have had on these sectors.

- Construction
- Wholesale & retail trade
- Accommodation & food service
- Professional, Scientific & technical
- Administrative & support service

% of businesses main concern in March 2023



The ONS Business Insights Survey (BICS) shows the top two concerns for businesses are energy (26.3%) and inflated prices (22.2%). Energy prices and inflation are major concerns for accommodation & food services, but post pandemic demand is strong. Falling demand is a concern for wholesale and entertainment given cost-of living pressures.

- Energy prices
- Falling demand of goods & services
- Inflation of goods & services prices
- Interest rates (including mortgages)

Commercial Credit - New Account Volumes - YoY Percentage Change



A significant bounce-back in new lending happened in 2021 and 2022. Both volumes and values waned significantly over the last few months of 2022 and 2023. Cost-of-living concerns and uncertain market conditions have dented confidence of supply.



Key UK Commercial Credit Metrics

(Asset Finance, Credit Cards/Revolving Credit, Loans, and Mortgages)

	2019	2020	2021	2022	2023 preview	2023 variance
	(Year end)	(Year end)	(Year end)	(Year end)	(Mar 23)	(% to 2022)
Average Commercial Delphi Score	44	42	42	42	42	-0.1%
Median Commercial Delphi Score	40	36	37	36	36	0.0%
Average credit card/revolving credit utilisation (indexed, 2019 = 100)	100	82	103	109	106	-2.6%
Average overdraft utilisation (indexed, 2019 = 100)	100	65	83	90	93	3.0%
Proportion of current accounts overdrawn (indexed, 2019 = 100)	100	60	78	80	81	1.2%
Average asset finance debt (indexed, 2019 = 100)	100	102	111	118	133	12.5%
Average credit card/revolving credit debt (indexed, 2019 = 100)	100	99	157	172	180	5.0%
Average loan debt (indexed, 2019 = 100)	100	113	138	136	133	-1.9%
Average mortgage debt (indexed, 2019 = 100)	100	90	98	99	100	1.3%
Average non-mortgage debt (indexed, 2019 = 100)	100	105	123	120	121	1.3%
Status 2+ delinquency rate (indexed, 2019 = 100)	100	131	109	108	120	11.5%
Default rate (indexed, 2019 = 100)	100	102	84	99	118	19.6%

View from Experian

- The average and median Commercial Delphi scores for 2022 **remained effectively flat compared to 2021**.
- Credit card/revolving credit utilisation has **fallen – but use of overdrafts by businesses has increased**.
- Average and total Asset Finance and Credit Card/Revolving Credit debt has **increased substantially since the start of 2023**.
- External measures suggest improving business confidence for growth this year. The default rate **increased by 20% to 0.07%**.



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