

# Nedbank

## Economic commentary

27 February 2009

### CREDIT AND MONEY SUPPLY

#### *Growth in credit and money supply slow further in January*

##### Latest (January 2009)

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

12,9% y-o-y, -0,7% m-o-m (12,9% y-o-y in December 2008)  
(Nedbank forecast: 14% y-o-y; Consensus: 13,9%)

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

0,1% m-o-m (0% m-o-m in December 2008)

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

14,7% y-o-y, 0,3% m-o-m (18,8% y-o-y in December 2008)

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

12,1% y-o-y, 0,2% m-o-m (14% y-o-y in December 2008)  
(Nedbank forecast: 12,2% y-o-y; Consensus: 14% y-o-y)

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

11,4% y-o-y, 0,1% m-o-m (14,4% y-o-y in December 2008)

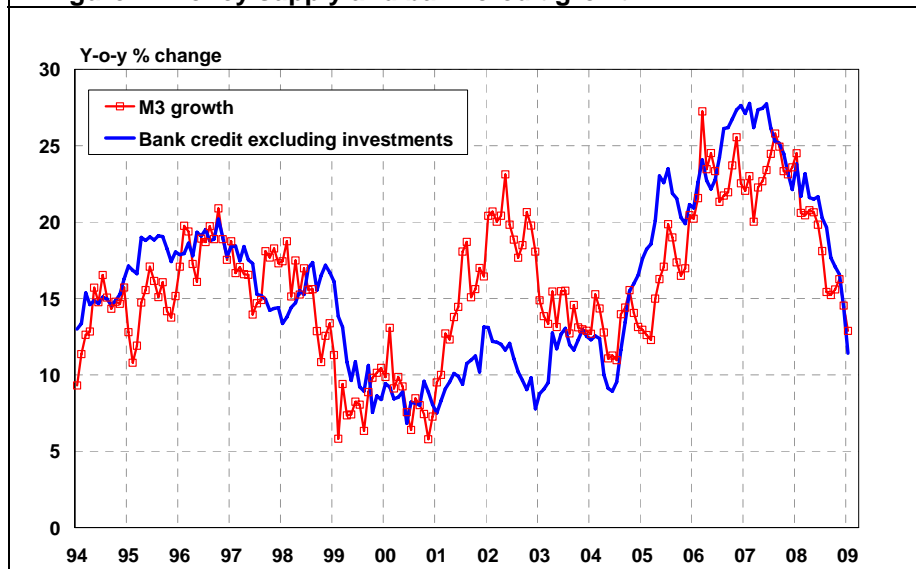
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**Figure 1: Money supply and bank credit growth**



#### Comment

Annual growth in private sector credit extension (PSCE) moderated sharply in January, reflecting a combination of tough economic conditions as well as base effects resulting from the change in January 2008 from the DI900s to the BA900s. Asset-based credit stagnated over the month, due to weak household demand for new mortgages and credit used for durable purchases such as cars.

Annual growth in money supply also eased last month, with a very modest R528 million. Credit extension to the private sector as well as net claims on the government sector rose by R12,1 billion and R2,5 billion respectively. This was offset by declines in net foreign assets and net other assets and liabilities.

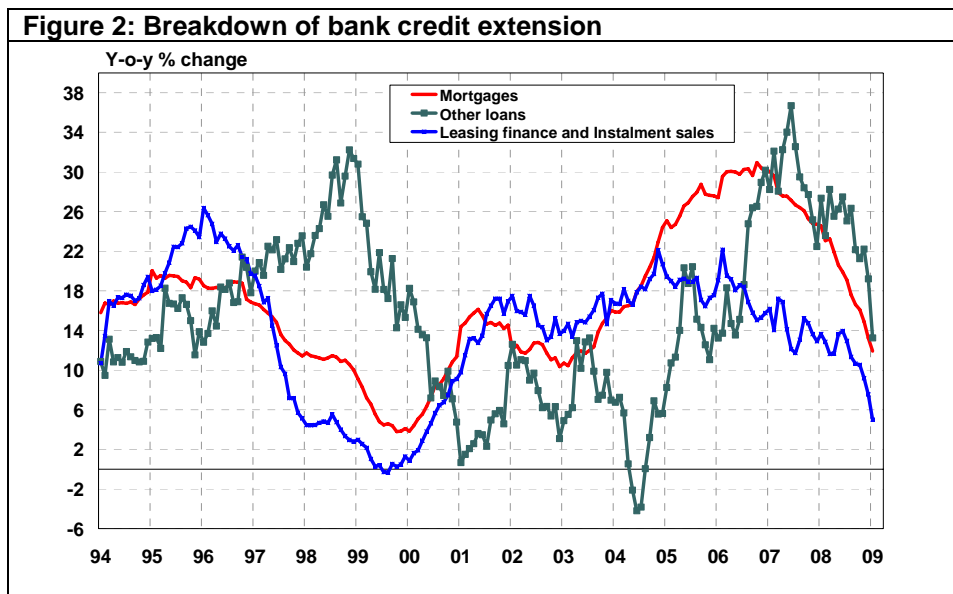
**Growth in asset backed credit as well as ‘other loans and advances’ continued to slow**

**Latest (January 2009)**

**Instalment sales and leasing finance:** 5% y-o-y, -0,4% m-o-m (7,5% y-o-y in December 2008)

**Mortgages:** 11,9% y-o-y, 0,1% m-o-m (13,2% y-o-y in December 2008)

**Other loans:** 13,3% y-o-y, 0,4% m-o-m (19,2% y-o-y in December 2008)



**Comment**

Growth in instalment sales and leasing finance fell over the month and slowed to 5% y-o-y from 7,5% in the previous month, reflecting weaker consumer and corporate spending. Growth in mortgage finance also continued to trend lower, as tighter bank conditions, job insecurity and the prospect of falling house prices curbs borrowing.

Growth in the ‘other loans and advances’ category slowed sharply over the year, due to a combination of falling demand for credit cards as well as slower growth in corporate overdrafts and term loans.

**Outlook**

The downward trend in both money supply and credit growth will continue in the months ahead. Consumers will probably opt to use any increase in discretionary income from lower borrowing costs and petrol prices to pay down their debt and increase their savings before taking on additional credit. Consumer confidence will also need to bounce back before firmer spending becomes entrenched.

Much will also depend on the impact of the global recession on the local economy, particularly employment. A more pronounced and protracted global recession could see domestic economic activity remaining depressed for longer. This could result in more significant job losses, putting a further dent in consumer confidence and keeping demand for credit subdued for longer.

The sharp drop in commodity prices and significantly weaker global demand, has forced companies to put expansion plans on hold, which will feed through into lower credit demand. Distress borrowing, particularly by those companies servicing the retail sector, may increase. Companies may be forced to borrow in order to manage their balance sheets as stock sits on the floor and costs remain high.

## **Implications**

Today's credit figures along with the gdp data released earlier this week reflect a picture of an economy that is suffering both from a cyclical slowdown as well the negative effects of a global recession. The economy is now projected to grow at just 0,2%. Inflation is also projected to fall below 6% towards the middle of this year and stay there, due to a combination of lower oil prices as well as weak domestic demand and deflationary pressures from abroad. As a result, there is a strong case to be made for cutting rates aggressively in the short term.

However, the Reserve Bank will probably wait to assess early first quarter data before calling any extraordinary meeting of the MPC. In this regard manufacturing and retail sales data towards the middle of next month could prove important. Over the course of the remainder of the year we expect a 350 to 400 basis point decline in rates.

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