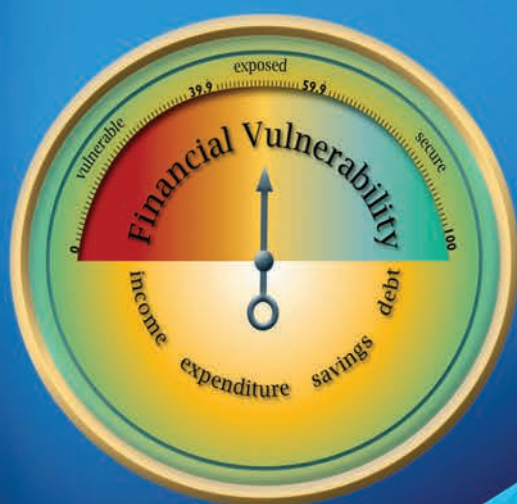


# Consumer **Financial Vulnerability** Index

## Quarter 2 - 2013



 **MBD**  
Credit Solutions  
*asset intelligence*

in collaboration with

**UNISA** |   
bureau of  
market research



**Charl van der Walt**  
CEO: MBD Credit Solutions

Dear Delegate

MBD Credit Solutions is proud to present the results of the Consumer Financial Vulnerability Index (CFVI) for quarter 2 of 2013. Our partnership with Unisa's Bureau of Market Research (BMR) over the last few years, has enabled us to bring you regular updates on how consumers' perceptions about their financial position change every quarter.

Recent studies show that there are 20 million credit-active consumers in South Africa. According to these studies, almost 50% of these credit-active consumers have impaired credit records. A concern is that impaired records are rising faster than new accounts.

The National Credit Regulator (NCR) said the increase in the levels of impairment was of concern and encouraged consumers to monitor their credit behaviour.

This concern is emphasised by the MBD Credit Solutions CFVI, which indicates that consumers felt more financially vulnerable during Q2 2013 than during Q1 2013. In the current economic climate consumers have increasing concerns about their income as well as their ability to save.

It is interesting to note that the consumer vulnerability experienced over the last five quarters mirrors the recessionary period in 2009, despite South Africa not being in a recession currently.

If you require additional information regarding this brochure or would like us to send copies to others, please email [communications@mbdcs.co.za](mailto:communications@mbdcs.co.za).

Till next time.

A handwritten signature in black ink that reads "Charl." with a horizontal line underneath.

## INTRODUCTION

The majority of South African consumers experienced some stern cash flow pressures during the second quarter of 2013 (Q2 2013).

This was revealed by the latest MBD Credit Solutions' Consumer Financial Vulnerability Index (CFVI), which declined from 51.1 points in Q1 2013 to 46.7 points in Q2 2013 (see table 1).

This is cause for concern, since this decrease means that consumers have now been experiencing cash flow strains for five consecutive quarters since Q2 2012.

The CFVI research was performed by the Bureau of Market Research (BMR) at Unisa.

**TABLE 1: CFVI AND ITS SUB-INDICES OVER TIME**

Date	Savings	Expenditure	Debt servicing	Income	Overall CFVI
Q2 2009	42.6	44.6	56.3	43.6	<b>48.4</b>
Q3 2009	41.0	45.5	52.4	39.7	<b>45.6</b>
Q4 2009	46.0	47.4	54.9	41.9	<b>48.3</b>
Q1 2010	54.0	47.3	54.9	51.2	<b>52.8</b>
Q2 2010	58.1	45.3	56.6	53.3	<b>54.6</b>
Q3 2010	50.7	53.1	56.8	47.3	<b>52.1</b>
Q4 2010	49.1	56.2	64.7	53.8	<b>57.7</b>
Q1 2011	52.2	50.6	56.3	58.4	<b>56.1</b>
Q2 2011	46.7	54.2	58.8	54.8	<b>55.4</b>
Q3 2011	47.7	55.6	61.4	52.4	<b>55.8</b>
Q4 2011	51.1	57.3	61.9	52.8	<b>56.7</b>
Q1 2012	58.8	60.1	56.6	57.6	<b>58.9</b>
Q2 2012	47.5	53.8	47.8	44.8	<b>48.6</b>
Q3 2012	42.1	54.4	48.1	46.8	<b>47.9</b>
Q4 2012	48.7	52.3	52.2	47.2	<b>50.1</b>
Q1 2013	49.6	51.0	54.0	49.6	<b>51.1</b>
Q2 2013	44.8	52.4	53.8	43.4	<b>46.7</b>





**FIGURE 1: DEFINITION, MEASUREMENT AND CATEGORIES OF FINANCIAL VULNERABILITY**

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

As illustrated by figure 1, the decline to below 50 points means that consumers moved from experiencing mildly exposed cash flow conditions to a very exposed cash flow situation. In the absence of a supporting economic environment or policy, the majority of consumers face a high risk of becoming financially vulnerable.

The CFVI for Q2 2013 therefore portrays a situation where the bulk of South African consumers feel that they are not in control of their finances due to

pressures prohibiting preservation of their expenditure, income, debt servicing or savings commitments. Put differently, consumers have been struggling to maintain their standard of living for more than a year and have been forced to scale down or default on their cash flow commitments.

Analysis of the subcomponents of the CFVI shows that the decline in Q2 2013 was mainly caused by consumers experiencing worsening saving and income conditions.

Although consumers had already been feeling very exposed in terms of their savings and income during Q1 2013, both variables worsened further in Q2 2013, stopping just short of being very vulnerable (see table 1).

In contrast, consumers' expenditure and debt servicing positions remained virtually unchanged in Q2 2013. However, they still felt mildly exposed in terms of expenditure and debt servicing.



## MACROECONOMIC ENVIRONMENT: IMPACT ON CONSUMER CASH FLOW

International economic and financial developments were not conducive for South African consumer finances during Q2 2013 – despite improved economic performances in the United States of America (USA), the United Kingdom and China.

Volatility in international financial markets, mainly as a result of an announcement made by the USA Federal Reserve Board that the United States is considering ending its money creation programme, caused the gold price to tumble, the rand exchange rate to weaken and the JSE All Share Index (ALSI) to decline.

These developments were unsupportive of South African job creation and also created an expectation of price increases in Q3 2013, especially as the rand depreciated against the US dollar from about R9,20 in Q1 2013 to above R10 in Q2 2013.

Although the tempo of economic growth increased in Q2 2013, this was mostly on account of seasonal and base year factors. In general, macroeconomic indicators point to an absence of factors that were supportive of consumers' cash flow situation (see table 2) during Q2 2013.

The pace of the increase in the consumer price index slowed in Q2 2013 compared to Q1 2013, but Statistics South Africa's inflation estimates showed that some 80% of consumers experienced price increases higher than 6% in Q2 2013 compared to Q2 2012. Only the high expenditure group had a consumer price inflation rate lower than 6% compared to a year ago. This suggests that the cash flow position of the majority of consumers was negatively affected by price increases in consumer goods and services.

Consumers' uptake of credit from banks also slowed in Q2 2013 compared to Q1 2013. Statistics from the South African Reserve Bank show a slowdown in banks' credit extension to households from an annualised 8.3% in Q1 2013

to 4.9% in Q2 2013. Although this slowdown can be ascribed partly to seasonal factors, the year-on-year percentage increase also slowed. In Q1 2013 households' uptake of bank credit was 9.8% higher than in Q1 2012, but this year-on-year rate of increase slowed to 9.2% in Q2 2013.

This slower uptake of bank credit can be ascribed to both stricter lending criteria applied by banks, as well as many households not being able to afford more debt.

South Africa's unemployment rate also increased in Q2 2013, pointing towards a smaller proportion of the labour force being able to earn an income from employment. According to Statistics South Africa, the official unemployment rate increased from 25.2% in Q1 2013 to 25.6% in Q2 2013. In number terms this is equal to 120 000 more unemployed people in Q2 2013 compared to Q1 2013. Compared to a year ago, the economy managed to create 274 000 more jobs, but at the same time the number of unemployed increased by 253 000 people.

**TABLE 2: SELECTED ECONOMIC INDICATORS AFFECTING HOUSEHOLD CASH FLOW**

Prices, credit & labour market indicators	Q1 2013	Q2 2013	Direction
Consumer Price Index (year-on-year % change)	5.70	5.65	↓
Very low expenditure group (year-on-year % change)	6.79	6.71	↓
Low expenditure group (year-on-year % change)	6.57	6.34	↓
Middle expenditure group (year-on-year % change)	6.48	6.22	↓
High expenditure group (year-on-year % change)	6.38	6.15	↓
Very high expenditure group (year-on-year % change)	5.50	5.49	↓
Credit extension to households by banks (year-on-year % change)	9.8	9.2	↓
Employed (millions)	13.621	13.721	↑
Unemployed (millions – official definition)	4.601	4.723	↑
Unemployed (millions – expanded definition)	7.902	7.976	↑
Unemployment rate (official definition: %)	25.2	25.6	↑
Unemployment rate (expanded definition: %)	36.7	36.8	↑
<b>Keys: = ↑ increase; ↓= decrease. Red = not preferred level.</b>			

Sources: Statistics South Africa; South African Reserve Bank

## CAUSES OF CONSUMER FINANCIAL VULNERABILITY/ SECURITY

Further analysis was performed to determine how prices, credit and labour market developments impact the different components of consumer cash flow.

Put differently, the effect of a number of factors, including consumer price inflation, employment/unemployment and credit market dynamics on consumers' expenditure, income, debt servicing and savings decisions was further scrutinised.

To better understand the causes of consumer financial vulnerability/ security, it is necessary to determine how each economic variable and the subcomponents thereof impact each subcomponent of consumer cash flow.

As a first step, correlations between the subcomponents of the mentioned three economic variables and the four subcomponents of consumer cash flow were performed.

Although the time series is relatively short and the top five correlations identified can be spurious in nature, the correlation tests nevertheless

eliminated a host of variables as probable causes of consumer vulnerability/security.

Further tests will be performed in due course to determine whether the identified correlations are indeed actual causes of consumer financial vulnerability/security.

A short summary of the results, as well as explanations of the relationship between the variable and the vulnerability subcomponents follows on page 7 - 10.

## TOP FIVE ECONOMIC VARIABLES CORRELATED WITH THE CONSUMER EXPENDITURE VULNERABILITY INDEX

The correlation results show that expenditure vulnerability is mostly affected by purchasing decisions that impact living standards.

**FIGURE 2: CORRELATION BETWEEN ECONOMIC VARIABLES AND EXPENDITURE VULNERABILITY INDEX**

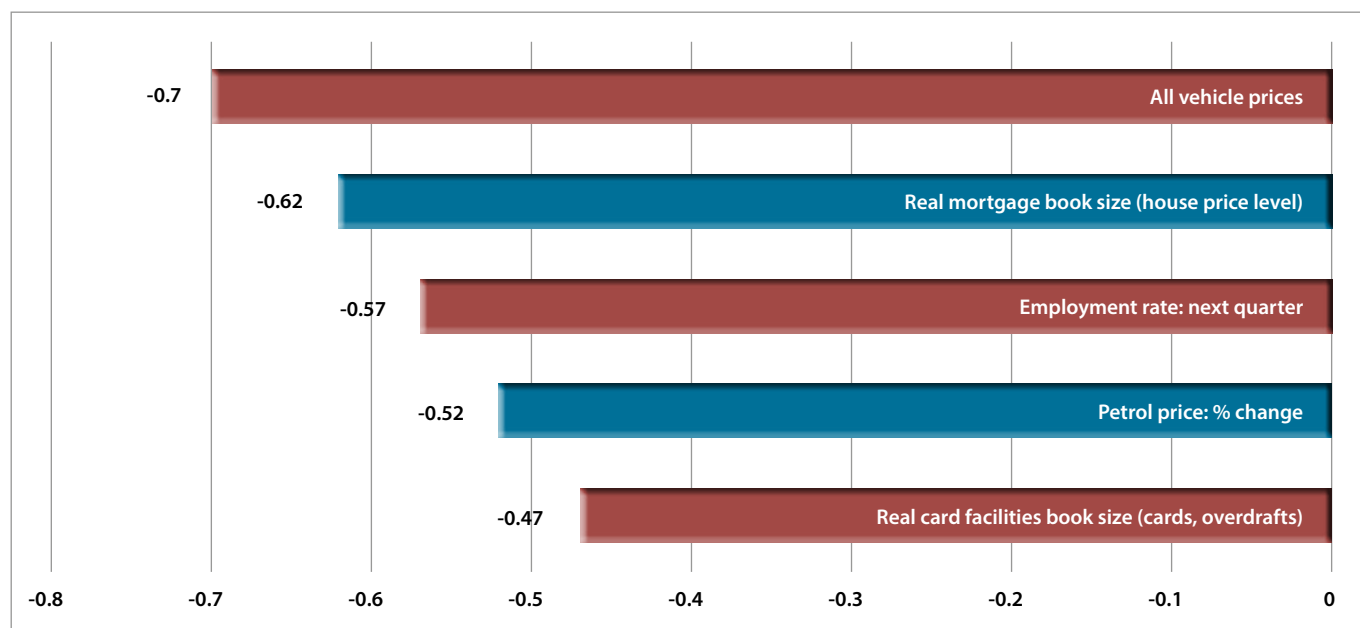


Figure 2 shows that house-, vehicle- and card purchases, as well as the petrol price impact on consumers' experience in terms of expenditure vulnerability. The following is a more detailed explanation of how this occurs.

### 1) Vehicle prices in same quarter.

- Used vehicle prices: Had been declining, which had a positive effect on vulnerability levels, meaning that expenditure vulnerability would have been higher had used vehicle prices not declined.

### 2) Size of mortgage book in real terms in the same quarter.

- Prices of houses/flats etc. are too high for new buyers, given their other spending commitments.
- For current owners the size of their mortgages makes them vulnerable, given all their other

- New vehicle prices: Had been increasing gradually and consumers might not be able to afford the new price given current pressures on living standards.

expenditure commitments, which they need to maintain.

### 3) Employment rate in next quarter – the employment expectation.

- For the currently unemployed: Uncertainty of gaining employment to provide sufficient income to finance expenditure.
- For the employed: Uncertainty of still being employed, causing doubt about the ability to maintain current expenditure commitments.



**4) Change in the petrol price:  
% change.**

- a. An increase in petrol price creates the perception, or actual occurrence of vulnerability. May cause crowding out of other expenditure.

**5) Credit facilities in real terms –  
thus the purchasing value of  
card credit.**

- a. The facility available will be insufficient to finance purchases.
- b. Consumers will therefore not be able to maintain expenditure commitments.

**TOP FIVE ECONOMIC  
VARIABLES CORRELATED  
WITH THE CONSUMER  
INCOME VULNERABILITY  
INDEX**

Consumers' income vulnerability is mostly determined by affordability and income generating issues.

A lack of sufficient income to finance expenditure causes consumers to experience income vulnerability and they complement such income with expensive unsecured credit.

Such income vulnerability may be caused by the expectation of losing

a job, or price increases causing a change in lifestyle, as well as a reduction in the purchasing power of their income.

The top identified variables with the strongest correlation with the income vulnerability index follow below:

**1) -0.68:**

**Unsecured credit loan size of  
between R0 – R3 000**

- a. Cost of credit of loans is very high, making repayment difficult.
- b. Income is insufficient to service the loan and expenditure.

2) **-0.63:**

**Change in price level of alcohol in next quarter** – proxy for entertainment and lifestyle.

- a. Price already sounds so high that consumers doubt their ability to maintain entertainment expenditure and they therefore need to scale down.

3) **-0.57:**

**Inflation in next quarter** – expected price increases.

- a. Consumers expect the purchasing power of their income to be eroded by price increases.

4) **-0.51:**

**Unemployment in next quarter** – the expectation of becoming unemployed.

- a. The expectation of becoming unemployed means a loss of income and therefore not being able to afford expenses.

5) **0.47:**

**Unsecured credit: income group R3 001 to R5 000.**

- a. Consumers' income is insufficient to finance their expenditure and therefore they are forced to take up expensive loans.
- b. Cost of credit of loans is very high thus reducing consumers' disposable income available for expenditure.

## TOP FIVE ECONOMIC VARIABLES CORRELATED WITH THE CONSUMER SAVINGS VULNERABILITY INDEX

Consumers' savings vulnerability is impacted on by price and credit dynamics that erode the funds they intended for discretionary savings.

Government-forced price increases such as for municipal, health and educational services, and the cost of unsecured credit crowd out funds intended for savings.

In addition, it also forces consumers to make choices such as changing their lifestyle and continue saving, or use their savings to, for instance, fund their lifestyle.

1) **-0.68:**

**Change in alcohol price next quarter** – proxy for entertainment and lifestyle.

- a. Price increases mean discretionary savings are likely to be sacrificed to finance entertainment.

2) **-0.60:**

**Unsecured credit: Loan size between R0 – R3000.**

- a. Higher cost of small loans causes consumers to sacrifice their savings.
- b. Savings are used to finance an increasing number of small loans' cost of credit.

3) **-0.50:**

**Unsecured credit debtors book: 5 – 10 year term.**

- a. Long repayment term of more expensive debt causes savings vulnerability as consumers need to use savings to finance such debt.

4) **-0.50:**

**Real credit from banks.**

- a. Making a deposit on, for example, a mortgage from savings in order to acquire credit.
- b. Consumers will have to use savings to repay credit to the bank.

5) **-0.58:**

**Change in services prices in the CPI in next quarter.**

- a. Increases in the prices of services such as medical, education, electricity, water, housing, domestic workers, etc. put savings under strain.





## TOP FIVE ECONOMIC VARIABLES CORRELATED WITH THE CONSUMER DEBT SERVICING VULNERABILITY INDEX

The correlations point towards the affordability of debt and goods purchased with debt, as the main causes of consumer debt servicing vulnerability.

Long-term unsecured credit, vehicle financing and card credit in particular affect debt servicing vulnerability (see figure 3).

### 1) -0.61:

**Unsecured credit debtors book: 5 – 10 year term** – thus the long repayment term.

- a. Long repayment term of more expensive debt makes individuals debt service vulnerable as they do not know whether they will be able to maintain and afford the servicing.

### 2) -0.60:

**Change in price of new vehicles in next quarter** – thus the expected increase in the price of new vehicles.

- a. Purchasing a more expensive car will increase the monthly instalment.
- b. Expected price increases may push the purchasing decision forward, thereby advancing the monthly instalment.
- c. Consumers' current income is insufficient to finance current expenditure and higher instalments forthcoming from higher car prices.

### 3) -0.54:

**Increase in the unemployment rate: quarter-on-quarter % change** – thus more unemployed people in relation to the size of the workforce.

- a. Higher possibility of losing an income causes consumers to doubt their ability to service their debt.

### 4) -0.56:

**Credit facilities in real terms** – thus the purchasing power of credit facilities.

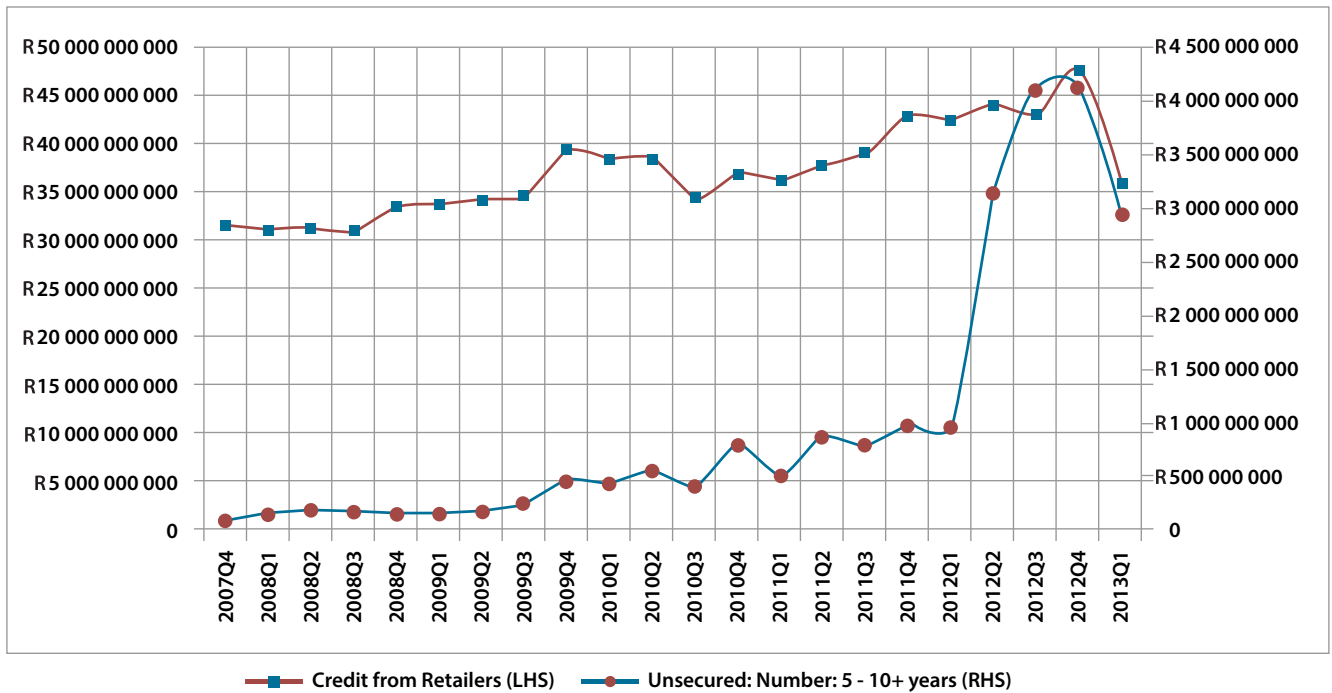
- a. Cost of credit is high, which makes the full repayment of instalments difficult and therefore leaves a smaller facility available for purchases.

### 5) -0.51:

**Credit from retailers in following quarter.**

- a. Too many purchases from retailers on credit in current quarter could imply that consumers are not able to service the credit in following quarter.
- b. Consumers cannot purchase from retailers on credit in following quarter as the credit limit is used up in current quarter.
- c. Credit from retailers is generally more expensive, making the servicing thereof more unaffordable.

**FIGURE 3: LONG-TERM UNSECURED CREDIT AND CREDIT FROM RETAILERS MAKE CONSUMERS FRAGILE**



**CONCLUSION: CONSUMER FINANCIAL VULNERABILITY TRANSMISSION PATH**

The correlations with the overall CFVI correspond to a very large degree with those of the expenditure vulnerability index. This confirms the findings of the transmission path research as published in the Q2 2012 CFVI Report. The consumer financial vulnerability transmission path identified is as follows:

- One, or a combination, of the identified variables leaves consumers not being able to afford their required living standard and they become expenditure vulnerable;
- If they cannot generate more income to compensate, they become income vulnerable;
- They draw on their savings to finance the excess expenditure and become savings vulnerable; and
- They are not able to service their debt and therefore become debt service vulnerable.

# BEFORE THINKING OUTSIDE THE BOX, **UNDERSTAND THE BOX.**



Our clients look to us for innovation. In a world of constant improvement and rising expectations, innovation is the only way to remain ahead of our competitors. Our clients may face similar challenges, but each has a unique situation. That's where we come in. Using innovation as the solution to every challenge, we discover new ways to solve problems for our company and our clients. This means that before we think outside the box, we are better able to understand that box. It's what sets us apart from our competitors, and, in turn, sets our clients apart from theirs.