Home loan growth at recession levels

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Home loan growth has slumped to its slowest annual pace since the 1991 recession, Reserve Bank of Australia (RBA) figures show, which could mean the end of the interest rate rise cycle.

Meanwhile, total borrowing levels posted their weakest growth in almost three years, while the rate of personal loan expansion is at a six-year low following a string of recent interest rate rises.

Economists say this means home owners are more likely to be spared further interest rate pain in 2008.

Housing credit grew by 10.6 per cent in the year to May, which was the slowest annual pace since August 1991 when home loan take-up grew by 10.3 per cent, RBA financial aggregates data out today showed.

Home borrowing levels, which rose by 0.6 per cent in May, moderated for the third month in a row.

Lehman Brothers chief economist Stephen Roberts said home borrowers were likely to escape the pain of another interest rate rise.

“They can take some comfort,” he said.

“This is exactly the sort of data to keep the Reserve Bank on hold.

“It makes it difficult for them to raise rates any further.”

Total private sector credit rose by 13.4 per cent in the year to May, the slowest annual growth pace since October 2005 when borrowing levels increased by 13.2 per cent.

CommSec equities economist Savanth Sebastian said rising living costs, decade-high interest rates and dwindling share market returns were turning consumers off borrowing.

“Consumers are cutting back on borrowing with no room to move,” he said.

JPMorgan economist Helen Kevans said the marked slowdown in credit growth in 2008 made it more likely the RBA would leave interest rates on hold this year.

“There is building evidence of a loss of momentum in the domestic economy and a significant easing in domestic demand, if sustained, should help curb inflation pressures,” she said.

May’s 0.6 per cent increase in total credit matched market expectations, so currency markets had a muted reaction to the data.

It was marginally better than April’s 0.4 per cent increase, which was the weakest growth rate since October 2002.

The “other” category, which refers to personal loans, grew by 8.8 per cent in the year to May, which was the slowest annual pace since July 2002.

Business credit rose by 18.2 per cent in the year to May, its weakest annual level since May 2007.

ICAP senior economist Matthew Johnson said there was “no questioning” that personal and housing credit was trending downwards.

“So, when the RBA meets tomorrow, they will face an economy where consumption growth is flat, and credit and money growth is slowing, but inflation is still accelerating,” he said.

None of the 19 economists surveyed by AAP expected the RBA to raise interest rates tomorrow after its July board meeting.

The cash rate was raised to a 12-year high, at 7.25 per cent, in March after rises in February, November and August.

AAP