Consumer Confidence Survey

Quarterly analysis of consumer expectations

Third quarter 2020

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Executive summary

The **FNB/BER Consumer Confidence Index (CCI)** increased from -33 to -23 in the third quarter.

The partial recovery can be ascribed to increases in the household finances and time-to-buy durable goods sub-indices.

Confidence increased across all income groups.

Consumers are (again) *less pessimistic* about the outlook for their own household finances in 12 months' time compared to their glum expectations for the national economy.

The COVID-19 pandemic and related economic restrictions delivered a profound blow to consumers' willingness and ability to spend.

This report was completed on 7 September 2020.
Please refer to the glossary on the BER's website for explanations of technical terms.

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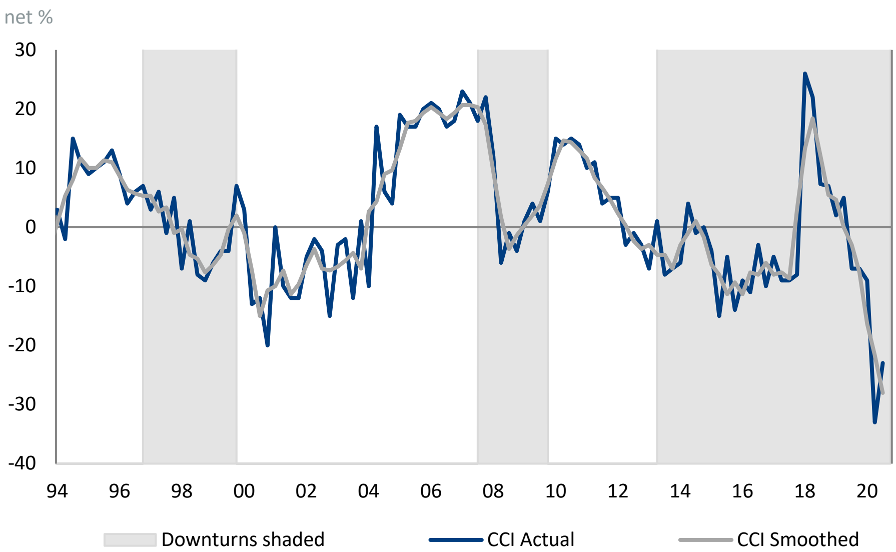
Summary of the 2020Q3 consumer confidence survey results

Consumer confidence recovers some lost ground

The CCI increased from -33 to -23 in the third quarter

Consumer sentiment recovered somewhat during the third quarter of 2020 following the shocking decline triggered by the COVID-19 pandemic and concomitant economic lockdowns in the second quarter. After crashing from -9 index points to a 35-year low of -33 in the second quarter, the FNB/BER Consumer Confidence Index (CCI) edged up to -23 during the third quarter. Bar the second quarter low of -33, the latest CCI reading remains the lowest on record since the first quarter of 1993 - a recessionary period of great uncertainty just before South Africa's first democratic election.

Figure 1: Consumer confidence edged lower in the first quarter



Source: BER

The third quarter CCI survey was conducted by means of a telephone call survey between 11 and 21 August 2020. On 15 August, President Ramaphosa announced that the country would move from level 3 to level 2 of the risk-adjusted strategy, reopening South Africa's provincial borders for leisure travel, lifting the bans on the sale of alcohol and tobacco products and permitting visits to family and friends in small groups.

Table 1 Consumer confidence per question

	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3
Overall FNB/BER CCI	2	5	-7	-7	-9	-33	-23
Economic outlook	0	11	-17	-14	-16	-21	-23
Household financial outlook	13	13	12	11	14	-13	-2
Suitability of the present time to buy durable goods	-8	-10	-15	-18	-26	-64	-44

Source: BER

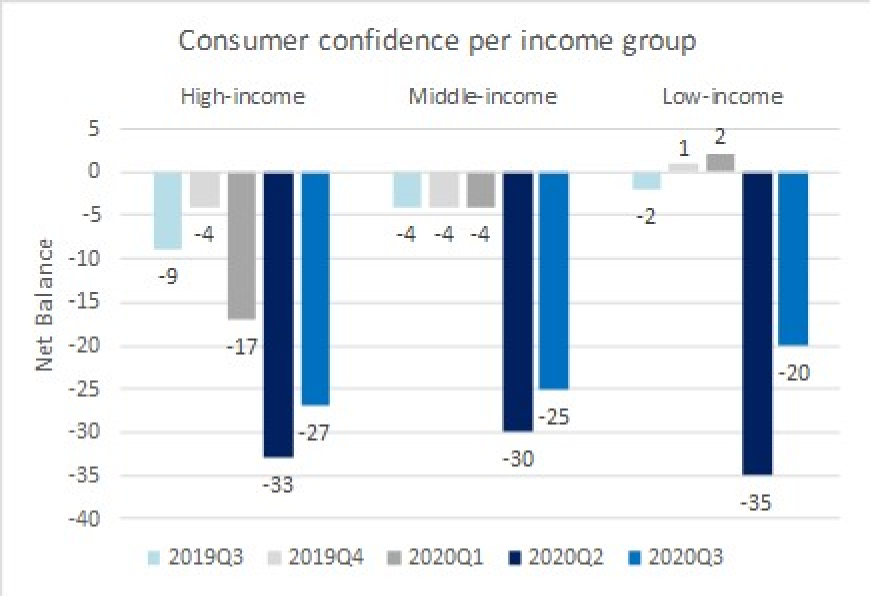
The partial recovery can be ascribed to increases in the household finances and time-to-buy durable goods sub-indices

The partial recovery in the CCI during the third quarter of 2020 can be ascribed to increases in the household finances and time-to-buy durable goods sub-indices of the CCI, following major drops in the second quarter. The household financial outlook sub-index of the CCI edged up from -13 to -2 index points, but remained well below the first quarter reading of +14. Similarly, the sub-index measuring the appropriateness of the present time to buy durable goods (e.g. vehicles, furniture, household appliances and electronic goods) improved from the historic low of -64 reached in the second quarter to -44 in the third quarter. Disappointingly though, the latest reading of -44 is still deeply depressed and even slightly below the previous record low of -42 (reached in 1984).

The economic outlook index, which saw a comparatively smaller decline in the second quarter (from -16 to -21), deteriorated further in the third quarter (to -23).

Confidence increased across all income groups

A breakdown of the CCI per household income group shows that confidence levels improved somewhat across the board. After posting the largest fall of all income groups in the second quarter (from +2 to -35), low income confidence also recovered the most (by 15 index points to -20) in the third quarter. High- and middle-income confidence improved by 8 and 5 index points respectively. Despite these improvements, consumer sentiment across all income groups is still very much depressed.



The gradual lifting of restrictions and the resumption of economic activity as South Africa moved from level 4 of the risk-adjusted strategy in May to level 3 in June and level 2 in August have finally allowed most consumers to go back to work and earn a living. Low-income consumers who were largely unable to work from home would have been particularly relieved by this development. The improvement in the disbursement of social grants after initial glitches likely also bolstered the financial positions of low-income households, leading to a partial recovery in confidence levels. Finally, the cumulative 300 basis point cut in the prime interest rate so far this year significantly reduced the cost of credit and would have alleviated some of the budgetary pressures of indebted households.

Although the third quarter also saw the time-to-buy durable goods index regain some lost ground, the vast majority of consumers nevertheless still consider the present time as highly inappropriate to purchase big-ticket items such as passenger cars, household furniture and jewellery. Further testimony to this is the fact that domestic passenger car sales were still 32.6% lower in August 2020 compared to August 2019, despite the sector being fully operational since June 2020.

Consumers are (again) *less pessimistic* about the outlook for their own household finances in 12 months' time

It is interesting to note that consumers are (again) *less pessimistic* about the outlook for their own household finances in 12 months' time (-2 index points) compared to their glum expectations for the national economy (-23). A number of factors may be underpinning the household finances sub-index of the CCI, including the considerable increase in social grants expenditure by the government and TERS payments to workers who lost their income due to the COVID-19 crisis and lockdown measures. Furthermore, given the *forward-looking* nature of the index, employees who have been unable to work (e.g. in the liquor and tobacco retailing sectors) or who have had to work reduced hours (e.g. in compared to their glum expectations for the national economy

the restaurant, tourism and transport industries) may be *expecting* a substantial improvement in their salaries and wages in coming months. Unfortunately, there is significant risk that household finances in general could rebound by less, or take longer to recover, than consumers currently anticipate. Not only are the COVID-19 social grant top-ups and the new social relief of distress grant set to expire in October, but job losses are projected to rise further over the next 6 months. Furthermore, hours worked, overtime, commissions and bonuses may well disappoint amidst weak economic growth.

The COVID-19 pandemic and related economic restrictions delivered a profound blow to consumers' willingness and ability to spend

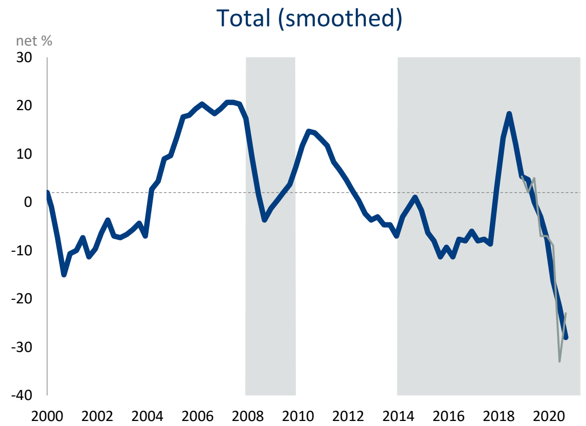
To be sure, the significant slowdown in the rate of new COVID-19 infections in SA, the further easing of restrictions on economic activity and the partial recovery in consumer confidence are all good for the South African economy. However, the fact that the CCI regained only 10 index points following its 35-point plunge reinforces our view that the COVID-19 pandemic and related economic restrictions delivered a profound blow to consumers' willingness and ability to spend - and it may take years for consumer confidence and household income to recover fully.

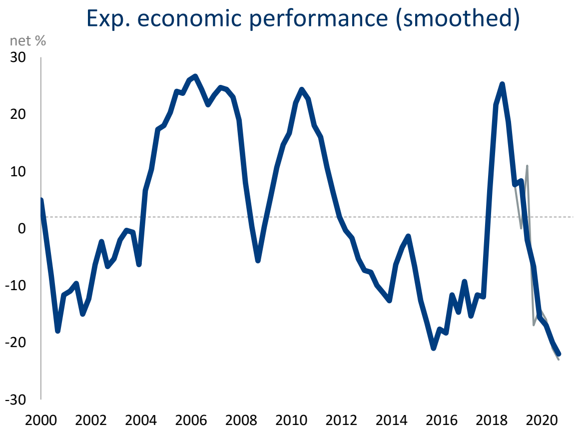
When household income is under pressure and consumer confidence is low, households tend to slash their spending on expensive luxuries. We therefore expect retail sales of durable and semi-durable goods such as new vehicles, high-end furniture and household appliances, jewellery and designer clothing and footwear to remain under intense pressure in the foreseeable future. In contrast, the marked increase in financial aid to low income households, substitution away from discretionary spending and the lifting of the ban on the sale of alcohol and tobacco products should support retail sales of non-durable goods, such as food, beverages, other groceries, cigarettes, pharmaceuticals and toiletries in the near-term.

Survey results

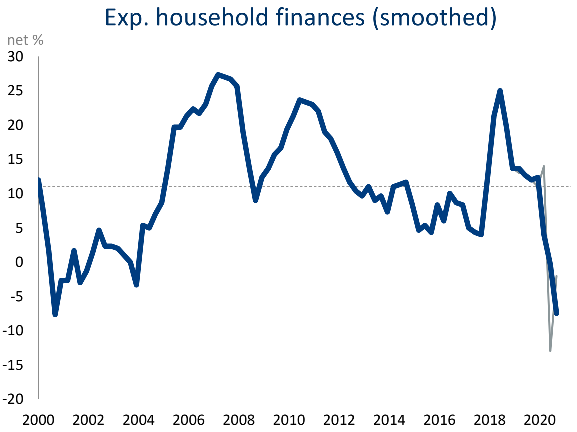
Consumer confidence

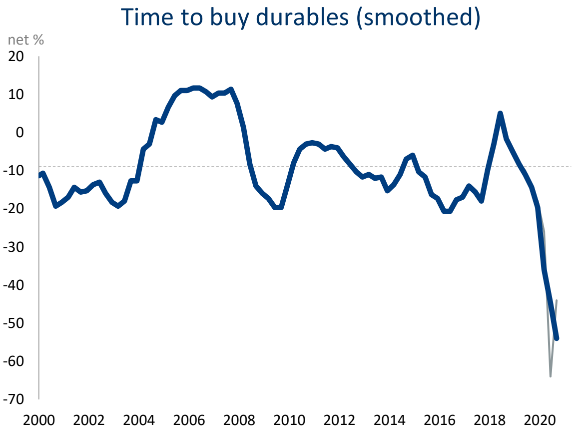
Indicator	Unit	μ-σ	μ	μ+σ	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	Δ	σ Δ
Composite														
Total	Net %	-11	1	14	7	2	5	-7	-7	-9	-33	**-23**	10	9
Expected economic performance	Net %	-14	2	19	14	0	11	-17	-14	-16	-21	**-23**	-2	12
Expected household finances	Net %	1	11	22	15	13	13	12	11	14	-13	**-2**	11	9
Time to buy durables	Net %	-22	-9	4	-7	-8	-10	-15	-18	-26	-64	**-44**	20	9
Per income group														
High	Net %	-8	6	20	16	3	7	-9	-4	-17	-33	**-27**	6	10
Middle	Net %	-13	-2	9	10	2	5	-4	-4	-4	-30	**-25**	5	9
Low	Net %	-19	-8	3	-1	-9	6	-2	1	2	-35	**-20**	15	13
Per age group														
Age 16-24	Net %	0	13	26	18	-3	12	-3	-3	-1	-17	**-14**	3	10
Age 25-34	Net %	-5	8	20	9	3	9	-5	-4	-5	-20	**-20**	0	9
Age 35-49	Net %	-12	1	14	5	3	3	-7	-11	-22	-34	**-30**	4	10
Age 50+	Net %	-25	-12	0	4	4	-4	-30	-19	-37	-43	**-36**	7	10

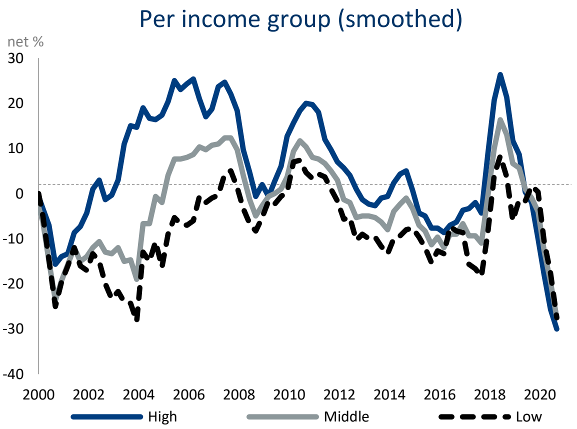


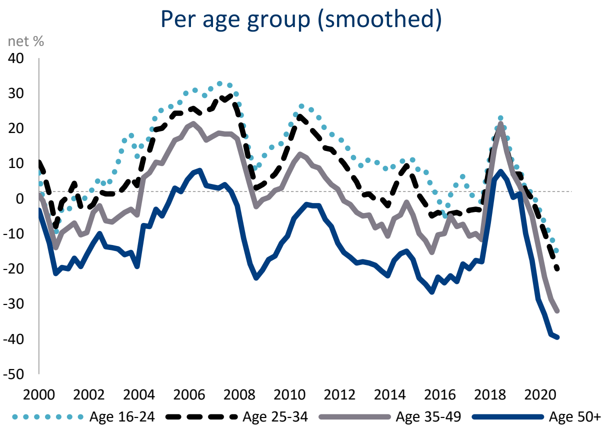


Consumer confidence









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. Due to weak demand, the three service providers in South Africa - Nielsen, Ipsos Markinor and TNS Kantar – could not always guarantee surveys with a quarterly frequency between 2016 and 2019.

Internationally, the majority of CCIs are based on telephone call surveys. As a result, 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. The results per home language, LSM group and province are no longer produced.

The fieldwork for the fourth quarter CCI was conducted between 12 and 18 November 2019, i.e. before the implementation of stage 6 load shedding in December.

Consumer confidence is expressed as a <u>net balance</u>. 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 <u>willingness</u> of consumers <u>to spend</u>. However, this willingness only translates into actual sales if consumers’ <u>ability to spend</u> 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.

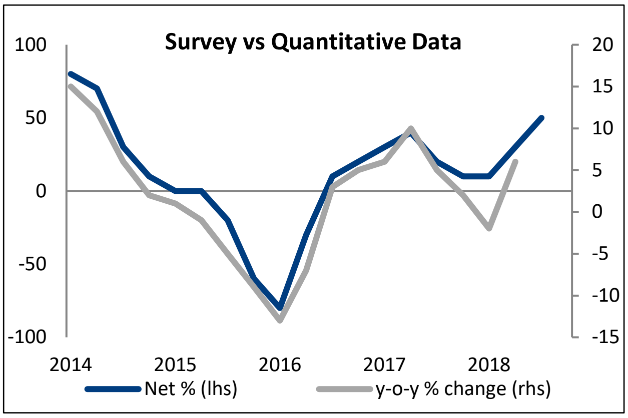
The unique units of measurement of qualitative surveys

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 (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 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.