

31 January 2012

Australian private credit: Three years on ... sub-par growth persists December: 0.3%*mth*, 3.5%*yr*

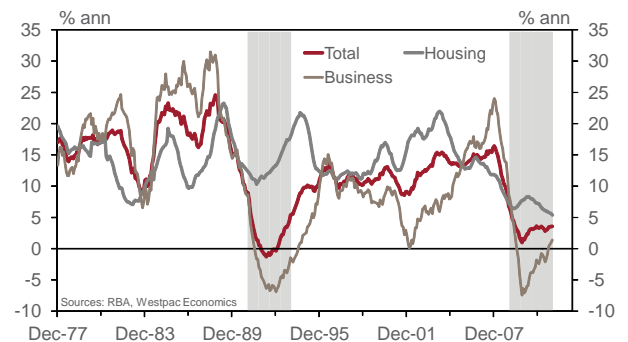
- Credit to the private sector advanced by 0.3% in December, a gain in line with the average monthly pace over the last year.
- For 2011, credit growth came in at 3.5%. This was all but unchanged from the 3.4% rise through 2010, but an improvement from a rise of only 1.6% through 2009.
- Notably, the persistence of sub-par credit growth is more protracted than in past cycles. By way of comparison, the early 1990s recession episode witnessed weaker credit growth for the first two years (-0.2% for 1991 and -0.4% for 1992) but by the third year a more marked improvement was underway (5.4% through 1993).
- There was a shift in the mix of credit growth during 2011. Housing lost momentum, growth through 2011 was 5.4%, down from 7.2% for 2010. While business credit turned the corner but remained weak, advancing by 1.4% through 2011 following a decline in 2010 of -2.2%.
- The housing sector faces a number of headwinds. As a result housing finance is at a relatively low level and housing credit growth is weak by historical standards. For the month of June 2011 housing credit rose by just 0.35%, the weakest (nominal) monthly rise in the history of the series (back to 1976), with the exception of just July 1984.
- Indeed, monthly housing credit growth slipped to just 0.36% in December, from 0.44% for November. Most likely many people maintained the level of their mortgage payments despite the reduction in interest rates.
- Weakness of the investor housing market is notable. The current three month pace for investor credit is just 3.9% annualised, compared with 5.4% for owner-occupiers.
- Business credit turned the corner during 2011 but remained weak and growth is well below that of business investment (see chart overleaf). At this stage, firms have largely relied upon internal funds to finance a lift in business investment expenditure.
- Looking ahead, we expect the RBA to lower interest rates further, following cuts in November and December. This series of rate reductions will provide some relief to the housing market, however a strong upswing is unlikely. That points to a firming of general economic conditions and credit growth from around mid-2012.

Credit: December 2011

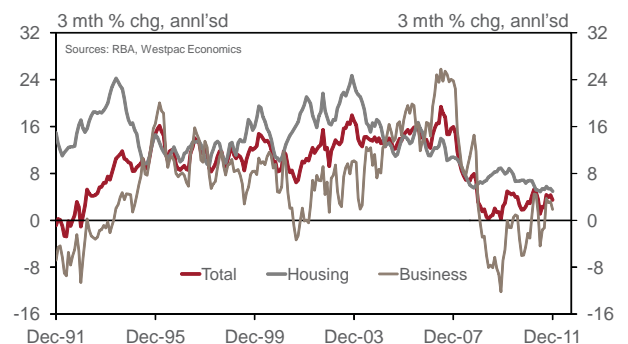
% chg	<i>mth</i>		<i>ann</i>	
	Nov	Dec	Nov	Dec
Total credit (share)	0.3	0.3	3.6	3.5
Housing (58%)	0.44	0.36	5.6	5.4
Other personal (7%)	0.1	-0.1	-1.1	-1.0
Business (35%)	0.2	0.3	1.0	1.4

Source: RBA.

Credit mix: annual growth



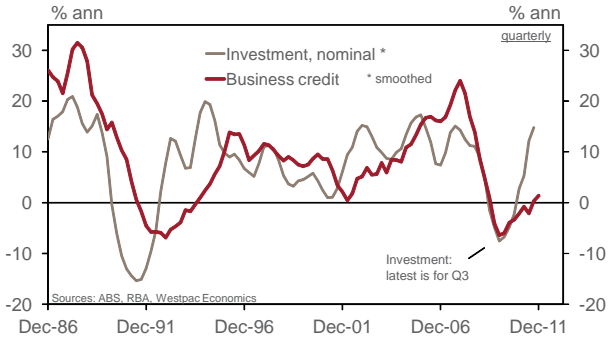
Credit momentum



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Business credit: small rise in 2011



Housing credit: soft ahead of rate cuts

