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FNB/BER CONSUMER CONFIDENCE INDEX

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FNB/BER consumer confidence rises in 2Q2009 on expectations of better times

During 2Q2009, the FNB/BER consumer confidence index (CCI) rose by 3 index points, from +1 during 1Q2009 to +4 during 2Q2009¹.

At first glance, this rise comes as a surprise. Recent Reserve Bank data revealed falls in consumer spending and real personal disposable income during 1Q2009. StatsSA data also indicated contractions in retail sales and employment.

With consumer spending falling, how can consumer confidence rise?

1. A longer term perspective sheds light. A year ago the FNB/BER CCI registered the biggest fall over a short time span in a quarter of a century². This correctly foreshadowed the current fall in consumer spending. The combination of consumers' unwillingness and constrained ability³ to spend caused consumer spending to begin contracting during 3Q2008.
2. The second insight comes from an analysis of the constituent parts of the index. The FNB/BER CCI is put together from the answers of 2 500 randomly selected urban adults to three questions. Two questions about the future and one about the present are asked. Consumers are quizzed on their expectations about the economic performance and their own finances 12 months hence and the appropriateness of the present time to buy durable goods (such as refrigerators, furniture, electric stoves etc.). Cees Bruggemans, chief economist of First National Bank, says: *"During 2Q2009, even more (on a net basis) consumers rated the present as the wrong time to buy durable goods compared to 1Q2009. High uncertainty, less credit, falling house prices and a reduced pent-up demand are some*

¹ The fieldwork for the survey was done between 15 May and 6 June and the results processed on 18 June 2009.

² The FNB/BER CCI fell by 28 index points – from +22 during 4Q2007 to -6 during 2Q2008. The index fell by 35 index points from +2 during 3Q1984 to -33 during 2Q1985.

³ Higher inflation and lower income from employment slashed households' real spending power. During 1Q2009, falling dividend income intensified the downward momentum in household income.

of the reasons why many consumers regard the present as an inappropriate time to buy durable goods". This result not only indicates that consumers have become unwilling to buy big ticket items, but more broadly speaking that they have also shifted to a more cautionary or prudent mode. The latter implies that increased saving, a shift in spending away from durable and semi-durable goods towards non-durable goods and services, as well as a move to high value for money items within categories are the order of the day.

So, why did the FNB/BER CCI increase during 2Q2009?

1. Once more, a longer term perspective provides important clues. This shows that the 2Q2009 results are part of an upward trend in the FNB/BER CCI, which started during 3Q2008. The FNB/BER CCI has partially clawed back the losses of the first half of 2008 by increasing from -6 to +4 during the second half of 2008 and the first half of 2009.
2. In the most recent survey, significantly more (on a net basis) consumers expect the economic performance to be better in 12 months' time compared to the previous survey. The net majority expecting an improvement jumped from +4 during 1Q2009 to +17 during 2Q2009. The rise was broad based. For instance, the net percentage of white consumers expecting an improved economic performance in 12 months' time rose by 13 index points (from -17 during 1Q2009 to -4 during 2Q2009) and those of black consumers by 12 index points (from +14 to +26). Likewise, the net percentage of low income earners (i.e. households earning less than R5 000 per month) expecting the economy to improve in 12 months' time surged 18 index points (from +3 to +22), whereas those of the high income earners rose by a respectable 6 index points (from +5 to +11). *"The main reason for the significant upscaling in expectations is the dramatic cut in the interest rate. The April election outcome, promises of jobs, the increase in social grants, the recovery in share prices and the strengthening of the rand probably also convinced many consumers that the economy will perform better in a year's time"*, said Bruggemans.

3. The net percentage of consumers expecting their own finances to improve in 12 months' time increased by a further 2 index points - from an already comparatively high +15 during 1Q2009 to +17 during 2Q2009. With the lower interest rate and the resultant keenly awaited economic recovery, household income is expected to be improving over the next 12 months. Retrenchments are anticipated to recede, working hours and commissions to rise and house prices to stabilise.

In conclusion: Although consumers are currently cautious, they expect the economy and their own finances to improve over the next 12 months. Consumer spending is currently contracting due to the combination of consumers' unwillingness to spend and net negative shocks to their ability to spend⁴.

However, consumer spending will most likely edge up in tandem with consumers' improved willingness and ability to spend in due course. The improvement in cash flows following from the fall in the household debt service ratio should strengthen consumers' ability to spend over the next 6 to 12 months, but continued retrenchments – albeit at a lower tempo – could initially temper the rate of recovery in spending.

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⁴ The positive impact of the lower inflation and increased social grants may not fully reverse the negative impact of the increased lay-offs, shorter working hours and reduced bonuses and commissions.



