

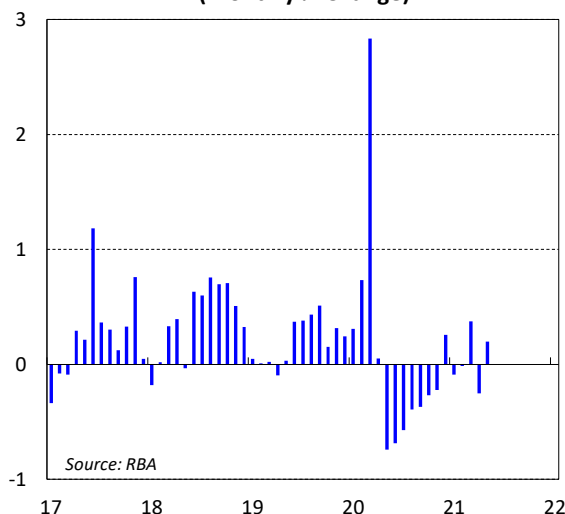
Wednesday, 30 June 2021

# Private Sector Credit

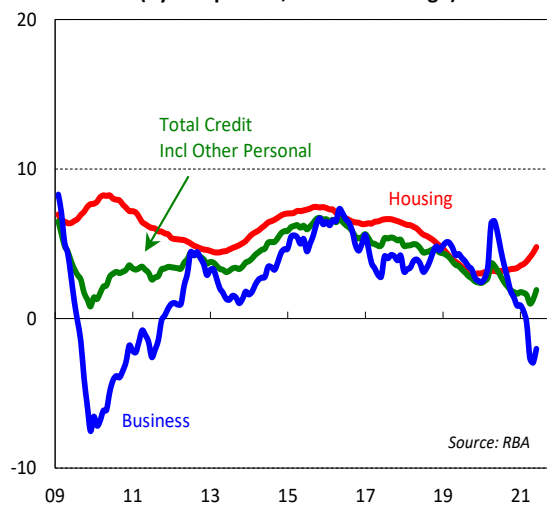
## Business Credit Growth On The Up

- There is an improvement underway in lending to consumers and businesses. This improvement began around October last year, reflecting the broader recovery in the economy.
- Initially, the recovery in lending to the credit sector was led by consumers, especially borrowing by consumers for housing. But encouragingly, lending to businesses has improved, notably since the end of last year. Business credit growth is on the up!
- Credit extended to businesses in the private sector increased 0.2% in May. Business credit turned a corner in December last year. In the past six months, business credit has declined only twice. The recovery in business credit should take greater hold in coming months, driven by generous government tax incentives for business investment.
- The strongest lending in the private sector occurred for housing lending. Lending for housing grew 0.6% in May, the fastest monthly rate in nearly four years, and by 4.8% in the year to May, the fastest clip in 2½ years.
- Other personal credit, which includes personal loans and credit cards, is also on the mend. This segment rose 0.3% in May, which is the third consecutive monthly gain.
- Total credit to the private sector rose 0.4% in May and lifted by 1.9% in the year to May – the firmest annual rate since September 2020. Credit growth should strengthen over the year ahead, as the economic expansion continues, provided lockdowns in several states are short.

**Business Credit Growth**  
(Monthly % Change)



**Private Sector Credit**  
(by component, annual % change)



There is an improvement underway in lending to consumers and businesses. This improvement began around October last year, reflecting the broader recovery in the economy. Initially, the growth in lending to the credit sector was led by consumers, especially borrowing by consumers for housing. But encouragingly, lending to businesses has turned a corner, notably since the end of last year.

Total credit to the private sector rose 0.4% in May and lifted by 1.9% in the year to May - the strongest annual growth rate since September 2020. This annual clip is likely to accelerate over the rest of 2021, as the economic expansion continues, provided the lockdowns in several states, including NSW, are relatively short.

### **Housing credit**

The strongest lending in the private sector occurred for lending to households for housing. Lending for housing grew 0.6% in May, the fastest monthly rate in nearly four years, and by 4.8% in the year to May, the fastest clip in 2½ years.

Owner-occupier lending continued to grow faster than investor lending; indeed, this trend has consistently been intact for almost six years. Lending to owner occupiers rose 0.7% in May and 6.6% in the year to May, the fastest annual rate in 2½ years. However, lending to investors has accelerated over recent months, reaching an annual growth rate of 1.6% in May. Policymakers will be eyeing these developments closely for signs of a deterioration in lending standards.

The strengthening demand for credit to households for investors suggests demand for housing remains solid. Dwelling prices have ramped up over the past eight months. Whilst there is some evidence some steam is being lost, the run up still clearly has further to go.

### **Business credit**

The most encouraging bit of today's data sets was that business credit continued to recover. Credit extended to businesses in the private sector increased 0.2% in May. Business credit has turned a corner in December last year. In the past six months, business credit has declined only twice.

Over the remainder of this year, the recovery in business credit should take greater hold, underpinned by generous government tax incentives to businesses that spend on machinery & equipment.

The low interest rate environment and brighter economic backdrop also suggests businesses have an imperative to grow and expand. This is also reflected in elevated levels of capacity utilisation – as indicated in business surveys. At higher levels of capacity utilisation, businesses are more likely to expand and, hence, seek additional credit.

Business credit growth will also be supported by favourable conditions and confidence. Business conditions and confidence have been around record highs in recent months. The lockdown in the populous parts of NSW and lockdowns in several other states is likely to dent some of this confidence, but provided these lockdowns are short lived, confidence should bounce back quickly.

A survey taken in June by the Australian Bureau of Statistics (ABS) revealed business revenues are improving, especially since the height of the pandemic last year, and that a greater share of businesses is finding it easy or easier to meet financing commitments.

This time last year, one of the biggest concerns for businesses were around future cash flows due to uncertainty about the economic outlook. Large cashflow buffers were built up by businesses that could afford to do so, but they are now being drawn down and as more of these buffers are

eroded, the lift in business credit will be stronger and more sustainable.

Currently, prominent concerns for businesses are labour shortages and finding the right type of labour. Reports of labour shortages have intensified since late last year. The labour market is tightening. Before the end of this year, we anticipate the unemployment rate could move to under 5%. The reopening of international borders will provide some relief to labour shortages, although this is a way off.

### **Other personal credit**

Other personal credit, which includes personal loans and credit cards, is also on the mend. This segment rose 0.2% in May, which is the third consecutive monthly gain. The annual rate is still in negative territory, but not as deep as it has been. The annual rate has not recorded positive growth since December 2015, but may return to growth in before the end of this year.

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