

Renovation loans at 7-year high

Lending finance; Airfares; Chinese trade

- **Lending finance.** Total new lending commitments (housing, personal, commercial and lease finance) fell by 3.1 per cent in May to a 3-month low. Commitment are down 0.5 per cent over the year.
- **Trends:** In trend terms, loans for alterations and additions of homes (renovations) hit 7-year highs. Personal loans hit a 14½-year low in May. Annual lending to buy land hit record highs.
- **Airfares:** In smoothed terms, discount airfares are up by 6.2 per cent on a year with restricted economy fares up 4.9 per cent and business airfares up 2.5 per cent.
- **Chinese trade:** In June, exports were up 11.3 per cent on a year ago (forecast +8.7 per cent). Imports were up 17.2 per cent (forecast +13.1 per cent). The trade surplus rose from US\$40.81 billion to US\$42.77bn.

The lending figures have implications for builders, housing-reliant businesses, finance providers, retailers, and companies dependent on consumer and business spending. The Chinese trade data can affect currency markets and provide insights for exporters and importers.

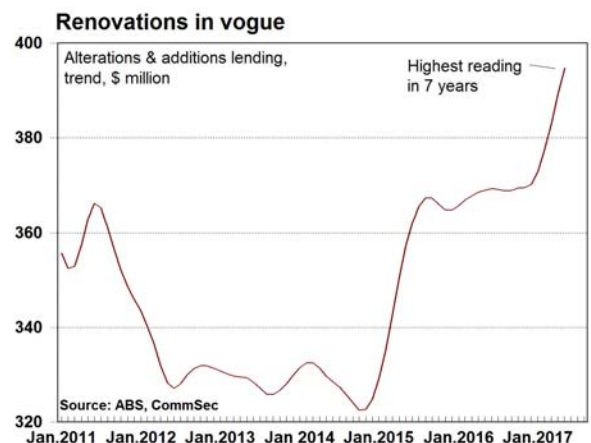
What does it all mean?

- New data shows that renovation loans hit 7-year highs in trend terms in May, suggesting that more people have decided to stay put and add extra rooms or revamp kitchens and bathrooms. Still others may be sprucing up their homes for sale, following the advice on TV makeover shows. Whether it is the purchase of a new property or updating an existing abode, the family home is the centre of the universe.
- While some have been taking out bigger loans to buy homes, it is clear that consumers more generally are paring back other forms of debt. Figures out yesterday show that credit card debt continues to shrink when compared with a year ago and non-housing loan commitments are at the lowest levels for over 14 years. High and rising debt tends to get plenty of coverage, not so the more conservative attitude to debt which is actually the more dominating trend.
- If consumer balance sheets were in such bad shape, more Aussie would be speaking to banks about consolidating or refinancing existing debt. Rather, debt consolidation and refinancing accounts for just 20 per cent of personal lending commitments – a 16½-year low.
- Inflation is starting to creep back into consciousness. New data shows airfares are lifting with discount fares over six per cent higher on a year ago. And the Melbourne Institute reported today that its measure of inflation expectations ((30-percent trimmed mean measure), rose to a 4-year high of 4.4 per cent in July.

What do the figures show?

Lending Finance:

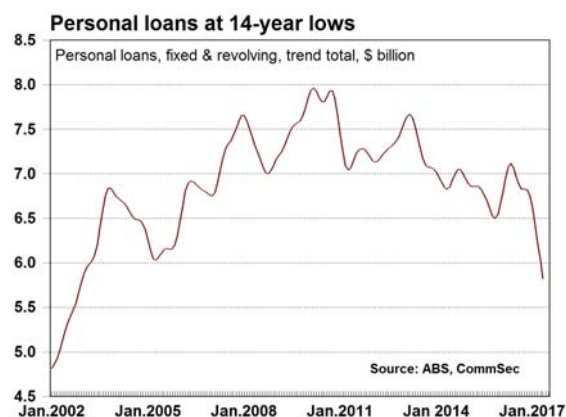
- **Total new lending commitments** (housing, personal, commercial and lease finance) fell by 3.1 per cent in May to a 3-month low. Commitment are down 0.5 per



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cent over the year.

- **All housing finance** rose by 3.1 per cent in May with construction and purchase up 2.9 per cent and alterations and additions up 10.1 per cent.
- **In trend terms, loans for alterations & additions** hit 7-year highs in May.
- **Commercial finance** fell by 6.4 per cent in May after falling 6.1 per cent in April and rising by 14.2 per cent in March. Within commercial commitments, fixed lending fell by 4.9 per cent while revolving credit fell by 12.5 per cent. Commercial loans are up 0.4 per cent on a year ago.
- **Personal finance** fell by 0.5 per cent in May – the fifth straight decline. Fixed lending commitments rose by 1.2 per cent, while revolving credit commitments fell by 3.1 per cent. Personal loans are down 18.4 per cent on a year ago. In trend terms personal loans are at 14½-year lows.
- **Lease finance** rose by 1.1 per cent in May to stand 25.4 per cent higher over the year.



Chinese trade:

- In June, exports were up 11.3 per cent on a year ago (forecast +8.7 per cent). Imports were up 17.2 per cent (forecast +13.1 per cent). The trade surplus rose from US\$40.81 billion to US\$42.77 billion.

Airfares:

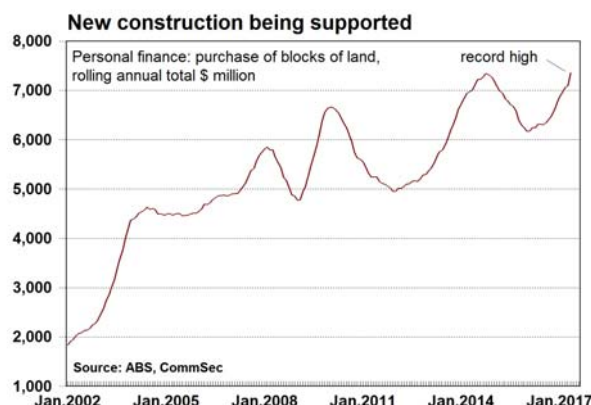
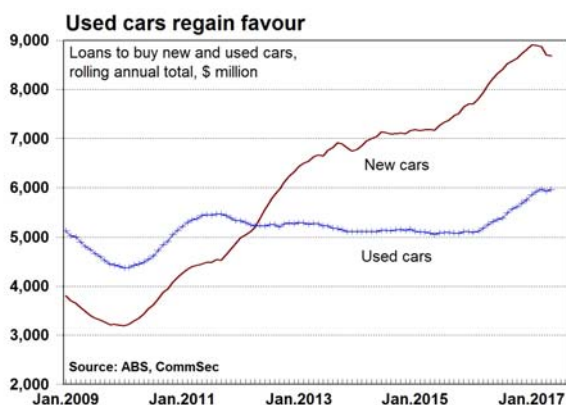
- **The Bureau of Infrastructure, Transport and Regional Economics (BITRE)** reports that business class airfares fell by 0.1 per cent in July after falling 0.9 per cent in June. Business class airfares still stand 2.2 per cent higher than a year ago. In smoothed terms, business class airfares are up 2.5 per cent on the year.
- **“Restricted economy”** airfares rose by 1.9 per cent in July after lifting 0.8 per cent in June. Restricted economy airfares are up 5.8 per cent on a year ago – the strongest growth in 18 months. In smoothed terms, restricted economy fares were up by 4.5 per cent on a year ago – the strongest growth in 17 months.
- **Discount fares** fell by 2.3 per cent in July after falling by 4.9 per cent in June and rising by 8.3 per cent in May. Clearly discount fares have been volatile in recent months. Discount fares are up 5.9 per cent over the year. In smoothed terms (13 month moving average), discount fares are up 6.2 per cent.

Inflation expectations:

- According to the **Melbourne Institute Survey of Consumer Inflationary Expectations**, the expected inflation rate (30-per cent trimmed mean measure), rose by 0.8 percentage points to 4.4 per cent in July from 3.6 per cent in June.

What is the importance of the economic data?

- **Lending Finance** is released monthly by the Bureau of Statistics and contains figures on new housing, personal, commercial and lease finance commitments. The importance of the data lies in what it reveals about the appropriateness of interest rate settings, confidence and spending levels in the economy.
- **China’s National Bureau of Statistics** releases its monthly economic statistics around mid-month. Quarterly GDP data is released around the 19th of January, April, July and October. China’s Customs Office releases trade data, and the People’s Bank of China releases financial statistics, around the 10th of each month. China is



Australia's largest trading partner and changes in the Chinese economic have major implications for the Aussie economy.

- The Bureau of Infrastructure, Transport and Regional Economics (BITRE) releases regular aviation data. The BITRE releases the **Australian Domestic Airline Activity** publication each month as well as the **Domestic Air Fares** publication. The data provides insights on airline activity as well as trends in the broader Australian economy. If more people are flying, then it suggests businesses are more active and/or consumers are more confident.

What are the implications for interest rates and investors?

- Consumers and businesses aren't keen to take on new debt. The main exceptions being loans to buy or renovate homes or to buy a new or used car. In total though, personal lending is the lowest in 14½ years. And for the past six months both commercial and lease loans have been shrinking when compared with a year ago.
- Inflation is starting to return to our consciousness. While it is still early days, it is a trend worth watching as higher inflation rates naturally mean higher cash rates.
- The latest Chinese data is encouraging with both exports and imports well up on a year ago and the trade surplus expanding as well as beating forecasts. China is Australia's largest trading partner and a strong Chinese economy is in our interests.

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