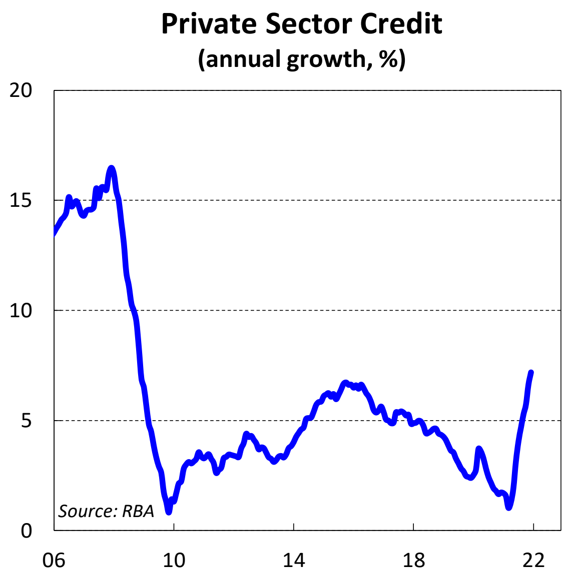
Data Snapshot

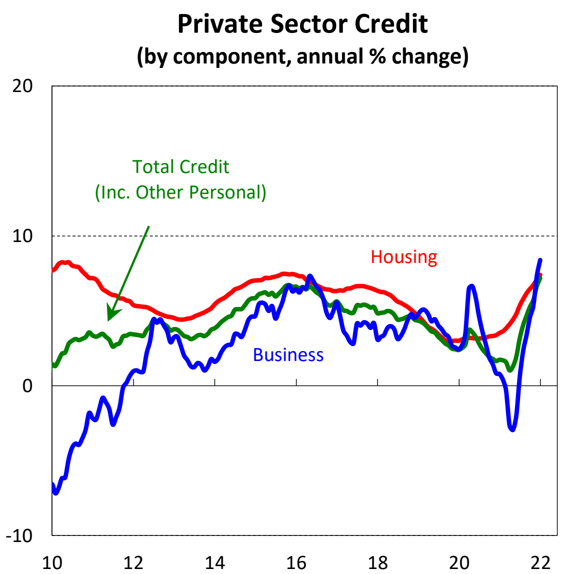
Monday, 31 January 2022

Private Sector Credit

Credit Growth Jumps to 13-Year High

- **Credit growth remained strong in December, increasing 0.8% in the month. In annual terms, credit growth jumped to 7.2% over the year to December. This was the highest annual growth in over 13 years.**
- **Business credit grew by 1.1%, following a 1.6% jump in November. This strength in part reflects businesses drawing down on lines of credit to shore up balance sheets and improve their cash position. Additionally, the economic rebound following the lifting of the Delta lockdowns supported business activity and demand for credit.**
- **Housing credit continued to expand at an above-average pace. Credit grew by 0.7% in December to be 7.4% higher over the year. This was the highest annual growth rate in over six years. Growth was driven by strength in owner-occupier credit, in addition to investor credit.**
- **Credit for owner-occupier housing expanded by 0.8% in December, to be 9.6% higher over the year. This was the highest annual growth for over 13 years. Investor credit has picked-up over 2021. This continued in December, as credit grew by 0.5%. The pace of monthly investor credit growth has increased in four out of the past six months.**
- **The spike in COVID-19 infections has introduced greater uncertainty into the economic outlook. However, beyond this near-term uncertainty, the economy is expected to continue to recover as case numbers decline.**
- **Business credit is expected to be supported by strong demand as the economy recovers, low interest rates, and generous investment incentives from government.**





Credit growth remained strong in December. Credit grew by 0.8% in the month, following 1.0% growth in November. Monthly credit growth was double the 10-year average of 0.4%. In annual terms, credit growth jumped to 7.2% over the year to December. This was the highest annual growth in over 13 years.

Business credit grew by 1.1% in the month. This follows a jump of 1.6% in November. The strength likely reflects businesses drawing down on lines of credit to shore up balance sheets and improve their cash position as the Omicron variant spread and uncertainty increased. Customer liaison suggests there has been some uptick in businesses calling for relief, however, this is only in the short-term.

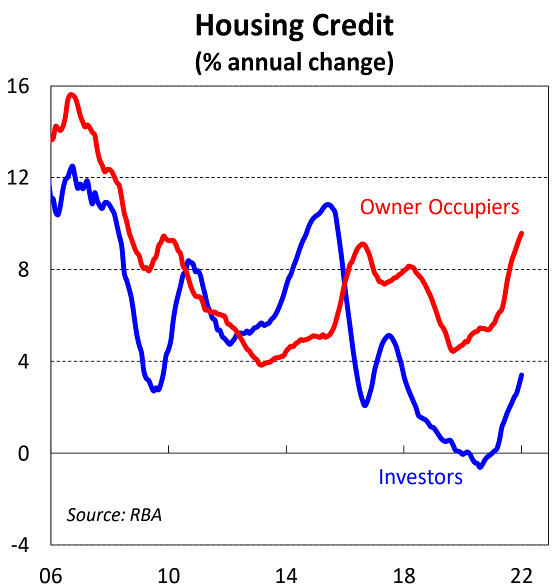
Additionally, the economic rebound following the end of the Delta lockdowns supported business activity and demand for credit.

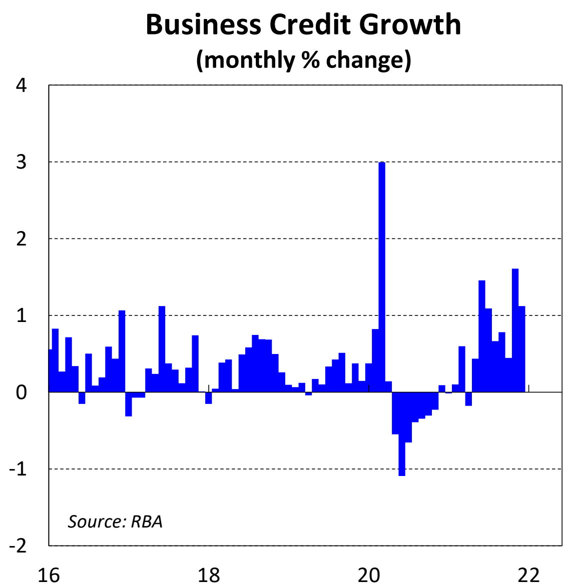
Housing credit continued to expand at an above-average pace. Housing credit grew by 0.7% in December, above the 10-year average of 0.5%. In annual terms, housing credit expanded by 7.4% over the year to December. This was the highest annual growth rate in over six years.

Growth was driven by strength in owner-occupier credit, in addition to investor credit. Credit for owner-occupier housing expanded by 0.8% in December, to be 9.6% higher over the year – the fastest annual pace in over 13 years. This is despite worsening affordability pressures following significant increases in housing prices over 2021 and increases in fixed mortgage lending rates across many lending institutions.

Owner occupiers led the boom during late-2020 and 2021. However, investor credit also picked up over 2021. This pick-up in investor credit continued in December, as credit grew by 0.5%. The monthly pace of investor credit growth has increased in four out of the past six months. In annual terms, investor credit accelerated to 3.4%, the strongest growth in over four years.

In November, macroprudential tightening measures introduced by the Australian Prudential Regulation Authority (APRA) came into effect. APRA increased the mortgage serviceability buffer from 2.5 to 3 percentage points to reduce risks in the housing market. The policy was expected to have only a modest impact on borrowing capacity. In line with this expectation, the policy doesn't appear to have had a significant impact on housing credit growth.





Other personal credit, which includes personal loans and credit cards, fell 0.8% in December. This follows an increase of 0.6% and 0.1% over the previous two months. Other personal credit has fallen for seven out of the past 12 months and continues to decline in annual terms. In annual terms, other personal credit was down 3.8%. While negative, this is significantly stronger than the trough of -12.9% over the year to October 2020.

Outlook

The economy was rebounding strongly in late 2021 from the Delta lockdowns. The spike in COVID-19 infections has introduced greater uncertainty into the economic outlook.

However, beyond this near-term uncertainty, the economy is expected to continue to recover as case numbers decline, supported by high vaccination rates and the rollout of boosters. Large household saving buffers, the strong labour market and a continued recovery in business investment will all support the recovery.

Business credit is expected to be supported by strong demand as the economy recovers, low interest rates, and generous investment incentives from government.

Housing demand has remained strong in recent months. However, after years of record low interest rates, an expected lift in the cash rate in mid-2022 will inevitably take the steam out of the housing market. Increasing affordability pressures following the surge in housing prices and potential macroprudential policy actions are also possible headwinds for housing credit growth.

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