BULLETIN

31 May 2023

Australian private credit. Temporary lift on business credit, outlook remains subdued. April 0.6% mth, 6.6% yr.

Credit growth slowed considerably over the course of last year, highlighted by a clear step-down in the monthly pace between the first half and second half of 2022, associated with the RBA's rapid-fire interest rate tightening. This trend deceleration has carried into the first quarter of 2023 with monthly credit growth holding within a subdued range.

Credit did, however, surprise to the upside in the April month, rising by 0.6%. This follows an outcome of 0.2% in March (revised down from 0.3%) and a run of soft prints over the preceding five months from October 2022 (0.4% in each month, with the exception of 0.3% in December 2022).

The up-tick in the overall monthly pace of credit growth in April 2023 was due to a 1.1% lift in business credit. Other component detail remained subdued, with a 0.3% rise in residential credit and a 0.1% increase in personal.

Note that business credit can exhibit considerable volatility on a month-to-month basis. Looking through this recent volatility, the easing in business credit growth remains clearly intact. Indeed, in through-the-year terms, business credit growth held steady at 10.6% in April, down from a cycle high of 13.8% in October 2022. Also, on a three-month annualised basis, business credit growth has moderated sharply from a brisk 16% in June 2022 to 7.8% in April.

Further downside to business credit is likely over the coming months as weakness in domestic demand emerges and firms trim equipment investment in response.

The housing market has exhibited the adverse impacts of sharply higher interest rates over most of the cycle. However, signs of stabilisation – which initially emerged through dwelling prices – have now begun to surface in new lending. Following a moderation in the pace of declines from November to February, new housing finance approvals rose by a sizeable 4.9% in March. However, it still remains significantly below the peak in January 2022, down by around 30%.

Currently, annual housing credit growth is 5.2%, 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 4.4% for owner-occupiers and 3.2% for investors) – down from a high of 8.7% at the start of 2022. Even with a further lift in new finance approvals, annual housing credit growth will likely slow further in coming months.

Despite the out-sized gain in business credit, annual credit growth still managed to moderate slightly in April, from 6.8% to 6.6%. Given the high likelihood of April's monthly outcome for business being a one-off and the approaching weakness in activity, the broader outlook for credit growth remains subdued.

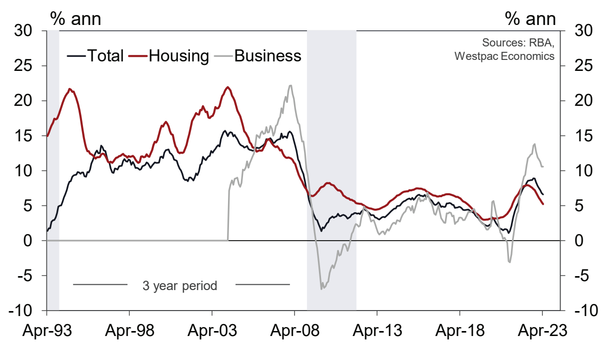
Ryan Wells, Economist

Credit

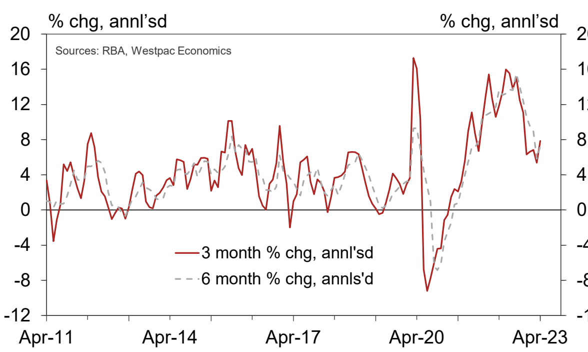
	Mth		Ann	
Item	**Mar**	**Apr**	**Mar**	**Apr**
Total credit	0.2	0.6	6.8	6.6
Business	0.2	1.1	10.6	10.6
Other personal	–0.3	0.1	0.0	–0.3
Housing, total	0.3	0.3	5.5	5.2
Owner-occupier housing	0.3	0.4	6.0	5.8
Investor housing	0.3	0.3	4.5	4.2

Sources: RBA, Westpac Economics.

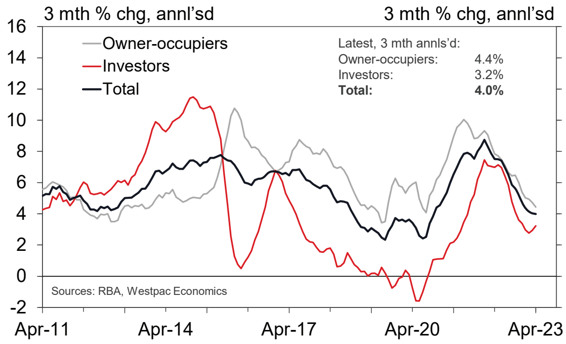
Credit: annual growth down to 6.6%



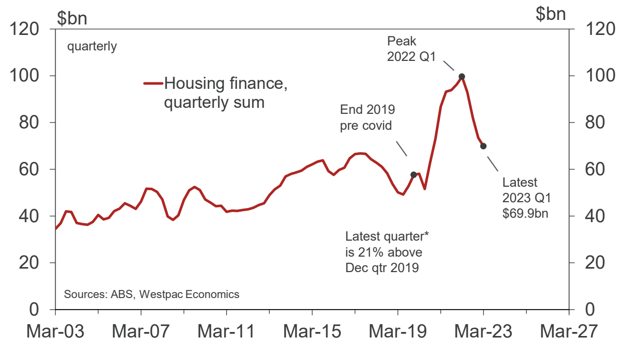
Business credit: temporary up-tick



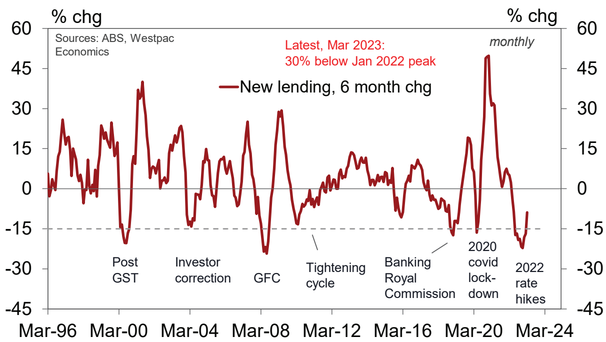
Housing credit, a sharp slowdown



Housing finance (new lending)



Housing finance: retreats as RBA hikes rates



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