momentum investments

The Macro Research Desk

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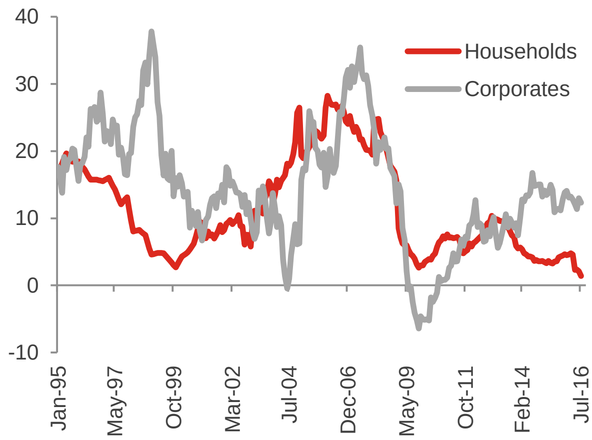
Financial pressure on households negatively impacting private sector credit growth

Healthy growth in corporate credit continues, while household credit uptake remains muted

Growth in broad money supply (M3) slowed markedly from 5.9% y/y in June to 4.4% y/y in July 2016, coming in below the market's expectation for a decrease to 5.5% y/y. This is significantly below the longer-dated average of c.12% y/y since 2000. Similarly, growth in private sector credit extension missed expectations, decelerating to 6.8% y/y in July 2016 from 7.3% y/y a month earlier and lower than the 7% y/y estimate pencilled in by the market.

Growth in household credit slowed from the previous twelve-month average of 3.9% y/y to its slowest rate (1.4% y/y in July 2016) since data has been provided on a disaggregated basis (see chart 1).

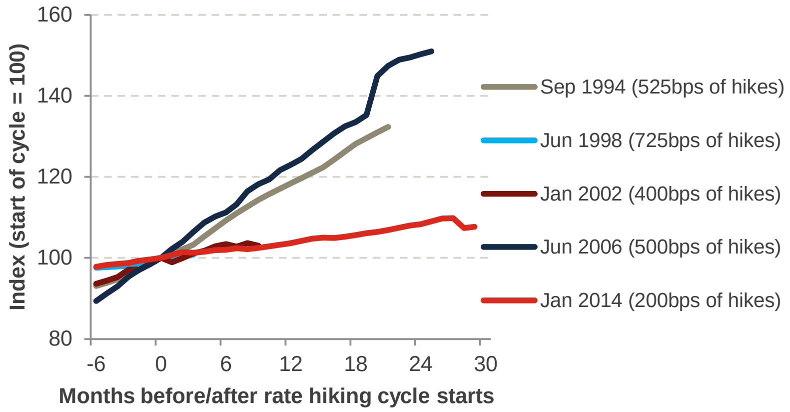
Chart 1: Credit extension to households versus corporates (% y/y)



Source: SARB, Momentum Investments

The current household credit cycle is one of the weakest in history (see chart 2). Growth in household credit averaged a mere 3.9% y/y since January 2014, when the current rate hiking cycle commenced. This rate is considerably weaker than the long-term average growth rate of 11.4% y/y.

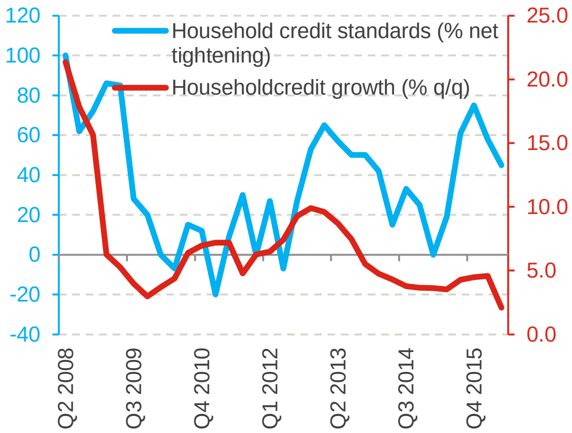
Chart 2: Household credit during previous interest rate hiking cycles



Source: SARB, Momentum Investments

Although data from African Bank provides an element of distortion to the numbers, subdued growth in household credit reflects elevated consumer indebtedness and stringent lending criteria. According to the Bureau of Economic Research's (BER) Financial Services Index, a net 45% of commercial banks are still tightening lending criteria to SA households (see chart 3).

Chart 3: Household credit growth slowing as credit lending standards remain tight



Source: SARB, Momentum Investments

The slowdown in household credit growth is likely not only a function of the restricted supply of credit. The National Credit Regulator report ended March 2016 revealed a 3.9% y/y decline in the number of applications received for household credit. The demand for credit has likely softened in response to levels of indebtedness remaining elevated for lower-income earners in particular. Fixed-rate unsecured debt has grown at an average rate of 17% y/y since January 2008. With providers of unsecured credit initially lending larger sums of money for extended terms, household debt-to-disposable income levels climbed for lower-income earners since the global financial crisis. The opposite was true for higher-income households which opted to reduce their outstanding mortgages over the same time period, leading to the overall level of household debt-to-disposable income falling at the upper end of the income-earning spectrum.

Modest recovery in growth in household mortgages, but growth in vehicle finance slowing sharply

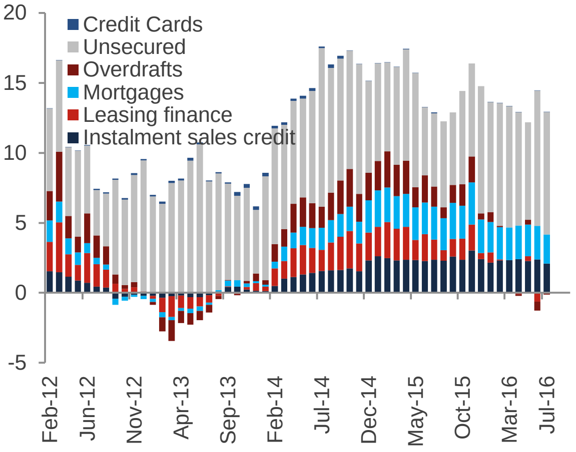
Growth in household mortgages dipped to an average rate of 5.9% y/y post the global financial crisis, from a robust 19.7% y/y average growth rate between 1995 and 2007. Nevertheless, growth in household mortgages has shown a modest improvement over the past two and a half years. Growth in this category increased from an average 2.3% y/y in 2014 to 3.2% y/y in 2015 and registered at 4.4% on a year-to-date basis for 2016.

Meanwhile, credit growth continued to underperform in the remaining household credit categories. Growth in vehicle finance fell into negative territory for the first time since January 2010, mimicking poor car sales data as reported by the National Association of Automobiles SA (Naamsa). Other (household) loans and advances decreased by 7.3% y/y in July 2016, leaving growth in this category at a marginally negative 0.6% y/y print on a year-to-date basis.

Corporate credit growth underpinning growth in overall private sector credit

Corporate credit extension rose by 12.3% y/y in July 2016, broadly in line with the past twelve-month average of 12.5% y/y. Growth remained firm in the unsecured lending (+17.9% y/y) and mortgage (+9.4% y/y) categories, while growth in overdrafts printed in negative territory (-0.7% y/y) for the second consecutive month.

Chart 4: Contribution to growth in corporate credit (% y/y)



Source: SARB, Momentum Investments

SA consumers under pressure

Consumers are increasingly feeling the pinch of the cumulative 200 basis points worth of interest rate hikes since January 2014, rising inflation (largely owing to currency pressures and drought-inflicted food price shocks) and further job losses (112 000 jobs lost over the past year). Household credit is likely to remain under pressure in upcoming months as banks maintain a cautious stance on lending, while high debt levels further restrain demand for increased borrowing at the household level.

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