SA Consumer Credit Index | Q3 2020

Executive Summary

Credit index unchanged in Q3

Index: 50.0 = breakeven

44	44	53
Q3 2020	Q2 2020	Q3 2019

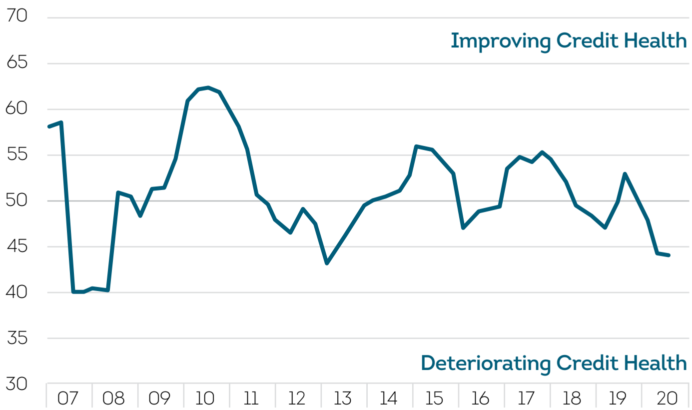
- **The TransUnion SA Consumer Credit Index (CCI) remained at 44 in Q3 2020.**[1] The index measures consumer credit health where 50.0 is the break-even level between improvement and deterioration.
- Most of the components of the CCI changed relatively little in Q3 as the economy opened up from strict lockdown. We estimate household income only recovered marginally in Q3. Distressed borrowing increased slightly, but new default rates moderated and the effects of the Q2 interest rate cuts were felt more fully in the Q3 quarter.
- In our Q2 report, we noted that credit providers instituted payment holidays throughout Q2. These peaked in value outstanding in June 2020. Although many of these payment holidays began expiring in Q3, they still remained considerable according to July TransUnion data.
- **If incomes improve in Q4 2020 and Q1 2021 along with generally recovering economic activity, then the large Q2 rate cuts will be felt more fully in subsequent quarters. However, we caution that:**
  1. **Credit card utilisation is rising, indicating budget stress.**
  2. **Incomes will likely struggle to recover quickly to pre-COVID-19 levels.**
  3. **New global COVID-19 restrictions threaten global economic recovery.**
  4. **Payment holidays will have largely ended in Q3, which should reflect in higher repayment risks in Q4.**

1 Q2 revised to 44 from 46, chiefly due to a larger decline in household income than originally estimated

- **Accounts in default** (3 months in arrears) increased by 16% y/y in Q3. On a seasonally adjusted basis, the rate of new defaults remained roughly steady during the quarter, only slightly below the elevated levels of Q2.
- **Distressed borrowing** (revolving credit utilisation) picked up only very slightly in Q3, rising 1.3% q/q. This result does mask a disparity between credit cards - where there are indeed signs of budget stress - and clothing and store cards - where utilisation is falling.
- **Household cash flow (HCF)** was unchanged in Q3 after falling 2% q/q in Q2. While household income remained very weak in Q3, income declines have been offset by a rise in saved household deposits with banks. These savings act as a cushion to cash flow losses, but mainly belong to higher income groups and come at the expense of discretionary spending.
- **Household debt service costs** relative to incomes fell in Q3 from the full-quarter effects of the Q2 rate cuts. The SARB cut the repo rate by 25 basis points in July. The repo rate ended Q3 at 3.5%.

Q3 2020 CCI: Key Facts and Figures

TransUnion SA Consumer Credit Index



TransUnion, ETM, Macrobond

No. of consumer accounts measured: **55 million**

No. of accounts three months in arrears: **1 million**

Value of revolving credit measured: **R177 billion**

Estimated Q3 2020 non-discretionary consumer price inflation (NDCPI): **+2.4% y/y (Q2: +1.4% y/y)**

Estimated Q3 2020 NDCPI-adjusted disposable income growth: **-14.3% y/y (Q2: -12.6% y/y)**[2]

Estimated aggregate, annual household disposable income: **R2.05 trillion (Q2: R2.04tr)**[2]

Estimated national household bank debt as a percentage of disposable income: **85%**[3]

Prime overdraft rate at end Q3 2020: **7.00%**

DATA WEIGHTING IN THE TRANSUNION CCI

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

2 Subject to revision due to income uncertainties resulting from lockdown
3 This is subject to revision when official data is released

Unpacking the 3rd Quarter 2020 SA Consumer Credit Index

Household credit behaviour

1. Credit defaults

TransUnion data shows that consumer repayment remained poor in Q3 2020. New defaults increased by 16% y/y in Q3. On a seasonally adjusted basis, the rate of new defaults remained roughly steady during the quarter, only slightly below the elevated levels of Q2.

It might come as a surprise that default rates did not worsen in Q3 given that payment holidays began winding down during the quarter. This is likely due to the effect of extremely low interest rates and the lag between the end of payment holidays and three month arrear defaults. Arrears from the end of payment holidays are expected to materialise meaningfully from October.

TransUnion data shows an increase in the 1+ months in arrears bucket from August.

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 increased slightly in Q3, falling 2.1% y/y but rising 1.3% q/q.

This result masks a disparity between credit cards - where there are indeed signs of budget stress - and clothing and store cards - where utilisation is falling. Credit cards have utility for almost all merchants, whereas clothing and store cards can limit shoppers to only specific stores. Credit cards have also become the payment mechanism of choice since the beginning of lockdown as online purchases and payments rise strongly.

Household cash flow (HCF)

We estimate household cash flow was unchanged in Q3 after falling 2% q/q in Q2. While household income remained very weak in Q3, income declines have been offset by a rise in saved household deposits with banks. These savings act as a cushion to cash flow losses, but mainly belong to higher income groups and come at the expense of discretionary spending.

Cash flow is being impacted by many new trends at present, including job and income loss, more saving due to uncertainty, falling then rising inflation, economic recovery from hard lockdown, and looser monetary policy. We originally estimated that nominal household disposable income fell about 9% q/q in Q2. Our revised estimate is -15%. For Q3, we estimate that disposable income hardly recovered, leaving it still down nearly 15% in real terms since Q1 (before lockdown impacts).

Household debt serviceability

One of the biggest stories of the lockdown was the rapid rate cuts by the SARB. But while interest costs fell fairly sharply in Q2, incomes also fell considerably, meaning debt service costs as a proportion of disposable income remained virtually unchanged, underscoring the importance of the payment holidays to household financial stability. Having cut rates aggressively in Q2, the SARB opted to only cut by 25 basis points in Q3, leaving repo at 3.5% and prime at 7.0%. However, with income likely to recover as economic activity improves, debt repayment costs relative to incomes will fall notably. The degree to which this offsets the rising costs of expiring payment holidays remains to be seen.

Further Insight: Recovery from lockdown

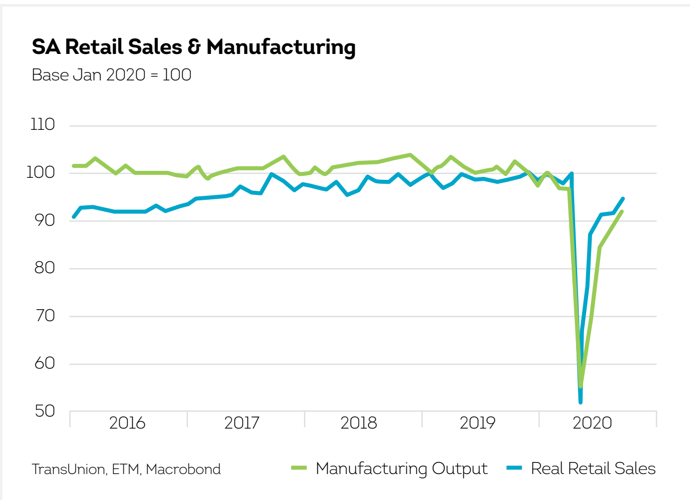
How quickly is the economy recovering from hard lockdown?

The hard lockdown of Q2 was an unprecedented and unusual shock to the economic system. Stats SA reported nearly 2.5 million job losses by the end of the quarter and the economy was estimated to have contracted by 16.4% from Q1. But with the lifting of lockdown restrictions, economic activity is improving and businesses are slowly repairing themselves.

This may only reflect in meaningful employment and income recovery in Q4 as employers rehire cautiously.

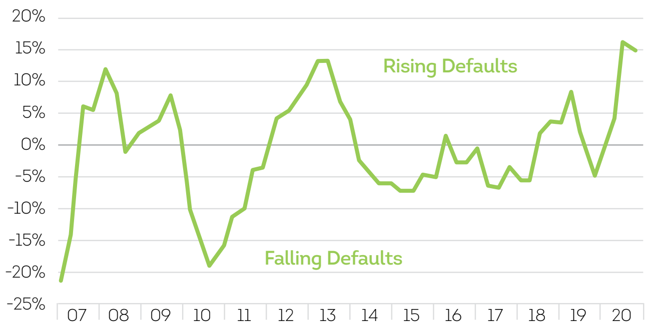
A few key questions will only be answered in the coming quarters and in 2021. How badly depleted were economy-wide savings from lockdown? How much of the lost output will be sustainably recovered? Will there be more global and domestic lockdowns? These questions are key to understanding the household financial landscape in the coming months and quarters.

The chart below shows the decline and subsequent recovery in retail sales and manufacturing output. Swift recovery after a sharp plunge is starting to slow just ahead of Q4 2020. Volumes remain notably below Q1 2020 levels.



TransUnion: Accounts in Default

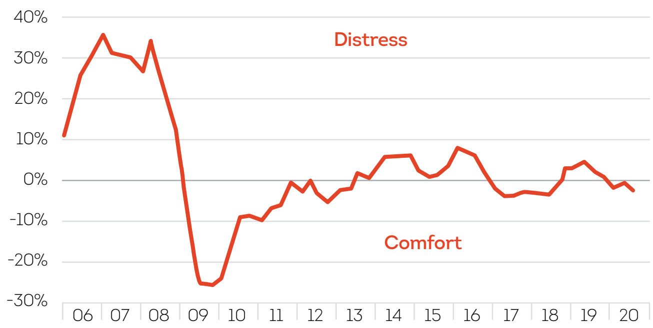
3m Arrear Acc/Total Accounts, y/y % change



TransUnion, ETM, Macro Advisors, Macrobond

ETM: Household Debt Service Cost

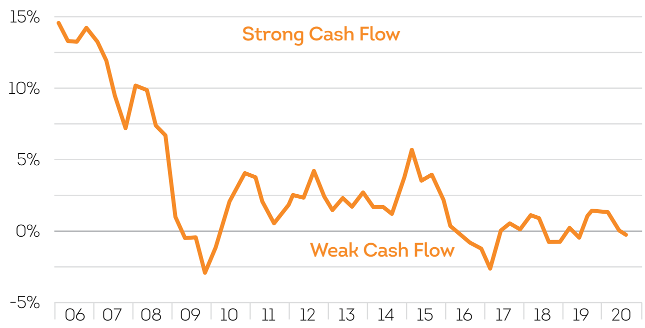
Debt service cost: disposable income ratio, y/y % change



TransUnion, ETM, Macro Advisors, Macrobond

ETM: Household Cash Flow

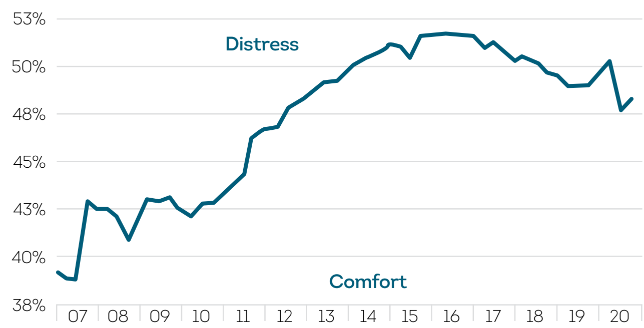
NDCPI-adj. money supply & disposable income, avg y/y % change



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

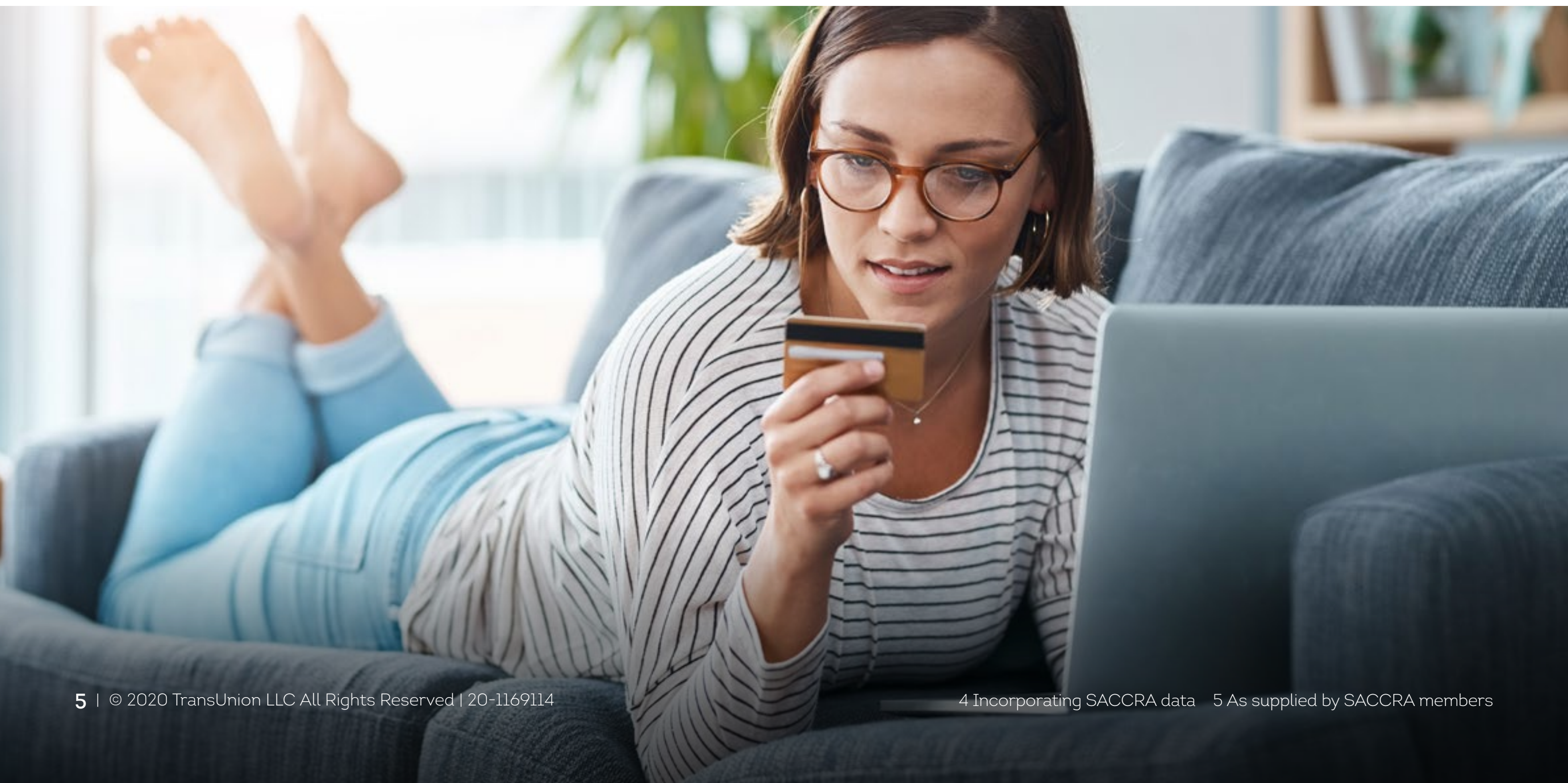
TRANSUNION CREDIT BUREAU
Consumer credit card utilisation[5]; number of consumer credit accounts in arrears (TransUnion).

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 SACCRA data 5 As supplied by SACCRA members

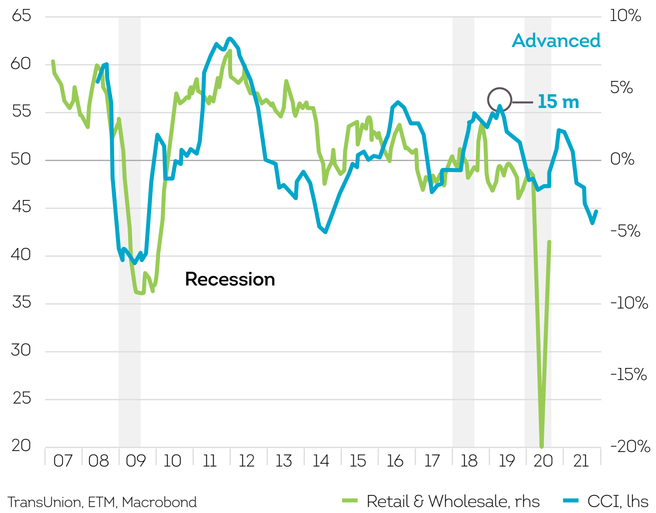
Real world application

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.

TransUnion CCI vs. Retail/Wholesale Sales

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



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.

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Contact Us

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

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