Pain awaits indebted

Consumers have felt their credit health worsen for the ninth consecutive quarter because they can't keep up wit the rising prices of necessities.

In the months to come we could see more "distress borrowing" as the higher interest rate flows through to those already ir trouble, according to credit management company TransUnion.

But for credit users overall, the rate of deterioration has slowed, showed the company's consumer credit index for the first quarter.

TransUnion said yesterday that the number of consumer accounts lapsing into default (accounts that are three months in arrears) remained stable.

But there is no reason to relax.

The index also showed that household cash flow dipped to its worst levels since 2009, as financial institutions close the lending taps and wage growth barely keeps up with consumer price inflation, according to TransUnion.

"Budgets remain under pressure and are vulnerable to higher consumer inflation and worsening employment conditions," said TransUnion CEO Geoff Miller.

Rising food prices and a climbing interest rate could be a big worry for households in the months to come.

Reserve Bank governor Gill Marcus increased the repo rate by 0.5 percentage points to 5.5% (and prime to 9%) in Janua The bank's monetary policy committee is scheduled to meet in three weeks.

The latest figures indicate that consumer inflation in March was 6% year-on-year.

Marcus has hinted that the next move in the interest rate will likely be upwards as the bank tries to contain inflation.

Miller said that even if the most recent interest rate increase is "relatively small at the margin and comes off a historically l benchmark repo rate, higher monthly repayment costs will nonetheless impact marginal consumers who were already struggling to make debt repayments".

According to TransUnion, the rate increase could start to negatively affect credit behaviour and cause "defaults and distressed borrowing to rise in the second and third quarters of 2014".

Nedbank economists expect the interest rate to be increased twice more this year.

Source: The Times