

## Households feel the pressure

Liberty Life consumer economist, Tendani Mantshimuli

*Despite some relief, households struggle with high debt and consumers remain reluctant to spend*

Over the first half of the year, there's been some relief for consumers. Since December interest rates have fallen by 500 basis points and inflation has declined from 8.6% in February to 6.9 % in June. This was partly due to a decline in food prices which is good news for consumers. Petrol prices have also declined in August mainly due to the strength of the exchange rate of the rand over the period.

However this relief has not translated into spending as reflected in the falling retail trade numbers for the second quarter of the year. This is a result of the high debt levels that consumers carry. The level of household debt to disposable income remains well above 70%.

The only way for consumers to reduce their debt levels is for any extra income from lower interest rates and inflation to go towards the reduction of debt. The good news is that the rate of consumers' uptake of new debt has fallen to record lows; total private sector credit extension increased by just 4,6% in June. This is partly a result of increased wariness by consumers to acquire more debt, further reinforced by the stricter lending criteria that banks are imposing on potential borrowers.

Half year results of major banks demonstrated just how distressed consumers are. Bad debts have increased in all categories - home loans, vehicle and asset loans as well as defaults on credit cards. Anecdotal evidence also suggests that there's an increasing

trend of home sales coming from distressed sellers. This contributes to increased inventory of houses on the markets, putting downward pressure on house prices.

The financial pressure on consumers is widespread and people should not feel like they're an exception to the rule. In this weak economy, we've seen an increase in the number of retrenchments as companies' profit margins are squeezed. It's important to approach your bank should you find yourself unable to pay your loan due to retrenchments or other reasons. Banks are willing to work out something that will be to the benefit of both parties, especially as there is some light at the end of the tunnel. The fact that second quarter gross domestic product (GDP) was less negative than anticipated is an indication that we'll start seeing some 'green shoots' sprouting out in this country.

### *Economic overview*

The recent economic data releases were a mixed review of the performance of the South African economy. GDP declined further during the second quarter making it three consecutive quarterly declines. However, at -3%, the decline was less than half that of the previous quarter, strengthening the hope that the recession might have bottomed out. On the other hand, high frequency data indicates that a recovery will be long and drawn out. South Africa is lagging the tentative signs of recovery emerging in major global economies. If the recovery does take hold and global consumer demand recovers, manufactured exports will benefit in time, which will boost domestic manufacturing output. As it is, the manufacturing sector was responsible for about half the decline in GDP last quarter.

Most sectors of the economy, while still in decline, showed some moderation from declines experienced in the first quarter. One of the exceptions was the wholesale and retail trade sector which continued to decline, clearly reflecting the pressure that consumers are still facing.