The Property Economist

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Neville Berkowitz, Founder of TenantProsperity.com

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A drop in interest rates won't save the embattled middle class.

The middle class is facing a dire financial crisis. Credit instalment payments consume a staggering R4.30 out of every R5 of their take-home pay.

According to the latest Eighty20 Credit Stress Report, middle-income households earning an average of R25,000 a month and individuals earning an average of R15,000 a month are already burdened with spending 79% of their monthly income to pay on credit instalment payments.

However, after deducting an average tax rate of 8.2%, they spend 86% of their take-home pay on instalment debt repayments.

In December 2021, most of the 3.5 million credit-indebted middle-class people spent R1 out of every R2 of their take-home pay on credit instalment payments. By December 2023, this had increased to R4.30 out of R5 as interest rates jumped 120% from November 2021 to May 2023.

The average indebtedness of the middle class is R152 715, and a monthly drop in the interest rate of 1.25% p.a. will save them R159 a month- the equivalent of 5 packs of 20 cigarettes a month.

Neville Berkowitz (71), a 47-year seasoned property economist at TenantProsperity.com, sees a grim picture and foresees a worsening situation.

Standard Bank's Chief Economist expects interest rates to decrease only 1.25% p.a. during 2024-2026. Berkowitz firmly believes that such a slight projected drop in interest rates will unlikely alleviate the increasingly deteriorating financial strain on the middle class's indebtedness.

In an economy with near-zero growth, salary and wage increases will lag the inflation rate. Simultaneously, fiscal drag may come into play, with higher tax payments, inflation remaining around 5-6% p.a., a potential 1% increase in VAT after the May 2024 General Election, and other rising costs the middle-class bears. Any interest rate savings will be quickly wiped out, and monthly expenses will increase.

Unfortunately, there is little to no reprieve in sight for most of these well-over-borrowed middle-class people in the foreseeable future.

How will they stay afloat over the next few years? Conventional lenders like banks are tightening their lending policies as bad debts skyrocket. The financially strained middle class has no choice but to turn to unsecured lenders, credit card facilities, and retail credit providers, all of whom impose significantly higher interest rates than conventional lenders. These lenders will even shut the door on well-overborrowed people initially or after granting them an additional loan.

For those able to borrow from unconventional lenders, this could see their take-home pay to credit instalment payments increase, breaching 90% for specific well-overcommitted higher interest-paying middle-class borrowers by year-end. They will try to live on the remaining 10% of their take-home pay- R1340/month or R45 daily. A household with R22 000 in take-home pay will have R2 200/ month or R73 daily for living expenses. Daily travel costs alone will wipe out these daily living expenses.

The consequences for the middle class are potentially disastrous over the next two years as they are financially stretched further each month, waiting for a meaningful drop in interest rates- which is not on the horizon until at least 2027.

Less and less take-home pay is increasingly unavailable for the 3.5 million credit-indebted middle class to pump into the economy. This will be detrimental to business owner tenants across the economy and their landlords.

Future-proofing these tenants through TenantProsperity.com is a viable solution for landlords and their tenants.