

29 October 2010

Economic Commentary

Money supply and credit demand

The gradual improvement in credit growth continues

- Growth in private sector credit extension rose to 4,4% y-o-y in September from 3,0% in August and slightly higher than the market consensus of 4,2%.
- Instalment sales credit continued to recover, leasing finance remained under pressure, while growth in mortgage finance remained steady at 4,8% y-o-y.
- Broad money supply (M3) increased by 5,1% y-o-y from 4,4%.
- The statistics do not alter our view that a further relaxation in monetary policy remains likely, probably in early 2011, given the uncertain nature of the recovery, the favourable inflation outlook and the strong rand.

Table 1 : Money supply and credit

	September Y-o-y%	September M-o-m%	August Y-o-y%	Nedbank Forecast Y-o-y%	Market Forecast Y-o-y%
M3 unadjusted	5,08	0,1	4,4	5,6	5,6
M3 seasonally adjusted	5,01	1,2			
Total credit	3,45	0,5	1,95		
Private sector credit	4,42	0,8	3,00	4,2	4,2

Source: SARB

Comment

Growth in private sector credit extension continued to recover during September, with rising consumer incomes and lower interest rates boosting household demand for credit.

Household credit increased by 0,8% m-o-m and 6,3% y-o-y and by an annualised 11% q-o-q in the third quarter, its fastest quarterly increase since the first quarter of 2008. Corporate credit demand on the other hand remained subdued, increasing by only 1,3% m-o-m and 1,4% y-o-y. On a quarterly basis corporate credit was up by an annualised 10% q-o-q, but this strong increase comes off a very low base.

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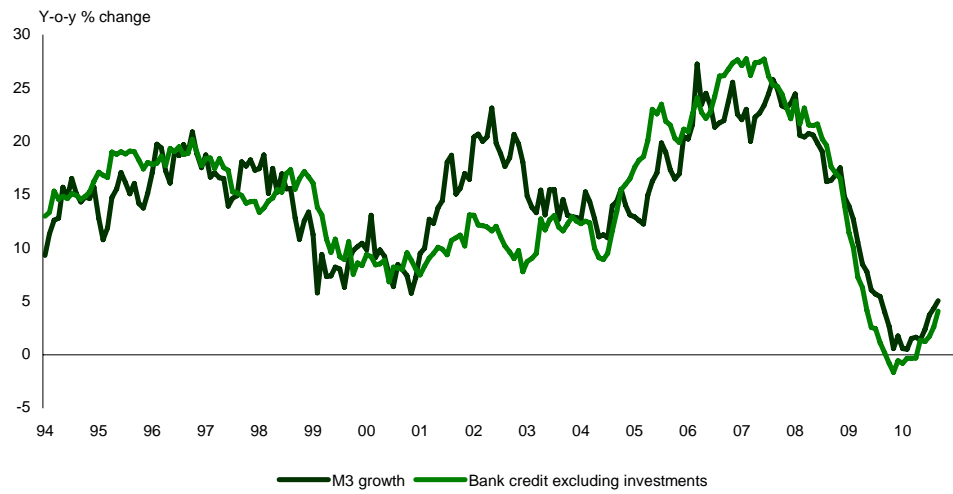
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Important disclosures can be found in the Disclosures Appendix.

Chart 1 : Money supply and bank credit growth



Source: SARB

Mortgage advances gain some momentum

Table 2 : Breakdown of credit

	September Y-o-y%	September M-o-m%	August Y-o-y%
Instalment sales and leasing finance	0,1	0,3	-0,6
Mortgage advances	4,8	1,1	4,8
Other loans and advances	4,5	2,6	0,4

Source: SARB

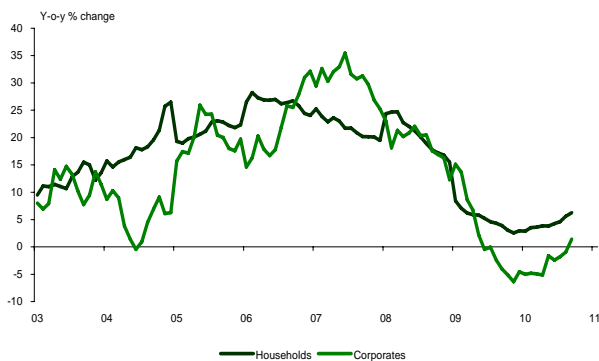
Comment

Mortgage advances expanded by 0,2% m-o-m and 4,8% y-o-y, with the y-o-y rate remaining unchanged during the month. Mortgages increased by an annualised 7,4% q-o-q in the third quarter, reflecting some easing in conditions.

Instalment sales credit rose by 0,6% m-o-m and 4,4% y-o-y, as the continued recovery in vehicle sales boosted this category, while leasing finance remained under pressure, dropping by 2,1% m-o-m and 22,6% y-o-y.

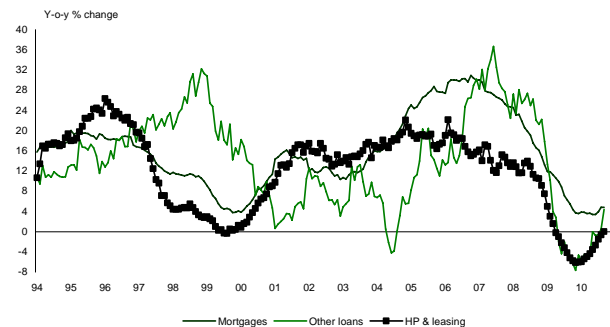
Other loans and advances were up by 2,6% m-o-m and 4,5% y-o-y, rising by an annualised 18,9% q-o-q.

Chart 2 : Household and corporate credit growth



Source: SARB

Chart 3 : Growth in private sector credit



Source: SARB

Outlook

The outlook for credit demand has improved but the recovery is likely to be gradual. Consumer confidence should improve in the coming months, boosted by improving real incomes and low interest rates. This, together with lower interest rates and inflation should keep household spending positive, and therefore stimulate demand for credit. However, part of the benefit could be offset by uncertain employment prospects, tight credit standards and high debt levels, which will prompt some consumers to use the favourable interest rate environment to settle their debt rather than applying for more credit.

Corporate demand for credit is likely to remain relatively weak as the private sector remains wary of accelerating capital expenditure in the face of ample spare capacity and the fragile economic recovery.

Implications

Recent releases have pointed towards a weak economic recovery, while inflation has eased further. This, against the backdrop of a strong rand, has increased chances of another interest rate cut in this cycle. However, the Reserve Bank has historically been reluctant to cut rates at consecutive meetings towards the end of the cycle, opting rather to adopt a wait-and-see approach before deciding whether further easing is required. As a result, we expect the Reserve Bank's Monetary Policy Committee to pause in November, with a possible 50 basis point cut in the first quarter of next year.

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