

31 January 2024

Australian private credit, December Subdued end to a subdued year as economy slows. December 0.4% mth, 4.8% yr.

Private sector credit rose by a subdued 0.4% in the December quarter, rounding out a year of subdued growth.

This subdued credit growth occurred 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 near historic lows and a housing market where demand is outstripping limited supply.

Annual credit growth rounded to 4.8% in December, up fractionally from 4.7% for November, which was a two year low, the softest annual pace since August 2021.

The December detail included: housing expanded by 0.4% mth, 4.1% yr; business grew by 0.5% mth, 6.6% yr; and personal edged lower in the month, -0.1%, to still be 1.2% 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%.

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 lifted, with prices squeezed higher by strong demand (as population surged) in the face of tight supply. New lending over the nine months February to November rebounded by 21%. That has translated into a lift in housing credit growth, on a 3 month annualised basis, to 4.6% currently, up from 3.8% in May.

Annual business credit growth has slowed from a high of 13.8% in October 2022 (associated with the reopening from covid) to a 6.6% figure currently. Weak economic conditions point to a further slowing of business credit growth during 2024.

The business mood is understandably downbeat, as reported in private business surveys. In this environment, businesses will take a more cautious approach to their hiring and investment spending, notably on equipment. There is emerging evidence of this greater caution. In the September quarter, the value of non-mining business investment contracted, declining by -1.6%, abruptly slowing annual growth from 18% to 10.9% (see chart over). The Labour Force survey reports that hours worked contracted in the September and December quarters, down a combined -1.3%. Significant declines in hours worked are typically associated with firms across the non-mining economy trimming their equipment spending.

Equally, we assess that the prospective further slowing in business credit 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.

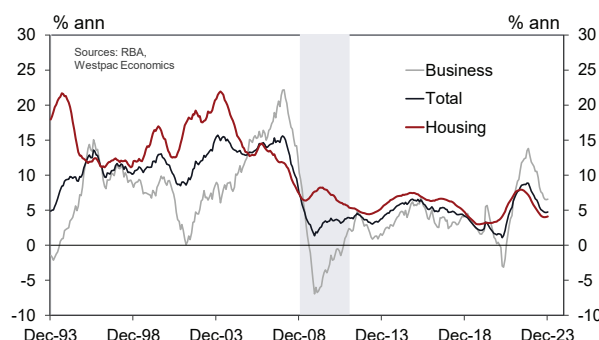
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Credit

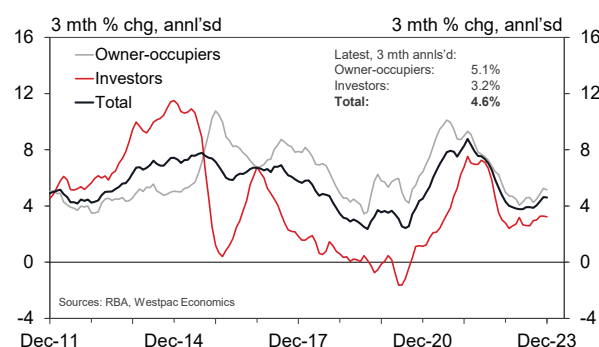
Item	Mth		Ann	
	Nov	Dec	Nov	Dec
Total credit	0.4	0.4	4.7	4.8
Business	0.5	0.5	6.5	6.6
Other personal	-0.1	-0.1	0.9	1.2
Housing, total	0.4	0.4	4.0	4.1
Owner-occupier housing	0.4	0.4	4.6	4.7
Investor housing	0.3	0.2	2.9	2.9

Sources: RBA, Westpac Economics.

Total credit: grew 4.8% in 2023, around a 2yr low

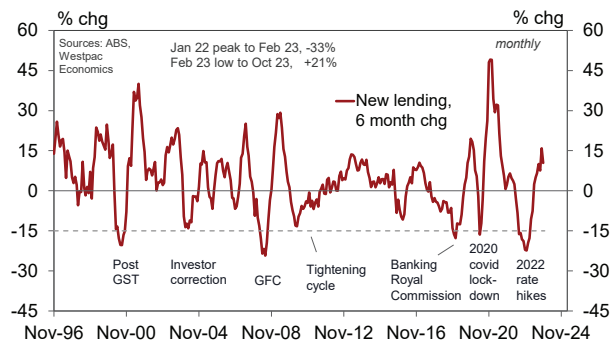


Housing credit: growth pulse at 4.6%

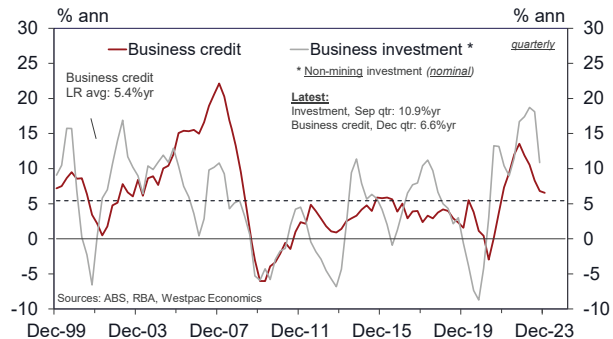


Andrew Hanlan, Senior Economist

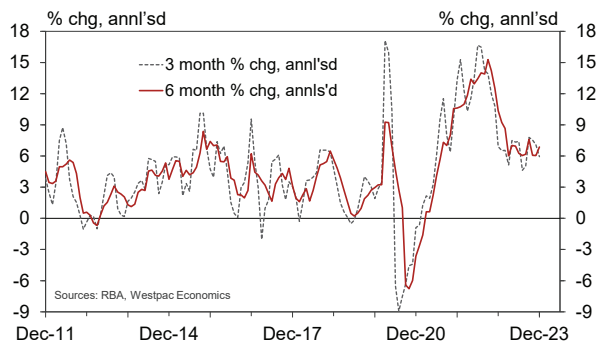
Housing finance: rebounded in 2023



Business credit & investment



Business credit: 3 mth annls'd growth at 5.9%



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Disclaimer continued

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