TransUnion

SA Consumer Credit Index | Q4 2019

Executive Summary

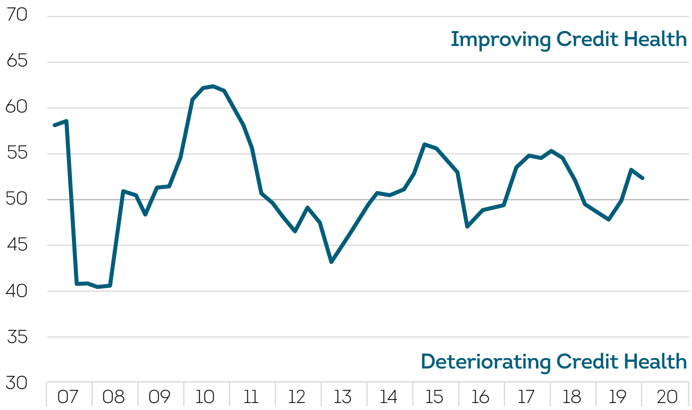
Credit index remains above **50** in Q4

Index: 50.0 = breakeven

- **The TransUnion SA Consumer Credit Index (CCI) fell marginally to 52 in Q4 2019 (from a downwardly revised 53 in Q3 - prev 54).** The index measures consumer credit health where 50.0 is the break-even level between improvement and deterioration.
- The CCI remained above 50 in Q4 2019 mainly on account of continued declines in new default rates and further improvements in household cash flow. Encouragingly, household disposable income increased at a fairly brisk pace in Q4, reflecting some improvements seen in retail and car sales data in Q4 (Stats SA, NAAMSA) as well as further declines in non-discretionary goods inflation (Stats SA). The net result is that y/y inflation-adjusted household disposable income growth rose in Q4 to its highest level since early 2015.
- An index level of 52 signals mild improvement in consumer credit health and should not be taken to mean significant improvement yet in what remains a tough economic environment.
- **Accounts in early default** (3 months in arrears) decreased by 2.2% y/y in Q4 after falling 4.5% y/y in Q3. On a seasonally adjusted basis, the rate of new defaults has remained roughly stable since June 2019. **Distressed borrowing** (revolving credit utilisation) stabilised in Q4, almost unchanged y/y. Yet this masks a brisk 10% y/y take-up of additional store and credit card debt and a similar increase in revolving credit limits. This may reflect ongoing increasing confidence among credit providers.
- **Household cash flow** increased in Q4 by 2% y/y due to further welcome declines in non-discretionary household inflation (3.5% y/y) and top-line improvements in household disposable income. Given how long cash flow has remained roughly stagnant in SA, more evidence of improvement will be needed in the quarters ahead.
- Household debt service costs (South African Reserve Bank data) remained unchanged in Q4 as the central bank left the repo rate unchanged.

Q4 2019 CCI: Key Facts and Figures

TransUnion SA Consumer Credit Index



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No. of consumer accounts measured: **58 million**

No. of accounts three months in arrears: **908,000**

Value of revolving credit measured: **R170 billion**

Estimated Q4 2019 non-discretionary consumer price inflation (NDCPI): **+3.5% y/y (Q3: +4.0% y/y)**

Estimated Q4 2019 NDCPI-adjusted household disposable income growth: **3.2% y/y (Q3: 1.4% y/y)**

Estimated aggregate, annual household disposable income: **R2.38 trillion (Q4: R2.34tr)**

Estimated national household bank debt as a percentage of disposable income: **72.6%**

Prime overdraft rate at end Q4 2019: **10.00%**

DATA WEIGHTING IN THE TRANSUNION CCI

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

Unpacking the 4th Quarter 2019 SA Consumer Credit Index

Household credit behaviour

1. Credit defaults

TransUnion data shows that consumer repayment improved y/y in Q4 2019, with new defaults down by 2.2% from Q4 2018. The number of accounts in early default (3 months in arrears) increased from around 870,000 in Q4 2018 to 908,000 in Q4 2019. However, since the total number of consumer accounts increased by over 6% y/y, new defaults as a proportion of total accounts continued to fall. Despite this encouraging trend, on a seasonally adjusted basis, the rate of new defaults has remained roughly stable since June 2019.

The proportion of new defaults has declined by about 11% since early 2015, yet aggregate household real income stagnated for these past 5 years and interest rates have risen somewhat. This seeming paradox is explained by relative household deleveraging during this period, more prudent lending among some credit providers, and an extension of loan terms to struggling customers.

2. Distressed borrowing

Revolving credit (credit cards and store cards) used as a percentage of one's credit limit is a distressed borrowing indicator. According to TransUnion's revolving credit data, rates of distressed borrowing stabilised in Q4 and were almost unchanged y/y. Yet this masks a brisk 10% y/y take-up of additional store and credit card debt and a similar increase in revolving credit limits. This may reflect ongoing increasing confidence among credit providers or suggest that they are looking to adopt bolder credit strategies to acquire market share.

Revolving credit utilisation remains below 50% of credit limits, down from over 52% in 2017, but Q4 2019 did mark a notable stop to the trend of y/y declines in distressed borrowing. This is a development to be vigilant about because it may be an early indication that the rate of distressed borrowing is bottoming out and could be set to climb in the quarters ahead.

Household cash flow

Household cash flow increased by 2% y/y in Q4 2019, the fastest rate of increase since Q4 2015.

For quite some time, the moderate improvements in household cash flow have reflected declining non-discretionary price inflation more than any meaningful increases in nominal household disposable income. However, in Q4 2019, income growth was more impressive, helping cash flow growth improve to its best level in nearly half a decade. Given how long cash flow has remained roughly stagnant in SA, more evidence of improvement will be needed in the quarters ahead.

Household debt serviceability

Household debt service costs (South African Reserve Bank - SARB - data) remained unchanged in Q4 as the central bank left the repo rate unchanged. The SARB cut the repo rate in January 2020, which will add some additional relief to households but may encourage a faster pace of credit accumulation. The impact of rate cuts on the overall CCI are therefore hard to predict because overall debt levels may rise as rates fall. Currently, household bank debt is 72.6% of disposable income (SARB data), rising slightly since early 2018 after falling for 10 years from early 2008.

Further Insight: Credit Market Caution

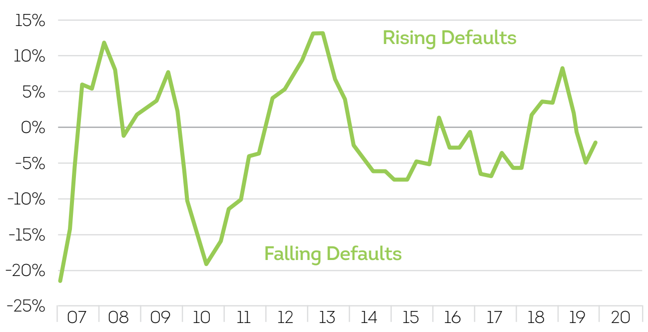
How do energy shortages impact retail?

In the chart at the bottom-right of the page we show real retail sales and total electricity supply growth in South Africa (the electricity supply chart has been advanced in time by nine months). The reasonably close correlation between the two lines is suggestive that electricity supply has an effect on retail sales beyond merely the immediate shopping disruptions of load-shedding.

Widespread power cuts have an immediate impact on retail hours and store footfall, but this brief analysis suggests a longer-lasting impact. Power cuts curtail production output, which places efficiency pressure on employers who respond by reducing costs and cutting back on hiring. Load-shedding affects sales, revenues and consequently bonuses, all of which translate into pressure on incomes and subsequently spending. Retail conditions are impacted by far more factors than just electricity supply, but significant declines in supply in heavy load-shedding periods seem to have a notable and lasting impact on retail sales and turnovers. Recent heavy load-shedding suggests that retail conditions in H1 2020 may remain sluggish despite some consumer credit health improvement.

The known instability of the electricity grid also means lingering load-shedding risk in H1 2020 and therefore a chance that difficult retail conditions persist into H2 2020.

TransUnion: Accounts in Default
3m Arrear Acc/Total Accounts, y/y % change



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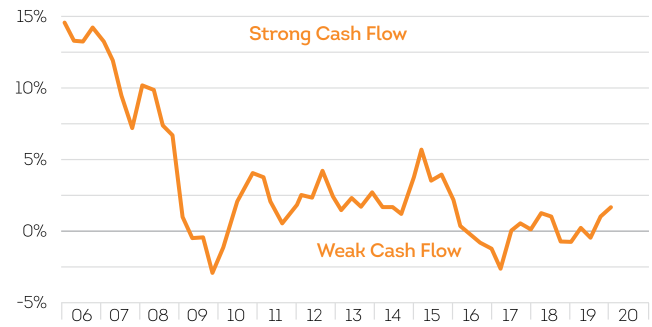
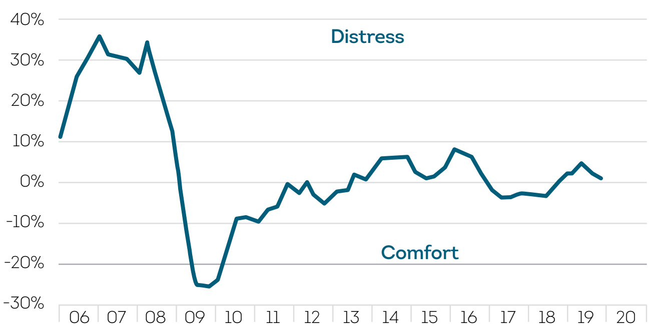
ETM: Household Cash Flow
NDCPI-adj. money supply & disposable income, avg y/y % change



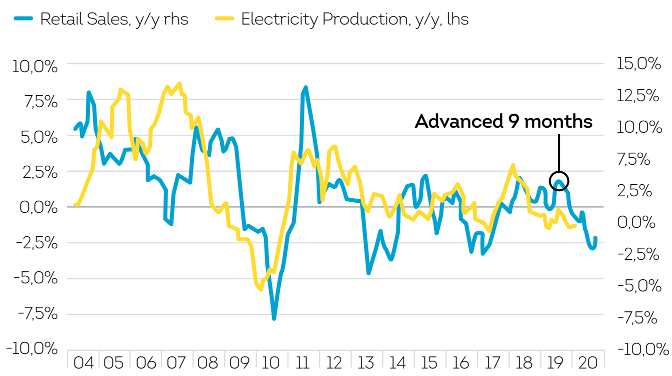
TransUnion, ETM, Macro Advisors, Macrobond

ETM: Household Debt Service Cost
Debt service cost: disposable income ratio, y/y % change



TransUnion, ETM, Macro Advisors, Macrobond

SA Loadshedding & Retail



TransUnion, ETM Macro Advisors, Macrobond

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 quarterly.

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 on household finances.

A 'diffusion' index

The index is designed to fluctuate within the set logical minimum and maximum of zero 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***
- **Official public domain statistics**
- **Proprietary analytics of public domain statistics**

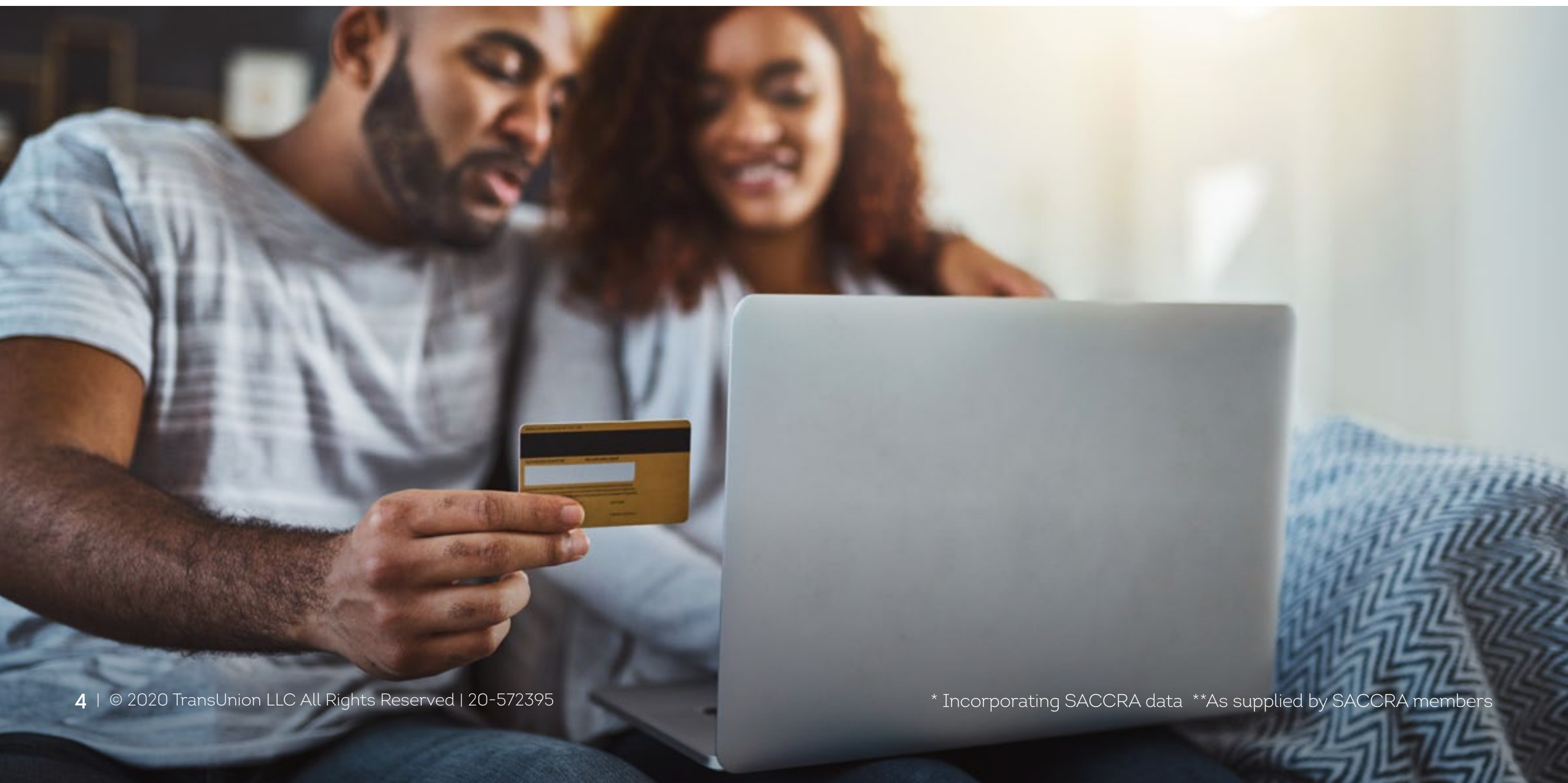
TRANSUNION CREDIT BUREAU
Consumer credit card utilisation**; number of consumer credit accounts in arrears (TransUnion).

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%



* Incorporating SACCRA data **As supplied by SACCRA members

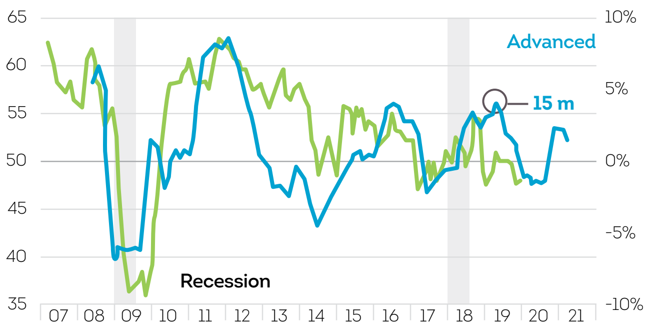
Real world application

The index may be considered a credible indicator of macroeconomic events and growth cycles for sectors affected by consumer finances and credit behaviour. In the following chart, the TransUnion SA CCI is compared to year-on-year retail & wholesale sales growth, with a 15-month lag. The relationship suggests some recovery impetus in retail & wholesale sales volumes toward the end of 2020, but a potentially difficult first half of the year.

The sub-components of the index provide valuable business insights in their own right, which can be used to evaluate consumer behaviour, financial distress, household cash flow, and household budget dynamics.

TransUnion CCI vs. Retail/Wholesale Sales

CCI (Index); Retail & Wholesale Sales (real y/y % change)



TransUnion, ETM, Macrobond

Consumer Credit Report

Information is a powerful thing. As a credit bureau we provide you with credit data which credit lenders use to evaluate your credit history when you apply for loans and credit. Your credit report gives you a view of all your debt and payments in the last 24 months.

To order your credit report: Call the TransUnion Interactive Call Centre at **0861 482 482** or visit us at **www.mytransunion.co.za**.

Monday–Friday, 07h30–18h00 Saturday, 09h00–13h00

CreditVision

A TransUnion analysis identified 3 million consumers who could not gain access to credit based on traditional scoring models. **What would an extra 3 million potential customers mean for your business?**

CreditVision not only allows you to say yes more, but now you can say yes more confidently. By using trended and alternative data in how you score a consumer, our analysis also showed we could improve risk predictability by 56%.

Find out how you can safely expand your borrower universe in a competitive market.

Visit us at **transunion.co.za/business**.

Contact Us

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You can view the index online at **transunion.co.za/lp/CCI**.