

# Economic Commentary

## Money supply and credit

### Credit growth continues to recover

- Credit growth was pushed up mainly by demand from the household sector, while demand from corporates remained weak.
- The household sector is likely to remain the main driver of credit growth during the second half of the year on the back of low interest rates, income growth and some improvement in employment prospects.
- The data doesn't alter our view that rates are likely to remain unchanged at the next meeting, but given the uncertain nature of the recovery, a favourable inflation outlook and a strong rand, we believe that a further rate cut remains a possibility, particularly in early 2011.

**Table 1 : Money supply and credit**

	August Y-o-y%	August M-o-m%	July Y-o-y%	Nedbank Forecast Y-o-y%	Market Forecast Y-o-y%
M3 unadjusted	4.38	0.7	3.71	4.5	4.6
M3 seasonally adjusted		2.0			
Total credit	1.95	0.8	1.33		
Private sector credit	2.98	0.9	1.98	2.4	2.8

Source: SARB

### Comment

Growth in private sector credit extension come out slightly more that expected in August, rising by 2,98% y-o-y, pushed up by private sector claims, with household demand for credit in particular benefiting from better consumer confidence. Over the month, household credit rose by 1,3%, pushing the annual growth to 5,6%, the strongest since May 2009. In contrast, corporate credit remained weak as companies remain reluctant to expand against the backdrop of a fragile recovery. The rate of decline in corporate credit moderated to 1% y-o-y in August from 1,7% y-o-y in the previous month. Asset-backed credit rose by 2,6% y-o-y from 1,7% y-o-y in July, mainly due to an increase in mortgage advances.

Money supply rose by 4,38% y-o-y in August, below market forecast of 4,55%. Over the month, money supply was pushed up by private sector claims, which increased by R17,7 billion. In contrast, net foreign assets and net claims on the government sector, declined by R647 million and R1,04 billion respectively following strong increases in July.

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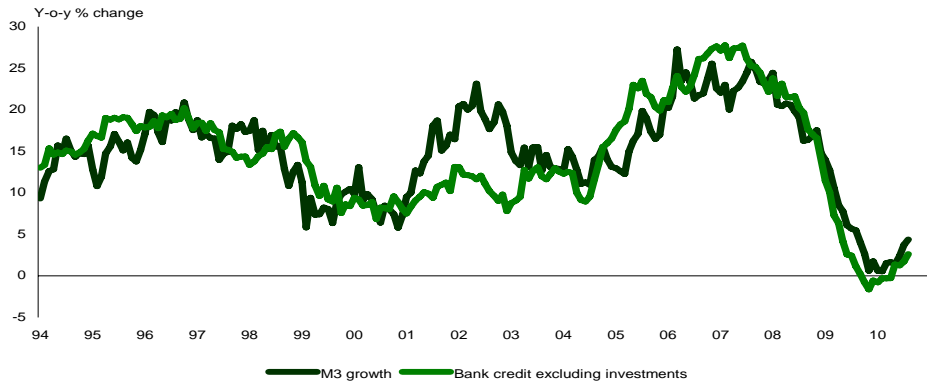
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Important disclosures can be found in the Disclosures Appendix.

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



Source: SARB

## Mortgage advances gain some momentum

**Table 2 : Breakdown of credit**

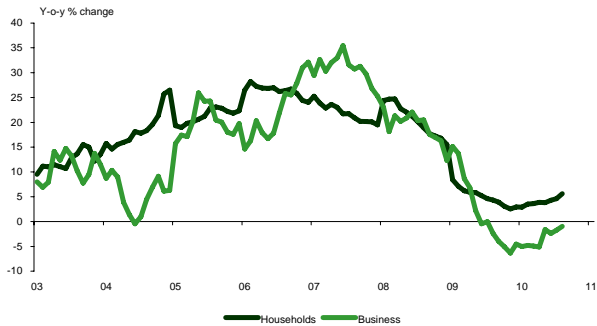
	August Y-o-y%	August M-o-m%	July Y-o-y%
Instalment sales and leasing finance	-0.61	0.1	-1.47
Mortgage advances	4.84	1.1	3.97
Other loans and advances	0.45	0.4	-0.53

Source: SARB

### Comment

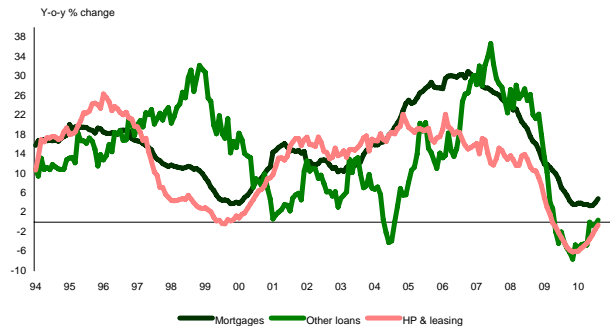
Growth in mortgages was firm in August, rising by 1,1% m-o-m and 4,8% y-o-y. However, the overall trend remains weak. The rate of decline in instalment sales and leasing finance continued to moderate, pushed up by increased purchases of new vehicles during the month, prior to the implementation of the carbon tax in September. Over the month, instalment sales increased by 0,4%, pushing the annual growth to 3,8% from 2,9% in July. However, leasing finance fell by 2,0% m-o-m, with the annual rate of decline easing to 22,9% from 23,2%. Other loans and advances increased at a moderate pace in August, up by 0,4% but recorded its first positive growth since April last year on an annual basis.

**Chart 2 : Household credit growth strengthens further**



Source: SARB

**Chart 3 : Growth in private sector credit**



Source: SARB

## Outlook

Consumer confidence is likely to remain firm during the remainder of the year as worries about job losses abate with better general economic conditions compared with last year. Household balance sheets should also improve following high wage settlements reached during the negotiation season. This, together with lower interest rates and inflation should keep household spending positive, and therefore should stimulate demand for credit. However, part of the benefit could be offset by 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 weak as the private sector remains wary of accelerating capital expenditure in the face of ample spare capacity and the fragile economic recovery.

## Implications

Today's figures show that demand for credit continues to improve. However, the data doesn't alter our view that rates are likely to remain unchanged at the next meeting. However, we still believe that given the uncertain nature of the recovery and the favourable inflation outlook, a further rate cut remains a possibility, particularly in early 2011. The two key factors to watch over the coming months will be the likely inflation trajectory as well as any indication that growth is beginning to falter.

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