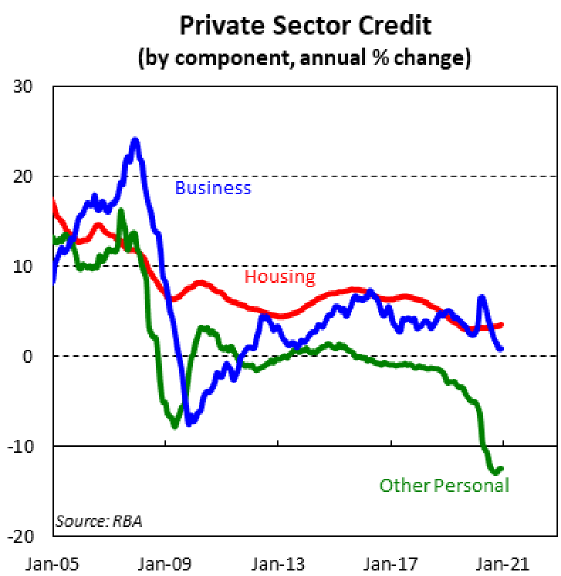
Data Snapshot

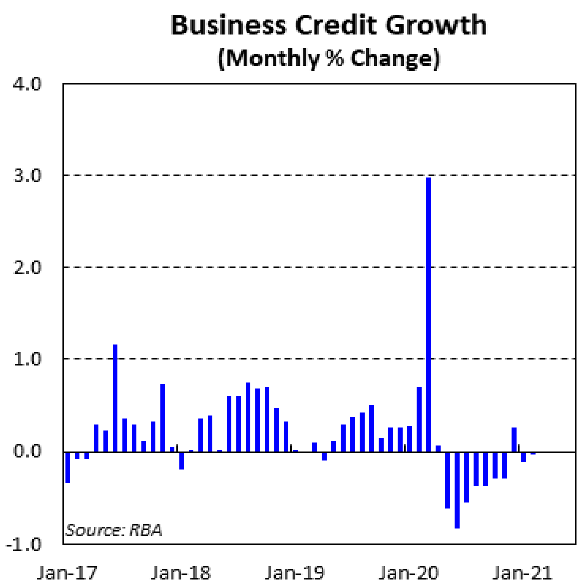
Wednesday, 31 March 2021

Private Sector Credit

Hardly Shooting Out The Lights

- **Credit to the private sector grew 0.2% in February. This was in line with growth in January and gives an annual growth rate of just 1.6%. Credit is expanding at a very slow pace.**
- **Business credit growth was zero in February and follows nine successive months of declines. At best, it was not another decline. At worst it reflects the damage to business investment plans in the months ahead. Over the year, business credit declined 0.2%, the lowest annual growth since August 2011.**
- **Housing credit has been picking up since late 2020. Credit for housing grew 0.4% in February, the same pace as in December and January. This brought the annual pace in credit growth for housing to 3.8%, the strongest pace since April 2019.**
- **Other personal credit 'growth' continues to decline, falling a further 0.5% in February. Households are prioritising the paying down of debt.**
- **We expect credit to the private sector to improve over the year ahead, led by an expansion in housing credit and eventually a pick-up in business credit.**
- **The gradual reopening of the economy alongside the global rollout of vaccines will provide consumers and businesses with more certainty over the economic outlook. In turn, this will help increase demand for new loans.**





Credit to the private sector grew 0.2% in February. This was in line with growth in January and gives an annual growth rate of just 1.6%. In the year to January, credit growth was running at 1.7%. Credit is expanding at a very slow pace.

Business credit growth was zero in February and follows nine successive months of declines. At best, it was not another decline. At worst it reflects the damage to business investment plans in the months ahead. Over the year, business credit declined 0.2%, the lowest annual growth since August 2011.

A recent Australian Bureau of Statistics' survey of businesses reported that 46% of firms were finding it easy or very easy to meet their financial commitments with another 30% of firms neutral on the issue. This suggests only modest requirements from businesses to take on new debt to meet operational needs.

Businesses have also taken advantage of loan repayment deferrals and temporary government initiatives which have reduced their need to take on new loans. This latest Reserve Bank data suggests that businesses remain cautious, despite their increase in confidence over recent months.

Housing credit has been picking up since late 2020. As in December and January, credit for housing grew 0.4% in February. This brought the annual pace in credit growth for housing to 3.8%, the strongest pace since April 2019.

The pace of growth in credit is far stronger for owner-occupiers than for investors. Credit extended to owner occupiers grew 0.6% in February for an annual pace of 5.9%.

Credit extended for housing investment purposes grew by just 0.1% for an annual pace of only 0.2%. Investors are clearly not conspicuously lifting their borrowing in the face of the current boom in house prices. The Australian Prudential Regulatory Authority (APRA) is looking this pace of growth to determine if credit growth for investor housing is excessive. The current pace, at 0.2%, is unlikely to be raising concerns. But that can change.

The solid pace of lending to owner occupiers has been spurred on by the easing of COVID-related restrictions, better jobs growth, low interest rates, government support for first-home buyers and the HomeBuilder program which was tapered in November 2020 and concludes today. The government support may have brought housing credit approvals forward and could see some decline in growth over the next three months.

Other personal credit 'growth' continues to decline, falling a further 0.5% in February. Households are prioritising the paying down of debt. Other personal credit growth has been negative or flat every month since early 2015. Most recently, the ability to repay debt has been boosted by superannuation withdrawals and income support payments.

Outlook:

We expect credit to the private sector to improve over the year ahead, led by an expansion in housing credit and eventually a pick-up in business credit. We know the economic recovery will be bumpy and this may be holding back credit growth in the short term. However, the gradual reopening of the economy alongside the global rollout of vaccines will provide consumers and businesses with more certainty over the economic outlook. In turn, this will help increase demand for new loans. Record low interest rates and continued fiscal stimulus will also continue to boost demand for credit.

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