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in the moment

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Lift in October 2019 private sector credit growth, but rising growth in unsecured debt could flag consumer stress

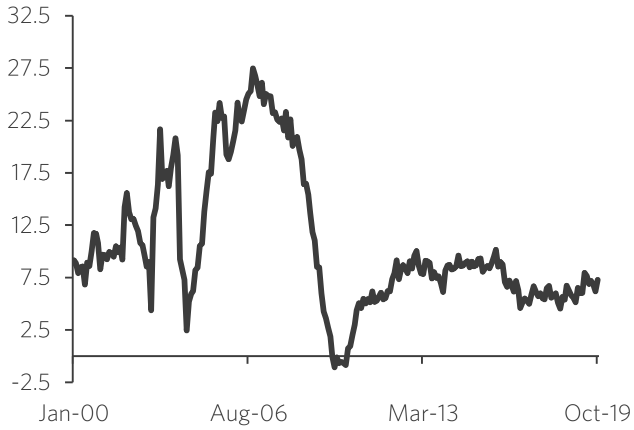
Highlights

- Private sector credit sales for October 2019 grew to 7.5%, previously 6.2% in September 2019.
- Corporate credit continues to drive total private sector credit growth. In October 2019, it grew by 7.5%, up from 5.2% in September 2019. Household credit growth increased by an unchanged 6.7% since August 2019.
- General loans, mortgage advances and bills discounted were the primary drivers of corporate credit growth in October 2019. Meanwhile, credit cards, instalment sale credit and mortgage advances were the main growth drivers behind household credit.
- Growth in credit cards surged to their highest levels last seen in 2014, a sign of unhealthier credit growth.
- A more significant proportion of unsecured credit is overdue for more than 120 days relative to that of secured credit, possibly signalling intensified financing needs for everyday living.
- We do not anticipate a surge in private sector credit growth in 2020, given a weak growth outlook and subdued confidence levels. The higher rate of unsecured credit growth is concerning and could point to consumer stress.

Private sector credit growth rose in October 2019

The South African Reserve Bank (Sarb) released private sector credit figures for October 2019 and the number grew by 7.5% in year-on-year (y/y) terms, previously 6.2% y/y in October 2019 (see chart 1). Credit growth in the private sector initially signalled that it peaked in April 2019 when the series grew by 8% y/y, but after the July 2019 25-basis-point repo rate cut, credit growth has displayed some resilience. Corporate credit continues to drive total private sector credit growth. In October 2019, it grew by 7.5% y/y, up from 5.2% y/y in September 2019. Household credit grew by an unchanged 6.7% y/y since August 2019, up from 6.3% y/y.

Chart 1: Credit growth continues to drift higher (% y/y)



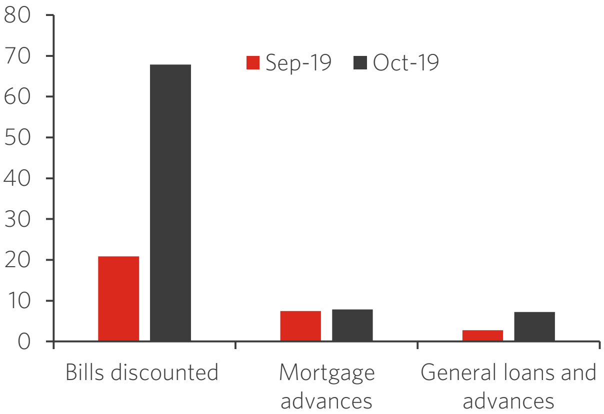
Source: Sarb, Momentum Investments

Corporate credit continued to drive total credit growth

The most significant drivers of corporate credit growth emanated from general advances and loans, which grew by 7.2% y/y in October 2019, up from a low of 2.8% y/y in September 2019. Mortgage advances also increased by 7.0% y/y for the period in question, previously 7.5% y/y in September 2019. Bills discounted surged by 67.9% y/y in October 2019, improving from 20.9% y/y (see chart 2).

Detractors from corporate credit growth in the October number were recorded in investments which fell to 8.3% y/y, down from 9.2% y/y, followed by growth in overdrafts that deteriorated to 4.6% y/y from 7.0% y/y. Growth in credit cards, however, slowed to a softer negative 0.3% y/y from a more profound decline of 3.4% y/y in September 2019.

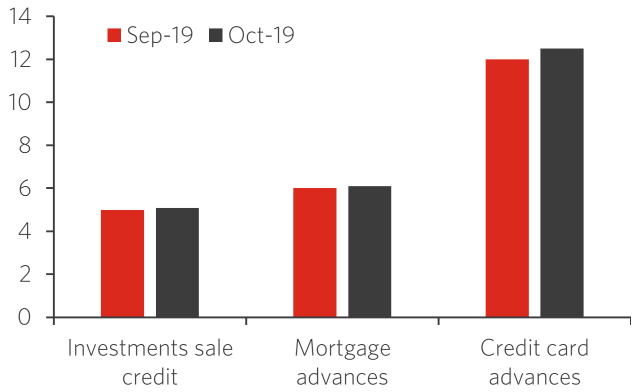
Chart 2: Corporate credit growth by category (% y/y)



Source: Sarb, Momentum Investments

In October 2019, unchanged growth of 6.7% y/y in household credit was driven by a mild uptick in mortgage advances, which grew by 5.1% y/y up from 5.0% y/y. Instalment sales credit also grew tepidly by 6.1% y/y, up from 6.0% y/y. Meanwhile, credit cards grew by 12.5% y/y in October 2019, up from 12.0% in September 2019 (see chart 3).

Chart 3: Household credit growth by category (% y/y)

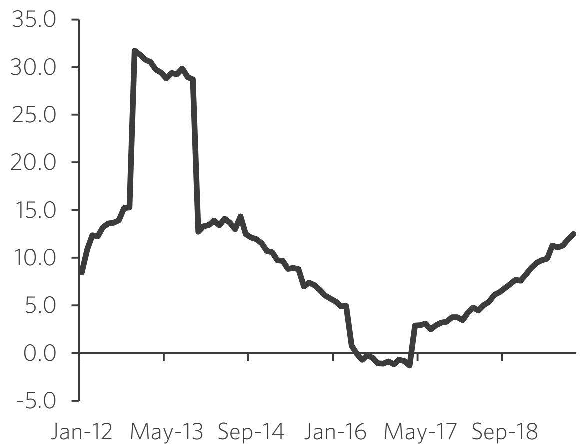


Source: Sarb, Momentum Investments

There was however a softening in growth of general loans and advances by 11.8% y/y from 12.2% y/y in October 2019, alongside a fall in growth of overdrafts from 5.7% y/y to 4.1% y/y.

Although there was a softening in unsecured credit growth, credit card advances have now grown to levels last seen in August 2014 (see chart 4). Black Friday in November 2019 has generally seen a ramp-up in credit uptake closer to the time. However, the financial constrains the consumer has felt recently could also explain the continued increase in credit advances.

Chart 4: Household credit card advances (% y/y)



Source: Sarb, Momentum Investments, data up to October 2019

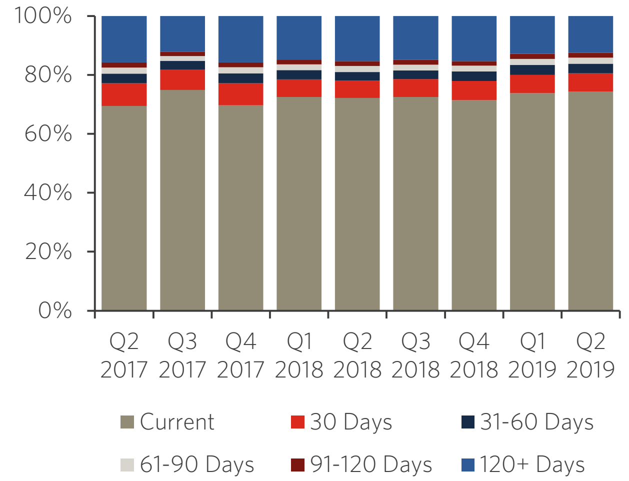
The Bureau of Economic Research's (BER) survey on consumer confidence for the third quarter of 2019 has shown that the sub-index that looks at consumers' financial expectations in twelve months' time has deteriorated by one index point to 12 index points between the second and the third quarter of 2019. The survey shows that all income groups expect their financial situation to weaken in twelve months except for lower-middle, middle and low income earners. Their improved financial expectation could be explained by low inflation, which has trended close to, and at times below, the midpoint of the 3% to 6% inflation target. Persistently lower inflation expectations reaffirm a continuation of the low inflation trajectory into 2020.

The high level of unemployment and low domestic economic growth trajectory nevertheless affirms signs of a constrained consumer and points to a possible reason behind the persistent increase in unsecured credit.

16% of unsecured credit payments are more than 120 days late

The credit age analysis for secured credit for the second quarter of 2019 shows that 74.3% of secured credit is currently due. This has improved from a low of 69.7% in the final quarter of 2017. 12.5% of the debt for the second quarter of 2019 is late for more than 120 days, again an improvement from 15.8% in the fourth quarter of 2017 (see chart 5).

Chart 5: Secured credit age analysis (count as a share of total)

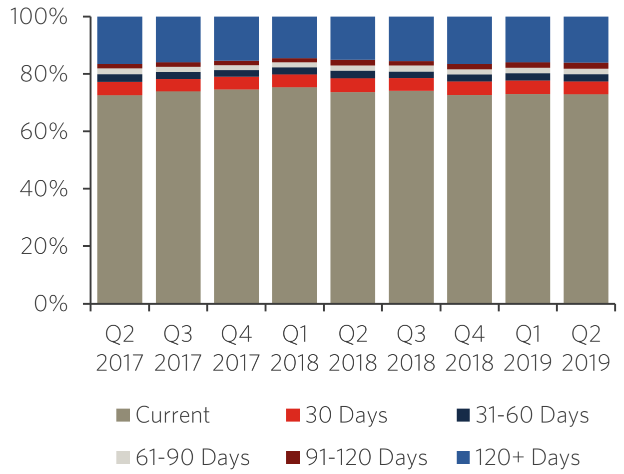


Source: NCR, Momentum Investments

The unsecured credit age analysis shows that the trend of current and overdue debt has remained relatively similar between the second quarter of 2017 and the second quarter of 2019 (see chart 6). 72.6% of unsecured credit for the second quarter of 2019 was classified as current, in comparison to 72.6% in the second quarter of 2017.

The age analysis distribution for secured credit is more spread out relative to that of unsecured credit. A larger proportion of unsecured debt (16.1%) relative to secured debt (12.5%) is overdue for more than 120 days, likely indicative of consumer stress. This has deteriorated from 14.5% in the first quarter of 2018.

Chart 6: Unsecured credit age analysis (count as a share of total)



Source: NCR, Momentum Investments

Growth in unsecured credit remains a sign of growing financing needs in the current low growth environment. In our view, there is still space for one more interest rate cut in the current interest rate cycle in 2020, which could provide a marginal boost to consumer confidence and credit growth. The higher rate of unsecured credit growth is concerning and could flag consumer stress.