

# Nedbank

## Economic commentary

30 November 2009

### MONEY SUPPLY AND CREDIT

#### *Demand for credit turned negative*

- Demand for credit recorded its first decline since 1968
- Growth in asset-backed credit continued to moderate
- Credit growth is expected to weaken further, as households remain cautious in an uncertain environment
- We expect interest rates to remain unchanged until early 2011

#### Latest (October 2009)

##### **M3 unadjusted:**

2,7% y-o-y (4% y-o-y in September 2009)  
Nedbank forecast: 3,18%; Market forecast: 3,30%

##### **M3 seasonally adjusted:**

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

##### **Total credit:**

1,3% y-o-y, 0,0% m-o-m (3,4% y-o-y in September 2009)

##### **Private sector credit:**

-0,4% y-o-y, -0,2% m-o-m (1,5% y-o-y in September 2009)  
Nedbank forecast: 0,17% y-o-y; Market forecast: 0,21%

##### **Private sector credit excluding investments & bills discounted:**

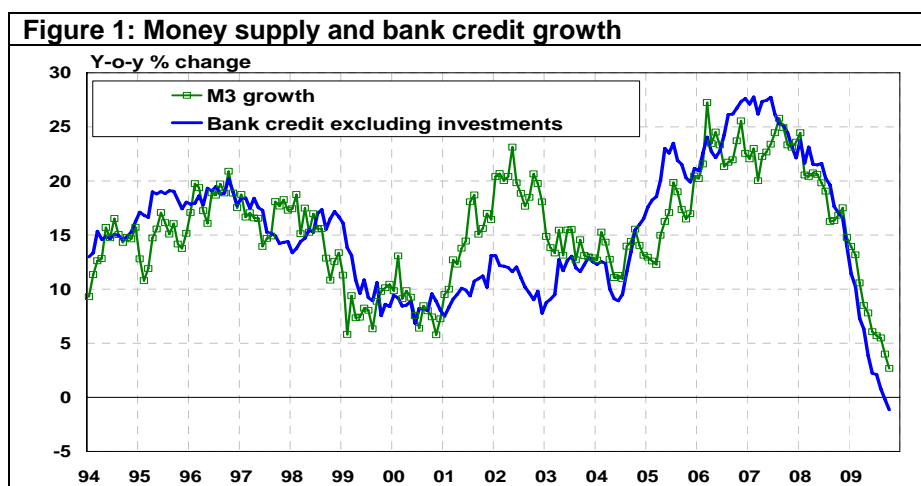
-1,2% y-o-y, 0,0% m-o-m (-0,2% y-o-y in September 2009)

#### Research

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#### Comment

Despite lower interest rates, demand for credit continued to fall in October as consumer confidence remained depressed due to the sharp increase in job losses, high debt levels and tighter lending criteria. Private sector credit extension fell by 0,4% y-o-y, its first decline since 1968, against market expectations of a marginal 0,2% increase. Credit recorded its third successive monthly decline, falling by 0,6%. Growth in asset-backed credit moderated

further, easing to a record low 1,7% y-o-y in nominal terms from 2,7% y-o-y in September. Excluding investments and bills discounted, credit fell by 1,2% y-o-y in October, following a 0,2% y-o-y decline in the previous month.

Growth in money supply also continued to moderate, slowing to 2,7% y-o-y in October from 4,0% in September. Over the month, money supply fell by R1,9 billion after dropping by R11,6 billion in September, dragged down by a drop in net other assets and liabilities (down by R3,4 billion after increasing by R11 billion in the previous month) as well as a further decline in claims on the private sector (down by R3,8 billion after falling by R12,4 billion in September). However, the impact of the declines was partly contained by increases in net claims on the government sector and net foreign assets.

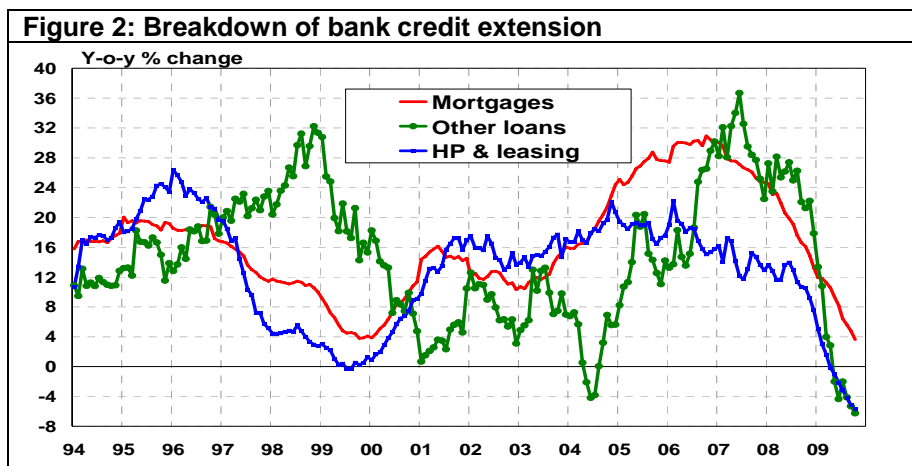
***Instalment sales and leasing finance continued to fall at a faster pace***

**Latest (October 2009)**

**Instalment sales and leasing finance:** -5,7% y-o-y, -0,2% m-o-m (-5,2% y-o-y in September 2009)

**Mortgages:** 3,6% y-o-y, 0,3% m-o-m (4,8% y-o-y in September 2009)

**Other loans:** -6,3% y-o-y, -0,3% m-o-m (-5,3% y-o-y in September 2009)



**Comment**

Instalment and leasing finance fell by further 5,7% y-o-y in October, its seventh successive month of decline after dropping by 5,2% in September, reflecting weak demand for new vehicles. Growth in mortgages moderated to a record low of 3,6% y-o-y as demand for real assets remained contained by fragile confidence and the general pressure on household income. However, anecdotal reports suggest that early signs of life are starting to emerge in the residential property market, with estate agents reporting a slight increase in volume, which is reflected in the slightly better movement in house prices in recent months. Other loans and advances declined further on an annual basis, falling for the sixth successive month in October, dragged down mainly by weak corporate demand.

**Outlook**

Credit demand is expected to remain weak, but should start picking up gradually in the months ahead before gaining moderate momentum in the second half of 2010. Over the very short term, the recovery in household credit demand is likely to be hampered by high unemployment, still high household debt levels and low confidence, while the improvement in corporate demand will be contained by falling fixed investment activity by the private sector and lingering doubts about future growth prospects. However, lending conditions should show convincing signs of improvement around the second quarter of 2010 as the labour market stabilizes, household debt levels ease to more manageable levels, fears of any unexpected interest rate movements ease and general economic prospects and confidence picks up along with the build up to and hosting of the 2010 FIFA World Cup. However, the recovery in credit demand is generally expected to be moderate and subdued, constrained by structurally higher levels of debt, subdued economic growth both locally and globally, a slow pace of employment growth and generally tighter credit standards and regulations.

## **Implications**

Although there are clear signs of improvement in some sectors and the economy has emerged from recession, today's bank credit figures indicate that certain segments of the economy remain very fragile. Households are still very cautious of taking on additional debt, while most corporates remain very defensive, generally favouring cash, containing costs and avoiding major expansions. Despite this, the economy is gradually recovering and the risks to inflation are perceived to be rising. Consequently, the Reserve Bank's Monetary Policy Committee is not expected to offer any further relief but rather to keep rate flat for an extended period of time. The prime rate is therefore expected to remain unchanged at 10,5% throughout 2010, before moving higher in 2011.

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