Consumer confidence

Quarterly analysis of consumer expectations

EDITOR:

Consumer confidence: Linette Ellis

✉ linetteellis@mweb.co.za
📞 +27 (21) 808 9772

TECHNICAL ASSISTANCE:

Nicolaas van der Wath

Please refer to the glossary on the BER's website for explanations of technical terms.

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Consumer confidence slips one point, but festive season retail sales still likely to be jolly.

Having soared from -15 index points in the first quarter of 2024 to a 5-year high of -5 in the third quarter, the FNB/BER Consumer Confidence Index (CCI) edged one point lower, to -6, during the fourth quarter.[1]

The latest reading remains slightly below the long-term average of the CCI (at zero since 1994). However, the -6 recorded in the fourth quarter is the best festive season consumer confidence reading since 2019 and far better than the -17 index points measured during 2023Q4. Despite the one-point decline in consumer sentiment relative to 2024Q3, the upsurge in the CCI since the end of 2023 points to a marked increase in consumers' willingness to spend during this holiday season.

Figure 1: FNB/BER Consumer Confidence
Net %
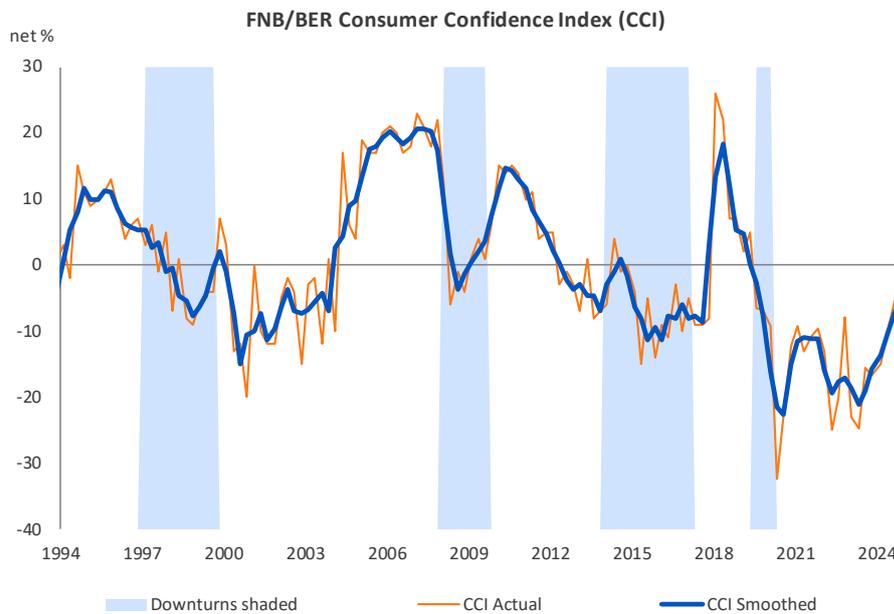
Source: BER, SARB

DETAILS

The marginal decline in the CCI during the fourth quarter can be ascribed to slight deteriorations in the economic outlook and household finances sub-indices of the CCI. Having increased from -9 to -7 in the third quarter, the economic outlook sub-index of the CCI reverted to its second-quarter level of -9 in the fourth quarter. The household finances sub-index of the CCI declined from 14 to 11 index points but remained above the level recorded during the first half of 2023. In contrast, the sub-index measuring the appropriateness of the present time to buy durable goods (e.g., vehicles, furniture, household appliances and electronic goods) continued its upward trajectory, improving from -23 to a two-year high of -21 in the fourth quarter.

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[1] The fourth quarter CCI survey was conducted by means of a telephone call survey between 11 and 22 November 2024. Please note that some of the historical data points were revised due to routine database maintenance. This has resulted in minor changes to the historic data series due to rounding.

	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4
Overall, FNB/BER CCI	**-20**	**-8**	**-23**	**-25**	**-16**	**-17**	**-15**	**-10**	**-5**	**-6**
Economic outlook	-31	-19	-34	-37	-22	-28	-22	-9	-7	-9
Household financial outlook	-2	13	-1	-2	-1	3	8	8	14	11
Suitability of the present time to buy durable goods	-28	-17	-34	-35	-26	-25	-30	-28	-23	-21

Source: BER

A breakdown of the CCI per household income group shows that sentiment among high-income households improved further, but the confidence levels of middle-income households lost ground. After soaring from -16 to a five-year high of -6 in 2024Q3, the confidence levels of high-income households (earning more than R20 000 per month) rose further to -4 in 2024Q4. However, the confidence levels of middle-income households (earning between R5 000 and R20 000 per month) retreated to -7 in 2024Q4, having jumped from -9 to -3 in the previous quarter. Consumer sentiment among low-income households remained steady at -7 index points.

Figure 2: Consumer confidence per income group
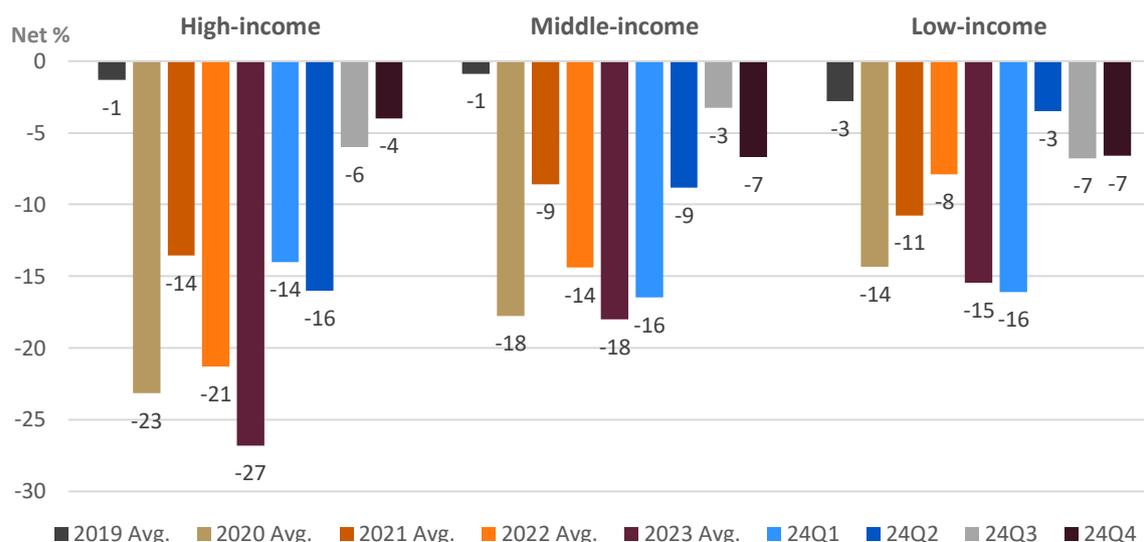
Source: BER

A string of favourable developments has seen consumer confidence riding much higher since the second quarter of 2024, including the formation of a government of national unity, the termination of load-shedding, a substantial deceleration in inflation, two interest rate cuts and the implementation of the two-pot retirement system. However, headwinds started to emerge in November, arresting the upward trajectory of consumer confidence. These include a marked depreciation in the rand exchange rate, a 25-cent per litre increase in the petrol price, lower stock prices on the JSE and concerns about the outlook for global trade and South African exports since the re-election of Donald Trump as the US president. Even so, heading into the festive season with consumer confidence only one point shy of a five-year high bodes well for consumer-oriented companies.

BOTTOM LINE

Although the upward momentum of the CCI seems to have stalled during the fourth quarter, the latest consumer confidence reading of -6 is the highest festive season number since before the COVID-19 pandemic

broke out. The upsurge in consumer sentiment since the end of 2023 indicates a pronounced increase in consumers' *willingness* to spend compared to last year's peak trading period. Consumers' spending ability has also improved notably, bolstered by lower inflation, 50-basis points of interest rate cuts and an estimated R40 billion in the two-pot retirement system payouts in 2024. The combination of much-improved willingness and ability to spend – particularly among affluent consumers, the group with the greatest spending power – suggests that retail tills will jingle much louder this festive season.

Survey results

CONSUMER CONFIDENCE

Indicator	Unit	μ-σ	μ	μ+σ	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	Δ	σ_Δ
Composite														
Total	Net %	-14	-1	13	-23	-25	-16	-17	-15	-10	-5	**-6**	-1	8
Expected economic performance	Net %	-20	-1	17	-34	-37	-22	-28	-22	-9	-7	**-9**	-2	11
Expected household finances	Net %	4	13	22	-1	-2	1	3	8	8	14	**11**	-3	8
Time to buy durables	Net %	-28	-13	3	-34	-35	-26	-25	-30	-28	-23	**-21**	2	9
Per income group														
High	Net %	-15	1	18	-31	-41	-17	-19	-14	-16	-6	**-4**	2	10
Middle	Net %	-13	-3	8	-21	-21	-14	-16	-16	-9	-3	**-7**	-4	8
Low	Net %	-16	-6	3	-17	-16	-16	-13	-16	-3	-7	**-7**	0	11
Per age group														
Age 16-24	Net %	-4	10	24	-15	-6	-2	-6	-4	2	3	**4**	1	9
Age 25-34	Net %	-9	5	19	-19	-23	-8	-12	-10	-7	3	**-3**	-6	8
Age 35-49	Net %	-17	-3	12	-30	-33	-20	-21	-18	-11	-11	**-12**	-1	9
Age 50+	Net %	-32	-16	-1	-40	-44	-30	-31	-27	-22	-16	**-13**	3	9

CONSUMER CONFIDENCE

Total (smoothed)

net %

Exp. economic performance (smoothed)

net %

Exp. household finances (smoothed)

net %

Time to buy durables (smoothed)

net %

Per income group (smoothed)

net %

High — Middle — Low

Per age group (smoothed)

net %

Age 16-24 — Age 25-34 — Age 35-49 — Age 50+
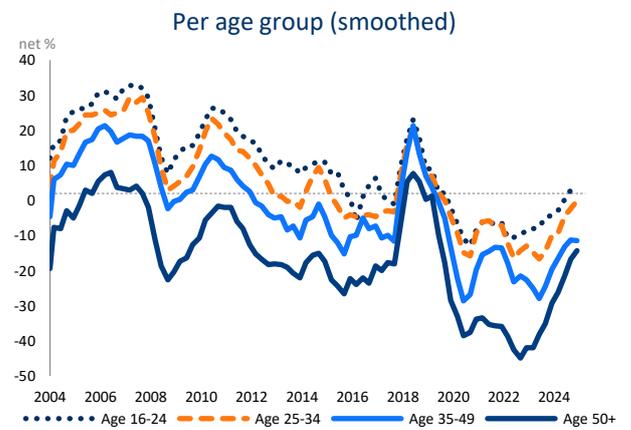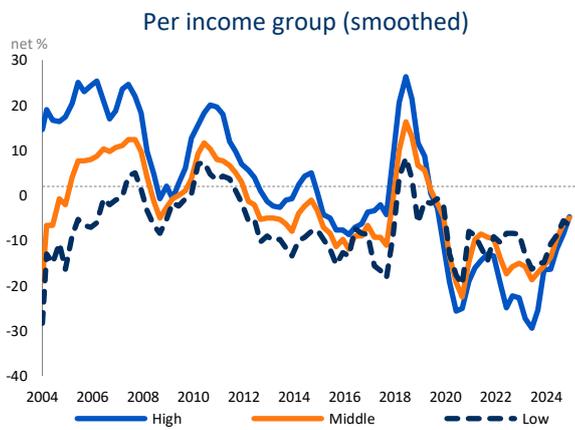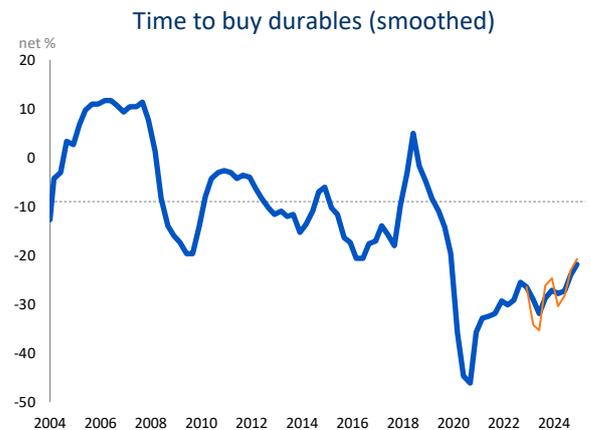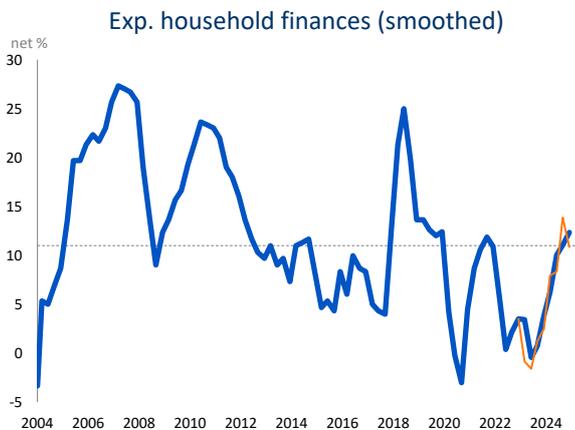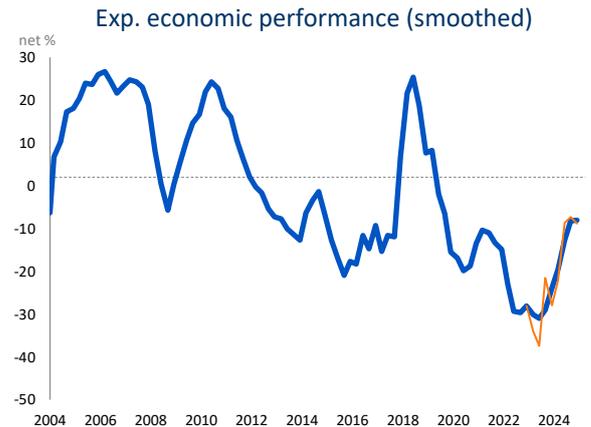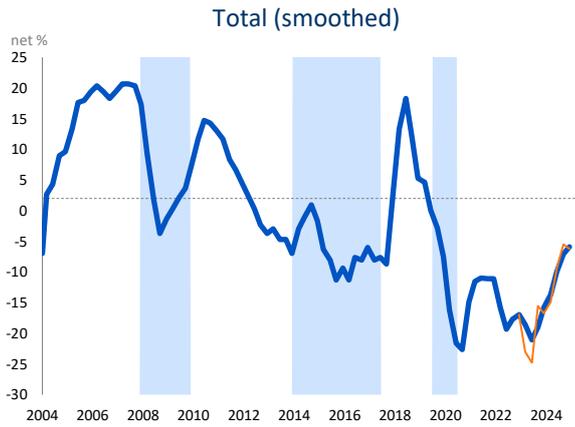
Technical note

THE CONSUMER CONFIDENCE SURVEY METHOD

Consumer opinion surveys (COS) provide regular assessments of consumer attitudes and expectations and are used to evaluate economic trends and prospects. The surveys are designed to explore why changes in consumer expectations occur and how these changes influence consumer spending and saving decisions.

The FNB/BER consumer confidence index (CCI) combines the results of three questions posed to adults in South Africa, namely the expected performance of the economy, the expected financial position of households and the rating of the suitability of the present time to buy durable goods, such as furniture, appliances and electronic equipment.

Until the second quarter of 2019, the FNB/BER CCI was based on face-to-face interviews of between 2 000 and 2 500 urban adults. The BER switched to telephone call surveys in the third quarter of 2019. The 500 respondents are representative of the racial and household income composition of the urban adult population of South Africa. Internationally, the majority of CCIs is based on telephone call surveys. The results per home language, LSM group and province are no longer produced.

Consumer confidence is expressed as a net balance. The net balance is derived as the weighted percentage of respondents expecting a considerable or slight improvement / good time to buy durable goods less the percentage expecting a considerable or slight deterioration / bad time to buy durable goods. The percentage replying "remain the same" or "neither a good nor a bad time" is ignored.

A low level of confidence indicates that consumers are concerned about the future. They may be worried about job security, pay raises and bonuses. With such a frame of mind, consumers tend to cut spending to basic necessities (e.g. food and services) to free up income for debt repayment. If confidence is high, consumers tend to incur debt (or reduce savings) and increase spending on discretionary items, such as furniture, household equipment, motor vehicles, clothing and footwear. Some of these items are often financed on credit. Spending on these items declines when confidence is low, as households can generally delay their purchase without experiencing an immediate deterioration in living conditions.

A rise in consumer confidence reflects an increased willingness of consumers to spend. However, this willingness only translates into actual sales if consumers' ability to spend improves. Their ability to spend depends on their inflation adjusted after-tax income and the availability of credit. A rise in consumer confidence could therefore result in an upturn in household consumption spending in general and retail and motor vehicle sales in particular if their ability to spend improve and/or credit extension rise in step. The opposite applies when the level of consumer confidence declines.

Consult the BER web page (**www.ber.ac.za**) for more information about the consumer opinion survey method.

THE UNIQUE UNITS OF MEASUREMENT OF QUALITATIVE SURVEYS

Net percentage (net %)

The responses related to the <u>change in activity, prices, employment, business conditions, expected economic performance etc.</u> are presented as a "net percentage" (also called a "net balance" or a "net majority"). If, for example, the percentages of respondents rating the volume of sales as "higher", the "same" or "lower" compared to a year ago are 70%, 10% and 20% respectively, then one can conclude that the majority of participants experienced higher sales. The net percentage is calculated as the percentage of respondents rating "sales" as higher less the percentage rating it as "lower". The percentage rating it as the "same" is ignored. The net percentage in this example is therefore 50%, being the difference between the 70% "higher" and the 20% "lower". A net percentage of –10%, for instance, would indicate a decline in sales compared to a year ago. Take note that this does not mean a year-on-year contraction of 10%. It only means that the activity of a majority of 10% of the respondents was lower compared to a year ago.

The net percentage, or net balance statistic, can theoretically vary between a minimum of -100 (when all participants replied "lower") and a maximum of +100 (when all respondents replied "higher"). Theoretically a value of zero, therefore, indicates no change, between 0 and 100 reflects a rise (or improvement) and between 0 and –100 a decline (or deterioration) compared to the same quarter a year ago. The net balance statistic is a diffusion index, i.e. it indicates the degree to which the indicated change is "diffused" (spread) throughout the sample population. It indicates both the direction and size of the change.

Given that it reflects respondents' estimation of the change in the phenomenon/variable in the current quarter relative to the same quarter a year ago, the net percentage corresponds to a year-on-year percentage change/growth rate in the corresponding/equivalent official data series (see the figure on the right).

Survey vs Quantitative Data

Net % (lhs) — y-o-y % change (rhs)
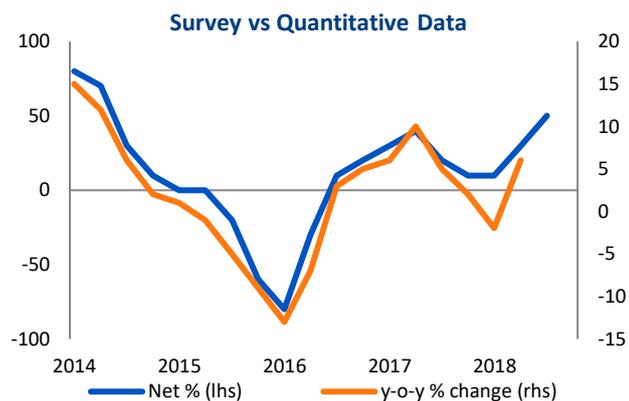
Percentage (%)

The responses relating to business confidence are presented as percentages.

In the case of <u>business confidence</u>, respondents have to rate prevailing business conditions as either "satisfactory" or "unsatisfactory". The percentage of respondents rating prevailing business conditions as satisfactory is taken as an indicator (proxy) for business confidence. A reading of 10 for business confidence, for instance, means that only 10% of the respondents indicated that they were satisfied. In this example, 90% were, therefore, unsatisfied.

Theoretically, the confidence series can vary between a minimum of zero and a maximum of 100. A value of zero would reflect an extreme lack of confidence and 100 extreme confidence. These results reflect respondents' evaluation of the phenomenon/the survey variable in respect to that specific survey quarter, i.e. not relative to some period in the past or future.

DESCRIPTIVE STATISTICS IN THE TABLES

Smoothed

Some series show erratic/volatile movements, i.e. data jumps around quite a bit between consecutive quarters. In such cases, it is necessary to smooth these movements over a longer period to obtain a general trend.

Another case where we added moving averages is when the correlation between the survey results and the corresponding reference series is low or non-existent.

Three-quarter centred moving averages (3qcma) were selected in order to not disturb turning points too much, e.g. the moving average of 17Q4 is calculated as the average of 17Q3, 17Q4 and 18Q1, that of 18Q1 is calculated as the average of 17Q4, 18Q1 and 18Q2 etc. In order for the smoothed series to run up to the last unsmoothed data point, the last smoothed data point is only the average of two quarters, namely the previous and current quarter.

When a smoothed series is added, it is prudent not to attach too much value to the unsmoothed results of a particular quarter, but rather to evaluate it in its historical context.

Seasonal adjustment (SA)

In theory, the time series ought to display no seasonal patterns because respondents are instructed to compare the current quarter with the same one of a year ago (e.g. they have to compare the current Festive Season or wet/dry winter period with the same time a year ago). However, in practice, some series nevertheless reveal seasonal patterns, probably because some respondents incorrectly compare the survey quarter with the one directly preceding it. In such cases, a seasonally adjusted series (i.e. where such seasonal variation is eliminated with X12 ARIMA) is added.

Average (μ)

The neutral level of the time series for the two measurement types, net percentage and percentage, is 50 or zero respectively. The long-term average (mean) is often not equivalent to this neutral level. In such cases, it is more useful to evaluate the current results relative to such a long-term average than the neutral level.

One standard deviation below (μ-σ) and above (μ+σ) the average

The standard deviation indicates the common variation in or dispersion of the values. Data points falling between one standard deviation below and above the average could be regarded as common. Any data point falling outside these ranges, therefore, displays statistically significant variation.

Change (Delta: Δ)

This statistic indicates the change in the results of the latest quarter relative to the preceding quarter.

Volatility (standard deviation of the deltas: Δσ)

This statistic indicates the volatility of the quarter-on-quarter change. If the size (regardless if it is an increase or decline) of the change is greater than the standard deviation of the deltas, then it displays a statistically significant variation.

CONVENTIONS AND AIDS PROVIDED IN THE CHARTS

Shaded areas

Indicates cyclical downturns as demarcated by the South African Reserve Bank. Users need to take note that the business cycle could have already reversed course towards the end of the period covered in the chart, but usually we wait until the bank determines a turning point before changing the shaded areas.

Solid vs. dotted horizontal (X) axes:

A <u>solid line</u> indicates the theoretical mid-points of 50 or zero respectively, while a <u>dotted line</u> indicates the long-term average (mean). Also see the section on the "average" above.

Normalised scale

Time series data is normalised (standardised) when one wishes to observe the co-movement among indicators with different units of measurement, say for instance, between a diffusion index (confidence) and the growth rate in a volume index (GDP growth). Normalisation converts both series to the same scale (unit) by subtracting the long-term average from each series and dividing it by its standard deviation. This ensures that one compares "apples" with "apples" when making a visual inspection and not mistakenly identify co-movements or deviations that different scales could produce.