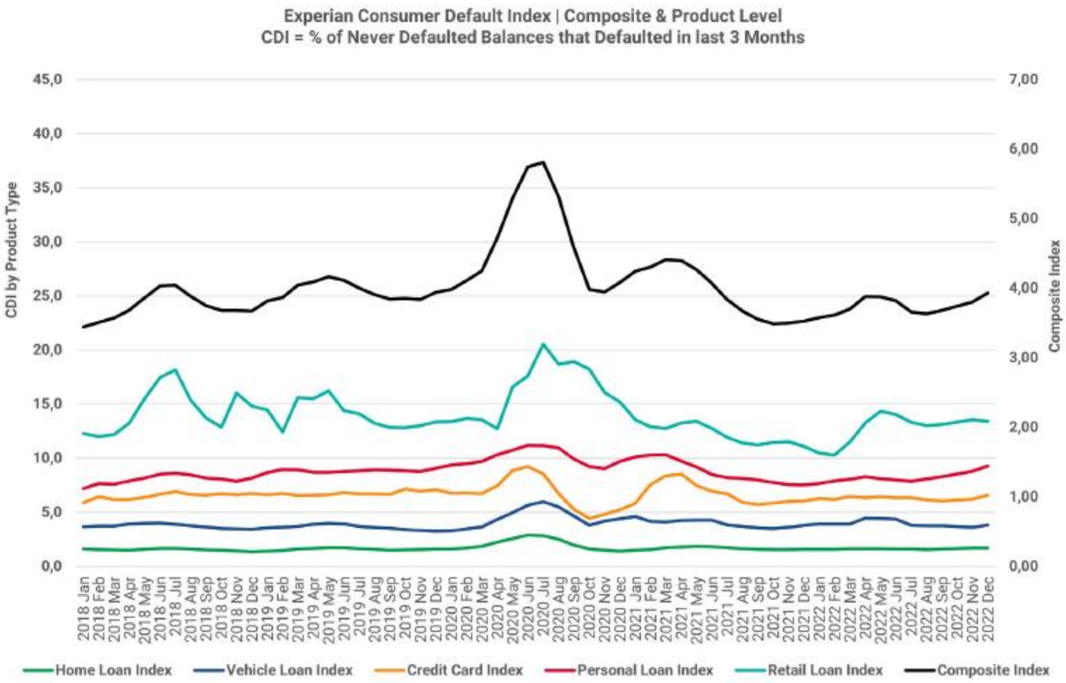
news release

# South African consumers urged to establish sound financial habits to get through tough times

*Consumers under increased financial pressure, according to latest Experian CDIx report*




**Johannesburg, 22 March 2023** – The Experian Consumer Default Index (CDI) showed a quarter-on-quarter (Q-o-Q) deterioration from 3.66 in September 2022 to 3.93 in December 2022, indicating that South African consumers remain under financial pressure.

This drastic short-term deterioration in the composite CDI is especially concerning when considering that Q4 typically signifies only the start of the seasonal deterioration in CDI, suggesting that we can expect the CDI to deteriorate further in the first quarter of 2023.

Year-on-Year (Y-o-Y), the composite CDI deteriorated from 3.52 to 3.93 – a relative deterioration of 11%.

According to **Jaco van Jaarsveldt, Head of Commercial Strategy and Innovation at Experian Africa, said:** "Last quarter, we reported that the September 2023 CDI results suggested a return to the pre-COVID trajectory of long-term deterioration. This quarter, the results seem to substantiate that outlook. Overall, this return to the former trend of long-term deterioration, although expected, has likely been expedited by the rapid increase in living expenses experienced by South African consumers."

Of further concern, is the worse than expected GDP for Q4 2022 which saw a 1.3% contraction quarter-on-quarter during the period. Consensus forecasts among leading economists suggest a further contraction in Q1 2023, suggesting that the South African economy might be heading for a recession.

All the product-specific CDI metrics also deteriorated Y-o-Y; most notably, the Retail and Personal Loans portfolios. The worst relative deterioration in CDI was seen for Personal Loans, where we saw a Y-o-Y deterioration from 7.54 in December 2021 to 9.27 in December 2022.

From a market-exposure and credit-active population penetration perspective, Experian has noted that higher affluence consumers have become increasingly dependent on Personal Loans to bridge the gap in their monthly expenses.

| | Index | CDI Dec '22 | CDI Dec '21 | Average Outstanding Oct'22-Dec'22 | New Default Balances Oct'22-Dec'22 | Relative |
|---|---|---|---|---|---|---|
| ■ | Composite | 3,93 | 3,52 | R 2 086 138 605 145 | R 20 491 866 096 | 11% |
| ■ | Home Loan | 1,70 | 1,57 | R 1 092 768 758 158 | R 4 636 003 907 | 8% |
| ■ | Vehicle Loan | 3,83 | 3,78 | R 476 696 398 693 | R 4 566 313 910 | 1% |
| ■ | Credit Card | 6,58 | 6,05 | R 163 032 228 614 | R 2 682 692 290 | 9% |
| ■ | Personal Loan | 9,27 | 7,54 | R 313 904 284 041 | R 7 274 632 943 | 23% |
| ■ | Retail Loan | 13,41 | 11,09 | R 39 736 935 639 | R 1 332 223 046 | 21% |
| ■ | Home Loan + Veicle Loan + Credit Card | 2,74 | 2,60 | R 1 732 497 385 465 | R 11 885 010 107 | 6% |
| ■ | Retail Loan + Personal Loan | 9,74 | 7,93 | R 353 641 219 680 | R 8 606 855 989 | 23% |

## Consumer default performance by Financial Affluent Segments (FAS)

2022 Q4 showed that deterioration in CDI terms was observed on the two extreme ends of the consumer landscape, i.e., the most affluent and the least affluent consumers. The biggest relative deterioration was seen for FAS Group 1 (Luxury Living). Although these consumers are typically highly affluent (and generally represent the lowest credit risk), their CDI has been under severe pressure, particularly since the pandemic.

The mid-affluence FAS Groups 3 (Stable Spender) and 4 (Money Conscious), the consumers of typically mid-range affluence, generally showed minor Y-o-Y change in Composite CDI.

For FAS Groups 5 (Laboured Living) and 6 (Yearning Youth), Experian has seen a sustained increased level of new business since the last quarter of 2021 – giving rise to increased CDI levels over the last nine months.

| | Composite CDI | CDI Dec' 21 | CDI Dec' 22 | Average Oustanding Oct' 22 - Dec' 22 | New Default Balances Oct' 22 - Dec' 22 | CDI % Change |
|---|---|---|---|---|---|---|
| ■ | Group 1: Luxury Living | 1,90 | 2,52 | R 907,47 Billion | R 5,71 Billion | 32% |
| ■ | Group 2: Aspirational Achievers | 3,56 | 3,93 | R 817,55 Billion | R 8,03 Billion | 10% |
| ■ | Group 3: Stable Spenders | 7,63 | 7,29 | R 131,59 Billion | R 2,4 Billion | -4% |
| ■ | Group 4: Money-Concious Majority | 6,29 | 6,30 | R 182,15 Billion | R 2,87 Billion | 0% |
| ■ | Group 5: Laboured Living | 11,41 | 14,70 | R 27,19 Billion | R 1, Billion | 29% |
| ■ | Group 6: Yearning Youth | 14,94 | 17,54 | R 9,09 Billion | R ,4 Billion | 17% |

**Consumers are looking to credit to cover cost-of-living expenses**

Although there has been a temporary slowing in CPI and fuel cost increases, the cost of living remains on an upward trend – particularly regarding food and non-alcoholic beverages.

The increased cost of living leads to decreased affordability of consumers and the likely increased inability of consumers to meet debt obligations.

According to data from the National Credit Regulator, the appetite for consumer credit soared to record levels in Q3 of 2022. Approval levels have, however, remained stable giving rise to a significant contraction of approval rates. Experian saw the consumer credit approval rate moving down from 33.3% in Q2 2022 to 30.5% in Q3 2023. This highlights the fact that consumers are turning to credit to make up for the shortfalls in their cost-of-living expenditures.

"We encourage South Africans to keep managing their budgets carefully, creating sound financial practices to navigate this difficult economic climate. It is also important for consumers to monitor their credit usage carefully and routinely check their credit reports to make sure that they represent a true reflection of their credit history. Ongoing monitoring and where needed, corrective action, is critical to ensure a healthy credit profile is maintained," concludes van Jaarsveldt.

You can get a free credit report from Experian – go to My Credit Check.

716 words

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**Notes to the editor:**

The Experian Consumer Default Index (CDI) 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.

**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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