Debt piles up as consumers get in too deep

By Nicola Mawson

6 Mar 2008

As the rates hike and other costs consumers face… food, fuel, bonds etc… rise, the impact is being to be felt by clothing retailers that sell on credit.

Clothing retailers that sell on credit are beginning to see customers default on their payments, and the effects are expected to be felt for at least another year.

Food and clothing retailer Woolworths has so far been hit the hardest. But the retailer serves a market that is already indebted in areas such as mortgage bonds and car loans.

Woolworths said recently that while it had managed to grow its debtors book in the second quarter to December 31, growth had slowed “significantly” and the “tougher collections environment” meant bad debt, including collection costs, had increased to 7,8% from 4,1% of the gross debtors book.

In addition, interest rate hikes, rising inflation and the National Credit Act had caused a slowdown in consumer spending.

Woolworths director of financial services and operations Richard Inskip said collections had proved tougher in the half year and bad debts were at the upper end of where they should be. Most of the problem, however, was its Visa card book, which the company had aggressively expanded before the National Credit Act was introduced.

Woolworths hit hardest?

Imara SP Reid analyst Warwick Lucas said he expected Woolworths be the hardest hit of all the large retail groups.

Truworths' debtors book rose 24% in the six months to December, with the number of active accounts increasing from 1,5 million to 1,8-million.

Debt write-offs as a percentage of the debtors book grew from 6,6% to 9,6%, while the doubtful debt allowance as a percentage of the book grew from 7,1% to 9,8%.

CEO Michael Mark said these increases were at the upper end of management's expectations.

He said bad debt had reached levels last seen in 2000. The company was “cautious, not anxious”. Collections, while more difficult than before, had been within expectations.

Foschini said in November that turnover grew 8,8% to R3,7bn from R3,4bn in its half-year to September. However, the next six to 12 months would be "tight" as eight interest rate increases, higher petrol prices and the introduction of the National Credit Act affected trade.

These had "made life more difficult for the average South African consumer".

Challenging

In a trading update early this year, Foschini said festive season trading had been challenging, and consumer spending continued to be hampered by interest rates, fuel prices and the National Credit Act. Although the trading environment was expected to remain tough, the company nevertheless expected earnings to grow for the full year.

Evan Walker, retail analyst at RMB Asset Management, said that in some instances, retailers had been the victims of their own lending practices before the National Credit Act came into force last June.

The rise in credit lending was the fastest SA had yet seen, with 6-million South Africans being granted credit, taking the number of indebted South Africans to 18 million. Walker said most of these people had received credit in the two-year run-up to the introduction of the credit act.

This level of indebtness would be felt for the next 18 months as bad debt worked its way off.

While unemployed staff who were unable to service their loans would affect furniture retailers more than apparel outlets, there could be a spillover, Walker said.

Source: *Business Day*

Published courtesy of

I-Net Bridge