momentum

CONSUMER FINANCIAL VULNERABILITY INDEX

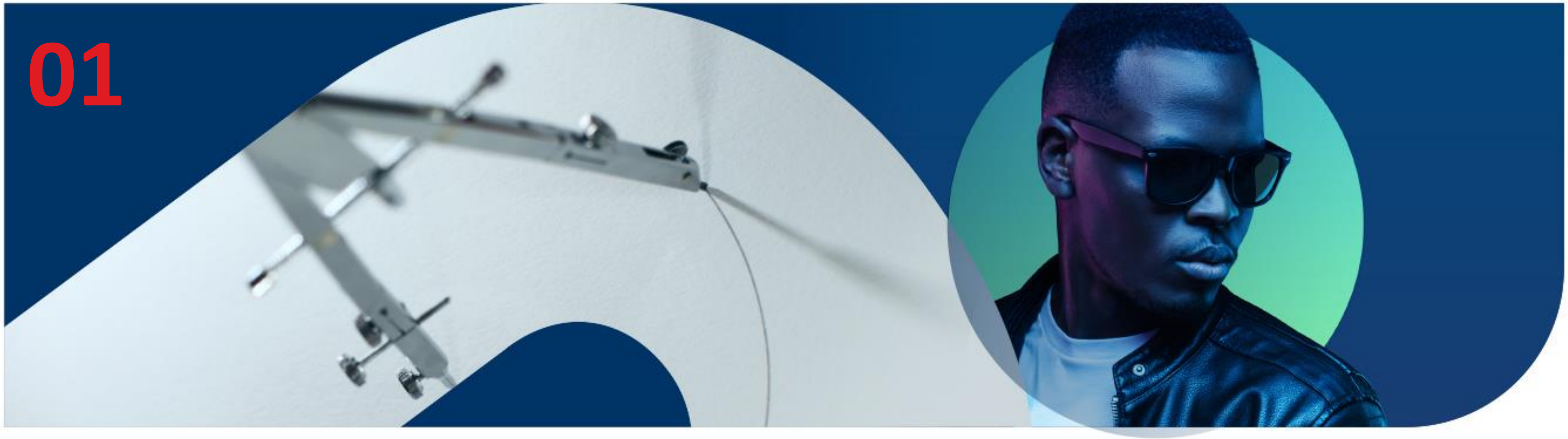
UNISA university of south africa

TOP STORY

Consumer finances crumble under the pressures of rising prices and interest rates

Q2

JULY 2022



CFVI Q2 2022 Summary

The state of South African consumers' finances deteriorated markedly in the second quarter of 2022 (Q2 2022).

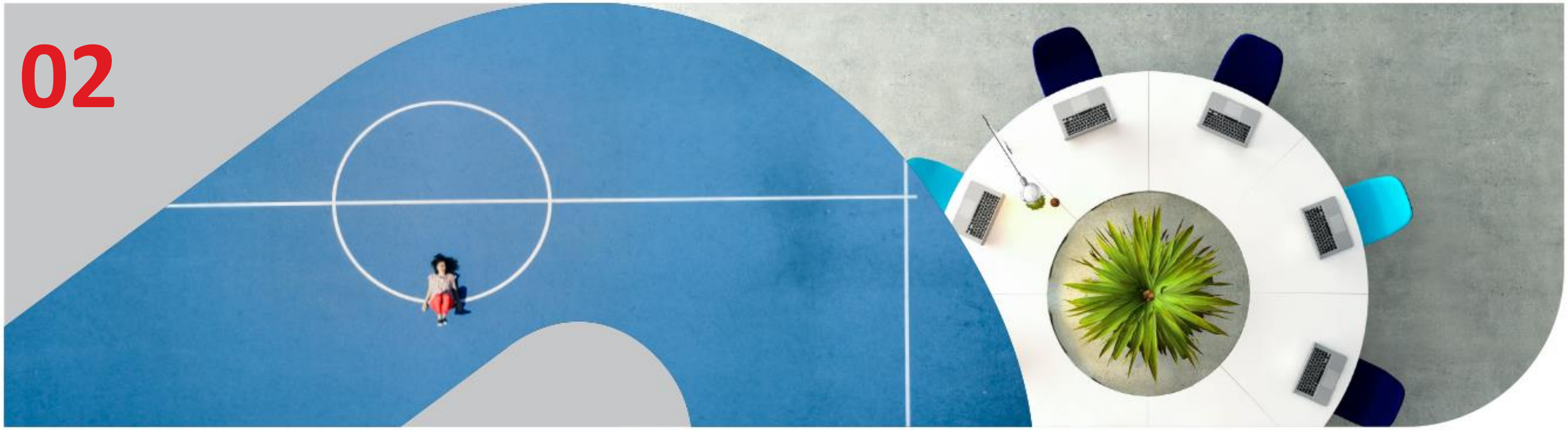
The Momentum-Unisa Consumer Financial Vulnerability Index (CFVI) weakened from 53.4 points in Q1 2022 to 48.5 points in Q2 2022. The views in this report emanated from a survey among key informants, who attributed this prominent decline to steep rises in the prices of fuel and food products, loadshedding, increasing interest rates and low economic growth, coupled with limits to resources consumers could access or use to deal with their financial challenges. All four subcomponents of the CFVI deteriorated in Q2 2022.

The expenditure index declined but remained above 50 points. The income-, saving- and debt servicing indices decreased to below 50 points, with the latter declining the most.

The research also identified side effects of a more financially vulnerable society. It places strain on relationships with family, friends, and co-workers, whilst also consuming consumers' thoughts and thus negatively affecting productivity at the workplace.

Steep increases in municipal tariffs will pose a further risk to consumer finances in Q3 2022 in addition to current risks such as higher interest rates, fuel- and food prices and loadshedding.

02



Quarterly overview of CFVI and its sub-components

Consumers were more financially vulnerable in all sub-components during Q2 2022

The overall state of consumer finances dipped back into a very exposed state of financial vulnerability in Q2 2022. The severity of consumers' financial vulnerability increased in Q2 2022 (48.5 points) compared to Q1 2022 (53.4 points). It was a bit less compared to a year ago (45.9 points) when they were confronted by the COVID-19 Delta variant and "hard lockdowns".

50 – 59.9 **MILDLY EXPOSED**

40 – 49.9 **VERY EXPOSED**

	Q2 2021	Q1 2022	Q2 2022	CHANGE FROM Q2 2021	CHANGE FROM Q1 2022
INCOME	47.4	54.3	49.8	↑	↓
EXPENDITURE	48.4	54.7	51.5	↑	↓
SAVINGS	42.7	52.5	48.6	↑	↓
DEBT SERVICING	44.9	52.1	45.8	↑	↓
OVERALL CFVI	45.9	53.4	48.5	↑	↓

02

Quarterly overview of CFVI and its sub-components

Analysis of the insights on the four subindices of the CFVI revealed the main reason for the deterioration in consumers' financial vulnerability between Q1 2022 and Q2 2022. They attributed it to a decrease in the resources consumers could access to cope with rising prices and interest rates.

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

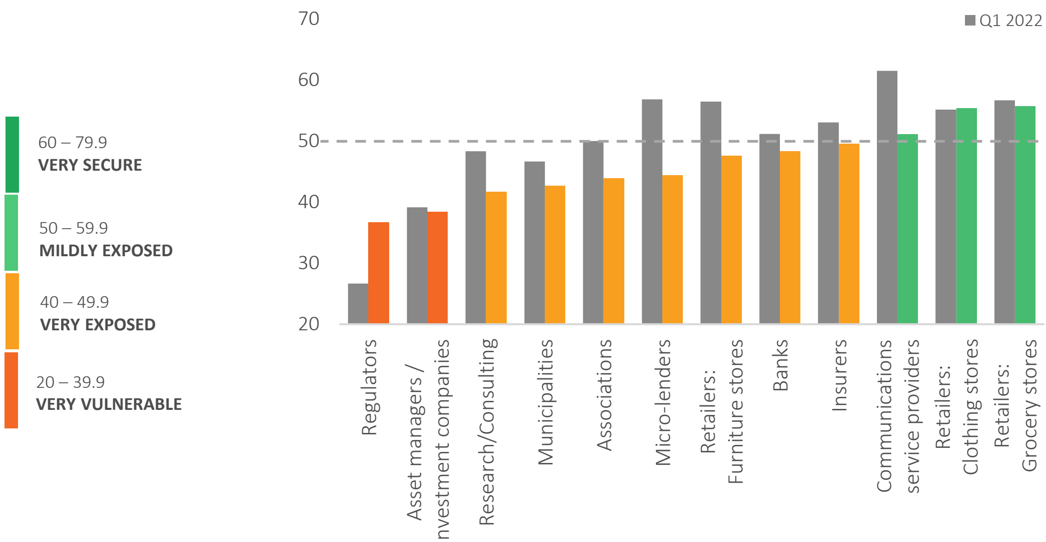
Higher income vulnerability can be ascribed to less consumers able to complement their income with other resources such as transfers from family and friends as they also experienced more financial pressure.

Savings vulnerability levels increased mainly because of a strong decline in the savings consumers had available for emergencies.

In terms of expenditure, consumers were more expenditure vulnerable as their expenditure increasingly exceeded their income.

Consumers' ability to service debt worsened to the extent they had to seek outside assistance to cope with their debt burdens.

A closer look at the CFVI Q2 2022 results



Analysis of the different key informants reveal the perceptions they have of their clients' or consumers in general's financial situation.

Retailers, specifically grocery stores, were the most optimistic of consumer finances, while **regulators and asset managers** had the most pessimistic view of consumer finances. These are similar trends to the Q1 2022 results. The optimism supports the fact that despite facing financial adversity consumers will continue to buy goods and services that fulfill basic needs, such as food, clothing and communication.

The CFVI-scores per key informant group reflect the finances of clients they interact with and may indicate some bias. For instance, regulators mostly interact with clients in difficult situations. Interestingly, insurers and banks CFVI-scores hover just above or just below the average index score of 50 points.

INDEX

Financial vulnerability and consumer behaviour

Consumers' financial behaviour changed, mostly for the better, in reaction to the higher financial vulnerability they experienced in Q2 2022. Increasing financial pressures tend to make consumers more cautious and are normally accompanied by better financial behaviour.

43.8% FELT THAT CONSUMERS RESORTED TO **PURCHASING GOODS TO MAKE THEM FEEL GOOD** IN Q2 2022

In Q2 2022 consumers made less "feel good" and impulsive purchases compared to Q1 2022, whilst taking more time to acquaint themselves with information before making financial decisions. Impulsive purchases also declined from 59.6% to 46.9%.

45.8% ARE OF THE OPINION THAT CONSUMERS WERE **NOT WELL INFORMED ABOUT ECONOMIC AND MONEY MATTERS**

Consumer financial vulnerability continued to adversely affect their relationships with family, friends, and co-workers. In addition, 72.9% observed consumers are constantly thinking about their financial problems. This normally affects productivity at the workplace due to less focus on the job at hand.

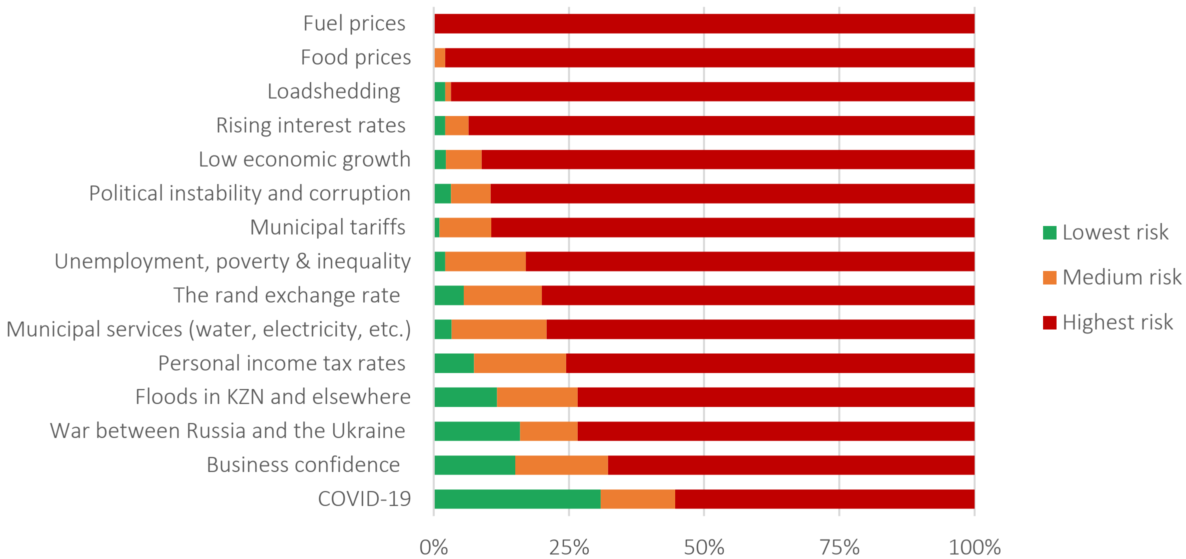
78.1% WERE OF THE VIEW THAT CONSUMER FINANCIAL VULNERABILITY **ADVERSELY AFFECT CONSUMERS' RELATIONSHIPS WITH FAMILY, FRIENDS, AND CO-WORKERS**

03

A closer look at the CFVI Q2 2022 results

Risk factors affecting consumer finances in Q2 2022

Several risk factors were identified which affected consumer finances in Q2 2022. The highest risk (opposed to medium- and low risk) which contributed to higher consumer financial vulnerability in Q2 2022 were identified to be **fuel- and food prices, loadshedding, rising interest rates and low economic growth**. All these factors were deemed to be a high risk by more than 90% of key informants.



Such risks are supported by the fact that significant increases have been recorded in for example fuel and food prices compared to a year ago as recorded at the end of Q2 2022.

+41.8% *Petrol*

+54.4% *Diesel*

+15.5% *Brown bread loaf*

+11.7% *White bread loaf*

+50.3% *Sunflower oil*

+13.2% *Margarine spread*

+13.6% *Chicken portions*

+14.3% *Beef steak*

*June 2022 year-on-year growth
Source: Statistics South Africa

03

A closer look at the CFVI Q2 2022 results

Economic and consumer finance outlook

The outlook for Q3 2022 seems to be bleak. With regards to the expectations for the economic environment and consumer finances, the following majority views for Q3 2022 were expressed:

- The overwhelming majority expect consumer price inflation to increase rapidly.
- Unemployment is expected to increase.
- The South African and global economies are expected to perform worse by close to two-thirds of the key informants.
- Some 69.1% anticipate the state of consumer finances to deteriorate, while 45.7% expect consumers to feel even less in control of their finances.
- Some 96.8% of key informants are of the opinion it will take more than another year for consumer finances to recover from the impact of COVID-19 and the lockdown.

High levels of consumer financial vulnerability in the short- to medium-term will in all likelihood persist, given an increasing number of structural imbalances, downside risks, political and social instabilities, increasing poverty and inequality, as well as governance and government administration deficiencies. This will negatively impact the economy, employment and household incomes, which will filter through to adversely affect all aspects of consumer finances.

86.0%

expect that it will still take more than 18 months for consumer finances to recover

72.6%

expect that there will be a rapid increase in prices during Q3 2022

63.9%

expect that the unemployment rate will increase during Q3 2022

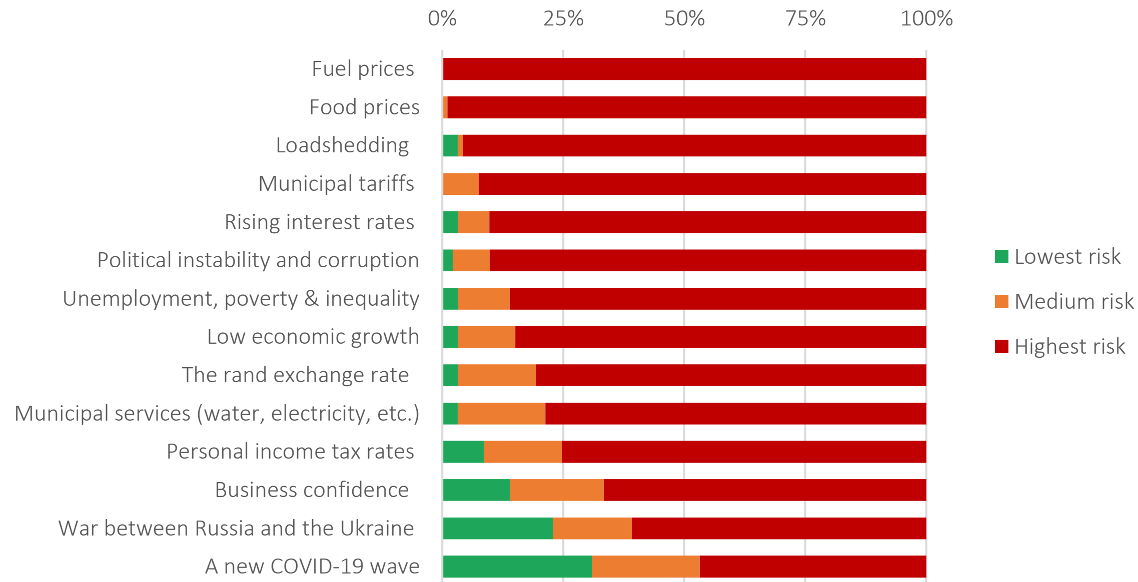
03

A closer look at the CFVI Q2 2022 results

Municipal tariff increases pose great risk to consumer finances in Q3 2022

Expected risks to consumer finances during Q3 2022

The major risk factors which increased consumer financial vulnerability in Q2 2022 are expected to continue to exert their impact on consumer finances in Q3 2022 – with one exception. High increases in municipal tariffs (see table for expected increases) are expected to also affect consumer finances negatively in Q3 2022. All these factors impact daily activities of consumers in a direct way.



	Property	Electricity	Water	Sanitation	Refuse
TSHWANE	6.0%	7.5%	9.0%	9.0%	6.0%
JOHANNESBURG	4.9%	7.5%	9.8%	9.8%	5.0%
CAPE TOWN	5.2%	9.5%	6.5%	6.5%	5.0%
ETHEKWINI	0.0%	7.5%	5.9%	5.9%	4.5%
EKURHULENI	0.0%	9.6%	11.0%	11.0%	7.0%
NELSON MANDELA BAY	5.0%	9.4%	5.0%	5.0%	5.0%
MANGAUNG	3.9%	10.4%	7.8%	2.4%	13.0%

Source: Websites of metropolitan areas (verified as far as possible)

04

Tips to build financial resilience

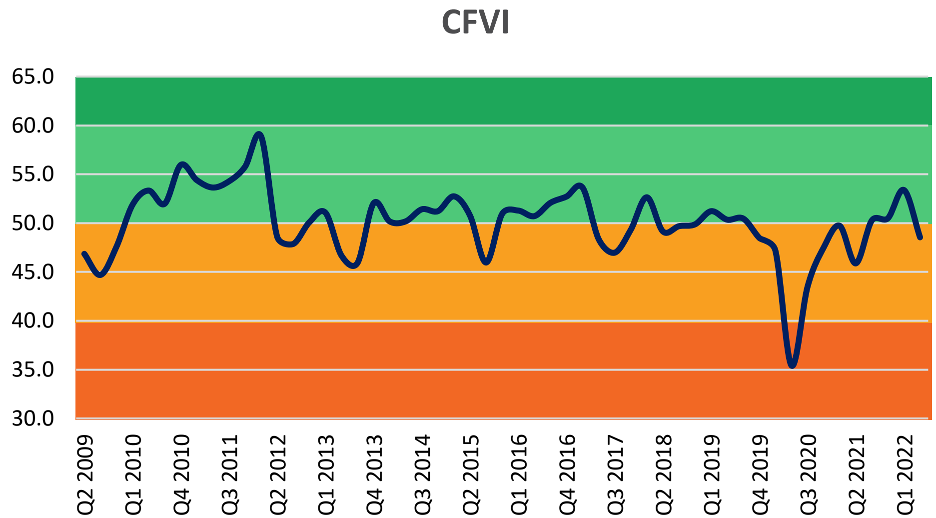
How to shop smarter with rising food prices

With the unexpected changes in food costs, it can be difficult to prepare healthy meals without going over the budget. Reflect on the following tips to make your next shopping experiences at the grocery store more enjoyable without the constant worry of spending more than your budget allows.

- Prepare a **grocery shopping list** beforehand and stick to it. Ensure that you limit the time in the store and only purchase the necessities.
- Ensure that you never visit the store when **hungry** as this can lead to purchasing unnecessary food items that are not on your list.
- Shop around for the **best prices** on the items that you need to purchase, considering the weekly store leaflets, newspaper advertisements and visiting the stores' websites or applications.
- **Get to know** the food prices. Write down the regular prices of foods you buy often. This will help you figure out which stores have the best prices and if you are getting a good deal on sale items.
- Always check the "**use by dates**" that are on the food items to reduce early spoilage and wasted money. Buying frozen and canned food items last longer as compared to fresh produce. Consider buying frozen or items with a long shelf life in bulk.
- **Plan meals** for the week ahead as this will stop you buying unnecessary things when at the store.
- Use a **basket** instead of a cart as you will have less space and it will force you to limit your purchases to necessities.
- Compare the **unit price** for similar items. The unit price tells you how much something costs per "unit" or per 100 grams (g) or 100 millilitres (mL). This can help you compare whether a large or small size of an item is a smarter purchase and better value for your money.
- If you are buying fresh produce, make sure that it's **in season** since it generally costs less when compared to out of season. Better yet, plant your own fruit and vegetables to save money on fresh produce.
- Take a **calculator** or use the one on your cellphone. Add up your grocery bill while you are shopping to help you stay within your budget.
- Make use of store **loyalty programmes** to qualify for discounts, but only buy items which your household will use and not just because it looks like a good deal.
- Understand how you could benefit from bank **reward programmes** by optimising your purchasing behaviour for day-to-day transactions.

05

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



80 – 100
EXTREMELY SECURE

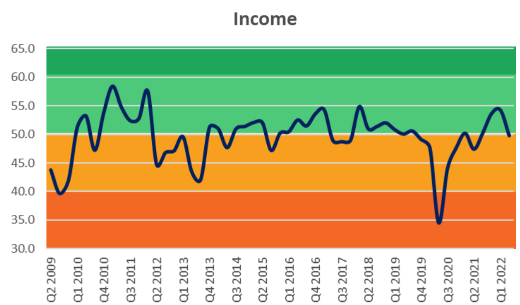
60 – 79.9
VERY SECURE

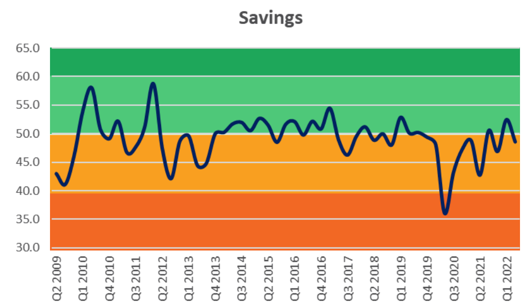
50 – 59.9
MILDLY EXPOSED

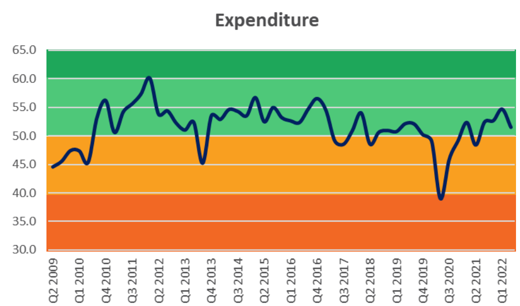
40 – 49.9
VERY EXPOSED

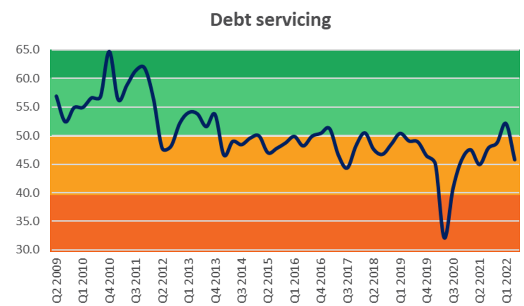
20 – 39.9
VERY VULNERABLE

0 – 19.9
EXTREMELY VULNERABLE









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, as viewed by consumers, in the sense that it regularly provides updates on the state of consumers’ financial vulnerability.

06

About the index

The results of this release of the CFVI for Q2 2022 stem from research conducted by the BMR at Unisa on behalf of Momentum via an online and CATI-based survey conducted during July 2022. The results of this release of the CFVI are based on the responses of 98 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

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