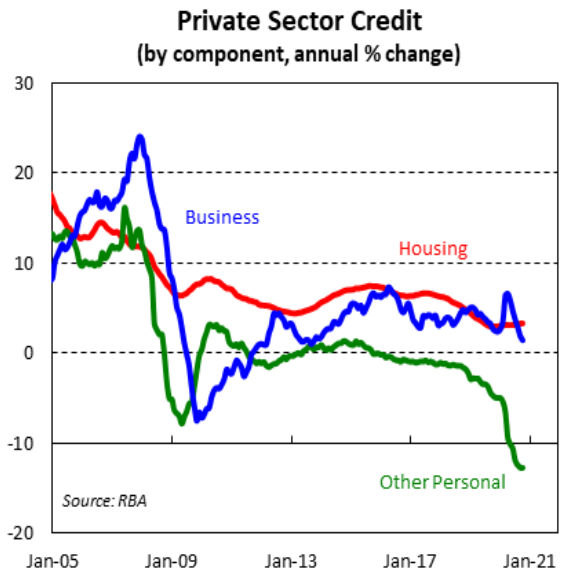
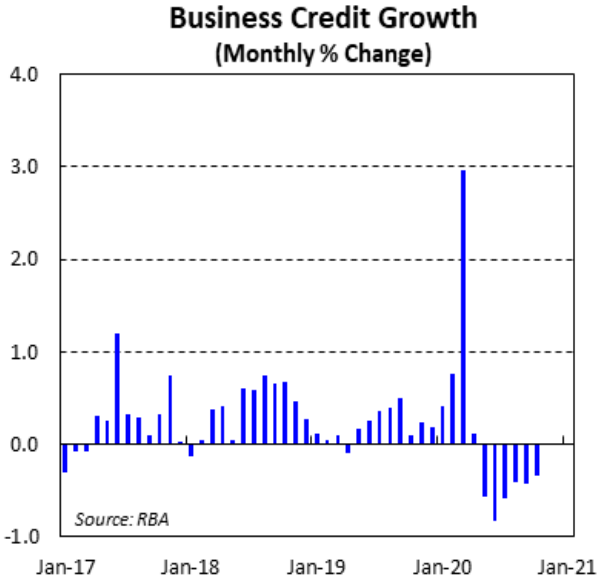
Monday, 30 November 2020

Private Sector Credit
Credit Flat in October

- **Credit to the private sector remained unchanged in October. It is the third straight month of nil growth. The annual growth rate slowed to 1.8%, the slowest since February 2010 and well below the 10-year average of 7.7%. The result reflects reduced demand for business and personal credit.**
- **Business credit contracted 0.3% in October, representing the sixth consecutive month of decline. The annual growth rate declined to 1.4% from 1.9% in September, the lowest annual rate since October 2013.**
- **Housing credit rose 0.3% in the month, underpinned by lower interest rates and an improvement in sentiment around housing prices. Owner-occupier housing credit has been resilient, despite the pandemic, and rose 0.4% in October to be up 5.4% over the year. Investor housing credit increased just 0.1% in October and is down 0.3% over the year.**
- **"Other personal credit" improved marginally in October, falling by 0.7%, which is its best outcome in eight months. However, other personal credit has recorded a fall every month since mid-2017.**
- **The soft result for October suggests the road to recovery for the Australian economy is still frail. Fiscal and monetary stimulus measures announced in the last few months, as well as the easing of restrictions in Victoria, could see private sector credit improve in the year ahead. However, the improvement is likely to be modest.**





Credit to the private sector remained unchanged in October. It is the third consecutive month of nil growth. The annual growth rate slowed to 1.8%, the slowest since February 2010 and below the 10-year average of 7.7%. The result reflects reduced demand for business and personal credit.

Business credit contracted 0.3% in October, which is the sixth consecutive month of decline. The annual growth rate declined to 1.4% from 1.9% in September, the lowest annual rate since October 2013.

Stimulatory measures announced in the 2020-21 Federal Budget, low levels of interest rates and improvements in business confidence were not strong enough to prevent a decline in business credit in October. Businesses are reluctant to take on debt because of the high levels of uncertainty and the lingering weakness in the economy. Businesses instead have been shoring up their liquidity positions.

Housing credit continued to help support total private sector credit, as demand for housing continues to grow. Low interest rates and an improvement in housing sentiment has encouraged growth in housing credit. Housing credit rose 0.3% in the month and in the year to October, growth was 3.3%. Owner-occupier credit has been resilient, despite the pandemic, and rose 0.4% in October to be up 5.4% over the year. Investor housing credit increased just 0.1% in October and is down 0.3% over the year.

Housing credit should continue to expand as the outlook for housing remains encouraging. Housing demand has been supported by several Budget measures, notably the HomeBuilder program, and by ultra-low interest rates. State Budgets have also provided stimulus to home buyers and house-related sentiment has rallied since August.

“Other personal credit” has improved marginally from the decline of 1.0% recorded in September and August. It declined 0.7% in October, which is the best outcome in eight months. However, this form of credit has been falling each month since mid-2015. In annual terms, other personal credit (which includes personal loans and credit cards) declined 12.7%, which matches the pace in September and is the weakest in the history of the series (dating back to October 1976).

The soft result for private sector credit in October suggests the road to recovery for the Australian economy is still frail. Fiscal and monetary stimulus measures announced in the last few months, as well as the easing of restrictions in Victoria, could see private sector credit improve in the year ahead. Any improvement is likely to be modest.

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