

Credit growth sluggish amid slowdown

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Companies turning to banks for funding in the global financial crisis have kept Australian credit growth steady in the past month despite consumers staying out of the housing market.

Total credit provided to the private sector rose 0.6% in October, following a revised 0.8% increase in September, the Reserve Bank of Australia said today, marking the ninth consecutive month in which credit growth remained below 1%.

Analysts were expecting credit to grow by 0.5% in October.

Over the year to October, total credit rose by 9.7%, falling under 10% for the first time since May 2002.

The RBA "raised rates in order to slow down people's spending, and finally we're starting to see that now," said Michael Turner of 4Cast.

"It just happens to coincide with the world coming to an end in an economic sense," he said.

Mr Turner noted it took six months for monetary policy changes to be felt in the market. Housing credit rose 0.5% in October, and by 8.6% over the year, seasonally adjusted. Business credit rose 1.1% in the month, on the other hand, adding 13.2% over the year.

Conflicting trends

Westpac senior economist Andrew Hanlan noted the divergence between household borrowing and business borrowing.

"We're seeing healthy business credit growth over the last four months," Mr Hanlan said. The credit crisis has forced business to rely "more on banks, so business credit growth is actually quite healthy," he said.

Housing credit, on the other hand, is still weighed down by the RBA's tightened monetary policy. The official cash rate peaked at 7.25% in September when the RBA shifted focus from fighting inflation to ensuring economic growth.

The RBA has lopped 2 percentage points from the cash rate since September, bringing the official rate to 5.25%.

The RBA is widely expected to reduce the overnight cash rate target by at least a percentage point when it meets next Tuesday. Investors put the chances of a 1.25% cut at 83%.

"Going forward," said Mr Hanlan, "The big issues will be how credit finance responds to RBA's recent aggressive easing of monetary policy."

"We now have a number of years of pent-up demand for housing, given the RBA has been on a tightening cycle for 6 years."

Uncertainty

ANZ Bank economist Alex Joiner noted that while housing credit growth softened only marginally in the month to 0.5%, the annual credit growth rate of 8.6% is now the weakest since August 1983.

"This demonstrates the heightened level of uncertainty that continues to pervade the property market."

"We expect that further cuts in interest rates, and the accompanying improvements in housing affordability, may go some way to gradually improving conditions in the property market going forward."

Personal credit

"Other" personal credit dropped 1% in October, falling 0.1% over the year, possibly reflecting an aversion to borrowing to buy stocks.

"Personal credit was really weak," Mr Turner said. "People aren't taking out margin loans, reflecting people stopping borrowing to buy stocks."

The All-Ordinaries hit an all-time high of 6873.2 points on November 1, 2007. This month the index's value fell below half that as the financial crisis triggered plunges in equities prices.

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