With investor lending taking off again, the regulator could impose tighter constraints on bank lending.Image sourced from Shutterstock.com

Vital Signs is a weekly economic wrap from UNSW economics professor and Harvard PhD Richard Holden (@profholden). Vital Signs aims to contextualise weekly economic events and cut through the noise of the data affecting global economies.

This week: consumer confidence isn't looking good, investor loans cause concern for the regulators, and Australia's trade surplus sends the Aussie dollar soaring. If only we knew what President Trump will do next.

There was plenty of news in Australia this week.

The influential NAB Monthly Business Survey had a smiley face (literally) on it for the first time since mid last year, with the index up 5 points to +11. Business confidence itself was unchanged at +6. It reported that there had been "a reprieve from the steady moderation in business conditions seen late last year". Yet retail, manufacturing and mining performed poorly, with wholesale picking up the slack. Retail was now the weakest sector in the survey.

Translation: consumer confidence is bad. And when you think that consumer spending accounts for nearly 75% of GDP that is certainly cause for concern.

Private sector credit was up 0.7% in December for a 5.6% annual rate of growth, according to the Reserve Bank. How does one square that with my claims about consumer confidence? Easy, the credit expansion was chiefly due to a growth in investor loans, which were up at an annual rate of 6.2%. In fact, over the last three months that rate was edging toward the Australian Prudential Regulatory Authority "speed limit" of 10% – coming in about 1% below.

This raises thorny questions for APRA. Does it impose tighter constraints on banks lending to investors – like even higher deposit requirements? What if growth goes over 10% – do they shift the goalposts?

We are used to thinking of central banks as having to perform a balancing act with monetary policy where they don't let the economy get too hot or too cold, and have to be worried about an interest rate rise causing a sharp contraction/recession.

Perhaps APRA faces an analogous, though new, problem. If it tightens so-called "macroprudential" standards – like deposit requirements – it risks causing a sharp contraction in housing prices. And that could lead to forced selling, and pretty soon it could amount to a fire sale. Or, if you like, a macroprudentially-induced housing run.

Australia's trade surplus came in at a record A$3.51 billion in December, beating estimates of around A$2.2 billion. This seems like good news. And as they say in baseball "you can't boo a homerun". But the record figure came on the back of a sharp rise in commodity prices, once again highlighting how dependent our economy is on cyclical movements in prices of things we dig out of the ground. And the RBA will not be pleased at the accompanying leap in the Aussie dollar, which surged past US76 cents on the news.

The RBA puts a lot of emphasis on a lower Aussie dollar in that it helps exporters, and US76 cents is getting outside their comfort zone. Although I have expressed scepticism about their thinking many times before in The Conversation.

Over the pond, the US Federal Reserve kept interest rates steady, in the band of 0.5%-0.75%, after its December hike of 25bp.

In its press release the Fed said:

"the labor market has continued to strengthen and that economic activity has continued to

expand at a moderate pace. Job gains remained solid and the unemployment rate stayed near its recent low. Household spending has continued to rise moderately while business fixed investment has remained soft. Measures of consumer and business sentiment have improved of late. Inflation increased in recent quarters but is still below the Committee's 2 percent longer-run objective."

Other than business investment being soft, that sounds like everything is going according to plan. And so far it is.

But then there is President Trump.

We have yet to see the impact Trump will have on consumer and business confidence, let alone what happens if he starts a series of trade wars.

Or if he convinces Congress to introduce his cash-flow-based tax plan . I will provide more detail on that in future columns, but it is a dangerous attempt to provide preferable tax treatment for exporters over importers. It has the very real prospect of causing huge disruption, and a large increase in the prices of many staple goods like textiles and food.

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Read more http://theconversation.com/vital-signs-time-to-shift-the-goalposts-on-investor-lending-again-72182