

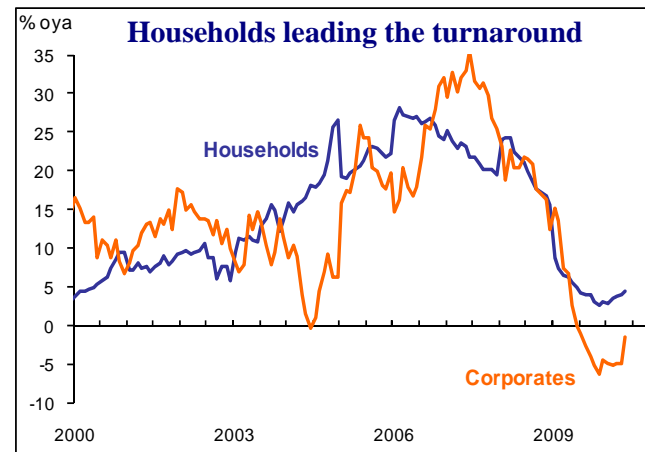
A report compiled by Citadel Investment Strategists

## Credit growth turning positive

Private sector credit growth improved in May and turned positive for the first time since September 2009. Household credit growth continued to increase while growth in corporate credit was less negative. The improvement in credit growth adds weight to the argument that the local interest rate cycle has probably reached its lower turning point.

The annual growth in household credit increased to 4.4% in May, maintaining the upward momentum of recent months. Households are gradually taking on more debt, supported by the 5.5% cut in interest rates, wage increases (particularly in the government sector) and low inflation. However, household's ability and willingness to take on more debt is curtailed by the high debt to disposable income ratio (78.4% in the 1<sup>st</sup> quarter) and high unemployment. The improvement in the property market is supporting the mortgage market. Property prices rose faster than the average mortgage rate over the last twelve months. Mortgage debt increased an average of R3bn a month the past three months and the annual growth rate remained positive.

Corporate credit growth lagged households but is showing signs of turning positive. The recovery in corporate borrowing is being held back by corporates continuing to pay back bank debt and rebuilding cash flows. Bank lending criteria also remained tight. Real private sector fixed investment still declined in the 1<sup>st</sup> quarter of 2010, after falling 7% during 2009. However, as growth in final demand pick up, businesses should have the confidence to start investing in a significant way again. It is typical for the corporate credit cycle to lag that of households (see graph).



- Outstanding domestic private credit increased more than 1% in May and credit growth was also positive compared to a year ago.
- Growth in household debt in the year to May was 4.4%. Outstanding corporate debt was still lower than a year ago.
- Mortgage debt increased 4.0% in the year to May, up from 3.6% in April.

	May 2010			April 2010		
	Yoy %	Mom %	3m ann.%	Yoy %	Mom %	3m ann.%
<b>M3 (seas. adjusted)</b>	1.3	0.7	9.0	1.7	0.5	9.1
<b>Private Credit (seas. adjust.)</b>	1.3	1.4	5.5	-0.8	0.0	1.9
Loans & advances to households	4.4	0.4	4.0	3.8	0.3	6.8
Loans & advances to corporates	-1.5	0.4	-2.2	-5.0	-0.6	-4.6
Mortgage advances	4.0	0.4	3.5	3.6	0.1	5.0
Instalment & leasing	-3.5	0.3	0.5	-4.6	-0.2	-0.6

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