# Why you need to pay into your bond now

By Jan le Roux

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Much has been said about the current, worldwide economic climate as well as the pressures that people are feeling locally. Currently, the debt-to-income ratio in South Africa stands at 76% - lower than the 82% high in 2008 - but still worryingly high.

John Loos, household and consumer strategist of FNB, indicates that there was renewed growth in the debt-to-disposable-income ratio in 2012 and believes that, based on the acceleration in household credit growth towards the end of last year, 2013 will see further increases in this credit section.

Earlier this year Salomi Odendaal, an economist of Citadel, told Fin24 that: "Credit growth is quite steady at the moment. It has picked up over the past year or so. The household credit growth is still mainly outside of mortgages. Mortgage growth is the one part of credit growth that's still very slow. It's growing at about 2% at the moment, which is probably a reflection of the housing sector that's still struggling to recover.

## Don't borrow to buy cars or holidays

Salomi's observation is telling of how many South Africans are getting it wrong in that their spending is not on appreciable assets. One of the best ways to save is not to go into debt for anything that is not an asset. Don't borrow money to spend on luxuries like holidays, if you don't have the cash, don't spend it. I believe in only getting in to debt when acquiring assets like property, which will increase in value, unlike cars.

The main culprits are food, petrol and housing (electricity as well as water and other municipal services). The CPI inflation rate for 2012 was 5.6%, which is slightly up from 2011's 5%, indicating the second consecutive, annual rise.

Food, as a component of CPI inflation, currently stands at 6.9% and, while it is significantly lower than the double-digit rates of a few years ago, it affects disposable income - particularly in the lower income brackets.

## Fuel costs and Eskom hikes

The cost of fuel recently rose again by 81 cents per litre - a hike that will significantly inflate travel costs - which can be ill afforded by the lower income brackets. Added to this expense is the recent hike in Eskom's tariffs, as well as an increase in municipal service costs, all of which are inflating the pressure on households' disposable income.

John Loos has repeatedly warned against being lulled into a false sense of security by the currently low repo rate. Whilst people might still be able to pay their mortgages, service their monthly debts and have a bit of disposable income left.

It is that income he is urging home owners to save as the repo rate will increase again and that, combined with the rising service costs and bad credit growth, will cause countless people to feel a very real pinch in their pockets.

It is always a good idea to pay as much money into your bond as possible, as you're investing in an appreciable asset. With the current, low repo rate, it would be a wise decision to decrease mortgage debt as much as possible before rates rise again, making the extra payments difficult or even impossible.

The FNB Household Consumer and Retail Sector report for December 2012 indicates that heavily weighted rental and owner-occupied rental components, whose inflation rates are 4.8% and 4.2% respectively, has done much to contain overall CPI inflation.

The report concludes that a weak rental property market is instrumental in containing consumer inflation and keeping interest rates low. John Loos, points out that watching this market will be valuable in the near term as signs of it strengthening could drive CPI Inflation higher.

Both Loos and I urge homeowners to avoid increasing their household credit growth, with the exception of mortgages, as much as possible. Rather than incurring debt on items such as cars, which depreciate in value, the only good debt at present is debt incurred by acquiring an appreciating asset like property.

My advice would be for people not to be lulled into a false sense of security because of the low interest rate. Rather save as much as possible now, before interest rates and further hikes in the price of petrol and services, make saving difficult.

## ABOUT THE AUTHOR

Jan le Roux is the CEO of Leapfrog Property Group.