

## Consumers must adapt quickly to the new normal

Restaurants and hairdressers are reopening, and life may be returning to a semblance of normal as restrictions are eased, but South African consumers would be well advised to try and avoid falling into pre-lockdown spending habits.

DebtBusters' quarterly debt index for Q1 2020 showed that even before the lockdown South Africans were facing increased financial strain, taking on more debt to supplement incomes that had declined in real terms.

Chief Operating Officer, Benay Sager, says although inflation is at the bottom end of the Reserve Bank's target range at 3% the reality for most people is that incomes aren't going to increase.

With the economy expected to shrink significantly this year, it is unlikely many employers will consider or be able to give pay increases.

"A combination of reduced earning potential in a contracting economy and inflation will considerably increase the pressure on consumers. This leaves them with a stark choice: borrow more to make up the shortfall or reduce their expenditure."

Sager says that with average total debt in Q1 2020 up 33% compared to the same period in 2016 for majority of consumers borrowing more isn't an option. The debt index showed DebtBusters' clients earning more than R20 000 in the first quarter of the year already had a debt to annual income ratio of 142%, which is unsustainable.

"A reality of the new normal is that it will be harder and more expensive to borrow money. In a dire economic environment, lenders will tighten lending criteria and increase rates to offset risk."

He says consumers will quickly need to come to terms with the fact that they can't return to their old spending habits and look for ways to cut unnecessary expenses. The best way to manage spending is to create a family budget.

Information about building a budget can be found here:

<https://www.debtbusters.co.za/guides/building-a-budget/> and there's a self-analysis test to assess financial habits here: <https://www.debtbusters.co.za/tools-and-advice/self-analysis-test/>

"As South Africa emerges from the lockdown it's vital that consumers keep a careful eye on their income and expenditure and get professional help if they realise, they're getting into trouble. The earlier someone seeks help the easier it is to develop a plan to negotiate with creditors to help them get out of debt. If they wait too long, those options may not exist."