Consumer Financial Vulnerability Index

QUARTER 4, 2017 RESULTS

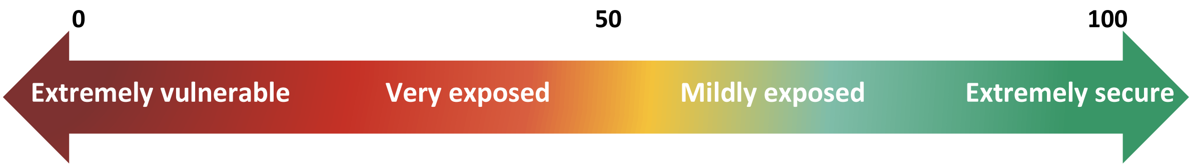
Will 2018 Budget tax hikes reverse small gains in consumer financial vulnerability?

The Momentum/Unisa Consumer Financial Vulnerability Index (CFVI) showed that consumers felt slightly less vulnerable in the fourth quarter (Q4) of 2017 compared to the third quarter (Q3). There were encouraging improvements across all four sub-indices. The overall CFVI improved to 49.3 points during Q4 2017 from 47.0 points in the previous quarter. Although the Income vulnerability index improved marginally to 48.9 points, it remains in the very exposed category. The savings and debt servicing vulnerability indices also remained in the very exposed category, but improved from 46.3 to 49.5 points and 44.3 to 48.3 points respectively. The expenditure vulnerability index improved from 48.5 to 50.9 points, moving into the mildly exposed category.

Table 1 provides an overview of the changes in the quarterly scores of the Consumer Financial Vulnerability Index (CFVI) and its sub-components during Q4 2017 and the two preceding quarters. The measurement scale shows that overall consumers continued to perceive their finances to be very exposed.

QUARTERLY OVERVIEW OF CFVI AND ITS SUB-COMPONENTS

CFVI components	Q2 2017	Q3 2017	Direction	Q4 2017	Direction
Income	49.0	48.8	↓	48.9	↑
Expenditure	49.1	48.5	↓	50.9	↑
Savings	48.8	46.3	↓	49.5	↑
Debt servicing	46.6	44.3	↓	48.3	↑
Overall CFVI	**48.4**	**47.0**	↓	**49.3**	↑



Impact of economic and political events

The outcome of the ANC elective conference did not influence the CFVI survey results as it was conducted before the conference started. However, some macro- and micro-economic indicators explain the improvement in consumers' perceptions of their financial situation. These indicators include:

- Headline year-on-year consumer price inflation rates for Q4 2017 were below 5 percent for all three months of this quarter; compared to inflation of 6 percent for all 3 months of Q1 2017 and over 5 percent for all 3 months of Q2 2017.
- Retail sales figures (seasonally adjusted, 3 month percentage change rates) improved remarkably during Q4 2017 compared to Q3 2017. Comparatively high levels of retail growth were particularly evident across textile, clothing, footwear, leather goods, household furniture, household appliances, and household equipment retailers. Furthermore, expressed in constant 2015 prices, retail sales increased by 8.2% in November 2017 (compared to November 2016). This was the highest year-on-year annual retail growth rate since July 2012.
- Household credit extension improved during Q4 2017 as growth continued to gradually increase from the very low levels seen during 2016, and debt service costs remained relatively stable.

- The South African Reserve Bank's composite leading business cycle indicator for October and November 2017 increased relative to its levels during the three months of Q3 2017.
- The official unemployment rate declined from 27.7% during Q3 2017 to 26.7% during Q4 2017.
- The average quarterly Rand-Dollar exchange rate improved from 13.50 in Q3 2017 to 12.41 in Q4 2017.

Unpacking the CFVI Q4 2017 results

Which consumers tend to be more financially vulnerable?

Drawing on their insights from dealing with consumers on a daily basis, about half the survey's key informants during Q4 2017 indicated they believe that the most vulnerable group is people earning incomes below R 50 000 per annum. Given that more than 70 percent of South Africa adults earn less than R 50 000 per annum, this points towards the very serious financial challenges the majority of South Africans experience.

About 56 percent of key informants believed that 18 to 39 year olds are the most financially vulnerable age group. This result has important implications as this group is the emerging economic base of the country, destined to enter the working and entrepreneurial world. They are also the future consumers, savers and tax payers. If this group is struggling to get economic traction it means the economy as a whole is on the back foot in terms of economic growth and development. Statistics South Africa's Quarterly Labour Force Survey showed that nearly 53 percent of economically active people in this age group were unemployed during Q4 2017, which is significantly higher than the country's official unemployment rate over this period.

Key informants believed that the most financially vulnerable labour market status group is full-time employed public sector workers. Although public sector employees receive salaries and wages and have high levels of job security, many public sector workers are highly indebted and have very high monthly expenditures.

Why are consumers vulnerable?

When it comes to consumers in general, the key informants believe that financial literacy related factors are the main drivers of consumers' financial vulnerability. Key informants believe that consumers generally lack the capability to deal effectively with their own finances:

- Nearly 47 percent of key informants believe that consumers are generally not financially literate.
- About 51 percent of key informants believe that consumers don't plan their finances in advance.
- Nearly 63 percent of key informants believe that consumers don't exercise self-control when it comes to spending.
- About 65.1 percent of key informants believe that consumers don't consider the risks when taking on more credit.

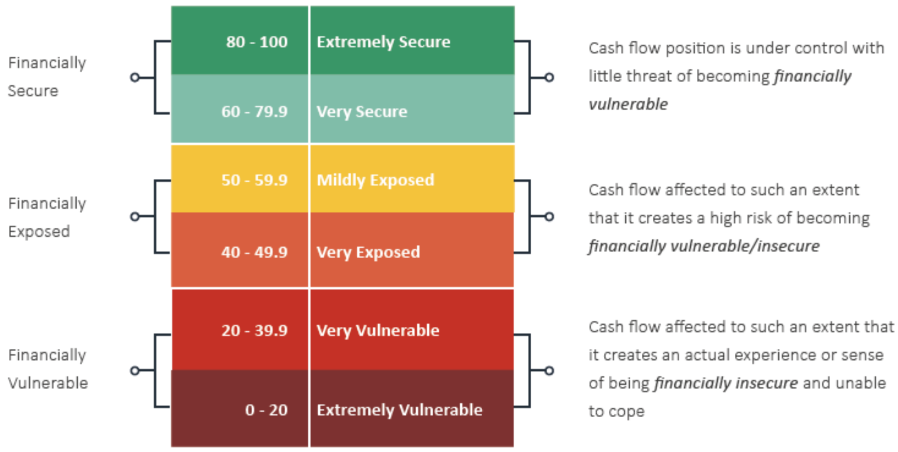
Conclusion

The macroeconomic environment is improving, which should have a positive impact on consumers' finances. The pressure on consumers' finances, specifically their budgets, could reduce slightly during Q1 2018, mainly due to lower fuel prices and inflation rates that should improve consumers' spending power. Changing political conditions, higher economic growth and greater levels of consumer confidence will also make consumers more bullish about their finances. However, it remains to be seen how the VAT increase and lack of personal tax relief announced in the 2018 Budget speech will impact on levels of consumer financial vulnerability. Furthermore, the key informants' perceptions that consumers have clear financial capability problems which impact adversely on their ability to improve their own financial situations is very concerning. If consumer financial capabilities remain constrained, major improvements in consumer financial vulnerability are unlikely, despite improving macro-economic conditions.

SCORES OF THE CFVI AND ITS SUB-INDICES

Date		Income	Expenditure	Savings	Debt servicing	Overall CFVI
2010	Q1	51.22	47.37	53.96	54.94	51.87
	Q2	53.25	45.36	58.08	56.62	53.33
	Q3	47.26	53.14	50.72	56.79	51.98
	Q4	53.77	56.19	49.11	64.74	55.95
2011	Q1	58.45	50.61	52.19	56.34	54.40
	Q2	54.82	54.21	46.68	58.84	53.64
	Q3	52.43	55.60	47.67	61.39	54.27
	Q4	52.81	57.29	51.10	61.87	55.77
2012	Q1	57.58	60.10	58.80	56.59	58.87
	Q2	44.78	53.79	47.46	47.79	48.60
	Q3	46.84	54.39	42.09	48.12	47.86
	Q4	47.19	52.24	48.69	52.17	50.07
2013	Q1	49.60	51.02	49.60	54.04	**51.07**
	Q2	43.43	52.35	44.38	53.82	**46.67**
	Q3	42.11	45.22	44.78	51.58	**45.92**
	Q4	51.28	53.53	49.96	53.71	**52.03**
2014	Q1	51.00	52.88	50.23	46.60	**50.17**
	Q2	47.71	54.61	51.73	48.98	**50.18**
	Q3	50.98	54.27	51.97	48.41	**51.41**
	Q4	51.42	53.53	50.52	49.57	**51.22**
2015	Q1	52.09	56.70	52.69	49.93	**52.74**
	Q2	52.08	52.48	51.49	47.00	**50.76**
	Q3	47.23	54.96	48.49	47.77	**45.96**
	Q4	50.23	53.18	51.67	48.71	**50.95**
2016	Q1	50.50	52.62	52.13	49.86	**51.28**
	Q2	52.54	52.34	49.77	48.18	**50.71**
	Q3	51.50	54.73	52.16	49.89	**52.07**
	Q4	53.60	56.53	50.83	50.40	**52.71**
2017	Q1	53.02	53.78	52.32	50.16	**52.32**
	Q2	48.95	49.12	48.83	46.55	**48.36**
	Q3	48.77	48.53	46.25	44.32	**46.97**
	Q4	48.99	50.93	49.54	48.26	**49.31**

MEASUREMENT SCALE OF CONSUMER FINANCIAL VULNERABILITY INDEX



About the index

The term 'Consumer Financial Vulnerability' implies that consumers experience a sense of financial insecurity or an inability to cope financially. In essence, the CFVI identifies the specific financial sub-component(s) that consumers on average feel are causing stress to their cash flow positions. Therefore, it provides a window into the psyche of consumers and how vulnerable they are feeling with regards to their income, expenditure, savings, and debt servicing capabilities. Insights into consumers' financial positions are vital to determine the extent to which economic growth and government programmes translate into improved financial stability of consumers. As a quarterly indicator, the CFVI fills an important information gap in South African data on consumer finances as viewed by consumers in the sense that it regularly provides updates as to the state of consumers' financial vulnerability. The results of this release of the CFVI stem from research conducted by Unisa on behalf of Momentum. The results of this release of the CFVI are based on a selection of approximately 100 key informants from relevant industries (including credit industry institutions, retailers providing credit and municipalities) that are able to gauge consumers' financial perceptions.

Compiled by

Prof. Carel van Aardt, Bureau of Market Research, Unisa
Mrs Jacolize Meiring, Department of Taxation, Unisa
Prof. Bernadene de Clercq, Department of Taxation, Unisa
Mr Johann van Tonder, Researcher: Financial Wellness, Momentum