Data Snapshot

Wednesday, 30 November 2016

Bank of Melbourne

Private Sector Credit

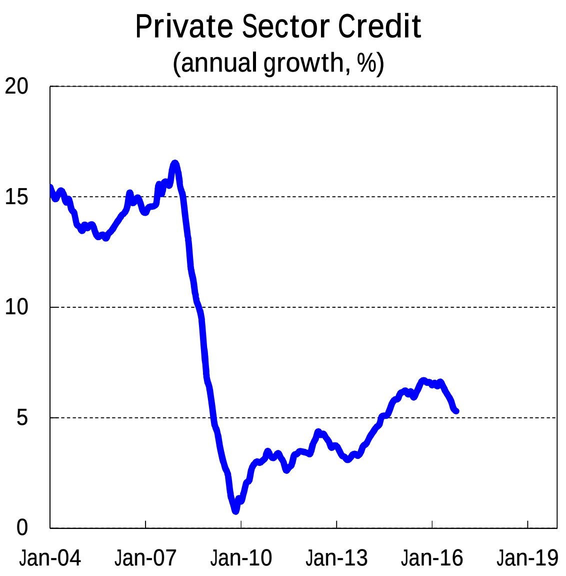
Losing Momentum

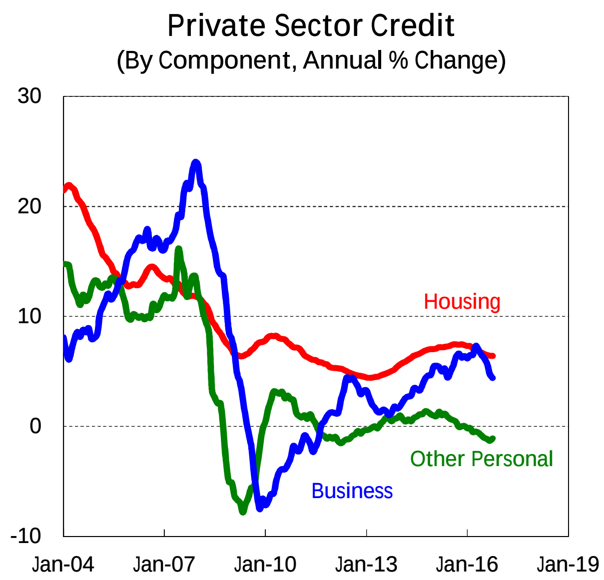
- Annual growth in private sector slipped further to 5.3% in October, the weakest in over two years. It has been below the 10-year average of 6.2% for the last four months. Private sector credit growth did pick up marginally in October, rising 0.5%. This followed three consecutive months of 0.4% growth.

- The RBA rate cuts in May and August have stimulated activity among property investors. Credit for investor housing rose 0.7% in October, its strongest pace since August 2015 when APRA was first applying the brakes on bank lending for investor housing. Over the year to October, credit for investor housing has risen 5.3%, well within APRA's 'speed limit', but the pace is picking up again.

- Business credit grew 0.5% in October, its strongest result since April. That said, the annual pace of growth in business credit is now down to 4.4%, its weakest outcome since June 2015. The so-called 'animal spirits' that drive the economy, appear to have moved down a gear in the face of soft domestic demand.

- Weakening momentum in private sector credit growth, soft domestic demand, tepid retail sales growth, declining building approvals and weaker job growth all point to the possibility of a further rate cut. The hurdles for a rate cut are high but the economy does not appear to be sailing gracefully towards stronger economic growth.





Annual growth in private sector credit slipped further to 5.3% in October, the weakest in over two years. It and has been below the 10-year average of 6.2% for the last four months. Private sector credit growth picked up marginally in October, rising 0.5%. This followed three consecutive months of 0.4% growth.

Despite the soft annual growth in credit, there were some highlights among the results. Business credit grew 0.5% in October, its strongest result since April. That said, the annual pace of growth in business credit is now down to 4.4%, its weakest outcome since June 2015. The so-called 'animal spirits' that drive the economy, appear to have moved down a gear in the face of soft domestic demand.

The RBA rate cuts in May and August have stimulated activity among property investors. Credit for investor housing rose 0.7% in October, its strongest pace since August 2015 when APRA was first applying the brakes on bank lending for investor housing. Over the year to October, credit for investor housing has risen 5.3% - well within APRA's 'speed limit'- but the pace is picking up again.

Monthly credit growth for owner occupier housing has been steady at 0.5% for the past five months and growth has been in the 0.5%-0.6% range throughout 2016. The annual pace has slipped from a recent peak of 7.7% in July to stand at 7.1% in October.

Other personal credit (which includes credit cards and car loans) remains the major area of weakness in private sector credit. Other personal credit was static in October after having fallen for the previous ten months. The annual pace of other personal credit remains negative at -1.1% for the year to October.

Outlook and Implications for the Cash Rate

Growth in private sector credit remains modest and appears to be consistent with subdued growth in consumer spending. The pick-up in business credit in the month is to be welcomed but the annual pace remains anaemic.

Slowing momentum in private sector credit growth, soft domestic demand, tepid retail sales growth, rapidly declining building approvals and weaker job growth all point to the possibility of a further RBA rate cut. The hurdles for a rate cut are high but the economy does not appear to be sailing gracefully towards stronger economic growth.

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The Detail