

Australian private credit: moving through a soft spot July: 0.1% mth, 2.8%yr

- **Credit to the private sector expanded by only 0.1% in July, following a 0.2% rise in June, indicating some loss of momentum from the recovery evident over the first half of this year.**
- **This is most likely a temporary soft spot. The RBA is now on hold and positive fundamentals point to business credit turning the corner over the year ahead. Notably, Australia is enjoying a significant income boost from a rising terms of trade. That is likely to lift annual nominal GDP growth to 10% through 2010, up from 1% through 2009.**
- **Business credit, which is volatile from month to month, declined by 0.4% in July. However, over the last three months a picture of stabilisation is evident - as has been the case since the end of 2009.**
- **Housing credit was subdued in July, increasing by 0.5%. While representing an improvement from the 0.4% rise in June, it is clear that a lessening of stimulus has had a material impact.**

The current 3 mth pace of credit growth has moderated to 3.3%, down from 5.3% in March, but well up from -0.5% last November.

The business sector is the major driver of the overall credit cycle. Business credit contracted by -8.4% over the year to November, a weaker outcome than the low point of the early 1990s cycle. Three month annualised growth improved to -0.1% in July. With balance sheet strengthening well advanced, profits on the rise and investment set to increase, a further improvement is expected.

Housing credit growth eased to a 3mth annualised pace of 6.3% in July, down from around 9% in March.

For owner-occupier credit, the 3 mth annualised growth pace has slowed to 5.9%, down from 10.8% last October. Six rate rises from the RBA over the 8 months to May and reduced government incentives for FHBS have had an impact. With interest rates now stable and household incomes rising, demand should begin to firm.

Investors have been returning to the housing market in greater numbers in 2010. This increased demand and some easing of finance conditions triggered a strengthening of investor credit growth this year. However, there was a dip in new lending figures in June and that weighed on July credit. Investor credit increased by 0.5% in the month, down from 0.6% in both June and May. The 3 month annualised pace for Investors is now 7.2%, still well up from the low of 2.2% in mid-2009 (see second chart).

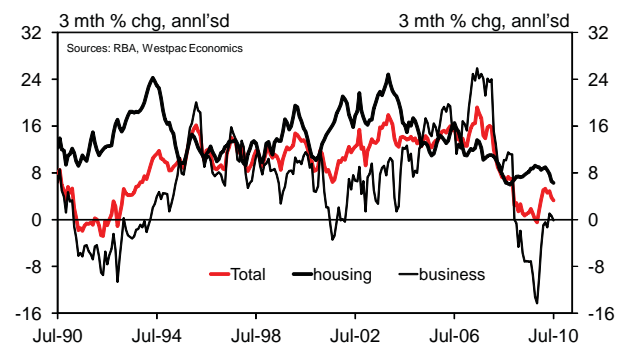
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Credit – July 2010

% chg	mth		ann	
	Jun	Jul	Jun	Jul
Total credit (share)	0.2	0.1	2.9	2.8
Housing (58%)	0.4	0.5	8.3	8.1
Other personal (7%)	-0.3	0.0	3.0	3.2
Business (35%)	-0.1	-0.4	-5.0	-5.0

Source: RBA

Credit: gradual upswing



Housing credit: investors return

