Purposeful collaboration towards Financial Wellness in South Africa

Consumer Financial Vulnerability Index

QUARTER 1 | 2018 RESULTS

CFVI Q1 2018 RESULTS

A NEW POLITICAL DAWN, A NEW ECONOMIC DAWN, A NEW CONSUMER DAWN?

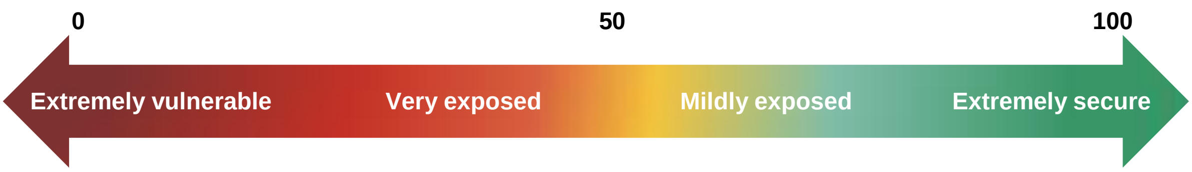
On the political front, there was more talk about a ‘new dawn’ during the first quarter of 2018. This new political dawn refers to President Ramaphosa being inaugurated as the fifth South African President since the inception of the democratic dispensation, during mid-February 2018. The expectation of millions of South Africans at that stage was that the political ‘new dawn’ would also translate into an economic ‘new dawn’ characterised by higher gross domestic product (GDP) growth rates, job creation, investor and business confidence, and lower levels of consumer vulnerability.

The Momentum/Unisa Consumer Financial Vulnerability Index (CFVI) showed that consumers indeed experienced lower levels of consumer financial vulnerability during Q1 2018 compared to Q4 2017. This improvement in the level of consumer financial vulnerability continued the improvements in consumer financial vulnerability experienced during the last quarter of 2017 (see table 1 below). The overall CFVI improved to 52.64 points during Q1 2018 from 49.31 points in the previous quarter. The income vulnerability index improved strongly from 48.9 points during Q4 2017 to 54.88 in Q1 2018. This provides a clear indication of consumers feeling more able to obtain the financial resources they require for expenditure purposes. The expenditure vulnerability index confirms this conclusion because it improved from 50.93 in Q4 2017 to 54.02 during Q1 2018. The Savings and debt servicing vulnerability indices were the lowest scoring indices with some improvements during Q4 2017 to Q1 2018. The good news with respect to Q1 2018 is that all four consumer financial vulnerability sub-index scores were in mildly exposed territory during Q1 2018, compared to three of the four sub-indices being in very exposed territory during Q4 2017.

Table 1 provides an overview of the changes in the quarterly scores of the CFVI and its sub-components during Q1 2018 and the two preceding quarters. The measurement scale shows that overall, consumers continued to perceive their finances to be mildly exposed.

TABLE 1: QUARTERLY OVERVIEW OF CFVI AND ITS SUB-COMPONENTS

CFVI components	Q3 2017	Q4 2017	Direction	Q1 2018	Direction
Income	48.77	48.99	↑	54.88	↑
Expenditure	48.53	50.93	↑	54.02	↑
Savings	46.25	49.54	↑	51.19	↑
Debt servicing	44.32	48.26	↑	50.48	↑
Overall CFVI	**46.97**	**49.31**	↑	**52.64**	↑



Economic and political events impacted consumers' cash flow perceptions during Q1 2018

Consumer financial vulnerability (at the micro-level) is to a lesser or greater extent, being influenced by macro- and micro-economic variables. Such variables during Q1 2018 included inter alia:

- Retail sales growth picked up pace significantly during Q1 2018, i.e. retail sales growth was 4.8% year-on-year in March 2018.
- The number of employed consumers grew by 1.3% from Q4 2017 to Q1 2018. Strong employment growth occurred over this period in the manufacturing (3.3 percent), construction (2.9 percent), community and social services (2.6 percent) sectors.
- Headline year-on-year consumer price inflation (CPI) rates for Q1 2018 were on average 4.1% compared to 4.7% during Q4 2017. This quarterly decline in CPI created additional spending space for many cash strapped households.
- Household credit extension increased by 1.3 percent during Q1 2018. Of specific interest is the fact that mortgage advances grew by 1.2% during this period, which is indicative of increasing consumer confidence giving rise to higher levels of fixed capital formation by households.
- The South African Reserve Bank's leading indicator for February 2018 (Q1 2018) showed improvement when compared to the three months of Q4 2017.
- The average rand-dollar exchange rate improved from R13.17 in December 2017 to R11.84 in March 2018.

A CLOSER LOOK AT THE CFVI Q1 2018 RESULTS

Why are consumers vulnerable?

Key informants contacted for the purpose of the Q1 2018 CFVI survey indicated various reasons why consumers were vulnerable during Q1 2018. Such reasons include inter alia:

- Economic conditions are unfavourable and there are high levels of economic instability.
- There is a general absence of sufficient jobs and many consumers are unemployed.
- Many consumers are highly indebted and spend large amounts of money per month to service their debt.
- The quantity and quality of education among South Africa consumers is seriously lacking.
- There is a general lack of financial education.
- Consumers generally do not conduct financial planning.
- There is a lack of budgeting among consumers.
- Household budgets are generally fairly tight - consumers are generally unable to stick to their budgets.
- Living costs are very high.
- Household expenditure growth is higher than household income growth.

- Consumers often compare themselves to others and then try to keep up through conspicuous consumption (‘consumptionist’ culture).
- There is a lack of discipline among South African consumers, e.g. many consumers are ‘buying unnecessary things’ (careless spending).
- Many consumers live beyond their means.
- South African consumers generally earn low incomes.
- Consumers generally do not save and are generally financially overcommitted.
- Many employed people have too many deductions from their salaries.

When it comes to consumers in general, the key informants believe that low financial literacy and capability levels are the underlying reasons for consumers being financially vulnerable. Key informants believe that consumers are generally not sufficiently capable to deal with their own finances in the following manner:

- About 49% (up from 47% in Q4 2017) of key informants believe that consumers are generally not financially literate.
- About 67% (up from 51 percent in Q4 2017) of key informants believe that consumers do not plan their finances.

Which consumers tend to be more vulnerable?

Information provided by the survey’s key informants during Q1 2018 indicate that 50% of the key informants are of the view that the most vulnerable group are people earning incomes below R 50 000 per annum. Given the fact that more than 70% of South African adults earn less than R 50 000 per annum, this points towards very high levels of financial challenges experienced by the bulk of the South African population.

Just more than 64% of key informants believe that 18 to 39 year olds are the most financially vulnerable age group. The result, with respect to whom key informants believed are the most financially vulnerable labour market status group, provided interesting insights. The most vulnerable group is deemed to be full-time employed public sector workers. Although public sector employees obtain salaries and wages while having high levels of job security, many public sector workers are highly indebted and have very high expenditures per month.

TABLE 2: SCORES OF THE CFVI AND ITS SUB-INDICES, 2011 TO 2018

Date		Income	Expenditure	Savings	Debt servicing	Overall CFVI
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**
18	Q1	54.88	54.02	51.19	50.48	**52.64**

TABLE 3: MEASUREMENT SCALE OF CONSUMER FINANCIAL VULNERABILITY INDEX

Financially Secure	80 - 100	Extremely Secure	Cash flow position is under control with little threat of becoming *financially vulnerable*
	60 - 79.9	Very Secure	
Financially Exposed	50 - 59.9	Mildly Exposed	Cash flow affected to such an extent that it creates a high risk of becoming *financially vulnerable/insecure*
	40 - 49.9	Very Exposed	
Financially Vulnerable	20 - 39.9	Very Vulnerable	Cash flow affected to such an extent that it creates an actual experience or sense of being *financially insecure* and unable to cope
	0 - 20	Extremely Vulnerable	

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 about 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 on 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 112 key informants from relevant industries (including credit industry institutions, retailers providing credit and municipalities) that are able to gauge consumers’ financial perceptions.

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