

Credit growth still soft – but relief on the way

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Key Points

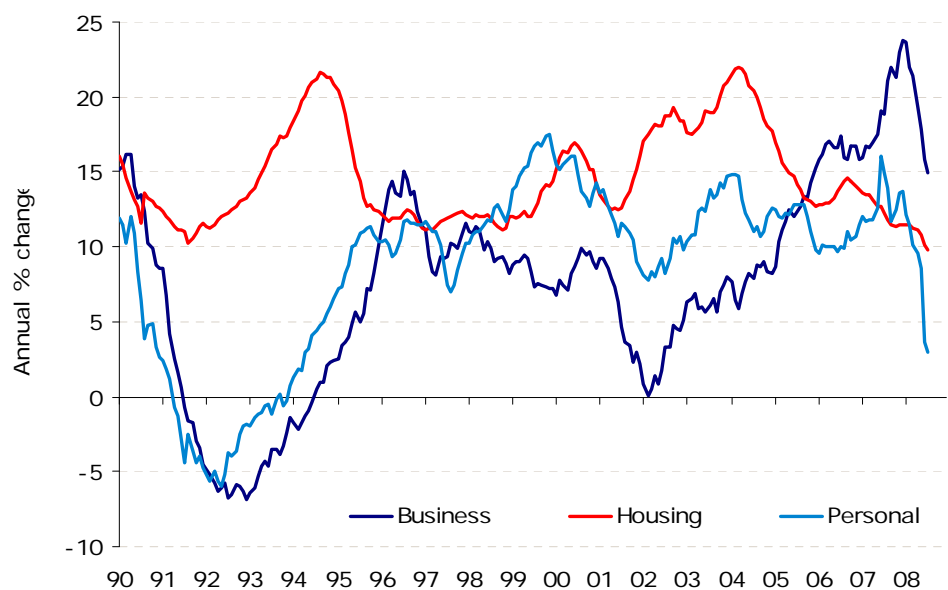
- Total private sector credit rose by 0.5% in July (11.2% through year), in line with the market expectation of 0.5% in the month.
- Housing credit expanded by 0.5 % in July (9.8% through year).
- Business credit growth rebounded, rising 0.7 % in the month (15.0% through year).
- Personal credit was again very weak contracting 0.7 in the month (3.0% through year). This was the largest single month fall since December 1991.
- Expected interest rate cuts in coming months should go some way to easing the downward pressure on credit growth into 2009.

Key Figures

	Credit (\$bn)	Monthly change (%)	Annual change (%)
Housing	967.0	0.5	9.8
Owner Occupier	663.2	0.5	10.4
Investor	303.8	0.4	8.4
Business	753.3	0.7	15.0
Personal	153.4	-0.7	3.0
Total Credit	1,873.8	0.5	11.2

Source: RBA

Figure 1: Annual credit growth by sector



Source: RBA

Credit growth again soft but some hope in sight

Unsurprisingly private sector credit growth figures for July were again soft. High interest rates, weak sentiment and a slow down in the economy have seen the demand for credit from both businesses and households slow markedly.

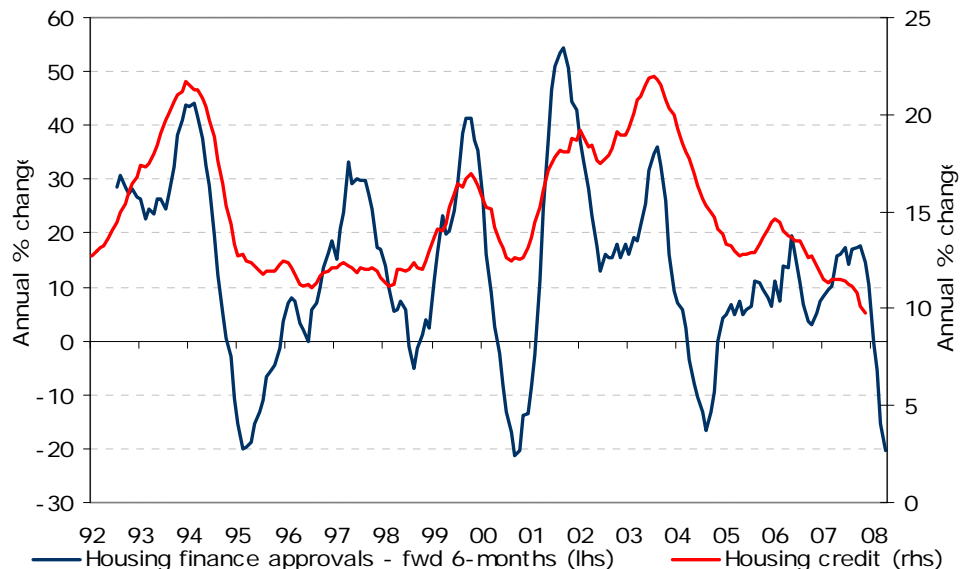
The peak in mortgage rates and negative sentiment towards the property market has seen housing finance approvals plummet for several months and this is now weighing heavily on housing credit growth. Housing credit growth is now at its weakest level since late-1986. This will give renewed ammunition to those calling for the RBA to cut by 50bps next week. In our view, a more measured approach from the RBA seems likely (particularly in light of yesterday's very strong business investment figures). What today's data does is confirm that a 25bps cut is on the way next Tuesday at 2:30pm

Today's credit data also showed that consumers are pulling back on spending as pressures on household budgets build. Weaker motor vehicle sales (in part due to the institution increases to the luxury car tax), less purchases on credit cards and evaporating interest in margin trading have seen consumer credit contract further this month. This was the largest monthly fall in personal credit since 1991 – when the economy was in recession.

Ongoing tighter credit conditions and a slowing economy have also kept growth in business credit subdued in July. That said, yesterday's strong business investment intentions data (which implied double-digit growth in business investment next year) suggests we could see a pick up in business credit over the coming year.

The expectation of interest rate cuts in coming months should serve to stabilise credit growth in late 2008. We then anticipate that credit growth should begin to show signs of a turnaround in 2009 as interest rates are cut further and conditions and sentiment begin to improve.

Figure 2: Housing finance approvals lead housing credit growth down



Source: RBA, ABS



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