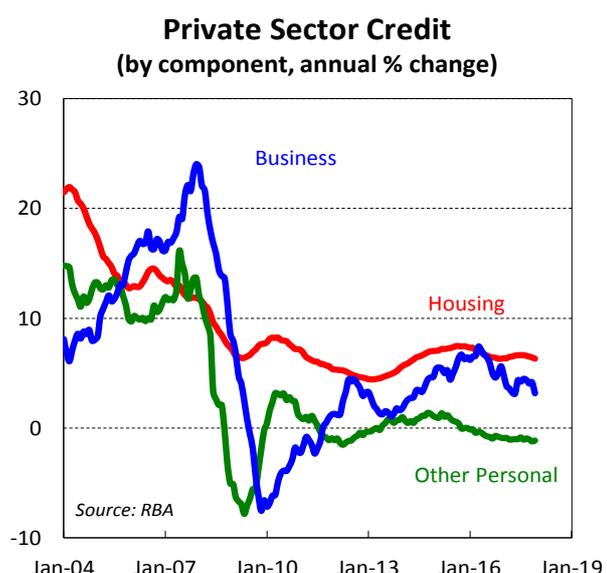
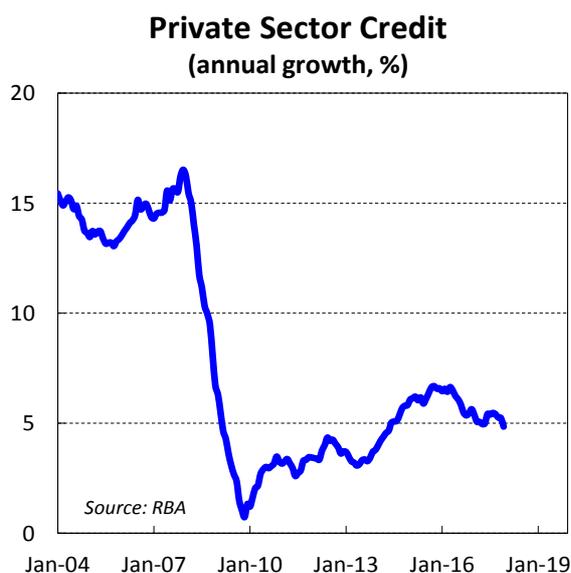


Private Sector Credit

Housing Slowdown Weighs In

- Private sector credit grew just 0.3% in December, following growth of 0.4% for two consecutive months. The annual pace of growth slowed from 5.2% in November to 4.8% in December, the slowest since May 2014.
- Much of the slowdown in credit growth reflects weaker conditions in the housing market. Housing credit grew 0.4% for a 6.3% annual gain. That was the weakest annual rate in a year. In particular, growth in credit for investor housing has softened considerably.
- Growth in other areas of credit was also soft in the month. Business credit grew 0.2% in December, and has been relatively weak in spite of elevated confidence and conditions reported among businesses in surveys. We note that weaker growth in credit may not necessarily translate into weaker spending, and that firm business conditions continue to suggest positive prospects for investment spending.
- Other personal credit remains the weakest form of credit and was flat over December. Annual growth continues to be in contraction, declining 1.1% in the year to December. High levels of household debt and slow growth in wages are resulting in an unwillingness by households to take on more personal debt.
- Overall, credit to the private sector is continuing to grow at a modest pace, and point to a moderate expansion in economic activity.



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Much of the slowdown in credit growth reflects weaker conditions in the housing market. Housing credit grew 0.4% for a 6.3% annual gain. That was the weakest annual rate in a year. In particular, credit for investor housing has softened considerably, growing at just 0.3% in December for a 6.1% annual gain. The negative impact of regulatory measures remains concentrated on investor demand. Regulatory measures are continuing to have a disproportionate negative impact on investor demand.

Growth in other areas of credit was also soft in the month.

Business credit grew 0.2% in December, and has been relatively weak in spite of elevated confidence and conditions reported among businesses in surveys. We note that weaker growth in credit may not necessarily translate into weaker spending, and that firm business conditions continue to suggest positive prospects for investment spending. The annual pace of growth eased from 4.2% to 3.2% in December.

Other personal credit remains the weakest form of credit and was flat over December. Annual growth continues to be in contraction, declining 1.1% in the year to December. High levels of household debt and slow growth in wages are resulting in an unwillingness by households to take on more personal debt.

Implications

Weaker conditions in the housing market are driving a slowdown in overall credit, particularly for investors. The weakening trend of housing credit is expected to continue although overall housing credit is still outpacing growth in incomes.

The discrepancy between soft business credit growth and strong business conditions is more of a puzzle. That being said, the elevated conditions and a pickup in investment intentions still provide positive prospects for business spending despite softer growth in business credit.

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The Detail

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