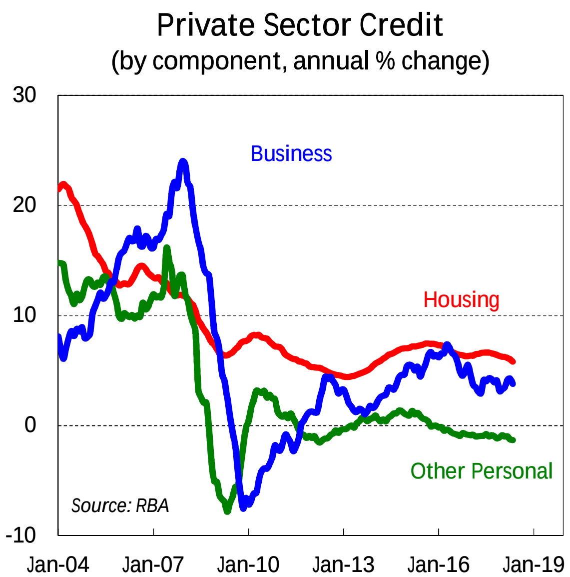
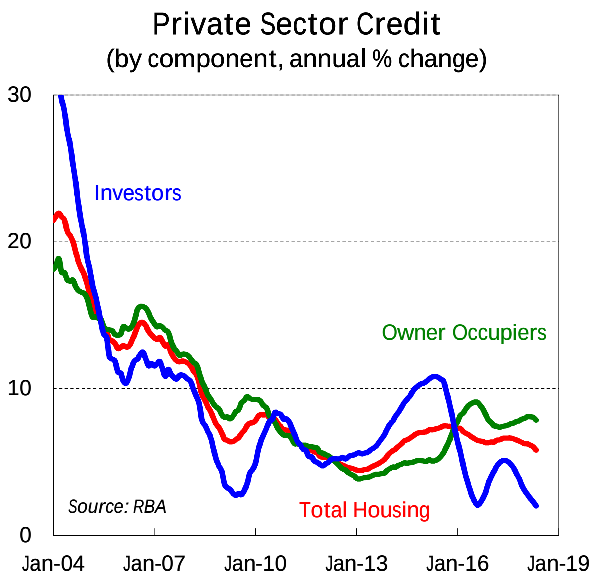
Private Sector Credit

Investor loans fall for the first time in over 9 years

- The private-sector credit report for May was subdued. Credit to the private sector lifted by only 0.2% in May, which is the weakest monthly pace since early 2017.
- The monthly growth rate has also stepped out of the 0.3%-0.5% range it has been in for nearly a year.
- One of the more worrying aspects of today's data was the contraction in business credit. Credit extended to the business sector fell by 0.2% in May and the annual growth rate slowed to a four-month low of 3.8%.
- There was also a notable slowing in credit for housing. It is consistent with the slowing evident in other housing indicators and also consistent with lending moving away from investors to owner occupiers. Credit for investor home loans ground to a halt in May while credit for owner-occupier loans lifted 0.6% in the month.
- Other personal credit (which includes credit cards and personal loans) remained very weak, as high household debt and soft wage growth continued to hurt this segment.





Credit to the private sector grew by 0.3% in June and by 4.5% in the year to June. It is the weakest annual growth rate since March 2014. The weakness in private-sector credit was broad based. However, lending to investors for housing was most notable for its weakness in today's report.

Investor lending for housing fell by 0.1% in June. This fall marks the first fall since February 2009. The annual rate slowed to just 1.6%. The annual rate has been consistently slowing since May of last year. Falling house prices and tighter lending conditions are causing investors to step back. High household debt and subdued wages growth is also deterring investors.

In contrast, lending to owner occupiers grew by 0.6% in June, a pace it has grown at each month for the past four months. The annual growth rate for lending to owner occupiers has slowed modestly, remaining robust at 7.8%.

The contrast continues to highlight that lending is moving away from investors to owner-occupiers, although lending overall for housing is also easing.

Business credit encouragingly returned to growth in June – lifting by 0.3% in the month, after a flat outcome in May. Annual growth for credit extended to businesses slowed from 3.8% in May to 3.2% in June and stands at a 6-month low. Business investment outside of mining has clearly turned up and businesses are reportedly optimistic about the outlook. However, businesses are choosing other sources of funding to fund expansion activities.

Other personal credit (which includes credit cards and personal loans) was flat in June

, the fourth consecutive month of contraction. The annual rate of decline deteriorated from to 1.3%, the weakest annual rate since around the middle of 2012. Soft wage growth and ongoing high household debt levels is continuing to weigh on this form of credit.

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