TransUnion



REPORT

SA Consumer Credit Index

H1 2024

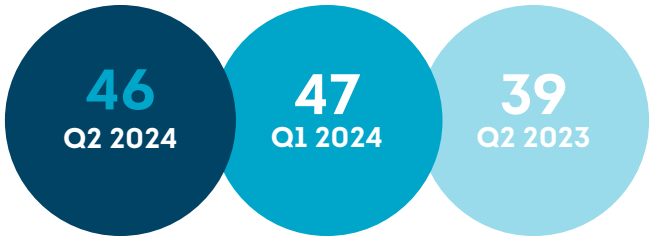
Executive Summary

Credit health improves in H1

The TransUnion SA Consumer Credit Index (CCI) rose in H1 to an average score of 47 as part of a broader recovery from all-time lows of 39 reached in Q2 of 2023. The index measures consumer credit health where 50.0 is the break-even level between improvement and deterioration.

- The TransUnion Consumer Credit Index has held below the 'neutral' 50-point mark through 2024, reflecting a challenging consumer credit environment. High interest rates, an extended period of political uncertainty, and the long-run effects of lockdowns and COVID-19 on the labour market remain significant factors to consider. Note the CCI has been below 50 for the last nine quarters, ultimately reflecting an environment of fragile household finances.
- However, the data also suggests there has been recovery — with the index rising seven points year on year from all-time lows generated this time last year.
- H1 readings of 47 for Q1 and 46 for Q2 suggest the credit environment has deteriorated but at a lesser pace than when the index reached all-time lows of 39 at the end of H1 2023. This detractive pressure was mainly owed to an extended period of high interest rates as the South Arican Reserve Bank (SARB) kept them at much higher levels than many expected. When considering the components of the index, it's worth noting the improvement from recent lows was primarily due to a lack of further interest rate hikes — while the rising costs of living have somewhat lessened. The outlook remains cautiously optimistic in the context of improving political and economic confidence, while recent policies aimed at addressing electricity shortages in the economy appear to be supporting economic productivity.

Index: 50.0 = breakeven

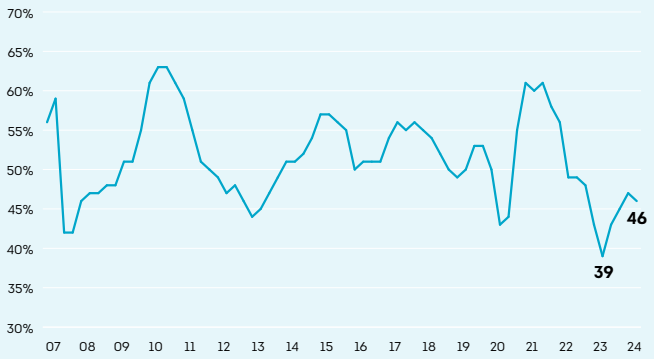


- Distressed borrowing trends are more reflective of stretched balance sheets than reckless credit behaviour. Banks have lent carefully, as visible in low private sector credit extension, yet credit card utilisation has risen. A more conservative lending stance among credit providers therefore appears to have assisted in keeping default rates lower even as consumers resort to debt amid a rising cost of living.
- However, there's still likely to be a significant disparity amongst market segments with South Africa at a crossroads regarding economic and fiscal policy.
- For households, much will depend on whether the country's leaders are able to enact reforms that support households by enabling economic growth. For the retail sector, this implies some conservativism is still warranted in the short-to-medium term as any shifts in policy will take a while to benefit consumers.

Key Charts Reflecting the TransUnion Consumer Credit Index

Q2 2024 CCI: Key Facts and Figures

TransUnion SA Consumer Credit Index



No. of consumer accounts measured: **57.25 million**

No. of accounts three months in arrears: **944,605**

Value of revolving credit measured: **R243.6 billion**

Estimated Q2 2024 non-discretionary consumer price inflation (NDCPI): **+5.0% y/y (Q1: +5.0% y/y)**

Estimated Q2 2024 NDCPI-adjusted disposable income growth: **2.6% y/y (Q1: 2.1% y/y)**

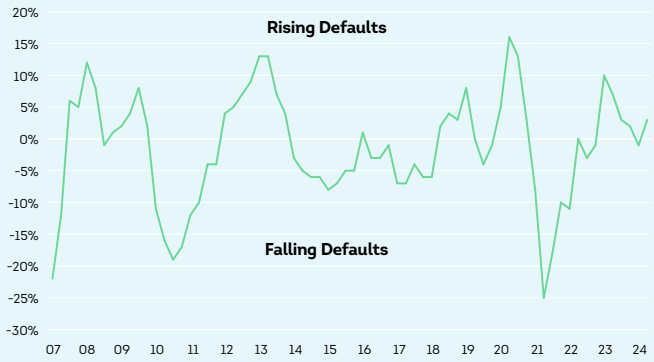
Estimated aggregate, annual household disposable income: **R3.37 trillion (Q1: R3.38tr)**

Estimated national household bank debt as a percentage of disposable income: **63%**[1]

Prime overdraft rate at end Q2 2024: **11.75%**

TransUnion: Accounts in Default

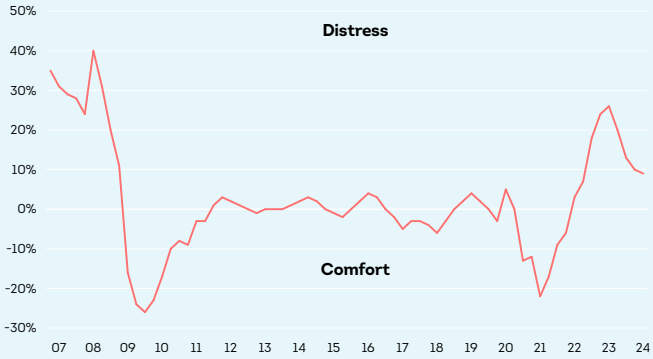
3m arrear acc/total accounts, y/y % change



TransUnion, ETM, Macrobond

ETM: Household Debt Service Cost

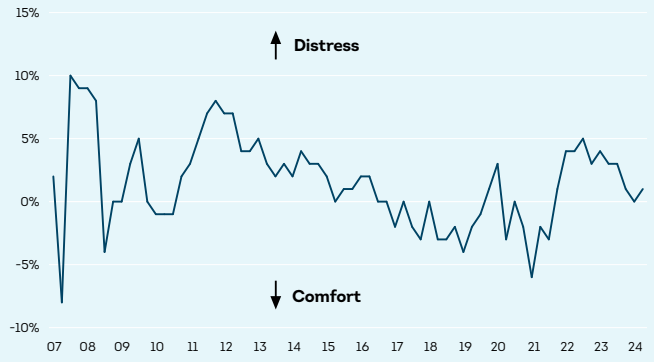
Debt service cost: disposable ratio, y/y % change



TransUnion, ETM, Macrobond

TransUnion: Revolving Credit Utilisation

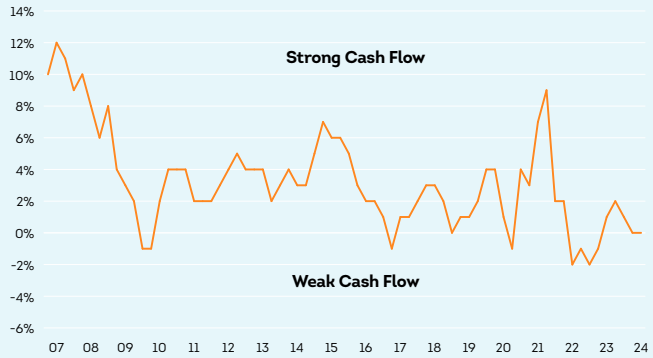
Revolving credit current/opening balance, y/y % change



TransUnion, ETM, Macrobond

ETM: Household Cash Flow

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



TransUnion, ETM, Macrobond

[1] This is subject to revision when official Q4 data is released

Data Weighting in the TransUnion CCI

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

Unpacking the H1 2024 SA Consumer Credit Index

Household credit behaviour

1. Credit defaults

New credit defaults (accounts three months in arrears) peaked at 10.1% in Q1 2023 but reduced significantly amid more cautious lending behaviour. The year-on-year rate of credit defaults reduced to just 2.4% Y0Y in Q2. This feeds into the view that credit risks remain significant but have improved at the margin.

Economic conditions remain fragile, which will elevate the risk of default. However, one could expect the environment to improve amid tighter lending practices from borrowers and lenders, and lower debt service costs as the SA Reserve Bank is expected to reduce interest rates in coming months.

2. Distressed borrowing

To gauge the levels of distressed borrowing in the economy, we measure the volume of revolving credit utilised (credit cards and store cards) as a percentage of total credit limits. According to TransUnion data, distressed borrowing (or revolving credit utilisation) rose 0.6% Y0Y in Q2 from 0.3% in Q1.

This suggests consumers, on average, are going deeper into debt to maintain living standards. High interest rates and rising prices negatively impacted affordability. When looking at revolving credit borrowing as a ratio of credit limits, it becomes clear some households remain financially fragile.

Household cash flow (HCF)

CCI data suggests household cash flow remained practically flat despite normalising economic conditions. This suggests wage increases merely kept up with price increases. Consumer affordability will, therefore, be stagnant. Data also suggests households found it tremendously difficult to add to their savings. In the context of high domestic interest rates and wage growth that has struggled to match inflation, it should be no surprise households appear to be tapping into the existing savings pool — along with credit facilities — to smooth consumption levels.

Household debt serviceability

A year ago, growth in debt service costs peaked at 26% YoY, according to TransUnion data. This steep rise in the cost of financing debt came as the South African Reserve Bank ended its rate-hiking cycle in May 2023, bringing cumulative monetary tightening to 475 basis points (4.75 percentage points).



Since the May 2023 MPC meeting, the SARB left the repo rate unchanged at 8.75%, giving households some reprieve albeit at much higher debt costs. In Q2 2024, debt service costs decelerated to 9.0% year on year, down from 10.0% in Q1. Overall, debt costs were elevated and curtailed credit demand from households.

Further insight: How will rate cuts support consumer credit health?

South Africa's economic outlook appears to be improving, while SARB data suggests bank lending remains conservative. This implies an outlook for SARB rate cuts in the coming months, with the Central Bank expected to reduce the prime rate by around 1–1.5 percentage points over the next year when looking at financial market expectations.

The way this will support consumers is two-fold: A lower prime rate will help improve overall loan affordability for new credit while reducing payments on existing loans. This is illustrated below as a repayment on a 20-year R1 million mortgage. While the monthly repayment is currently just over R10,750/month, it's expected to reduce significantly heading into 2025.

In a best-case scenario for borrowers, this could be as much as R1,000/million lower in H1 2025 than current debt costs if the SARB cuts more than what's expected. In the base case, one could expect to see at least two 25 basis-point rate cuts by the end of H2. Households would automatically have a reduced debt repayment in the region of R300–500 per million in this instance.

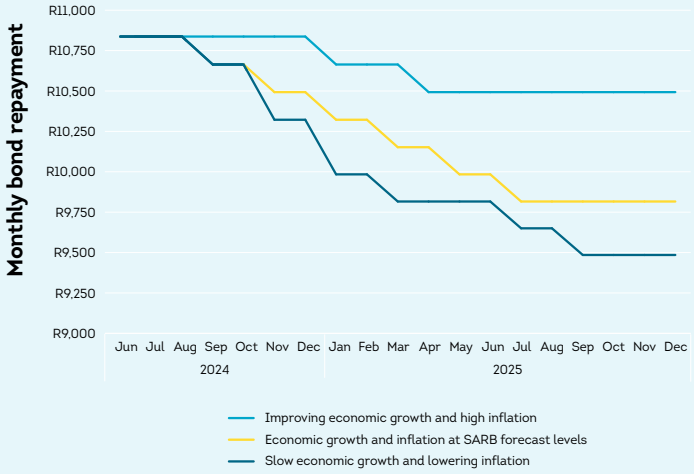
This will ultimately put a little more money in consumers' pockets, which will support retail demand.

The latest retail sales data suggests demand is already improving at the margin. South African retail sales rose +4.1% year on year in June from a +1.1% year-on-year increase in May. Interestingly, June's retail sales print was the first release after elections where the uptick was likely driven by an improvement in consumer confidence — following lacklustre retail activity amid political uncertainty in the build up to the election.

The June retail print highlighted a divergence between durable (more expensive and longer lasting) and non-durable goods. While sentiment boosted demand for non-durables, high interest rates continued to dissuade consumers from making durable goods purchases that typically come at higher-ticket prices. The start of the global easing cycle and the SARB edging closer to an expected interest rate cut in September should enhance consumer sentiments going forward and drive enhanced retail activity in the sector, but conditions will remain fragile amid weak overall household spending power.

SA Interest Rate Outlook: Forecasts Given Inflation Levels

The monthly repayment on a R1mn bond in different rate cutting environments





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[2]
- Official public domain statistics
- Proprietary analytics of public domain statistics

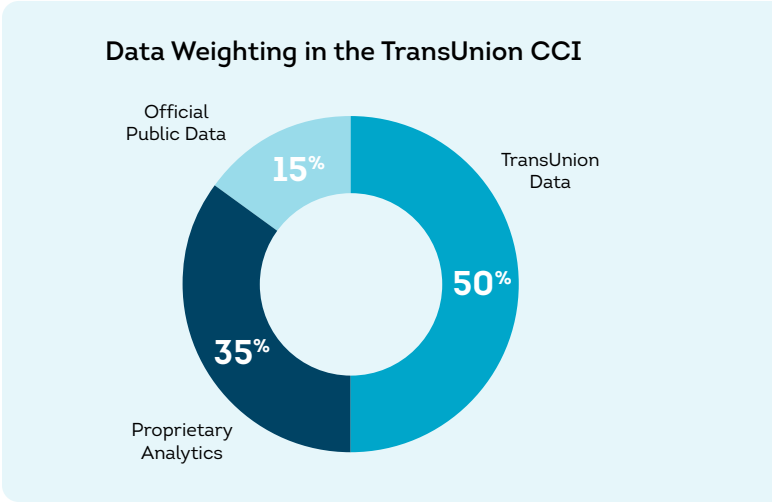
TransUnion Credit Bureau
Consumer credit card utilisation[3]; number of consumer credit accounts in arrears (TransUnion).

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.



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

Consumer Credit Report

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CreditVision allows you to say yes more often and more confidently. By using trended credit and alternative data in how you score a consumer, our analysis also shows we can improve risk predictability by 56%.

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CONTACT US

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