BULLETIN

31 January 2023

Australian private credit. Business slowdown emerging as rapid rate rises impact. December 0.3% mth, 8.3% yr.

The December private sector credit update provided further confirmation of the well-established slowdown in credit growth. The interest rate sensitive housing sector continues to lead the down-trend, although business credit, which expanded at a strong pace over last year, is also easing notably.

For December, credit posted a 0.3% gain, the softest result since February 2021. The monthly pace of credit growth has progressively eased from the high of 0.9% for April and May.

The December outcome included a 0.3% increase in residential credit and business credit, while personal declined by 0.2%.

Annual credit growth slipped to from 8.9% to 8.3% in December. 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 sharply curtailed. Over the 10 months to November, new lending is down by -26%, including a -26.4% fall for investors and a -25.8% decline for owner-occupiers.

Currently, annual housing credit growth is 6.5%, 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 4.8% 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 15.6% pace in the September quarter, and for the December quarter, is running at more moderate 7.3% annualised pace.

Annual business credit eased to 12.9%, down from the cycle peak in October 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.

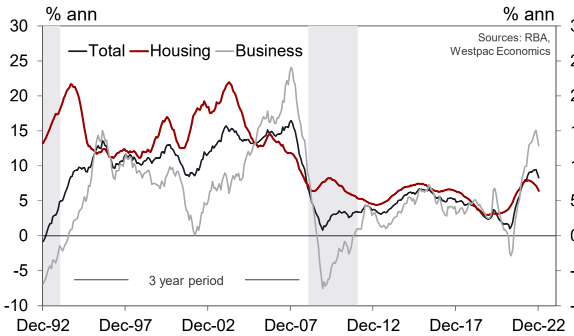
With the economy set to slow sharply in 2023, impacted by high inflation and rising interest rates, non-mining firms will likely cut equipment investment and business credit growth will cool appreciably.

Credit

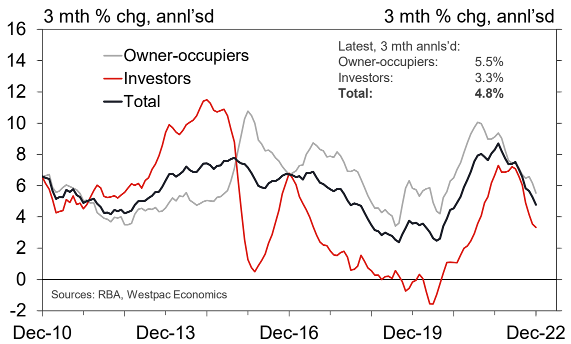
	Mth		Ann	
Item	**Nov**	**Dec**	**Nov**	**Dec**
Total credit *(share)*	0.5	0.3	8.9	8.3
Business (34%)	0.7	0.3	14.0	12.9
Other personal (4%)	0.1	-0.5	-0.2	-0.1
Housing, total (62%)	0.4	0.3	6.9	6.5
Owner-occupier housing	0.4	0.4	7.3	6.9
Investor housing	0.3	0.3	5.9	5.5

Sources: RBA, Westpac Economics.

Credit: annual growth slips to 8.3%

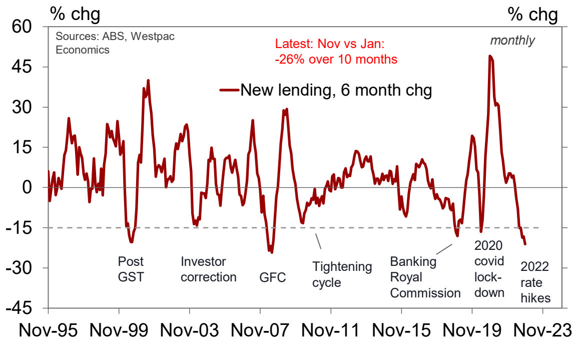


Housing credit slowdown well underway

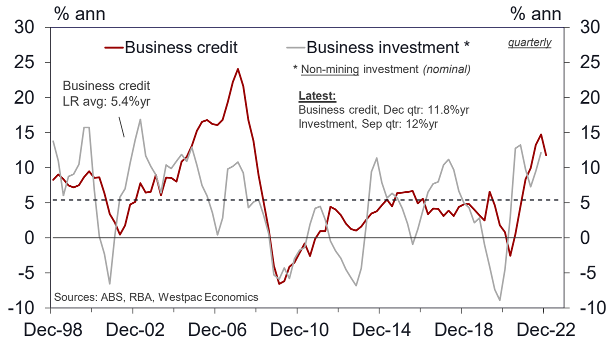


Ryan Wells, Economist

Housing finance: retreats as RBA hikes rates



Business credit & investment



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