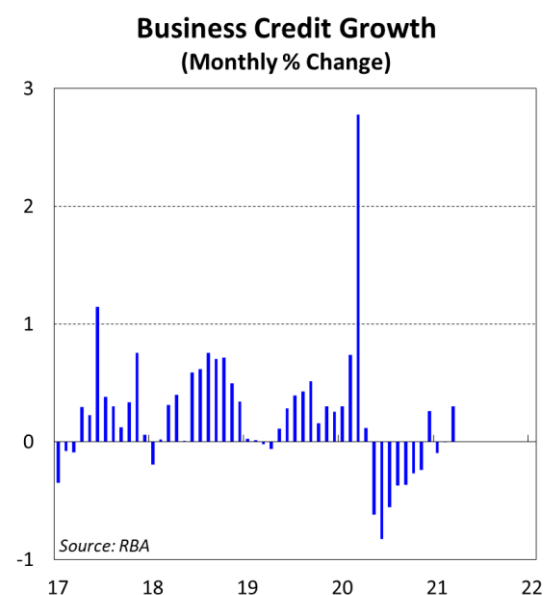
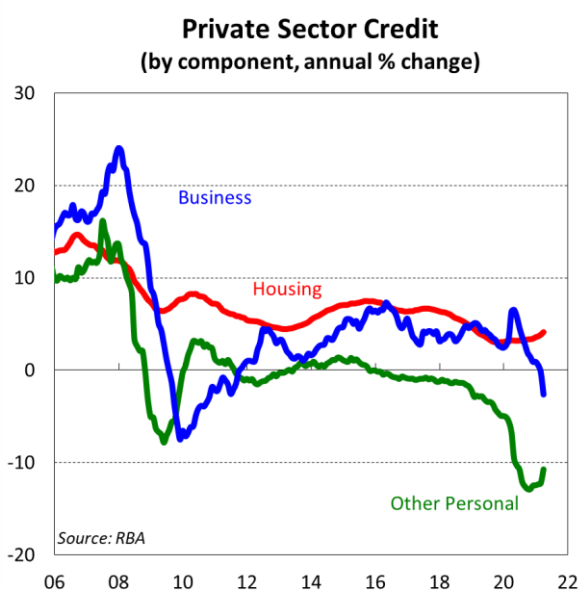


Friday, 30 April 2021

# Private Sector Credit

## Emerging Recovery in Business Credit

- Private sector credit grew 0.4% in March, its fastest monthly growth in the past year. It is an encouraging sign that households and businesses are beginning to borrow more to fund investment as the economic recovery continues.
- Business credit may have turned a corner. Business credit growth ticked up 0.3% in March. Business credit growth has been anaemic over the past year, although readings in recent months have shown a marked improvement. Moreover, business conditions are around record highs and confidence is elevated.
- Housing credit growth continued to accelerate in March, up 0.5%, led by lending to owner occupiers. Housing credit has been on the rise since late 2020 alongside rocketing house prices.
- Other personal credit increased 0.2% in March. This is the largest monthly increase since 2015 although on an annual basis, other personal credit growth is still down 10.7%.
- We expect credit growth will pick up as the economic recovery continues. Widespread inoculations will reduce the risk of snap lockdowns and state border closures and hence provide more certainty over the economic outlook. It will mean businesses are more comfortable expanding investment activities and will also provide businesses with confidence to seek additional credit.
- A separate survey published today revealed supply-chain disruptions are a major issue for businesses, especially small businesses. This issue could weigh on the outlook for business credit.



Private sector credit grew 0.4% in March, its fastest monthly growth in the past year. Although credit growth is still weak, this is an encouraging sign that households and businesses are beginning to borrow more to fund investment as the economic recovery continues.

Annual growth slowed to 1.0% from 1.6% in February. This decline reflects base effects from a surge in lending in March 2020 when businesses rushed to build cashflow buffers, as the lockdowns were first imposed across the country and international borders were closed.

**Business credit** growth ticked up 0.3% in March. Business credit growth has been anaemic over the past year although readings in recent months have shown a marked improvement.

A February survey of businesses from the Australian Bureau of Statistics' suggests a key reason why businesses have not sought additional credit is because they already have sufficient funds. In other words, businesses are cashed up, partly reflecting that businesses parked investment plans in the face of the recession and elevated uncertainty.

Over the past 12 months, business credit growth fell sharply, down 2.6%. This is because of base effects, with a rush of lending at the onset of the pandemic as businesses sought to smooth cash flow disruptions as revenues were smashed. Looking through this volatility, the data over recent months suggest a tentative pick up business credit. Moreover, business conditions are around record highs and confidence is elevated. Business credit may have turned a corner.

**Housing credit** growth continued to accelerate in March, up 0.5%. Housing credit has been on the rise since late last year alongside rocketing house prices. It is now growing at an annual pace of 4.1%, which is still low relative to historical levels.

As we have seen in housing finance approvals, so far the heat in the housing market has been driven by owner-occupiers. Owner-occupier credit growth rose to 0.7% in March and is now tracking at 6.1% over the year. Investor credit ticked up 0.2% in the month.

Regulators will be keeping a close eye on these numbers over the coming period. A rapid lift in investor credit growth would cause concern and could prompt a tightening in macroprudential policy. However, so far policymakers have emphasised that lending standards remain sound and so any intervention is some way off.

**Other personal** credit increased 0.2% in March. This is the largest monthly increase since 2015. This category has been weak for a number of years, alongside a shift away from traditional forms of non-mortgage borrowing. On an annual basis, other personal credit growth is down 10.7%.

## **Outlook**

We expect credit to the private sector to improve over the year ahead, led by an expansion in housing credit and a further recovery in business credit. The credit expansion will be underpinned by the vaccine rollout, the ongoing economic recovery and the eventual reopening of international borders. Widespread inoculations will reduce the risk of snap lockdowns and state border closures and hence provide more certainty over the economic outlook, which in turn will support investment and demand for business credit. A separate business survey today suggested supply-chain disruptions are significant and a source of uncertainty for businesses.

Ongoing ultra low interest rates and fiscal stimulus will continue to support demand for credit. The May Budget may also present further support for businesses. Housing credit may ease in the coming period coming off the end of HomeBuilder but it will remain under the microscope as regulators watch for any signs of excessive risk-taking.

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