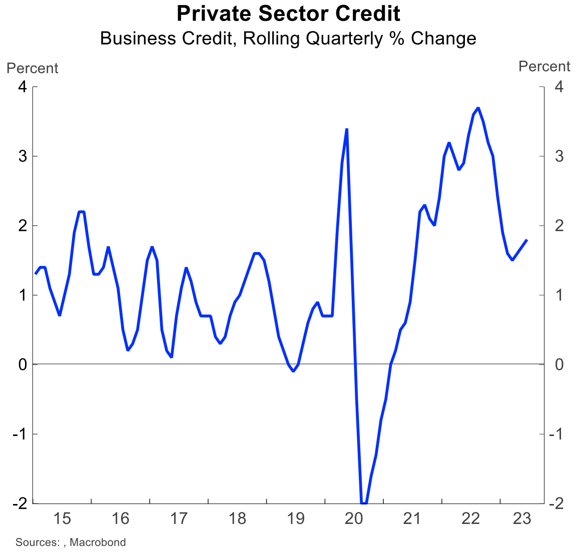
Data Snapshot

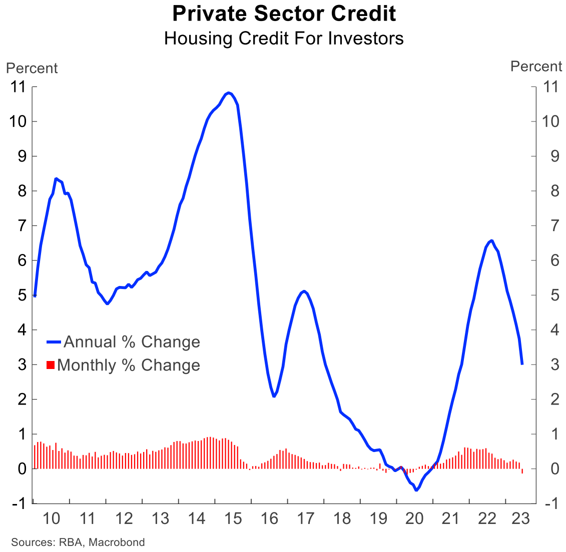
Monday, 31 July 2023

Private Sector Credit

Businesses Jump on Expiring Incentives

- **Private sector credit continues to stall, growing by just 0.2% over June, the slowest pace since November 2020. In annual terms, private credit grew by 5.5%, down by almost 1 percentage point from the 6.2% pace recorded just a month ago.**
- **<u>Business credit showed resilience while housing credit was soft. Business credit grew by 0.3% over the month. However, it grew by a solid 1.8% over the June quarter, up from the recent trough of 1.5% recorded in March.</u>**
- **Our inaugural quarterly business snapshot report (published last week) showed that businesses had been preparing for tougher times ahead by improving their liquidity position, including by paying down debt but maintaining credit lines and investing in their productive capacity. The outcome for the June quarter shows that businesses had the financial strength to take advantage of the expiring tax concessions and borrowed to invest. This is consistent with the solid growth we saw in machinery and equipment investment over the June quarter.**
- **<u>For the first time since activity was restricted by covid-induced lockdowns in June 2020, housing credit for investors declined by 0.1%.</u> Higher interest rates, higher taxes in some states and uncertainty over future rate hikes seem to be outweighing the record increases in rental income.**
- **This will have several implications for the housing market – with investors possibly leaving the market, more listings will test the depth of demand. Further, the supply of rental properties will decline at a time when vacancy rates are at a record low, putting upward pressure on rents.**
- **There is no getting around it, credit growth is stalling to a halt. While some businesses are well placed to take advantage of opportunities which supported the June outcome, eventually business will respond to slowing demand. Credit growth is a leading indicator of demand. The Reserve Bank will be paying close attention to today's outcome.**





Housing credit

Total housing credit grew by 0.2% over the month of June, the slowest rate since August 2020.

Housing credit for owner occupiers grew by 0.4% - in line with the average growth over the past three months.

Housing credit for investors declined by 0.1% over the month of June – the first decline since we were restricted by the covid-induced lockdowns in June 2020.

What are the implications of lower investor activity?

More sale listings will test the depth of housing demand. Recent price increases have occurred alongside low listing levels. As listing levels rise, particularly in certain pockets, demand will be tested. At the very least, more listings will lead to a deceleration in the rate of price gains.

Further, the supply of rental properties will decline, which may mean rents are could increase further. The inflation read from last week showed that rents were the fastest growing component of the Consumer Price Index basket, growing at 2.5% over the June quarter.

Other personal

Other personal credit, which includes credit cards and personal loans, grew by 0.1% over June.

Other personal credit grew by 0.5% over the year to June – a step up from the 0.2% recorded in May. This suggests that households could be drawing down of credit lines to finance growing expenses.

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