

AUSTRALIAN MARKETS WEEKLY

More on the great bank lending standards debate



In this issue

More on the great bank lending standards debate 1

Calendar of economic releases 3

Forecasts 4

- In today’s weekly we review the important speech by APRA Chair Wayne Byres last week, which covered developments in housing lending standards. The key takeaway for us was that any further tightening standards are expected to be “at the margin”. This is in contrast to the views of a number of commentators that have been warning of a further substantial tightening in standards as an outcome of the Royal Commission into Financial Services.
- These views dovetail well with NAB’s latest economic forecasts released last week (email us to be added to this monthly publication). These suggest the risks for growth remain mostly balanced, although funding pressures and trade/tariff tensions are important to monitor going forward.
- Just two events on the Aussie calendar this week: the RBA Board Minutes on Tuesday and the important Labour Force Release for June on Thursday.
- Interest in the Minutes will be around the no-doubt fuller discussion of pressures in short-term funding markets, as well as any slant on the RBA’s thoughts on trade tensions. The section that noted an appreciating currency would slow the recovery in the economy and return of inflation to target was dropped from this month’s Board statement, so any clarification as to why would be of interest to markets. On the Labour Force, we look for a slightly softer than market employment outcome of +10,000, reflecting some easing in leading indicators in recent months and some continuing correction in the ABS print after very strong measured employment growth last year. That said, there’s probably some upside risk about that forecast as our experimental internal indicators rebounded in June. The unemployment rate is expected to remain at 5.4%.
- Globally, trade developments will remain a key focus for markets, together with President Trump’s ongoing tour of Europe and associated pronouncements! On the economic front, the key items of interest are likely to be Fed Chair Powell’s semi-annual testimonies and the Fed Beige book in the US, though the Monetary Policy Report released on Friday produced few surprises.
- The latest Chinese GDP and monthly data deluge are also important for clues as to whether Chinese growth has continued to slow. At the same time, US events will be examined for any clues as to how the confidence of businesses is being affected by the US-China trade dispute and to whether the Fed will treat any tariff-related increase in inflation as temporary.

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More on the great bank lending standards debate!

In recent months, a number of commentators have predicted a slowing of growth in home lending, and potential significant flow-on implications for house prices, consumer spending and the Australian economy more broadly.

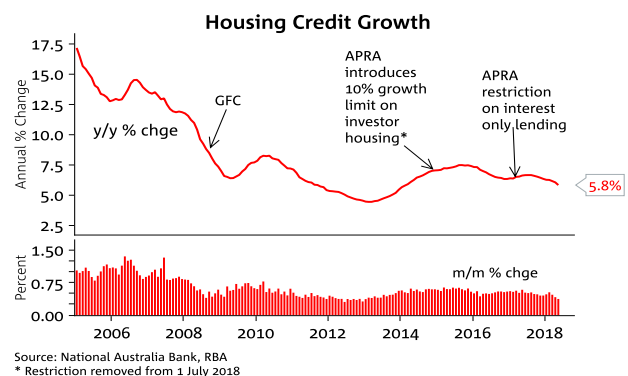
APRA Chair Wayne Byres spoke on the topic last week at a speech to the Australian Business Economists entitled “Preparing for a Rainy Day”. In today’s weekly, we review

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7429	-0.6	RBA cash	1.50	0
AUD/CNY	4.94	0.5	3y swap	2.17	-1
AUD/JPY	83.6	0.9	ASX 200	6,252	-0.6
AUD/EUR	0.636	0.0	Iron ore	64.04	0.3
AUD/NZD	1.097	0.4	WTI oil	70.8	-4.3

Source: Bloomberg

Chart 1: Housing credit growth only modestly slower



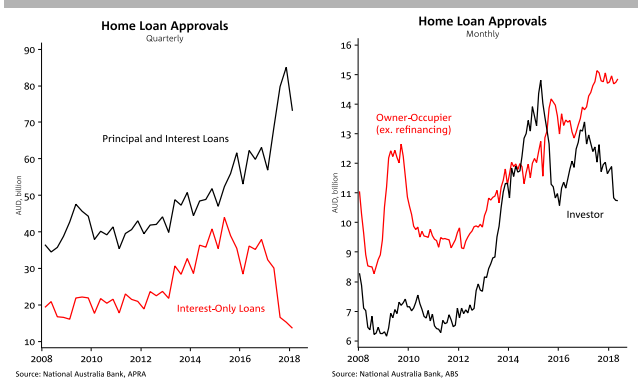
Ivan Colhoun, Chief Economist, Markets

some of the key points of this speech, along with some of our own views on the home lending standards debate and the implications for the Australian economy and housing markets. (We wrote previously on this topic in H2 2018 Outlook).

Perhaps the most important point was Byres' statement that "while there is more "good housekeeping" to do, the heavy lifting on lending standards has largely been done. Any tightening from here on is expected to be at the margin as banks seek to get a better handle on borrower expenses and better visibility of borrower debt commitments". This statement reduces the likelihood of some of the more extreme claims by commentators that there will be significant further tightening in bank lending standards as an outcome of the Royal Commission into Financial Services.

Byres made the important point that if one looks at the growth of housing credit overall, the various measures that APRA has enacted in recent years have mainly affected the composition of home lending growth (reducing investor and interest-only growth), rather than the overall growth rate of credit (see charts 1 and 2).

Chart 2: Significant change in the composition of growth



As we wrote previously, credit is the stock of outstanding home lending, while home loan approvals are the flow of new loans. As chart 2 also suggests, it's likely that the rate of growth of housing credit is likely to continue to slow somewhat in coming quarters. This will reflect the impact of both prior tightening of home lending standards by APRA and the in part related easing in both house price growth and housing turnover across much of Australia in recent times. Byres also made the point that while APRA's moves had primarily impacted the supply of credit, other factors were also currently impacting on the demand for credit.

What are the implications for the economy and monetary policy of slower home lending?

In recent public pronouncements, RBA Governor Lowe has reiterated that he currently sees financial stability as the number one domestic risk to the Australian economy. As a result, the RBA Board has been prepared to accept a slower return of inflation to the target,

rather than reduce interest rates further. As such, this suggests that even a moderate further slowing of credit growth, modest increases in mortgage lending rates as a result of funding pressures or modest further decline in house prices are unlikely to prompt the RBA to ease monetary policy (see Peter Jolly, in the [Australian Markets Weekly](#) of 9 July).

Note, the key here is likely to be the use of the descriptor "modest". More significant falls in house prices or larger rises in interest rates that affect the RBA's forecasts for growth and inflation would likely be required to produce a policy response. That said, at the margin current developments increase the risk that Australian official interest rates remain on hold for longer.

In terms of the implications for the Australian economic cycle, our thoughts are largely unchanged. Last week NAB released updated forecasts for the economy in "[The Forward View](#)". We noted the growth outlook remains reasonable, without being stellar, with some important new external risks that bear watching including funding pressures and trade tensions/tariff impositions. We wrote "At this stage we are inclined to still see the balance of risks as neutral but possibly a touch to the downside. Overall we see upside risks from commodity exports and infrastructure offset by risks from consumption. For 2019 we expect GDP growth of 2.9% and 2.6% in 2020."

We still see fairly robust employment growth ahead which should be enough to keep then unemployment rate on a slight declining trend. There's a further update on that front on Thursday.

Conclusion

The home lending market has been responding to the previous significant range of measures to improve lending standards introduced by APRA in recent years. This has been a factor in the slowing in house prices and general turnover in the housing market – and has produced an important switch in lending growth away from perceived higher-risk lending (interest only, investor and high LVR lending).

APRA Chair Wayne Byres suggests that much of the tightening in home lending standards has already occurred, with any further moves likely to be "at the margin". Recent developments in home lending and house prices may be a mild drag on the Australian economy. However, as they reflect developments that are mostly idiosyncratic to housing, rather than a generalised significant tightening in overall lending standards in the economy or generalised interest rate tightening, they are unlikely to prompt a policy response from the RBA (though they could extend the period of policy inaction). The fact that the unemployment rate remains low and likely in mild decline reinforces this conclusion.

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CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 16 July 2018								
NZ	Performance Services Index	Jun				57.3	21.30	8.30
UK	Rightmove House Prices MoM	Jul		/		0.4/0.4	22.01	9.01
CH	Surveyed Jobless Rate	Jun						
CH	GDP YoY	2Q		6.7		6.8	1.00	12.00
CH	GDP SA QoQ	2Q		1.6		1.4	1.00	12.00
CH	Retail Sales YoY	Jun		8.8/8.8		8.5/8.5	1.00	12.00
CH	Industrial Production YoY	Jun		6.5/6.5		6.8/6.8	1.00	12.00
CH	Fixed Assets Ex Rural YTD YoY	Jun		6		6.1	1.00	12.00
EC	Trade Balance SA	May		18.55/18.55		18.1/18.1	8.00	19.00
CA	Int'l Securities Transactions	May				9.13	11.30	22.30
US	Empire Manufacturing	Jul		21		25	11.30	22.30
US	Retail Sales Advance MoM	Jun		0.5		0.8	11.30	22.30
US	Retail Sales Ex Auto MoM	Jun		0.3/0.3		0.9/0.9	11.30	22.30
CA	Bloomberg Nanos Confidence					54.46	13.00	0.00
US	Business Inventories	May		0.4		0.3	13.00	0.00
Tuesday, 17 July 2018								
NZ	REINZ House Sales YoY	Jun				1.3	20.00	7.00
NZ	CPI QoQ	2Q	0.6	0.5		0.5	21.45	8.45
NZ	CPI YoY	2Q	1.7	1.6		1.1	21.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index					120.1	22.30	9.30
AU	RBA July Meeting Minutes						0.30	11.30
CH	New Home Prices MoM	Jun				0.8	0.30	11.30
NZ	Non Resident Bond Holdings	Jun				58.9	2.00	13.00
JN	Tokyo Condominium Sales YoY	Jun				-5.4	3.00	14.00
UK	BOE's Carney, Cunliffe, Stheeman Speak on Financial Stability							
UK	Jobless Claims Change	Jun				-7.7	7.30	18.30
UK	Average Weekly Earnings 3M/YoY	May		2.5		2.5	7.30	18.30
UK	ILO Unemployment Rate 3Mths	May		4.2		4.2	7.30	18.30
UK	Employment Change 3M/3M	May		115		146	7.30	18.30
CA	Manufacturing Sales MoM	May		0.5		-1.3	11.30	22.30
US	Industrial Production MoM	Jun		0.5		-0.1	12.15	23.15
US	Capacity Utilization	Jun		78.2		77.9	12.15	23.15
US	NAHB Housing Market Index	Jul		69		68	13.00	0.00
US	Powell to Deliver Semi-Annual Testimony Before Senate Panel							
Wednesday, 18 July 2018								
US	Total Net TIC Flows	May				138.7	19.00	6.00
AU	Westpac Leading Index MoM	Jun				-0.22	23.30	10.30
UK	CPI MoM	Jun		0.2		0.4	7.30	18.30
UK	CPI YoY	Jun		2.6		2.4	7.30	18.30
UK	CPI Core YoY	Jun		2.1		2.1	7.30	18.30
UK	Retail Price Index	Jun		281.9		280.7	7.30	18.30
UK	RPI MoM	Jun		0.4		0.4	7.30	18.30
UK	RPI YoY	Jun		3.5		3.3	7.30	18.30
UK	PPI Input NSA MoM	Jun		0.4		2.8	7.30	18.30
UK	House Price Index YoY	May		3.7		3.9	7.30	18.30
EC	Construction Output MoM	May				1.8	8.00	19.00
EC	CPI Core YoY	Jun F		1		1	8.00	19.00
US	MBA Mortgage Applications					2.5	10.00	21.00
US	Housing Starts	Jun		1320		1350	11.30	22.30
US	Building Permits MoM	Jun		2.2		-4.6	11.30	22.30
US	Fed Chairman Powell Appears Before House Panel							
US	U.S. Federal Reserve Releases Beige Book							
Thursday, 19 July 2018								
JN	Trade Balance Adjusted	Jun		155		-296.788	22.50	9.50
JN	Exports YoY	Jun		7		8.1	22.50	9.50
JN	Imports YoY	Jun		5.3		14	22.50	9.50
AU	NAB Quarterly Business Survey	2Q					0.30	11.30
AU	Employment Change	Jun	10	16.5		12	0.30	11.30
AU	Unemployment Rate	Jun	5.4	5.4		5.4	0.30	11.30
AU	Full Time Employment Change	Jun				-20.6	0.30	11.30
AU	Part Time Employment Change	Jun				32.6	0.30	11.30
AU	Participation Rate	Jun		65.5		65.5	0.30	11.30
JN	Machine Tool Orders YoY	Jun F				11.4	5.00	16.00
UK	Retail Sales Ex Auto Fuel MoM	Jun		0.2		1.3	7.30	18.30
CA	ADP Publishes June Payrolls Report						11.30	22.30
US	Initial Jobless Claims			220.5		214	11.30	22.30
US	Philadelphia Fed Business Outlook	Jul		21.5		19.9	11.30	22.30
US	Fed's Quarles Speaks on Alternative Reference Rates						12.00	23.00
US	Leading Index	Jun		0.5		0.2	13.00	0.00
Friday, 20 July 2018								
NZ	Net Migration SA	Jun				5090	21.45	8.45
JN	Natl CPI YoY	Jun		0.8		0.7	22.30	9.30
JN	Natl CPI Ex Fresh Food YoY	Jun		0.8		0.7	22.30	9.30
JN	Natl CPI Ex Fresh Food, Energy YoY	Jun		0.4		0.3	22.30	9.30
NZ	Credit Card Spending MoM	Jun				-1.6	2.00	13.00
JN	All Industry Activity Index MoM	May		0		1	3.30	14.30
GE	PPI YoY	Jun		3		2.7	5.00	16.00
EC	ECB Current Account SA	May				28.4	7.00	18.00
UK	Public Finances (PSNCR)	Jun				4.5	7.30	18.30
US	Fed's Bullard Speaks on Economy and Monetary Policy						11.00	22.00
CA	Retail Sales MoM	May		1		-1.2	11.30	22.30
CA	Retail Sales Ex Auto MoM	May		0.5		-0.1	11.30	22.30
CA	CPI YoY	Jun		2.3		2.2	11.30	22.30
CA	CPI Core- Common YoY%	Jun		1.9		1.9	11.30	22.30
CA	CPI Core- Median YoY%	Jun		1.9		1.9	11.30	22.30
CA	CPI Core- Trim YoY%	Jun		1.9		1.9	11.30	22.30
JN	Convenience Store Sales YoY	Jun				-1.2		
Upcoming Central Bank Interest Rate Announcements								
Canada, BoC		5-Sep	1.5%	1.5%		1.5%		
Europe, ECB		26-Jul	-0.4%	-0.4%		-0.4%		
Japan, BoJ		31-Jul	-0.1%	-0.1%		-0.1%		
US, Federal Reserve		1-Aug	1.75-2%	1.75-2%		1.75-2%		
UK, BOE		2-Aug	0.75%	0.75%		0.5%		
Australia, RBA		7-Aug	1.5%	1.5%		1.5%		
New Zealand, RBNZ		9-Aug	1.75%	1.75%		1.75%		

GMT: Greenwich Mean Time; AEST: Australian Eastern Standard Time

FORECASTS

		Annual % change				Quarterly % change											
		2016	2017	2018	2019	2016			2017			2018			2019		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia Forecasts																	
Household Consumption	2.9	2.7	2.5	2.5	0.9	0.6	0.5	0.8	0.3	1.0	0.6	1.0	0.3	0.5	0.6	0.6	0.6
Underlying Business Investment	-11.8	3.0	3.3	6.6	-3.4	-2.6	-5.6	2.2	3.1	0.0	3.7	-0.5	-0.1	1.3	1.6	0.9	2.1
Residential Construction	8.7	-2.2	-1.4	-2.6	4.3	1.7	-0.7	2.4	-3.2	0.3	-2.1	-0.1	0.9	-1.1	-0.6	-0.7	-1.0
Underlying Public Spending	5.2	4.5	4.8	4.3	1.8	1.9	1.1	0.6	1.0	1.3	1.4	1.2	1.5	0.8	0.9	1.0	1.1
Exports	6.8	3.5	4.4	4.9	2.1	1.4	0.8	3.4	-1.9	2.9	0.7	-1.5	2.4	1.1	1.5	1.4	1.3
Imports	0.2	7.8	4.2	4.4	-0.8	2.1	0.9	2.5	3.1	-0.1	2.6	1.6	0.5	0.7	0.9	0.8	1.1
Net Exports (a)	1.2	-1.0	-0.1	0.0	0.9	-0.2	0.0	0.1	-1.1	0.6	-0.4	-0.7	0.3	0.1	0.1	0.1	0.0
Inventories (a)	0.1	-0.1	0.0	-0.1	0.0	0.4	0.2	-0.4	0.4	-0.5	0.1	0.0	0.2	-0.1	-0.1	0.0	0.0
Domestic Demand - qtr%					0.1	0.6	-0.1	1.1	0.7	0.9	0.9	0.8	0.6	0.6	0.7	0.6	0.8
Dom Demand - ann %	1.9	3.0	2.8	3.0	1.5	1.8	1.7	2.5	2.3	2.6	3.6	3.3	3.2	2.8	2.6	2.5	2.6
Real GDP - qtr %					0.9	0.9	-0.2	1.1	0.3	1.0	0.5	0.5	1.0	0.5	0.7	0.7	0.8
Real GDP - ann %	2.6	2.2	2.9	3.0	2.7	3.3	2.0	2.4	1.8	2.0	2.8	2.4	3.1	2.6	2.8	3.0	2.8
CPI headline - qtr %					-0.2	0.4	0.7	0.5	0.5	0.2	0.6	0.6	0.4	0.7	0.4	0.7	0.4
CPI headline - ann %	1.3	1.9	2.2	2.2	1.3	1.0	1.3	1.5	2.1	1.9	1.8	1.9	1.9	2.4	2.2	2.3	2.2
CPI underlying - qtr %					0.2	0.5	0.3	0.5	0.4	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5
CPI underlying - ann %	1.6	1.8	2.0	2.1	1.6	1.6	1.5	1.5	1.7	1.8	1.9	1.9	2.0	1.9	2.0	2.0	2.0
Wages (Pvte WPI - qtr %)					0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Wages (Pvte WPI - ann %)	1.9	1.8	2.1	2.5	2.0	2.0	1.9	1.8	1.8	1.8	1.9	1.9	1.9	2.0	2.1	2.2	2.4
Unemployment Rate (%)	5.7	5.6	5.4	5.0	5.8	5.8	5.7	5.7	5.9	5.6	5.5	5.4	5.5	5.5	5.4	5.3	5.2
Terms of trade	0.6	12.3	-0.4	-0.8	-1.9	2.4	4.0	11.3	5.4	-6.0	-0.1	0.4	3.3	-1.4	-3.4	-0.2	-1.9
G&S trade balance, \$Abn	-14.3	10.2	8.4	-11.2	-8.7	-7.4	-4.3	6.0	6.4	3.4	1.4	-1.0	4.1	3.2	0.4	0.8	-0.9
% of GDP	-0.8	0.6	0.4	-0.6	-2.1	-1.8	-1.0	1.4	1.4	0.8	0.3	-0.2	0.9	0.7	0.1	0.2	-0.2
Current Account (% GDP)	-3.1	-2.5	-2.7	-3.7	-3.8	-3.9	-3.4	-1.4	-1.6	-2.4	-2.6	-3.2	-2.3	-2.4	-3.0	-2.9	-3.3

Source: NAB Group Economics; (a) Contributions to GDP growth

Exchange Rate Forecasts						
	16-Jul	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Majors						
AUD/USD	0.7429	0.73	0.75	0.75	0.75	0.75
NZD/USD	0.6775	0.69	0.70	0.70	0.71	0.71
USD/JPY	112.49	109.0	110.0	108.0	106.0	104.0
EUR/USD	1.1685	1.15	1.18	1.22	1.22	1.25
GBP/USD	1.3235	1.32	1.38	1.45	1.47	1.53
USD/CHF	1.0019	1.02	1.00	0.98	0.98	0.97
USD/CAD	1.3151	1.32	1.28	1.26	1.25	1.25
USD/CNY	6.6916	6.50	6.40	6.30	6.23	6.23

Australian Cross Rates						
	16-Jul	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
AUD/NZD	1.0965	1.06	1.07	1.07	1.06	1.06
AUD/JPY	83.6	80	83	81	80	78
AUD/EUR	0.6358	0.63	0.64	0.61	0.61	0.60
AUD/GBP	0.5613	0.55	0.54	0.52	0.51	0.49
AUD/CNY	4.9712	4.75	4.80	4.73	4.67	4.67
AUD/CAD	0.9770	0.96	0.96	0.95	0.94	0.94
AUD/CHF	0.7443	0.74	0.75	0.74	0.74	0.73

Interest Rate Forecasts						
	16-Jul	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Australia Rates						
RBA Cash rate	1.50	1.50	1.50	1.50	1.75	1.75
3 month bill rate	2.02	1.95	1.95	1.95	2.15	2.15
3 Year Swap Rate	2.18	2.15	2.35	2.50	2.80	3.00
10 Year Swap Rate	2.84	2.95	3.20	3.30	3.60	3.70
Offshore Policy Rates						
US Fed funds	2.00	2.25	2.50	2.75	3.00	3.25
ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.20
BoE repo rate	0.50	0.50	0.75	0.75	1.00	1.00
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	1.75	1.75	1.75	1.75	2.00	2.25
China 1yr lending rate	4.35	4.35	4.35	4.35	4.35	4.35
China Reserve Ratio	15.5	16.0	16.0	16.0	16.0	16.0
10-year Benchmark Bond Yields						
Australia	2.64	2.80	3.00	3.05	3.30	3.40
United States	2.83	3.10	3.25	3.25	3.50	3.50
New Zealand	2.83	2.95	3.10	3.20	3.45	3.60

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP							
Dec year	2015	2016	2017	2018	2019	2020	20 Yr Avg
Australia	2.5	2.6	2.2	2.9	2.9	2.6	3.4
US	2.9	1.5	2.3	2.8	2.3	1.7	2.6
Eurozone	2.1	1.8	2.6	2.1	2.0	1.8	1.5
UK	2.3	1.9	1.8	1.5	1.7	1.6	2.4
Japan	1.4	0.9	1.7	0.9	1.0	0.7	0.8
China	6.9	6.7	6.9	6.5	6.3	6.0	9.2
India	8.2	7.1	6.7	6.8	7.2	6.9	6.6
New Zealand	3.5	4.0	2.8	2.9	2.9	2.7	3.0
World	3.5	3.2	3.8	3.8	3.7	3.5	3.5
MTP Top 5	4.1	3.7	4.2	3.9	3.7	3.1	5.0

Commodity prices (\$US)							
	16-Jul	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Brent oil	70.8	67	66	65	66	67	68
Gold	1242	1320	1350	1365	1370	1380	1390
Iron ore	64.0	63	61	60	58	60	62
Hard coking coal	187	130	110	101	99	100	100
Thermal coal	118	90	90	90	65	65	65
Copper	6218	6630	6630	6630	6630	6630	6630
Aust LNG (*)	13.5	11.5	11.8	11.7	11.3	11.7	11.8

(*) Implied Australian LNG export prices.

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