

Lending finance posts biggest slump in 16 years

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Australian lending finance has posted its biggest annual fall in 16 years as slumping consumer sentiment wards off business borrowing.

Total lending finance - which includes personal, housing, commercial and lease borrowing - slumped by a seasonally adjusted 13.3 per cent in the year to May, the Australian Bureau of Statistics said today.

This was the largest annual decline since January 1992 when Australia was emerging from a recession.

As a result ANZ, the nation's third biggest bank and the most hawkish of the big four on a further tightening of monetary policy, is now reviewing its forecast for an August interest rate rise.

ANZ says an August interest rate rise is now less likely as lending finance figures point to an economic slowdown.

"At the moment, a rate rise in August is looking highly unlikely," ANZ senior economist Katie Dean said.

"This is a cyclical slowdown we'd expect to see from a monetary policy tightening."

CommSec equities economist Savanth Sebastian said business borrowing, which until recently was growing strongly, was now falling in line with recession-like levels of consumer sentiment.

"It continues to highlight that we've seen business and consumer sentiment take a dive in recent months," he said.

"It's filtering through the economy.

"We've seen a significant slowdown in domestic demand and these figures highlight that.

"Household budgets, they're being constrained with higher interest rate costs and higher living costs."

Personal finance commitments fell by a seasonally adjusted 7.8 per cent in May and slumped by 14.5 per cent in the first five months of calendar 2008.

Housing finance for owner occupiers fell 5.7 per cent in May to post the fourth consecutive monthly decline.

Commercial finance was the only lending category to show a seasonally adjusted rise in May, with borrowing up 3.2 per cent.

However, on a trend basis, business borrowing posted the biggest decline - of 6.9 per cent.

On an annual basis, business finance suffered a 12.6 per cent fall, seasonally adjusted, compared with a year-on-year growth rate of 47 per cent in January 2008.

ANZ had been forecasting a rate rise next month and in November, but that could change if June quarter consumer price index (CPI) data, due out on July 23, showed signs of moderation.

“We’ll only see a rate rise in August if the CPI is intolerably high,” Ms Dean said.

Lehman Brothers Australia chief economist Stephen Roberts said the slowdown in credit levels made an interest rate cut in early 2009 more likely.

“At the moment, we have credit growth, which is decelerating very fast on the back of domestic spending, which is decelerating very fast,” he said.

“You’re going to get very slow rates of (economic) growth, which will lead to an unemployment rate of five per cent in 2009.

“People will find it hard to make financial commitments and you get a further downturn in financial growth.”

The May latest lending data was compiled in the same month the Reserve Bank of Australia (RBA) left interest rates on hold at a 12-year high 7.25 per cent after raising the official cash rate in February and March.

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