



29 November 2024

AUSTRALIAN PRIVATE CREDIT BULLETIN

Stronger private credit growth in October

- Private credit increased 0.6%*mth* in October accelerating slightly from a steady 0.5%*mth* growth trend seen previously.
- Business credit led way rising 1.0%*mth*. Housing credit maintained a steady growth pace of 0.5%*mth*.
- We think that private credit might face some headwinds in the coming months and H1 2025.

Private sector credit, October 2024

Item	mth%		ann%	
	Sep	Oct	Sep	Oct
Total credit	0.5	0.6	5.8	6.1
Business	0.6	1.0	7.5	8.3
Other personal	0.3	0.1	2.3	2.2
Housing, total	0.5	0.5	5.1	5.3
Owner-occupier housing	0.5	0.5	5.6	5.7
Investor housing	0.5	0.5	4.2	4.4

Source: ABS, Westpac Economics.

**September
+0.6%*mth*,
6.1%*yr*.**

Higher credit growth for now, but headwinds ahead



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Today's RBA figures showed that private sector credit rose by 0.6%*mt* in October, a touch higher than predicted by us and the market consensus. It represents a small increase in pace from 0.5%*mt* growth in the prior three months which also matched the average for the ten months this year.

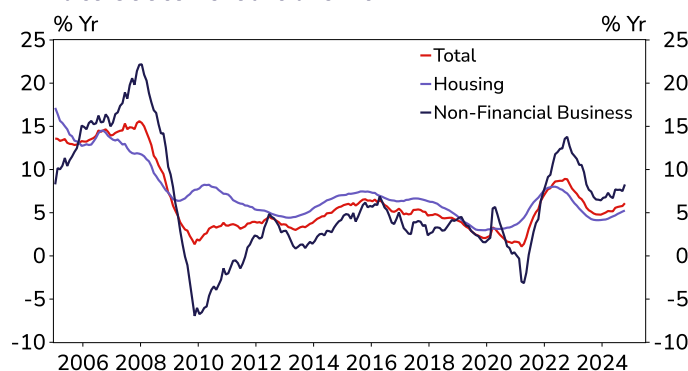
Looking at major components, housing credit was up 0.5%*mt*, unchanged from September, but slightly higher than the average growth rate this year. The slight pick-up in recent months was driven by the investor category, which, having lagged behind since around 2016, more recently caught up with the rate of increase in owner-occupier housing credit. Growth in a more volatile personal credit category was weaker at 0.1%*mt*, but non-financial corporations surprised on the upside with one of the steepest rises in recent years of 1.0%*mt*. This pickup in business credit growth follows a moderation in the pace of growth in debt issuance in financial markets (which may be a sign that businesses are sourcing more of their funds from bank lending).

With the average monthly growth of 0.5%*mt* this year and today's even firmer 0.6% increase, there has been a clear acceleration from the 0.4%*mt* pace seen in most of 2023. The annual growth rate has been climbing steadily higher from 4.8%*yr* at the end of last year to 6.1%*yr* last month. This trend seems at least somewhat inconsistent with slower economic growth, and the fact that higher interest rates and tight financial conditions should be discouraging household and businesses from taking on more debt. This point was raised by the RBA in the latest Statement on Monetary Policy and reiterated in the latest Board meeting minutes. Indeed, the central bank pointed to stronger nominal household incomes, and high population growth as support that are not just increasing the overall demand for credit but is also exerting upward pressure on house prices, a key indirect driver of credit growth. Strong business balance sheets, as well as relatively healthy household financial positions are probably contributing factors too.

Looking ahead, we think that credit growth might face some headwinds. Although we expect somewhat stronger household consumption in the second half of this year, which should be supported by improving consumer sentiment, we do not think that it will translate to higher credit growth.

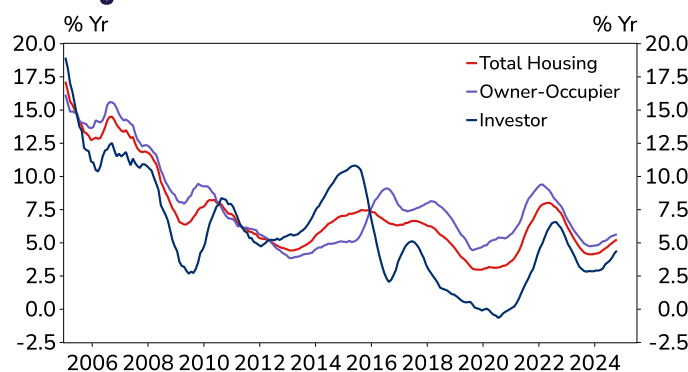
Firstly, the recovery in consumption will probably be skewed towards households at the lower end of income distribution, which means that the overall willingness and capacity to take on more debt are unlikely to increase much. For similar reasons, we do not forecast higher house price growth in the near term.

Private Sector Credit Growth



Source: RBA, Macrobond, Westpac Economics

Housing Credit Growth



Source: RBA, Macrobond, Westpac Economics

Secondly, upcoming elections in the first half of next year might create some additional uncertainty that will affect business borrowing.

So we think that the next couple of quarters might see flat or slightly lower private credit growth, with eventual pick up in the second half of 2025 when interest rate cuts by the RBA begin to have an effect.

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