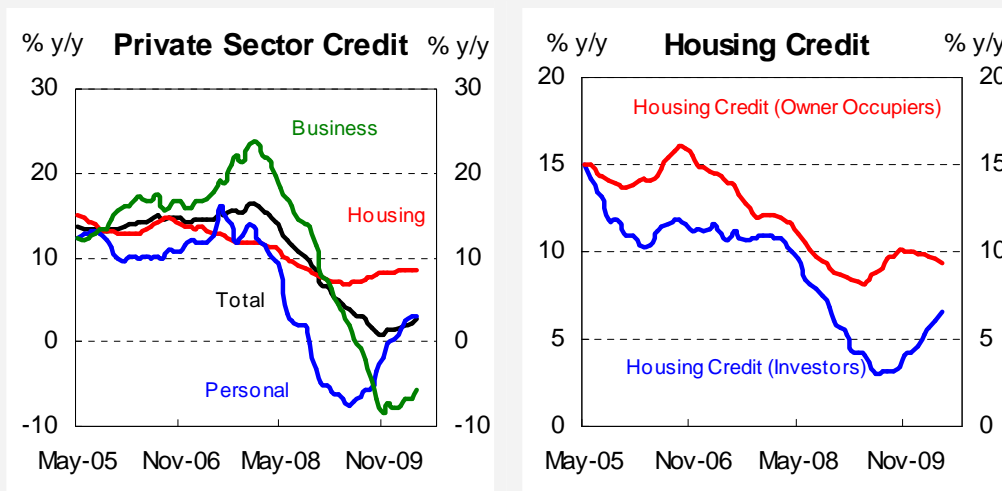


# DATA SNAPSHOT

## RBA Credit data continues its rotation.

Wednesday, 30 June 2010

- Private sector credit rose 0.5% m/m in May, which was slightly stronger than market expectations for a 0.4% rise and the strongest rise since January 2009.
- Housing credit rose 0.7% m/m following a 0.6% increase in April matching the average monthly rise for the previous 12 months. Other personal credit fell 0.5% the weakest result for this credit series since April 2009.
- Growth in owner-occupier credit has moderated, rising 0.6% m/m in May. Owner occupied credit rose an average of 0.8% m/m in 2009. By comparison, investor credit rose 0.7% m/m in May on par with its average monthly rise so far this year. Investor credit averaged monthly growth of just 0.3% in 2009.
- More importantly, business credit rose 0.4% in May, only the second rise in the last 17 months. The rotation of credit growth from owner-occupied housing and towards business and investors continues. This is the rotation you would hope to see to support growth in the second half of 2010 as the fiscal stimulus starts to fade and rising interest rates moderate domestic demand.



Housing credit rose 0.7% in May, which is on par with the average monthly rise we saw through 2009. So while the annual rate rose slightly to 8.6% y/y, from 8.5% in April, and it is now the fastest pace of growth since September 2008, the flattening out of the monthly rises suggests the annual rate has peaked.

Owner-occupier credit has moderated. It rose 0.6% in June, the third consecutive monthly rise of this magnitude. Compare this with an average monthly rise of 0.8% in 2010. Rising interest rates, and rising house prices, which together are squeezing affordability, are having an impact on this sector. Of course, there is also the removal of the first home buyers bonus as well. However, we are seeing some offset from the 0.7% m/m rise in investor credit. The continued improvement in lending to investors, who have averaged 0.7% m/m so far this year compare with 0.3% m/m in 2009, suggests an easing of credit constraints and a fundamental underlying support for the housing market despite the squeeze on affordability.

Further signs of a rotation in the credit cycle were highlighted by the 0.4% rise in business credit, following on from a 0.2% fall in April which was the first contraction in business credit this year. Business credit has been broadly flat this year, compare with an average fall of 0.7% m/m last year, and the more robust rise in May is a promising sign. For the year, business lending is down 5.6% y/y, an improvement on the -8.3% y/y record last November, but remains a poor comparison to double-digit growth achieved before the effects of the

global financial crisis hit our shores.

Credit for 'other' personal purposes (credit cards, margin loans and personal loans) fell 0.5% in May but due to a very weak result in May 2009, the annual rate was broadly flat falling to just 3.1% y/y from 3.2% y/y in April. This was the first negative read on personal credit since July 2009 and while we caution the one number does not make a trend, it is consistent with the idea that Australia consumers may be becoming more conservative and are starting to spend less and save more as interest rates rise and the impact of the fiscal stimulus fades.

Housing credit growth is set to slow but we think overall credit growth can be supported by the rotation towards businesses and property investors. For now, Australia's economic prospects are being supported by tight labour markets, which are the result of very modest recession and continued robust labour demand. If the economic prospects for Asia are negatively impacted upon by the current events in Europe and the US, this will have a significant impact on the outlook for commodity prices and thus, business investment and labour demand. This is why we think the RBA will remain on the sidelines for now, regardless of what the CPI prints in July, as we doubt this uncertainty will be resolved by then. However even Glenn Stevens, the RBA Governor, is on record as saying that resolution of these issues is the most likely outcome. As such, we maintain our bias for the next move in rates to be up sometime late this year.

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