

Economic Review for the Man in the Street

By Paul J Slot

Do you know what the effect on the credit crises will be on you this year?

This is a complex question that needs to be demystified. Let us give you a man in the street view.

The world economic crisis has its origin in the US. Ordinary people were encouraged to buy houses with loans they could hardly afford. Some of the loans used teaser rates. This means the rates stayed low for a period and thereafter it increased substantially. These loans were packaged in bulk loans and sold to financial institutions world wide.

These US banks bargained on a growing economy, increased salaries and general increase in home values. During 2008 consumers in the US could no longer afford to repay these loans mainly because they did not receive the increases anticipated, cost of living increased and higher interest rates kicked in. On top of this house prices in the US reduced dramatically. For many this was one drop too many and consumers defaulted in mass. This was the start of the credit crisis. Bad debt increased and banks themselves were under pressure. The US Government started to assist banks financially. This had a direct impact on the rest of the world and suddenly the world economy was under pressure.

This resulted in a reduction in the size of the world economy. Consumers stopped buying and production had to be curtailed. Exports reduced and a massive reduction in job losses commenced. It is expected that more people will lose their jobs in the rest of 2009.

The initial effect on South Africa was low and many government officials said this will pass us by. Some economist echoed the same sentiments.

Unfortunately this was not true. Yes, there are some factors why South Africa is better off. Firstly we still have exchange control regulations that prevented bankers to invest in money abroad. Secondly the South African Banking system is well controlled by the Government and thirdly South Africa introduced the National Credit Act (NCA) in 2005 which introduced the concept of responsible lending. This new piece of legislation is now the envy of the rest of the world.

Unfortunately most banks in South Africa saw it fit to increase lending substantially before the implementation of the NCA simply because the principal of reckless lending did not apply at that point in time. Today we pay the price for this. There are 17.5 million consumers with credit agreements in South Africa and of this 40.5 percent or 7 million consumers have been unable to keep up with payments.

In addition to this the effect of the credit crunch started to show in the South African economy. The demand for mining products reduced overnight. Coal was the exception. Like in the rest of the world new car sales dropped and the car manufactures are forced to cut back. Banks on the other hand are experiencing a massive increase in bad debts based on the combined effect of the massive lending prior to the introduction of the NCA and the effect of the credit crunch. This resulted in tighter credit rules and less application for loans by shell shocked consumers. Banks also started to reduce jobs.

So where does this leave the average consumer in South Africa. Brace

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yourself it will get worse before it will get better. This is not a statement that is understood by South Africans. Well let me spell it out.

You can expect the following:

* The size of our economy will continue to reduce during the rest of this year. This means fewer jobs in many sectors of the industry. Mining, manufacturing, sales, insurance, assurance, banking, residential building, construction will be forced to implement cost cutting measures this year;

* Exports will reduce and this could impact on the reserves in foreign currency held by the SARB. This will place pressure on our exchange rate;

* Food prices will stay high despite the reduction in fuel costs;

* House prices are expected to reduce making it more difficult to sell your house;

* South Africans working abroad will be forced to return to South Africa due to the reduction of work abroad;

* Pay increases will be much lower than expected;

* Overtime will reduce;
Commission earners can expect a reduction in income;

* Expect this position to continue for the next 18 - 24 months;

* In the rest of the world the effects of the credit crunch will take 3 to 5 years to work through the system.

To counter this we also expect some good news that will assist the man in the street:

* Interest rates will continue to be reduced over the next 12 months;

* Inflation is expected to reduce during the rest of this year and this should reduce the pressure or need for price increases;

* The 2010 world soccer will result in an influx of tourists and foreign capital;

* The South African Government's spending plan is good for the local construction industry and the jobs in that industry;

* The effect of the credit crunch will continue to have a lower impact on South Africa if compared to the rest of the world.

Ok but what should I do about this?

From the above it is clear that the economic slowdown will affect you and no matter who you are you should have a plan to ride out the storm.

Generally you can be classified in one of the following three groups:

Employed with low debt.

This means you have a permanent job and you pay less than 36 percent of your monthly income on monthly debt repayments.

Advice to you is: Look after your job and refrain from making new debt. Reduce the usage of debt and reduce your credit limits. Don't reduce debt repayments when rates reduce. Be aggressive with debt repayments. Repay expensive debt first. Review your budget and cut back on

expenditure to create an emergency fund.

Employed with high debt.

This means you have a permanent job but you need more than 45 percent of your monthly income to pay monthly debt repayments.

Advice to you is: You urgently need to implement a plan to reduce your debt. This means cutting back on your monthly budget to increase your debt repayment. Don't make new debt. Actively reduce debt and your credit limits. Stop using your credit cards. Don't wait and don't believe the reduction of interest rates will save you. You need to take action immediately and this includes a reduction in your living standard.

Reduced income or the prospect of losing your job.

This means that either your work week has reduced or your commission income has reduced or you have lost your job or you are about to lose your job.

You are in a difficult position. You will be angry and despondent and in all likelihood blame people for your predicament. You need professional help to get on top of your emotions. You still need to deal with your economic situation. Start looking for a job - any job that can generate income. What is important is the income and not job satisfaction at this point in time. If you have received a retrenchment package use it wisely and stretch the use of it.

Redo your budget and cut expenditure ruthlessly. If you have debt and you have the prospect of a job visit a Debt Counsellor. They can help you.

If you are in this position contact Octogen Financial Wellness and ask for the booklet: How to deal with reduced income. This booklet will be of great assistance to you.

Send an e-mail to dc@octogen.co.za or phone 0861 100 455 to ask for this free booklet.

General tips to review your financial position:

- * Get your free booklet: Budget that works and review your budget. Send an e-mail to dc@octogen.co.za and request your free booklet;
- * Scale down on your living standards. Select 3 items where you can reduce expenditure;
- * Offer help to a family member or friend if you can;
- * If you pay for something and you can do it yourself and stop paying somebody else;
- * If you are in trouble talk about your situation to your family, friends and your church. If they offer help take it. Tomorrow it is your turn to help;
- * Review your position and your budget on a weekly basis;
- * Ask for help from a professional. They deal with this on a regular basis. They will understand your position and their advice will help you. All you need to do is ask.

Contact Octogen Financial Wellbeing Service if you need help.

Send an e-mail to dc@octogen.co.za or phone 0861 100 455
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