

29 September 2023

## Australian private credit, August Annual growth slows to 5.1%, a two year low. August 0.4% mth, 5.1% yr.

Credit to the private sector grew by 5.1% over the year to August, slowing from 5.3% in July and from a high of 8.9% last September and October. That has annual credit growth at around a two year low - the slowest pace since September 2021, when the delta outbreak was impacting NSW and Victoria.

For August, credit grew by 0.4% in the month. That matches the average monthly pace for the 2023 year to date but is a fraction higher than the 0.3% outcomes for June and July - those June and July outcomes were impacted by softer readings for business lending.

The August detail included: housing up by 0.3% mth, 4.3% yr, business +0.6% mth, 7.4% yr, and personal +0.5% mth, 1.2% yr.

As we've discussed previously, 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 2022 (a 0.7% average) and the final quarter (a 0.4% average).

As noted above, credit growth has held at a 0.4% monthly average for the 2023 year to date - albeit with some volatility month to month. That stabilisation in the monthly pace mirrors developments in the housing market.

The housing market did feel the impacts of sharply higher interest rates. From the start of 2022 to February 2023, new lending for housing declined as borrowing capacity was sharply curtailed, with lending down by 33% (retreating from very high levels).

However, in 2023 there are signs of a stabilisation of the housing market - notably of dwelling prices, at a time of tight supply. New lending over the five months February to July rebounded by 5.8% - albeit this includes falls in June, -1.6%, and in July, -1.2%.

Currently, annual housing credit growth is 4.3%, the slowest pace since March 2021 and moderating from a cycle high of 7.9% during the first half of 2022. The three month annualised growth pace slipped to 3.8% in August.

Business credit growth averaged 0.6% over the opening five months of 2023, followed by softer readings of 0.3% and 0.2% for June and July. In August, there was a return to that 0.6% pace.

Late cycle resilience in business investment, particularly on the construction side but also on equipment investment, has provided support to business lending through much of the first half of 2023.

However, 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 30 June 2023 and high interest rates - a development which will weigh on business lending.

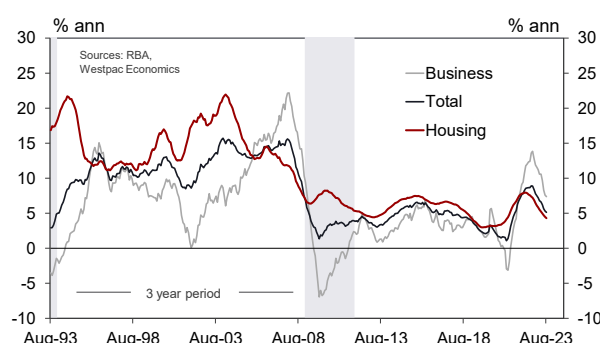
**Andrew Hanlan**, Senior Economist

### Credit

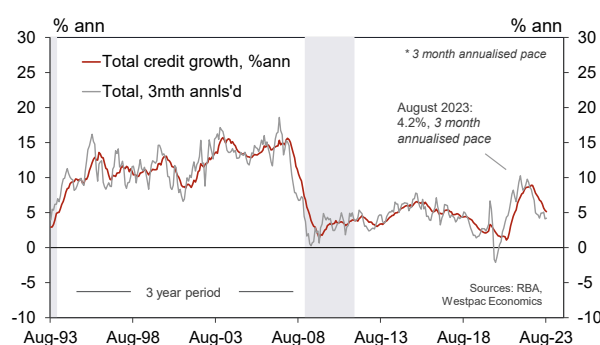
Item	Mth		Ann	
	Jul	Aug	Jul	Aug
Total credit	0.3	0.4	5.3	5.1
Business	0.2	0.6	7.6	7.4
Other personal	0.5	0.5	0.9	1.2
Housing, total	0.3	0.3	4.5	4.3
Owner-occupier housing	0.3	0.3	5.1	4.9
Investor housing	0.3	0.2	3.3	3.1

Sources: RBA, Westpac Economics.

### Total credit: annual growth 5.1%, a 2 year low

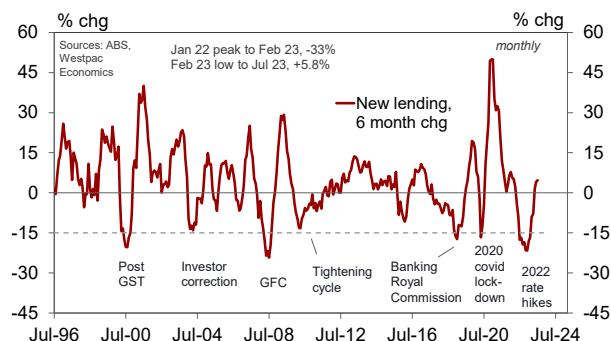


### Credit: growth pulse\* a subdued 4.2%

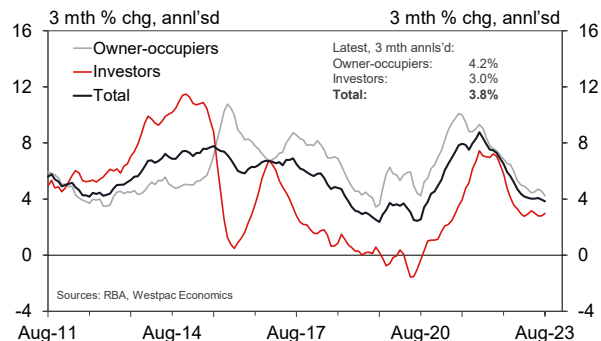


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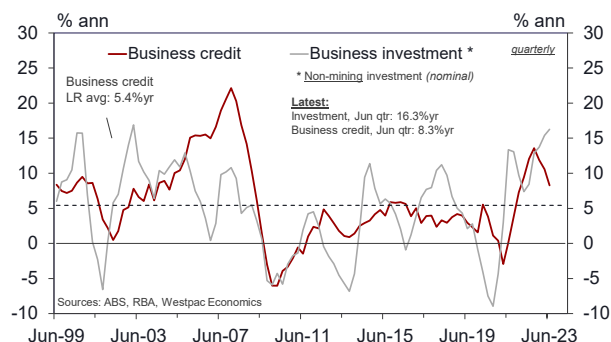
### Housing finance: retreated on RBA hikes rates



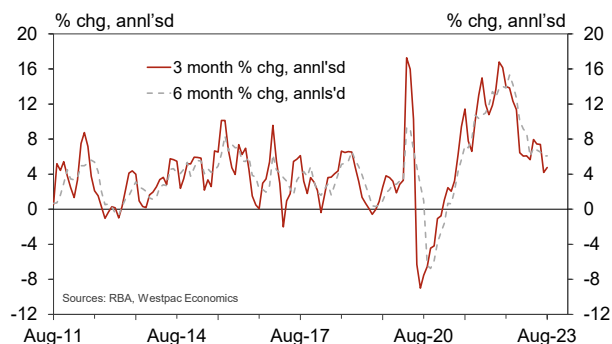
### Housing credit: growth pulse at 3.8%



### Business credit & investment



### Business credit: growth pulse at 4.8%



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