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FNB/BER CONSUMER CONFIDENCE INDEX

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Consumer confidence deteriorates significantly during 2Q2012

- The FNB/BER CCI declined from +5 index points in 1Q2012 to -3 index points in 2Q2012.

- Consumers’ rating of the prospects for the national economy, the outlook for their own finances and the appropriateness of the present time to buy durable goods all deteriorated notably during 2Q2012.

- Consumer confidence is currently at its lowest level since absorbing the serial shocks of early 2008. Coupled with a deterioration in the outlook for household income growth, the decline in consumer confidence foreshadows a substantial slowdown in the growth in household consumption expenditure during the remainder of 2012.

The FNB/BER consumer confidence index (CCI) declined by a hefty 8 index points during 2Q2012, from +5 in 1Q2012 to -3 during 2Q2012. While this fall in consumer confidence is substantial, the CCI has been edging lower since reaching a peak of +15 index points in 3Q2010, around the time of the 2010 Soccer World cup tournament hosted by South Africa. Through the course of 2011, the CCI shed 9 index points to end the year at +5, and during 2Q2012 the CCI fell by another 8 index points. Given that the average reading for the CCI since 1994 is +6 index points, the latest reading of -3 index points suggests that consumer confidence is currently low and not supportive of consumer spending.

The FNB/BER CCI combines the results of three questions posed to adults in South Africa between 15 to 28 May 2012, 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.

During 2Q2012, consumers’ rating of the prospects for the national economy, the outlook for their own finances and the appropriateness of the present time...
to buy durable goods all deteriorated notably. In addition, consumer confidence weakened across all household income, population, age, gender and language groups, suggesting a broad based deterioration in consumer sentiment during 2Q2012.

The economic outlook sub-index of the CCI dropped from +4 to -5 index points during 2Q2012, indicating that most consumers now expect the economic situation in South Africa to worsen over the next 12 months. “Bar a brief period at the beginning of 2008 when the country suffered from the Eskom power outages this is the first time since 2004 that the majority of South African consumers anticipate economic conditions to weaken. Not even at the height of the global financial crisis in 2008 were consumers as downbeat about the country’s economic prospects as now,” said Cees Bruggemans, chief economist of FNB.

The decline in the economic outlook sub-index of the CCI correlates with the substantial drop in other confidence indices during 2Q2012, such as the Kagiso Purchasing Managers Index (PMI), the RMB/BER business confidence index and the BER’s manufacturing, retail and building confidence indices. In all likelihood, this reflects the recent deterioration in global economic sentiment, as well as in the domestic political climate.

The percentage of consumers expecting their financial position to improve over the next 12 months slumped from +16 index points to +8 between 1Q2012 and 2Q2012. After peaking at +25 in 3Q2010, the financial position sub-index of the CCI declined gradually throughout 2011 and is currently at a four year low. Bruggemans pointed out that “the deterioration in the outlook for the financial positions of households can be ascribed to a slowdown in employment growth and moderating wage inflation, coupled with the increase in the household tax burden and significantly lower growth in social grants expenditure announced in the February 2012 budget.”

Given that the 2Q2012 CCI survey was conducted during May 2012 when the petrol price reached a record high of R12.22 (95 unleaded petrol in Gauteng),
the sharp increase in petrol prices and taxi fares during 2012 may also have weighed on households’ rating of the outlook for their finances.¹  

Having declined from -2 to -6 index points during 1Q2012, the time to buy durable goods sub-index of the CCI fell further to a two-and-a-half year low of -11 index points during 2Q2012. “Durable goods retailers and new vehicle dealers enjoyed exceptionally strong growth in sales volumes over the last 2 years, but the decline in the index indicates that consumers are now becoming more cautious about purchasing durable goods, suggesting that the growth in durable goods sales volumes may slow in coming months,” said Bruggemans.  

In conclusion: The 8 index point drop in consumer confidence to -3 brings the FNB/Ber CCI down to levels last seen right after the Eskom power crisis (-6 index points in 2Q2008) and at the onset of the global financial crisis (-4 in 4Q2008). The sharp decline in consumer sentiment during the first half of 2008 (from +22 at the end of 2007 to -6 in 2Q2008) was mainly driven by the power crisis and rolling blackouts, but confidence then remained low during the second half of 2008 in the wake of the collapse of Lehman Brothers and the start of the financial crisis.  

Bruggemans said that “This time around, a confluence of adverse economic and political developments have been gradually weighing down South Africa’s economic prospects, and it appears as though consumers have now also capitulated by making a significant downward revision to their expectations.” The second quarter of 2012 saw a substantial escalation in the Eurozone debt crisis and a concomitant deterioration in the outlook for global economic growth, with negative implications for South African exports, fixed investment and employment growth.  

Up to now, the domestic economic upswing has mainly been driven by strong growth in consumer demand. However, a moderation in both employment and

¹ The petrol price increased by R1.61 between January and May 2012, but then dropped by R1.40 in June/July 2012. At the time of the survey, consumers may not have expected petrol prices to revert to such an extent.
wage growth, coupled with higher household tax burdens and a slowdown in
government welfare spending, has been eroding household income growth,
and hence consumers’ ability to spend. The decline in consumer confidence
implies that consumers’ willingness to spend has now also waned considerably. In all, this suggests that the growth in household consumption
expenditure - the mainstay of domestic economic growth over the last two
years – will be much slower during 2012 than in 2010/2011.

However, consumer spending could pick up once more in 2013 as the
combination of lower inflation and stable nominal wage increases support
household income. Employment is also not expected to fall this time as it did
during the 2008-9 recession.

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