

# Australian private credit: constrained by business weakness

## March: 0.1%<sub>mth</sub>, 4.9%<sub>yr</sub>

- Credit to the private sector was little changed in March, inching 0.1% higher after a flat result in February.
- A contraction in business credit is the source of weakness, with a 0.6% fall in March after a 0.5% decline in February. The outlook is for further declines in this segment as firms cut back on investment.
- Housing credit growth is improving, albeit gradually, as owner-occupier demand for housing finance recovers. Housing credit increased by 0.65% in the month.
- Going forward, while the RBA's recent sharp cuts to interest rates are a positive, we expect credit growth to be constrained by the weak economic environment - in particular, by business cutting back on spending and credit.

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 their debt levels.

Annual credit growth was 4.9% in March, down from 15% a year ago. That is the softest annual pace since late 1993, in the aftermath of the early 1990s recession.

The downturn in the business segment is expected to constrain overall credit growth in 2009 and that was the case in February and March. With the non-farm economy contracting since mid-2008, and contracting further in the first half of 2009, it is reasonable to expect business to cut costs and limit borrowing. By way of historical comparison, the last two downturns in business credit were the post-GST period, when annual growth slowed to zero and the 1990s recession, with a low of -6.9%<sub>yr</sub> in Dec 1992.

Housing credit has gradually accelerated, expanding by 0.65% in March, up from around 0.50% last August. Sharply lower interest rates and the First Home Buyer Scheme have triggered a rebound in new lending to owner-occupiers. However, the investor segment remains weak for now, as tighter lending standards (temporarily) delay an upturn, with banks requiring a higher level of pre-sales for proposed developments. More generally, while we expect the upturn in new lending to continue, existing mortgage holders paying down debt more quickly will act to limit strength in housing credit.

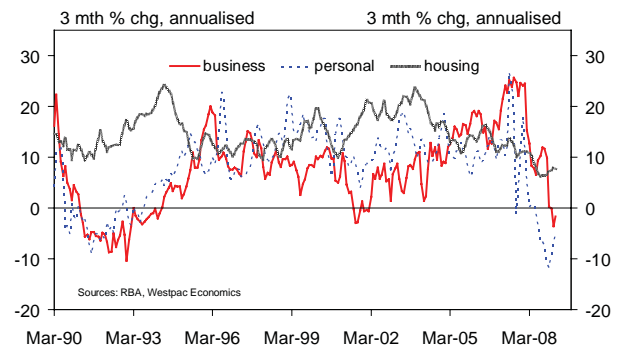
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### Credit – March 2009

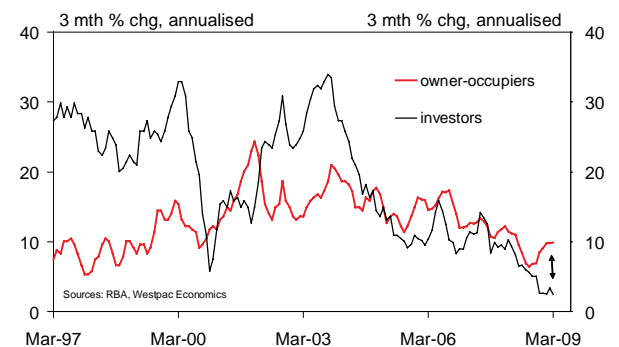
% chg	mth		ann	
	Feb	Mar	Feb	Mar
Total credit (share)	0.0	0.1	5.7	4.9
Housing (53%)	0.59	0.65	7.3	7.2
Other personal (9%)	-0.8	-0.3	-6.0	-6.2
Business (38%)	-0.5	-0.6	5.9	4.1

Source: RBA

### Credit momentum, by segment



### Housing credit growth: temporary wedge



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