Credit growth set to pick up

Household confidence stronger

By DANNY JOHN

BUSINESS credit growth is set to resume in the next six months as a gradual pick-up in consumer spending flows through to the commercial sector, a leading retail banker has predicted.

Retailers can also expect a good Christmas following an upsurge in household confidence on the back of the improving economy, said Rob Coombe who heads Westpac's 750-strong branch network.

Mr Coombe, whose division is responsible for lending to the mortgage, personal, small business and medium-sized enterprise sectors, believes companies will start investing again early next year.

The trigger is expected to be better retail sales figures as a combination of confidence, low unemployment and continuing post-global financial crisis economic growth persuades consumers to open their wallets.

This will help to counter a slump in business credit growth over the past year which, in recent months, has gone into reverse as companies have reined in their own spending.

Bank lending has been sustained by homeowners who have kept mortgage growth going at an average of 8 per cent this year, albeit well below the double-digit percentage increases of the pre-GFC boom years.

New loans to business are expected to pick up the slack from mortgage holders in the second half of the industry's current financial year as higher interest rates begin to dampen home loan demand.

Along with its peers, Westpac is anticipating a 25-basis points rise in the official cash rate before Christmas. The rate rise could come as early as next week taking the headline rate to 4.75 per cent.

The typical standard variable mortgage rate is sitting at 6.75 per cent and home loans will rise by at least the same as any Reserve Bank sanctioned increase and possibly more as the major banks look to recover some of their higher borrowing costs.

In an interview with BusinessDay, Mr Coombe was coy about the prospects of any of the banks going above the RBA, although he acknowledged consumer concern surrounding out-of-cycle interest rate hikes in the wake of Westpac's controversial increase less than a year ago.

But he was in little doubt that the central bank would move cash rates up again due to the strength of economic growth and the prospect of higher inflation.

The big question was whether there would be one or two quarter of a percentage point increases, either back to back or one within the next few weeks and another after the New Year break.

"It is quite finely poised at the moment," said Mr Coombe. "I think the big issue is our unemployment rate which is so low. That is a good thing for people as they feel secure and is also great for the economy."

But the downside was that the resulting additional spending by consumers could put pressure on the RBA to raise interest rates which, in turn, would quickly dampen confidence and see growth falter, he added.

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