CDIx

CONSUMER DEFAULT INDEX - **Summary**

Understanding the South African credit consumer within the greater context of the South African economy.

May 2024 | **Quarter 1**

CONTENTS

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Glossary

CDI	Consumer Default Index
CDIx	Consumer Default Index Extended
CPI	Consumer Price Inflation
Eskom	The South African electricity public Utility
NAB	Non-alcoholic Beverages
NCR	National Credit Regulator
SAPIA	South African Petroleum Industry Association
SARB	South African Reserve Bank
StatsSA	Statistics South Africa
USD	United States Dollar
ZAR	South African Rand

CDIx – Experian Consumer Default Index Expanded

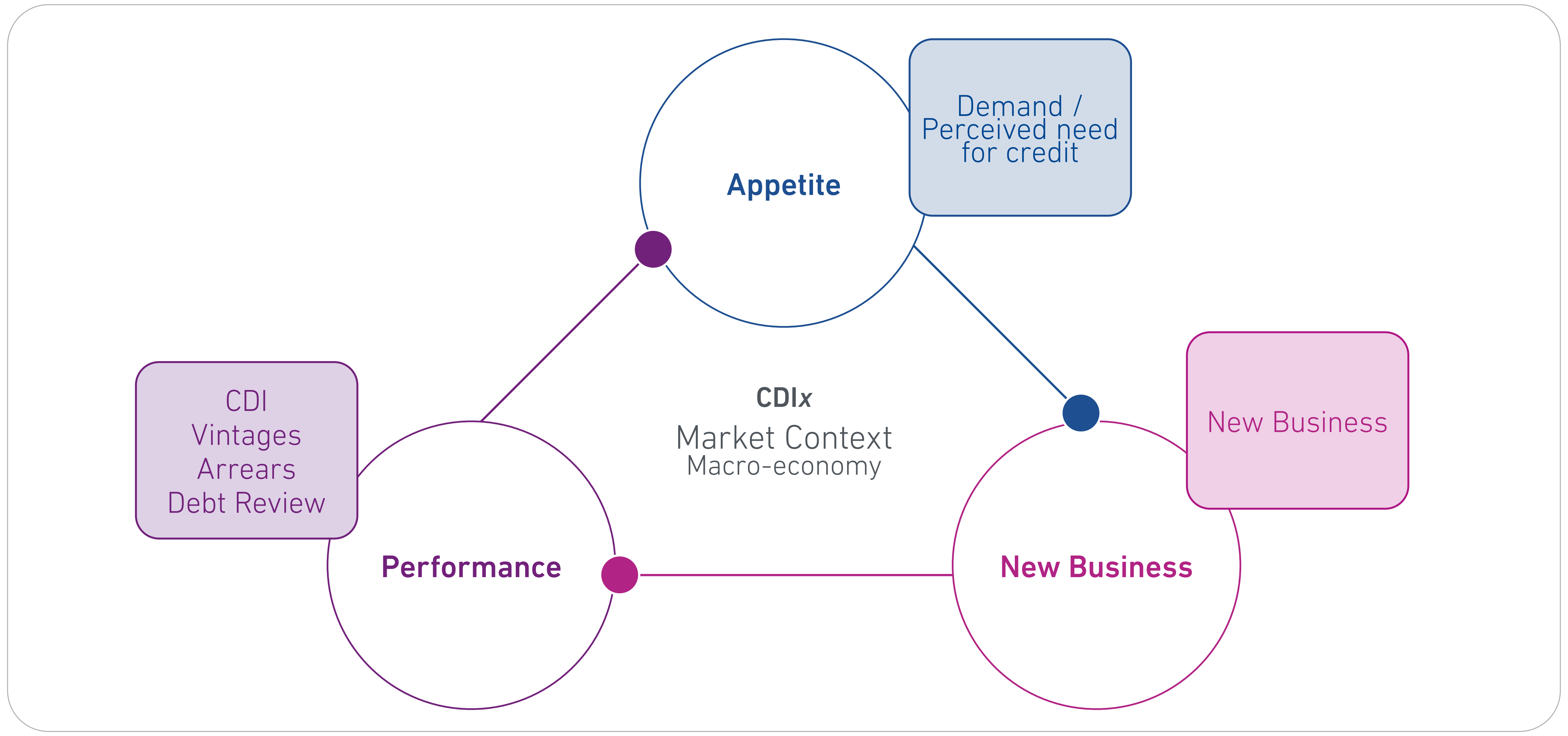
Overview of CDIx – What does it measure?

The Experian Consumer Default Index (CDI), was designed to measure the rolling default behaviour of South African consumers with Home Loan, Vehicle Loan, Personal Loan, Credit Card and Retail Loan accounts.

The CDIx provides a quarterly overview of the credit landscape in South Africa, combining the widely used CDI with views on the latest credit industry trends as well as commentary on the context within which these trends are observed.

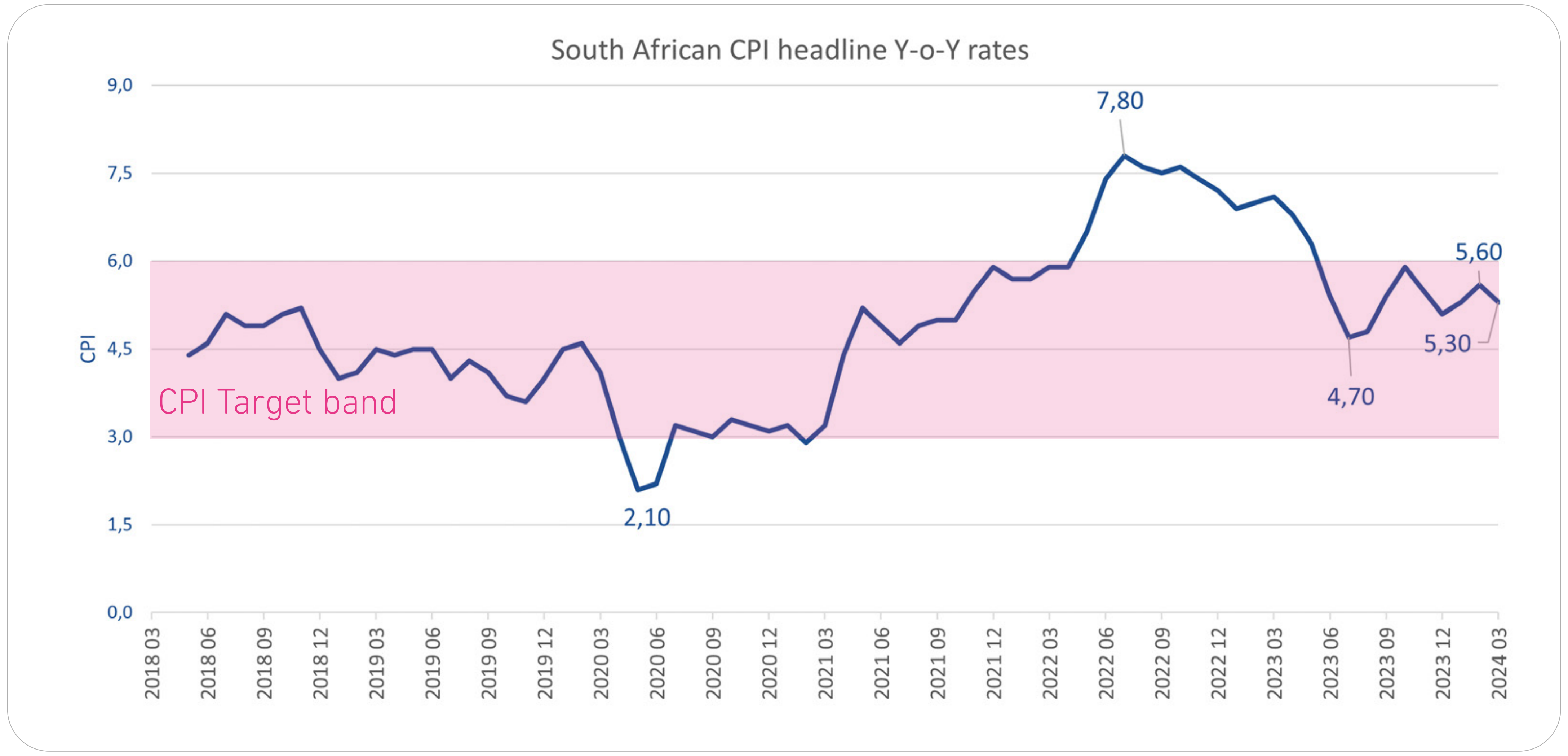
Specifically, it provides views on the latest:

- Macroeconomic **Market Context** that has a direct bearing on consumers
- Market **appetite** for credit
- Qualification and take-up of credit (i.e. **new business**)
- **Performance** of credit consumers (i.e. arrears/defaults and vintages, CDI and Debt Review).



Market Context

Cost of Living: Consumer Price Inflation



Since June 2023, the CPI has remained within the **SARB's target band of 3% - 6%**. Note that in the 13 preceding months, the CPI exceeded this target band. During that period, the CPI reached a peak of 7.8 in July 2022. The March 2024 drop in CPI coincided with a drop in load shedding, which was good news for the cash-strapped SA consumer base.

Consumer Default Index (CDI) – Tracking first-time default rate for South African consumers

Overview of Index – What does it measure?

The Experian Consumer Default Index (CDI) is designed to measure the rolling default behaviour of South African consumers with Home Loan, Vehicle Loan, Personal Loan, Credit Card, and Retail Loan accounts.

On a monthly basis, lenders typically classify their consumer accounts into one of several predetermined payment categories to reflect the level of arrears. When a lender deems the statement balance of a consumer account to be uncollectible due to being in arrears 90 or more days or having statuses such as repossession, foreclosure, charge-off or write-off, the consumer account is said to be in default.

The index tracks the marginal default rate as it measures the sum of first-time defaulted balances, i.e., accounts that have never previously defaulted, as a percentage of the total sum of balances outstanding.

The CDI is published quarterly with a two-month lag, the indices include a balance-weighted composite index, as well as the five product-specific sub-indices. Two grouped indices are also provided:

1. Home Loans, Vehicle Loans and Credit Cards (these products typically are held by the traditionally banked market segments), and

2. Personal Loans and Retail Loans (these products are usually used as entry products into the credit market).

The indices are also determined at FAS type level to provide further insight into the dynamics faced by specific consumer affluence-related segments that are experiencing different stress due to macro forces such as unemployment, interest rate changes and economic growth.

25.2m consumers with Credit Card, Personal Loan, Vehicle Loan, Home Loan and/or Retail Loan accounts.

30.96m active accounts across Credit Card, Personal Loan, Vehicle Loan, Home Loan and/or Retail Loan.

R2.23 trillion in outstanding debt.

“The **CDI is published quarterly** with a two-month lag, the indices include a balance-weighted composite index, as well as the five product-specific sub-indices.”

Composite Consumer Default Index

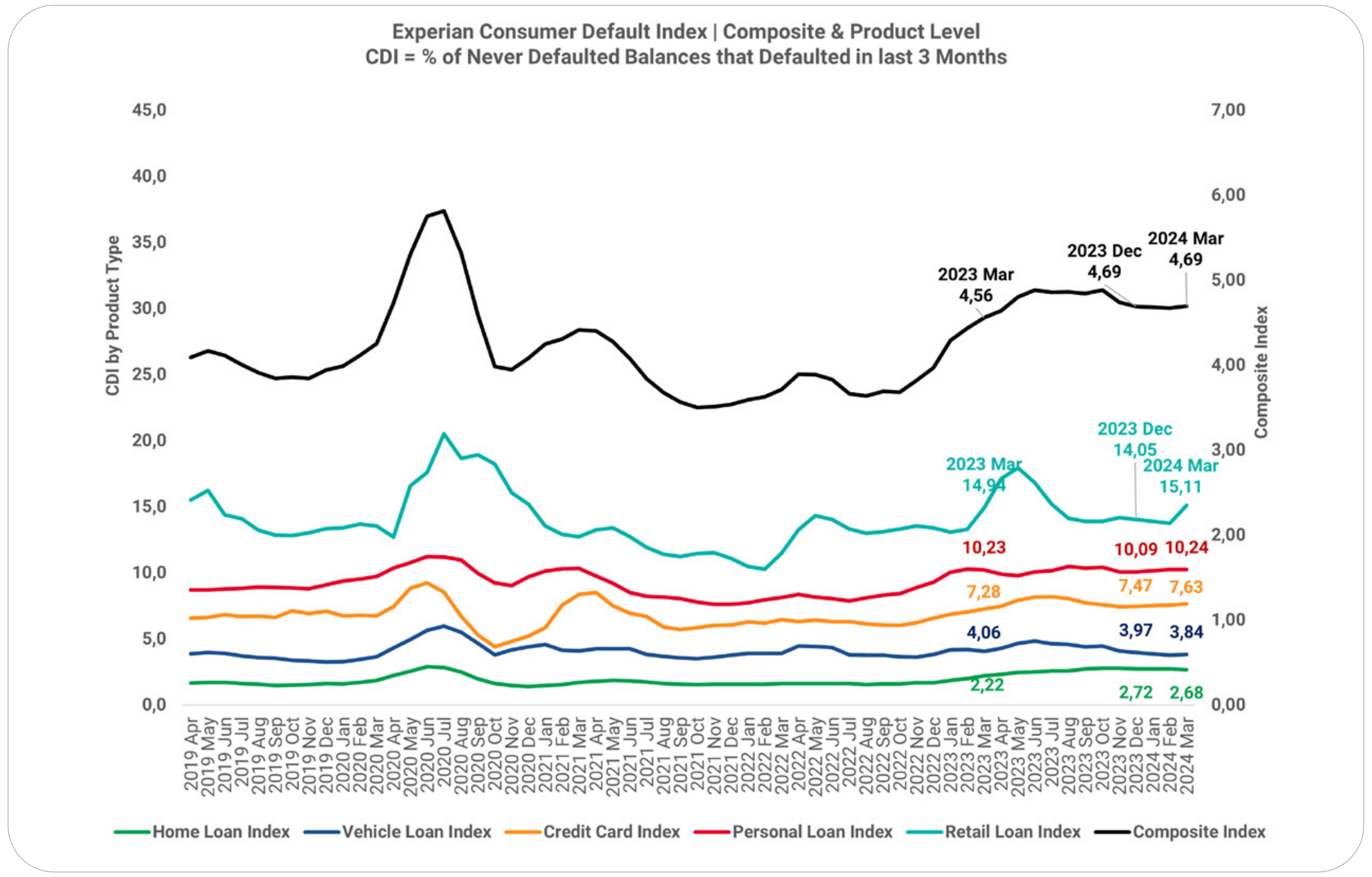
The composite CDI showed no movement Q-o-Q from December 2023 to March 2024 remaining at 4.69. Against the backdrop of a stable (albeit high) interest rate and lower disbursements for all products over the last quarter, this is not entirely surprising. Keep in mind that, due to the cyclic nature of the CDI, we expect to see an increase early in Q2. This is usually the result of the festive season, particularly the Black Friday spending spree that occurs during Q4. It is encouraging, though, that the CDI shows signs of returning to the 'usual' seasonal pattern, following the extraordinary increasing trend observed throughout the Festive season of 2021 and continued to mid-2023.

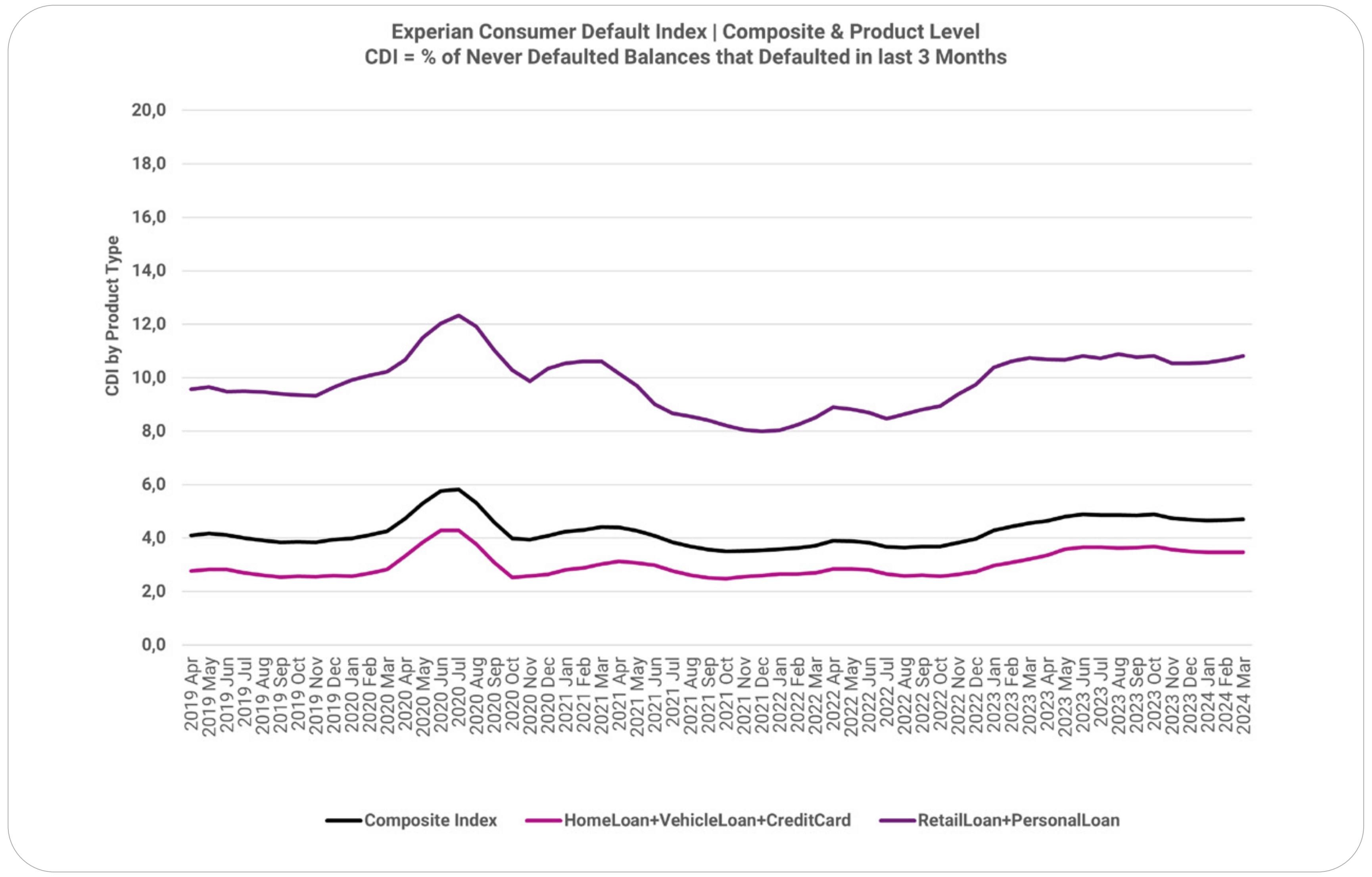
Y-o-Y, the composite CDI still deteriorated from 4.56 to 4.69 – a relative deterioration of 3%. This relative deterioration is less severe than the 18% and 32% relative deterioration observed in 2023 Q4 and Q3, respectively. The slow-down in deterioration suggests that even though consumers are still finding it very challenging to honour debt commitments, the situation is not worsening at the same speed that was observed in 2023.

From a product perspective, we again saw the most significant relative deterioration in Home Loans: 21% (this is also down from the 60% relative deterioration observed in 2023 Q4). With Home Loans carrying the lion's share of the total market exposure, the deterioration in Home Loans was the main driver of the deterioration seen in the composite CDI.

Credit Card saw the second-most significant deterioration in CDI, moving from 7.28 to 7.63 Y-o-Y – a deterioration of 5%. This points to the fact that mid-to-high affluence consumers – who typically qualify for these high-end credit products – continue to find it difficult to repay debt and are, in fact, making extensive use of their cards.

	Index	CDI Mar'24	CDI Mar '23	Average Outstanding Jan'24-Mar'24	New Default Balances Jan'24-Mar'24	Relative Impr/Deter
■	Composite Index	4,69	4,56	R 2 226 599 665 067	R 26 125 988 555	3%
■	Home Loan Index	2,68	2,22	R 1 171 052 754 693	R 7 877 181 817	21%
■	Vehicle Loan Index	3,84	4,06	R 505 053 860 036	R 4 844 008 757	-6%
■	Credit Card Index	7,63	7,28	R 175 477 405 452	R 3 348 758 529	5%
■	Personal Loan Index	10,24	10,23	R 328 894 748 742	R 8 420 454 530	0%
■	Retail Loan Index	15,11	14,94	R 43 305 185 635	R 1 635 584 922	1%
■	Home Loan + Vehicle Loan + Credit Card	3,47	3,21	R 1 854 399 730 689	R 16 069 949 103	8%
■	Retail Loan + Personal Loan	10,81	10,73	R 372 199 934 377	R 10 056 039 452	1%





Summary of the CDIx

Key Takeouts

- CPI still remains below the 6% threshold in 2024 Q1, but at 5.3%, it continues to cause household expenditure to edge ever higher, putting more pressure on consumers from a cost-of-living perspective.
- Food costs, although on an increasing trend, have seen a slower rate of increase over the last 6 months.
- Market **appetite for credit increased in Q4** (NCR data) to the highest volume on record, but approval rates still remain very low at just over 30%.
- Increased cost of living also leads to decreased **affordability** for consumers.
- Likely increased inability of consumers to meet debt obligations.
- Likely reduction in qualification for new credit – as seen in low approval rate
- **New product sales showed the characteristic ease following the Festive Period uptick.**
- Following the January 'slump, new product sales have been uncharacteristically slow to recover in the course of 2024 Q1.
- This has been true for both secured and unsecured credit products.
- The Composite **CDI** has shown a significant deterioration Y-o-Y. Q-o-Q movement flat.
- Th Y-o-Y deterioration was seen for Home Loans, Credit Cards, and Retail Loans - but **most particularly for Home Loans and Credit Cards**. These are products where FAS Groups 1 and 2 enjoy high exposure.
- FAS Group 1 (Luxury Living) and FAS Group 2 (Aspirational Achievers) showed a very significant Y-o-Y deterioration in their CDI.
- FAS Groups 3 to 6 all saw meaningful improvement in CDI Y-o-Y. This improvement was mimicked across products, with these consumers all showing significant improvements in CDI Y-o-Y – with one exception being FAS 3 (Stable Spenders), still showing deterioration in the Retail Loan CDI.
- **Vintages** in Home Loans portfolios have shown a long-term deteriorating trend for both the @ 6 months and @12 months view and continues to surpass that of Vehicle Loans.
- FAS Groups 1 and 2 account for no less than 43% of the total volume of credit products for which **Debt Review** applications have been lodged.

“Food costs, although on an increasing trend, have seen a slower rate of increase over the last 6 months.”

Experian Solutions used in the CDI and CDIx

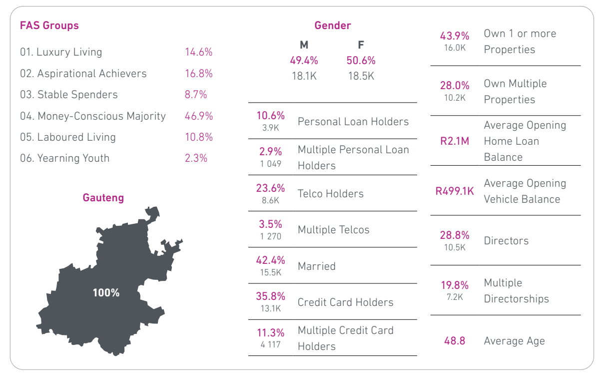
This report leverages Experian data, analytics and technology solutions to bring you insights into consumers in South Africa.

Our solutions used to develop the CDI and CDIx include:

- Consumer macro- and micro segmentation (FAS)
- Bespoke CDI views (benchmarking your business against rest of market)
- Analytics Benchmark reports (quarterly full packs or monthly lite reports)
- Macro-economic views expanded on in the Business Debt Index (built and maintained in collaboration with Econometrix (Pty) Ltd)

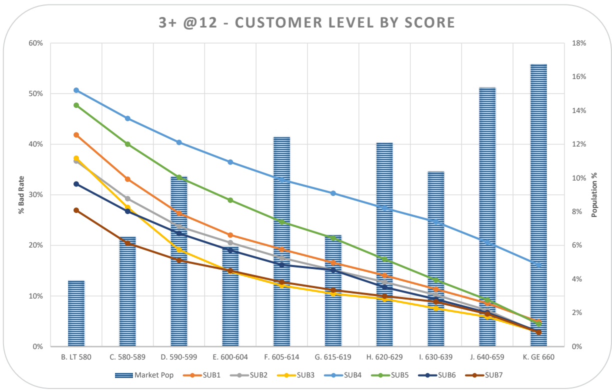
Understanding your Customers

The Financial Affluence Segmentation tool helps companies ideal target populations likely to take up your product or engage with your services.



Locate your Ideal Customer

Experian's FAS Location solution allows you to select your ideal segment based on their FAS profiles and/or area to get insights into the population at a more granular level.



Industry Benchmarking Reports

Understand how your company is performing against the industry in our comprehensive benchmarking reports.

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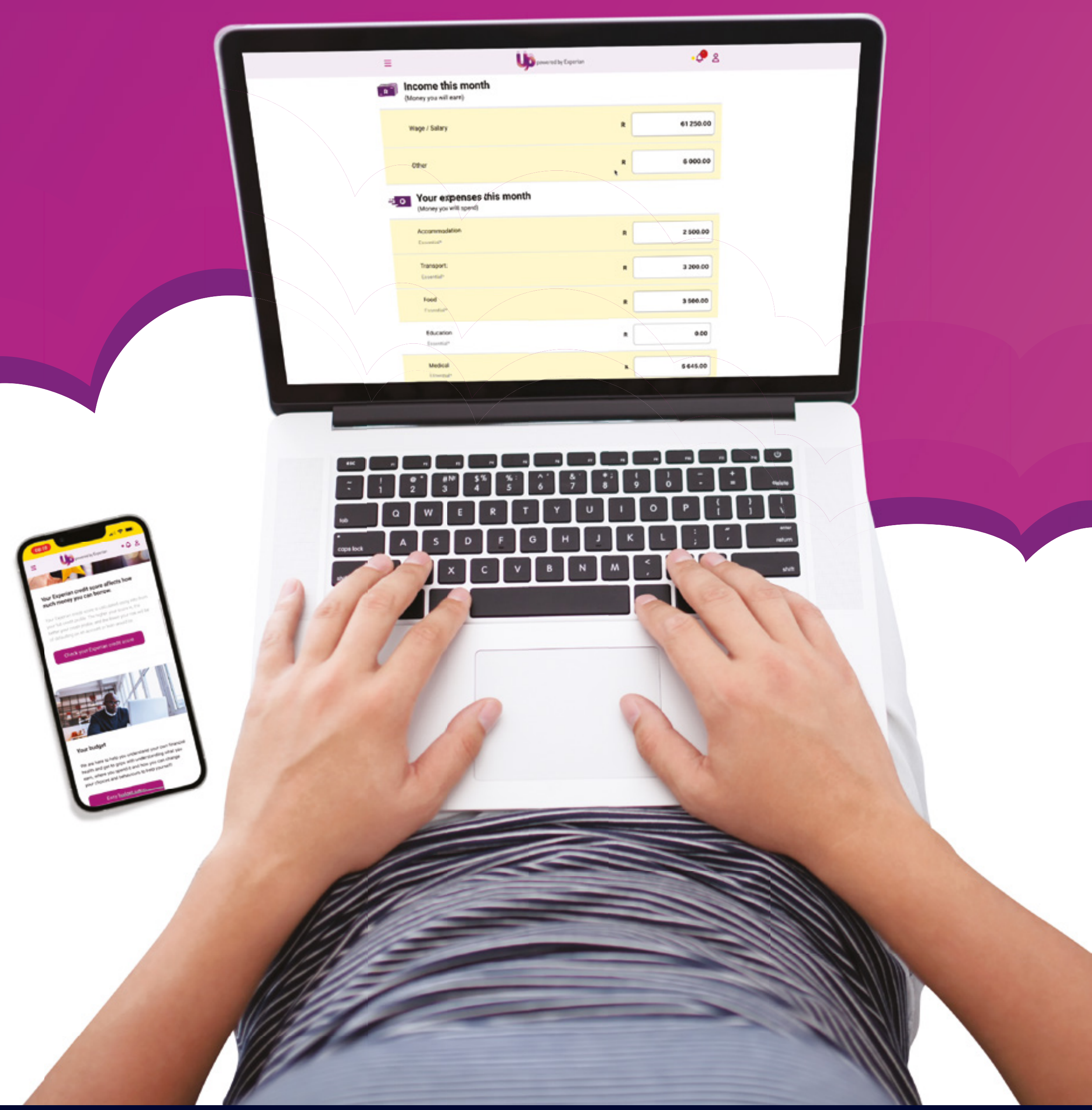
The unpredictable nature of the future can be daunting – let us help you understand your situation and how you can overcome your business obstacles through data and analytics.

Up powered by Experian

In order to improve consumer financial health and to drive financial education, Experian has launched a web-based app called 'Up'. This platform is made available to consumers free of charge. We make it available to businesses for publishing on corporate websites as well through an annually renewable Up Partnership agreement. Please contact us for more information.



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