

momentum
**CONSUMER
FINANCIAL
VULNERABILITY**

Index

Q4 2020



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UNISA  university of south africa

Improvement in consumer financial vulnerability levels, but consumers remain very exposed

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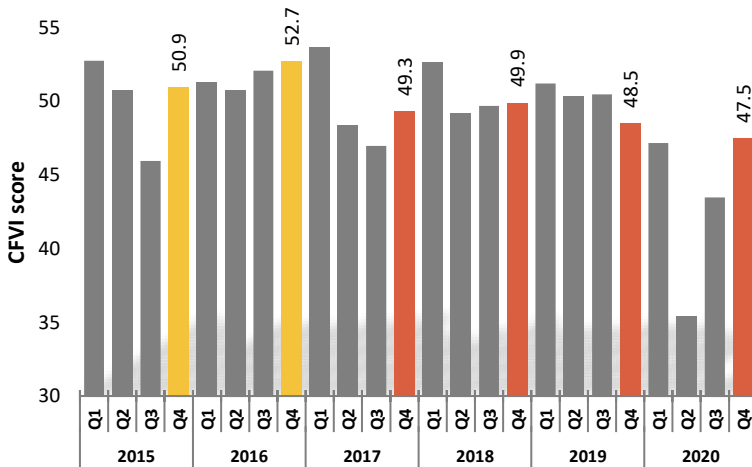
CFVI Q4 2020 Results

Improvement in consumer financial vulnerability levels, but consumers remain very exposed financially

Some of the financial strain that several consumers had to endure during the initial lockdown periods early in 2020 dissipated during the fourth quarter of 2020 (Q4 2020). This is evident from the Momentum-Unisa Consumer Financial Vulnerability Index (CFVI), which recovered to 47.5 points in Q4 2020 from 43.5 points in Q3 2020. This means that the index improved to a similar level before lockdown. The improvement follows two very difficult quarters during which the index deteriorated to the highest level of financial vulnerability since inception in 2009.

However, the improvement must be considered in the context of historical fourth quarter index scores. Fourth quarter scores are usually higher than that of other quarters as the quarter is characterised by increased optimism and spending due to among others bonus payments and the general festive spirit. The Q4 2020 index score is, despite the increase from Q3 2020, the lowest fourth quarter score since inception of the index. This indicates that although consumers' financial vulnerability decreased, they are still experiencing trying times.

Consumer finances remain under pressure despite some relief compared to previous quarters

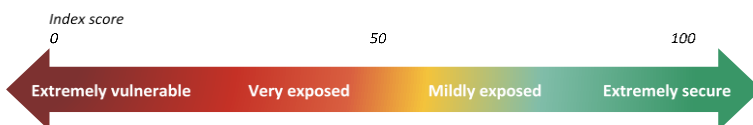


During Q4 2020 the four sub-indices of the CFVI all showed an improvement, but remained in the very exposed category on the index scale:

- Income vulnerability decreased as the sub-index improved from 44.1 points in Q3 2020 to 47.7 points in Q4 2020. This suggests that more consumers were able to earn or increase their income. The strong improvement since Q2 2020 suggests a strong recovery in employment.
- Expenditure vulnerability decreased as the sub-index increased from 45.9 points in Q3 2020 to 49.2 points in Q4 2020. This sub-component is close to the mildly exposed category and was, among others, supported by the recovery in employment.
- Savings vulnerability also decreased as the sub-index score moved from 43.1 points in Q3 2020 to 47.3 points in Q4 2020. This can be attributed to both the improvement in income and less spending (due to some regulations restricting the full opening of the economy).
- Low interest rates contributed to consumers being less vulnerable in terms of debt servicing as the index score increased to 45.8 points in Q4 2020 from 40.8 points in Q3 2020.

Quarterly overview of CFVI and its sub-components

CFVI components	Q4 2019	Q3 2020	Q4 2020	Change from Q4 2019	Change from Q3 2020
Income	49.1	44.1	47.7	↓	↑
Expenditure	50.2	45.9	49.2	↓	↑
Savings	49.4	43.1	47.3	↓	↑
Debt servicing	46.4	40.8	45.8	↓	↑
Overall CFVI	48.5	43.5	47.5	↓	↑



2020 was a very difficult year for consumers

A review of the average annual scores of the CFVI and its sub-components shows that consumers suffered greatly during 2020. The average annual score indicates that consumer financial vulnerability was at its lowest level since inception of the index, dropping to a low of 43.4 points. The main contributor to the low score was a significant increase in debt servicing vulnerability. This sub-index declined from 48.7 points in 2019 to 40.9 points in 2020, on the brink of the very vulnerable category of the index scale. This means that the inability to service debt made the largest contribution to consumers' financial vulnerability.

Annual overview of CFVI and its sub-components

	Income	Expenditure	Savings	Debt servicing	Overall CFVI
2010	51.4	50.5	53.0	58.3	53.3
2011	54.6	54.4	49.4	59.6	54.5
2012	49.1	55.1	49.3	51.2	51.4
2013	46.6	50.5	47.2	53.3	48.9
2014	50.3	53.8	51.1	48.4	50.7
2015	50.4	54.3	51.1	48.4	50.1
2016	52.0	54.1	51.2	49.6	51.7
2017	50.3	50.8	49.8	47.6	49.6
2018	52.3	51.0	49.5	48.3	50.3
2019	50.2	51.3	50.6	48.7	50.1
2020	43.5	45.8	43.6	40.9	43.4

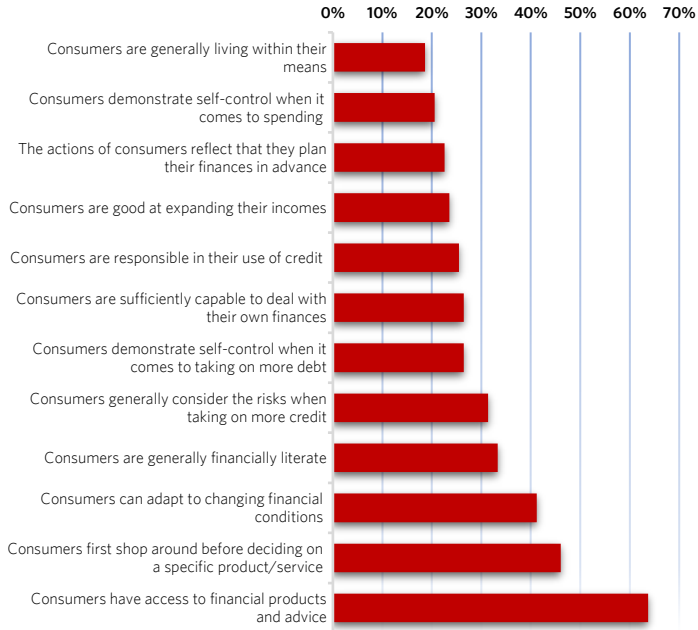
A closer look at the CFVI Q4 2020 results

The CFVI is compiled from the views of key informants (researchers, bankers, insurers, retailers, government, economists, analysts, etc.) who deal with consumers daily. They were asked to provide reasons for possible financial troubles faced by consumers during Q4 2020. The main reasons highlighted remain COVID-19 and lockdown impacting the economy, resulting in an inability to work and earn an income, retrenchments, salary cuts and price increases.

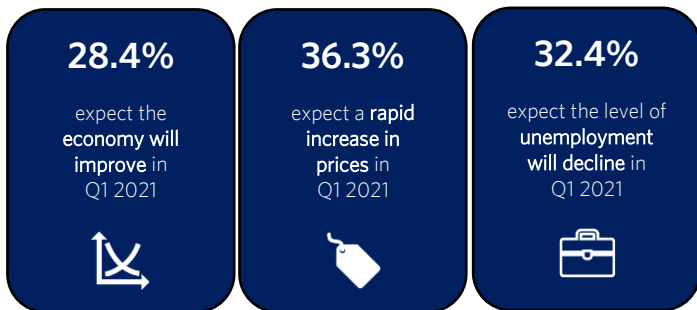
The key informants also provided insights into consumer behaviour during Q4 2020. The only statement that the majority of key informants agreed with was that consumers have access to financial products and advice. However, the key informants highlighted worrisome behaviours from consumers such as the inability to live within their means and that they did not demonstrate self-control when spending. Another troublesome observation was that consumers are limited in expanding their incomes. This could be due to the economy's inability to create sufficient jobs, as well as limited opportunities for consumers to start their own businesses due to a struggling economy.

Consumer behaviour aspects

(portrayed by the percentage agreement to the following statements)



With regards to the expectations for the general economic environment the key informants had the following opinions:



However, key informants reported little hope for a quick recovery in consumer finances due to, among other factors, COVID-19 and lockdown, given the following views:

- 69.6% of key informants are of the opinion that it will take 18 months or longer for consumer finances to recover from the impact of COVID-19 and lockdown;
- 57.8% of key informants noted a decline in consumers' perceived levels of control over their financial situations (i.e. personal empowerment) during the past few months; and
- 36.3% of key informants noted that consumers still attach a high value to their finances, but they also attach a high value to staying safe against COVID-19, while 27.5% believed consumers are more focused on their finances than on staying safe against the virus. The remaining 36.3% believed that consumers were more worried about staying safe against COVID-19 than their finances.

Overall, the Q4 2020 CFVI results show that despite an improvement in the index, consumer finances will remain vulnerable for some time to come. A sustainable economic recovery is expected to take years rather than months or quarters. Therefore, key informants are of the opinion that consumers need to empower themselves with the appropriate skills, financial and otherwise, and adjust their behaviour if they hope to experience a truthful restoration of their financial situation and that of their economy.

Scores of the CFVI and its sub-indices, Q2 2009 - Q4 2020

Date	Income	Expenditure	Savings	Debt servicing	Overall CFVI	
2009	Q2	43.8	44.6	43.0	56.9	46.8
	Q3	39.7	45.6	41.1	52.4	44.7
	Q4	41.9	47.4	46.0	54.9	47.6
2010	Q1	51.2	47.4	54.0	54.9	51.9
	Q2	53.3	45.4	58.1	56.6	53.3
	Q3	47.3	53.1	50.7	56.8	52.0
2011	Q4	53.8	56.2	49.1	64.7	56.0
	Q1	58.5	50.6	52.2	56.3	54.4
	Q2	54.8	54.2	46.7	58.8	53.6
2012	Q3	52.4	55.6	47.7	61.4	54.3
	Q4	52.8	57.3	51.1	61.9	55.8
	Q1	57.6	60.1	58.8	56.6	58.9
2013	Q2	44.8	53.8	47.5	47.8	48.6
	Q3	46.8	54.4	42.1	48.1	47.9
	Q4	47.2	52.2	48.7	52.2	50.1
2014	Q1	49.6	51.0	49.6	54.0	51.1
	Q2	43.4	52.4	44.4	53.8	46.7
	Q3	42.1	45.2	44.8	51.6	45.9
2015	Q4	51.3	53.5	50.0	53.7	52.0
	Q1	51.0	52.9	50.2	46.6	50.2
	Q2	47.7	54.6	51.7	49.0	50.2
2016	Q3	51.0	54.3	52.0	48.4	51.4
	Q4	51.4	53.5	50.5	49.6	51.2
	Q1	52.1	56.7	52.7	49.9	52.7
2017	Q2	52.1	52.5	51.5	47.0	50.8
	Q3	47.2	55.0	48.5	47.8	46.0
	Q4	50.2	53.2	51.7	48.7	50.9
2018	Q1	50.5	52.6	52.1	49.9	51.3
	Q2	52.5	52.3	49.8	48.2	50.7
	Q3	51.5	54.7	52.2	49.9	52.1
2019	Q4	53.6	56.5	50.8	50.4	52.7
	Q1	54.4	54.5	54.5	51.2	53.6
	Q2	48.9	49.1	48.8	46.5	48.4
2020	Q3	48.8	48.5	46.2	44.3	47.0
	Q4	49.0	50.9	49.5	48.3	49.3
	Q1	54.9	54.0	51.2	50.5	52.6
2020	Q2	51.0	48.6	48.8	47.6	49.1
	Q3	51.4	50.6	50.0	46.7	49.7
	Q4	52.0	50.9	48.0	48.5	49.9
2020	Q1	50.9	50.8	52.9	50.4	51.2
	Q2	50.1	52.1	50.1	49.1	50.3
	Q3	50.6	52.1	50.2	48.9	50.5
2020	Q4	49.1	50.2	49.4	46.4	48.5
	Q1	47.7	49.1	48.1	45.0	47.2
	Q2	34.6	39.0	36.0	32.1	35.4
2020	Q3	44.1	45.9	43.1	40.8	43.5
	Q4	47.7	49.2	47.3	45.8	47.5

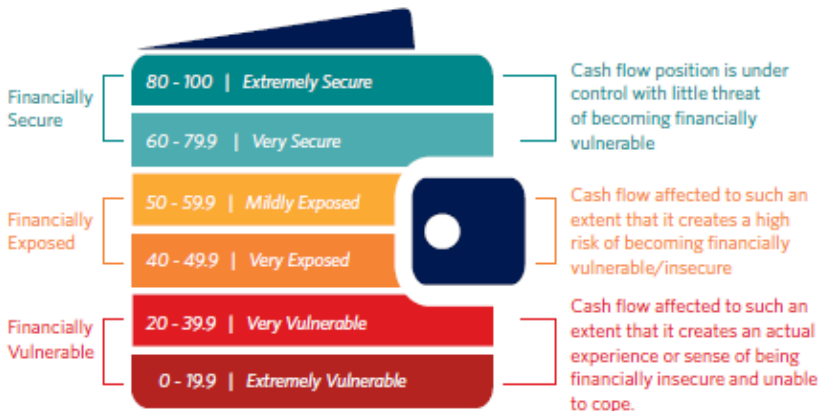
About the index

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. The results of this release of the CFVI for Q4 2020 stem from research conducted by Unisa on behalf of Momentum via an online and CATI-based survey conducted during December 2020 and January 2021. The results of this release of the CFVI are based on the responses of 102 key informants from relevant industries (including banks, insurers, other credit industry institutions, retailers, municipalities and consumer researchers) that are in a position to gauge consumers' financial perceptions and positions.

Measurement scale of consumer financial vulnerability Index



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