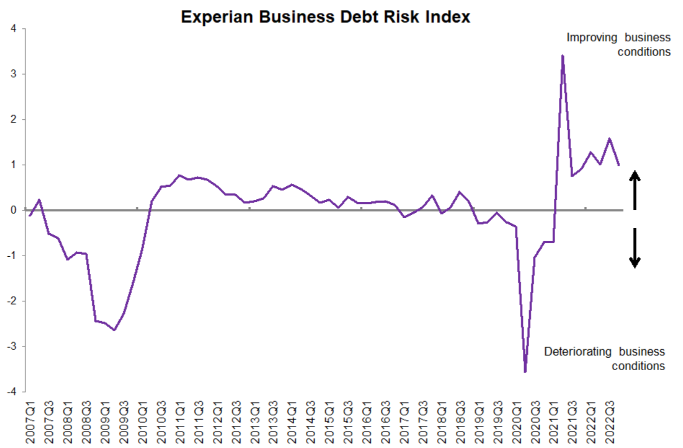
News release

Experian data - Electricity load shedding draining South African businesses

- *Intensified electricity load-shedding was broadly disruptive to domestic economic activity*
- *Transnet strike negatively affected country's ability to export raw materials*
- *Higher interest rates partially contributed to slow domestic growth*

Johannesburg, 19 April 2023 – The Experian Business Debt Index (BDI), which reflects the relative ability for business to pay their outstanding suppliers/creditors i.e., the overall health of businesses in the economy, unsurprisingly declined sharply to a reading of 0.996 in Q4 2022 from 1.591 in Q3.

The decrease in the BDI in Q4 was greater than had been anticipated. Two factors dominated in producing this negative outcome. "First and foremost, the level of electricity load-shedding intensified sharply in Q4, with the predominant level of load-shedding moving to Stage IV in Q4 from Stage II in Q3. This was disruptive to domestic economic activity across a broad front and manifested in the deterioration in quarter-on-quarter GDP growth from 1.8% in Q3 to -1.3% in Q4. On a year-on-year basis, growth diminished from 4.0% in Q3 to 1.3% in Q4, says Jaco van Jaarsveldt, Head of Commercial Strategy and Innovation at Experian Africa.

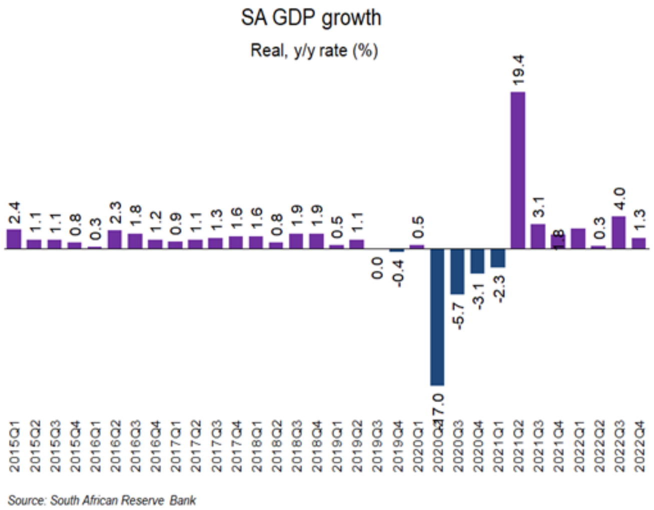


	Q4 2021*	Q1 2022*	Q2 2022*	Q3 2022*	Q4 2022
Index >0= Improving business conditions <0 = Deteriorating business conditions	0.919	1.276	1.009	1.591	0.996

** Revised*

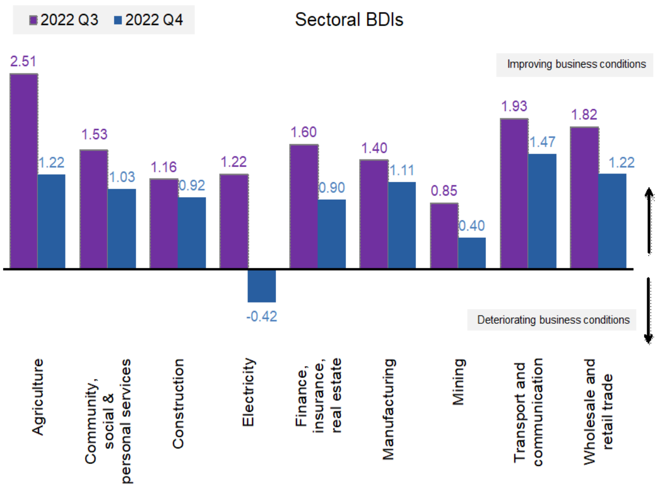
Also contributing towards the deterioration in growth in Q4 was a two-week strike at Transnet in October, which negatively affected the country's ability to export raw materials. This, added to the negative impact on exports arising from a decline in commodity prices, had a further detrimental effect on GDP.

Higher interest rates and high inflation derived from sharp increases in food and fuel prices, partially linked to the war in Ukraine, as well as supply-side pressures resulting from disruptions to supply chains in the wake of Covid-19 restrictions in the previous two years, were also a partial contributor towards the reduction in domestic economic growth.



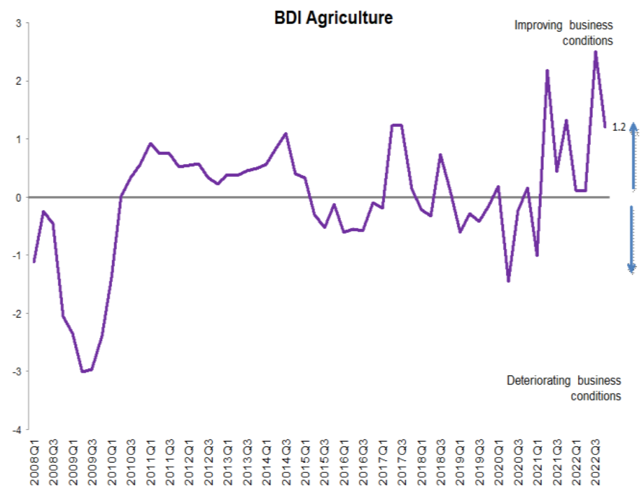
BDI by sector

There was a universal decline in BDI across all sectors. The steepest decline of all, not surprisingly given the increased intensity of load-shedding, was in the electricity sector.



The other sector which declined steeply was the agricultural sector, on the back of a dramatic slowdown in the sector's growth, with q-o-q growth plunging from an extremely high 30.5% in Q3 to a negative -3.3% in Q4. The plunge was mainly driven by energy-related challenges, as temperature regulation throughout the supply chain has become increasingly challenging as a result of the continued load-shedding. Deteriorating infrastructure adds further woes to the supply chain challenges faced by the agricultural sector.

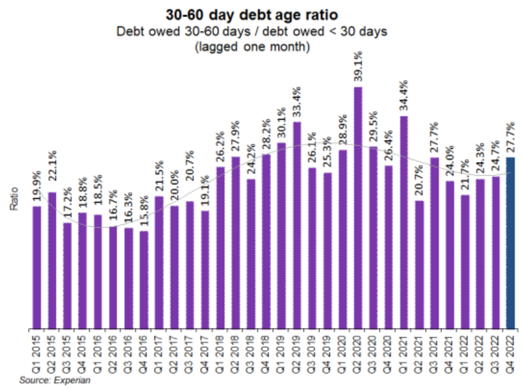
“The consistent manner in which the BDI for all sectors declined in Q4, illustrates how the negative effects of intensified load-shedding filtered through across a broad band of activities in the economy,” said van Jaarsveldt.

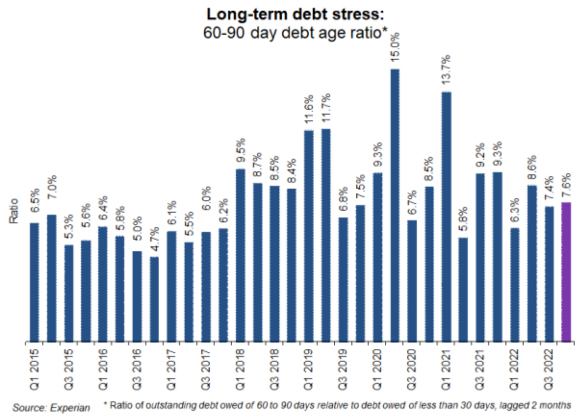


Businesses show decreased ability to honour debt commitments

The decline in the BDI in Q4 was not driven only by macroeconomic factors.

The final three months of 2022 also witnessed a slight deterioration in the readiness with which businesses were prepared to pay off their debts, mainly due to the increased strain of doing business emanating from the weak overall business environment. By historical standards, the debt-age ratios were still relatively low. However, whilst marginal, the increases in both the 30-60 days and 60-90 days debt ratios contributed to the decline in the BDI.





“This points to some element of resilience within the economy's private sector that stands as a barrier against a much more serious deterioration of the entire economy in the face of the energy shortage,” adds van Jaarsveldt.

Unfortunately, it is anticipated that there will be a further substantial decrease in the BDI in the coming quarters as the private sector’s ability to buffer broader electricity supply challenges and infrastructure failure wanes.

“Considering this forecast, businesses are encouraged to manage their debt effectively, particularly given that it is anticipated that the upcoming quarters will be more difficult due to increased consumer distress, which will increase the stress levels related to business debt,” concludes van Jaarsveldt.

*****ENDS*****

[762 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

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