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## PRESS RELEASE

### FNB/BER CONSUMER CONFIDENCE INDEX

Issued by First National Bank

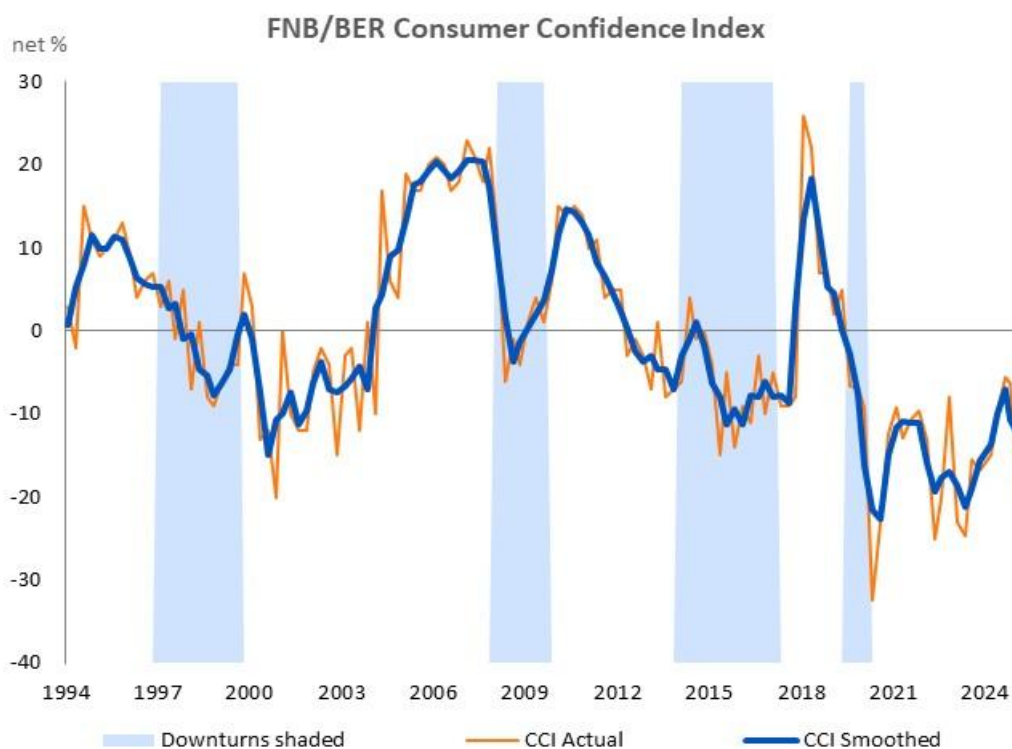
EMBARGO: Tuesday, 25 March 2025

10:00

# Tax shock rocks consumer confidence.

The FNB/BER Consumer Confidence Index (CCI) plunged from -6 to -20 index points during the first quarter of 2025.<sup>1</sup>

The fieldwork for the first quarter CCI survey commenced only days after the Finance Minister's (aborted) proposal to hike VAT by two percentage points (%pts) came to light (when the 19 February budget speech was postponed). The prospect of significantly higher taxes – either via VAT hikes or further bracket creep on the personal income tax front – likely alarmed many consumers. Even though the March Budget (which took place after the fieldwork ended) softened the VAT hike, it still places a significant tax burden on consumers, which would have weighed on sentiment too. The souring of diplomatic relations between South Africa (SA) and the US and the corrosive knock-on effects of the trade wars triggered by US President Donald Trump likely also contributed to the extraordinary deterioration in sentiment. The 14-point plunge in the CCI during 2025Q1 is on par with the dramatic drop in consumer confidence when SA entered stage 6 load-shedding for the first time in 2023Q1. This time around there was also a brief return of stage 6 load-shedding, which could have contributed to the downtick in sentiment. The first quarter reading of -20 is also the lowest CCI reading since the first half of 2023 and signals an alarming deterioration in the outlook for consumer spending following the strong end to 2024.



Source: BER, SARB

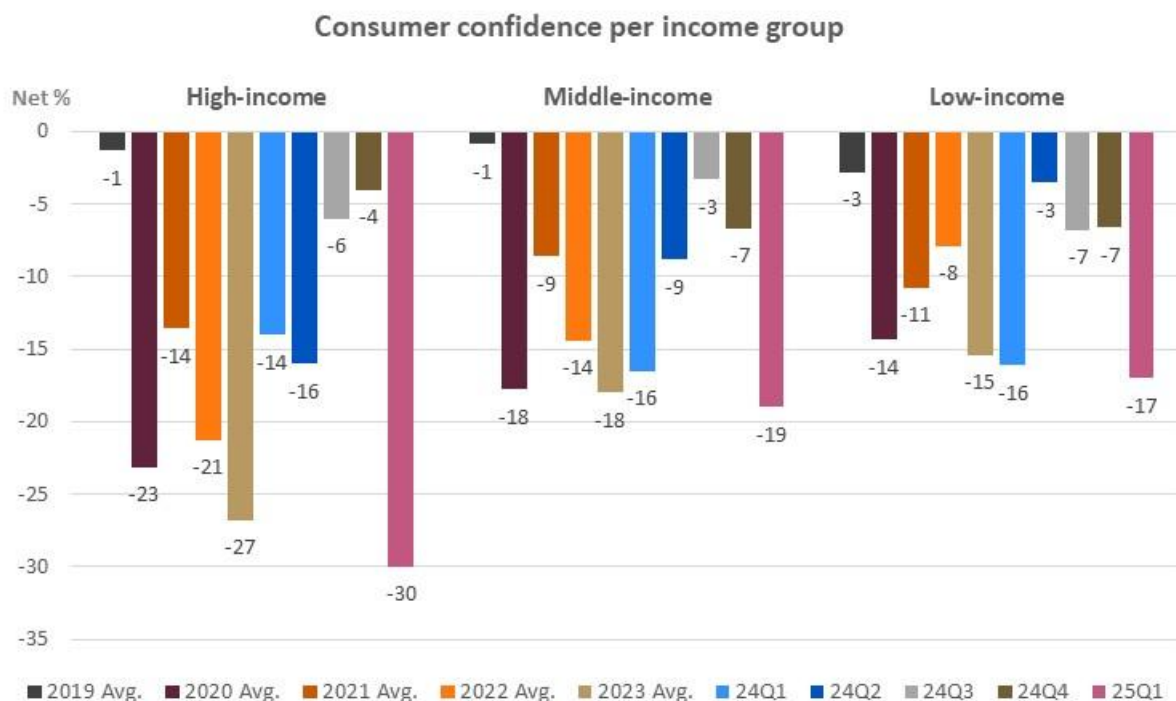
<sup>1</sup> The first quarter CCI survey was conducted by means of a telephone call survey between 24 February and 7 March 2025.

## Details

All three sub-indices of the CCI declined notably during the first quarter. The economic outlook sub-index of the CCI plunged from -9 to -32 index points, reversing nearly all gains made from the improvement in electricity supply and the establishment of the GNU in mid-2024. The household finances sub-index of the CCI slumped from 11 to -1, while the sub-index measuring the appropriateness of the present time to buy durable goods (e.g., vehicles, furniture, household appliances and electronic goods) retreated from -21 to -28.

	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1
<b>Overall, FNB/BER CCI</b>	<b>-8</b>	<b>-23</b>	<b>-25</b>	<b>-16</b>	<b>-17</b>	<b>-15</b>	<b>-10</b>	<b>-5</b>	<b>-6</b>	<b>-20</b>
Economic outlook	-19	-34	-37	-22	-28	-22	-9	-7	-9	-32
Household financial outlook	13	-1	-2	-1	3	8	8	14	11	-1
Suitability of the present time to buy durable goods	-17	-34	-35	-26	-25	-30	-28	-23	-21	-28

Source: BER



Source: BER

A breakdown of the CCI per household income group shows that sentiment soured significantly across all income groups. The confidence levels of high-income households (earning more than R20 000 per month) tanked the most, with their confidence reading plummeting from -4 to -30. The vast majority of high-income households now expect SA's economic performance and their own household finances to deteriorate over the next twelve months – a complete turnabout from their expectations just three months ago. The confidence

levels of middle-income households (earning between R5 000 and R20 000 per month) and low-income households (earning less than R5 000 per month) declined from -7 index points to -19 and -17 respectively.

Following a surge in retail sales during the festive season, the outlook for household expenditure has deteriorated notably. FNB Chief Economist Mamello Matikinca-Ngwenya said, “The boost from two-pot retirement fund withdrawals will be significantly less during 2025 compared to the roughly R40bn paid out in 2024, while Trump-triggered trade wars and rising global uncertainty are reducing the likelihood of further interest rate cuts. The withdrawal of all US aid to SA and the rapid deterioration in diplomatic relations with the US would also have knocked consumer confidence, but the biggest blow to consumer sentiment likely emanated from the National Treasury’s tax proposals and the discord among GNU partners. Although the 2%-point VAT hike option has been shelved, the budget tabled on 12 March still calls for a 1%-point VAT hike over two years and no inflation adjustments to income tax brackets and medical aid tax credits - for the second consecutive year. Above-inflation increases to social grants and the expansion of the zero-rated VAT basket should partially shield low-income households, but, if implemented, these tax proposals will deal a significant blow to the financial positions of high-income households.”

#### **Bottom line**

Bolstered by low inflation, interest rate cuts and generous two-pot retirement withdrawals, real consumer spending grew by a sturdy 2.3% y-o-y in the fourth quarter of 2024, more than double SA’s 2024Q4 real GDP growth rate of 0.9% y-o-y. Results from the BER’s trade surveys suggest that the consumer-linked sectors continued to fare well during 2025Q1, but the sharp fall in the FNB/BER CCI points to tougher times ahead.

The consumer has been the growth engine of the South African economy over the last decade – whereas real consumer spending grew by 11.2% (cumulatively) between 2015 and 2024, real GDP *excluding* consumer spending showed no growth whatsoever over this timeframe. Given the stark underperformance of the production and investment sides of the SA economy, the collapse in consumer confidence and deterioration in the outlook for household consumption expenditure should set alarm bells ringing in terms of SA’s economic prospects. The combination of rising inflation, tight monetary policy and higher real taxes will erode households’ *ability* to spend, while plunging consumer confidence levels signal a dramatic decline in consumers’ *willingness* to spend. The fact that the confidence levels of high-income consumers – the group with the greatest spending power, by far - declined the most, only compounds the concern.

While the 14-point fall in the CCI may turn out to be an overreaction, especially since the 2%-point VAT hike has been muted and the latest budget proposal has still not been accepted, the outlook for consumer spending - and by extension SA GDP growth - has nevertheless deteriorated. With SA consumers likely to be burdened by high real interest rates and rising taxes, structural economic reforms and other confidence boosting policies are required to spark new growth drivers for the SA economy.

## Background

Consumer confidence surveys 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 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 appropriateness 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.

Consumer confidence is expressed as a net balance. The net balance is derived as the percentage of respondents expecting an improvement / good time to buy durable goods less the percentage expecting a deterioration / bad time to buy durable goods.

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. The opposite applies when the level of consumer confidence declines.