Consumer less vulnerable say report

By Mariam Isa

16 Nov 2012

Consumer vulnerability in South Africa fell to its lowest level since the recession in 2009 during the third quarter of this year, a survey sponsored by MBD Credit Solutions has shown.

Its consumer financial vulnerability index dropped to 47.9 from 48.6 in the second quarter -- its lowest level in three years. The research for the index is carried out by the Bureau for Market Research at the University of South Africa (UNISA).

"This tells us the fourth quarter will be problematic and suggests that negative economic growth in the fourth quarter is a strong possiblity," said Unisa professor Bernadene de Clerq.

The reading for the index during the third quarter of this year puts consumer financial vulnerability squarely in the "very exposed" category for the second quarter in a row. The top reading for financial security is 100.

A breakdown of the index showed that consumer's perceived ability to spend improved, rising to 54.4 from 53.8 in the second quarter of the year. Income also nudged higher, to 48.1 from 47.8.

But the reading for savings deteriorated sharply while the burden of debt servicing rose to reflect a "very exposed" condition compared with "mildly exposed" during the second quarter of 2009.

This was despite the fact that prime interest rates were 2.5 percentage points lower than they were during the second quarter of 2009.

It was clear from the index that consumers felt less vulnerable in terms of their ability to spend because they were supplementing their incomes with debt, De Clerq said.

"Consumers are using debt to finance consumption expenditure," she added.

But they were borrowing at greater expense as they were receiving unsecured loans, where debt servicing costs were more than twice as expensive than the secured loans they obtained in 2009, she noted.

The survey showed that people earning up to R300,000 per year felt they were financially exposed through their cash flow, while those earning up to R500,000 per year felt exposed in terms of debt servicing.

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