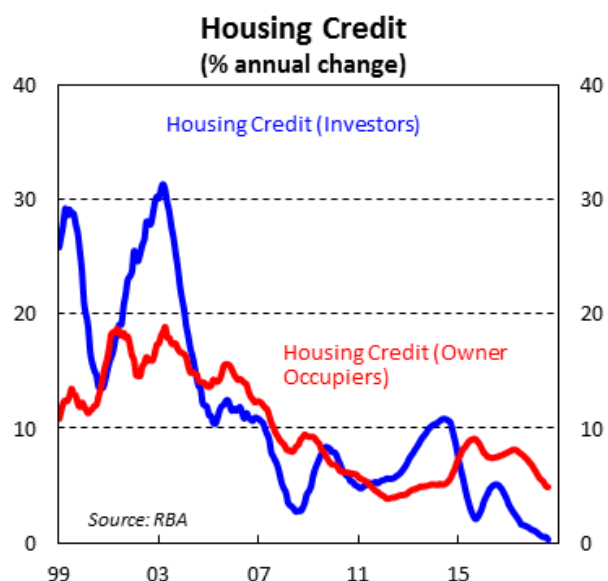
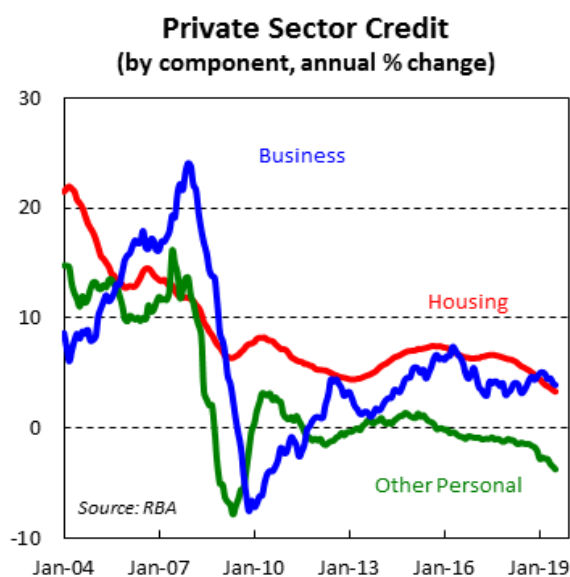


Friday, 30 August 2019

Private Sector Credit

Still at a Crawl

- The weak run of private sector credit growth continued in July. Credit to the private sector rose another 0.2% in the month, while the annual pace of growth stepped down from 3.3% to 3.1%. It was the weakest annual pace in six years.
- Business credit grew 0.2% in July, for an annual increase of 3.9%. The annual pace of growth was the weakest in almost a year. A slowing in business credit is now corresponding with the deterioration in business conditions and confidence over the past year.
- Credit to the housing sector also remained subdued, growing at 0.3% in July, although a touch above the 0.2% growth in both May and June. The weakness was driven by investor housing credit, which contracted 0.1%, the first decline in over a year. Meanwhile, owner-occupier housing credit grew 0.5% in July, which was the strongest in 10 months.
- Weak growth in credit is consistent with the soft pace of economic growth. The rate cuts from the RBA and improvement in sentiment in the housing market suggests that we could see some lift in credit growth in coming months, particularly for housing. Nonetheless, there are still long-lasting headwinds from high household debt levels and slow wage growth, which could dent appetites to borrow. There is also ongoing uncertainty from the global economy and trade tensions, which is likely to weigh on confidence and activity among businesses.



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There was ongoing weakness across all sectors of credit.

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The recent bottoming out in dwelling prices and elevated auction clearance rates indicates some improvement in housing demand and suggests that the housing credit could regain some momentum in coming months.

The other major category of credit is “other” personal credit, which includes credit cards and personal loans. This form of credit contracted 0.4% in July, and has been in decline for 13 consecutive months. On an annual basis, private sector credit contracted 3.7% in the year. It points to further restraint on spending from households which are under pressure from high debt levels and slow income growth.

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