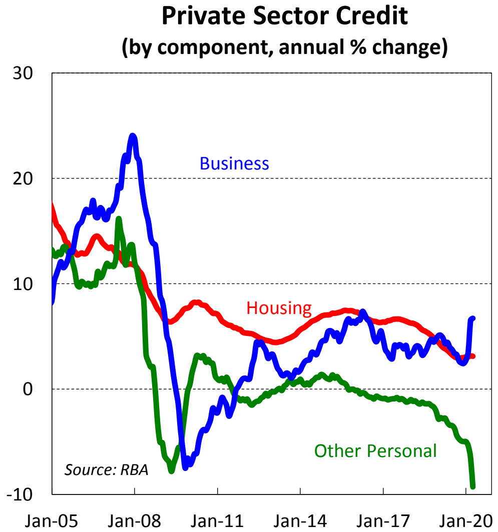
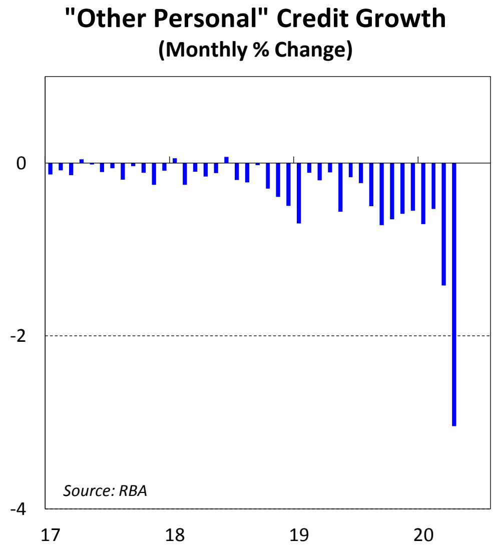
Friday, 29 April 2020

# Private Sector Credit
## The Stall Before the Fall

- **Credit growth in the private sector stalled in April, following a 1.1% increase in March.**
- **It was the first time overall credit in the economy failed to grow on a monthly basis since recording a 0.1% fall in June 2011.**
- **The stable outturn for credit was despite an expected sharp decline in economic activity in April. Outstanding balances of business and housing credit were supported by loan payment deferrals or redraws and extra liquidity provided by the RBA. It is also likely that lines of credit were drawn down to meet temporary cash flow shortfalls over the month.**
- **Business credit expanded 0.1% in April, following a 3.1% surge in March, while credit extended for housing rose 0.2%.**
- **Owner-occupier credit growth remained robust in April, increasing by 0.5% for the second consecutive month. Housing credit to investors fell 0.2% in April, its largest monthly decline since August 1991.**
- **The physical restrictions placed on retailers appear to have affected other forms of consumer credit, with the level of "other personal" credit (which includes credit cards and personal loans) falling by the most on record in April. This form of credit fell by 3.0% over the month.**
- **We expect total credit to contract in the coming months as the headwinds facing demand intensify.**



Credit growth in the private sector stalled in April, following a 1.1% increase in March. On an annual basis, credit growth edged lower from 3.7% in March to 3.6% in April.

It was the first time overall credit in the economy failed to grow on a monthly basis since recording a 0.1% fall in June 2011. The stable outturn for credit was despite an expected sharp decline in economic activity in April. The result belies a likely shift in the reasons for drawing down on credit. Growth in credit extended to businesses in particular is likely to reflect the temporary cover of cash flow reductions caused by movement restrictions to contain COVID-19.

Business credit expanded 0.1%, following a 3.1% surge in March as businesses drew down on credit lines to support their operations. The RBA launched a comprehensive stimulus package on March 19, with the explicit aim of supporting lending to businesses. This support was during a ramp-up of movement restrictions that had a dramatic impact on economic activity and company profits. The RBA cut official interest rates to a record low of 0.25%, launched a $90 billion term funding program for businesses, particularly for small and medium sized businesses, and introduced a yield target on the 3-year government bond of around 0.25%, effectively implementing quantitative easing. Major banks and lending institutions also pledged to support businesses through additional lending and amendments to payment obligations.

Housing credit growth held up reasonably well, given the gradually tightening restrictions placed on the economy during the month in April. Credit extended for housing rose 0.2% in April following a 0.3% increase in March. The volume of housing sales fell sharply in April, following the introduction of restrictions including a ban on physical auctions. Some of these restrictions, including the ban on physical auctions have been relaxed in May, although volumes are expected to remain depressed.

Outstanding housing credit was likely supported in April by uptake of mortgage deferrals for COVID-19 affected customers of major financial institutions. According to data from the Australian Banking Association, 429k mortgages had their payments deferred as of 16 May. Redraws may have also been accessed ahead of potential hardship for some households. Loan payment deferrals increase the amount of outstanding credit due to a reduction in repayments that would have otherwise occurred.

Owner-occupier credit growth remained robust in April, increasing by 0.5% for the second consecutive month. Housing credit to investors fell 0.2% in April, its largest monthly decline since August 1991. On a monthly basis, investor credit hasn't registered positive growth since 2018 and was down 0.6% on an annual basis in April. Overall lending for housing maintained a 3.1% annual rate of increase for the fourth consecutive month in April.

The physical restrictions placed on retailers appear to have affected other forms of consumer credit, with the level of "other personal" credit (which includes credit cards and personal loans) falling by the most on record in April. This form of credit fell by 3.0% over the month, accelerating from the 1.4% decline in March. There is no doubt that the uncertainty caused by COVID-19 would have reduced consumer appetite for borrowing to fund discretionary purchases However, there has been a gradual shift away from traditional forms of non-mortgage borrowing by households over the past few years. Buy-now-pay-later (BNPL) services are not currently captured in "other personal" credit statistics. On an annual basis, other personal credit was down 9.3% in April.

The effects of the unprecedented level of support to provide liquidity and credit by the Reserve Bank (RBA) and the banking sector over March and April offset a likely reduction in borrowing to fund new purchases and investment over the month. We expect total credit to contract in the coming months as the headwinds facing demand intensify.

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