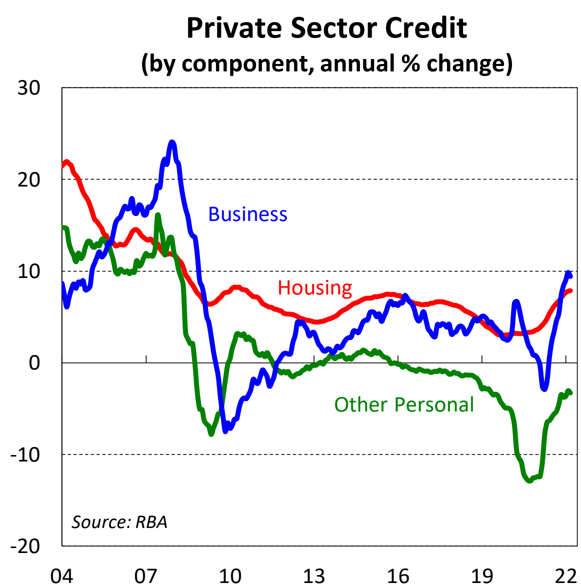
Data Snapshot

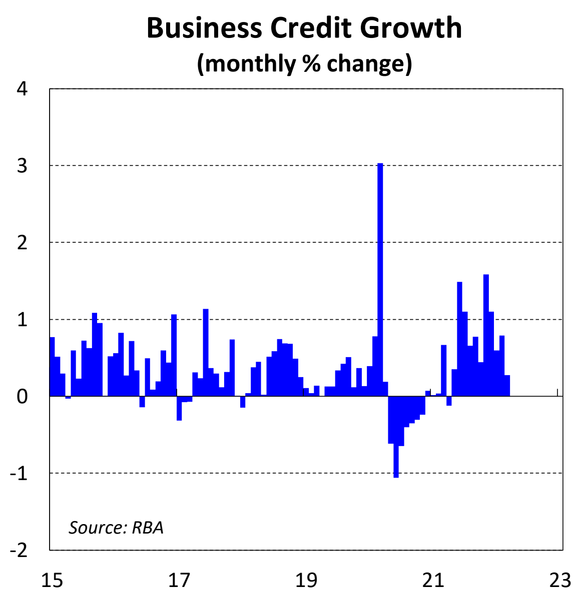
Friday, 29 April 2022

Private Sector Credit

Growth Moderates as Rate Hikes Loom

- **Credit growth moderated slightly in March after a period of strong gains. Credit extended to the private sector expanded 0.4% in the month and 7.8% over the year, coming off a 13-year high of 7.9% annual growth in February. March marked the slowest monthly growth in 11 months.**
- **Housing credit grew by 0.6% to be 7.9% higher over the year, edging up from 7.8% in February. This was the highest annual growth in more than 11½ years. Owner-occupier credit grew 0.6% to be 9.1% higher over the year. Credit to investors grew 0.6% to be up 5.3% in annual terms.**
- **Business credit growth slowed in March, expanding 0.3% in the month and 9.4% over the year. However, this is off the back of the fastest annual growth in more than 13 years in February.**
- **Households and businesses have been borrowing at a considerable pace in response to the record low cash rate. Now borrowers are sizing up the tightening cycle with the Reserve Bank (RBA) set to kick off rate hikes at next week's meeting.**
- **Credit growth is expected to remain solid as the economy grows strongly over 2022. Growth will be supported by strong household spending, falling unemployment, and robust business investment.**
- **However, uncertainty remains as policymakers navigate unchartered waters. In particular, there is elevated uncertainty over the outlook for inflation, and hence how quickly and how far the cash rate will rise.**





Credit growth moderated slightly in March after a period of strong gains. Credit extended to the private sector expanded 0.4% in the month to be 7.8% higher over the year, coming off a 13-year high of 7.9% in February. In monthly terms, it is the slowest expansion in the past 11 months.

Housing credit growth was broadly steady while business credit growth slowed somewhat. Households and businesses have been borrowing at a considerable pace in response to the record low cash rate. Now borrowers are sizing up the tightening cycle. The Reserve Bank (RBA) is set to lift the cash rate imminently as we move away from emergency policy settings.

Housing

Housing credit grew by 0.6% to be 7.9% higher over the year, edging up from 7.8% in February. This marks the highest annual growth in more than 11½ years, and notably, is well above the 10-year average of 5.5%. The pace reflects the strong activity we have seen in the housing market over the past couple of years, even though the boom has begun to moderate in recent months.

Owner-occupier credit grew 0.6% to be 9.1% higher over the year. This was the first time monthly credit growth has fallen below 0.7% since February 2021. Credit to investors grew 0.6% to be 5.3% higher over the year. The boom was initially led by owner-occupiers although lending to investors has accelerated over the past year or so.

Business

Business credit growth moderated in March. Business credit grew by 0.3% in the month and 9.4% over the year. In February, business credit grew 0.8% in monthly terms and 9.8% on an annual basis – the fastest annual pace in more than 13 years.

The dip could partly reflect uncertainty ahead of the May Federal election. Some businesses also drew down on credit to support their cash flows during lockdowns, which are now in the rear-view mirror.

Business confidence is elevated as economic activity picks up and we adapt to living with covid. This is despite challenges around staff shortages, supply disruptions and rising prices. In turn, businesses are looking to expand, which is supporting investment and credit growth.

Other personal

Other personal credit, which includes credit cards and personal loans, declined 0.2% in March. Other personal credit has declined for seven of the past 12 months and fell by 3.3% over the year to February.

Outlook

Credit growth is expected to remain solid as the economy grows strongly over 2022. Growth will be supported by strong household spending, falling unemployment, and robust business investment. Notably, key tax incentives for businesses will remain in place until 2023, providing ongoing support to investment.

However, uncertainty remains, particularly with respect to the outlook for inflation and hence how quickly and how far the cash rate will rise. Policymakers are navigating unchartered waters. We are coming out of a pandemic, there are ongoing supply-chain disruptions and war in Europe. And it is unclear exactly how households will respond to the first rise in the cash rate in more than a decade.

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