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in the moment



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Private sector credit extension lost further steam in June 2019

Highlights

- The June 2019 private sector credit extension lost further momentum to 6.9% from 7.7% in May 2019.
- Corporate credit growth also slowed further to 6.1% in June 2019 from 8.4% in May 2019 and household credit growth inched higher to 6.2% from 6.1% in the same period.
- The July 2019 repurchase rate (repo rate) cut by the South African Reserve Bank's (Sarb) Monetary Policy Committee (MPC) will likely induce modest growth in private sector credit extension.
- Credit card originations, classified by risk, have shifted to super prime. This category increased its share from 41% in the first quarter of 2018 to 49% in the first quarter of 2019. This shows the shift of credit card debt from riskier households with distressed account balances to households that have healthier financial account balances. Sub-prime and near-prime personal loan originations from banks have risen from 35% to 42% between the first quarter of 2018 and the first quarter of 2019 but there were more sub-prime loans, highlighting an element of distressed borrowing as taxes and tariffs eat into consumers' wages, which restricts spend.
- There was a slowdown in credit applications alongside a slowdown in application rejections in the first quarter of 2019.
- Momentum Investments expects growth in private sector credit to remain steady in the near term, picking up modestly in 2020. The stable credit growth outlook is likely to be supported by the recent cut in the repo rate.

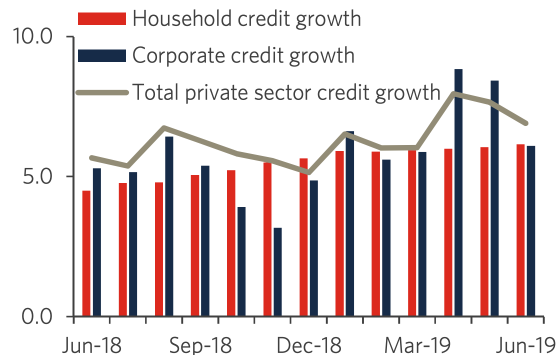
Lower June 2019 print, but the second quarter print for 2019 is higher

Private sector credit extension weakened for the second consecutive month in June 2019; however growth remained stable as published by the Sarb. Total private sector credit slowed to 6.9% in year-on-year (y/y) terms from 7.7% y/y in May 2019. Corporate credit deteriorated significantly to 6.1% y/y from 8.4% y/y, while household credit increased incrementally to 6.2% y/y from 6.1% y/y. Mild growth in corporate credit has seemingly plateaued after reaching a high of 8.8% y/y in April 2019, levels last seen in June 2017. Household credit growth has however been on a steady rise since January 2018. Total private sector credit improved in the second quarter of 2019 to 6.9% y/y from 6.0% y/y in the first quarter of 2019.

The marginal uptick in household credit growth was driven by credit card advances, which jumped significantly to 11.3% y/y from 9.9% y/y, followed by growth in general loans and advances, which improved to 11.0% y/y from 10.0% y/y. Growth in leasing finance improved from a 3.5% y/y contraction in May 2019 to 1.3% y/y in June 2019. Household mortgage advances slowed marginally to 4.1% y/y in June 2019 from 4.2% y/y as the property sector continues to bear the brunt of the weakness in demand in the South African economy. Growth in instalment sales credit also weakened from 7.5% y/y to 7.3% y/y in June 2019 alongside growth in overdrafts, which slowed to 5.4% y/y in June 2019, previously 7.6% y/y.

Growth in the contributing components of corporate credit was a mixed bag in June 2019. Mortgage advances and investments inched higher by 6.6% y/y (previously 5.8% y/y) and 16.9% y/y (previously 13.8% y/y), respectively, in June 2019. Overdrafts and instalment sale credit also improved by 15.1% y/y (previously 14.7% y/y) and 7.7% y/y (previously 7.0% y/y), respectively, in June 2019. Bills discounted, leasing finance and general loans and advances slowed in June 2019.

Chart 1: Credit growth loses steam (%)



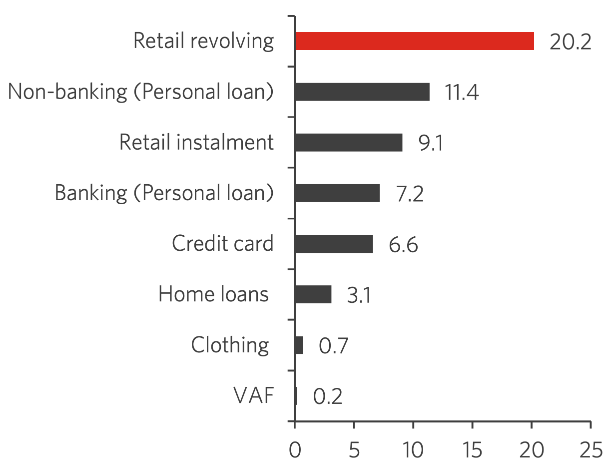
Source: Sarb, Momentum Investments

The repo rate cut by the Sarb's MPC in July 2019 will likely cause modest growth in private sector credit extension, particularly given the significant deleveraging of upper-income households since the global financial crisis.

Credit dynamics signalling stress in some areas

Unsecured credit growth continued to gain traction, as shown in total outstanding balances in the first quarter of 2019 as published by TransUnion data (see chart 2). Retail revolving credit (non-clothing accounts) showed the highest growth in the first quarter of 2019 at 20.2% y/y, against vehicle asset finance (VAF) with the lowest growth of 0.2% y/y.

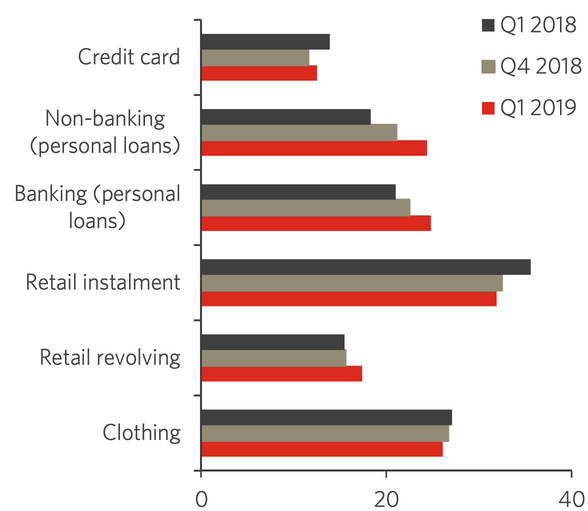
Chart 2: Total outstanding balances (% y/y)



Source: TransUnion, Momentum Investments

Delinquencies have also increased in the personal loan and retail revolving categories in the first quarter of 2019 (see chart 3).

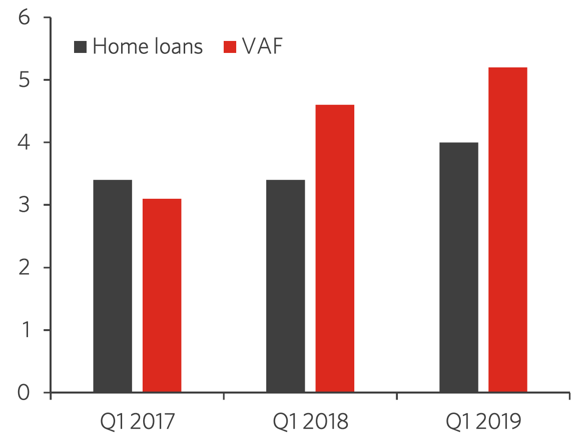
Chart 3: Unsecured delinquency rates (% y/y)



Source: TransUnion, Momentum Investments

Although secured account delinquencies have increased over the last year, the rates are lower relative to unsecured delinquency rates (see chart 4).

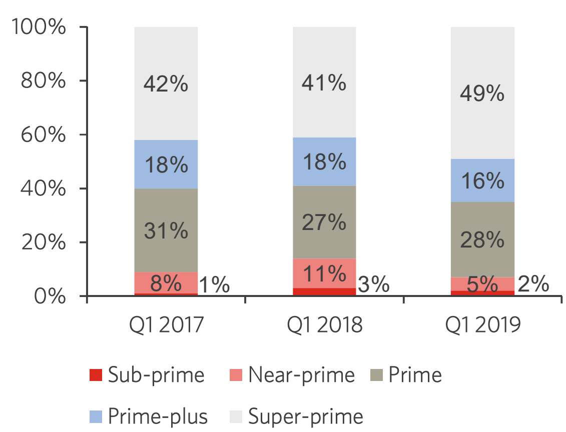
Chart 4: Secured delinquency rates (% y/y)



Source: TransUnion, Momentum Investments

Credit card balances have risen to 6.6% y/y in the first quarter of 2019 (previously 0.1% y/y in the fourth quarter of 2018.). Credit card originations, categorised by risk, have shifted into super prime with its share increasing from 41% in the first quarter of 2018 to 49% in the first quarter of 2019 (see chart 5). The share of sub prime and near prime declined from 14% in the first quarter of 2018 to 6% in the first quarter of 2019. This shows the shift of credit from riskier households with distressed account balances to households that have healthier financial account balances. Credit card delinquencies based on account balances have risen but the number of accounts have remained flat.

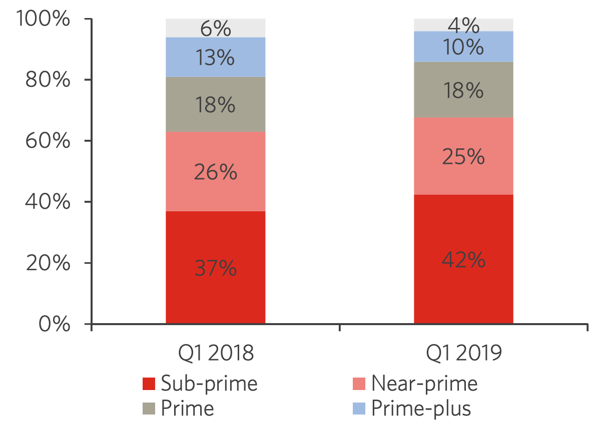
Chart 5: Credit card risk tier distribution



Source: TransUnion, Momentum Investments

Outstanding banking personal loans rose from 2.0% y/y in the first quarter of 2018 to 7.2% y/y in the first quarter of 2019. Origination amounts for both categories of personal loans increased between the first quarter of 2018 and 2019. Non-banking personal loans origination amounts rose from R4 785 to R6 272 in the period mentioned and banking personal loan origination amounts increased from R26 175 to R27 775.

Chart 6: Non-banking personal loans risk-tier distribution



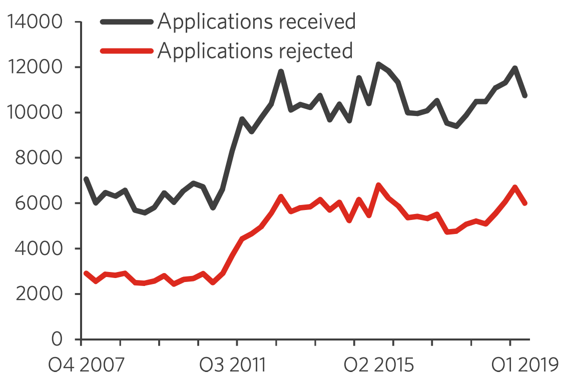
Source: TransUnion, Momentum Investments

Sub-prime and near-prime personal loan originations from banks rose from 35% to 42% between the first quarter of 2018 and the first quarter of 2019. The share of prime-plus and super-prime banking personal loan originations have similarly declined from 65% to 58% in the same period. The same trend is seen in originations in non-banking personal loans: there is a shift to sub prime and near prime rising from 63% to 67% (combined sub prime and near prime) between the first quarter of 2018 and the first quarter of 2019 (see chart 6). Equally there was a decline in originations from non-banking personal loans to 14% in the first quarter of 2019 from 19% in the first quarter of 2018. Distressed borrowing in the private sector is likely one of the reasons behind the increase in origination amounts for personal loans as indicated by the shift to more sub-prime tier borrowers. This again indicates how constrained consumers are from the influx of rising administrative costs and taxes in the last few years.

The spread in credit is concentrated and is likely to stay that way

The National Credit Regulator (NCR) released data for the first quarter of 2019 and there was a slowdown in credit applications alongside a slowdown in application rejections (see chart 7). Credit application and rejection figures are the highest since the second quarter of 2015, but they appear to be rolling over.

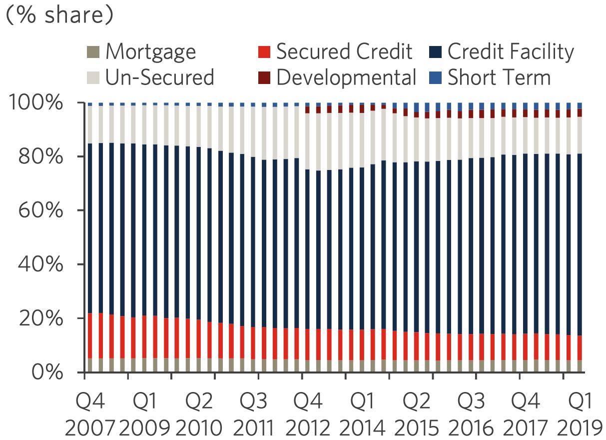
Chart 7: Credit applications and rejections (R'm)



Source: NCR, Momentum Investments

Credit facilities remains the largest credit category relative to the gross debtors book and has increased to 67.4% as a share of the total gross debtors book in the first quarter of 2019 from 67% in the fourth quarter of 2018 (see chart 8). Unsecured credit is the second largest category, representing 13.7% in the first quarter of 2019.

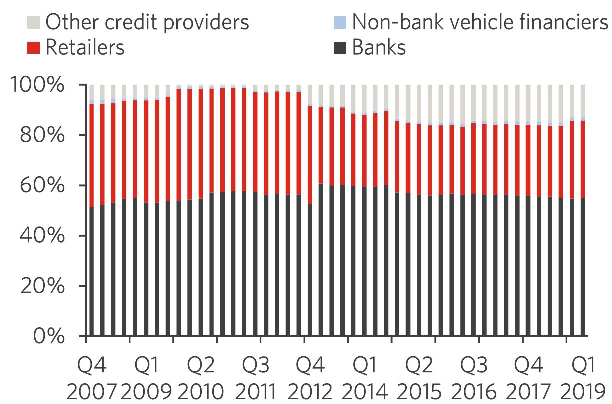
Chart 8: Gross debtors book per credit category (% share)



Source: NCR, Momentum Investments

Banks and retailers provide the majority of the gross debt, 55% and 31% respectively, in the first quarter of 2019 (see chart 9). These debt providers are therefore significantly exposed to the rising delinquency rates in both personal loans offered by banks and retail revolving credit mentioned earlier.

Chart 9: Credit holders (% share)



Source: NCR, Momentum Investments

Credit extension in the private sector could contribute to growth in household spend, particularly on the back of the recent cut in the repo rate. Momentum Investments expects growth in private sector credit to increase modestly into 2020. Although household credit should help growth in consumer spend at the margin, spend by households is likely to remain weak at around 1% in 2019, before increasing to 1.3% in 2020.

Momentum Investments' well-diversified outcome-based solutions provide protection against South African economic weakness. It has appropriate exposure to local fixed-income investments that benefit from the poor-performing economy and low inflation, and has meaningful global exposure unaffected by weak local growth conditions while gaining from the rand weakness likely associated with fragile local growth conditions.