



## NEGATIVE GROWTH IN INSOLVENCIES REFLECTS BENEFITS OF THE NCA; BUT COMPULSORY COMPANY LIQUIDATIONS RISE SIGNIFICANTLY

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### **BOTTOMLINE:**

#### **Insolvencies:**

- As an indicator of the financial health of individuals and partnerships, the negative growth in insolvencies in January and February might superficially be interpreted as suggesting continuing financial health despite rising interest rates. Y-o-y growth in insolvencies in February fell to -23.7% from -18.3% in January. Both these figures contrast with the positive 15.9% growth in insolvencies for the whole of 2007.
- However, one should be careful not to accept the above conclusion at face value. Firstly, historical insolvencies data are often revised upwards quite significantly. For example, last month growth in insolvencies was reported as having been a positive 58.1% in January, whereas now it is reported as having been negative, at -18.3%. This change arises from a substantial upward revision of the 2007 insolvencies data.
- Secondly, it is possible that the introduction of the National Credit Act in June last year might have eased pressure on people unable to meet their debt servicing commitments and in so doing might have contributed towards reducing the incidence of insolvencies.
- Thirdly, the legal framework has become enmeshed in bureaucracy and a shortage of skills which is delaying legal processes to such an extent that creditors are resorting to alternative actions to recoup money owed to them.

#### **Liquidations:**

- In contrast with the seemingly benign trend in insolvencies, growth in compulsory company liquidations has turned distinctly positive in recent months, with y-o-y growth in such liquidations at 153.8% for the 1st qtr of 2008. This compares with negative growth of -6.0% for the whole of 2007. In March specifically, compulsory company liquidations were double those of March 2007. Although this is down on the 275% increase recorded in February, it does nonetheless still reflect a sharp upward trend and provides an indication of the growing pain being experienced by businesses as a result of the rising trend of interest rates. In a few instances, it is also conceivable that load shedding might have inflicted damage on companies in such a way as to force them into liquidation. In this regard, it is noticeable that the number of compulsory company liquidations in the manufacturing sector for the 1st qtr alone was more than half the total number of such liquidations in 2007 as a whole.
  - Y-o-y growth in the number of voluntary liquidations, however, declined to -10.1% in March, from a positive 10.9% in February, resulting in 1st qtr growth coming in negative, at -5.7%, compared with a substantially positive growth rate in voluntary liquidations for the whole of 2007, of 24.0%.
  - In conclusion, only in the case of compulsory company liquidations is there any significant indication of the financial pressure arising out of the rising trend of interest rates. In the case of both insolvencies and voluntary liquidations, recent indicators appear relatively benign. However, for a variety of reasons indicated, one suspects that the situation of both individuals and companies is somewhat worse than the figures suggest. One suspects that in due course over the coming year one will observe an increasing number of insolvencies and liquidations as the full effect of the 4.5% rise in interest rates of the past 22 months begins to take its toll. Already one keeps reading of anecdotal company specific evidence suggestive of an increase in repossessions of cars, an increase in arrears on household debt and an increasing number of people unable to meet their hire purchase commitments.
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### Total Number Of Liquidations According To Industry

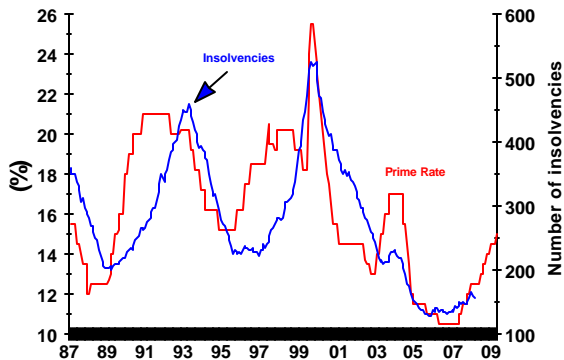
Industry	2007 Total			2008 y-t-d		
	Compulsory	Voluntary	Total	Compulsory	Voluntary	Total
Agriculture, hunting, forestry and fishing	6	24	30	0	4	4
Mining and quarrying	22	11	33	0	1	1
Manufacturing	25	129	154	13	40	53
Electricity, gas and water	7	11	18	1	3	4
Construction	34	134	168	3	18	21
Wholesale and retail trade, catering and accommodation	86	775	861	37	213	250
Transport, storage and communication	8	68	76	2	16	18
Financing, insurance, real estate and business services	113	1455	1568	27	253	280
Community, social and personal services	25	218	243	22	37	55
<b>Total</b>	<b>326</b>	<b>2825</b>	<b>3151</b>	<b>85</b>	<b>602</b>	<b>687</b>

### Year-on-Year Growth Figures (%)

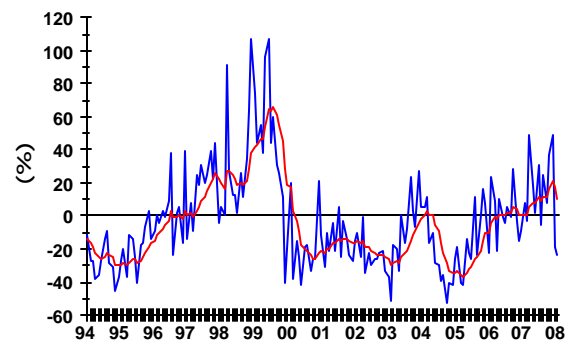
	2004	2005	2006	2007	2007 4th Qtr	2008 1st Qtr	Jan 08	Feb 08	Mar 08
No of insolvencies	-25.5	-17.5	1.2	15.9	28.7	na	-18.7	-23.7	na
No of compulsory Liquidations	-47.3	23.3	-20.7	-6.0	-55.9	153.8	100.0	275.0	100.0
No of voluntary Liquidations	-22.4	1.5	2.6	24.0	-8.7	-5.7	-16.8	10.9	-10.1

Figures revised

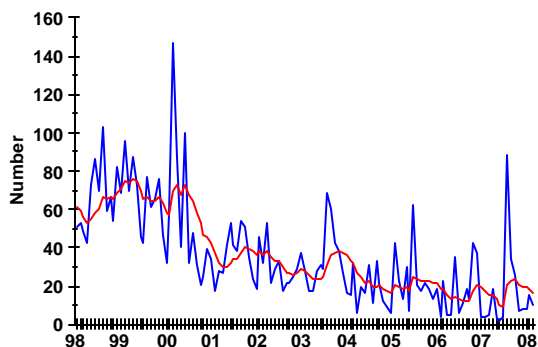
#### Number of Insolvencies vs Prime Overdraft Rate Lagged 12 Months



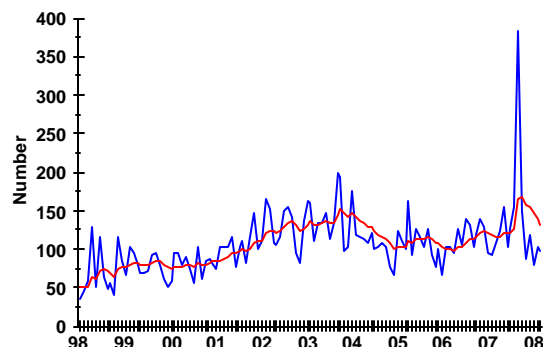
#### Growth in the Number of Insolvencies



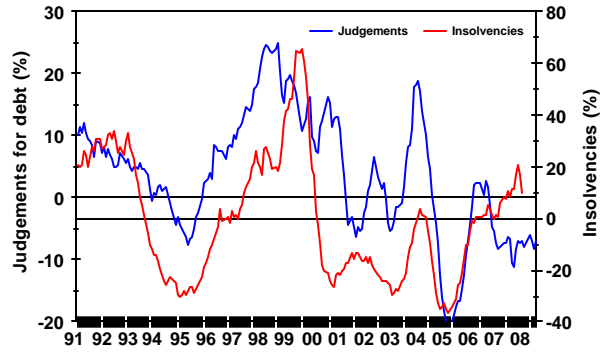
#### Number of Compulsory Liquidations of Companies



#### Number of Voluntary Liquidations of Companies



**Judgements for Debt - Private Persons  
lagged 6 months vs Insolvencies (%)**



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