Economics | January 31, 2022

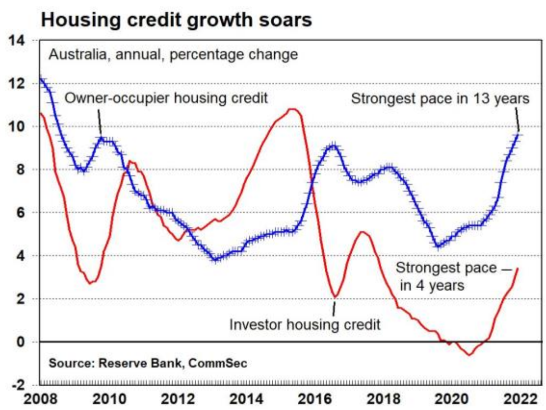
Biggest lift in credit growth in 13 years. Wholesale petrol price hits record high. Omicron inflation?

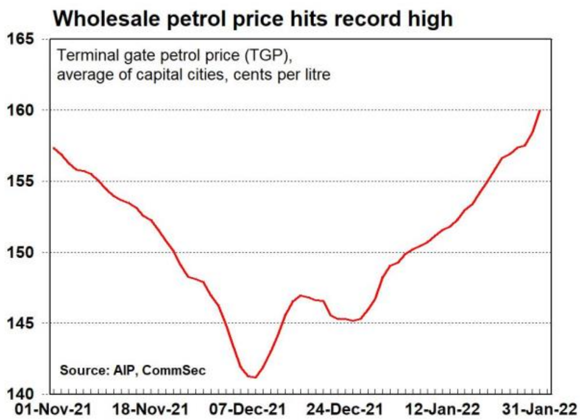
Private sector credit; Inflation gauge; Weekly energy market update

- **Private sector credit (effectively outstanding loans) rose by 0.8 per cent in December to be up 7.2 per cent on a year ago – the strongest annual growth rate in 13 years.**
- **The Melbourne Institute monthly inflation gauge rose by 0.4 per cent in January to be up 3 per cent on the year. The 'underlying' or trimmed mean measure lifted 0.4 per cent to be up 2.9 per cent on the year, a 7½-year high.**
- **According to the Australian Institute of Petroleum (AIP), the national average unleaded petrol price fell by 0.8 cents to 169.6 cents a litre (c/l) last week. But Canberra, Hobart and Perth pump prices all hit record highs. And the wholesale or Terminal Gate Price (TGP) average of all capital cities hit a record high of 159.9 c/l today.**

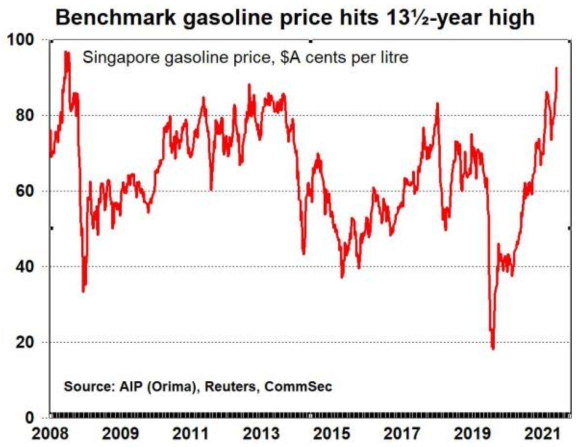
What does it all mean?

- The latest Reserve Bank (RBA) financial aggregates were issued today. Total private sector credit (effectively outstanding loans) jumped by 0.8 per cent in December to be up 7.2 per cent on a year ago – the strongest annual growth rate in 13 years (since November 2008) – driven by a lift in housing credit growth.
- In fact, housing credit remained firm in December. Recent strength in home lending demand is supportive of the pipeline for credit growth as buyers look to lock-in lower mortgage rates in anticipation of higher borrowing costs later this year. In fact, housing credit surged by a massive 7.4 per cent over the year to December (the strongest annual pace in 6 years), with owner-occupier housing credit 9.6 per cent higher – recording the strongest annual growth rate in 13 years. Investor housing credit is up 3.4 per cent on a year ago, the strongest annual rate in 4 years.
- Policymakers are keeping a close eye on elevated household mortgage debt levels and investor lending demand as home prices continue to lift. Already, expectations are growing that a further tightening of macro-prudential policy will be required later this year. That said, rising fixed mortgage rates, affordability constraints and announced changes by banking regulator APRA on mortgage serviceability guidelines, are expected to slow property market activity in 2022.
- Business credit lifted by 1.1 per cent in December to be 8.4 per cent higher over the year, the strongest pace in 13 years (since December 2008). The strength of business credit growth likely reflects increased borrowing for

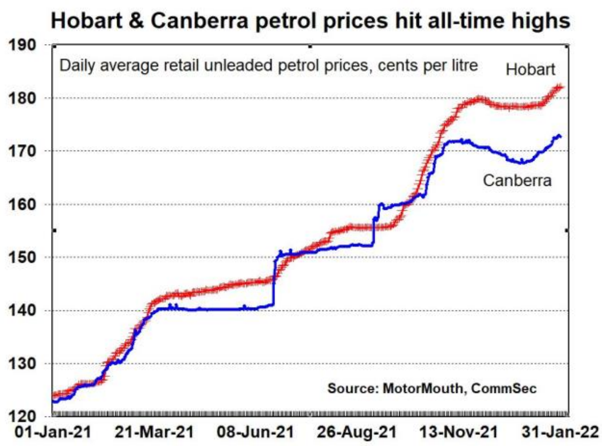




investment purposes in the final quarter of 2021. In fact, the latest estimate of capital spending intentions signalled a strong lift in non-mining business investment in the current financial year. That said, the initial impact of the Omicron virus variant disruptions on business loan demand won't be known until January data is released in a month's time. Yesterday, the NSW government announced that it will provide $1 billion of support payments to small and medium sized firms from February 1 to help with the state's economic recovery.

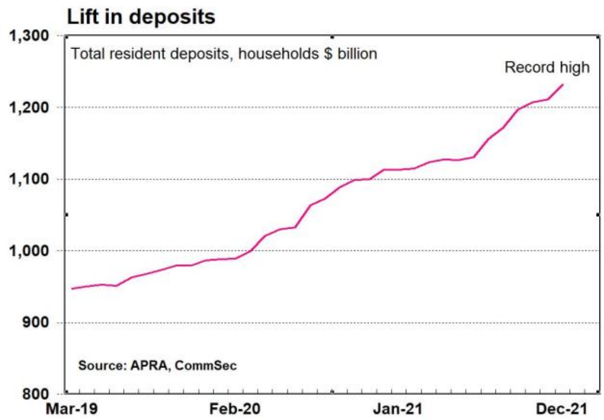


- Global oil prices posted a sixth successive weekly gain, lifting around 2 per cent, with prices trading near 7-year highs. Prices are supported by strong demand, tight supply and heighted geo-political risks. In fact, US government data shows that gasoline demand is just 4 per cent below the pre-pandemic levels in 2019. And motor vehicle traffic in Europe is picking up as new Omicron virus variant case numbers ease. On the supply-side, crude prices are being supported by possible military conflict in the Ukraine and attacks by Yemen's Houthi rebels on the United Arab Emirates, which could disrupt energy markets. On Bloomberg TV, Chevron CEO Mike Wirth said geo-political events are impacting the commodity market more now than they did in the past and that US$100 a barrel oil *"is certainly within the realm of what we could see in the next few months."*
- Attention now turns to Wednesday's OPEC+ meeting where OPEC and its allies, including Russia, will assess the market and decide on supplies for March. While OPEC+ has been steadily easing output curbs, there's concern producers, such as Nigeria and Libya, have been unable to deliver the promised volumes in full.
- Last week, the Brent crude price rose by US$2.14 a barrel or 2.4 per cent to US$90.03 a barrel. And the US Nymex crude price lifted by US$1.68 a barrel or 2 per cent to US$86.82 a barrel. Brent rose as high as US$91.70 a barrel and the Nymex lifted as high as US$88.84 a barrel, their highest levels since October 2014.
- The spectre of supply disruptions is also hanging over global gas markets. North Asian LNG futures rallied sharply last week as concerns over supply shortages enticed buyers back into the spot market. Futures for March ended the week up 21 per cent as buyers replenished low inventories ahead of forecast colder temperatures, which could see heating demand spike.
- The lift in international fuel costs is a big contributor to rising Aussie petrol pump prices. The benchmark Singapore gasoline price – the largest component of fuel prices paid by motorists - rose by US$4.74 or 4.8 per cent to a 7-year high of US$103.32 a barrel last week. In Aussie dollar terms, the Singapore gasoline price lifted by $9.94 or 7.3 per cent to a 13½-year high of $147.01 a barrel or 92.46 cents a litre.
- AIP figures today show that the national average wholesale (Terminal Gate Price, TGP) petrol price has increased to a record 159.9 cents per litre (c/l) today, up 19 cents from lows on December 8. But the national average weekly retail unleaded petrol price eased from a record high of 170.4 c/l to 169.6 c/l last week, down 0.8 c/l. And the smoothed gross retail margin fell from 15.84 c/l to 14.63 c/l last week.
- Of course, filling up the car with petrol is one of the single biggest weekly purchases for consumers. Using the Bureau of Statistics' (ABS) Household Expenditure Survey and assuming the purchase of 35 litres of petrol per week, households spent a near record $237.44 on petrol last week.
- Unleaded petrol prices remain elevated across the nation as the school run and work resumes after the holiday period. In fact, the average retail unleaded petrol price hit record highs of 181.4 c/l in Hobart, 172.2 c/l in Canberra and 174.0 c/l in Perth last week, according to the AIP.



- But pump prices eased by up to nine cents a litre last week on Australia's East Coast, with average retail unleaded petrol prices today sitting at 171.1 c/l in Sydney, 165.4 c/l in Melbourne and 168.9 c/l in Brisbane, according to MotorMouth. Prices are still as high as 189.9 c/l in Sydney and 188.9 c/l in Brisbane. And pump prices have already begun lifting in Melbourne after bottoming at 161.8 c/l on January 27. Melbourne motorists are encouraged to consult their fuel apps and shop around for the best deal at their servos with prices expected to enter the expensive phase of the cycle later this week.
- The lift in fuel prices is a key contributor to rising inflation. The

Melbourne Institute's monthly inflation gauge rose by 0.4 per cent in January to be up 3 per cent on the year. And the trimmed mean or underlying inflation (ex-energy) annual growth rate hit 2.9 per cent in January, the strongest pace in 7½ years, perhaps due to the impact of Omicron supply-side chain disruptions.



What do you need to know?

Private sector credit - December

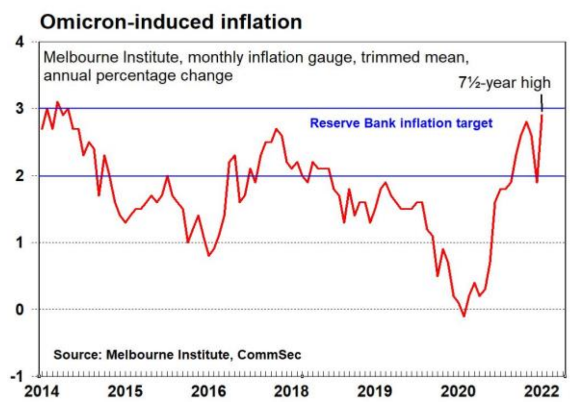
- **Private sector credit (effectively outstanding loans)** rose by 0.8 per cent in December to be up 7.2 per cent on a year ago – the strongest annual growth rate in 13 years.
- **Housing credit** lifted by 0.7 per cent in December to be up 7.4 per cent when compared to a year ago – the strongest annual pace in 6 years.
- **Owner-occupier housing credit** jumped by 0.8 per cent in December to be up 9.6 per cent on a year ago – the strongest annual growth rate in over 13 years. And **investor housing credit** rose by 0.5 per cent to be 3.4 per cent higher on a year ago – the strongest annual rate in 4 years.
- Elsewhere, **personal credit** dipped 0.8 per cent in December, falling by 3.8 cent over the year.
- **Business credit** lifted 1.1 per cent in December to be up 8.4 per cent over the year – the strongest pace in 13 years.
- The **M3 money** aggregate lifted by 1.4 per cent in the month to be up 9.3 per cent from a year ago. **Broad Money** also rose by 1.5 per cent to be up 9.5 per cent from a year ago.
- The APRA authorised deposit-taking institutional statistics revealed that **loans to households via credit cards** rose by $0.1 billion or 0.5 per cent in December. But credit card lending is down 6.2 per cent on the year.
- According to APRA, **deposits from households** increased by $20.7 billion or 1.7 per cent in December to a record $1,231.6 billion, up by 10.7 per cent on a year ago.

Monthly inflation gauge - January

- According to the Melbourne Institute, the **monthly inflation gauge** rose by 0.4 per cent in January with the annual rate lifting from 2.8 per cent to 3 per cent.
- The **'underlying' or trimmed mean inflation measure** also lifted 0.4 per cent in January with the annual rate jumping from 1.9 per cent to a 7½-year high of 2.9 per cent.

Weekly energy market update

- Oil rose for a sixth straight week, with the **Brent crude price** up by US$2.14 a barrel or 2.4 per cent to US$90.03 a barrel. And the **US Nymex crude price** lifted by US$1.68 a barrel or 2 per cent to US$86.82 a barrel. Brent rose as high as US$91.70 a barrel and the Nymex lifted as high as US$88.84 a barrel, their highest levels since October 2014.
- Last week, the **benchmark Singapore gasoline price** rose by US$4.74 or 4.8 per cent to a 7-year high of US$103.32 a barrel. In Aussie dollar terms, the Singapore gasoline price lifted by $9.94 or 7.3 per cent to a 13½-year high of $147.01 a barrel or 92.46 cents a litre.
- According to the **Australian Institute of Petroleum (AIP),** the national average unleaded petrol price fell from a record high of 170.4 c/l on January 23 to 169.6 c/l on January 30, down by 0.8 cents on the week. But pump prices hit record highs in Canberra (172.2 c/l), Hobart (181.4 c/l) and Perth (174.0 c/l) last week.
- The **smoothed gross retail margin** eased from 15.84 c/l to 14.63 c/l last week.
- The **national average wholesale (TGP) petrol price** rose by 3.1 cents last week to 157.3 cents per litre. Today, the TGP price sits at a record 159.9 cents per litre, up by 3.3 cents from the previous week. Since the low on December 8, the wholesale petrol price has risen by 18.8 cents a litre.
- MotorMouth records the following average retail prices for unleaded fuel today: Sydney 171.1c/l; Melbourne 165.4c/l; Brisbane 168.9c/l; Adelaide 154.8c/l; Perth 177.9c/l; Hobart 182.1c/l (record high); Darwin 171.7c/l and Canberra 172.7c/l (near record high).



Ryan Felsman, Senior Economist
Twitter: @CommSec