momentum

CONSUMER FINANCIAL VULNERABILITY INDEX

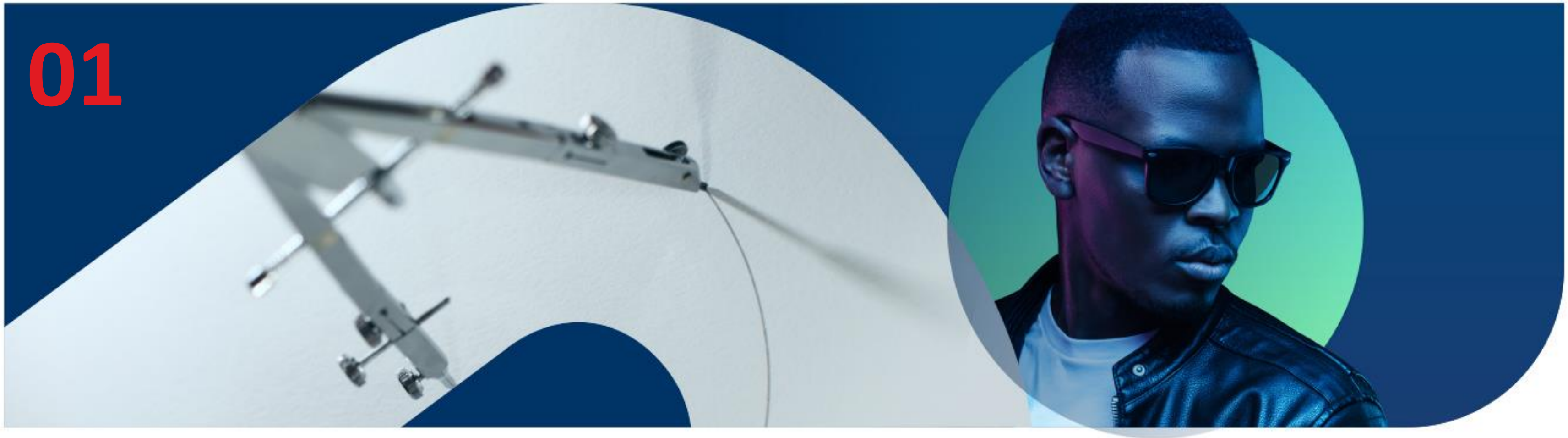
UNISA university of south africa

TOP STORY

Load-shedding, political instability and higher food prices shatter consumer finances

Q4

2022



CFVI Q4 2022 Summary

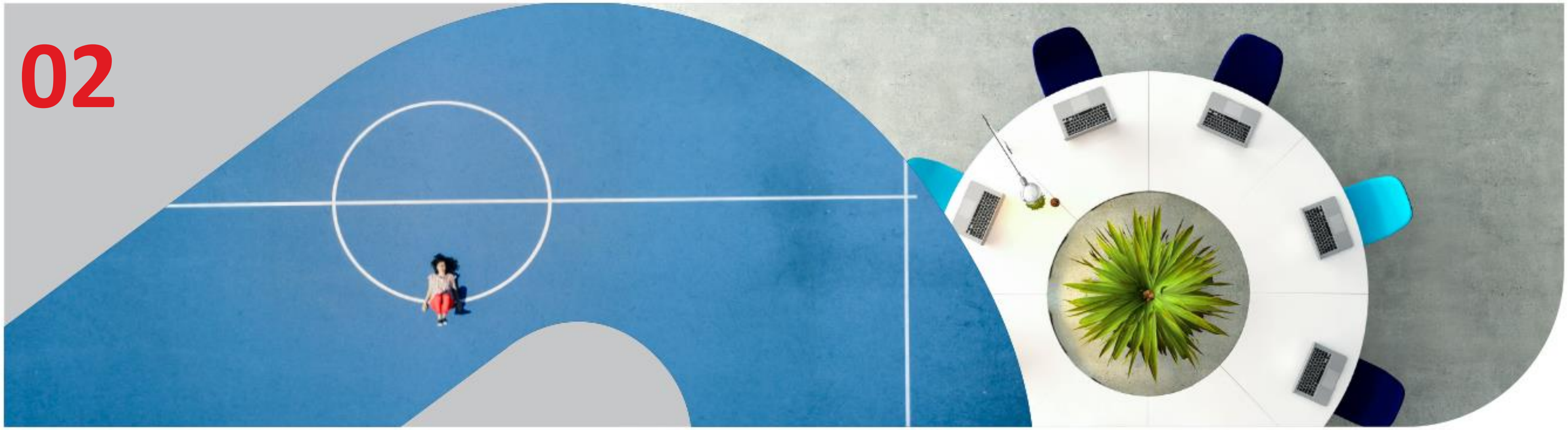
Load-shedding, political instability and corruption, and rising food prices were the main risk factors contributing to consumers being more financially vulnerable in the fourth quarter of 2022 (Q4 2022).

The Momentum-Unisa Consumer Financial Vulnerability Index (CFVI) decreased from 49.7 points in Q3 2022 to 47.0 points in Q4 2022, the lowest level in 18 months. All four subcomponents of the CFVI – income, expenditure, saving and debt servicing – declined to below 50 points in Q4 2022, as consumer spending exceeded income on a more regular basis.

Political instability and corruption gradually increased as a high-risk factor affecting consumer finances and by Q4 2022 it overtook other high-risk factors such as rising food and fuel prices and increasing interest rates. Consumer key informants expect this trend to continue in Q1 2023.

Key informants also identified the behavioural side effects of a more financially vulnerable society. In Q4 2022 consumers felt more unhappy and less hopeful compared to Q3 2022, and consequently they reverted to more “therapeutic” behaviour in the form of making more unnecessary and impulsive purchases – to make them feel good (i.e. retail therapy).

Continued high inflation, higher unemployment, worsening consumer finances and weakening global and domestic economic growth is expected in Q1 2023.



Quarterly overview of CFVI and its sub-components

Consumers were **more financially vulnerable** in all sub-components in Q4 2022

The average CFVI-score for 2022 was 49.6 points, a bit higher compared to 49.1 points in 2021. However, whereas the CFVI started weak and gradually improved in 2021, it started stronger in 2022 and weakened as the year progressed. The level of consumers' financial vulnerability worsened to 47.0 points in Q4 2022 from 49.7 points in Q3 2022 and 50.5 points in Q4 2021.

50 – 59.9 **MILDLY EXPOSED**

40 – 49.9 **VERY EXPOSED**

	Q4 2021	Q3 2022	Q4 2022	CHANGE FROM Q4 2021	CHANGE FROM Q3 2022
INCOME	53.7	51.0	48.4	↓	↓
EXPENDITURE	52.7	52.2	48.1	↓	↓
SAVINGS	46.9	49.0	46.6	↓	↓
DEBT SERVICING	48.8	46.5	44.8	↓	↓
OVERALL CFVI	50.5	49.7	47.0	↓	↓

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Quarterly overview of CFVI and its sub-components

According to the consumer key informants, higher consumer financial vulnerability emanated from “more permanency” in their ability to afford expenses in Q4 2022 compared to Q3 2022. There was a sharp increase in the rate at which consumer expenditure exceeded their income, contributing to a domino effect, negatively affecting saving and debt servicing abilities.

According to Stats SA, the average CPI rate for 2022 was 6.9% in 2022, while the South African Reserve Bank estimated average salary increases at 5.2%, meaning prices increased more than income, which reduced consumers’ purchasing power.

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

Weaker purchasing power due to below-inflation salary increases, in conjunction with less than expected transfers from family and friends and insufficient growth in earnings from employment contributed to higher income vulnerability.

Pressures to income and expenditure contributed to higher saving vulnerability as it reduced their ability to save, including for retirement and emergencies.

The deterioration in income contributed to consumers not being able to stick to their budgets, and expenditure exceeded income more regularly, making them feel more expenditure vulnerable.

As consumer budgets were already stretched, the above events meant they were not able to reduce expenditure commitments to repay debt, making them more debt servicing vulnerable.

A closer look at the CFVI Q4 2022 results

In contrast to Q3 2022 when consumers' financial behaviour improved slightly, the Q4 2022 research results suggest they felt more uneasy in terms of their finances and experienced a deterioration in already low levels of happiness and hope – which affected their financial conduct.

In Q4 2022, consumer key informants noted more impulsive and "feel-good" purchases. In psychological terms this is known as "therapeutic buying" as it makes a person in dire circumstances feel good about him/herself or their financial means when purchasing something. However, this may eventually catch up with consumers, especially if the purchases are unaffordable and may as such contribute to higher financial vulnerability later on.

Consumer key informants also noted a continuation of previous trends in Q4 2022. One such trend is the strain financial vulnerability puts on relationships with family and friends. It also negatively affects productivity at work.

73.5%

stated that consumers were uneasy, insecure, unhappy, without hope or negative about their finances.

61.0%

indicated that consumers tend to be spontaneous / impulse buyers.

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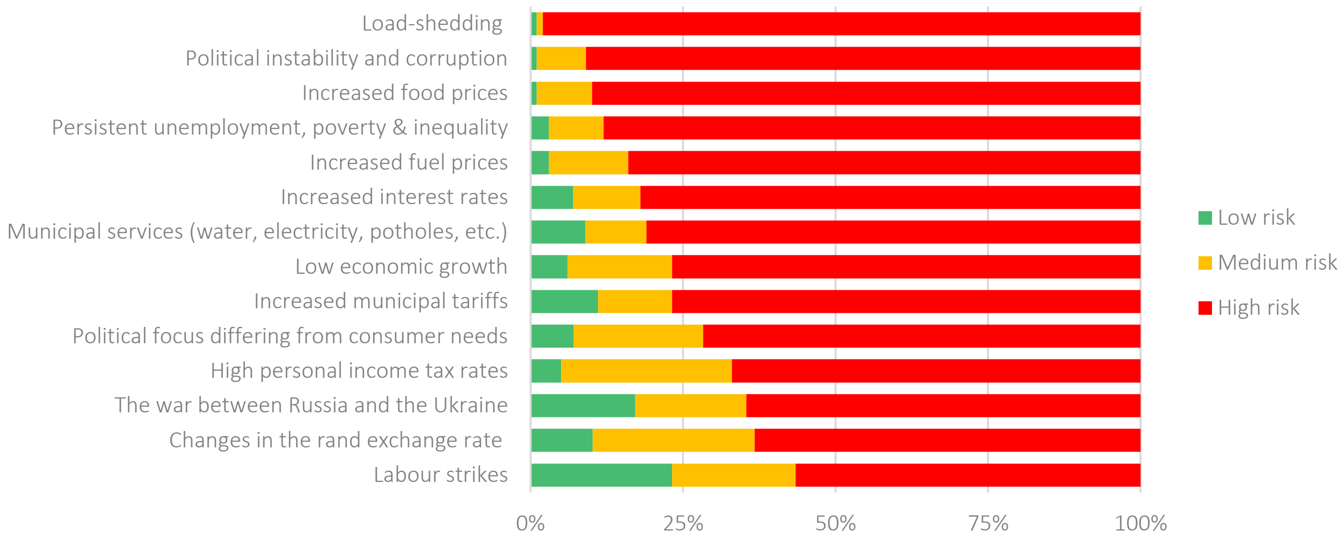
A closer look at the CFVI Q4 2022 results

Risk factors affecting consumer finances in Q4 2022

Load-shedding, political instability and corruption, and rising food prices were the main high-risk factors affecting consumer financial vulnerability in Q4 2022. This is a large shift from the first half of the year when high fuel- and food prices emerged as the main high-risk factors.



Load-shedding posed greatest risk to consumer finances in Q4 2022

The negative financial effects of load-shedding on consumer finances are well known. Lesser known is how political instability and corruption affect consumer financial vulnerability. Weak service delivery in the form of sub-optimal education and health services, as well as inadequate maintenance of infrastructure and inefficient municipal services are outcomes of political instability and corruption. It directly increases the costs of services, which in turn contributes to higher inflation and therefore reduces consumers’ ability to afford their normal purchases. Higher inflation keeps interest rates at higher levels than what it could have been, which means consumers pay more interest on debt, negatively impacting their disposable income. Less income, and therefore less saving and spending contributes to less employment and lower economic growth. In addition, as corruption benefits a few at the expense of much of the population, it increases income inequality and poverty.

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A closer look at the CFVI Q4 2022 results

Economic and consumer finance outlook

Key informants remained negative about the outlook for Q1 2023. With regards to the expectations for the economic environment and consumer finances, the following were the majority views for Q1 2023:

- The global and South African economies are expected to get worse.
- 64.3% expect a deterioration in the financial position of consumers.
- 61.2% anticipate that the level of unemployment will increase, while an additional 24.5% expect that it will remain at the current high levels.
- 65.0% expect consumer price inflation to continue to increase at a rapid pace.
- 74.0% of key informants are of the view that it will take an additional 2 years for consumer finances to recover from the impact of COVID-19 and the lockdown.

65.0%

expect that there will be a continued rapid increase in prices during Q1 2023

70.0%

expect that the South African economy will perform worse during Q1 2023

61.2%

expect that the unemployment rate will increase during Q1 2023

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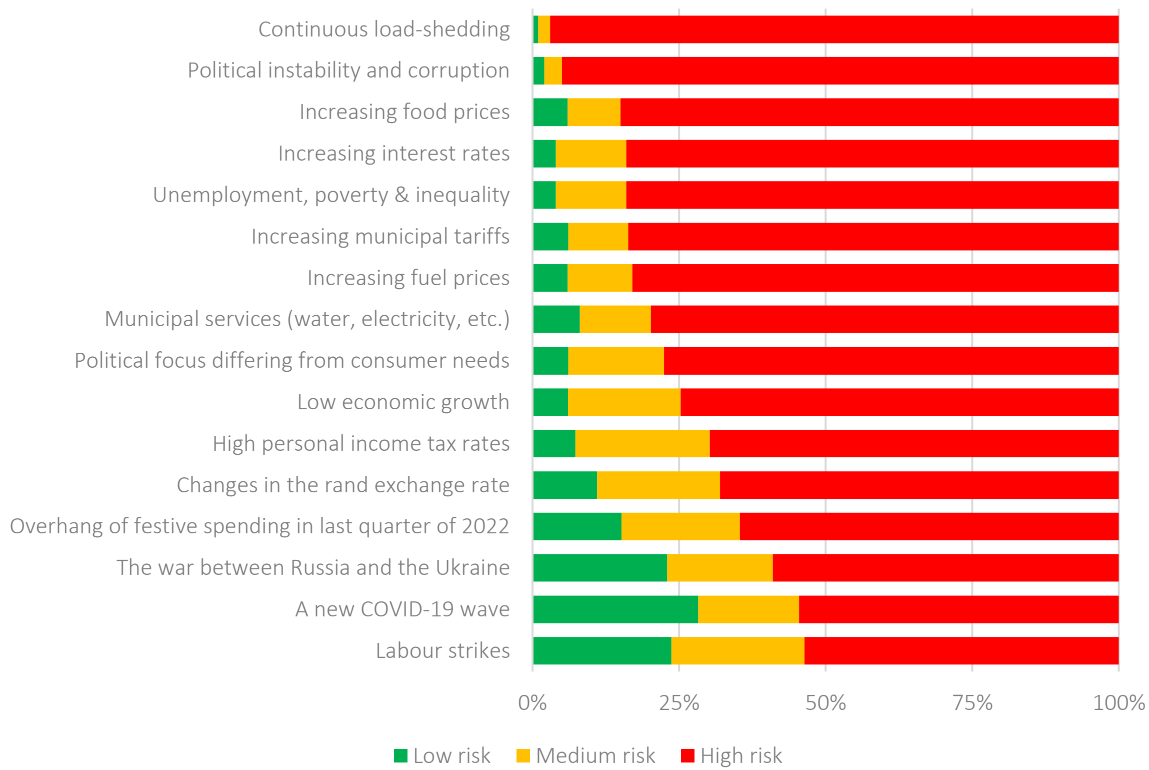
A closer look at the CFVI Q4 2022 results

Expected risks to consumer finances during Q1 2023

The top three high-risk factors affecting the state of consumer financial vulnerability is expected to continue in Q1 2023. However, consumer key informants expect increasing interest rates and higher municipal tariffs to play a more dominant role affecting consumer financial vulnerability in Q1 2023 compared to Q4 2022.



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Tips to build financial resilience

Surviving load-shedding on a budget

Managing your household's day-to-day schedules may be difficult, but what once were mundane tasks such preparing family meals or getting ready for work have become more challenging with the continuous struggle of load-shedding. There is a continuous need to adjust household budgets and plans to adapt to life without electricity, even for short periods. A few possible survival tips for when times get dark include:

- Know and keep up to date with the changing stages of load-shedding in your area. This can assist in planning your journeys to and from work so that you can avoid areas that will have traffic lights out or planning to leave earlier to avoid the worst of traffic.
- Plan your meals around the load-shedding schedules or consider purchasing a camp gas stove to still be able to put food on the table when the power is out. Prepare larger meals to have leftovers that can easily be heated up instead of being rushed for time to prepare a new meal before load-shedding starts.
- Use a thermos flask to keep hot water ready for warm refreshments and use frozen water bottles to keep the contents of your fridge cool, especially on hot days.
- Have backup batteries for gates, security systems, garage doors and alarms so that your security is not compromised during load-shedding.
- Unplug all your sensitive electrical appliances and electronic devices to ensure that when power returns, and there is a surge, your appliances are safe and will not lead to unnecessary replacement expenses or short-term insurance claims. Use surge protectors for computers, televisions and fridges.
- Use candles and lanterns as alternative lighting sources during night-time power outages as they are relatively inexpensive. Take advantage of natural light during the day to reduce your dependency on artificial lighting, by opening windows and using mirrors to reflect light.
- Replace all the lightbulbs in your home with emergency rechargeable globes that could provide up to two hours of light.
- If you can afford it, buy a generator or UPS to give your household emergency power when you need it most. Solar panel charging stations can also assist in charging many devices with a sufficient output to even power a router.

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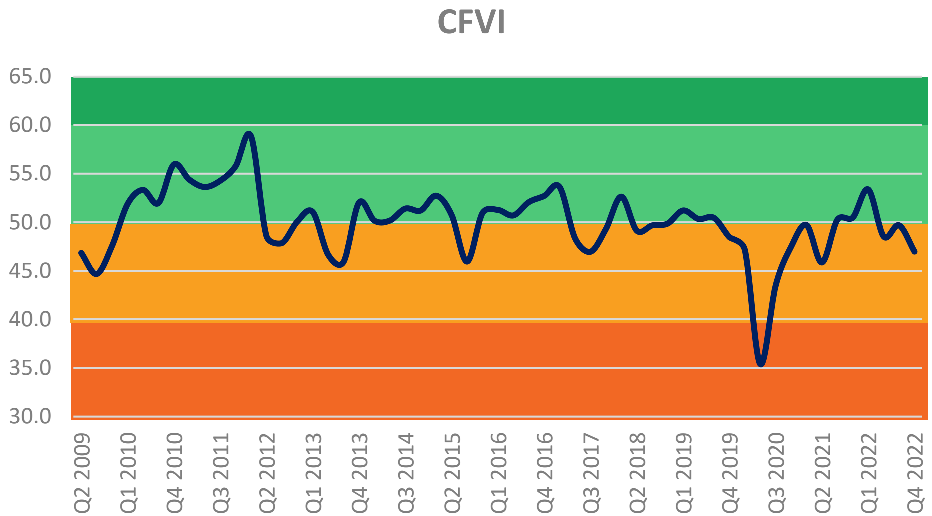
Scores of the CFVI and its sub-indices, Q2 2009 – Q4 2022



80 – 100
EXTREMELY SECURE

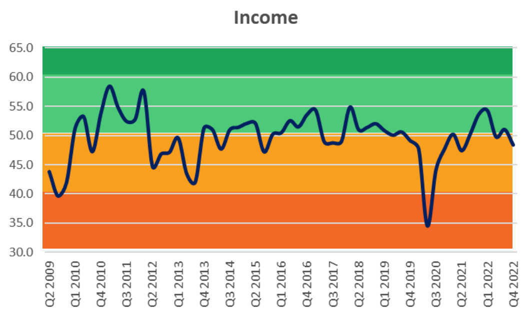
60 – 79.9
VERY SECURE

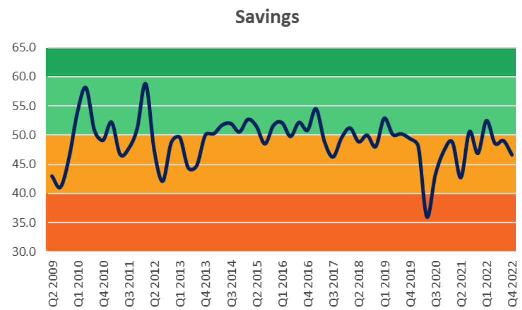
50 – 59.9
MILDLY EXPOSED

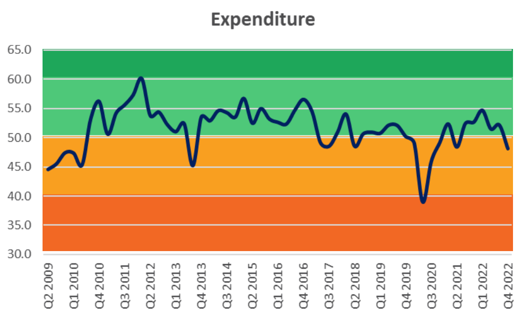
40 – 49.9
VERY EXPOSED

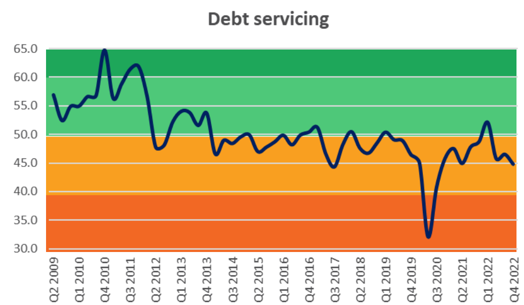
20 – 39.9
VERY VULNERABLE

0 – 19.9
EXTREMELY VULNERABLE









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

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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 Q4 2022 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 January 2023. The results of this release of the CFVI are based on the responses of 100 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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