HOUSEHOLD SECTOR – FEBRUARY HOUSEHOLD SECTOR CREDIT

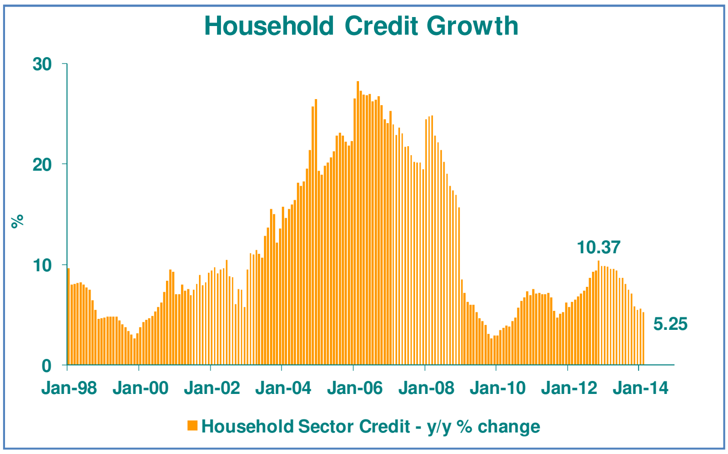
SARB February Household Sector Credit number continues to suggest positive developments in terms of the household sector is reducing its vulnerability to interest rate hiking..

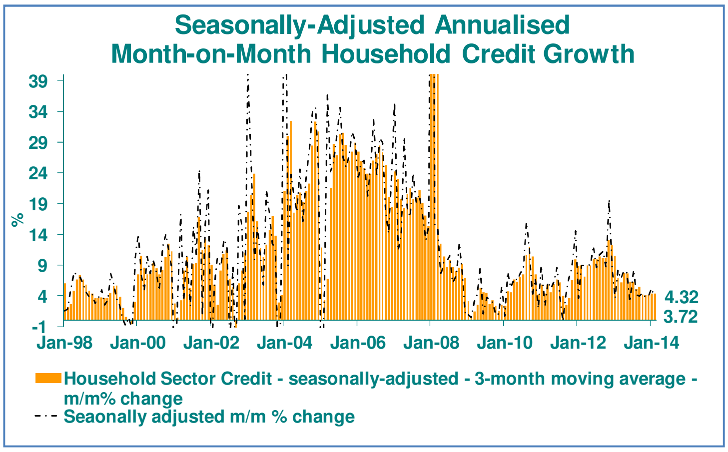
31 March 2014

FEBRUARY HOUSEHOLD SECTOR CREDIT GROWTH REMAINS ENCOURAGINGLY LOW

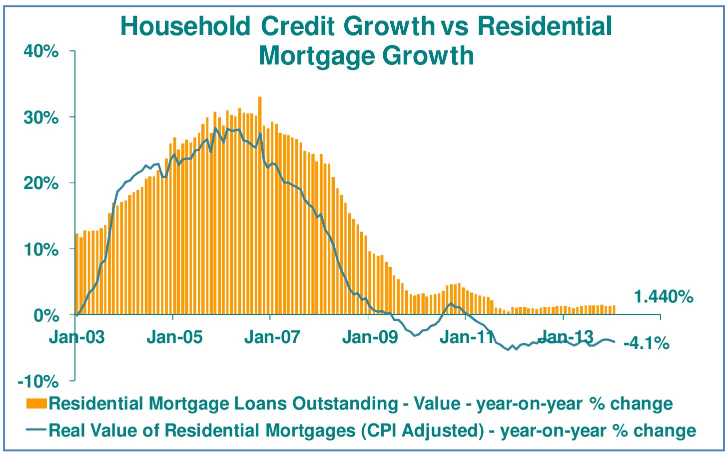
SARB (South African Reserve Bank) credit data continues to point to the South African Household Sector slowly reducing its vulnerability to interest rate hiking through keeping credit growth at rates that are expected to be below that of nominal disposable income growth. This is expected to translate into a further decline in the important Household Debt-to-Disposable Income Ratio in the near term, to lower and healthier levels.

In February, Household Sector credit growth of 5.25% year-on-year was recorded, slower than the previous month's 5.6%. The January growth rate had been slightly faster than December, which could have possibly pointed to a re-acceleration, but the February number suggests that such concerns were premature. Growth momentum is better illustrated by using month-on-month annualized growth rates, and here we see a meager 3.72% growth for February, with the 3-month average growing by 4.3%, both rates pointing to very slow growth momentum.





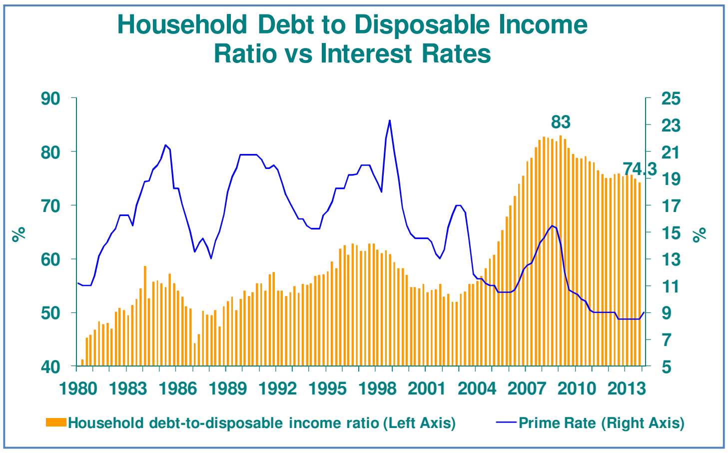
While residential property market activity, along with new residential mortgage loan growth, has been brisk in recent times, much of the new loan growth is merely loans "changing hands" as homes change hands. Therefore, as yet we have not seen any meaningful increase in growth of the overall value of residential mortgage advances outstanding, with banking sector mortgage advance growth measuring only 1.4% year-on-year in January (bank data release lags the headline credit number). Simultaneous to slow mortgage growth, we have had large declines in unsecured lending growth, the net result being a slowdown in overall household sector credit growth.



In real terms, adjusting for consumer price inflation, the value of banks' residential mortgage loans outstanding continued its multi-year decline to the tune of -4.1% year-on-year in January, as the post-boom real correction in book size since around 2009 continues.

The slow pace in household credit growth is most appropriate at the present time, given that by the 4th quarter of 2013 a slow economy had led to nominal disposable income growth dropping to as low as 6.5%. We anticipate that the rising interest rate cycle that we believe we are now in will continue to contain credit growth, and this promises to translate into a further healthy decline in the debt-to-disposable income ratio in the near term despite low household income growth.

We have already made significant progress in reducing this ratio from an all-time high of 83% back in early-2009 down to 74.3% by the end of 2013. This significantly reduces the vulnerability of the household sector to "shocks" in the form of interest rate hikes or to income. And the expectation is that, although slow income growth makes further improvement slow going, the debt-to-disposable income ratio will decline further to around 72.5% by the end of 2014.



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