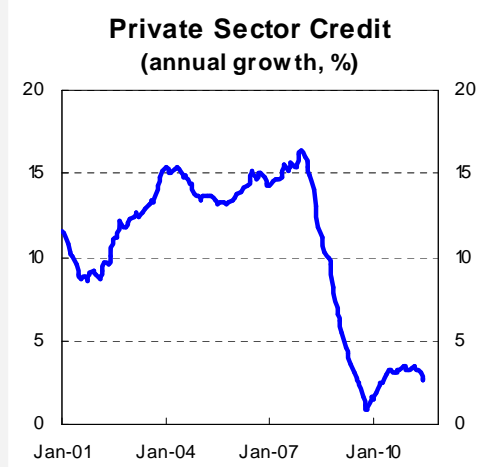
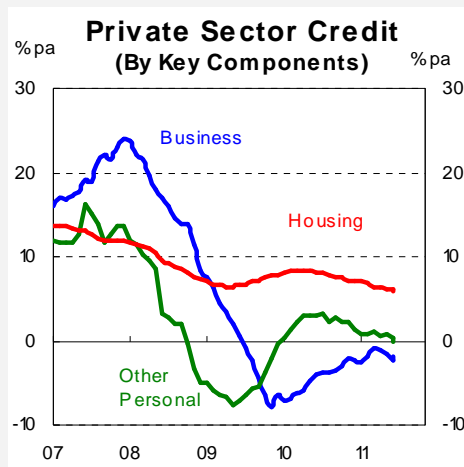


DATA SNAPSHOT

Private Sector Credit: Weakness Persists

Tuesday, 31 August 2011

- Weakness persists in private sector credit growth; rising by 0.2% in July. The softness was concentrated in business and other personal, although housing credit remains lacklustre. On a year-on-year basis, growth in private sector credit remained steady rising by 2.7%.
- Business credit was flat in July, and has not posted any growth for 4 consecutive months. Over the year to July, business credit fell 1.9%. Lacklustre growth in business credit is consistent with softening business confidence, and adds to evidence that certain sectors of the economy are doing it tough.
- Credit to households continues to be soft, as reflected in heightened household caution. Housing credit rose by a soft 0.4%, with the annual rate hitting a new low at 5.9%. Meanwhile, other personal credit declined 0.3% and has been in a decline for 4 consecutive months.
- Today's data provides further evidence that current domestic financial conditions appear to be exerting restraint on the economy. In addition, the global backdrop is seemingly more uncertain. While the RBA has recognised these downside risks to growth, it is clearly still worried about the inflation outlook. On balance, we expect the RBA to keep rates unchanged at 4.75% when it meets next Tuesday.



Weakness persists in private sector credit growth; rising by 0.2% in July. The result was inline with consensus and our own forecasts. The softness was concentrated in business and other personal, although housing credit remains lacklustre. On a year-on-year basis, growth in private sector credit remained steady rising by 2.7%.

Business credit was flat in July, and has not posted any growth for 4 consecutive months. Over the year to July, business credit fell 1.9%. Lacklustre growth in business credit is consistent with a softening business confidence, and adds to evidence that certain sectors of the economy are doing it tough. However, despite lacklustre growth in business credit, we still expect the resources sector to drive up business investment with most resources companies likely to have adequate internal funding for projects.

Housing credit continues to be soft rising by 0.4% in July reflecting ongoing soft housing

conditions. The annual rate slowed further to 5.9%, reaching a new low since the data became available in 1976. Both owner-occupier and investor housing credit were weak, but investor housing continues to be dragging the chain. Owner-occupier housing credit rose by 0.5% while investor housing rose by 0.3%.

Other personal credit, which includes purchases on credit cards and personal loans declined by 0.3% and has been in decline for 4 consecutive months. Over the year to July, other personal credit fell by 0.1%, the first annual rate of decline in 1½ years.

The weakness in household credit (housing and other personal) reflects ongoing caution by households. Consumer sentiment surveys such as the Westpac-MI consumer sentiment have fallen to two-year lows, suggesting that the caution by households is deepening. There is a risk that uncertainty about the global growth outlook and volatility in financial markets could weigh further on sentiment. This caution continues to suggest that a turnaround by households is unlikely and they will remain unwilling to take on more debt.

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.

Uncertainty about the fiscal positions in Europe and the US and the global economic outlook has caused extreme volatility in financial markets and could further weigh on confidence and therefore demand. This also suggests credit growth will likely remain subdued in coming months.

While the RBA has recognised these downside risks to growth, it is clearly still worried about the inflation outlook. On balance, we expect the RBA to keep rates unchanged at 4.75% when it meets next Tuesday and for the remainder of the year, with some risk that the next move may be a cut.

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