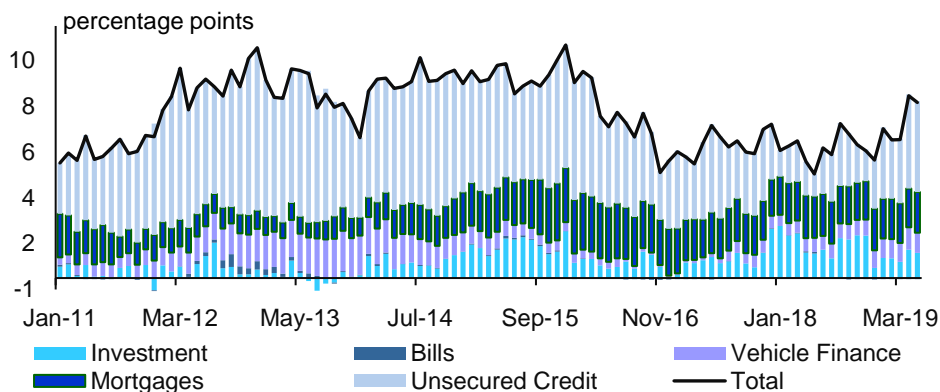


PSCE update: Private sector credit extension rates remain relatively contained amid weak economic activity and low confidence levels

28th June 2019



Figure 1: Private sector credit: contributions to total credit growth



Source: SARB, Investec

- Private sector credit extension slowed to a rate of 7.7% y/y in May from 8.0% y/y in April mainly on account of a moderation in corporate credit growth, to 9.0% y/y from a prior 9.5% y/y. The rate of credit extended to households was largely unchanged at 6.1% y/y in May versus 6.0% y/y in April.
- The deceleration in corporate credit growth in the month of May was largely a function in slower growth in the unsecured credit category, of 9.4% y/y versus 9.9% y/y previously.
- Weak economic activity, and particularly low rates of private sector fixed investment, as well as depressed business confidence have constrained the appetite for corporate credit from double digit growth rates last registered in 2016.
- In May, household credit dynamics were underpinned by a lift in unsecured credit to 9.8% y/y from 9.4% y/y in April. Unsecured credit extended to households has trended higher since 2018. According to the TransUnion, “consumers are actively seeking new credit as a means to supplement their incomes and meet their obligations.” Specifically, unsecured credit is “typically used to fund household expenses and smaller ticket purchases.”
- Consumer confidence remains low and the Q2.19 confidence survey confirmed that consumers remain reluctant to commit to the purchase of big ticket items. Unemployment is elevated, wage growth has slowed and living (fuel and electricity) costs have risen. At the same time, lenders remain judicious with regard to lending criteria. As such, household credit growth, especially in the secured category is likely to remain relatively constrained.
- The relatively modest rates of household credit growth are a restraining factor on household consumption expenditure. On a quarter on quarter seasonally adjusted annualised basis, household consumption expenditure contracted by 0.8% in Q1.19 and rose by just 1.8% y/y in 2018. This suggests that generalised demand led inflationary pressures should remain relatively subdued. Inflation expectations have recently moderated and domestic demand pressures are expected to remain weak.
- This, coupled with the expected renewed easing in developed market monetary policy, could support a reduction in SA interest rates again, possibly as soon as the next MPC meeting in July.

Figure 2: Growth in the components of PSCE

	April 2019	May 2019
Total loans and advances (excl. investment & bills)	7.5	7.3
Vehicle Finance (instalment sales & leasing finance)	8.8	7.9
Mortgage Advances	4.6	4.7
Other loans & advances	9.8	9.5
Investment	15.8	13.8
Consumer credit	6.0	6.1
Corporate credit	9.5	9.0
PSCE	8.0	7.7

Source: SARB

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