

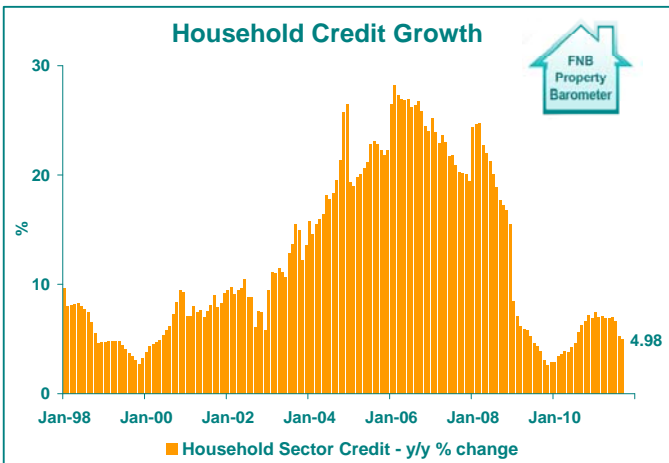
HOUSEHOLD SECTOR CREDIT – HEADING FOR HEALTH

Slowing household sector credit growth should help the debt-to-disposable income ratio to continue declining to healthier levels

31 October 2011

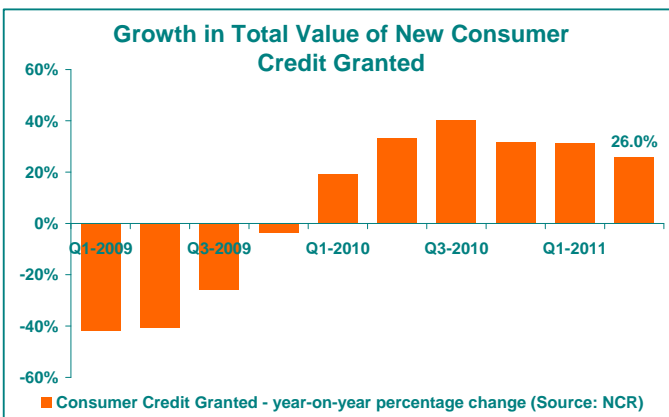
SEPTEMBER SARB DATA SHOWS FURTHER SLOWDOWN IN HOUSEHOLD SECTOR CREDIT GROWTH

SARB credit data for September showed further positive development (from a financial health point of view) in the form of further mild decline in overall household sector credit growth. While this slow household credit growth does not point to strong support for the housing and consumer-related sectors of the economy in the near term, it is crucial to their health in the longer term, through its helping to lower the debt-to-disposable income ratio and thereby reducing households' vulnerability to the next interest rate hiking cycle.



The release of SARB national credit data for September saw the household sector making further small progress in reducing the growth rate in its debt, from August's 5.2% rate to 5.0% in September. The slow rate of credit growth is encouraging, as it may contribute greatly to reducing the household sector's high level of vulnerability to economic shocks at a time when the risks of such shocks are significant.

Admittedly, slowing household sector credit growth may not be conducive to an improvement in housing and consumer markets' performance in the short term, but it is a positive development for those sectors' health in the longer term, because healthy housing and consumer markets require a financially-healthy household sector.



Whilst we had become concerned with renewed acceleration in household sector credit growth in 2010, our concerns may have been unfounded. Growth in the value of new household credit (termed consumer credit by the National Credit Regulator) granted peaked in the 3rd quarter of 2010 at 40.2% and starting to slow mildly, reaching 26% year-on-year in the 2nd quarter of 2011, according to National Credit Regulator (NCR) data.

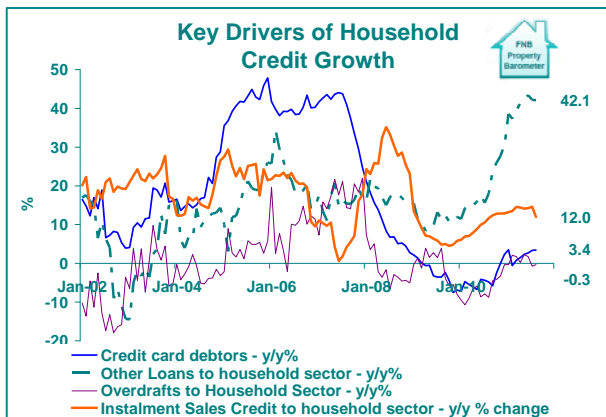
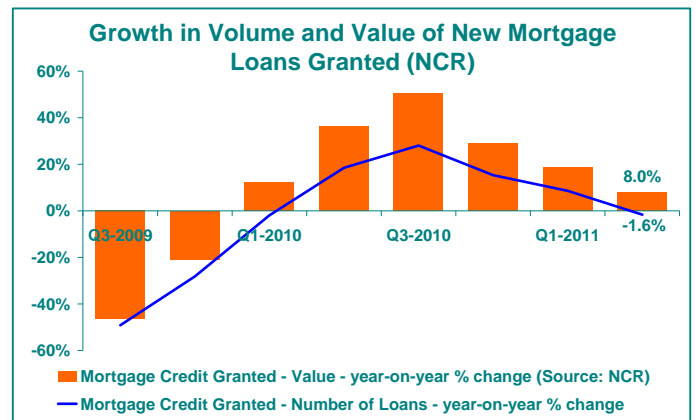
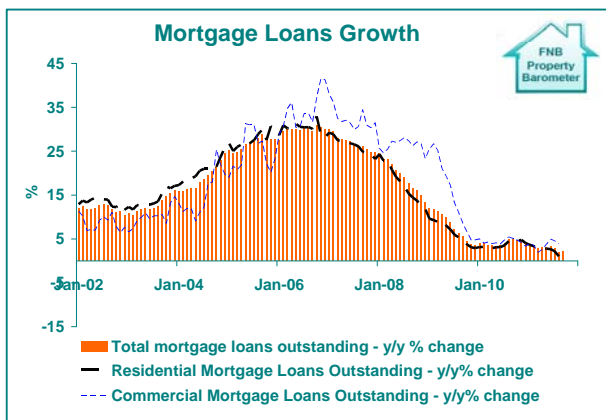
Then in January 2011, the growth in the value of household credit outstanding peaked at 7.5% year-on-year and started to slow gradually to this latest 5% rate.

Residential mortgage loans to the household sector are by far the single-biggest component of overall household sector credit, and thus are a key driver of household credit growth. And indeed, with growth in new residential loans granted slowing in the 1st half of 2011, and a possible speeding up of the pace at which existing loans from the boom years are being paid down, the growth in the value of outstanding residential mortgage loans in SA has remained benign.

Growth in the total value of mortgage loans outstanding (data also released today which includes residential, commercial and agricultural mortgages) rose slightly from 1.1% year-on-year in August to 2.2% in September. One can't say for sure which component of mortgages was responsible for this mild acceleration. Given that residential loans make up near 80% of total mortgage loan value, residential mortgage loans growth has been largely responsible for the slow rate of overall mortgage growth in recent times, and the slight uptick in total mortgage growth may well have been the result of a slight rise in the residential component, as it is our perception that the 3rd quarter did bring about some slight acceleration in growth in the value of new mortgage loans granted after a previously slowing trend.

However, we'll only get such insights at a later stage when the data for the components of mortgage advances are released, but for the time being it is believed that even should the mild uptick in mortgage advances growth have been due to a residential mortgage growth rise, the reality is that the residential mortgage growth rate remains pedestrian, and remains a key reason for slow total household sector credit growth.

What we do know at this stage is that as at August the growth in the value of outstanding residential loans had shown de-celeration from 2.2% year-on-year previous to 1.1%. And this recently slow growth in the outstanding residential mortgage loan value had much to do with a tapering rate of growth in the **value of new mortgage loans granted** to 8% by the 2nd quarter of 2011, from a peak of 50.6% in the 3rd quarter of 2011, according to the National Credit Regulator.



However, we believe that the slowing household credit growth is not just about slow residential mortgage loans growth. The August household credit stats (September household credit breakdowns not yet available) showed some signs of certain key credit categories having possibly peaked. The rapidly growing "Other Loans" category slowed slightly from 42.2% year-on-year in July to 42.1% in August, while the large "instalment sales credit to households category saw its growth slowing from 14.6% in July to 12% in August. As at August, credit card debt outstanding remained benign at 3.4%, while overdrafts declined year-on-year by -0.3%.

CONCLUSION

Although there are signs of a slowing economic growth rate and pressure on disposable income growth, the slow (and slowing) household sector credit growth rate should mean that the steady decline in SA's household debt-to-disposable income ratio continues. The slow growth rate in the value of the country's residential mortgage book should play a key role in containing overall household credit growth, and there are signs that the growth rates of some other key components of household credit may have peaked.

The debt-to-disposable income ratio peaked at 82% at the beginning of 2008 and has declined to 75.9% by the 2nd quarter of 2011. Although better (lower), this level of household indebtedness remains high by SA's historic standards and needs to decline further if the household sector is to be able to comfortably absorb a typical South African interest rate hiking cycle if and when it occurs. If a weak economy keeps disposable income growth slow, credit growth is then required to "go slow" and remain in order to remain below disposable income growth. This looks set to be the case.

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