news release

Rising cost of living and low economic growth continue to negatively impact South African consumers – Experian Report

Lenders respond with ongoing tighter measures on new applications for credit cards and personal loans

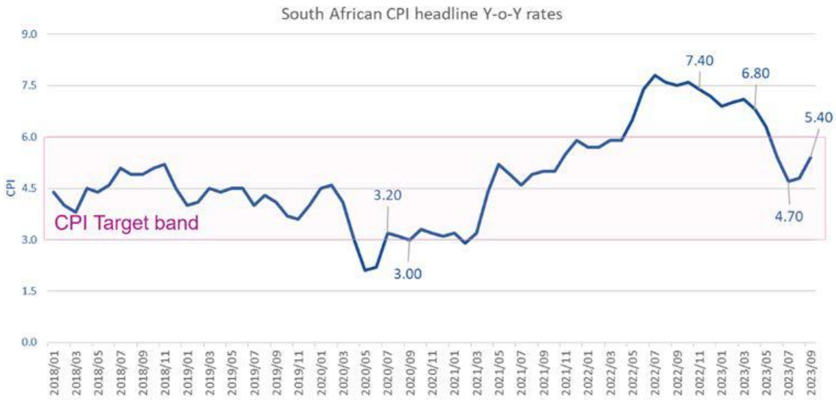
Johannesburg, 11 December 2023: According to the latest Experian Consumer Default Index (CDIx) for Q3, the composite CDI has shown a significant year-on-year deterioration from 3.69 to 4.88, a relative decline of 32%, indicating that consumers are increasingly struggling to meet their debt obligations amidst the rising cost of living.

On a quarterly basis, the composite CDIx remained unchanged from 4.88 in June 2023 to 4.88 in September 2023. This stability, despite high interest rates and reduced lending across all products, was expected as consumers historically tend to pay off debt in preparation for increased spending over November's Black Friday as well as the festive period. The fact that the reading remained flat as opposed to previous years' improvement suggests that consumers continue to face financial strain in the credit market.

Index	CDI Sep'23	CDI Sep '22	Average Outstanding Jul'23-Sep'23	New Default Balances Jul'23-Sep'23	Relative Impr/Deter
Composite Index	4,88	3,69	R 2 157 098 117 205	R 26 318 050 996	32%
Home Loan Index	2,76	1,61	R 1 137 355 237 788	R 7 856 428 454	71%
Vehicle Loan Index	4,43	3,77	R 489 880 551 273	R 5 429 582 356	18%
Credit Card Index	7,79	6,04	R 167 828 580 584	R 3 269 583 249	29%
Personal Loan Index	10,39	8,31	R 322 623 861 549	R 8 381 214 260	25%
Retail Loan Index	14,02	13,10	R 39 409 886 011	R 1 381 242 677	7%
Home Loan + Vehicle Loan + Credit Card	3,69	2,61	R 1 795 064 369 645	R 16 555 594 059	41%
Retail Loan + Personal Loan	10,79	8,81	R 362 033 747 560	R 9 762 456 937	22%

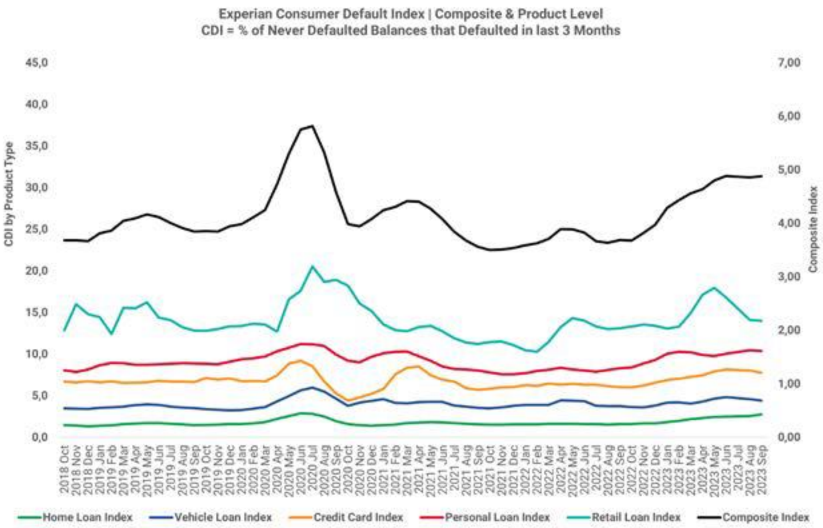
The Q3 CDIx revealed a significant year-on-year deterioration in Home Loans and Credit Cards specifically, commonly used by high-affluence consumers. This is a continuation of the trend observed over the past 12 months which indicates that the most affluent segment of the market continues to struggle to repay their debts and are increasingly relying on credit cards.

Concurrently, despite the downward trend of the Consumer Price Index (CPI) from April to July 2023, there was a rise in August and September. This increase, although within the South African Reserve Bank's target range of 3% - 6%, signals that cost-of-living pressures in the South African economy have not subsided. Add to the cost-of-living pressure the lacklustre performance of the South African economy, which contracted by 0.7% on a year-on-year basis in the third quarter of 2023, and the persistent high unemployment rate, the overall environment for consumers and small businesses alike remains challenging.



The sustained high credit application levels suggest that consumers are turning to credit to cover gaps in their cost-of-living expenses. However, despite the high demand, approval levels for new credit application remain low with more than two-thirds of applications for credit being rejected. Non-approval is largely due to consumers' inability to afford additional credit commitments amid the ongoing cost-of-living pressures as well as credit providers tightening approval criteria as the increased provisions for non-performing debt starts to impact profits," says **Jaco van Jaarsveldt, Head of Commercial Strategy & Innovation at Experian.**

Trends in New Business Volumes and Values for Credit Products



New business volumes for unsecured loans, such as Retail Loans and Personal Loans, have not yet recovered to pre-pandemic levels. Meanwhile, secured lending products like Vehicle Loans and Home Loans have shown signs of sustained slower growth.

Lenders seem to be curbing credit risk associated with new business in Personal Loans and Credit Cards by reducing opening limits for these products, particularly for high-affluence consumers. This indicates that these consumers are increasingly dependent on unsecured loans to maintain their living standards.

"As the cost of living continues to rise and the Consumer Default Index continues an upward trend, it is crucial for both consumers and financial institutions to monitor these closely and make informed decisions to navigate this challenging economic landscape. We encourage consumers to access Experian's free *Up* web app where they can have a detailed view of their finances providing a consolidated, one-stop view of their ability to afford additional credit facilities," **van Jaarsveldt** concludes.

Access *Up,* powered by Experian, for FREE from www.up.experian.co.za

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Notes to the editor:
The Experian Consumer Default Index (CDIx) is designed to measure rolling default behaviour of South African consumers with Home Loan, Vehicle Loan, Personal Loan, Credit Card and Retail Loan accounts.

On a monthly basis, lenders typically classify their consumer accounts into one of several predetermined payment categories to reflect the level of arrears. When a lender deems the statement balance of a consumer account to be uncollectible due to being in arrears 90 or more days or statuses such as repossession, foreclosure, charge-off or write-off, the consumer account is said to be in default.

The index tracks the marginal default rate as it measures the sum of first-time (accounts that have never) defaulted balances as a percentage of the total sum of balances outstanding.

The CDI is published quarterly with a two-month lag, the indices include a balance-weighted composite index, as well as the five product-specific sub-indices. Two grouped indices are also provided:

1. Home Loans, Vehicle Loans and Credit Cards (these products typically are held by the traditionally banked market segments), and
2. Personal Loans and Retail Loans (these products are usually used as entry products into the credit market).

The indices are also determined at FAS type level to provide further insight into the dynamics faced by specific consumer affluence-related segments that are experiencing different stress due to macro forces such as unemployment, interest rate changes and economic growth.

[1] **Experian's Financial Affluence Segmentation (FAS)** is a consumer lifestyle segmentation system that classifies the South African population and enumeration areas into 6 primary groups each with variable exposure to secured and unsecured lending products. The 6 primary segments are described as follow:

- FAS Group 1: Luxury Living (2.5% of credit active population) - Affluent individuals representing the upper crust of South African society with the financial freedom to afford expensive homes and cars
- FAS Group 2: Aspirational Achievers (9.3% of credit active population) - Young and middle-aged professionals with the resources to afford a high level of living while furthering their careers, buying property, and establishing families
- FAS Group 3: Stable Spenders (7.2% of credit active population) - Young adults with that rely on financial products to assist in making ends meet or to afford specific necessities such as clothing and school fees, or seasonal luxuries
- FAS Group 4: Money Conscious Majority (40.0% of credit active population) - Older citizens that are conscious of where and how they spend their money; often seeking our financial products to cover basic needs or for unforeseen expenses
- FAS Group 5: Labored Living (24.6% of credit active population) - Financially limited as salaries are below national tax thresholds, they spend their money on basic living necessities such as food and shelter
- FAS Group 6: Yearning Youth (16.4% of credit active population) - Very young citizens that are new to the workforce; this mix of labourers and possibly working students earn low salaries and are limited to spending on non-essential goods

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