Data Snapshot

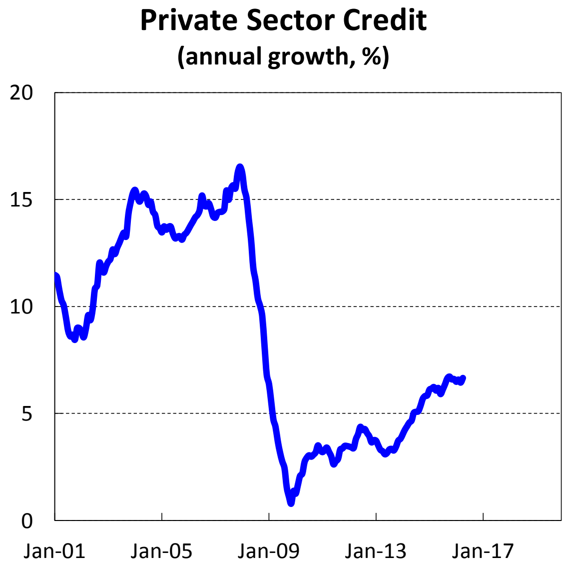
Tuesday, 31 May 2016

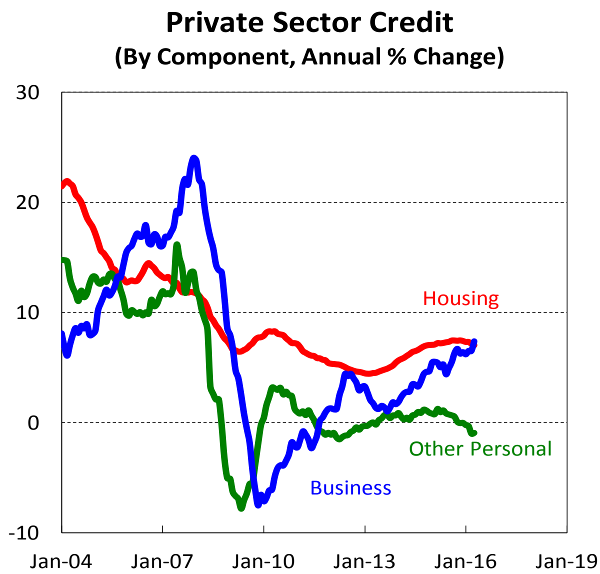
Bank of Melbourne

Private Sector Credit

Business Credit Picks Up Pace

- **Private sector credit grew 0.5% in April following a 0.4% lift in March. Growth of 0.5% is the average monthly growth over the past six months. Over the year to April, credit has grown 6.7%, a pace rarely seen since the GFC. Credit is growing steadily but not at an especially robust pace.**
- **On an annual basis, the growth rate of business credit rose to 7.4%, its strongest pace since January 2009. A year ago business credit was growing at 5.0% suggesting that the past twelve months have seen a pickup in business activity.**
- **In a marked turnaround, business credit is now growing at a faster annual pace than housing credit. Following a 0.5% lift in the month of April, the annual pace of growth in housing credit stood at 7.0%. This is down on the recent peak of 7.5% seen towards the end of 2015 but the speed of the decline has been gentle.**
- **Measures by APRA to curb investor lending appear to be working. But at the same time, there has been a lift in both owner occupier housing credit and business credit. With interest rates at historic lows following the RBA's rate cut in May, further growth in credit is expected.**





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The stronger outcome for the month came courtesy of a lift in business credit and despite softer outcomes for housing and personal credit.

Business credit grew a solid 0.8% in April, following a soft 0.3% result in March. The weakness in March was likely due to volatility in the numbers rather than a general softening in businesses demand for credit. Today's result appears to support that view. Surveys continue to point to reasonable business conditions and we expect credit to businesses to expand at a moderate pace. On an annual basis, the growth rate of business credit rose to 7.4%, its strongest pace since January 2009. A year ago business credit was growing at 5.0% suggesting that the past twelve months have seen a pickup in business activity.

In a marked turnaround, business credit is now growing at a faster annual pace than housing credit. Following a 0.5% lift in the month of April, the annual pace of growth in housing credit stood at 7.0%. This is down on the recent peak of 7.5% seen towards the end of 2015 but the speed of the decline has been gentle as shown in the earlier chart.

Less gentle has been the decline in the annual pace of growth of credit for investor housing. Having peaked at annual growth of 11.0% in June 2015, credit for investor housing has slowed to an annual pace of 6.5%. While some of this may be due to administrative reporting, it appears that policies encouraged by APRA have been effective. The 'speed limit' of 10% growth in this sector now seems a distant memory. Owner occupier housing credit grew 0.5% in the month and by 7.3% over the year.

"Other personal" credit, which includes credit cards and personal loans, contracted further in April (-0.1%) and has continued to lag behind other forms of credit in the post-GFC period. This form of credit has contracted in each of the past four months and has not seen growth for the past seven months. Households appear to be adjusting their balance sheets by lifting housing credit and shrinking 'other personal' credit. Over the year to April 'other personal credit' has declined by 0.9%

Outlook and Implications for the Cash Rate

Measures by APRA to curb investor lending appear to be working. But at the same time, there has been a lift in both owner occupier housing credit and business credit. With interest rates at historic lows following the RBA's rate cut in May, further growth in credit is expected.

There is considerable debate regarding further RBA rate cuts. Low inflation provides scope for a rate cut later this year. Much will depend on other measures of the economy including job growth, retail spending, business investment and building activity. GDP, due out tomorrow, will be another piece of the jigsaw. We expect a further rate cut in August but it is far from a foregone conclusion.

Hans Kunnen, Chief Economist
Ph: 02-8254-8322

Contact Listing

Chief Economist	Senior Economist	Senior Economist
Hans Kunnen	Josephine Horton	Janu Chan
kunnenh@bankofmelbourne.com.au	hortonj@bankofmelbourne.com.au	chanj@bankofmelbourne.com.au
(02) 8254 8322	(02) 8253 6696	(02) 8253 0898

The Detail