20 April 2022

Experian Africa

Insights into the Redefined Credit Economy – April 2022

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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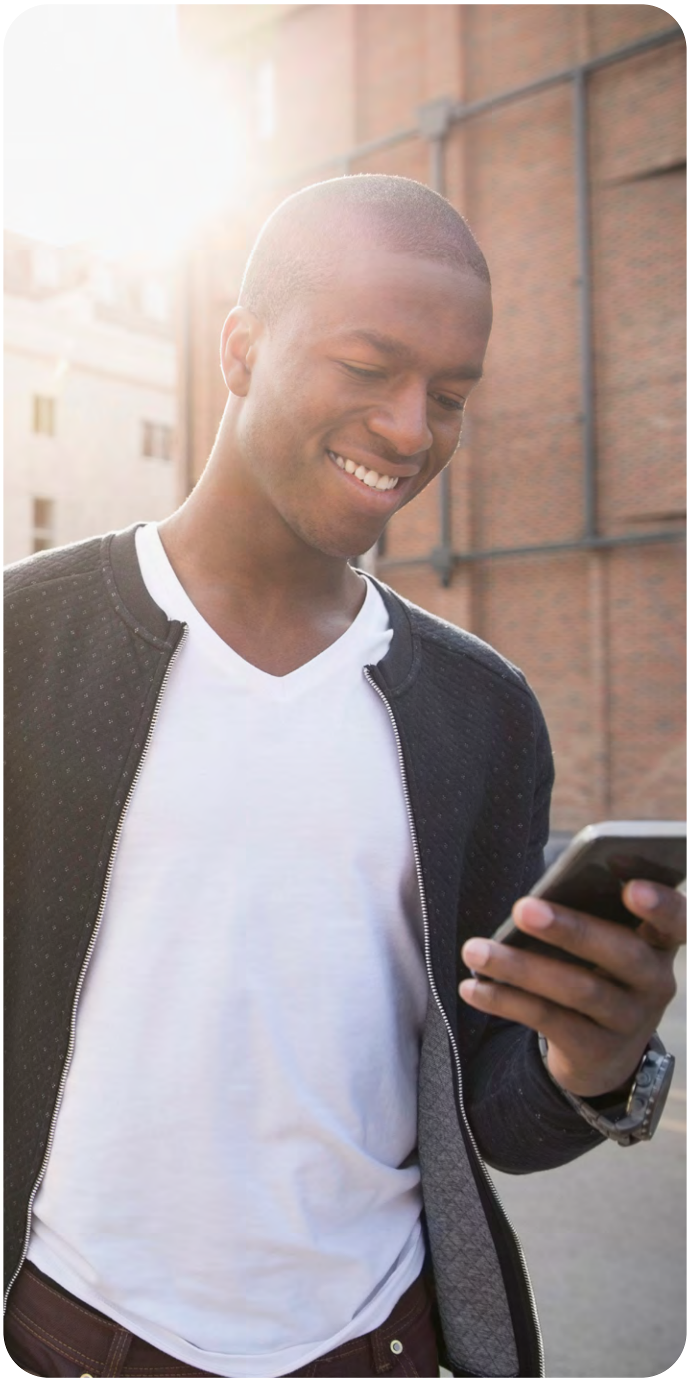
Introduction

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 April 2022 report focuses on the Q4 2021 Business Debt Index (BDI) and collections:

BDI: How have South African Business Conditions changed?

- Overall performance
- Sectoral breakdown
- Investigating Debtors' Day ratios and SMEs

View of trends in the construction sector

Download the latest BDI Report here

How have South African Business Conditions changed?

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

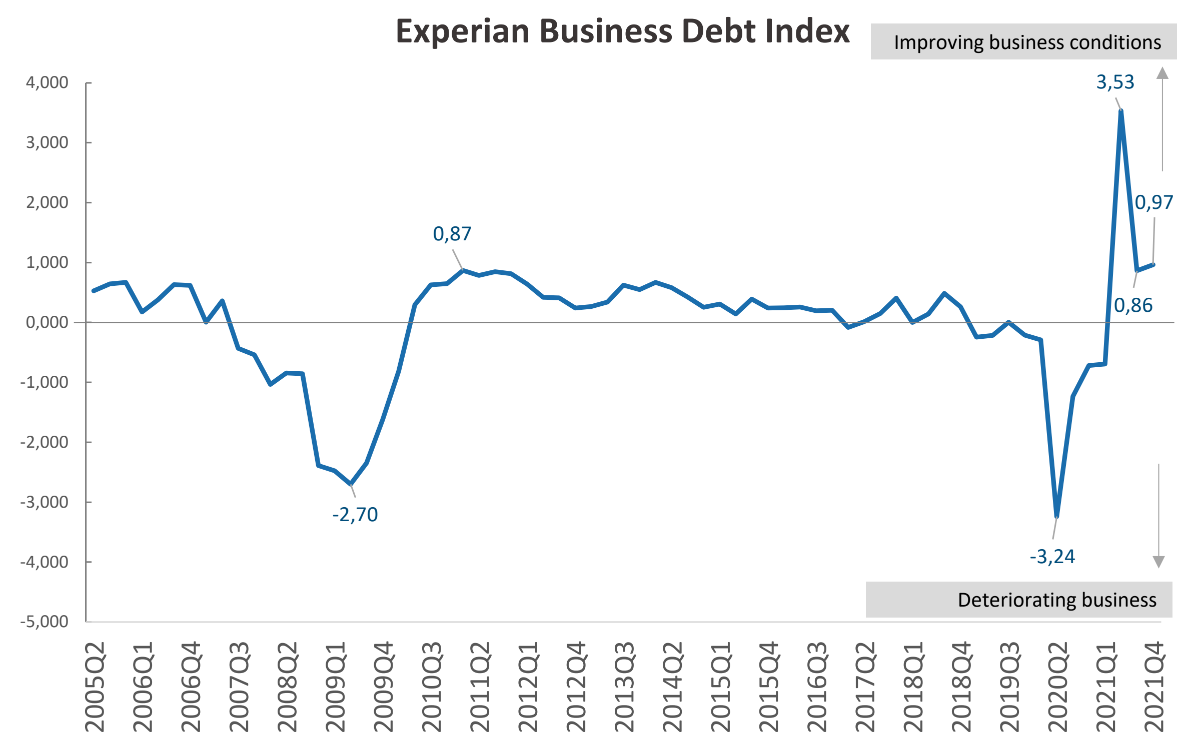
Business Debt Index

South African Business Conditions are improving at a slightly higher rate than what we saw in 2021 Q3.

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

Surprisingly, the BDI has shown a **slight Q-o-Q improvement**, up from 0.86 in 2021 Q3 to 0.97 in Q4.

This was due to the South African economy doing better than expected as a result of the low repo rate that prevailed in 2021 Q4 - even with the 0.25% increase announced in November. This is also reflected in the Debtor Days figures seen on the bureau. Businesses further benefited from **Sasria's** post-looting pay-outs (amounting to around R17 billion by February 2022).



Gross Domestic Product

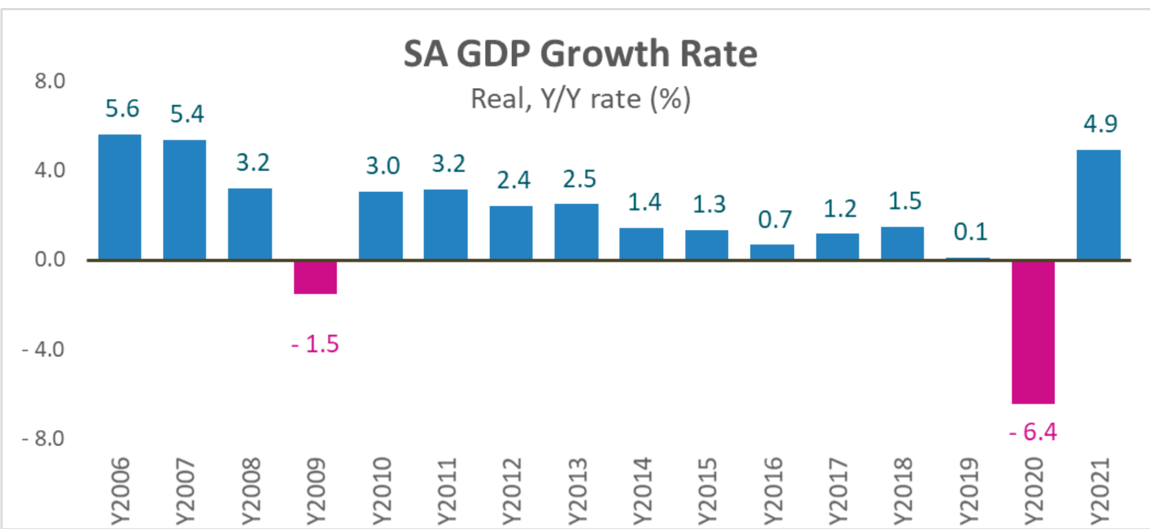
GDP Y-o-Y growth returned to a positive level after the negative level observed in Q3 for both quarterly and annual totals.

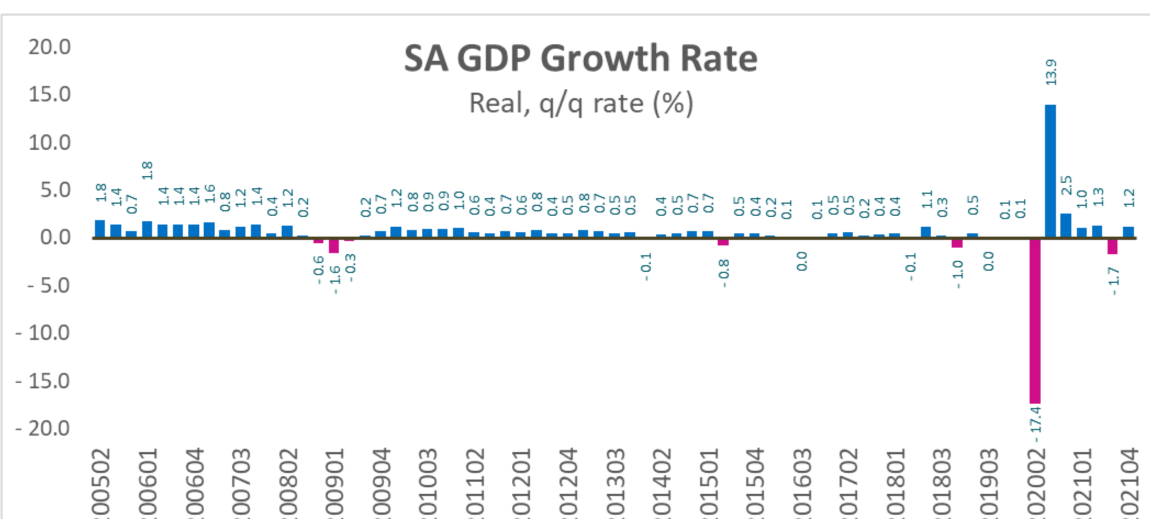
The impressive annual growth rate was the result of two factors:

1. A low 2020 GDP base (worst ever) was expected to drive the Y-o-Y growth figure. It was, however, boosted further by sharp increases in commodity prices – which drove exports and, in turn, trade and current account surpluses to record levels as well.

2. Successful vaccine rollouts in advanced economies, paired with aggressive stimulus and relief packages, boosted demand.

Forecasts for GDP growth are very modest – returning to 2% or less in 2023, as the statistical effects of low bases diminish, and the structural impediments required for higher economic growth, have still not been addressed. The war in Ukraine casts even more uncertainty over any forecasts regarding economic growth.





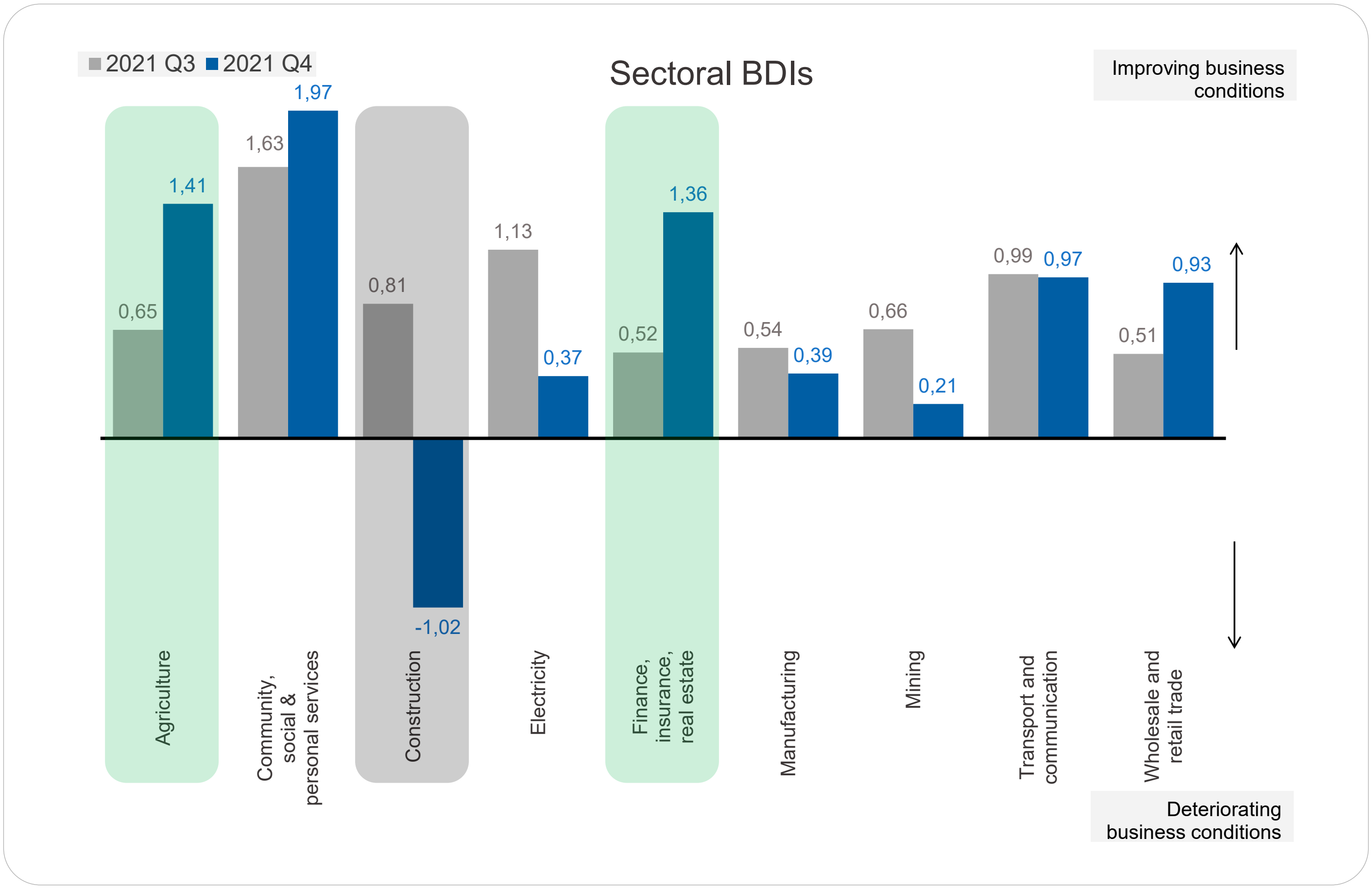
BDI split by Sector

Sectoral BDI's was a mix of improvements and deteriorations. Still, most sectors still showed a positive BDI.

Excellent rainfall in the summer rainfall regions drove a very strong surge in agricultural output. This is reflected in the significant improvement in the Agriculture BDI. A similar improvement was seen for the Financial sector – probably due to the insurance payment-rollout by SASRIA.

The Construction sector, however, deteriorated severely, falling back from 0.81 in 2021 Q3 to -1.02 in Q4. As indicated in previous BDI reports, this again illustrates the impact of lacking progress in the implementation of infrastructural investment projects has on the delivery of services in South Africa.

Mining has also shown a significant deterioration in BDI.



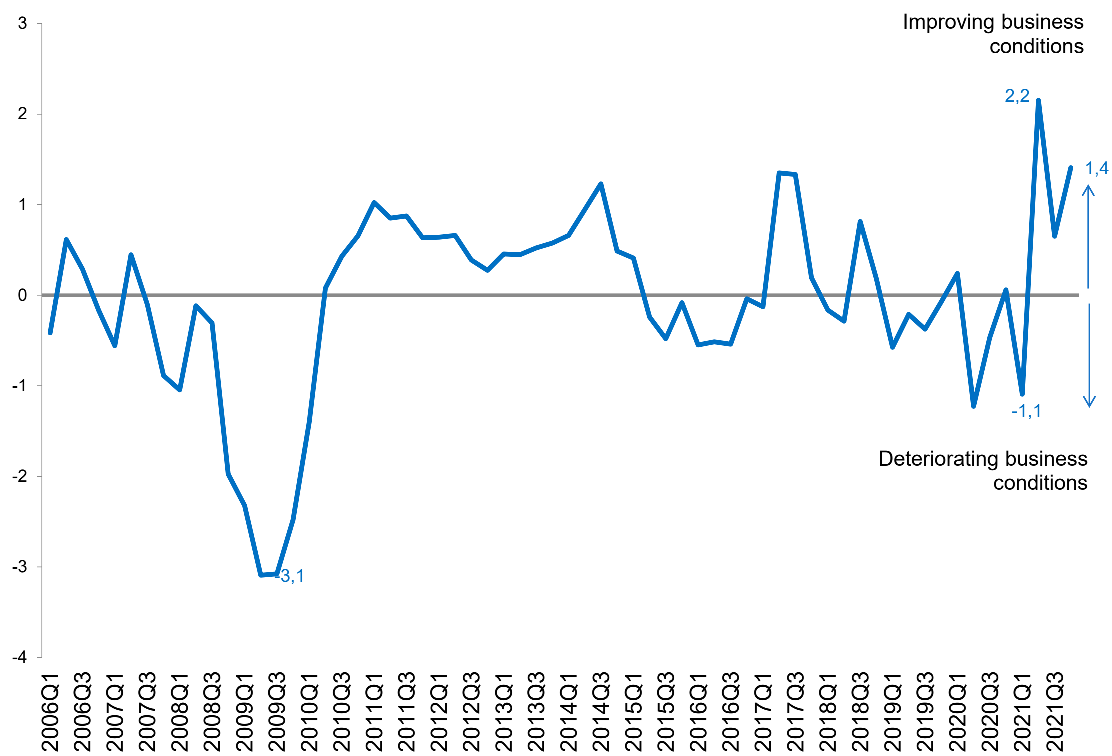
BDI – Agriculture

Agriculture improved business conditions were driven mainly by 2021 Q4 Y-o-Y GDP increasing to 3.6% from the -1.5% observed in Q3.

Exceptionally **good rainfall** and subsequent crops in the summer rainfall areas continue to drive the Agricultural sector into **improving business conditions** from a BDI perspective.

Increased **production** is expected by the Crop Estimates Committee in 2021 for maize, soya beans, groundnuts, sorghum and dry beans.

All-in-all, sentiments in agribusiness remain positive and expectations are that this sector will continue to perform well.



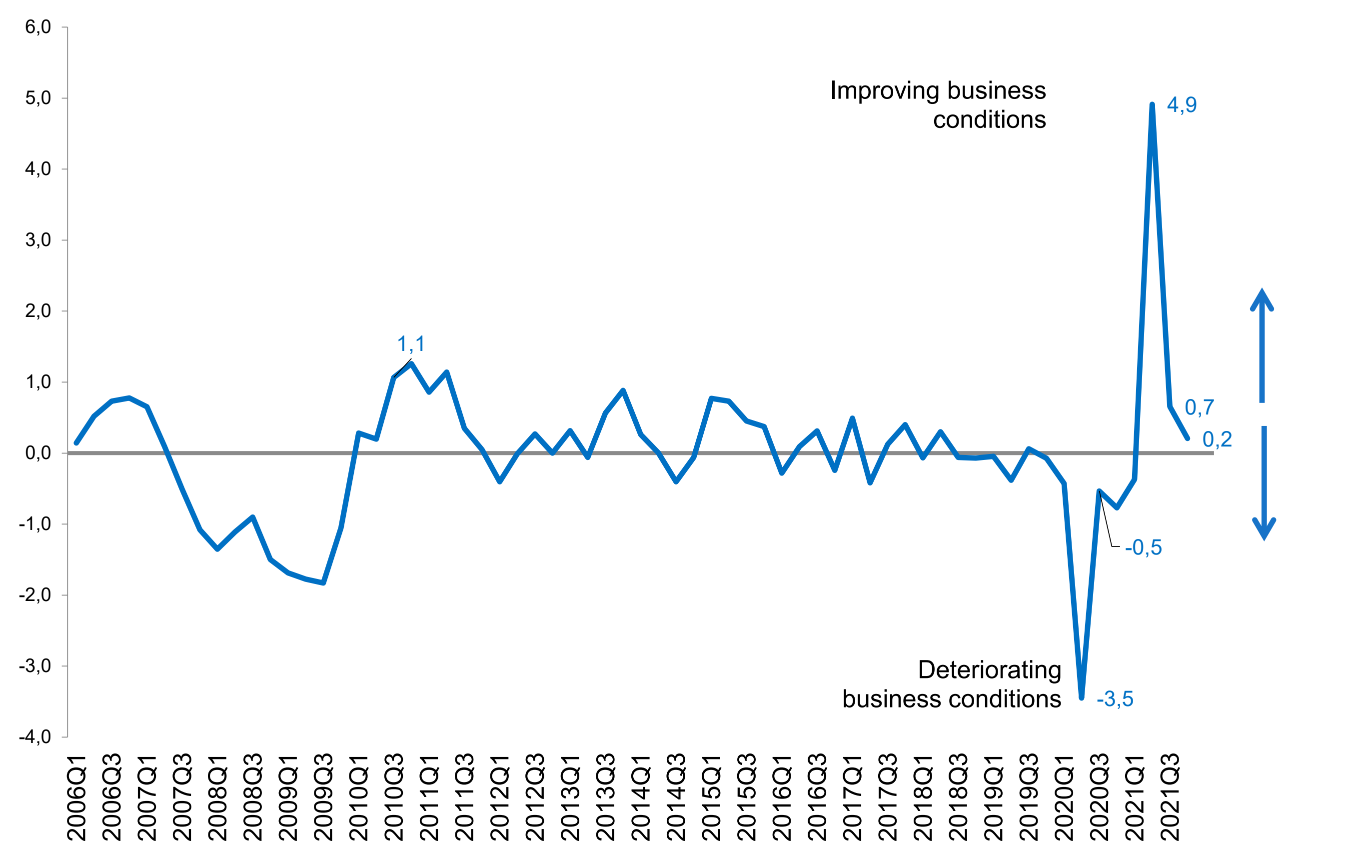
BDI – Mining

Mining saw a deterioration in BDI, but expectations are that increased commodity prices will prevail – particularly for coal, given the Ukrainian conflict.

The latest deterioration in the Mining BDI is largely due to **loadshedding resurfacing** in 2021 Q4, but also due to **poor weather conditions**. Both these factors impacted mining production – thus driving the GDP growth rate downwards.

This sector remains in **positive BDI** territory, however, indicating improving business conditions – albeit slower improvement.

Expectations are that the sustained loadshedding through to March 2021 will have hindered production in the mining sector. However, **firm commodity** prices might prevail due to the sanctions imposed on Russia – South Africa's nearest competitor in platinum group metal production – which may very well result in an improvement in the BDI.



Debtors' Days Analysis

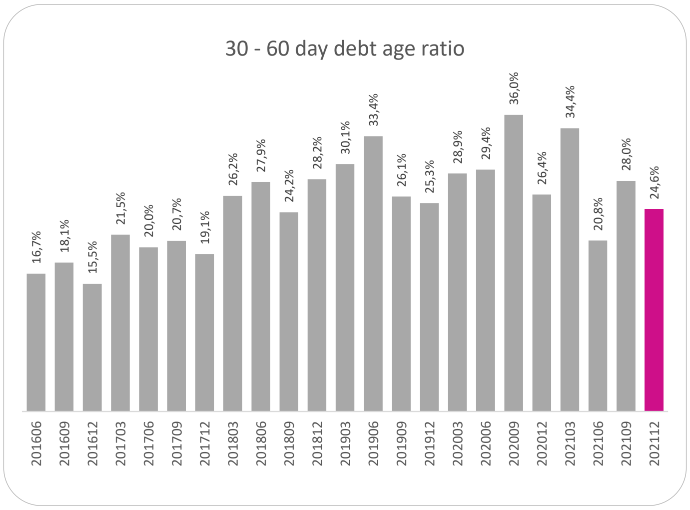
Debt Age Ratio

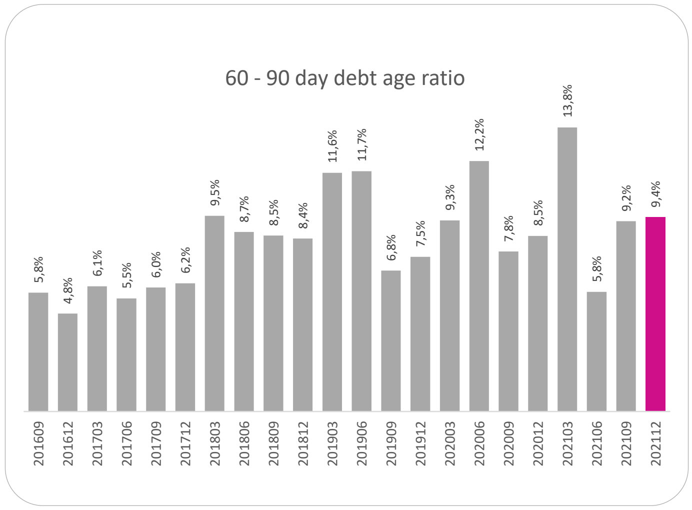
The 30-60-days debt age ratio showed a sharp improvement in Q4

Despite the slight increase in repo rate in 2021 Q4, the 30-60-days ratio **improved from 28.0% in 2021 Q3 to 24.6% in Q4**. This suggests that the still very **low interest rates** continue to benefit consumers and businesses through low debt servicing costs.

In addition, **Sasria insurance pay-outs** (following the 2021 Q3 looting and social unrest) further supported businesses in their recovery. Indeed, by mid-February 2022 ~R17.1 billion of the intended R27 billion had already been issued.

The 60-90-days debt age ratio showed only a **marginal increase** from 9.2% in 2021 Q3 to 9.4% in Q4.



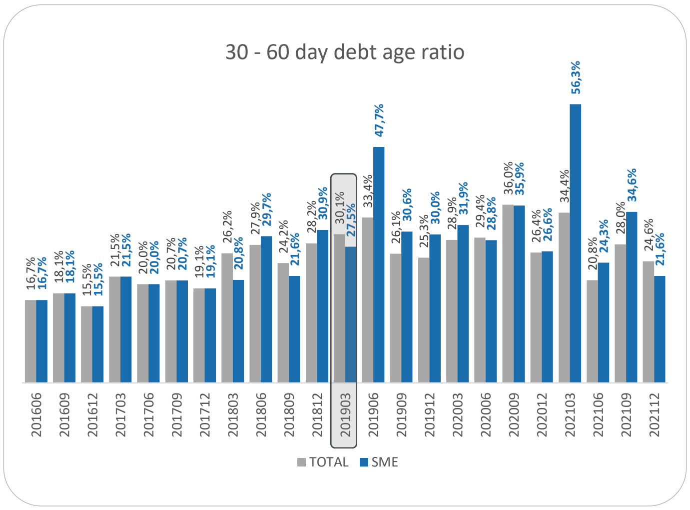


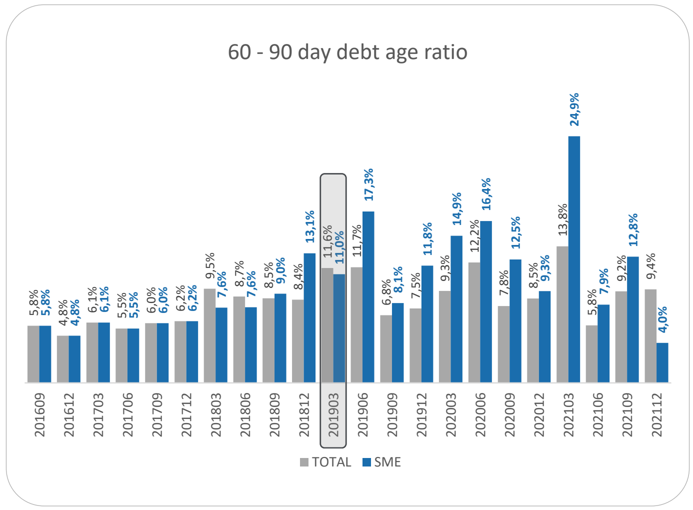
Debt Age Ratio

For the first time since early 2019, SMEs are performing markedly better than non-SMEs from a debt age ratio perspective.

When comparing the SME debt age ratio with that of the total market, SMEs have shown a **significant improvement** in the debt age ratios. Indeed, for the 30-60-days metric, SMEs were measured at 21.6%, compared to the total market at 24.6% For the 60-90-days debt age ratio, SMEs were on 4.0%, compared to the 9.4% of the total market.

Considering that R5 billion of **relief** were issued by Government to small businesses, this might have played a significant role in the stellar improvement in the debt age ratio observed for SMEs.





Construction Industry

BDI – Construction

The significant deterioration in the Construction BDI can be linked back to Government's limited investment in infrastructure.

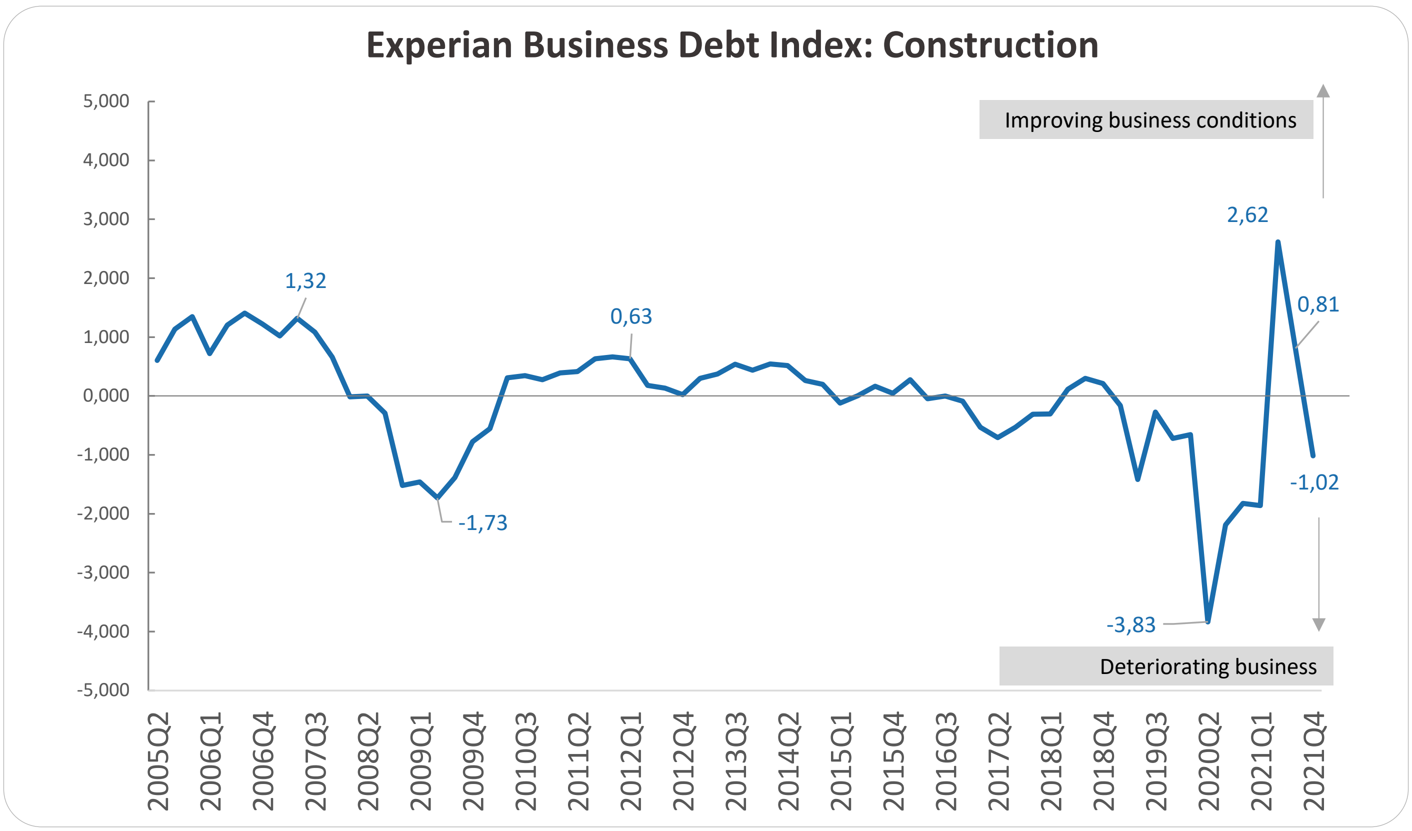
Over the last 2 years, construction has seen the **weakest** growth in the South African economy of all sectors.

Although lockdown restrictions took a heavy toll on the industry, post-lockdown recovery has been slow. Structural constraints remain one of the main reasons why the South African economy is struggling.

These constraints are characterized by:

- Slow economic growth
- Slow investment growth

Positive sentiments around the outlook for 2022 were reported in the FNB Building Confidence Index, but the profit margins for contractors are negatively impacted by rising building material expenses.

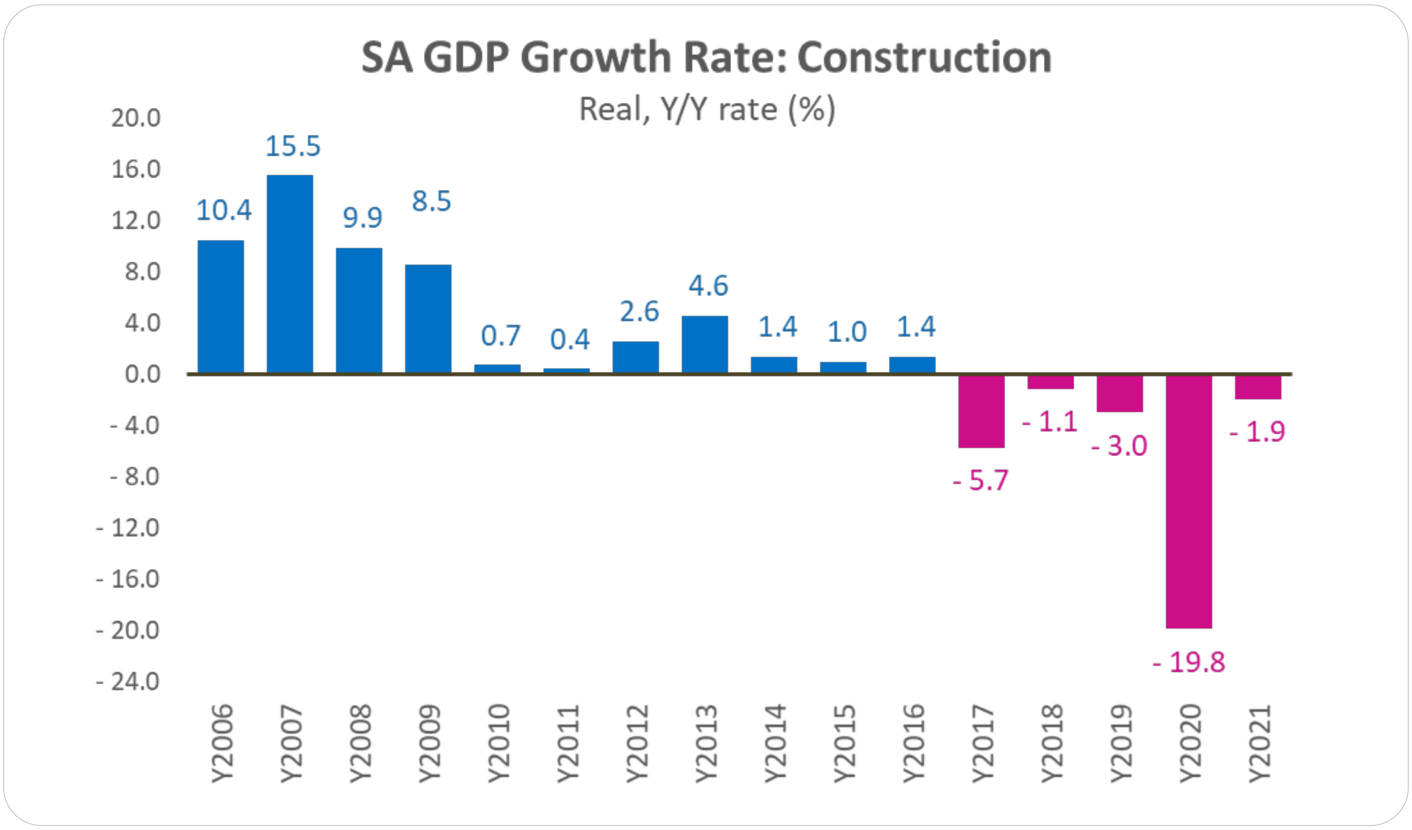


GDP – Construction

The construction sector has contracted for a 5th consecutive year.

Despite the continued gradual ease of lock-down regulations in 2021, the construction sector still showed a decline over the last year. Indeed, the woes observed in this sector began long **before COVID**.

This was largely due to **limited investments** made into the development of infrastructure by both Government and private sectors over the last few years.



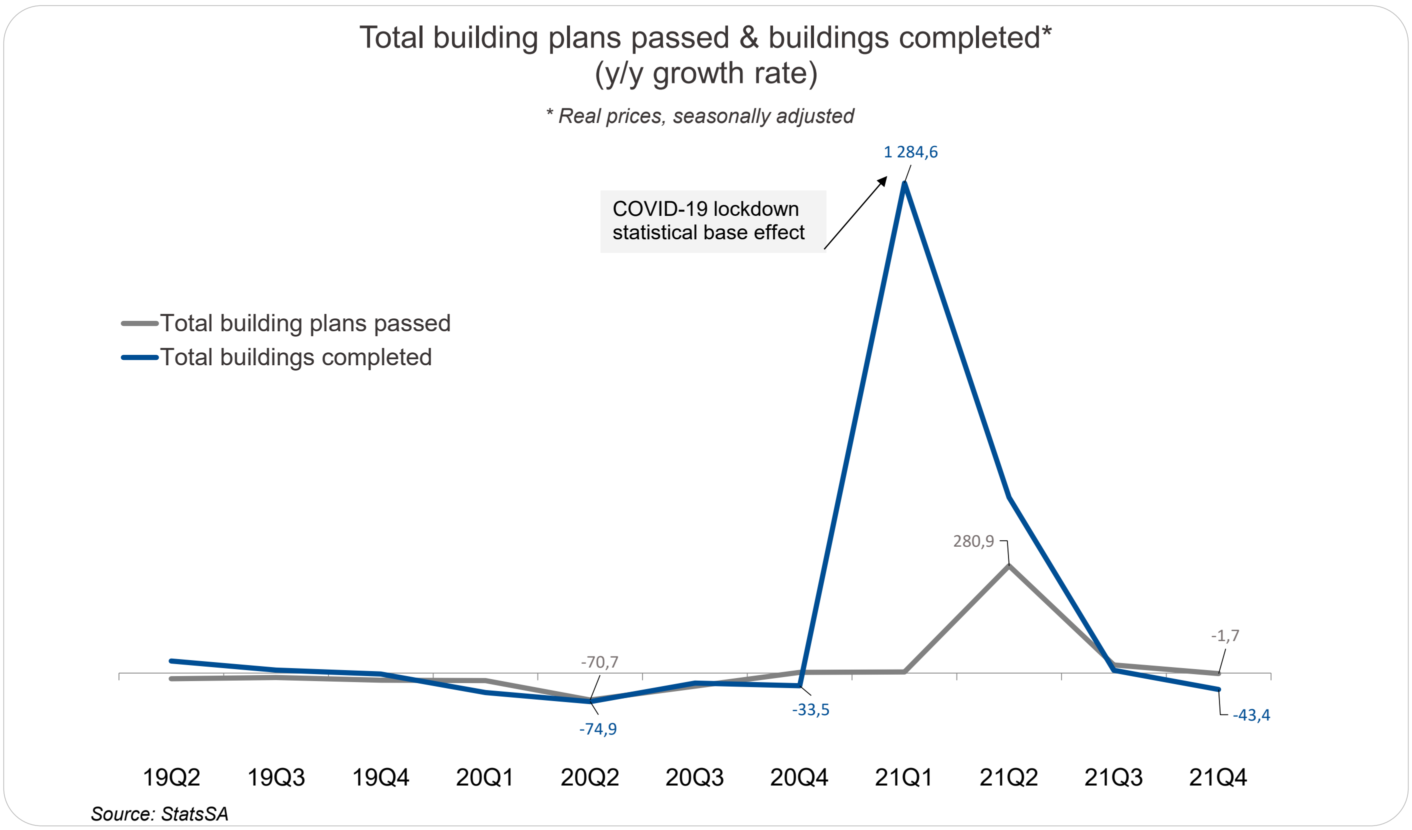
Building plans

A drop in passed and completed building plans in 2021 Q4.

Growth in passed building plans slumped to -1.7% in Q4. Buildings completed also showed Y-o-Y deterioration by -43.4% in Q4.

Although 2021 was much better for the industry than 2020, the industry is still in considerable distress. This distress is mainly due to hesitancy from both private and public sectors, to commit to large-scale investments in this sector.

The expected consistent rate-hiking cycle (which started in November 2021) is likely to further hinder growth in this sector.



Conclusion

From the BDI, we saw that business conditions in South Africa showed a slight **increase in the rate of improvement** in 2021 Q4. Still, in positive territory, the conditions for business are improving, considering the various macro-economic and debt indicators incorporated in this index.

The improvement was mainly due to two driving factors:

- Improved **Debt Age ratio** for 30-60-days ratio
- Improved **GDP** (Y-o-Y).

Construction was the only sector in negative territory in Q4. This sector has been showing deterioration over the last 5 years (long before COVID) from a GDP perspective – mainly due to lacking investment by both Government and the private sector.

The recently approved **Government Infrastructure Plan** is hoped to stimulate this sector to show growth once again.

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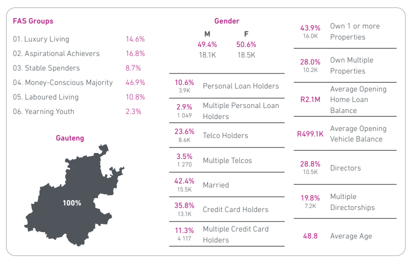

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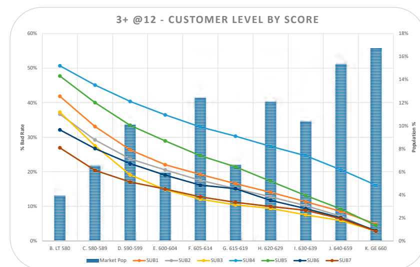

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