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Experian Africa

Insights into the Redefined Credit Economy – January 2022

Data insights and the latest trends of how the South African credit economy has been redefined in a time of disruption.



Contents page

- Business Debt Index 4**
 - Overall BDI and Gross Domestic Product 4
 - BDI split by Sector 6
 - BDI – Mining 7
 - BDI – Wholesale and Retail Trade 8
 - BDI - Community, Social and Personal Services 9
- Debtors' Days Analysis and Outlook 10**
 - Debt Age Ratio 11
- Small Business 12**
 - Small Business – Industries 12
 - Small Business – Closures by Industry 12
- Conclusion 13**



Introduction

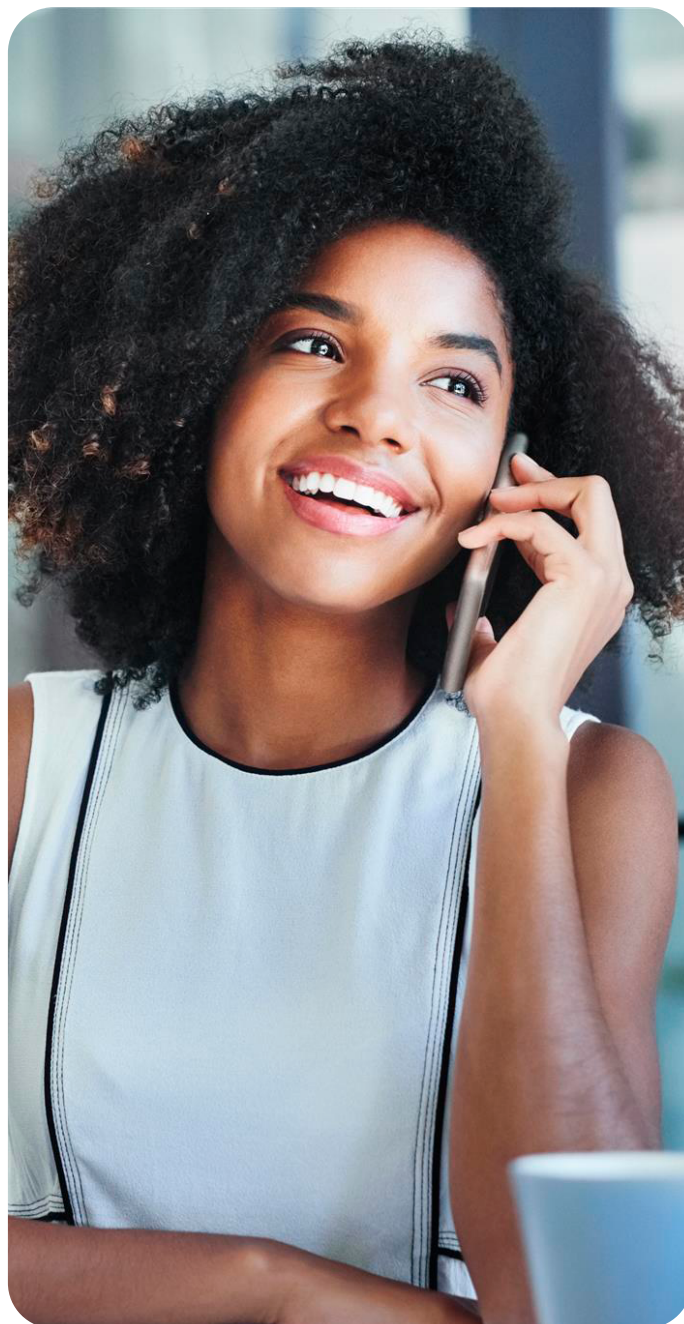
There's no doubt that the COVID-19 pandemic caused a significant amount of disruption to global and local economies. Varying lockdown levels have also impacted these economies as well as the businesses and consumers that operate within them.

The extent of the pandemic's economic impact continues to be largely unknown. However, through tracking and analysis of the emerging patterns in the credit and related industries, we see early indicators of what is to come over the next few months.

We are committed to continually sharing insights and trends as they emerge, keeping you informed to support your strategies.

All emerging trends are tracked monthly with a focus on how they impact overall market activity, changes in consumer behaviour and the impact on overall performance at a total market and business vertical level.

The January 2022 report focuses on the Q3 2021 Business Debt Index (BDI) and how **South African business conditions have changed**.



Download the latest BDI Report [here](#)

How have South African Business Conditions Changed?

Experian Business Debt Index (BDI) Results and Insights provided by **Econometrix**.

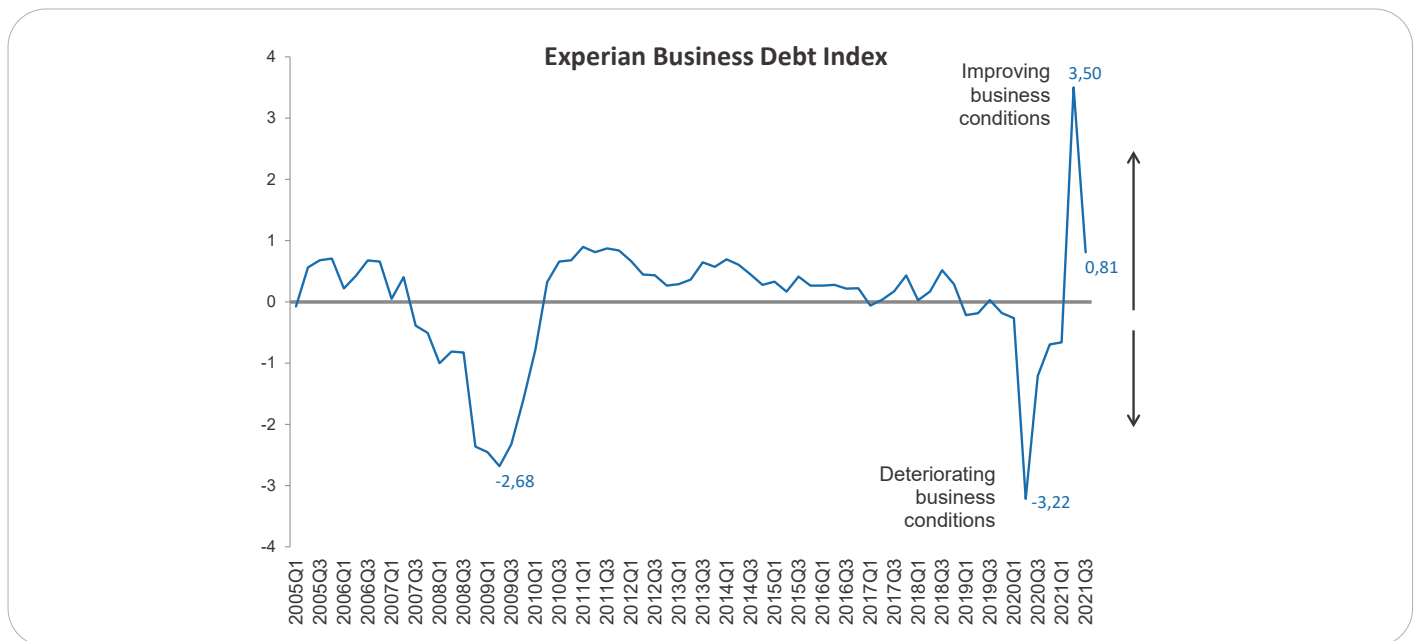
Business Debt Index

South African business conditions are still improving but at a much slower rate.

The BDI combines macro-economic data (GDP, inflation and interest rates) and monthly business bureau debtors data to reflect the state of South African business conditions.

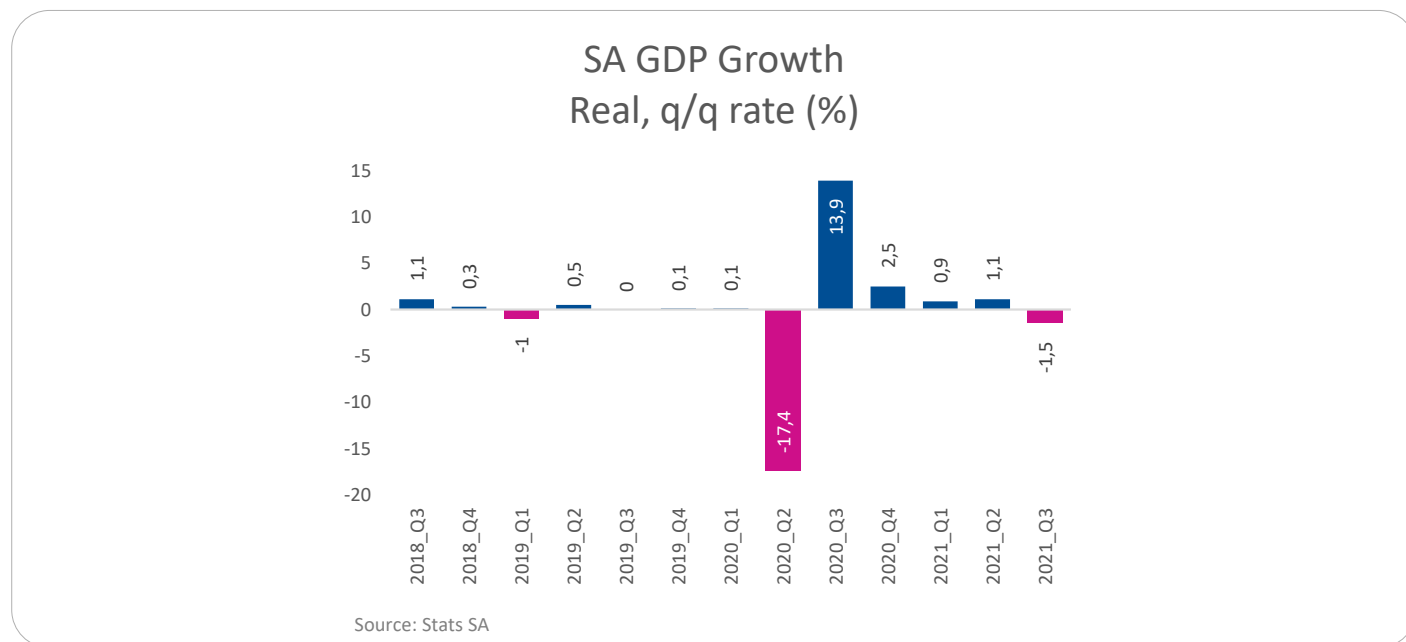
The BDI has shown a significant Q-o-Q deterioration, down from the all-time high of 3.5 in 2021 Q2 to 0.81 in Q3.

This deterioration was predominantly as a result of the higher base (remember that 2020 Q3 saw an improvement in GDP from the preceding hard lockdown of 2020 Q2).



Gross Domestic Product

GDP Q-o-Q growth is down to below zero levels. Y-o-Y growth has also come down significantly, considering the higher base of 2020 Q4 (compared to 2020 Q2).



The South African GDP contracted by 1.5% on a Q-o-Q basis. However, Y-o-Y, we still see a growth of 2.9% (this is the metric being used in the calculation of the BDI) – albeit significantly less than the Y-o-Y growth of 19.4%. This relatively slow growth rate meant that the BDI was considerably lower in 2021 Q3 than what was observed in 2021 Q2.

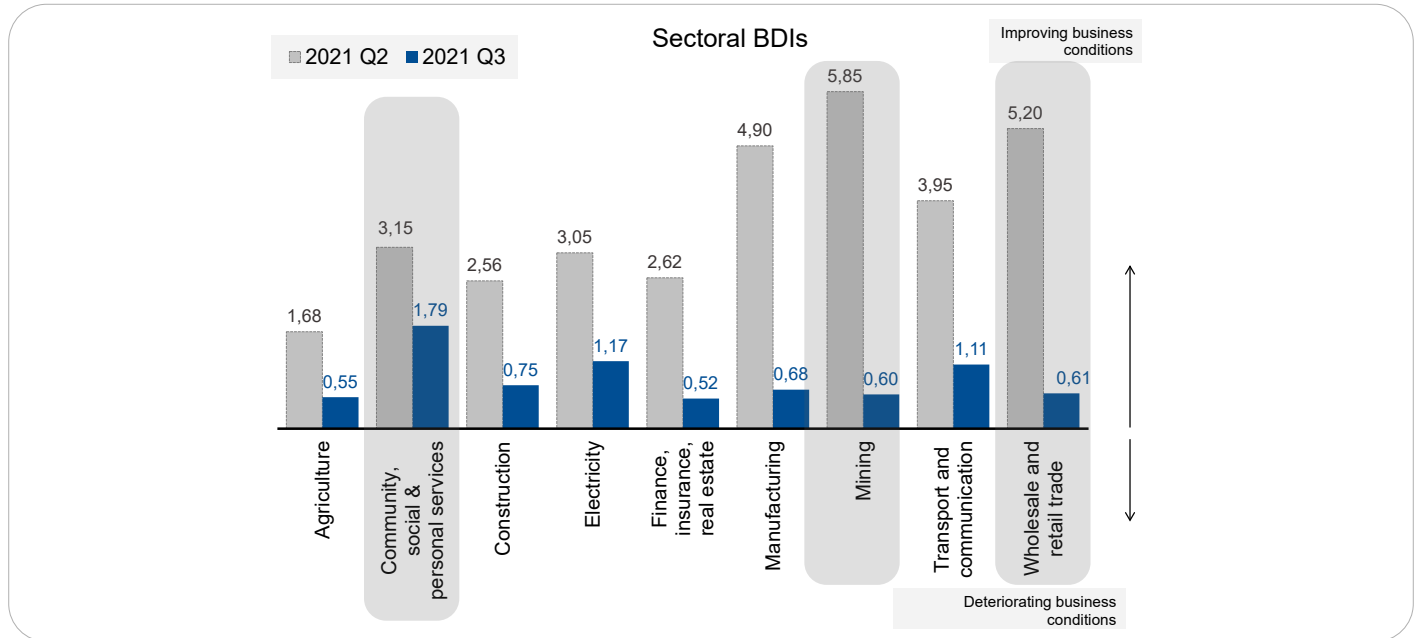
This slowdown in growth rate is mainly due to two factors:

- The higher base from which it is calculated.
- The looting and social unrest of July 2021.

This deterioration in GDP growth (in Y-o-Y terms) was observed for all sectors of the economy.

BDI split by Sector

All sectors showed a significant decline in BDI in 2021 Q3.



All sectors displayed a significant deterioration in BDI from the previous quarter, although all sectors are **still in positive** territory in 2021 Q3.

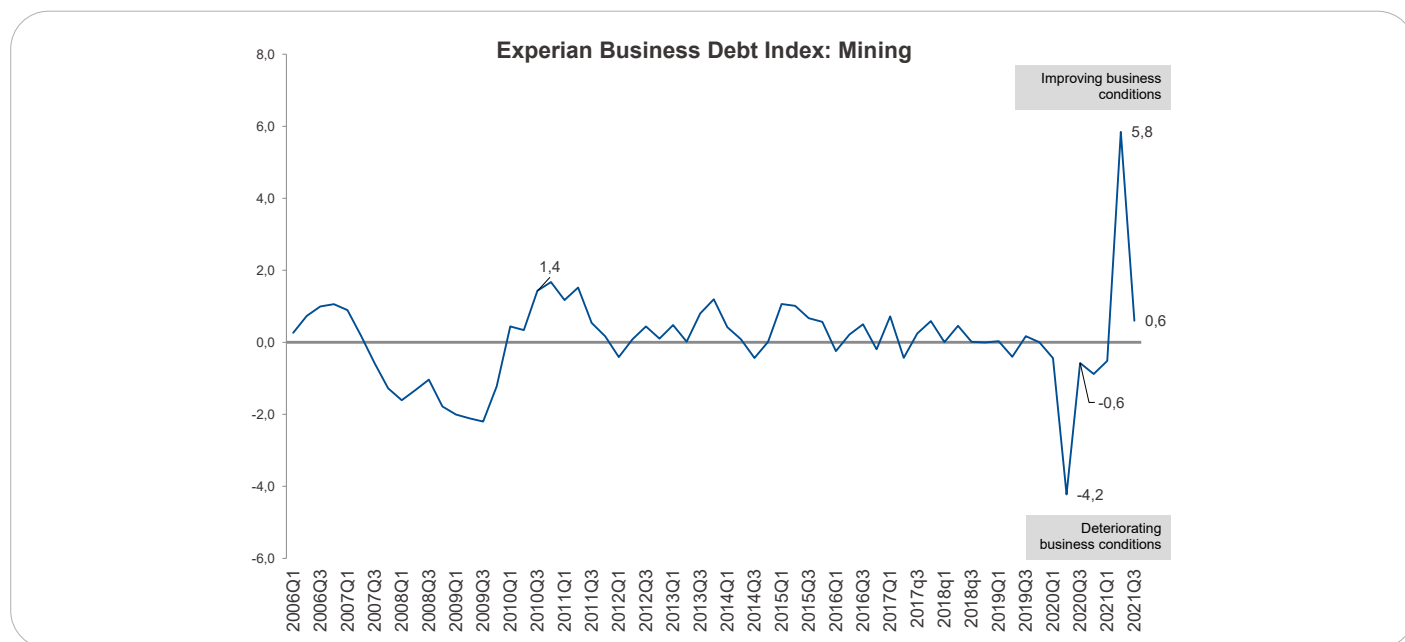
Mining showed the most significant deterioration of all the sectors, falling back from 5.85 in 2021 Q2 to 0.60 in Q3. This is largely due to the drop in commodity prices observed during this period. Trade also saw a very significant deterioration in BDI.

Community, social and personal **services** reflect the highest BDI in Q3 but still experienced a significant reduction, down from 3.15 in 2021 Q2 to 1.79 in Q3.

BDI – Mining

Mining saw the most significant deterioration in BDI in 2021 Q3 but remained positive.

Outstanding loans in the secured lending space remained stable while unsecured outstanding balances are still growing. As volumes started picking up again after April 2020 for unsecured loans, so did the percentage of accounts 1+ in arrears. Credit Card and unsecured products remained stable.



The significant deterioration in the Mining BDI can, to a great extent, be explained by the slowdown in the **commodity price** rally.

The deterioration is also directly reflected in the Debtors' days in this sector.

Mining production growth also fell back significantly to 4% Y-o-Y in 2021 Q3, compared to 54% in Q2. Again, statistical effects created a particularly rosy view in Q2.

Expectations are that the industry will remain in a difficult position, with the further softening of **commodity prices** and, by implication, the sales income for South Africa.

BDI – Wholesale and Retail Trade

Wholesale and Retail Trade saw a significant drop in BDI in 2021 Q3.



GDP Y-o-Y growth in this sector fell from 33.2% in 2021 Q2 to 0.6% in Q3. This was partly due to the **looting and unrest** that occurred in the country during the third quarter.

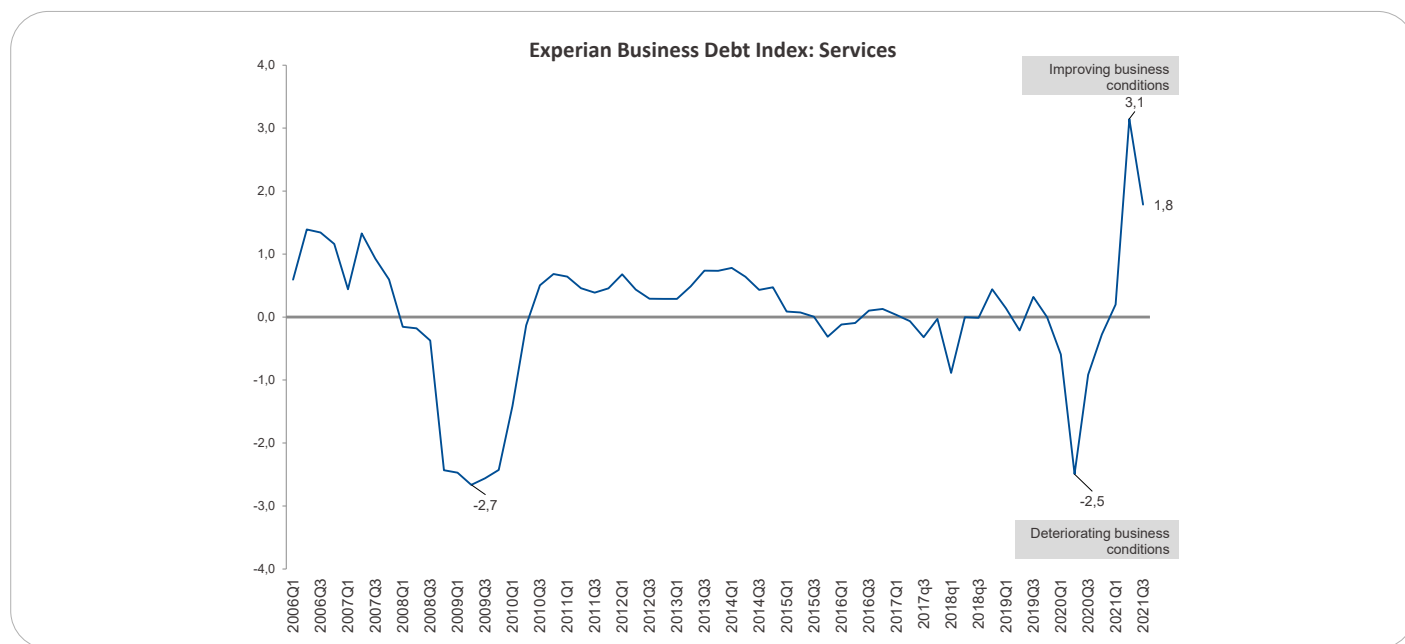
The repair and rebuild of shops are delayed due to **slow insurance pay-outs**, further weighing down on the performance of this sector.

Although middle class (employed) consumers are still able to spend on this sector, the high levels of **unemployment** and **weak consumer confidence** still impact sales negatively.

Black Friday sales in Q4 are expected to drive this sectoral BDI to increase – particularly against the relatively weak performance of the 2020 Black Friday period.

BDI - Community, Social and Personal Services

BDI for Community, Social and Personal Services Industry was the highest in 2021 Q3.



The Services sector, although slowing down in terms of the improvement of business conditions, reflected the **highest BDI** of all the sectors in 2021 Q3, moving from 3.1 in 2021 Q2 to 1.8 in Q3.

The bureau data also reflected a reduced number of **liquidations** in this sector.

This sector's performance is heavily dependent on **Government Expenditure**, which showed a marked slowdown from 12.3% in 2021 Q2 to 0.2% in Q3.

Government Revenue Collection in this sector will remain under pressure (due to **unemployment** and the **challenging business environment** in general), thus leading to an expected further drop in the sectoral BDI.

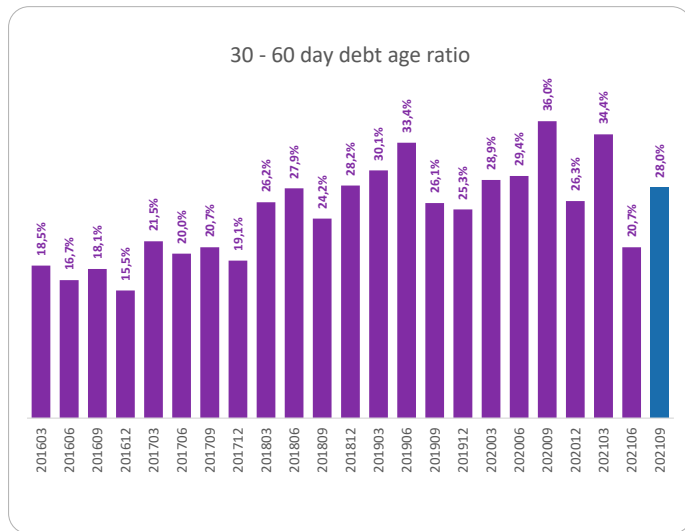
Debtors' Days Analysis and Outlook

Debt Age Ratio

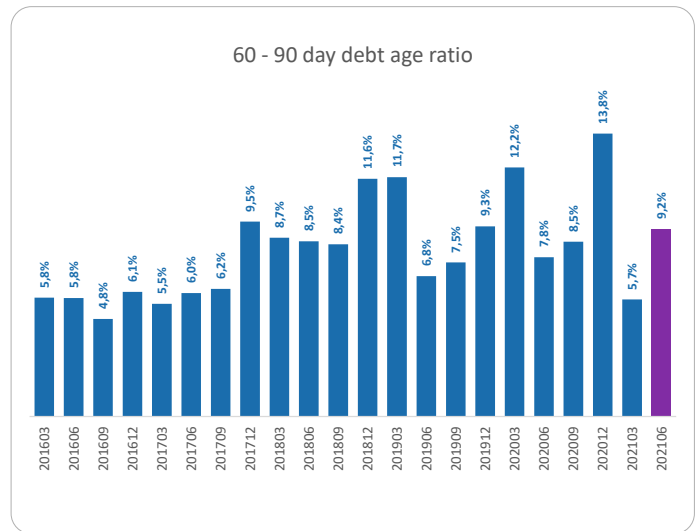
Both debt age ratio metrics have improved significantly in 2021 Q3.

In line with the GDP slowdown in growth, we also saw both the Experian debt age ratio's **deteriorating sharply**. The 30-60-day debt age ratio increased from 20.7% in 2021 Q2 to 28.0% in 2021 Q3. Similarly, the 60-90-day debt age ratio moved from 5.7% to 9.2% in 2021 Q3.

This deterioration can be explained by the **looting** and violent demonstrations that were prevalent in the third quarter, making it particularly challenging for businesses in KwaZulu-Natal and parts of Gauteng to honour their debt commitments during this time.



Source: Experian

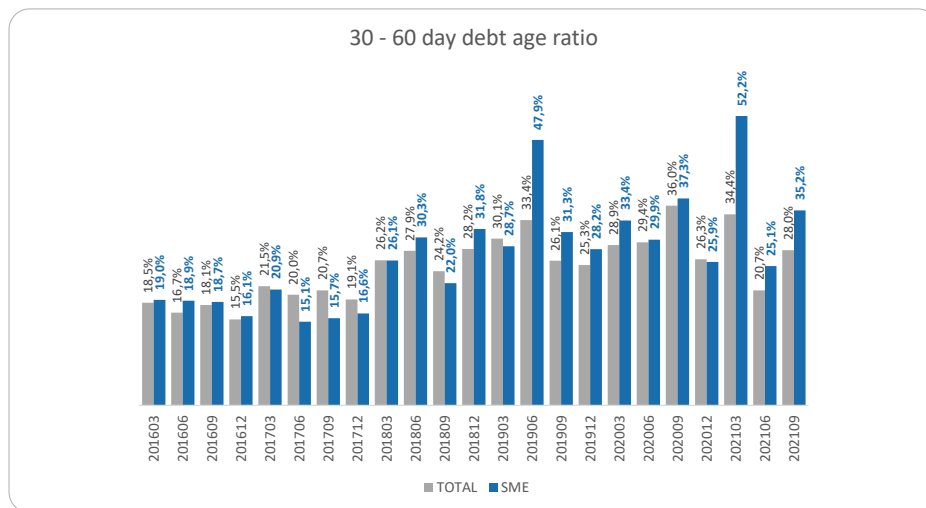


Source: Experian

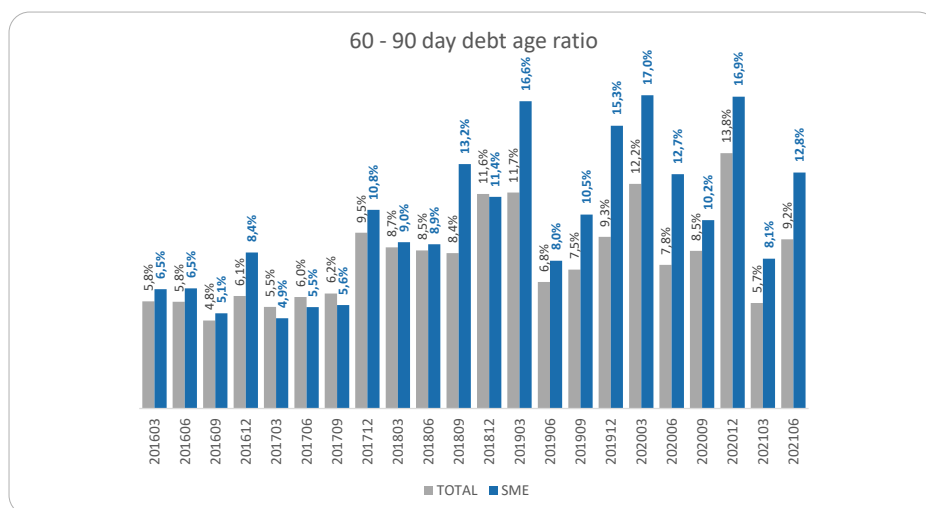
SMEs are performing worse when comparing debt age ratios.

When comparing the SME debt age ratio with that of the total market, the dire situation of South African small businesses is again highlighted. In line with the observation for the whole market, SMEs have also shown a **significant deterioration** in the debt age ratios.

However, **SMEs** find themselves in a **more dire situation**, with the 30-60-day debt age ratio for SMEs being 35.2% compared to 28% of the total business landscape. Similarly, the 60-90-day debt age ratio for SMEs was 12.8%, whilst that of the total business book came in at 9.2%.



Source: Experian

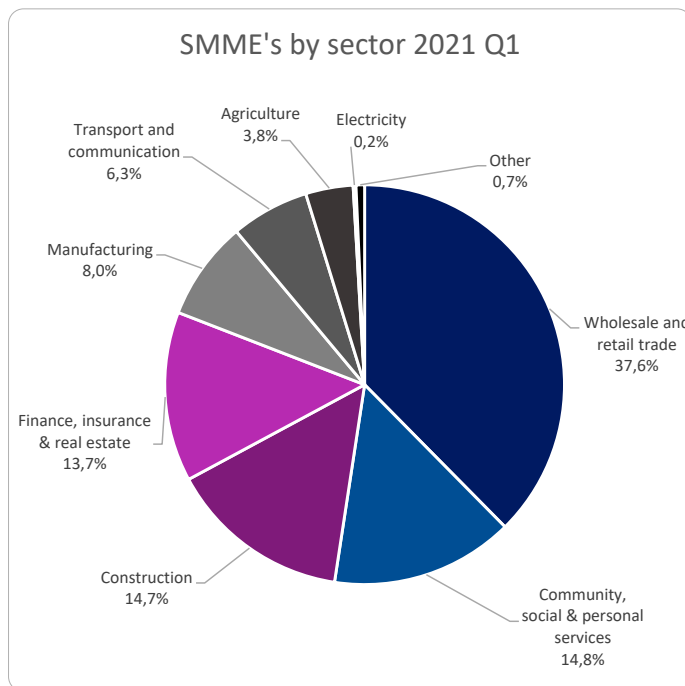


Source: Experian

Small Business

Small Business – Industries

Due to the nature of their business, small businesses are heavily dependent on consumers being able to access their premises freely.



The **Wholesale and retail trade** sector (which includes **accommodation**) accounts for the majority of businesses in the SMME space. Add to that the second largest sector in the SMME space, i.e., **Services**, we see that over 50% of SMMEs engage directly with their consumer base in conducting their business.

As such, these businesses are highly dependent on consumers being able to move around and **freely access** their places of trade and services.

This explains the high volumes of businesses closure that was seen in the SME space during the periods of lockdown levels 3, 4 and 5.

Source: SEDA Quarterly update / QLFS by StatsSA

Small Business – Closures by Industry

We saw just under 300 000 SMMEs close doors in the year 2020 April to 2021 March.

	#			%		
	2020 Q1	2021 Q1	Delta	2020 Q1	2021 Q1	Delta
Agriculture	85 889	89 216	3 327	3.3%	3.8%	0.6%
Mining	6 348	-	- 6 348	0.2%	0.0%	-0.2%
Manufacturing	239 816	186 733	- 53 083	9.2%	8.0%	-1.1%
Electricity	1 676	5 321	3 645	0.1%	0.2%	0.2%
Construction	377 464	342 595	- 34 869	14.4%	14.7%	0.3%
Wholesale and retail trade	992 190	874 253	- 117 937	38.0%	37.6%	-0.4%
Transport and communication	170 343	147 179	- 23 164	6.5%	6.3%	-0.2%
Finance, insurance & real estate	349 816	319 454	- 30 362	13.4%	13.7%	0.4%
Community, social & personal services	365 159	344 390	- 20 769	14.0%	14.8%	0.8%
Other	25 361	16 061	- 9 300	1.0%	0.7%	-0.3%
	2 614 062	2 325 202	- 288 860	100%	100%	

Source: SEDA Quarterly update / QLFS by StatsSA

The majority of closures were observed in the **Wholesale and Retail Trade** sector – the sector with the most significant representation in the SMME space. This is largely due to the **hard lockdown conditions** that prevailed from 2020 Q2 to 2021 Q1. Interestingly, **Manufacturing** saw the most significant drop in percentage of representation – down from 9.2% in 2020 Q1 to 8.0% in 2021 Q1, due to the hard lockdown as well as the **logistic and supply chain** interruptions.

Conclusion

From the BDI, we saw **that business conditions in South Africa** showed a significant slowdown in the rate of improvement in 2021 Q3.

This was mainly due to two driving factors:

- The higher base on which the statistical calculation was based.
- The looting spree that caused significant damage to businesses – in particular, small businesses – during 2021 Q3.

The deterioration in BDI was observed across all sectors.

The Q4 BDI is expected to remain positive (signifying improving business conditions). However, further deterioration will likely be observed – mostly due to the increasing base off which it will be calculated, but further dampened by load shedding in Q4.

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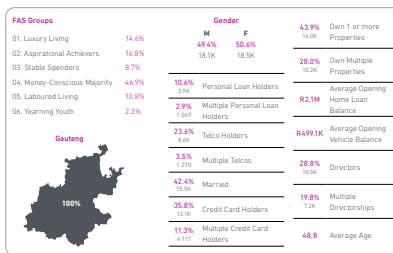
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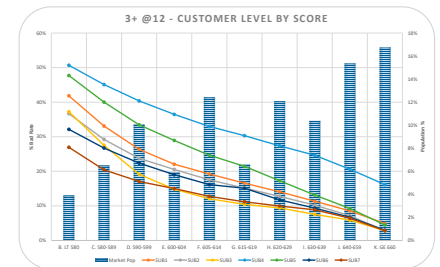
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