

Nedbank

Economic commentary

30 June 2010

MONEY SUPPLY AND CREDIT

Annual credit growth turned positive

- Annual credit growth turned positive for the first time since September 2009.
- The overall credit figure continues to be dragged down by falling corporate credit demand, while growth in household credit has begun to edge up slightly.
- Corporate demand for credit is likely to remain erratic and weak for much of 2010 as the private sector is likely to remain wary of accelerating capital expenditure in the face of ample spare capacity.
- Household credit demand is expected to recover in the second half of the year on low interest rates, an improvement in household finances and better employment prospects.
- A slow recovery in credit demand is one factor that will keep growth in household consumption relatively subdued, with growth of 2,4% forecast for 2010 compared with an average of 6,5% between 2004 and 2007.
- Interest rates are expected to remain unchanged until the third quarter of 2011, but if growth disappoints or inflation undershoots the SARB's inflation forecast a further rate cut could be on the cards.

Latest (May 2010)

M3 unadjusted:

1,4% y-o-y (1,7% y-o-y in April 2010)

M3 seasonally adjusted:

0,4% m-o-m (0,1% m-o-m in April 2010)

Total credit:

1% y-o-y, 0,1% m-o-m (-0,3% y-o-y in April 2010)

Private sector credit:

0,8% y-o-y, 0,5% m-o-m (-0,9% y-o-y in April 2010)

Private sector credit excluding investments & bills discounted:

1,4% y-o-y, 0,4% m-o-m (-0,3% y-o-y in April 2010)

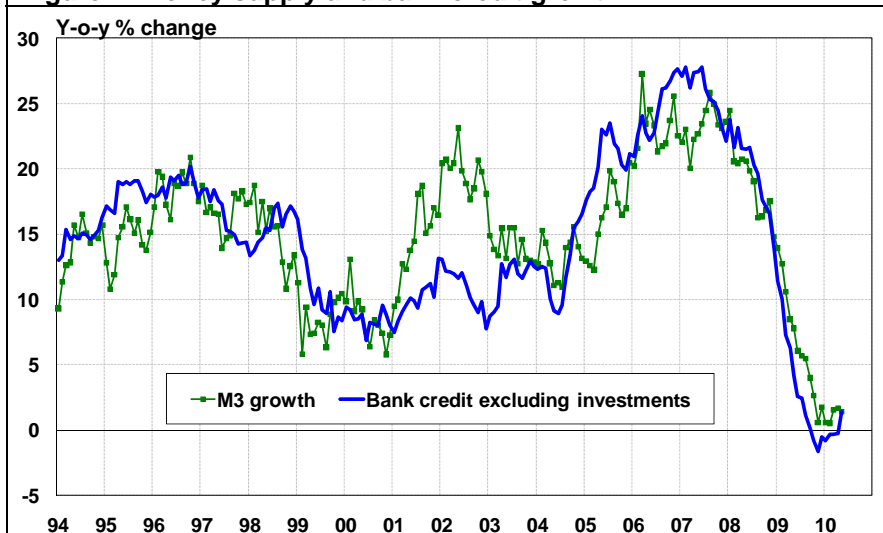
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Figure 1: Money supply and bank credit growth



Comment

Credit to the private sector rose in line with our expectations, increasing by 0,8% y-o-y, following a contraction of 0,86% y-o-y in the previous month. The rate of decline in corporate credit eased sharply, falling by 1,5% y-o-y in May, following a decline of 5,1% in the previous month. Household credit growth stalled at 3,8% y-o-y, unchanged from the previous month. Growth in asset-based credit also remained unchanged, increasing by 2% y-o-y.

Money supply (M3) rose by 1,4% y-o-y, slightly slower than the 1,67% y-o-y increase recorded in April. Over the month, M3 rose by R13,5 billion, due to increases in claims on the private sector as well as net other assets and liabilities.

Annual growth in mortgages slowed

Latest (May 2010)

Instalment sales and leasing finance: -3,5% y-o-y, 0,3% m-o-m (-4,5% y-o-y in April 2010)

Mortgages: 3,4% y-o-y, 0,3% m-o-m (3,6% y-o-y in April 2010)

Other loans: 0,2% y-o-y, 0,5% m-o-m (-4,6% y-o-y in April 2010)

Comment

Mortgage growth eased slightly to 3,4% y-o-y in May from 3,6% y-o-y in June, but rose by 0,3% over the month. The annual rate of decline in instalment sales and leasing finance moderated further to 3,5% y-o-y from 4,4%, with the category dragged down by leasing finance which declined by 25,9% y-o-y. The "other loans and advances" category turned positive for the first time since April 2009, increasing by 0,2% y-o-y, following a 4,6% y-o-y decline in April. Over the month, this category rose by 0,5%.

Outlook

Household demand for credit continued to improve off a low base, supported by low interest rates and rising income. However, with household debt still at very high levels, most consumers will remain cautious, opting to pay down debt and make purchases out of current income.

Mortgage advances are expected to improve modestly in 2010, supported by a gradual improvement in household finances and confidence. While significant job creation is unlikely, the worst of the retrenchments are probably over and employment is expected to remain relatively steady in 2010. This should support household income, which, coupled with low and steady interest rates should help to improve the demand for housing in 2010. Bank's credit criteria have eased slightly, which should also facilitate a recovery in loan growth.

Corporate demand for credit is likely to remain erratic and weak for much of 2010 as the private sector is likely to remain wary of accelerating capital expenditure in the face of ample spare capacity, while infrastructure spending by the public sector is expected to lose some momentum as the big World Cup projects are completed and funding constraints continue to weigh on the sector.

Implications

Annual credit growth turned positive for the first time since September 2009, showing that the consumer is beginning to recover, albeit very slowly. Today's figure does not change our view that the local recovery remains fragile and may still suffer a set back as a result of Europe's economic troubles.

Although we anticipate that the SARB will keep rates unchanged until the third quarter of 2011, a negative growth surprise or an improvement to the inflation outlook may still prompt the Bank to cut rates one last time.

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