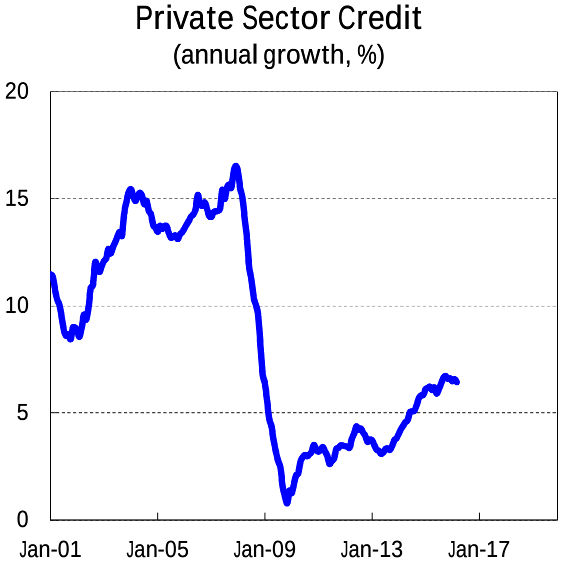
Friday, 29 April 2016

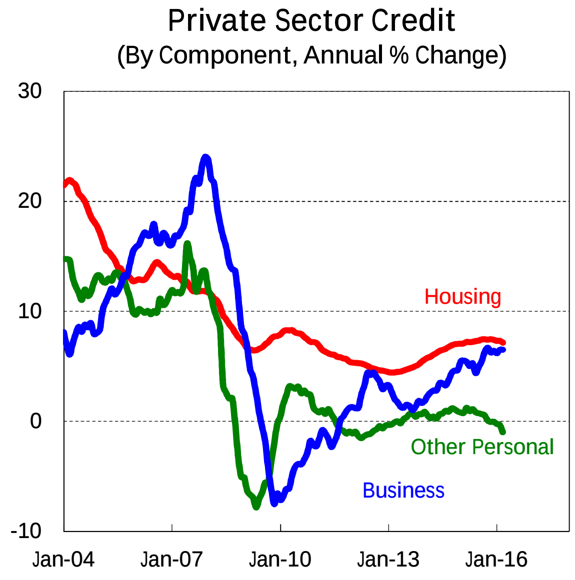
Bank of Melbourne

Private Sector Credit

Finding a Middle Ground

- Growth in private sector credit softened in March to a pace of 0.4%, after growth of 0.6% in February. This saw the annual pace of credit growth ease to 6.4%, the slowest in seven months.
- Much of the slowdown can be attributed to lending for investor housing, which has slowed considerably from annual growth of 11.0% in June 2015 to a pace of 7.0% in March 2016. In contrast, credit growth for owner occupier housing has overtaken growth in investor housing, lifting 7.2% in the year to March, the strongest since 2010.
- Business credit grew just 0.3% in March, the softest monthly pace in four months. Given that business surveys continue to suggest above average conditions, it is likely that today's relatively softer outcome is a one-off and can be attributed to normal monthly volatility. On an annual basis, business credit growth was steady at 6.5%, and remains comfortably above the 5.4% annual growth recorded a year ago.
- Credit growth appears to have moderated, largely driven by the measures by APRA to curb investor lending and a weak appetite for personal lending. However, there are signs that some other forms of credit will continue to grow at a moderate pace given the low interest rate environment and indications that conditions are improving for businesses.





Growth in private sector credit softened in March to a pace of 0.4%, after growth of 0.6% in February. This saw the annual pace of credit growth ease to 6.4%, the slowest in seven months.

The softer outcome for the month reflected slower growth across most sectors including business credit, other personal and investor housing.

Much of the slowdown in the annual rate, however, can be attributed to lending for investor housing. This form of credit has slowed considerably from annual growth of 11.0% in June to a pace of 7.0% in March. In contrast, credit growth for owner occupier housing has overtaken growth in investor housing. Owner occupier housing credit lifted 7.2% in the year to March, the strongest since 2010. For the month, credit to owner occupier housing grew 0.5% while investor housing rose 0.3%.

Business credit grew just 0.3% in March, the softest monthly pace in four months. The pickup in business credit over recent months had been a promising sign that conditions in the non-mining sector were improving. Given that business surveys continue to suggest above average conditions, it is likely that today's relatively softer outcome is a one-off and can be attributed to normal monthly volatility rather than renewed weakness in business credit. We expect credit growth to businesses to continue at a moderate pace. On an annual basis, business credit growth was steady at 6.5%, and remains comfortably above the 5.4% annual growth recorded a year ago.

"Other personal" credit, which includes credit cards and personal loans, contracted further and has continued to lagged behind other forms of credit in the post-GFC period. This form of credit has not seen any growth for six consecutive months. In March, 'other personal' credit fell 0.3%, and was down 1.0% in the year. It was the weakest annual pace since July 2012.

Outlook and Implications for the Cash Rate

Credit growth appears to have softened, largely driven by the measures by APRA to curb investor lending and a weak appetite for personal lending. However, there are signs that other forms of credit will continue to grow at a moderate pace given the low interest rate environment and other indications that conditions are improving for businesses.

Today's data should have limited implications for the cash rate outlook. The RBA would view the slowdown in investor lending as a positive sign that will limit risks to financial stability. Moreover, despite the softer growth in the month for business credit, the RBA would likely focus on the improving trend. We maintain the view that a gradual improvement in non-mining sector activity and the relative health of the labour market would prevent the RBA from cutting the cash rate again. However, the low inflation outlook has lowered the bar for further monetary easing. In a close call, we expect the RBA to keep its cash rate on hold next week and throughout 2016.

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