MMI Unisa Consumer Financial Vulnerability Index Quarter 1, 2017

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Vulnerability index confirms that South Africans are feeling financially stressed

Already struggling South African consumers felt more financially strained during the first quarter of 2017 according to the latest MMI Unisa Consumer Financial Vulnerability Index (CFVI).

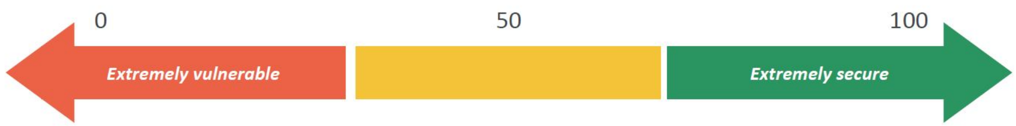
The CFVI measures local consumers' sentiments in terms of their income, expenditure, savings and debt servicing, and the overall index declined from 52.71 in Q4 2016 to 52.32 in Q1 2017.

MMI's, Shelley van der Westhuizen says this drop is not surprising given the destabilising uncertainties in the macroeconomic environment including the cabinet re-shuffle, credit rating downgrade, rising unemployment and negative GDP growth in the quarter.

The combined index and all four separate sub-components remain in the 'Mildly Exposed' category but debt servicing vulnerability is moving worryingly close to the dangerous 'Very Exposed' category. The only silver lining in the first quarter numbers was an improvement in perceptions about savings levels although this follows a typical seasonal pattern.

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

CFVI components	Q3 2016	Q4 2016	Direction	Q1 2017	Direction
Income	51.50	53.60	↑	53.02	↓
Expenditure	54.73	56.53	↑	53.78	↓
Savings	52.16	50.83	↓	52.32	↑
Debt servicing	49.89	50.40	↑	50.16	↓
Overall CFVI	**52.07**	**52.71**	↑	**52.32**	↓



More than one in three (34.9%) CFVI respondents felt that unemployment was a critical contributor to their sentiment of financial vulnerability. This is not surprising in light of the Q1 2017 unemployment rate (official definition) which rose to 27.7% from 26.5% measured in Q4 2016.

Other significant reasons provided by respondents were the high cost of living (32.1%); low income/insufficient salary increases (27.4%); too much debt (24.5%); and poor financial planning (21.7%).

SUB-COMPONENT ANALYSIS

Consumers’ income vulnerability increased

The CFVI shows that consumers’ income vulnerability score deteriorated from 53.60 points in Q4 2016 to 53.02 points in Q1

2017, indicating greater income vulnerability. This higher income vulnerability was driven by the number of respondents that expressed negative sentiments with respect to consumers' ability to earn an income (56.8%), or acquire income from family or friends during the past three months (58.6%). Given the current domestic economic climate, consumer sentiment is unlikely to improve in the short-term, which could place additional pressure on consumers' income vulnerability scores.

Consumers' expenditure vulnerability increased

Consumers' expenditure vulnerability score deteriorated sharply to 53.78 points during Q1 2017 from 56.53 points in the previous quarter. This was confirmed by Statistics South Africa's (SSA) economic growth figures that showed a contraction in household consumption expenditure of 2.3% (quarter-on-quarter seasonally adjusted and annualised basis) in Q1 2017 compared to Q4 2016. The deteriorating expenditure vulnerability score was underpinned by 61.3% who felt consumers were unable to stick to their expenditure budgets. Moderating inflation should provide some financial relief to consumers, but consumer spending is likely to remain subdued while confidence in the economic and political environment remains low.

Consumers' savings vulnerability improved

Consumers' savings vulnerability remained in mildly exposed territory despite increasing to 52.32 points in Q1 2017 compared to 50.83 points in Q4 2016. There is generally an improvement in savings vulnerability scores during the first quarter of the year (as illustrated in Table 2), as consumers attempt to recuperate some of their "lost savings" resulting from increased spending during the festive season in the fourth quarter. The improved savings vulnerability score can also be ascribed to consumers' experience and expectation of deteriorating financial circumstances, causing them to spend less and save more. In this respect, business leaders on various forums indicated that households are cutting back on non-essential expenditure because of negative consumer sentiment. However, the results from the CFVI survey show that their ability to save more is limited. More than half (61.3%) of the respondents felt that consumers' ability to save more over the quarter, had not improved.

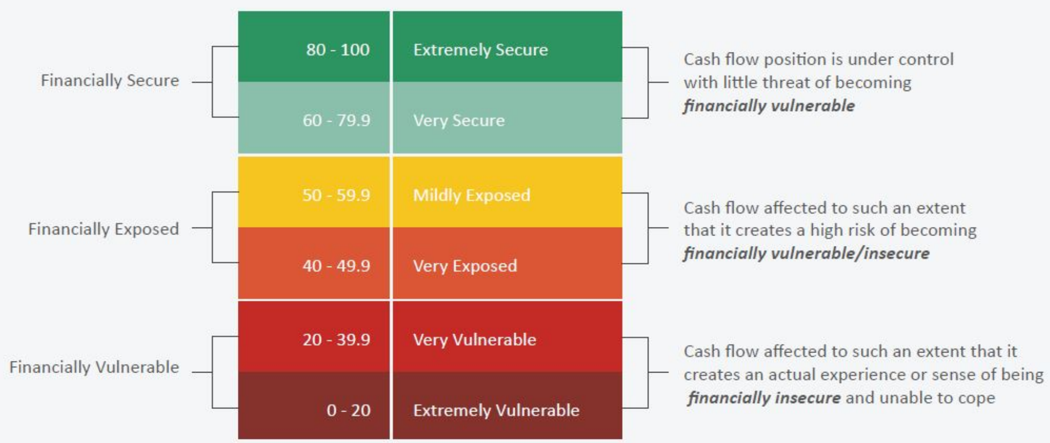
Consumers' debt servicing vulnerability increased

Consumers' vulnerability with respect to debt servicing deteriorated in Q1 2017, taking them closer to the brink of the very financially exposed category. The debt servicing vulnerability score declined to 50.16 points in Q1 2017 from 50.40 points in Q4 2016. However, respondents' answers suggest that the debt servicing vulnerability scores should be read in conjunction with the expenditure vulnerability scores – and collectively this indicates an even worse situation than the individual scores reflect. Some 60.4% of respondents felt that consumers had to consider reducing other financial commitments in order to repay their debt during Q1 2017. This implies that the debt servicing vulnerability score could have been even worse had consumers not reduced other commitments – and it explains the sharp increase in expenditure vulnerability. The CFVI survey results also show that almost three quarters (74.8%) of respondents indicated that consumers' severe debt situations forced them to consider seeking assistance from someone else. This was confirmed by the SARB's credit extension growth numbers that indicated a sharp slowdown in banks' credit extension to households (only a 0.6% year-on-year growth rate in Q1 2017). This means that consumers' ability to take up more credit decreased and there was less credit available to consumers.

TABLE 2: SCORES OF THE CFVI AND ITS SUB-INDICES

	Date	Income	Expenditure	Savings	Debt servicing	Overall CFVI
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**

FIGURE 1: 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 is an index that 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 regard 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 MMI. 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.