experian

Business Debt Index

Quarterly Summary - Q3 2023

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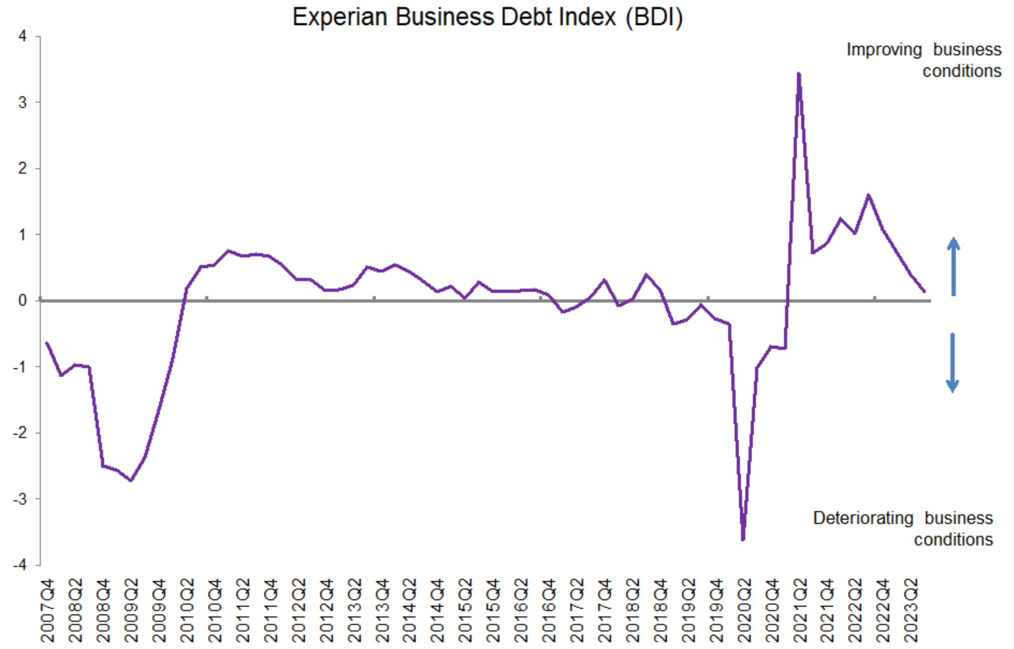
EXPERIAN BUSINESS DEBT INDEX (BDI) RESULTS FOR Q3 2023

Expected decline in Experian BDI in Q3 as macroeconomic situation outweighs improved credit outcomes

As expected, the Experian BDI fell quite steeply in Q3 to 0.141 from a downwardly revised 0.409 in Q2.

The Q2 figure was revised downwards to 0.409 from the initially published figure of 0.445, mainly because South Africa's q/q GDP growth rate for Q2 was revised down to 0.5% from the original 0.6% figure published.



Source: Experian

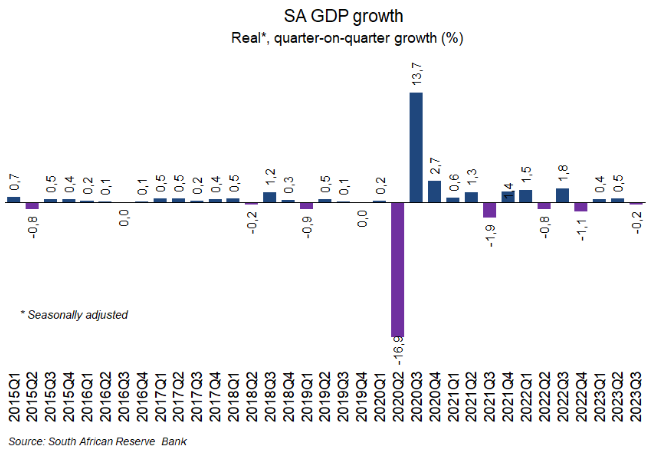
	Q3 2022*	Q4 2022*	Q1 2023*	Q2 2023*	Q3 2024
Index >0= Improving business conditions <0 = Deteriorating business conditions	1,600	1,078	0,738	0,409	0,141

** Revised*

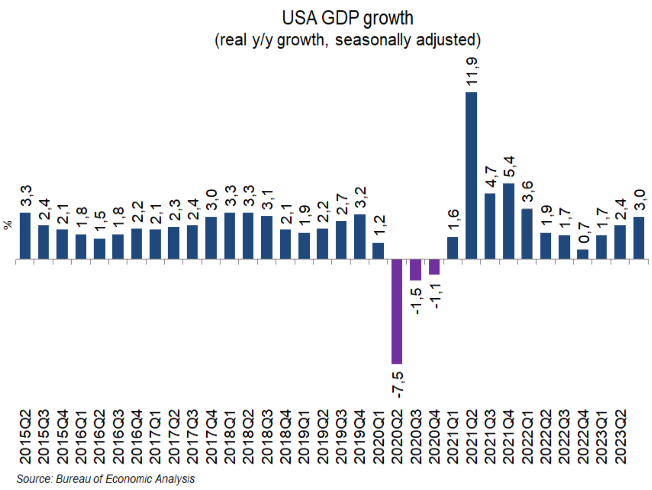
Macroeconomic factors influencing Q3 2023

The main reason for anticipating a reduction in the BDI in Q3 was that both the Q1 and Q2 GDP outcomes domestically had been stronger than expected, and a slowdown in Q3 had been anticipated. In the event, the reduction in growth in Q3 for the South African economy was not excessive, with q/q GDP growth declining to -0.2%.

Y/y growth declined as a result, from 1.5% in Q2 to -0.5% in Q3.



In contrast, internationally, US economic growth picked up from 2.4% y/y in Q2 to 3.0% in Q3.



All the same, the decline in the BDI is essentially a reflection of a slowing down of economic growth domestically that contributes towards reduced financial health for both businesses and consumers.

In South Africa, besides the almost 5% rise in interest rates in the past two years, economic growth has suffered from load-shedding and, more recently, logistical bottlenecks at the country's ports.

The latter were particularly prominent as a drag on economic growth. This is reflected in a 3.5% drop in gross fixed capital formation, a -R44bn rundown of inventories and an -8.6% y-o-y decline in imports.

There were just not enough goods brought into the country to support production. The logistical situation was exacerbated in Q3 by significant events of arson on road freight trucks transporting goods from ports in KwaZulu-Natal to the hinterland.

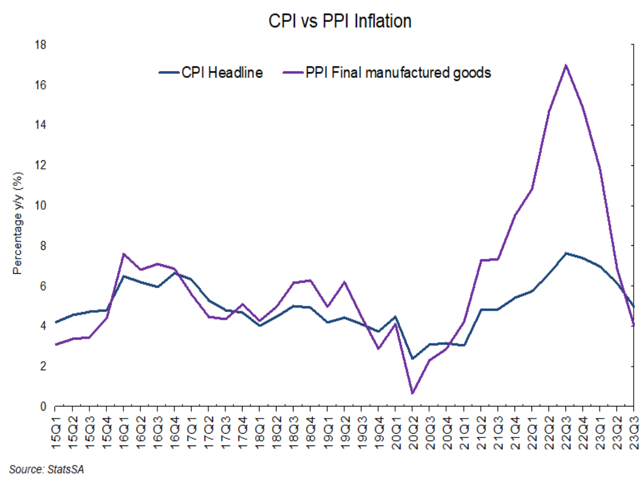
Business and consumer confidence was generally negatively affected.

In contrast, in the US, the hangover of massive government stimulus injected into the economy to prevent the COVID-19 crisis from creating more distress has continued to provide support for economic activity. Business and consumers were able to continue running down a huge pile of savings built up on the back of such stimulus.

In addition, homeowners had been able to lock into extremely low mortgage rates for an extended period so as not to be unduly affected by the 5% increase in interest rates aimed at quelling inflationary pressures.

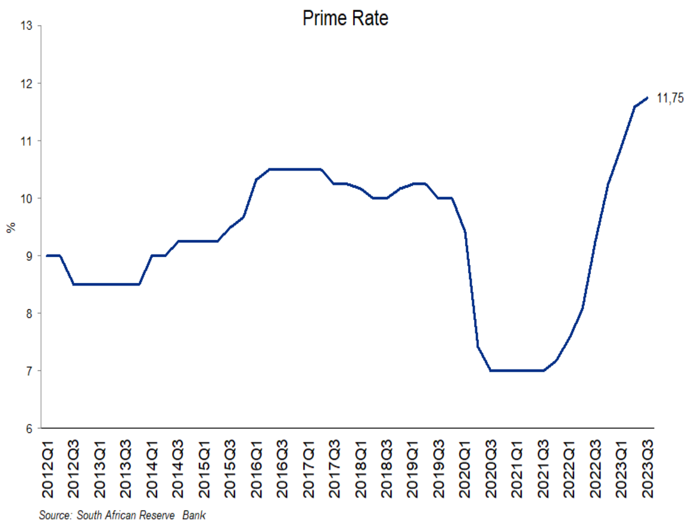
Nonetheless, it would appear that the negative effects on the BDI of the domestic economic slowdown in Q3 outweighed the benefits of faster growth in the US economy.

In addition, the domestic PPI inflation rate declined much more steeply than the CPI inflation rate. In fact, the PPI inflation rate declined to well below the CPI inflation rate after having exceeded it for more than a year.



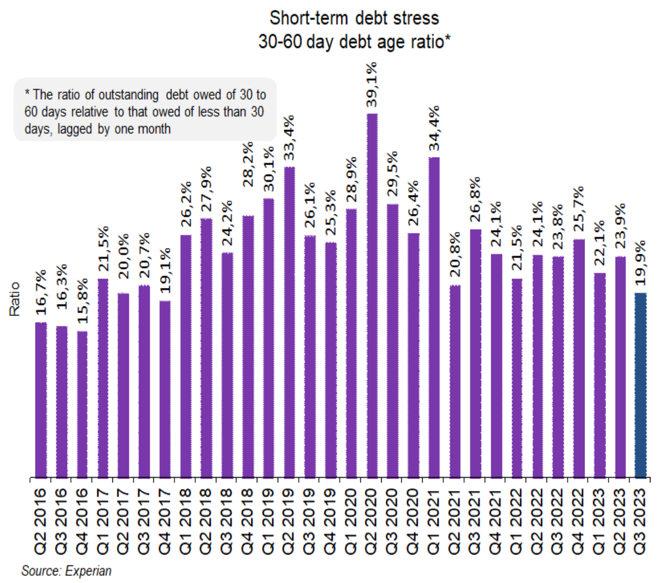
This is interpreted as a sign of increase in profit margins of businesses and somewhat countered the negative impact of the slowing GDP.

The steeper rise in short-term interest rates has adversely affected financial health. In terms of the last potential influence on financial health, namely the differential between short-term interest rates in South Africa and those abroad, there was very little change in the differential in Q3.

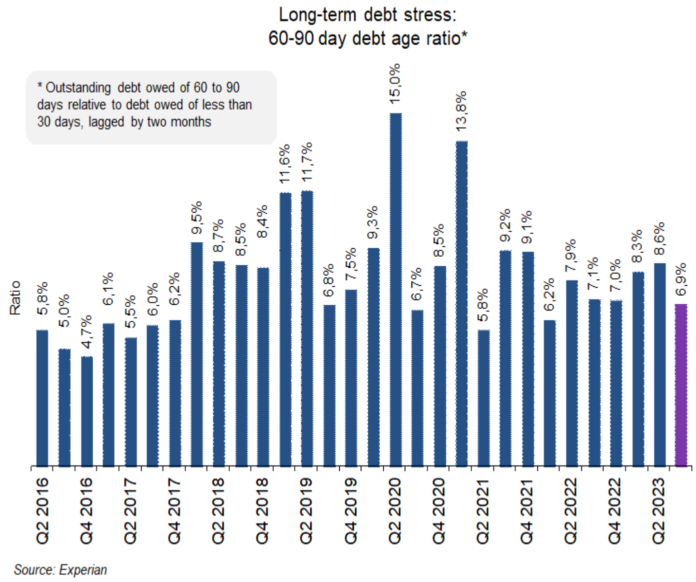


Business debt metrics in Q3 2023

Looking at the influence of Experian data on outstanding debtors' days, what helped to limit the extent of the decline in the BDI was a moderate decline in the **30 to 60 days ratio**[1] from 23.9% in Q2 to 19.9% in Q3.



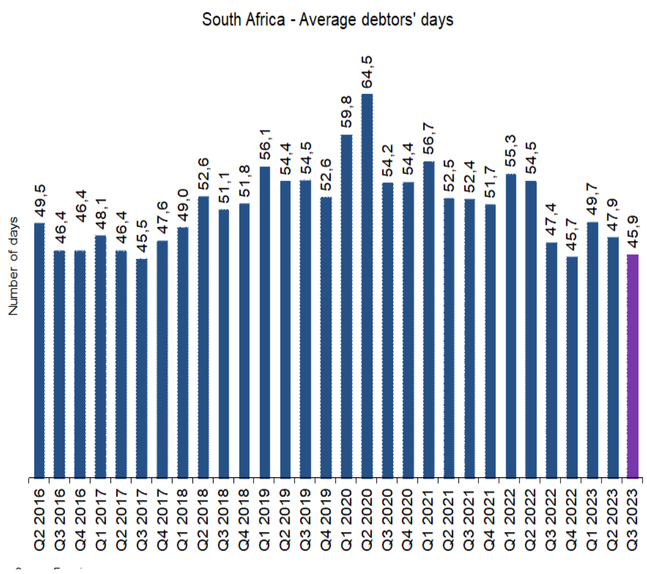
Similarly, the **60 to 90 ratio**[2] also declined quite a lot, from 8.6% in Q2 to 6.9% in Q3.



Overall outstanding debtors' days decreased from 49.7% in Q1 and 47.9% in Q2 to 45.9% in Q3. In other words, there appears to have been a relative improvement in the desire of businesses to refrain from owing money.

It is conceivable that the straw that broke the camel's back in this regard was the 0.5% jump in the repo rate in May 2023, which raised the cost of owing money.

Nonetheless, the relative improvement in the ratios relating to outstanding debtors' days was insufficient to neutralise the effects on corporate and individual financial health of a deteriorating domestic economic environment.

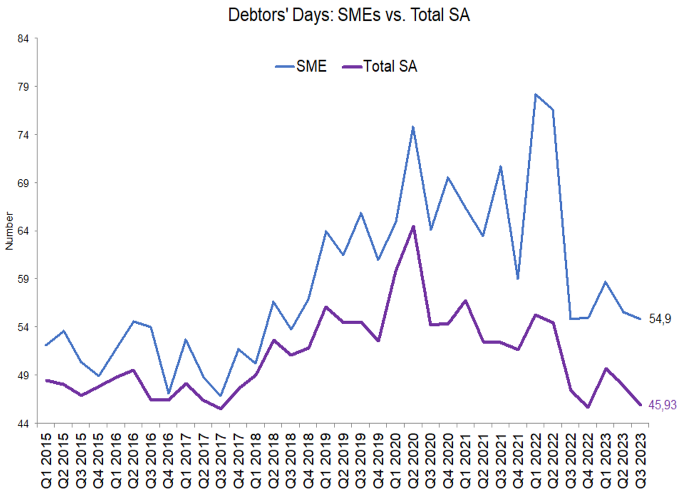


[1] *The ratio of outstanding debt owed of 30 to 60 days relative to that owed of less than 30 days, lagged by one month*

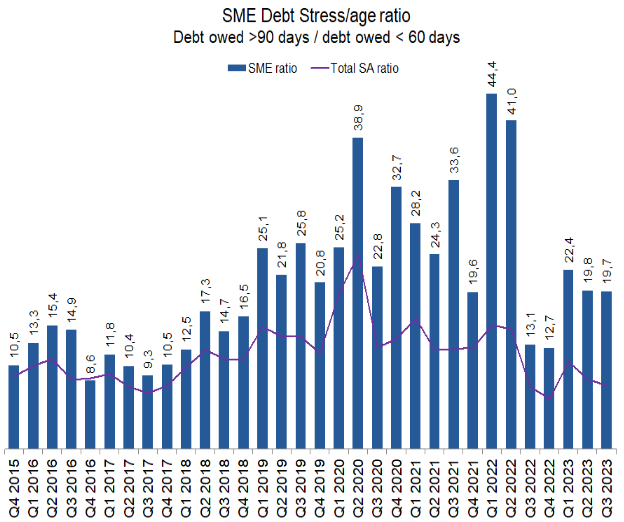
[2] *The ratio of outstanding debt owed of 60 to 90 days relative to debt owed of less than 30 days, lagged by two months*

BDI by company size

In respect of the trends in outstanding debtors' days of SMEs relative to the overall sample, there was less of an improvement in financial health amongst SMEs. However, the difference between the two groups of companies was marginal.



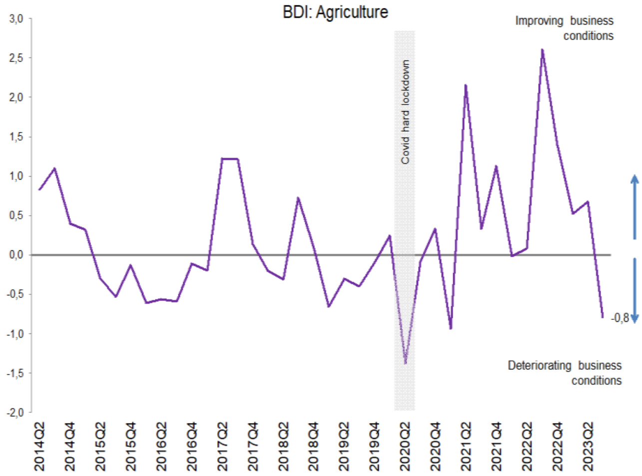
The SME debt stress ratio[3] declined from 19.8 in Q2 to 19.7 in Q3, a difference which would hardly show up in SMEs.



BDI by sector

Unlike previous quarters, there was quite a wide divergence experienced by different economic sectors in relation to financial conditions in Q3.

The sector, which proportionately appears to have been worst affected by logistical problems and the ability to export products abroad, namely agriculture, saw a fairly dramatic deterioration in its BDI, from a positive 0.68 in Q2 to a negative -0.79 in Q3.

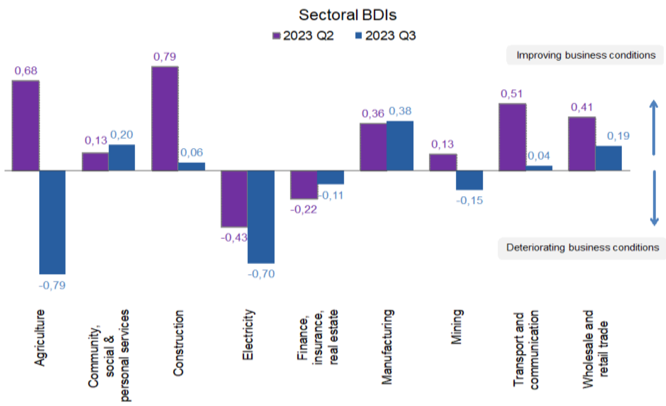


Indeed, the unexpectedly steep -9.6% q-o-q decline in agricultural GDP was one of the principal shocks that drove overall GDP into negative growth territory in Q3.

There were more moderate signs of financial deterioration in mining, construction, and electricity, as well as in transport and communications and the retail, wholesale trade, restaurants, and hotels sectors.

Manufacturing managed to eke out a marginal improvement in the BDI, together with similar small improvements in community and social services and financial and business services.

Five out of the nine sectors of the economy managed to retain a positive BDI reading, but four went into negative territory.



As far as the remainder of the sectors are concerned, everyone experienced a decline, with the BDIs for electricity production and financial services dropping below zero for the first time in years.

[3] *The ratio of outstanding debt owed by SMEs of 90 to 120+ days relative to that owed of less than 60 days*

Outlook

Looking ahead, there is an exceptionally high degree of uncertainty around which way the BDI would go in the next quarter.

On the negative side, logistical problems have aggravated the overall economic situation in Q4, whilst there have also been signs of slightly more intense load-shedding.

The impact of higher interest rates continues to weigh on consumers' ability to spend. Furthermore, internationally, the impact of the past two years' sharp rise in interest rates is still working its way through the global economy.

Indeed, attempts at overcoming energy and logistical problems are facing significant headwinds, with much attention on the governance front being diverted towards political issues ahead of next year's general election.

At the same time, on the positive end, one continues to be relieved that there is still no major collapse of economic activity. Many businesses appear to be going about their operations relatively undeterred by the failures to improve infrastructure materially.

One can only hope that increased engagement between government and leaders of the private sector in areas such as energy, logistics and crime will assist in sustaining some stability in the economic environment.

One is also encouraged to note how institutionally, three important organisations in the form of the Reserve Bank, National Treasury and SARS continue to operate relatively efficiently and with a high degree of responsibility.

Explanatory notes regarding the Experian Business Debt Index

What is the Experian Business Debt Index?

The Experian Business Debt Index (BDI) is an indicator of the overall health of businesses, as well as the South African economy. It measures the relative ability for business to pay its outstanding suppliers/creditors (i.e. amounts owed to other businesses) on time and tracks macro-economic indicators that can impact on the ability of companies to pay their creditors.

A number of debtors and macro-economic variables are combined into a single indicator of business debt stress.
In other words, the BDI is a reflection of the overall health of businesses and the position of debt settlement between businesses in the economy.

How to interpret the index

The Experian BDI, as an indicator of the overall health of businesses, measures the relative ability of businesses to pay their outstanding creditors on time. It also incorporates trends in macroeconomic indicators, insofar as these impact on the ability of companies to pay their creditors. The index is constructed around a mean value of zero.
Values above zero indicate less business debt stress and values below zero indicate business debt stress.
Given the underlying data of the index, relative higher levels of debt indicate a weakening in the ability to pay outstanding creditors. Higher interest rates result in higher borrowing costs and an increase in business stress. Relatively higher production costs vs consumer costs decrease operating margins of business, while higher domestic and international growth could result in a better trading environment for businesses.

Measured by using principle components

The Experian Business Debt Index (BDI) is constructed using principal components analysis. This is similar to the St. Louis Fed's Financial Stress Index (STLFSI) and the Kansas City Fed's FSI (KCFSI) in the USA. The principal components analysis is a statistical method that is used to extract factors responsible for the co-movement of a group of variables. As such, it is assumed that business stress is the primary factor influencing the co-movement and by extracting the principal components, it is possible to build an index with a useful economic interpretation.

Variables included

The Experian Business Debt Index is made up of Experian business debtors' data and public domain data. Variables include the following:

- 30 – 60 debtor days' ratio (debt compared to initial amount invoiced 30 days ago);
- 60 – 90 debtor days' ratio (debt compared to initial amount invoiced 60 days ago);
- South Africa consumer inflation and producer inflation spread;
- Interest rate spread (Repo vs US Federal Fund rates);
- Interest rate spread (R157 vs Repo);
- Real SA GDP (year-on-year percentage change);
- Real US GDP (year-on-year percentage change).

No provision is made for any leads or lags in any of the variables.

Methodology used to construct the index

The index is constructed by first demeaning the individual indices - subtracting the index value from the index average and dividing it by the sample standard deviation (SD). The indices can now be expressed in the same units. Next, the method of principal components is used to calculate the coefficients of the variables in the EBSI. These coefficients are scaled so that the standard deviation of the index is 1. Lastly, each of the indices is multiplied by its respective adjusted coefficient.

When the index is updated quarterly, the values of the Experian Business Debt Index can change. This can occur either through a change in the coefficients (an updated re-estimation) or because of a change in the actual values of the variables in the sample. Because the data are demeaned and standardised, the value of the original sample will change as the sample mean and sample standard deviation of the underlying variables change.

About Experian

We are the leading global information services company, providing data and analytical tools to our clients around the world. We help businesses to manage credit risk, prevent fraud, target marketing offers and automate decision-making. We also help people to check their credit report and credit score and protect against identity theft. In 2016, for the third year running, we were named one of the "World's Most Innovative Companies" by Forbes magazine.

We employ approximately 17,000 people in 37 countries and our corporate headquarters are in Dublin, Ireland, with operational headquarters in Nottingham, UK; California, US; and São Paulo, Brazil.

Experian plc is listed on the London Stock Exchange (EXPN) and is a constituent of the FTSE 100 index. Total revenue for the year ended March 31, 2016, was US$4.6 billion.

To find out more about our company, please visit http://www.experianplc.com or watch our documentary, 'Inside Experian'.

About Econometrix

Econometrix is South Africa's largest independent macro-economic consultancy based in Johannesburg. We are privately owned and, therefore totally independent of any official organisation or pressure groups. Econometrix – which has a successful track record of more than 40 years - is committed to ongoing research and analysis of economic fundamentals thereby ensuring a sound basis for future business decisions. These services are provided through a range of complementary products to more than 150 South African and international organisations.

Our approach is to empower our clients with quality decision support intelligence and assistance regarding the economic and financial environment, and assist them in their strategic and financial planning processes. Our in-depth analysis of economic fundamentals aims to assist our clients in commanding the economic environment and identifying opportunities and risks.

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Next release date for the BDI: March 2024

For more detailed analysis on the debt stress by sector, Experian publishes the *Business Debt Sectoral Overview* report, please contact Taryn Stanojevic at Experian for more information.