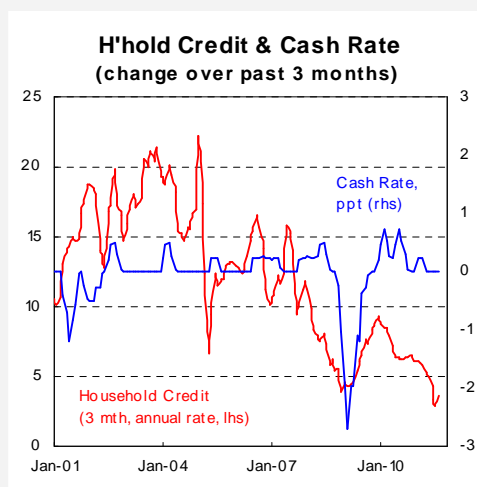
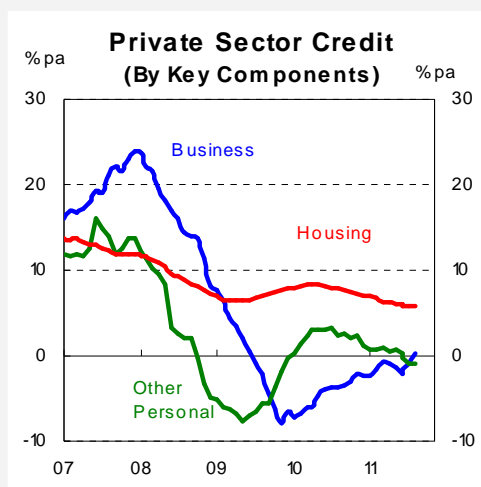


DATA SNAPSHOT

Private Sector Credit: A Turning Point?

Monday, 31 October 2011

- Private sector credit growth gained 0.5% in September, its largest monthly gain since March. After months of subdued results, this could possibly mark a turning point in private sector credit, with the likelihood of a rate cut from the Reserve Bank of Australia (RBA) this year boosting borrower sentiment. The annual rate of credit growth rose to 3.4% in September, which, despite an improvement, still reflects a subdued pace of credit growth.
- Business credit rose by 0.4% in September, taking the annual rate to 0.2%, the first annual increase in over two years. The pick up is in line with an improvement in business confidence in September.
- Other personal credit, which includes purchases on credit cards and personal loans partially rebounded, gaining 0.4% in September, after falling 1.1% in August, its third consecutive monthly decline.
- Housing credit rose a solid 0.5% in September, however, this still left the annual rate unchanged at a 5.8% increase, its equal lowest since 1976, when the data became available.
- Today's data add to a range of partial indicators that provide a tentative sign of economic activity picking up. However, these same indicators are still showing a weak trend. Further, a much weaker than expected underlying inflation outcome for Q3 should allow the RBA some room to lower interest rates. We expect the RBA to lower rates by 25bps to 4.50% when it meets tomorrow, although its decision will likely be a close one.



Private sector credit rose by 0.5% in September, stronger than consensus expectations for a 0.3% rise and the strongest monthly increase in six months. Annual growth lifted to 3.4% from 3.0% previously, but still reflects a slow pace of growth. After months of subdued results, this could possibly mark a turning point in private sector credit, with the likelihood of a rate cut from the RBA this year boosting borrower sentiment. The better than expected outcome reflects a pick up in growth of business and other personal credit, although credit growth for all sectors still remain subdued.

Business credit rose by 0.4% in September, taking the annual rate to 0.2%, the first annual

increase in over two years. The pick up is in line with an improvement in business confidence in September. Further, the Australian dollar fell 10.5% over September, which would have boosted exporters' confidence. In addition, interest rates for fixed rate loans have fallen over the past few months. However, it is probably too early to confirm that business credit growth is making a turnaround given firms are overall still pessimistic. In addition, the Australian dollar, which has since rebounded from its lows in September, is still likely to weigh on manufacturers and other exporters outside of mining.

Household credit (housing and other personal) showed more vigour in September, as the RBA softened its stance and the media increasingly began to focus on the possibility of an interest rate cut from the RBA this year. Housing credit rose 0.5% in September, well below the monthly average increase of 1.0% seen in the past ten years. The annual rate held at 5.8%, its lowest since 1976, when the data became available. Owner-occupied housing rose 0.5%, taking the annual rate up to 6.4% in September. Meanwhile, investor housing credit gained 0.4%, and edged down to 4.6% in the year to September, compared to a ten-year average annual growth rate of 13.6%.

Other personal credit, which includes purchases on credit cards and personal loans rose 0.4% in September, following a large decline of 1.1% in August. Over the year to September, other personal credit growth fell 0.9%, equalling its August result, which was the lowest in more than 1½ years.

Westpac consumer sentiment rose 0.4% in October, after jumping 8.1% in September, however, it is at a level consistent with the Australian consumer remaining pessimistic (at a reading of 97.2, it is still below the 100-level, indicating more consumers are pessimistic than optimistic.) The still weak level of consumer sentiment and softness in dwelling prices are likely to continue to weigh on credit growth, however, a rate cut from the RBA would be expected to provide a boost to consumer sentiment and credit growth.

Reserve Bank Outlook:

Today's data add to a range of partial indicators that provide a tentative sign of economic activity picking up. Along with today's private credit data, retail sales, employment and building approvals data all improved recently. Further, confidence in financial markets has partially recovered on the announcement of the EU plan to tackle its sovereign debt issues. However, these domestic indicators are still showing a weak trend, and concerns about Euro zone sovereign debt remain. Further, a much weaker than expected underlying inflation outcome for Q3 (released last week) should give the Reserve Bank of Australia (RBA) some room to lower interest rates. We expect the RBA to lower rates by 25bps to 4.50% when it meets tomorrow, although its decision will likely be a close one.

Jo Heffernan, Senior Economist
Ph: (02) 9320-5751

&

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

Contact Listing

Chief Economist	Besa Deda	dedab@stgeorge.com.au	(02) 9320 5854
Senior Economist	Josephine Heffernan	heffernanj@stgeorge.com.au	(02) 9320 5751
Economist	Janu Chan	chanj@stgeorge.com.au	(02) 9320 5854

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