HOUSEHOLD SECTOR – HOUSEHOLD CREDIT GROWTH

Household sector credit growth continues to slow. This should partially mitigate the negative impact of interest rate hiking on bad debt levels by lowering the debt-to-disposable income ratio further

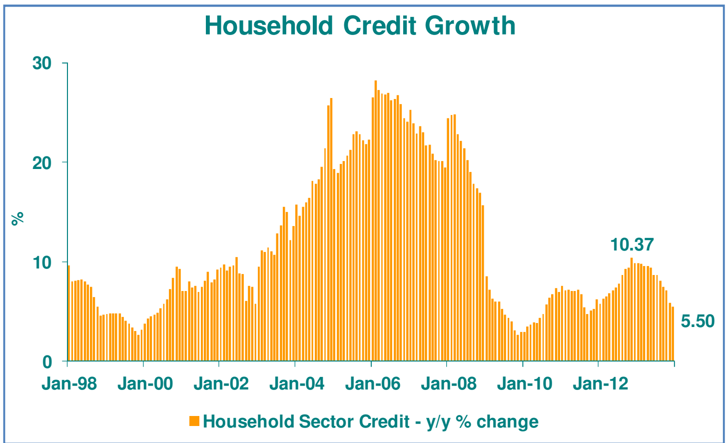
30 January 2014

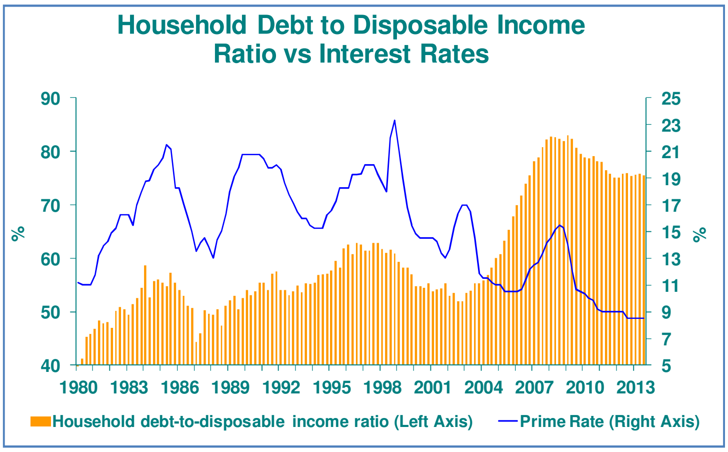
Today saw the release of SARB (Reserve Bank) credit data for December 2013, and not surprisingly we saw a further slowing in the pace of growth in household sector credit to 5.5% year-on-year, from a previous month's 5.9%. Much of this slowing has to do with a prior pull back in unsecured lending growth, coupled to banks' mortgage books still growing at a pedestrian pace.

Given what transpired yesterday in the form of a 50 basis point SARB Repo rate hike, the slowing in household sector credit growth is extremely positive news from a household financial health point of view. This growth rate has slowed all the way from a peak of 10.4% in November 2012, and was responsible for a slight decline in the Household Debt-to-Disposable Income Ratio in the 3rd quarter of 2013 to 75.5%, from a previous quarter's 75.8%.

The further slowing in household sector credit growth now means that its growth will likely remain below the growth rate in nominal disposable income, likely to be nearer to 7%. This is crucial, so as to translate into further decline in the debt-to-disposable income ratio, so as to reduce the negative impact of interest rate hiking should further hikes take place.

And indeed, such a declining trend in the debt-to-disposable income ratio is anticipated in the coming quarters, with further slowing in credit growth now expected due to a greater level of borrower conservatism being caused by yesterday's interest rate hike.





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