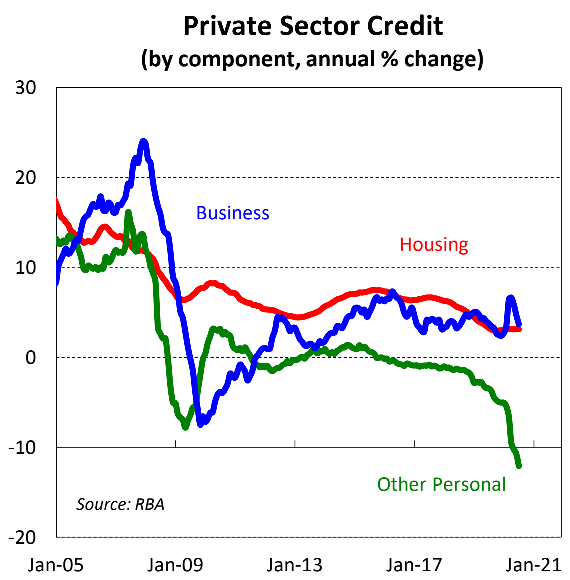
Data Snapshot

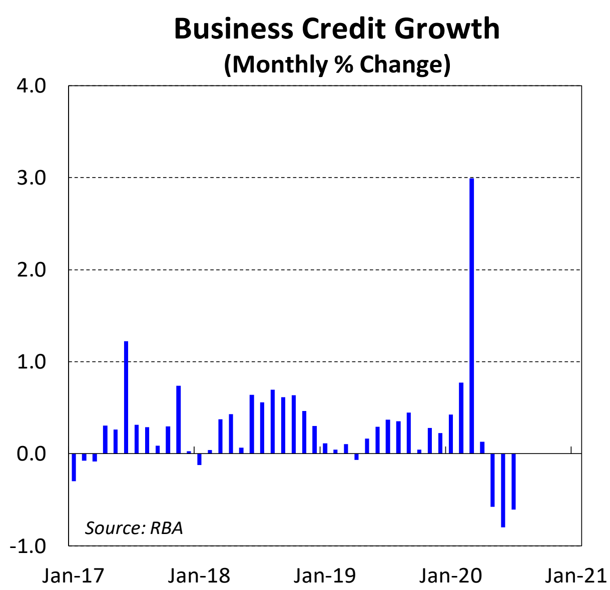
Monday, 31 August 2020

Private Sector Credit

Demand for Credit Remains Weak

- **Credit to the private sector fell 0.1% in July, falling for a third consecutive month. The last time credit fell for three consecutive months was early 1992 as the economy struggled out of its last recession. Weak economic conditions translate into weak demand for credit.**
- **Business credit fell for a third consecutive month, declining 0.6% in July. The demand for business credit surged in March as businesses sought to strengthen their cash positions. Since then, however, demand has tailed off. Business credit tends to grow as the economy expands. Given the level of uncertainty about the economic outlook, it is not surprising that demand for credit is restrained.**
- **There is a divergence between activity in the owner occupier sector of the housing market and credit for investor housing. Credit for owner occupied housing rose 0.4% in the month while that for investor housing fell 0.1%. Credit for owner occupied housing is up 5.4% over the year but for investor housing it is down 0.7%.**
- **Only when COVID 19 restrictions are eased can we expect to see a renewed appetite for business and housing credit. The appetite for 'other personal credit', however looks set to remain weak for a long time.**





Credit to the private sector fell 0.1% in July, falling for a third consecutive month. It fell 0.2% in June and 0.1% in May. The last time credit fell for three consecutive months was in early 1992 as the economy struggled out of its last recession. Weak economic conditions translate into weak demand for credit.

On an annual basis, credit growth eased further, from 2.8% to 2.4%, a seven-month low.

The largest monthly decline was in 'other personal' credit which fell 1.8% in July to be down 12.1% over the year. As noted last month, the annual rate of decline in 'other personal' credit is the largest in the history of this series which began in the 1970s. Other personal credit has now declined for 55 consecutive months as consumers reconsider their capacity to take on and service such debt.

Business credit fell for a third consecutive month, declining 0.6% in July. The demand for business credit surged in March as businesses sought to strengthen their cash positions. Since then, however, demand has tailed off. Business credit tends to grow as the economy expands. Given the level of uncertainty about the economic outlook, it is not surprising that demand for credit is restrained.

Business credit grew by 3.7% over the year to July 2020. In the year to July 2019, it grew by 3.8% - a reflection, back then, of modest growth in economic activity. Until the health and social distancing issues of COVID-19 are resolved, businesses, on aggregate, seem likely to remain conservative in their demand for credit.

Not everything was going backwards in July. Housing credit maintained its pattern of 0.2-0.3% growth seen since late 2018. Credit for housing grew 0.2% in July to be up 3.1% over the year.

There is, however, a divergence between activity in the owner occupier sector of the market and credit for investor housing. Credit for owner occupied housing rose 0.4% in the month while that for investor housing fell 0.1%. Credit for owner occupied housing is up 5.4% over the year but for investor housing it is down 0.7%.

Monthly credit growth for investor housing has now been zero or negative since early 2018. On an annualised basis growth in credit for investor housing has been negative since late 2019.

Unsurprisingly, today's private sector credit data paints a fairly grim picture of the economy. Businesses appear to be hamstrung by uncertainty, consumers are adopting a conservative approach towards their borrowings and housing investors are in retreat.

The weakness in the demand for housing credit suggests to us that the construction sector, which is a large employer of labour, is unlikely to see an upturn soon. The lack of immigration is also adding to their concerns.

Only when COVID 19 restrictions are eased can we expect to see a renewed appetite for business and housing credit. The appetite for 'other personal credit', however looks set to remain weak for a long time.

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