

30 June 2023

## Australian private credit. Return to subdued monthly growth. May 0.4% mth, 6.2% yr.

Credit growth slowed appreciably during 2022, with the monthly pace stepping lower between the first nine months of the year and the final quarter.

Over the past seven months to May 2023, credit growth has broadly stabilised (mirroring recent developments in the housing market) at a subdued pace, averaging 0.4% - including a 0.4% outcome for May.

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 rates moving close to a peak, the RBA held rates unchanged at 3.60%, well up from the 2022 record low of 0.1%. Rates have subsequently lifted to be at 4.1% in June.

This shifting tempo of the rate tightening cycle has impacted lending and credit trends. The monthly pace of credit growth peaked at 0.8% during the June quarter 2022, with an average outcome of 0.7% over the initial nine months of the year.

The May outcome of 0.4% included: residential +0.3%, personal +0.2% and business +0.5%. Recall that in April, business credit posted a 1.0% rise, boosting total credit growth to 0.6%. As we indicated at the time, that result for business was likely a one-off, reflecting a lumpy transaction, and that has proven to be the case.

Annual credit growth slipped to be at 6.2% currently, down from a cycle peak of 8.9% last September / October. The three month annualised pace to May is a modest 4.9%.

The housing market has felt the impacts of sharply higher interest rates. New lending for housing declined as borrowing capacity was sharply curtailed, falling by 32% from the start of 2022 to April 2023.

However, in 2023 there are signs of an emerging stabilisation of the housing market - notably of dwelling prices, at a time of tight supply. New lending for the year to date to April is down by only 0.8%.

Currently, annual housing credit growth is 5.0%, moderating from a cycle high of 7.9% during the first half of 2022. The three month annualised growth is 4.2%, stabilising at that pace in recent months.

Business credit grew by 9.7% 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. Currently, the three month annualised growth is 7.5%. Potentially, there is further downside to business credit in the face of weak domestic demand which will see firms trim equipment investment.

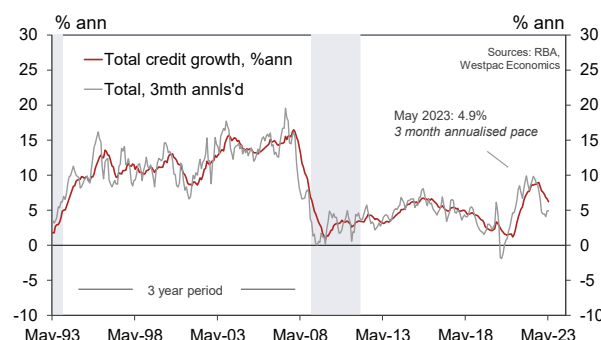
**Andrew Hanlan**, Senior Economist

### Credit

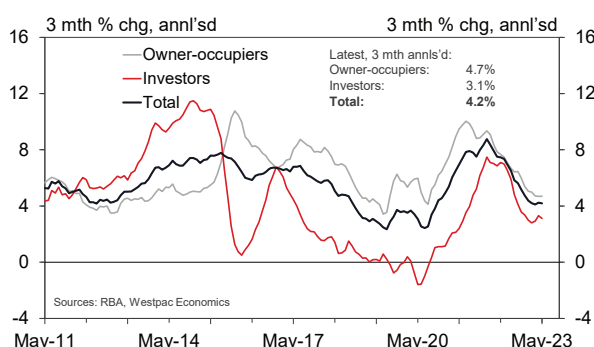
Item	Mth		Ann	
	Apr	May	Apr	May
Total credit	0.6	0.4	6.6	6.2
Business	1.0	0.5	10.6	9.7
Other personal	0.2	0.2	-0.3	0.2
Housing, total	0.4	0.3	5.3	5.0
Owner-occupier housing	0.4	0.4	5.8	5.6
Investor housing	0.3	0.2	4.2	3.8

Sources: RBA, Westpac Economics.

### Credit: growth pulse at a modest 4.9%

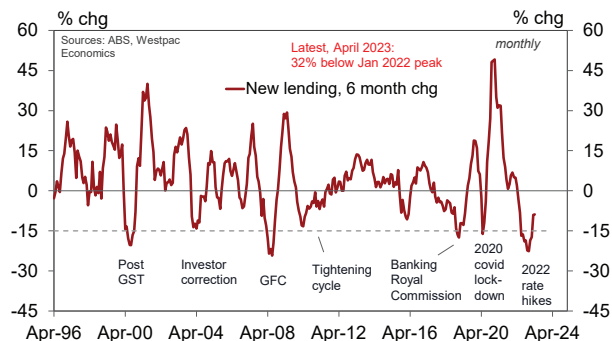


### Housing credit growth pulse stabilising

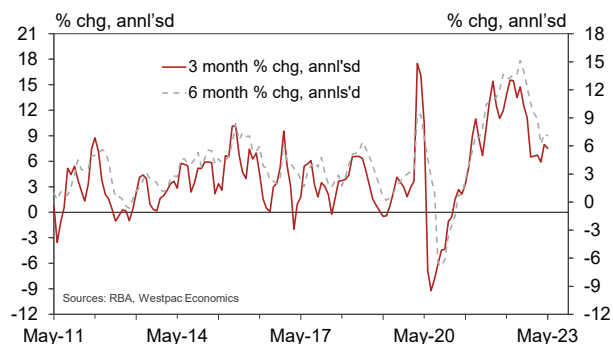


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## Housing finance: retreated on RBA hikes rates



## Business credit: growth pulse well off highs



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