



Business Debt Index

Quarterly Summary - Q3 2022



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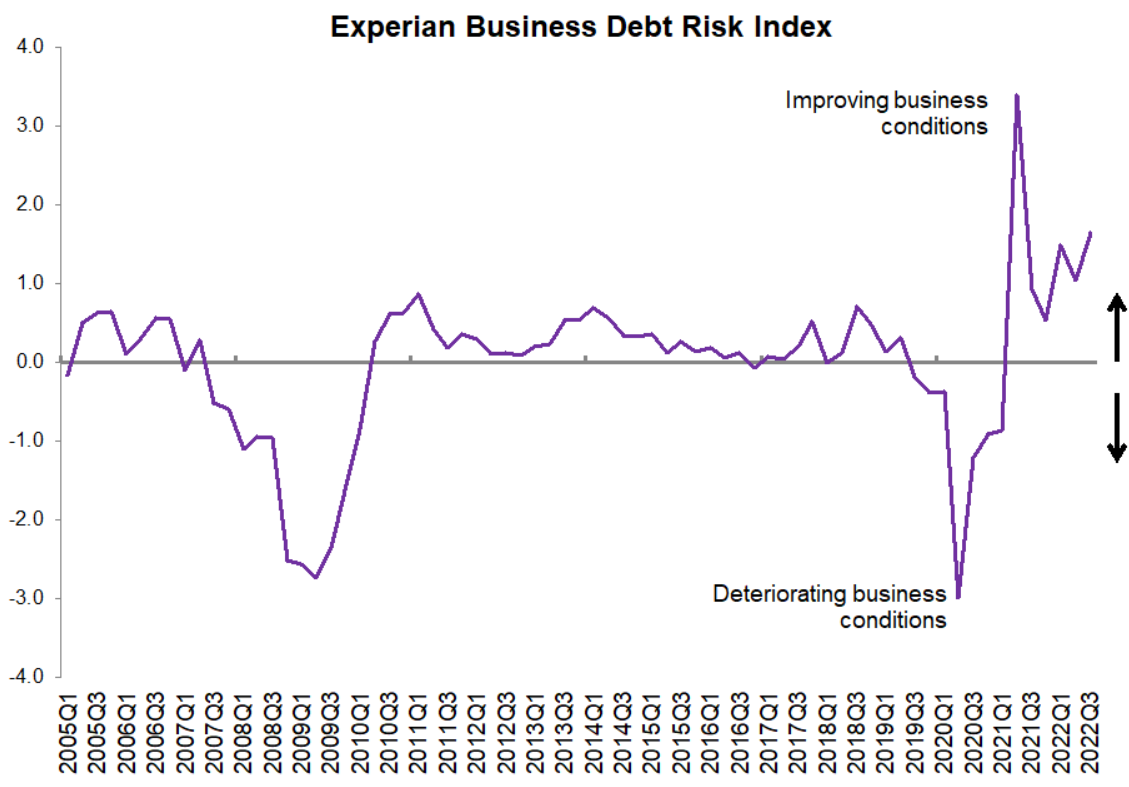


ECONOMETRIX
(PTY) LTD

EXPERIAN BUSINESS DEBT INDEX (BDI) RESULTS FOR Q3 2022

Solid improvement in Experian BDI in Q3, but likely to decline from here onwards

The Experian Business Debt Index (BDI) rose quite sharply in Q3 to a reading of 1.649, from an upwardly revised 1.044 in Q2 (from 0.856 as previously reported). The increase in the BDI in Q3 was much greater than had been anticipated.

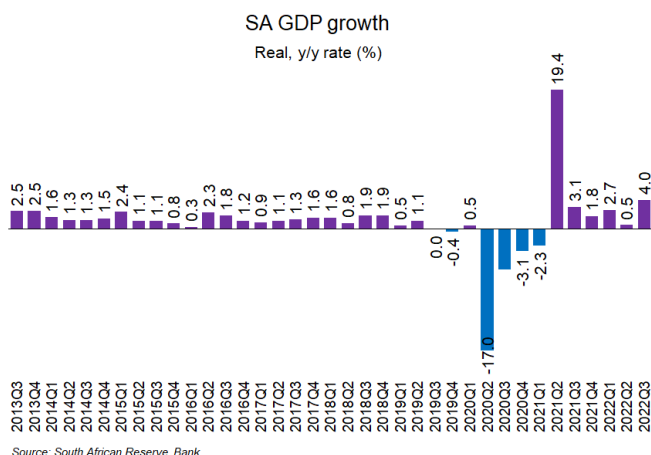


	Q3 2021*	Q4 2021*	Q1 2022*	Q2 2022*	Q3 2022
Index					
>0= Improving business conditions	0.937	0.529	1.489	1.044	1.649
<0 = Deteriorating business conditions					

* Revised

Macroeconomic factors influencing Q3 2022

The first major reason for the upward move in the index was that GDP growth domestically for Q3 was much stronger than had been anticipated.



The domestic GDP growth rate for Q3 came in at 1.6% q-o-q, compared with an expectation of a 0.4% increase from the 0.7% contraction experienced in Q2. On a y-o-y basis, GDP growth accelerated to 4.0% in Q3 from 0.5% in Q2.

This better-than-expected outcome for Q3 domestic growth was superficially surprising, given the steep increase in inflation and substantial rise in interest rates, coupled with an increase in the intensity of load-shedding, which at one point reached Stage VI in September.

Analysts had underestimated the distortive statistical effects of the floods in Q2 in KwaZulu-Natal. There were substantial improvements in GDP in Q3 in agriculture, mining, manufacturing, and construction, all of which sectors had been severely negatively affected by the effects of the floods.

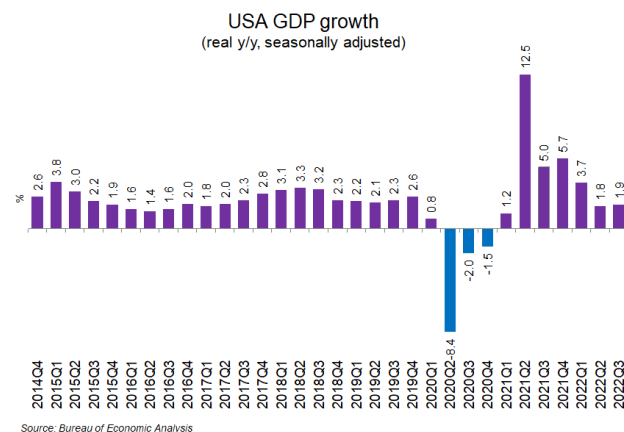
Agriculture, in particular, saw its q-o-q growth shooting upwards from -11.1% in Q2 to 19.2% in Q3. Mining and manufacturing recovered after production had been badly disrupted in Q2, whilst construction activity must have picked up in Q3 partly to restore some of the infrastructure destroyed by the floods. There was also a huge buildup of inventories in Q3 of R63bn, presumably to make up for products lost in the floods and to support the restoration of infrastructure.

Finally, there was also a strong 4.2% q-o-q pickup in exports which, one suspects, reflected a catch-up from a

Q2 level of exports that were severely disrupted by the damage the floods had caused to the KwaZulu-Natal harbours from which most of the country's materials are exported.

Ironically, most of the other macroeconomic inputs into the compilation of the BDI were negative. Still, their impact was substantially outweighed by the dramatically improved statistical performance of the South African economy.

Growth in US GDP was disappointing on a year-on-year basis, increasing only marginally to 1.9% in Q3 from 1.8% in Q2.



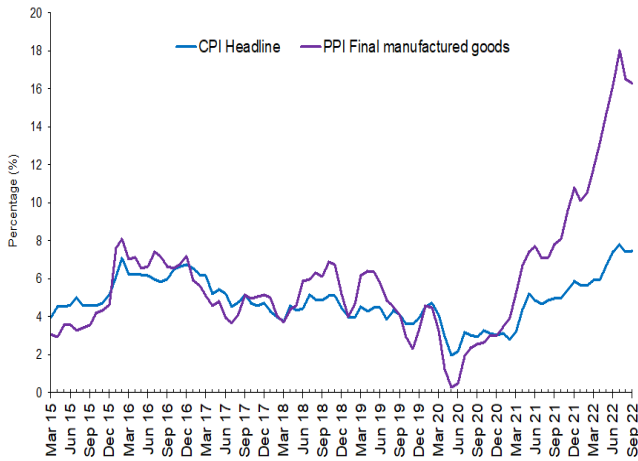
In line with the steep increases in US short-term interest rates, which proportionately exceeded the increases in the domestic repo rate, the differential between the repo rate and the US Fed Funds rate fell slightly to 3.59% in Q3 from 3.71% in Q2.

Similarly, with upward pressure on domestic short-term interest rates and two repo rate hikes of 0.75% each, the differential between the six-month NCD rate and domestic long-term interest rates narrowed from 1.20% to 0.93%. A flattening of the yield curve of this nature is usually seen as a sign of an impending slowdown in economic activity.

The only macroeconomic component other than GDP that positively influenced the BDI was the differential between the PPI inflation rate and the CPI rate. This increased still further to 9.32% in Q3 from an already substantial 8.10% in Q2.

This is usually taken as a reflection of an enhancement of profit margins by producers who are able to pass on cost increases more aggressively than previously.

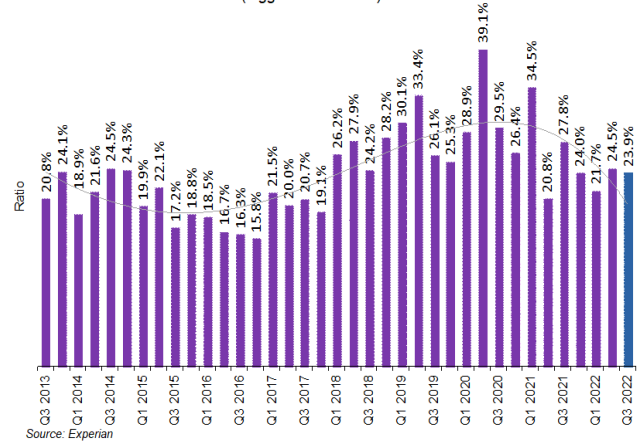
CPI vs PPI Inflation



Source: StatsSA

Insofar as the data that relate to the compilation of the index, the ratio of debts owed of **30-to-60 days ratio**¹, declined to 23.9% in Q3, from 24.5% in Q2.

30-60 day debt age ratio
Debt owed 30-60 days / debt owed < 30 days
(lagged one month)

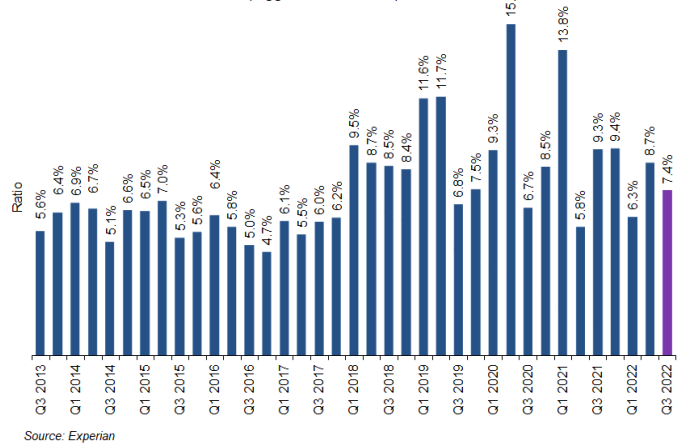


Source: Experian

This figure was well down on the 39.1% ratio that prevailed at the height of the COVID-19 lockdown in Q2 of 2020.

Still more impressive was the decline in the **60-to-90 ratio**². This ratio decreased to 7.4% in Q3, from 8.7% in Q2 and an all-time high of 15.0% in Q2 of 2020.

60-90 day debt age ratio
Debt owed 60-90 days / debt owed < 30 days
(lagged two months)



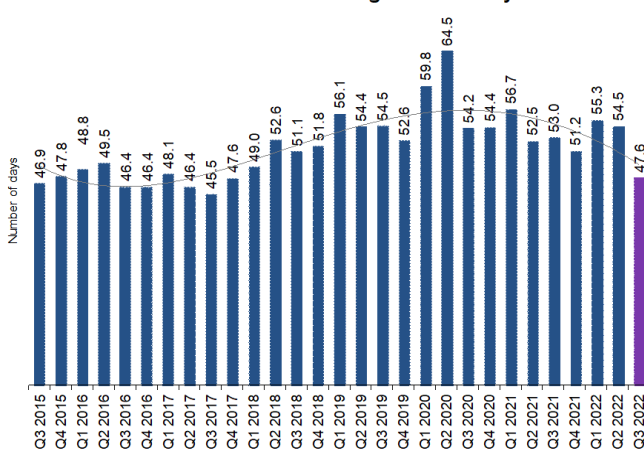
Source: Experian

Business debt metrics in Q3 2022

A marked improvement in Experian data on outstanding debt age ratios also played an important role in pushing up the BDI beyond expectations in Q3.

The average number of outstanding debtors' days fell dramatically to 47.6 in Q3 from 54.5 in Q2. This was the lowest number of outstanding debtors' days in almost five years.

South Africa - Average debtors' days



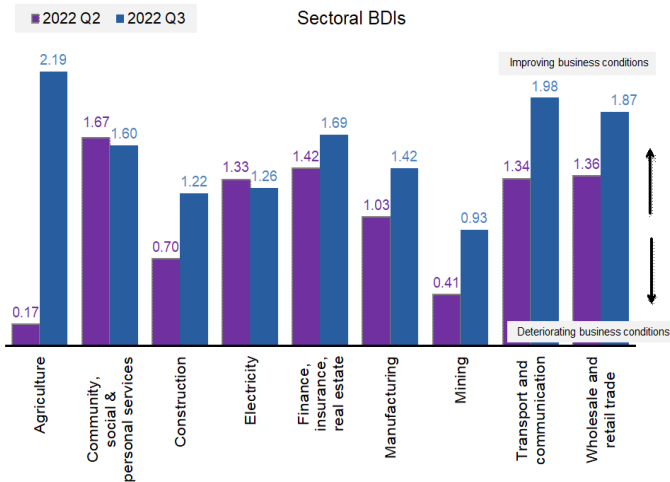
One can only think that the steepness of the rise in domestic short-term interest rates persuaded businesses to pay off their debts more rapidly.

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 Outstanding debt owed of 60 to 90 days relative to debt owed of less than 30 days lagged by two months

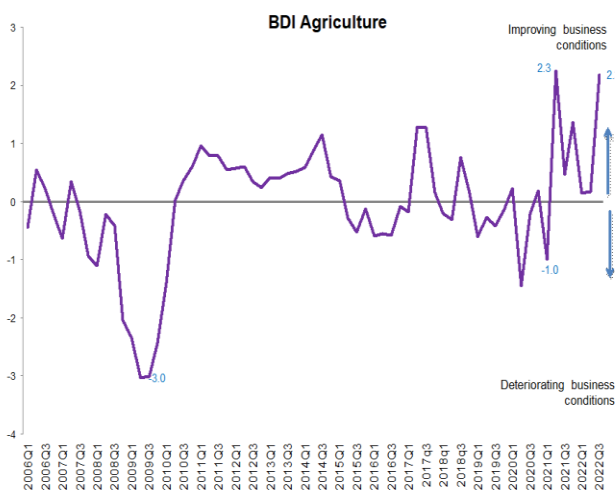
BDI by sector

From a sectoral perspective, there was virtual uniformity in witnessing improvements in their BDIs. Only in the case of electricity and community services were there marginal declines in the BDIs.



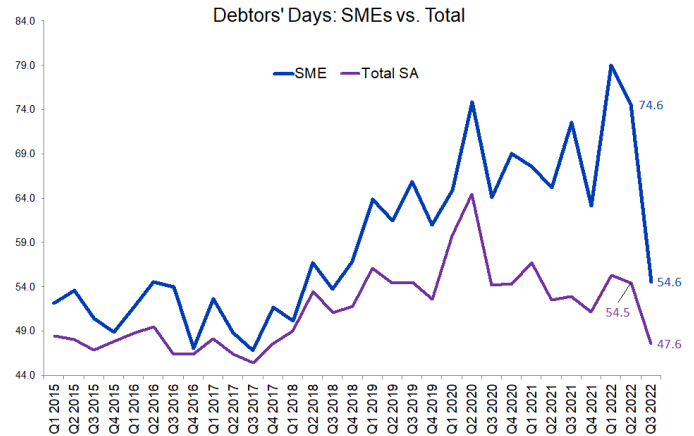
There was a marked improvement in the economic situation experienced by most of the economy following the devastation wrought by the KwaZulu-Natal floods.

The improvements were exceptionally sharp in the case of agriculture, mining, manufacturing, transport, construction and retail and wholesale trade and accommodation. Proportionately, the biggest improvement by far was that of agriculture. This reflected the devastation of crops by floods in Q2, followed by a commensurately sharp recovery once the floods were over.



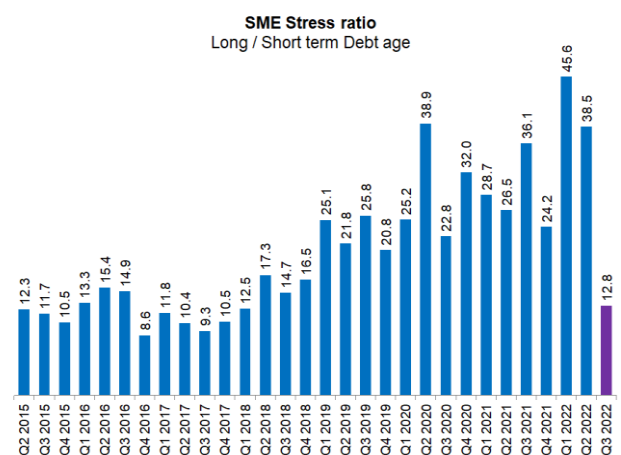
BDI by company size

The improvement in the outstanding debtors' days metrics was particularly marked in the case of small businesses. Outstanding debtors' days of small businesses declined from 74.6 in Q2 to 54.6 in Q3.



This was even more marked than the corresponding decline in the overall outstanding debtors' days from 54.5 to 47.6, referred to earlier.

The long to short-term debt age ratio of SMEs, referred to as the SME stress ratio³, plummeted to 12.8% in Q3, from 38.5% in Q2 and 45.6% in Q1. Clearly, the march to pay off debts as soon as possible and, therefore, not incur steeply higher short-term interest rates was most marked amongst SMEs.



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, however, it is likely that business debt conditions will deteriorate. Increased intensity of load-shedding is bound to weigh negatively on economic growth. Statistically, one will not see the same kind of recovery in economic activity reflected in the Q3 GDP figures.

There is unlikely to be a repetition of the buildup of inventories witnessed during the third quarter. Furthermore, with global economic growth slowing down in the face of sharply higher interest rates and interruptions to supply chains emanating from lockdowns imposed in China to quell the spread of COVID-19, exports from South Africa are likely to feel the pinch. The remarkable recovery in exports experienced in Q3 is unlikely to be repeated in forthcoming quarters.

Furthermore, on the political front, there has been a lot of uncertainty and apprehension surrounding the presidency in the wake of the Phala Phala burglary incident on a farm owned by the president.

There have been concerns that, in the event of President Ramaphosa being removed from office, initiatives aimed at restructuring the economy will falter, and the hoped-for improvement in economic growth will not be forthcoming.

Under all such circumstances, one will likely see a deterioration in business debt conditions and the BDI in Q4 from the elevated reading of 1.649 for Q3. This deteriorating trend can be expected to continue well into 2023.

In particular, the global economic environment has not been conducive towards faster domestic economic growth, with indications of a limit on the extent to which governments can counteract the recessionary trends of higher interest rates through higher public spending given that many leading countries' debt levels are as high as they have ever been.

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 38 years - is committed to on-going 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 in identifying opportunities and risks.



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Next release date for the BDI: March 2023

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