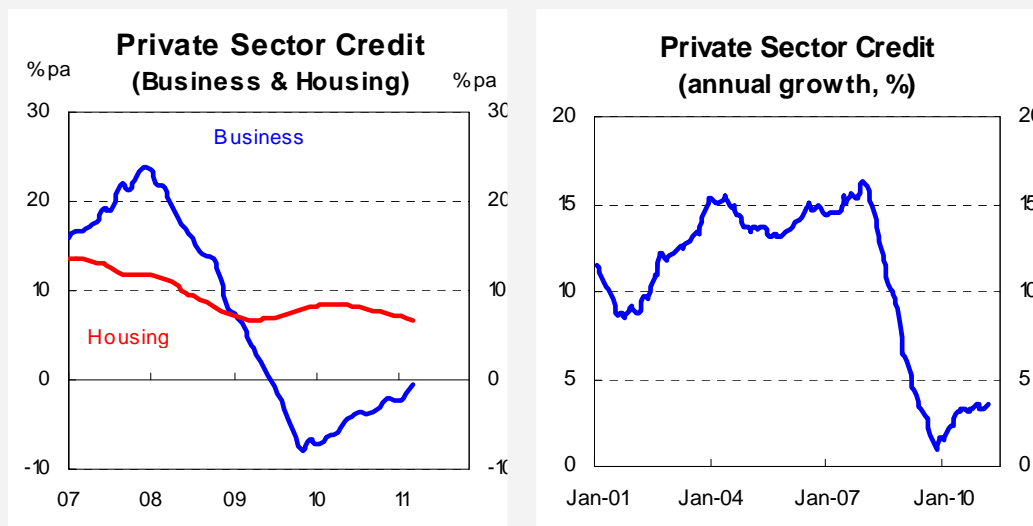


# DATA SNAPSHOT

## Private-Sector Credit – Tables Are Turning

Friday, 29 May 2011

- Credit to the private sector grew 0.6% in March, lifting the annual growth rate to 3.6%, the fastest pace in four months.
- The data reveals that the tables are turning. Housing credit is weakening after experiencing relatively strong growth over recent years but business credit is now trending higher after weakening significantly in the wake of the global financial crisis.
- Housing credit grew at its slowest annual rate in at least 35 years while business credit expanded at its fastest annual rate in nearly two years. Further, the growth in business credit over February and March was the strongest in nearly 2½ years.
- Other personal credit remains relatively subdued, reflecting the more cautious approach adopted by consumers to their finances.



Credit to the private sector rose by 0.6% in March, which matches the rise recorded in February. It takes the annual growth rate up from 3.4% to 3.6%, the fastest pace in four months.

The tables are turning in the credit data. Housing credit is weakening after experiencing relatively strong growth over recent years but business credit is now trending higher after weakening significantly in the wake of the global financial crisis (GFC).

Credit to the business sector posted a solid rise of 1% in March, after a strong 0.8% rise in February. The monthly percentage rise in March and the rise over the two months to March of 1.7% is the strongest in nearly 2½ years. Business credit had been soft for some time as businesses funded expansion activity from internal cashflows or via raising equity rather than borrowing. Today's data suggests that businesses are returning to borrowing, although not yet to the level of the past before the GFC. Businesses are still funding a large part of investment using internal cashflows.

Annual growth of business lending is still contracting; the contraction in March is 0.6%, however, this is a vast improvement from the contraction of 8% recorded in November 2009 when business lending was at its trough. With the strong growth expected in private capital expenditure, business lending should continue to recover through 2011.

Offsetting the strength in business credit was weak housing credit growth. Housing credit rose by only 0.4% with the annual rate slowing to 6.6% from 6.9% in February, the slowest annual pace since the data goes back to September 1976 (35 years). Both owner-occupier and investor credit were behind the weakness, rising 0.4% and 0.2%, respectively. This provides further evidence of weakening housing conditions, which has been reflected in moderating house prices. Historically low housing affordability is significantly weighing on house purchases. In particular, the last RBA rate hike in November where the variable mortgage rate increased about 40bps appears to have put a dent in demand.

Other personal credit was surprisingly solid, rising by 0.6% in March, although the series has been quite volatile of late. Looking through the volatility, annual growth was subdued at 1.0%. Weak retail spending suggests that households remain cautious therefore this series is also reflecting this.

Our forecasts for the cash rate remain unchanged. This credit data highlights the Reserve Bank has some breathing space to leave rates on hold in coming months. When we take into consideration this data combined with a wider range of partial economic indicators, we believe rate hikes in the second half of this year is on the cards.

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