

Strikes have affected debt servicing amongst vulnerable consumers

The new MBD Credit Solutions and the Bureau of Market Research's Consumer Financial Vulnerability Index (CFVI) for the third quarter of 2012 indicates that the pressure on South African consumers' cash flow has increased to the level they last experienced during the economic recession in Q2 2009. In a specially commissioned report, the situation of miners is viewed in the wake of the recent strikes.

Figures fail to recover

The figures failed to recover in Q3 2012 after a sharp decline in Q2 2012. Following the deterioration from 58.9 points in Q1 2012 to 48.6 points in Q2 2012, the CFVI declined further to 47.9 points in Q3 2012. As Table 1 shows, the CFVI is now lower than in Q2 2009, which was the last quarter of the economic recession.

Table 1: CFVI over time

Date	Savings	Expenditure	Debt servicing	Income	Overall CFVI
Q2 2009	42.6	44.6	56.3	43.6	48.4
Q1 2012	58.8	60.1	56.6	57.6	58.9
Q2 2012	47.5	53.8	47.8	44.8	48.6
Q3 2012	42.1	54.4	48.1	46.8	47.9

This CFVI-reading means that consumers felt very exposed in terms of their cash flow as the risk increased for them to become financially vulnerable.

Figure 1: Categories of the CFVI

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

Table 1 shows that compared to Q2 2009, the biggest changes occurred in the expenditure and debt servicing categories:

- They moved from very exposed in terms of expenditure to mildly exposed; whilst
- the opposite occurred in terms of debt servicing where they now experienced very exposed condition compared to mildly exposed during Q2 2009. This is despite the prime interest rate being 2.5 percentage points lower than the 11% during Q2 2009.

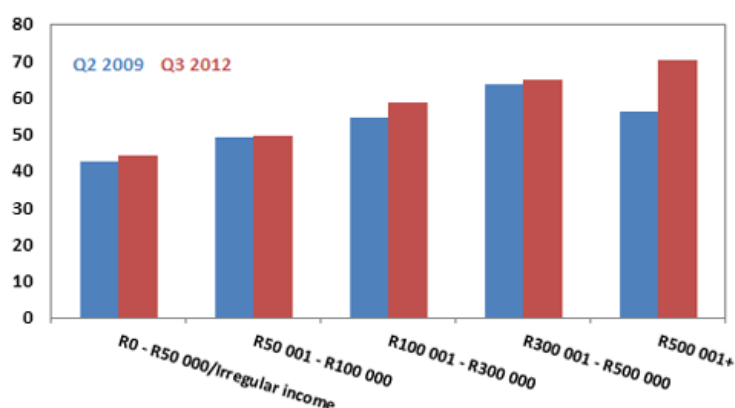
The above changes are interrelated and can be explained by the CFV transmission path. In order for consumers to maintain their expenditure, which was driven higher by such things as sharp increasing utility and transport costs, they incurred debt. However, they are borrowing more expensively as they are granted unsecured loans, whose debt servicing costs are more than 2.2 times more expensive than that of the secured loans they obtained during Q2 2009.

The results of the Q3 2012 CFVI were obtained from the recent Finscope survey among consumers. This enabled more detailed CFV-analysis by income group, education level, employment status and age group

The following inferences could be drawn from such analysis.

- Income groups earning up to R300 000 per annum (95.5% of consumers) experienced being financially exposed in terms of their cash flow. Those earning up to R500 000 per annum felt financially exposed in terms of debt servicing;
- Consumers with at least a degree/diploma in general were financially secure;
- The self-employed and those with full-time jobs achieved the highest CFV-scores. However, they were in general in the financially exposed category.
- The youth (younger than 25 years) was the most fragile together with the 55 - 59 year category.

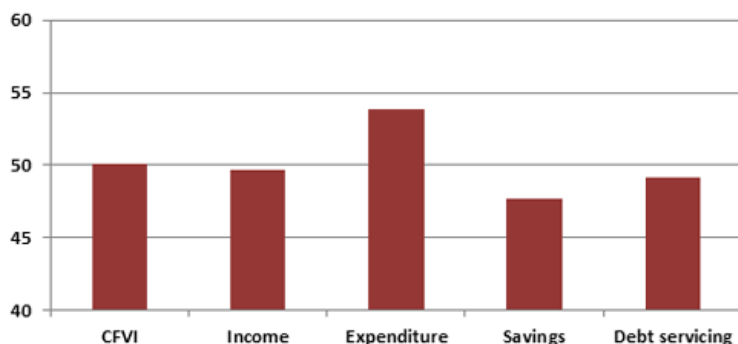
Figure 2: CFVI by income group



Special feature: consumer financial vulnerability of the miners

A CFV-profile of the income group within which most of the striking miners fall was constructed using various data sources such as obtained from the Finscope survey, All Media and Products Survey (AMPS) and the National Credit Regulator (NCR). Figure 3 shows that the income group earning between R60 000 to R150 000 per annum is generally financially exposed in terms of its cash flow and very exposed as to its income ability to save and to service its debt.

Figure 3: CFVI of the R60 000 - R150 000 income group



The debt servicing fragility can to a large extent be explained by the change in the type of credit it has incurred. Table 2 shows that whereas 41.1% of new credit was secured in Q2 2009, it declined to 21.4% in Q2 2012. In contrast, the more expensive unsecured credit nearly doubled from 28.3% in Q2 2009 to

54.2% in Q2 2012. As the interest rate on unsecured credit exceeds that of unsecured credit by more than 2.2 times, the debt servicing vulnerability of this income group had to increase - failing an increase in income.

Table 2: composition of new credit incurred by R66 000-R180 000 income group Q2 2009 to Q2 2012

	2009 Q2	2012 Q2
Mortgages	10.00	5.30
Secured	41.12	21.42
Credit facilities	16.19	15.77
Unsecured	28.25	54.24
Short term	4.43	3.27

Although many mineworkers went on strike to force mine management to pay them much higher wages, it appears from their educational profile that they generally do not possess the high-level educational skills needed for the high wage increases they demand. From AMPS statistics, it seems that during 2011, about 85% of drill operators, 57% of general mineworkers and about 50% of stope supervisors only had some secondary school level education, or lower.

Prof Jonathan Jansen of the University of the Free State recently indicated that this is reflective of a worrying notion emerging in South Africa, namely that material prosperity can be achieved without an education. He indicated that the demand by striking mineworkers for a wage of R12 500 after tax is more than that received by a beginner teacher with a degree and teacher's diploma. The level at which the said low skilled workers were successful in the past in securing relatively high incomes given their relative absence of high-level skills, are apparent from available 2011 AMPS statistics, namely:

- miners generally experience LSM 5 to 10 living standards, with the bulk of drill operators in LSM 5 to 6 and general mine workers in LSM 6 to 10, surface workers in LSM 5 to 9 and stope supervisors in LSM 4 to 10;
- during 2011, drill operators were mostly in the R3 000 to R10 000 per month income groups, general mine workers in the R3 000 to R16 000 per month income categories and auxiliary underground workers in the R3 000 to R30 000 per month income groups;
- The durable ownership levels among mineworkers' households were very high. During 2011, 100% of drill operators' households had electric stoves, refrigerators and television sets, whilst 85% had music centres and microwave ovens.

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