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S'pore's bank loan growth falls again

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Highlights:

Total bank loans growth fell for the third consecutive month by 1.0% yoy, dragged down by consumer loans which contracted 2.6% yoy, mainly due to housing loans (-1.4% yoy), but business loans also flat-lined (0% yoy) as well. The slowdown in business loans momentum could signal challenging times ahead of the private sector, albeit the MAS is already in talks with financial institutions to extend the loans moratorium beyond 31 December to avoid a cliff effect upon expiry. In particular, the business segments that saw large discrepancies in loans growth momentum were business services (+21.0% yoy), building and construction (+4.5% yoy) and transport, storage & communications (+4.4% yoy) which fared relatively better, whereas manufacturing (-9.1% yoy) and general commerce (-3.4% yoy) underperformed. This divergence in loans momentum between different business industries could be a reflection of a K-shaped recovery where different recovery speeds are noted depending on whether they are Covid-resilient and externally or domestically oriented.

Compared to July, total bank loans shrank for the 6th straight month by 0.1% mom, weighed down by business loans which decreased for the 5th month by 0.4% mom due to softness in manufacturing and financial institutions. However, consumer loans actually rose by 0.3% mom after falling sequentially for most of this year up to July 2020. Notably, car loans and credit card loans rebounded 0.7% mom and 1.7% mom in August, despite being 4.3% and 10.1% lower than a year ago. This suggests that consumer sentiments may also be stabilizing if not modestly ticking higher in the third quarter after the Circuit Breaker-induced lows in the second quarter, albeit they are not back to pre-Covid levels yet.

Total bank loans have expanded 1.1% for the first eight months of this year, but is likely to remain tepid for the remaining months of 2020. Our forecast is for bank loans to contract around 1% yoy in the third quarter and only see marginal growth of 0.2% yoy for the full year. If this materializes, 2020 would mark the slowest bank loans growth since 2015. Whilst recent economic indicators suggest a modest sequential 2H20 recovery is underway and an earlier transition to Phase 3 before the year-end may bode well for the certain beleaguered services industries, nevertheless, without clarity on whether the loans moratorium will be extended into 2021, we are unlikely to see a quick turnaround in the bank loans momentum just yet.

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