

31 March 2023

Australian private credit. Growth for the 3 months slows to 4.3% annualised, a 2 year low. February 0.3% mth, 7.6% yr.

As highlighted previously, it has been a sluggish start to 2023 for private sector credit, in what will be a challenging year.

The appetite for credit has been curbed by the RBA's rapid fire interest rate tightening cycle and the slowing economy.

Credit rose by only 0.3% in February, following a 0.4% for January and a 0.3% for December. Over the past three months, credit grew by 4.3% annualised, the weakest pace in two years - since February 2021.

The February reading of 0.3% included a 0.3% increase for residential credit (matching the December and January results) and a 0.4% rise in business credit, while personal credit was flat.

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 7.6% in February, down from a cycle high of 9.5% in September / October 2022.

The story over 2021 and into 2022 was one of households and businesses borrowed more, responding to substantial policy stimulus. Record low interest rates and generous tax incentives for business investment provided a strong tailwind 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 3.60% following the March 2023 meeting. This tightening of policy is reducing the 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 12 months to January, new lending is down by -35%.

Currently, annual housing credit growth is 5.8%, 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 4.1% annualised pace (including 5% for owner-occupiers and 2.6% for investors). That is down from a high of 8.7% at the start of 2022.

Business credit grew by 11.9% 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 business credit grew at a brisk 19.4% annualised pace in the June quarter 2022, associated with the reopening of the economy. Over the past three months, annualised growth had slowed to 5%.

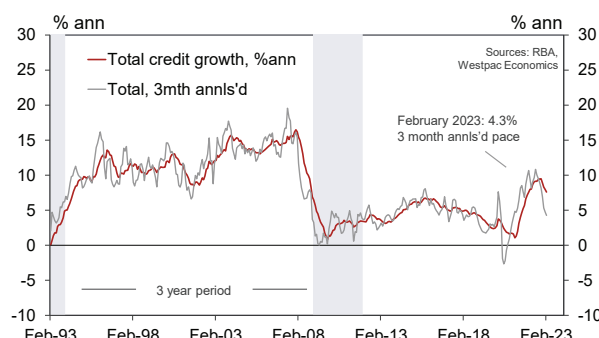
Looking ahead, with the impacts of the RBA's aggressive interest rate tightening of 3.50% yet to be fully felt, credit demand is set to slow further - across residential and business. More generally, a sharp economic slowdown is in prospect for the Australian economy in 2023, reinforcing the slowing in demand for credit.

Credit

Item	Mth		Ann	
	Jan	Feb	Jan	Feb
Total credit (<i>share</i>)	0.4	0.3	8.0	7.6
Business (34%)	0.5	0.4	12.6	11.9
Other personal (4%)	0.1	0.0	0.4	0.3
Housing, total (62%)	0.3	0.3	6.1	5.8
Owner-occupier housing	0.4	0.4	6.6	6.3
Investor housing	0.2	0.2	5.1	4.8

Sources: RBA, Westpac Economics.

Credit: growth pulse slows to 4.3% - a 2 year low



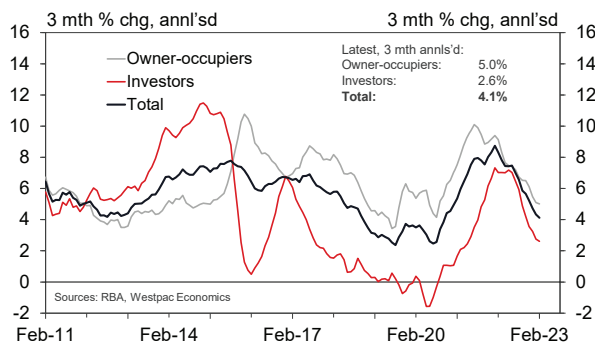
Housing finance: retreats as RBA hikes rates



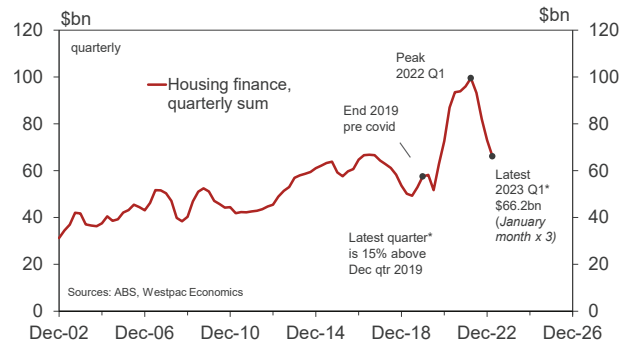
Andrew Hanlan, Senior Economist

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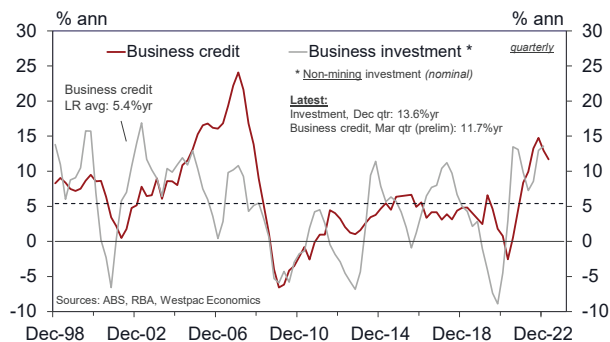
Housing credit, a sharp slowdown



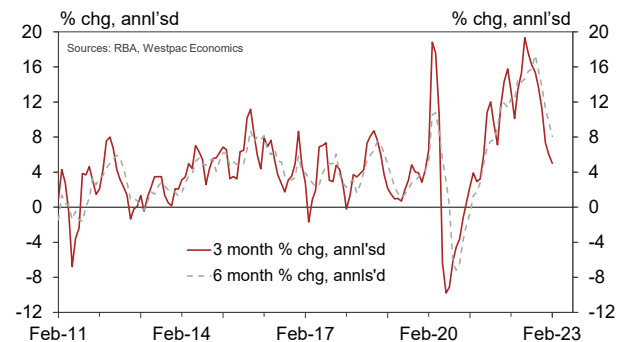
Housing finance (new lending)



Business credit & investment



Business credit: growth pulse fading quickly



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