

# Credit Check

30 September 2013

## Private sector credit, August

	Mth % chg (s.a.)		Ann % chg	
	Aug-13	Jul-13	Aug-13	Aug-12
<b>Agri</b>	0.5	0.2	4.1	4.4
<b>Business (ex agri)</b>	0.3	-0.5	2.1	2.9
<b>Household</b>	0.5	0.4	5.4	2.3
<b>Total private sector*</b>	0.6	0.1	4.4	2.8

\* 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.

Credit growth accelerated in August, with the details reflecting a housing market that continued to march higher, and a farm sector turning its focus from the recent drought to what promises to be a much more positive year ahead.

Private sector credit grew at a solid 0.6% monthly pace (seasonally adjusted), the highest since April. Annual credit growth was 4.3% - the highest since May 2009.

Loan growth was also fairly broadly based. In the agri sector, strong global dairy prices and rising farm turnover may have started to outweigh repayment of working capital extended during the drought. Housing credit growth accelerated modestly after two slightly slower months - consistent with a renewed pickup in mortgage approvals in August. And in business lending (a breakdown is available for bank loans only), the biggest increase was to the property and business services sector, which also saw upwards revisions to July. This segment includes property developers and has been the main area of growth in commercial lending over the past year - again pointing to the role of the housing market.

Business lending was also boosted by a rebound in lending to food manufacturers from a sharp drop in July. As with agri lending, we suspect drought-related dynamics have been working their way through this sector, as credit was extended during the drought (there was a big spike in April) and repaid in July.

## House sales and household credit growth



Of course, August was also the month in which the Reserve Bank announced its intention to restrict low-equity mortgage lending. In last month's Credit Check, we explained in detail why we believed that those restrictions would ultimately have only a modest impact on housing loan growth. The main reason was that we expected the restrictions to attract property investors into the market even as they shut out some first home buyers.

However, it's worth emphasising that this is unlikely to be a smooth process, and we wouldn't be surprised to see the mortgage loan growth figures slow noticeably - albeit temporarily - from November onwards as the restrictions hit housing turnover.

This is a key reason why we expect the RBNZ to keep the OCR unchanged through until early next year. Governor Wheeler has said that the lending restrictions will give the Reserve Bank more flexibility around when and how much to raise the OCR - and he will feel in no hurry to hike if he sees the housing market and related credit growth slowing.

However, monetary policy isn't just about the housing market, and the lending restrictions won't delay rate hikes indefinitely. By March next year, the Reserve Bank will also have had one more GDP release and two more rounds of inflation data to mull over. On our forecasts both will come in ahead of the Reserve Bank's current projections. We believe a tightening cycle starting March 2014 will look appropriate on plain old inflation targeting grounds.

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