

ECONOMY

Bleak forecast for 2021

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SOUTH African consumers are financially stressed and defaulting on their debt repayments due to retrenchments – and the situation is likely to worsen before it improves despite anticipated economic growth in 2021.

Economists and debt counsellors yesterday said many consumers were struggling to repay their debts as credit providers now aggressively pursue collections following the payment holidays extended during the hard lockdown.

According to the TransUnion credit bureau's South Africa Industry Insights Report for the third quarter of 2020, consumer debt delinquencies (accounts that are three or more payments past due dates) increased across all major consumer credit categories.

However, consumer demand for new credit fell, while lenders continued to adjust their risk appetite and took a cautious approach to funding new credit.

According to the reported data, the serious delinquency rate for clothing accounts was 34.3%; 32.8% for non-bank personal loans; 22.4% for bank personal loans; 12.2% for credit cards; 7.8% for home loans and 7.2% for vehicle finance.

TransUnion's Financial Hardship Survey in South Africa also showed that almost four in five (79%) consumers reported that their household income had been negatively affected by Covid-19. The survey also showed that concerns about their ability to pay bills and loans remained high at 85%, with 29% expecting to run into a shortfall within one month.

TransUnion SA's director for research and consulting, Carmen Williams, said there had been a delay in the level of delinquencies reported.

"With the prolonged nature of the pandemic, it's clear that the economic impact has been significant and sustained. Consumer confidence and lender risk appetites have been severely impacted, and the latest results show the changing dynamics of both the demand and supply of credit."

Debt Rescue chief executive Neil Roets said consumers were facing a torrid financial crisis. "A lot of people have lost their jobs, so people are taking a lot of strain and they take out loans to help them through the difficult period," Roets said.

Many consumers had waited before applying for debt counselling in the hope that creditors or the government would bail them out somehow, he said.

However, in August the firm had seen an increase in the number of people applying for debt counselling.

"(The year) 2021 is going to be even worse than 2020 because we are going to see a lot of businesses closing down. A lot of businesses survived the past few months because of payment holidays and landlords giving them a payment holiday for rent, and they had buffers, but that is gone now. We believe there are going to be hard and aggressive debt collections," he said.

DebtBusters' chief operations officer, Benay Sager, said the number of consumers under financial distress would peak early in the year as consumers faced the financial reality of holiday spending. "Reasons for this include one or more income earners in a household losing their income or having it reduced," he said.

Economist Dawie Roodt said the economy had already climbed out of the technical recession and he expected positive economic growth of 3% or more in the first quarter to continue for the rest of 2021. However, he cautioned that the growth was on the back of a contraction of between 8% and 10% in 2020.

"For the past five years the average South African has been getting poorer, so it's going to take 10 years to get to where we were three years ago. Technically we are out of the recession but this is not a normal cycle, this economy has been broken fundamentally."

"We have never seen anything like this, it's worse than the Great Depression (of 1929-1933)," Roodt said.

"In South Africa, the financial system, the banks, are doing very well and the Reserve Bank is doing an excellent job. We won't see a banking crisis," he said.