



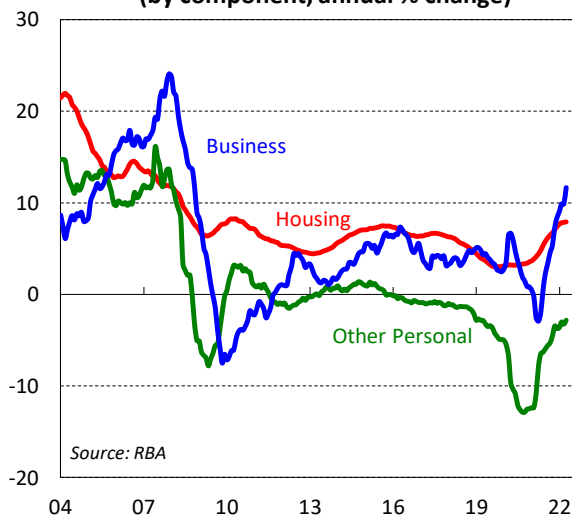
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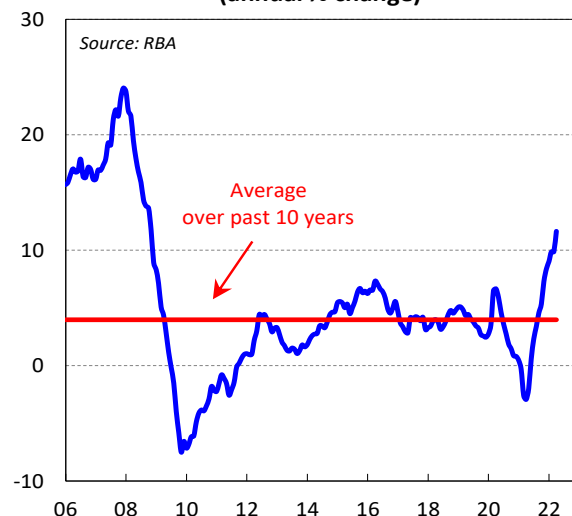
Private Sector Credit Credit Upswing Persists Ahead of Hikes

- Credit growth took a leg up in April, ahead of the first hike in the cash rate in more than a decade in May. Credit extended to the private sector rose 0.8% in April, the fastest monthly pace since November 2021.
- Credit has expanded by more than 0.5% in each of the last 12 months, as households and businesses responded to the stimulus unleashed by the Reserve Bank and government. In annual terms, credit growth accelerated to 8.6%, its fastest pace in 13½ years
- Monthly growth in housing credit was unchanged at 0.6%. The monthly gain takes housing credit 7.9% higher in annual terms. Both owner-occupiers and investors contributed to housing credit growth, although momentum is shifting towards investors.
- Business credit growth accelerated in April after moderating slightly over the start of 2022. Business credit expanded 1.4% in the month, to be 11.6% higher in annual terms. The result marks the fastest annual growth in business credit since October 2008.
- Other personal credit, which includes credit cards and personal loans, rose 0.3% in April – the first monthly increase in five months.
- The lift in borrowing costs as the Reserve Bank continues to hike the cash rate will take some of the steam out of credit growth. However, we expect credit growth will continue to be supported by the tightest labour market in almost 50-years and ongoing growth in business investment.

Private Sector Credit
(by component, annual % change)



Business Credit Growth
(annual % change)



Credit growth took a leg up in April, ahead of the first hike in the cash rate in more than a decade in May. Credit extended to the private sector rose 0.8% in April, the fastest monthly pace since November 2021. At this time, there was growing expectations of a cash rate hike at the Reserve Bank's (RBA) May meeting.

The release also included an upward revision to credit growth in March, lifting monthly growth to 0.6%, from 0.4% previously. The revision means credit has expanded by more than 0.5% in each of the last 12 months. In annual terms, credit growth accelerated to 8.6%, its fastest pace in 13½ years. The strong credit growth reflects households and businesses responding to the stimulus unleashed by the RBA and government. Some firms also borrowed to shore up cash flows during lockdowns.

Both households and businesses contributed to the rise in borrowing in the month. However, businesses did more of the heavy lifting.

Housing

Growth in housing credit was unchanged at 0.6% for a third consecutive month in April. The monthly gain takes housing credit 7.9% higher in annual terms, the fastest annual growth in housing credit in more than 11½ years.

The strong result reflects the underlying strength of the housing market since the pandemic began and comes despite a recent slow-down in housing market activity. While transaction activity in the housing market has softened this year, elevated dwelling prices are continuing to support credit growth.

Credit extended to owner-occupiers jumped 0.6% in April, to be 9.0% higher in annual terms. This was the slowest annual growth in owner-occupier credit since November 2021, although remains considerably above the 10-year average of 6.2%.

Investor housing credit also rose 0.6% in the month and jumped to an annual pace of 5.8% - a more than six-year high. The housing boom was initially driven by owner-occupiers; however, the momentum has since shifted towards investors as affordability pressures mount and interest rate rises loom. Indeed, looking at two decimal places, monthly investor lending growth has outpaced owner-occupier lending growth for two consecutive months.

Business

Business credit growth accelerated in April after moderating slightly over the start of 2022. Business credit expanded 1.4% in the month, to be 11.6% higher in annual terms. The result marks the fastest annual growth in business credit since October 2008.

Generous tax incentives continue to support business investment, in turn, increasing demand for credit. Businesses have been resilient although headwinds from supply disruptions, labour shortages and inflationary pressures are beginning to weigh on confidence. Some businesses are seeking to expand capacity to take advantage of strong demand alongside the economic recovery.

Other personal

Other personal credit, which includes credit cards and personal loans, rose 0.3% in April – the first monthly increase in five months. Despite the monthly gain, other personal credit declined 2.8% over the year to April.

Outlook

We expect credit growth will continue to be supported by the tightest labour market in almost 50-years and robust business investment. However, the RBA kicked off its rate hike cycle in May and

has flagged further rises in the cash rate are on the agenda. The lift in borrowing costs will inevitably take some of the steam out of credit growth. The key uncertainty is exactly how high the cash rate will go – a higher cash rate will be more restrictive for households and businesses. We have pencilled in a peak in the cash rate of 2.25%, although interest rate markets expect a peak over 3.00%. Ultimately, the result will hinge upon the evolution of inflation and the economy.

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The Detail

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