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Note: The value of and growth in outstanding credit balances, especially unsecured credit, were affected by the inclusion of data related to African Bank as from April 2016. As a result, year-on-year growth in household credit balances and some of its unsecured components were distorted for a 12-month period.

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Credit and mortgage advances

31 July 2017

Low growth in household credit and mortgage balances in the first half of 2017, with home loan repayments showing homeowner financial strain

The value of outstanding credit balances in the South African household sector showed growth of 2,9% year-on-year (y/y) to a level of R1 510,6 billion in the first half of 2017. This was the combined result of trends in household secured and unsecured credit balances over this period.

Secured credit balances in the household sector (R1 159,4 billion and 76,7 % of total household credit balances) increased by 2,5 % y/y up to the end of June this year, marginally up from 2,3% y/y at end-May, but down from 3,8 % y/y at the end of June last year. The low year-on-year growth in secured credit balances came on the back of ongoing low growth in household mortgage balances (see below), while instalment sales balances (21,6% of total household secured balances and mainly related to vehicle finance) showed growth of only 0,4% y/y in the 6-month period up to end-June 2017.

Household unsecured credit balances (R351,4 billion and 23,3% of total household credit balances) increased 4,2% y/y in the period January to June this year. The component of general loans and advances (58,6% of total household unsecured credit balances and largely consisting of personal loans and micro finance) increased by 4,8 % y/y over the 6-month period up to the end of June.

The value of outstanding private sector mortgage balances (R1 316,2 billion and 39,3% of total private sector credit balances of R3 348,4 billion), comprising both corporate and household mortgage balances, showed growth of 4,5 % y/y at the end of June 2017 (5,7% at end-June 2016). Corporate mortgage balances (R408,8 billion and 31,1% of total private sector mortgage balances) increased by 7,6% y/y in January to June. Outstanding household mortgage balances (R907,4 billion and 78,3% of total household secured credit balances and 68,9% of total private sector mortgage balances) increased by 3,1 y/y up to end-June. The value of outstanding mortgage balances is the net result of all property transactions related to mortgage loans, including additional capital amounts paid into mortgage accounts and extra monthly payments above normal mortgage repayments.

The South African economy is in a technical recession after two consecutive quarters of a contraction in real gross domestic product, with the forecast of growing by a much subdued 0,3% in 2017. Based on the outlook for the economy, the labour market, household sector finances and consumer confidence, growth in household credit balances, including mortgage balances, is expected to remain relatively low up to year-end. However, lending rates were lowered by 25 basis points in July as a result of an improved inflation outlook and projected continued low economic growth, with another rate cut of 25 basis points expected in September this year. This will give some further welcome financial relief to indebted consumers. Home loan repayment patterns, which shifted further up to mid-2017 (see relevant text and tables towards the back of the report), are expected to continue to reflect the extent of homeowner financial pressure over the short to medium term.

Credit and mortgage balances¹

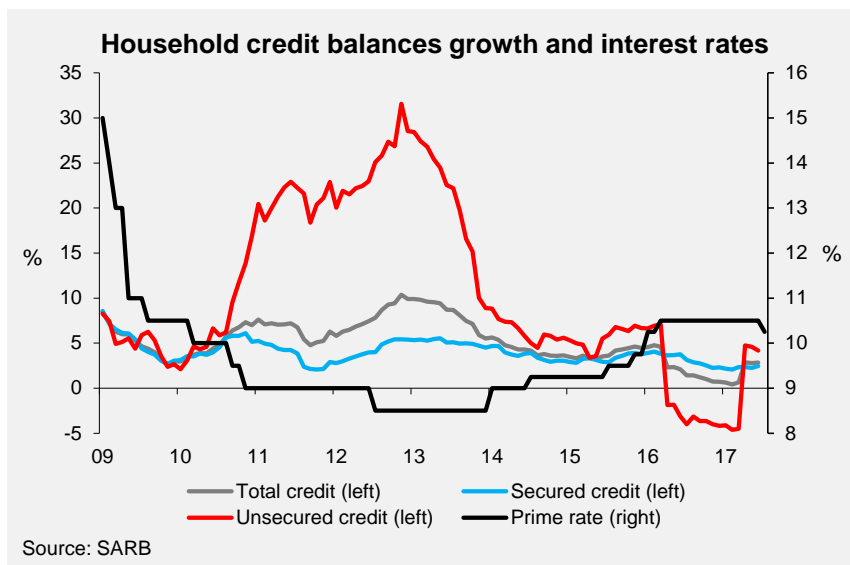
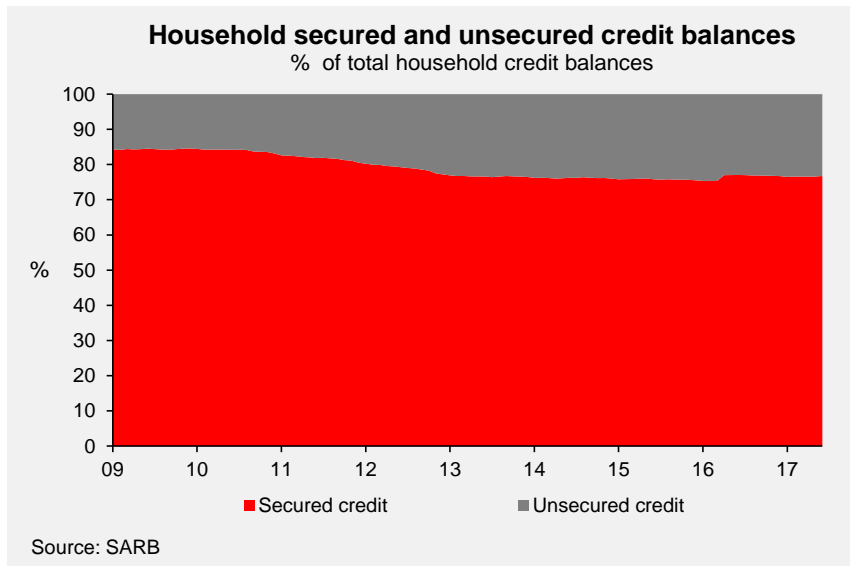
Period	Private sector credit balances ²		Household credit balances			Total mortgage balances ³		Household mortgage balances			
	R billion	y/y % change	R billion	y/y % change	% of private sector credit balances	R billion	y/y % change	R billion	y/y % change	% of total mortgage balances	% of total household credit balances
July 2016	3 172.1	6.8	1 465.9	1.4	46.2	1 262.6	5.7	883.6	4.2	70.0	60.3
August 2016	3 176.2	6.2	1 470.3	1.4	46.3	1 268.0	5.4	885.4	3.9	69.8	60.2
September 2016	3 222.6	7.2	1 473.5	1.2	45.7	1 278.1	5.3	887.2	3.7	69.4	60.2
October 2016	3 219.7	6.3	1 478.6	1.0	45.9	1 284.7	5.4	889.8	3.4	69.3	60.2
November 2016	3 223.5	4.6	1 482.4	0.7	46.0	1 290.1	5.0	890.6	3.1	69.0	60.1
December 2016	3 252.3	5.1	1 485.8	0.7	45.7	1 293.1	5.2	891.6	3.2	69.0	60.0
January 2017	3 275.7	5.5	1 494.3	0.6	45.6	1 293.9	5.0	894.1	3.0	69.1	59.8
February 2017	3 310.5	5.3	1 501.7	0.4	45.4	1 300.4	4.5	900.6	2.8	69.3	60.0
March 2017	3 331.0	5.0	1 505.5	0.7	45.2	1 305.0	4.6	901.9	3.0	69.1	59.9
April 2017	3 324.2	5.9	1 505.2	2.9	45.3	1 305.5	4.3	902.3	3.1	69.1	59.9
May 2017	3 352.4	6.7	1 508.2	2.8	45.0	1 311.8	4.6	904.7	3.0	69.0	60.0
June 2017	3 348.4	6.2	1 510.9	2.9	45.1	1 316.2	4.5	907.4	3.1	68.9	60.1

¹End of period

²Comprising corporate and household credit

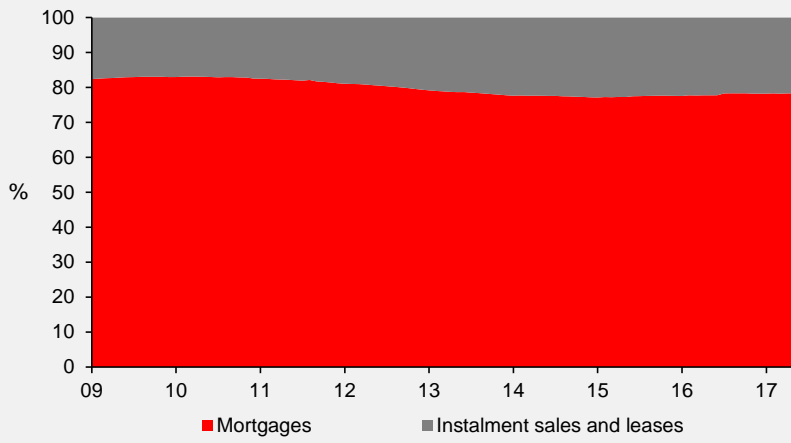
³Comprising commercial and residential mortgages

Source: SARB



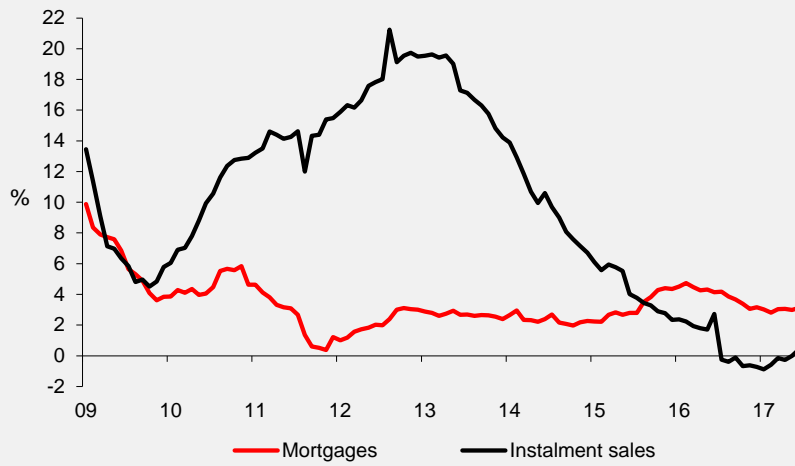
Household secured credit components

% of total household secured credit



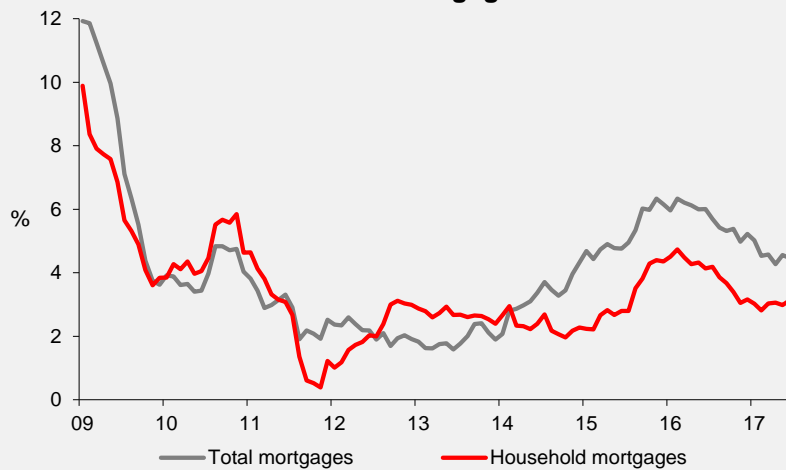
Source: SARB

Growth in household secured credit balances

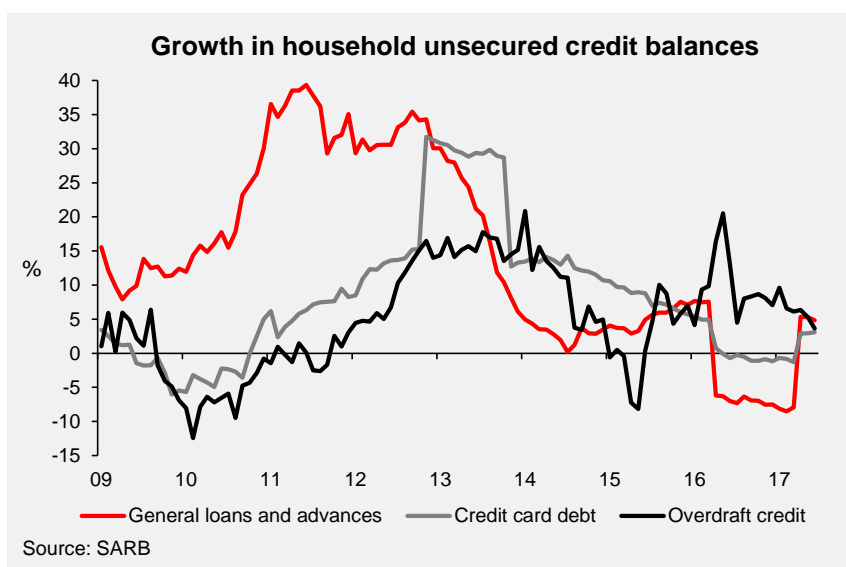
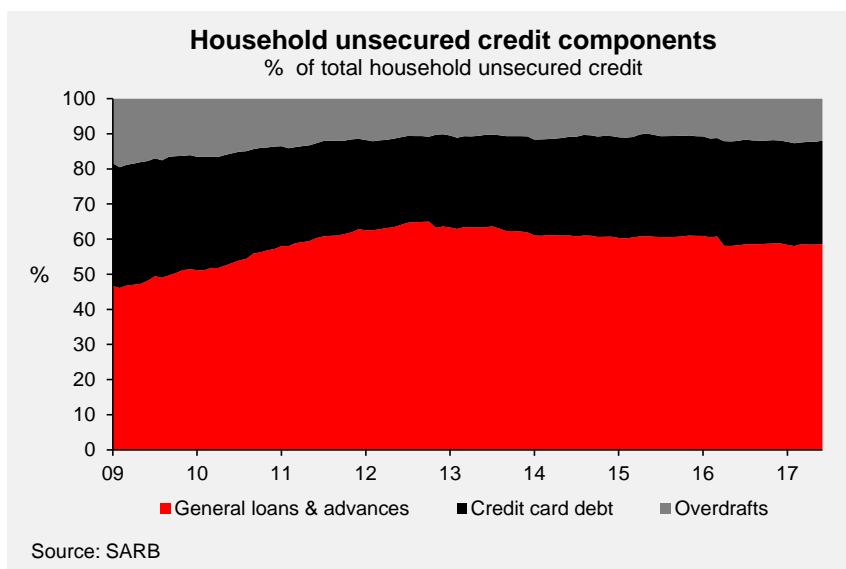


Source: SARB

Growth in mortgage balances



Source: SARB



Based on information published by Old Mutual in the July 2017 edition of the *Savings and Investment Monitor*, home loan repayment patterns on primary residences showed some further shifts up to the middle of this year (see tables below). The percentage of homeowners paying the minimum only on their mortgage loans increased from 67% last year to 77% in mid-2017, which was the highest percentage since mid-2010. The percentage of homeowners paying extra into their mortgage loan accounts on a monthly basis dropped to 12% by mid-2017, which was also the lowest percentage since mid-2010. The percentage of homeowners paying extra lump sums into their mortgage loan accounts declined to only 4% in mid-2017, compared with 7% in mid-2016 and 9% in mid-2015.

Home loan repayment patterns by income category indicate that low- to middle-income homeowners were increasingly paying the minimum only over the past three years, with high-income homeowners in a better position to pay extra, i.e. monthly and additional lump sums, into their mortgage loan accounts. However, the home loan repayment patterns with regard to high-income homeowners also deteriorated along with those of the other income categories since mid-2015.

The abovementioned trends in home loan repayment patterns are regarded as an indication of the general state of and shifts in homeowners' financial positions across the household sector, based on developments regarding taxes over a wide front, general living costs, interest rates, employment, growth in disposable income and trends in savings that contributed to increased levels of financial strain in recent years. These trends were reflected in consumers' credit risk profiles and the extent of financial vulnerability, which affected the ability to service existing debt and the accessibility and affordability of new credit. Against this background, the growth in household credit extension and mortgage advances remained largely subdued up to mid-2017.

Home loan repayment patterns

% of homeowners

Loan repayments on primary residence	July 2010	July 2011	July 2012	July 2013	July 2014	July 2015	July 2016	July 2017
Pay minimum only	59	59	62	54	63	65	67	77
Pay extra every month	16	24	24	31	28	18	14	12
Pay extra lump sums	3	11	9	8	5	9	7	4

Source: Old Mutual

Home loan repayment patterns by income category

% of homeowners

Loan repayments on primary residence	Income categories					
	R6 000 - R13 999 per month			R14 000 - R19 999 per month		
	July 2015	July 2016	July 2017	July 2015	July 2016	July 2017
Pay minimum only	78	77	88	80	77	79
Pay extra every month	14	8	6	4	12	7
Pay extra lump sums	0	0	0	4	4	0
	R20 000 - R39 999 per month			R40 000 and more per month		
	July 2015	July 2016	July 2017	July 2015	July 2016	July 2017
Pay minimum only	67	68	82	51	58	67
Pay extra every month	11	12	13	33	21	15
Pay extra lump sums	12	6	2	13	12	9

Source: Old Mutual