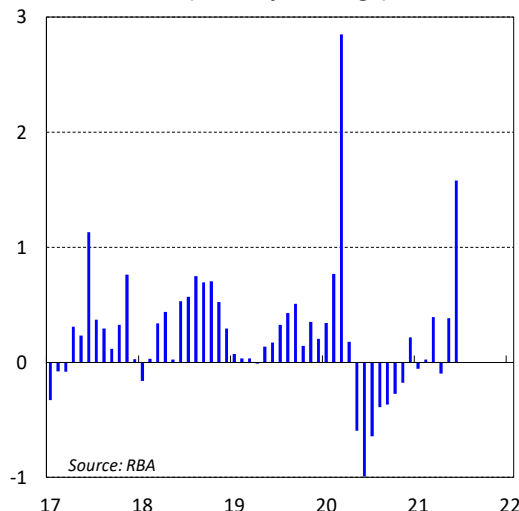


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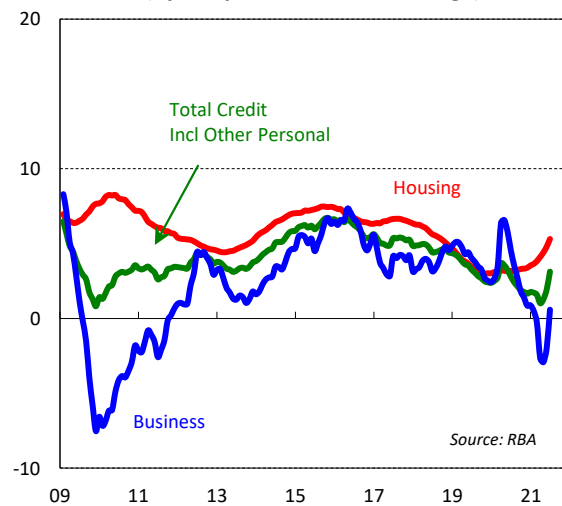
## Private Sector Credit Business Credit Jumps Ahead of Lockdown

- Business lending grew very strongly over June as elevated business confidence and high capacity utilisation are translating into increased demand for credit.
- Business credit grew by 1.6% in the month. The highest monthly growth since March 2020 and the second highest since December 2007. In annual terms, business credit grew by 0.6%. This follows four consecutive months of negative annual growth rates.
- The pace of lending for housing continued to accelerate. Lending for housing grew by 0.7%, the fastest monthly growth rate in over 11 years! The increase continues to be predominantly driven by owner-occupiers although lending to investors has also picked up.
- On an annual basis, housing lending grew by 5.3%, the fastest annual growth in over 2½ years.
- Other personal credit, including personal loans and credit cards, fell by 0.5%, to be down 6.3% over the year to June.
- Total credit in the private sector grew by 0.9% in June, the second highest monthly growth rate since before the GFC. Credit grew by 3.1% over the year to June, the strongest annual growth rate since May 2020.
- The extended lockdown in NSW and recent lockdowns in Victoria and SA are likely to weigh on credit growth in the next few months. However, we expect economic activity will rebound strongly once restrictions lift, which in turn will support demand for credit.

**Business Credit Growth**  
(Monthly % Change)



**Private Sector Credit**  
(by component, annual % change)



The recovery in lending to consumers and businesses continued in June despite snap lockdowns across a number of states in June. However, the numbers largely don't capture the impacts of the current extended lockdown in NSW, which began towards the end of June, and recent lockdowns in Victoria and South Australia over July.

Business lending grew very strongly over June as elevated levels of business confidence and high capacity utilisation are translating into increased demand for credit. Demand for credit by consumers continued to remain strong. Housing credit growth increased further, with monthly housing credit increasing at its fastest rate in over 11 years!

Total credit in the private sector grew by 0.9% in June, the second highest monthly growth rate since before the GFC. This was above our and the market's expectation of 0.4% growth. Annual growth was also strong. Credit grew by 3.1% over the year to June, the strongest annual growth rate since May 2020. This was above consensus expectations of 2.4% growth.

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### **Housing credit**

The pace of lending for housing continued to accelerate in June. Lending for housing grew by 0.7%, the fastest monthly growth rate in over 11 years! On an annual basis, lending for housing grew by 5.3%, the fastest annual growth in over 2½ years.

Growth in lending to owner-occupiers continued to increase, with monthly credit growing at 0.9%, its fastest rate in over 5½ years. Annual growth also remained strong and came in at 7.2%. This is consistent with continued strength in the housing market. Lending to owner-occupiers has been very robust during the recovery from the pandemic, supported by low interest rates and Federal and State government programs for owner-occupiers and first home buyers.

Lending to investors for housing also increased, albeit at a slower rate than lending to owner-occupiers. Investor lending for housing increased by 0.3% in June, to be 2.0% higher over the year. This is the fastest annual growth in over 3 years. The pace of investor lending growth is an important metric monitored by financial regulators. It has been targeted as part of macroprudential measures in the past aimed at cooling the housing market and ensuring lending standards remain robust. The pace of investor housing credit growth remains low relative to history and regulators, so far, seem to be fairly sanguine over the current conditions in the market. However, we cannot rule out a tightening in macroprudential policy in 2022.

### **Business credit**

Business lending has turned a corner in December 2020 and June was a strong sign of that trend continuing. Business credit grew by 1.6% in the month. This was the highest monthly growth since March 2020 and the second highest since December 2007.

Annual growth was also positive, with business credit growing by 0.6% over the year to June. This follows four consecutive months of negative annual growth rates in business credit.

In 2021, measures of business confidence have steadily increased and hit all-time highs. This is alongside measures of capacity utilisation being around their highest levels on record and estimates of actual and future capital expenditure improving, particularly for equipment, plant and machinery. However, more recently, confidence has taken a hit alongside the wave of lockdowns around the country.

Heading into the lockdowns, elevated confidence and high utilisation of existing productive

capacity suggested that businesses were in a good position to increase their levels of investment to create additional capacity. In turn, this supports business credit growth. Indeed, this is consistent with the strong credit growth in June.

Business investment is also currently supported by generous tax incentives from the government and continued accommodative monetary policy settings.

### **Other personal credit**

Other personal credit, including personal loans and credit cards, fell 0.5% in June. Annual growth was also negative, with a fall of 6.3% over the year to June. While growth in the sector remains in the red, other personal credit is declining at slower rate than the double-digit negative growth over much of the past year.

### **Outlook**

The current extended lockdown in NSW and recent lockdowns across Victoria and SA will have a significant impact on the economy. This will negatively affect demand for credit. For example, businesses will be less willing to seek additional credit as restrictions limit their ability to trade and generate revenue.

However, as we have seen with previous lockdowns, the economy is likely to bounce back strongly once restrictions lift. This is supported by pent-up demand from consumers and government support packages from the Federal and State governments. Additionally, monetary policy settings remain extremely accommodative and supportive of lending growth.

Over the longer term, business credit growth is likely to be supported by the continued recovery in the economy, in addition to significant investment tax incentives from the Federal government and the supportive monetary policy conditions. Some business have also been running down the large cashflow buffers they accumulated during the pandemic, which increases the likelihood they will require additional credit. These factors will continue to support the demand for business credit into the future.

Demand for credit for housing is also likely to remain strong, consistent with the continued strength in the housing market.

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