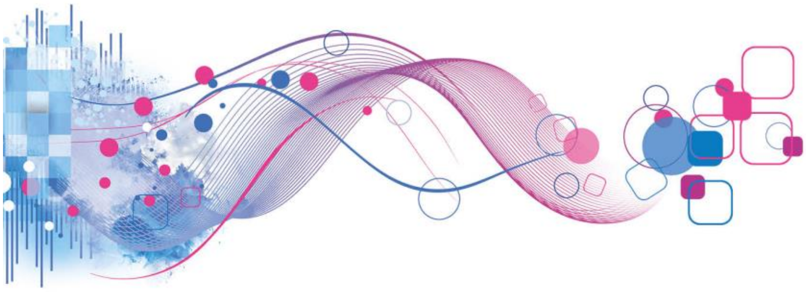

Business Debt Index

Quarterly Summary

Q1 2019

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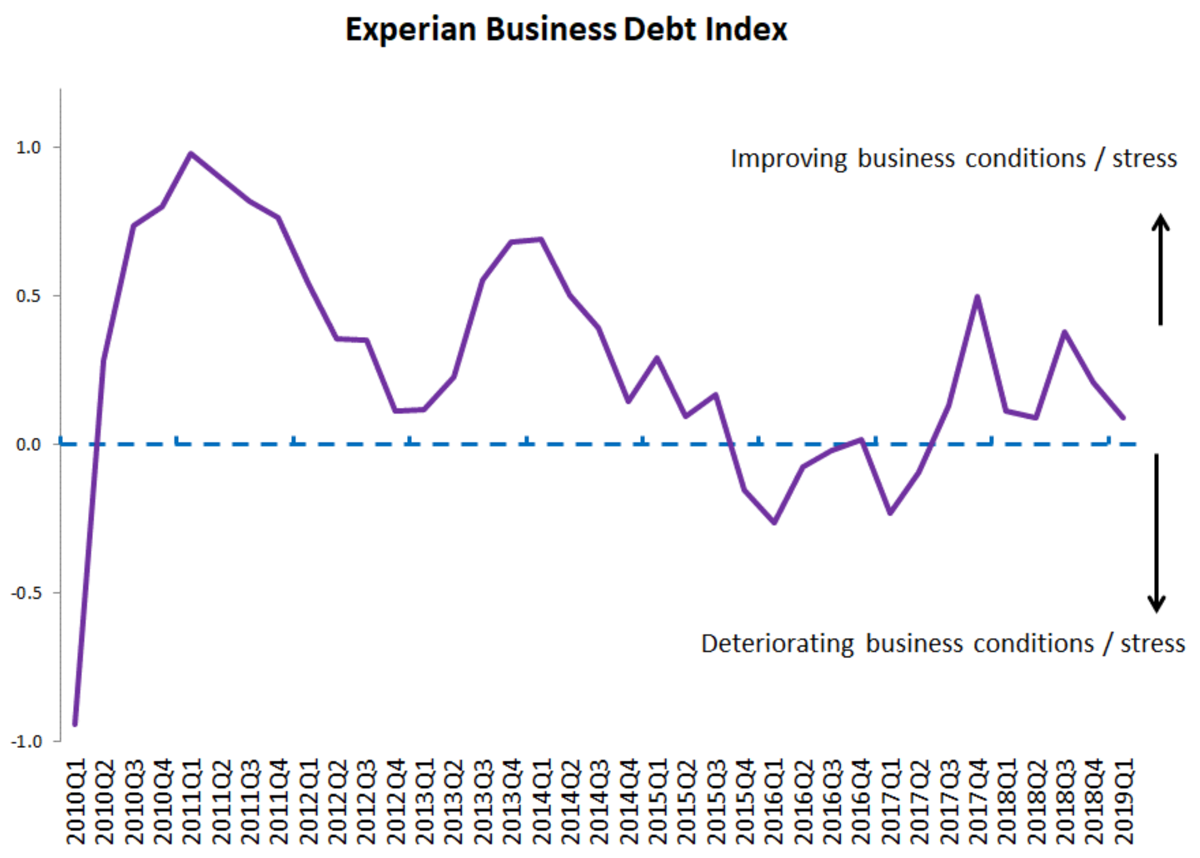
EXPERIAN BUSINESS DEBT INDEX (BDI) RESULTS FOR Q1 2019

Electricity sector witnesses largest collapse in BDI in first quarter of 2019

The Experian Business Debt Index (BDI), which reflects the level of health of businesses in the economy, declined to its worst level in three quarters in the Q1 2019. It fell to 0.091 from 0.207 in Q4 2018.

A positive reading for the BDI is fortunately still reflective of an improvement in business debt conditions (a negative reading would imply a deterioration). The decline in the BDI in Q1 2019 suggests that business debt conditions are not as positive as previously and unfortunately, in light of the uncertainty surrounding the economic environment and the rising trajectory of public debt, downside pressure is mounting on the BDI going forward.

There is no clear signal of any substantial turnaround in this situation any time soon. Furthermore, the longer that an environment of low growth continues, the more difficult it is likely to be for businesses to be able to continue surviving through cost reduction and other restructuring measures.



	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019
Index >0= Improving business conditions <0 = Deteriorating business conditions	0.114*	0.088*	0.380*	0.207*	0.091

* *Revised*

Looking at the makeup of the BDI, data relating to outstanding debt did indeed deteriorate markedly in Q1 2019. However, macroeconomic contributors to the BDI deteriorated only marginally (thanks to more positive impulses emanating from the overseas economy) and due to the manner in which the BDI is constructed, helped to stabilise the overall index.

Macroeconomic factors influencing Q1 2019

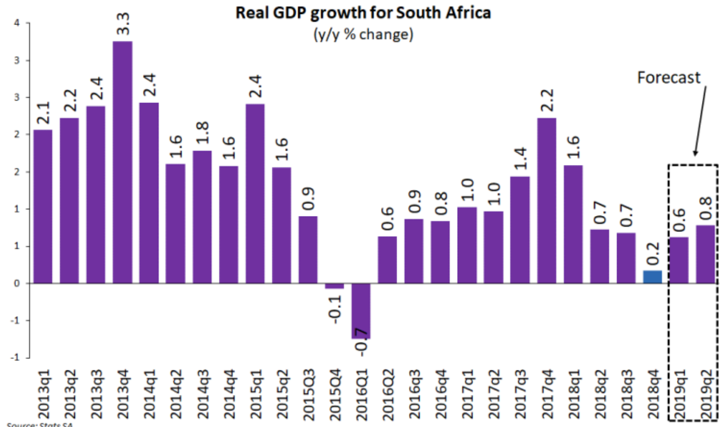
In the first quarter of 2019, the overall BDI was actually supported by macroeconomic factors, and did not deteriorate to the same extent as the Experian data on business debt did.

Our estimate of the y/y growth for South Africa's Q1 2019 GDP is higher than that recorded in Q4 2018. The final quarter of 2018 saw y/y GDP growth of just 0.2%, and our forecasts point to 0.6% in Q1 2019. Part of this is statistical and related to the heavily negative growth recorded in Q1 2018.

Nevertheless, this is still far off the 1.25% y/y growth rate that we had forecast for Q1 2019 three months ago. The onset of severe load-shedding in February and March has played an important role in this greater pessimism. In the intervening few months we have seen the negative impact of load-shedding on mining and manufacturing production, as well as other real economic indicators. One can also assume that capital investment has been held back due to the decline in business confidence in the outlook for business conditions because of potential continuing interruptions to electricity supply.

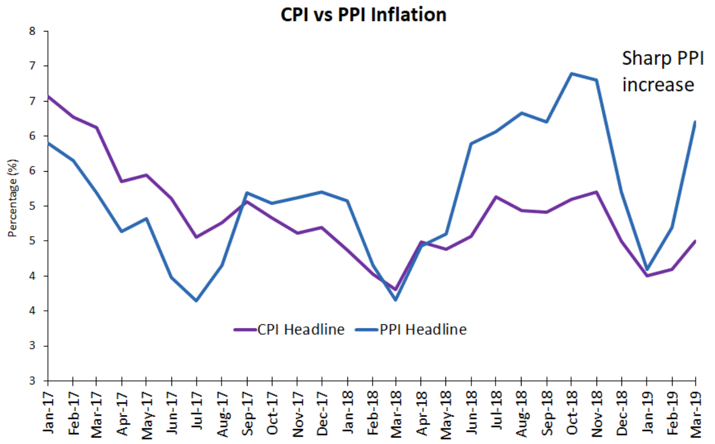
Looking at other variables in the BDI calculation - the gap between the PPI and CPI inflation rate narrowed sharply in Q1 2019, pointing to business margins narrowing substantially and reflecting an inability on the part of businesses selling goods to consumers to pass on the increases in their cost structures. In addition, the differential between long-term interest rates and short-term interest rates also narrowed significantly. A flattening of the yield curve of this nature is usually associated with prospects of reduced economic growth.

Fortunately, the deterioration in domestic macroeconomic conditions was counterbalanced by improved global economic factors. Specifically, US GDP growth for Q1 2019 surprised on the upside, coming in at 3.2% on a y/y basis, compared with our forecast three months ago of 2.5%. It had been expected that the fallout from the sharp correction in US equity prices towards the end of 2018, coupled with the



Source: Stats SA

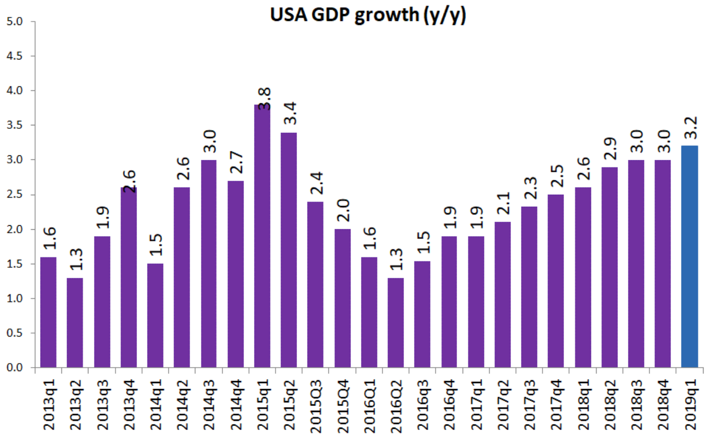
The overall BDI was supported by macroeconomic factors, which did not deteriorate to the same extent as the Experian data regarding debtors' days



Source: StatsSA

fears surrounding the increase in tariffs on imports of Chinese goods into the US, would reverberate in the form of reduced US economic growth.

However, it appears that the assurances by the US Federal Reserve Board to the effect that US interest rates might not have to be raised at all in 2019, might have restored business confidence in the US and elsewhere. There was also a further slight narrowing in the interest rate differential between South Africa and the US Fed funds rate, which can be interpreted as a favourable decline in foreign borrowing costs of South African businesses.



Source: FRED

Business debt metrics in Q1 2019

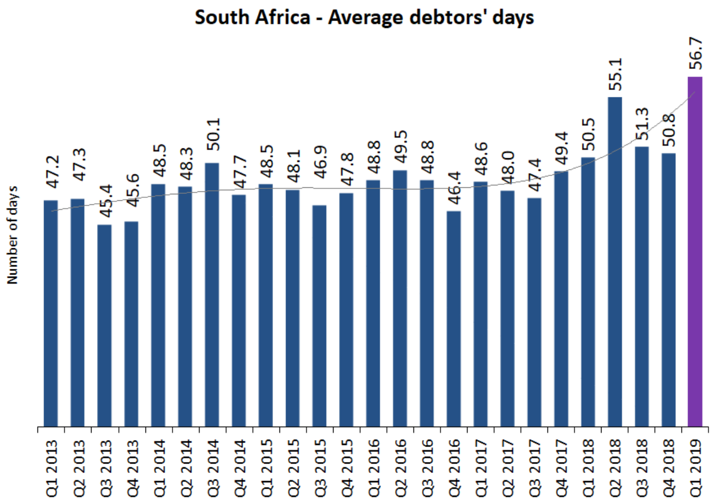
Against these generally stable macroeconomic influences, however, Experian data showed there was a marked increase in outstanding debtors' days of South African companies, reflecting increased financial stress. As a result, the overall BDI declined significantly more sharply than the marginal deterioration which occurred in the macroeconomic data.

Experian data showed there was a marked increase in outstanding debtors' days of South African companies

Debtors' days

Experian data on outstanding debtors' days shot up to 56.7 in Q1 2019, from 50.8 in Q4 2018 and 50.5 days in the corresponding Q1 of 2018. The 56.7 average outstanding debtors' days in Q1 2019 was the highest such figure seen since 2009 and follows a definite upward trend in outstanding debtors' days since Q3 2017.

There can be no doubt that debt conditions are becoming tougher for businesses the longer that the weak state of economic growth persists.



Source: Experian

Debt age ratio

The increase in outstanding debtors' days was especially sharp in the case of the 30-60 day ratio[1], with this ratio rising to 21.8% in Q1 2019, from 18.7% in Q4 2018 and 17.2% in Q3 2018. Nonetheless, the latest results are still slightly less than the recent 23.0% peak in this ratio seen in Q2 2018. One should

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

also note that this ratio was even higher during 2014 and before that during 2011. In the case of the 60-90 day ratio[2], the ratio increased relatively modestly to 6.8% in Q1 2019 from 6.3% in the Q4 2018.

BDI by sector

Analysis of the changes in the BDI by sector show that in all but one sector, conditions deteriorated. The one outstanding exception was agriculture where emergence from drought conditions in the Western Cape helped to resurrect the BDI for the sector from negative to positive.

Not surprisingly, the steepest decline in BDI occurred in respect of the electricity sector, underlying the financial stresses being encountered in that sector, in large measure related to Eskom's woes.

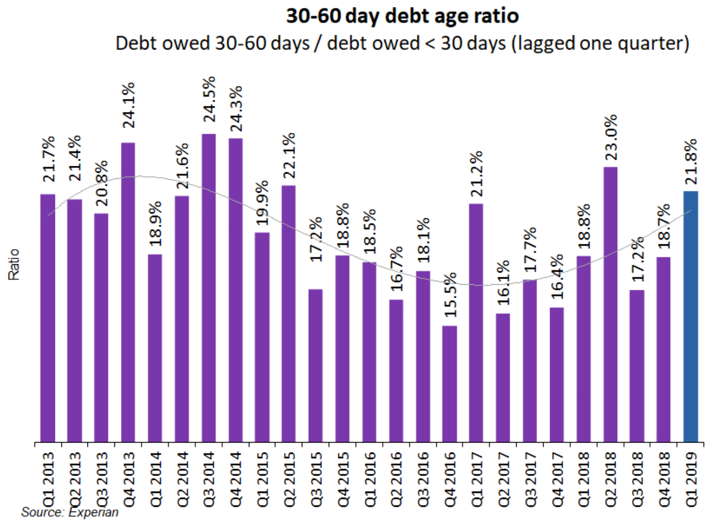
However, there were also substantial declines in the BDIs of mining and manufacturing, transport and communication, community services and retail trade and accommodation. One can only assume that the declines in many of these sectors are linked to the knock-on effects of problems encountered with electricity supply and fading economic growth more generally.

The deterioration in construction was slightly less aggressive, indicative of the fact that this sector had already taken strain through most of 2018, making for a low base from which to decline. Failure on the part of government departments and municipalities to pay construction companies on time has clearly contributed to an inability on the part of businesses in the sector to pay off their creditors on time.

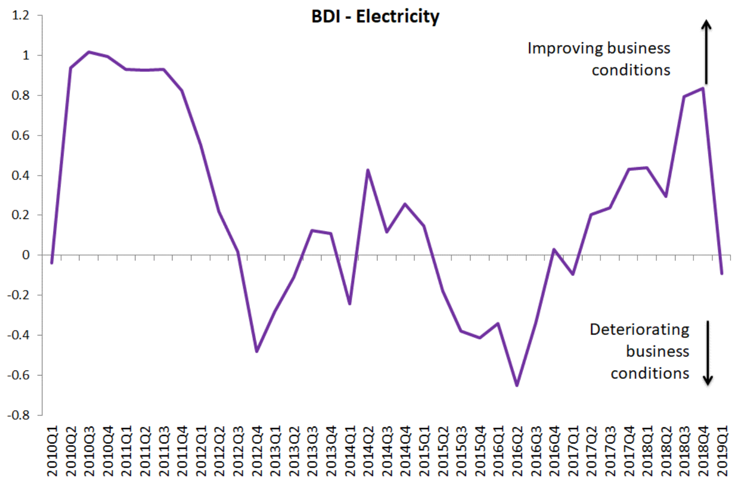
BDI by company size

The other outstanding feature of the latest BDI is that business debt conditions in the small business sector deteriorated.

The average number of outstanding debtors' days amongst SMEs surged to a five-year high of 64.9 in Q1 2019, from 57.9 and 60.5 in the final two quarters of 2018. There has been an especially sharp increase



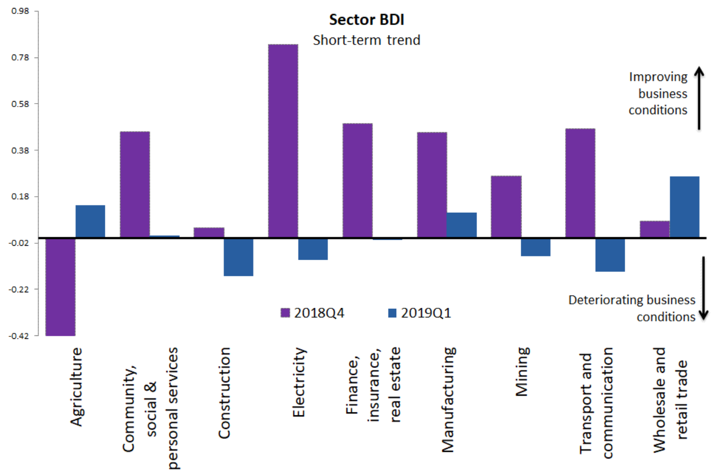
The steepest decline in BDI occurred in respect of the electricity sector, underlying the financial stresses being encountered in that sector



[2] *Outstanding debt owed of 60 to 90 days relative to debt owed of less than 30 days lagged by two quarters*

in outstanding debtors' days of SMEs since Q3 2017 when the number of average debtors' days amongst such companies was just 47.1.

The SME stress ratio, which measures the ratio of outstanding debts of under 60 days relative to those of more than 60 days likewise rose sharply to 25.9% in Q1 2019 from 20.6% in Q4 2018. This outcome is only lower than that of Q3 2014 and elevated against all other readings since. It is clear that small businesses have taking substantially more strain than big businesses during the past year's struggling economy and continue to do so. Part of the problem is that small businesses depend significantly on procurement by public entities and State-Owned Enterprises (SOEs) who continue to delay payment to SMEs. This creates substantial cash flow problems amongst SMEs and the situation seems to have worsened in the latest data.

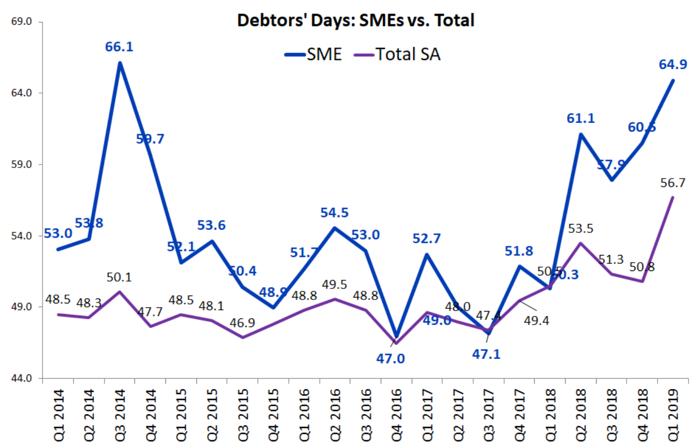


Summary and Outlook

In light of the uncertainty surrounding the economic environment in the face of concern regarding security of electricity supply, recent sharp increases in fuel prices and the prospect of escalating food and electricity inflation, it is difficult to be optimistic about prospects for the BDI going forward.

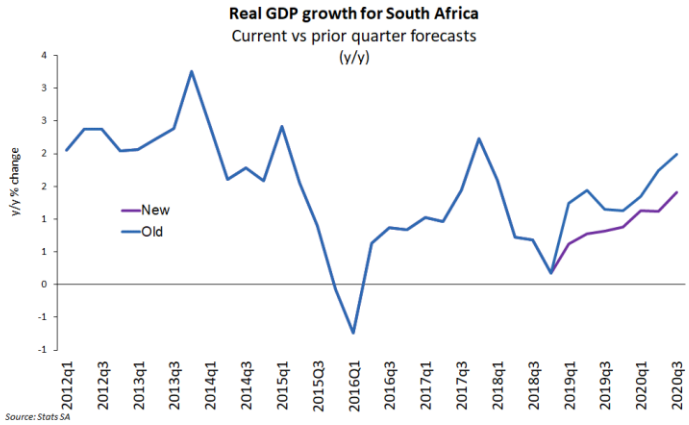
The average number of outstanding debtors' days amongst SMEs surged to a five year high of 64.9 in Q1 2019

Likewise, from a fiscal perspective, there is apprehension about the government's ability to rein in the rising trajectory of public debt to GDP. This is because financial difficulties at State-Owned Enterprises risk increasing the financial liabilities which government itself might be forced to carry in order to rescue such enterprises from total collapse.



The most important challenge of all is dealing with Eskom, which stands to call on government for additional funding of R50bn to R60bn per annum, or an extra 1% of GDP each year, over the next five years. Hope exists that the aftermath of general elections will see an acceleration of attempts to address these structural weaknesses in the economy.

In the interim, looking into the second and third quarters of the year, there is every possibility of further declines in the BDI. Apart from the weak domestic economy that we forecast, there is also likely to be some slowdown in global economic conditions.



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 its 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 30 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.

Contact details

Analysis – Econometrix +27 11 483 1421 jeffreyd@econometrix.co.za
Enquiries – Experian South Africa +27 11 799 3400 taryn.stanojevic@experian.com

Next release date for the BDI: August 2019

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.