BULLETIN

23 December 2022

Australian private credit.
Slowdown well underway as rising interest rates impact.
November 0.5% mth, 8.9% yr.

The slowdown of private sector credit growth is well underway, as confirmed by the November update and by revisions to recent history.

Credit grew by 0.5% in November and the October estimate was downgraded to 0.5% from 0.6% previously. These are the softest monthly outcomes since October last year. The monthly pace of credit growth has progressively eased from the high of 0.9% for April and May.

The November result of 0.5% included a 0.7% increase in business credit, a gain of 0.4% for residential and a rise of 0.2% for personal.

Annual credit growth slipped below 9% in November, to be at 8.9%. That is down from the cycle peak in October of 9.5% - which was 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.

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 is reducing 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 as a result of higher interest rates. Over the 9 months to October, lending is down by -23%.

Currently, annual housing credit growth is 6.9%, 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 5.3% currently, a significant slowdown from the January peak of 8.7%.

Business credit grew at an unsustainable 19.4% annualised pace during the June quarter (associated with the reopening from delta and omicron disruptions), easing to a still rapid 15.8% pace in the September quarter, and for the December quarter to date is running at more moderate 9.4% annualised pace.

Annual business credit eased to 13.9%, down from the cycle peak in November of 15%, 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.

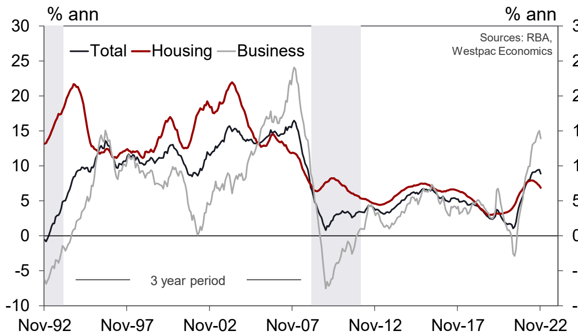
With the economy set to slow sharply in 2023, impacted by high inflation and rising interest rates, non-mining firms will likely cut equipment investment and business credit growth will cool appreciably.

Credit

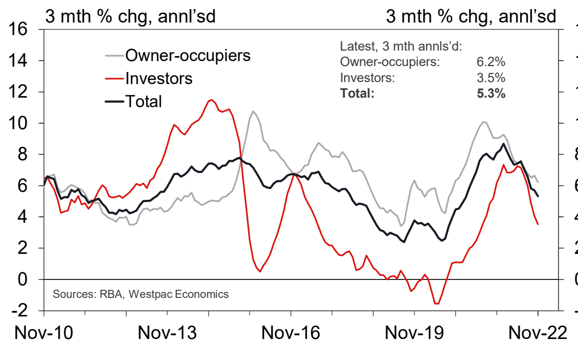
	Mth		Ann	
Item	**Oct**	**Nov**	**Oct**	**Nov**
Total credit *(share)*	0.5	0.5	9.5	8.9
Business (34%)	0.8	0.7	15.0	13.9
Other personal (4%)	0.2	0.2	0.3	-0.2
Housing, total (62%)	0.4	0.4	7.2	6.9
Owner-occupier housing	0.5	0.4	7.7	7.3
Investor housing	0.3	0.3	6.2	5.9

Sources: RBA, Westpac Economics.

Credit: annual growth slips below 9%



Housing credit slowdown well underway



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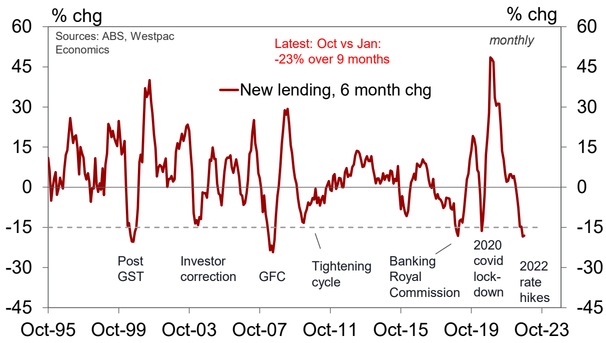
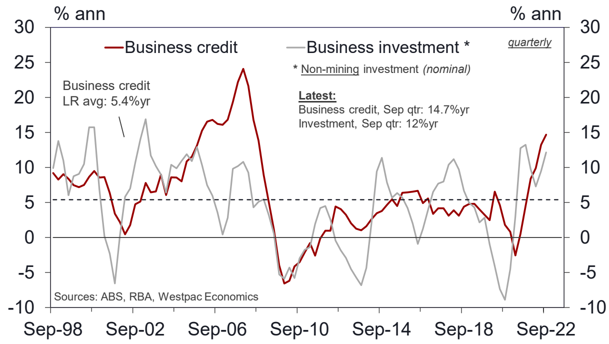
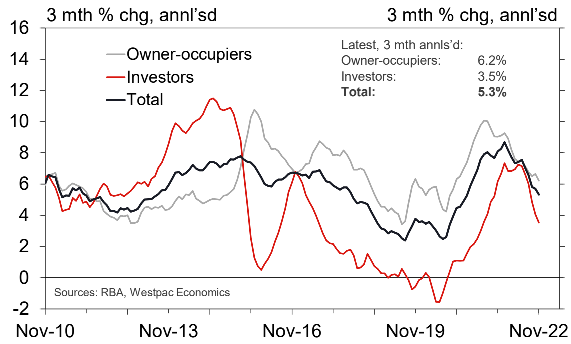
Housing finance: retreats as RBA hikes rates



Business credit & investment



Housing credit slowdown well underway



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Disclaimer continued

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