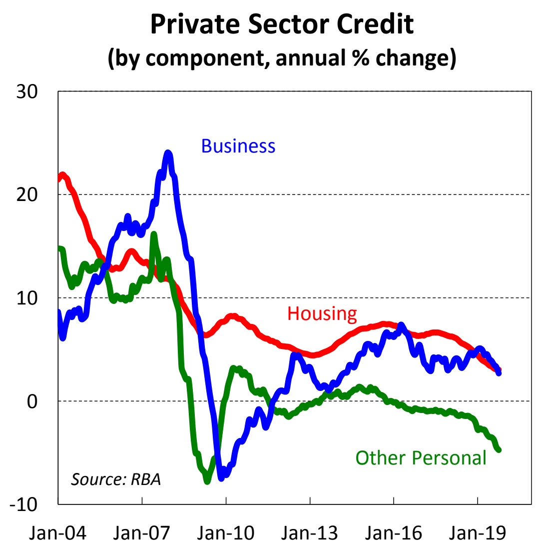
Data Snapshot

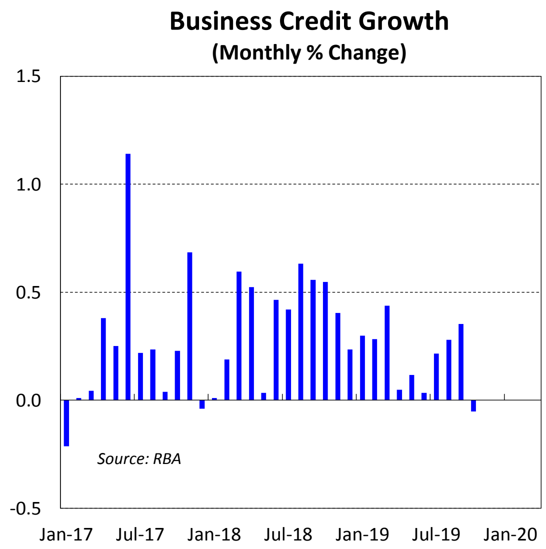
Friday, 29 November 2019

Private Sector Credit

What is Slower than Slow?

- **Credit growth in the private sector slowed further in October, to just a 0.1% monthly pace. It was the weakest in four months.**
- **Much of the slowdown reflected a 0.1% contraction in business credit, the first decline since January 2017. The annual pace has eased to 2.7% in October, the softest since April 2014. The weakness in business credit growth also corresponds with fragile business confidence and the notable softening in business investment, particularly in services.**
- **Housing credit growth picked up a touch from 0.2% growth in September to 0.3% in October. While some pick up was expected given the recovery in the housing market and the lift in new lending, housing credit growth remains subdued. The annual rate stepped down to 3.0%, the slowest since this data series began in 1976. It suggests that householders are using savings from lower interest rates to help pay down their mortgages.**
- **The soft pace of credit growth is consistent with weak growth in the domestic economy. With businesses feeling cautious given the global environment and ongoing headwinds for the consumer, this reluctance to invest and spend is likely to continue. Nonetheless, rate cuts and the prospect of more will provide some support and in time, this is likely to flow through to borrowing, particularly to the housing sector.**





Credit growth in the private sector slowed further in October, to just a 0.1% monthly pace. It was the weakest in four months.

Much of the slowdown reflected a 0.1% contraction in business credit, the first decline since January 2017. While lending to businesses can be quite lumpy, there has been a broad slowing over recent months. Indeed, the annual pace has eased to 2.7% in October, the softest since April 2014. The weakness in business credit growth also corresponds with fragile business confidence and the notable softening in business investment, particularly in services.

Housing credit growth picked up a touch from 0.2% growth in September to 0.3% in October. While some pick up was expected given the recovery in the housing market and the lift in new lending, housing credit growth remains subdued. The annual rate stepped down to 3.0%, the slowest since this data series began in 1976. It suggests that householders are using savings from lower interest rates to help pay down their mortgages. There was further evidence that owner-occupiers are more active in this current recovery. Credit to owner-occupiers grew 0.3%, outpacing credit to investors, which was flat.

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 October, and has been in decline for 13 consecutive months. On an annual basis, private sector credit contracted 4.7% in the year. Personal credit has been contracting as households repair their balance sheets amid high household debt and slow wages growth.

The soft pace of credit growth is consistent with weak growth in the domestic economy. With businesses feeling cautious given the global environment and ongoing headwinds for the consumer, this reluctance to invest and spend is likely to continue. Nonetheless, rate cuts and the prospect of more will provide some support and in time, this is likely to flow through to borrowing, particularly to the housing sector.

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