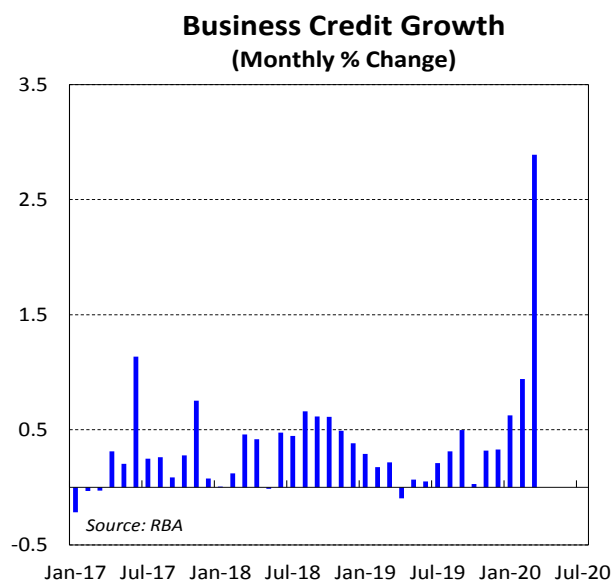
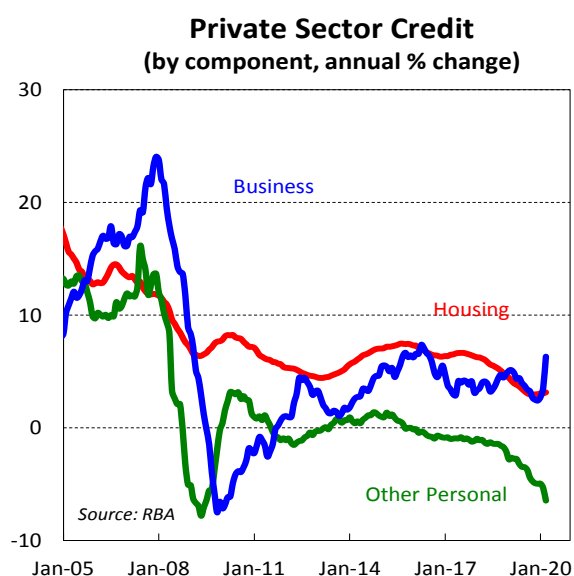


Thursday, 30 April 2020

# Private Sector Credit

## It's Business Time, but not For Long

- Credit growth in the private sector surged 1.1% over the month in March, driven by a sharp rise in lending to businesses. It was the strongest monthly pace of growth since December 2007.
- Businesses appeared to take advantage of the RBA's largest ever stimulatory move announced on March 19, despite heightened movement restrictions. Firms were likely looking to build cash holdings ahead of a big crunch in revenue.
- Business credit rose 2.9% in March, its fastest monthly increase since 1987.
- Underlying segments of credit were mixed, reflecting the rapidly evolving policy response to the novel coronavirus outbreak in Australia.
- Housing credit continued to grow modestly, at a 0.3% pace. In March, growth was driven by owner-occupier credit, which grew 0.5%.
- The long-running trend of declining other personal credit (which includes personal loans and credit cards) accelerated in March as uncertainty around household incomes mounted. Other personal credit fell 1.4% over the month.
- The coming months are likely to see a reduction in outstanding credit as headwinds to the economy intensify. Stimulus and support measures from the RBA, Federal government and banks will go some way to underpin credit, particularly for businesses as shown in today's data. However, with a deep economic contraction underway, the strong lift in credit over March is unlikely to last.



Credit growth in the private sector surged 1.1% over the month in March. It was the fastest monthly pace of growth since December 2007 and was up sharply from 0.4% in February. On an annual basis, growth increased to 3.6%.

The dynamics of the increase were mixed, reflecting the rapidly evolving policy response to the novel coronavirus outbreak in Australia, and the extraordinary disruption to economic activity from the restrictions to contain the virus. Credit extended to businesses rose 2.9% in March —the fastest pace of growth since December 1987.

Overall lending for housing rose 0.3% and “other personal” credit (which includes credit cards and personal loans) decreased 1.4%.

Growth in housing credit among owner-occupiers has been robust since the housing market turned in the middle of last year. This momentum likely carried into at least half way through the month in March, before social distancing measures were introduced. The National Crisis Cabinet was formed on March 13, and restrictions were heightened over the following weeks, including the banning of physical auctions as of March 26.

Owner occupier credit expanded 0.5% in March following a 0.4% increase in February. On an annual basis, credit to owner occupiers was up 5.2% in March. Housing credit to investors fell 0.1% in March following a 0.0% outturn in February. On a monthly basis, investor credit has barely grown since 2018 and was down 0.4% on an annual basis in March. Overall lending for housing maintained a 3.1% annual rate of increase for the third consecutive month in March.

Businesses appeared to take advantage of the Reserve Bank (RBA)’s comprehensive stimulus measures announced on March 19, despite heightened movement restrictions that were sure to have an impact on economic growth and profits. The RBA cut rates to a record low of 0.25%, launched a \$90 billion term funding program for businesses, particularly for small and medium sized businesses and introduced a yield target on the 3-year government bond of 0.25%, effectively implementing quantitative easing. Major banks and lending institutions also pledged to support businesses that had their cash flow affected by the measures to contain the coronavirus through additional lending and amendments to payment obligations.

It is not yet clear what proportion of the additional credit extended to businesses was for investing in new opportunities at lower rates, and what was intended to be used to smooth cash flow disruptions. Given the need of businesses for greater cash flow facing big reductions to their revenue, it is likely to be the latter.

In addition to the swathes of liquidity provided by the RBA and the support packages from the banks, the Federal government introduced the largest fiscal stimulus package in Australia’s history. Support packages from banks have included loan repayment deferrals for households and businesses, which would increase the amount of outstanding credit than would otherwise have occurred if these payments were being made.

“Other personal” credit, fell by 1.4% in March, its largest contraction since November 2008. There has been a gradual shift away from traditional forms of non-mortgage borrowing over the past few years. However, uncertainty around the coronavirus spread and restrictions affecting retailing which came into force in the latter half of the month may have accelerated this trend. On an annual basis, other personal credit was down 6.5% in March. The sector has recorded annual declines every month since January 2016.

There are some powerful forces are impacting the amount of outstanding private credit. Firstly, businesses are seeking to maintain cash flows amid a hit to their revenues. Secondly, a deterioration in the labour market is limiting the ability for households to take on more debt.

Nonetheless, an unprecedented level of support and liquidity is being provided to the economy. However, the coming months should see a contraction in credit as headwinds to the economy intensify.

**Nelson Aston, Economist**  
Ph: 02-8253-0898

## Contact Listing

### Chief Economist

Besa Deda  
dedab@banksa.com.au  
(02) 8254 3251

### Senior Economist

Janu Chan  
chanj@banksa.com.au  
(02) 8253 0898

### Economist

Nelson Aston  
nelson.aston@banksa.com.au  
(02) 8254 1316

The information contained in this report (.the Information.) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

---

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.

---