

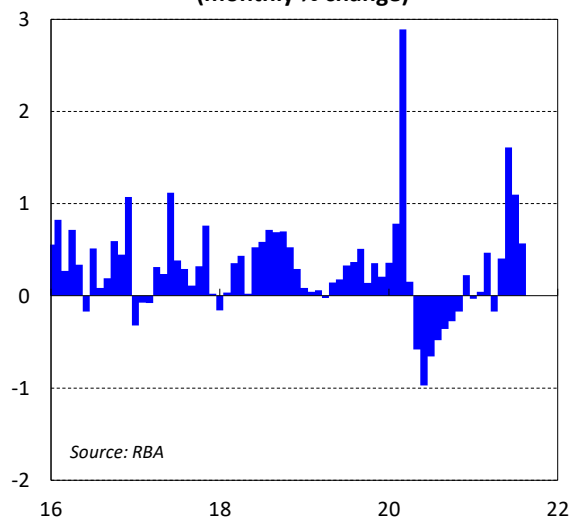
Thursday, 30 September 2021

Private Sector Credit

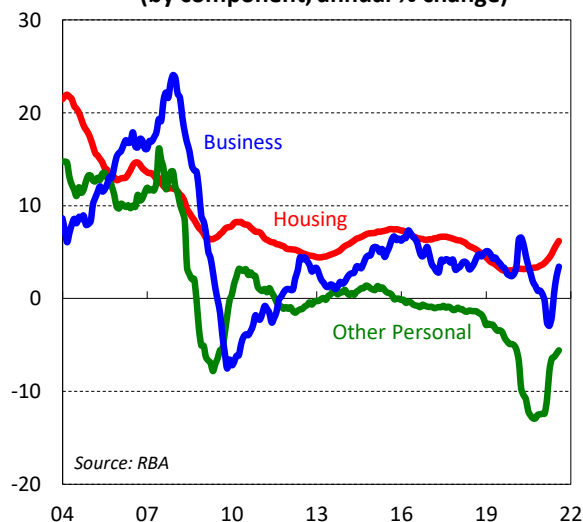
Credit Growth Solid Despite Disruptions

- Credit extended to the private sector grew 0.6% in August, marking another month of robust growth despite extended lockdowns in Australia's two most populous cities. In annual terms, credit grew at 4.7% – the fastest rate in over three years.
- Business credit continued to expand at a solid rate, increasing 0.6% in the month to be 3.4% higher over the year. The increase in August likely reflects businesses in Victoria shoring up cash flow buffers as the state was plunged back into a lengthy lockdown.
- There are some signs of stress apparent in business loans deferrals, which increased sharply in August. However, deferrals are still much lower than the levels reached in 2020.
- Housing credit rose 0.6% in August and 6.2% in annual terms. Credit to owner-occupiers continues to grow faster than credit to investors.
- Business credit growth will likely be disrupted in the coming months. Business confidence has dropped sharply and some businesses will be less willing to take on more debt as restrictions limit their ability to generate revenue.
- Housing credit growth is likely to remain resilient, as while there has been some decline in housing turnover, dwelling price growth continues to march ahead.
- We expect the economy will start to recover alongside the slated easing of restrictions over the coming months. However, the rebound might be slower than in the past. But once the recovery takes a firmer hold, we expect the pick up in activity will flow through to demand for credit.

Business Credit Growth
(monthly % change)



Private Sector Credit
(by component, annual % change)



Credit extended to the private sector grew 0.6% in August, another month of robust growth despite lockdowns in two of Australia's major cities. Queensland, the NT and the ACT were also impacted by lockdowns in the month. In annual terms, credit grew at 4.7% – the fastest rate in over three years.

Business credit continued to expand at a solid rate, increasing 0.6% in the month to be 3.4% higher over the year. The increase in August likely reflects businesses in Victoria shoring up cash flow buffers as the state was plunged back into a lengthy lockdown. However, the expansion of credit did moderate relative to June and July when business credit grew 1.6% and 1.1% respectively.

Business credit growth will likely be disrupted in the coming months. Business confidence has dropped sharply, and some businesses will be less willing to take on more debt as restrictions limit their ability to generate revenue. There is still significant uncertainty around the near-term outlook, especially for small businesses.

There are some signs of stress apparent in loans deferrals, which increased to more than 3,500 in the month to 5 September, up from just 600 in the month prior. Almost 90% of the deferrals were in NSW and Victoria. However, this is still much lower than the levels reached in 2020 when more than 225,000 business loans were deferred.

Importantly, businesses built up cash flow buffers last year and in the early part of this year. Customer liaison suggests some businesses are opting to dip into their cashflow buffers rather than seek loan deferrals, or additional debt, from financial institutions.

Housing credit rose 0.6% in August, to be 6.2% higher than a year ago. This is the fastest annual growth rate in three and a half years.

Credit to owner-occupiers continued to grow faster than credit to investors. Owner-occupier credit grew 0.8% in August and 8.4% over the year. Credit to investors grew 0.2% in the month and 2.2% over the year.

Other personal credit, which includes personal loans and credit cards, fell another 0.6% in August. In annual terms, it declined 5.6%. Other personal credit has been declining for several years, although has fallen less sharply over recent months than earlier in the pandemic.

Outlook

The extended lockdowns in NSW and Victoria will dampen demand for credit, particularly business credit.

While business credit growth has been temporarily boosted as businesses seek to shore up cash flow buffers, in the coming months some businesses will be less willing to take on credit given the heightened uncertainty. But encouragingly, recall heading into the Delta outbreak, business investment was improving steadily, and business confidence was around record highs. These factors were underpinning a recovery in business lending.

Housing credit growth is likely to remain resilient, as while there has been some decline in housing turnover, dwelling price growth continues to march ahead, and housing demand remains strong. Further down the track, worsening affordability pressures and a possible tightening in macroprudential controls may weigh on housing credit growth.

We expect the economy will start to recover alongside the slated easing of restrictions over the coming months although the rebound might be slower than in the past. But once the recovery takes a firmer hold, we expect the pick up in activity will flow through to demand for credit.

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