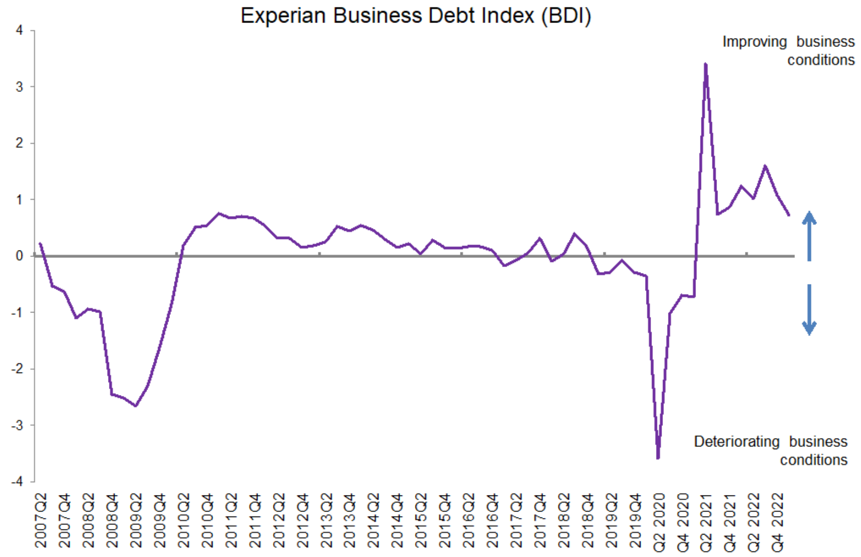
News release

South African businesses demonstrate resilience in Q1 2023 – Experian Report

- *Businesses are finding ways to adapt to loadshedding*
- *South Africa narrowly missed a technical recession with surprise GDP growth*
- *Interest rate hikes led to increase of credit extension through unsecured lending*

Johannesburg, 18 July 2023 – The Experian Business Debt Index (BDI), which reflects the relative ability for business to pay their outstanding suppliers/creditors, indicating the overall health of businesses in the economy, declined at a better-than-expected rate for Q1 of 2023. The decline to 0.721 from an upwardly revised 1.086 reading for Q4 2022, is attributed to a better-than-expected economic performance for the period.

“Three months ago, one had been contemplating an economic scenario of substantial decline due to a significant intensification of load-shedding through Q1. However, the impact was not quite as severe as had been perceived,” says Jaco van Jaarsveldt, Head of Commercial Strategy and Innovation at Experian Africa.

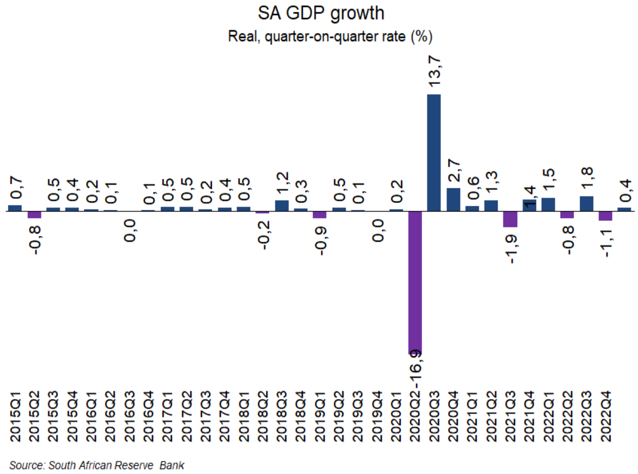


Source: Experian

	Q1 2022*	Q2 2022*	Q3 2022*	Q4 2022*	Q1 2023
Index >0= Improving business conditions <0 = Deteriorating business conditions	1,245	1,015	1,602	1,086	0,721

* Revised

GDP growth came in at a positive 0.4% quarter-on-quarter. This represented an increase from the -1.1% economic contraction experienced in Q4 of 2022 and ensured that the economy had not registered a technical recession, represented by two consecutive quarters of negative growth.



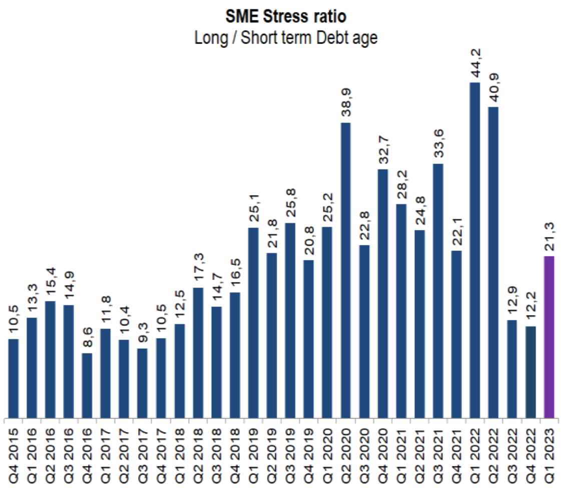
Nonetheless, the negative impact of load-shedding continued to be felt, especially by the agricultural sector, which contracted by 12.3% quarter-on-quarter in Q1. However, it is also apparent from the resilience of mining and manufacturing output in Q1, and positive growth in financial services, transport and retail and wholesale trade, that businesses and consumers are coping with the scourge of load-shedding much better than anticipated.

“Purchases of generators and solar panels are clearly helping to diminish the impact caused by a lack of electricity, whilst a fairly reliable programme of load-shedding issued by Eskom enables many to adjust activities to minimise the negative effect. Economic headwinds were not confined to increased load-shedding alone. Sustained relatively high inflation and an accompanying increase in interest rates to their highest levels in a decade, also worked against stronger economic growth,” adds van Jaarsveldt.

Continued financial distress for SMEs

The SME debt stress ratio, calculated in the BDI, rose sharply to 21.3% in Q1 2023 from 12.2% in Q4 2022. These figures suggest that there has been a much more marked deterioration in the financial health of small businesses than large-size enterprises.

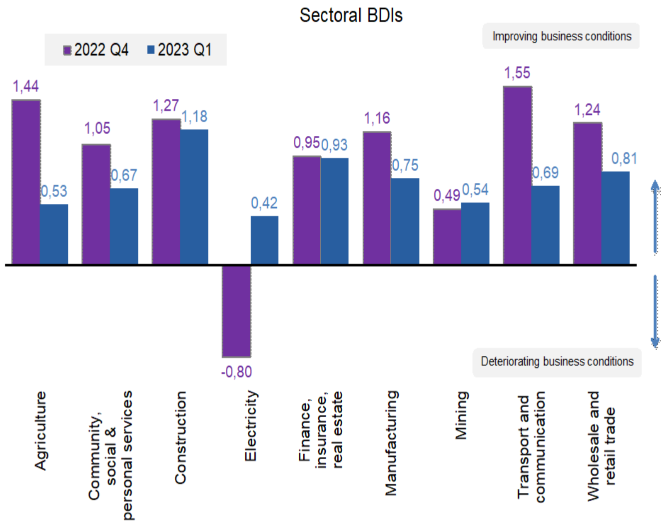
This is not altogether surprising given the difficulty that small businesses have in coping with the expenses required to undertake adjustments in energy procurement to lessen the impact of load-shedding.



Surprising improvement in electricity sector

From a sectoral perspective, the nine main sectors of the South African economy recorded a positive BDI in Q1. However, the trends between the Q4 2022 readings and those of Q1 2023 differed materially between sectors.

On the positive side, there was an improvement in the BDI for the electricity sector, which had been negative in Q4 of 2022 but turned markedly positive in Q1 on the back of increased, yet interrupted, seasonal demand.



In contrast, the decline in agricultural output in Q1, due to the impact of load-shedding, was reflected in a deterioration in the BDI for the agricultural sector. The BDI for transport and communication also recorded a substantial decline, reflecting the impact of the worsening of the country's rail network.

"By now, one might have expected the BDI to be in negative territory. Resilience in the face of anti-growth forces and structural impediments has been surprising. Encouragingly, it is widely predicted that one can begin looking forward to an increase in electricity availability towards the end of this year and through 2024. This period is also potentially pivotal in determining whether the declining trend of the South African economy over the long term persists and accelerates or whether changes in the political sphere begin generating an underlying improvement in the country's economic growth," van Jaarsveldt concludes.

*****ENDS*****

[677 words]

Notes to the editor:

*Debtors' days is a metric of time measuring the average outstanding period (in days) that businesses take to repay their debt. A higher debtors' day value points to an environment where firms are taking longer to repay their outstanding debt obligations.

The Experian Business Debt Index is an indicator of the overall health of businesses, as well as the South African economy. It 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.

How to interpret the index: 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. 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.

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 the business stress is the primary factor influencing the co-movement and by extracting the principal components, it is possible to build and index with a useful economic interpretation.

For a more detailed analysis of business debt stress, Experian releases a Business Debt Overview report. The Business Debt Overview report constitutes of three main sections: the Business Debt Stress Index, a macro-economic overview and a sectoral debt analysis.

Contact:

Taryn Stanojevic
Experian South Africa
+27 11 799 3434
Taryn.Stanojevic@experian.com

Gomotsegang Motswatswe
BCW Africa
+27 11 480 8620
gomotsegang.motswatswe@bcw-global.com

About Experian

Experian is the world's leading global information services company. During life's big moments – from buying a home or a car, to sending a child to college, to growing a business by connecting with new customers – we empower consumers and our clients to manage their data with confidence. We help individuals to take financial control and access financial services, businesses to make smarter decisions and thrive, lenders to lend more responsibly, and organisations to prevent identity fraud and crime.

We have 21,700 people operating across 30 countries and every day we're investing in new technologies, talented people, and innovation to help all our clients maximise every opportunity. With corporate headquarters in Dublin, Ireland, we are listed on the London Stock Exchange (EXPN) and are a constituent of the FTSE 100 Index.

Learn more at www.experianplc.com or visit our global content hub at our global news blog for the latest news and insights from the Group.