

20 October 2021

Experian Africa

Insights into the Redefined Credit Economy – October 2021

Data insights and the latest trends of how the South African credit economy has been redefined in a time of disruption.



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Introduction

There's no doubt that the COVID-19 pandemic caused a significant amount of disruption to global and local economies. Varying lockdown levels have also impacted these economies as well as the businesses and consumers that operate within them.

The extent of the pandemic's economic impact continues to be largely unknown. However, through tracking and analysis of the emerging patterns in the credit and related industries, we see early indicators of what is to come over the next few months.

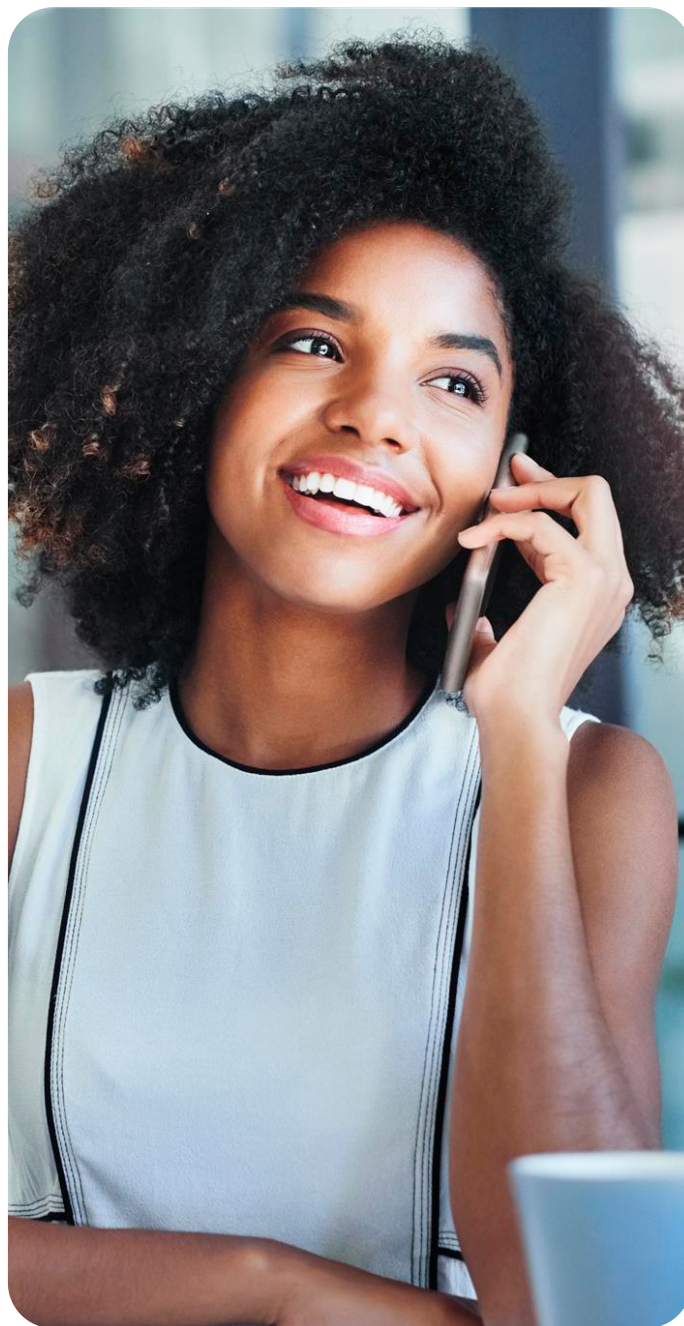
We are committed to continually sharing insights and trends as they emerge, keeping you informed to support your strategies.

All emerging trends are tracked monthly with a focus on how they impact overall market activity, changes in consumer behaviour and the impact on overall performance at a total market and business vertical level

The October 2021 report focus areas include:

CDI: Update on first-time default rates

- Latest state of the Redefined Credit Economy
- BDI: How have South African Business Conditions Changed?



[Download the latest BDI Report here](#)

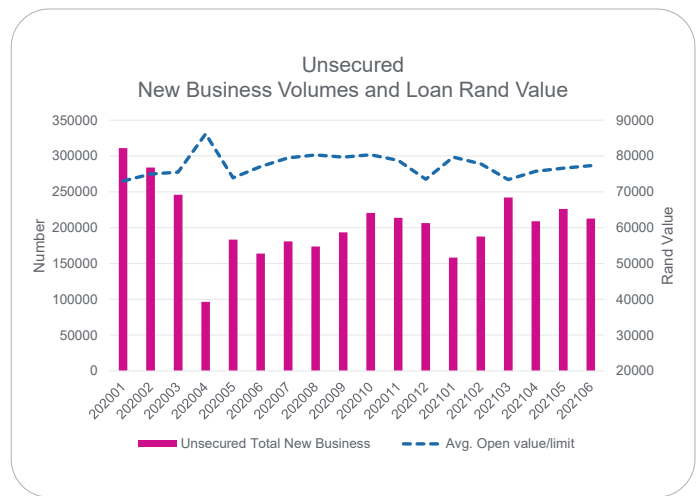
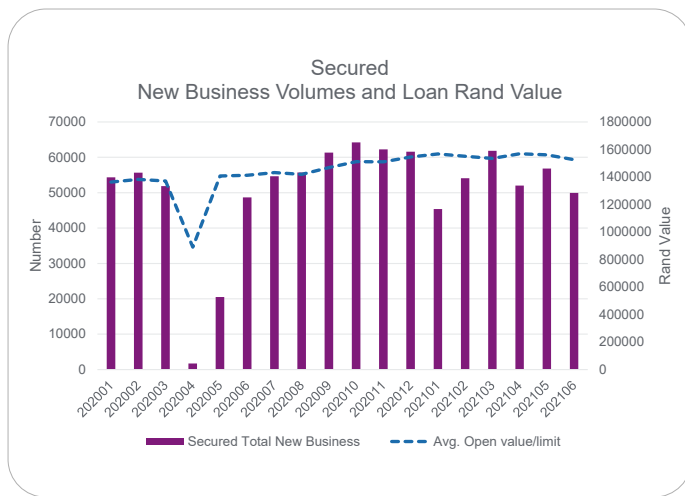
What is the latest state of the Redefined Credit Economy?

New Business Limits and Volumes

Split between Secured and Unsecured Products.

The analysis provides detail regarding limits and volumes for both secured and unsecured products. Secured and/or unsecured lenders wrote their lowest new business in April 2020 when South Africa moved into its first lockdown, level 5. **Secured products** had overall low volumes in April 2020 and May 2020; the volumes of new business written increased after May 2020 and are now at a similar level of new business than before April 2020. **Unsecured lenders** extended less new business in April 2020 compared to secured lending. Even though the volumes of new business have picked up after April 2020, the volumes of new business are still lower than before April 2020.

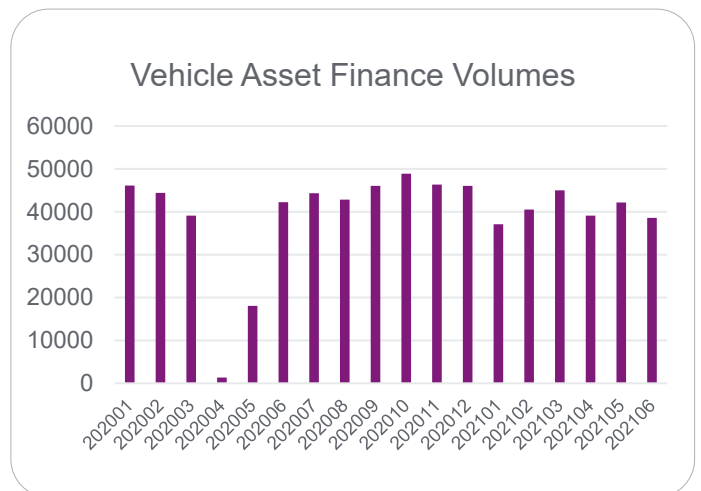
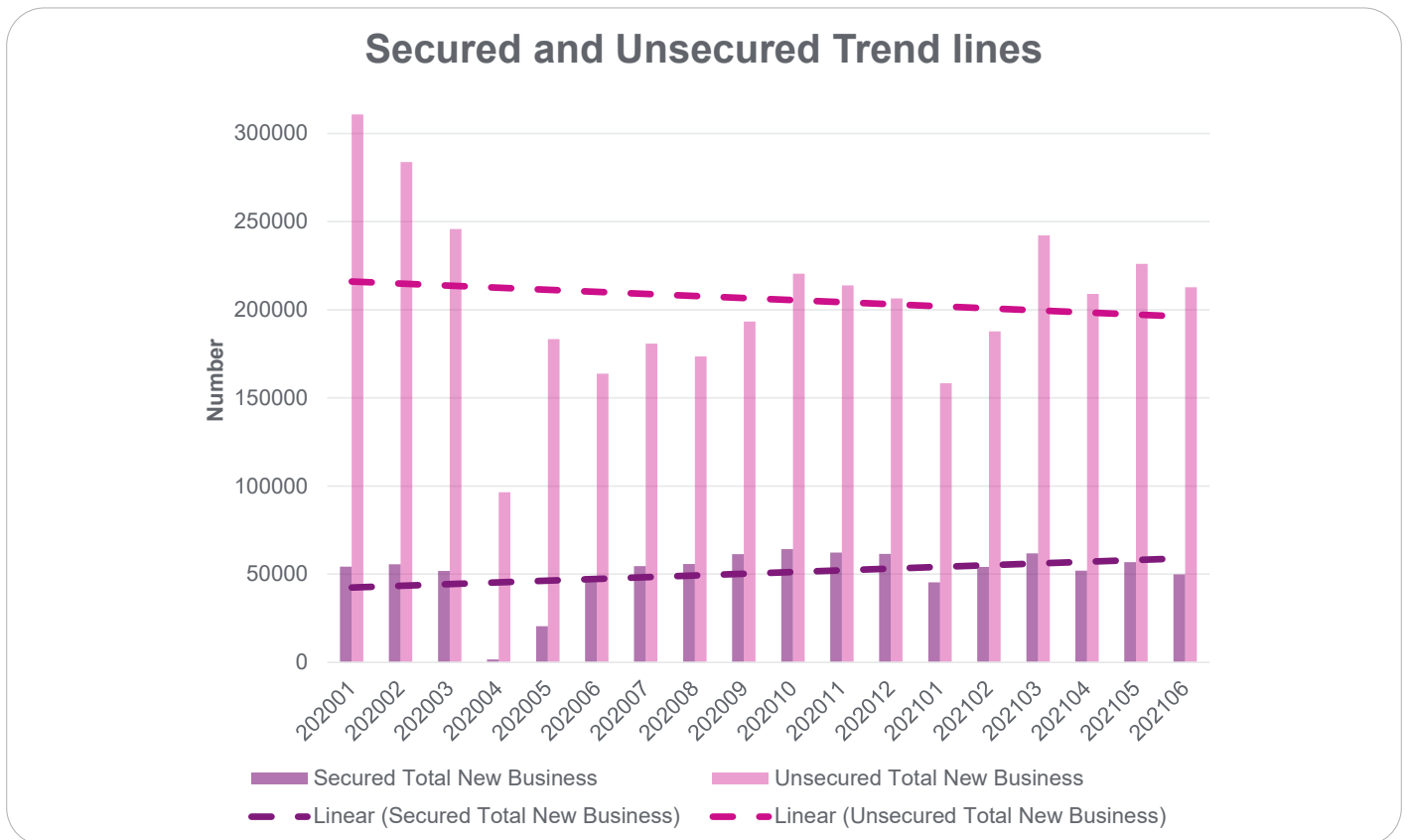
The average loan for secured finance stayed stable with somewhat of an increase in loan size. In the unsecured space, the loan sizes show seasonality but when comparing Jan 2020 with Jan 2021, it is still not at the level of new business in Jan 2020.



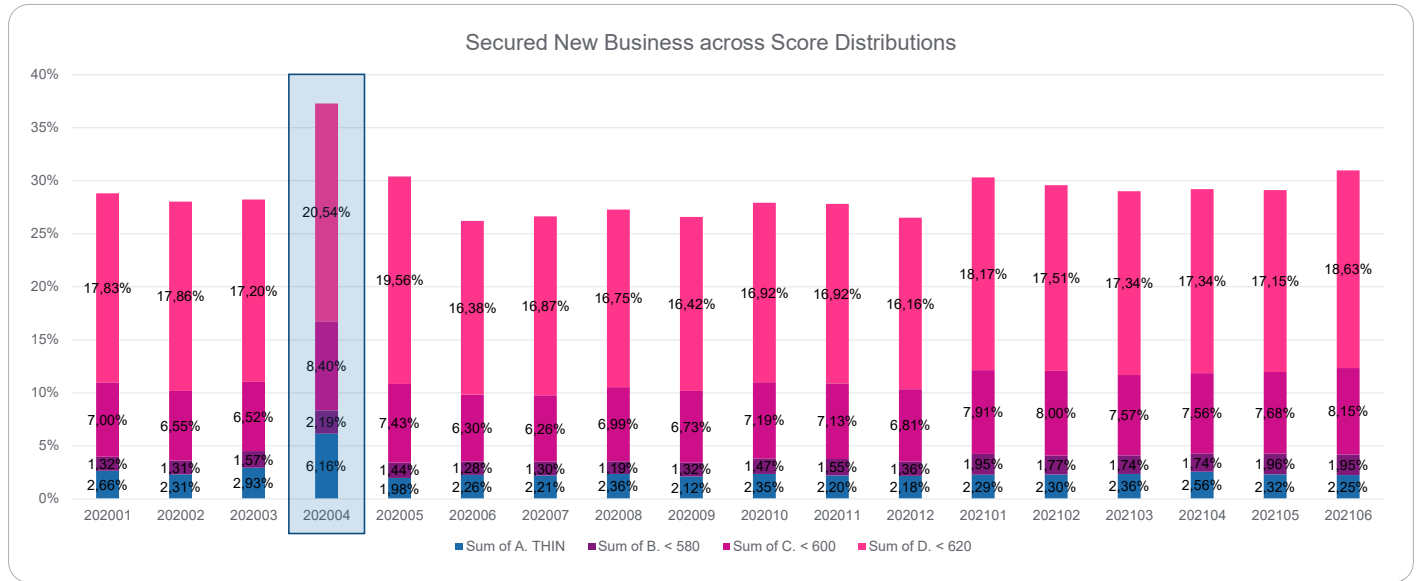
New Business Growth

Split between Secured and Unsecured Products.

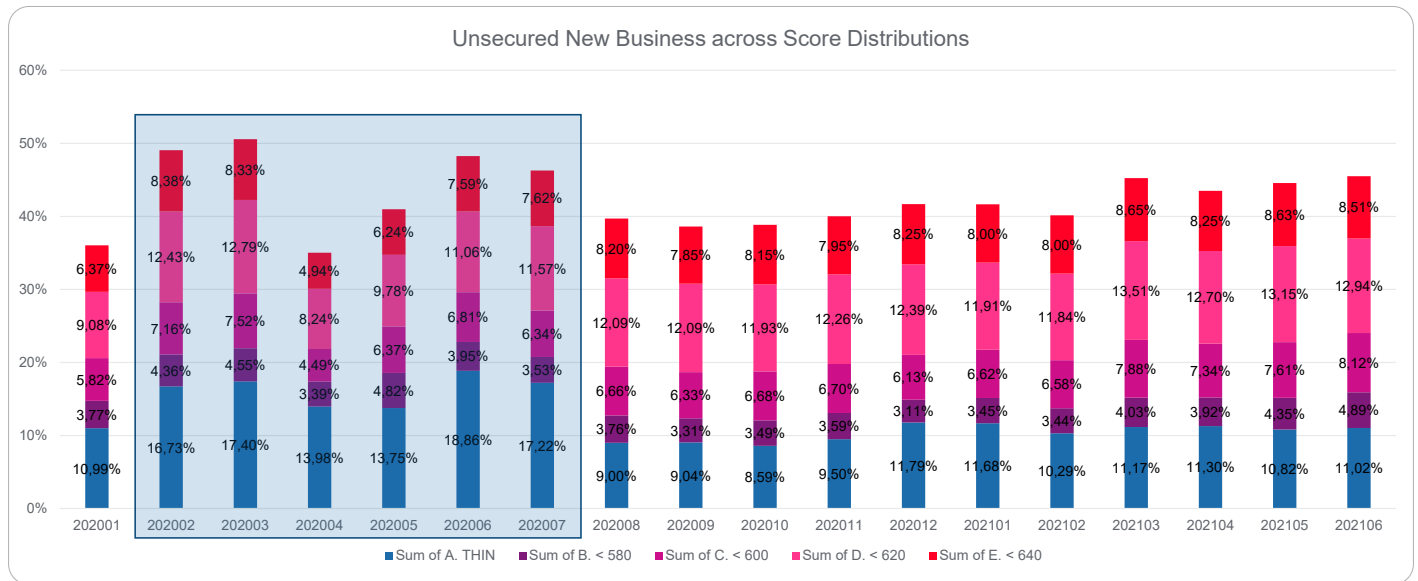
A simple linear regression was used to fit a line on the volumes of new business of secured and unsecured lending. It shows that the secured market recovered quickly after April 2020, whereas the unsecured market still does not write the same number of new business as before April 2020. Vehicle Asset Finance and Personal Loans were extracted, and it is evident that VAF write the same number of new business but Personal Loans are still not back on what they use to write.



New Business Score Distribution over Time
Split between Secured and Unsecured Products.



The score distributions for secured lending show a minimal shift except for April 2020.

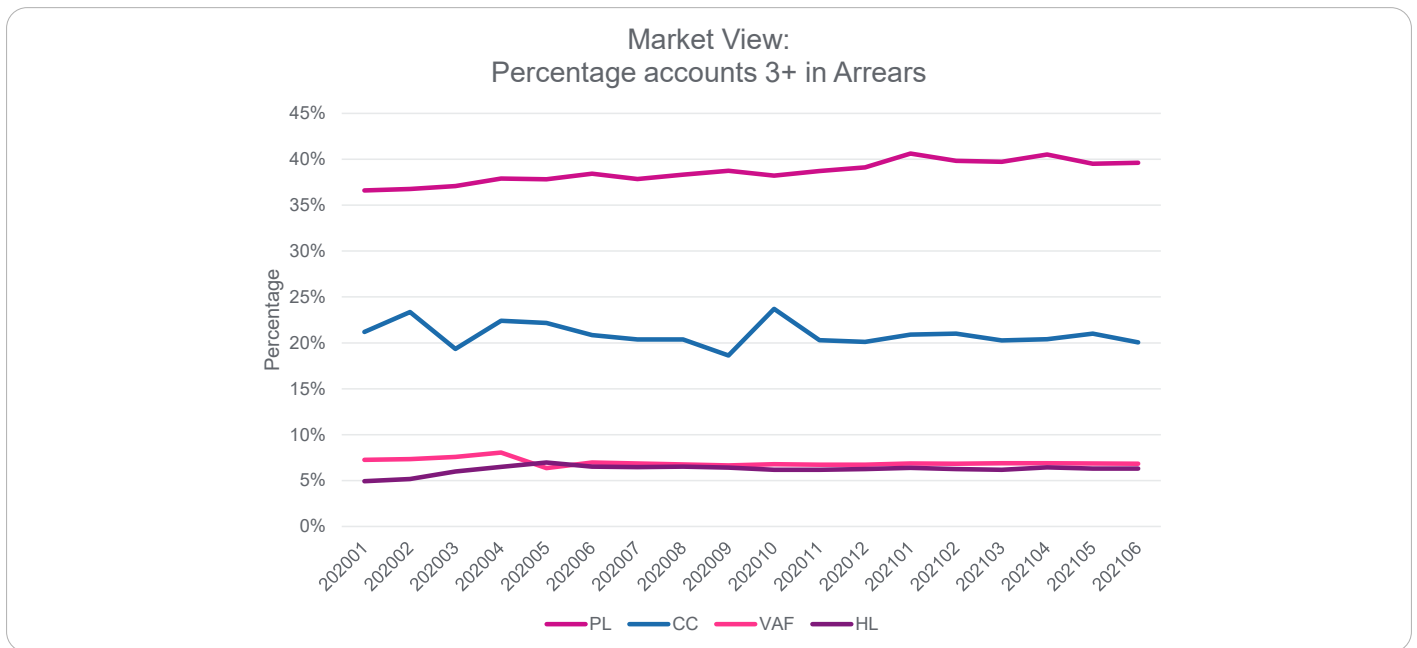
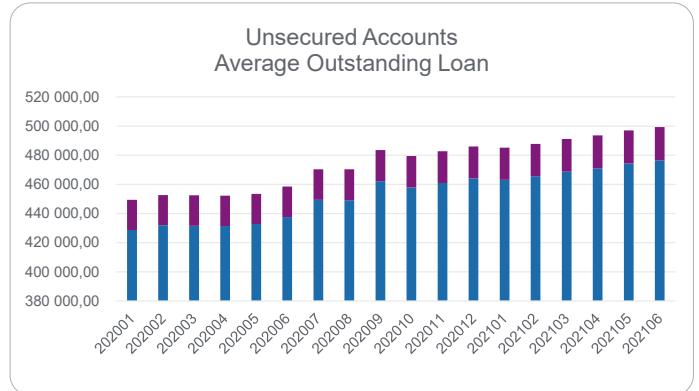
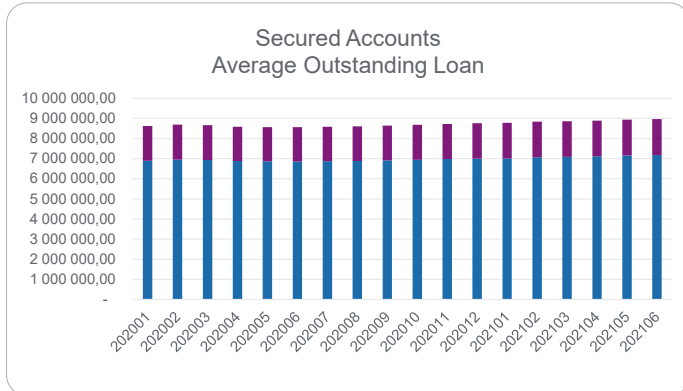


The score distributions for unsecured lending shows instability between February 2020 and July 2020. This might be due to applying for microloans or personal loans after the holiday period in December 2020. In June 2020, 18% of thin-file consumers were entering the market up until July 2020. The stabilisation after July 2020 is a factor of risk appetite closing to prevent taking up additional risk as many South Africans had financial difficulties.

Market View

Market View of Secured and Unsecured Outstanding Loan Amounts and Percentage of Accounts in Default.

Outstanding loans in the secured lending space remained stable while unsecured outstanding balances are still growing. As volumes started picking up again after April 2020 for unsecured loans, so did the percentage of accounts 3+ in arrears. Credit Card and unsecured products remained stable.



How have South African Business Conditions Changed?

Experian Business Debt Index (BDI) Results and Insights provided by Econometrix.

Business Debt Index

South African business conditions rocketed to an all-time high in 2021 Q2.

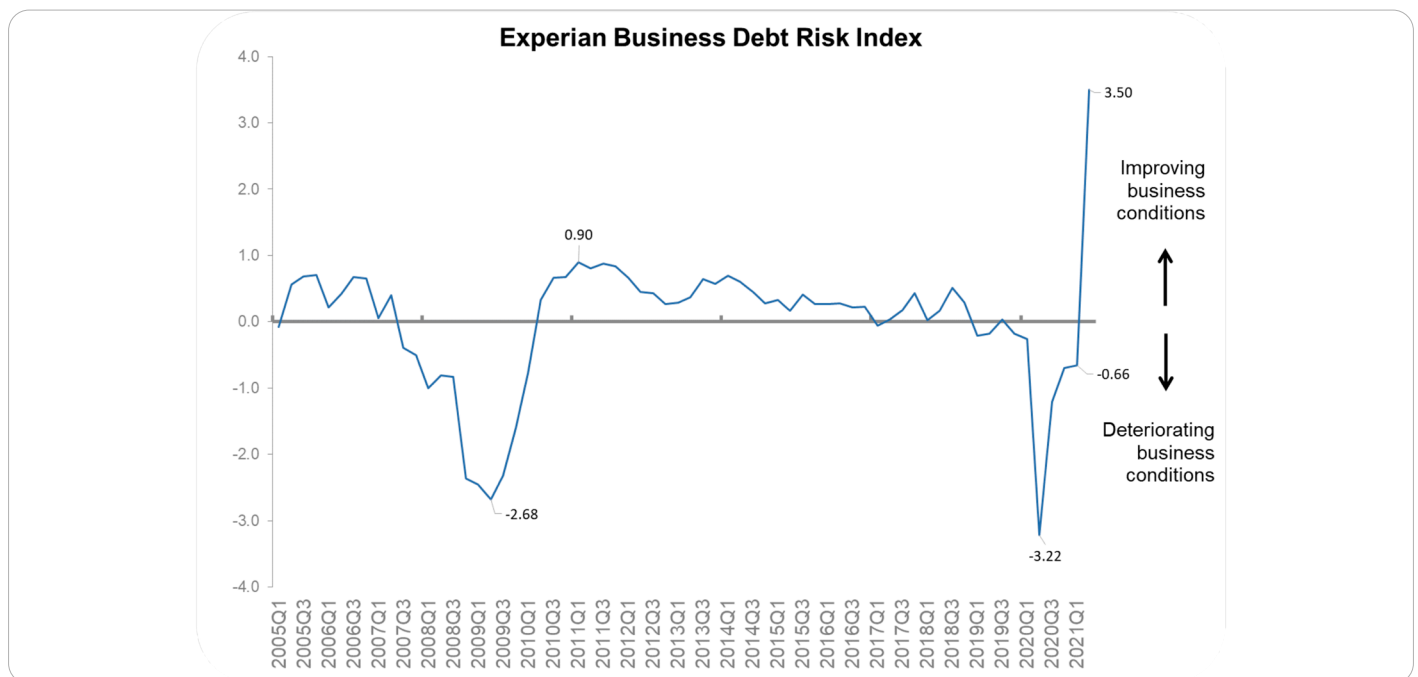
The BDI combines macro-economic data (GDP, inflation and interest rates) and monthly business bureau debtors data to reflect the **state of South African business conditions**.

The BDI has shown a stellar Q-o-Q improvement, recording a **historic maximum of 3.5 in 2021 Q2** from -0.66 in 2021 Q1.

This was predominantly as a result of the low base (remember that 2020 Q2 saw a historic minimum of -3.2) improved **GDP** figures for 2021 Q1.

The improvement was, in fact, greater than anticipated due to:

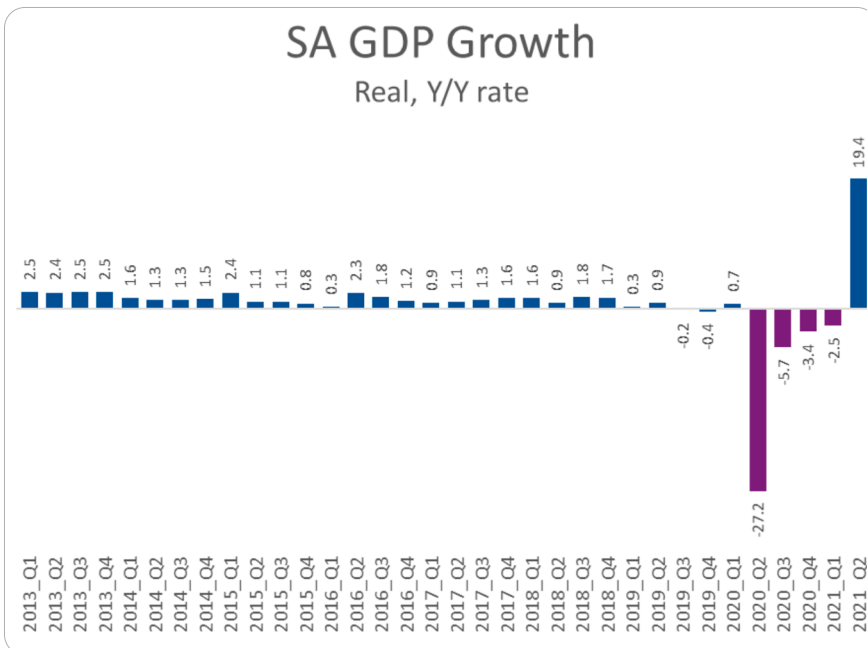
- The **revised GDP** base implemented by Statistics SA.
- The **GDP growth rate** improving significantly relative to the depressed conditions of 2020 Q2.
- Better than expected **Debtors' days** results.



Gross Domestic Product

GDP was restated by Stats SA following a revision of the base. Significant GDP growth was due to a rise in exports.

The South African GDP is one of the macro-economic variables that inform the BDI. For the fourth consecutive quarter, the annualised GDP growth rate has shown an **increase**. This improvement exceeded expectations due to the sharp increase in exports off the back of significant improvement in **international commodity prices**. This affected mining and agriculture in particular.



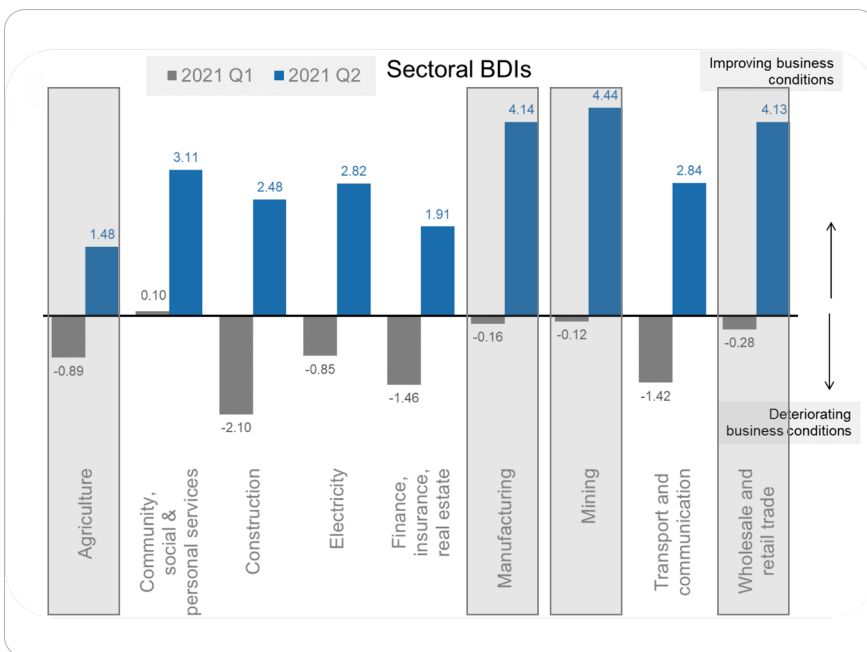
BDI split by Sector

All sectors of the economy showed significant improvement in BDI. The most drastic improvement was seen in mining.

All sectors displayed a **significant improvement** in BDI from the previous quarter, with almost all sectors moving from negative territory into positive territory in 2021 Q2.

Mining, Manufacturing and Trade are leading sectors in this regard.

Agriculture, although displaying the lowest sectoral BDI, is still quite high by historical standards.



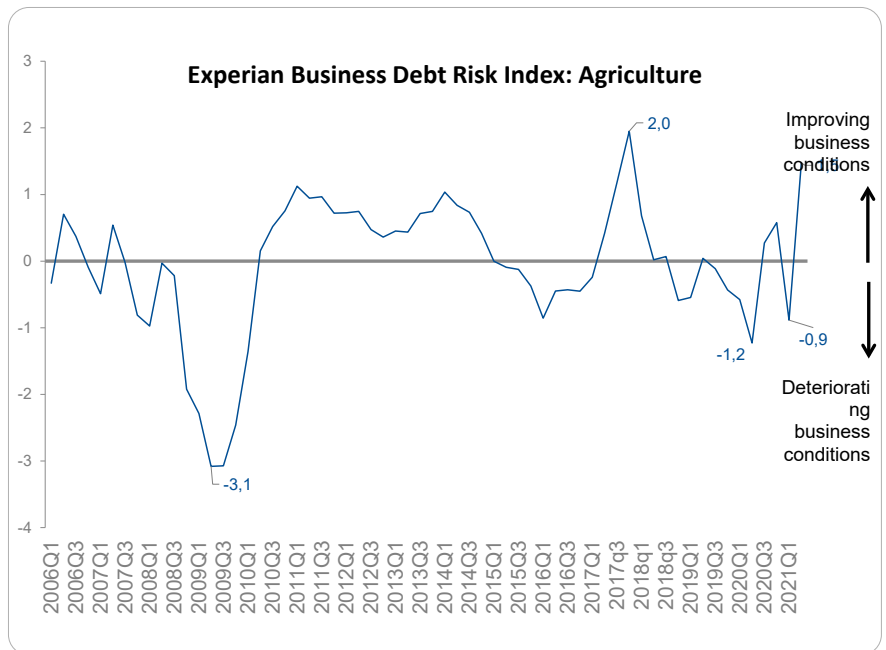
BDI – Agriculture

Commodity prices and improvement in exports had a positive effect on the Agriculture BDI.

Although the Agriculture BDI is the lowest sectoral BDI in 2021 Q2, it still showed a **significant improvement**, moving from -0.9 in 2021 Q1 to 1.5 in Q2.

This improvement was mainly due to **GDP growth** (mainly statistical impact of the low 2020 Q2 base, but also favourable climatic conditions for crops in most agricultural production areas in South Africa).

Bureau indicators in the form and debtors' days for agriculture dampened the improvement in BDI.



BDI – Wholesale and Retail Trade

Wholesale and Retail Trade Showed a Significant Improvement in 2021 Q2.

GDP growth in the retail sector soared in 2021 Q2 due to the **low 2020 Q2 base**, as well as the **improved disposable income** of formally employed consumers (due to lockdown). This was the main reason for the BDI increasing from -0.28 in 2021 Q1 to 4.13 in 2021 Q2.

Improved debtors' days ratios supported this improvement in BDI.

The **prospect** for this sector, however, is not as positive, following on from the unrest and **looting** that took place in KwaZulu-Natal and Gauteng. **Reparation** of stores and supply lines will take some time, and the rising **unemployment** will also weigh down on future retail sales.



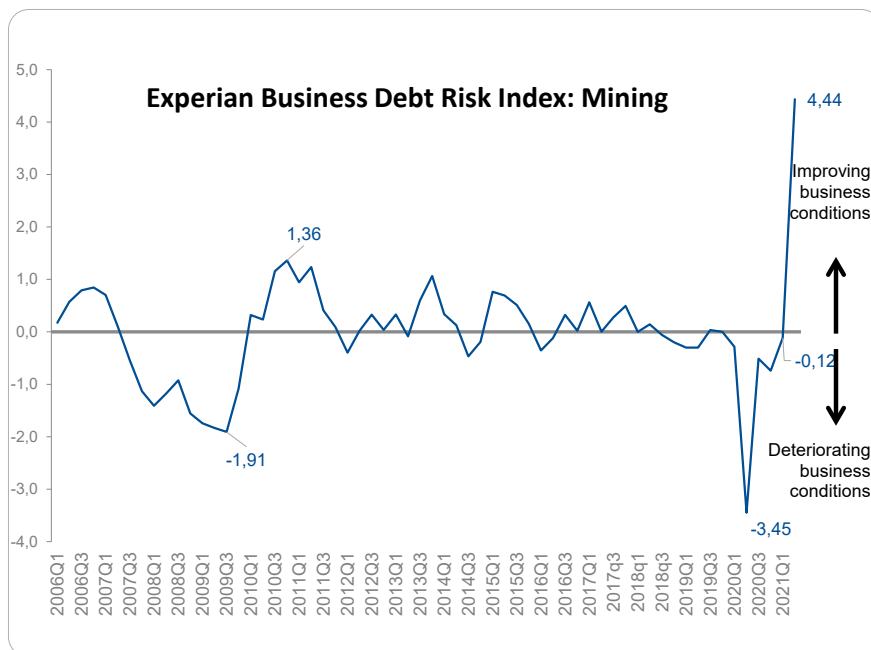
BDI – Mining

Mining showed the highest BDI in 2021 Q2.

The highest sectoral BDI was observed for Mining, moving up from -0.12 in 2021 Q1 to 4.44 in 2021 Q2. This was due to increased GDP in this sector, based on the **global commodity boom**.

Production has generally returned to pre-pandemic levels, and from an outlook-perspective, it seems the impact of the July looting on **supply chains**, particularly regarding Transnet, has recovered back to 'normal'.

The commodity process has been showing a slip-back recently, as the COVID-19 Delta variant has necessitated renewed lockdown restrictions in some countries. Overall, this sector is expected to experience some downward pressure from a BDI perspective.



Debtors' Days Analysis and Outlook

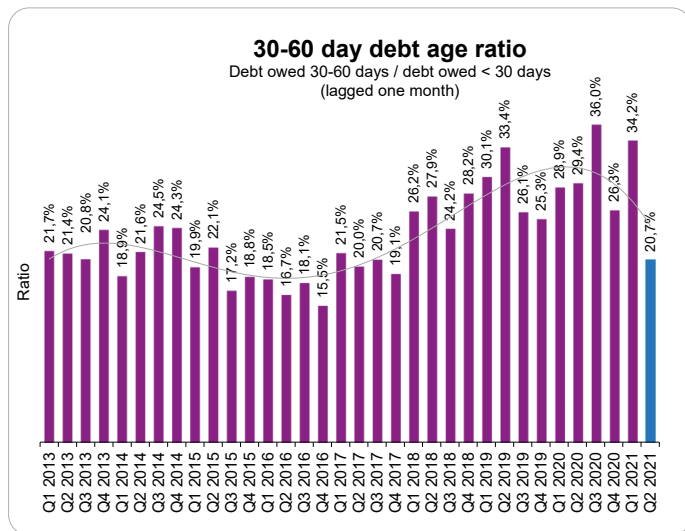
Debt Age Ratio

Both debt age ratio metrics have improved significantly in 2021 Q2.

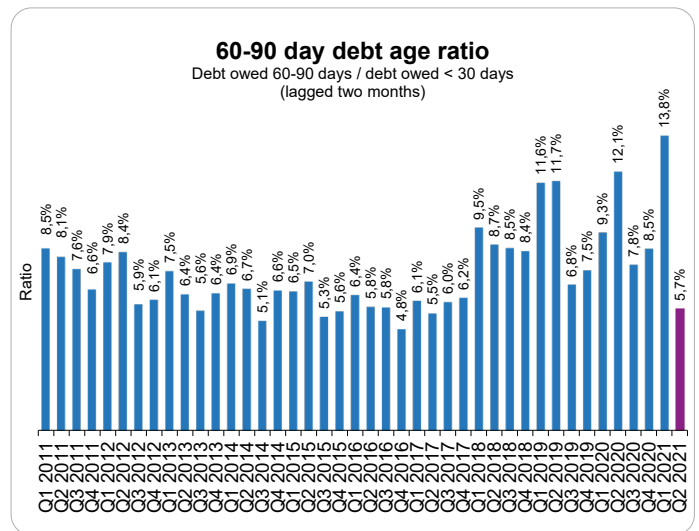
30–60-day debt age ratio has **improved substantially**, moving from 34.2% in 2021 Q1 to 20.7% in 2021 Q2. The 60–90-day debt age ratio also improved to a very low 5.7%, down from 13.8% observed in 2021 Q1.

This sharp improvement in debt age ratios was influenced by the fact that businesses have **not been spending as much** as they were prior to the onset of COVID-19 and savings being incurred due to reduced travel and commercial office-related expenditure.

Further savings have been incurred due to dampened entertainment and leisure expenses as well as 50-year lows in domestic interest rates for the last 15 months.



Source: Experian



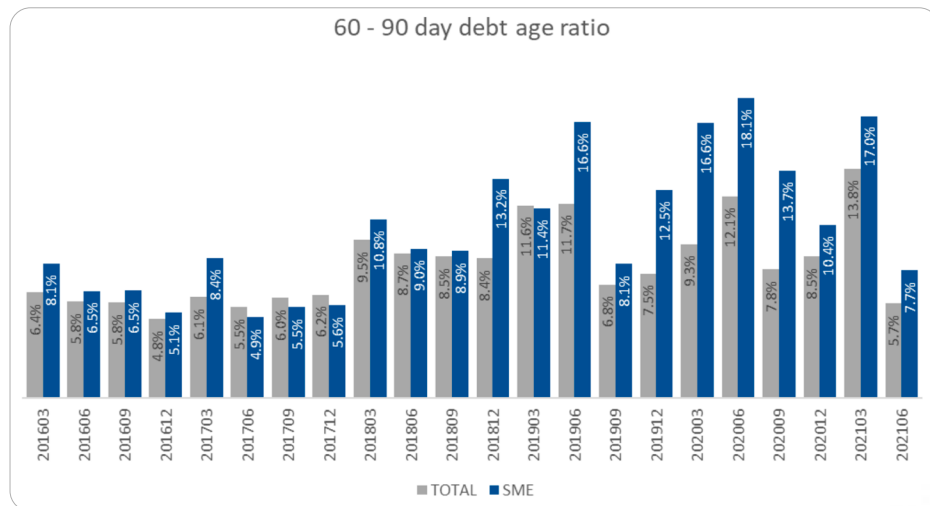
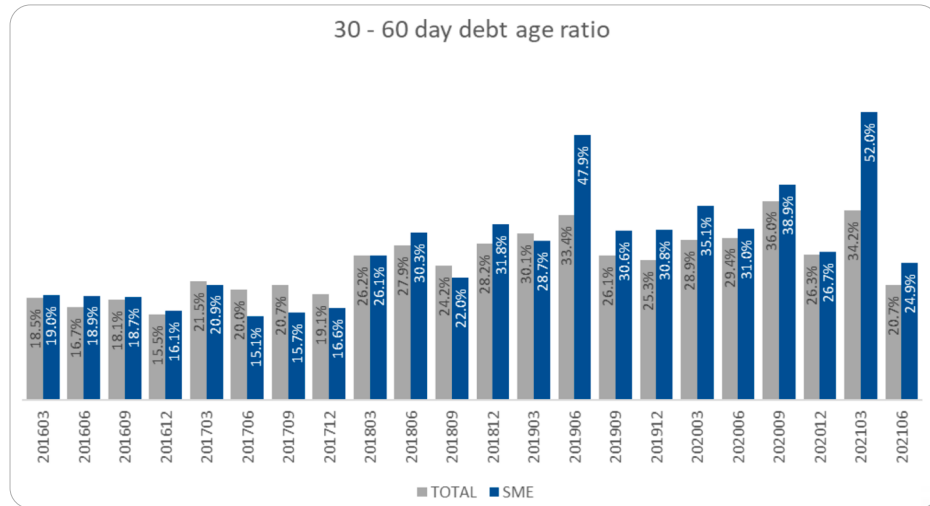
Source: Experian

Insights into the Redefined Credit Economy

SMEs are performing worse when comparing debt age ratios.

Similar to the total market, SMEs have shown a marked **improvement** in the debt age ratios. This signifies the improvement in business debt conditions transcending the relative size of businesses.

However, as has been the case for the last 2 years, **SMEs are worse off** than the market as a whole, both in terms of the 30-60-day and the 60-90-day debt age ratios.



Business Debt Index – Outlook

2021 Q3 is expected to see a sharp decline in BDI.

The extreme positive observations in BDI are expected to wean off over the next few months as the statistical effect of the low base observed in 2020 Q2 to Q4 dissipates.

In the long-term, **growth is still stifled** by the insufficient measures being taken by the government to implement urgently needed policies and structural reform. This means that the BDI is expected to show less-positive levels over the next few months.



Conclusion

Secured Markets have managed to recover faster over time. New business volumes are at the same level as before COVID-19. The unsecured market has also recovered but not on the same scale as the secured market.

We saw from the BDI **that business conditions in South Africa** showed a significant improvement in 2021 Q2, considering the low base from which this was determined.

The improved BDI was observed across all sectors.

The BDI, although expected to still be positive in 2021 Q3, will probably be significantly lower than what was observed in 2021 Q2.

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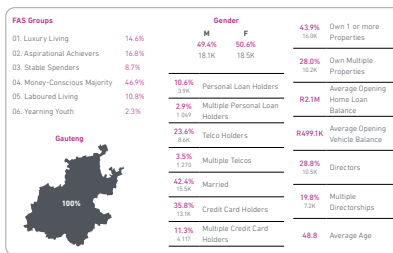
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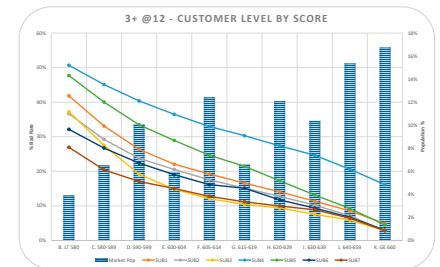
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