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momentum investments

in the moment

Credit growth ticked lower in August 2019

Highlights

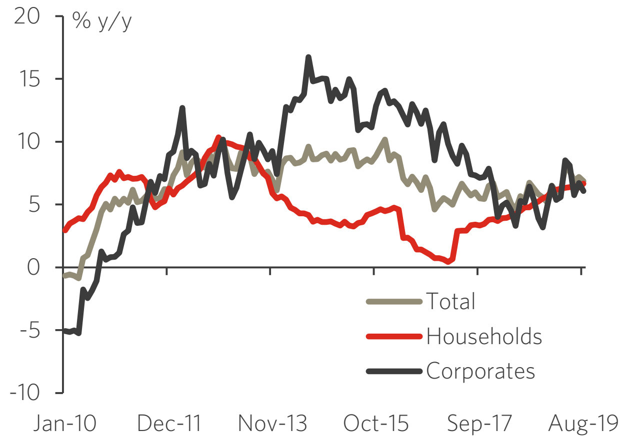
- Growth in private sector credit extension rolled over to 6.9% in August 2019 from 7.2% in July 2019.
- Household credit extension rebounded by 6.7% in August 2019, previously slowing slightly to 6.3% y/y in July 2019, while corporate credit extension slowed to 6.1% in August 2019 from 6.7% y/y.
- The South African Reserve Bank's (Sarb's) 25 basis-point repo rate cut in July 2019 could have contributed to the increase in household credit, which rose to the highest growth level since October 2013.
- Growth in money supply continued to decline to 7.5% in August 2019 from 8.3% in July 2019.
- Household debt variables still appear to be accommodative, notwithstanding the current ramp-up in the credit cycle since March 2017. Growth in household income continued to slow in the second quarter of 2019, but wealth ticked up, underpinned by an improvement in the value of equity and housing stock.
- Weak business confidence is likely to inhibit corporate credit growth for investment purposes.
- Momentum Investments' expects low confidence and an uncertain policy setting to partly offset looser monetary policy and as such the improvement in credit growth is likely to remain gradual.

Credit growth slows after a marginal rebound

Total private sector credit extension slipped slightly to 6.9% in year-on-year (y/y) terms in August 2019 from 7.2% y/y in July 2019 as published by the Sarb (see chart 1). Growth in household credit extension rebounded to 6.7% y/y in August 2019, previously slowing slightly to 6.3% y/y in July 2019 from 6.5% y/y in June 2019. Growth in corporate credit extension slowed to 6.1% y/y in August 2019 from 6.7% y/y in July 2019.

The Sarb's 25 basis-point repo rate cut in July 2019 could have contributed to the increase in household credit growth, which rose to the highest growth level since October 2013. Corporate credit growth, however, remains constrained by low confidence and high policy uncertainty.

Chart 1: Gradual uptick in household credit growth



Source: Sarb, Momentum Investments

Household credit extension was primarily driven by a rise in mortgage advances, which increased by 4.9% y/y from 4.6% y/y in July 2019. General loan advances increased by 12% y/y in August 2019 from 11.2% y/y. Credit cards improved by 11.3% y/y from 11.1% and overdrafts expanded by 6.0% y/y from 4.6% y/y in July 2019. Growth in the leasing finance component was still negative at 0.2% y/y, but narrower than the negative 16.3% y/y reported in July 2019. Growth in instalment sales credit slowed to 6.8% y/y in August 2019 from 7.0% y/y in July 2019.

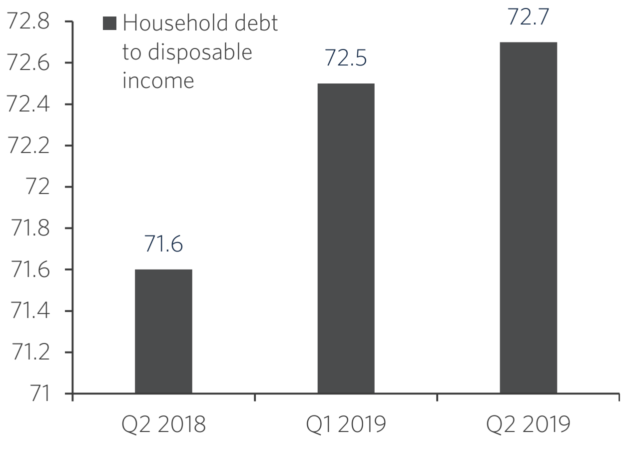
The slowdown in corporate credit was underpinned by a weakening in the uptake of general loans and advances which slowed to 4.8% y/y in August 2019 from 6.0% y/y in July 2019. Growth in investments deteriorated to 12.0% y/y from 15.6% y/y in the same period. Overdrafts declined by 6.6% y/y from 8.2% y/y and growth in instalment sales credit slowed to 8.3% y/y from 9.2% y/y in July 2019. Growth in leasing finance slowed to 30.4% y/y from 33.8% y/y in July 2019. Mortgage advances increased by 7.5% y/y in August 2019 (from 6.5% y/y) and growth in bills discounted rose to 28.5% y/y from negative 4.5% y/y in the same period.

Money supply growth continued to decline in August 2019 to 7.5% from 8.3% in July 2019.

Marginal changes to household balance sheets in the first half of 2019

Household debt variables still appear to be accommodative, notwithstanding the current ramp- up in the credit cycle since March 2017. The modest interest rate trajectory has contributed to the low debt-service cost amid an already delevered consumer. The household debt-to-disposable income ratio increased slightly between the first and the second quarter of 2019 (see chart 2).

Chart 2: Incremental rise in household debt ratio

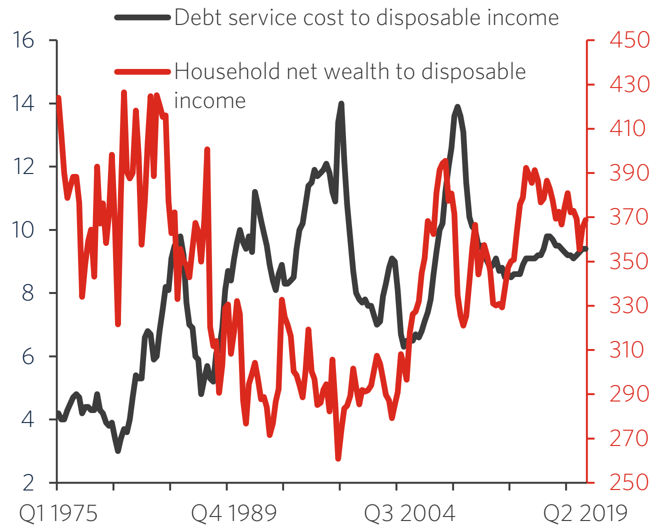


Source: Sarb, Momentum Investments

Growth in household income continued to slow down in the second quarter of 2019, but wealth ticked higher, underpinned by an improvement in the value of equity and housing stock (see chart 3).

Debt service costs which remained unchanged between the first and second quarter of 2019 are likely to decline given the July 2019 repo rate cut. Household net wealth relative to disposable income rose slightly to 368.8% in the second quarter of 2019 from 365.1% in the first quarter of 2019.

Chart 3: Debt service cost and household net wealth to disposable income rising moderately



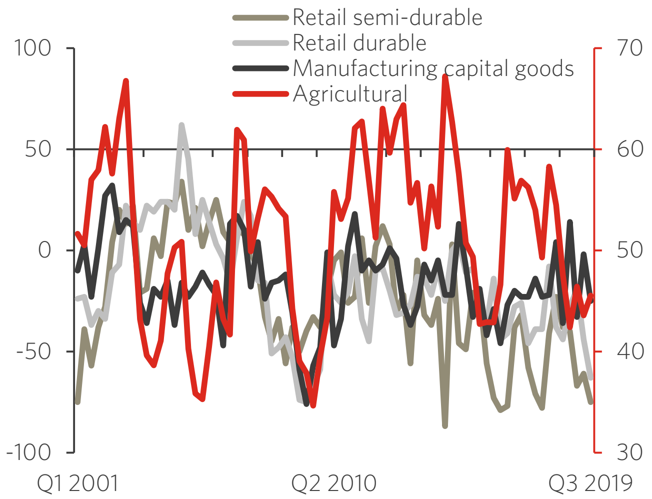
Source: Sarb, Momentum Investments

The compensation of employees-to-GDP ratio deteriorated mildly in the second quarter of 2019 to 54.6% from 54.8% in the first quarter of 2019. Household debt-to-disposable income inched up slightly higher to 72.7% in the second quarter of 2019 from 72.5% in the first quarter of 2019.

Low confidence and continued uncertainty are likely to stifle significant corporate credit

Confidence in the third quarter of 2019 was still below the 50 neutral mark (in negative territory) for the bulk of sectors in the economy (see chart 4). Survey data for the third quarter of 2019 according to the Bureau of Economic Research (BER) showed that semi-durable business confidence in the retail sector worsened to negative 75 index points from negative 61 index points in the second quarter of 2019. The survey showed that business confidence among durable retailers dipped to negative 63 index points in the third quarter of 2019 from negative 44 index points in the second quarter of 2019. This index last reached this level in the third quarter of 2009 (negative 67).

Chart 4: Confidence in business sectors still ailing

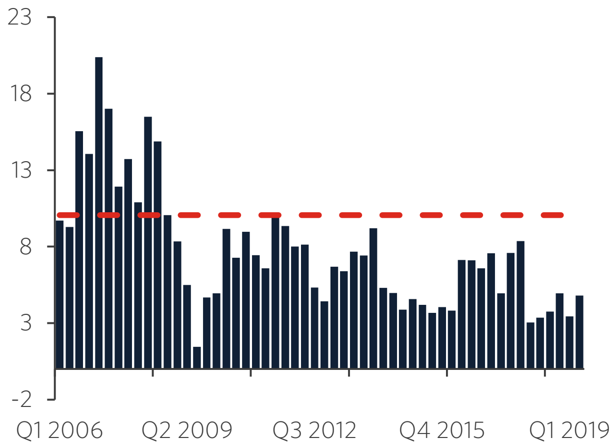


Source: BER, Momentum Investments

Business confidence for capital goods in the manufacturing sector worsened to negative 25 index points in the third quarter of 2019 from negative 2 index points in the second quarter of 2019. Although the agricultural business confidence published by the Agricultural Business Chamber (Agbiz) improved to 46 index points in the third quarter of 2019 from 44 index points in the second quarter of 2019, the index has been below the 50 neutral mark since the third quarter of 2018.

These factors all point to the likely continuation of a weak environment for investment and durable spending. This in turn does not indicate a significant increase in the private sector credit extension ahead. Moreover, corporate operating surplus continued to grow below its long term average (see chart 5). Second quarter data in 2019 indicated there was a slight uptick to 4.8% y/y from 3.4% y/y in the first quarter of 2019. Low confidence and continued policy uncertainty are likely to keep private sector credit extension at moderate levels, notwithstanding looser monetary policy.

Chart 5: Total corporate operating surplus (% y/y)



Source: SARB, Momentum Investments