Economic Note

Australian Banking Association

11 September 2019

RBA Credit Aggregates, July 2019

Key outcomes

- Total private sector credit rose 0.2% in July, to be 3.1% higher than a year ago.
- Housing credit rose 0.3% in July, to be 3.3% higher than a year ago. Owner-occupier housing credit rose, whilst investor housing credit declined in the month.
- Business credit rose 0.2% in July, to be 3.9% higher than a year ago.

Summary

Private sector credit growth continues to ease in Australia, with the pace of growth moderating to 3.1% over the year to July 2019. By contrast, the economy overall, despite weakness in the real GDP aggregates, registered nominal GDP growth of 5.4% over the year to the June quarter. On current trends, the ratio of credit to GDP is declining.

That decline is being experienced more acutely in the household sector, where credit growth has weakened more significantly than business credit trends.

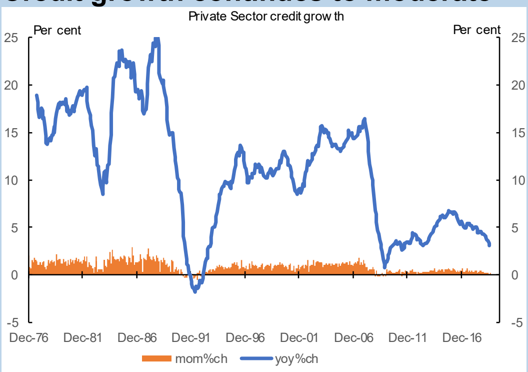
In keeping with sluggish household income growth, and in line with the moderation in the housing market experienced over the first half of 2019, household credit growth has slowed to a new record low. Both housing and other personal credit have contributed to the downturn, but there are signs of that the post-election turnaround in housing market activity may begin to flow through to improved housing credit growth over coming months.

Within credit for housing, the July figures were stronger for owner-occupier housing credit. Stronger monthly growth in June for owner-occupiers housing credit points to a potential turnaround in momentum in this segment. Anecdotal feedback from ABA member banks, and observations from the housing market, points to a turnaround in investor lending potentially emerging over coming months. A pickup in loan approvals will be key to this trend eventuating.

Business credit growth appears healthy, with a 3.9% annual growth rate, however this reflects strong outcomes over the latter months of 2018. Recent momentum in business credit growth has been much weaker and will need to improve to sustain current rates of credit growth.

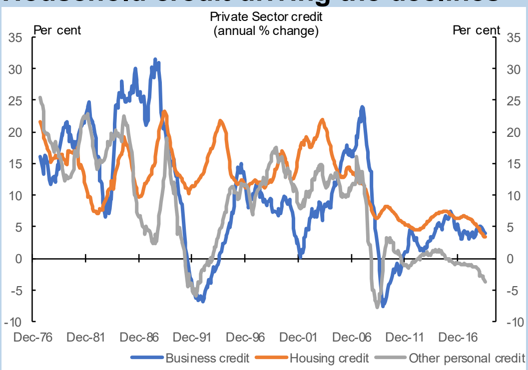
Overall the message from the credit data is that there are tentative signs of post-election, post-RBA green shoots in some parts of the economy, but it will take several more months, and observations from other data, to confirm these trends.

Credit growth continues to moderate



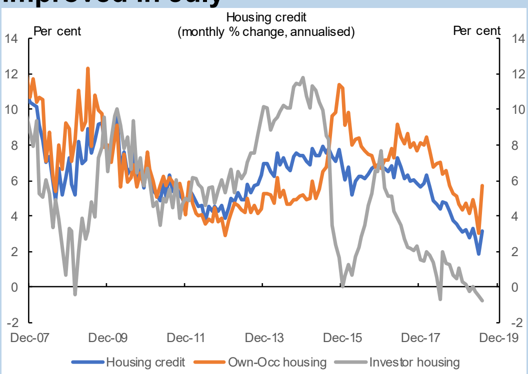
Source: RBA, ABA, September 2019.

Household credit driving the declines



Source: RBA, ABA, September 2019.

Owner-occupier housing credit growth improved in July



Source: RBA, ABA, September 2019.

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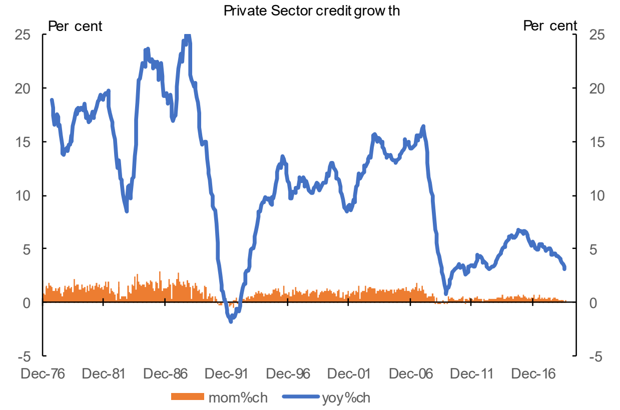
Total credit

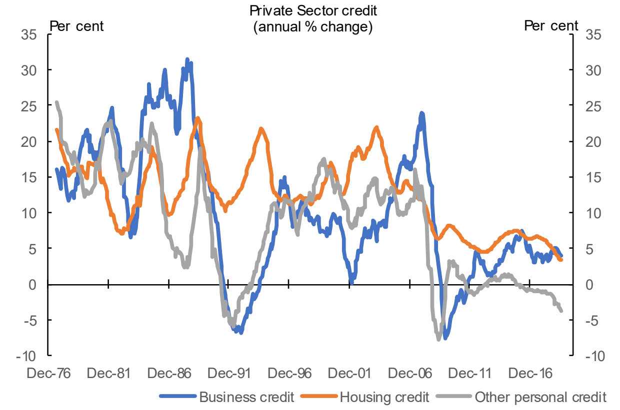
- Total private sector credit rose by 0.2% in July, to be 3.1% higher than a year ago – the slowest pace of growth since 2013 (see Figure 1 below).
- The July outcome follows three months of very weak growth over April to June, where monthly growth averaged just 0.14%. Over the past six months total private sector credit has grown at an annualised rate of just 2.3%.
- The slowing in private sector credit growth has been driven by weakness in the household side (housing and other personal credit), although there has been a softening in recent business credit momentum (see Figure 2 below).

Figure 1: Private sector credit growth



Source: RBA, ABA, September 2019.

Figure 2: Components of credit growth

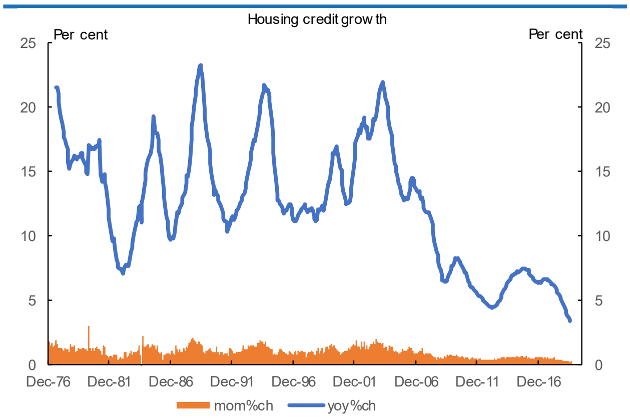


Source: RBA, ABA, September 2019.

Housing credit (61% of total credit)

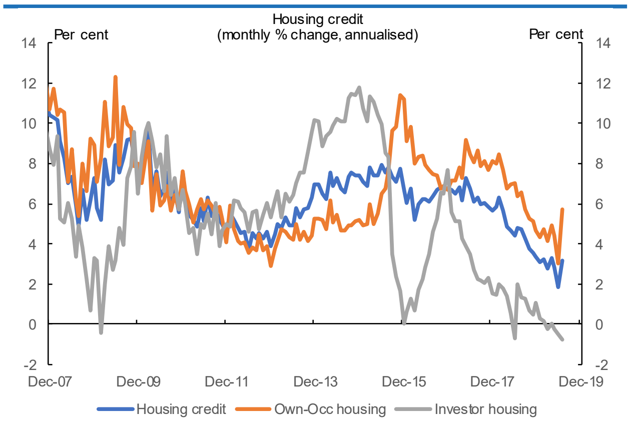
- Credit for housing rose by 0.3% in July, the strongest monthly rise since April 2019. However, the annual pace of growth continued to slow, falling to 3.3% reflecting weakness over recent months (see Figure 3 below).
  - Over the three months to July, the annualised pace of growth has been much slower at just 2.6%.
- The current pace of growth in housing credit, at 3.3% over the year to June 2019, is the weakest in the 43-year history of the monthly credit aggregates. The slowdown has been driven by investor housing credit first, followed by owner-occupier housing credit.

Figure 3: Total housing credit growth



Source: RBA, ABA, September 2019.

Figure 4: Components of housing credit



Source: RBA, ABA, September 2019.

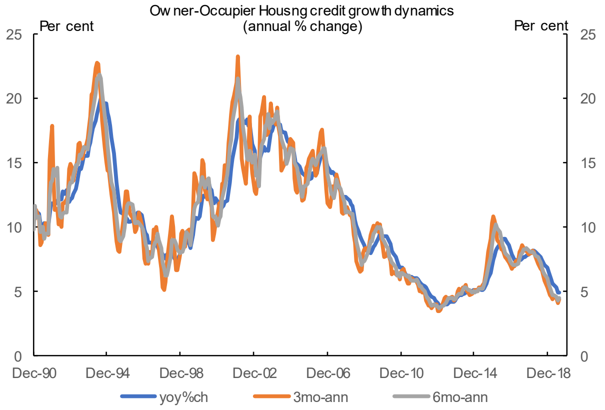
Owner-occupier housing credit (38% of total credit)

- Owner-occupier housing credit rose by a 0.5% in July 2019, with the level of credit 4.9% higher than July 2018 – the slowest annual growth rate since July 2014 (Figure 5).
- The 0.5% lift in July 2019 was the strongest monthly rise since September 2018. As indicated by Figure 4 above, the lift in July, if sustained, is consistent with the annual pace of growth lifting back towards a 6% rate. Over the past three to six months growth has been consistent with a slower 4-4.5% pace (see Figure 6 below).
  - The upswing in housing market activity, applications and the stabilisation of new loan approvals suggests an improvement in the pace of credit growth may be likely over coming months as various elements of stimulus and regulatory adjustments – rate cuts, tax cuts, changes in serviceability assessment rates – work their way through the economy, and housing market.

Figure 5: Owner-occupier housing credit

Source: RBA, ABA, September 2019.

Figure 6: Owner-occupier growth dynamics

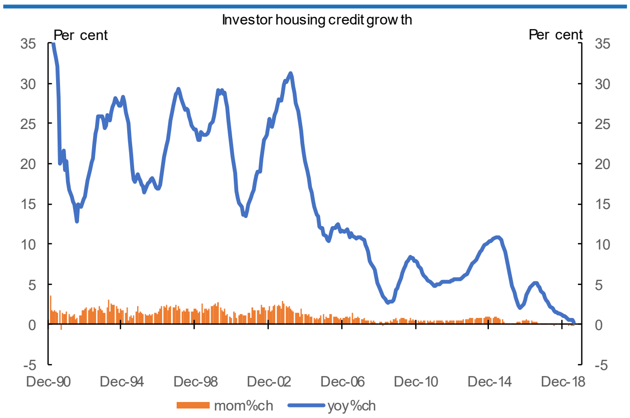


Source: RBA, ABA, September 2019.

Investor housing credit (23% of credit outstanding)

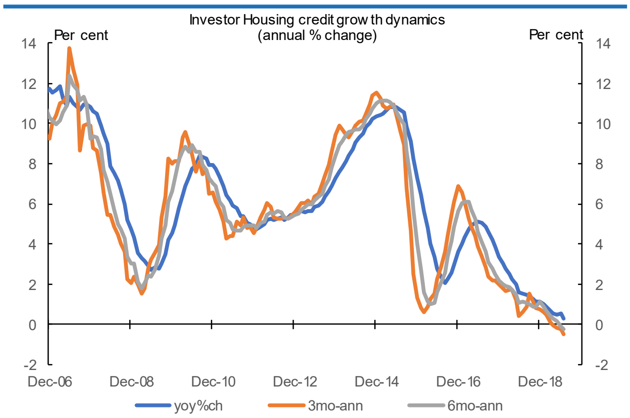
- Whilst owner-occupier housing rose solidly in July, investor housing credit continues to contract. In July 2019, investor housing credit declined 0.06%, to be just 0.3% higher than a year ago (see Figure below).
  - The current weakness in investor housing credit is more significant than the downturn through the GFC, and also the downturn following the introduction of macro prudential policy restraints from the end of 2014.
- The decline in July is the fourth in five months, and points to further declines in the annual pace of growth unless there is a solid turnaround in investor housing loan approvals.
  - There are tentative signs of a turnaround emerging, with increases in applications and housing market activity following the election outcome and RBA rate cuts.

Figure 7: Investor housing credit growth



Source: RBA, ABA, September 2019.

Figure 8: Investor housing growth dynamics

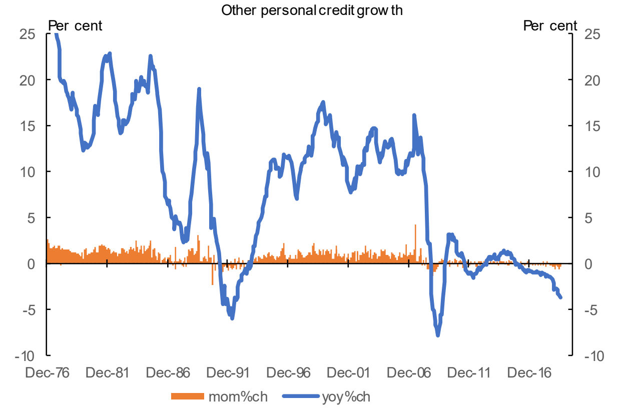


Source: RBA, ABA, September 2019.

Other personal credit (6% of credit outstanding)

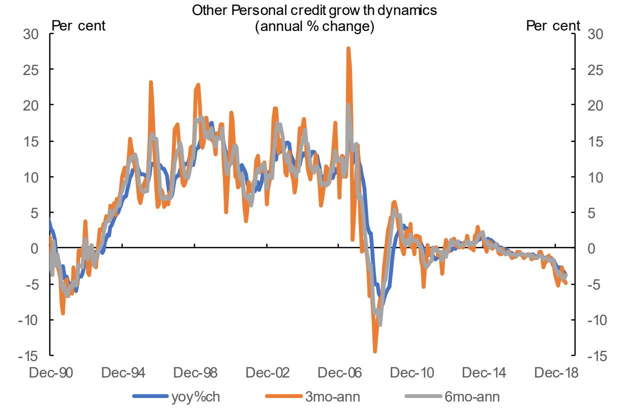
- The decline in other personal credit remains entrenched. To some extent this reflects the sluggishness of certain segments of the economy, and the strength of household balance sheets, income growth and confidence. But there are also other factors at play including capital requirements, comprehensive credit reporting, growth in competing consumer credit options (e.g. buy now pay later) and investors' appetite for leveraged investment into equity markets (margin lending).
- Other personal credit declined by 0.4% in July 2019, to be 3.7% lower than a year ago. This is the weakest outcome outside the GFC and the 1990-91 recession period. Over the past three months, declines have been running at an annualised pace of ~5% (Figure 10).
  - One trend contributing to the reduction in other personal credit is decline in credit cards in Australia. There are ~1 million fewer credit card accounts, and 3.3 million fewer credit cards in Australia than there were two years ago.

Figure 9: Other personal credit growth



Source: RBA, ABA, September 2019.

Figure 10: Other personal credit dynamics

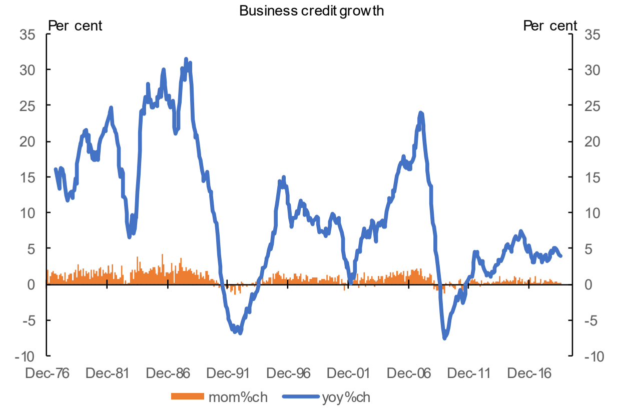


Source: RBA, ABA, September 2019.

Business credit (33% of total credit)

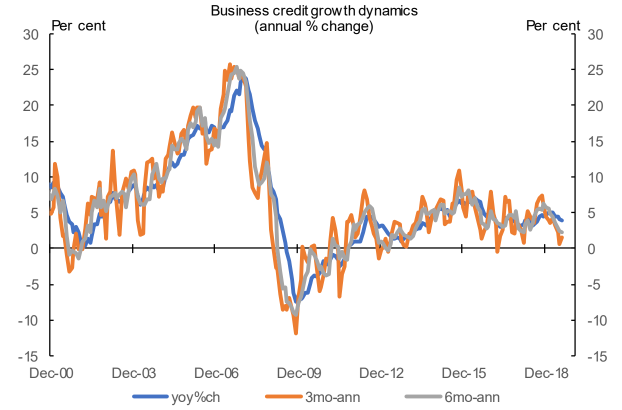
- Over the second half of 2018 business credit has been the key driver of credit growth in Australia, however momentum has faded over recent months. Business credit rose by 0.2% in July 2019, to be 3.9% higher than a year ago (see Figure 11 below).
  - Momentum over the past three and six months has been significantly weaker than this, at 1.5% and 2.3% annualised, respectively (see Figure 12 below).
- The RBA will publish a detailed breakdown of Bank lending to business for the June quarter on Thursday 19 September.

Figure 11: Business credit growth



Source: RBA, ABA, September 2019.

Figure 12: Business credit growth dynamics



Source: RBA, ABA, September 2019.

Introduction of new Economic and Financial Statistics (EFS) collection

The July 2019 private sector credit data was the first to be compiled using the new EFS data collection. As a result of the more rigorous and consistent statistical framework there was a reclassification of loans by purpose. The value of total housing credit declined, with owner-occupier loans reclassified into investor lending and other personal lending.

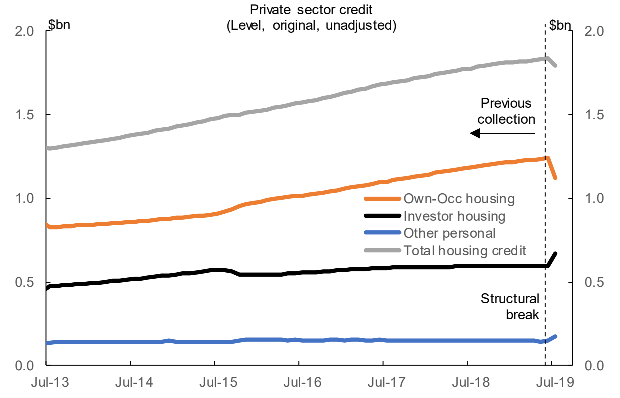
The updated statistical collection also included better coverage of non-bank lenders, following legislative changes requiring non-bank entities to register with APRA and begin reporting data.

This means that the RBA will no longer need to estimate the outstanding loans of non-bank entities, primarily housing lenders that securitise their loan books.

The RBA provided further details on the changes to the financial aggregates data in a recent Bulletin article – see Updates to Australia's Financial Aggregates, RBA Bulletin March 2019.

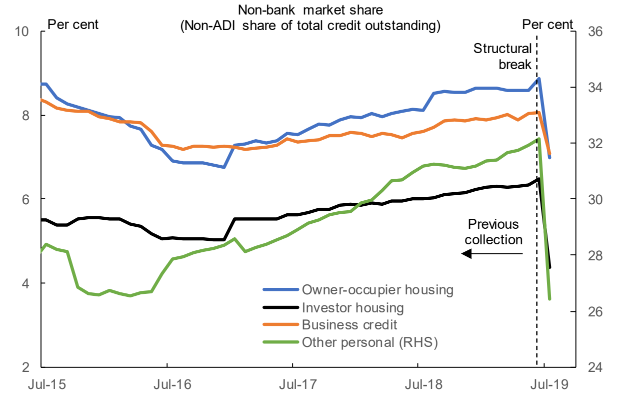
Switching to a new collection introduces a structural break into the credit aggregates data, which the RBA has made adjustments for in some, but not all, data series. In addition to the reclassification, the RBA also flagged that there are likely to be large revisions to the data over coming months as the new EFS system is bedded down.

Figure 13: Housing credit reclassifications



Source: RBA, ABA, September 2019.

Figure 14: Non-bank market share

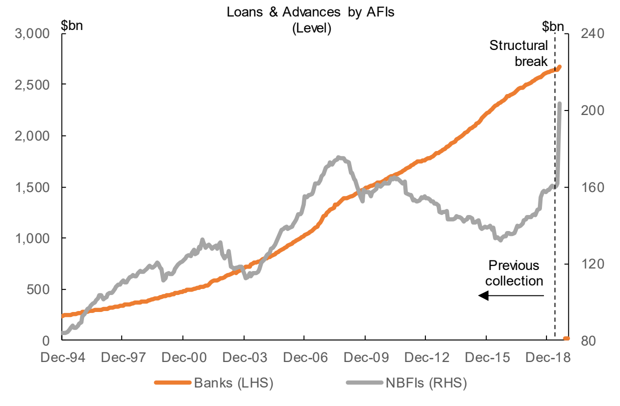


Source: RBA, ABA, September 2019.

Trends in AFI lending

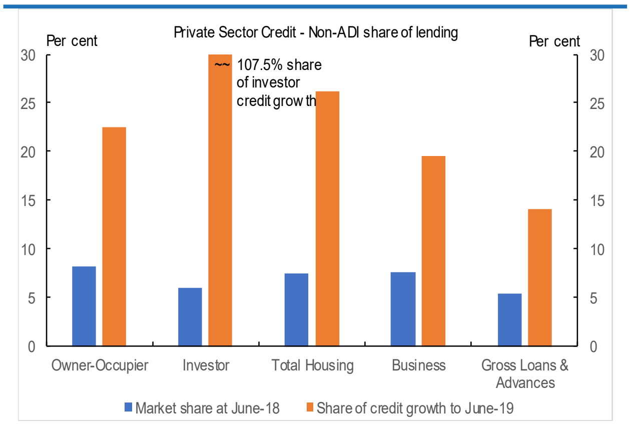
- As highlighted in the section above, the structural break introduced into the credit aggregates series has hampered analysis of recent market dynamics between bank and non-bank lenders (see Figure 15 below).
- Figures prior to the switch to the new EFS collection show that over the 12 months to June 2019 non-bank lenders accounted for $1 out of every $4 of growth in credit for owner-occupier housing, $1 out of every $5 of growth in credit to business, and accounted for all of the growth in investor housing credit as amortisation of P&I lending and weak new loan approvals drove a decline in bank lending in this segment (see Figure 16 below).

Figure 15: Loans and advances by lender



Source: RBA, ABA, September 2019.

Figure 16: Non-bank growth by segment



Source: RBA, ABA, September 2019.