momentum

CONSUMER FINANCIAL VULNERABILITY INDEX

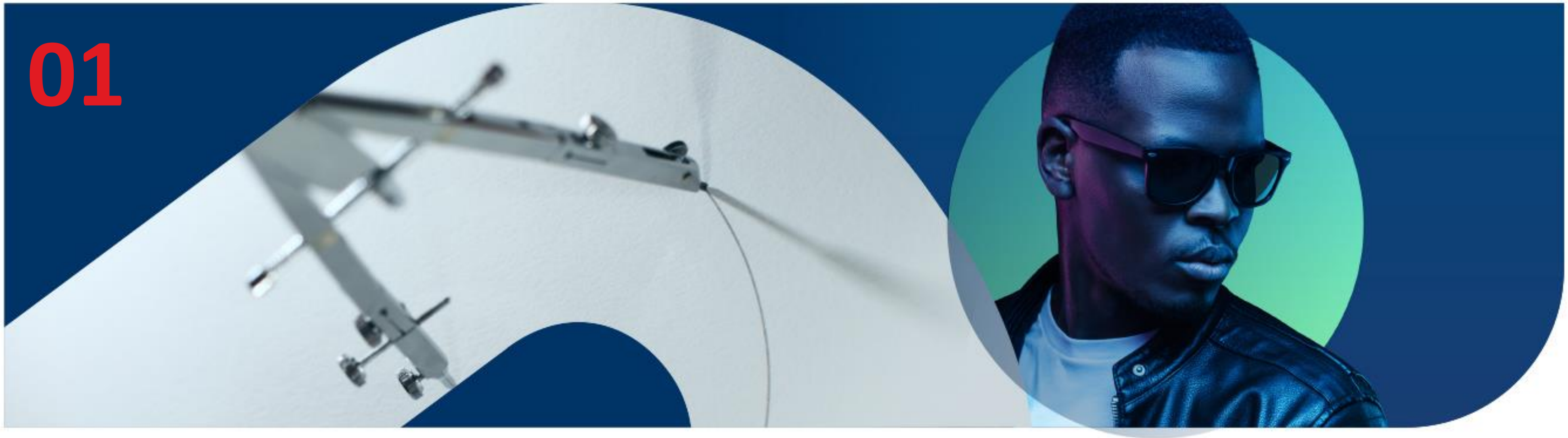
UNISA university of south africa

TOP STORY

Consumers try to adjust, but financial stress remains high

Q1

2023



CFVI Q1 2023 Summary

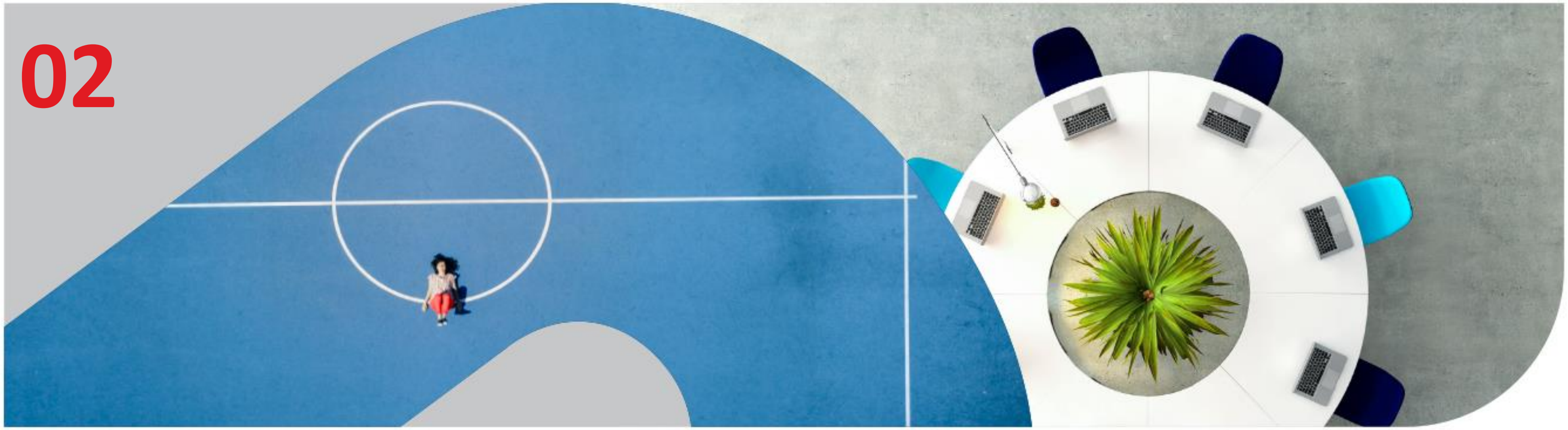
In an attempt to deal with persistent financial stress, consumers reigned in their spending to levels more commensurate with their income in the first quarter of 2023 (Q1 2023).

However, this adjustment, which was brought about by load-shedding and rising food and fuel prices, was insufficient to increase consumers' level of financial comfort. Consumers' dismal financial state consumed their mental bandwidth so much that it negatively affected their interpersonal relationships and productivity.

This dire state of consumer finances is reflected in the Momentum-Unisa Consumer Financial Vulnerability Index (CFVI), which registered 49.1 points in Q1 2023. The good news is this is a slight improvement from the 47 points recorded in Q4 2022.

However, apart from reigning in expenditure, the improvement can to a degree also be attributed to seasonal psychological factors, which normally accompany the start of a new year. Nevertheless, consumers' state of financial vulnerability remained worse than in Q1 2022, when the CFVI was at 53.4 points.

02



Quarterly overview of CFVI and its sub-components

Consumers were **less financially vulnerable** in Q1 2023 compared to Q4 2023

The CFVI as measured from the views of consumer key informants who deal with consumers daily, increased from 47.0 points in Q4 2022 to 49.1 points in Q1 2023. Although the state of consumer finances was deemed less vulnerable in Q1 2023 compared to Q4 2022, it was despite the improvement still more vulnerable than a year ago, when the CFVI registered 53.4 points.

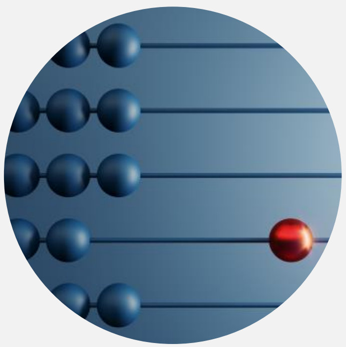
50 – 59.9 **MILDLY EXPOSED**

40 – 49.9 **VERY EXPOSED**

	Q1 2022	Q4 2022	Q1 2023	CHANGE FROM Q1 2022	CHANGE FROM Q4 2022
INCOME	54.3	48.4	50.9	↓	↑
EXPENDITURE	54.7	48.1	48.3	↓	↑
SAVINGS	52.5	46.6	48.9	↓	↑
DEBT SERVICING	52.1	44.8	48.4	↓	↑
OVERALL CFVI	53.4	47.0	49.1	↓	↑

02

Quarterly overview of CFVI and its sub-components



All four sub-components of the CFVI improved in Q1 2023 compared to Q4 2022, but consumers were still more vulnerable than a year before. The lower consumer financial vulnerability in Q1 2023 emanated from consumers cutting back on expenditure, compared to sharp increases in the rate at which consumer expenditure exceeded their income in the two previous quarters.

The reason behind consumers' expenditure restraint emanated from chronic high increases in food and fuel prices and increasing interest rates, which reduced their disposable income. Food and fuel inflation was responsible for about 40% of the CPI-rate in Q1 2023, the latter hovering around 7% compared to a year ago. In addition, the South African Reserve Bank estimated average salary increases of 5.2% for 2022, much lower than the CPI-rate of 6.9%, meaning consumers had to really cut back on expenditure – which appears to have occurred in Q1 2023.

Reasons behind the changes in the four sub-index scores:

Higher prices, particularly of food and fuel, forced consumers to reduce their expenditure (buy less) to more affordable levels.

Consumers improved their saving behaviour to some extent, although more so in saving for retirement than for emergencies.

With expenditure better aligned to income, consumers income vulnerability decreased as they felt more comfortable about their income being sufficient to afford their expenditure. They also expected to be better assisted by transfers from family and friends.

The largest improvement occurred in the debt servicing vulnerability sub-component. By sacrificing some purchases, consumers were in a better position to afford and service their debt.

A closer look at the CFVI Q1 2023 results

The most notable research results revealed an increase in the number of consumers whose financial situation was constantly on their mind (in Q1 2023 compared to Q4 2022).

This means “plans” to make ends meet, making debt repayments, find a job, save more, etc. consumed most of their mental bandwidth, leaving little space for other important issues, contributing to a neglect thereof. Such neglected issues include less attention to family matters, forgetting doctors and other appointments, not attending to normal tasks, not being able to concentrate at work, etc. and may eventually lead to depression.

Another trend which continued in Q1 2023 is consumers making more impulsive and “feel-good” purchases. In psychological terms this is known as “therapeutical buying” as it makes a person in dire circumstances feeling better when purchasing something they need/want. This, however, normally come back to haunt consumers as it can contribute to higher financial vulnerability if the purchase is unaffordable.

85.9%

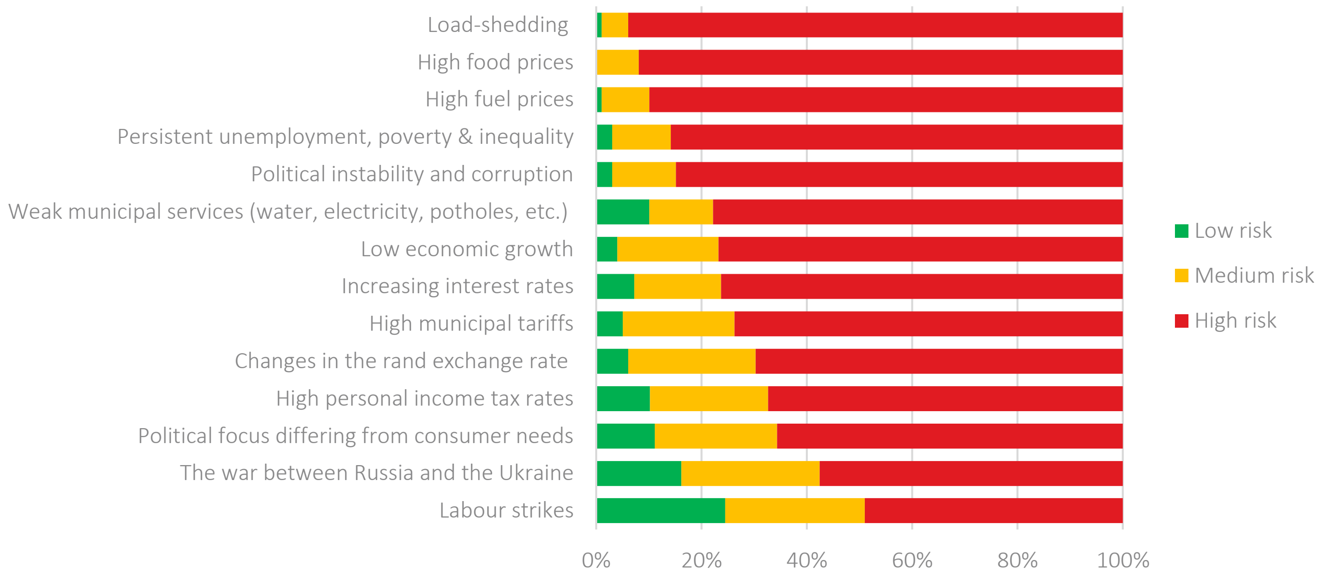
stated that consumers were constantly thinking about their finances.

80.8%

were of the opinion that consumers’ financial situations put strain on their interpersonal relationships.

Risk factors affecting consumer finances in Q1 2023

Load-shedding, and high food and fuel prices were the main high-risk factors affecting consumer financial vulnerability in Q1 2023. This was followed by unemployment, political instability and corruption, and weak municipal service delivery.



Load-shedding continued to pose greatest risk to consumer finances in Q1 2023

Interestingly, the increase in interest rates was not viewed as a one of the main risks contributing to consumer financial vulnerability. However, the survey was done before the South African Reserve Bank's Monetary Policy Committee surprised analysts and consumers by raising the repo rate by 50 basis points late in March, following an increase of 25 basis points in January. Had the increase occurred before the survey was done, interest rates might have been a more important risk factor.

Nevertheless, the top three risk factors are all about higher prices, which speaks to affordability. Load-shedding increases production costs which eventually translates to higher inflation. However, it also forces consumers to resort to energy alternatives, which is an added cost they must incur, affecting other purchases and their ability to save and repay debt.

03

A closer look at the CFVI Q1 2023 results

Economic and consumer finance outlook

Consumer key informants expect the CPI-rate to continue increasing at high rates in Q2 2023, while they are not very optimistic about the outlook for the South African economy. With regards to the expectations for the economic environment and consumer finances, the following were the majority views
for Q2 2023:

- The global and South African economies are expected to remain at current levels or even get worse.
- 58.6% expect consumer price inflation to continue to increase at a rapid pace.
- 54.2% anticipate that the level of unemployment will increase, while an additional 28.3% expect that it will remain at the current high levels.
- 76.5% expect consumer finances will either remain at the current vulnerable levels or worsen further .

58.6%

expect that there will be a continued rapid increase in prices during Q2 2023

53.5%

expect that the South African economy will perform worse during Q2 2023

54.2%

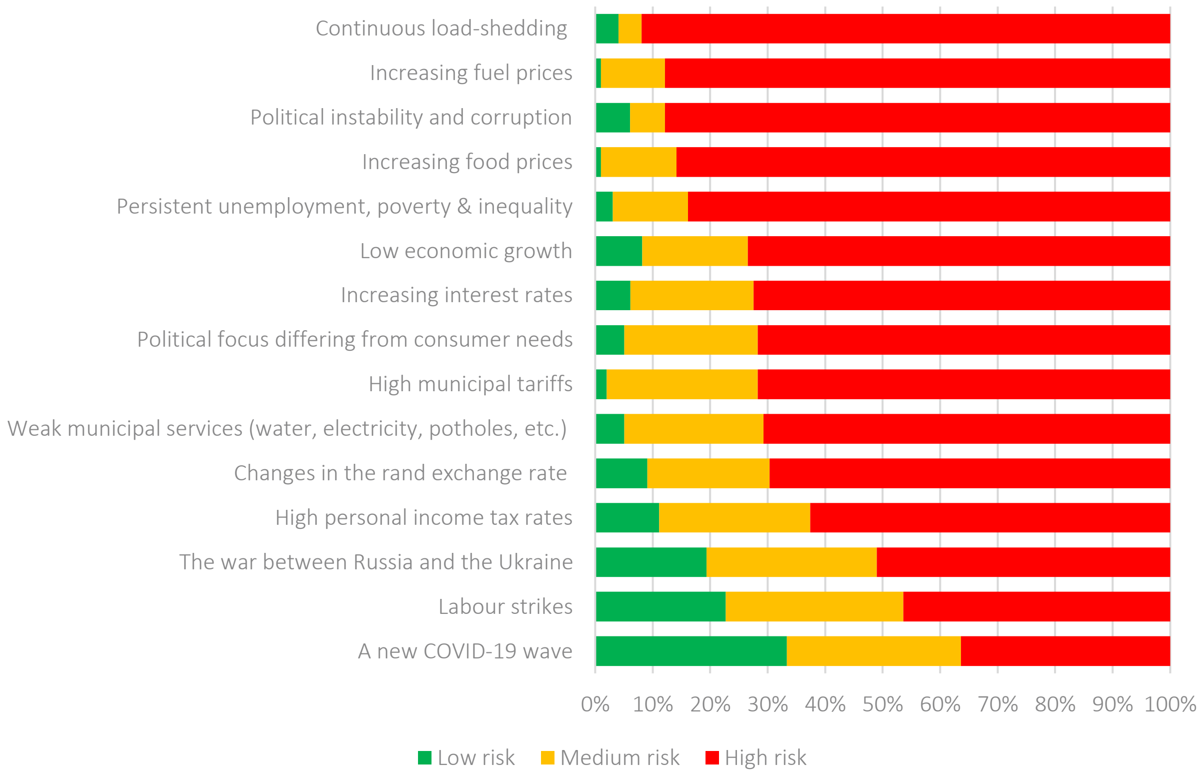
expect that the unemployment rate will increase during Q2 2023

03

A closer look at the CFVI Q1 2023 results

Expected risks to consumer finances during Q2 2023

Consumer key informants expect high fuel prices and political instability and corruption to become higher risks than increasing food prices to consumer finances in Q2 2023. However, as mentioned, the Q1 2023 CFVI-survey was done before the repo rate was increased by 50 basis points in March.



04

Tips to build financial resilience

Interest rate hikes – how they impact your finances and how to manage it when you have existing debt

The South African Reserve Bank has increased the lending interest rate twice during Q1 2023. The latest interest rate increase was the 9th consecutive hike since policy normalization started in November 2021. The decision to increase the lending rate was mostly based on the outlook for inflation for the next few months. The latest hike means that the cost to borrow money is now the highest since May 2009.

How does an increase in interest rates impact personal finances? From a personal finance perspective, increased interest rates have implications for anyone with a home loan, vehicle financing, student loan or any other form of debt. Even for those who do not have a large amount of debt, an increase in the interest rate has a significant impact on your disposable income as debt repayments increase, leaving less room in your monthly budget.

The following steps may assist in mitigating the impact on your budget:

- Try to pay off as much of your debt as quickly as possible. Consider making extra repayments on your highest interest-bearing debt when receiving a bonus or unexpected income, as this will reduce the amount of interest payable over your loan period.
- Keep in mind that as interest rates rise, so do debt repayments. Do not default on any of your debt repayments as this will influence your credit record and ability to access credit in the future.
- Review your budget and your debt. Reviewing your budget is an essential step in preparing for an interest rate hike. Look at your income and expenses to determine how much more you can afford to pay towards your debt each month. Knowing where you can cut out non-essential expenses will help you cope with higher repayments.
- Know what you can afford before taking on any additional debt, no matter how small the amount.
- Shop around when applying for a mortgage loan as banks are in competition with one another and may offer interest rates below the prime rate in order to secure your business.

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Scores of the CFVI and its sub-indices, Q2 2009 – Q4 2022

80 – 100
EXTREMELY SECURE

60 – 79.9
VERY SECURE

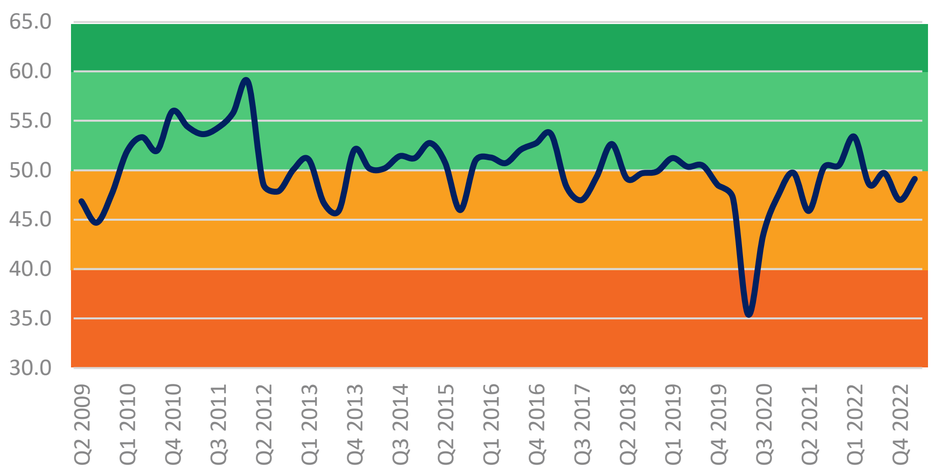
50 – 59.9
MILDLY EXPOSED

40 – 49.9
VERY EXPOSED

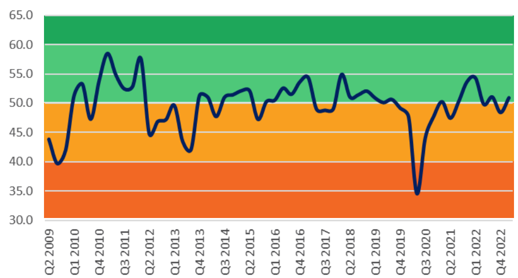
20 – 39.9
VERY VULNERABLE

0 – 19.9
EXTREMELY VULNERABLE

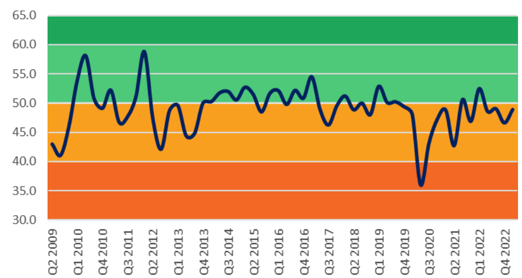
CFVI



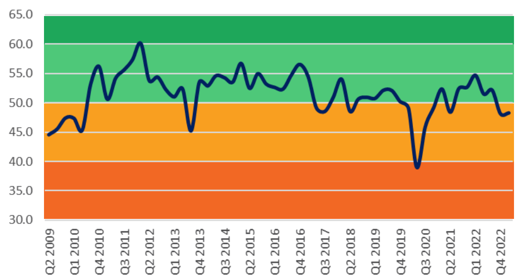
Income



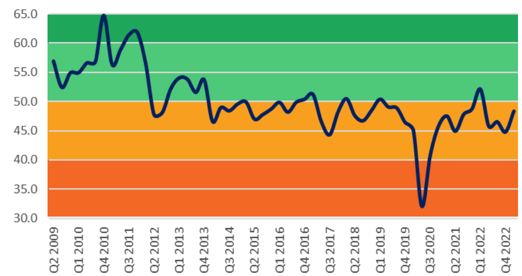
Savings



Expenditure



Debt servicing



Detailed historical values of the index and sub-components are available upon request via [e-mail]

About the index

As part of Momentum's Science of Success campaign, the Index is produced in partnership with Unisa. It aims to provide South Africans with information and strategies on how they can accelerate their journey to financial success.

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 the extent to which they feel vulnerable 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 the improved financial stability of consumers.

As a quarterly indicator, the CFVI fills an important information gap in South African data on consumer finances, in the sense that it regularly provides updates on the state of consumers’ financial vulnerability.

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About the index

The results of this release of the CFVI for Q1 2023 stem from research conducted by the Bureau of Market Research at Unisa on behalf of Momentum via an online and CATI-based survey conducted during March 2023. The results of this release of the CFVI are based on the responses of 99 key informants from relevant industries (including banks, insurers, other credit industry institutions, retailers, municipalities and consumer researchers) that are able to gauge consumers' financial perceptions and positions.

Measurement scale of consumer vulnerability index

80 – 100	60 – 79.9	50 – 59.9	40 – 49.9	20 – 39.9	0 – 19.9
EXTREMELY SECURE	**VERY SECURE**	**MILDLY EXPOSED**	**VERY EXPOSED**	**VERY VULNERABLE**	**EXTREMELY VULNERABLE**

FINANCIALLY SECURE

Cash flow position is under control with little threat of becoming financially vulnerable

FINANCIALLY EXPOSED

Cash flow affected to such an extent that it creates a high risk of becoming financially vulnerable/insecure

FINANCIALLY VULNERABLE

Cash flow affected to such an extent that it creates an actual experience or sense of being financially insecure and unable to cope momentum

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