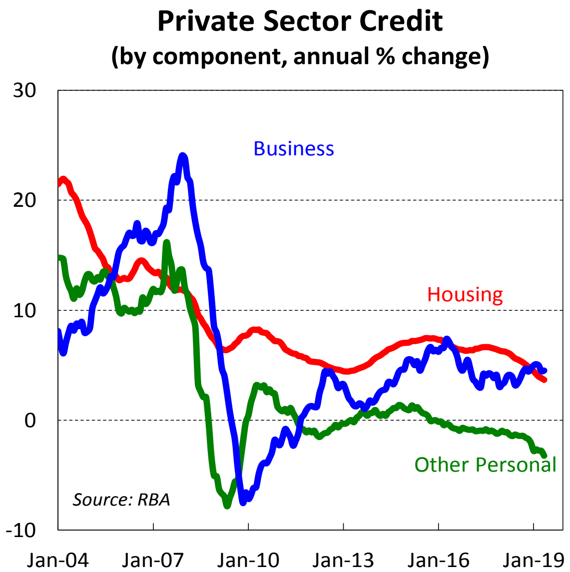
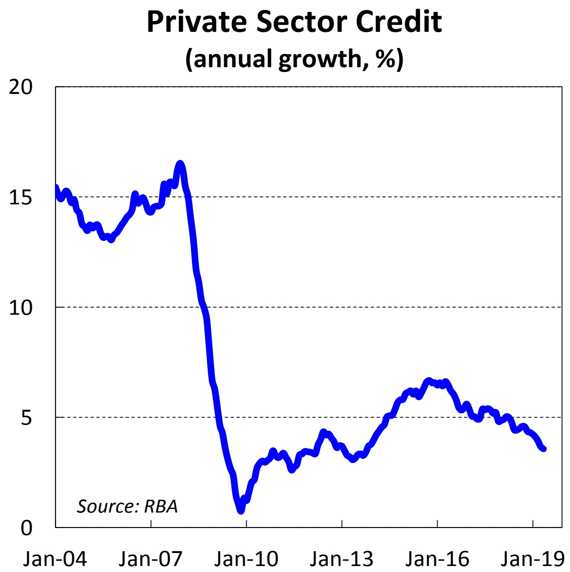
Friday, 28 June 2019

Private Sector Credit

Weakness on All Fronts

- **Credit to the provide sector remained very weak in May, rising 0.2% in the month and 3.6% in the year. It was the weakest annual pace in just under six years.**
- **Strong business conditions in recent years have provided support to a moderate pace of growth in business credit. However, a deterioration in business conditions since the middle of last year appears to be now translating into softer growth in credit. Business credit has barely seen any growth over the last two months, and grew just 0.1% in May.**
- **Housing credit grew just 0.2% in May, suggesting that demand for housing remains lacklustre. There continues to be weak lending growth for housing despite more positive signs from auction clearance rates and an easing in price declines. While a bottoming out in prices is on the horizon, soft credit growth suggests a turnaround is not likely any time soon. The annual pace of growth eased from 3.8% in April to 3.7% in May, which was the weakest available data, since 1976.**
- **The weak growth in credit corresponds with the loss of momentum in the domestic economy since the second half of 2018. Some confidence among businesses and households appears to have been restored post the federal election, however, there are some more long-lasting headwinds, including the ongoing global trade tensions, weak income growth and high household debt levels.**





Credit to the provide sector remained very weak in May, rising 0.2% in the month and 3.6% in the year. It was the weakest annual pace in just under six years, and reflects the current soft pace of domestic demand.

There was ongoing weakness in all areas of credit.

Strong business conditions in recent years have provided support to a moderate pace of growth in business credit. However, a deterioration in business conditions since the middle of last year appears to be now translating into softer growth in credit. Business credit has barely seen any growth over the last two months, and grew just 0.1% in May. In the year, business credit grew just 3.6%, the slowest since October 2013.

Housing credit grew just 0.2% in May, suggesting that demand for housing remains lacklustre. There continues to be weak lending growth for housing, despite more positive signs from auction clearance rates and an easing in price declines. While a bottoming out in prices might be on the horizon, soft credit growth suggests a turnaround is not likely any time soon. The annual pace of growth eased from 3.8% in April to 3.7% in May, which was the weakest available data, since 1976.

Investor credit dragged down overall growth, which was flat in May, and has not had any growth for five consecutive months. Meanwhile, owner-occupier credit grew just 0.3% in May

The other major category of credit is “other” personal credit, which includes credit cards and personal loans. This form of credit contracted 0.6% in May, and has been in decline for 11 consecutive months. The strain on households from high levels of debt and weak income growth is weighing on credit growth in this area, and suggests that household spending is likely to remain a key downside risk for the domestic economy.

The weak growth in credit corresponds with the loss of momentum in the domestic economy since the second half of 2018. Some confidence among businesses and households could be restored post the federal election, however, there are some more long-lasting headwinds including the ongoing global trade tensions, weak income growth and high household debt levels.

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