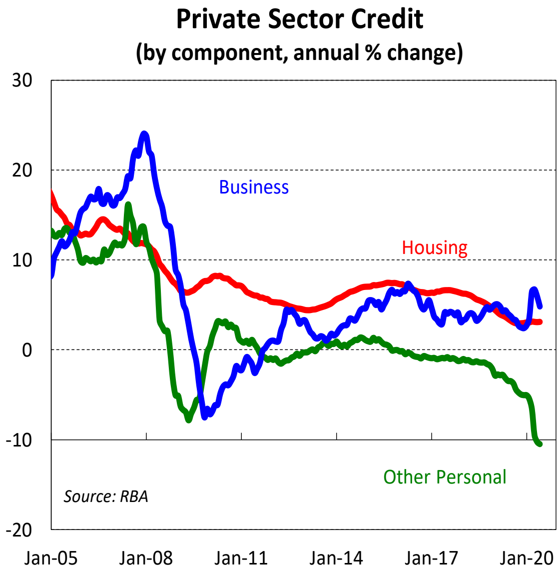
Data snapshot

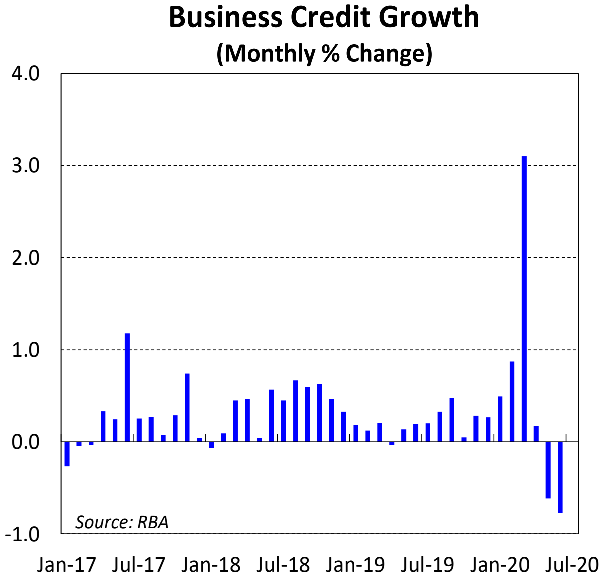
Friday, 31 July 2020

Private Sector Credit

Weak Economy, Weak Credit

- **Credit to the private sector fell 0.2% in June, falling for the second consecutive month. June's decline was also the weakest result in 27½ years. The sharpest drop in economic output since the 1930s has translated into weaker demand for credit.**
- **In the early stages of the pandemic, businesses drew on credit facilities to boost cash positions, which resulted in a surge in credit in March. Some of the weakness in the past couple of months likely reflect a reversal of these flows, as businesses repaid some of these funds. However, businesses are unlikely to spend and invest while there remains concern about COVID-19 and the economic outlook.**
- **Credit to other sectors was also weak. Housing credit grew 0.2% in June, a similar pace to growth over April and May. Investors have been the predominant driver of the weakness, which was flat in June, and has not witnessed any growth for 18 consecutive months. Credit to owner-occupiers has been relatively more resilient, although the growth of 0.3% in June was the softest result in a year. It adds to a range of signs suggesting that housing conditions are softening.**
- **RBA policies to keep interest rates low is providing some support to lending and the economy, however ongoing uncertainty with regards to the impact of COVID-19 will also dent appetite for taking on new credit.**





Credit to the private sector fell 0.2% in June, falling for the second consecutive month. June's decline was also the weakest result in 27½ years. The sharpest drop in economic output since the 1930's has translated into weaker demand for credit.

On an annual basis, credit growth eased from 3.2% to 2.9%, a four-month low.

Weakness was most notable in business credit, which declined 0.8%. It was also the second consecutive monthly decline and the largest fall in nine years.

In the early stages of the pandemic, businesses drew on credit facilities to boost cash positions, which resulted in a surge in credit in March. Some of the weakness in the past couple of months likely reflect a reversal of these flows, as businesses repaid some of these funds. However, given the uncertain outlook, demand for credit among businesses is likely to remain weak. Businesses are unlikely to spend and invest while there remains concern about COVID-19 and the economic outlook.

Credit to other sectors was also weak. Housing credit grew 0.2% in June, a similar pace to growth over April and May. Housing credit has held at a subdued 0.2-0.3% monthly pace for 21 months straight. Investors have been the predominant driver of the weakness, which was flat in June, and has not witnessed any growth for 18 consecutive months. Credit to owner-occupiers has been relatively more resilient, although the growth of 0.3% in June was the softest result in a year. It adds to a range of signs suggesting that housing conditions are softening.

"Other personal" credit fell further, declining by 0.6% in June. However, the rate of decline slowed from sharp falls through March to May. The 0.6% fall was the smallest decline in four months and coincides with some recovery in household spending as many services re-opened. Nonetheless, on an annual basis, other personal credit declined 10.5%, the weakest annual decline in the series history, which goes back to the late 70s.

Weakness in credit comes as no surprise given the sharp contraction in economic activity over the June quarter. While the re-opening of businesses as restrictions have eased provides an encouraging sign for the growth outlook, the recovery will be uneven. RBA policies to keep borrowing costs low will provide some support, however ongoing uncertainty with regards to the impact of COVID-19 will also dent appetite for lending.

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