Data Snapshot

Thursday, 31 January 2019

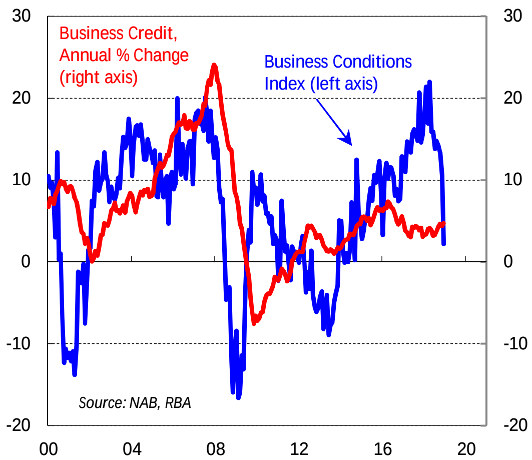
Bank of Melbourne

Private Sector Credit

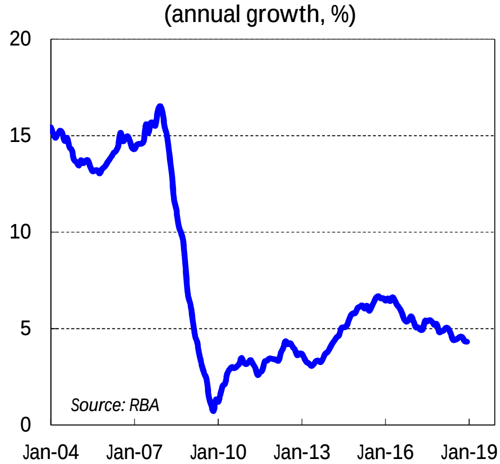
Grey Clouds Hovering

- Private sector credit grew at 0.2% in December 2018, which is its weakest monthly pace since May 2018. The annual growth rate also eased, from 4.4% in November to 4.3% in December, which is the slowest annual rate since February 2014.
- The soft pace of credit growth adds to the grey clouds are hovering over the economic outlook, particularly given the recent swelling of downside risks to the global-growth outlook.
- The encouraging bit of the private-sector data in recent months came from business credit. Business credit continued to grow in December, by 0.3% in the month. The annual growth rate for business lending lifted to 4.8%, the best result since December 2016. However, the recent business survey from NAB in December makes us cautious about the business-credit outlook.
- The business conditions index dropped 8.4 points in December to 2.2. This reading is now below the long-run average and the decline in the month was the biggest since October 2008. Confidence among businesses also dropped to 2.8, after being as high as 11.1 in January 2018.
- The biggest shift to business sentiment might have come from offshore influences with downside risks in the global economy mounting in recent months. The recent US government shutdown (the longest in history), disappointing Chinese growth figures, Brexit and a possible recession in Italy are conspiring to lift concerns about global growth. These concerns are spilling over into share market volatility, possibly causing caution among businesses and consumers.
- Housing credit rose 0.3% in December and on a year ago by 4.7%, which is the weakest annual rate since July 2013. The downturn in housing is reflected in these numbers.
- Other personal credit remained weak, falling by 0.4% in December and by 2.0% in the year.

Business Conditions & Credit



Private Sector Credit
(annual growth, %)



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The business conditions index dropped 8.4 points in December to +2.2. This reading is now below the long-run average and the decline in the month is the biggest since the GFC (in October 2008). Confidence among businesses in the survey also dropped to 2.8, after being as high as 11.1 in January 2018. The business confidence index is below the long-run averages.

Election uncertainty might also be weighing on businesses with NSW to go to the polls in March and a Federal Election due by late May. This uncertainty could cause businesses to pause in big spending.

The bigger shift to business sentiment may have come from offshore influences with downside risks in the global economy mounting in recent months. The recent US government shutdown (the longest in history), disappointing Chinese growth figures, Brexit and a possible recession in Italy are conspiring to lift concerns about global growth. These concerns are spilling over into share market volatility, resulting in caution among businesses and consumers alike.

A breakdown of the remainder of the credit-growth data reveals subdued outcomes. Housing lending rose 0.3% in December and on a year ago by 4.7%, which is the weakest annual rate since July 2013. Investor credit is growing at a slower rate; just 0.1% in December and by 1.1% in the twelve months to December. By comparison, owner occupier credit grew 0.4% in the month and 6.5% growth in the year to December. Regulatory tightening and a sharp fall in demand for housing are contributing to the slowing in lending.

The final segment for private-sector credit is other personal credit. Another contraction occurred in December, of 0.4%, and the annual rate of decline grew to 2.0%.

The soft pace of credit growth is not encouraging for the economic outlook, particularly given the plethora of downside risks to the global growth outlook which have grown in recent months.

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