

# Nedbank

## Economic commentary

29 January 2010

### MONEY SUPPLY AND CREDIT

#### *Credit conditions remain weak*

- Money supply and private sector credit extension continued to reflect the weak economic environment.
- There are some early indications that the credit cycle is turning
- 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 demand for finance from the corporate sector.
- Interest rates are still expected to remain unchanged until early 2011.

#### Latest (December 2009)

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

1,6% y-o-y (0,6% y-o-y in November 2009)

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

0,5% m-o-m (0,1% m-o-m in November 2009)

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

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

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

-0,8% y-o-y, -0,2% m-o-m (-1,6% y-o-y in November 2009)

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

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

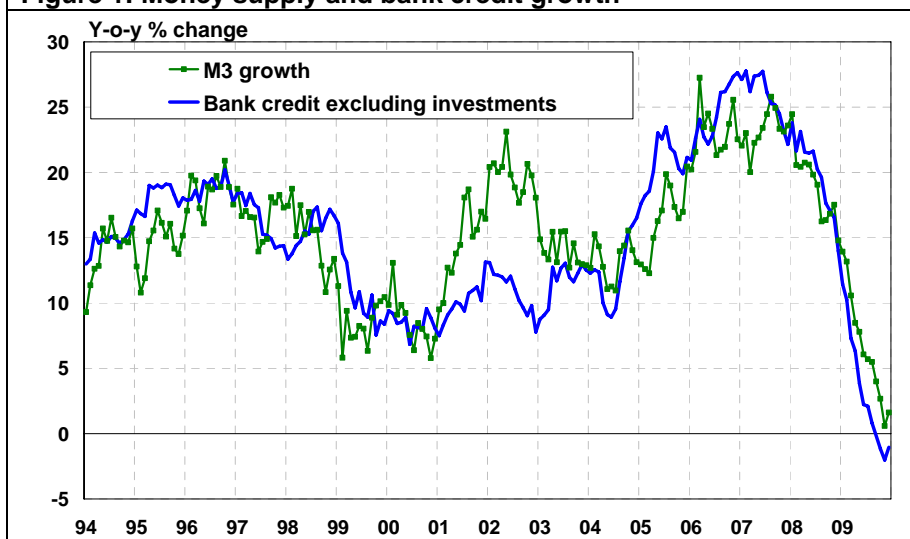
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**Figure 1: Money supply and bank credit growth**



#### Comment

Annual growth in money supply fell at a slower pace in December, declining by 0,8% y-o-y, following declines of 1,6% and 0,4% in the two previous months. Money supply grew by 1,6% y-o-y, up from 0,6% y-o-y in November. The data

continued to reflect weak economic conditions in both the household and corporate sectors. However, both these numbers suggest that the worst of the credit cycle may now be behind us, with a modest improvement expected over the coming months.

Over the month, unadjusted M3 fell by R7,9 billion, down by 0,4% m-o-m. Claims on the private sector also declined (down R3,2 billion after a R1,4 billion rise in November) as did net foreign assets (down R7,6 billion after a R3,9 billion rise in November), while the net other assets and liabilities category rose by R2,3 billion after falling by R7,7 billion in November.

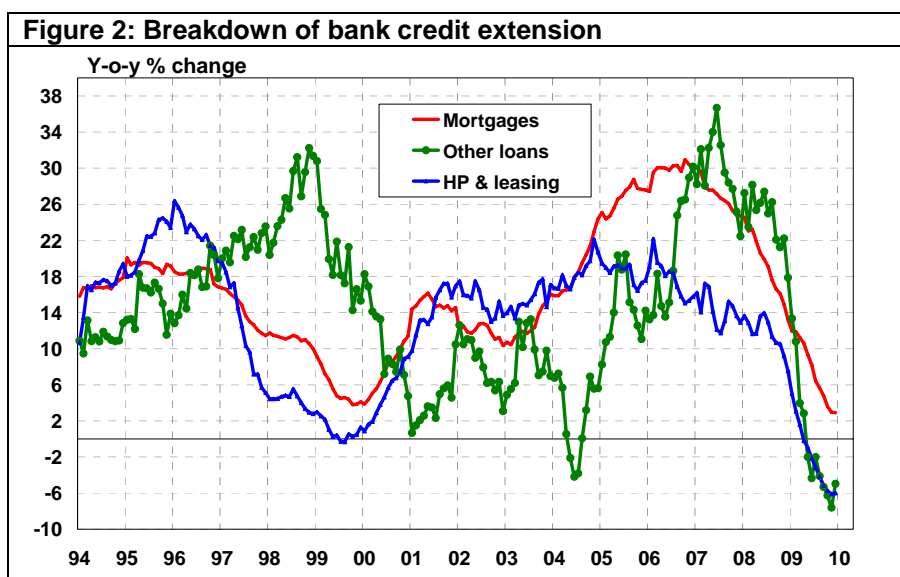
***Growth in mortgages moderated further***

**Latest (December 2009)**

**Instalment sales and leasing finance:** -6% y-o-y, -0,2% m-o-m (-6,1% y-o-y in November 2009)

**Mortgages:** 2,9% y-o-y, 0,3% m-o-m (3% y-o-y in November 2009)

**Other loans:** -5% y-o-y, -0,7% m-o-m (-7,6% y-o-y in November 2009)



**Comment**

Instalment and leasing finance fell by 6% y-o-y in December, after an annual decline of 6,1% in November. 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 2,9% despite some improvement over the month. High unemployment and debt levels as well as weak confidence continued to offset improved affordability in the household sector. Other loans and advances contracted further on a monthly and annual basis. The category eased by 0,7% over the month, bringing the annual decline to 5%. This category is dominated by unsecured loans to the corporate sector, which continued to fall, as companies have cut back on investment plans

**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. There are reports that conditions in the residential property market are gradually starting to improve, suggesting that this category may be bottoming out soon. 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 continued to underline how fragile the recovery remains, particularly on the demand side of the economy. Despite the steep 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.

Both retail and credit figures suggest that demand-led inflation is unlikely to emerging during 2010, in contrast cost-push inflation, particularly from Eskom's electricity tariff hike, is likely to pose the most significant risk to the inflation outlook. Although we believe that a further cut in interest rates could still be justified we think that the MPC will remain cautious and therefore keep rates flat in 2010 before starting to tighten in 2011.

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