

31 August 2022

Australian private credit. Growth begins to throttle back on stimulus unwind. July 0.7% mth, 9.1% yr.

Credit to the private sector grew by 0.7% in July. While a robust outcome it represents a step-down from the brisk pace of the June quarter gains of 0.9% in each of the three months.

The July update provides some tentative evidence that credit growth is beginning to throttle back on the stimulus unwind.

Housing credit growth edged down to 0.5% in July, following a five month run of 0.6% results and 0.7% outcomes at the turn of the year. The July reading of 0.5% was the softest since February 2021.

In other July detail, business credit posted a rise of 1.2%. That is after strikingly rapid growth over the June quarter (a 1.6% and a couple of 1.5%'s) - an unsustainable 20% annualised pace.

Annual credit growth hit 9.1% in May and held at that level in June and again in July. That is the fastest annual pace since October 2008, albeit that is well below the 2007 pre-GFC peak of 16.5%. Over the past year, credit strengthened - across households and businesses. Annual growth is well up from 1.7% at the end of 2020, a year disrupted by the initial outbreak of covid.

Households and businesses alike have borrowed more, responding to substantial policy stimulus. Record low interest rates and generous tax incentives for business investment provided a strong tail wind for the Australian economy. The acceleration in credit also reflects impacts from lockdowns - firms at these times accessed lines of credit to ease cash flow pressures.

We interpret the strength of credit growth over the June quarter as representing a late cycle flourish. Annual growth at 9.1% currently is, or is likely very near, what will be the cycle peak.

Importantly, a policy u-turn is now underway. The RBA is quickly removing ultra easy monetary policy, on the way to a contractionary stance, to fight a significant inflation challenge. The tightening of policy will reduce demand for credit - across households and businesses.

As noted above, housing credit grew by 0.5% in July, the softest outcome since February 2021. New lending for housing is now declining, down by 5.5% over the first half of 2022, including a -4.4% in June.

Annual housing credit growth is 7.7% currently. The 3 month annualised pace has cooled to 7.1%, down from the peak at the start of the year, of 8.6%. For owner-occupiers, who led this cycle, the 3 month annualised pace of credit growth has slowed appreciably, down from the mid-2021 peak of 10.2% to be 7.3% currently - impacted by stretched affordability and the turning of the interest rate cycle (including fixed rates).

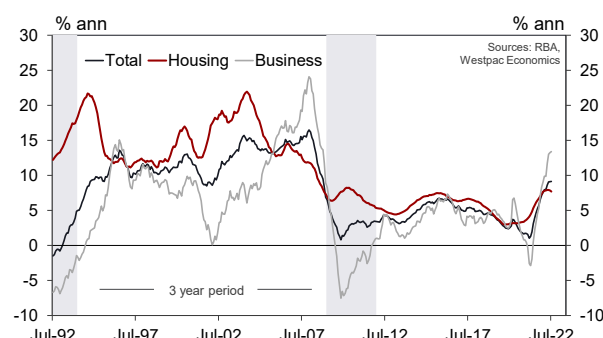
Business credit grew by 13.4% over the past year, the fastest annual pace since October 2008, but well below the pre-GFC peak of 24%. This surge in lending to businesses has been associated with a 10% annual increase in the value of non-mining business investment. For now, the economy has considerable momentum. However, as higher rates impact consumers and the housing sector, business investment and business borrowing will cool.

Credit

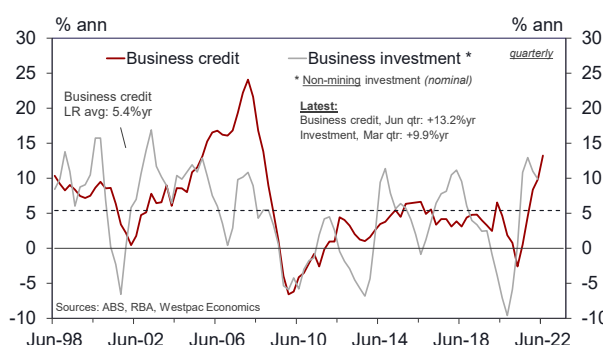
Item	Mth		Ann	
	Jun	Jul	Jun	Jul
Total credit (<i>share</i>)	0.9	0.7	9.1	9.1
Business (34%)	1.5	1.2	13.2	13.4
Other personal (4%)	-0.3	0.2	-2.6	-1.5
Housing, total (62%)	0.6	0.5	7.8	7.7
Owner-occupier housing	0.6	0.5	8.6	8.3
Investor housing	0.6	0.5	6.4	6.5

Sources: RBA, Westpac Economics.

Credit: annual growth at 9.1%, a 13½ year high



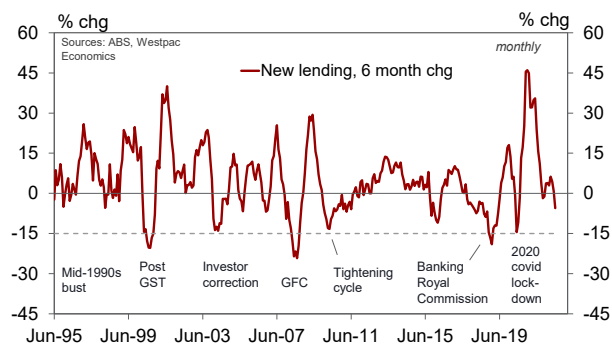
Business credit & investment



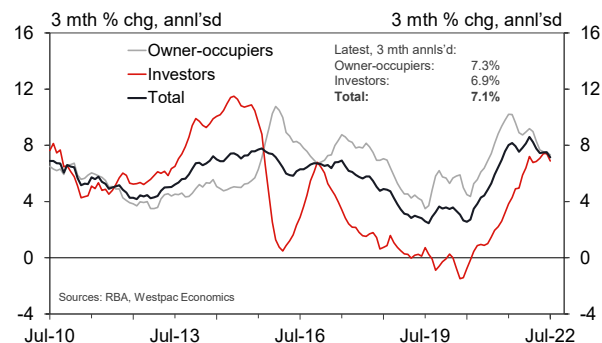
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Housing finance cycles



Housing credit: 3 month pace cools to 7.1%



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