

Australian private credit: stirs, as business decline moderates

December: 0.3% mth, 1.5%yr

- **Credit to the private sector expanded by 0.3% in December, the strongest monthly result since January. Notably, business credit, after three surprisingly weak numbers, declined at a more modest pace.**
- **Credit increased by just 1.5% in 2009, well down from a 6.8% rise in 2008 and from a brisk 16.3% increase in 2007.**
- **Business, focusing on strengthening balance sheets, continue to lower gearing ratios. Business credit contracted by 0.2% in December. That was a marked improvement from the surprisingly weak 3.8% contraction over the three months prior.**
- **Housing credit increased by 0.7% in the month, a step-up from the pace of late 2008. Credit growth to owner-occupiers has moderated fractionally as new lending to First Home Buyers losses altitude, with the winding back of the additional government bonus.**
- **Investor housing credit growth stepped up over the second half of 2009, suggesting some easing of credit constraints.**
- **Going forward, we expect a gradual firming of credit growth through 2010 from that in 2009 and then a stronger tone through 2011, against the backdrop of improving national income. While monetary policy is becoming less expansionary the RBA is unlikely in the near-term to shift policy to a restrictive stance.**

Credit to the private sector lost momentum through 2008, extending into 2009. First, the RBA's aggressive tightening of monetary policy hit the housing sector. Then, the global credit crisis / world recession further slowed growth as households and business became more cautious about debt levels.

While Australia's economic performance has exceeded all expectations, there has been a substantial negative income shock. Nominal activity contracted for three consecutive quarters, before increasing by 0.9% in the September quarter, to see annual growth slump to -2.0%. This weakness in national income greatly reduced households and businesses ability to borrow. It is not surprising then that private credit growth slowed appreciably (see chart opposite).

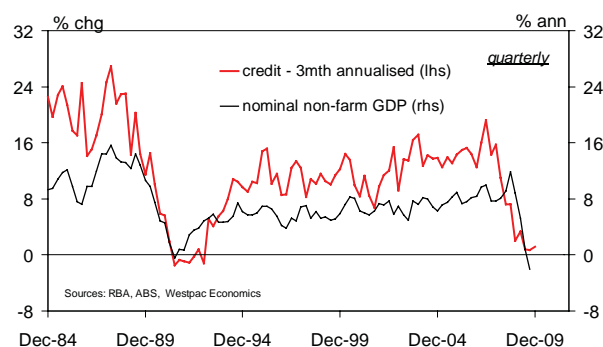
Total credit growth over the year to December was 1.5%. On a 3 month annualised basis growth rebounded to 1.2%, boosted by the firmer result in December. That was the weakest result for a calendar year since the 0.5% decline in 1992, in the wake of the early 1990s recession.

Credit – December 2009

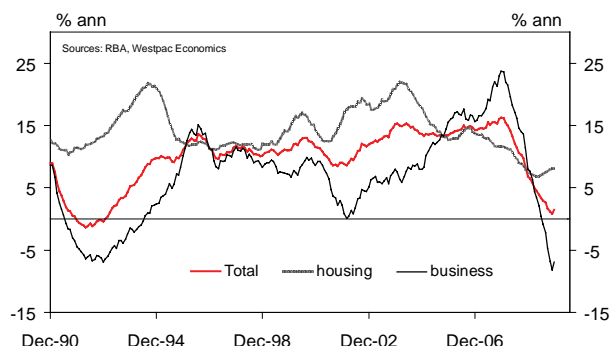
% chg	mth		ann	
	Nov	Dec	Nov	Dec
Total credit (share)	0.1	0.3	0.9	1.5
Housing (56%)	0.7	0.7	8.1	8.2
Other personal (7%)	0.5	0.7	-1.9	-0.4
Business (37%)	-1.0	-0.2	-8.2	-7.0

Source: RBA

Credit & income growth: sharp slowdown



Credit: the mix



The business sector, adjusting to the deterioration in profitability, is driving the weakness in overall credit. Firms cut investment over the first three quarters of 2009 and have lowered gearing against the backdrop of tighter lending standard. However, business credit only tells part of the story. Firms have been able to raise funding in the equity market and, more recently, some initial direct capital raising. This access to funding and the rebound in confidence suggest that while business credit is likely to be subdued for some time yet, the outlook for business investment is not as negative as appeared to be the case a few months ago.

Business credit declined by 0.2% in December, a rate of decline that appears more plausible given the improving general economic backdrop and follows a surprisingly sharp 3.8% contraction over the three previous months. For the year, business credit contracted by 7.0% (a slight improvement from -8.2%yr in November). The downturn in business credit in this cycle exceeds that in the 1990s. The low point in that episode was -6.9% in December 1992.

We would also note that business credit tends to lag the economic upturn. This reflects the tendency for business investment to lag the recovery and the ongoing process of balance sheet repair.

Personal credit is past the worst, with a 0.7% rise in the month. That was the 5th consecutive rise, following 16 negatives in the previous 19 months. The turnaround in personal credit comes as wage incomes strengthen on a sharp rebound in the jobs market, as consumer confidence rides high and with the share market well up from earlier lows.

Housing credit increased by 0.7% in the month and 3 month annualised growth was around 9%, which is up from a low of 6% late in 2008

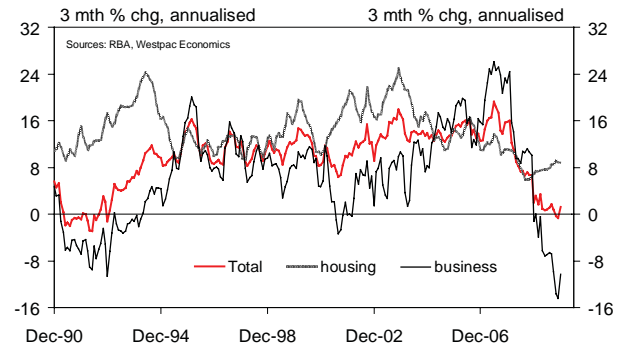
We would highlight and agree with RBA comments on housing credit in the minutes of the October Board meeting. The RBA noted that: "Housing loan approvals in recent months had been well above the lows seen in 2008. However, growth in housing credit had not picked up much, implying that net repayments had risen. This probably reflected the fact that many households with home loans had not sought to lower their monthly payments when mortgage rates had fallen and had instead paid down their loan balances ahead of schedule. This would reduce the vulnerability of that part of the household sector to rising mortgage rates."

Within housing credit, a considerable wedge between the momentum in the owner-occupier and the investor segments was apparent. It is to be expected that owner-occupiers lead the housing sector upswing. That trend was reinforced by Government incentives to First Home Buyers.

The positive news is that credit constraints to Investors appear to be easing. Investor credit growth, while not strong, is now reasonably robust, with a 0.5% rise in December. The 3 month annualised pace has accelerated to 6.6%, a sharp improvement from 2.0% mid-2008 (see chart opposite).

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Credit momentum



Housing credit: investors returning

