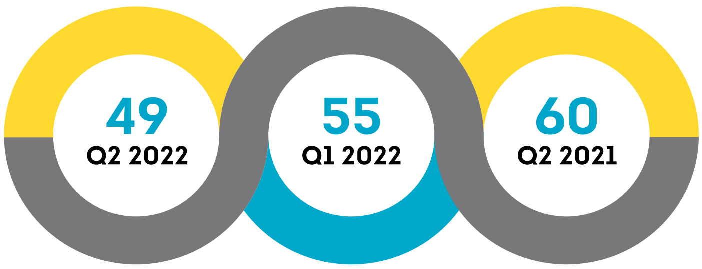
SA Consumer Credit Index | Q2 2022

Executive Summary

CCI is flagging the risk of a deterioration in credit health as higher prices give consumers little choice.

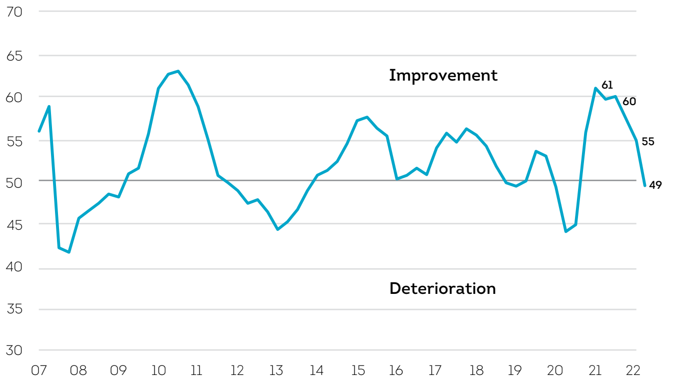
Index: 50.0 = breakeven



- **The TransUnion SA Consumer Credit Index (CCI) fell the most on record in Q2 to 49 from a final reading of 55 in Q1 2022. This reduction brings the index to its lowest level since Q3 2020.** The index measures consumer credit health, where 50.0 is the breakeven level between improvement and deterioration.
- A score of 49 in the headline Consumer Credit Index suggests that household credit health deteriorated somewhat in the second quarter. The six-point drop in the quarter marks the sharpest fall in the index on record, topping the Q3 2020 fall of 5 points. The components reflected a deterioration rather than further recovery in consumer credit health, with all four sub-components moving lower during the quarter.
- There was a considerable rise in credit card utilization (a measure of distressed borrowing), which suggests that consumers are leaning on credit to absorb higher costs of living. This forms a risk to retail sector demand in the months ahead, as higher debt constrains disposable income in the future. The data also show that the average level of 3-month defaults rose year-on-year despite falling marginally (0.1%) q/q, which forms an early warning for looming slowdown in consumer sectors.
- Household cash flow was under pressure, with prices of goods rising more than income. When considering that SA has among the highest unemployment rates in the world, it follows that wage growth is unlikely to catch up to living costs for some time. Rising prices suggest that real purchasing power is under pressure. Without increased household income, the index is prone to further deterioration.
- Non-discretionary inflation (NDCPI), prices of consumer goods and services that are difficult to avoid spending on, has risen to 9.3% y/y as of June 2022, well above the 7.4% y/y headline CPI print for June – marking its highest level since 2009, when NDCPI rose to 10.8%. Consumer prices will continue to grow if higher business costs are passed on to consumers. Barring further fuel price turbulence, prices will stabilise in the months ahead as supply shortages brought on by the COVID period dissipate. Higher fuel costs have driven private transport costs up by nearly 40% y/y. Household utilities and public transport costs rose around 15% y/y, and some basic foodstuffs are up approximately 10% y/y.

Q2 2022 CCI: Key Facts and Figures

TransUnion SA Consumer Credit Index



No. of consumer accounts measured: **52.36 million**

No. of accounts three months in arrears: **766,104**

Value of revolving credit measured: **R201.73 billion**

Estimated Q2 2022 non-discretionary consumer price inflation (NDCPI): **+7.8% y/y (Q1: +7.1% y/y)**

Estimated Q2 2022 NDCPI-adjusted disposable income growth: **0.2% y/y (Q1: 2.8% y/y, revised[1])**

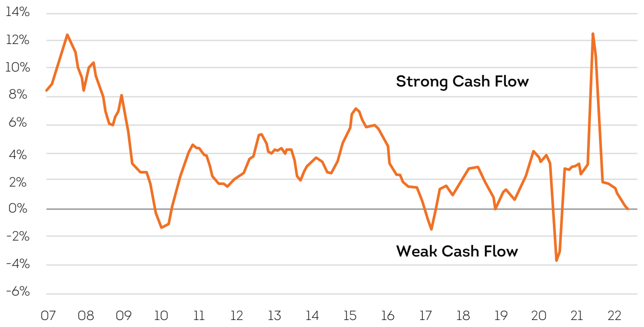
Estimated aggregate, annual household disposable income: **R3.02 trillion (Q1: R2.973tr)**

Estimated national household bank debt as a percentage of disposable income: **64.5%[2]**

Prime overdraft rate at end Q2 2022: **8.25%**

ETM: Household Cash Flow

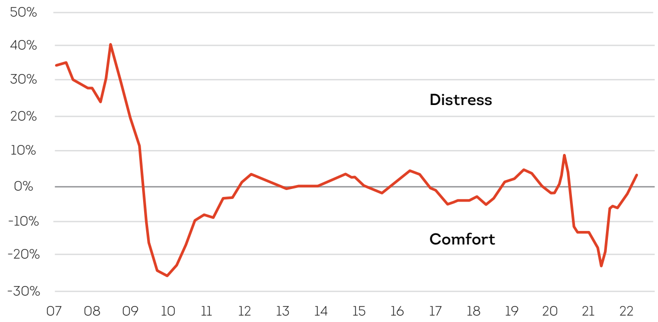
NDCPI-adj. household deposits & disposable income, avg y/y % change



TransUnion, ETM, Macro Advisors, Macrobond

ETM: Household Debt Service Cost

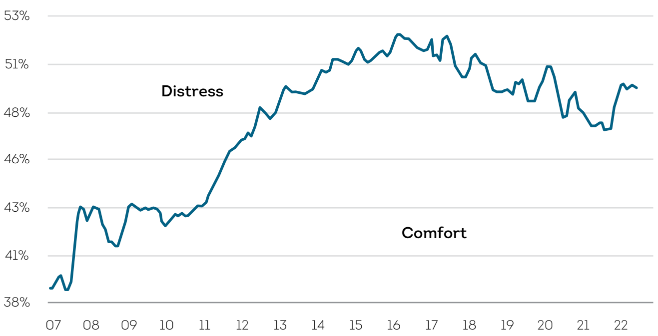
Debt service cost: disposable ratio, y/y % change



TransUnion, ETM, Macro Advisors, Macrobond

TransUnion: Revolving Credit Utilisation

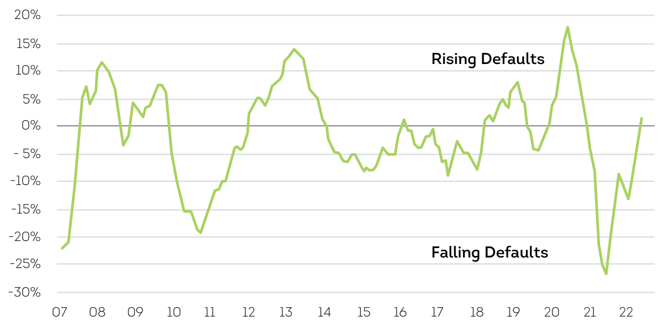
Revolving credit current/opening balance, avg y/y % change



TransUnion, ETM, Macro Advisors, Macrobond

TransUnion: Accounts in Default

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



TransUnion, ETM, Macro Advisors, Macrobond

[1] Note that the Q1 report erroneously cited the rate of change in the aggregate household cashflow component (which includes savings) rather than the household income component. While household income was up 2.8%, the component tracking both savings and income was up only 1.3%.
[2] Q1 data, source: SARB Quarterly Bulletin

DATA WEIGHTING IN THE TRANSUNION CCI

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

Unpacking the 2nd Quarter 2022 SA Consumer Credit Index

Household credit behaviour

1. Credit defaults

New credit defaults (accounts three months in arrears) rose 1% y/y in Q2 after contracting 11% y/y in Q1. With interest rates rising into Q3 amid higher costs of living, severe load-shedding, and low business investment[3], there appears to be heightened risk that the rate of defaults rises in the months ahead as household incomes will remain flat-to-lower in real terms in the absence of significant wage increases from employers.

2. Distressed borrowing

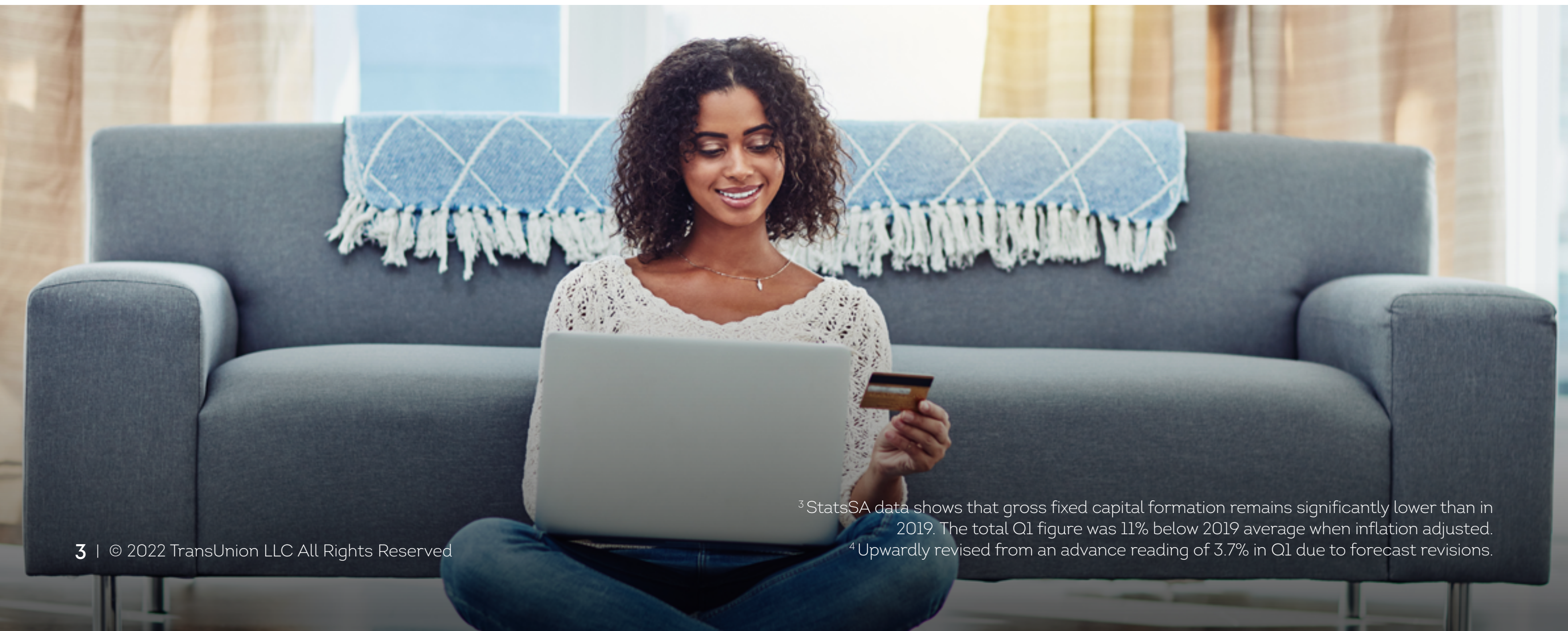
To determine levels of distressed borrowing, we look at revolving credit (credit cards and store cards) used as a percentage of one's credit limit. According to TransUnion data, distressed borrowing (or revolving credit utilisation) rose 4% y/y on average over the quarter from 3.9% y/y in Q1[4], accelerating from 1% y/y in Q4. When considered against weak household cash flow, this implies that households seem to be utilising credit to offset higher living costs.

Household cash flow (HCF)

Accelerating price increases and moderate levels of nominal wage growth have eaten into household cash flow in recent months, with growth in real cash flow compressing from an average rate of 8.3% y/y over Q3 last year to a contraction of -0.3% y/y in Q2 of 2022. This was driven by a fall in the rate of growth of real cash savings balances by 0.8% y/y, while NDCPI-adjusted disposable income has barely grown since this time last year. The household cash flow outlook remained constrained by rising prices with non-discretionary inflation accelerating to 9.3% y/y in June, the sharpest rise in prices since 2009.

Household debt serviceability

With the SARB opting to hike the repo rate by a total of 200 basis points (2 percentage points) between November of 2021 and July 2022, there will be increased debt serviceability pressures in the coming months. Debt serviceability risk appear likely to increase unless households manage their leverage exposure down effectively, as cash flow issues continue to persist due to macro factors.



[3] StatsSA data shows that gross fixed capital formation remains significantly lower than in 2019. The total Q1 figure was 11% below 2019 average when inflation adjusted.
[4] Upwardly revised from an advance reading of 3.7% in Q1 due to forecast revisions.

Further Insight: Rising interest rates, business uncertainty and high inflation suggest household credit health will continue to be tested

An uncertain outlook for SA's economy, low overall levels of business investment, various structural problems such as the persistence of load shedding and port disruptions in KZN, and an outlook for rate hikes, all suggest that the average household is facing a volatile outlook in the months ahead. The business landscape is fraught with caution with the SACCI business confidence index falling in the Q2 reading, to suggest that businesses are expecting a slowdown in activity.

Consumer confidence levels have also been under pressure when looking at the FNB/BER consumer confidence index, with respondents becoming particularly pessimistic in terms of the survey's outlook component. Consumers would benefit from being much more selective in taking on new debt and saving more where possible in their monthly budgets. The TransUnion Q2 2022 Consumer Pulse survey reflected this with 60% of households surveyed planning on curtailing spending, and 73% of Generation X (people born around 1965-1985) cutting back on discretionary spending in the quarter.

The South African Reserve Bank has delivered 200 basis points of rate hikes since November last year to July of this year and has suggested that the repo rate will rise by at least another 1-1.25 percentage points by 2024. This would take the current repo rate up to the 6.75% region, which would raise the prime rate – the rate at which many households are funded – to 10.25%. This implies a significantly higher interest burden for the average household. Households that have actively consolidated accounts, paid down debt and managed their expenses will be better off in such an environment.

Such an outlook for higher interest rates would mean debt costs rise significantly for indebted consumers. Someone with a consolidated loan is likely to pay a lower interest rate than the equivalent repayment burden on a fragmented set of accounts – such as clothing, store cards and a credit card – which are often subject to higher interest rates and could be consolidated into a single facility. Businesses would probably also face higher rates of non-performing loans in such an environment, as households under severe financial pressure often delay payments on debt in favour of paying essential expenses.

The effect of interest rates on household debt and affordability

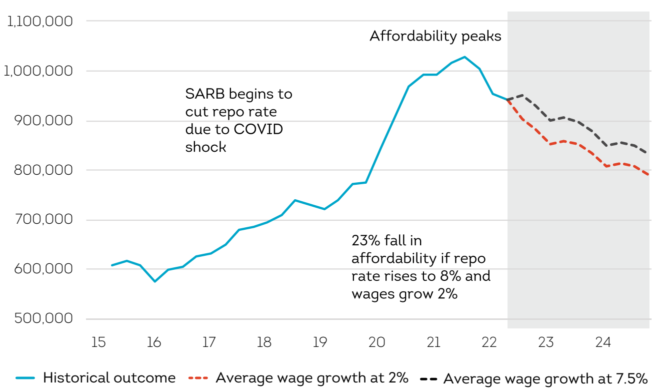
Note	Repo rate	Prime rate	20yr mortgate repayment per R1 million borrowed	Repayment as % COVID low	Income required to afford R1 million bond*
COVID low	3,5	7,0	7 753	100%	23 259
Current rate	**5,5**	**9,0**	**8 997**	**116%**	**26 992**
2009-2020 average	6,0	9,5	9 321	120%	27 964
SARB 'neutral' rate	7,0	10,5	9 984	129%	29 951
2-year rate expectations	8,0	11,5	10 664	138%	31 993

*Max affordability at 1/3rd of income.

Source: TransUnion, ETM Analytics

Average mortgage affordability given outlook for higher rates

Higher rates will crimp mortgage affordability by 15-20%



Source: Calculations using StatsSA average wage and repo rate data

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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%

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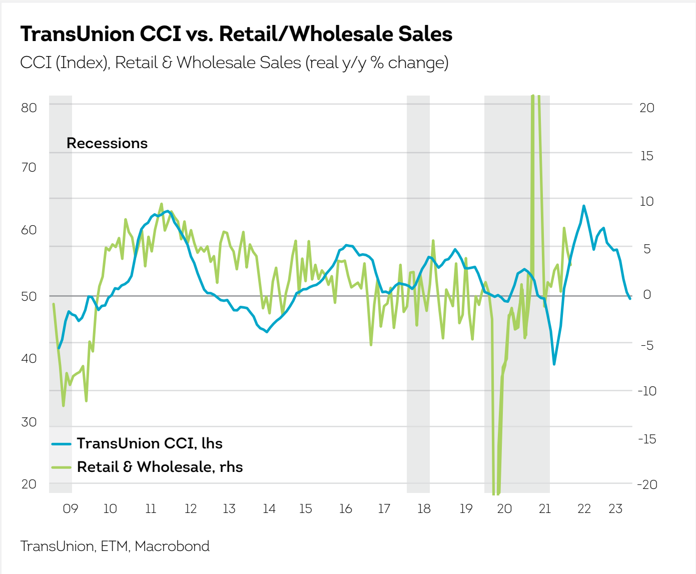
[5] Incorporating SACRRA data [6] As supplied by SACRRA members

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. The recent downturn in the index suggests that consumer demand could be stifled in the coming months. 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**
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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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