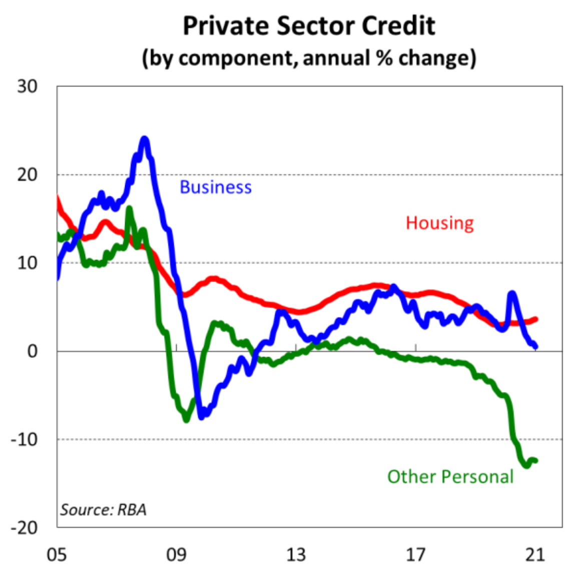
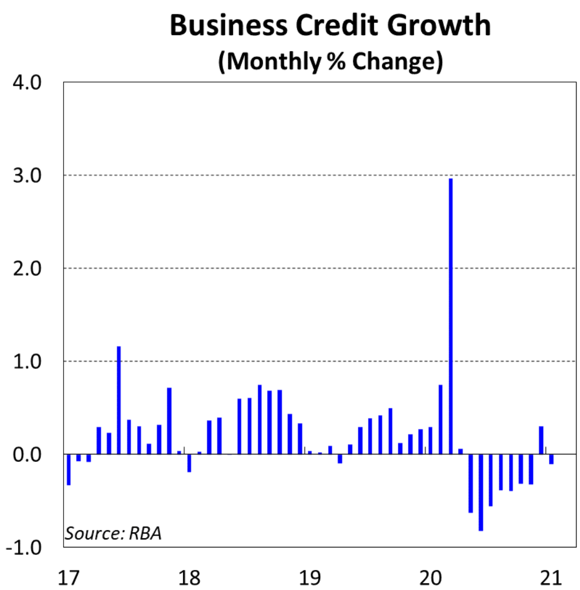
Friday, 26 February 2021

# Private Sector Credit

## Housing Gains Traction, Business Still Weak

- **Credit to the private sector ticked up in January, growing 0.2%. In annual terms, growth is still muted at 1.7%.**
- **Business credit growth remained anaemic, declining 0.1% in January. Over the year, business credit grew at 0.5%, the slowest annual growth since 2011. Businesses have been reluctant to take on debt given the ongoing uncertainty over the economic outlook.**
- **Housing credit has picked up a little since late 2020, growing 0.4% in January and 3.6% in annual terms. The increase has been driven by owner-occupiers, with annual credit growth at 5.7%. Credit to investors was flat over the last 12 months.**
- **Other personal credit growth declined by 0.9%, to be down 12.4% over the year. Other personal credit growth has come off its lows in recent months as spending on credit cards has picked up with the easing of social-distancing measures.**
- **We expect credit to the private sector to improve over the year ahead, led by an expansion in housing credit. We know the economic recovery will be bumpy and this may be holding back credit growth in the short term.**
- **However, the gradual reopening of the economy alongside the global rollout of vaccines will provide consumers and businesses with more certainty over the economic outlook. In turn, this will help increase demand for new loans. Record low interest rates and continued fiscal stimulus will also continue to boost demand for credit.**



Credit to the private sector ticked up in January, growing 0.2%, in line with our forecasts. In annual terms, growth remains muted at 1.7%. This continues to reflect weakness in demand for business and other personal credit, while housing credit growth continues to increase.

Business credit growth remained anaemic, declining 0.1% in January. Over the year, business credit grew at 0.5%, the slowest annual growth since 2011. Businesses have been reluctant to take on debt given the ongoing uncertainty over the economic outlook. Businesses have also taken advantage of loan repayment deferrals and temporary government initiatives which have reduced their need to take on new loans. This print suggests that businesses remain cautious, despite the increase in confidence over recent months.

Housing credit has picked up a little since late 2020, growing 0.4% in January and 3.6% in annual terms. The increase has been driven by owner-occupiers, with annual credit growth at 5.7%. This follows the easing of COVID-related restrictions, better jobs growth, lower interest rates, government support for first-home buyers and the HomeBuilder program. Credit to investors was flat over the last 12 months.

Other personal credit growth declined by 0.9%, to be down 12.4% over the year. Growth in other personal credit, which captures personal loans and credit cards, has been negative for several years and declined sharply over 2020. This reflects lower credit card spending and households prioritising paying down debt. The ability to repay debt was boosted by superannuation withdrawals and income support payments. Other personal credit growth has come off its lows in recent months as spending on credit cards has picked up with the easing of containment measures.

We expect credit to the private sector to improve over the year ahead, led by an expansion in housing credit. We know the economic recovery will be bumpy and this may be holding back credit growth in the short term. However, the gradual reopening of the economy alongside the global rollout of vaccines will provide consumers and businesses with more certainty over the economic outlook. In turn, this will help increase demand for new loans. Record low interest rates and continued fiscal stimulus will also continue to boost demand for credit.

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