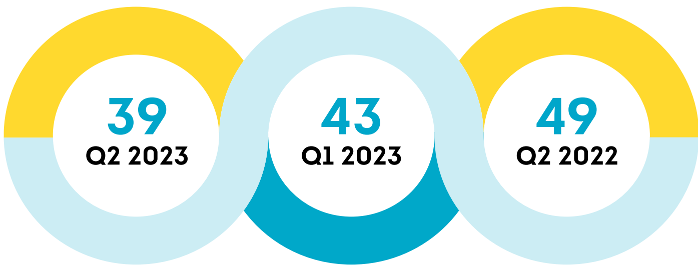
TransUnion

SA Consumer Credit Index | H1 2023

Executive Summary

The CCI has fallen to fresh lows amid rising debt service costs and a suppressed economic growth environment.

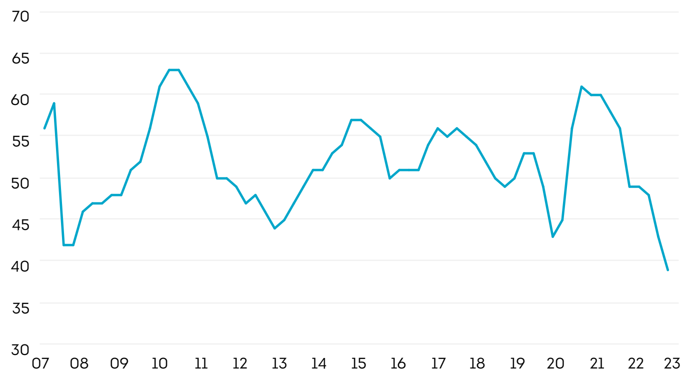
Index: 50.0 = breakeven



- **The TransUnion SA Consumer Credit Index (CCI) has been under immense pressure in H1 2023, falling to a level of 39.** The index estimates consumer credit health; 50.0 is the breakeven level between improvement and deterioration.
- The Consumer Credit Index fell sharply in the first half of 2023; the Q2 level of 39 indicating credit conditions worsened considerably. The CCI was down 4 points on the quarter and 10 points year over year (YoY). A challenging retail trading environment is likely to extend into H2.
- It's notable that the index fell to its lowest level on record, which suggests that a cautious approach to new business remains a prudent strategy. Moreover, consumers who have been conservative in their finances will be relatively better off. Financial fragility tends to raise price sensitivity among consumers as they attempt to cut household budget costs and curtail spending. This can disproportionately constrain sales volumes when prices are being pushed higher by rising trading and input costs.
- It's important to note while three-month defaults surged YoY, both as a ratio of total accounts and relative to themselves, much of this was due to a base effect from new defaults falling so dramatically during the period of ultra-low interest rates associated with COVID lockdowns and other policies like loan holidays. In other words, new defaults returned to a more normal level rather than worsened abnormally. It remains to be seen whether new defaults will continue to worsen in the quarters ahead.
- While non-performing loan rates rose considerably, increased prudence among lenders appears to be buffering losses. On aggregate, the ratio of defaults to new loans was relatively stable. This bears testament to a relatively soundly managed credit market over recent years as credit providers have – overall – remained prudent in the face of substantial economic risks.
- Caution remains the watchword going into a highly uncertain 2024, with national elections and political uncertainty front and centre, while further rate hikes by the SARB can't be ruled out.

Q2 2023 CCI: Key Facts and Figures

TransUnion SA Consumer Credit Index



No. of accounts measured: **53.473 million**

No. of accounts three months in arrears: **882,193**

Value of revolving credit measured: **R205.69 billion**

Estimated average Q2 2023 non-discretionary consumer price inflation (NDCPI): **+6% y/y (2022 average: +8.5% y/y)**

Estimated Q2 2023 NDCPI-adjusted disposable income growth: **0% y/y preliminary (Q1: 1.6% y/y)**

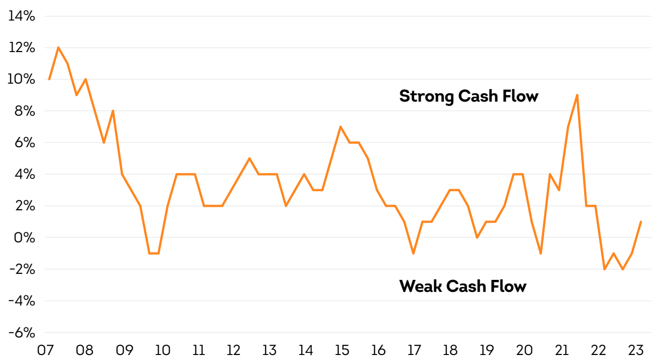
Aggregate annualised, seasonally-adjusted household income: **R4.51 trillion (Q4: R4.36tr)**[1]

Estimated national household bank debt as a percentage of disposable income: **62.1%**[2]

Prime overdraft rate at end Q2 2023: **11.75%**

ETM: Household Cash Flow

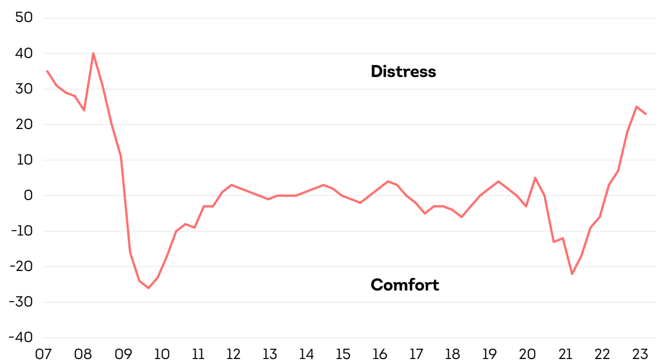
NDCPI-adj. household deposits & disposable income, avg y/y % change



TransUnion, ETM, Macro Advisors, Macrobond

ETM: Household Debt Service Cost

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



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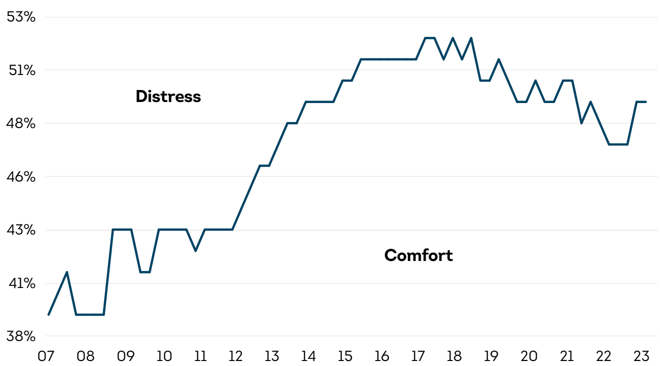
TransUnion: Revolving Credit Utilisation

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



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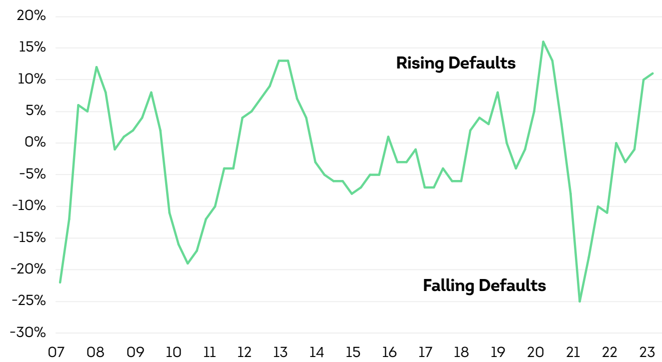
TransUnion: Accounts in Default

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



TransUnion, ETM, Macro Advisors, Macrobond

[1] GDP figures. Best estimate of total household income in the preceding quarter
[2] Q1 data, source: SARB Quarterly Bulletin

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DATA WEIGHTING IN THE TRANSUNION CCI

TransUnion Defaults & Distressed Borrowing	Household Cashflow	Debt Servicing Costs
50%	35%	15%

Unpacking the H1 2023 SA Consumer Credit Index

Household credit behaviour

1. Credit defaults

Credit defaults were one reason for a sharply lower CCI level in H1. Some encouragement can be drawn from the fact credit defaults have been rising aggressively YoY, partly due to the impact of the previous period's data being suppressed by COVID policies. New defaults returned to a more normal level rather than worsened abnormally. The effect will gradually work out of the CCI over H2, suggesting this might be the low tide mark in terms of consumer health – barring another major economic shock.

2. Distressed borrowing

Credit and store card utilisation rose 2.1% YoY in Q2, indicating consumers used additional credit to maintain living standards. Higher utilisation tends to mean future consumption demand will be constrained as debt is paid back. This would only be compounded by a weak growth and employment outlook. It's telling distressed borrowing is rising when consumers might be dissuaded from borrowing further by higher interest rates. With the prime rate at its highest since 2008, the repayment burden of borrowing has risen substantially.

Household cash flow (HCF)

Household cash flow improved by 0.3% YoY in Q2. This was a marginal improvement. With non-discretionary prices[3] starting to compress, household cash flow appears likely to recover further in H2. Yet, any recovery in cash flow will likely remain constrained by a weak economy amid familiar structural challenges, such as load shedding, skills shortages, infrastructure decay, and political and fiscal uncertainty.

Household debt serviceability

Debt service costs, on average, were over 24% higher YoY in H1, suggesting most of the pressure on consumer credit health will be concentrated on the highly indebted. Debt service costs appear unlikely to rise much further with a repo rate of 8.25% taking the cost of borrowing to its highest level since 2008. Higher debt service costs will continue to constrain consumer spending as long as the SARB keeps interest rates elevated.

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[3] Non-discretionary prices have decelerated to 4.8% y/y from highs in July 2022 of 10.2%.

Further Insight: Has the Reserve Bank reached the end of its tightening cycle?

The South African Reserve Bank Monetary Policy Committee (MPC) kept the benchmark interest rate unchanged at 8.25% after raising the repo rate 475 basis points (4.75 percentage points) since November 2021, delivering 10 consecutive repo rate hikes.

The hold in rates indicates the SARB may be reaching the end of its current tightening cycle. However, the SARB highlighted further hikes may still be required in extenuating circumstances. In its policy statement, the bank said it expects financial "markets in major financial centres to remain volatile," suggesting borrowing rates could stay higher for longer if external conditions were stable.

It's encouraging inflation pressures also appeared to be easing with non-discretionary price increases cooling to just 4.8% YoY (according to StatsSA data) from recent peaks over 10%. The MPC lowered its inflation forecasts for 2023 and 2024 but still sees elevated inflation risks, mostly stemming from a ZAR shock or major commodity price shocks.

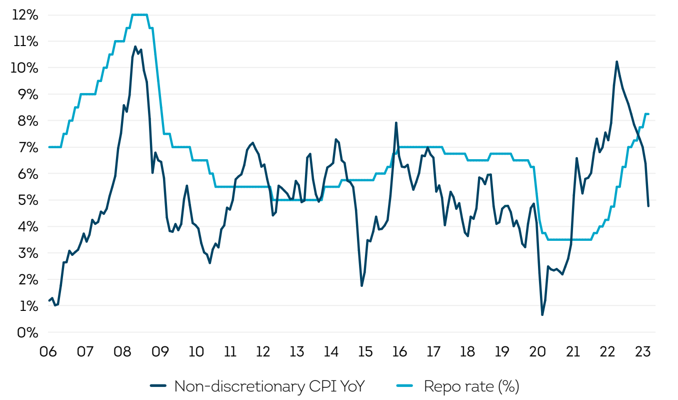
The trajectory of headline inflation in South Africa has been heavily influenced by fuel, electricity and food prices. The policy statement warned, "Load-shedding and logistics constraints may also have broader effects on the cost of doing business and the cost of living" in SA. The recent appreciation of the South African Rand against the US Dollar (after acute weakening) will help lower the price of imported goods and services. Yet, business running costs have risen substantially as onsite power generation and storage solutions have been installed in households and businesses.

The SARB left open the possibility of further policy tightening. However, the current economic conditions suggest the tightening cycle is reaching an end. The bank's monetary policy committee also intimated interest rates will likely stay high, barring any unexpected inflation shocks.

The market has adjusted its rate outlook lower and is pricing in expectations for interest rate cuts over the next year. Despite expectations of a stronger rand, the exchange rate is still considered the most significant risk to the inflation outlook. Much will therefore depend on external market conditions in the months ahead and how the rand responds.

The global economy's near-term prospects seem to be stabilising with inflation easing and growth forecasts remaining steady, notwithstanding that the US Federal Reserve raised interest rates once again in July, which will keep pressure on the likes of the SARB to keep interest rates relatively high for longer. Moreover, the longer-term economic outlook is uncertain due to structural inflation risks, a weak growth outlook in major trading partners like China, and geopolitical tensions that could continue to challenge global food supply. Next year's election cycle also remains a core uncertainty for many amid the risk of possible violence and unrest as was seen in July 2021.

Non-discretionary CPI



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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**[4]
- **Official public domain statistics**
- **Proprietary analytics of public domain statistics**

TRANSUNION CREDIT BUREAU
Consumer credit card utilisation[5]; 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).

Data weighting in the TransUnion CCI

TransUnion Data	50%
Proprietary Analytics	35%
Official Public Data	15%

[4] Incorporating SACRRA data [5] As supplied by SACRRA members

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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 flow and budget dynamics..

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