Consumer spending and home loan demand led South Africa's credit market growth in Q1 2024

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- Personal loans and retail instalment loans led growth in consumption-led credit products
- Demand for home loans continued to grow, driven by additional consumer liquidity needs and demand for affordable housing
- Improved performance indicated resiliency and opportunities for smart growth

According to TransUnion's (NYSE:TRU) Q1 2024 South Africa Industry Insights Report, consumers' credit appetite continued to grow despite the sustained high interest rate environment, as consumer confidence improved slightly during this quarter, along with lower inflation metrics in January and March. Originations – a measure of new accounts opened – saw the strongest Q1 2024 year-over-year (YoY) growth in personal loans – up by 20%. This was the third consecutive quarter in which personal loans growth outpaced other consumer credit products.

Over the same period, retail instalment loan originations increased by 10%, and the average new loan amount increased by 14.5%.

Originations growth across consumption-led products was largely driven by Gen Z (born 1995–2010),
especially as this youngest generation takes a bigger role in contributing to the labour market and credit economy.

Table 1: YoY Growth in Originations

Consumption-led Credit Products (Q1 2023 vs Q1 2024)

Product	YoY Originations growth – all generations	YoY Originations growth – Gen Z
Credit card	3.3%	13.9%
Personal loan*	20.0%	57.0%
Clothing accounts	3.1%	1.5%
Retail revolving	4.9%	24.0%
Retail instalment	10.0%	34.2%

* Inclusive of both bank-issued and non-bank-issued personal loans

While clothing account originations volumes increased by 3.1% YoY, the average new clothing account limit increased by 27.8% YoY, leading to outstanding balances growth of 10.6% YoY. The significant increase in account limits indicates that lenders are responding to consumers' demand for more liquidity as they seek access to credit to fund their needs for the myriad of items available via clothing accounts, including mobile devices and electronics, appliances and homeware.

Growth observed in the clothing account market has been amplified by consumers facing higher living costs, which are increasing at a faster pace than their income, especially as inflation remains on the higher end of the Reserve Bank's targeted range of 3% to 6%.

According to TransUnion's Q2 2024 Consumer Pulse survey, 77% of consumers said that one of their three biggest concerns was inflation for everyday goods such as groceries and fuel, with 55% saying that they were worried about interest rates and 52% saying that they were concerned about jobs.

Lee Naik, CEO of TransUnion Africa said ...

Lee Naik

"Lenders seeking to maximise opportunity in the current economic environment will win the loyalty of resilient consumers by offering agile financial solutions that provide flexibility for their consumption needs. South African consumers remained resilient through the first quarter of 2024, keeping up with their payments and leveraging their access to credit to maintain liquidity."

Image by Visuel Colonie, www.canva.com

Demand for home loans stayed strong

The volume of home loan originations increased by 6.7% YoY in Q1 2024, although average new loan amounts decreased by 6.2% over the same period, indicating an uptick in the more affordable sectors of the South African property market, driven in part by first-time home buyers. This is supported by a 9% YoY growth in the number of below prime home loans being originated during Q1 2024, while new home loans in prime and above risk tiers fell by 10% YoY. Furthermore, the quarter saw a 32% YoY growth in originations among Gen Z consumers, resulting in this group holding 9.2% of new mortgages.

According to a recent report , affordable housing accounted for 36% of property sales in 2023, with this segment representing 50% of registered properties valued at R750 000 or less.

While new loan amounts have shrunk, total outstanding home loan balances increased by 7.6% YoY, implying that existing home loan borrowers are leveraging their home equity for liquidity. Consumers are likely drawing on their existing home loans due to more favourable interest rates relative to the cost of new credit issuance across consumption-led products. Simultaneously, home loan delinquencies deteriorated by 140 basis points YoY, alerting lenders to adopt a more active approach to anticipating and managing delinquencies that may arise from consumers who may be experiencing a payment shock due to high interest rates.

Table 2: Summary of Q1 2024 Metrics for Major Consumer Credit Products

Product	YoY % Change in Total Outstanding Balances	Serious Account Delinquency Rate*	YoY Basis Points (bps) Change in Delinquency Rate
Credit card	+10.8%	12.5%	-30 bps
Personal loans**	+1.8%	31.4%	-250 bps
Home loans	+7.6%	7.2%	+140 bps
Vehicle asset finance	+3.5%	5.4%	+20bps
Clothing accounts	+10.6%	28.9%	-80 bps
Retail revolving	+9.0%	18.4%	-310 bps
Retail instalment	+11.9%	28.5%	-240 bps

* Account-level serious delinquency rate, measured as a percentage of accounts three or more months in arrears

** Includes both bank-issued, and non-bank issued personal loans

South Africans continued to demonstrate resiliency

Despite the uptick in home loan delinquencies, and a more muted uptick in vehicle finance delinquencies, South African consumers' credit performance for consumption-driven products improved during Q1 2024, with delinquency rates improving across all unsecured credit products.

Lenders appear to be prioritising lower-risk consumers for personal loans, with the number of loans granted to consumers in the prime and near prime risk tiers having increased by 5.5% YoY, continuing a trend for the third consecutive quarter.

This lender focus on lower-risk personal loan borrowers has likely driven the 250 basis point YoY improvement in delinquencies for this product. Credit cards continue to attract the digital natives, i.e. Gen Z consumers, seeking convenience and liquidity, who are prioritising their payments on their cards in order to maintain credit access, contributing to improved portfolio performance.

"Within South Africa's financial landscape, lenders must navigate a delicate balance between finding opportunities for growth and extending financial inclusion to consumers and managing the emerging risks in the current economic climate," said Naik. "Many consumers also face the challenge of leveraging the credit available to them so that they can meet their consumption needs and improve their living standards, while managing their commitments responsibly."

> "To drive sustainable and smart growth, lenders need to leverage enhanced credit and alternative data to find and fund good consumers, predict delinquencies early and build consumer trust."

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