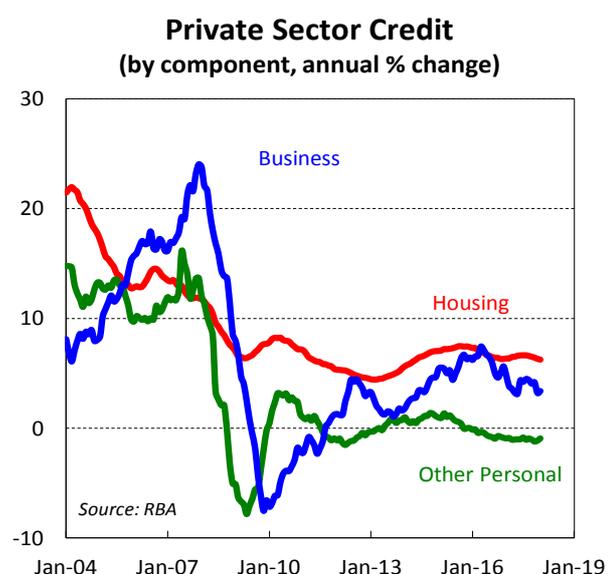
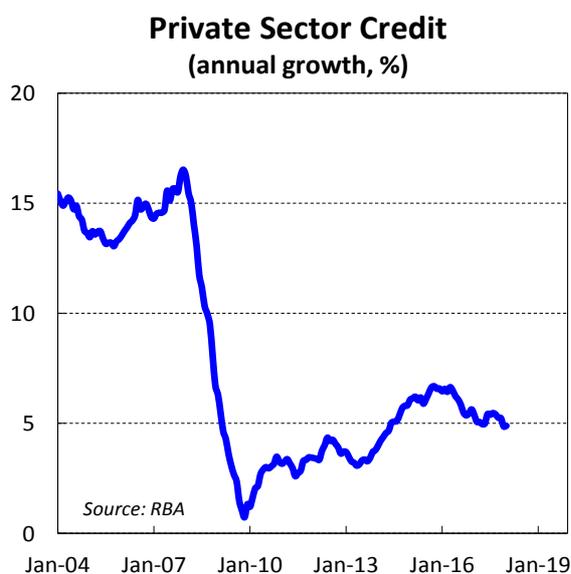


## Private Sector Credit

### Businesses Turn Off Borrowing Tap

- Private sector credit grew just 0.3% in January, following growth of 0.3% in December. The annual pace of growth held steady at 4.9% in January.
- Housing credit was solid in January, lifting by 0.5% in January, for a 6.2% annual gain. It was, however, the slowest annual pace of housing credit growth since May 2014. Credit for investor housing rose just 0.2%, the same pace as in the previous seven months. Measures by the regulator to curb investor housing credit growth are having an impact.
- The slowdown in credit growth in January reflects a weakening in business credit. Business credit fell 0.1% in January, after rising just 0.1% in December. It was the first monthly decline in business credit since February 2017. The decline comes despite ongoing resilience in business conditions and confidence.
- Other personal credit (which includes credit cards) remains soft. Although it increased by 0.1% in January, it was only the second monthly increase in 26 months.
- Overall, credit to the private sector is continuing to grow at a modest pace, and points to a moderate expansion in economic activity.



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housing rose just 0.2%, the same pace as in the previous seven months. Measures by the regulator to curb investor housing credit growth are having an impact. Owner occupier credit growth is more robust, rising by 0.6% for the fifth consecutive month. For the year to January, owner occupier housing growth lifted by 8.0%, the strongest annual growth rate since November 2016.

The slowdown in credit growth in January reflects a weakening in business credit. Business credit fell 0.1% in January, after rising just 0.1% in December. It was the first monthly decline in business credit since February 2017. The decline comes despite ongoing resilience in business conditions and confidence. NAB business conditions and confidence are elevated and well above their long term average, suggesting a positive outlook for investment spending. Capex spending has risen for three consecutive quarters and tomorrow we receive an update on businesses' spending intentions. Weakness in business credit doesn't necessarily translate into weaker business spending. The annual pace of business credit rose to 3.4%, from 3.2%.

Other personal credit (which includes credit cards) remains soft. Although it increased by 0.1% in January, it was only the second monthly increase in 26 months. For the year to January, other personal credit fell by 0.9%, an improvement from December (-1.1%), but still dismal. Households are unwilling to take on more personal debt given high levels of household debt and slow wages growth.

### **Implications**

Growth in investor housing credit remains soft as regulatory measures impact the market. This trend is expected to continue. Annual housing credit is still running above income growth. Other personal credit growth remains dismal as high levels of household debt hamper consumer debt appetites.

The discrepancy between soft business credit growth and strong business conditions is more of a puzzle. Elevated business conditions are still suggestive a more positive outlook for business investment, despite slow business credit growth.

Overall, credit to the private sector is continuing to grow at a modest pace, and points to a moderate expansion in economic activity.

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