Data Snapshot

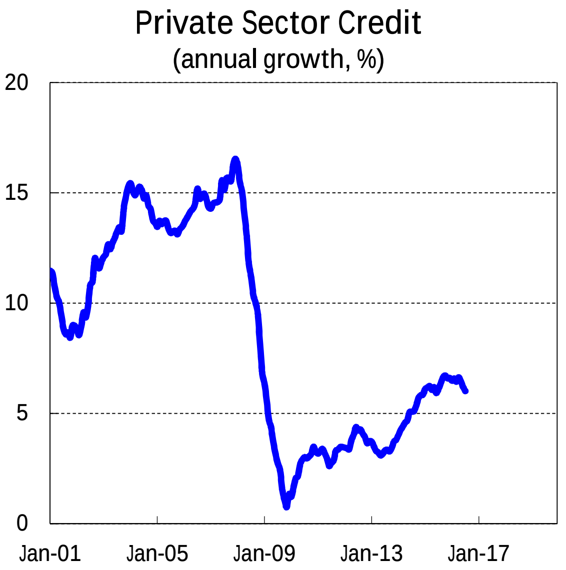
Wednesday, 31 August 2016

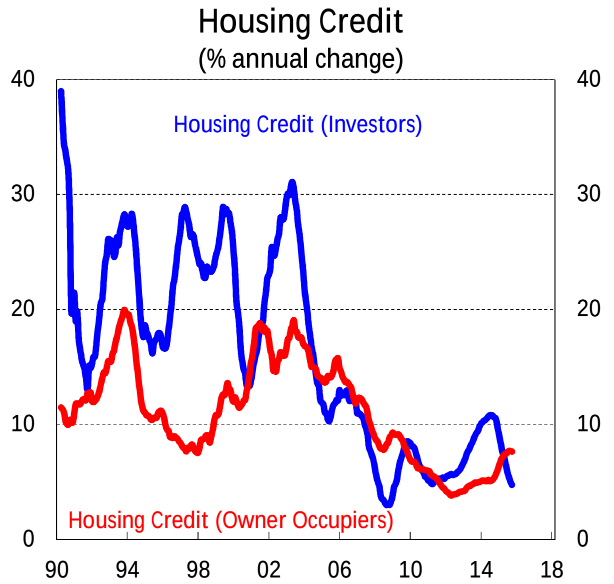
Bank of Melbourne

Private Sector Credit

Taking a Breather?

- Private sector credit rose by 0.4% in July, which was in line with consensus expectations and follows an increase of just 0.2% in June.
- On an annual basis, credit growth eased from 6.2% in June, to 6.0% in July. This is the slowest annual growth in 13 months and below the long-run average growth in credit of 6.4%.
- Housing credit growth has been steady at a monthly pace of 0.5% over the past four months. Owner occupier demand for housing is the driving force behind housing credit growth, while the pace of growth in investor credit is slower.
- Business credit rose by 0.3% in July, retracing June's decline of 0.2%, although the pace of growth over the last few months was subdued. The recent softness in business credit growth runs counter to evidence of solid business conditions in private surveys. For the year to July, business credit growth increased by 6.2%, which is above the 10-year average of 5.5%.
- Measures by APRA to curb investor lending appear to be having an impact. Given official interest rates are at a record low following the RBA's rate cuts in May and August, we expect moderate growth in private sector credit.





Private sector credit grew rose by 0.4% in July, after rising by just 0.2% in June. For the year to July, private sector credit growth eased to 6.0%, from 6.2% in the year to June. This is the slowest annual growth in 13 months and below the long-run average growth in credit of 6.4%.

Business credit has softened in recent months. In July it rose by 0.3%, following a decline of 0.2% in June. The annual pace edged down from a recent peak of 7.3% in April to 6.2% in July. The recent softness in business credit growth runs counter to evidence of solid business conditions in private surveys. While the weaker pace of growth is disappointing, annual growth remains comfortably above the 10-year average of 5.5%.

Housing credit growth has been steady at a monthly pace of 0.5% over the past four months. For the year to July, housing credit growth slowed to 6.6%, from a recent peak of 7.5% in the year to November 2015. Owner-occupier demand for housing is the driving force behind housing credit growth, while the pace of growth in investor credit is slower. Owner-occupier housing credit rose by 0.5% in July. It has risen by 0.5-0.6% for the past seven months. For the year to July, the pace of growth in owner-occupier housing credit eased to 7.6%, from 7.7% in the previous two months.

Investor housing credit rose by 0.4% for the third consecutive month, in July. For the year to July, growth in investor housing credit slowed to 4.8%, its slowest pace of growth in four and a half years. The measures by APRA to curb investor lending appear to be having an impact. The monthly pace of growth in investor credit has now been below that of owner occupier credit for 11 consecutive months.

Other personal credit remains the major area of weakness in private sector credit. For the seventh consecutive month, private sector credit contracted by 0.1%. The annual pace of contraction held at 0.8% in July, matching June as the weakest in almost four years.

Outlook and Implications for the Cash Rate

Growth in private sector credit remains modest. The recent softening pace of growth in investor housing lending was one of the factors which allowed the Reserve Bank (RBA) to cut interest rates in August. The interest rate cuts in May and August are expected to support demand for private sector credit, particularly in housing, but we are yet to see lending picking up substantially. We will wait to assess conditions over the next few months, but we do not expect a repeat of the investor lending growth back in 2015. Housing conditions, including lending, are the key uncertainty to the interest rate outlook. However, the current pace of private sector credit growth would not be an obstacle to further interest rate cuts from the RBA.

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