BULLETIN

28 March 2024

Australian private credit, February
Credit growth continues to shuffle sideways at a modest pace. February 0.5% mth, 5.0% yr.

Private sector credit grew by 0.5% in February, matching the January outcome and in line with the average of the past half year (0.44% per month).

This modest credit growth occurred in an environment of elevated interest rates and a sluggish economy - but also 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 held broadly steady, at 5.0%. That compares with a post 2000 average of 7.5%yr. Moreover, that 5% nominal increase is in the current relatively high inflation environment.

Housing credit annual growth is stuck at 4.2%, 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 2013 cycle.

Business credit growth has slowed from a brisk 11.9%yr for 2022 to 6.8%yr currently - broadly in line with the historic average. However, the caveat is that a material component of that 6.8% relates to business investment inflation, which was running at an elevated 3.7% for 2023, the capex survey reports.

The February detail included: housing expanded by 0.4%mth; business grew by 0.6%mth; and personal rose by 0.2%mth.

The back story, credit growth slowed appreciably in 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 around 0.4%/0.5%.

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 since February 2023 is up by 9% - that is despite an 8% pull back over the past two months, in response to the RBA's November rate hike.

Turning to business credit, annual growth has moderated from a 2022 peak of almost 14%, to less than 7% currently. 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.

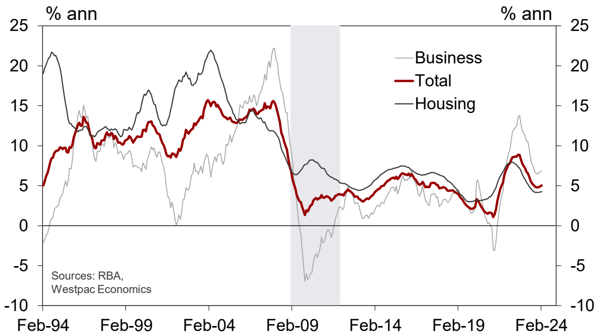
From mid-2024 and into 2025, as policy settings become less restrictive, we anticipate that positive investment fundamentals will reassert themselves, driving an emerging upward trend in business investment spending.

Credit

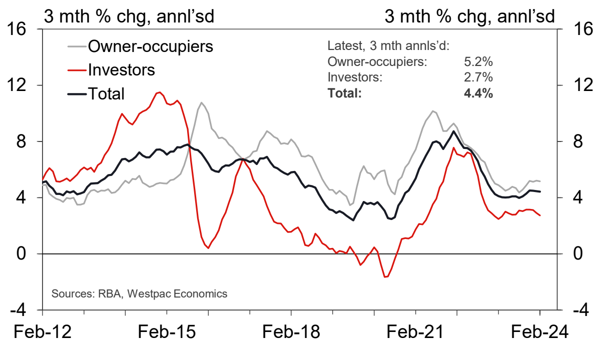
	Mth		Ann	
Item	**Jan**	**Feb**	**Jan**	**Feb**
Total credit	0.5	0.5	4.9	5.0
Business	0.7	0.6	6.8	6.8
Other personal	0.2	0.3	2.1	2.4
Housing, total	0.4	0.4	4.2	4.2
Owner-occupier housing	0.4	0.4	4.8	4.8
Investor housing	0.2	0.2	3.0	3.0

Sources: RBA, Westpac Economics.

Credit growth holds at a modest 5%yr

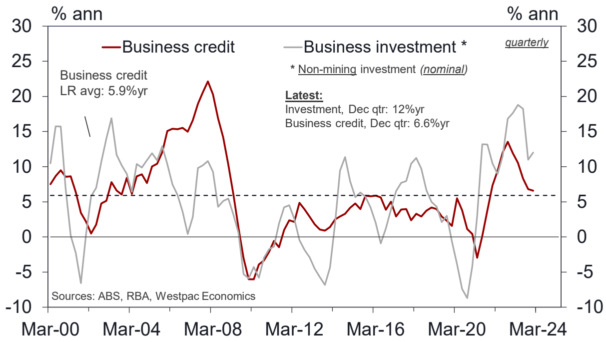


Housing credit: growth pulse a subdued 4.4%

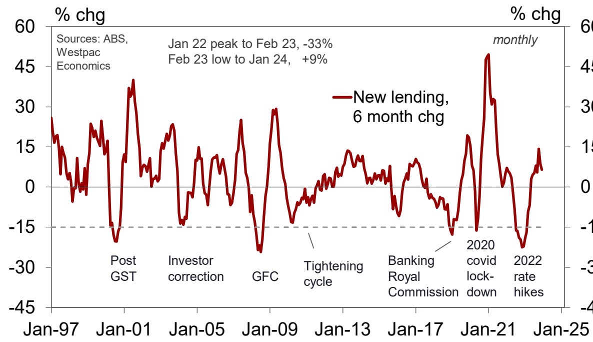


Andrew Hanlan, Senior Economist

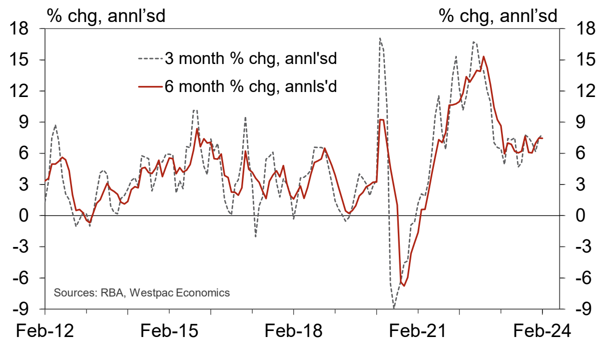
Business credit & investment



Housing finance: rebounded in 2023



Business credit: 6 mth annls'd growth at 7.4%



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