Data snapshot

Bank of Melbourne

Friday, 29 October 2021

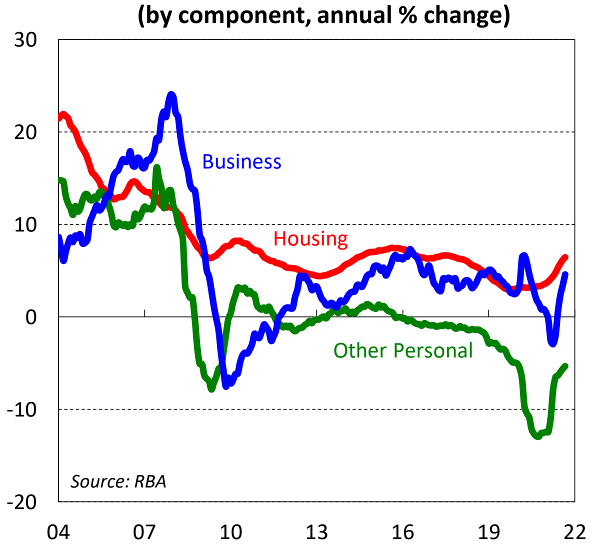
Private Sector Credit

Credit Growth Holds Up

- **Credit growth remained robust in September, even though Sydney and Melbourne were still in lockdown. Credit to the private sector grew by 0.6% in the month, following 0.6% growth in August. In annual terms, credit growth rose to 5.3%, the highest rate since 2017.**
- **Business credit continued to expand at a solid clip, increasing 0.7% in September, and has held up well so far through the Delta disruption. Encouragingly, demand for hardship assistance has declined as restrictions have eased.**
- **Business confidence has been resilient relative to early in the pandemic, while vaccines and reopening roadmaps have provided comfort that lockdowns will come to an end.**
- **Housing credit grew 0.6% in September to be 6.5% higher over the year, marking the highest annual growth rate since October 2017. Even though lockdowns have trimmed activity in the housing market temporarily, underlying demand remains strong.**
- **Earlier this month, APRA took steps to temper housing risks by raising the mortgage serviceability buffer from 2.5 to 3 percentage points. However, in APRA's own words, the policy is likely to have a 'modest' impact.**
- **We expect the economy will begin to recover as restrictions ease in NSW and Victoria over the December quarter. Promisingly, card spending and mobility data suggest consumers have opened their wallets after lockdowns lifted. Once the recovery takes a firmer hold, we expect the pick up in activity will flow through to greater demand for credit.**

Private Sector Credit
(annual growth, %)

Private Sector Credit
(by component, annual % change)



Credit growth remained robust in September, even though Sydney and Melbourne were still in lockdown. Credit to the private sector grew by 0.6% in the month, following 0.6% growth in August. In annual terms, credit growth rose to 5.3%, the highest rate since 2017.

Business credit continued to expand at a solid clip, increasing 0.7% in September after 0.6% growth in August. Business credit growth has held up well through this round of lockdowns. Business confidence has taken a hit but has remained far more resilient than in 2020. The vaccine rollout and reopening roadmaps have provided businesses with comfort that lockdowns will come to an end.

Business credit growth has moderated since June and July 2021, when it hit 1.6% and 1.1%, respectively. However, this uptick reflected a temporary surge in lending as businesses shored up cash flow buffers ahead of lockdown restrictions.

Encouragingly, demand for hardship assistance has declined as restrictions have eased, according to data from the Australian Banking Association. Since early July, there have been more than 4,000 business loan deferrals. New hardship assistance approvals peaked in early August and have trended down since. Unsurprisingly, the vast majority of loan deferrals were in NSW and Victoria.

Housing credit grew 0.6% in September to be 6.5% higher over the year, marking the highest annual growth rate since October 2017. Even though lockdowns have trimmed activity in the housing market temporarily, underlying demand remains strong.

Owner occupiers continue to lead the boom, but there are signs that lending to this category is slowing. The monthly growth rate in credit to owner occupiers declined for the third consecutive month, edging down to 0.7% in September from 0.8% in August. However, in annual terms, credit to owner occupiers grew by 8.7%, the strongest annual growth in five years.

Investor credit grew 0.3% in September, the fastest monthly growth rate in five months. In annual terms, investor credit expanded 2.4%.

Earlier this month, APRA took steps to temper housing risks by raising the mortgage serviceability buffer from 2.5 to 3 percentage points. However, in APRA's own words, the policy is likely to have a 'modest' impact. APRA suggests investors are most likely to be impacted, although the move may also affect other buyers who are seeking to borrow at or near their maximum capacity, which could include some first-home buyers. This measure alone is unlikely to have a dramatic impact on housing credit growth, although APRA has left the door open to tightening the screws further.

Other personal credit, which includes personal loans and credit cards, fell another 0.6% in September. In annual terms, it declined 5.3%. While other personal credit continues to decline, it is falling considerably less sharply than earlier in the pandemic.

Outlook

Heading into the latest round of lockdowns, business credit was primed for solid growth alongside a steady improvement in business investment. Business confidence was also around record highs. Key government tax incentives to encourage investment will remain in place until June 2023, which should provide ongoing support to business lending.

Housing credit growth is likely to remain resilient, as housing demand remains strong while APRA has, so far, taken a soft approach to intervening in the market. However, further down the track, worsening affordability pressures and a more significant tightening in macroprudential controls may weigh on housing credit growth.

Overall, demand for credit has been resilient through the Delta outbreak.

We expect the economy will recover as restrictions ease in NSW and Victoria over the December quarter. Encouragingly, Westpac Group credit card merchant data and Google mobility data are pointing to a bounce in spending and foot traffic. Once the recovery takes a firmer hold, we expect the pick up in activity will flow through to greater demand for credit.

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