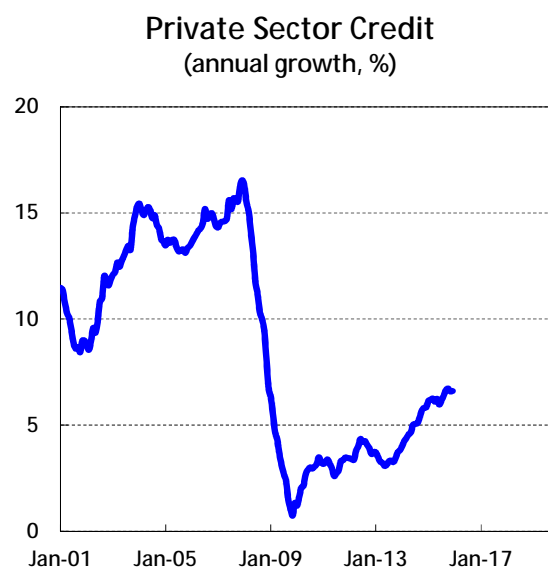
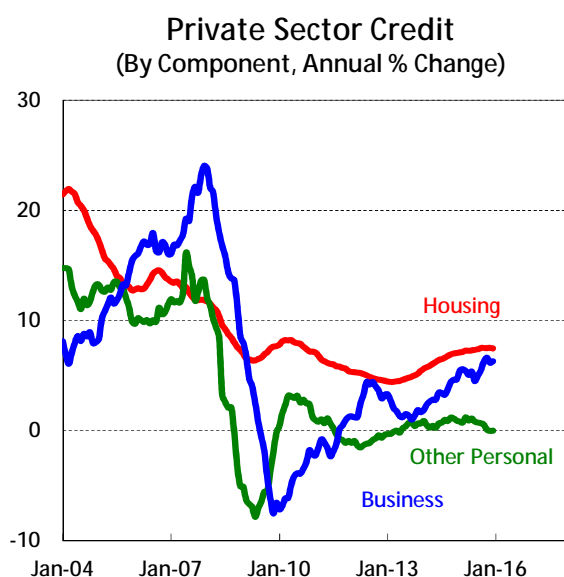


## Private Sector Credit Business Credit Expanding

- Private sector credit grew 0.5% in December, a touch below expectations, but still tracking at a reasonable tilt. The annual pace of growth remained steady at 6.6% but remains only marginally below the best pace since 2008.
- Business credit picked up in December (0.5%) after taking a breather in November. With job growth continuing, capacity utilization improving and technological change demanding a response, further growth in business credit and capital investment should be expected.
- Credit growth for housing continues to cross over from investor housing to owner occupier housing. The annual pace of investor housing credit fell back to 8.5% in December, its slowest pace since April 2014. At the same time, annual growth in owner occupier credit stepped up to 6.8%, its strongest pace since late 2010.
- The lagged impacts of low interest rates and the weaker currency will maintain economic growth at acceptable levels in the near term and lift growth in 2016-17. As such, we expect the RBA to keep its cash rate on hold in February and throughout 2016.



Private sector credit grew 0.5% in December, a touch below expectations, but still tracking at a reasonable tilt. The annual pace of growth remained steady at 6.6% but remains only marginally below the best pace since 2008.

Business credit picked up in December (0.5%) after taking a breather in November. The solid result in December comes after very strong growth of 1.1% in both September and October. The annual pace of growth in business credit came in at 6.3%, a touch below the recent peak of 6.6% growth in October. With job growth continuing, capacity utilization improving and technological change demanding a response, further growth in business credit and capital investment should be expected.

The next reading on capital spending comes on 25<sup>th</sup> February and will cover the December quarter plus expectations for the year ahead. We expect the decline in mining investment during the December quarter will swamp any improvement in non-mining investment.

The monthly growth of 0.7% in owner occupier housing credit maintains the pick-up seen since September. For the past four months, monthly credit growth in this sector has been between 0.7% and 0.8% giving annual growth of 6.8%. This is the strongest pace of growth since December 2010.

Investor housing credit grew just 0.3% for an annual pace of growth of 8.5% - the slowest pace since May 2014. The squeeze placed on investor housing lending by APRA appears to be having its desired impact with annual growth well below the 'speed limit' of 10% established earlier last year.

Overall, credit for housing grew 0.5% in December, broadly maintaining the pattern of monthly growth seen over the past 12 months. In the last four months, the driver has been owner occupier credit rather than in investor credit.

Growth in "other personal" credit, including credit cards and personal loans, continued to lag behind other forms of credit. It saw zero growth in December and zero growth in the year to December.

### Outlook and Implications for the Cash Rate

Credit growth continues to gradually pick up, indicating that low interest rates are acting to support lending and economic activity. The recent pickup in business credit adds to signs that activity in non-mining sectors is improving. This increases the prospect for a pick-up in non-mining business investment over time.

Our view is that the lagged impacts of low interest rates and the weaker currency will maintain economic growth at acceptable levels in the near term and lift growth in 2016-17. As such, we expect the RBA to keep its cash rate on hold in February and throughout 2016.

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