

29 February 2024

Australian private credit, January Growth stuck at 0.4% per month, with housing near historic lows. January 0.4% mth, 4.9% yr.

Private sector credit rose by a modest 0.4% in January, a continuation of the average monthly pace through 2023.

This modest 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 up from 4.8% in December to 4.9% for January.

Housing credit annual growth is 4.2%, a pace which is around historic lows. The only weaker period was through 2019 (at 3.0%) and 2020 (at 3.5%). It is in line with the low point of the cycle in 2013.

Business credit growth has slowed from a brisk 11.9%yr for 2022, to a moderate 6.8%yr currently. The caveat is that a material component of that 6.8% relates to business investment inflation, which was 3.7% for 2023, the capex survey reports.

The January detail included: housing expanded by 0.4% mth; business grew by 0.7% mth; and personal rose by 0.2% mth.

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 felt 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 from February to December rebounded by 15%. That translated into a lift in housing credit growth, on a 3 month annualised basis, to 4.5% currently, up from 4.0% in August.

Turning to business credit, as noted above annual growth has moderated from the brisk double digit pace in 2022 associated with the reopening of the economy. Currently, annual growth is 6.8%, with potentially up to around half of this due to business investment inflation.

Some further moderation in business credit growth is likely against the backdrop of soft economic growth. There was a material cooling of real non-mining business investment over the second half of 2023 (contracting by -1%, a sharp turnaround from a 14.2% expansion in the year to the June quarter 2023) and the prospect of a flat first half of calendar 2024.

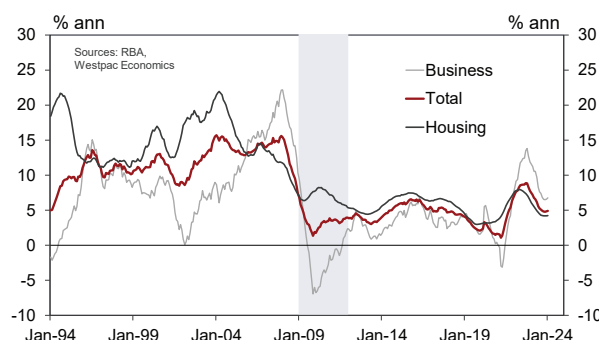
From mid-2024 and into 2025, as policy settings become less restrictive, we anticipate that positive investment fundamentals will reassert themselves, driving an emerging upward trend in business investment spending.

Credit

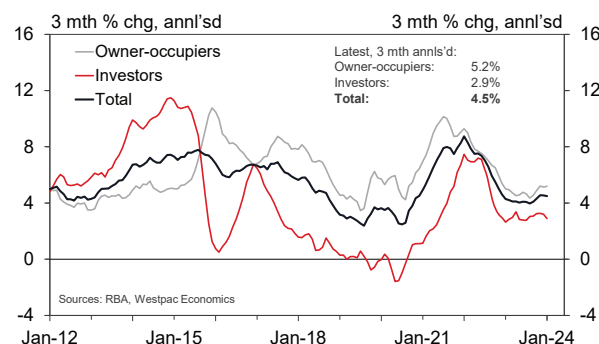
| Item | Mth | | Ann | |
|------------------------|------|-----|-----|-----|
| | Dec | Jan | Dec | Jan |
| Total credit | 0.4 | 0.4 | 4.8 | 4.9 |
| Business | 0.6 | 0.7 | 6.6 | 6.8 |
| Other personal | -0.1 | 0.2 | 1.2 | 1.2 |
| Housing, total | 0.4 | 0.4 | 4.2 | 4.2 |
| Owner-occupier housing | 0.4 | 0.4 | 4.8 | 4.8 |
| Investor housing | 0.2 | 0.2 | 3.0 | 3.1 |

Sources: RBA, Westpac Economics.

Credit growth holds at a touch below 5%yr



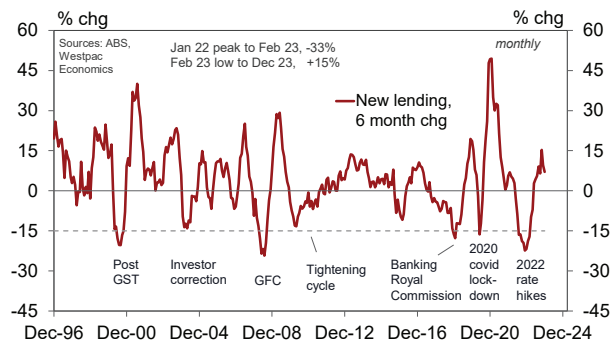
Housing credit: growth pulse a subdued 4.5%



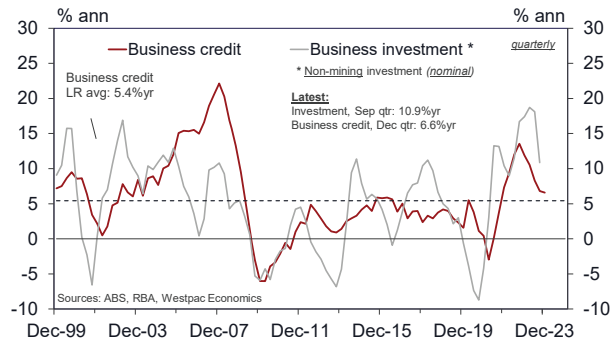
Andrew Hanlan, Senior Economist

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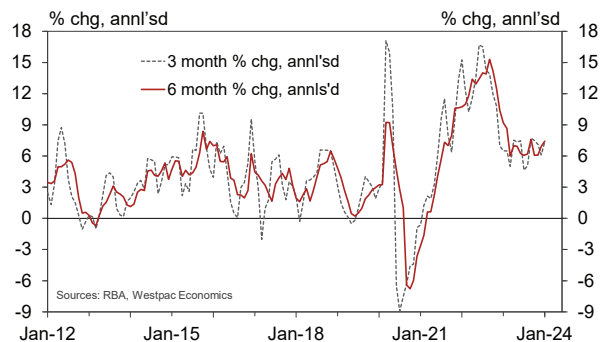
Housing finance: rebounded in 2023



Business credit & investment



Business credit: 3 mth annls'd growth at 7.4%



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