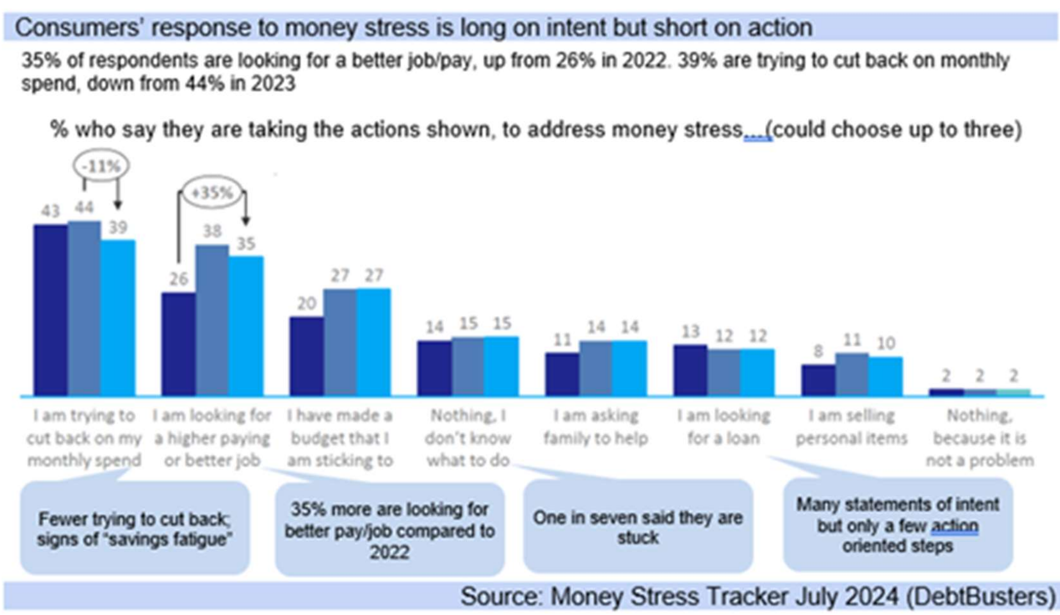
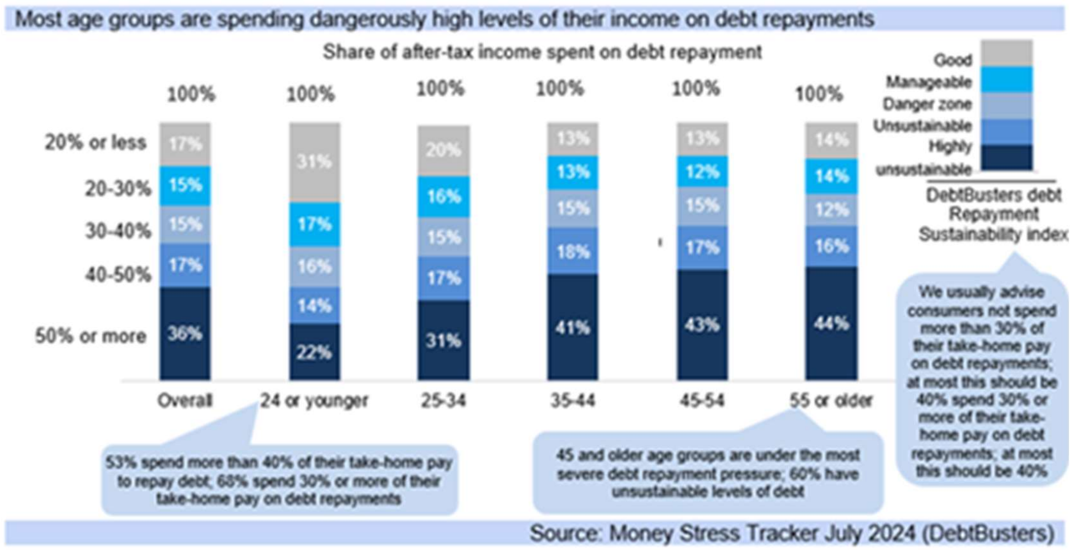
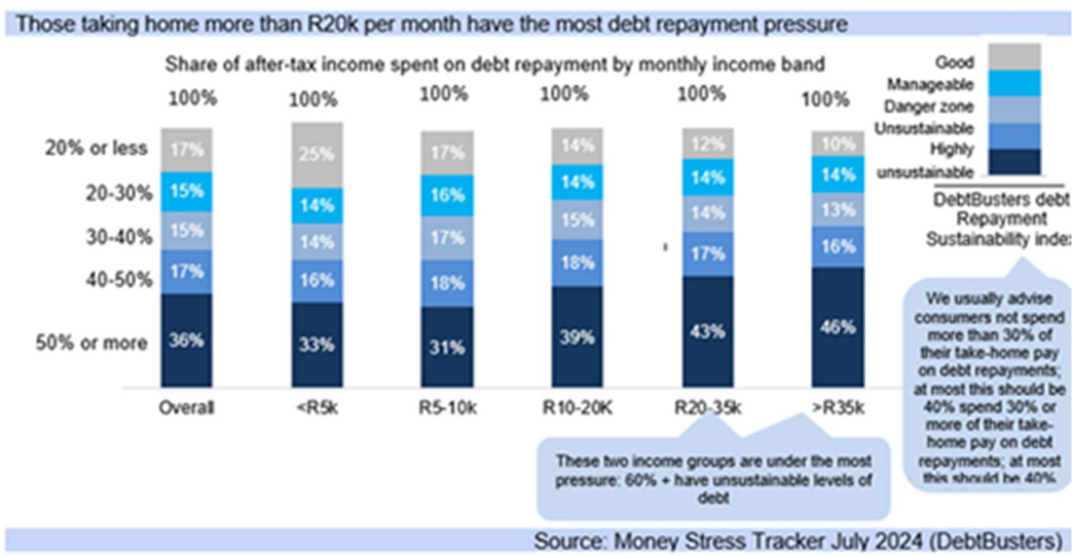
Investec

Household finances: outlook improves for consumers on two pot retirement system, forthcoming interest rate cuts

Thursday 12 September 2024







- South Africa has seen the two pot retirement system (applications for) withdrawals from pension funds kick off, with a spate of submissions so far at just over R4bn on pent up demand, and 2024 likely seeing a large release of retirement savings.

- Initial withdrawals are expected to total about R40bn (see Household Finances note, 6th June, contact details below), which is the 2024 figure, with withdrawals from 2025 onwards continuing at any time in the year (but at once a year per individual).

- The release of retirement savings under the two-pot retirement reform will support HCE (Household Consumption Expenditure) growth in Q4.24 (1.2% qqsa), as it adds to consumer income, and taxation, but is also likely to be used to reduce debt.

- With South Africa's GDP growth outcomes inflation adjusted (i.e. calculated in real terms), the net outcome would not exceed a contribution of 0.1% y/y to GDP this year (already factored in), with GDP still expected to come out at 1.0% y/y for 2024.

- We continue to expect GDP growth between 1.5% – 2.0% y/y next year as pension fund withdrawals continue to feed through, with 2025's amount similar to 2024's R40bn and 2026 similar again (up to potentially R120bn in total for the three years).

- However, 2025 will benefit in addition from the interest rate cutting cycle underway over the course of next year, and indeed also from the two to three quarter lagged effects (and up to two years) of interest rate cuts, beginning in September this year.

- Additionally, load shedding is not expected for the remainder of this year, or next year, which will support GDP growth further, while progress (if slow) is expected on the unwinding of the freight and logistics crisis in South Africa.

- We believe a substantial amount of the funds extracted from pensions savings will actually be used by households to draw down on debt, which has seen historical precedent in a number of other countries allowing their citizens to access pensions.

- This means that as debt is drawn down the full withdrawal amount of around R100bn, if not up to R120bn over three years will not feed through into HCE or GDP, which are both measured in real teams, which also means a lesser affect.

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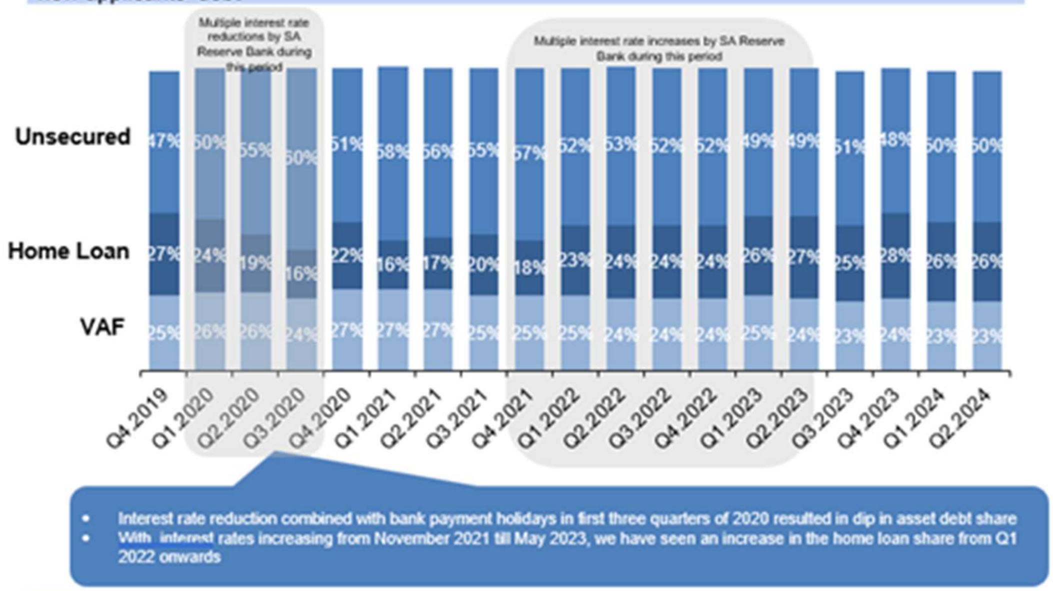
The debt mix of new applicants has shifted over the last few years driven by change in interest rates. Since early 2022, the share of home loan debt has increased and now makes up 28% of new applicants' debt



Source: DebtBusters Q2 2024

Note: VAF refers to vehicle finance agreements, unsecured debt refers to all debt other than vehicle finance and bonds. Therefore, it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

…the debt to annual net income ratio for most income bands is near its highest level ever; those taking home R35k or more have a debt-to-income ratio of 167%

Source: DebtBusters Q2 2024

1Debt to income ratio is calculated by looking at the median in each quarter.
^New income band reported from Q1 2023 (split from a broader group of >R20k); previously was part of the >20k income band. Previous quarters' ratios are attributed to this group as well as R25k-R35k income band.
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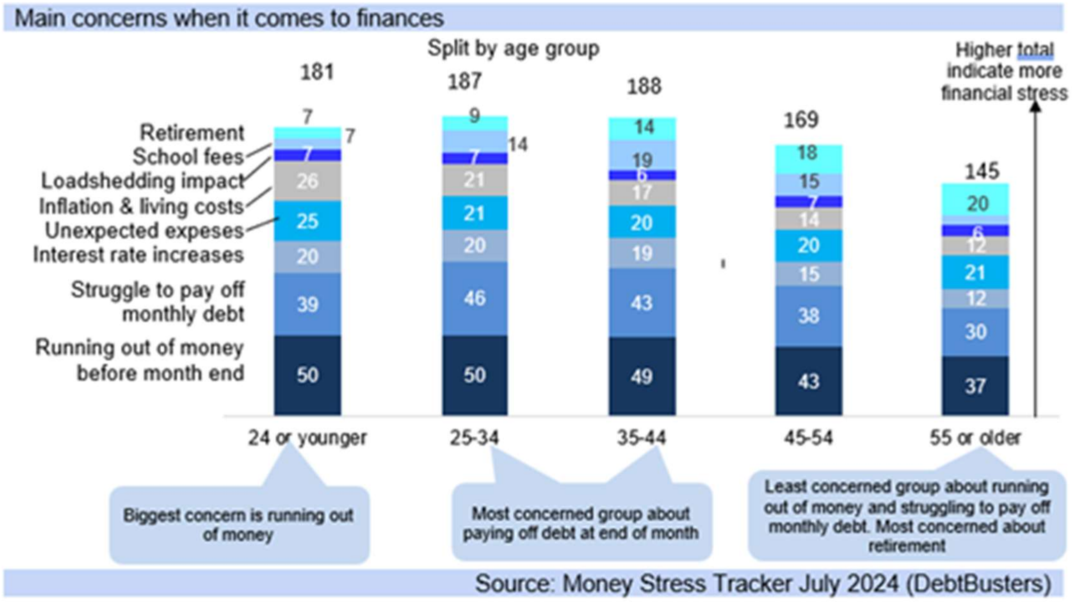


- While drawing down pensions to pay down/off debt could contribute to around half the withdrawal amount, taxation will also remove a significant portion, while adjusting for inflation (converting to real terms) further reduces the effect on HCE.

- The latest complete quarter, Q2.24, showed a 12% jump in consumers seeking debt management, and debt counselling inquiries rose 18%, "as consumers' desire to become financially sustainable continues to grow" (DebtBusters clients).

- "The median debt to annual income ratio … (is) at 105% it is still at an elevated level", and "the full impact of successive interest rate increases since November 2021 continue to be felt in consumer finances."

- "Consumers need to spend around 62% of their take home pay to service their debt before coming to debt counselling; those taking home R35k or more p.m. need to use 68% of their income towards debt repayments."

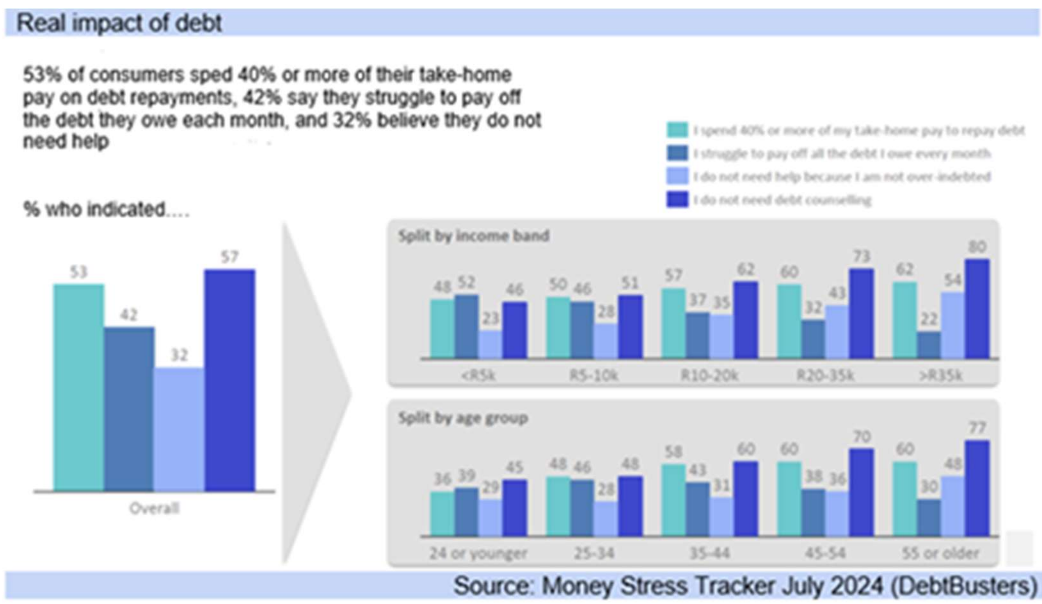
- "The debt-to-income ratio for top two income bands is high in Q2 2024 compared to … the past: 128% for those taking home more than R20k p.m. and 167% for those taking home R35k or more p.m. These ratios are at or near highest-ever levels."

- For the heavily indebted, the pension withdrawal option offers some relief. However, a number of individuals may also opt to leave their pensions untouched to accrue maximum growth for their retirement, if they do not have a need for withdrawal.

- From an earnings perspective, real incomes lifted by 0.8% y/y in July, as the consumer price inflation rate fell to 4.6% y/y, with the drop in the cost of living counterbalancing the fall in nominal income growth to 5.9% y/y.

- Falling rates of inflation has been key to lifting real incomes, with CPI inflation expected to fall further this year, dropping down to 4.0% in Q4.24, and currently on course to temporarily dip below this (see Oil note, 11th September).

- South Africa is set to see a 25bp (0.25%) interest rate cut next week at the next MPC meeting, which starts the country's interest rate cutting cycle off, allowing increasing debt servicing cost relief as the cycle persists over 2025 and 2026.



Interest rate forecast end rates

Date	Prime forecast	Prime less Inflation	Repo	Repo less Inflation
Jan 2023	10.75	3.9	7.25	0.4
Feb 2023	10.75	3.7	7.25	0.2
Mar 2023	11.25	4.2	7.75	0.7
Apr 2023	11.25	4.4	7.75	0.9
May 2023	11.75	5.4	8.25	1.9
Jun 2023	11.75	6.4	8.25	2.9
Jul 2023	11.75	7.0	8.25	3.5
Aug 2023	11.75	6.9	8.25	3.4
Sep 2023	11.75	6.4	8.25	2.9
Oct 2023	11.75	5.8	8.25	2.3
Nov 2023	11.75	6.2	8.25	2.7
Dec 2023	11.75	6.6	8.25	3.1
Jan 2024	11.75	6.4	8.25	2.9
Feb 2024	11.75	6.2	8.25	2.7
Mar 2024	11.75	6.4	8.25	2.9
Apr 2024	11.75	6.5	8.25	3.0
May 2024	11.75	6.5	8.25	3.0
Jun 2024	11.75	6.6	8.25	3.1
Jul 2024	11.75	7.2	8.25	3.7
Aug 2024	11.75	7.1	8.25	3.6
Sep 2024	11.50	7.2	8.00	3.7
Oct 2024	11.50	7.7	8.00	4.2
Nov 2024	11.50	7.3	8.00	3.8
Dec 2024	11.50	7.1	8.00	3.6
Jan 2025	11.00	6.0	7.50	2.5
Feb 2025	11.00	6.6	7.50	3.1
Mar 2025	11.00	6.9	7.50	3.4
Apr 2025	11.00	7.0	7.50	3.5
May 2025	11.00	7.0	7.50	3.5
Jun 2025	11.00	6.9	7.50	3.4
Jul 2025	10.75	6.0	7.25	2.5
Aug 2025	10.75	6.0	7.25	2.5
Sep 2025	10.75	6.0	7.25	2.5
Oct 2025	10.75	6.3	7.25	2.8
Nov 2025	10.50	6.1	7.00	2.6
Dec 2025	10.50	6.1	7.00	2.6

Source: IRESS, Investec

CPI forecast averages

Date	Index Base 2016	Annual y/y	Monthly m/m	Quarterly y/y	Calendar year y/y	
Jan 2023	107.1	6.9	-0.1			
Feb 2023	107.9	7.0	0.7			
Mar 2023	109.0	7.1	1.0	7.0		
Apr 2023	109.4	6.8	0.4			
May 2023	109.6	6.3	0.2			
Jun 2023	109.8	5.4	0.2	6.2		
Jul 2023	110.8	4.7	0.9			
Aug 2023	111.1	4.8	0.3			
Sep 2023	111.8	5.4	0.6	5.0		
Oct 2023	112.8	5.9	0.9			
Nov 2023	112.7	5.5	-0.1			
Dec 2023	112.7	5.1	0.0	5.5	2023	5.9
Jan 2024	112.8	5.3	0.1			
Feb 2024	113.9	5.6	1.0			
Mar 2024	114.8	5.3	0.8	5.4		
Apr 2024	115.1	5.2	0.3			
May 2024	115.3	5.2	0.2			
Jun 2024	115.4	5.1	0.1	5.2		
Jul 2024	115.9	4.6	0.4			
Aug 2024	116.2	4.6	0.3			
Sep 2024	116.6	4.3	0.3	4.5		
Oct 2024	117.0	3.8	0.4			
Nov 2024	117.4	4.2	0.3			
Dec 2024	117.6	4.4	0.2	4.1	2024	4.8
Jan 2025	118.4	5.0	0.7			
Feb 2025	118.9	4.4	0.4			
Mar 2025	119.5	4.1	0.5	4.5		
Apr 2025	119.8	4.0	0.2			
May 2025	119.9	4.0	0.1			
Jun 2025	120.1	4.1	0.2	4.0		
Jul 2025	121.4	4.8	1.1			
Aug 2025	121.8	4.8	0.3			
Sep 2025	122.2	4.8	0.3	4.8		
Oct 2025	122.3	4.5	0.1			
Nov 2025	122.5	4.4	0.2			
Dec 2025	122.8	4.4	0.2	4.4	2025	4.4

Source: Stats SA, Investec