Volume 4, Issue 2

Corporate and Investment Banking

Welcome to the

Consume This

Newsletter

In an era of accelerated change, navigating the vast consumer goods and services landscape can be daunting. In 2024, we will release a series of reports curated by industry experts, leveraging internal data sources and global, as well as local research across the consumer goods and services sector to bring you the latest insights and trends. Prepare to gain global and local insights that are shaping sectors from food, clothing, building and hardware to health and beauty.

Your story matters

In this newsletter

The balancing act:
Navigating the complexities of the South African consumer

Household spending constitutes a significant pillar of the South African economy, contributing 60% to the gross domestic product (GDP) as reported by PricewaterhouseCoopers' South African Outlook 2024. This dependence underscores the critical role of consumer financial well-being in fostering economic prosperity. Traditionally, a robust economy empowers consumers, creating a cycle where active consumer participation fuels economic prosperity. However, South Africa's monetary policy and world events have presented significant challenges, causing harm to the consumer's financial health. While BankServAfrica reported a 0.9% year-on-year (YoY) increase in real take-home pay in July 2024, this increase is substantially below inflation and the growth fails to compensate for rising living costs. South Africans are known for their resilience; however, data is showing that consumers are struggling with their financial health.

Volume 4, Issue 1 of Consume This reviewed consumer spending pattens during the December 2023 holiday season and revealed that consumer spending behaviour is changing. This issue will explore events which had an impact on the financial health of the consumer by analysing the South African debt levels based on the insights provided by the National Credit Regulator (NCR) and Experian Consumer Default Index (CDIx).

The financial health of the consumer

Before delving deeper, let's establish a shared understanding of the financial health of the consumer. FinDev Gateway (Financial Health as a Consumer Journey) defines financial health as an intuitive concept that encompasses a functional financial life of a consumer, whereas the Financial Health Network (Consumer Financial Health Study) defines financial health as the day-to-day functioning of the financial systems of a consumer, creating the likelihood of financial resilience. Experian considers a consumer to be financially healthy when they can adjust to unexpected expenses while managing their expected expenses, have acceptable credit scores, have manageable debt levels and are mentally comfortable with their financial condition. Our interest in the financial health of the consumer for the purpose of this issue will focus on consumer debt levels.

The financial health of the South African consumer presents a complex picture, characterised by both challenges and opportunities. The prolonged effects of high inflation and the interest rate has undoubtedly affected consumer behaviour. Many households have been forced to adopt stringent spending measures, have depleted their savings, or have potentially accumulated debt to navigate this challenging financial landscape. This strain can have a long-term influence on household budgeting and spending patterns. Absa's Merchant Spend Analytics reveals that essentials are taking priority over luxuries, credit card usage is on the increase and traditionally strong categories such as food and clothing are regressing in the formal sector, possibly signalling a move towards the informal market or cheaper alternatives. These behaviours are collectively telling a story of a consumer whose financial health is at risk.

Rebuilding savings, managing existing debt and fulfilling delayed purchases will become key priorities for a significant portion of consumers. The path to a healthy financial life for South African consumers will necessitate a sustained financial discipline, a decrease in interest rates and perhaps an intervention from government with a tax relief programme.

Events that affected the financial health of the consumer

The past few years have presented unique and challenging key events that had a significant impact on the financial health of the consumer.

1 **March 2020**
Initial Covid-19 lockdown

2 **July 2021**
KwaZulu-Natal riots

3 **September 2021**
South African Reserve Bank (SARB) starts increasing the repo rate

4 **February 2022**
Russia invades Ukraine

5 **July 2022**
Persistent load shedding starts

6 **July 2022**
Consumer price index (CPI) at a high of 7.8%

7 **March 2023**
Food inflation accelerates to a 14-year high of 14.4%

8 **September 2023**
Consecutive increase in diesel, petrol and paraffin prices

9 **October 2023**
Israel declares war on Hamas

10 **October 2023**
Avian flu outbreak worsens

11 **February 2024**
Minister of Finance Enoch Godongwana does not reduce income tax brackets

12 **July 2024**
The SARB keeps the repo rate at 8.25%

HIGH

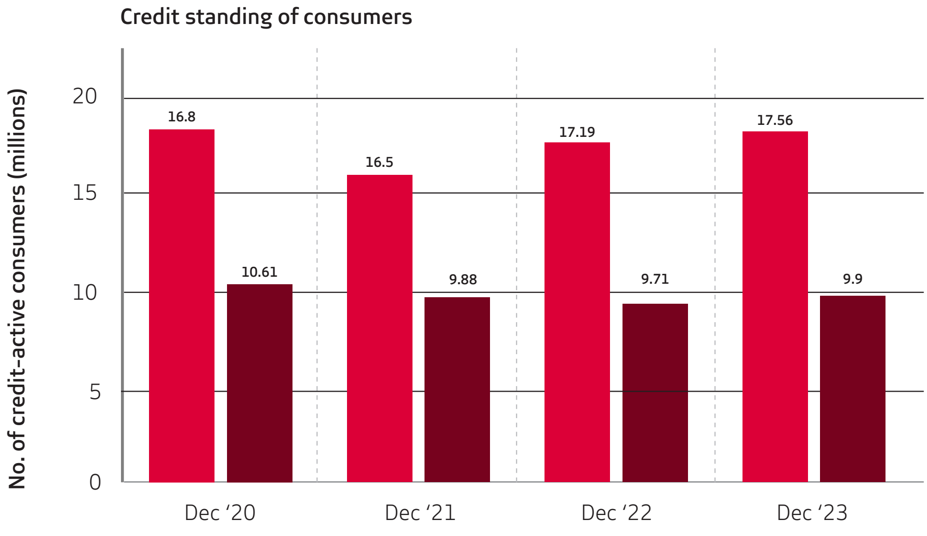
The landscape of debt

A defining feature for South Africa is the high levels of debt and the most pressing challenge remains the substantial burden of household debt. The NCR's 2023 Consumer Credit Market Report highlights the concerning figure of R2.35 trillion in outstanding debt, placing significant strain on individual and household finances. This burden was further compounded by high interest rates, persistent load shedding, muted wage growth and the high inflation rate, thereby creating a cycle that hinders progress towards financial stability.

This tough landscape has changed the financial obligations of consumers over the years. For example, in 2021 a consumer with a R2 million home loan paid R14 456 per month when the prime rate was 7.25%. The same consumer currently pays R19 964 per month for the same loan. This substantial increase has outpaced marginal growth in wages.

Credit standing of consumers

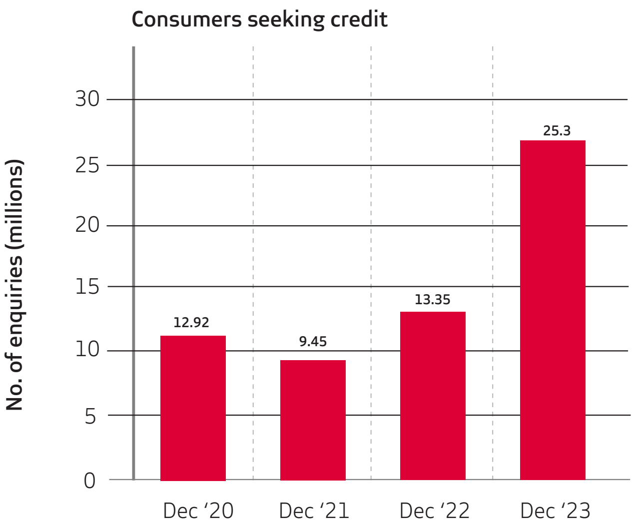
In its Credit Bureau Monitor report for the period ending December 2023, the NCR states that the total number of credit-active consumers has increased by 2.07% to 27.5 million YoY. This YoY increase in credit is potentially due to stagnant wages, rising inflation, a prolonged period of a high interest rate environment or unforeseen household expenses.



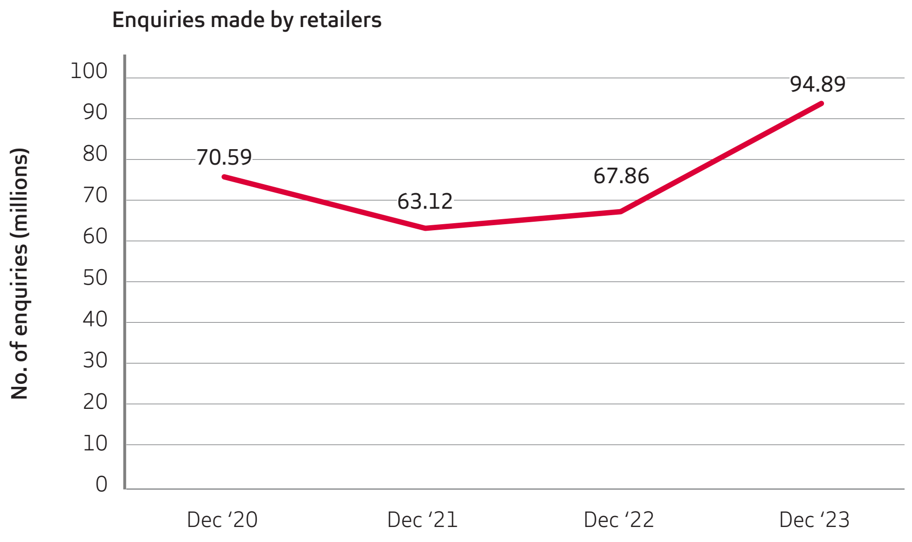
Graph 1: Source: The NCR

During this period, consumers who were in good standing with their credit obligations increased by 2.2% to 17.6 million when compared to the same period in 2022, as depicted in graph 1. According to the NCR, consumers in good standing are those who are up to date with their credit obligations and those who are one to two months in arrears. Consumers with impaired records increased by 2% to 9.9 million for the period ending December 2023. A consumer with an impaired record is three or more months in arrears, has adverse listings or has a judgement and administrative order against their name. This rise in impaired records highlights the significant struggles many consumers face in keeping up with repayments. This vicious cycle deepens as consumers who are strapped for cash turn to more credit to meet basic needs, thereby further entrenching themselves in debt.

Surge in credit enquiries highlights consumer strain



Graph 2: Source: The NCR



Graph 3: Source: The NCR

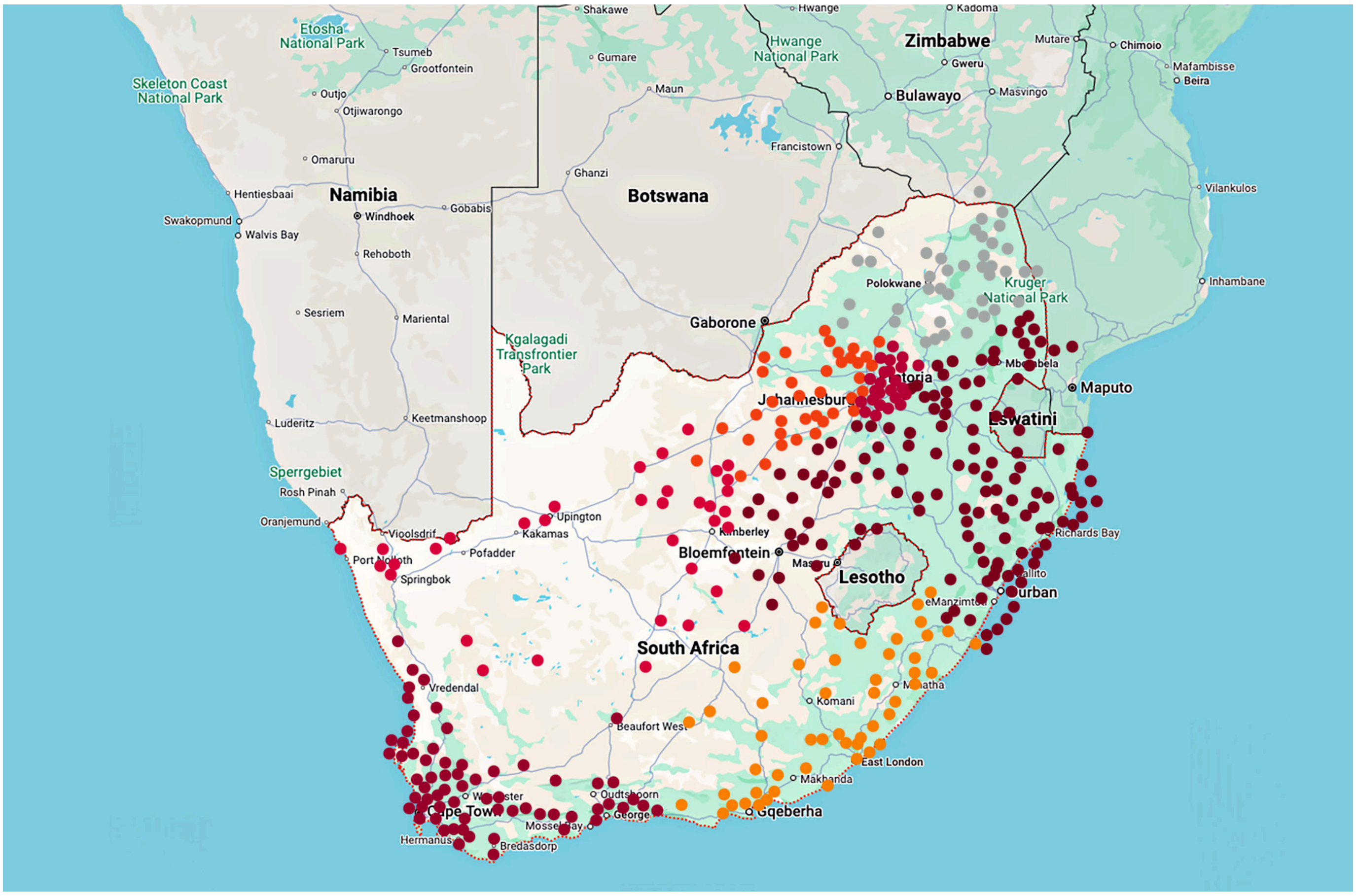
Graph 4: Source: The NCR

Graph 2 presents a YoY overview of consumers seeking credit, revealing a dramatic upsurge during 2023. The total number of credit enquiries escalated by 89.5% YoY to a staggering 25.3 million enquiries for the year 2023. This pronounced growth underscores a significant shift in consumer financial behaviour during the same period. Isolating the retail sector in graph 3, the number of credit enquiries by retailers increased by 40% to 94.89 million enquiries compared to the same period in 2022. An analysis of the enquiries by retailers (graph 4) shows a slight decrease of 0.2% to 11.01 million enquiries for 2023 for tracing and debt collection. While debt tracing enquiries decreased slightly in 2023, the preceding year saw an increase from 1.13 million enquiries in 2021 to 11.03 million enquiries in 2022. This is an indication that overall consumer financial health is weakening and this could lead to potential default on debt obligations.

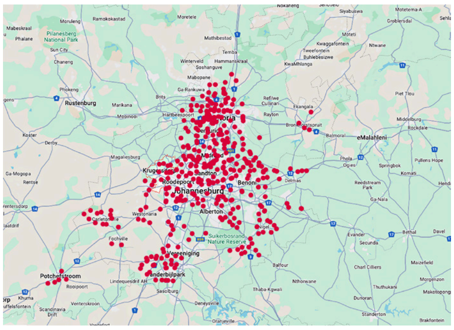
Demographics of defaulted debt

South Africans across demographics carry a shared struggle of a heavy debt load and this can be attributed to a sluggish economy with a high unemployment rate, high interest rates and slow wage growth, which further exacerbate the issue of trapping consumers in a cycle of debt. A closer look at this default debt data reveals a more nuanced story.

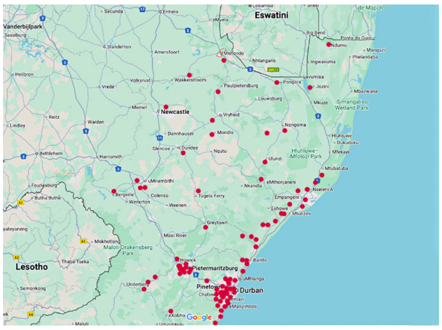
Metropolitan areas under pressure



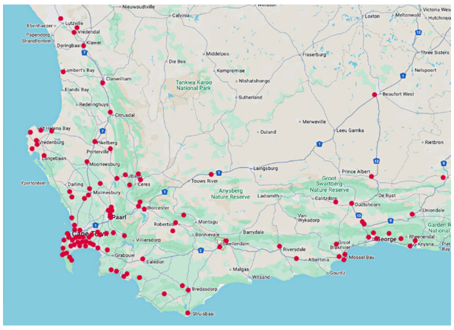
South Africa: *Source: IRL Consulting (2022)*



Gauteng: *Source: IRL Consulting (2022)*



KwaZulu-Natal: *Source: IRL Consulting (2022)*



Western Cape: *Source: IRL Consulting (2022)*

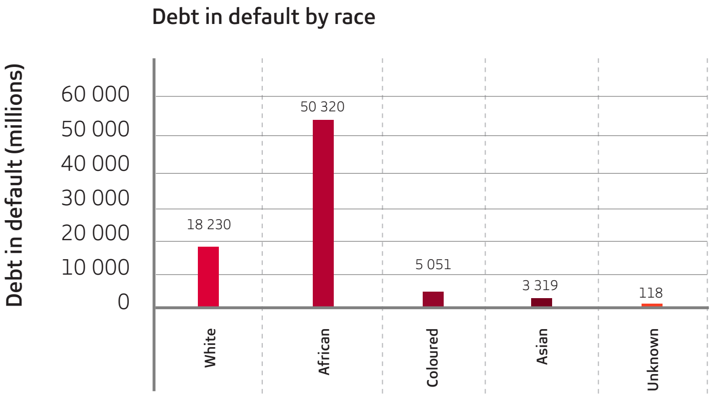
The South African map serves as a visual representation. It highlights areas where consumers are under debt review and is predominently concentrated in the major metropolitan areas of the country; Cape Town, Durban and Johannesburg.

Debt defaulting is widespread across Gauteng, with hotspots observed in Johannesburg, Pretoria and Vanderbijlpark. Johannesburg shows clusters of defaulting in the central business district; Soweto, Roodepoort, Tembisa and Alexandra. In Pretoria the clusters of defaulting debt are in the central business district; Centurion, Atteridgeville and Mamelodi.

While KwaZulu-Natal defaults appear to be centred around the Durban metro, some hotspots of defaulting debtors can be observed around Chatsworth and Phoenix. Residents of Pietermaritzburg, Ladysmith, Newcastle, Dundee, Empangeni and Port Shepstone are observed to have some degree of defaulting debt.

In the Western Cape, debt defaults are centred around the main metropolitan area of the city of Cape Town. There are still some pockets of default in other areas around the Western Cape with sizeable populations, such as George, Wellington, Worcester, Mossel Bay and Oudtshoorn. In the city of Cape Town, debt defaults appear to be centred around Mitchell's Plain, Khayelitsha, Grassy Park and Goodwood.

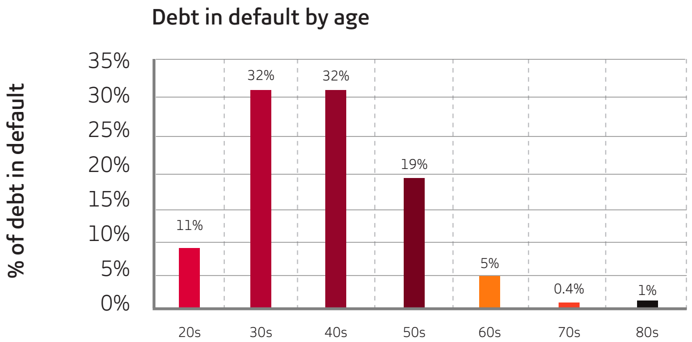
Heightened vulnerability for certain demographics



Graph 5: Source data: IRL Consulting (2022)

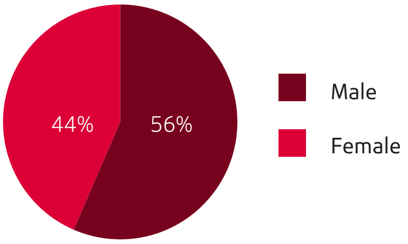
Graph 5 reveals a concerning racial disparity in South Africa, where African consumers hold a 65% share of the defaulted debt, white consumers account for 24%, and the coloured and Asian population hold a significantly smaller share. It's important to understand the reasons behind this racial disparity as the broader population demographics and socioeconomic factors play a significant role. The legacy of the past continues to cast a long shadow, with many Africans facing disadvantages in education, employment and access to financial resources. These disadvantages can make effective debt management considerably more challenging, potentially leading to higher default rates.

Graph 6 reveals that consumers in their 30s to 40s hold a staggering 64% of the defaulted debt, likely due to a blend of socioeconomic factors stemming from both their life stage and the broader South African context. This age group graduated into a tough job market with stagnant wages and entered the workforce with the burden of student loan debt, which may have limited their ability to manage debt effectively. They further faced an economic recession and the Covid-19 pandemic during their formative working years, hindering their financial growth. The rise of social media added another layer of complexity for this age group as these platforms are filled with curated content of luxury and success which may lead them to taking additional debt to keep up.



Graph 6: Source data: IRL Consulting (2022)

Debt in default by gender



Graph 7: Source data: IRL Consulting (2022)

Data from graph 7 shows South African men account for 56% of the debt in default, compared to 44% of women. While men make up a smaller portion of the overall South African population, this suggests that men are facing greater pressure when it comes to managing debt repayments and therefore defaulting at a higher rate than women. This disparity may be linked to credit use patterns where men tend to leverage a greater portion of their available credit relative to women. Research has shown that men tend to exhibit a higher risk tolerance compared to women (Sarin and Wieland 2016) which may influence their credit use.

Consumers in distress

The Experian Consumer Default Index (CDIx), which measures the rolling default behaviour of consumers across product categories such as home loans, vehicle loans, personal loans, credit cards and retail loan accounts, was presented at the 2024 Absa Consumer Conference and provides similar insights into the level of indebtedness by the consumer. The CDIx is an early warning sign that a consumer is in distress. Based on figure 1 below, the latest composite CDIx for the first quarter of 2024 deteriorated to 4.69 compared to 4.56 in 2023, signalling continued distress among South African consumers. An analysis of product performance reveals a pronounced deterioration in CDIx for home loans and vehicle loans. Retail loans exhibited a comparatively modest deterioration in relative terms.

	CDI Mar'24	CDI Mar'23	Average outstanding Jan'24-Mar'24	New Default Balances Jan'24 -Mar'24	Relative Impr/ Deter	Weight in composite CDI
Composite index	4.69	4.56	R 2 226 599 665 067	R 26 125 988 555	3%	100%
Home loan index	2.68	2.22	R 1 171 052 754 693	R 7 877 181 817	21%	53%
Vehicle loan index	3.84	4.06	R 505 053 860 036	R 4 844 008 757	-6%	23%
Credit card index	7.63	7.28	R 175 477 405 452	R 3 348 758 529	5%	8%
Personal loan index	10.24	10.23	R 328 894 748 742	R 8 420 454 530	0%	15%
Retail loan index	15.11	14.94	R 43 305 185 635	R 1 635 584 922	1%	2%
Home loan + vehicle loan + credit card	3.47	3.21	R 1 854 399 730 689	R 16 069 949 103	8%	83%
Retail loan + personal loan	10.81	10.73	R372 199 934 377	R 10 056 039 452	1%	17%

Figure 01. Source: Experian

The deterioration of the CDIx is driven by high interest rates, muted wage growth and the high inflation rate, creating a cycle that hinders progress towards financial stability for consumers. This tough landscape has changed the financial obligations of consumers over the years, with the consumer's monthly repayments on their home loans increasing significantly. This substantial increase in home loan repayments has outpaced the marginal growth in wages.

Sarin, Rakesh, and Alice Wieland. 2016. Risk aversion for decisions under uncertainty: Are there gender differences? Journal of Behavioral and Experimental Economics 60: 1-8.

Demographics of debt review

Experian's Financial Affluence Segmentation (FAS) classifies South African consumers into six distinct segments:

- Luxury living (FAS Group 1): South Africa's wealthiest individuals, enjoying financial freedom and indulging in expensive possessions.
- Aspirational achievers (FAS Group 2): Young and mid-career professionals on the rise. They leverage credit to maintain a high standard of living, invest in property and build families.
- Stable spenders (FAS Group 3): Young adults who rely on credit to make ends meet.
- Money-conscious majority (FAS Group 4): Older adults who are budget-conscious and use credit for essentials or emergencies.
- Laboured living (FAS Group 5): Individuals with limited income (below tax thresholds). They prioritise essentials such as food and housing.
- Yearning youth (FAS Group 6): Young people new to the workforce, often balancing work and studies. Their low salaries limit spending options.

Percentage of FAS group per month in debt review (Volume weighted)

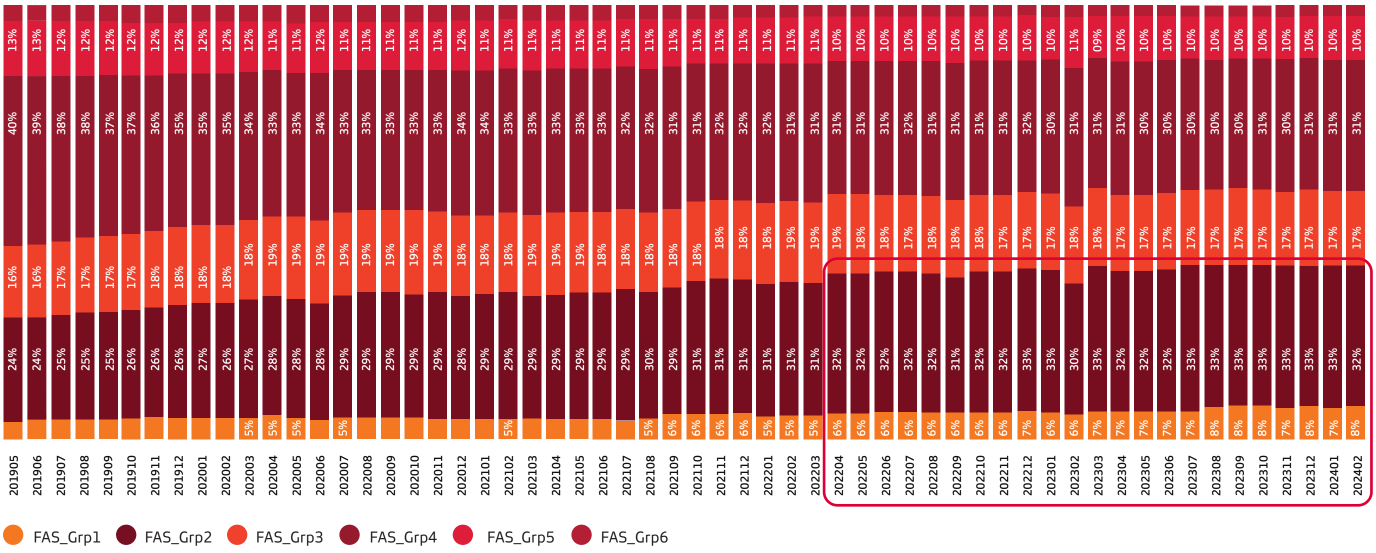


Figure 02: Accounts under debt review per FAS Group Source: Experian

Figure 2 depicts the percentage of accounts in debt review per FAS group. It shows that a significant portion of debt review accounts originated from seemingly creditworthy segments: aspirational achievers, stable spenders and money-conscious majority. These groups typically demonstrate responsible credit management. This finding suggests that even seemingly financially secure consumers may be susceptible to the current economic climate and may therefore face deteriorating financial health.

An upward trend in accounts under debt review within the most affluent group, luxury living, is observed. This increase, although not linear, suggests that even high-income earners are not immune to the current economic pressures and this is a crucial indicator of the severity of the broader economic landscape. This increase also coincided with the SARB's implementation of interest rate hikes in 2021. As interest rates have been rising, repayments have become more unmanageable, potentially leading to an increase in defaults and delinquencies by consumers.

While the yearning youth segment comprises a relatively small proportion of overall accounts in debt review, this warrants close attention as this initial financial strain may potentially hinder their ability to achieve long-term financial stability. The current economic conditions during their workforce entry further exacerbate this challenge, which may impede their financial freedom.

Conclusion

South African consumers' financial health is under significant strain due to inflation, high interest rates and global economic challenges which have burdened them with debt. Despite a slight increase in real take-home pay for consumers, the growth is insufficient to keep up with the rising cost of living and high debt levels.

The analysis of the South African consumer debt levels through the NCR suggests that more South African consumers are taking on debt, seeking to extend their purchasing power. However, many are struggling with repayments, leading to an increase in impaired records and a marked escalation in debt-tracing and collection enquiries. In addition, Experian's CDIx for Q1 2024 deteriorated to 4.69 from 4.56 in 2023, indicating increased financial distress among consumers. The financial distress is seen in the significant number of accounts under debt review from segments that are traditionally creditworthy, and there is an observed increase in accounts in debt review from a segment traditionally associated with wealth. Findings from IRL Consulting further indicate that the debt crisis in South Africa is a pervasive issue and that the debt burden is shared across all demographics, with a varying degree of impact on age, race, gender and geography.

The strain on consumers' financial health could be alleviated by an economic shift, particularly through a decline in inflation and interest rates. Absa's Economics Research team has issued a cautiously optimistic forecast for the remainder of the year and early 2025 in their South Africa Q3 24 Quarterly Perspectives report, which indicates some respite for financially strained consumers. This report highlighted the following:

- Inflation is softening and should lead to the moderation of cost-of-living pressures.
- Consumption spending is forecast to grow by 0.5% in 2024, improving to 1.9% in 2025.
- The interest rate cycle is expected to ease with a 25bps cut from September, followed by three more 25bps cuts, leaving the repo rate at 7.25% by March 2025.

In conclusion, while some indicators point toward a gradual easing of financial pressures, South African consumers should be prepared for continued strain in the short term.