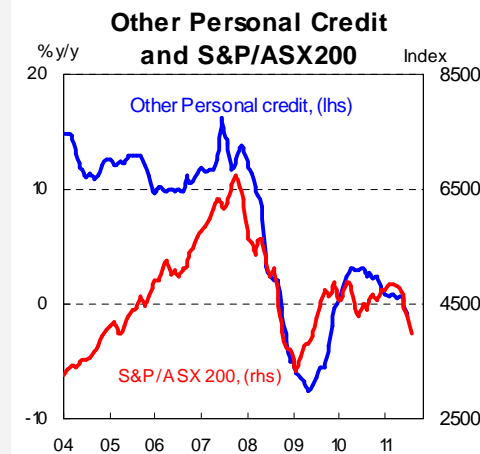
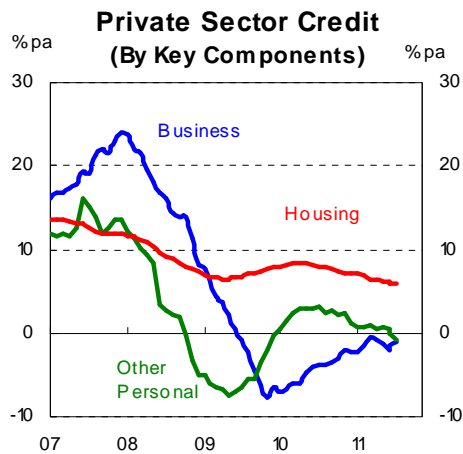


# DATA SNAPSHOT

## Personal Lending Takes a Hit

Friday, 30 September 2011

- Private sector credit growth continues to be subdued rising by 0.2% in August. On a year-on-year basis, private sector credit grew by 3.0%. Ongoing volatility in financial markets, suggests that caution is likely to continue for households and businesses, and that credit growth will likely remain subdued in coming months.
- Other personal credit, which includes purchases on credit cards and personal loans took a hit and declined by 0.9%. This was the biggest monthly decline since December 2008, during the worst of the GFC. The drop likely reflects an increase in margin calls in August amid heavy falls in share markets. Household caution is also weighing on housing credit, which rose by a soft 0.4% in August.
- Business credit was flat in August, and has not posted any growth for 5 consecutive months. Some of the recent weakness can be explained by a divergence by larger firms obtaining greater funding from corporate debt markets rather than debt issuance from financial institutions. But it also likely reflects softening business confidence and a continuation of firms reducing their leverage since the global financial crisis (GFC).
- The Reserve Bank is becoming increasingly worried about overseas developments and sovereign debt issues in Europe. Although it has recognised these downside risks to growth, it appears to be in “wait-and-see” mode. We expect the RBA to keep rates unchanged at 4.75% when it meets next Tuesday.



There were no big surprises in today's release for private sector credit. It grew by 0.2% in August, inline with consensus and our own forecasts. All sectors were subdued, however, other personal credit fell quite significantly as margin calls on share accounts likely increased. On a year-on-year basis, private sector credit grew by 3.0%.

Business credit was flat in August, and has not posted any growth for 5 consecutive months. Over the year to August, business credit fell 0.9%; the annual rate of growth for business credit has been in decline for just over 2 years.

Some of the recent weakness can be explained by a divergence by larger firms obtaining

greater funding from corporate debt markets rather than debt issuance from financial institutions. In the Reserve Bank's (RBA) September Financial Stability Review, it has noted that larger businesses have taken advantage of favourable conditions to issue debt in wholesale markets, with strong offshore demand for Australian debt. Corporate bond issuance was \$31bn in the year to August, \$18bn higher in the previous year. Subsequently, business lending held up better for smaller businesses.

That being said, the weakness also likely reflects softening business confidence and a continuation of firms reducing their leverage since the global financial crisis (GFC). Sectors such as manufacturing and retailing are facing challenging conditions as a result of the high Australian dollar and consumer caution.

Reflecting this caution, household credit (housing and other personal) was also weak.

Housing credit rose by 0.4% in August, and continues to reflect ongoing soft housing conditions. The annual rate slowed further to 5.8%, reaching another new low since the data became available in 1976. Both owner-occupier and investor housing credit were weak; occupier housing credit rose by 0.4% while investor housing rose by 0.3%.

Other personal credit, which includes purchases on credit cards and personal loans declined by 0.9%, the biggest monthly decline since December 2008, during the worst of the GFC. The drop likely reflects an increase in margin calls in August amid heavy falls in share markets. Although the ASX200 ended just 2.9% over the month of August 2011, volatility increased substantially. Over the year to August, other personal credit fell by 0.9%, the largest annual decline in just over 1½ years.

Weak consumer sentiment suggests that subdued growth in household credit is likely to continue. Although the Westpac-MI consumer sentiment improved in September, it remains below 100 and indicates that pessimists outweigh optimists.

#### Reserve Bank Outlook:

Today's data indicates that credit growth remains subdued, and provides further evidence that current financial conditions appear to be exerting restraint on the economy. Certain sectors are being squeezed by the high Australian dollar while heightened consumer caution is leading to weakness in the household sector.

The ructions in financial markets are likely to continue with European sovereign debt woes likely to linger for some time. Meanwhile, ongoing volatility in financial markets, suggests that caution is likely to continue for households and businesses, and that credit growth will likely remain subdued in coming months.

The Reserve Bank is becoming increasingly worried about these overseas developments. Although it has recognised these downside risks to growth, it appears to be in "wait-and-see" mode. 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

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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

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