31 October 2022

Australian private credit.
Housing led slowdown, as rising interest rates impact.
September 0.7% mth, 9.4% yr.

The September private sector update provided further confirmation of the anticipated slowing in the face of rapidly rising interest rates.

The credit slowdown is being led by the interest rate sensitive housing sector. Business credit continues to expand at a strong pace - albeit a little off the June quarter peak - representing a late cycle flourish.

For September, credit posted a 0.7% gain, the softest result since March. It represents a gradual slowdown - moderating from 0.9% outcomes each month during the June quarter and 0.8% results for July and August. The September outcome included a 0.5% increase in housing credit and a 1.3% rise in business, while personal was flat.

Annual credit growth hit another fresh 14 year high, edging up from 9.3% in August to 9.4% for September. That is the fastest annual pace since October 2008, albeit well below the 2007 pre-GFC peak of 16.5%.

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.

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, in turn, businesses.

The housing market is showing the adverse impacts of sharply higher interest rates. New lending for housing is now declining, and declining at a rate of knots, as borrowing capacity is reduced in recognition of higher interest rates. Over the seven months to August, lending is down by -17.5%, including a -22% fall for investors and a -15% decline for owner-occupiers.

Currently, annual housing credit growth is 7.3%, after hitting a cycle high of 7.9% through March to June this year. The 2022 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. In terms of momentum, growth on a 3 month annualised pace is 5.8% currently, a significant slowdown from the January peak of 8.6%.

Business credit grew at an unsustainable 19.4% annualised pace during the June quarter, moderating a little to a still rapid 16.4% pace in the September quarter. Annual growth is 14.7% currently, the fastest pace since mid-2008. This is against the backdrop of double digit growth in the value of non-mining business investment as firms look to expand capacity to meet rising demand.

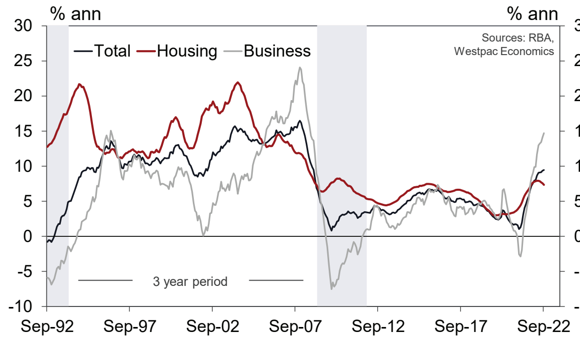
With the economy set to slow sharply in 2023, impacted by high inflation and rising interest rates, non-mining firms will likely cut equipment investment and business credit growth will cool appreciably.

Credit

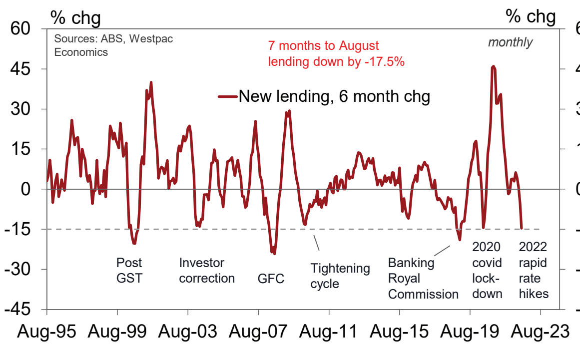
	Mth		Ann	
Item	**Aug**	**Sep**	**Aug**	**Sep**
Total credit *(share)*	0.8	0.7	9.3	9.4
Business (34%)	1.2	1.3	14.1	14.7
Other personal (4%)	0.3	0.0	-0.6	0.1
Housing, total (62%)	0.5	0.5	7.6	7.3
Owner-occupier housing	0.5	0.5	8.0	7.8
Investor housing	0.4	0.3	6.6	6.4

Sources: RBA, Westpac Economics.

Credit: annual growth at 9.4%, a 14 year high



Housing finance: retreats as RBA hikes rates



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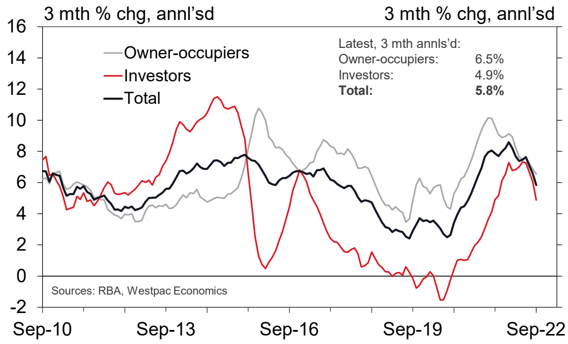
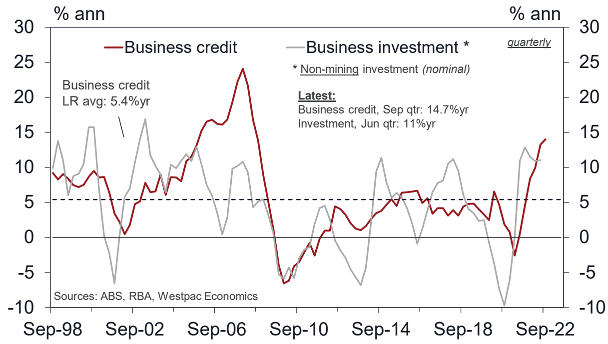
Housing credit slowdown well underway



Business credit & investment



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