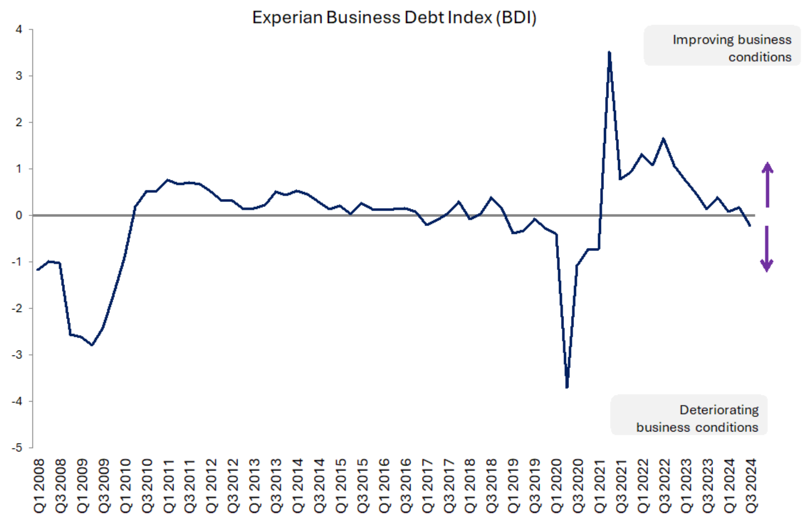
News release

Agricultural sector takes the hardest knock as business debt conditions deteriorate in Q3 of 2024 – Experian Report

Johannesburg, 30 January 2025 – Amidst economic challenges, the Experian Business Debt Index (BDI) for Q3 2024 revealed a sharp downturn from the previous quarter's modest gains, highlighting the need for strategic reforms to bolster South Africa's business resilience. With the BDI slipping to -0.20 from a positive 0.18 in Q2, this quarter's results underscore the pressing impact of unforeseen agricultural setbacks and persistent logistical hurdles on the nation's financial health.

The BDI measures business conditions in South Africa, considering both businesses' ability to pay their outstanding suppliers or creditors on time and macroeconomic indicators that can impact business health.

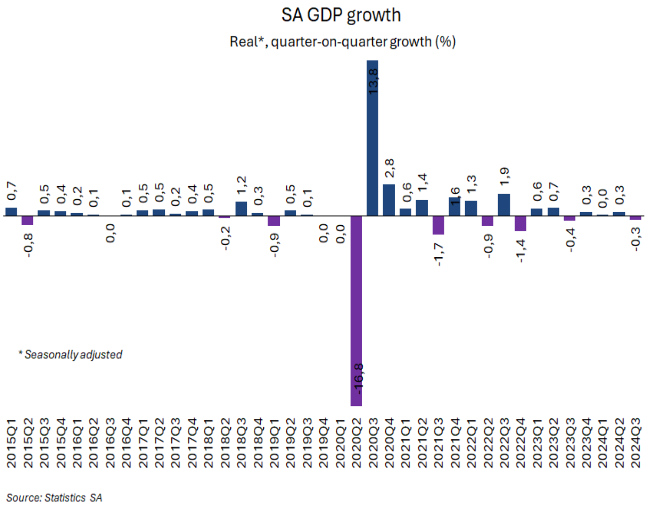


	Q3 2023*	Q4 2023*	Q1 2024*	Q2 2024*	Q3 2024
Index >0= Improving business conditions <0 = Deteriorating business conditions	0,14	0,40	0,09	0,18	-0,20

** Revised*

The Q3 decline comes despite several positive factors such as the end of loadshedding, the new Government of National Unity (GNU), declining inflation and the anticipation of lower interest rates, which were initially expected to bolster the BDI.

“While the Q2 improvements offered a glimmer of hope, the sharp reversal in Q3 highlights the fragility of the current economic recovery,” **says Jaco van Jaarsveldt, Head of Commercial Strategy & Innovation at Experian.** “The unforeseen challenges faced by the agricultural sector, coupled with persistent logistical bottlenecks, have significantly impacted businesses' ability to manage their debt obligations effectively. The resulting cautious stance among businesses is evident in the significant rise in outstanding debtor days, especially for SMEs, which are now facing their highest debt stress levels since 2022."



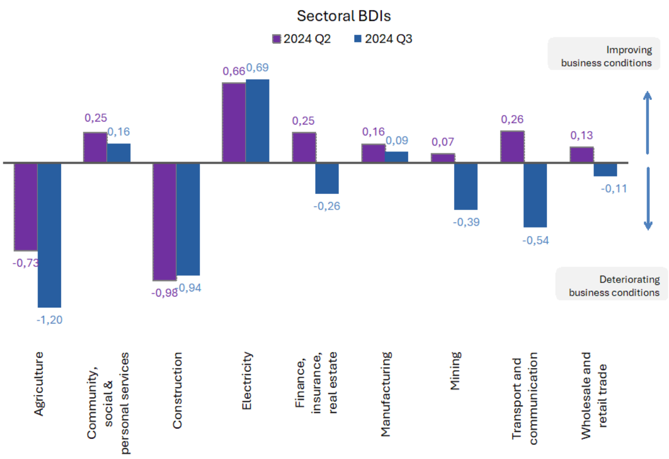
Mixed sectoral performance

A key driver of the BDI decline was the substantial contraction in agricultural GDP (-29% quarter-on-quarter), attributed to a combination of drought, floods and livestock diseases. This contraction had a ripple effect across the economy, exacerbating business debt conditions.

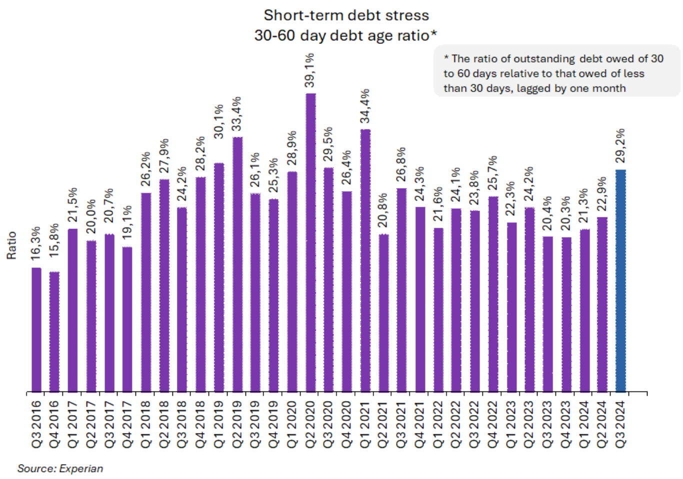
Furthermore, a sharp decline in producer price inflation, which outpaced consumer price inflation, eroded profit margins, adding to the financial stress faced by businesses.

Additionally, persistent logistical challenges in rail transport and port operations strained the transport sector, contributing to the overall economic slowdown. These factors appear to have fostered a more cautious approach among businesses, leading to a decline in timely debt repayments.

In contrast, the electricity and construction sectors recorded improvements, largely due to a rebound from previously depressed levels caused by load-shedding and a lack of investment.



The overall deterioration in BDI was not only due to macro-economic factors but also due to deterioration observed in the credit bureau metrics. Specifically, we saw pronounced deterioration in the 30-60 day debt age ratio, which moved from 22.9 in Q2 % to 20.2% in Q3. The 60-90 day debt age ratio was less severe, indicating that the long-term overdue debt has not deteriorated as significantly as the short-term overdue debt.



Cautiously optimistic outlook

Despite the Q3 setback, there are reasons for cautious optimism in Q4 and beyond. The continued absence of load-shedding, ongoing government efforts to address economic challenges and the potential for further interest rate cuts could contribute to improved business conditions. However, persistent agricultural challenges, delays in port infrastructure improvements and global economic uncertainties temper the outlook.

Van Jaarsveldt concludes, “South Africa's long-term prospects depend on addressing these challenges through strategic structural reforms. Key areas for reform include improving logistical efficiency in rail transport and ports, which are vital for boosting trade and productivity, and addressing water scarcity through better infrastructure management to sustain agricultural output and support industrial activities.”

*****ENDS*****

[656 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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