

22 December 2023

Australian private credit, November Another subdued result, annual growth holds at 2 year low. November 0.4% mth, 4.7% yr.

The update on private sector credit for November provided no major surprises.

It was yet another subdued reading in an environment of elevated interest rates and a sluggish economy, as well as an economy operating at a high level of capacity, with unemployment still around historic lows and a housing market where demand is outstripping limited supply.

Credit expanded by a subdued 0.4% in November, in line with the recent average pace.

Annual growth held at 4.7%, a two year low, the softest annual pace since August 2021.

The November detail included: housing expanded by 0.4% mth, 4.0% yr; business grew by 0.5% mth, 6.4% yr; and personal edged lower in the month, -0.1%, to still be 1.3% higher over the year.

The back story is that credit growth slowed appreciably during 2022 in the face of sharply higher interest rates which reduced borrowing capacity. Credit grew an average 0.7% per month over the initial 9 months of 2022 (including 0.6% for housing and 1.1% for business). The monthly pace has since stepped lower to 0.4% (including 0.34% for housing, 0.5% for business and 0.1% for personal).

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).

In 2023, the established housing market has lifted, with prices squeezed higher by strong demand (as population surges) and tight supply. New lending over the eight months February to October rebounded by 17%. That has translated into a lift in housing credit growth, on a 3 month annualised basis, to 4.6%, up from 3.9% in June.

Annual business credit growth has slowed from a high of 13.8% in October 2022 (associated with the reopening from covid) to a 6.4% figure currently. Current weak economic conditions point to the potential for some further slowing of business credit growth during 2024.

Business confidence turned deeply pessimistic in November, private business surveys report, with confidence declining by 6pts to -9, after the RBA's November rate increase. The pessimistic mood will likely see businesses take a more cautious approach to investment spending, notably on equipment. There were signs of that in the September quarter, with the value of non-mining business investment contracting by -1.6%, abruptly slowing annual growth from 18% to 10.9% (see chart over).

Equally, any slowing in business credit momentum is unlikely to be as sharp as during past economic downturns. For businesses, the economy is expected to manage a relatively soft landing (boosted by strong population growth), business balance sheets are in good shape, firms are looking to boost productivity, and the economy is still operating at relatively high levels of capacity.

Andrew Hanlan, Senior Economist

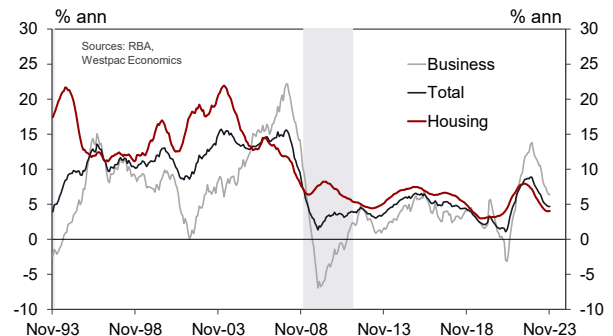
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Credit

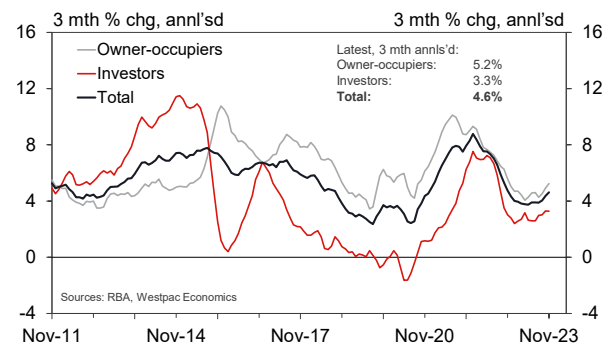
Item	Mth		Ann	
	Oct	Nov	Oct	Nov
Total credit	0.3	0.4	4.7	4.7
Business	0.3	0.5	6.4	6.4
Other personal	0.2	-0.1	1.4	1.3
Housing, total	0.4	0.4	4.0	4.0
Owner-occupier housing	0.4	0.4	4.6	4.6
Investor housing	0.3	0.3	2.9	2.9

Sources: RBA, Westpac Economics.

Total credit: annual growth 4.7%, a 2 year low

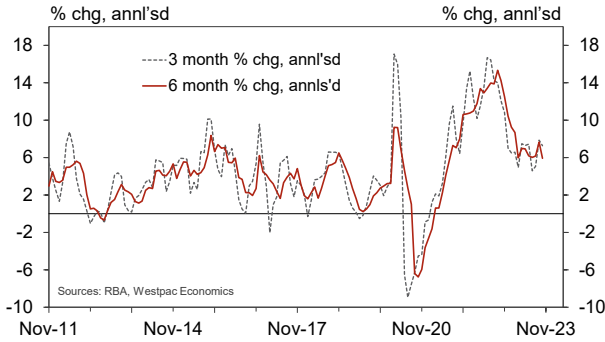


Housing credit: growth pulse lifts to 4.6%

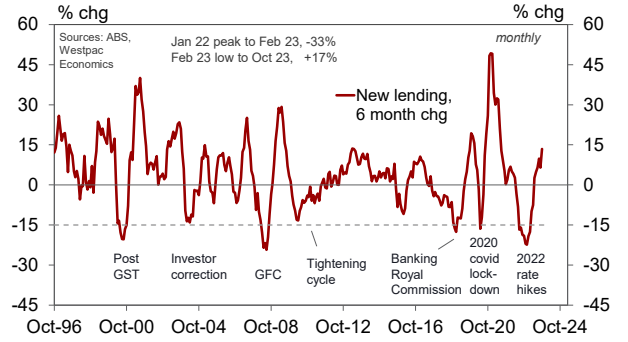




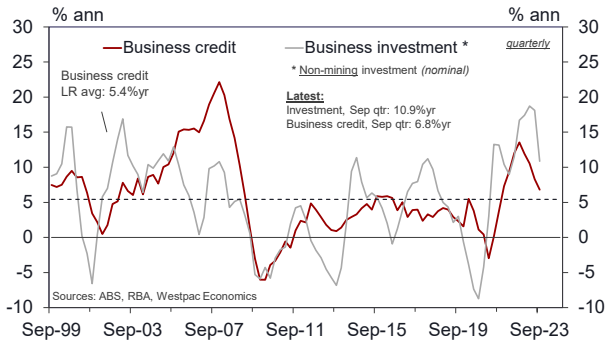
Business credit: 6 mth annls'd growth at 5.9%



Housing finance: rebounded in 2023



Business credit & investment



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Disclaimer continued

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