

28 April 2023

Australian private credit. Growth stuck in the slow lane, over 6 months October to March. March 0.3% mth, 6.8% yr.

Credit growth slowed appreciably during 2022, with the monthly pace stepping lower between the first and second half of the year.

Over the past six months to March 2023, credit growth has been stuck in the slow lane - with the monthly pace holding relatively steady.

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

The RBA tightening cycle was most aggressive from June to September 2022, with four consecutive hikes of 0.5%. In October, the RBA slowed the pace of rate increases to 0.25%. Then in April 2023, with the rate cycle at or nearing a peak, the RBA held rates unchanged at 3.60%, well up from the 2022 record low of 0.1%.

This shifting tempo of the rate tightening cycle has impacted lending and credit trends.

Credit rose by only 0.3% in March, broadly in line with the results of the previous five months (outcomes of 0.4% each month, with the exception of a 0.3% for December).

The monthly pace of credit growth peaked at 0.8% in May and June 2022, with an average outcome of 0.7% over the initial nine months of the year.

The March 2023 result included a 0.3% rise for residential credit, a 0.4% increase in business, and a 0.3% decline in personal.

Annual credit growth slipped to be at 6.8% currently, down from a cycle peak of 8.9% last September / October. The three month annualised pace to March is a modest 4.3%.

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 13 months to February, new lending is down by -33%.

However, the rate of decline in lending for housing moderated over the past two months, with outcomes of -2.4% and -0.9%, in contrast to a string of 4% falls over the four months prior. More broadly, there are signs of an emerging stabilisation of the housing market - notably of dwelling prices.

Currently, annual housing credit growth is 5.5%, down from a cycle high of 7.9% during the first half of 2022. Over the past three months, housing credit grew at a subdued 4.0% annualised pace (including 4.6% for owner-occupiers and 2.8% for investors) - down from a high of 8.8% at the start of 2022.

Business credit grew by 10.6% over the past year, after climbing to a cycle high of 13.8% in October, as firms boosted investment. Of late, momentum in business credit has cooled appreciably. Recall that business credit grew at a brisk 15% annualised pace in the June quarter 2022, associated with the reopening of the economy. Over the past three months, annualised growth had slowed to 6.4%. Potentially, there is further downside to business credit in the face of weak domestic demand which will see firms trim equipment investment.

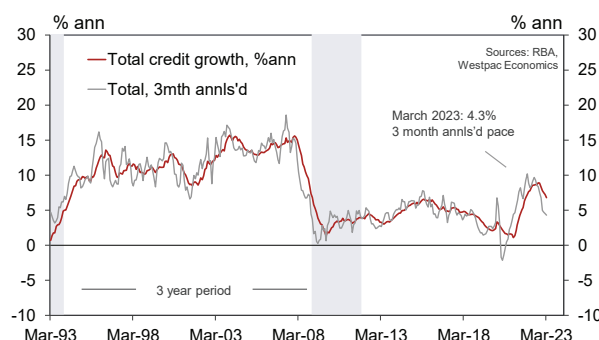
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Credit

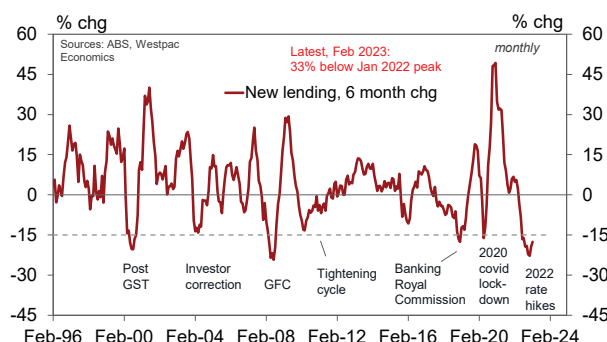
Item	Mth		Ann	
	Feb	Mar	Feb	Mar
Total credit	0.4	0.3	7.2	6.8
Business	0.6	0.4	11.3	10.6
Other personal	-0.1	-0.3	0.3	0.0
Housing, total	0.3	0.3	5.8	5.5
Owner-occupier housing	0.4	0.3	6.3	6.0
Investor housing	0.2	0.3	4.8	4.5

Sources: RBA, Westpac Economics.

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

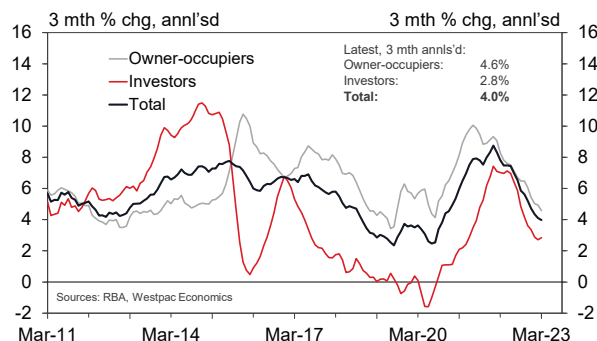


Housing finance: retreats as RBA hikes rates

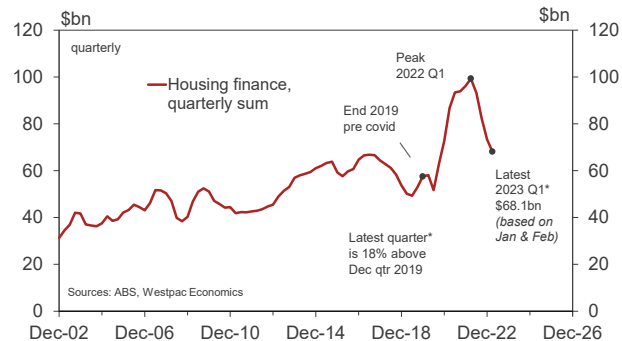


Andrew Hanlan, Senior Economist

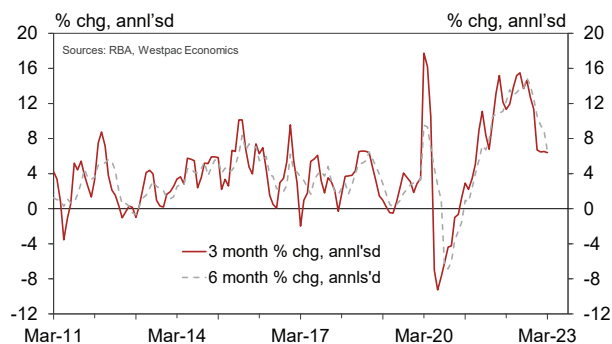
Housing credit, a sharp slowdown



Housing finance (new lending)



Business credit: growth pulse well off highs



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