Data Snapshot

Friday, 29 July 2016

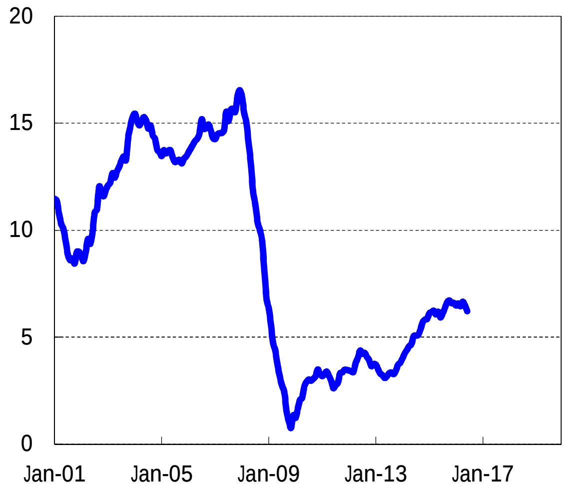
Bank of Melbourne

Private Sector Credit

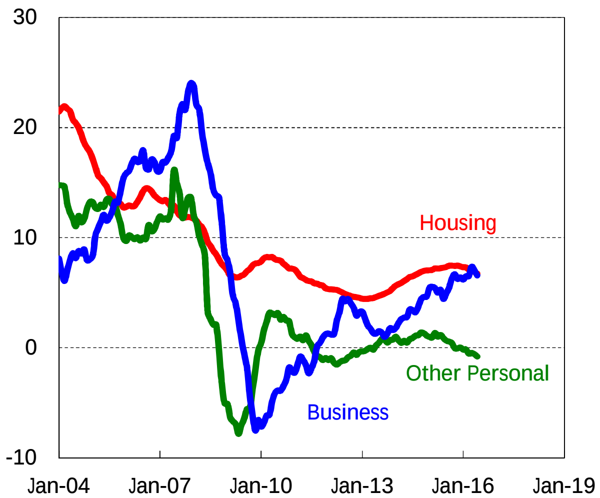
Engine Stalling?

- Private sector credit grew just 0.2% in June, the weakest monthly increase in nearly three years.
- On an annual basis, credit growth eased from 6.5% in May to 6.2% in June, the slowest in 11 months. Annual credit growth sits just below the long-run average of 6.5%.
- Business credit was mostly behind the softer result in recent months. In June, business credit contracted 0.2% and the annual pace edged down from a peak of 7.4% in April to 6.6% in June. It seems a little at odds with reports of above average business conditions in surveys. Either the recent weakness in business credit will pass or perhaps businesses are financing spending through other means.
- Housing credit growth has been steady at a monthly pace of 0.5% over the past four months. Healthy demand for housing is continuing to support credit growth. Growth is now being driven more by owner occupiers than investors.
- The low inflation outlook keeps a rate cut on the cards. However, this week's inflation results were consistent with the RBA's forecasts. In a close call, we expect that the RBA will keep the cash rate unchanged at 1.75% next week.

Private Sector Credit
(annual growth, %)



Private Sector Credit
(By Component, Annual % Change)



Private sector credit grew just 0.2% in June, the weakest monthly increase in nearly three years. While the renewed weakness could be indicative of softer economic activity, credit growth can exhibit some volatility from time to time. This volatility is especially the case with business credit, which was mostly behind the soft result in the month. Personal credit was also weak.

On an annual basis, credit growth eased from 6.5% in May to 6.2% in June, the slowest in 11 months. Annual credit growth sits just below the long-run average of 6.5%.

Business credit has softened in recent months. In June, in contracted 0.2%, and followed a paltry 0.2% increase in May. The annual pace has edged down from a peak of 7.4% in April to 6.6% in June. While the weaker pace of growth is disappointing, annual growth remains comfortably above the 10-year average of 5.6%.

Weakening business credit seems a little at odds with reports of above average business conditions in surveys. Indeed, the RBA has recently noted that non-mining business investment was growing according to its liaison surveys. Either the recent weakness in business credit will pass or perhaps businesses are financing spending through other means.

Housing credit growth has been steady at a monthly pace of 0.5% over the past four months. Healthy demand for housing is continuing to support credit growth. However, the annual pace of growth has eased from a peak of 7.5% in November last year to 6.7% in June. The softer pace of growth has been driven by investors. Monthly growth was steady at 0.4% in June, but the annual pace growth slipped to 5.0% in June, the weakest since March 2012. APRA's measures to keep a lid on investor lending is the major cause behind the weakness. In contrast, owner-occupier housing credit grew 0.5% which saw annual growth at 7.7%, the strongest in six years.

Other personal credit was the other area of weakness. Credit has contracted at a pace of 0.1% for six consecutive months, and the annual pace of contraction stepped down to 0.8%, the weakest in four years.

Outlook and Implications for the Cash Rate

The softer pace of credit growth could be foretelling of weaker economic activity. In particular, the recent weakness in business credit could be a symptom of softer business spending. However, this would sit at odds with recent business surveys which suggest above average conditions and an improvement in business investment.

The low inflation outlook keeps a rate cut on the cards. However, this weeks' inflation outcomes were consistent with the RBA's forecasts. In a close call, we expect that the RBA will keep the cash rate unchanged next week at 1.75%.

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