

Property Lending and Business Conditions – Scope for Hope

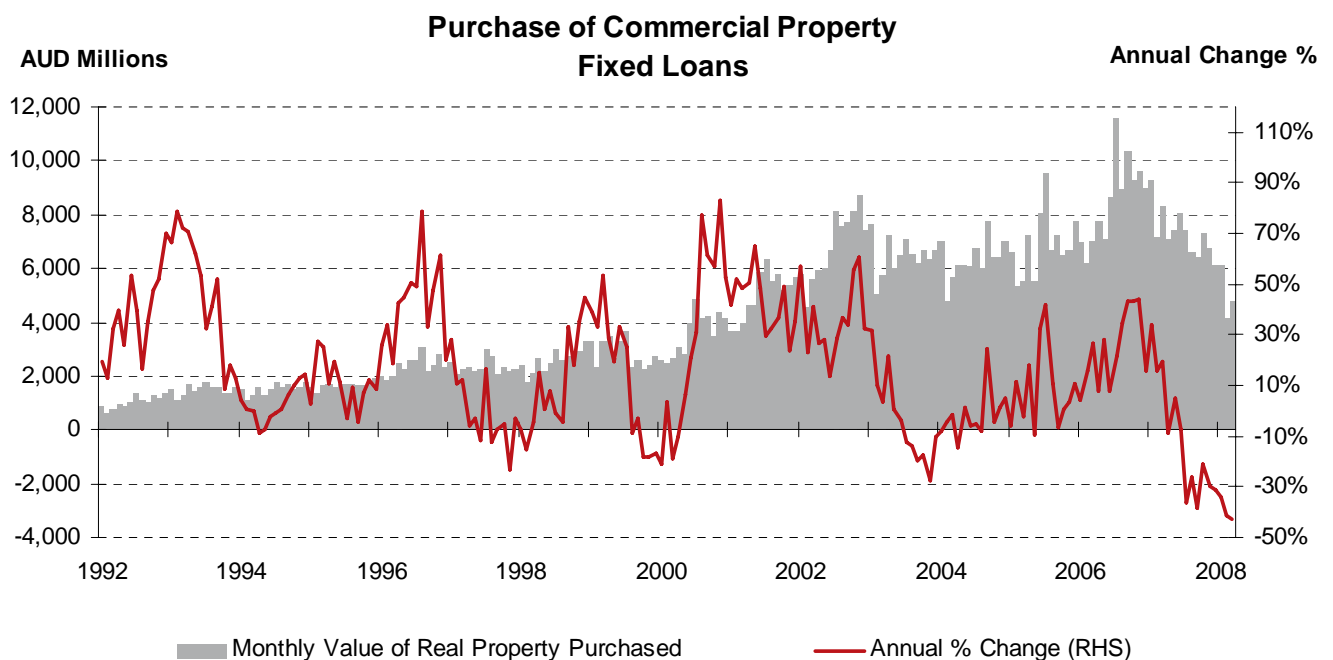


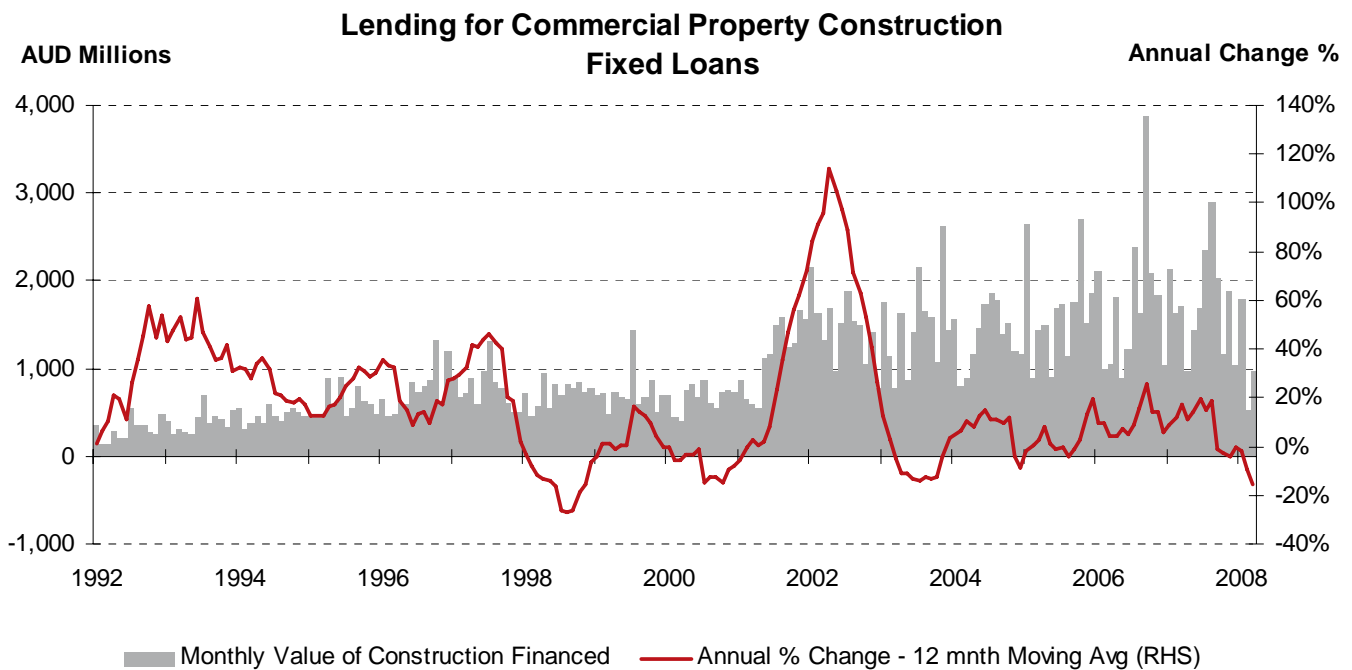
Figure 1

What happened?

Lending for the purchase of commercial property posted a modest rise in February 2009, the first month-on-month increase since September 2008. However, data released today show that lending in February 2009 was 20% below the February 2008 level. The month-to-month data are volatile, however. Too much should not be read into the latest statistics. As with many economic statistics released in recent weeks, the decline continues but the pace of decline is slowing or, the second differential has turned positive.

The National Australia Bank business survey (also released today) tells a similar story of gradual improvement. The NAB business conditions index rose 2.8 points in March to minus 16.8. The business confidence index rose 9.4 points to minus 12.5, the strongest result since September 2008.

Fixed loans for commercial property construction (Figure 2) also bounced sharply higher in February, although the year-on-year trend is now firmly downwards, calculated on a 12-month moving average basis. Overall the lending data released this morning reflects the continuing slowdown in household and business borrowing, although the pace of decline is moderating. Total lending commitments across all sectors (housing, personal, commercial and lease finance) are down 7.7% in February after posting modest rises in December 2008 and January 2009.

**Figure 2**

Implications

The latest data continue the theme of lending contraction in the commercial property sector. The trend may reflect the fact that banks and other debt providers are tightening their lending criteria. Equally, it may reflect a sharp reduction in the risk appetite by developers and investors. Pragmatically it is probably a combination of both factors.

As the NAB survey shows, business confidence remains fragile across all sectors of the economy. Consistent with the contraction in business borrowing, new credit limits to business rose by \$8 billion in February, but offset by \$10.1 billion in repayments or cancellations. Capacity utilization continues to decline, albeit slowly.

There are exceptions to the overall picture of contraction, however:

- Residential alterations and additions are a notable exception to the common theme of debt repayment. This series has been rising sharply since mid-2008 and currently stands at a 30-month high, and
- Inventories, according to the NAB survey, are falling at the fastest rate on record, implying a return to growth in transport and logistics activity as well as manufacturing output not too much further down the track.

Note: The ABS data reflects commercial lending activity of banks as well as a range of other lending institutions. The ABS coverage is based on coverage of at least 70% of all categories of commercial lenders.

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