Surging consumer debt balances in South Africa despite economic headwinds

During the first quarter of 2023, South Africans demonstrated remarkable growth in both the demand for and supply of new credit for clothing accounts and credit cards, despite the persisting challenges posed by a high inflation and high interest rate environment.

Source: [Pexels]

These are some of the findings of the TransUnion Q1 2023 *South Africa Industry Insights Report*, which tracks consumer credit trends across key credit products.

Clothing account originations increased by 36.4% year-over-year in Q1 2023, although the average limit on new clothing accounts only increased by 1.2% over that time. Outstanding balances increased by 6.8%, supported by new business growth, while average balances increased by 6.1%.

“We saw significant growth in new business for clothing accounts, just as there was a notable increase in outstanding balances, likely driven by existing account holders leveraging their accounts more frequently as a result of higher prices driven by inflation,” said Weihan Sun, director of financial services research and consulting at TransUnion Africa.

New retail revolving accounts surged with a 34.7% increase YoY in Q1 2023, and the growth in new accounts aligns to the growth in retail sales, particularly for the clothing-, footwear-, textiles- and leather-goods sector, which grew by 6.3% YoY.

The demand for new revolving accounts can be attributed to the continued shift towards credit being the preferred means to finance retail purchases as economic constraints continued to pressure consumer wallets.

New account limits increased across the risk tiers, with a shift in the risk distribution in Q1 2023 where subprime account originations saw a lower share of originations, down 5.4% YoY. Lower risk account originations have higher limit assignments and hence the overall new account limits rose by 2.5% YoY.

Higher limits on new originations enable consumers to spend more and/or fight inflationary pressures. As a result, outstanding balances increased by a substantial 10.1% compared to the prior year. Balance growth indicates that existing accountholders are leveraging their existing facilities as average balances also increased 4.8% YoY.

Credit cards and personal loans in high demand

Consumer demand for new credit cards remained robust, with origination volumes having increased in Q1 2023 by 27.1% YoY. Average limits on new cards declined marginally (0.8%) from the prior year. Originations increased across all generations, with Gen Z consumers (born 1995 to 2010) accounting for 18.9% of the new cards issued, an increase of 3.4% YoY.

Mounting credit stress pushes wealthiest South Africans to the brink

13 Jun 2023

Lenders are managing risk carefully in the current climate: the number of originations to subprime* consumers decreased by 10.3% YoY, while originations to super prime consumers increased by 8.6% YoY.

The average opening limit on new cards decreased YoY, with the most significant decreases in limits observed among prime plus (down by 16.8%), prime (down by 14.8%), and near prime (down by 12.2%).

Subprime and super prime

Borrowers were also granted lower limits than in the previous year, down 7.8% and 5.7% respectively. This indicates that lenders are continuing to support the demand for new credit cards, while managing their exposure more cautiously.

Outstanding credit-card balances increased by 9.2% YoY and average balances increased by 7.6% YoY, with the greatest increase in balances, of 10.1%, in the super-prime risk tier. These increases are likely attributed to sizeable growth in new business, as well as consumers leveraging their existing card facilities.

In addition to consumers leveraging their cards to pay for everyday purchases, lenders have increased card lines for existing consumers by 4.7% YoY.

“Existing cardholders are leveraging their credit facilities, although, viewed in tandem with retail trends, it is likely that they’re using credit for basic needs rather than luxuries,” Sun said. “In terms of performance, account-level delinquency rates have improved slightly, demonstrating lenders’ management of risks, and highlighting the value that South Africans place on the liquidity and ease of payment made possible by credit cards.”

Debt levels among homebuyers yet to reach unsustainable levels, says Ooba CEO

7 Jun 2023

Non-bank personal-loan originations surged by 24.9% YoY in Q1 2023, although the average new loan amount was 11.2% lower than the same period in 2022, with outstanding balances having decreased by 8.2% YoY and average balances having decreased by 12.8% YoY.

“This data suggests a heightened demand for these loans, potentially driven by higher risk borrowers who typically qualify for lower-value loans,” Sun said. “During this quarter, the market saw a contraction in loan portfolio sizes and mixed trends in delinquencies. While balance-level delinquencies decreased, account-level delinquencies increased, indicating the likelihood of higher defaults on smaller-value loans.”

South Africans’ increased reliance on credit comes at a time when the country avoided a technical recession, despite the effects of its current energy crisis, high unemployment, and the third lowest consumer confidence rating since 1993.

SA’s mortgage market remains strong

The South African economy continued to weather the storm during Q1 2023, with GDP growth of 0.4% assisting the country to narrowly avoid a technical recession following a -1.3% decline in Q4 2022.

However, within the same quarter the Reserve Bank shocked the market with a further 50 bps increase, bringing the prime rate to 11.25% - the highest level since 2009.

Property sector bracing for an eighth interest rate hike
19 May 2023

Despite the difficult economic backdrop, the country’s housing market appears to be resilient, with house-price inflation increasing by 2.64% - the first YoY increase since 2021, reflecting that demand has not subsided and consumers who are seeking homes have not abandoned their intent.

“The home-loan market demonstrated robust year-over-year growth, with higher loan growth and interest-rate hikes leading to balance growth,” Sun said.

“Many of these purchases are led by the current semigration trend, supported by continued remote working strategies, with the most popular destinations being Gauteng, KwaZulu Natal, and the Western Cape, with the North West being sought after too, thanks to more accessible property affordability.

“With as many as 60% of properties being bought by first-time buyers at the moment, lenders would do well to identify additional ways to support these new home owners with additional solutions that will add value and inspire loyalty as they make what is likely to be their most valuable investment in their lives yet,” Sun said.