momentum investments

in the moment


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Credit momentum build-up in July 2019

Highlights

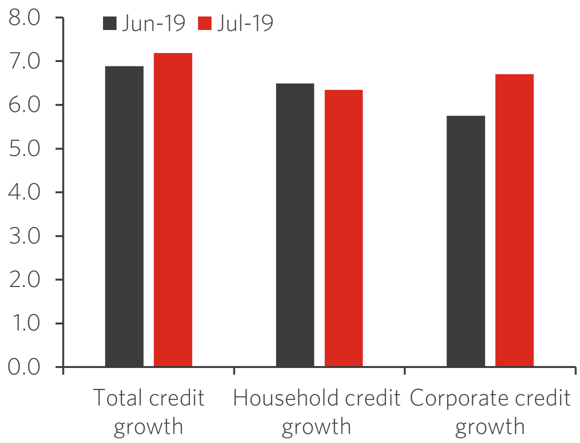
- The private sector credit extension number for July 2019 increased to 7.2% up from 6.9% in June 2019.
- Corporate credit growth was still the main driver of the increase in the July 2019 number. The opportunities in renewable energy possibly explain the rise in corporate sector credit growth which expanded to 6.7%, up from 5.8%.
- Household credit growth slipped to 6.3% in July 2019 from 6.5% in June 2019.
- Money supply slowed again in July 2019 to 8.3% from 8.9% in June 2019 relative to the market's unchanged expectation.
- The National Credit Amendment Bill, also known as the Debt Relief Bill, was passed in August 2019 and could have a negative impact on various credit providers and borrowers.
- The share of consumers that are likely to qualify for debt relief has declined according to data from the National Credit Regulator (NCR) and Capitec.
- Momentum Investments' expects the momentum behind private sector credit growth to remain intact given ongoing credit growth by corporates and further uptake by consumers with healthier balance sheets.

Corporate credit remains the main driver of total private sector credit growth

Growth in total private sector credit extension increased again to above 7% in July 2019. The June print slowed to 6.9% in year-on-year (y/y) terms, before jumping to 7.7% y/y in May 2019 and is now back at 7.2% y/y in July 2019 (see chart 1). Corporate credit was still the main driver of the increase in growth in the July 2019 total private sector credit print.

The opportunities in renewable energy possibly explain the rise in corporate sector credit growth. In July 2019, corporate credit growth expanded to 6.7% y/y up from 5.8% y/y in June 2019, after rising to 8.4% y/y in May 2019. Household credit growth slipped to 6.3% y/y in July 2019 from 6.5% in June 2019.

Chart 1: Credit growth rebounds (% y/y)



Source: SARB, Momentum Investments

The bounce in corporate sector credit growth was underpinned by the rise in general loans to 6% y/y from 3.8% y/y. Mortgage advances also increased to 6.5% y/y from 5.4% y/y. Growth in overdrafts, however, slowed to 8.2% y/y from 15.1% y/y.

The slowdown in household credit growth was driven by a mild decline in mortgage advances to 4.6% from 4.7% y/y alongside softer overdrafts in July of 4.6% y/y from 5.4% y/y. Growth in credit card advances also slowed to 11.1% y/y from 11.2% y/y but general loans and advances rose by 11.2% y/y from 11.0% y/y in June 2019.

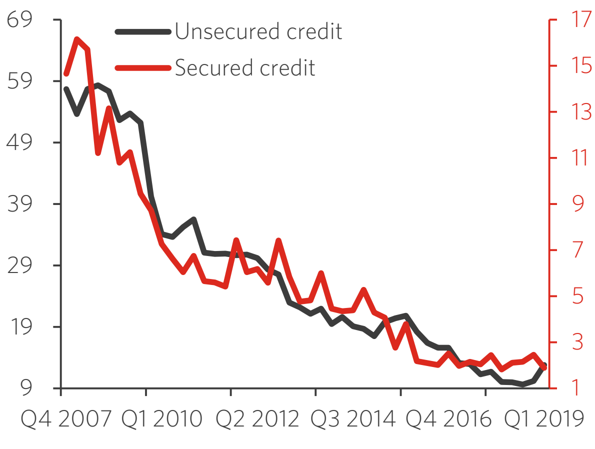
The recent repo rate cut is likely to increase credit growth marginally, but credit uptake remains inhibited by low confidence, uncertainty and a rise in retrenchments in Momentum Investments' view.

Money supply growth slowed again in July 2019 to 8.3% from 8.9% in June 2019 relative to the market's unchanged expectation.

Debt Relief Bill impact possibly negative for credit market and reckless borrowing

The government passed the National Credit Amendment Bill also known as the Debt Relief Bill in August 2019 which essentially writes off debt amounting to less than R50 000, held by borrowers earning less than R7 500 per month and that are classified as over-indebted. It is open only to those who are not in debt counselling, have not been sequestrated, and are not subject to an administration order. National Treasury estimates the Bill will write off debt in the range of R13.2 billion to R20 billion, which will be losses incurred by credit providers. This Bill will likely have a negative impact on various credit providers and borrowers.

Chart 2: Share of credit in rands held by low income earners (R0 – R7 500)



Source: NCR, Momentum Investments

The NCR showed that the share of borrowers likely to qualify for debt relief has declined (see chart 2). They will play a key role in identifying the over-indebted and serve as a government vehicle in guiding borrowers through the process.

If the NCR identifies debt rearrangement is an option, the borrower will still enjoy concessions, such as reduced interest rates. If there is no improvement in the borrower's debt situation after 24 months, the debt will be written-off. There has however been no date mentioned for the implementation of this Debt Relief Bill and it could still be challenged in court.

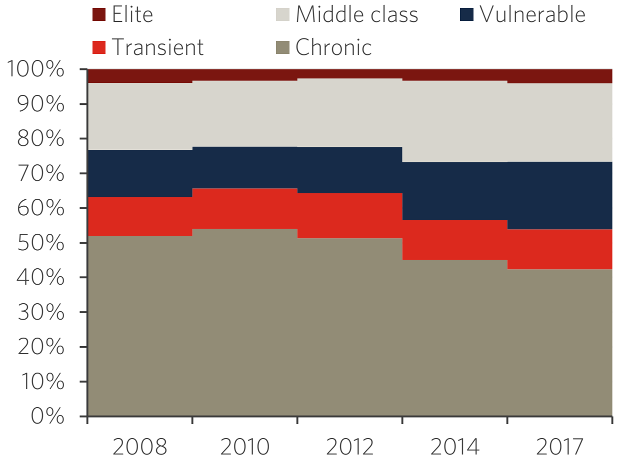
Capitec Bank who predominantly provides debt to this share of the market, has also indicated that it has reduced its exposure to low-income earners in anticipation of this Debt Relief Bill which has been in discussion for the last two years.

Research done by Avior indicated that Truworths has significant exposure to this Bill estimated at 31% of their total sales, although 45% of their sales are derived from the income group earning between R0 and R7 500. However, only 6% of the outstanding credit book is older than 90 days, which is more likely to meet the criteria for debt forgiveness. The Foschini Group (TFG) is less exposed because of their Value Mart (Exact and the Fix) segment which caters to the lower living standard measures (LSM) groups.

The negative effects of this Debt Relief Bill will result in the form of higher interest rates for all consumers to alleviate losses from the debt written-off and the loss of a segment of the market. Low-income earners will also have limited access to the credit market given their high risk label. This will perpetuate inequality and access to education and improvement in living standards.

South Africa (SA) has the highest rate of inequality of 63 according to the World Bank's Gini coefficient estimate and is at 0.599 according to the earning (tax data) Gini coefficient calculated by the University of Cape Town's economics department. The vulnerable middle class is actively getting poorer as they struggle to get into higher earning brackets, while the chronic poor remain in a state of poverty. The transient poor keep falling in and out of poverty as financial conditions deteriorate (see chart 3). The Debt Relief Bill will likely exacerbate these inequality levels, increasing the amount of poor people dependent on social grants.

Chart 3: Inequality remains rife in SA



Source: TransUnion, Momentum Investments

Although there has been a rise in corporate credit due to a ramp-up in renewable energy projects, business confidence has been weak and corporates have been shedding jobs. The SA Reserve Bank's (Sarb) leading business indicator dipped again in August 2019 as business conditions remained weak (see chart 4).
Momentum Investments' expects the momentum behind private sector credit growth to remain intact given ongoing credit growth by corporates and further uptake by consumers with healthier balance sheets.

Chart 4: Leading business indicator has dipped again

Source: SARB, Momentum Investments