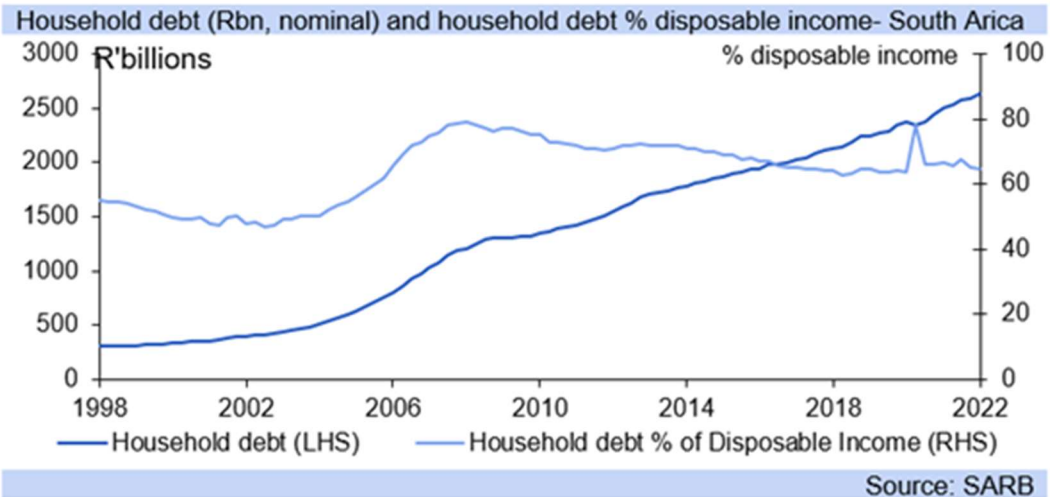


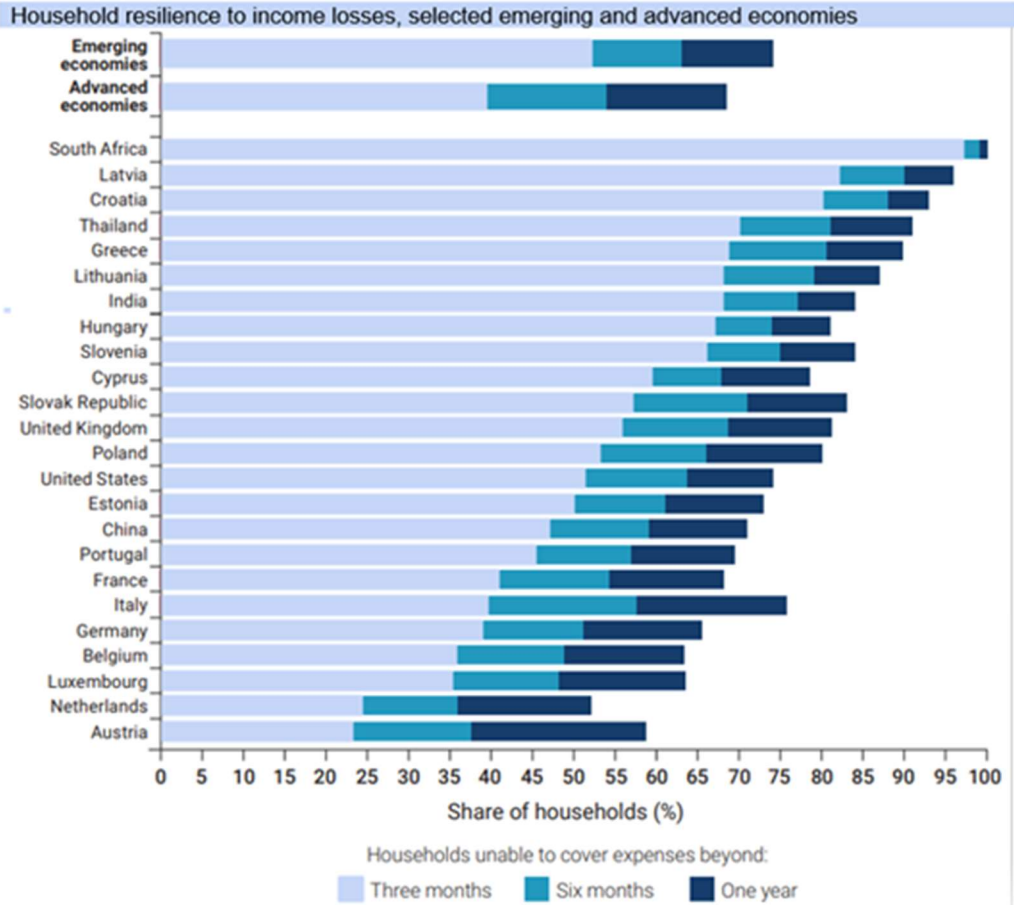
SA Economics



Friday 22 July 2022

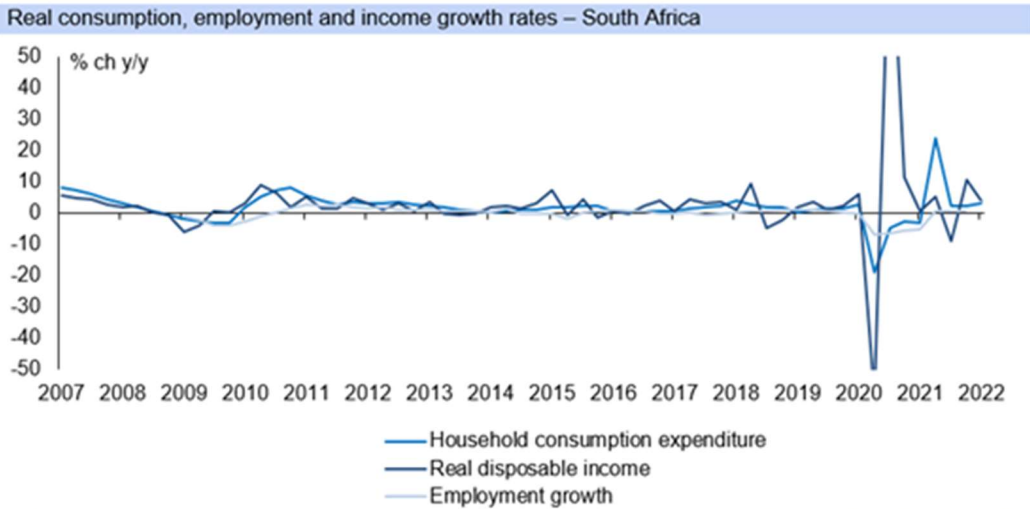
Household finances: interest rates will be higher than expected this year as high, and rising, inflation has continued for longer than anticipated



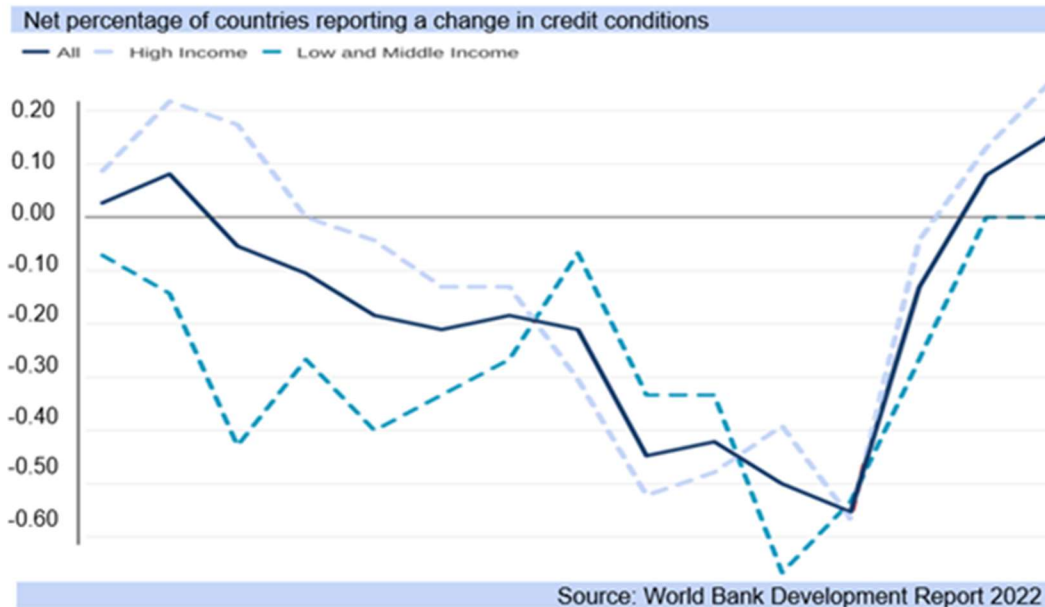


Source: World Bank Development Report 2022

Note: The figure shows for each economy and economy income group the share of households not able to sustain their baseline consumption with liquid assets for more than three months, six months, and one year in the event of an income loss



Source: Stats SA and SARB



Credit standing of consumers – Impairments and delinquencies – South Africa

| Millions | Mar 20 | Jun 20 | Sep 20 | Dec 20 | Mar 21 | Jun 21 | Sep 21 | Dec 21 | Mar 22 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Credit-active consumers (million) | 27.99 | 26.96 | 27.66 | 27.41 | 27.53 | 26.22 | 26.42 | 26.38 | 26.48 |
| Good standing (million) | 17.52 | 16.96 | 17.02 | 16.80 | 17.01 | 16.14 | 16.25 | 16.50 | 16.44 |
| Good standing (%) | 62.58 | 62.90 | 61.52 | 61.28 | 61.80 | 61.59 | 61.51 | 62.55 | 62.08 |
| Current (%) | 53.44 | 53.33 | 52.41 | 52.12 | 53.08 | 53.60 | 53.79 | 54.64 | 53.93 |
| 1-2 months in arrears (%) | 9.15 | 9.57 | 9.11 | 9.17 | 8.72 | 7.99 | 7.72 | 7.91 | 8.15 |
| Impaired records (million) | 10.47 | 10.00 | 10.64 | 10.61 | 10.53 | 10.07 | 10.17 | 9.88 | 10.04 |
| Impaired records (%) | 37.42 | 37.10 | 38.48 | 38.72 | 38.20 | 38.41 | 38.49 | 37.45 | 37.92 |
| 3+ months in arrears (%) | 23.23 | 22.90 | 23.75 | 23.41 | 22.84 | 23.34 | 24.27 | 24.07 | 24.31 |
| Adverse listings (%) | 10.92 | 10.89 | 11.47 | 12.07 | 12.17 | 12.04 | 11.26 | 10.46 | 10.73 |
| Judgments and administration orders (%) | 3.27 | 3.31 | 3.26 | 3.24 | 3.19 | 3.03 | 2.96 | 2.92 | 2.88 |
| Delinquencies (%) | 46.57 | 46.67 | 47.59 | 47.89 | 46.92 | 46.4 | 46.21 | 45.36 | 46.07 |

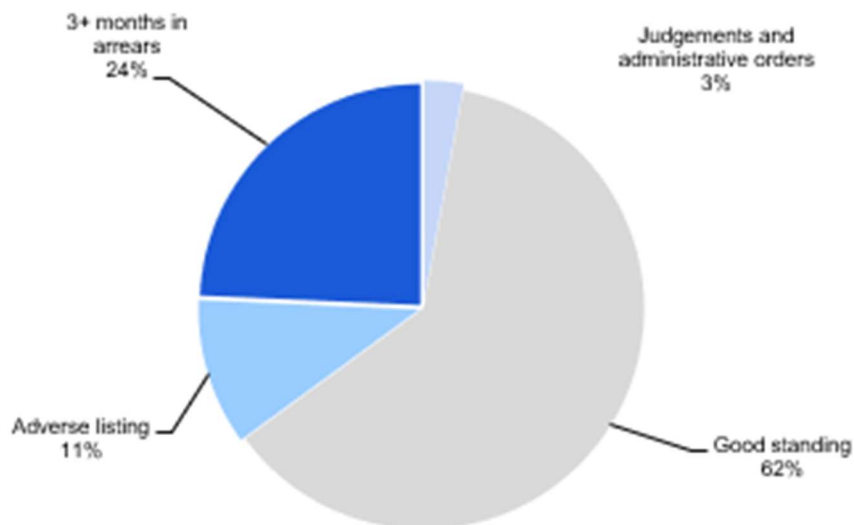
Source: NCR

- Economic indicators for the second quarter of this year are showing that household finances came under increasing pressure, and this is expected to persist over the rest of 2022 and 2023, suppressing economic growth as the SARB quickens its rate hike trajectory.
- Yesterday's monetary policy committee's meeting saw a very hawkish tone as the members focused on the need to quell high and rising inflation, while lowering their GDP forecast for 2023, which is when the bulk of SA's rate hike cycle will take effect.
- That is, the SARB aims to make financial conditions harder for consumers by raising interest rates in order to suppress demand and so prevent a broader transmission of high inflation (becoming the norm) throughout the economy for the prices of all goods and services.
- In total, interest rates have risen by 2.00% in South Africa's current interest rate cycle, with the small 25bp lifts in November last year and January this year not having a severe impact initially, but cumulatively the rate hikes of 2.00% so far and likely another 1.00% will.

- There is a lagged effect between interest rate hikes and the impact on the economy, of two to three quarters, although there can be some very small effect a quarter out, and the overall effects can last out to a year if not further, depending on factors in the economy.
- Household indebtedness is one of these factors, with debt at a notable 65% of disposable income, and consumers having come from a low interest rate environment, with the prime lending rate at 7.00% (repo 3.50%) for close to two years, before the current series of hikes.
- From the middle of 2014 to 2019 SA's interest rates changed by only 25bp (whether hikes or cuts) when the MPC adjusted interest rates, and prior to that, only 50bp moves (higher or lower) had been the norm since end 2003, with larger hikes having not occurred for 19 years.
- The SARB could move by 75bp or 100bp in September, and this quickening of the delivery of interest rate hikes, or front loading, is being aimed at rapidly quelling consumption to limit the pass through of high inflation from energy and food to prices throughout the economy.
- Falling inflation, and evidence that previous high inflation rates are not feeding broad based inflationary pressures, will eventually limit the SARB's hand, but this year the repo rate, at 5.50%, is likely to rise to 6.00% if not 6.25% by September and reach 6.50% by November.

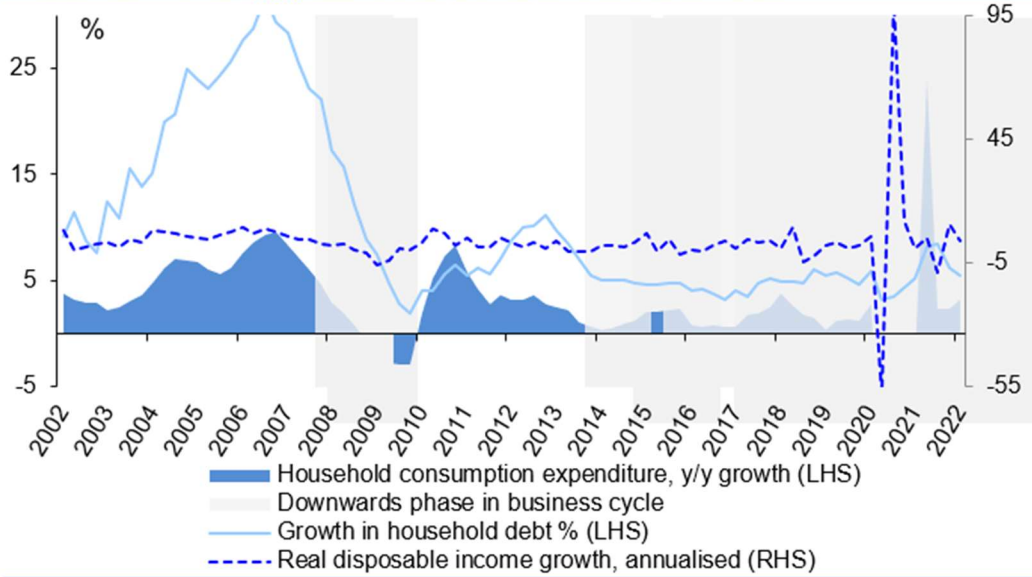
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Credit standing of consumers



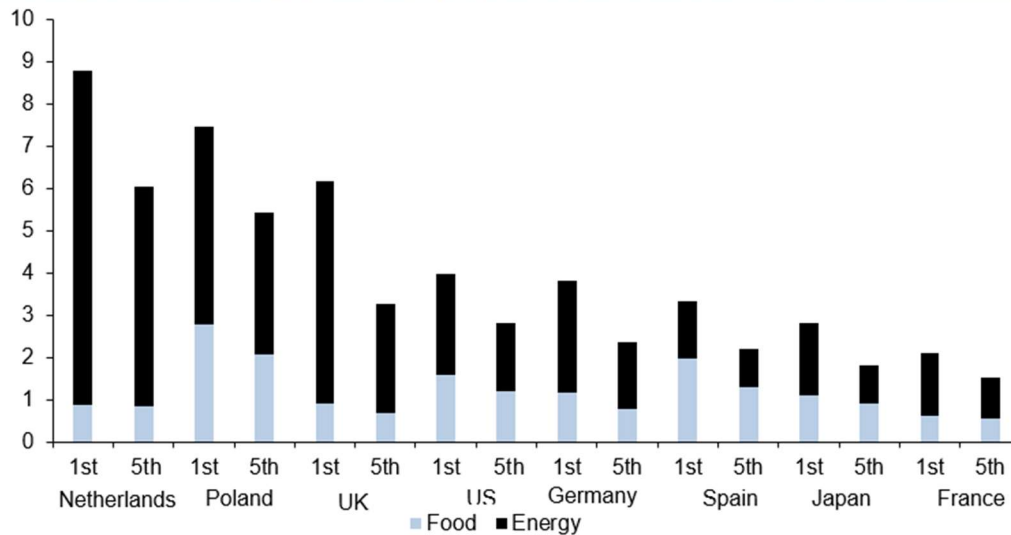
Source: NCR

Household incomes, debt and consumption expenditure South Africa



Source: SARB

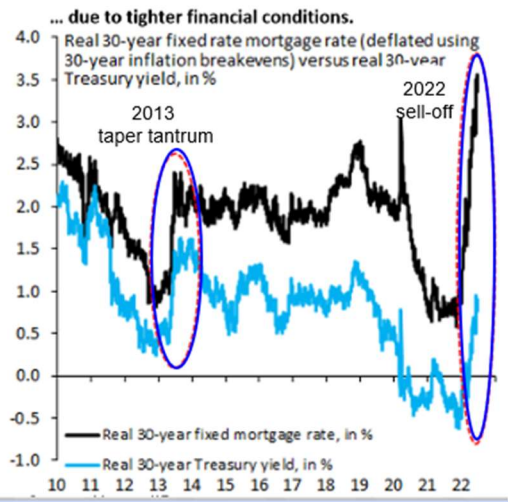
The surge in food and energy prices has disproportionately affected lower income households



Source: OECD Outlook June 2022

Note: Estimated impact of the year-on-year increases in energy and food prices in April 2022, using consumer basket weights in 2019 for the United States and Japan, and 2015 for other countries. Data are ranked according to the first quintile (20% of households with the lowest income). Energy corresponds to natural gas, electricity and other fuels, and includes motor fuels as well for the United States. Food corresponds to food products and non-alcoholic beverages.

US data have weakened sharply.....due to tighter financial conditions



Source: IIF

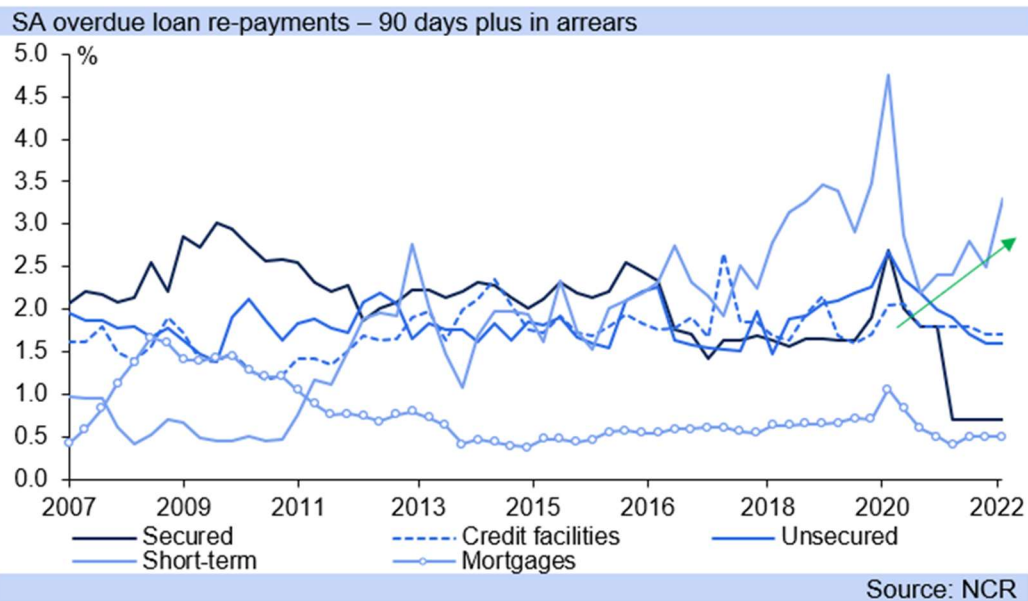
Interest rate forecast end rates – South Africa

| Date | Prime forecast | Prime less Inflation | Repo | Repo less Inflation |
|----------|----------------|----------------------|------|---------------------|
| Jan 2020 | 9.75 | 5.2 | 6.25 | 1.7 |
| Feb 2020 | 9.75 | 5.0 | 6.25 | 1.5 |
| Mar 2020 | 8.75 | 4.6 | 5.25 | 1.1 |
| Apr 2020 | 7.75 | 4.7 | 4.25 | 1.2 |
| May 2020 | 7.25 | 5.3 | 3.75 | 1.8 |
| Jun 2020 | 7.25 | 5.0 | 3.75 | 1.5 |
| Jul 2020 | 7.00 | 3.8 | 3.50 | 0.3 |
| Aug 2020 | 7.00 | 3.9 | 3.50 | 0.4 |
| Sep 2020 | 7.00 | 4.0 | 3.50 | 0.5 |
| Oct 2020 | 7.00 | 3.7 | 3.50 | 0.2 |
| Nov 2020 | 7.00 | 3.8 | 3.50 | 0.3 |
| Dec 2020 | 7.00 | 3.9 | 3.50 | 0.4 |
| Jan 2021 | 7.00 | 3.8 | 3.50 | 0.3 |
| Feb 2021 | 7.00 | 4.2 | 3.50 | 0.7 |
| Mar 2021 | 7.00 | 3.8 | 3.50 | 0.3 |
| Apr 2021 | 7.00 | 2.6 | 3.50 | -0.9 |
| May 2021 | 7.00 | 1.8 | 3.50 | -1.7 |
| Jun 2021 | 7.00 | 2.1 | 3.50 | -1.4 |
| Jul 2021 | 7.00 | 2.3 | 3.50 | -1.2 |
| Aug 2021 | 7.00 | 2.1 | 3.50 | -1.4 |
| Sep 2021 | 7.00 | 2.0 | 3.50 | -1.5 |
| Oct 2021 | 7.00 | 2.0 | 3.50 | -1.5 |
| Nov 2021 | 7.25 | 1.8 | 3.75 | -1.7 |
| Dec 2021 | 7.25 | 1.3 | 3.75 | -2.2 |
| Jan 2022 | 7.50 | 1.8 | 4.00 | -1.7 |
| Feb 2022 | 7.50 | 1.8 | 4.00 | -1.7 |
| Mar 2022 | 7.75 | 1.8 | 4.25 | -1.7 |
| Apr 2022 | 7.75 | 1.8 | 4.25 | -1.7 |
| May 2022 | 8.25 | 1.7 | 4.75 | -1.8 |
| Jun 2022 | 8.25 | 0.8 | 4.75 | -2.7 |
| Jul 2022 | 9.00 | 1.6 | 5.50 | -1.9 |
| Aug 2022 | 9.00 | 1.5 | 5.50 | -2.0 |
| Sep 2022 | 9.50 | 1.8 | 6.00 | -1.7 |
| Oct 2022 | 9.50 | 1.7 | 6.00 | -1.8 |
| Nov 2022 | 10.00 | 2.4 | 6.50 | -1.1 |
| Dec 2022 | 10.00 | 2.9 | 6.50 | -0.6 |

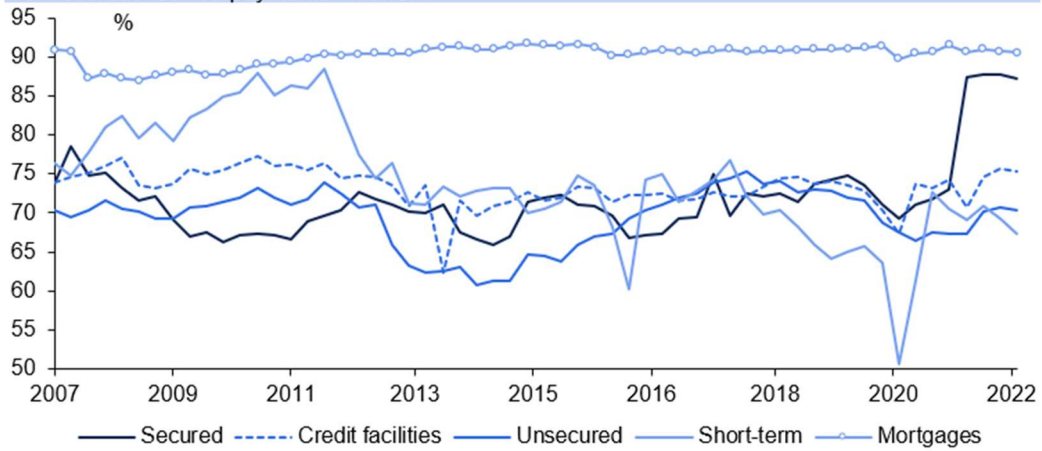
Source: IRESS, Investec

- That is, our interest rate expectations have risen and we have brought the hikes in further years into 2022 instead, and have changed our view to one of the repo rate ending at 6.50% this year, and so the prime lending rate at 10.00%, returning to levels of 2019.
- With the SA economy returning to its pre COVID-19 levels sooner than expected on the strong upwards revision to GDP last year, and the rapid rise in commodity prices in Q1.22 which fed into a very robust quarter, GDP growth is expected around 2.0% y/y this year by the SARB.
- The SARB further expects HCE growth (Household Consumption Expenditure) at close to 3.0% y/y this year, essentially deeming the SA economy strong enough to stomach rapid rate hikes this year, with quicker/larger hikes allowing potentially for a lower terminal rate.
- The quicker inflation is contained the less severe the interest rate hike cycle is seen to likely be, and the highest point interest rates reach in the cycle is expected to be lower than if inflation was not controlled fairly quickly and rate hikes had to continue for a lengthy period .

- With the terminal rate potentially occurring this year already for SA, and given that we expect CPI inflation will peak at 7.8% y/y in October, followed by a downwards trend in consumer inflation thereafter to 4.5% y/y in October 2024, HCE will be particularly afflicted in 2023.
- We expect GDP growth of 1.9% y/y for 2022, and HCE growth of 2.5% y/y, but for 2023 will likely lower our GDP growth forecast from 1.7% y/y (2.0% y/y for HCE) to likely closer to 1.4% y/y for GDP growth and potentially closer to 1.5% y/y for HCE growth.
- July's Debt Busters South African money-stress tracker report shows 70% of respondents to the survey indicated they were already feeling financial stress, with 94% believing it affected their home life, and 76% that it was so serious that it was affecting their health.
- The survey consisted of 14 000 responses, with the majority worried about running out of money before month end, 36% concerned about paying off debt and 27% worrying about rising inflation and living costs. 72% need 30% or more of their income to repay debt.
- A doubling in interest rates this year (from November last year) will have a severe effect on household consumption, with consumer confidence already depressed in Q2.22, and with household expenditure accounting for two thirds of GDP, this will suppress economic activity.

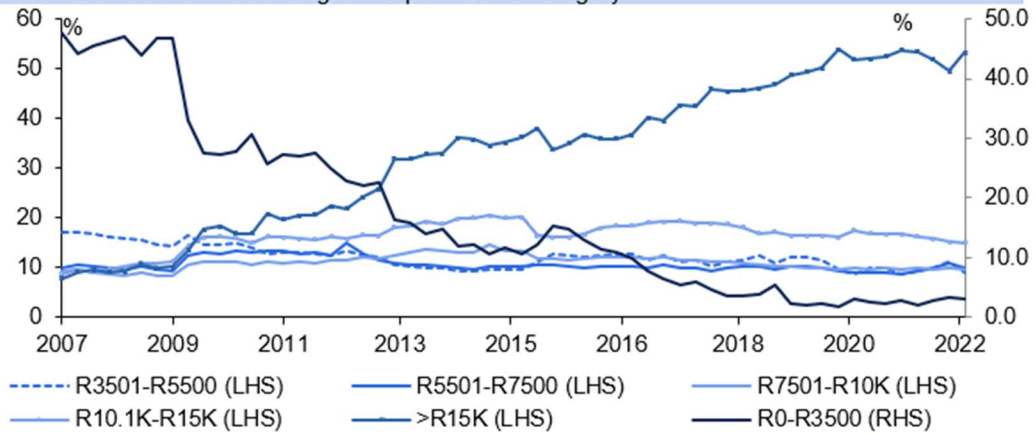


SA overdue loan re-payments – current



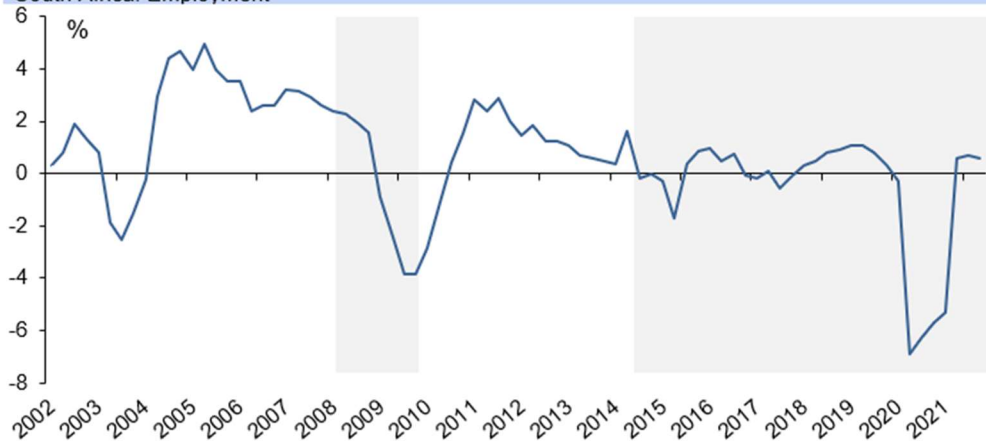
Source: NCR

SA unsecured credit facilities granted per income category



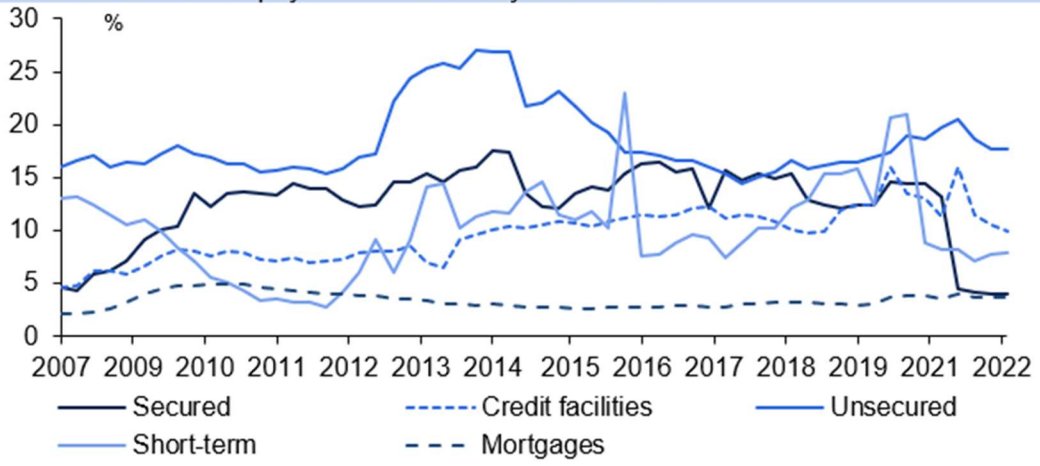
Source: NCR

South Africa: Employment



Source: SARB

SA overdue loan re-payments – 120+ days in arrears



Source: NCR