

Massive drop in retail credit applications

Enquiries to credit bureaux had declined by almost one third since the worldwide financial meltdown.

Fred Steffers, managing director of Consumer Profile Bureau, South Africa's most comprehensive source of credit information, said his company was down to 2005 levels in terms of the number of enquiries lodged by retailers checking on the credit status of prospective buyers.

“As far as I can determine it is an industry-wide phenomenon which is a clear indication that the economy is not just slowing down but actually shrinking,” Steffers said.

Already in debt

A major problem that is contributing to the slowdown is the fact that most South Africans are deeply in debt already and simply cannot afford additional debt.

The National Credit Regulator's quarterly report on credit bureau statistics found that most consumers had an average of three store cards in addition to their credit cards.

The survey conducted among 11 registered credit bureaux found that credit cards were responsible for much of the debt burden.

Nomsa Motshegare, chief operating officer at the NCR, said: “Credit cards were heavily marketed before the National Credit Act (NCA) was implemented because there was little regulation.”

According to the report, out of the 17.53 million credit-active consumers, 59.5% of them had good credit records in the third quarter of last year. This was a decrease from 60.4% in the second quarter.

Tony Twine, an economist at Econometrix, said debts had become harder to pay, “especially with the increase in interest rates since June 2006 till June 2008”.

NCA in practise

Twine agreed that without the NCA, there would have been an increase in unwise lending.

Continuous increases in fuel, food and prices of other consumables left consumers broke; they are now unable to pay their debts.

Major retailer Woolworths says its retail sales have contracted for nine consecutive months to December, the latest month for which data is available.

Retail sales falling

In 2008, retail sales in general registered their first fall in nine years as consumers reeled from the effects of high food and fuel prices and increased debt-servicing costs following a cumulative 350 basis-point increase in interest rates since June 2006.

Interestingly enough, there had been a reduction in the number of people who were listed for bad debt.

“There has also been a reduction in the percentage of adverse listings and judgments because people can now approach credit providers or banks to negotiate their payments,” said the NCR’s Motshegare.

Adverse listings refer to consumers who pay their debt late instead of paying it on time, regularly.

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