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Gradual upward trajectory in consumer credit growth continues in March 2019

Highlights

- Total credit extension to the private sector grew by 6.1% in March 2019 relative to 6.0% in February 2019.
- Consumer credit growth rose to 6.0% in March 2019, from 5.9%. Broad-based growth in the underlying consumer credit components could intimate a lower risk of distressed borrowing.
- There is space for household credit to expand further, given the significant amount of deleveraging that has taken place since the global financial crisis. Debt-servicing costs are not onerous by historic standards.
- Nevertheless, there are some consumer segments, which are significantly financially constrained. Despite a meaningful drop in household indebtedness levels overall, delinquencies are rising, highlighting a weaker credit standing for some consumer segments.
- Growth in corporate credit to 6.2% from 6.1% was driven by growth in overdrafts and leasing finance. However, corporate credit is only expected to translate into increased investment growth from 2020 onwards, owing to high policy uncertainty and subdued domestic demand, which have dampened investment plans.
- Momentum Investments expects a further recovery in household credit growth, which should help consumer spend at the margin, while growth in corporate credit is likely to take longer to translate into investment.

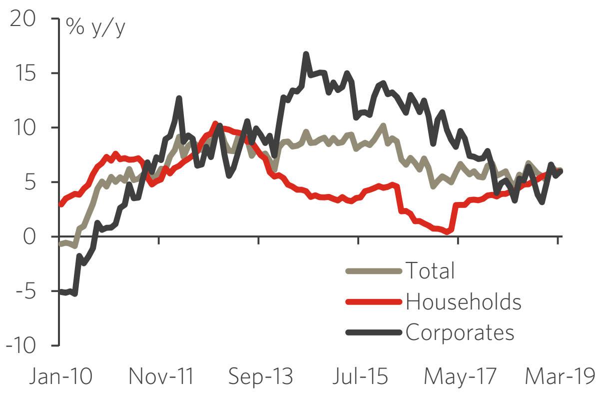
Marginal rebound in growth in private sector credit extension

Private sector credit extension published by the South African Reserve Bank (SARB) for March 2019 rose to 6.1% in year-on-year (y/y) terms up from 6.0% in February 2019, after a strong 6.5% print in January 2019 (see chart 1). The IRESS consensus expected a deterioration in the growth rate to 5.8% y/y.

Credit extended to households grew by 6.0% y/y in March 2019, up from 5.9% in February 2019. The components that drove consumer credit growth performed as follows y/y:

- Mortgage advances increased by 4.2% up from 4.1%
- Instalment sales credit remained unchanged at 7.5%
- General loans moderated to 10.2% from 10.7%
- Credit card advances rose to 9.5% from 8.9%
- Overdrafts improved to 6.5% from 6.1%
- Lasing finance continued to contract (but improved from negative 9.4% to negative 9.3%)

Chart 1: Credit growth drifts higher



Source: SARB, Momentum Investments

Corporate credit grew by 6.2% in March from 6.1% in February 2019. Corporate credit growth drivers changed accordingly y/y:

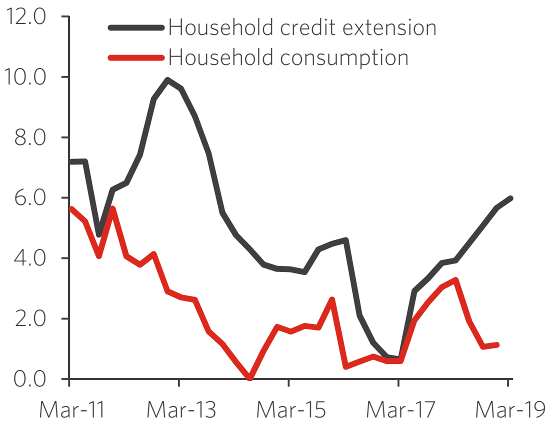
- Growth in overdrafts increased from 8.3% to 13.4%
- Leasing finance grew from 15.8% to 18.9%
- Growth in general loans and advances moderated to 4.6% from 4.7%
- Growth in mortgage advances stabilised at 5.7%
- Growth in investments declined to 8.8% from 10.5%

Household credit growth to aid consumption at the margin

Growth in consumer credit is likely to continue the upward trajectory it has been on since the first quarter trough in 2017 (see chart 2), due to the significant amount of deleveraging that took place, following the global financial crisis. This rise in credit growth is expected to help growth in household consumption expenditure at the margin in 2019.

Nevertheless, Momentum Investments still expects growth in household spend to soften to 1.3% in 2019 from the 1.8% growth rate realised in 2018, owing to ongoing consumer headwinds, which include subdued jobs growth, pressure on real wages, rising taxes and tariffs and declining growth in net wealth.

Chart 2: Household credit to help consumption spend at the margin

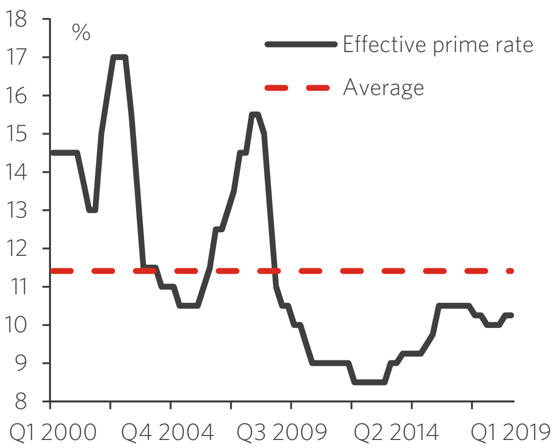


Source: SARB, Stats SA, Momentum Investments

Corporate credit is, however, only expected to translate more meaningfully into increased investment growth from 2020 onwards once elevated policy uncertainty abates. The pace of reform implementation is unlikely to step up significantly after the national elections on 8 May 2019 and, as such, will contribute to the slow recovery in the country's investment cycle.

The SARB has reiterated that financial conditions are still accommodative in SA and the prime rate has been below its long-term average for almost 10 years (see chart 3). With debt-service costs low relative to history, credit extension in the private sector is likely to be encouraged. Debt-service costs are unlikely to become significantly more onerous in the near term, given that inflation (core and headline) and inflation expectations remain comfortably below the upper end of the inflation target band. Though risks to inflation in the medium term are likely to emanate from higher energy tariffs and rising food and fuel prices, Momentum Investments expects inflation to average 4.6% in 2019 and 4.8% in 2020 and, as such, does not expect additional interest rate hikes from the SARB in 2019.

Chart 3: Prime lending rate low relative to history



Source: SARB, Momentum Investments

Consumer credit standing has, however, worsened between the third and fourth quarter of 2018 against a weak growth environment and increasing energy and transport prices, which have weighed on consumers' disposable income. The National Credit Regulator reported that impaired records rose from 18.7 million in the third quarter of 2018 to 20.8 million in the fourth quarter of 2018. Adverse listings also rose to 4.1 million from 3.6 million in the same period. In its Industry Insights report for the fourth quarter of 2018, TransUnion reported an increase in delinquency rates in mortgage loans and vehicle and asset finance to 3.7% and 5.0%, respectively, between the third and fourth quarter of 2018. According to the Bureau of Economic Research, the consumer confidence sub-index that surveys expected financial conditions in a year's time was the largest driver behind the deterioration in confidence for the low-income earning group.

This signals the existence of consumer segments, which are significantly financially constrained, even though data from the SARB show a decline in the overall household debt-to-disposable income ratio relative to 2009 levels.

Momentum Investments expects total credit growth to continue drifting higher. A further expected uptick in household credit should translate into marginally higher growth in consumption spend, while credit growth among corporates could take time in translating into higher rates of fixed investment growth, given the challenges faced by the private sector, which include subdued levels of demand and elevated rates of political, regulatory and economic uncertainty.