BULLETIN

31 July 2023

Australian private credit. Softens on business and investor housing June 0.2% mth, 5.5% yr.

The June update for credit was a soft one, with a gain of only 0.2%, moderating from an increase of 0.4% the month prior. The shift was centred on business and investor housing.

The June result of 0.2% matches the March 2023 outcome but is below the average of recent months.

The back story is that credit growth slowed appreciably during 2022 in the face of sharply higher interest rates which reduced borrowing capacity. The monthly pace of credit growth stepped lower between the first nine months of the year (a 0.7% average) and the final quarter (a 0.4% average).

Then, over the seven months to May 2023, credit growth broadly stabilised - albeit with some volatility - mirroring recent developments in the housing market. Credit growth averaged 0.4% a month over this period.

The June outcome of 0.2% included: residential 0.2%, personal 0.1% and business 0.25%.

Annual credit growth slipped to be at 5.5% currently, down from a cycle peak of 8.9% last September / October. The three month annualised pace is a modest 4.5%.

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 33% from the start of 2022 to February 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 three months February to May rebounded by 8.6% (including +7.8% for owner-occupiers and +10% for investors).

Currently, annual housing credit growth is 4.5%, moderating from a cycle high of 7.9% during the first half of 2022. The three month annualised growth is 3.6%.

The June update reported a decline in investor housing credit, -0.1%, following recent outcomes of 0.2%. It may be that this is noise in the data, or alternatively, taken together with the lift in new lending, suggests a lift in repayments in the month (potentially associated with refinancing).

Business credit rose by 0.25% in June, in line with the March outcome but below the recent average (0.6% over the initial five months of the year). Annual growth is 8.3% currently and the three month annualised pace is 7.3%.

Late cycle resilience in business investment, particularly on the construction side but also on equipment investment, has provided support to business lending over recent months. However, looking ahead, business investment is not expected to keep running ahead of the economy. Firms will likely cool investment spending (notably on equipment) given softer demand, the end of generous tax incentives on 1 July 2023 and high interest rates - a development which will weigh on business lending.

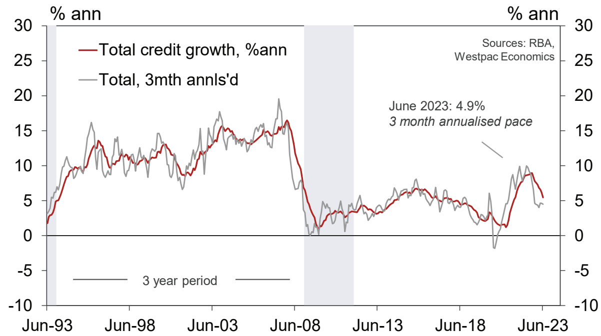
Andrew Hanlan, Senior Economist

Credit

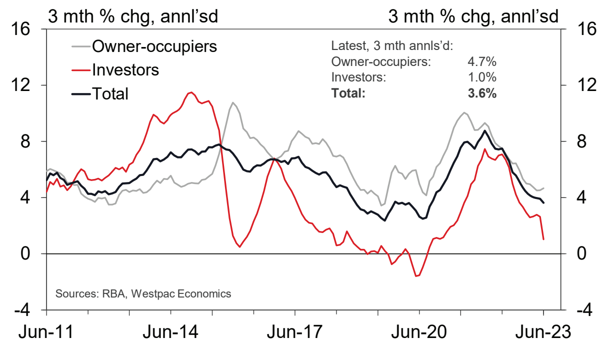
	Mth		Ann	
Item	**May**	**Jun**	**May**	**Jun**
Total credit	0.4	0.2	6.2	5.5
Business	0.5	0.25	9.7	8.3
Other personal	0.1	0.1	0.2	0.5
Housing, total	0.3	0.2	5.0	4.5
Owner-occupier housing	0.4	0.4	5.5	5.3
Investor housing	0.2	-0.1	3.7	3.0

Sources: RBA, Westpac Economics.

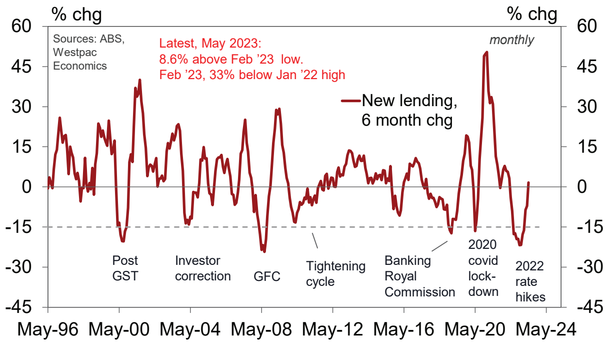
Credit: growth pulse at a modest 4.5%



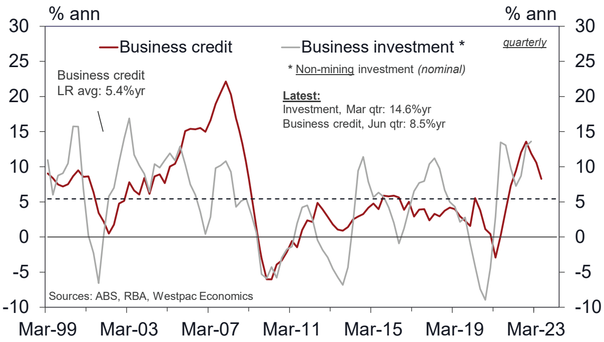
Housing credit: investor growth pulse weakens



Housing finance: retreated on RBA hikes rates



Business credit & investment



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