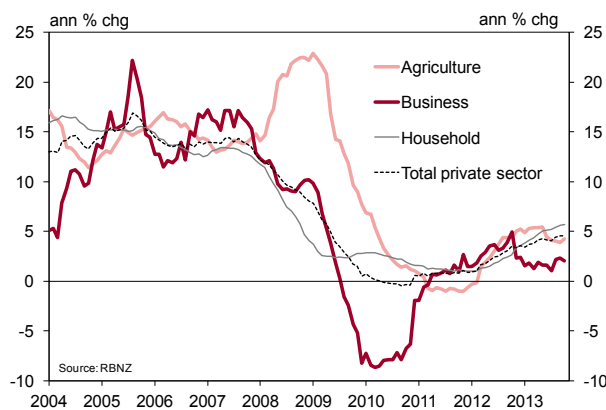


Private sector credit, October 2013

	Mth % chg (s.a.)		Ann % chg	
	Oct-13	Sep-13	Oct-13	Oct-12
Agri	0.4	0.2	4.2	4.4
Business (ex agri)	0.0	0.6	2.1	4.9
Household	0.5	0.5	5.7	2.7
Total private sector*	0.4	0.5	4.6	3.5

* The sum of agri, other business, and household lending, this excludes lending to government entities and the financial sector. Includes lending by banks and non-banks.

Private sector credit growth



Private sector credit grew 0.4% in October (adjusted for seasonality), much the same pace as in September. In particular, mortgage lending continued to grow at a similar pace, despite the restrictions on low-deposit lending introduced on 1 October – but this isn't too surprising either in terms of what we or the Reserve Bank were expecting, or in light of the data on new low-deposit lending released by the Reserve Bank yesterday.

Those figures showed new mortgage lending was down \$235mn in the month – that amounts to about 0.1% of existing mortgage loans, margin of error stuff, compared to usual variation in the rate at which existing debt is being paid off.

One month of data is too short to draw any firm conclusions on what the eventual impact of the lending restrictions will be – it's likely to take several more months before the Reserve Bank will come to a conclusion whether the policy is achieving its aim of slowing credit growth and the housing market. But a reduction of mortgage credit growth of about 0.1% a month would be well within the ball-park of the Reserve Bank's (and our) expectations.

The fact that low-deposit lending (excluding exemptions such as Welcome Home Loans) more than halved from September, to 11.7% of total new lending, was absolutely no surprise – it simply shows that the banks are adhering to the Reserve Bank's new rules.

More importantly, the October numbers support the idea that we would see the drop in lending to low-deposit borrowers significantly alleviated by a rise in lending to those with more equity. While high-LVR lending was down \$627mn in October, lending below the 80% LVR threshold rose nearly \$400mn. We'll need to see what happens to the low-LVR segment in coming months, but we could well see it rise further - this is where banks have been concentrating their energies, and we'd expect demand from this segment to rise further to take advantage of the housing investment opportunities created by a drop in the number of first home buyers.

October credit growth was also supported by a renewed pickup in lending to the agri sector, to a (still fairly modest) 5% annualised pace. This is much as we expected, given the signs of stronger confidence in the sector and an associated firming in the rural property market.

Other commercial lending continues to be the poor cousin in the credit data. Other business lending has stalled again, after a couple of stronger months. We can't trace the latest slowdown to any particular industry and suspect it's a quirk of the seasonal adjustment. In particular, bank lending to property and business services (including property developers) grew a solid 1.2%, more than recovering from September's weakness. But at about 2% a year, the underlying trend in business lending (the property sector apart) remains pretty sluggish.

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