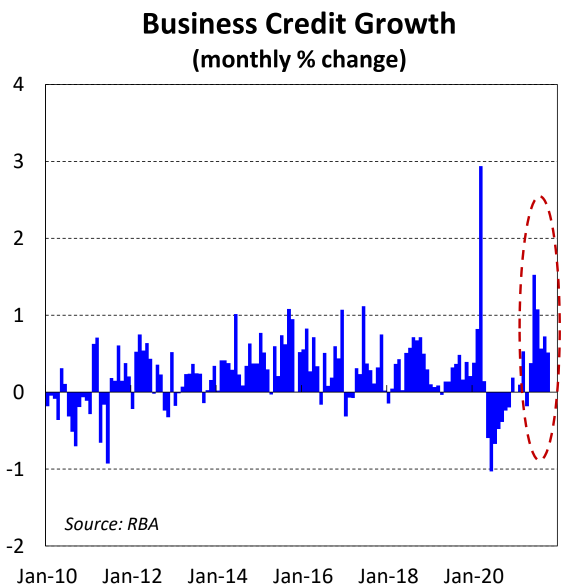
Data Snapshot

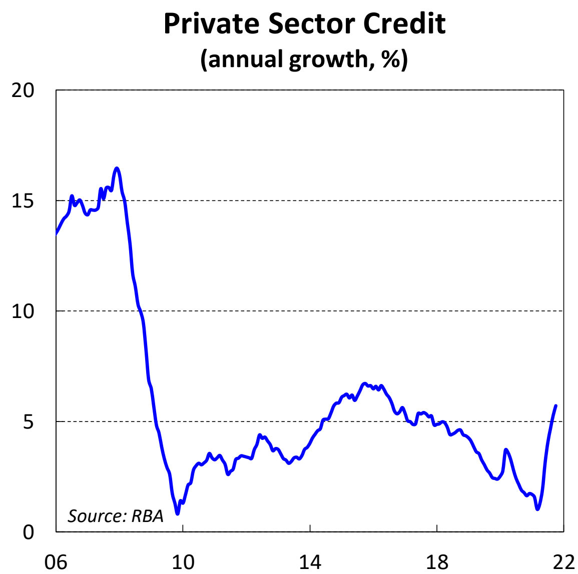
Tuesday, 30 November 2021

Private Sector Credit

Credit Grows at Fastest Clip in 5 Years

- **The pace of credit growth stayed solid in October. It is consistent with a recovery underway nationally after NSW, Victoria and the ACT emerged from their lockdowns last month.**
- **Credit to the private sector grew by 0.5% in October - a solid pace of growth. This pace is above the average monthly growth rate over the past 10 years of 0.4%. In the twelve months to October, the pace of credit growth quickened to 5.7% - the fastest recorded in 5 years.**
- **Growth in lending extended to the private sector was underpinned by lending for housing and business purposes. Credit for other personal purposes continued to be soft, although there is an improving trend.**
- **Lending for housing grew 0.6% in October – the same, solid rate for three straight months, despite stretched affordability and macroprudential tightening. Lending growth remains firmest for owner occupiers where annual growth rose to 9.0% – the fastest in over 5 years.**
- **Credit extended to businesses continued to recover, recording the sixth straight month of growth. Business credit rose 0.5% in October and the annual rate lifted to a 17-month high of 5.3%. Businesses are feeling optimistic, including about their spending plans.**
- **There is some risk that the emergence of the new COVID-19 variant, Omicron, could cause some businesses to be more cautious until greater clarity materialises about this new strain. But there are several factors that should continue to underpin business spending and the need for credit, including low rates, the economic recovery and generous government incentives.**





Total Credit

The pace of credit growth remained solid in October and consistent with a recovery underway in the national economy after NSW, Victoria and the ACT emerged from their lockdowns last month.

Credit to the private sector grew by 0.5% in the month of October, which is a solid pace and above the monthly average growth rate over the past 10 years of 0.4%. In the twelve months to October, the pace of credit growth quickened to 5.7% - the highest rate in over 5years.

Growth in lending extended to the private sector was underpinned by lending extended for housing and business purposes. Credit for other reasons, such as personal loans and credit cards, continued to be soft, although not as weak as in recent times.

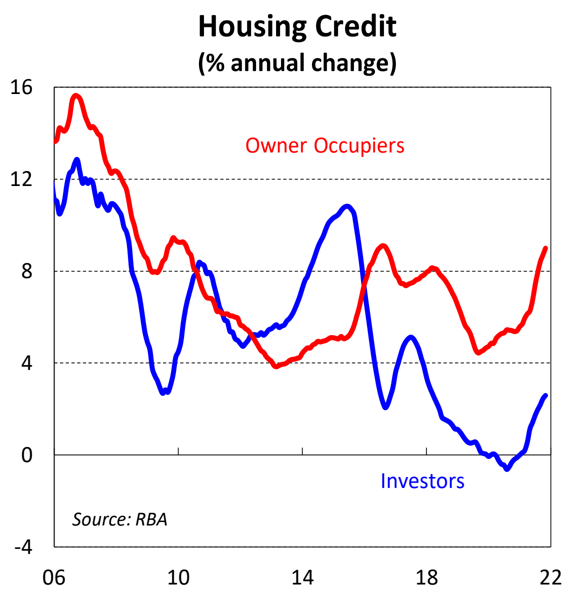
Housing

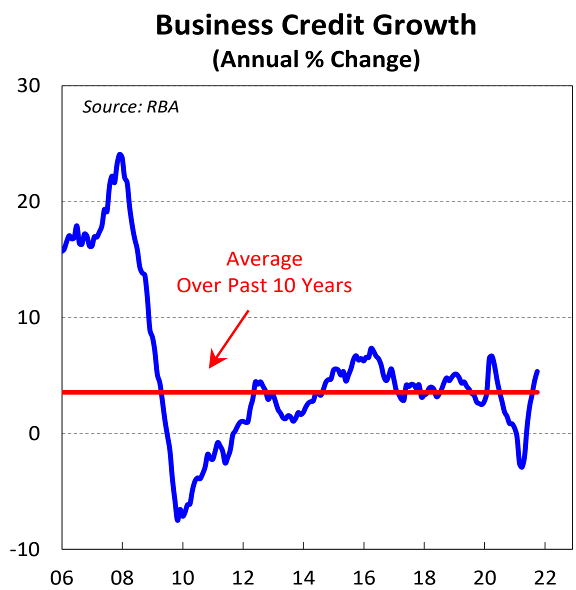
Lending for housing grew 0.6% in October. It is the same, solid growth rate recorded for three straight months, despite higher fixed home loan rates across lenders (on average), stretched affordability and macroprudential tightening.

Again, lending extended for housing was firmest for owner occupiers. Lending to owner occupiers grew 0.7% in October – a solid rate, although down from the 0.9% monthly rate recorded over May to July. In the year to October – lending to owner occupiers expanded at 9.0% - the fastest pace in over 5 years (since August 2016).

Investor lending grew by 0.3% in October. The annual rate lifted from 2.4% in September to 2.6% in October – the fastest annual rate in over 3½ years. This is a vast turnaround from the contraction of 0.6% over the 12 months to July 2020, which marks the low point in this recent cycle.

Forward-looking indicators of dwelling prices, such as auction clearance rates, suggest there is a further slowing likely in the pace of growth. The monthly pace of dwelling prices has eased since peaking in March. The softening in the pace suggests the rate of growth in housing lending could also soften over next year.





Business

Credit extended to businesses in the private sector continues to recover. Business credit rose 0.5% in October – the sixth straight month of growth. In fact, business credit has expanded in 10 of the past 12 months also. Over June to October, monthly growth in business credit has been between 0.5% and 1.6%, which is a very solid range of monthly expansion.

Early on in this five-month period, business credit growth would have been underpinned by businesses in NSW and Victoria trying to boost their cashflow buffers during lockdown. However, business optimism emerged before the end of the lockdowns and customer liaison suggests that businesses are feeling more optimistic, including about their expansion plans. Indeed, last month an internal survey of 1,000 of our small to medium-sized business leaders revealed 72% anticipated a rise in sales over the next 12 months.

There is some risk that the emergence of the COVID-19 variant, Omicron, might cause some businesses to be more cautious until greater clarity materialises about the effectiveness of current vaccines against this new strain. However, more information is required. Encouragingly, some of the major vaccine producers overnight said that they are confident they can adjust their vaccines to protect against the new strain. These vaccine producers said the time to do this could be as short as 100 days.

There are several factors that continue to underpin business spending and the need for credit from businesses. These include low interest rates. Whilst swap rates have risen from their trough last year, they remain historically low. The recovery underway in the economy is another fundamental factor spurring business credit. We anticipate solid growth next year in economic activity, as does the Reserve Bank.

Generous government incentives – the loss carry-back and instant asset write-off schemes – also are available. These incentives will particularly benefit spending on machinery and equipment.

The challenges for businesses remain raw material shortages and price increases, in addition to labour shortages.

In terms of annual growth, credit extended to businesses lifted by 5.3% - the highest annual growth since May of 2020. The 10-year average sits at 3.5%, but the 20-year average is much higher at 5.7%.

Other personal

Other personal credit, which includes personal loans and credit cards, was flat in October, after four consecutive monthly falls. In annual terms, this segment declined 4.6%, which is an improvement from the fall of 5.3% in September and the fall of 12.9% at its trough last year.

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