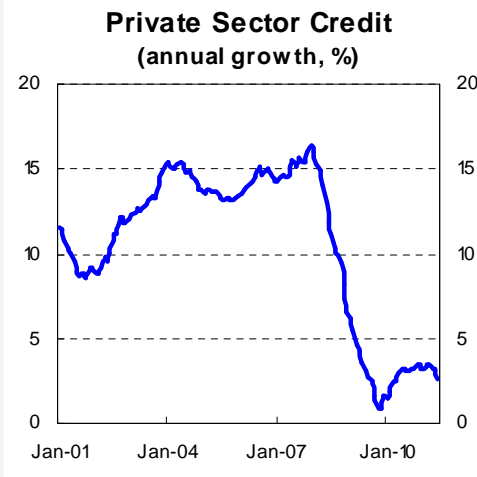
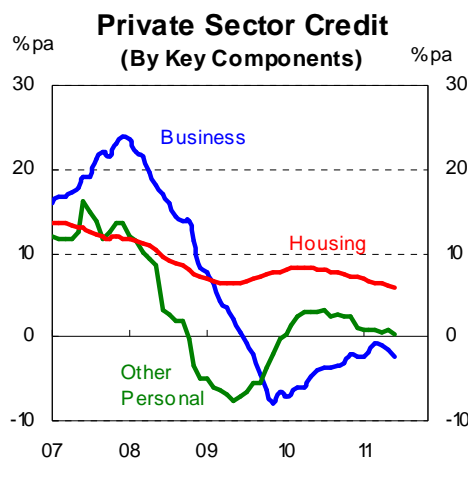


# DATA SNAPSHOT

## Private Sector Credit: Stuck in a Rut

Friday, 28 July 2011

- Private sector credit appears to be stuck in a rut and is showing weakness across all sectors. It fell 0.1% in June and 2.7% over the year to June, the weakest annual growth in a year.
- After a brief pick up at the beginning of the year, business credit is back on the decline. Business credit unexpectedly fell 0.7%, and is down 2.4% over the year. The weakness continues to be a little surprising given business investment remains strong. However, the slowing in business credit is consistent with a recent deterioration in business confidence amid heightened global tensions.
- Credit to households weakened further, suggesting household caution is deepening. Housing credit rose by a soft 0.3%, with the annual rate hitting a new low at 6.0%. Meanwhile, other personal credit declined 0.4% and has been in a decline for 3 consecutive months.
- Today's data adds to the case for the RBA to keep rates on hold in the near term. Growing downside risks to the global economy and these areas of weakness domestically against a backdrop of growing inflation suggests the RBA's decision on rates will be a close one next week. On balance, we expect the RBA to keep rates unchanged at 4.75% when it meets next Tuesday.



Credit to the private sector is clearly showing weakness across all sectors. In July, private sector credit declined by 0.1%, below expectations for a 0.4% rise. On a year-on-year basis, private sector credit rose by 2.7%, the weakest annual growth in a year.

After a brief pick up at the beginning of this year, business credit is back on the decline. Business credit fell 0.7% in June and is down 1.4% over the quarter to June and 2.4% over the year. This softness continues to be a little surprising as weak business credit is usually accompanied by weak business investment, although companies are able to fund projects internally, particularly in the cashed-up resource sector. There remains a large amount of investment in the pipeline according to the capex survey and construction engineering data. However, the slowing in business credit is consistent with a recent deterioration in business

confidence amid heightened global tensions.

Housing credit continues to be very weak, rising by 0.3% in June, reflecting soft housing conditions. The annual rate slowed further to 6.0%, the weakest annual rate since the data became available in 1976. Much of the weakness in housing credit was owing to investor housing, which rose by a paltry 0.2% in June, although owner-occupied housing credit was also soft, rising by 0.4%.

Other personal credit, which includes purchases on credit cards and personal loans, also saw a decline of 0.4%, and has declined for 3 consecutive months. Over the year to June, other personal credit rose by 0.3%, the weakest in 1½ years.

The weakness in household credit reflects ongoing caution by households. Further, consumer sentiment surveys suggest that the caution in households is deepening. The Westpac-MI consumer sentiment survey hit a two-year low in July amid heightened concerns about the global economy and uncertainty about the carbon reduction scheme. This suggests a turnaround by households is unlikely and will remain unwilling to take on more debt.

#### Reserve Bank Outlook:

The RBA has previously welcomed the caution by households on their borrowing as it makes room for the expansionary effect of the resource boom on the economy. However, the RBA has hinted that households are appearing more cautious than the RBA previously expected. The unanticipated slump in business credit will also weigh on the RBA's decision.

Today's data further adds to the case for the RBA to keep rates on hold. Growing downside risks to the global economy and these areas of weakness domestically suggest that the RBA is likely to remain sidelined for the time being.

That being said, the RBA is in a very difficult position following a high outcome for 2Q underlying inflation, and it would also be increasingly worried about building inflationary pressures. Thus there is a heightened chance of another tightening from the RBA, particularly if global worries recede. In the meantime, we expect the RBA to keep rates unchanged at 4.75% when it meets next Tuesday.

Janu Chan, Economist  
Ph: (02) 9320-5892

## Contact Listing

---

Chief Economist	Besa Deda	<a href="mailto:dedab@stgeorge.com.au">dedab@stgeorge.com.au</a>	(02) 9320 5854
Senior Economist	Josephine Heffernan	<a href="mailto:heffernanj@stgeorge.com.au">heffernanj@stgeorge.com.au</a>	(02) 9320 5751
Economist	Janu Chan	<a href="mailto:chanj@stgeorge.com.au">chanj@stgeorge.com.au</a>	(02) 9320 5854
State Manager SA	Mark Goldsmith	<a href="mailto:goldsmithm@banksa.com.au">goldsmithm@banksa.com.au</a>	(08) 8424 5597

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

\*\*\*\*\*

Any unauthorized use or dissemination is prohibited.

Neither BankSA - A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.

\*\*\*\*\*