Data snapshot

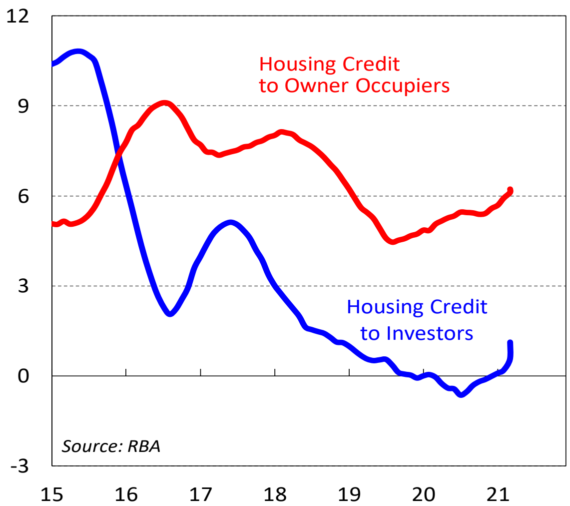
Monday, 31 May 2021

# Private Sector Credit

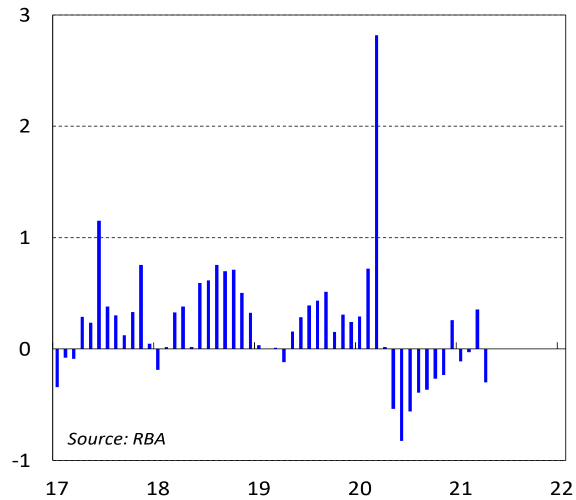
## Turning a Corner

- **Private sector credit grew 0.2% in April, after growing at its fastest monthly pace in a year in March. Credit growth remains tepid, but it has turned a corner after the appetite for borrowing soured during most of 2020.**
- **The expansion and recovery in credit extended to the private sector continues to be led by an acceleration in housing credit growth. Housing credit rose 0.4% in April, lifting the annual rate to 4.4% - the fastest annual rate since January 2019.**
- **Housing credit extended to owner occupier continues to grow at a firm clip with a 0.6% gain in April. In year-on-year terms, housing credit quickened 6.2% - the fastest since January 2019.**
- **The housing upswing has been driven by owner occupiers, but investors are now jumping in and driving demand up even further for housing credit. Credit to investors for housing lifted 0.4% in April, the strongest monthly growth rate in 4 years.**
- **Business credit fell in April by 0.3%, marking the first fall in three months. Businesses are feeling very confident. An upturn in business investment has arrived, helped by generous government tax incentives. However, business credit growth is not yet growing sharply because businesses built cash flow buffers over 2020 due to fears about the pandemic and their future revenues.**
- **As the business investment recovery continues, businesses will feel more comfortable to expand and they will reduce these buffers, leading to a stronger and more sustained lift in business credit growth. Elevated levels for business conditions, confidence and capacity utilisation suggest it is just a matter of time before a deeper recovery in business credit growth occurs.**

**Housing Credit**
**(annual % change)**




**Business Credit Growth**
**(monthly % change)**



Private sector credit grew 0.2% in April, after growing at its fastest monthly pace in a year in March. Credit growth remains tepid, but it has turned a corner after the appetite for borrowing soured during most of 2020. Credit growth began to recover from October 2020, which is around the time the housing price boom began.

Annual growth for total credit rose 1.3% in April, lifting from a 28-year low of 1.0% in March. We think March likely marks the low point for annual credit growth.

The expansion and recovery in credit extended to the private sector continues to be led by an acceleration in housing credit growth. Housing credit rose 0.4% in April, lifting the annual rate to 4.4%. It is the fastest annual rate since January 2019.

Housing credit extended to owner occupier continues to grow at a strong pace with a 0.6% gain recorded in April. Since late last year, owner occupier housing credit has expanded at a monthly rate of 0.5% to 0.6%. On a year ago, housing credit rose to 6.2% - the fastest clip since January 2019. Another calculation that highlights the momentum in housing credit is the three-month annualised rate. It escalated to 6.1% - the strongest rate since October 2017.

Investor housing credit started to recover from September; last year, but the pace was tepid until recently. In the past two months, credit to investors for housing has lifted considerably. It has risen by 0.4% in April, the strongest monthly growth rate in 4 years. The housing upswing has been driven by owner occupiers, but investors are now jumping on board and driving demand up even further for housing stock and housing credit.

Business credit fell in April by 0.3%, marking the first fall in three months. Business conditions and confidence are at elevated levels, underpinned by a brighter economic outlook. Capacity utilisation has also been rising and suggest some businesses will need to expand by investing more on machinery & equipment or by moving to larger premises.

The recovery in business investment that began in the December quarter of last year has continued into this year. Indeed, spending on machinery and equipment has been particularly strong this year, helped by Federal generous government tax incentives – namely, the loss carry-back provisions and immediate expensing, now available to the end of 2022-23.

Whilst the upturn in business investment has arrived and businesses are feeling very confident, businesses had built cash flow buffers over 2020, as fears over the pandemic led them to worry about revenues. A recent business survey by the Australian Business Statistics (ABS) revealed that the number one reason businesses were not seeking additional funds from financial institutions was because they already had sufficient funds. As the business investment recovery continues and businesses feel more comfortable to expand, they will reduce these cash flow buffers and a stronger lift in business credit should follow.

From May to November 2020, business credit contracted every month. But from December 2020, there have been just two falls in five months. So, there is an improvement underway already in business credit, but it is not yet on a solid footing. A better footing should arrive over the next twelve months.

Other personal credit was flat in April, after 0.1% growth in March halted the long-running decline in other personal credit. Indeed, other personal credit, which includes personal loans and credit cards, had been contracting for 29 consecutive months until and including February 2021.

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