TransUnion
SA Consumer Credit Index
Q3 2012
August 2012

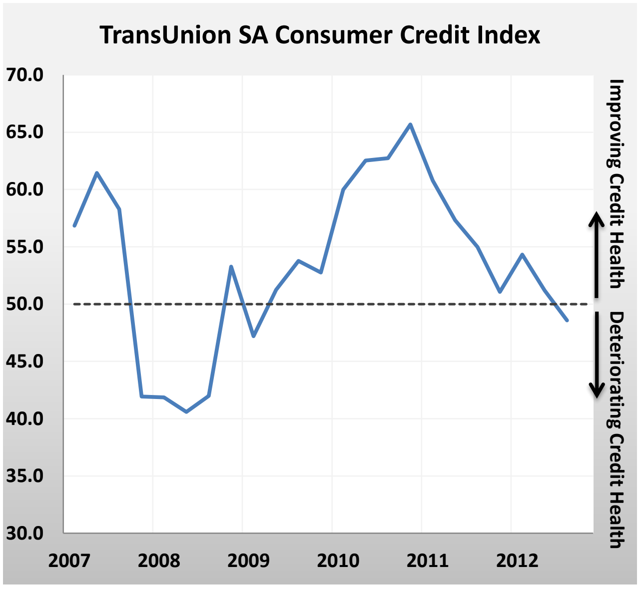
"Consumer Credit Health Deteriorating in the 3rd Quarter"

Executive Summary

SA Consumer Credit Index: Key Findings

	Q3 2012	Q2 2012	Q3 2011
Index: 50.0 = breakeven	**48.6**	51.2	55.0

- *The **TransUnion SA Consumer Credit Index (CCI) declined to 48.6 in Q3 2012** from a revised 51.2 in Q2 2012 (preliminary 50.7). The index, a measure of consumer credit health, fell below 50.0 for the first time since Q1 2009, indicating that **consumer credit health is deteriorating**.*
- *The decline in the index reflects **rising consumer loan impairments** and a greater use by South African households of revolving credit to supplement monthly budgets.*
- *As was the case in Q2 2012, the rise in impaired accounts at a time when aggregate national household debt as a percentage of household disposable income is not rising sharply, suggests that **impairments are concentrated in high volume-low value loan markets, such as the unsecured market**. It also shows that households, most likely from low income groups, face unavoidable cost escalation in basic goods and services, placing some strain on budgets and hampering their ability to make loan repayments.*
- *The CCI may not necessarily fall further in Q4 since a **Reserve Bank interest rate cut in July 2012** and rising money supply growth could alleviate some of the negative influences on household budgets. In addition, there are **signs that price inflation is abating**, which may provide some welcome relief to consumers for the remainder of 2012.*



"The TransUnion SA Consumer Credit Index declined to 48.6 in Q3 2012, falling below the 50.0 benchmark level for the first time since 2009, indicating that consumer credit health is deteriorating.

The decline in the CCI from 51.2 in Q2 2012 to 48.6 in Q3 2012 reflects rising consumer loan impairments and a greater use by South African households of revolving credit to supplement monthly budgets. The index now reflects mildly deteriorating credit health in Q3 2012. This comes after credit health improved during the post-financial crisis period from mid-2009 to mid-2012. The outlook is not necessarily negative – Reserve Bank rate cuts and moderating price inflation could aid households into Q4 2012."

TransUnion SA Consumer Credit Index

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The Q3 2012 SA Consumer Credit Index Unpacked

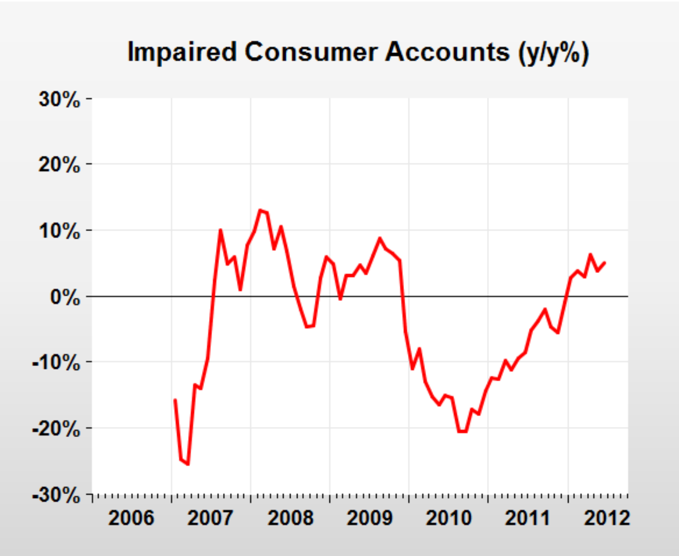
Household Credit Distress

1. Distressed Borrowing

According to the latest TransUnion credit card loan data, growth in credit card utilisation (an indication that households are supplementing their budgets using revolving credit and hence engaging in relatively distressed borrowing) increased markedly. Credit card utilisation has increased by more than 8% y/y and has also increased through the course of 2012.

2. Credit Impairments

Impairment records across the TransUnion payment profile database are still deteriorating, although there are signs emerging that perhaps the rate of deterioration will slow into Q4 2012. The number of impaired accounts has risen by around 5-6% y/y. Accounts 3-months in arrears constitute 1.8% of total consumer accounts. While this is rising, it remains some way off the distressed levels in 2009 of 2.2%. This does not sound like a big difference, but it essentially shows that impairments would have to increase by another 20% to get back to those levels. In addition, while impairments may be rising, credit providers make provisions for impairments, and have done so especially in light of the growth in unsecured lending which inherently carries a higher risk of impairment than secured lending. Rising impairment rates are nonetheless concerning and highlight the deterioration in credit health.



Household Cash Flow

Reserve Bank and Statistics SA data used to construct proprietary measures of money supply and consumer price inflation provide a picture of relative 'space' in the average household budget, a macro proxy for household cash flow. Household cash flow remains in a modest position compared with the previous credit boom cycle in 2006/07.

Household Debt Serviceability

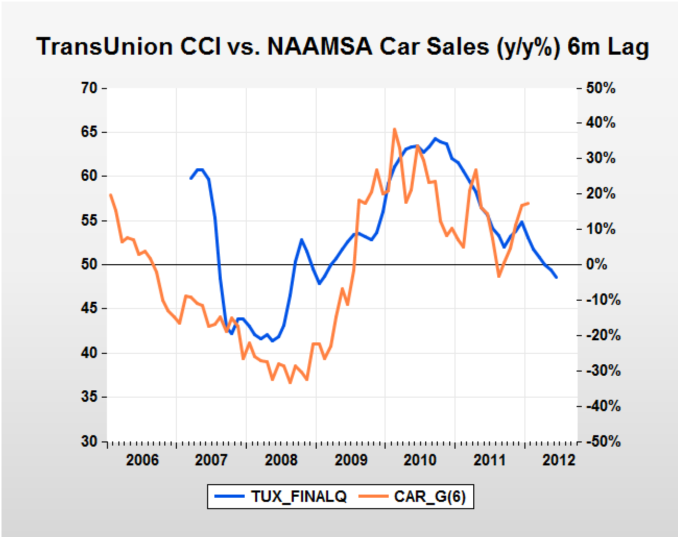
According to the official Reserve Bank data, national aggregate loan repayment costs are steady. However, certain market segments may be feeling the negative effects of high interest rates charged for unsecured loans combined with mediocre lower income job growth (and some job losses) and higher prices of basic goods and services.

Analysis

The TransUnion SA Consumer Credit Index declined to 48.6 in Q3 2012, falling below the 50.0 benchmark level for the first time since 2009, indicating that consumer credit health is deteriorating.

The decline in the CCI from 51.2 in Q2 2012 to 48.6 in Q3 2012 reflects rising consumer loan impairments and a greater use by South African households of revolving credit to supplement monthly budgets. The index now reflects mildly deteriorating credit health in Q3 2012. This comes after credit health improved during the post-financial crisis period from mid-2009 to mid-2012. The outlook is not necessarily negative – Reserve Bank rate cuts and moderating price inflation could aid households into Q4 2012.

Based on correlations with other real economic indicators, the Consumer Credit Index may suggest more difficult times ahead for certain industrial sectors. In the graph below, the car sales growth cycle is lagged by 6 months against the TransUnion CCI. The relationship suggests that the declining (albeit volatile) trend in car sales growth appears as though it could remain intact for the remainder of 2012.



Car Sales Source: Naamsa

Overall the index and its sub-components indicate that the risks to consumer credit health identified in Q2 2012 have intensified in Q3 2012. While the national consumer credit market as a whole does not appear to be undergoing major levels of distress, there are indications that certain market segments are coming under pressure. South Africa is not one household but millions of households, and within the broader view of consumer credit health one must bear in mind that different households or groups of households may experience very different degrees of financial distress around servicing their debt obligations. There remains concern that, should unsecured lending continue to grow at similar rates to the past 12-24 months, there exists the potential for a mismatch to develop between consumer loans and underlying consumer credit health, an issue to which credit committees will no doubt already be devoting considerable attention.

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The TransUnion SA Consumer Credit Index: Key Information

What is the Consumer Credit Index?

The TransUnion SA Consumer Credit index is an indicator of consumer credit health compiled by **TransUnion, a global leader in credit and information management**, with technical support from **ETM Analytics**, and released quarterly. It is released in the 3rd week of the 2nd month of each quarter (February, May, August, November). It measures the aggregate consumer loan repayment record, tracks the use of revolving consumer credit facilities as an indicator of distressed borrowing, estimates household cash flow as a means of determining financial pressure/relief, and quantifies the relative cost of servicing outstanding debt. These aspects are then combined into a single indicator of credit health.

The indicator combines actual consumer borrowing and repayment behaviour with key macroeconomic variables impacting on household finances. The methodological approach is to capture aggregate data about real world action rather than collate survey responses about consumer perceptions or expectations.

A 'Diffusion' Index

The index is constructed to resemble a diffusion index whereby levels above a certain threshold (in this case 50.0) indicate positive trends or improving outcomes while levels below the threshold indicate the opposite. The index is designed to fluctuate within the set logical minimum and maximum of 0.0 to 100.0, with 50.0 as the so-called 'breakeven' point.

Levels above 50.0 are associated with higher rates of loan repayment, lower credit card utilisation, improving household cash flow, lower interest rates, and credit deleveraging. **Levels below 50.0** are associated with the opposite. Levels between 50-60/40-50 indicate ***moderate*** improvement/deterioration in credit health. 60-70/30-40 indicates ***strong*** improvement/deterioration. 70-90/10-30 indicates ***extreme/unusual*** improvement/deterioration. 90-100/0-10 indicates highly improbable rates of credit health improvement or deterioration associated with ***outlying, non-normal*** conditions such as hyperinflation or war.

The Data

The Index has three main data components:

- **TransUnion Credit Bureau data***
- **Official public domain statistics**
- **Proprietary analytics of public domain statistics**

TransUnion Credit Bureau: consumer credit card utilisation**; number of consumer credit accounts in arrears (TransUnion).
Official public domain statistics: prime interest rate; household debt to disposable income ratio (South African Reserve Bank).
Proprietary analytics of public domain statistics: non-discretionary CPI derived from the official Consumer Price Index, 'True Money Supply' derived from official money supply and credit data (ETM Analytics; SARB, Stats SA)

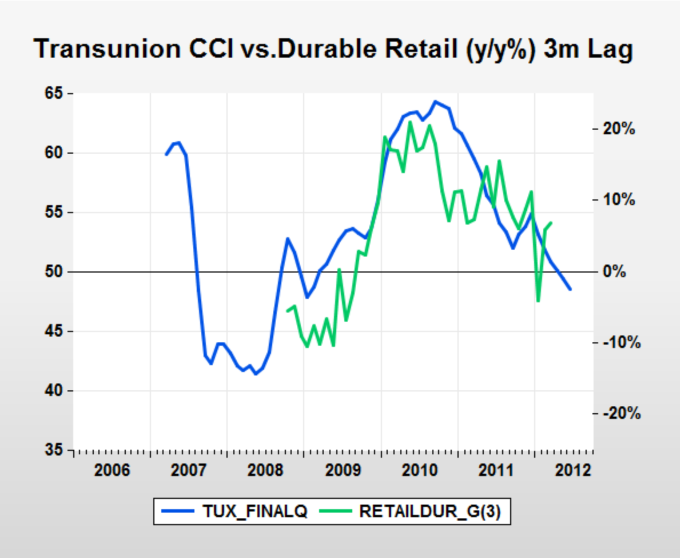
The Data contribute to the Index in the following proportion:

Data Composition of the TransUnion CCI

TransUnion Data	Official Public Data	Proprietary Analytics
50%	15%	35%

Real World Application

The index may be considered a credible indicator of macroeconomic events and growth cycles for sectors affected by consumer finances and credit behaviour. Below the TransUnion CCI is compared to year-on-year durable goods sales growth (lagged 3 months). This may offer useful insight, in this instance, to the retail industry or related industries.



The index may also inform both corporate strategy with regard to credit extension, pricing and provisioning, as well as public policy with regard to monetary and interest rate policy.

The sub-components of the index may also provide valuable business insights in their own right which can be used to evaluate consumer behaviour, financial distress, household cash flow, and household budget dynamics. For more information on how to gain access to these sub-components see the contact details below.

Contact

TransUnion SA Consumer Credit Index queries can be sent to:
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You can view the index online at www.transunion.co.za

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* *Incorporating CPA data*
***As supplied by CPA members*