TransUnion

REPORT

SA Consumer Credit Index

H2 2023

Executive Summary

The CCI has recovered significantly but still suggests that consumer balance sheets are under pressure.

Index: 50.0 = breakeven

47	43	48
Q4 2023	Q3 2023	Q4 2022

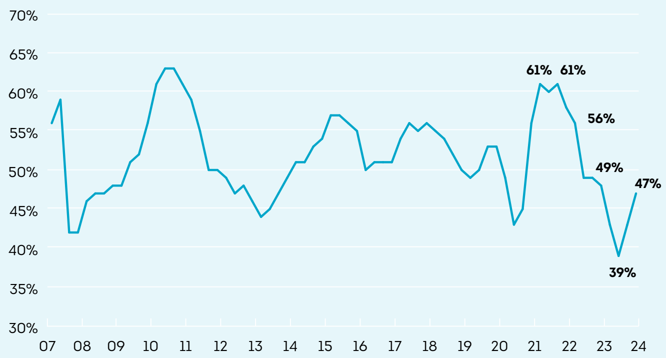
The TransUnion SA Consumer Credit Index (CCI) has bounced back from its worst levels on record, rising from 39 in Q2 2023 to 47 in Q4. The index estimates consumer credit health; 50.0 is the breakeven level between improvement and deterioration.

- After a sharp deterioration in the year's first half, the TransUnion Consumer Credit Index recovered significantly in the second half of 2023. The reading of 47 suggests that household finances are deteriorating at a slower rate than in H1. After bottoming out in Q2, the index is still well below the neutral 50 level. SA credit health remains relatively poor.
- When looking at the index's components, note that the recovery was primarily due to SA's central bank (the SARB) holding off on further interest rate increases, which will have eased pressure on debt repayments somewhat. In this context, the data also suggests that households have recovered some budget space, with household cash flow turning positive YoY.
- Credit utilisation and defaults still rose slightly, but defaults especially remain unalarming. This suggests that more conservative lending policies within the data sample may be paying off. Lenders that relied on credit sales to boost volumes should therefore retain caution in the months ahead. When considered alongside recent data releases, such as weak vehicle sales and constrained retail volumes, the latest CCI data suggests that many South African households are struggling to absorb higher living costs. New jobs remain scarce, which should keep income growth weak.
- Poor economic policy and failure of basic infrastructure remain major risks to consumer confidence and credit health. Many SOEs are financially unsustainable, while key infrastructure has been deteriorating. The run up to crucial 2024 elections may well see many putting key investment and purchase decisions on hold.

Key Charts Reflecting the TransUnion Consumer Credit Index

Q4 2023 CCI: Key Facts and Figures

TransUnion Consumer Credit Index



No. of accounts measured: **55.885 million**

No. of accounts three months in arrears: **834,495**

Value of revolving credit measured: **R227.11 billion**

Estimated average Q4 2023 non-discretionary consumer price inflation (NDCPI): **+5.7% YoY (2023 average: +5.9% YoY)**

Estimated Q4 2023 NDCPI-adjusted disposable income growth: **2.8% YoY preliminary (Q2: 1.9% YoY)**

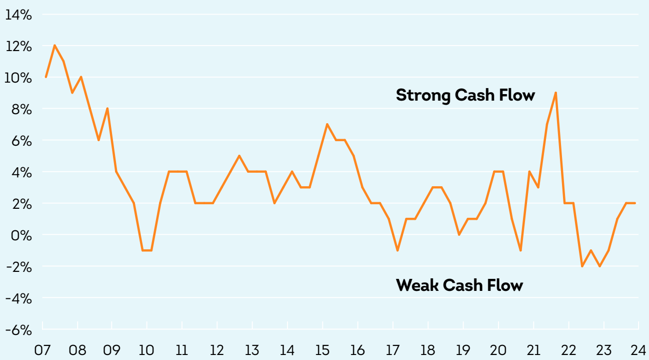
Aggregate annualised, seasonally-adjusted household income: **R4.50 trillion Q3 (Q2: R4.45tr)[1]**

Estimated national household bank debt as a percentage of disposable income: **61.9%[2]**

Prime overdraft rate at end Q4 2023: **11.75%**

ETM: Household Cash Flow

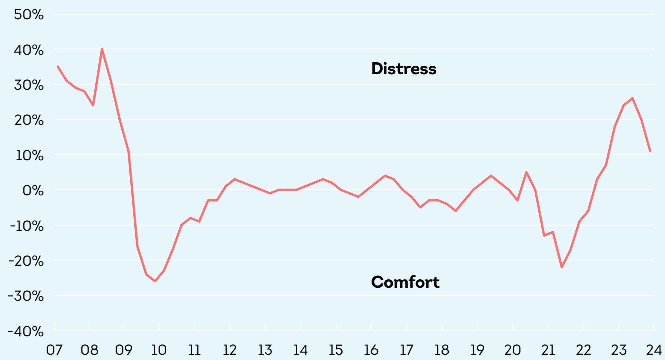
NDCPI-adj. household deposits & disposable income, avg y/y % change



TransUnion, ETM, Macro Advisors, Macrobond

ETM: Household Debt Service Cost

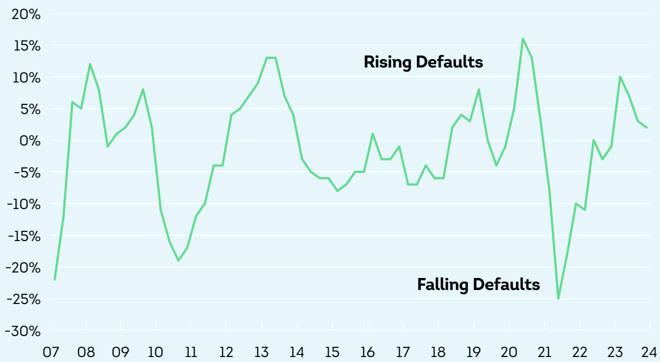
Debt service cost: disposable ratio, y/y % change



TransUnion, ETM, Macro Advisors, Macrobond

TransUnion: Accounts in Default

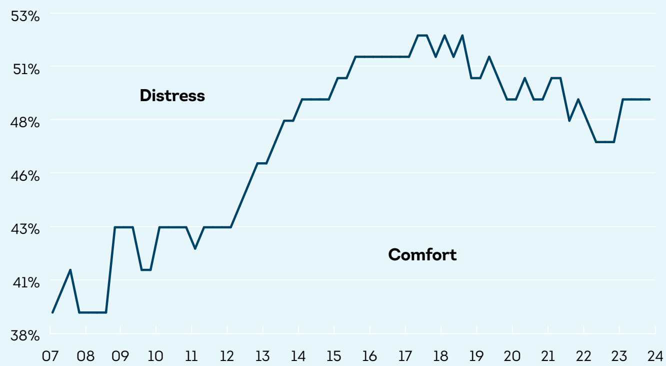
3m Arrear Acc/Total Accounts, y/y % change



TransUnion, ETM Analytics

TransUnion: Revolving Credit Utilisation

Revolving credit current/opening balance, avg y/y % change



TransUnion, ETM Macro Advisors, Macrobond

[1] GDP figures. Best estimate of total household income in the preceding quarter
[2] Q3 data, source: SARB Quarterly Bulletin

Data Weighting in the TransUnion CCI

TransUnion Defaults and Distressed Borrowing	Household Cash Flow	Debt Servicing Costs
50%	35%	15%

Unpacking the H2 2023 SA Consumer Credit Index

Household credit behaviour

1. Credit defaults
Account defaults continued to rise in YoY terms but are broadly recovering from a recent rise. This suggests that the initial shock, which for many will have started in 2020, seems to be resolving, with the caveat that consumer credit health remains fragile amid labour market insecurity. There are several reasons to think that credit health will be constrained; these include elevated interest rates, high prices, and weak wage growth.

2. Distressed borrowing
Account utilisation has risen steadily in recent years, reaching above the 51% mark once again from lows around 48%. This increase in distressed borrowing comes off a lower base due to the COVID/lockdown period visible in the chart from 2020.

Without further borrowing, current levels are consistent with relative stability. In other words, the rise has returned utilisation towards 2015-2018 levels, a statistically more normal time in SA's recent history. If utilisation rates keep rising, it would represent a red flag deterioration in SA's credit health. But, if rates normalise, it would suggest that COVID-period effects are merely working out of the measure more fully.

Household cash flow (HCF)

Consumer balance sheets have recovered somewhat since the cost-of-living crisis in 2022, pushing real household cash flow back into positive growth territory. But it is worth considering that the rate of growth remains low. This suggests that household income levels are constrained relative to where they were before the post-COVID cost of living spike, and it will likely take some time for cash flow to recover fully.

Household debt serviceability

The debt service costs component has improved as the SARB held off on rate hikes. With rate cuts on the way, one could expect this factor to move into net comfort territory through 2024, barring perhaps another inflation shock. The broader macroeconomic environment is one of falling inflation pressure and weak overall growth, which should help keep the SARB outlook towards policy easing. Expectations in the futures markets is pencilling over 50 basis points in rate cuts.

Further insight: Disruption is likely in 2024, with elections scheduled and rate cuts expected

There is potential for significant disruption in the year ahead with the year holding both political and monetary shifts. IPSOS polling suggests that there could be a rise in support for opposition parties over the incumbent government in national elections that take place between May and August 2024. Moreover, new political entrants have emerged.

Note that the election is likely to take place shortly before financial market pricing expects the SARB to begin cutting interest rates, introducing several complex risks to consider.

The emerging outlook for SARB rate cuts offers hope to those still experiencing cost-of-living pressures. But it will only follow a significant and sustained compression in inflation. In past cycles, the SARB has been willing to tolerate an extended period of weak demand conditions before cutting.

This suggests that households will need to keep putting in effort to restore their own balance sheet health in the year ahead before getting much help from monetary policy, forcing a more conservative stance among many.

In terms of significant events, note that in February and October, the National Treasury is set to publish its annual updated spending plans. There are concerns about fiscal sustainability that need to be addressed, with major implications for foreign investment and currency risk.

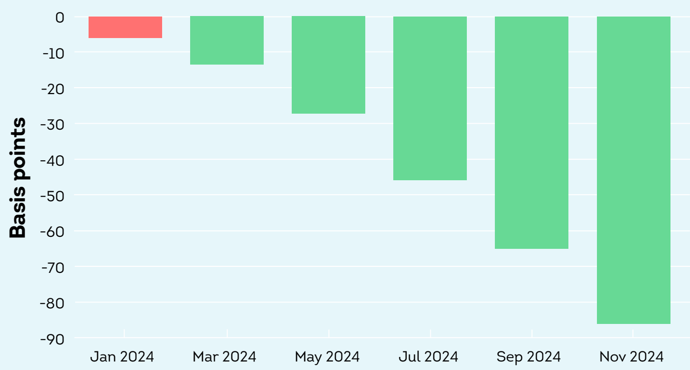
Elections are expected to occur between these events towards the middle of the year, with some speculation that the date could be as soon as May. There is also speculation that the SARB will follow the US Federal Reserve in cutting interest rates, but exactly when rate cuts will be forthcoming in America remains a speculative consideration for now.

US elections will also be the major political event globally, with the potential to affect US foreign policy and internal affairs significantly. With geopolitical risks rising in the Middle East, there is also potential for deteriorating investor confidence towards traditionally riskier assets like the South African rand and rand-denominated assets. This remains a major swing factor for the inflation outlook, as rand weakness could stop the SARB from cutting interest rates.

Many of the potential election outcomes reflected in IPSOS polling would represent a seismic shift in SA's internal politics, which has uncertain implications for the direction of state policy heading into the February budgeting period. The 2024 election poses numerous potential outcomes, none of which is clear-cut. In this context, individual and household budgetary prudence is important. Those who have kept their debt levels low will be insulated from the kinds of volatility that an election year might bring. When at a crossroads, businesses tend to delay or shelve investment plans. In such an environment, lenders would be similarly prudent to ensure that borrowers are keeping well within their financial limits.

Cumulative rate cuts priced in per SARB meeting

JIBAR 3 month less closest SA Forward Rate Agreement (FRAs) rate



Source: Bloomber,ETM Analytics

The TransUnion SA Consumer Credit Index: Key Information

What is the Consumer Credit Index?

The TransUnion SA Consumer Credit index is an indicator of **consumer credit health** compiled by **TransUnion, a global leader in risk and information solutions** with technical support from **ETM Macro Advisors**, and released bi-annually.

It measures the aggregate consumer loan repayment record; tracks the use of revolving consumer credit facilities as an indicator of distressed borrowing; estimates household cash flow as a means of determining financial pressure/relief; and quantifies the relative cost of servicing outstanding debt.

The indicator combines actual consumer borrowing and repayment behaviour with key macroeconomic variables impacting household finances.

A 'diffusion' index

The index is designed to fluctuate within the set logical minimum and maximum of 0 to 100, with 50.0 as the so-called 'breakeven' point. **Levels above 50.0** are associated with higher rates of loan repayment, lower credit card utilisation, improving household cash flow, lower interest rates, and credit deleveraging and vice versa for **levels below 50.0**.

- 50-60/40-50: **moderate** improvement/deterioration.
- 60-70/30-40: **strong** improvement/deterioration.
- 70-90/10-30: **extreme/unusual** improvement/deterioration.
- 90-100/0-10: **highly improbable** improvement/deterioration.

The data

The index has three main data components:

- TransUnion Credit Bureau data[3]
- Official public domain statistics
- Proprietary analytics of public domain statistics

TransUnion Credit Bureau
Consumer credit card utilisation[4]; number of consumer credit accounts in arrears (TransUnion).

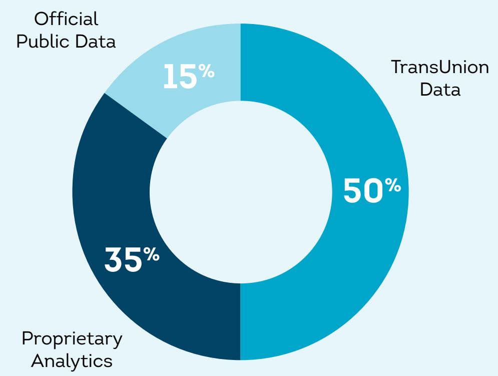
Official public domain statistics
Prime interest rate; household debt to disposable income ratio (SARB).

Proprietary analytics of public domain statistics
Non-discretionary CPI derived from the official Consumer Price Index, 'Alternative Money Supply' derived from official money supply and credit data (ETM Analytics; SARB, Stats SA).

Real world application

The index may be considered a credible indicator of macroeconomic events and growth cycles for sectors affected by consumer finances and credit behaviour. The recent downturn in the index suggests consumer demand could be stifled in coming months, particularly if structural issues remain. The sub-components of the index provide valuable business insights which can be used to evaluate consumer behaviour, financial distress, household cash flowand budget dynamics.

Data Weighting in the TransUnion CCI



[3] Incorporating SACRRA data [4] As supplied by SACRRA members

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