

## Australia: Home loan growth slows, but has it slowed enough?

The Reserve Bank of Australia's dilemma is with household debt so high, the debt service implications of any rate hike will be severe



Source: istock

**1%** August loan growth  
down from 2.8% in July

### Household debt causes calls for rates action

With household debt to income ratios pushing beyond 190% and accelerating, markets were looking for a nice slowdown in home loan growth in August, in response to tightening lending conditions imposed by Australian Prudential Regulation Authority (APRA). It's worth noting the ratios are worse than the US or the UK before the global financial crisis. But August loans grew only 1.0% MoM, a decent fall from the 2.8% growth registered in July, but still on the high side. The consensus was looking for a 0.5% MoM rise.

The Reserve bank of Australia's (RBA) dilemma is with household debt so high, the debt service implications of any rate hike will be severe. But with the APRA policies only biting weakly, the longer they put off using the big stick instead of hoping that macroprudential regulations will do their work for them, the worse the potential downside from any accidental over-tightening.

## Sacrifices may be necessary

In our view, the arguments for an earlier than priced RBA hike are there – notwithstanding the awful retail sales data recently. This looks like a choice between slightly slower growth and lower inflation now, and much weaker growth and potentially deflation later.

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