BULLETIN

30 September 2022

Australian private credit. Housing downturn underway, business remains brisk for now. August 0.8% mth, 9.3% yr.

Annual credit growth hit a fresh 14 year high in August, climbing to 9.3%, up from 9.1% for May through to July, and well up from 4.7% this time a year ago. That 9.3% outcome is the fastest annual pace since October 2008, albeit it is well below the 2007 pre-GFC peak of 16.5%.

For the month of August, credit grew by 0.8% and the July estimate was revised up to 0.8% from 0.7% previously. That follows outcomes of 0.9% each month throughout the June quarter - bringing the five month average to 0.84%. By comparison, the average over the previous six months to March was 0.69%.

The story over 2021 and into 2022 was that households and businesses 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 reflected impacts from lockdowns - firms at these times accessed lines of credit to ease cash flow pressures.

The August outcome included a 1.2% increase in business credit. That was the 5th consecutive 1% plus expansion in business lending - with annualised growth over this period a rapid 18%. This is against the backdrop of an ongoing robust expansion in the Australian economy - a reopening recovery on fewer covid restrictions and on fewer disruptions more generally (including from inclement weather). This is a late cycle flourish in lending to businesses. Annual growth is 14.1% currently - the fastest pace since August 2008.

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.

The housing market is already showing the adverse impacts of sharply higher interest rates. For July and August, housing credit grew by 0.47% and 0.52%, respectively - which is a 6.1% annualised pace. That is a step down from a 0.62% monthly average for the June quarter, a 7.6% annualised pace. Indeed, housing credit momentum peaked back in January, when the 3 month annualised pace touched 8.6%. Initially, the slowing was due to stretched affordability weighing on owner-occupiers, notably first home buyers.

New lending for housing is now declining, and declining at a rate of knots, as borrowing capacity is lowered in recognition of higher interest rates. New lending contracted in June, down by -4.4%, and then plunged in July, by -8.5%. Investors, who turned up late to the party, are the first to leave, with lending to this segment slumping over the two months, down -17%, compared to a fall of -10% for owner-occupiers.

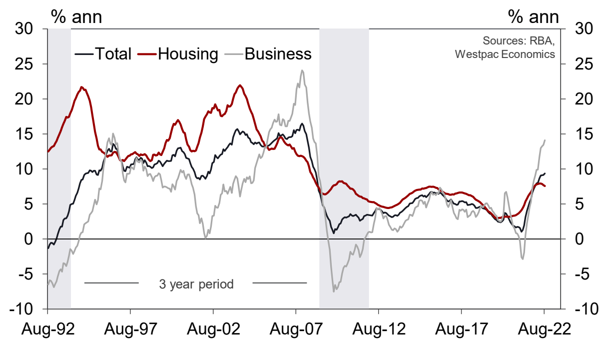
Currently, annual housing credit growth is 7.6%, after hitting a cycle high of 7.9% through March to June this year. That high point was a little above the 2015 peak of 7.5%, but a touch below the 2010 peak of 8.2% and well below the pre-GFC cycle peak of 14.5% in August 2006.

Credit

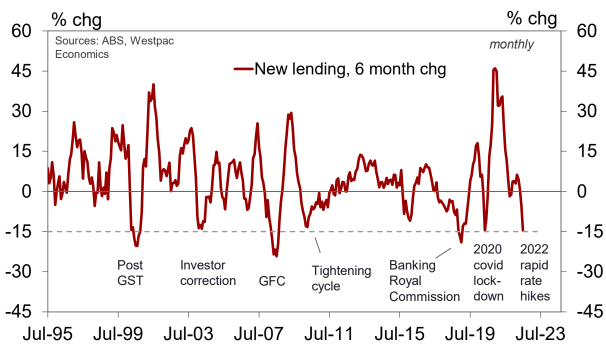
	Mth		Ann	
Item	**Jul**	**Aug**	**Jul**	**Aug**
Total credit *(share)*	0.8	0.8	9.1	9.3
Business (34%)	1.3	1.2	13.4	14.1
Other personal (4%)	0.3	0.3	-1.5	-0.6
Housing, total (62%)	0.5	0.5	7.7	7.6
Owner-occupier housing	0.5	0.6	8.3	8.0
Investor housing	0.4	0.5	6.5	6.6

Sources: RBA, Westpac Economics.

Credit: annual growth at 9.3%, a 14 year high



Housing finance: retreats as RBA hikes rates



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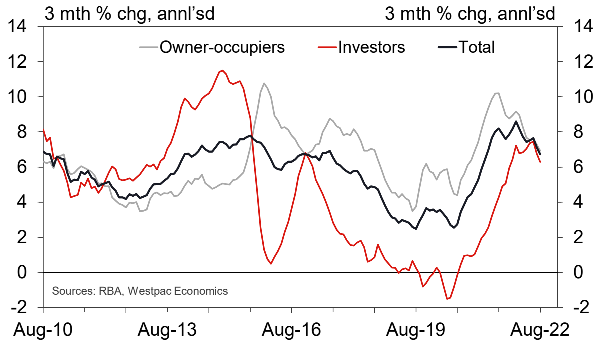
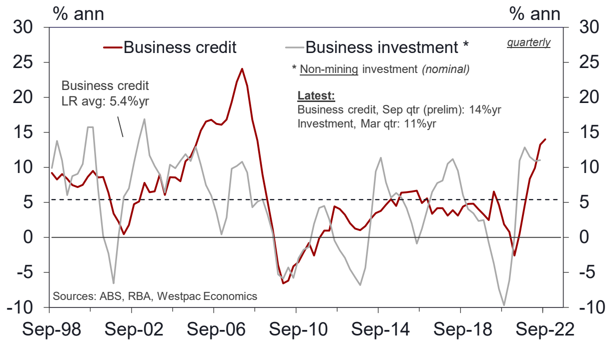
Housing credit, slowdown underway



Business credit & investment



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