Consumers remain under pressure following hard lockdowns

According to Michelle Dickens, CEO of TPN Credit Bureau, despite a recovery in the number of credit applications in the first quarter of 2021, an alarming 62.5% of these applications are rejected, indicating that many South Africans are still under considerable financial pressure following the 2020 hard lockdowns.

Michelle Dickens, CEO of TPN Credit Bureau

A good credit record has numerous benefits, including making the cost of borrowing lower, allowing transactions to take place and, ultimately, allowing the economy to grow. A growth in spending by both businesses and individuals is therefore positive. According to the National Credit Regulator's Credit Bureau Monitor, 61.8% of consumers are in good standing as far as their overall credit profile is concerned.

Collectively, credit bureaus hold records on 27.53 million credit active consumers, including profiles on their 85.09 million credit and services agreements. In total, the credit agreements reflect borrowings of R2.04tn from credit providers.

"South African credit providers are used to providing between R120bn and R150bn in loans per quarter, totalling the current exposure of R2tn of debt incurred by consumers," explains Dickens. "This trend was arrested in the second quarter of 2020 when new credit granted was slashed to R55bn, a third of the value of what credit providers usually lend."

The credit owed by consumers is made up by mortgages (51%), secured credit (22%), credit facilities (13%), unsecured credit (10%) and short-term credit (less than 0.1%).

Income plays a critical role in consumer credit. More than half the debt owed by South Africans is used to fund home ownership in the form of mortgages, with the majority made up of mortgages valued at over R700,000.

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40,000 mortgages provided each quarter

On average, around 40,000 mortgages are provided each quarter. However, during the second quarter of 2020, the number of mortgages granted declined to 12,000. The second half of 2020 saw a recovery, which peaked in the last quarter with 53,000 new mortgages granted. This figure stabilised in the first quarter of 2021 to 45,000 new mortgages granted.

Another interesting metric to consider are the number of sales transfers made on a per annum basis. In 2003 the number of residential sales transactions peaked at 475,000. This halved to 229,000 during the financial crisis of 2009 and subsequently stabilised to average between 250,000 and 270,000 per year. Between 2018 and 2019 it again deteriorated to 235,000. A further 15% deterioration took place in 2020, taking the number of transfers to 199,000.

In the past decade the number of cash sales have declined significantly. However, with banks currently supporting property sales with mortgages, the number of residential property sales that have been enabled via bonds has increased to 72%.

“The biggest long-term shift currently playing out has been the dramatic drop in residential property sales transactions in the last decade,” says Dickens, revealing that the number of residential property sales transactions has declined by nearly 50%, compared to the euphoria of the property boom decade of 2000 to 2009.

“In the 1990s, 50% of residential sales were supported by mortgages. This increased to 60% during the property boom decade and to 62% between 2010 and 2019. During the pandemic, bonded sales have accounted for 72% of residential sales. Not surprisingly, there was a 15% decline in the total number of residential sales transactions for 2020,” says Dickens.

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Declining number of cash transactions

What this indicates, she explains, is that while mortgages are stable, there is a noticeable shift in a declining number of cash transactions.

“The volume of mortgages is an indicator of economic stability. Pre-Covid, around 165,000 mortgages were granted each year. During the financial crisis of 2009, this declined to 140,000. Similar declines were seen in 2020. Interestingly, during the financial crisis of 2009 only 40% of credit applications were rejected, while rejections spiked to a high of 67.4% in the second quarter of 2020.”

Mortgages, despite their high value, are low volume and as such only account for 5% of active credit agreements.

Credit facilities, including credit cards, store cards and bank overdrafts, are high volume but low value and make up the majority of credit agreements, accounting for two-thirds of the number of active agreements.

Dickens reveals that there has been a noticeable shift in consumer credit in the past year as online shopping and paying for groceries and clothing drives increased activity in this sector of the credit market.

Fundability, she points out, is a function of consumers’ credit health. This was already on a downward trajectory from 62.7% of consumers in good standing in late 2018, deteriorating to 57.5% by the end of 2019.

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Improvement in bond repayments

Illustrating just how financially stressed consumers were during the hard lockdown in 2020, only 89% of monthly bond payments were being paid on time. Most consumers tend to prioritise their monthly bond payments and pay on time. It is therefore no surprise that bond repayments have subsequently improved, with 91% being paid on time by the first quarter of 2021.

In the same way that mortgage payments suffered during the hard lockdown, so too did the number of consumers who are renting suffer with only 73.5% in good standing during the hard lockdown. This figure has subsequently improved to 80.34% of consumers in good standing.

Credit providers responded to the economic pressures consumers experienced when the pandemic hit by providing payment holidays. These relief measures not only helped to stabilise consumer's credit health but also pushed the number of consumers in good standing back up to 62.9% in the first quarter of 2020.

However, this relief was only a short-term measure, reveals Dickens. As the payment holidays came to an end, more consumers slid back into arrears of three months or more with the number of consumers in good standing declining to 61.8% by the first quarter of 2021.

"What these figures indicate is that the local economy desperately needs more jobs to be created so that consumers can improve their credit standing," concludes Dickens.