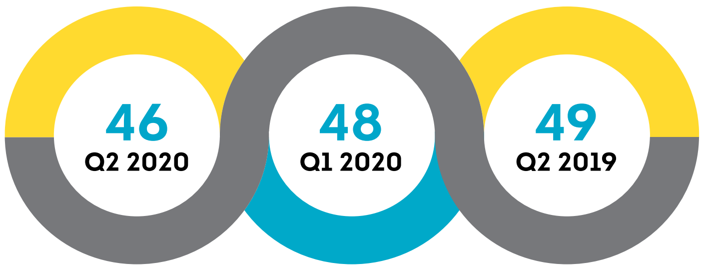
SA Consumer Credit Index | Q2 2020

Executive Summary

Credit index back below **50** in Q1

Index: 50.0 = breakeven



- **The TransUnion SA Consumer Credit Index (CCI) fell to 46 in Q2 2020 from 48 in Q1.** The index measures consumer credit health where 50.0 is the break-even level between improvement and deterioration.
- **With the COVID-19 pandemic and lockdown in Q2 putting a halt to much economic activity, the fall in the index might be considered considerably less dramatic than expected.** Emergency policy measures in Q2 to support household finances seemed to provide sufficient relief in the short term to offset some household financial stress.
- Credit providers instituted payment holidays throughout Q2, the government announced loan guarantees to spur relief-credit for companies from banks, and the central bank cut interest rates significantly and quickly while providing liquidity to the banking system. Meanwhile, household savings increased in lockdown[1], aiding household cash flow amid a wave of job and income losses in certain sectors. **These measures seem to have averted or delayed a severe crisis in household finances in Q2. The question now is how badly financial conditions will deteriorate in Q3 as payment holidays end, job losses spread, and living expenses rise while life returns to normal.**

1 South African Reserve Bank deposits data; Stats SA Retail Sales Reports

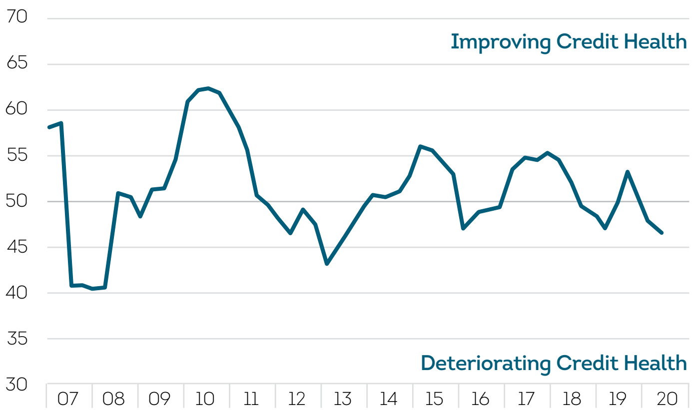
- **Accounts in early default** (3 months in arrears) increased by an alarming 21% y/y in Q2 after rising 5% y/y in Q1. On a seasonally adjusted basis, the rate of new defaults increased by 11% during the quarter, the highest rate on record since 2006. **Distressed borrowing** (revolving credit utilisation) moderated rather than intensified in Q2. This counterintuitive result seems to be explained by a decline of revolving card use during the period due to fewer opportunities for spending (including the e-commerce ban in April and part of May), account closures, and budget savings due to lockdown immobility and repayment holidays.

- **Household cash flow (HCF)** is difficult to estimate for Q2 given the income loss uncertainties not yet officially estimated by Stats SA and the SARB[2]. We estimate nominal household disposable income fell about 9% in Q2 from Q1[3]. This is offset somewhat by a rise in saved household deposits with banks. The estimated net result is aggregate inflation-adjusted HCF was unchanged from Q1 and was about 2% higher y/y.

- **Household debt service costs** fell fairly sharply as the SARB cut rates considerably in anticipation of widespread credit distress. The SARB cut the repo rate by 100 basis points in April and 50 basis points in May. The repo rate ended Q2 at 3.75%.

Q2 2020 CCI: Key Facts and Figures

TransUnion SA Consumer Credit Index



TransUnion, ETM, Macrobond

No. of consumer accounts measured: **53 million**

No. of accounts three months in arrears: **1.1 million**

Value of revolving credit measured: **R178 billion**

Estimated Q2 2020 non-discretionary consumer price inflation (NDCPI): **+1.3% y/y (Q1: +4.6% y/y)**

Estimated Q2 2020 NDCPI-adjusted household disposable income growth: **-6.8% y/y (Q1: +0.5% y/y)**

Estimated aggregate, annual household disposable income: **R2.17 trillion (Q1: R2.38tr)**

Estimated national household bank debt as a percentage of disposable income: **80%**[4]

Prime overdraft rate at end Q2 2020: **7.25%**

DATA WEIGHTING IN THE TRANSUNION CCI

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

2 South African Reserve Bank
3 This is subject to revision when official data is released
4 Subject to revision due to income uncertainties resulting from lockdown

Unpacking the 2nd Quarter 2020 SA Consumer Credit Index

Household credit behaviour

1. Credit defaults

TransUnion data shows that consumer repayment worsened substantially in Q2 2020. New defaults increased by an estimated 21% from Q2 2019 after rising 5% y/y in Q1. On a seasonally adjusted basis, the rate of new defaults increased by 11% during the quarter, the highest rate on record since 2006.

The concerning element of the data is that defaults spiked sharply despite account closures, payment holidays, and significant rate cuts in Q2. Interest rates remain low and have fallen further in Q3, but repayment holidays will be expiring and job losses appear to be spreading. There is a concern that default rates are going to shoot higher still once repayment holidays end. Credit providers are no doubt on high alert for credit risks and are in the process of restructuring debt terms and raising loss provisions. Although lockdown is less stringent in Q3 and economic activity is recovering, default rates may be worse in Q3 than Q2.

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, distressed borrowing moderated rather than intensified in Q2, falling 2.2% y/y and 3.8% q/q.

This counterintuitive result seems to be explained by a decline of revolving card use during the period due to fewer opportunities for spending (including the e-commerce ban in April and part of May), account closures, and budget savings due to lockdown immobility and repayment holidays.

The decline in distressed borrowing in Q2 supported the overall CCI, limiting the extent of the decline in the index. With ecommerce fully open in Q3, people more mobile and able to spend, and repayment holidays ending, the rate of distressed borrowing could easily climb in Q3. This could drag the index significantly lower along with perhaps even higher default rates.

Household cash flow (HCF)

HCF is difficult to estimate for Q2 given the income loss uncertainties not yet officially estimated by Stats SA and the SARB. We estimate nominal household disposable income fell about 9% in Q2 from Q1. This is offset somewhat by a rise in saved household deposits with banks. The estimated net result is aggregate inflation-adjusted HCF was unchanged from Q1 and was about 2% higher y/y.

Aiding the picture is the sharp deceleration in y/y price inflation, which was caused by deflation in prices during the quarter. Non-discretionary prices as measured by Stats SA fell around 1.4% q/q. It is not clear how long households can protect their cash flows in Q3 and, like defaults and distressed borrowing, there is a risk that cash flow worsens rather than improves compared to Q2.

Household debt serviceability

One of the biggest stories of the lockdown has been rapid rate cuts by the SARB. Household debt service costs fell fairly sharply in Q2 as the SARB cut rates considerably in anticipation of widespread credit distress. The Reserve Bank's Monetary Policy Committee (MPC) cut the repo rate by 100 basis points in April and 50 basis points in May.

Had the MPC not cut rates by an additional 150 basis points in Q2, the CCI would have fallen to 44, a low not seen since 2013. Rate cuts have continued in Q3 with a 25 basis point reduction in July, bringing the prime lending rate to 7% - the lowest this rate has been since 1966.

Further Insight: Q3 to feel worse than Q2?

The lagged effect of the COVID-19 lockdown

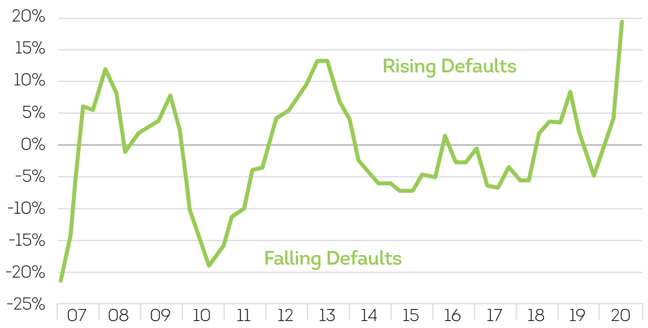
A theme running through this report is that Q2 could have been a lot worse for credit providers and credit users were it not for repayment holidays, higher household saving rates due to lack of spending opportunities in lockdown, low inflation (and in some cases deflation), and large and rapid rate cuts. While interest rates are expected to fall further in Q3 and remain low for some time, many other favourable conditions for consumers could disappear.

Repayment holidays are ending in Q3. Some credit providers will need to restructure terms of loans to further mitigate consumer burdens. Savings rates may remain buoyed due to diminished confidence, but spending opportunities have opened up again and costs will escalate as life slowly gets back to normal. Inflation may have bottomed out in Q2 due to the slump in buying that will return in Q3, dragging prices back up.

While job losses seem to have been acute in Q2, many of them will be clawed back as economic activity slowly resumes. But a second round of job cuts looms as sectors assess losses and plan for a much weaker economy longer term than before COVID-19. Due to labour market rigidities, formal jobs are slower to be cut and many formal job losses will only be felt in Q3, Q4 and beyond. Further rate cuts may mitigate some potential deterioration in household finances in Q3, but they also diminish credit provider income, who then may need to cut costs elsewhere and reassess credit risk and credit-vs-cash policies.

TransUnion: Accounts in Default

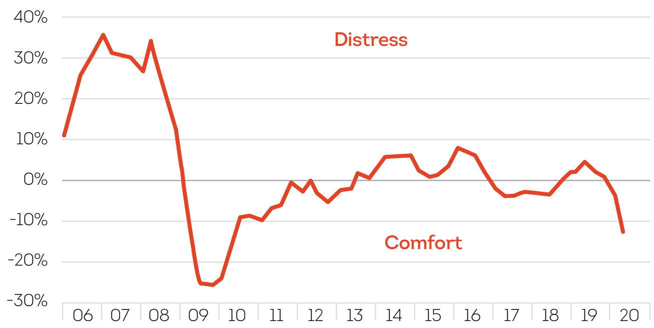
3m Arrear Acc/Total Accounts, y/y % change



TransUnion, ETM, Macro Advisors, Macrobond

ETM: Household Debt Service Cost

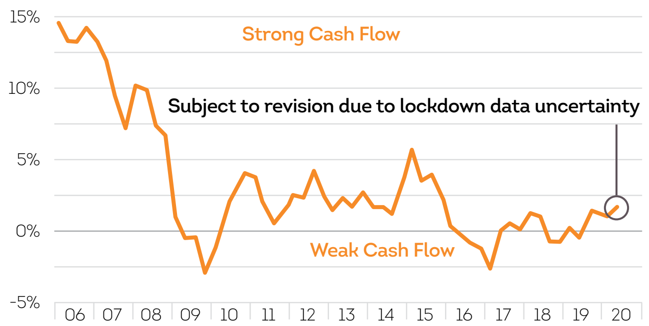
Debt service cost: disposable income ratio, y/y % change



TransUnion, ETM, Macro Advisors, Macrobond

ETM: Household Cash Flow

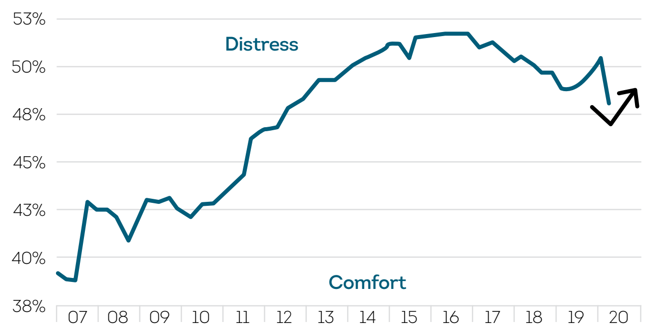
NDCPI-adj. money supply & disposable income, avg y/y % change



TransUnion, ETM, Macro Advisors, Macrobond

TransUnion: Revolving Credit Utilisation

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



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**[5]
- **Official public domain statistics**
- **Proprietary analytics of public domain statistics**

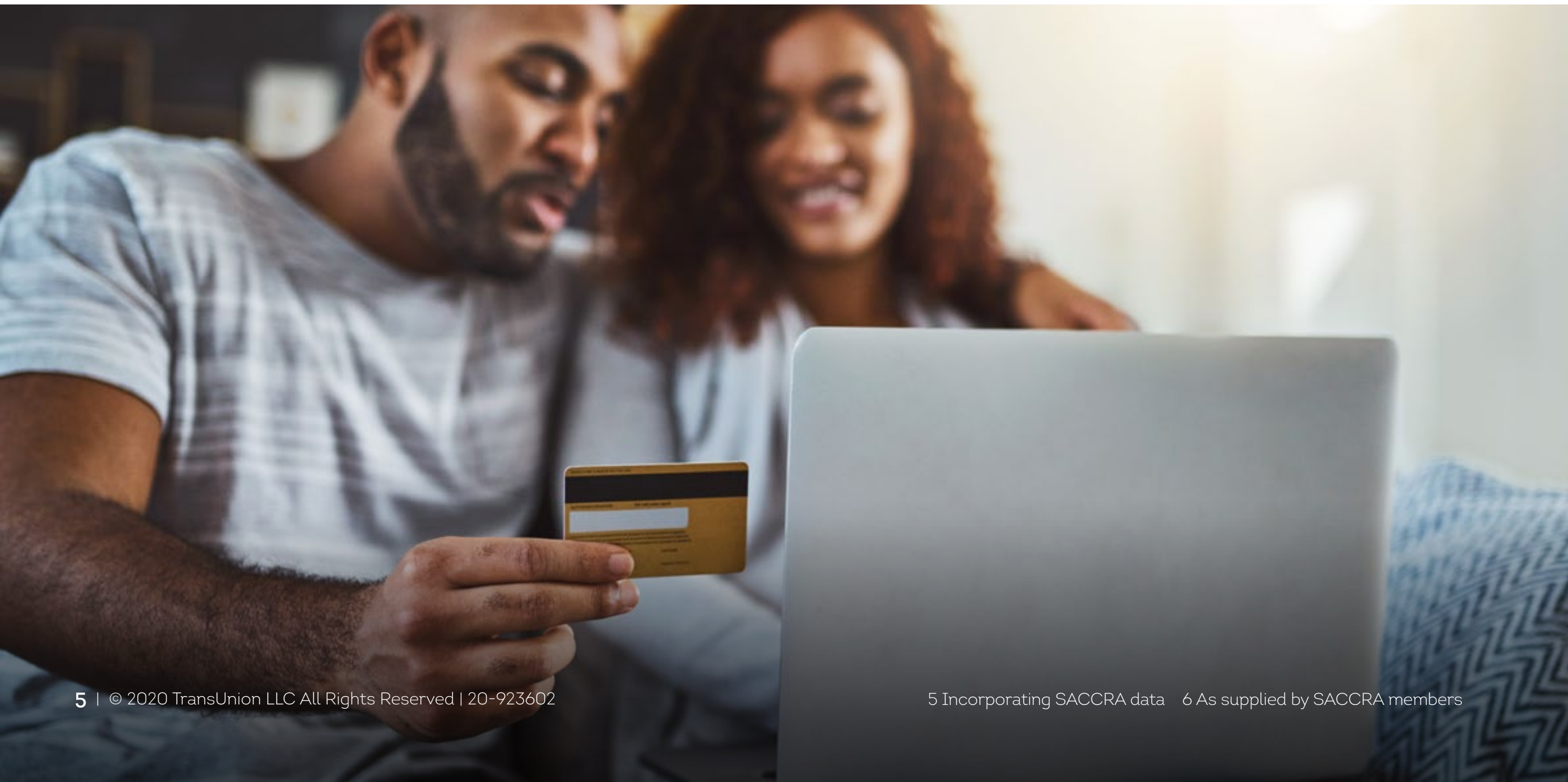
TRANSUNION CREDIT BUREAU
Consumer credit card utilisation[6]; number of consumer credit accounts in arrears (TransUnion).

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%

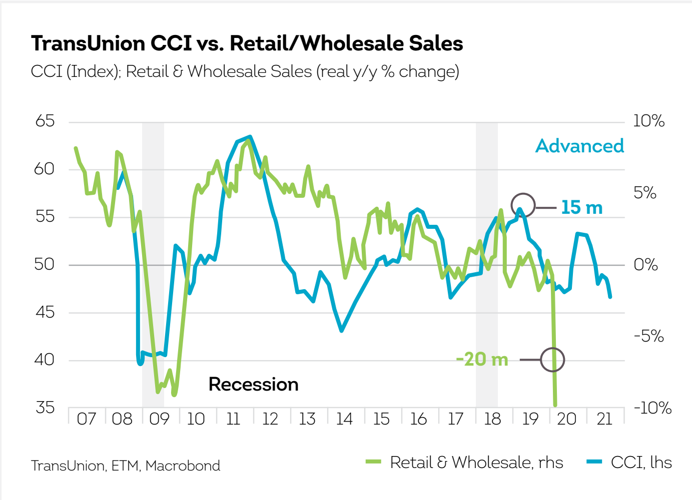


5 Incorporating SACCRA data 6 As supplied by SACCRA members

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 is distorted by the COVID-19 lockdown-related crash in retail and wholesale sales. Even adjusting for this, it suggests ongoing stress for retail as credit health deteriorates.

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.



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

TransUnion SA Consumer Credit Index queries can be sent to:
Lizette Swart **SA_MkrtComms@transunion.com** or on: **+27 11 214 6000**.

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