TransUnion

REPORT

SA Consumer Credit Index

H2 2024

Executive Summary

Credit health recovery continues

In H2 2024, the TransUnion Consumer Credit Index (CCI) rose to a final score of 51, continuing its 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.

Index: 50.0 = break-even

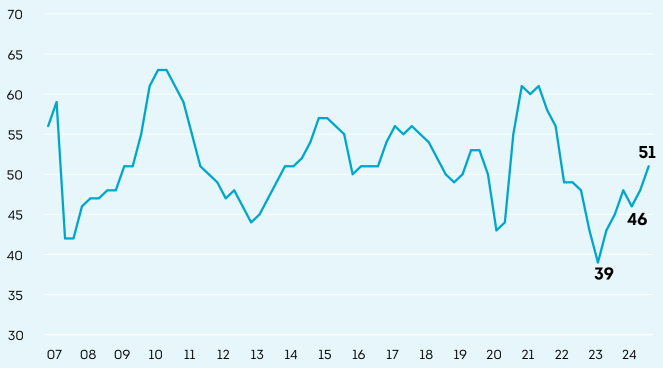
51	48	39
Q4 2024	Q3 2024	Q2 2023

- The final H2 2024 reading represents a marginal improvement in Q4, which is encouraging following 10 previous quarters of deterioration. The index has enjoyed a significant recovery from its level of 46 at the end of H1 and is up 7 points YoY. Note the improvement is relative to levels as low as 39 in June 2023 when this marked an all-time low.
- The model readings suggest household finances have started to recover, albeit marginally. The subcomponents of the index suggest the recovery was driven primarily by more stable prices, rising household incomes, and South African Reserve Bank (SARB) rate cuts. These factors supported improvement in household cash flow, driving the headline index back above the 'neutral' 50 mark. However, the rate of account defaults is still rising in positive YoY territory, which suggests lending is still happening at risk. This implies retail demand could be more robust going forward, although one should note there's still likely to be significant discrepancies amongst consumer segments. With the CPI inflation rate low and interest rates expected to fall further, it appears further improvement heading into 2025 is likely.
- However, the economy remains fragile amid low business investment, logistical system problems, and structural imbalances particularly at the SOE level. Moreover, several offshore uncertainties threaten to weaken the exchange rate, increasing inflation risks and making SA poorer globally. Consumers remain constrained by a lacklustre economy and low overall levels of investment. Many will look to National Treasury's February budget update for guidance on the path of reform, with evidence of further fiscal consolidation encouraging. Fiscal reform would improve business conditions and, by extension, household credit health.
- Regardless of the risks, a cyclical boost should be delivered to the CCI over the next few months as rate cuts and lower inflation pressures give consumers some breathing room. This bodes well for retail demand, further feeding the cautiously optimistic outlook for households. Yet SA's labour market imbalances remain far from remedied, while fiscal consolidation will limit the degree to which the state can hire new employees.

Key Charts Reflecting the TransUnion Consumer Credit Index

H2 2024 CCI: Key Facts and Figures

TransUnion SA Consumer Credit Index



Number of consumer accounts measured: **57.61 million**

Number of accounts three months in arrears: **889,384**

Value of revolving credit measured: **R238.57 billion**

Estimated Q4 2024 non-discretionary consumer price inflation (NDCPI): **+1.8% y/y (Q2: +5.0% y/y)**

Estimated Q4 2024 NDCPI-adjusted disposable income growth: **2.6% y/y (Q1: 2.1% y/y)**

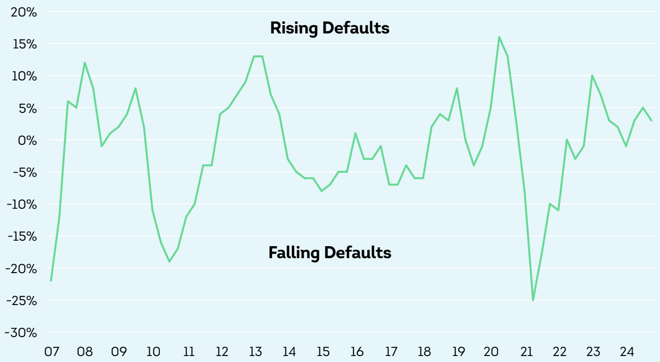
Estimated aggregate, annual household disposable income: **R3.50 trillion (Q3: R3.49tr)**

Estimated national household bank debt as a percentage of disposable income: **62.2%**[1]

Prime overdraft rate at end Q4 2024: **11.25%**

TransUnion: Accounts in Default

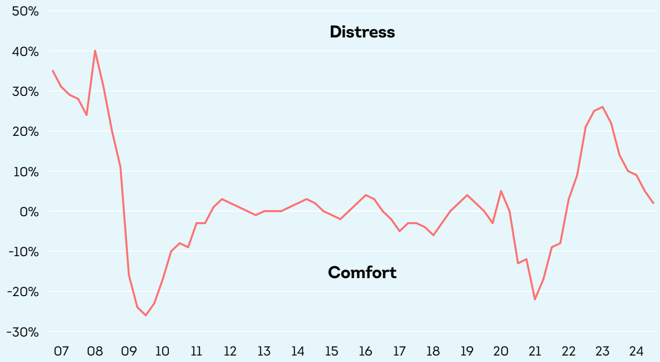
3m arrear accounts/total accounts, y/y % change



TransUnion, ETM, Macrobond

ETM: Household Debt Service Cost

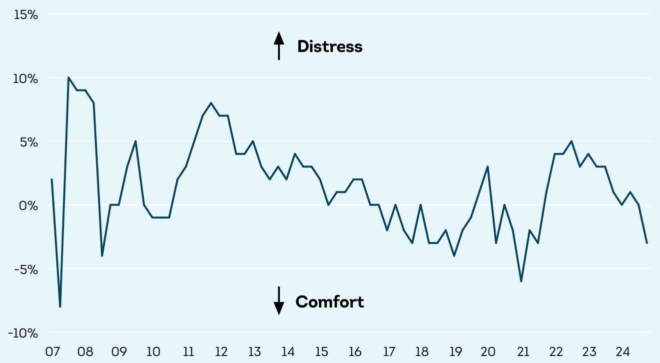
Debt service cost: disposable ratio, y/y % change



TransUnion, ETM, Macrobond

TransUnion: Revolving Credit Utilisation

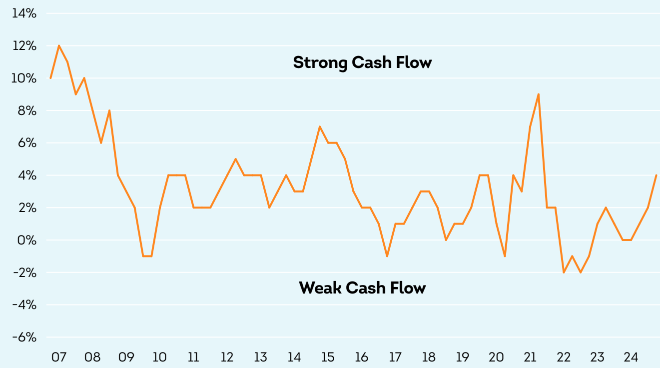
Revolving credit current/opening balance, y/y % change



TransUnion, ETM, Macrobond

ETM: Household Cash Flow

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



TransUnion, ETM, Macrobond

[1] As at Q3 2024 according to SARB data.

Data Weighting in the TransUnion CCI

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

Unpacking the H2 2024 SA Consumer Credit Index

Household credit behaviour

1. Credit defaults

The rate of new defaults has cooled significantly relative to highs of 10.1% YoY seen in Q1 2023 — but they're still rising in low, single-digit territory. In H2, defaults rose by 3.7% YoY on average. This suggests the SA consumer is not yet out of the woods, with high levels of overall indebtedness and fragility in the economy remaining core risks entering the new year.

2. Distressed borrowing

Distressed borrowing has fallen amid the improvement in household cash flow, which a return to stable electricity supply would have also supported, alongside a less-restrictive interest rate at the SARB. This marks the first time the indicator has fallen since 2021 and is a sign healthy household balance sheet consolidation has taken place in recent quarters. As Eskom has not engaged in loadshedding for over 300 days at writing, small businesses will have had a little more time and capacity for economic activity. SARB rate cuts will have reduced household debt burdens, while tighter lending policies at banks will have also helped as more stable prices will have lessened the need for credit.

Source: https://www.eskom.co.za/loadshedding-suspension-reaches-300-days-over-nine-months-to-deliver-energy-security-and-inclusive-socio-economic-growth/

Household cash flow (HCF)

CCI data suggests household cash flow has started to improve. The CPI inflation rate dipped below 3% in 2024, while income has risen somewhat. This helped household cash flow recover, and that could continue if interest rates fall further in 2025 and prices remain stable.

The improvement in power delivery by Eskom is likely to be structurally supportive as it will increase potential productivity. By extension, this should help the average household earn a little more in coming quarters. On the negative side, petrol prices and other administered prices are set to increase, which will be a detracting factor for cash flow.

Household debt serviceability

Debt service costs have stabilized as the SARB reduced interest rates and is considering further reductions — which should support a more stable cash flow environment for the indebted. However, recent weakness in the rand pushed out the time frame for cuts, which may ultimately need to stay a little higher for longer than initially anticipated. The CPI inflation rate dipped below 3% in 2024, helping household cash flow recover. This could continue if interest rates fall further in H1 or prices remain stable. However, as mentioned above, higher transport costs could push back against the improvement. Regardless, the improvement in power delivery by Eskom is likely to be supportive of economic activity. By extension, this should help the average household to pay down debt.

Further insight: Don't bank on much lower rates with the SARB becoming cautious

There's been a shift in central bank rate expectations — at the SARB and other major central banks offshore — since the last issue of this report, mostly due to offshore factors outside the control of the SARB. While markets had been pricing in a considerably lower interest rate over the medium term, the outlook appears to be shifting.

SARB Governor, Lesetja Kganyago, was recently quoted at the World Economic Forum at Davos as saying, *"To the extent the measures taken are inflationary, it could slow down the disinflation process that the central banks had so steadfastly worked on since the great inflation of 2022…"* adding there's a risk *"the reduction in the restrictiveness of monetary policy that we had seen over the past year could then be brought to an abrupt halt."* In other words, the promise of rate cuts is diminishing because the global political landscape is in for some paradigm shifts.

Further to this, South Africa's financial markets have priced in a significantly shallower rate cut cycle in recent months, with the SARB now expected to cut interest rates just one more time in 2025 (between January and May). At the November meeting, expectations were skewed toward two more rate cuts of 25 basis points (0.25%), but at writing, they have almost halved that bet.

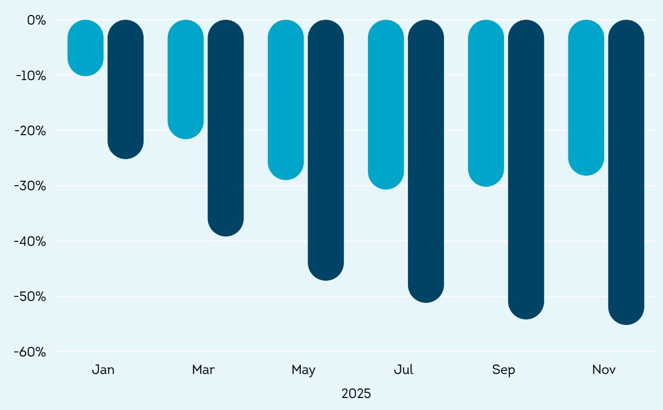
For households, this suggests the prime rate will settle at around 11% — keeping debt costs relatively high. It will also continue to incentivise saving and reduce the amount of money that can be lent for a given level of income.

While conservative borrowing is often the wiser choice in any case, it's worth considering there's theoretically room for deeper reductions in interest rates should concerns not materialise. Rates could fall as low as 10% over the medium term if key macroeconomic variables like the inflation rate remain in the lower ranges, or if SA's economic potential were to improve significantly through policy changes, such as fiscal reform. The government's efforts to reform its finances, if successful, would also provide reason to cut interest rates.

For instance, Stats SA data shows prices have been rising fast in the power sector as Eskom attempts to regain financial viability. This inflation naturally restricts how low interest rates can go. This would be reduced in an environment of meaningful state reform aimed at improving economic capacity, which would give investors greater reason to invest into SA. All eyes will be on Minister Godongwana in February in this context.

Changes in SA interest rate expectations

Cumulative interest rate cutting risk per SARB meeting in basis points



Source: Bloomberg

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**.

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 'break-even' 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).

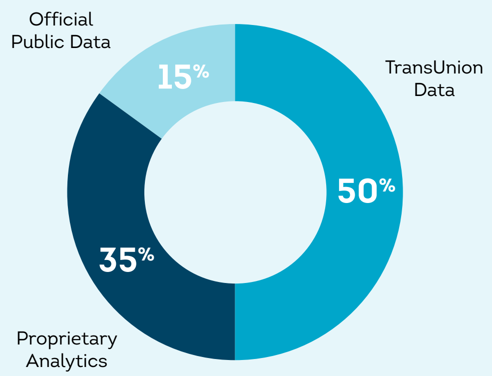
Official public domain statistics
Prime interest rate; household debt to disposable income ratio (SARB).

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 behaviours. The index continues to point to a fragile consumer market. The subcomponents of the index provide valuable business insights which can be used to evaluate consumer behaviours, financial distress, household cash flow and budget dynamics.

Data Weighting in the TransUnion CCI



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

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