CDIx

CONSUMER DEFAULT INDEX - **Summary**

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

February 2024 | **Quarter 4**

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

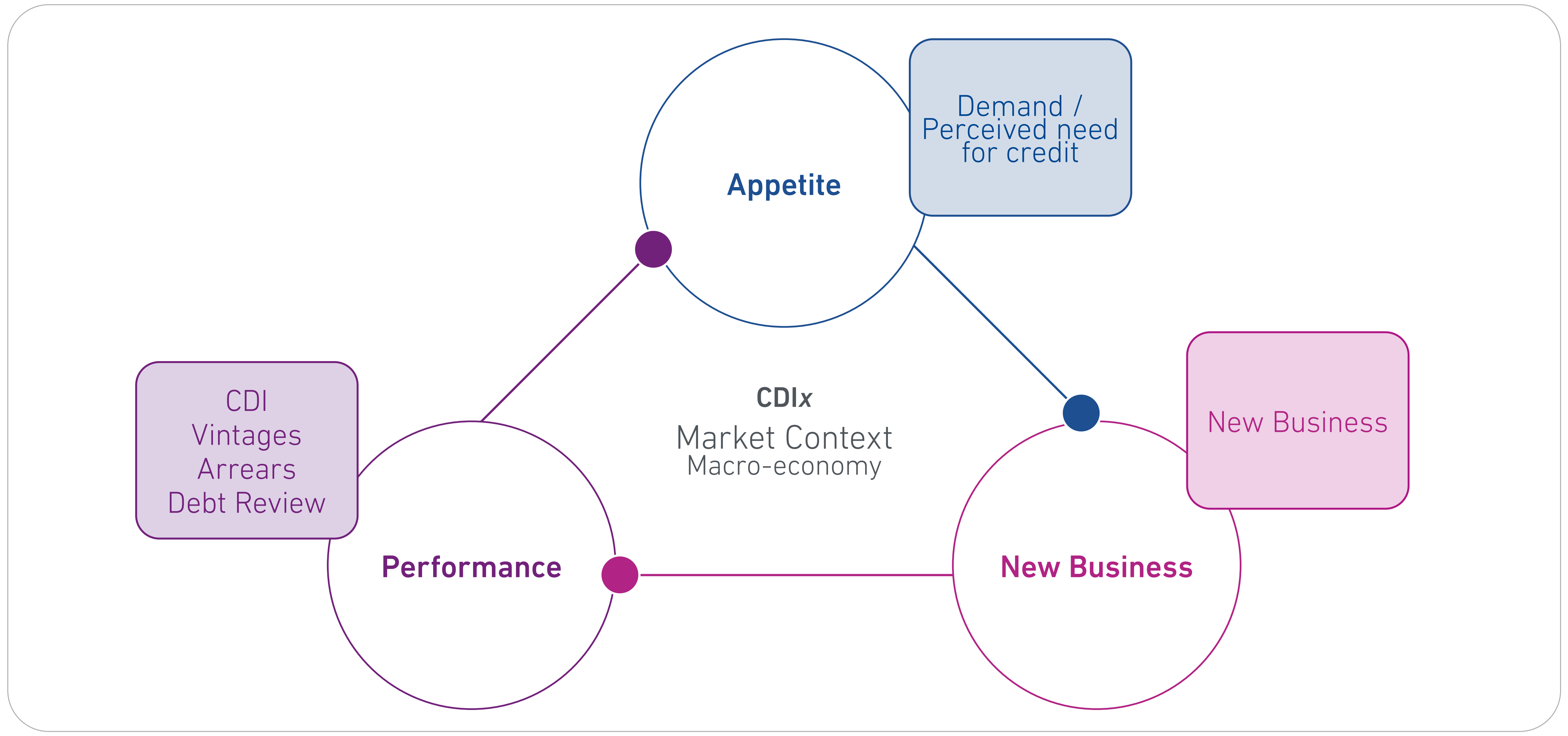
Overview of CDIx – What does it measure?

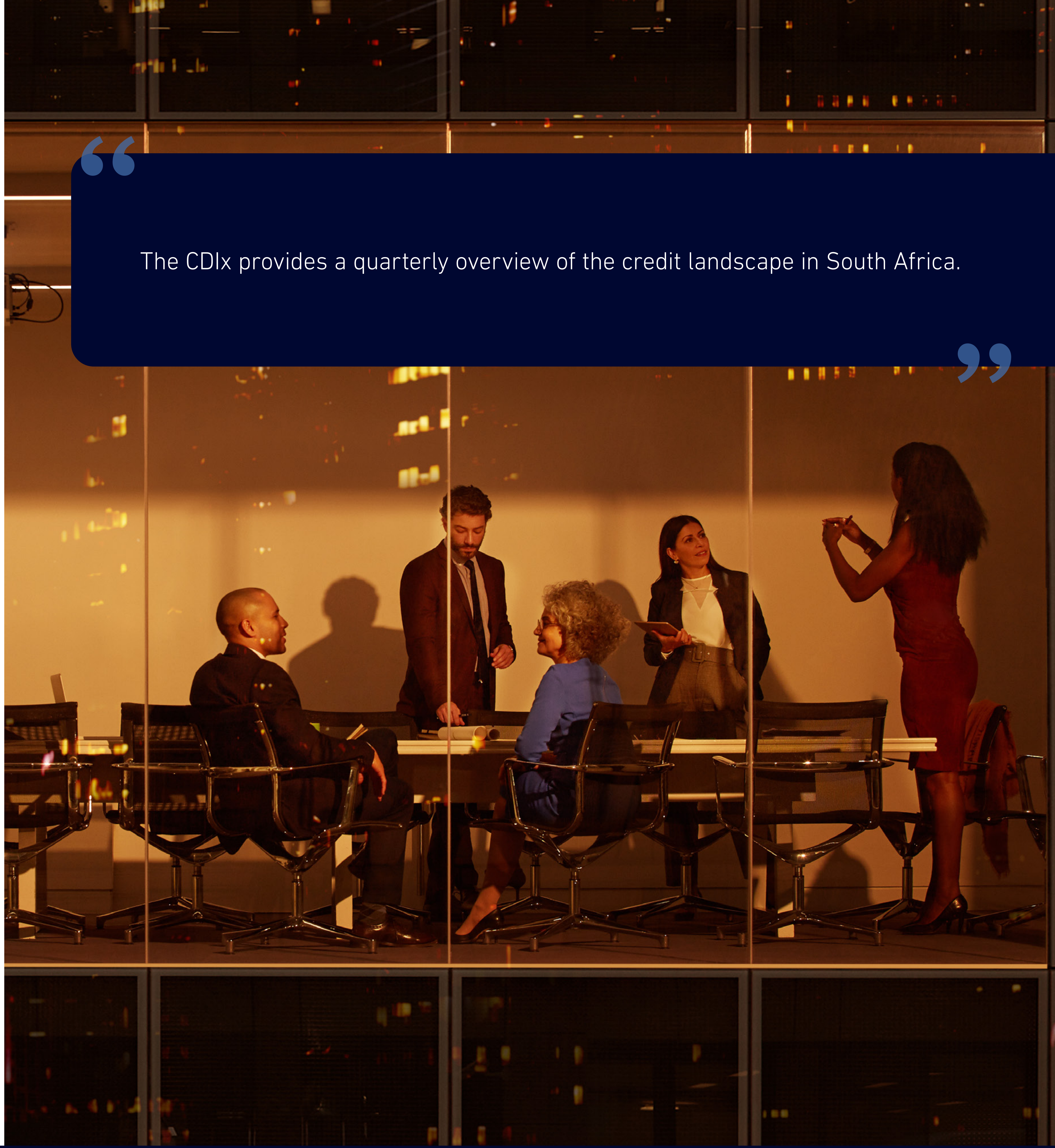
The Experian Consumer Default Index (CDI), was designed to measure the rolling default behaviour of South African consumers with Home Loan, Vehicle Loan, Personal Loan, Credit Card and Retail Loan accounts.

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).





The CDIx provides a quarterly overview of the credit landscape in South Africa.

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.

25m consumers with Credit Card, Personal Loan, Vehicle Loan, Home Loan and/or Retail Loan accounts.

30.8m active accounts across Credit Card, Personal Loan, Vehicle Loan, Home Loan and/or Retail Loan.

R2.21 trillion in outstanding debt.

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Composite Consumer Default Index

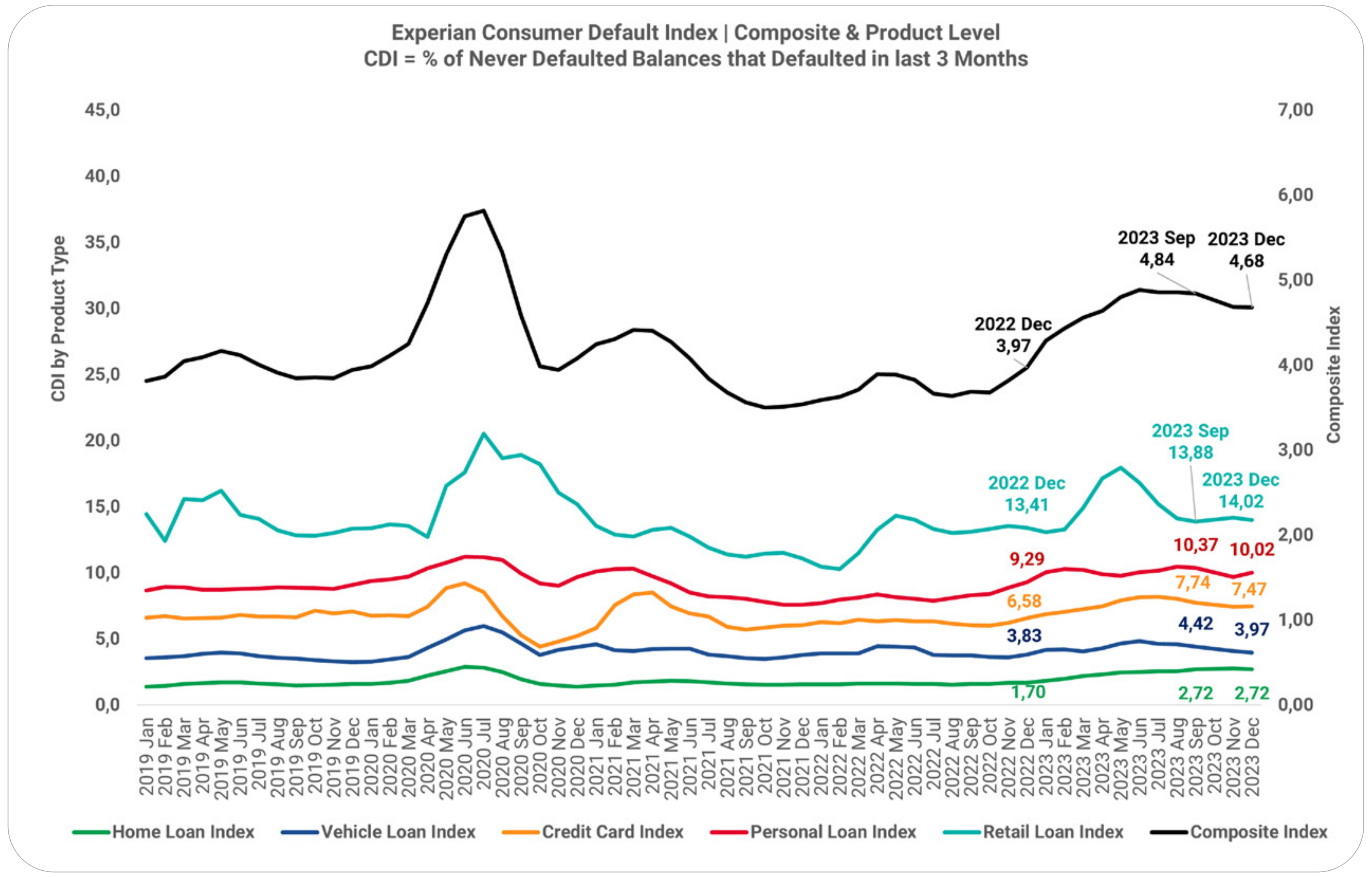
The composite CDI showed slight improvement Q-o-Q from 4.84 in September 2023 to 4.68 in December 2023. Against the backdrop of a stable (albeit high) interest rate and lower disbursements for all products over the last quarter, this is not entirely surprising. Keep in mind, however, that the cyclic nature of the CDI usually remains relatively low during Q4, but is expected to show an increase in early Q2 the following year. This is usually the result of the Festive season and 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 that was observed throughout the Festive season of 2021 and continued right through to mid-2023.

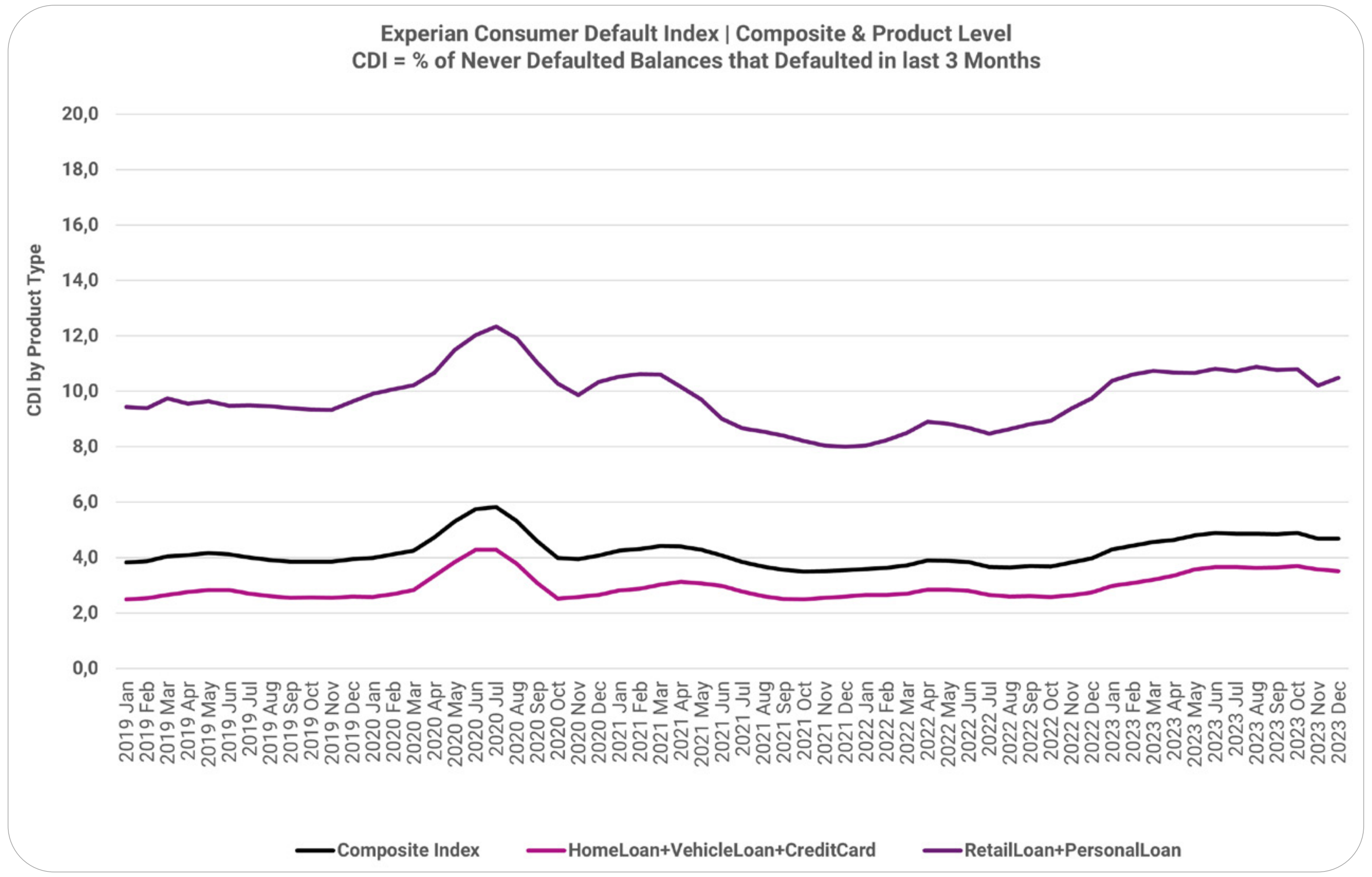
Y-o-Y, the composite CDI still showed a significant deterioration from 3.97 to 4.68 – a relative deterioration of 18%. Although still highly substantial, this relative deterioration is not as severe as the 32% relative deterioration observed in 2023 Q3. The reduction in relative overall deterioration suggests that the momentum of deterioration is slowing down so 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 earlier in 2023.

From a product perspective, we again saw the most significant relative deterioration in Home Loans: 60% (this is also down from the 71% relative deterioration observed in 2023 Q3). With Home Loans carrying the lion's share of the total exposure in the market, the deterioration in Home Loans was the main driver of the deterioration seen in the composite CDI. Still, all the product-specific CDI metrics changed for the worse Y-o-Y.

Again, it was Credit Card that followed closest to Home Loans this quarter in terms of the size of its relative Y-o-Y deterioration. This points to the fact that mid-to-high affluence consumers – who typically qualify for these high-end credit products - are finding it increasingly difficult to repay debt and are making extensive use of their cards.

Index	CDI Dec'23	CDI Dec '22	Average Outstanding Oct'23-Dec'23	New Default Balances Oct'23-Dec'23	Relative Impr/Deter
Composite Index	4,68	3,97	R 1 986 020 381 566	R 25 835 019 923	18%
Home Loan Index	2,72	1,70	R 1 164 514 616 985	R 7 910 053 831	60%
Vehicle Loan Index	3,97	3,83	R 498 085 400 942	R 4 943 212 886	4%
Credit Card Index	7,47	6,58	R 173 186 747 541	R 3 236 017 229	14%
Personal Loan Index	10,02	9,29	R 329 155 101 047	R 8 249 415 209	8%
Retail Loan Index	14,02	13,41	R 42 689 554 921	R 1 496 320 768	5%
Home Loan + Vehicle Loan + Credit Card	3,51	2,74	R 1 835 786 765 468	R 16 089 283 946	28%
Retail Loan + Personal Loan	10,48	9,74	R 371 844 655 968	R 9 745 735 977	8%





Summary of the CDIx

Key Takeouts

- CPI remains below the 6% threshold in 2023 Q4, but at 5,1% 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, has come down slightly M-o-M in December 2023 for the first time since November 2019.
- Market **appetite for credit increased in Q3** (NCR data), but approval rates 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 show an increase on the back of Black Friday 2023**
  - New business volumes for Personal and Retail loans reached the highest monthly level since the pandemic struck. The fact that limits granted have not increased at the same rate, suggests that lenders curb their incurred new business risk through approving lower limits.
  - Vehicle Loans and Home Loans are showing signs of sustained slower growth. Home Loans demonstrate a more rapid decrease in limits than volumes granted – again signifying that lenders use smaller limits as a mitigation lever to risk incurred with new credit granted.
  - Average opening limit for high affluence consumers (FAS Groups 1 and 2) in Retail Loans, have remained steady, signifying these consumers continued to be dependent on Retail Loans to augment available cash.
- The **Composite CDI** has shown a significant deterioration Y-o-Y.
  - This deterioration was seen **across all products**, 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 very significant Y-o-Y deterioration in their CDI.
  - FAS Groups 3 and 6 saw meaningful improvement in CDI Y-o-Y. This was due to FAS Group 3's significant improvement in Vehicle Loan CDI and FAS Group 6's improvement in Personal Loans CDI. This improvement is probably related to these consumers not qualifying for these products to the same extent as they did previously.
  - **Vintages** in Home loan portfolios have shown a long-term deteriorating trend for both the @ 6 months and @12 months view and continue 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 Inflation, although on an increasing trend, has come down slightly M-o-M in December 2023 for the first time since November 2019.

Experian Solutions used in the CDI and CDIx

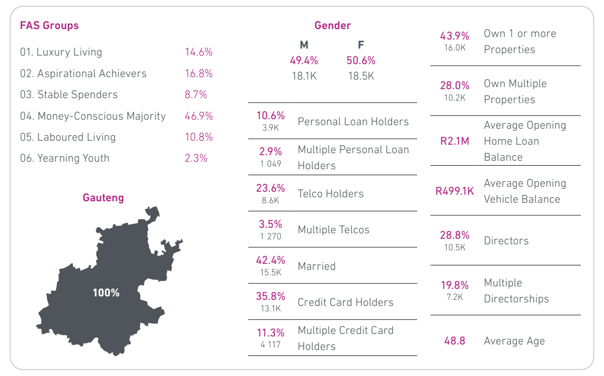
This report leverages Experian data, analytics and technology solutions to bring you insights into consumers in South Africa.

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)

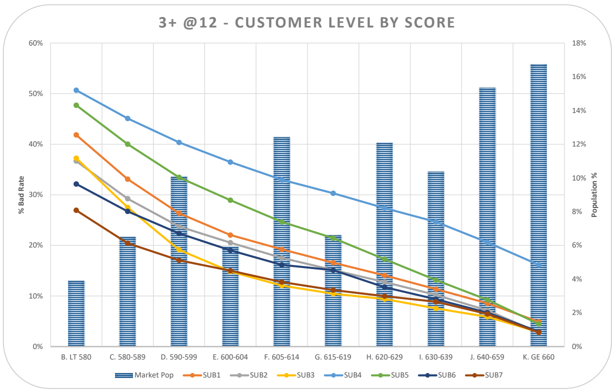
Understanding your Customers

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.

WISE UP with Experian's **free credit information** and **education app.**

A credit, budgeting and learning experience to help you take control of your financial health.

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Contact Us

Should you be interested in our reports and solutions,
or if you would like to book an analytics consultation, please contact us.

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