What the consumer credit stats *really* say about consumer spending

By Leigh Andrews

22 Jan 2015

Rather than let the true findings of TransUnion's Consumer Credit index (CCi) fly over your head, we delved into the details...

The latest Consumer Credit index (CCi), released on 22 January 2015 by TransUnion, surprised pundits by showing that credit health improved slightly in Q4 of 2014. We spoke to TransUnion Africa President Geoffrey Miller to find out the nitty gritty...

Firstly, tell us a little about the TransUnion SA Consumer Credit index (CCi).

TransUnion Africa President, Geoffrey Miller

Miller: TransUnion, a global leader in credit and information management, with technical support from ETM Analytics, releases the TransUnion SA Consumer Credit index on a quarterly basis. It's an indicator that tracks consumer credit health by combining actual consumer borrowing and repayment behaviour with key macro-economic variables impacting on household finances. 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.

Based on a comparison from the Q1, Q2 and Q3 consumer credit consumer index, what did you predict the Q4 results would show?

Miller: Due to the sustained tough macro-economic conditions, low economic growth levels and high debt levels, we expected the CCi to generally remain at current levels.

Looking further back, what did the fact that the CCi increased to 49.3 in Q3 2014 from 48.9 in Q2 2014 mean - in simple terms?

Miller: The CCi 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 'break-even' 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 latest CCi figures show an increase from a revised 49.9 in Q3 to a preliminary 50.1 in Q4, The fact that it's about 50 is good news, but beware that this very slight movement does not yet signal a positive turnaround, as macro-economic factors continue to prevent improvements to the financial situation of consumers.

Makes sense. What does all of this data say about shoppers and the effectiveness of marketing?

Miller: Consumers generally find it difficult to make lifestyle changes when they are in financial difficulty and will often use credit to supplement their monthly living expenses. Credit providers use past repayment behaviour to assess credit risk and, while they do an affordability calculation and are aware of formal debt instalments due, they will not be aware of all expenses the consumer may have. Marketing to the 'correct' customers is thus not a simple task and the consumer is in the best position to determine whether they can actually afford to repay a loan or not. Consumer education is a critical component to ensure a healthy credit industry in SA.

Explain the impact of TransUnion's distressed borrowing indicator, showing households are being forced to access more credit to supplement their budgets.

Miller: Most credit providers have become more conservative in their lending policies over the past 12 months. Consumers are thus finding it more difficult to access new credit lines. Households are, however, still feeling the pinch and being forced to access more credit to supplement monthly budgets. The indicator shows the amount of revolving credit (credit cards and store cards) used as a percentage of one's credit limit. Currently, households are using 50% of their credit limits, up from about 40% in 2007. Revolving credit utilisation is rising at a rate of about 3.5% year-on-year, driven predominantly by credit cards. While concerning, this rate of increase is still well below the levels of acute distress in 2008 when distressed borrowing was rising at a rate of 10% year-on-year.

Talk us through findings in the latest consumer spending behaviour, and what this means for consumers and marketers alike.

Miller: Credit providers will continue to attempt to identify lower risk consumers to whom they can offer credit facilities. Consumers are however in the best position to determine whether they can afford to repay any credit facility that they may be offered. It is thus critical that consumers only accept facilities that they can afford and not what is offered by credit providers. They should complete their own income and expenditure calculation to determine what they can afford to repay and ensure that they build in a buffer for unexpected expenses.

There you have it. Click here for a full report on the quarterly TransUnion CCI.

ABOUT LEIGH ANDREWS

Leigh Andrews AKA the #MilkshakeQueen, is former Editor-in-Chief: Marketing & Media at Bizcommunity.com, with a passion for issues of diversity, inclusion and equality, and of course, gourmet food and drinks! She can be reached on Twitter at @Leigh_Andrews.
- #Loeries2020: Behavioural economics as creativity, but not as we know it... - 24 Nov 2020
- #DI2020: Ignite your inner activist - representation through illustration - 27 Feb 2020
- #DI2020: How Sho Madjozi brought traditional Tsonga *xibelani* into 2020 - 27 Feb 2020
- #DI2020: Silver jubilee shines with Department of Audacious Projects launch - 26 Feb 2020
- #BehindtheSelfie with... Qingqile 'WingWing' Mdlulwa, COO at The Whole Idea - 26 Feb 2020

View my profile and articles...