

Nedbank

Economic commentary

31 May 2010

MONEY SUPPLY AND CREDIT

Credit conditions remained weak

- Today's credit figure showed that the recovery, particularly for consumers, remains fragile and that the credit cycle has not yet turned convincingly.
- This suggests that consumers remain reluctant to take on new credit despite low interest rates, opting to reduce debt.
- Credit growth 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 (April 2010)

M3 unadjusted:

1,7% y-o-y (1,5% y-o-y in March 2010)

M3 seasonally adjusted:

0,1% m-o-m (1% m-o-m in March 2010)

Total credit:

-0,3% y-o-y, 0,6% m-o-m (-0,1% y-o-y in March 2010)

Private sector credit:

-0,9% y-o-y, -0,1% m-o-m (-0,7% y-o-y in March 2010)

Private sector credit excluding investments & bills discounted:

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

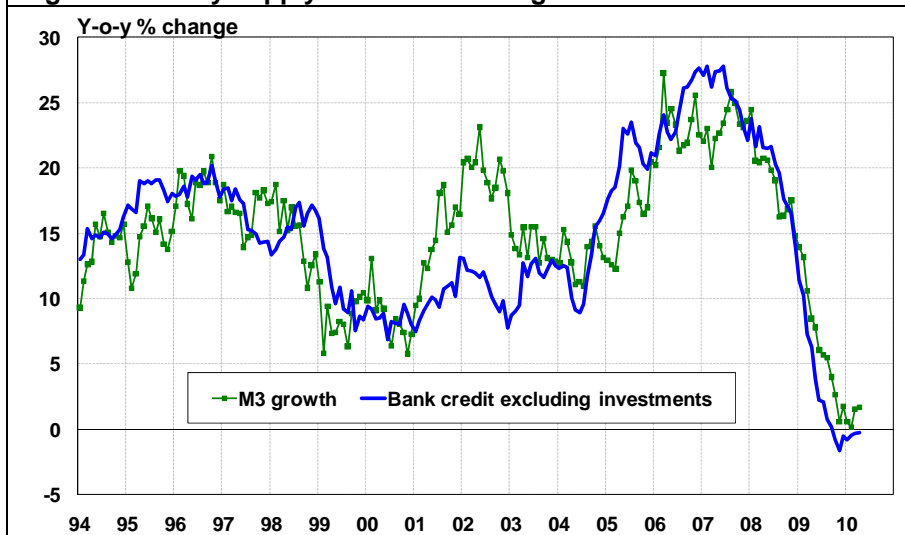
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Figure 1: Money supply and bank credit growth



Comment

Credit growth surprised on the downside, falling by 0,9% y-o-y, following a decline of 0,7% y-o-y in March. This suggests that consumers remain reluctant to take on new credit despite low interest rates, opting to reduce debt. Asset-based credit picked up slightly in April, increasing by 2% y-o-y, up from an increase of 1,9% y-o-y in the previous month.

Money supply rose by 0,5% m-o-m (up R8,9 billion), due to a R17,5 billion increase in net claims on the government sector as well as an increase in net other assets and liabilities. In contrast, claims on the private sector fell by R2,5 billion.

Annual growth in mortgages stalled

Latest (April 2010)

Instalment sales and leasing finance: -4,4% y-o-y, -0,2% m-o-m (-4,9% y-o-y in March 2010)

Mortgages: 3,6% y-o-y, 0,1% m-o-m (3,6% y-o-y in March 2010)

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

Comment

Growth in mortgage credit rose by 3,6% y-o-y, unchanged from March. Over the month, mortgages grew by 0,1% m-o-m. The slight upturn in mortgage growth, seen over the past few months, probably points to a slight recovery in housing demand as affordability improved on softer house prices and the sharp drop in interest rates.

Demand for instalment sales and leasing finance remained weak, declining by 4,4% y-o-y, down from 4,9% y-o-y in March. Underlying conditions, particularly for instalment credit, have improved slightly as the recovery in both passenger and light commercial vehicle sales gained momentum.

Other loans and advances, which is dominated by unsecured loans to the corporate sector, fell over the month, declining by 0,4%. The annual rate of decline picked up slightly.

Figure 2: Credit and vehicle sales

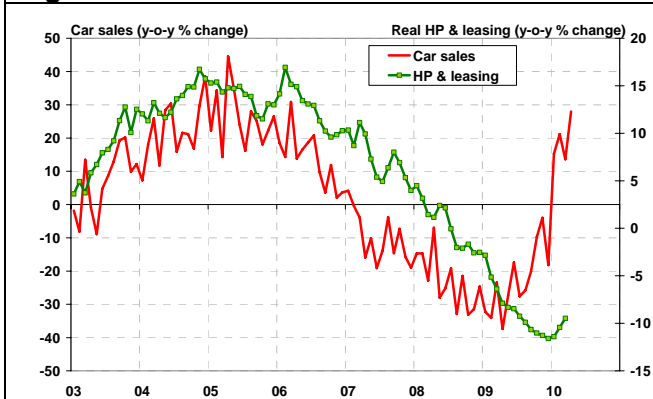
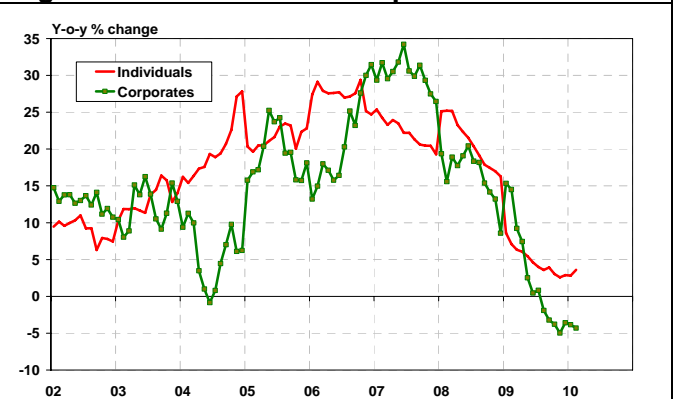


Figure 3: Household and corporate credit



Outlook

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.

Rental demand for passenger and light commercial vehicles ahead of the World Cup should support instalment sales and leasing finance in the next few months. Thereafter, household demand should begin to pick up.

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

Today's credit figures show that the recovery remains fragile and that the credit cycle has not yet turned convincingly. However, this will not come as a surprise to the Reserve Bank, which on a number of occasions has highlighted that the consumer remains weak. As a result, interest rates are still expected to remain unchanged until the third quarter of 2011, but if growth disappoints or inflation undershoots the SARB's inflation forecast over the next few months, a further rate cut could be on the cards.

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