



**CONSUMER FINANCIAL
VULNERABILITY INDEX**

FIRST QUARTER 2010

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Consumers bruised by job losses, price increases and HIV/AIDS

Continuing job losses are leaving more people in the R30 000 – R100 000 a year income bracket financially vulnerable, according to the latest results of the Consumer Financial Vulnerability Index (CFVI).

Although the rate of job losses declined towards the end of 2009 and in the first quarter of 2010, the number of people losing jobs is putting more consumers at risk.

Consumers are also at risk due to the prices of some goods and services, such as food, housing and utilities, medical services, transport and education, growing faster than household incomes during 2009.

Other indications of continued financial stress are the increasing number of consumers making arrangements to pay off their debt over a longer period or cancelling policies to cover household expenditures.






Overall, the financial vulnerability of consumers lessened somewhat during the first quarter of 2010. The results indicate that consumer financial vulnerability, after first increasing in the third quarter of 2009, has now declined for two consecutive quarters as the economy picked up momentum and consumers adapted their lifestyles downwards. However, no significant decline in vulnerability is expected in the near future as the underlying causes remain mainly unaddressed. These include high levels of unemployment and poverty, low skills levels, low labour market absorption rates, high levels of indebtedness and defaults on repayments, ineffective service delivery, and the impact of HIV and AIDS.

The CFVI was developed by the Bureau of Market Research (BMR) in collaboration with FinMark Trust.

The overall CFVI and sub-indices are based on a 10 point scale where 0 indicates total financial security and 10 indicates total financial vulnerability.

0-1.99	2.0-3.99	4.0-5.99	6.0-7.99	8.0-10
Financially very secure	Financially secure	Somewhat Financially vulnerable	Financially vulnerable	Financially very vulnerable

Although the CFVI score has improved from a high of 5.48 recorded in the third quarter of 2009 to 4.66 in the first quarter of this year it is evident that South Africans remain at risk.

CONSUMER FINANCIAL VULNERABILITY	Second quarter 2009	Third quarter 2009	Fourth quarter 2009	First quarter 2010	Movement Q4 2009 to Q1 2010
Savings vulnerability	5.74	5.90	5.40	4.60	
Expenditure vulnerability	5.54	5.45	5.26	5.33	
Debt servicing vulnerability	4.37	4.76	4.51	4.32	
Income vulnerability	5.64	6.03	5.81	4.88	
Overall CFVI	5.17	5.48	5.17	4.66	

The results of the survey for the four quarters up to the first quarter of 2010 are as follows:

Savings vulnerability increased from the second quarter to the third quarter of 2009 but declined from the third quarter of 2009 to the first quarter of 2010. This could be explained by consumers hard hit by the recession having adapted their lifestyles downwards and becoming better able to cope with existing savings at their disposal. Consumers also entered into fewer credit agreements, enabling them to save more.

Expenditure vulnerability, which depends on various factors including whether consumers are able to deal with rising costs such as food and transport or are able to live within their means, showed a continuing decline from the second quarter through to the fourth quarter of 2009, followed by a slight increase during the first quarter of 2010.

Debt servicing vulnerability and **income vulnerability** rates increased from the second to the third quarter of 2009 but declined from the third quarter of 2009 to the first quarter of 2010. Lower income vulnerability, which relates to job and income security, could be attributed to a decline in the rate of job losses towards the end of 2009 and in the first quarter of 2010. Lower levels of debt servicing vulnerability could be the result of both lower interest rates and lower credit-acquisition rates among consumers.

The **overall consumer financial vulnerability index** increased from the second to the third quarter of 2009, driven by a large number of job losses, negative economic growth and high levels of defaults on debt servicing. In contrast, consumer financial vulnerability improved slightly from the third quarter of 2009 to the first quarter of 2010 as the economy picked up momentum, the rate of job losses decreased, and as consumers continued to adapt their lifestyles downwards.

The responses from key respondents highlighted the following:

- In the second quarter of 2009, 55% of key respondents disagreed that consumers' ability to make ends meet improved during the past 12 months. This indicator improved to only 40% disagreeing in the first quarter of 2010.
- In the second quarter of 2009, 67% of key respondents agreed that an increasing number of consumers are cancelling policies to cover household expenditures. This increased to 83% in the first quarter of 2010.

- In the second quarter of 2009, 85% of key informants agreed with the statement 'An increasing number of consumers make arrangements to pay off their debt over a longer period'. In the first quarter of 2010 this increased to 91% of respondents agreeing.
- In the second quarter of 2009, 22% of respondents indicated that 'Loss of income due to death of an income earner is often a reason for the bad financial situation of a consumer.' This increased to 59% in the first quarter of 2010. Research by BMR indicates that this may be as a result of AIDS-related deaths as the disease is in maturing phase of many of those infected.

Key respondents were asked which of the broad income groups they consider the most vulnerable: people earning below R30 000 a year, people with an income between R30 000 and R100 000, and those earning above R100 000. In the second quarter of 2009, 13.8% of respondents indicated that people who earn between R30 000 and R100 000 are the most vulnerable. This increased to 46.4% in the first quarter of 2010.

Overall, the results indicate that the recession gave rise to increasing levels of vulnerability from the second to third quarter of 2009, with a decline in consumer financial vulnerability in the fourth quarter of 2009 and the first quarter of 2010. As economic growth improves in 2010, coupled with higher levels of job creation, lower levels of consumer financial vulnerability are expected. However, no large-scale decline in vulnerability is expected as the main reasons for vulnerability remain largely unaddressed. These include (1) high levels of poverty, (2) high levels of unemployment, (3) ineffective functioning of wealth transfer and service delivery institutions, (4) high levels of indebtedness and defaults on repayments, (5) low skills levels, and (6) the socio-economic impact of HIV and AIDS.

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The Bureau of Market Research (BMR) was established in 1960 as a collaborative effort between UNISA and industry. The BMR has four focus areas, namely demographic research, behaviour and communication research, income and expenditure research and economic research. The BMR provides contract research, syndicated research, skills development and database mining services to clients and BMR members.