Industry Insights

Business Health Check-In

Presented by Ans Gerber

14 August 2024

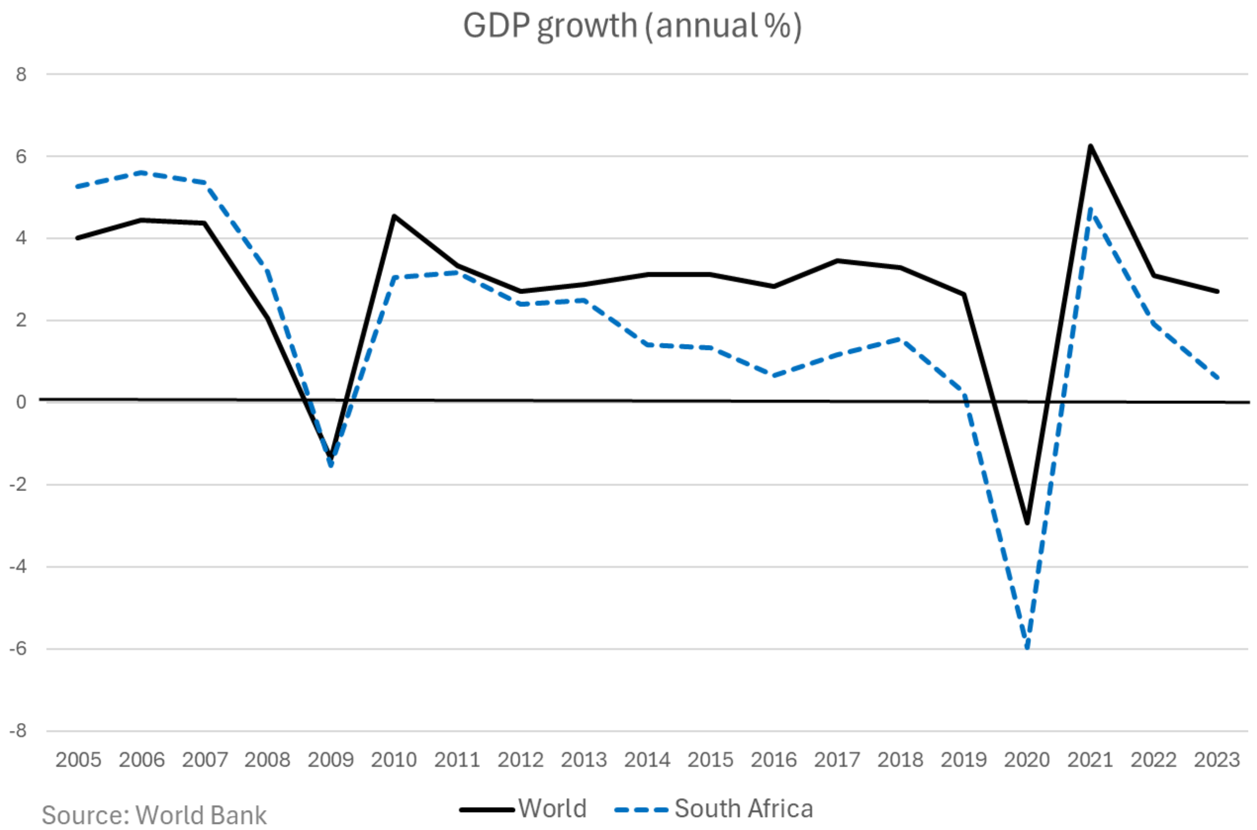
Macro-Economic Context

SA Gross Domestic Product in context

Local GDP growth has been lacking behind Global GDP since 2009

Some **key weaknesses** in the SA economy:

- Weak SOE's
- Inefficient public spending , corruption
- Logistics and Energy challenges (Transnet, Eskom) caused by mismanagement and dilapidated infrastructure
- Growing social challenges (inequality, poverty, unemployment, crime)
- FATF grey listing in Feb 2023



Source: World Bank

Reference: Coface (https://www.coface.com/news-economy-and-insights/business-risk-dashboard/country-risk-files/south-africa)

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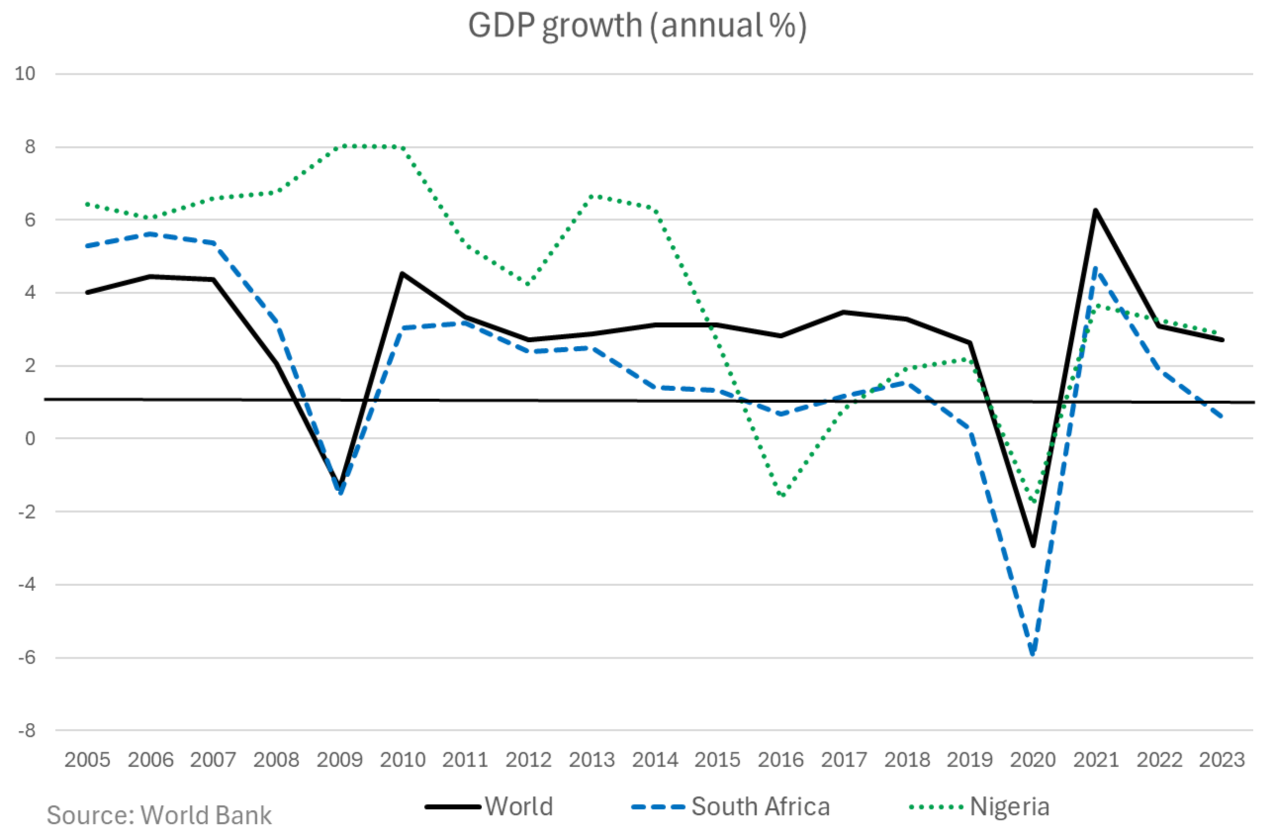

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Gross Domestic Product

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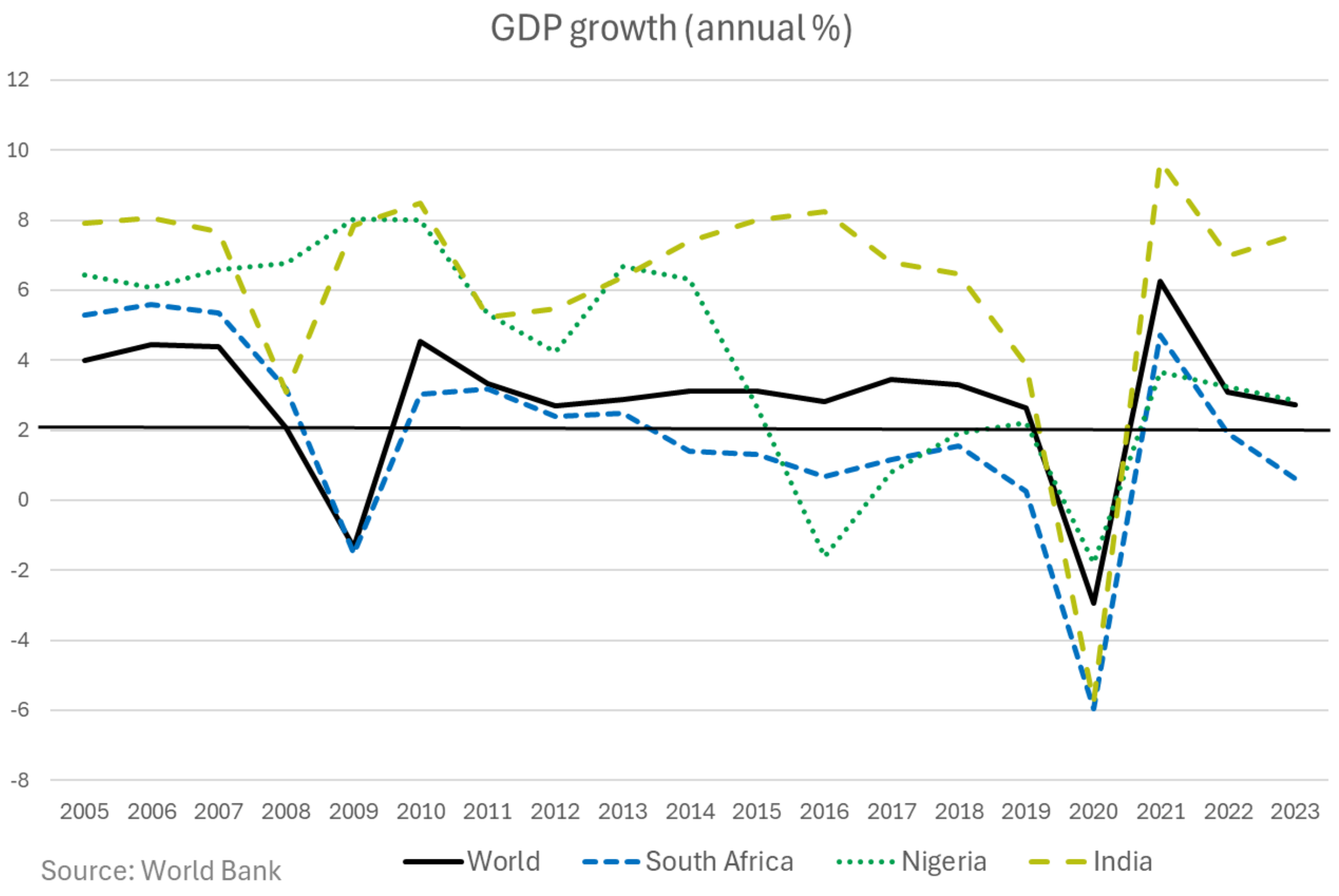
Some **key drivers** in the Indian economy:

- Simplified tax legislation
- More efficient insolvency resolution laws
- Government investment in infrastructure
- “Make in India” initiative



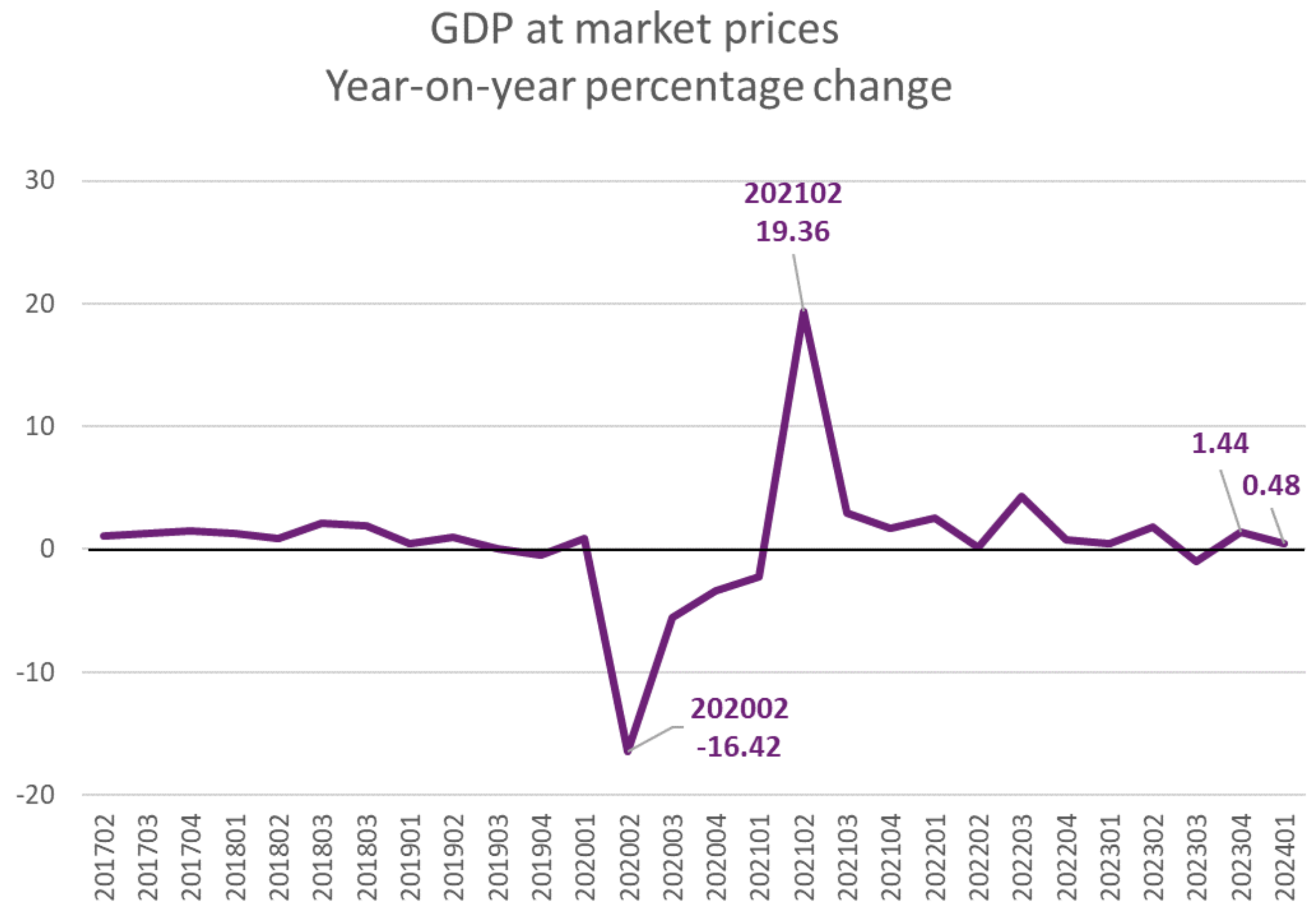
Reference: Forbes
(https://www.forbes.com/sites/benjaminlaker/2024/02/23/india-to-become-third-largest-economy-by-2027-implications-for-leaders/)

Gross Domestic Product

Y-o-Y GDP (at constant 2015 prices) has contracted

In the latest quarter we have seen reduced GDP due to

- Some load shedding in 2024 Q1
- Decline in fixed capital investment



Source: StatsSA

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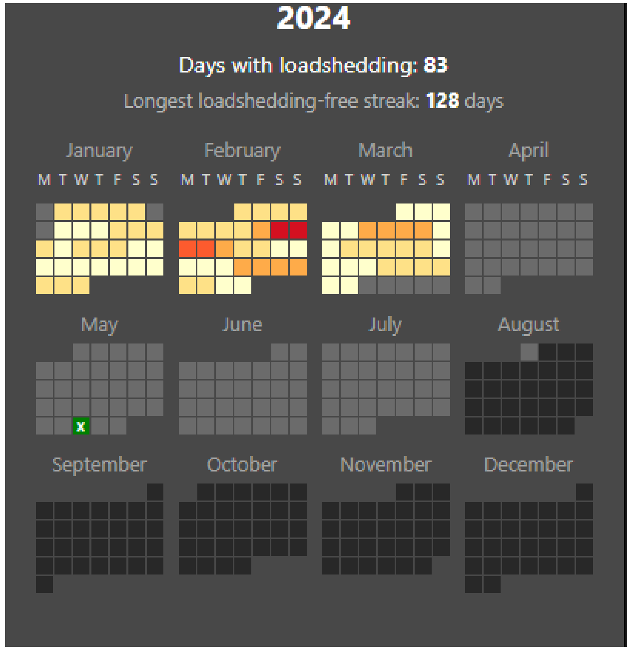

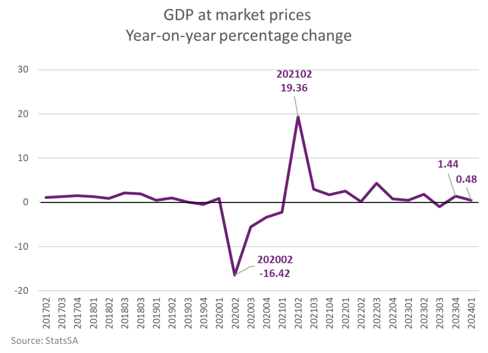

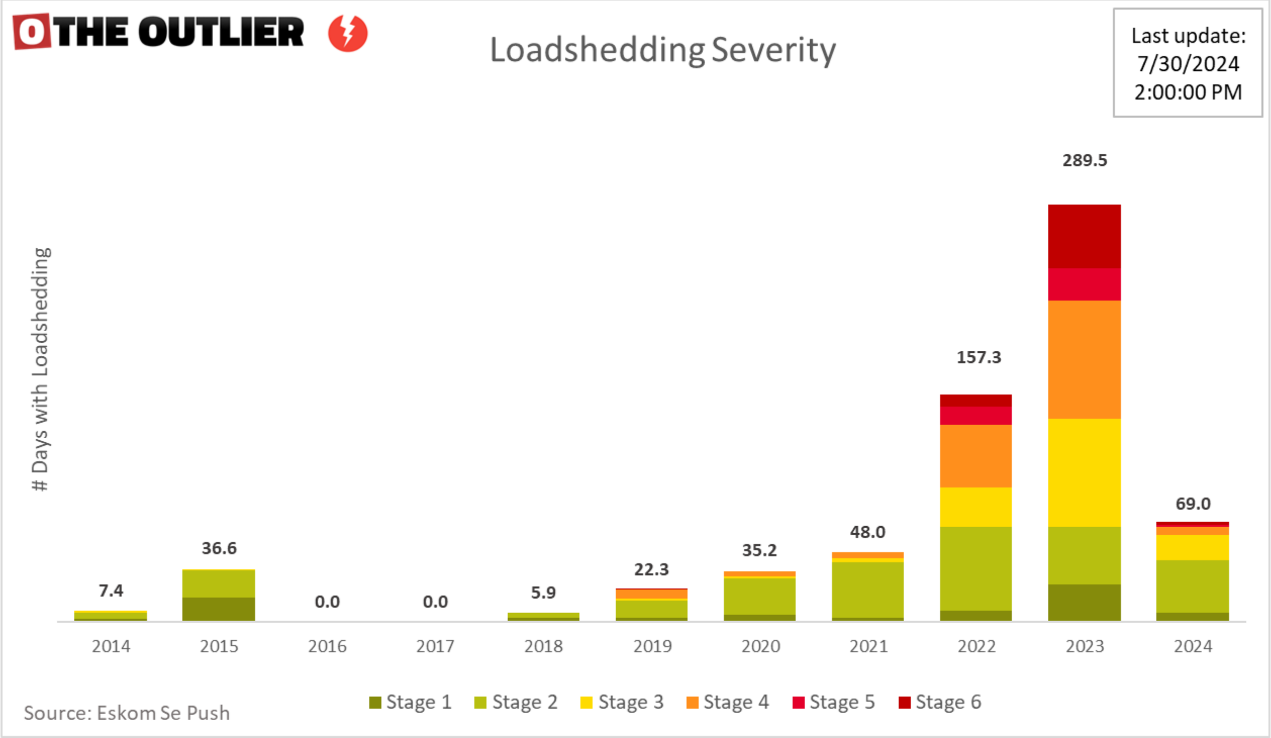

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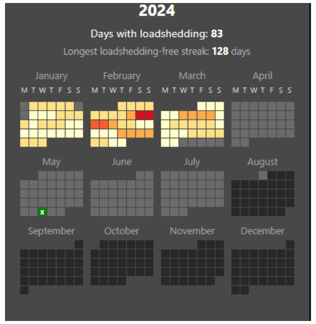

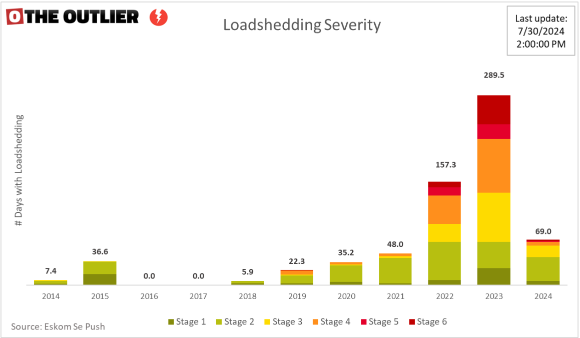

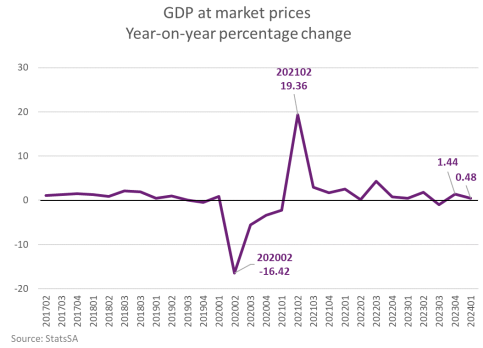

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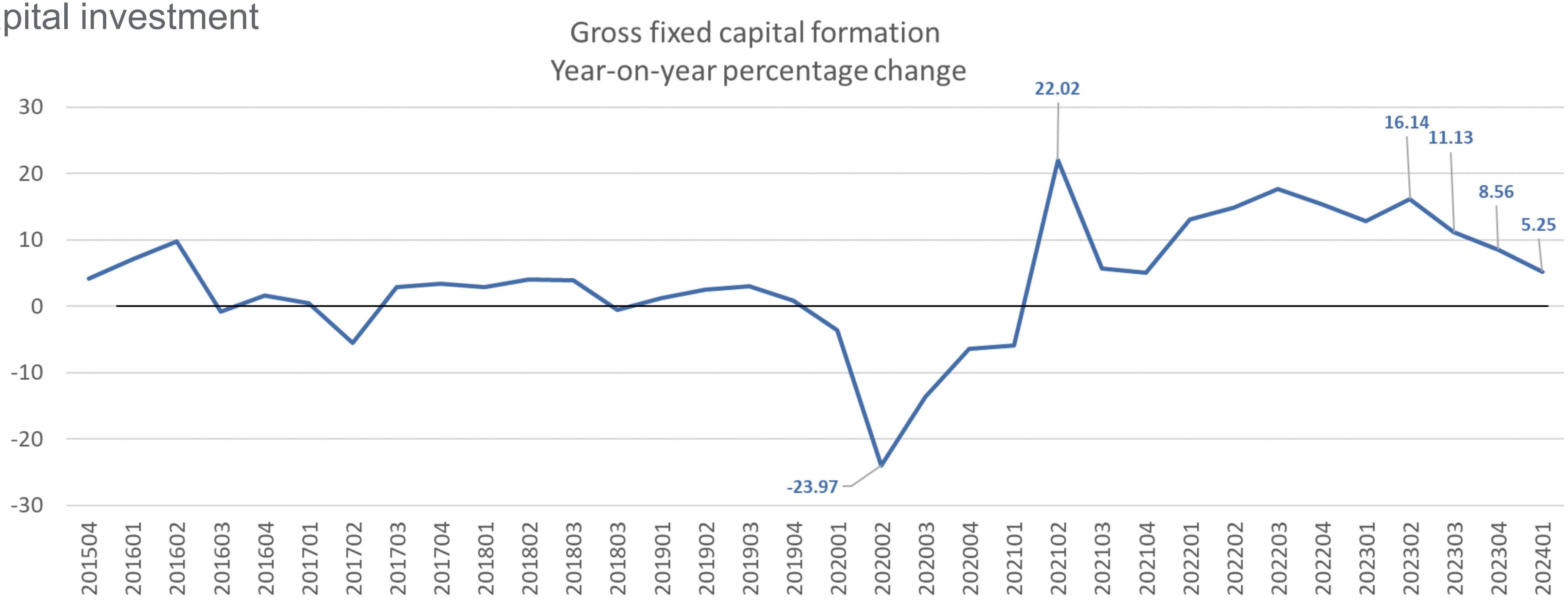
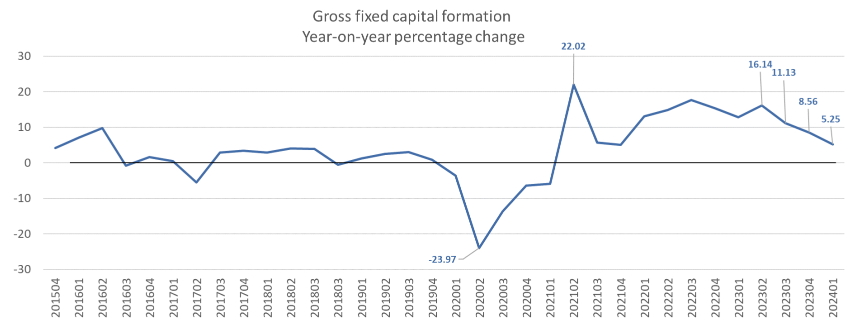


Source: StatsSA

Infrastructure development

Decreased fixed capital investment leads to slower improvement to infrastructure maintenance and expansion

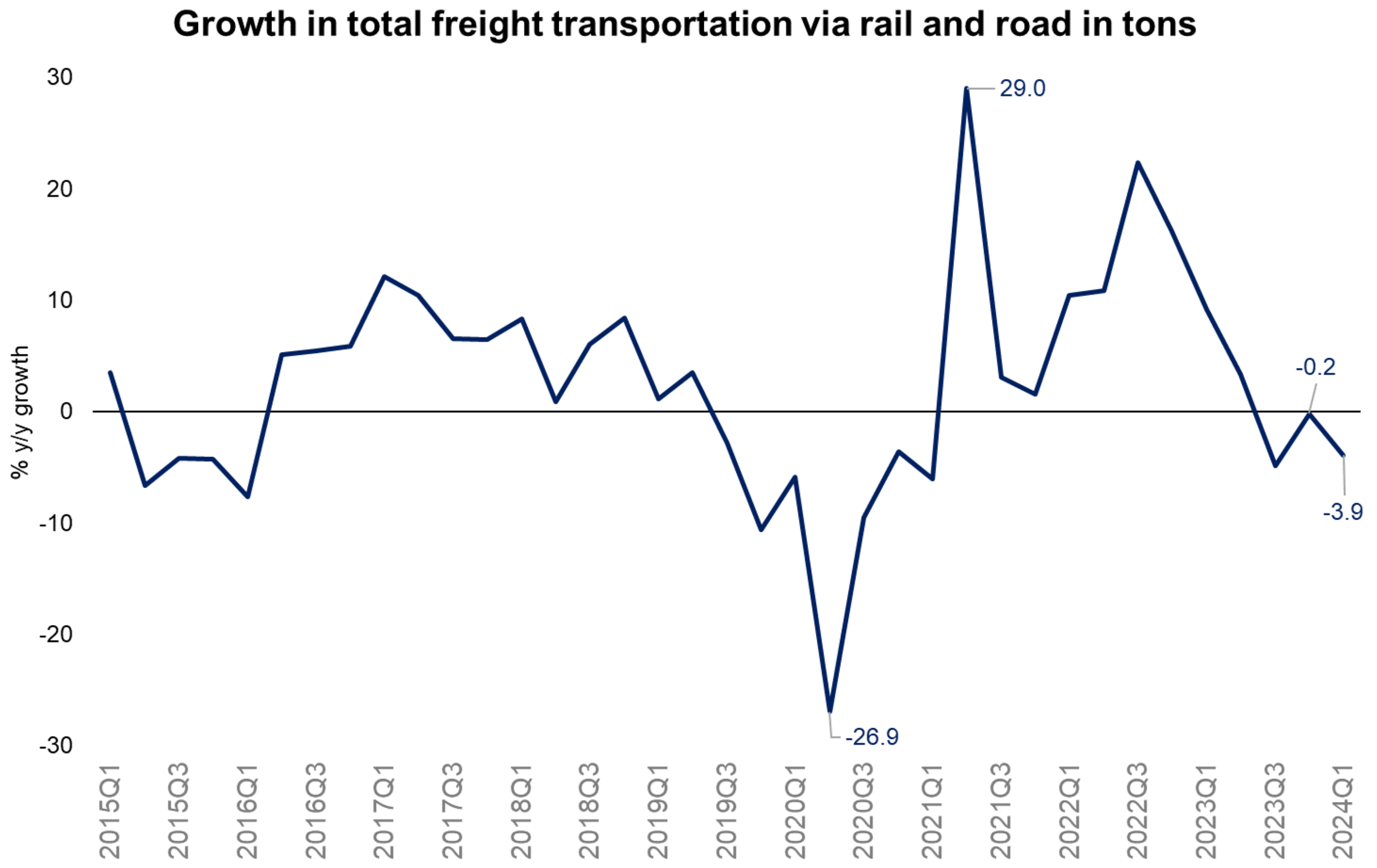


Source: StatsSA

Logistics and transport sectors have experienced strain directly as a result of lacking infrastructure investment.

With the decline in rail infrastructure, heavy trucking continues to be benefitting. This opportunity for road freight is limited however due to

- High fuel costs
- High Labour costs
- Deteriorating road infrastructure
- Rising criminality



Source: StatsSA

Inflation

CPI continues to put pressure on both Consumer and business

CPI has continued to be in the higher end of SARB's target band.

Upward pressure on CPI comes from housing (rent and/or cost of bonds), cost of debt, medical aid, electricity.

Food price inflation showed significant increases mid-2022 to mid-2023.

Energy tariff increased in April 2024 by roughly 12.7%. This has also put affordability pressures - not just on consumers, but also on businesses.

Source: StatsSA

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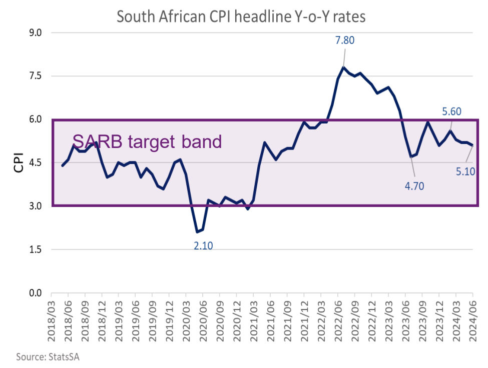
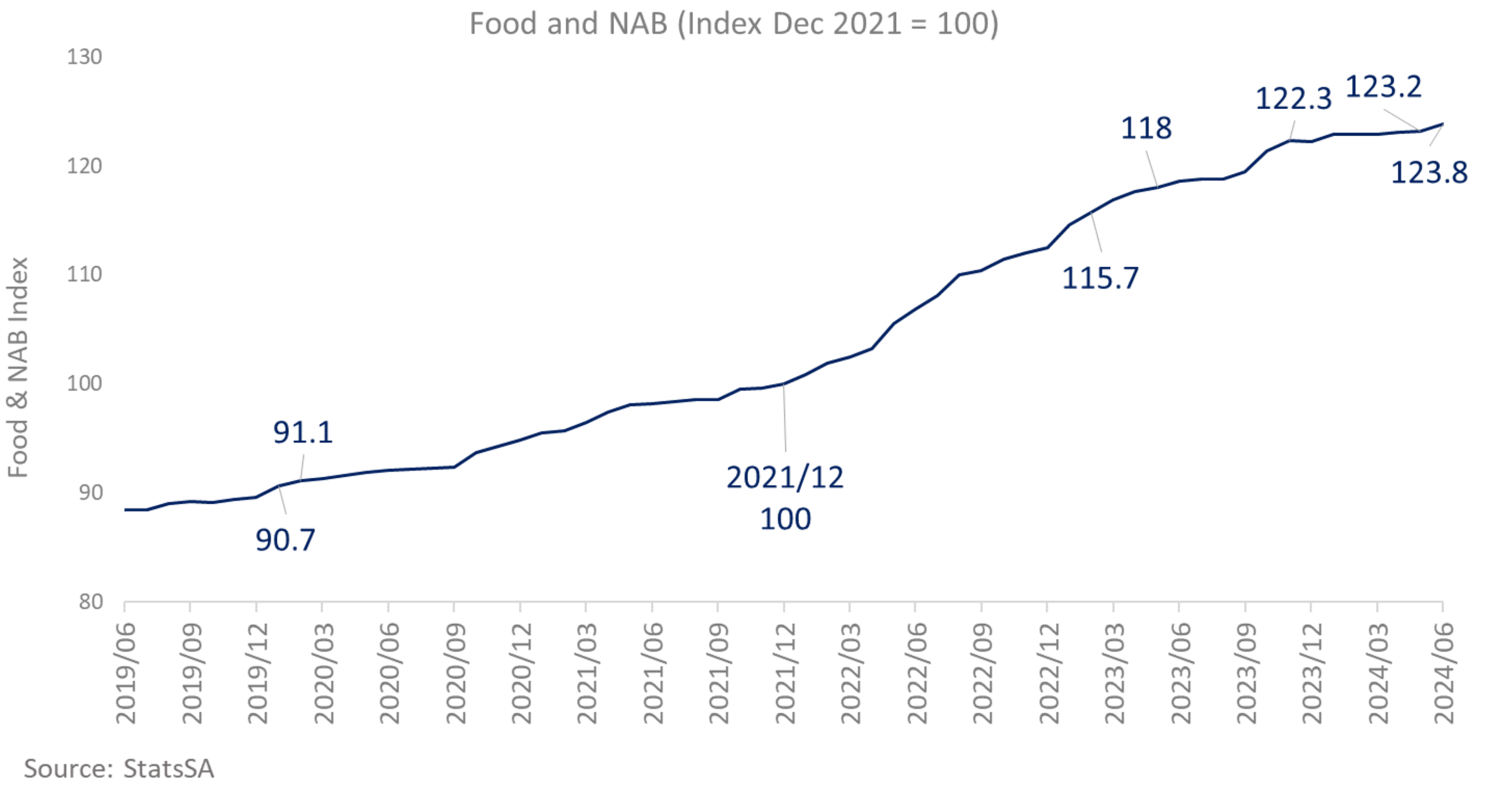
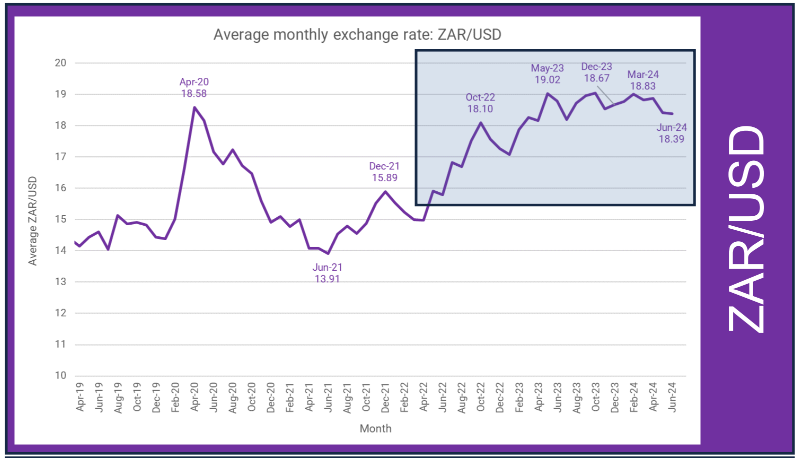


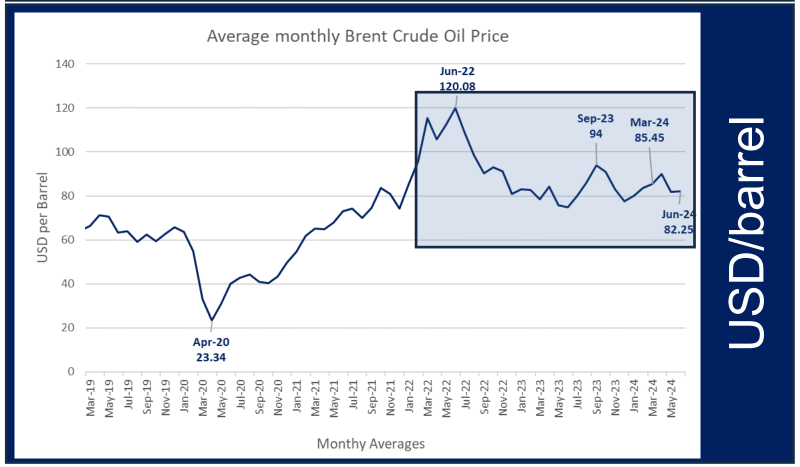


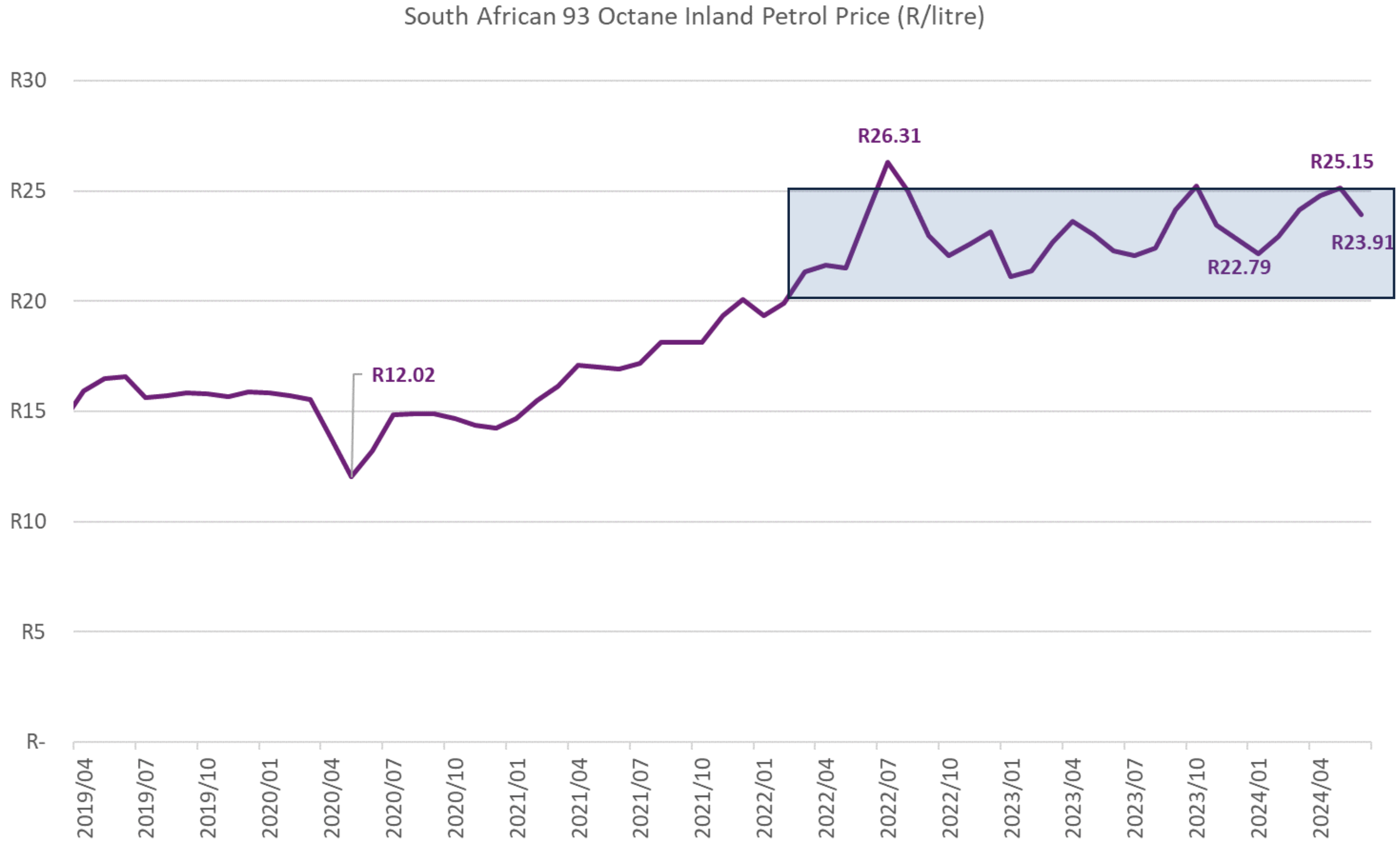
  8/16/2024 Experian Internal

Inflation

Fuel price







Source: SAPIA

Subsequent to the pandemic, we saw the price of fuel increase significantly in SA. Initially this was brought on by Russia's invasion of Ukraine, but fuel prices has remained high over the last 2 years due to high brent crude prices but especially, due to the weak performance of the ZAR.

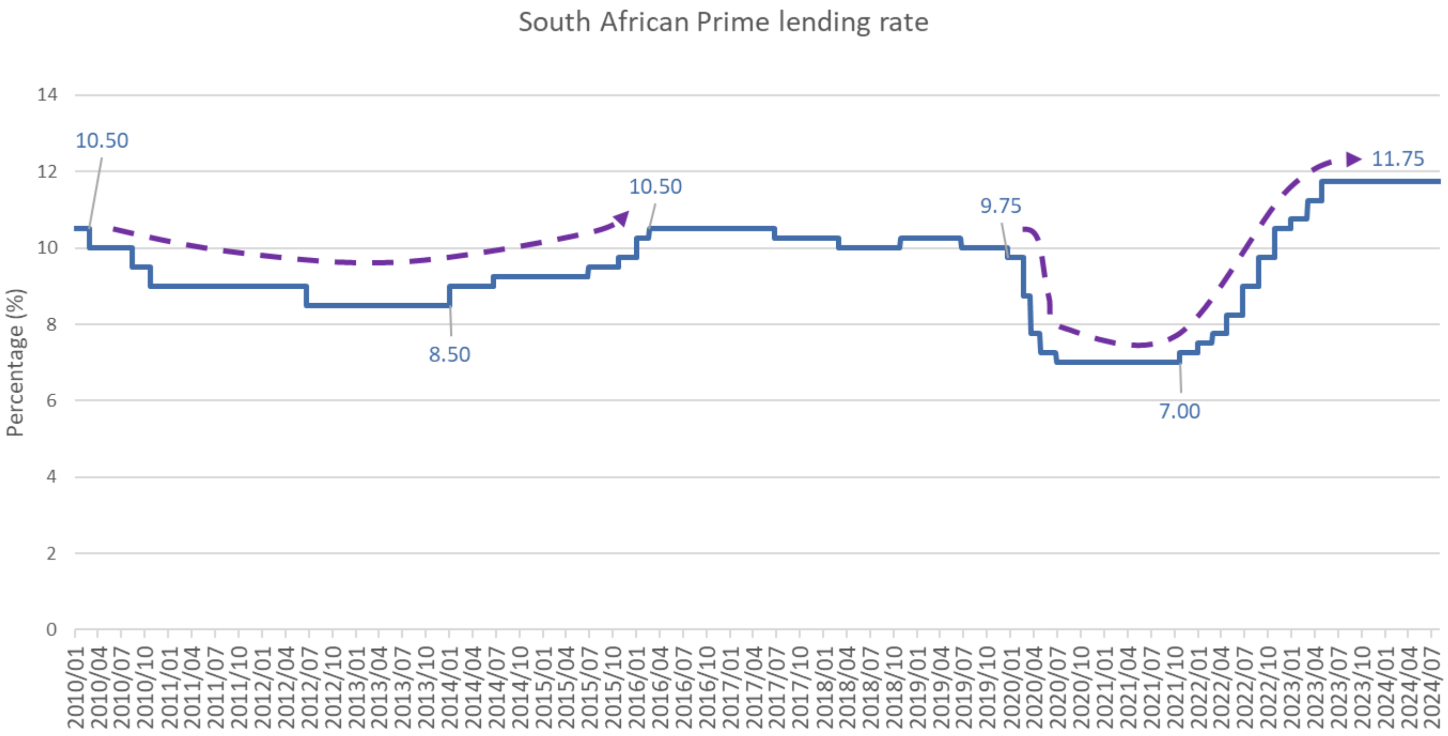
The Cost of Credit

Credit continues to be quite expensive, relative to the last 15 years.

The Repo rate has remained unchanged since May 2023 at 8.25%. This is over 3% above CPI (currently 5.1%) – signalling sustained restrictive monetary policy applied by the SARB.

The Bank did suggest a slightly less hawkish outlook for interest rates – particularly based on

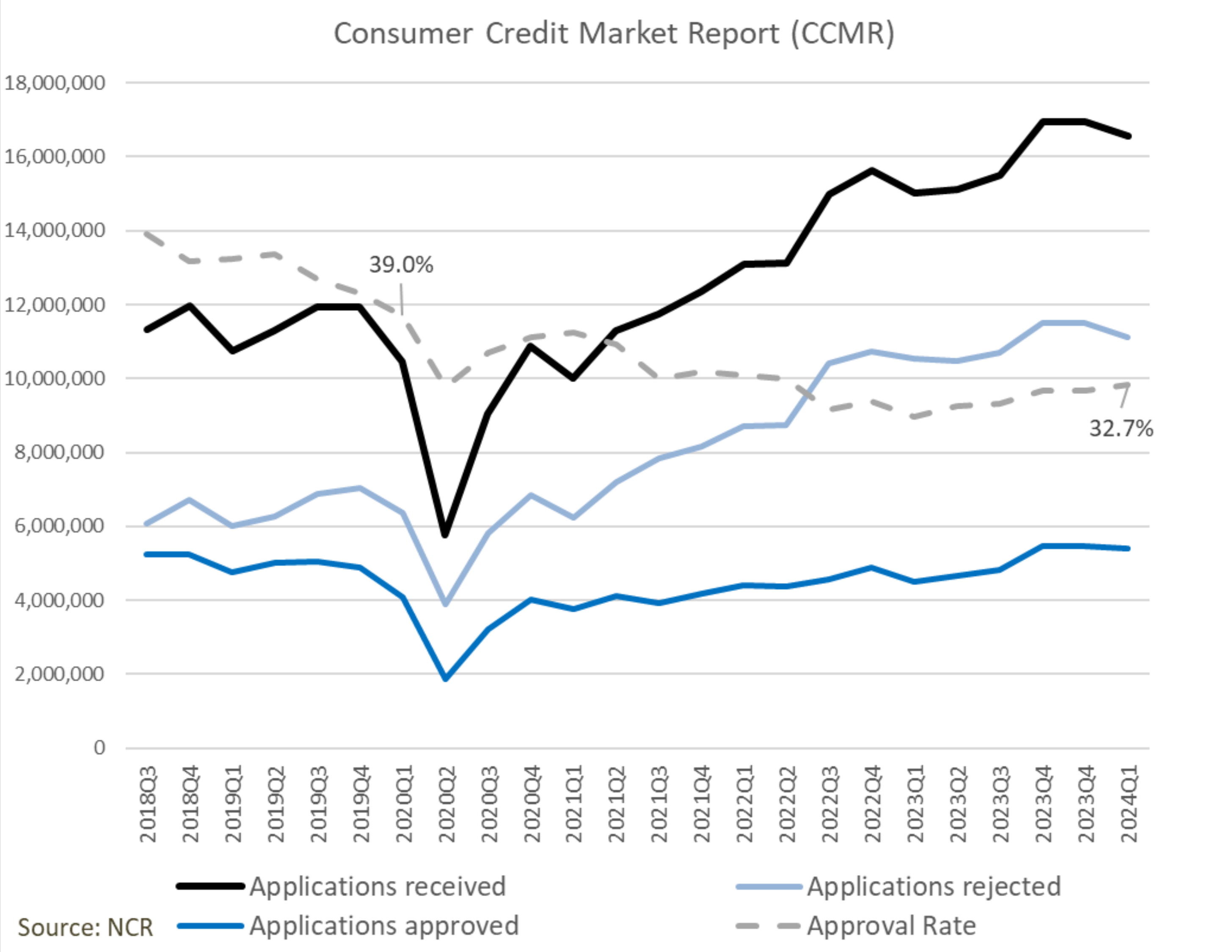
- Increased **security of electricity** supply
- **Divergence in monetary policies** adopted by different central banks overseas (considering new administrations coming into power both locally and abroad)



Source: SARB

Consumer Appetite for Credit

Appetite for consumer credit has never been higher.



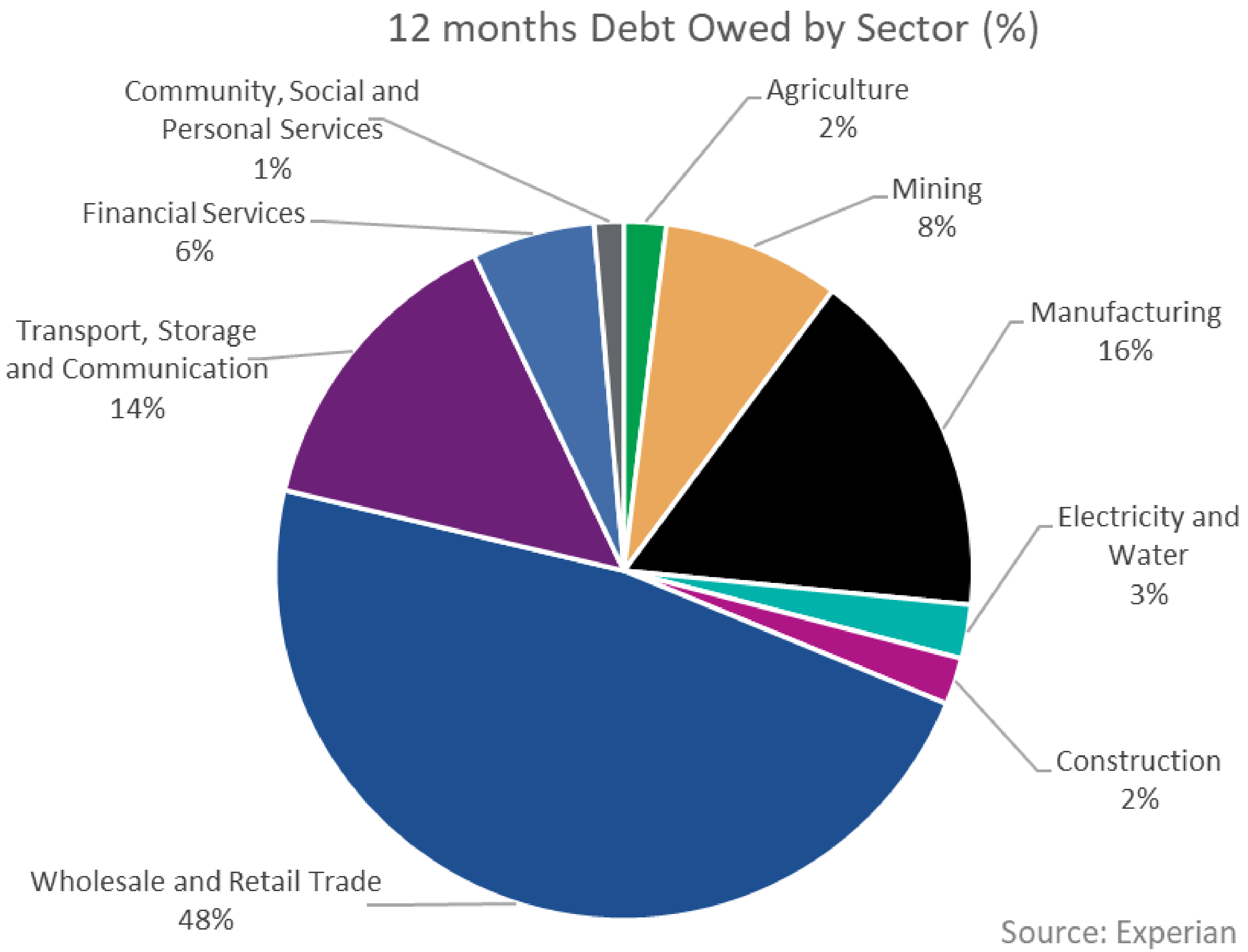
Bureau Debt Age Ratio's

Business credit exposure on Experian BI Bureau

Trade and Manufacturing sectors have the highest exposure to credit.

Some sectors are more dependent on business credit than others (even when considering contribution to GDP).

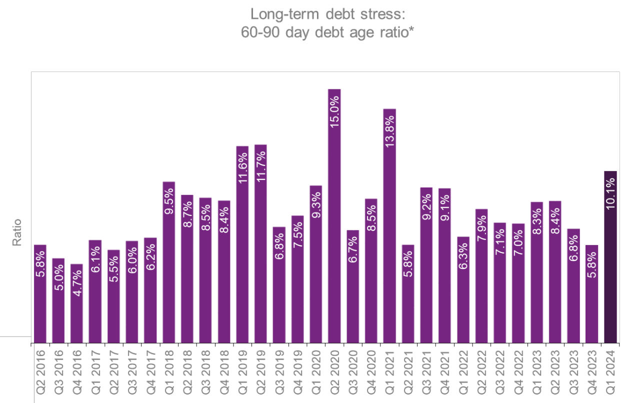
Most notably Trade and Manufacturing are most reliant on business credit.



Source: Experian

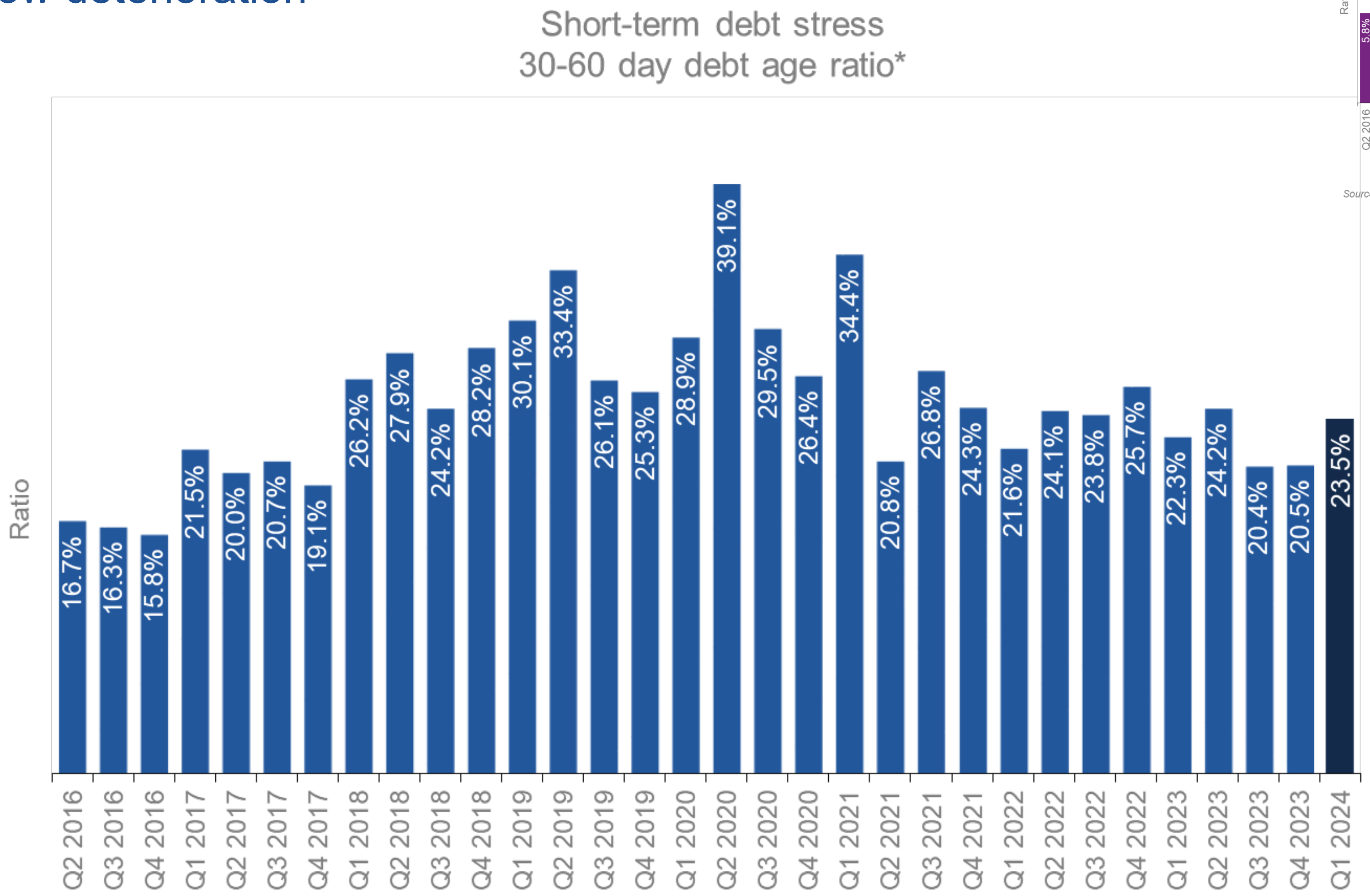
30-60 Day Debt Age Ratio

Latest results show deterioration



* Outstanding debt owed of 60 to 90 days relative to debt owed of less than 30 days, lagged by two months

Source: Experian



Source: Experian

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

60-90 Day Debt Age Ratio

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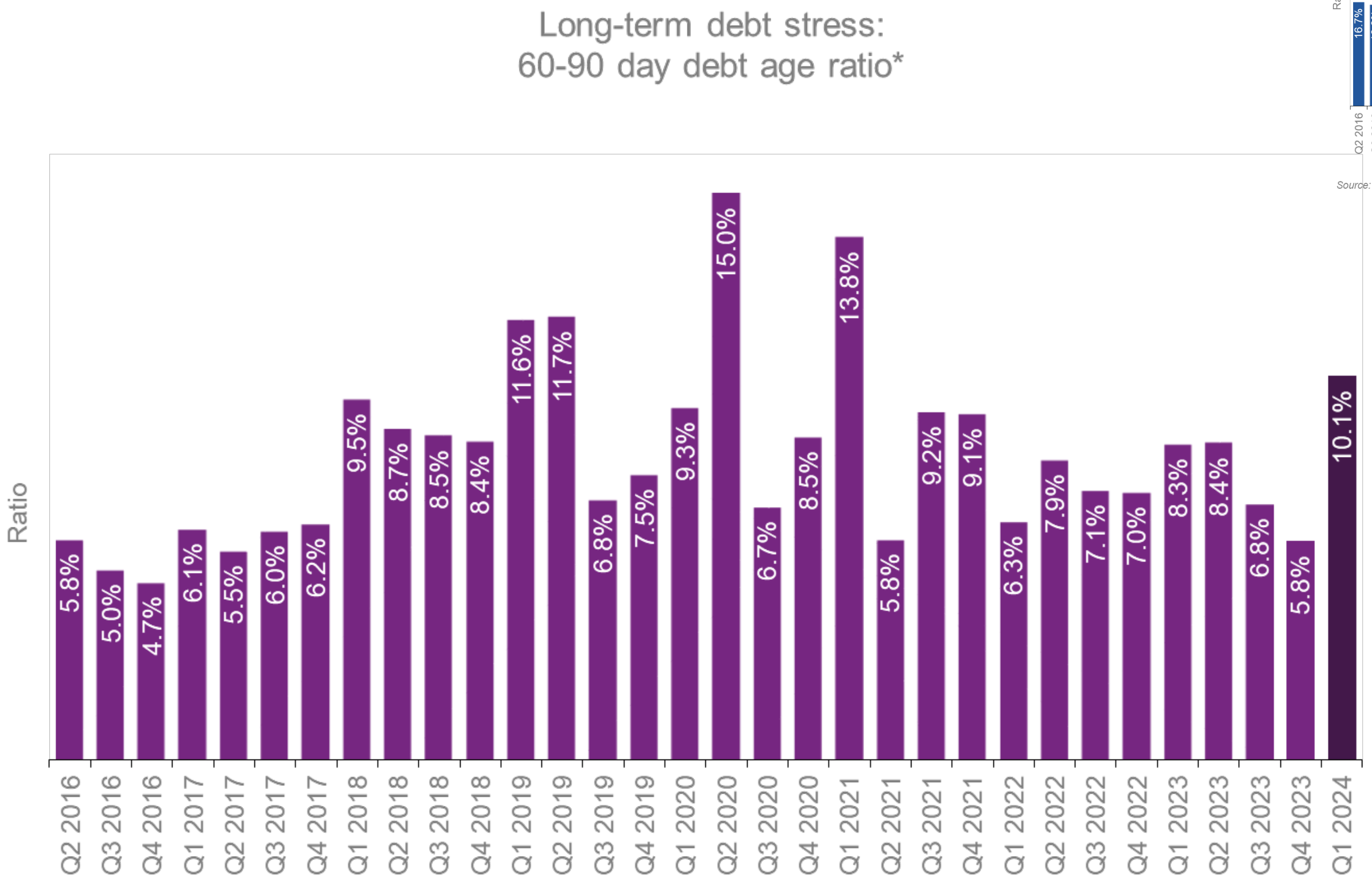
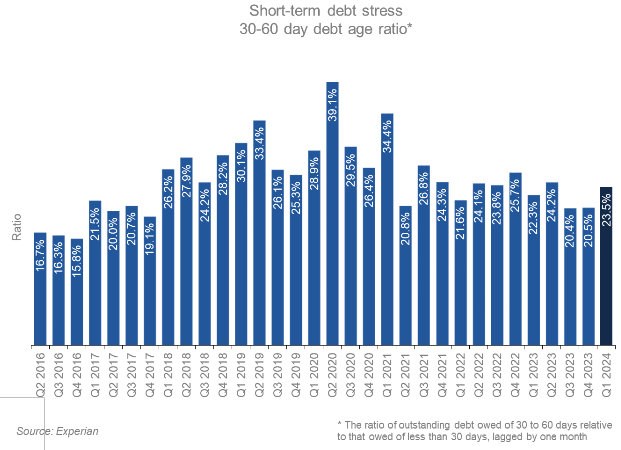




* Outstanding debt owed of 60 to 90 days relative to debt owed of less than 30 days, lagged by two months

Source: Experian

Business Debt Index

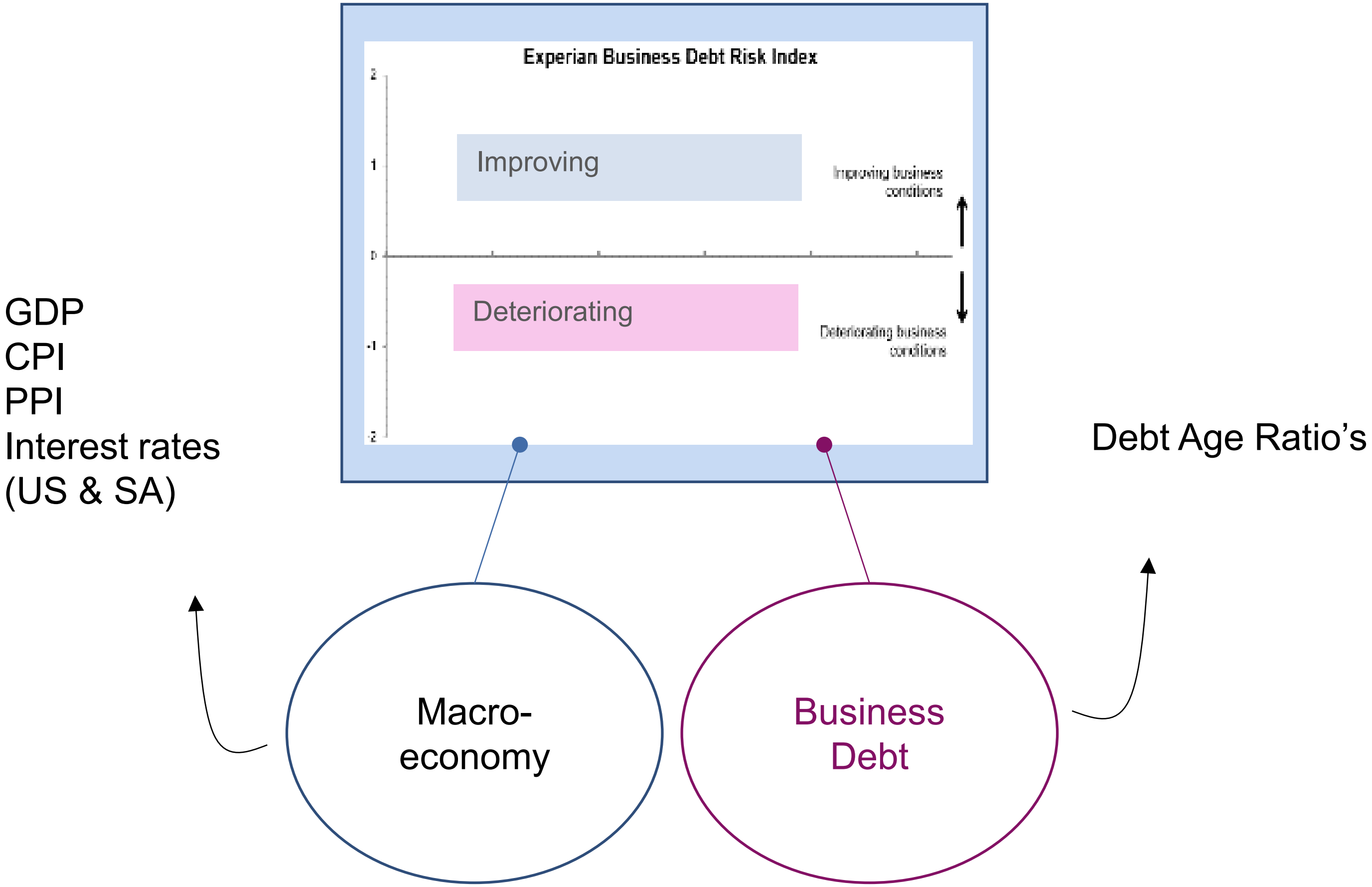
experian.

Business Debt Index

What is the BDI?

The Experian Business Debt Index (BDI) combines Macro-economic metrics (incl. GDP, interest rates, inflation; considering both local and US measures) with Bureau metrics (in the form of Debt Age ratio's) to provide a quarterly view on the prevalent business conditions in South Africa.

The metric is demeaned and standardized, so that the BDI value is distributed around zero: A positive BDI signifies 'Improving business conditions', whilst a negative BDI indicates that business conditions are deteriorating.



Business Debt Index

Tracking momentum of SA Business Conditions

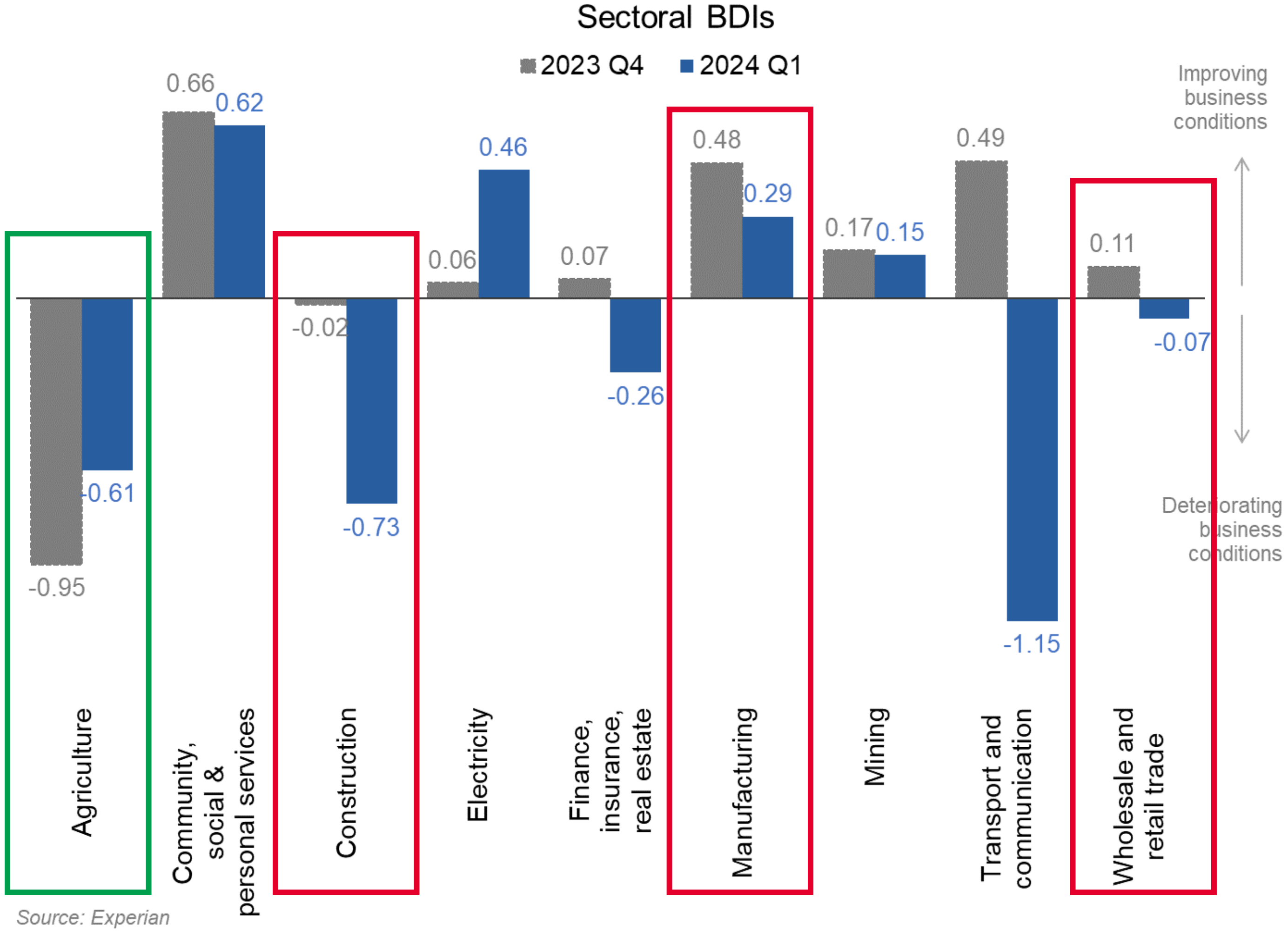
- Slower GDP
  - Load-shedding
  - Trade limitations due to logistical bottlenecks at ports
  - Water shortages
  - GFCF contracted for 3rd quarter running
  - Slower consumer spending

Source: Experian

Business Debt Index

Sectoral view

- 7 sectors deteriorated Q-o-Q in BDI terms
- Negative growth in GDP was the key reason for the deterioration in BDI
- Construction and Transport were worst affected (mainly due to drop in Fixed capital formation)
- Agri improved (following deterioration caused by bird flu epidemic)
- Manufacturing (particularly automotive sector) saw most significant decline due to reduced demand for new vehicles.
- Retail trade was the key driver of the reduced GDP for the Trade sector. Again, dampened consumer demand again had an impact here.



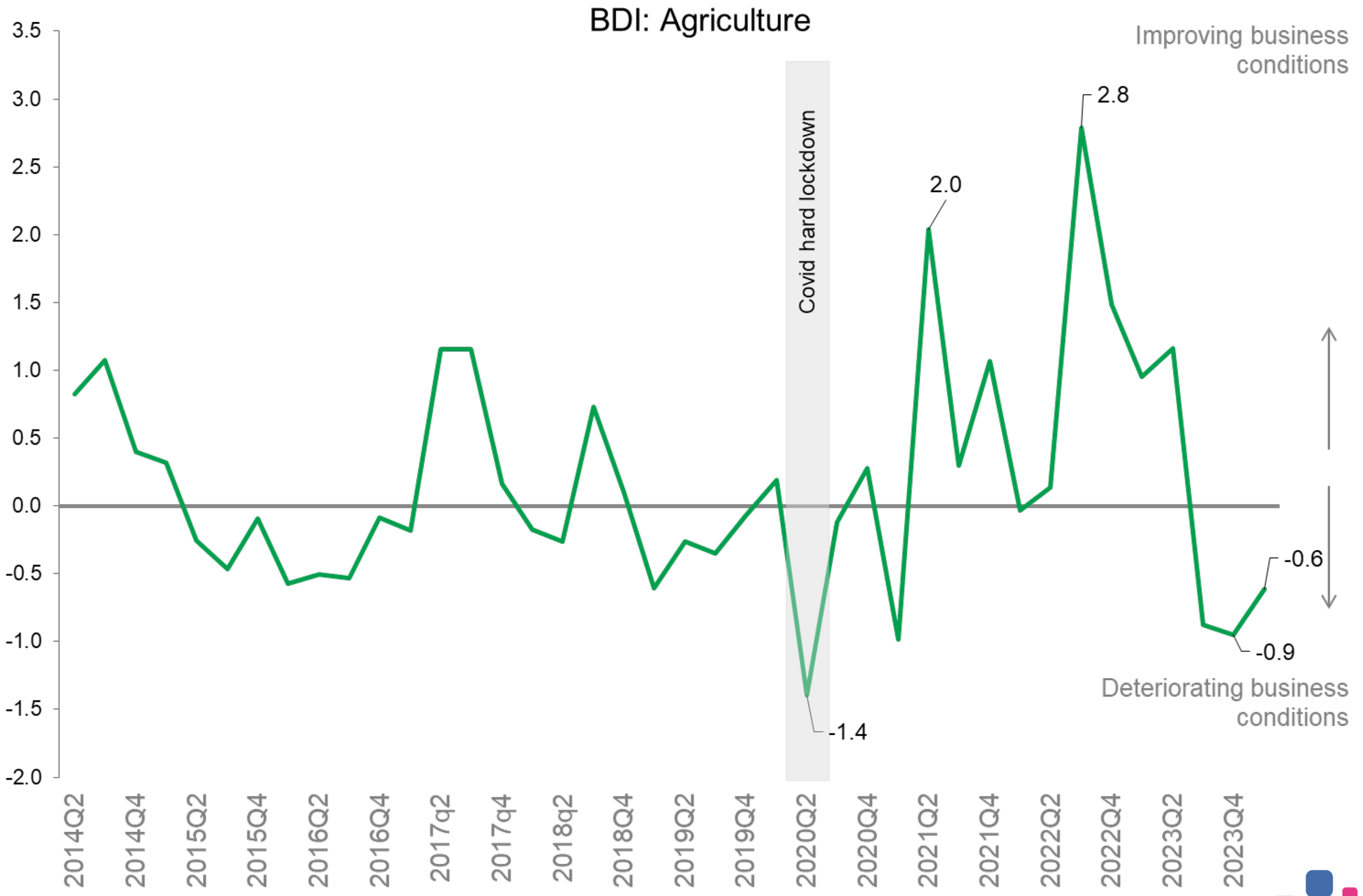
Source: Experian

Sectoral Focus

Sector focus: Agriculture

BDI

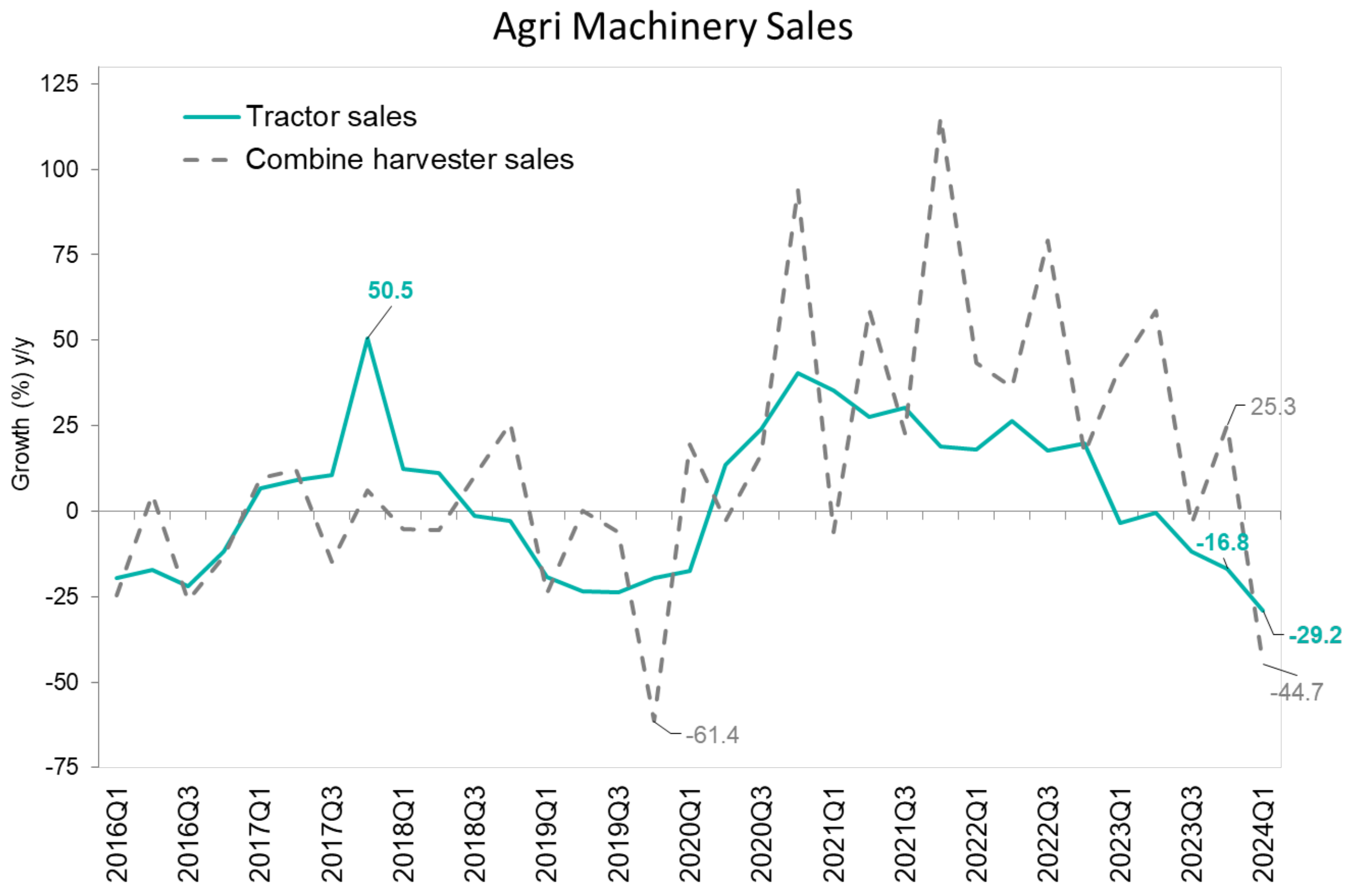
- BDI improved in Q1, mainly due to recovery from the prevalent avian influenza towards the latter parts of 2023.
- El Niño weather patterns could result in lower production this season and might accelerate food inflation
- 19% decrease in maize harvest is projected by Crop Estimates Committee
- Port inefficiencies, poor rail and road infrastructure, animal disease and policy challenges continue be the key challenges this sector faces



Sector focus: Agriculture

Key Indicators

- Tractor and combine harvester sales growth contracted significantly in Q1
- Farmers are exercising caution in their purchasing decisions.
- Machinery sales are expected to continue declining relative to last year, in the next quarter.

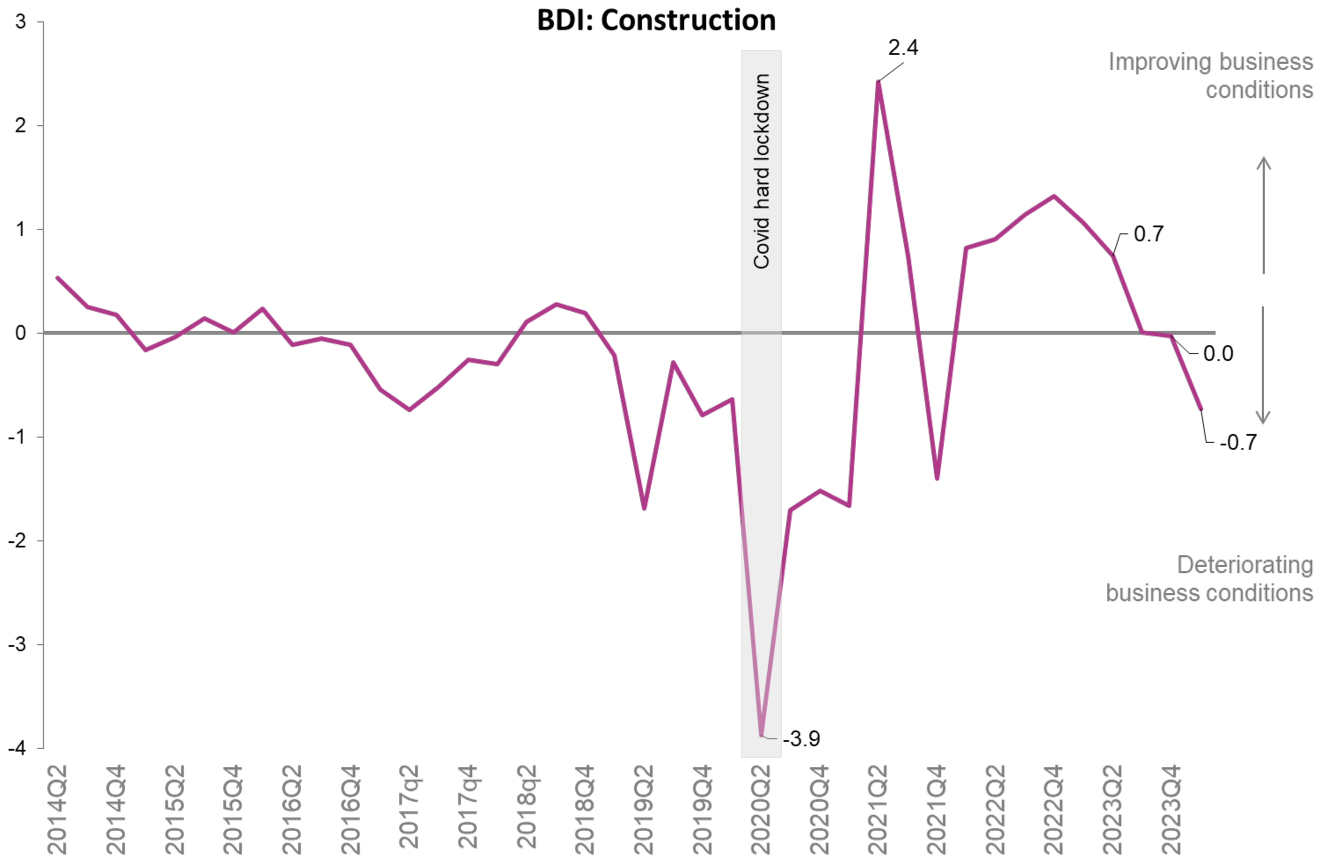


Source: South African Agricultural Machinery Association

Sector focus: Construction

BDI

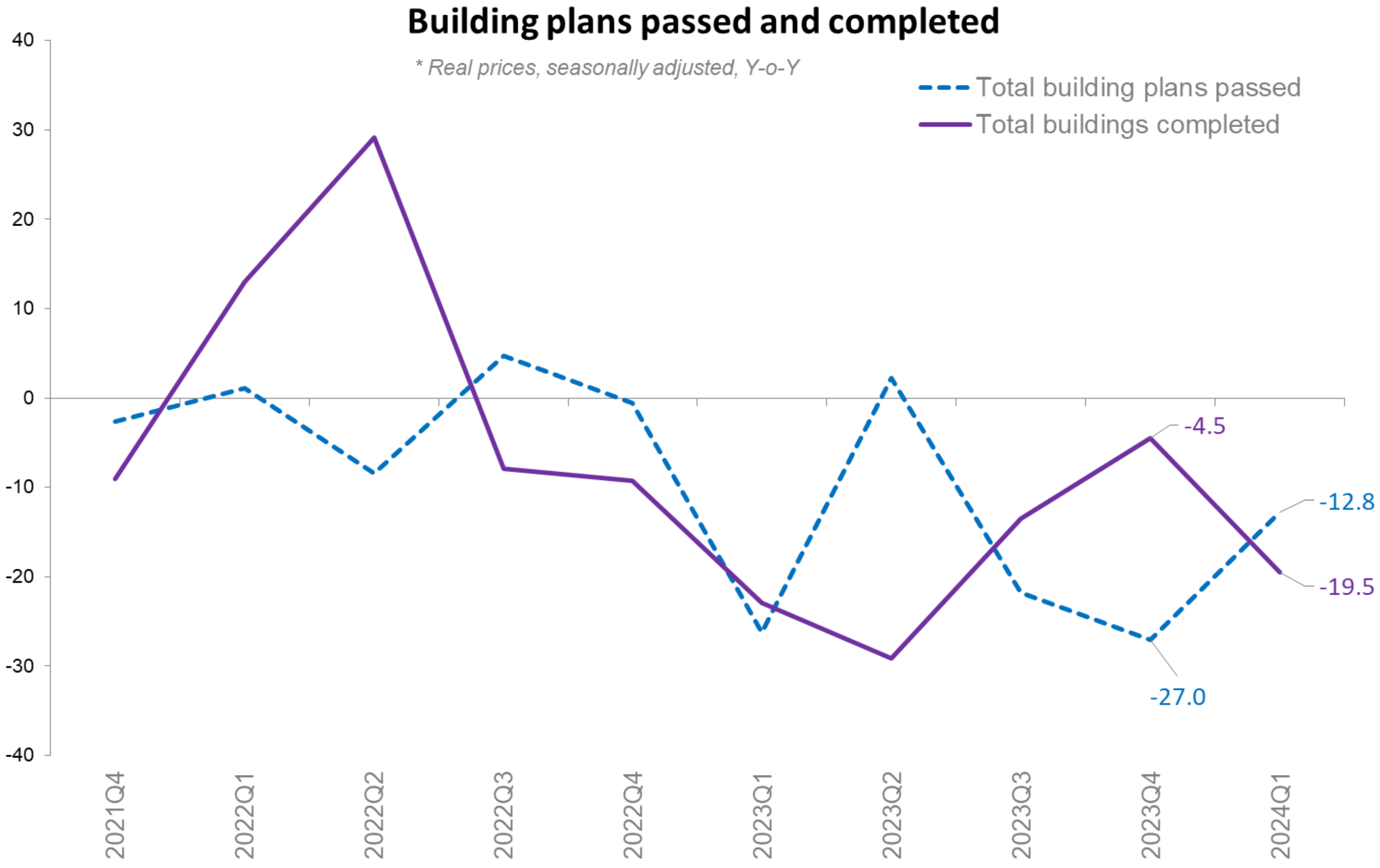
- Continued downward trend on BDI for Construction
- Improved sentiment in the sector (FNB/BER Building Confidence Index) in 2024 Q2, but still mainly dissatisfaction with business conditions overall
- Nedbank's Capital Expenditure report highlights the decline in fixed investment and highlights cost pressures and high interest rates as reasons for this decline. Load shedding also played its part in 2024 Q1.
- Weak capital spending is expected to continue into 2024.
- Renewable energy and public infrastructure investments do offer some recovery prospects into 2025.



Sector focus: Construction

Key Indicators

- Growth in building plans passed improved from -27% to 13% in Q1, Y-o-Y
- Growth in buildings completed, however, dropped from -4 to -19%
- Improved cooperation between private sector and government on infrastructure could help to boost the construction sector into positive growth.
- A drop in interest rates will also have a positive impact on this sector.

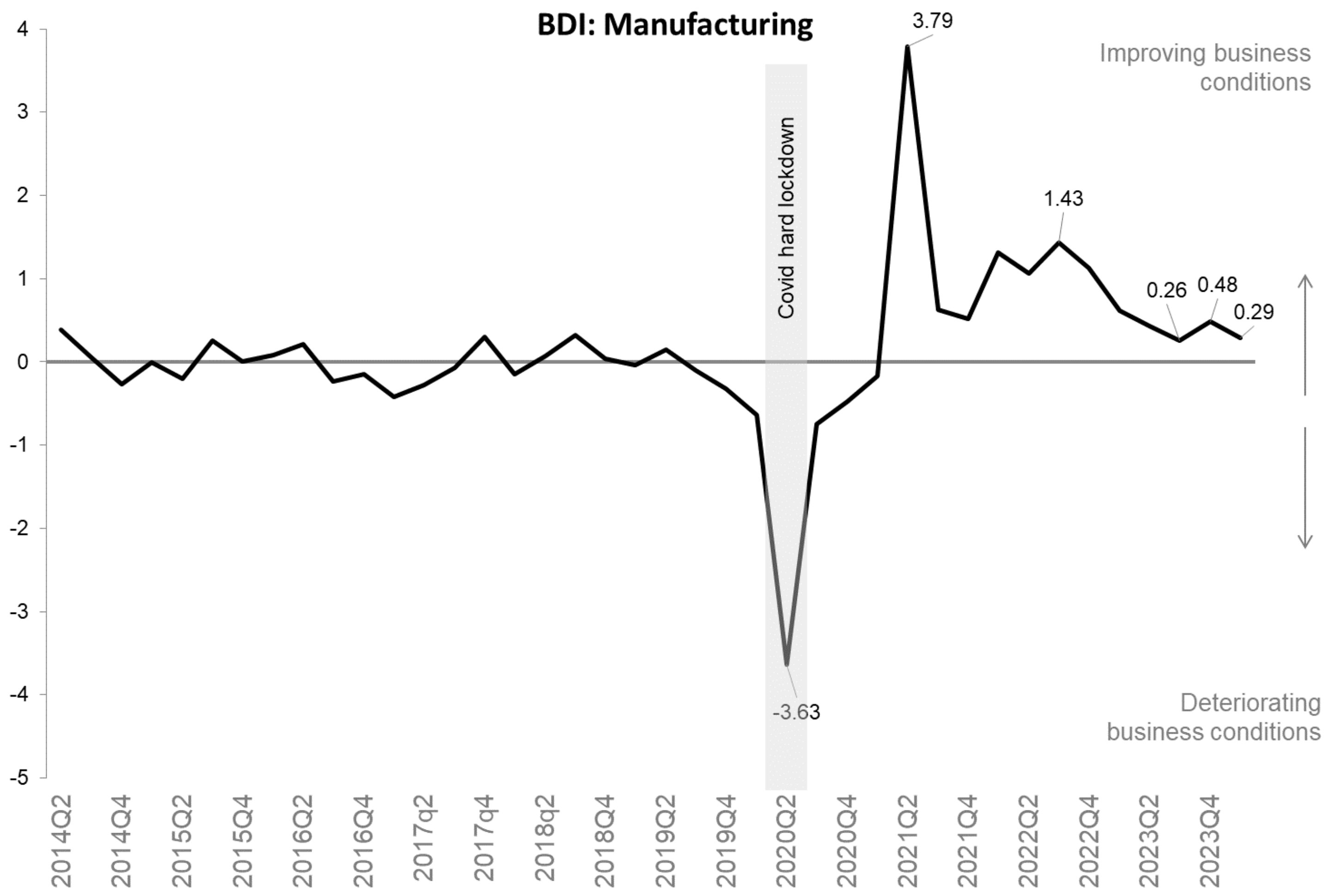


Source: StatsSA

Sector focus: Manufacturing

BDI

- 5 out of the 10 manufacturing divisions underperformed last quarter – particularly Automotive and Basic Iron & Steel Products
- Still positive BDI
- Low levels of load shedding was positive, but was outweighed by sluggish demand
- Food and Beverage production has been doing well – in spite of high prices, which has dampened demand

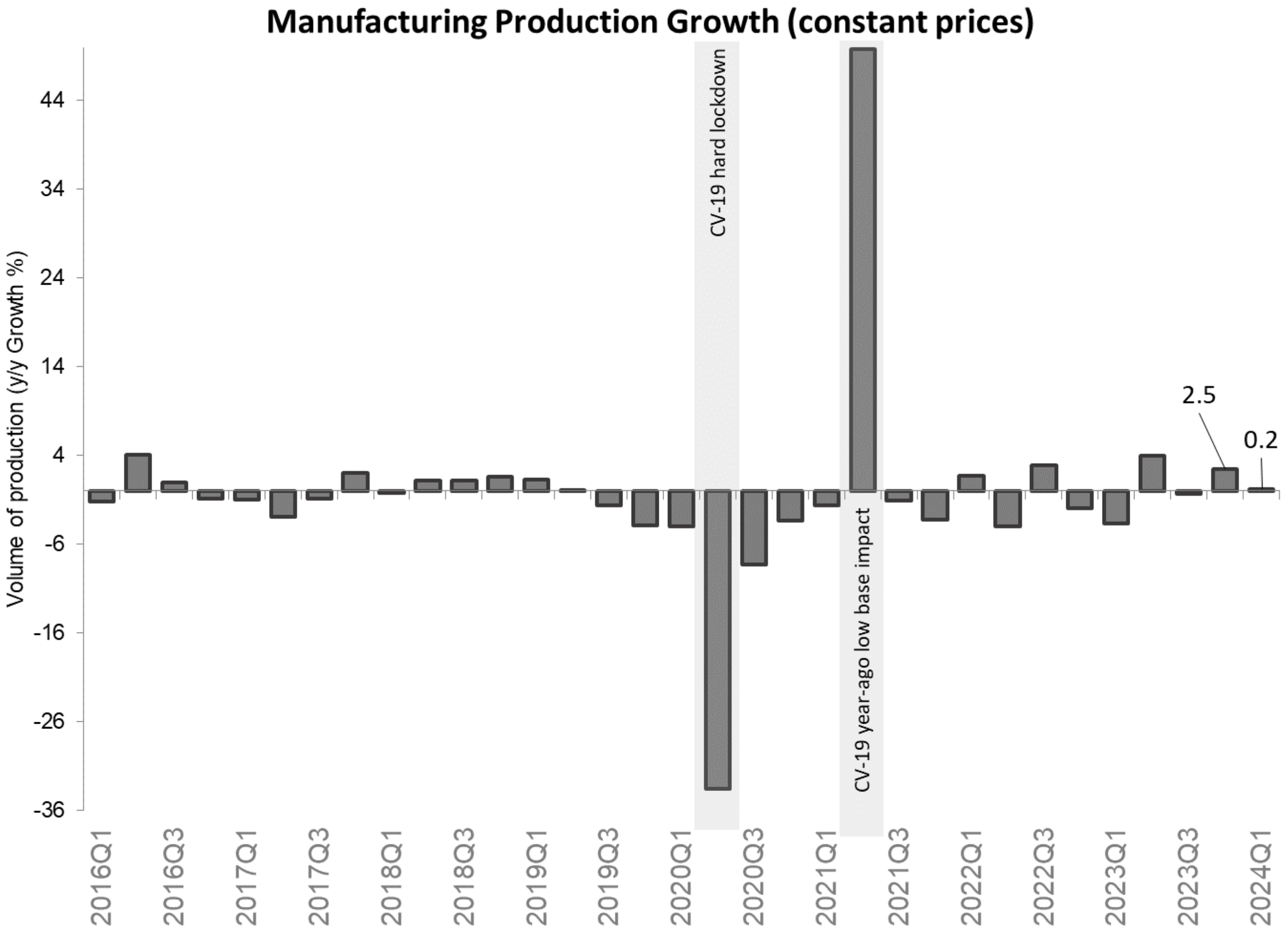


Sector focus: Manufacturing

Key Indicators

In spite of load shedding reprieve, the latest production growth was disappointing. This aligns with low demand from consumers due to cost pressures.

This also aligns with the view that significant expansion in this sector remains challenging and that structural reform of the economy is required to boost this sector.



Source: StatsSA

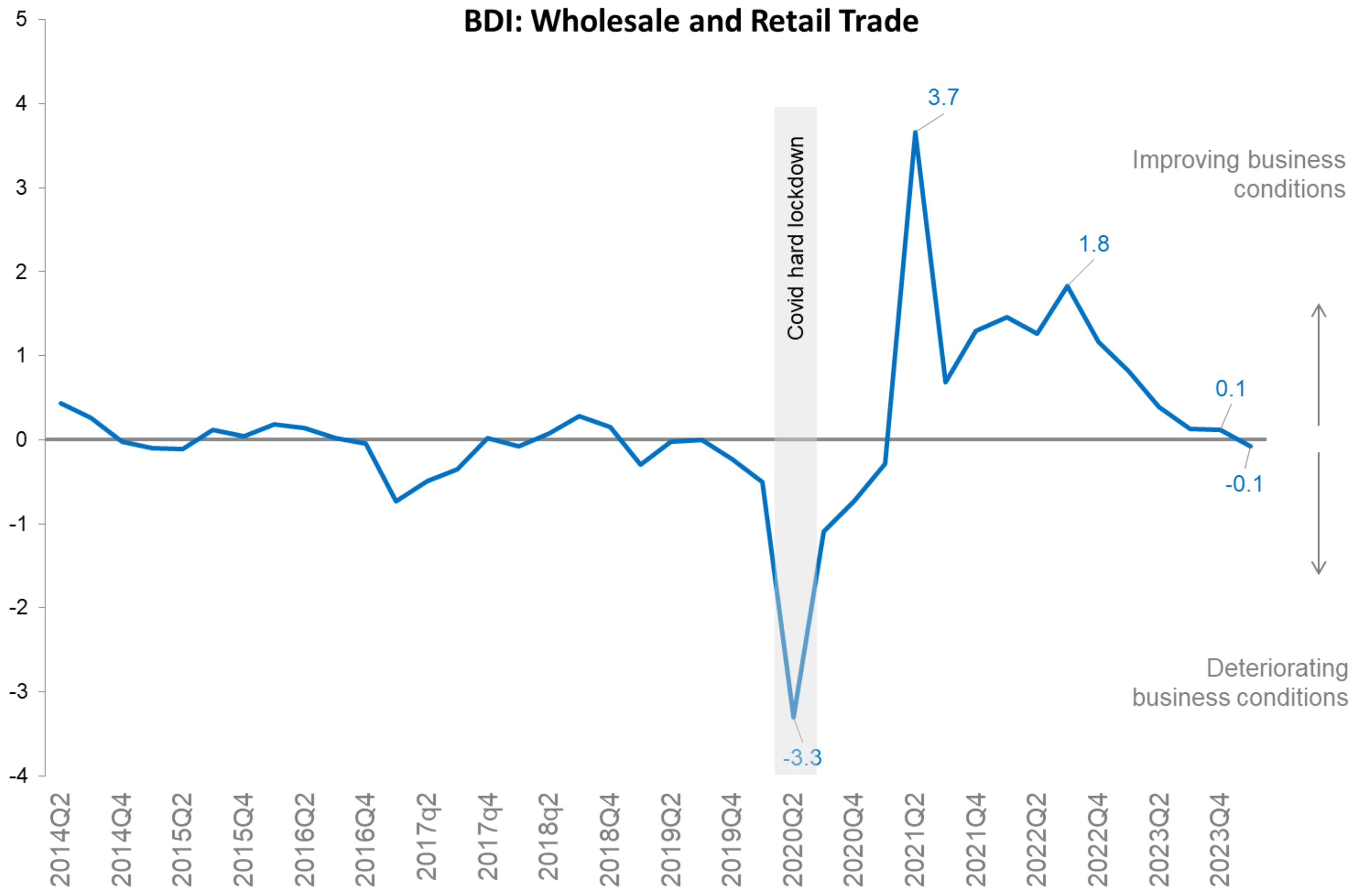
Sector focus: Trade

BDI

BDI for Wholesale and Retail Trade has been dragged down by poor growth in Retail Trade. This again aligns with cost pressures on consumers.

Positive performance was however seen in

- wholesale trade,
- tourist accommodation,
- restaurant, catering, and fast-food industry



Sector focus: Trade

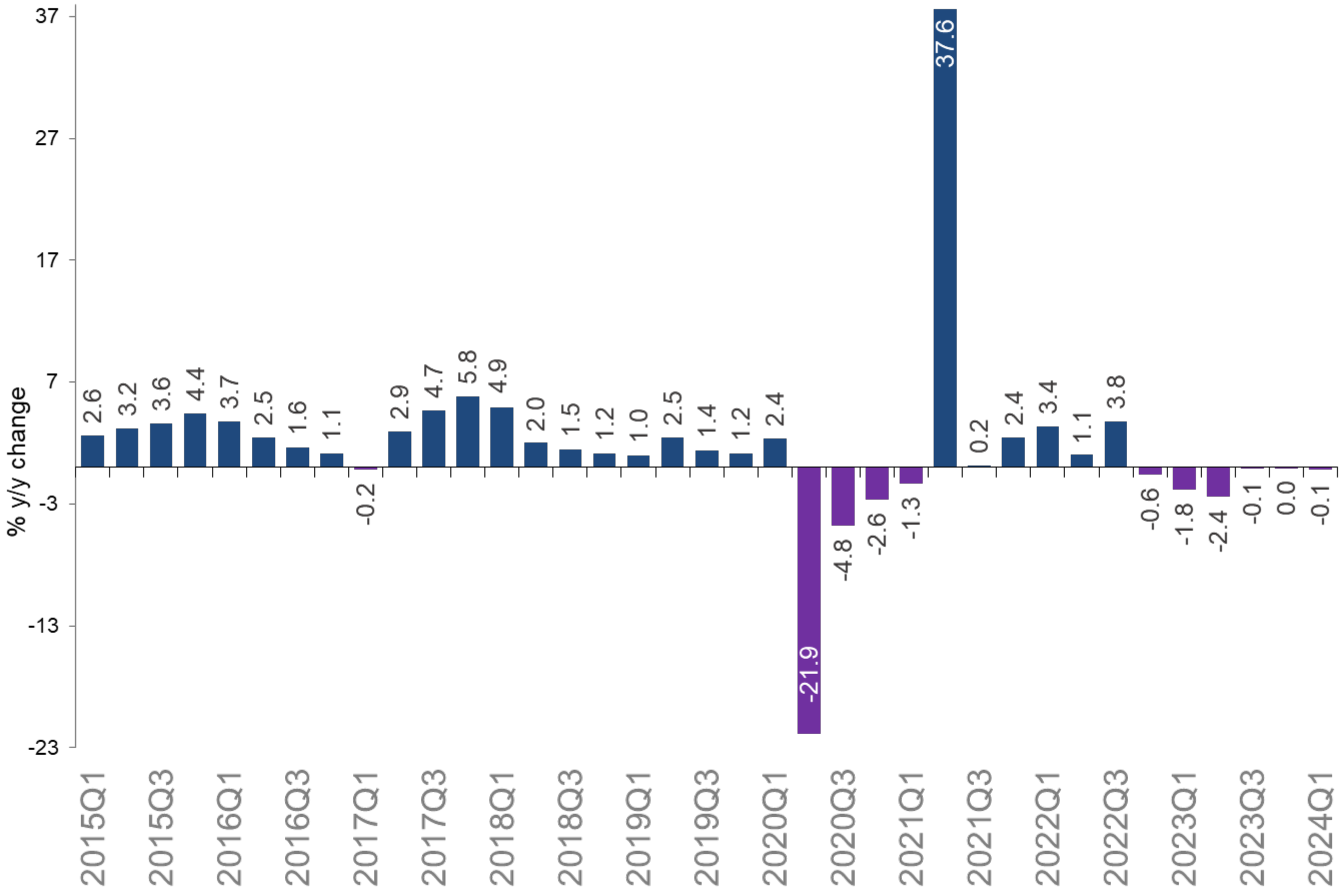
Key Indicators

Contraction in Retail sales was due to cost pressures faced by consumer. This has been exacerbated by the faster inflation observed for non-durables (e.g. food) over the last 2 years.

As food inflation slows, we could expect to see signs of growth coming through in retail sales again.

This sector would also benefit from a drop in interest rates – particularly in so far as durable goods are concerned.

Retail Sales Growth (constant prices)



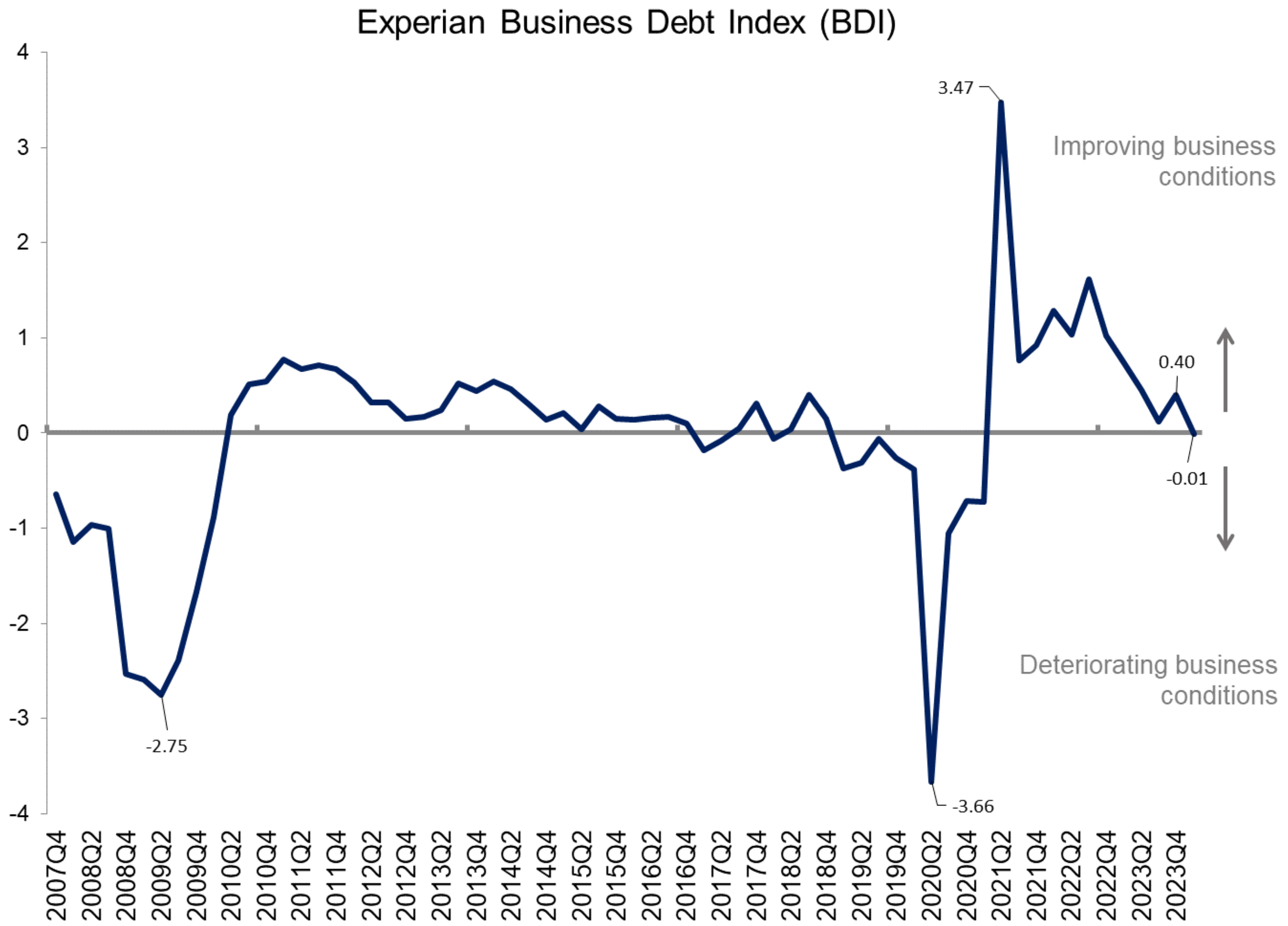
Source: StatsSA

Some Good News to End Off with…

Business Debt Index

Expected to improve in Q2

- Absence of load-shedding
- Increased container volumes processed at ports
- Inflation has fallen back slightly
- Much will depend on the success or otherwise of the newly formed GNU



Source: Experian

We’ve got some power

- 71% of Eskom’s generating capacity is in working order
- It’s an improvement from 49% at the start of 2024
- Fewer breakdowns, better maintenance are keeping the lights on