BULLETIN

28 February 2023

Australian private credit.
A sluggish start to 2023, in what will be a challenging year.
January 0.4% mth, 8.0% yr.

It was a sluggish start to 2023 for private sector credit, in what promises to be a challenging year with the RBA set to raise interest rates further to rein in inflation from current unacceptably high levels.

Credit grew by 0.4% in January. That was up a tick from the soft December reading of 0.3% - an outcome which we judged as likely overstating the current underlying weakness in credit demand. The results of the past two months represent the softest two month period since the start of 2021.

The January 2023 print of 0.4% included a 0.3% increase for residential credit (matching the December result) and a 0.5% rise in business credit (up from 0.3% for December), while personal credit edged higher, up by 0.1%, after falling in December, down by -0.5%.

More generally, there is a well established slowdown underway in response to sharply higher interest rates. The monthly pace of credit growth has moderated appreciably from a high of 0.9% for April and May 2022.

Annual credit growth slipped to 8.0% in January, down from a cycle high of 9.5% in September / October 2022.

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.

Then in May 2022, the RBA began what is proving to be an aggressive tightening cycle. The RBA cash rate has lifted from an historic low of 0.1% to be at 3.35% following the February 2023 meeting. This 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 has declined as borrowing capacity is sharply curtailed. Over the 11 months to December, new lending is down by -31%.

Currently, annual housing credit growth is 6.1%, after hitting a cycle high of 7.9% during the first half of 2022. Over the past three months, housing credit grew at a subdued 4.3% annualised pace (including 5% for owner-occupiers and 2.8% for investors). That is down from a high of 8.7% at the start of 2022.

Business credit grew by 12.5% over the past year, after climbing to a cycle high of 15.1% in November, as firms boosted investment. Of late, momentum in business credit has cooled appreciably. Recall that associated with the reopening of the economy during the June quarter 2022, business credit grew at an unsustainable brisk 19.4% annualised pace. Over the past three months, annualised growth had moderated to 6%.

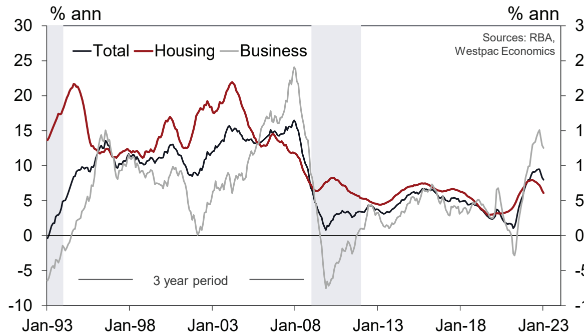
Looking ahead, with the RBA to lift interest rates further, and with the impacts of recent rate rises yet to be fully felt, credit demand is set to slow further - across residential and business. More generally, a sharp economic slowdown is in prospect for the Australian economy in 2023, which will reinforce the slowing in demand for credit.

Credit

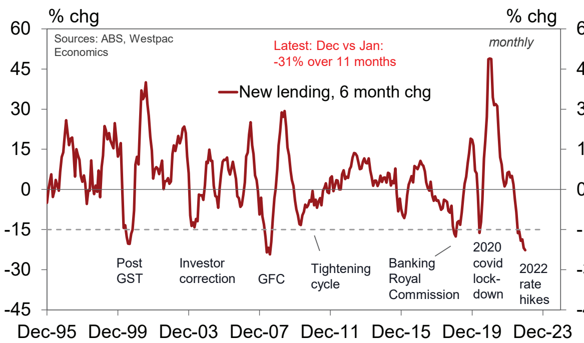
	Mth		Ann	
Item	**Dec**	**Jan**	**Dec**	**Jan**
Total credit *(share)*	0.3	0.4	8.3	8.0
Business (34%)	0.3	0.5	12.9	12.5
Other personal (4%)	-0.5	0.1	-0.1	0.5
Housing, total (62%)	0.3	0.3	6.5	6.1
Owner-occupier housing	0.4	0.4	6.9	6.6
Investor housing	0.2	0.2	5.5	5.1

Sources: RBA, Westpac Economics.

Credit: annual growth moderates to 8.0%

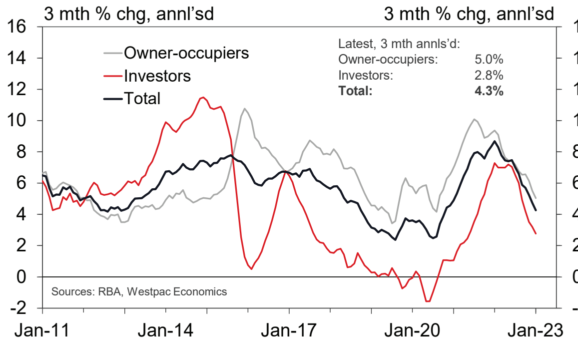


Housing finance: retreats as RBA hikes rates

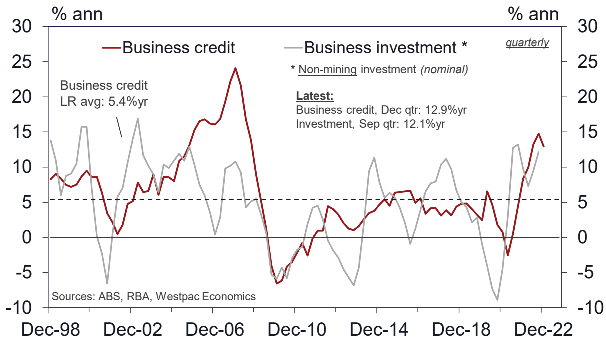


Andrew Hanlan, Senior Economist

Housing credit, a sharp slowdown



Business credit & investment



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