News release

Experian's Business Debt Index reflects improved business conditions in Q3 2019

Key highlights

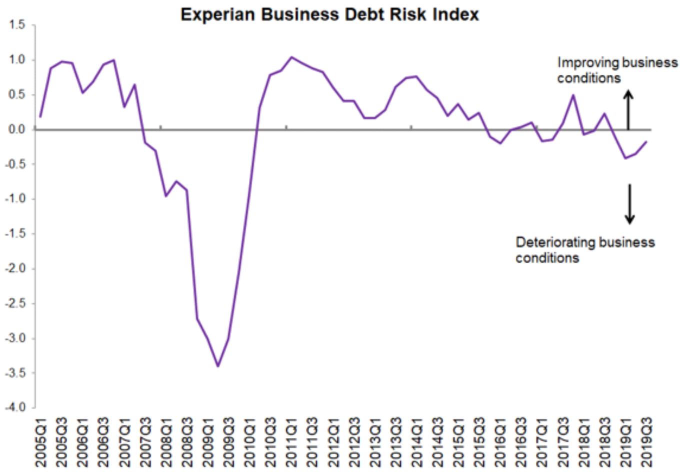
- *2019 Q3 has seen an improvement in the ratios of outstanding debtors' days.*
- *There was a modest deterioration in macro-economic contributors, but the overall BDI improved.*
- *Uninterrupted electricity supply in 2019 Q3 resulted in improved performance in power-centred sectors like mining, electricity and construction.*
- *SMEs are still bearing the brunt of the poor business debt conditions.*

Johannesburg, 12 December 2019 – The Experian Business Debt Index (BDI) improved moderately in Q3 from Q2, rising to a reading of -0.18, from -0.35 in Q2. The fact that the index remained below the zero-defining line between improvement and deterioration of business debt conditions, implies that the index continued to deteriorate in Q3, but more modestly than in the preceding quarter and - for that matter - in the quarter before this as well (Q1).

The index reflects the relative ability for businesses to pay their outstanding suppliers/creditors as well as the overall health of businesses in the economy.

The improvement is attributable largely to businesses' willingness to repay creditors, which outweighed the slight deterioration in the macroeconomic contributors.

"While this is a step in the right direction ahead of the festive season, businesses still find themselves in negative territory, albeit a slower deterioration in business debt conditions," said Thabo Hermanus, Chief Operations Officer at Experian South Africa.



	Q3 2018*	Q4 2018*	Q1 2019*	Q2 2019*	Q3 2019
Index >0= Improving business conditions <0 = Deteriorating business conditions	0.23	-0.10	-0.42	-0.35	-0.18

** Revised*

Debt age ratio

There was a drastic reduction in the ratio of outstanding debtors' days of 30-to-60 days relative to those of less than 30 days from 34.1% in Q2, which itself had jumped from 29.1% in Q1, to just 26.8% in Q3. This is the lowest such ratio in a year. As for the ratio of debt owed for 60-to-90 days to outstanding debt of less than 30 days, the ratio plummeted to just 6.9% in Q3, from 11.9% in Q2 and 11.4% in Q1. In fact, the 6.9% value for this ratio in Q3 was the lowest since the end of 2017.

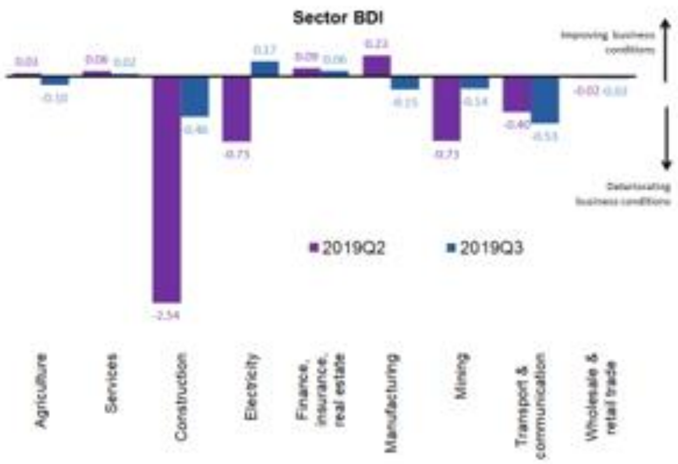
Hermanus says: "Incorporating historical revisions meant that the Q1 BDI reflected the weakest business debt conditions since the global financial recession in 2009. Despite the small improvement in Q2 2019, these readings still reflect a significant worsening of the financial position of companies in South Africa in relation to conditions which had prevailed in recent years."

Electricity-intensive and infrastructural-intensive sectors showed the most improvement

Given the end of load-shedding in Q2 compared with Q1, several of those sectors which were severely negatively impacted upon by load-shedding, are precisely the ones which have led the way towards a recovery in the BDI in Q3. These include mining, construction and electricity.

There have been only minor shifts in the BDIs for agriculture, services, finance and trade, mostly in a downward direction, but only to a minor extent relative to the improvements in the more electricity-intensive and infrastructural-intensive sectors.

Marked deteriorations were recorded in the manufacturing and transport sectors, which is in line with the disappointing Q3 GDP results of these sectors.

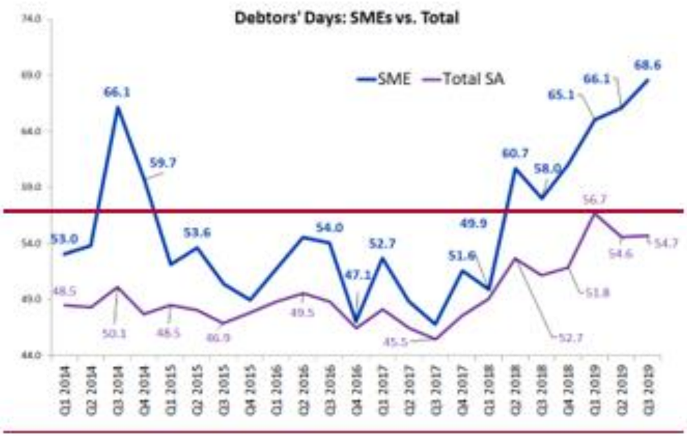


Small businesses continue to struggle

One of the more dramatic inferences to draw from the latest Experian data is the deterioration in the financial position of SMEs relative to the overall business sector.

Whereas the number of outstanding debtors' days amongst SMEs has shot up from 50.0 at the beginning of 2018, to 65.5 in Q1, 66.1 in Q2 and 68.6 in Q3 of this year, the corresponding increases in outstanding debtors' days amongst all companies in South Africa has been from 49.0 to 54.7 days over the same period, i.e. much less pronounced.

This suggests that the weak state of overall economic activity is impacting far more negatively on small businesses than on the overall business sector.



Looking forward

Hermanus says, "It is encouraging to see the BDI deterioration somewhat easing from positions seen in Q1 2019, but unfortunately we do not foresee this improvement being sustained. Based on forecasts of GDP growth domestically and internationally, as well as trends in inflation and interest rates over the next six months, the forecast for the BDI in Q4 is that it will decline, before recovering in Q1 2020. In essence, we do not foresee any major recovery in business debt conditions any time soon."

"Overall economic growth remains under pressure domestically, especially following the recent bout of extreme load shedding which has swept across South Africa, whilst internationally, growth prospects have also diminished in the face of increased trade tensions between the US and China. Domestically, there appear to be huge fiscal constraints building up in the face of the government's need to bail out state-owned enterprises, most importantly Eskom. This is contributing towards raising government expenditure way beyond what was originally planned. The President's initiative to convene an Investment Summit each year to try and assist in promoting capital investment, appeared to be bearing some fruit. However, there is little doubt that the recent SAA, Eskom and PRASA debacles will deflate that positive sentiment," Hermanus concluded.

****ENDS****

[816 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.

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