

## Australian economic update

### RBA private sector credit aggregates

The RBA's private sector credit aggregates grew just 0.7% m/m in February (JPMorgan 1.0%, consensus 1.1%), slowing from a revised 1.0% in January (previously 1.1%). The annual rate slowed from a revised 16.2% (previously 16.4%) to 15.5%, falling below 16% for the first time in three months, in the wake of the RBA's policy tightenings in August, November, and February.

The most surprising aspect of the data was that business lending slowed sharply in February, easing from 1.5% m/m to only 0.5%, the slowest pace since August 2006. Business credit growth has been booming since early 2007 as firms started finding it more difficult to raise alternative sources of funding. Corporate bond issuance, for example, plunged. The fall in business lending was unexpected, however, given recent data showing that firms intend to increase capital spending 24% oya in the financial year ending June 2009. This lending will presumably be used to fund investment in additional capacity, aiming to alleviate infrastructure bottlenecks, particularly in the mining sector.

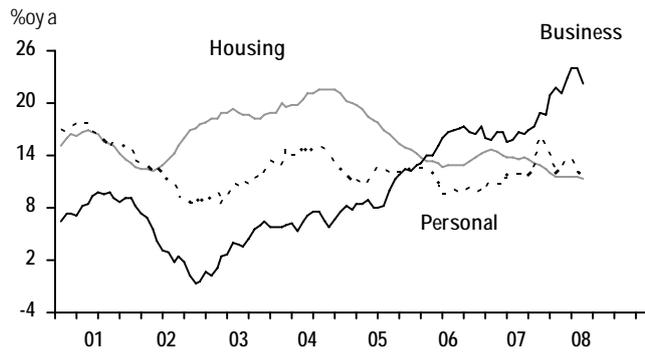
#### Australian credit growth - %m/m

	Dec	Jan	Feb
Housing	0.9	0.9	0.9
Other personal	1.3	-0.3	-0.1
Business	1.8	1.5	0.5
<b>Total</b>	<b>1.3</b>	<b>1.0</b>	<b>0.7</b>

The rate of growth in borrowing for housing, by contrast, remained steady at 0.9% m/m for the fourth consecutive month. Personal credit fell 0.1% m/m in February, an improvement on the 0.3% decline in the previous month, although relatively weak. The rise in domestic banks' standard variable mortgage rates by more than the 25bp rise in the official cash rate in early February appears to have weighed on consumer demand for credit.

Despite the moderation in credit growth, the RBA will remain anxious that credit continues to expand so rapidly despite the substantial policy tightening handed down over the last six months. Private sector credit aggregates have grown at a rate of over 15% since June last year. But, despite the RBA also hiking interest rates in March, firm credit demand, coupled with a poor inflation outlook, mean that, in our view, further tightening is warranted. JPMorgan expects another 25bp rate hike in May, although we acknowledge that any further material deterioration in economic or financial conditions offshore will lower the probability of a May move.

Australia: private sector credit aggregates



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