

2020: SA consumers in for rough ride following silly season splurge

The fact that millions of debt-stressed consumers saw fit to splurge millions on Black Friday and Cyber Monday shows clearly that the message that the South African economy is in crisis has not yet sunk in, says economist Dawie Roodt, chief economist of the Efficient Group.



Image source: Gallo/Getty

“I am fearful that we are heading towards a full-blown recession and in fact may already be in one in the fourth quarter.

“Given the devastation wrought by load shedding and the government’s rapidly growing debt burden, I cannot help but to think that things are going to get a lot worse before they get better,” Roodt says.

All-time high fiscal deficit

He says his biggest fear was the all-time high fiscal deficit which was going to make it increasingly difficult for the government to borrow money abroad to keep the economy going. “I increasingly get the feeling that while the lights may be on in the presidential residence, there is nobody home.”

Neil Roets, CEO of Debt Rescue, says they are gearing up for one of the busiest periods in January, February and March in the history of the company.

“We know from media reports that consumers spent massively over the Black Friday, Cyber Monday and over the Christmas holidays and that is going to have severely negative consequences for deeply indebted consumers.”

Irrational spending

Roets says the one spark of light on a very dark horizon was the comment by auditing firm PwC that warnings issued by debt experts such as Roets and others had somewhat curbed consumer spending.

“There is a certain kind of madness that grips consumers over the holidays where spending becomes totally irrational and this is not helped by the massive advertising campaigns that retailers launch at this time of the year to encourage shopping. We in the debt counselling industry see the extremely negative results of binge shopping in the following year when we have to assist consumers to deal with the mountains of debt they had incurred.

“The one consistent comment we get is this sense of entitlement that because everybody else was shopping, they felt entitled to join the shopping stampede.”

With the unemployment rate in South Africa edging up to 29.1% in Q3 2019, its highest level since comparable data began in Q1 2008, key jobs sectors including mining and the industrial sector are expected to continue shedding jobs at unprecedented rates in 2020.

January - the Great Reckoning

Roets says many South Africans who barely make ends meet during the year had plunged themselves ever deeper into debt over the holiday season by spending money on expensive holidays and generally having a good time – often on credit cards or with money borrowed from money lenders at exorbitant interest rates.

He says experience over time had shown that January was the month of the Great Reckoning when these chickens came home to roost.

“We see more new clients seeking help with the repayment of their outstanding debt in January and February than during any other months of the year because of additional debts that had been stacked up during the holiday season.

“Parents suddenly realise that they have to pay school fees that had not been budgeted for and with credit cards maxed out on luxuries in November and December, many have no choice other than to seek relief by going under debt review to prevent debt collectors from seizing their property.”

It was hugely important to budget, especially for expenses such as school fees and payments on credit and store cards.

“Bear in mind that the interest rate on credit cards is substantial so wherever possible, buy cash.”

A difficult year ahead

Roets warns that 2020 is going to be a tough year and that consumers who had difficulty making ends meet in 2019 are going to find it much harder in the new year.

“With gross consumer debt at around R1.8tn and the government’s gross loan debt at R2.2tn in 2016/17 financial year, it is clear that South Africans are in for a very rough ride, Roets says.

A recent World Bank index has also shown that South Africa is one of the most indebted countries in the world.

He says almost half of all consumers were three months or more behind in their payments. The major culprits are credit and store cards, followed closely by unsecured debt.

The only measure of relief for consumers who are in over their heads is the legally-binding system of debt review which allows deeply indebted consumers to repay their debts over a longer period of time in smaller instalments often at a discount.

“Lenders are sometimes willing to take a cut if it means they can avoid having to involve debt collectors or foreclosing on the fixed properties of debtors,” Roets says.

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