South African middle-class workers buckling under severe credit stress

The 2022 Q3 Credit Stress Report has been released.

Source: Pixabay

The report shows some alarming trends in the four most credit-active South African customer segments in the Eighty20 national segmentation (ENS), making up 85% of all credit active South Africans and 99.6% of all loan value.

“At a macro level the credit market is looking relatively resilient despite continued inflation and rising interest rates. Overall total defaulters are down 3% from Q3 2021 and total overdue balances are down 12%.

"However, a more detailed view of the credit market is showing large pockets of customers that are facing some significant financial distress,” says Andrew Fulton, director at Eighty20.

Including the latest rate hike on 24 November, the prime lending rate has increased by 3.25% over the last year. That translates to more than a R3,000 increase in monthly installments on a R1.5m home loan.

The report shows that home loan and vehicle asset finance (VAF) customers in the middle-class workers segment are under pressure with the total value of these loans moving into default over the last quarter increasing by 20%.

South Africa’s most wealthy segment, the heavy hitters, is also starting to feel the pinch with a 10% increase in home-loan balances moving into default over the last quarter.

Mass credit market

The mass credit market is made up of 11.9 milion adults, typically earning between R3,000 and R8,000 per month. Almost 80% of this segment is credit active, with most of this credit being unsecured: 80% of credit-active consumers have retail credit, 32% unsecured credit and 16% credit cards. Only 1% have home loans and even fewer have VAF.

These customers appear to be using unsecured, retail and credit-card debt to make ends meet. Almost half (R70bn) of all debt is unsecured and has been surprisingly resilient, with only 4% of all unsecured loan value moving into default this last quarter.

However, average credit-card instalments have increased by 41% over the past year (R685 per month), with overdue balances going up by 26%.

Middle-class workers

The middle-class workers segment is made up of 4.1 million adults, typically earning between R8,000 and R30,000 per month. Almost 75% of this segment is credit active and it is starting to show signs of significant credit stress as the incomes are no longer able to support the middle-class workers' lifestyles.

The average installment to income ratio has increased nearly 9% over the last year to 66% which means that two thirds of the average middle-class salary goes to servicing debt.

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The middle class worker is a strongly aspirational segment holding 25% of all VAF loans. Owning property is not always achievable for these customers so instead they may opt to owning a vehicle.

The 630,000 who have VAF (down by 60,000 from a year ago) are in particular distress, with the proportion of current VAF balances going into default this quarter up by 21% while average installments increased by 11% year-on-year (R535). For the middle-class workers who do have a mortgage, their average bond installments are up 15% (R452) on last year and balances newly in default are up a frightening 19%.

Heavy hitters

This is the wealthiest 5% of the population, with more assets than any other segment. Their current debt load is more than three times that of the middle-class workers segment.

They have the largest span of incomes of any segment and as a result need to be divided into seven sub-segments with an average monthly income ranging from R30,000 to more than R120,000.

Many heavy hitters bought assets on credit while interest rates were low. Interest-rate hikes together with high inflation are starting to put real financial pressure on the lower income sub-segments of this segment, who have experienced an 18% increase in home-loan balances going into default over the quarter. However, on the wealthier end of this spectrum, consumers appear relatively immune to current economic pressures with new defaults staying flat or in fact improving across some credit products.

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Despite this skewed experience, overall, heavy hitters have seen an 11% increase in total home-loan balances year-on-year, combined with a 16% increase in average installments (R1,083). Some 1.2% of all current home-loan balances went into default this quarter, which is a significant 10% increase on last year.

Comfortable retirees

This group of older, high income and asset-rich ex professionals is doing the best out of all segments. They have most likely downsized their homes and vehicles and they are the only group that is benefitting from higher interest rates.

Their average installment to income ratio is up 8% to 42.3% year-on-year with debt newly in default dropping this last quarter by more than 8%. Credit-card loan balances increased by 12% with average installments up only 7% on last year.

It is clear that a large number of South Africans are under enormous credit stress as they struggle to service their debt. Going into the festive season, these segments would be wise to avoid over-extending themselves further by incurring more credit card or retail debt.

The Sarb is expected to continue rate hikes into 2023, painting a bleak picture for South Africa’s middle-income consumers going into the new year.

The 2022 Q3 Credit Stress Report is released by Eighty20, a consumer strategy, analytics and research company in collaboration with Xpert Decision Systems (XDS).