

30 November 2022

Australian private credit. Slowdown continues, rapid rate rises impacting. October 0.6% mth, 9.5% yr.

The October private sector credit 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, which has been expanding at a strong pace, is also cooling.

For October, credit posted a 0.6% gain, the softest result since March. It represents a gradual slowdown - moderating from 0.9% outcomes each month during the June quarter, 0.8% results for July and August, followed by a 0.7% for September.

The October outcome included a 0.4% increase in housing credit and a 0.8% rise in business, while personal advanced by 0.2%.

Annual credit growth hit a fresh 14 year high, edging up from 9.4% to 9.5% for October. That is the fastest annual pace since October 2008 (albeit well below the 2007 pre-GFC peak of 16.5%) and will be the peak in this cycle (next month, a 1.0% increase for November 2021 falls out of the calculation).

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.

Importantly, a policy u-turn is well underway. The RBA has quickly removed ultra-easy monetary policy, shifting towards 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 8 months to September, lending is down by -24.3%, including a -26.4% fall for investors and a -23.2% decline for owner-occupiers.

Currently, annual housing credit growth is 7.2%, after hitting a cycle high of 7.9% through March to May 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 5.7% currently, a significant slowdown from the January peak of 8.6%.

Business credit grew at an unsustainable 19.2% annualised pace during the June quarter, moderating a little to a still rapid 16.1% pace in the September quarter, and has begun the December quarter on a more moderate note, at a 10.4% annualised pace.

Annual business credit growth is 15.0% currently, the fastest pace since mid-2008, and this is likely to be the cycle peak. 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.

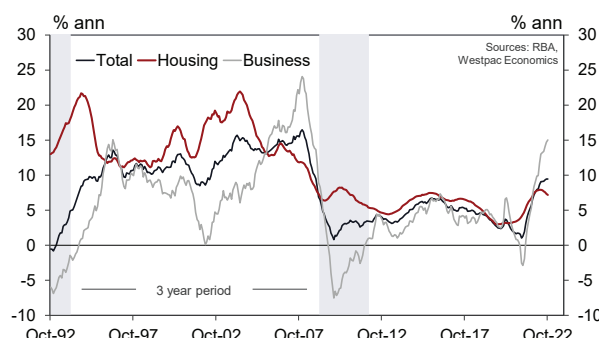
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Credit

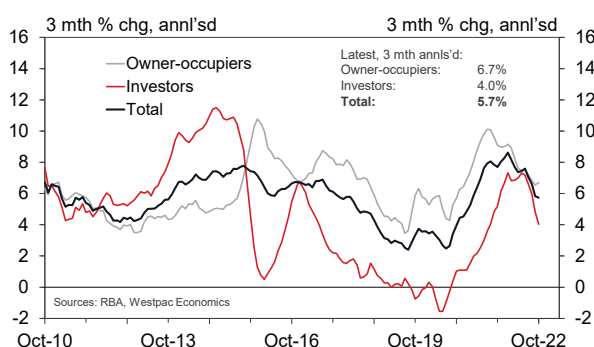
Item	Mth		Ann	
	Sep	Oct	Sep	Oct
Total credit (<i>share</i>)	0.7	0.6	9.4	9.5
Business (34%)	1.3	0.8	14.7	15.0
Other personal (4%)	0.0	0.2	0.1	0.3
Housing, total (62%)	0.5	0.4	7.3	7.2
Owner-occupier housing	0.5	0.5	7.8	7.7
Investor housing	0.3	0.3	6.4	6.2

Sources: RBA, Westpac Economics.

Credit: annual growth at 9.5%, 14 year high

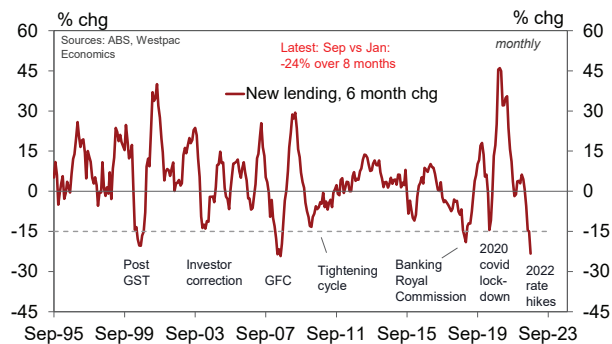


Housing credit slowdown well underway

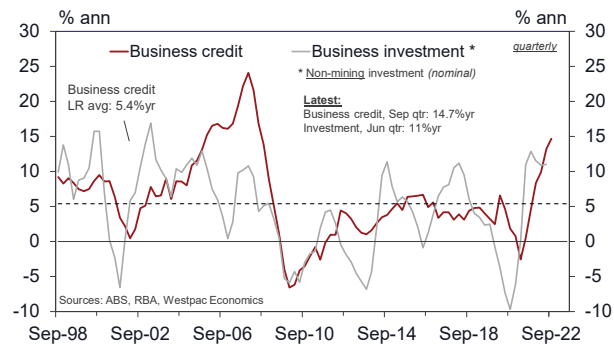


Andrew Hanlan, Senior Economist, ph (61-2) 8254 9337

Housing finance: retreats as RBA hikes rates



Business credit & investment



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