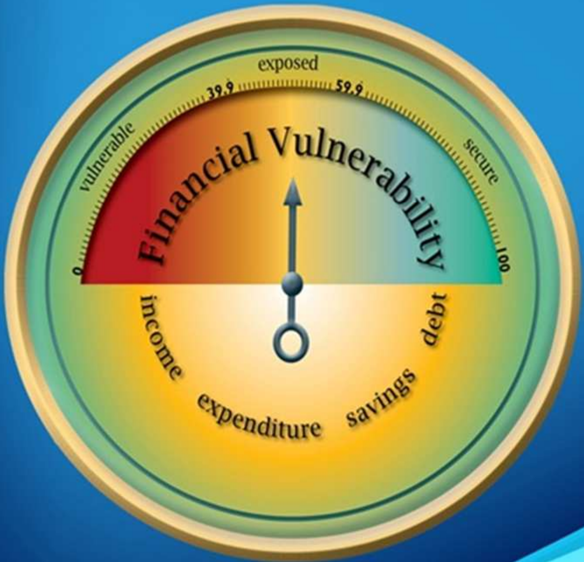
# Consumer Financial Vulnerability Index: Q4 2013

## "The impact of seasonality"

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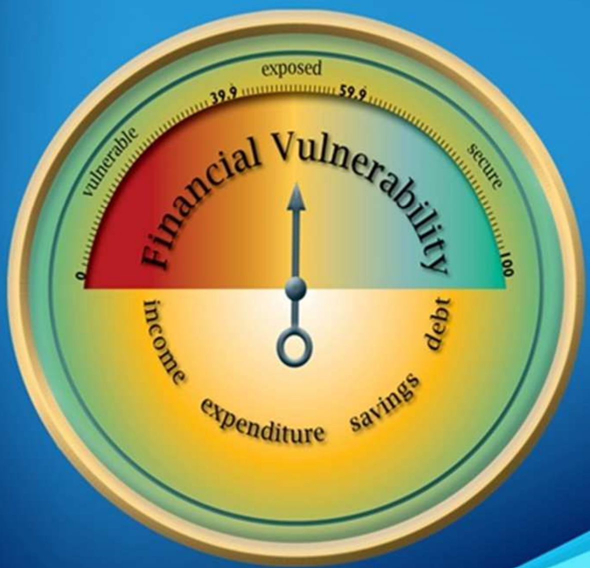
# Introduction

- Consumer Financial Vulnerability Index (CFVI) was launched in **Q2 2009.**
- Comprehensive **consumer cash flow** indicator.
- Gauges the ***individual*** *components* of consumer finances ***separately*** and in ***one composite index***.
  - Income
  - Expenditure
  - Savings
  - Debt servicing
  - Overall CFVI.
- Correlates well with macro-economic variables such as GDP.

# Measurement

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

# CFVI Results
# Q4 2013

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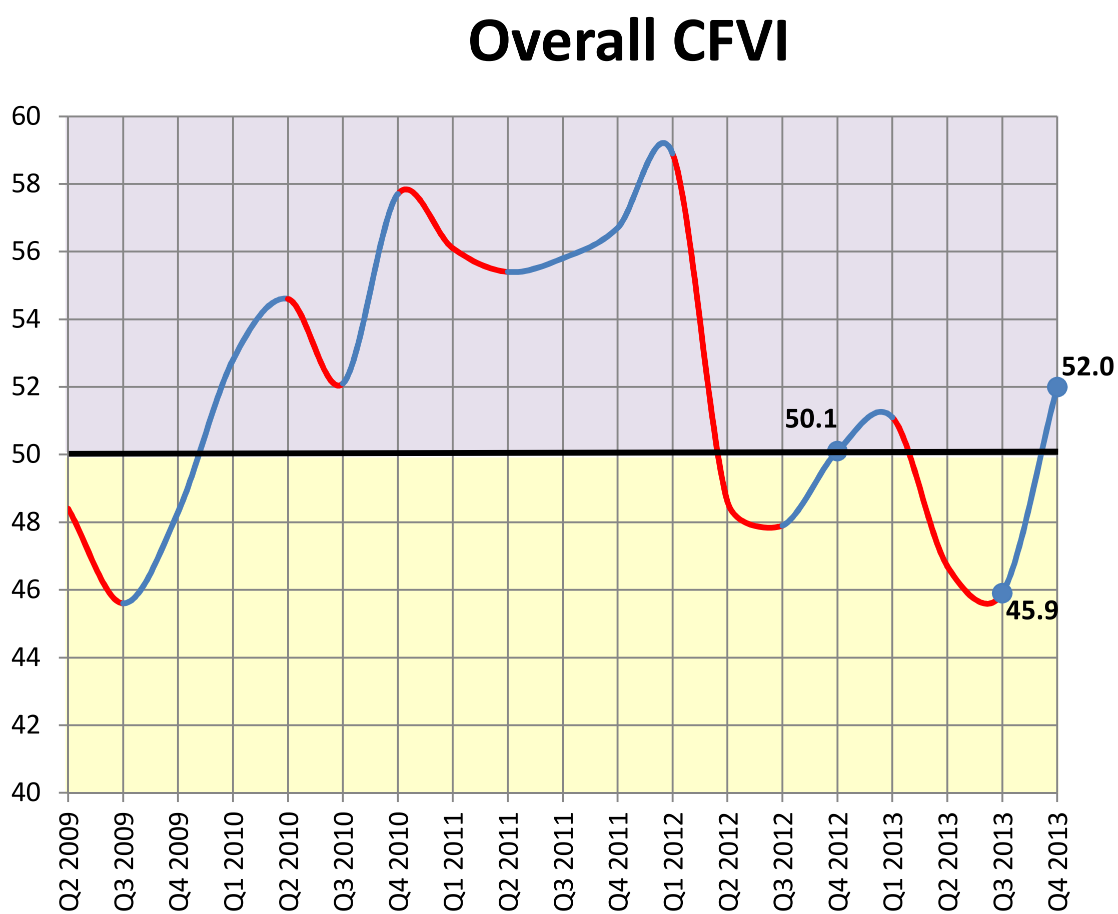


- Consumers were **financially very exposed** during Q3 2013 (45.9 points).
- CFVI improved to 52.0 in Q4 2013, making consumers **financially mildly exposed.**

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Factors contributing to improvement:

- Normalisation in production following labour strikes in Q3 2013.
- Wage increases exceeding inflation.
- Due to higher income, consumers could increase expenditure and/or savings.
- Impact of festive season in Q4 (higher expenditure).

# Changes in subcomponents

| Date | Savings | Expenditure | Debt servicing | Income |
|---|---|---|---|---|
| **Q4 2011** | **51.1** | **57.3** | **61.9** | **52.8** |
| Q1 2012 | 58.8 | 60.1 | 56.6 | 57.6 |
| Q2 2012 | 47.5 | 53.8 | 47.8 | 44.8 |
| Q3 2012 | 42.1 | 54.4 | 48.1 | 46.8 |
| **Q4 2012** | **48.7** | **52.3** | **52.2** | **47.2** |
| Q1 2013 | 49.6 | 51.0 | 54.0 | 49.6 |
| Q2 2013 | 44.8 | 52.4 | 53.8 | 43.4 |
| **Q3 2013** | **44.8** | **45.2** | **51.6** | **42.1** |
| **Q4 2013** | **49.9** | **53.5** | **53.7** | **51.3** |

- For the first time since Q2 2012 consumers did not feel very exposed concerning their **income** (>50 index: *mildly exposed*).
- **Expenditure** vulnerability rebounded to *mildly exposed* after a sharp decline in Q3 2013.
- Consumers **still** *very exposed* in terms of **savings** and **still** *mildly exposed* regarding their **debt servicing**.

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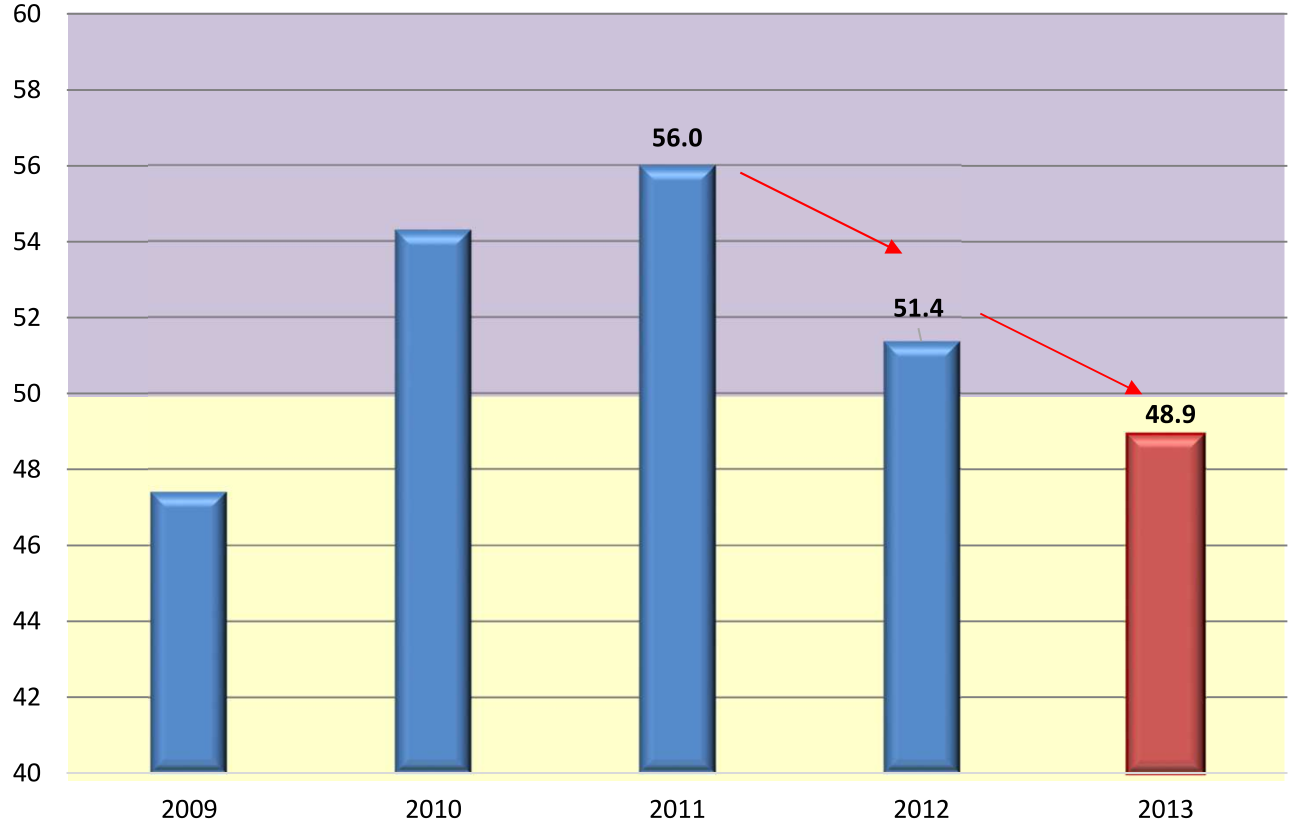
# Annual average CFVI

- Deterioration in the cash flow of consumers during 2013.
- Harshest pressure on cash flow since 2009.
- Consumers felt financially **very exposed**.

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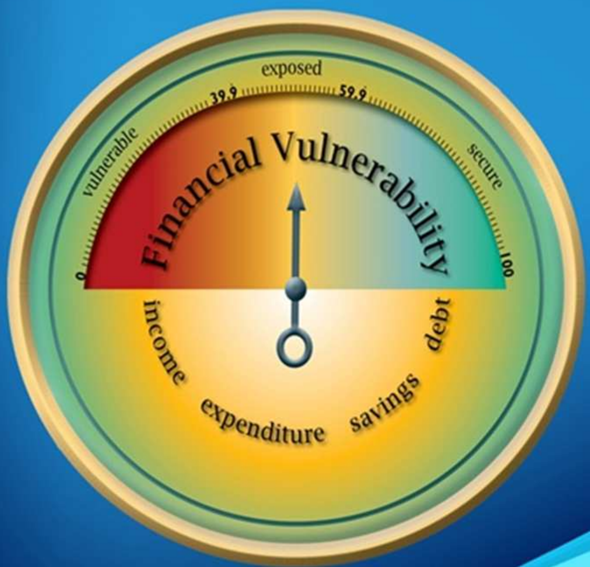
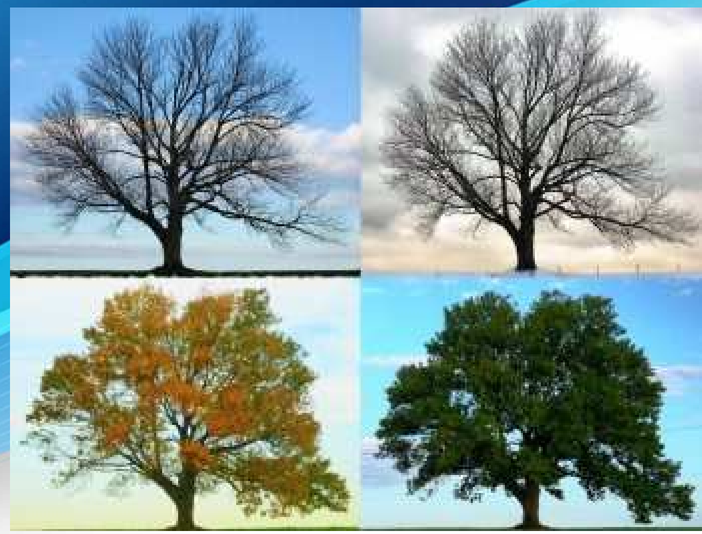
Major contributors to consumers feeling more financially vulnerable during 2013:

- Slow domestic economic growth (impacting sentiment).
- Declining access to credit (20.7% reduction in number of credit applications approved between Q4 2012 and Q3 2013).
- Increasing debt service cost (R160 billion in Q3 2013 vs R151 billion in Q4 2012).
- Higher fuel prices (on average 11.8% higher vs 2012).
- High unemployment (on average 190 000 more unemployed).
- Labour strikes (especially in manufacturing).
- Weak exchange rate impacting prices.

# The impact of seasonality



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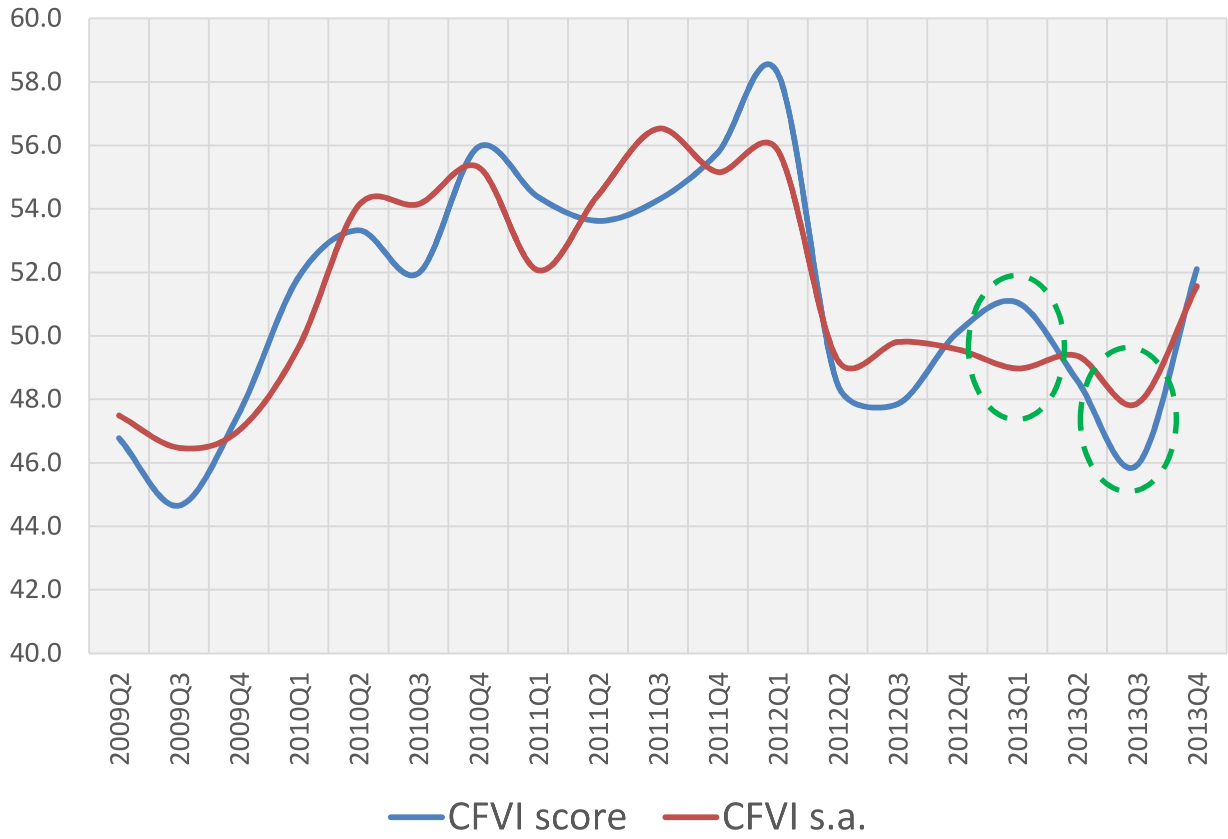
# Methodology

- Consumers' financial behaviour are influenced by regular seasonal events (festive season, labour strike season, etc.) and seasonal psychological and behavioural factors (optimism/pessimism).
- Need identified to extract the impact of seasonality from the index scores to provide the influence of seasonal factors on consumers' cash flow vulnerability.
- Applied a seasonal adjustment factor (X12) to each subcomponent by using statistical software.

# Actual vs Seasonally Adjusted (s.a.) CFVI




- Seasonal factors affect consumers' perceptions of their cash flow vulnerability
- Strongest impact in Q1 and Q3

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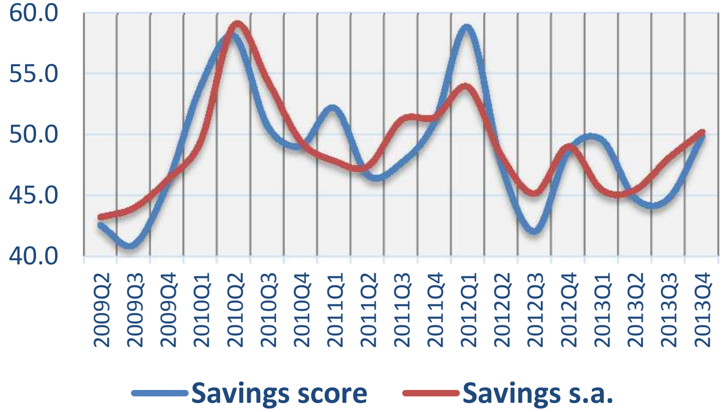
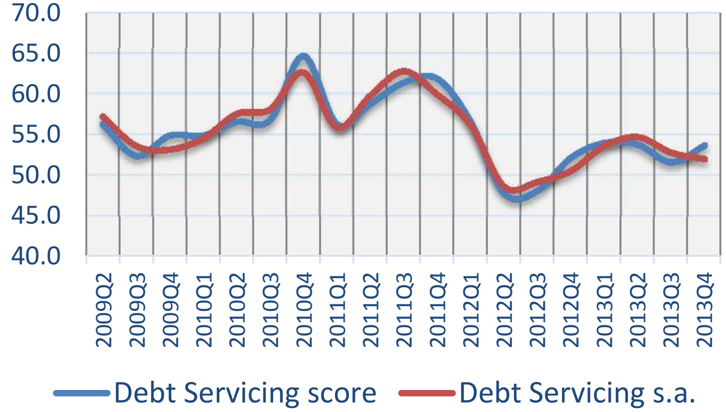
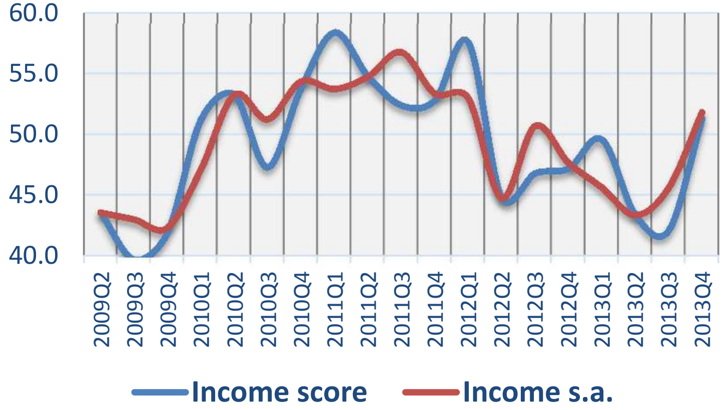
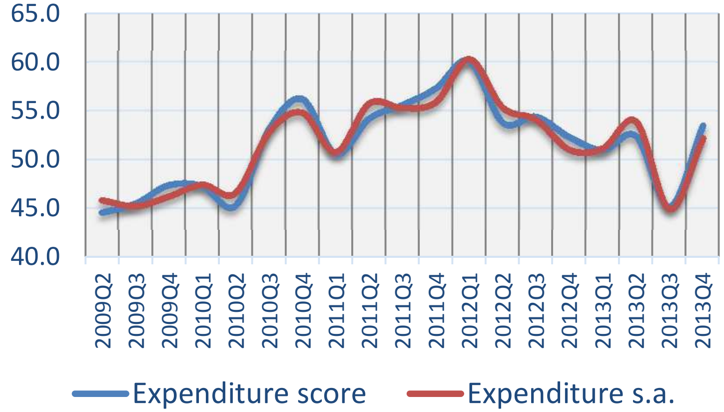
# Actual and seasonally adjusted scores of the CFVI subcomponents

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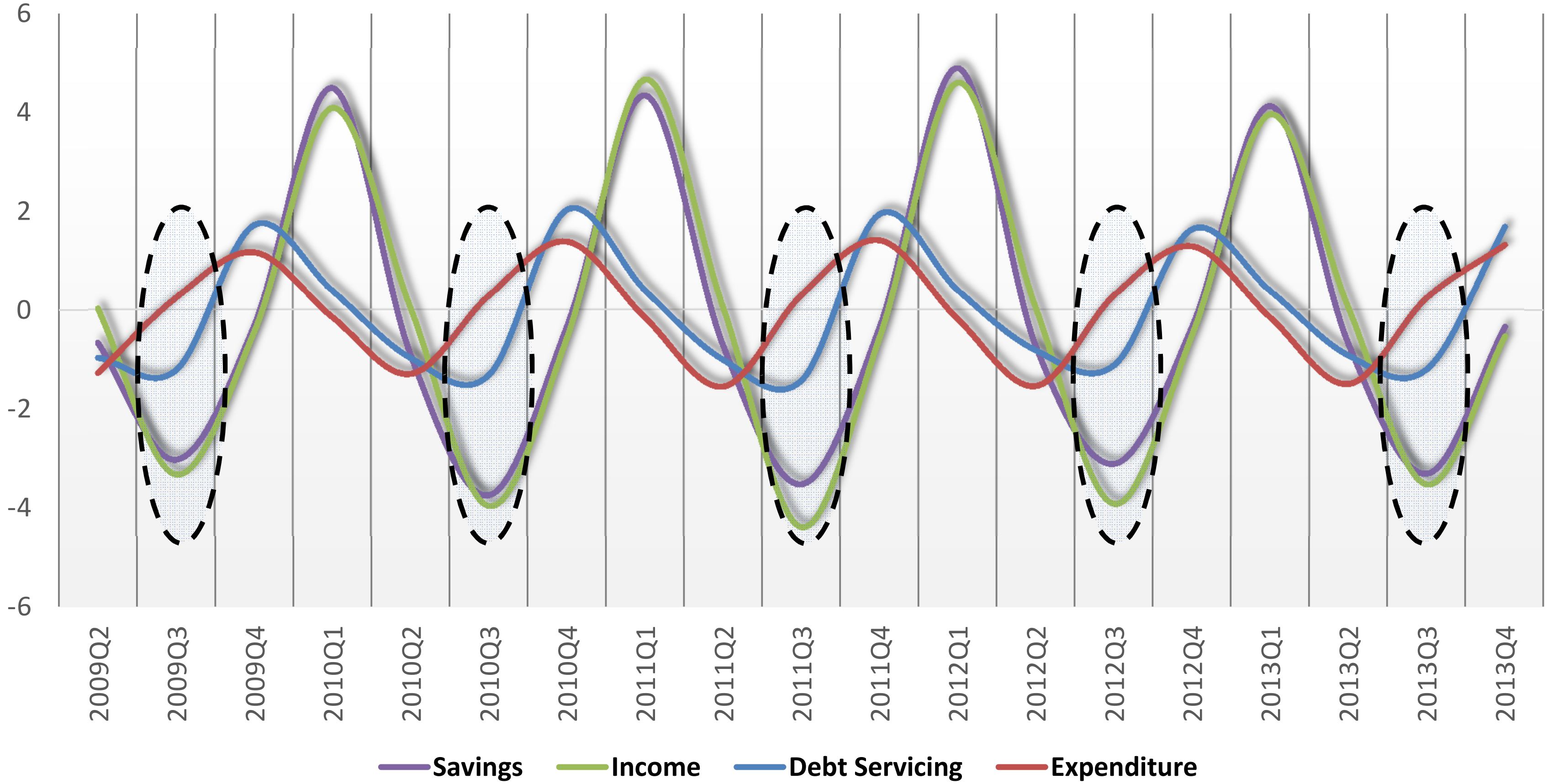
# Seasonality

Difference between actual and seasonally adjusted index scores:
Largest impact in Q3

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# Seasonality

- Total CFVI exhibit the same seasonal trends than Income and Savings subcomponents.
- Seasonal factors have a larger impact on perceptions regarding income and savings, than of expenditure and debt servicing (size of wave).
- Perception of total consumer financial vulnerability is highest in Q3 – impacted by seasonal factors on income, savings and debt servicing.

| Subcomponent | Seasonal occurrence | | Impact of seasonal factors on perception of vulnerability | Possible impacting factors |
|---|---|---|---|---|
| **Income** | **Q1** | Actual CFVI > CFVI s.a. | Reduced vulnerability | New Year optimism |
| | **Q3** | Actual CFVI < CFVI s.a. | Increased vulnerability | Strike season (no income, unions negotiate on behalf of employees) |
| **Expenditure** | **Q2** | Actual CFVI < CFVI s.a. | Increased vulnerability | Result of Q1 income optimism, reality |
| | **Q4** | Actual CFVI > CFVI s.a. | Reduced vulnerability | Festive season spending |
| **Savings** | **Q1** | Actual CFVI > CFVI s.a. | Reduced vulnerability | Perception of income vulnerability (strong relationship) |
| | **Q3** | Actual CFVI < CFVI s.a. | Increased vulnerability | |
| **Debt servicing** | **Q3** | Actual CFVI < CFVI s.a. | Increased vulnerability | Strike season, reality following expenditure excess |
| | **Q4** | Actual CFVI > CFVI s.a. | Reduced vulnerability | Festive season, access to credit |

# Conclusion

- Consumers perceived their cash flow to be very exposed in 2013 – most vulnerable since recession in 2009.
- Consumer perceived an improvement during Q4 2013.
- Suggest an improvement in economic growth in Q4 2013.
- Seasonal factors impact the perceptions of consumers' vulnerability regarding their cash flow.
- Consumers in different income groups may experience different seasonal impacts.
- Seasonal factors exert the most negative pressure on consumer cash flow during Q3, whilst it is most positive during Q1.

# THANK YOU

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