Economic update

30 April 2008

Australian credit growth rebounds marginally

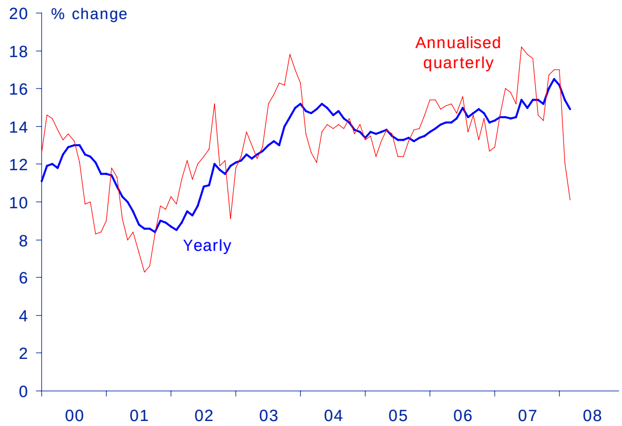
Key points

- Total private sector credit rose by 0.8% in March. Annual growth in private sector credit remains solid at 14.9%.
- Housing credit expanded by 0.8% in March, leaving annual growth at 11.2%. Credit growth to owner occupiers was up 1.0% in the month (up 12.0% in the year). Whereas, credit growth to investors grew at only 0.5% in the month (up 9.5% in the year).
- Business credit growth rebounded to be up 0.9% in the month from a weak February figure. Annual growth remains strong at 21.4% over the year.
- Personal credit fell by 0.2% in the month, taking annual growth to 9.8% over the year.

Total private sector credit increased by 0.8% in March (last month's figure of 0.7% growth was revised downwards to 0.6%), with annual growth remaining solid at 14.9%. March's credit growth figures rebounded from February but still remain relatively soft in comparison to 2007 primarily due to weaker business and personal credit growth as higher interest rates bite. Housing credit growth continues to hold up relatively well.

Credit growth eases in February

Total private sector credit

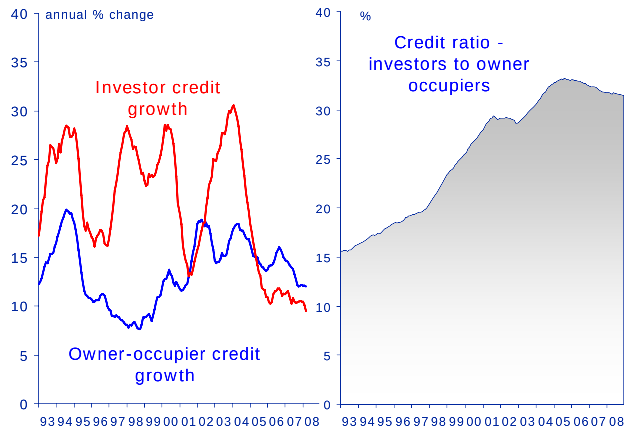


Sources: RBA, Economics@ANZ

Housing credit grew by 0.8% in March, to be 11.2% higher over the year. The strong demand for housing from owner-occupiers has kept credit growth in this segment well supported, increasing 1.0% in the month and 12.1% in the year. Conversely, higher borrowing costs and low rental yields have continued to deter investors, with credit growth to this segment running at only 0.5% in the month and 9.5% through the year. Record low vacancy rates in most capital cities will continue to prompt double digit rental growth for the foreseeable future. It will take higher rents to push yields back to reasonable levels before we see any significant rejuvenation of the investor segment in to the residential housing market. However, booming rents and moderating house price growth will see yields improve in the year ahead.

Investors deterred, owner-occupiers hold firm

Owner occupier & investor credit

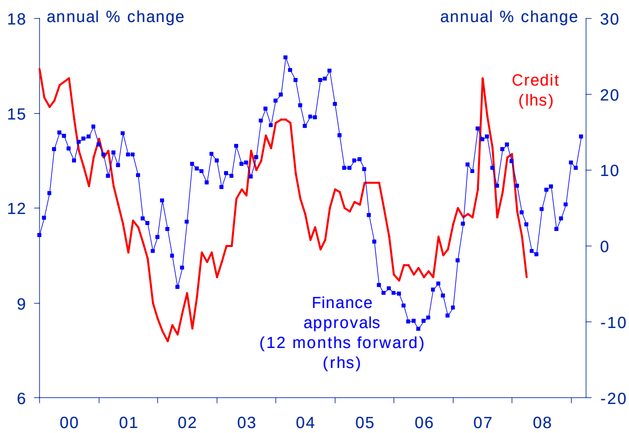


Sources: RBA, Economics@ANZ

Personal credit fell 0.2% in March, taking annual growth to 9.8% (last month's 0.1% fall was revised to a 0.1% rise). The recent softness in personal credit is mainly due to a higher rate of repayments from borrowing that went into superannuation last year, as well as falls in the stock market prompting those receiving margin calls to 'top-up' their loans. However, a strong pick up in the demand for personal finance suggests that personal credit growth may prove more resilient to higher interest rates going forward than today's credit figures may suggest.

Personal credit growth easing

Personal credit and finance approvals



Sources: RBA, ABS, Economics@ANZ

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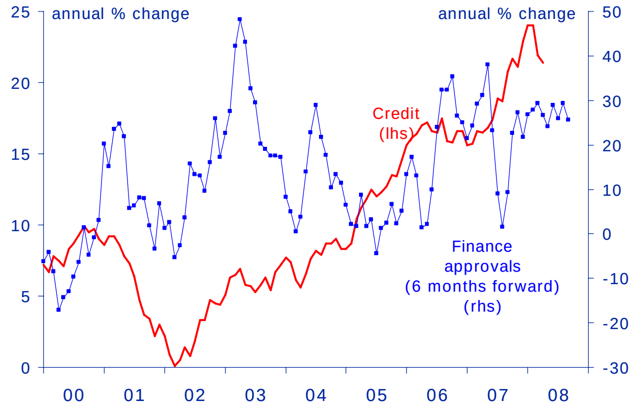
Business credit growth weakened again this month to be up 0.9%, well below the 1.8% average monthly growth rate since January 2007. Yet annual growth remains strong at 21.4% over the year. The trend towards re-intermediation seems to have softened recently despite direct financial market funding continuing to be squeezed by global financial market instability. Increases in business lending rates, which have risen due to financial institution funding costs, have seen businesses pull back from adding significantly to their debt levels. Further, increasing concerns of a slowing in the domestic economy are also dampening credit growth in this sector with market reports suggesting business sentiment has fallen sharply.

Stellar growth beginning to slow?

Business credit and finance approvals



Sources: RBA, ABS, Economics@ANZ

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