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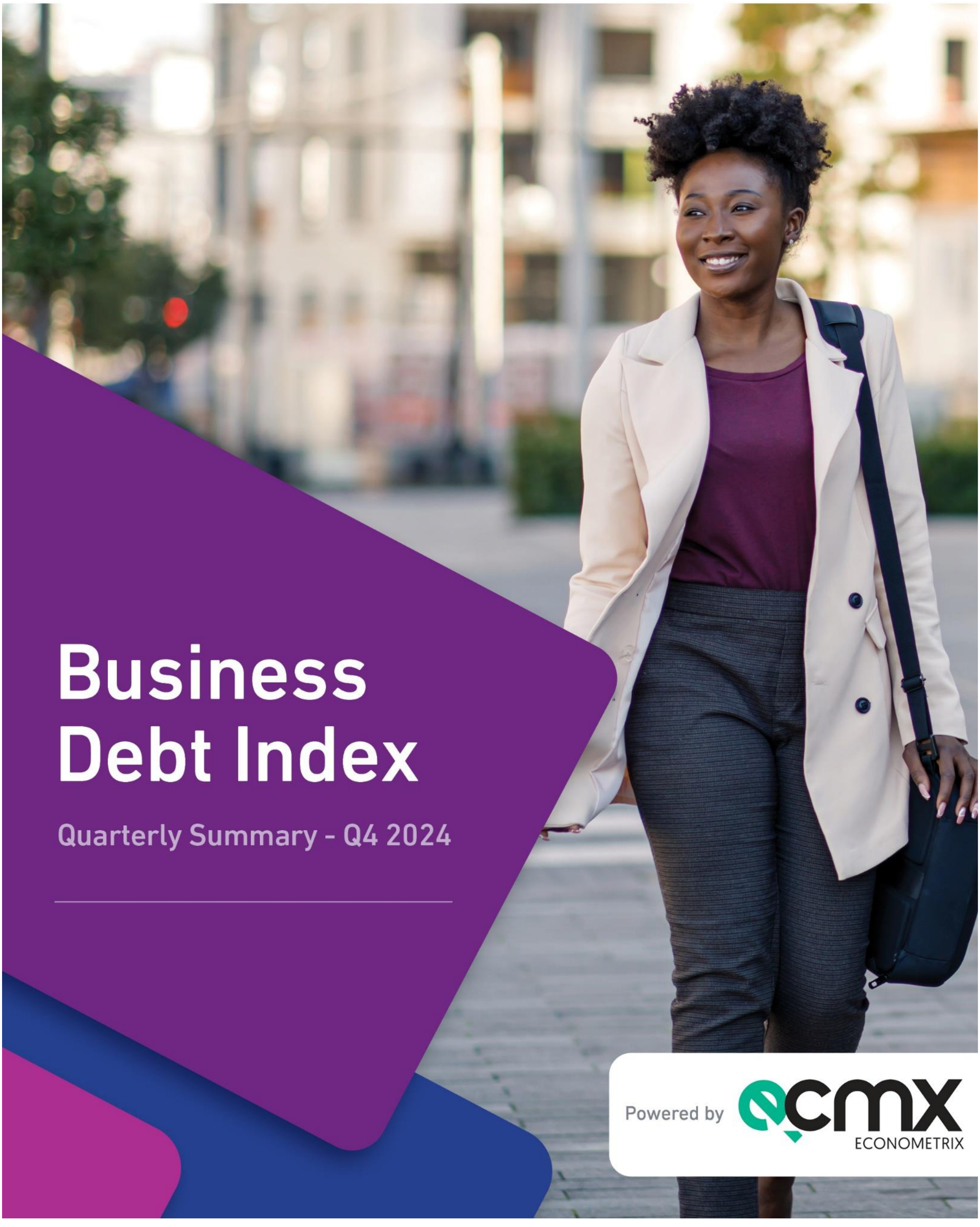

Business Debt Index

Quarterly Summary - Q4 2024

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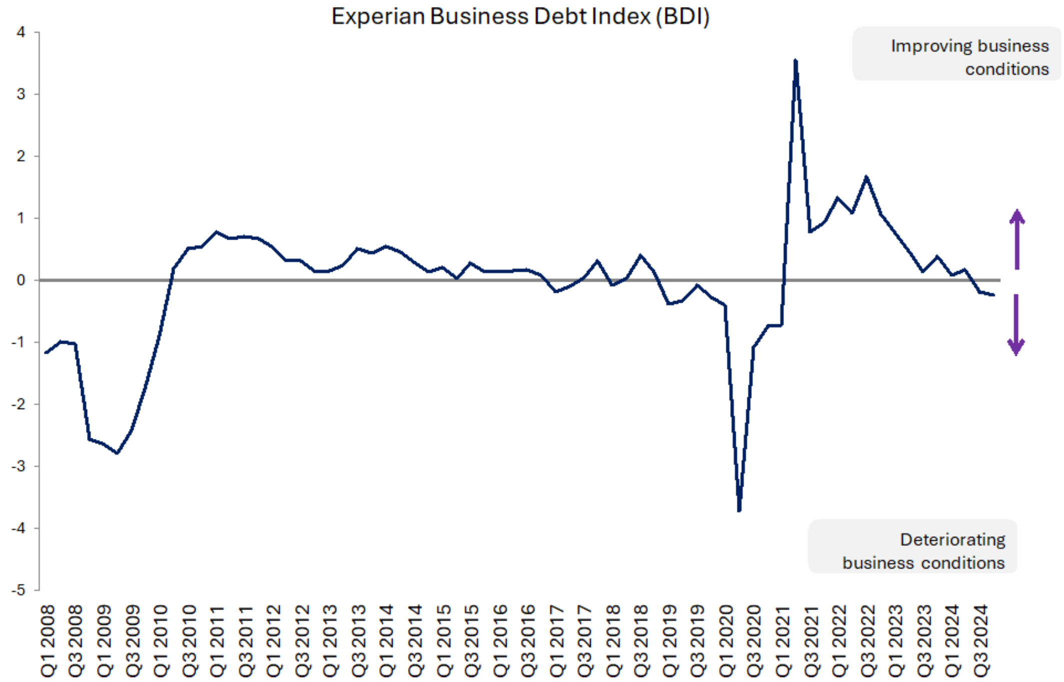
EXPERIAN BUSINESS DEBT INDEX (BDI) RESULTS FOR Q4 2024

Disappointing outcome for Experian BDI signals marginal decline in business health for Q4

The Experian BDI declined in Q4 to a reading of -0.24 from an upwardly revised reading of -0.18 in Q3.

Following the move from a positive BDI to a negative BDI between Q2 and Q3, this outcome suggested a further modest deterioration in business debt conditions in Q4.

However, it should be noted that the Q3 BDI was itself revised slightly upwards to -0.18 from the -0.20 reading three months earlier based on some data revisions, so the Q4 deterioration should not be regarded as unduly alarming, although it is somewhat disappointing.



	Q4 2023*	Q1 2024*	Q2 2024*	Q3 2024*	Q4 2024
Index >0= Improving business conditions <0 = Deteriorating business conditions	0,40	0,10	0,19	-0,18	-0,24

** Revised*

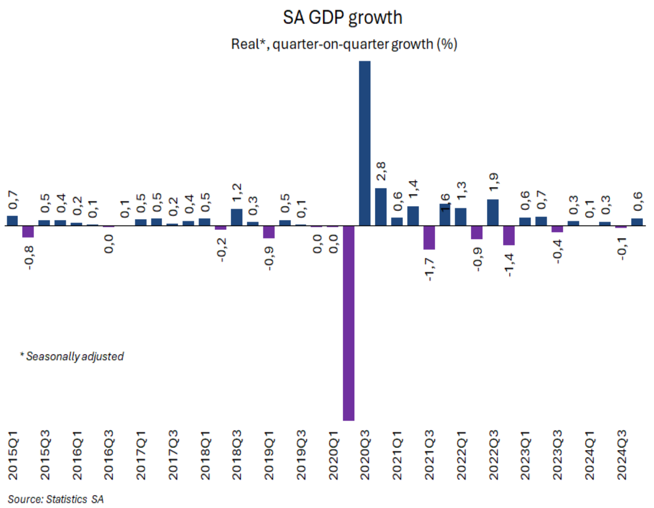
Macroeconomic factors influencing Q4 2024

Business and consumer confidence improved considerably during the quarter on the back of lower-than-expected inflation, a declining trend in interest rates, a continued absence of electricity load-shedding and improved sentiment resulting from the formation of the Government of National Unity (GNU) in June which, it was hoped, would usher in significant structural reforms to improve economic growth.

There does not appear to have been any major contributor towards the deterioration in the BDI. Changes in most of the inputs into the BDI were fairly modest.

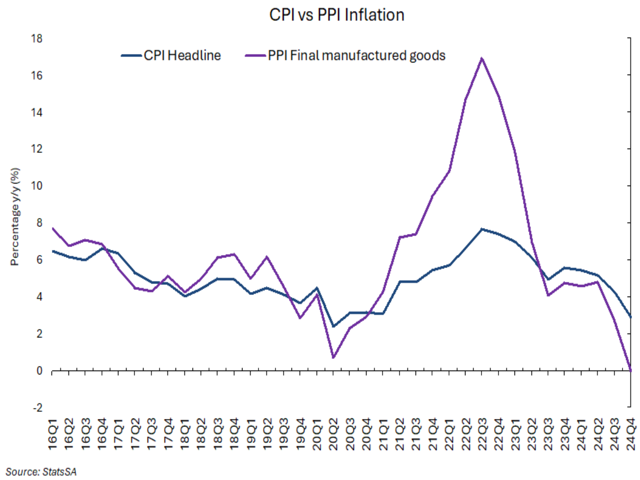
The deterioration was, therefore, more a function of the aggregate of all the more minor component changes.

The outcome of South Africa's GDP growth, in fact, improved slightly in Q4, with y-o-y GDP growth rising to 0.8% from 0.6% in Q3, mainly on a bounceback in agricultural output following a dreadful performance in Q3 driven by intense drought and heat.



There was some more meaningful negative influence in respect of the difference between the PPI and CPI inflation rates which are used as a proxy for measuring profit margins.

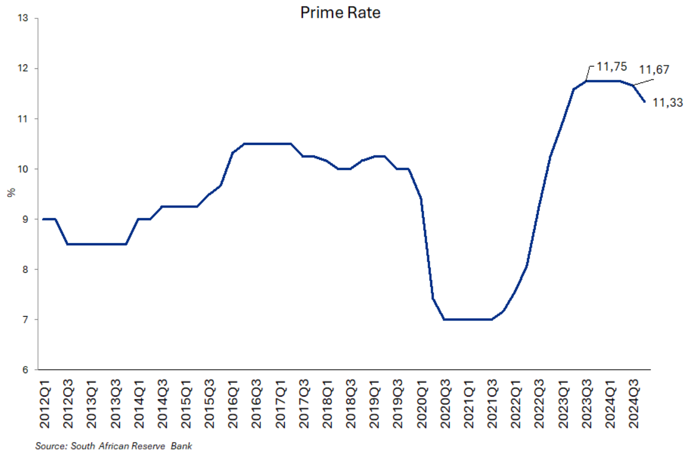
Whereas in Q3 the PPI inflation rate was -1.6% lower than the CPI inflation rate, the difference expanded to -2.96% in Q4, suggestive of a worsening in profit margins.



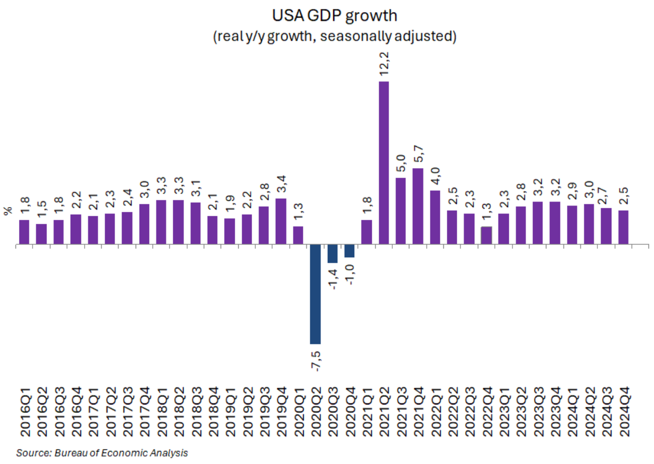
There was also a modest increase in the differential between domestic and US short-term interest rates, with the repo rate 3.21% higher in Q4 than the Fed Funds rate, whereas in Q3, the difference was 2.93%.

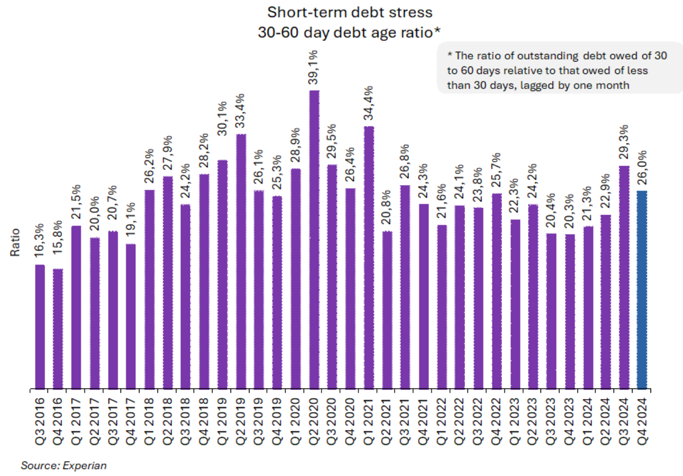
In other words, it became marginally more expensive to fund business domestically compared with elsewhere.

Domestically also, long-term interest rates rose slightly lower relative to short-term interest rates, adding somewhat to the cost of doing business.



Finally, as a proxy for global economic conditions, US GDP growth witnessed a further deterioration to 2.5% y-o-y in Q4 from 2.7% in Q3.



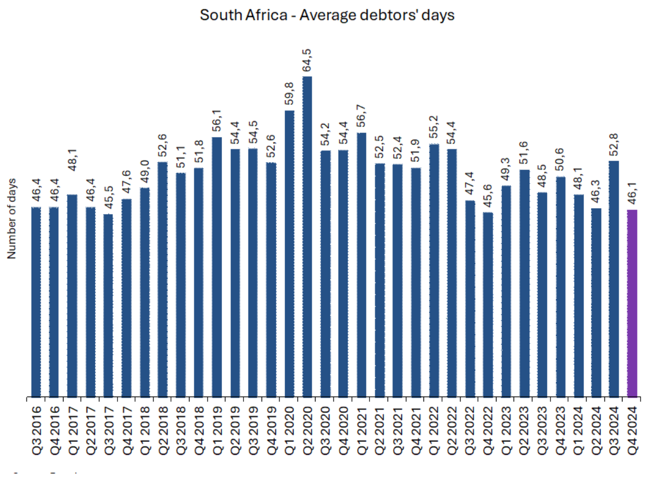


Similarly, the **60 to 90 ratio**[2] declined from 8.0% in Q3 to 7.6% in Q4.

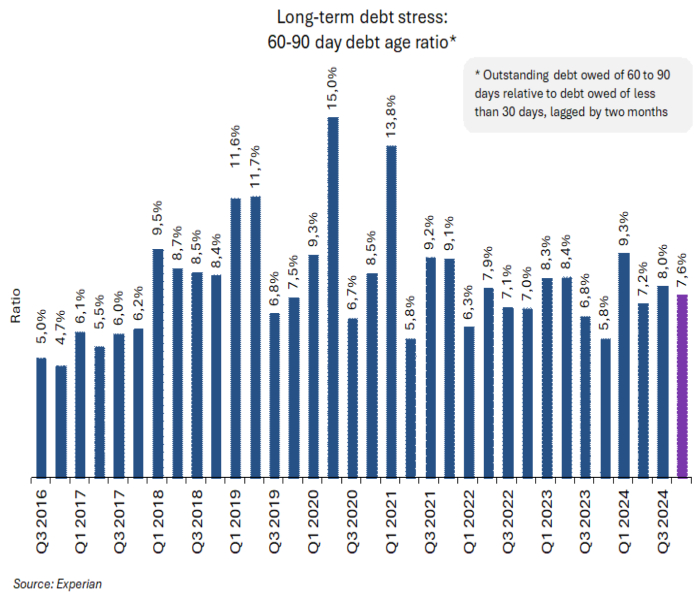
Business debt metrics in Q4 2024

On the other hand, there was a moderate diminution in the business debt strain of companies based on Experian data on outstanding debtors' days.

Overall, the number of outstanding debtors' days of businesses declined to 46.1 in Q4 from 52.8 in Q3.



More specifically in measuring the BDI, the **30 to 60 days ratio**[1] declined from 29.3% to 26.0%.



Nonetheless, the relative diminution in outstanding debtors' days was slightly outweighed by the deterioration in macroeconomic conditions as a factor contributing towards the Q4 BDI.

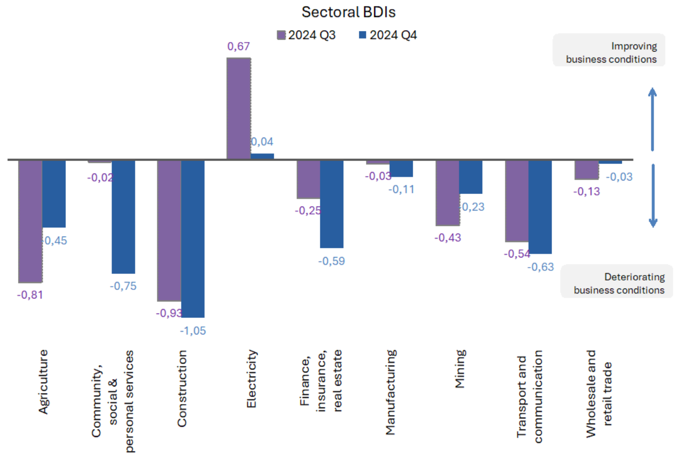
[1] *The ratio of outstanding debt owed of 30 to 60 days relative to that owed of less than 30 days, lagged by one month*

[2] *The ratio of outstanding debt owed of 60 to 90 days relative to debt owed of less than 30 days, lagged by two months*

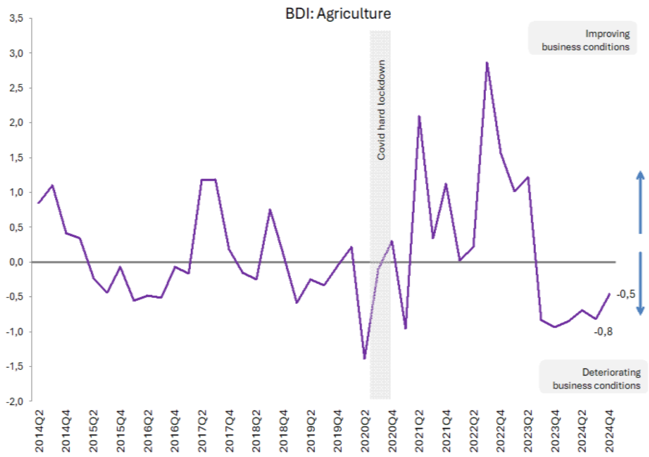
BDI by sector

The modest deterioration in business debt conditions also manifests at a sectoral level.

This is because only three out of the ten primary sectors of the South African economy posted improvements in Q4 compared with Q3.



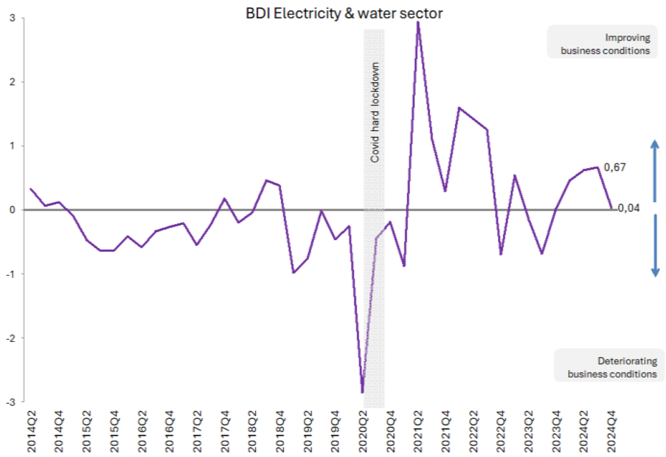
Agriculture was undoubtedly the most dominant sector to show improvement.



However, there were also slight improvements in financial and business services and in retail and wholesale trade.

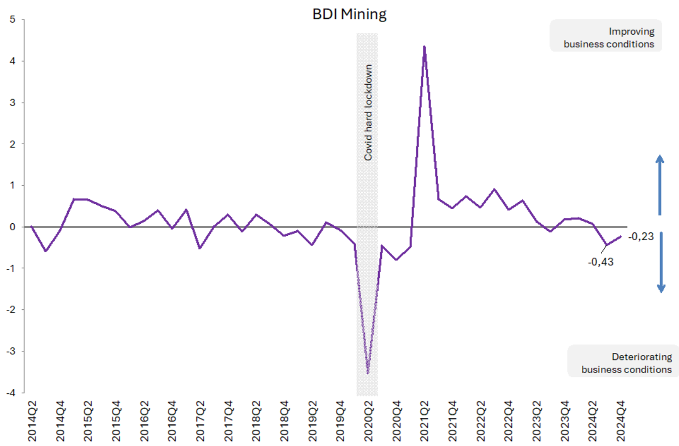
Sadly, all the other sectors, including the more productive sectors of the economy such as mining, manufacturing, electricity, construction, transport and communication, posted lower growth in Q4 than in Q3.

When combined with changes in business debt conditions, the result was that only one of the nine sectors, namely electricity, recorded a positive BDI in Q4, albeit only marginally so and down quite significantly on the reading in Q3.



Not surprisingly, the BDI for agriculture improved markedly, which aligns with the pickup in GDP growth after the horrendous Q3 experience.

There was also a relative improvement in the BDI for mining, which was more statistical in nature, with the wholesale and retail trade BDI also edging up slightly in line with its overall economic performance.



Unfortunately, all the other sectors recorded increasingly negative business debt conditions as measured by their BDI.

More broadly, one has to conclude that the consumptive sector of the economy continues to outperform the productive sectors.

This is not conducive to sustainable economic growth that requires ongoing investment into the ability of the economy to keep producing goods internally to reduce the imperative to rely on imports for this purpose.

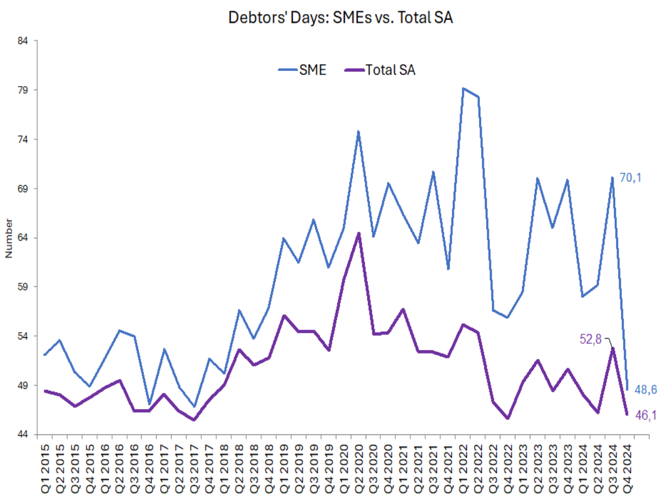
On a macroeconomic scale, fixed capital formation declined disappointingly for the fifth out of the last six quarters in Q4.

Conversely, household consumption expenditure continued to improve, albeit only modestly, helped along by the improvement in disposable income following the steep decline in inflation and the falloff in debt servicing costs brought about by lower interest rates.

The application of up to a third of retirement savings towards consumption following the introduction of the two-pot retirement scheme in September also contributed to some improvement in consumer spending in Q4.

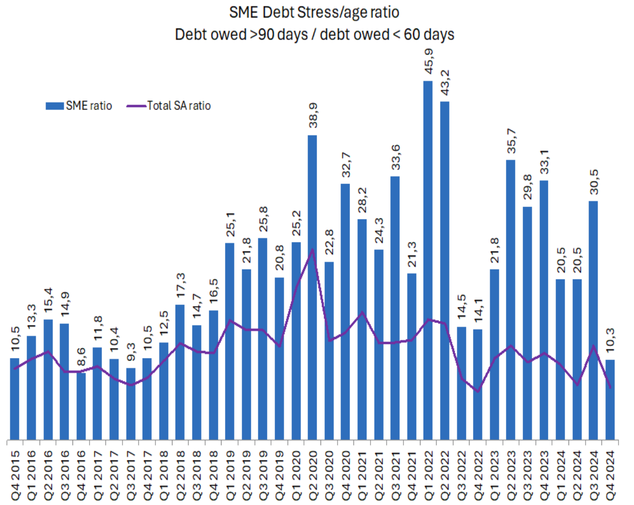
BDI by company size

One remarkable statistic emanating from the Experian data in Q4 was the massive decline in outstanding debtors' days of SMEs, from 70.1 days in Q3, to just 48.6 in Q4.



One suspects that the improvement in business confidence following the formation of the GNU, together with the declines in interest rates in July, September and November, might have encouraged SMEs to feel more inclined to reduce their debt obligations based on feeling a little more secure financially, helped along by the expectation that further such interest rate declines might be forthcoming.

The SME debt stress ratio[3] fell steeply, from 30.5% in Q3, to just 10.3% in Q4. This was the lowest such age/stress ratio in seven years.



Outlook

One is therefore left with a somewhat mixed picture with regard to business debt conditions. Without a doubt, the sub-optimal growth rate of the South African economy continues to prevent any marked improvement.

At the same time, there do appear to be rays of hope driven by the relative firmness in the currency, low inflation and falling interest rates, together with improved confidence politically following the formation of the GNU, which are preventing any large-scale deterioration.

Although load-shedding has virtually disappeared, other structural bottlenecks, such as those in transport and logistics relating to the failure thus far to resurrect

[3] *The ratio of outstanding debt owed by SMEs of 90 to 120+ days relative to that owed of less than 60 days*

South Africa's rail network and improve the efficiency of ports, continue to hamstring the economy's ability to accelerate growth.

There are also more fundamental weaknesses derived from the legacies of apartheid, including weak education outcomes, large spatial inequalities and a relative dearth of vibrant small businesses, which continue to suppress the country's sustainable growth.

Overregulation is also a major constraint.

Institutionally, the lack of capacity, incompetence and corruption prevalent in municipalities result in an inability to translate ambitious infrastructural development plans into action.

High levels of organised crime and syndicates are exploiting the numerous infrastructural plans, hindering progress in improving the standard of living of the country's people.

There remains a modicum of optimism that some of these plans will start materialising over the next few years, and this underlies the hope that economic growth will improve somewhat from the sub 1% level of the last two years.

It is this optimism that underlies our forecast of an improvement in the BDI in forthcoming quarters in 2025, with the possibility of a sustained increase throughout the year, potentially returning the BDI to positive territory.

One has to conclude, however, that even this improvement is insufficient to produce the kind of increase in financial solvency that one would like to see.

Explanatory notes regarding the Experian Business Debt Index

What is the Experian Business Debt Index?

The Experian Business Debt Index (BDI) is an indicator of the overall health of businesses, as well as the South African economy. It measures the relative ability for business to pay its outstanding suppliers/creditors (i.e. amounts owed to other businesses) on time and tracks macro-economic indicators that can impact on the ability of companies to pay their creditors.

A number of debtors and macro-economic variables are combined into a single indicator of business debt stress. In other words, the BDI is a reflection of the overall health of businesses and the position of debt settlement between businesses in the economy.

How to interpret the index

The Experian BDI, as an indicator of the overall health of businesses, 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. 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.

Given the underlying data of the index, relative higher levels of debt indicate a weakening in the ability to pay outstanding creditors. 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.

Measured by using principle components

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 business stress is the primary factor influencing the co-movement and by extracting the principal components, it is possible to build an index with a useful economic interpretation.

Variables included

The Experian Business Debt Index is made up of Experian business debtors' data and public domain data. Variables include the following:

- 30 – 60 debtor days' ratio (debt compared to initial amount invoiced 30 days ago);
- 60 – 90 debtor days' ratio (debt compared to initial amount invoiced 60 days ago);
- South Africa consumer inflation and producer inflation spread;
- Interest rate spread (Repo vs US Federal Fund rates);
- Interest rate spread (R157 vs Repo);
- Real SA GDP (year-on-year percentage change);
- Real US GDP (year-on-year percentage change).

No provision is made for any leads or lags in any of the variables.

Methodology used to construct the index

The index is constructed by first demeaning the individual indices - subtracting the index value from the index average and dividing it by the sample standard deviation (SD). The indices can now be expressed in the same units. Next, the method of principal components is used to calculate the coefficients of the variables in the EBSI. These coefficients are scaled so that the standard deviation of the index is 1. Lastly, each of the indices is multiplied by its respective adjusted coefficient.

When the index is updated quarterly, the values of the Experian Business Debt Index can change. This can occur either through a change in the coefficients (an updated re-estimation) or because of a change in the actual values of the variables in the sample. Because the data are demeaned and standardised, the value of the original sample will change as the sample mean and sample standard deviation of the underlying variables change.

About Experian

We are the leading global information services company, providing data and analytical tools to our clients around the world. We help businesses to manage credit risk, prevent fraud, target marketing offers and automate decision-making. We also help people to check their credit report and credit score and protect against identity theft. In 2016, for the third year running, we were named one of the "World's Most Innovative Companies" by Forbes magazine.

We employ approximately 17,000 people in 37 countries and our corporate headquarters are in Dublin, Ireland, with operational headquarters in Nottingham, UK; California, US; and São Paulo, Brazil.

Experian plc is listed on the London Stock Exchange (EXPN) and is a constituent of the FTSE 100 index. Total revenue for the year ended March 31, 2016, was US$4.6 billion.

To find out more about our company, please visit http://www.experianplc.com or watch our documentary, 'Inside Experian'.

About Econometrix

Econometrix is South Africa's largest independent macro-economic consultancy based in Johannesburg. We are privately owned and, therefore totally independent of any official organisation or pressure groups. Econometrix – which has a successful track record of more than 42 years - is committed to ongoing research and analysis of economic fundamentals thereby ensuring a sound basis for future business decisions. These services are provided through a range of complementary products to more than 150 South African and international organisations.

Our approach is to empower our clients with quality decision support intelligence and assistance regarding the economic and financial environment, and assist them in their strategic and financial planning processes. Our in-depth analysis of economic fundamentals aims to assist our clients in commanding the economic environment and identifying opportunities and risks.

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Next release date for the BDI: June 2025

For more detailed analysis on the debt stress by sector, Experian publishes the *Business Debt Sectoral Overview* report, please contact Taryn Stanojevic at Experian for more information.