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JULY 2023

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Our Monthly Index on the State of UK Credit

The view from Experian

The latest official data shows that the Consumer Price Index (CPI) **inflation rose by 7.9%** in the 12 months to June 2023, a surprise fall on the previous month's figure of **8.7%.** Although we still predict inflation to average **7.9%** across 2023 and therefore remain stubbornly higher than the Bank of England's (BoE) **2%** target, this latest news will perhaps ease pressure on the Monetary Policy Committee (MPC) to further raise interest rates at such a pace when it next meets on 3 August, having voted **7-2 in favour of a 0.5 percentage point rise** to a 15-year high of **5.0%** at the previous meeting. The BoE had signalled a need to raise interest rates again should wage pressures persist, attempting to halt the feedback loop fuelled by labour-intensive service prices.

Year-to-date search volumes continue to outpace 2022, as lenders continue to exercise increased due diligence and demand remains relatively strong.

New lending during Q1 2023 for Asset Finance and Cards/Revolving Credit was at its **highest level during the last 4 years,** however new lending volumes on other core products have been consistently lower throughout 2023 compared with most of 2022, likely a result of higher interest rates and inflation driving high costs for assets and term lending.

Credit performance has further deteriorated, with 3+ delinquency rates at the highest level in 4 years, a sign that prolonged economic difficulties are stretching more businesses further than ever. Time will tell whether the more positive inflation news will have an impact on business costs that could start to reverse this trend over coming months.

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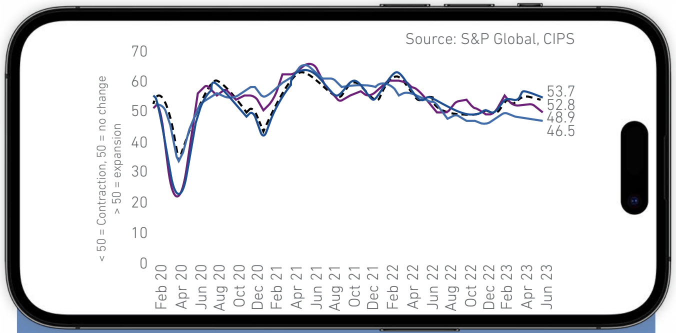
Demand is reduced but stable

Resilient but diverse sector outlook

Higher business costs

Key UK Economic & Commercial Credit Metrics

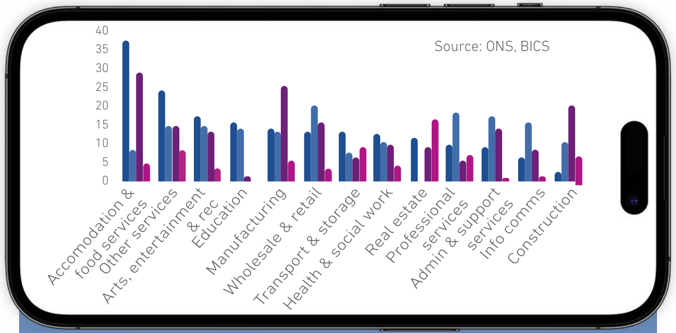
UK Purchasing Managers Indices (PMIs)



The latest PMIs signal continued growth in June, albeit weaker, with the composite index at 52.8 (>50 indicates expansion) from 54 in March. The maintained growth was driven by the service sector (53.7) as service job creation accelerated to its fastest rate since September 2022. However, input costs and falling employment continue to impact the manufacturing sector while a downturn in housing activity has dragged the construction sector into a decline.

- PMI composite
- PMI manufacturing
- PMI services
- PMI construction

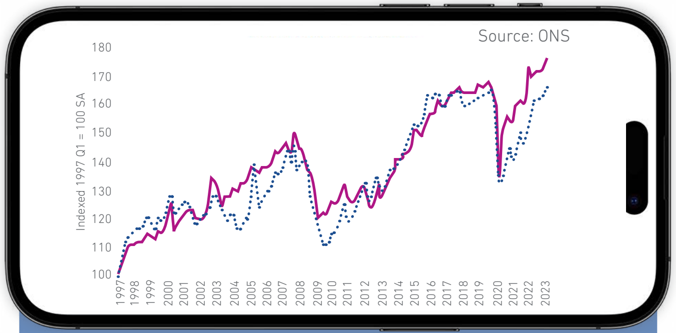
% of businesses main concern in June 2023



The latest ONS Business Insights Survey (BICS) displays that the top two concerns for businesses in July continues to be energy (14.6%) and inflation (14.1%), though these shares are slowly decreasing.
Energy prices and inflation remain primary concerns for accommodation & food services, and other services. Meanwhile real estate services continue to view interest rates (17.0%) as their highest concern as mortgage rates reaching the highest level in 15 years subdues demand.

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

UK business investment and gross fixed capital formation



Business investment (BI) holds strong, having risen 3.3% in Q1 2023, now placing it 1.1% above pre-pandemic level (Q4 2019) following the expiration of the super-deduction allowance on March 31st which had saved companies up to £0.25 from their tax bill for every £1 invested.
Similarly, whole economy investment (gross fixed capital formation (GFCF)) grew 2.4% in Q1 2023, placing it 6.0% above pre-pandemic level (Q4 2019).

- Business investment
- GFCF

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	0.0%
Median Commercial Delphi Score	40	36	37	36	36	0.0%
Average credit card/revolving credit utilisation rate	100	82	103	109	109	0.4%
Average overdraft utilisation rate	100	65	83	90	93	3.4%
Proportion of current accounts overdrawn	100	60	78	80	80	-0.8%
Average asset finance debt	100	102	111	118	135	13.9%
Average credit card/revolving credit debt	100	99	157	172	191	10.9%
Average loan debt	100	113	138	136	133	-1.7%
Average mortgage debt	100	90	98	99	99	-0.1%
Average non-mortgage debt	100	105	123	120	122	1.9%
Status 2+ delinquency rate	100	131	109	108	126	17.4%
Default rate	100	102	84	99	71	-28.4%

NB: Loans excludes Insurance Premium Loans

The view from Experian

- Year-to-date search volumes are **15.8% up on 2022.**
- Asset Finance is **11.5%** up YoY
- Credit card / revolving credit utilisation has increased slightly.
- Average and total Asset Finance and Credit Card/Revolving Credit debt have increased **14% & 21% and 11% & 17.7%** since the start of 2023.
- The 2+ delinquency rate is now **17.6%** higher than it was in December 2022.
- Apart from Asset Finance, the delinquency rates for all core products remain significantly higher than 2019 levels.
- The default rate has reduced **31%** (0.02pp).
- The average and median Commercial Delphi scores remain effectively flat compared with 2022.

For In-depth Insights, **download our report now - SME lending in the cost-of-living crisis**

FIND OUT MORE OR **CONTACT US** TODAY TO ARRANGE A MEETING

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