

Nedbank

Economic commentary

31 December 2009

MONEY SUPPLY AND CREDIT

Credit conditions remain weak

- Money supply and private sector credit extension continue to reflect the weak economic environment.
- Although annual growth in all categories of credit eased again, there are early signs of life in leasing and mortgage finance.
- This credit cycle will take some time to develop momentum, hampered by modest recoveries in local and global economic growth, high debt levels in the household sector and limited needs for finance in the corporate sector.
- Interest rates are still expected to remain unchanged until early 2011.

Latest (November 2009)

M3 unadjusted:

0,6% y-o-y (2,7% y-o-y in October 2009)
Nedbank forecast: -0,4%; Market forecast: 0,5%

M3 seasonally adjusted:

0,9% m-o-m (0,4% m-o-m in October 2009)

Total credit:

-0,3% y-o-y, 0,9% m-o-m (1,3% y-o-y in October 2009)

Private sector credit:

-1,6% y-o-y, 0,1% m-o-m (-0,4% y-o-y in October 2009)
Nedbank forecast: -1,8% y-o-y; Market forecast: -1,4%

Private sector credit excluding investments & bills discounted:

-2,0% y-o-y, 0,0% m-o-m (-1,2% y-o-y in October 2009)

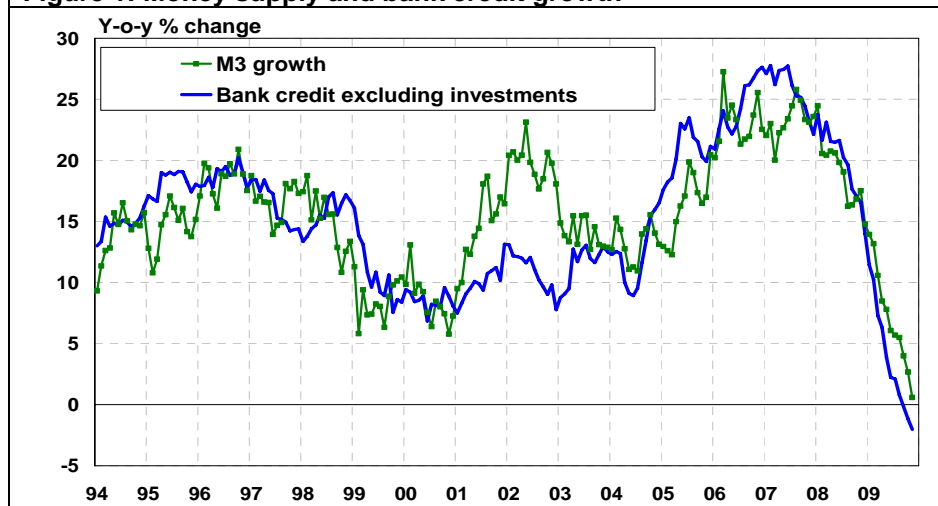
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Figure 1: Money supply and bank credit growth



Comment

Broad money supply growth eased further on an annual basis in November despite a small rise during the month. The data continue to reflect weak economic conditions in both the household and corporate sectors. M3 grew by just 0,6% y-o-y from 2,7% in October. Over the month unadjusted M3 was boosted by a large R16,1 billion increase in net claims on the the government (R3,6 billion in the previous month). Claims on the private sector also rose marginally (up R1,4 billion after a R3,9 billion fall in October) as did net foreign assets (up R4,1 billion after a R10,4 billion rise in October), while the amorphous net other assets and liabilities category declined by R7,9 billion after falling by R12,1 billion in October.

Although private sector credit rose by a modest 0,1% over the month, the trend is still very weak and the annual decline of 1,6% is the strongest contraction since 1965, eclipsing last month's 0,4% fall. The market had expected a more modest 1,4% decline. High unemployment and debt levels as well as weak confidence continue to offset improved affordability in the household sector, while companies have cut back on investment plans. Growth in asset-backed credit eased to an exceptionally weak 1,1% y-o-y in nominal terms from 1,7% y-o-y in October. Total loans and advances to the domestic private sector fell by 2,0% y-o-y in November, after the 1,2% y-o-y decline in the previous month.

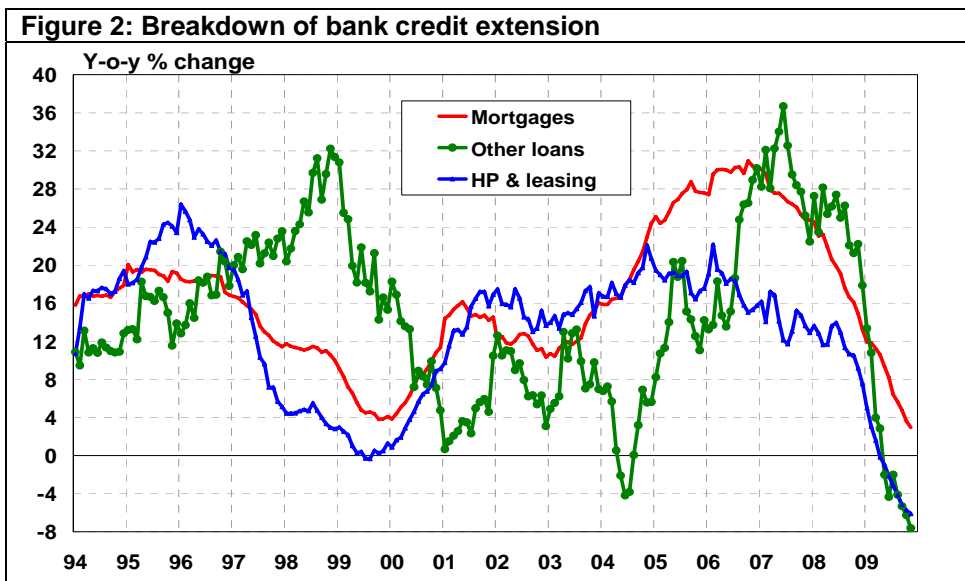
Growth in all components of total loans and advances weakened further

Latest (November 2009)

Instalment sales and leasing finance: -6,1% y-o-y, -0,4% m-o-m (-5,7% y-o-y in October 2009)

Mortgages: 3,0% y-o-y, 0,2% m-o-m (3,6% y-o-y in October 2009)

Other loans: -7,6% y-o-y, -0,2% m-o-m (-6,3% y-o-y in October 2009)



Comment

Instalment and leasing finance fell by 6,1% y-o-y in October, after an annual decline of 5,7% in October. However, there has been a small improvement in instalment sales advances over the past three months, perhaps reflecting some bottoming out in sales of durable goods to households. Annual growth in mortgage advances moderated further to 3,0% despite some improvement over the month. There are reports that conditions in the residential property market are gradually starting to improve, suggesting that this category may also be bottoming. However, other loans and advances continue to contract strongly on a monthly as well as an annual basis. The category eased by 0,2% over the month, bringing the annual decline to 7,6% following last month's 6,3% y-o-y fall. This category is dominated by unsecured loans to the corporate sector, which continue to fall.

Outlook

Credit demand tends to lag improvements in the real economy and will start rising convincingly only in the second half of 2010. However, the low base and some improvement in household demand for credit should mean that nominal growth will resume early in 2010. The approaching 2010 FIFA World Cup, lower interest rates and more stable employment conditions will help a gradual pickup in credit extended to households. In contrast, companies are unlikely to require much in the way of additional finance. Overall, the recovery in credit demand is expected to be more modest than in previous cycles because of higher levels of debt, subdued economic growth both locally and globally, as well as tighter credit standards and regulations.

Implications

Today's credit figures continue to underline how fragile the recovery remains. Despite the strong decline in interest rates, this upswing will be more modest than the previous one, hampered by already high debt levels in the household sector and uncertain global conditions. However, the upswing is in place and the monetary authorities are clearly concerned that the risks to the inflation outlook are to the upside. Given these conflicting signals we therefore continue to expect that the Reserve Bank's Monetary Policy Committee will keep the repo rate unchanged at 7,0% during 2010 before tightening policy in 2011.

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