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DEBTBUSTERS' INDEX

Consumer purchasing power has fallen 44% in eight years

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Debt counselling, consolidation and monitoring company DebtBusters has reported a striking reduction in consumers' spending power over the past eight years, driven by sustained high interest rates, electricity and fuel price hikes and the compounding effects of inflation.

Despite nominal income increasing by 2% over the past eight years, people who applied for debt counselling in the second quarter of this year had 44% less purchasing power than in 2016, it said.

THOUGH CONSUMERS ARE BETTER ABLE TO DEAL WITH ELEVATED INTEREST RATES, THEY FEEL THE IMPACT OF SUCCESSIVE RATE INCREASES

According to DebtBusters' latest debt index, multiple factors are responsible for the decline in purchasing power. In the past eight years, SA consumers have seen electricity tariffs increase by 2.35 times and petrol prices double, while the compounded impact of inflation over this is estimated at 46%. Another factor eroding incomes is interest rates, which have remained high for more than a year.

"Although consumers are better able to deal with elevated but stable interest rates, they are still feeling the impact of the successive rate increases that started in November 2021," DebtBusters said.

Its executive head, Benay Sager, said consumers had felt the increasing pressure of servicing asset-linked debt. Since the Reserve Bank started its hiking cycle, the average interest rate for a home loan rose from 8.3% in the fourth quarter of 2020 to 12.3% in the second quarter of 2024.

"More alarmingly, the average interest rate for unsecured debt is now at an eight-year high of 26% per annum," Sager said.

As inflation and interest rates erode incomes, cash-strapped consumers rely on loans to compensate for their diminished purchasing power.

The ratio of household debt to nominal disposable income is about 62%.

The debt-service burden is heightened for higher-income earners, with debt-to-income ratios in the second quarter nearing the highest observed levels. The ratio was 128% for those earning more than R20,000 a month and 167% for those earning above R35,000.

Unsecured debt continues to be common among pressured consumers, with 82% of people who applied for debt counselling in the second quarter having a personal loan and 53% having a one-month loan.

"These payday loans have become a lifeline for many households," DebtBusters said, "but are very expensive with interest rates often in excess of 25% per annum.

"For those taking home R35,000 or more, unsecured debt levels were 38% higher than eight years ago. While this is on par with inflation, in the absence of meaningful salary increases it indicates consumers need to supplement their income with unsecured debt."

While DebtBusters' findings paint a worrying picture overall, Sager said there was also good news. The median ratio of debt to annual income had remained stable for the past year. The ratio was still elevated at 105% but had improved from previous years. "We welcome this, as well as the fact that debt counselling inquiries are up by 18% and registrations for online debt management tools have increased. It indicates more people are taking action to deal with debt," Sager said.

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