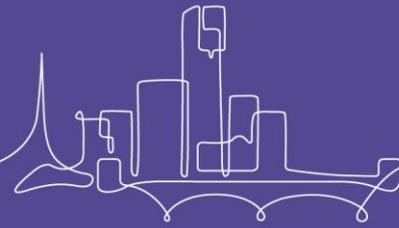


Tuesday, 31 August 2021

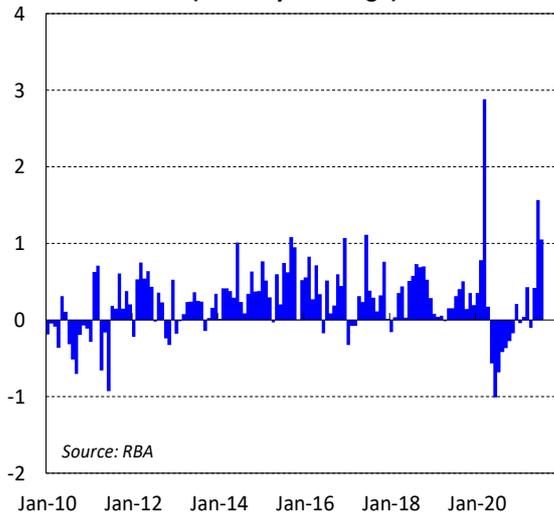


Private Sector Credit

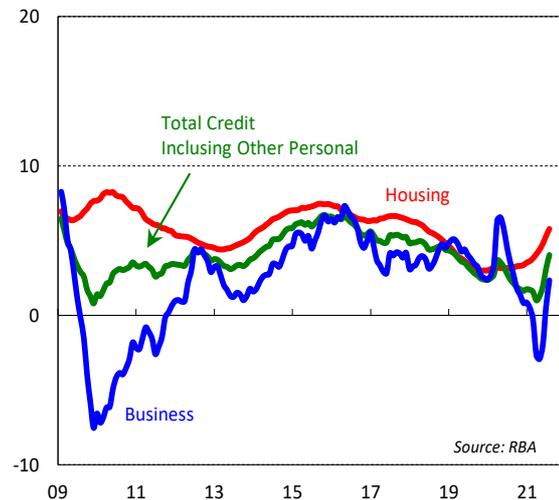
Businesses Shore Up Cash Flow Buffers

- Credit extended to the private sector grew by a solid pace in July – up 0.7% in the month and 4.0% in the twelve months to July. It is the fastest annual pace in 2½ years.
- Growth in the month was underpinned by credit extended for owner-occupier housing and for business purposes. Other personal credit, such as credit cards and personal loans, continued to flail.
- Business credit expanded 1.1% in July, after a solid increase of 1.6% in June. But this lift in July has more to do with businesses shoring up their cash flow buffers rather than taking on more debt to invest in new equipment or premises.
- Business spending plans are mostly on hold in NSW and Victoria. The lockdowns in these states are starting to pinch businesses more, especially smaller businesses and businesses operating in hospitality, accommodation, and personal services.

Business Credit Growth
(monthly % change)



Private Sector Credit
(by component, annual % change)



Credit extended to the private sector continued to grow at a robust pace in July, despite lockdowns in NSW and Victoria. Credit grew 0.7% in July and by 4.0% in the twelve months to July – the fastest annual pace in 2½ years.

Growth in credit continued to be underpinned by housing lending, as well as an ongoing improvement in business credit. Other personal credit, which includes credit cards, continued to

flail.

Housing credit rose 0.6% in July, remaining in the monthly growth range of 0.5% to 0.7% it has been in for the past five months. On a year ago, credit extended to the private sector for housing lifted 5.8% - the fastest rate since May 2018.

Credit to owner occupiers continues to lead the charge. Credit for owner-occupier housing increased 0.9% in July versus growth of 0.3% for investors. In annual terms, owner-occupier housing credit rose 7.7% compared with 2.3% for investors.

Business credit expanded 1.1% in July, after a solid increase of 1.6% in June. The uptick in lending amid lockdowns and a sharp drop in business confidence might come as a surprise to some. But anecdotes suggest the lift in July has more to do with businesses shoring up their cash flow buffers than taking credit to expand their business or premises.

Business spending plans are mostly on hold in NSW and Victoria. The lockdowns in these states are starting to pinch businesses more, especially smaller businesses and businesses operating in hospitality, accommodation, and personal services. Over coming months, business credit could be disrupted by businesses reluctant to take on debt in this environment where uncertainty is still elevated. Doubts and uncertainty around reopening dates are also weighing on businesses.

Businesses outside of NSW and Victoria are likely to experience some caution because Delta spilling over into their jurisdiction can't be ruled out.

The increase in July of 1.1% in business credit took annual growth to 2.4%. This annual pace is the firmest in nearly a year but is still pretty soggy compared to the long-run average of 3.4%.

Other personal credit, including personal loans and credit cards, fell 1.0% in July. Annual growth was also negative, with a fall of 5.9% over the year to July. 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 lockdowns in NSW and Victoria will have a significant impact on the economy. This will negatively affect demand for credit. Notably, some businesses will be less willing to seek additional credit as restrictions limit their ability to trade and generate revenue, and significant uncertainty clouds the near-term outlook.

As the vaccine rollout progresses and restrictions ease, the economy will recover. However, if we reopen with high case numbers, the V-shaped recovery in economic activity that usually emerges after lockdown might be more akin to a U shape. This is because consumers might be more cautious to resume "normal" activities amid high cases.

Once the recovery takes a firmer hold and business confidence improves, we can expect a stronger pickup to flow through to private sector credit.

Meanwhile, housing credit is likely to show ongoing resilience, supporting credit growth.

Besa Deda, Chief Economist
Ph: (02) 8254 3251

Contact Listing

Chief Economist

Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Economist

Matthew Bunny
Matthew.bunny@bankofmelbourne.com.au
(02) 8254 1316

Senior Economist

Jarek Kowcza
Jarek.kowcza@bankofmelbourne.com.au
0481 476 436

Research Assistant (Secondment)

Sonali Patel
sonali.patel@bankofmelbourne.com.au
(02) 8254 0030

The Detail

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne’s agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
