

Consumer Confidence Survey

Quarterly analysis of consumer expectations

Second quarter 2019

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Executive summary

After wilting during the first quarter of 2019, the FNB/BER Consumer Confidence Index (CCI) recovered slightly during 2019Q2.

The latest reading of +5 (up from +2 in 2019Q1) is marginally above the long-run average reading for the CCI (of +2 since 1994), suggesting that a slight majority of consumers expect the outlook for the SA economy and their own household finances to improve over the next 12 months.

The increase in the CCI during 2019Q2 can mainly be ascribed to a rebound in the **economic outlook sub-index** of the CCI. A small majority (11% net) of consumers now expect some improvement in the domestic economic outlook.

A breakdown of the CCI according to household income group shows that consumer sentiment improved somewhat across all income groups, but the rebound was particularly large among **low-income consumers** (earning less than R3 000 per month). Low-income confidence soared by 15 index points from -9 to +6 during the second quarter.

Following the shock implementation of stage 4 load shedding by Eskom during the first quarter, significantly **fewer blackouts** during the second quarter probably heartened some consumers. More importantly, the opportunity to vote in South Africa's 6th **democratic election** since the end of apartheid most likely buoyed consumers' hopes for the future, as has typically been the case in previous general elections.

It is important to highlight that the increase in the overall CCI was marginal and came on the back of an improvement in one of the **forward-looking indicators** of the CCI. The majority of consumers still rate the present time as inappropriate to purchase big-ticket items. This suggests that consumers remain cautious.

Additionally, low-income confidence increased by much more than middle- and high-income confidence, but the **spending power** of middle- and high-income consumers far outweighs that of low-income households.

This suggests that we are unlikely to see a meaningful recovery in consumer spending in the near-term, despite the uptick in consumer confidence. Apart from the fact that the election boost to confidence may turn out to be transitory, consumers' ability to spend would also need to improve for there to be a marked increase in consumer spending. However, household budgets are expected to remain constrained by higher personal income taxes, sharp fuel and electricity price hikes and rising unemployment rates. All in all, we therefore expect a further deterioration in real consumer spending growth during 2019 from the already subdued rate of 1.8% y-o-y recorded in 2018.

This report was completed on 28 May 2019.

Please refer to the [glossary on the BER's website](#) for explanations of technical terms.

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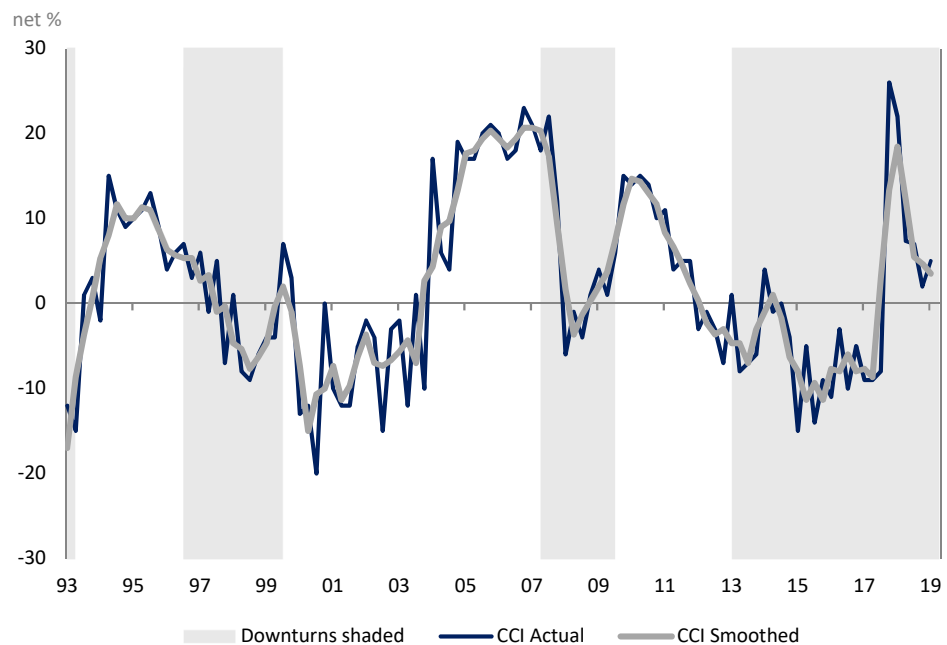
Summary of the 2019Q2 consumer confidence survey results

Consumer confidence gets modest election boost

After wilting from +7 index points to +2 during the first quarter of 2019, the FNB/BER Consumer Confidence Index (CCI) recovered slightly to +5 during 2019Q2.¹ Consumer sentiment rocketed to an all-time high of +26 at the peak of Ramaphoria during the first quarter of 2018, but backpedalled to +2 index points by 2019Q1. Given that consumer confidence also ticked up in each of South Africa’s four previous general election quarters, it is not surprising that sentiment again improved during the second quarter of 2019. The latest reading of +5 is marginally above the long-run average reading for the CCI (of +2 since 1994), suggesting that a slight majority of consumers expect the outlook for the SA economy and their own household finances to improve over the next 12 months.

CCI ticks up in 2019Q2

Figure 1: Consumer recovers slightly in 2019Q2



Source: BER

Rebound in economic outlook drives confidence

The increase in the CCI during 2019Q2 can mainly be ascribed to a rebound in the economic outlook sub-index of the CCI. Whereas most consumers expected South Africa’s economic prospects to remain unchanged (from its current weak performance) during the first quarter, a small majority (11% net) of consumers

¹ The fieldwork for the second quarter survey was conducted between 21 March and 18 April 2019.

now expect some improvement in the domestic economic outlook. In contrast, the net majority of consumers anticipating an improvement in their household finances over the next twelve months remained unchanged at +13, while a slightly larger net majority of consumers rated the present time as inappropriate to buy durable goods (e.g. vehicles, furniture, household appliances and electronic goods). At -10 index points in the second quarter, it is the first time since the end of 2017 that the time-to-buy durable goods index of the CCI has dipped below its long-run average reading of -8.

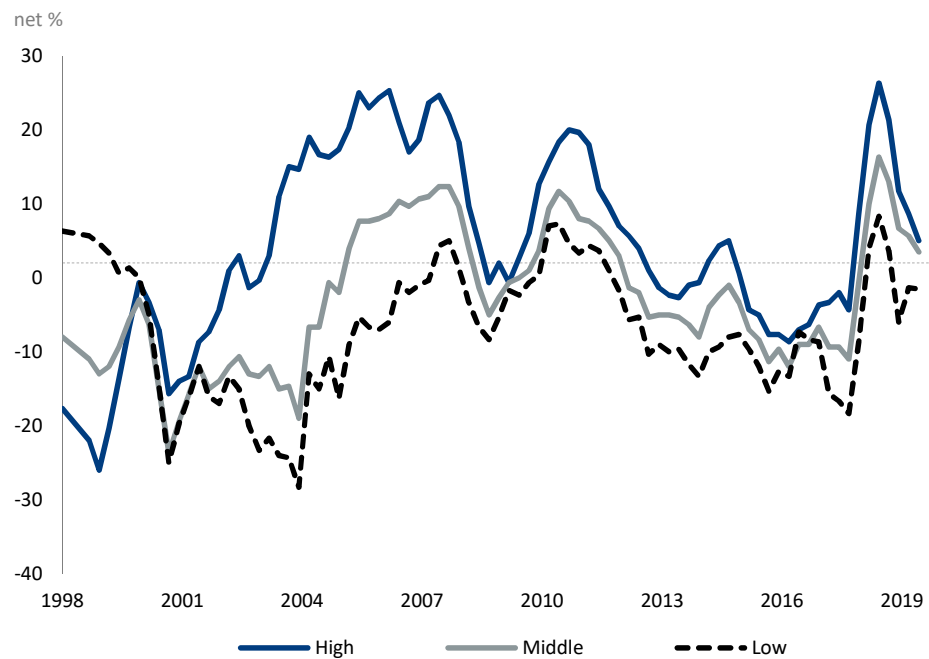
A breakdown of the CCI according to household income group shows that consumer sentiment improved somewhat across all income groups, but the rebound was particularly large among low-income consumers (earning less than R3 000 per month). Low-income confidence soared by 15 index points from -9 to +6 during the second quarter. In contrast, the confidence levels of middle-income consumers (earning between R3 000 and R14 000 per month) and high-income consumers (earning more than R14 000 per month) increased by only 3 and 4 index points respectively. The rebound in low-income confidence from quite pessimistic readings to +6 in the second quarter brought the index in line with the CCI readings for the middle-income (+5) and high-income (+7) groups.

Following the shock implementation of stage 4 load shedding by Eskom during the first quarter, significantly fewer blackouts during the second quarter probably heartened some consumers. More importantly, the opportunity to vote in South Africa's 6th democratic election since the end of apartheid most likely buoyed consumers' hopes for the future, as has typically been the case in previous general elections. Consumer confidence increased during each of South Africa's four previous general election periods, with the largest jump taking place in the second quarter of 2004 (+27 index points). In spite of a rapidly deteriorating economy amidst the 2009 recession, the CCI still increased by 3 index points during the 2009 election (similar to the current uptick in the CCI), while the CCI rebounded by 10 index points during the 2014 election quarter.

Sharp
improvement in
low-income
confidence

2019Q2 results
continues trend
of election-
quarter boost

Figure 2: CCI per income group (smoothed)



Source: BER

The election boost to confidence, coupled with greater stability to the power grid, in all likelihood countered the adverse impact of further substantial hikes in fuel prices on consumer sentiment. The petrol price soared by an alarming R2.50 per litre (an increase of 19%) between the end of February and the beginning of May and will be denting the purchasing power of most consumers. Indeed, retail sales growth remains extraordinarily weak, with volume growth having slowed to a mere 0.2% year-on-year (y-o-y) during March 2019 (and value growth to only 2.8% y-o-y).

In analysing whether the modest improvement in consumer confidence during the second quarter may spark some recovery in consumer spending in coming months, it is important to highlight three tempering factors:

Several factors keeping confidence boost from translating into spending

- The increase in the overall CCI was marginal and came on the back of an improvement in one of the *forward-looking* indicators of the CCI, namely the economic outlook index. Whereas a small majority of consumers now expect the South African economy to be better off in *12 months' time*, the majority of consumers still rate the *present time as inappropriate* to purchase big-ticket items. This suggests that consumers remain cautious about spending their money and will likely still limit their discretionary spending in favour of purchasing necessities.
- Low-income confidence increased by much more than middle- and high-income confidence, but the spending power of middle- and high-income consumers far outweighs that of low-income households. The fact that

middle- and high-income confidence only increased slightly therefore suggests a lower possibility of an improvement in consumer spending during the second quarter.

- Consumer sentiment also swelled during our last four elections, but the CCI index then typically lost some ground again in the quarters following the elections. Given the disappointing performance of the South African economy in recent months and downward pressure on the disposable income of households, the modest improvement in consumer confidence during 2019Q2 may also turn out to be short-lived.

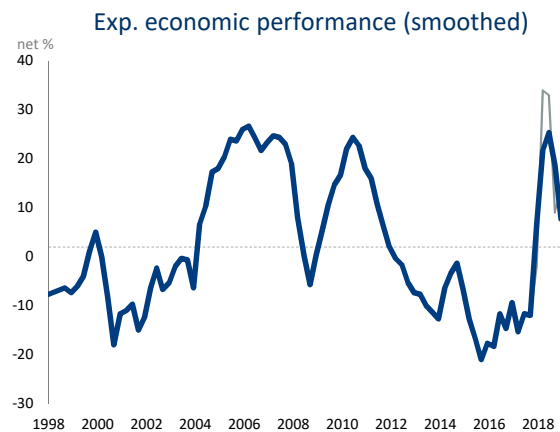
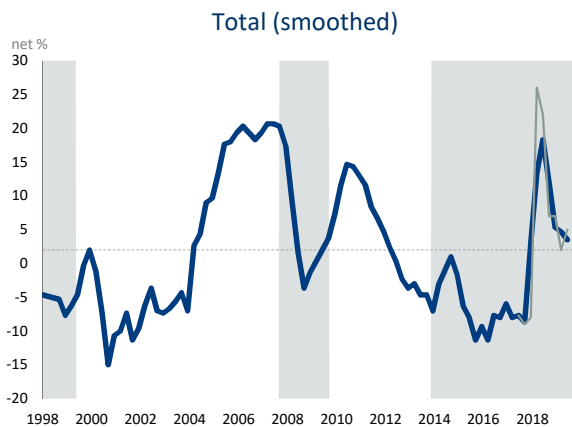
Despite the uptick in consumer confidence during the second quarter, we are unlikely to see a meaningful recovery in consumer spending in the near-term. Apart from the fact that the election boost to confidence may turn out to be transitory, consumers' ability to spend - as measured by their disposable income and access to credit - would also need to improve for there to be a marked increase in consumer spending. Household budgets are expected to remain constrained by higher personal income taxes, sharp fuel and electricity price hikes and rising unemployment rates. Consumers have been taking on more credit as financial pressures mount, but it is unlikely that the modest uptick in credit extension will be sufficient to underpin household consumption amidst dwindling real disposable income growth. All in all, we therefore expect a further deterioration in real consumer spending growth during 2019 from the already subdued rate of 1.8% y-o-y recorded in 2018.

Weak growth in
disposable
income to keep
lid on consumer
spending

Survey results

Consumer confidence

Indicator	Unit	$\mu - \sigma$	μ	$\mu + \sigma$	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	Δ	σ_{Δ}
Composite														
Total	Net %	-9	2	14	-9	-8	26	22	7	7	2	5	3	9
Expected economic performance	Net %	-13	3	19	-12	-2	34	33	9	14	0	11	11	12
Expected household finances	Net %	2	12	22	4	2	31	31	13	15	13	13	0	9
Time to buy durables	Net %	-19	-8	3	-18	-24	13	2	0	-7	-8	-10	-2	8
Per income group														
High	Net %	-6	6	19	-4	-1	31	32	16	16	3	7	4	10
Middle	Net %	-13	-2	9	-11	-11	20	21	8	10	2	5	3	9
Low	Net %	-19	-8	3	-18	-21	13	20	-8	-1	-9	6	15	12
Per LSM group														
LSM 1-4	Net %	-22	-7	8	-11	-10	-1	8	23	-3	-4	-3	1	16
LSM 5-7	Net %	-6	5	16	-10	-8	5	18	8	8	1	6	5	8
LSM 8-10	Net %	-10	2	14	-10	-12	-2	26	10	9	5	5	0	11
Per province														
Gauteng	Net %	-7	7	21	-5	-1	33	31	14	11	1	7	6	9
KwaZulu-Natal	Net %	-16	-6	4	-7	-8	27	-1	6	-15	4	-18	-22	11
Western Cape	Net %	-20	-6	8	-15	-18	9	29	-6	15	5	14	9	11



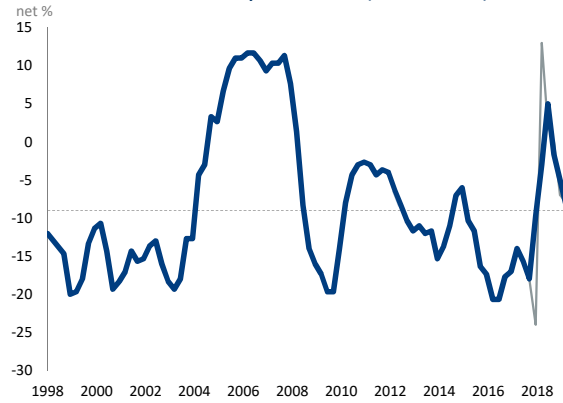
μ – average
 σ – standard deviation
 Δ – change from previous period
 σ_{Δ} – volatility (standard deviation of the changes)
 All of the above calculated over the last 20 years
 See Technical note for further details

Consumer confidence

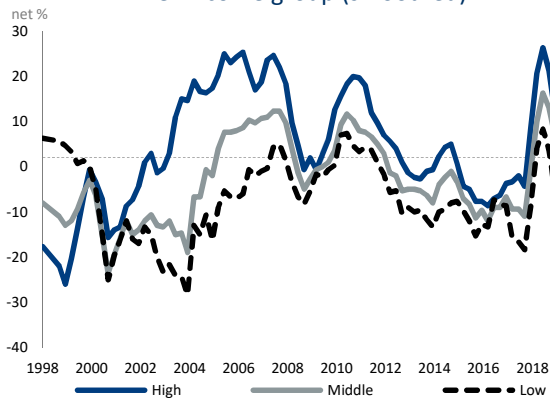
Exp. household finances (smoothed)



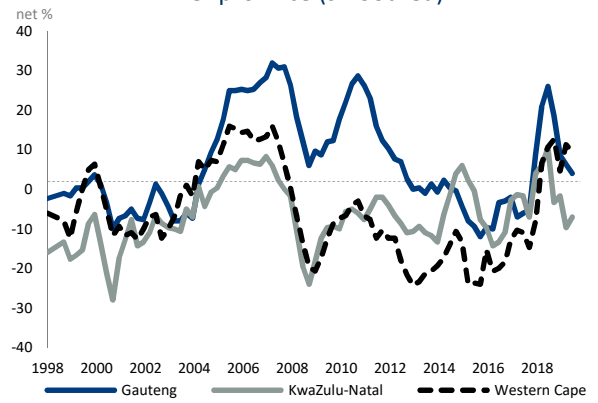
Time to buy durables (smoothed)



Per income group (smoothed)



Per province (smoothed)



μ – average
 σ – standard deviation
 Δ – change from previous period
 σ_{Δ} – volatility (standard deviation of the changes)
 All of the above calculated over the last 20 years
 See Technical note for further details

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.

The FNB/BER CCI is based on face-to-face interviews of a representative sample of between 2 000 and 2 500 urban adults. A new sample is put together every quarter. In the past the BER has exclusively used Nielsen, a reputable international market research firm, to conduct these interviews and ensure consistency over time. However, since 2016 Nielsen, for a number of reasons, has not been conducting surveys every quarter. To prevent a break in the long historical time series, the BER added the CCI questions to the bi-annual surveys of Ipsos Markinor and TNS Kantar to estimate the CCI. Although different service providers put together the samples and conduct the interviews, the results remain consistent given that the survey method and population universe agree.

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 %)

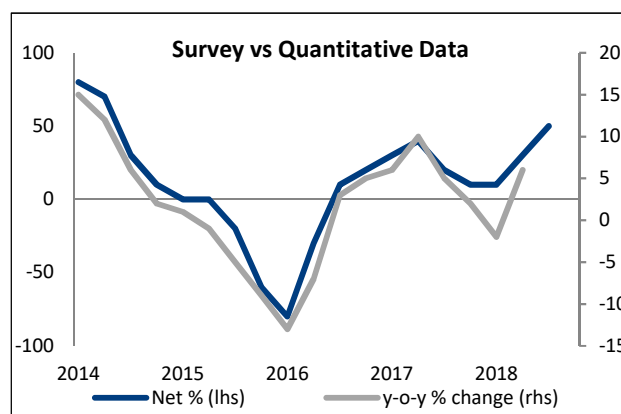
The responses related to the change in activity, prices, employment, business conditions, expected economic performance etc. are presented as a "net percentage" (also called a "net balance" or a "net majority"). If, for example, the percentages of respondents rating the volume of sales as "higher", the "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).

Percentage (%)

The responses relating to business confidence are presented as percentages.



In the case of business confidence, 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 (3qcm) 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 ($\mu-\sigma$) and above ($\mu+\sigma$) 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: $\Delta\sigma$)

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 solid line indicates the theoretical mid-points of 50 or zero respectively, while a dotted line 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.