BUREAU FOR ECONOMIC RESEARCH

Consumer Confidence Survey

Quarterly analysis of consumer expectations

Fourth quarter 2020
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Executive summary

The **FNB/BER Consumer Confidence Index (CCI)** increased from -23 to -12 in the fourth quarter.

All three sub-indices of the CCI rose handsomely during the fourth quarter.

Confidence increased across all income groups.

High-income households not nearly as optimistic as low-income households about the outlook for their household finances.

All income groups still consider the present time as highly inappropriate to purchase big-ticket items.

The termination of the social grant top-ups and SRD grant holds significant downside risk for both the confidence levels and spending power of low-income households.

This report was completed on 14 December 2020.
Please refer to the glossary on the BER's website for explanations of technical terms.

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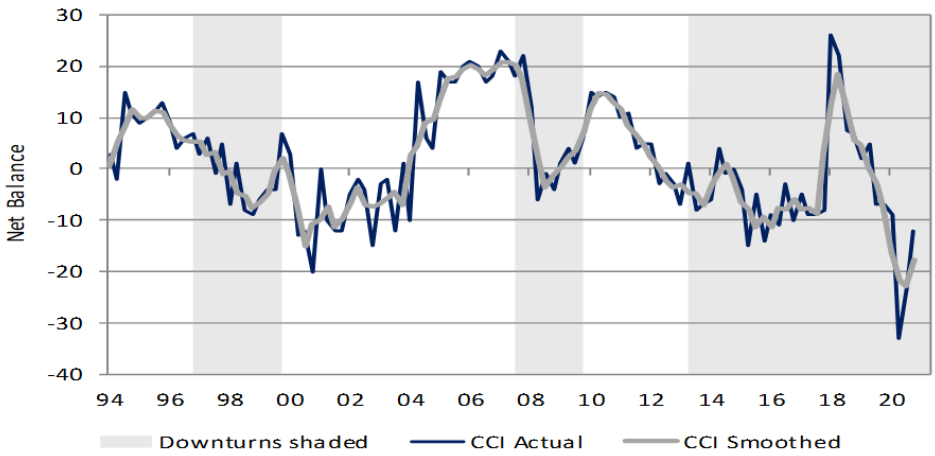
Summary of the 2020Q4 consumer confidence survey results

Consumer confidence continues to recover

The CCI increased from -23 to -12 in the fourth quarter

The FNB/BER Consumer Confidence Index (CCI) leapt by another 11 index points to a level of -12 in the fourth quarter of 2020, extending its third quarter gain of 10 index points. The sudden outbreak of the COVID-19 pandemic and subsequent severe economic restrictions sent the CCI crashing from an already depressed level of -9 in the first quarter to a 35-year low of -33 during the second quarter, but the CCI has now regained most of its lost ground. Nevertheless, the latest reading of -12 constitutes the lowest festive season CCI reading since 2015, and remains well below the average CCI reading of +2 since 1994.

Figure 1: Consumer confidence edged higher in the fourth quarter



Source: BER

The fourth quarter CCI survey was conducted by means of a telephone call survey between 23 November and 4 December 2020. South Africa moved from level 2 to level 1 of the risk-adjusted strategy on 21 September, and restrictions on the sale of alcohol and international travel were eased further on 11 November.

All three sub-indices of the CCI rose handsomely

All three sub-indices of the CCI rose handsomely during the fourth quarter. The economic outlook index rebounded by 11 index points to -12, and is now at roughly the same level compared to its 2019Q4 reading (of -14). The household financial outlook sub-index edged up by 8 index points to +6, but remains below both its first quarter level of +14 and its 2019 festive season level of +11. The during the fourth quarter

sub-index measuring the appropriateness of the present time to buy durable goods (e.g. vehicles, furniture, household appliances and electronic goods) recovered by another 14 index points to -30, but remains well below its 2019Q4 level of -18.

Table 1 Consumer confidence per question

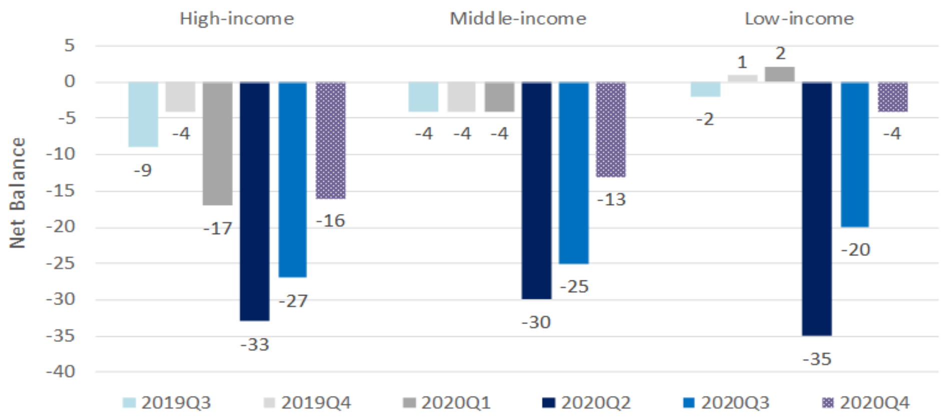
	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
Overall FNB/BER CCI	7	2	5	-7	-7	-9	-33	-23	-12
Economic outlook	14	0	11	-17	-14	-16	-21	-23	-12
Household financial outlook	15	13	13	12	11	14	-13	-2	6
Suitability of the present time to buy durable goods	-7	-8	-10	-15	-18	-26	-64	-44	-30

Source: BER

Confidence increased across all income groups

A breakdown of the CCI per household income group shows that confidence levels improved across the board, although the low-income group (earning less than R 2 500 p.m.) again saw the largest rebound. Low-income confidence increased by 16 index points to -4, and is now only 5 index points shy of its 2019Q4 level of +1. Middle-income confidence (i.e. households with a monthly income of between R2 500 and R20 000) recovered by another 12 index points to -13, but remains well below its 2019Q4 level of -4. The confidence level of high-income consumers (earning more than R20 000 p.m.) edged up by 11 index points to -16, although this too remains very much depressed compared to the 2019 festive season level of -4.

Figure 2: Consumer confidence per income group



Source: BER

High-income households not nearly as optimistic as low-income households about the outlook for their household finances

It is also instructive to note that high-income households are, in particular, not nearly as optimistic as low-income households about the outlook for their household finances: whereas a net majority of 17% of low-income households expect their financial positions to improve over the next 12 months, only 2% net of high-income households and 4% net of middle-income households expect any improvement next year. The sharp divergence in expectations for household finances helps to explain why the confidence levels of low-income consumers are much less depressed compared to that of middle- and high-income households.

The further easing of restrictions and concomitant uptick in economic activity greatly benefits low-income households in South Africa, as most low-income consumers were unable to earn a living by working from home. Millions of low-income households would also have been relieved to hear that the expiration date for the COVID-19-related social grant top-ups were extended from October until the end of December 2020, while the unemployed will continue to benefit from the Social Relief of Distress (SRD) grant until January 2021." Combined, these COVID-19 measures amount to an additional R6bn to R7bn of disposable income for poor households per month, in turn supporting the non-durable goods retail sector where low-income consumers spend the bulk of their household budgets. Slight declines in petrol and paraffin prices may also have bolstered low-income confidence somewhat during the fourth quarter.

Although discretionary spending by more affluent consumers is also expected to edge up further over the Christmas period, the size of the rebound will likely be inhibited by the adverse impacts of the coronavirus pandemic on their salaries and wages, overtime payments, commissions and end-of-the-year performance bonusses. The 300-basis-point decline in the prime interest rate since the end of 2019 would have helped to soften the blow for indebted households, but lending rates have not come down further since the last 25-basis-point cut in July.

All income groups still consider the present time as highly inappropriate to purchase big-ticket items

The fourth quarter saw the time-to-buy durable goods index continue to recover, but the vast majority of consumers across all income groups still consider the present time as highly inappropriate to purchase big-ticket items such as passenger cars, household furniture and jewellery. In fact, the latest reading for the time-to-buy durable goods index of -30 is the lowest of any fourth quarter since 1984, suggesting that durable goods sales are likely to underperform significantly during this festive season.

The rebound in consumer confidence is good news for the broader South African economy, as household consumption accounts for roughly two-thirds of South Africa's GDP. However, the fact that the confidence levels of affluent consumers - the group with the largest spending power - are still so depressed points to a more muted recovery in overall consumer spending during the fourth quarter compared to the noticeable jump witnessed in the CCI.

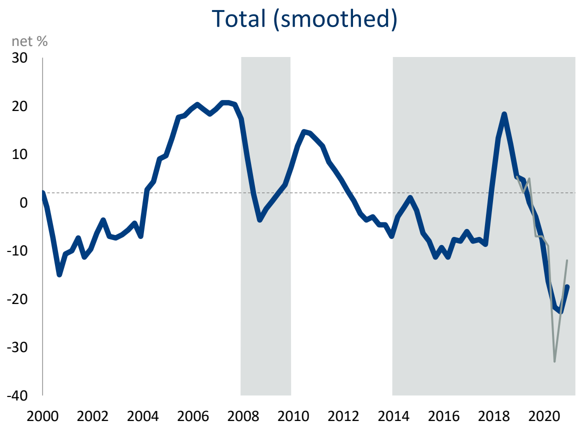
The termination of the social grants could deliver a significant blow to non-durable goods sales

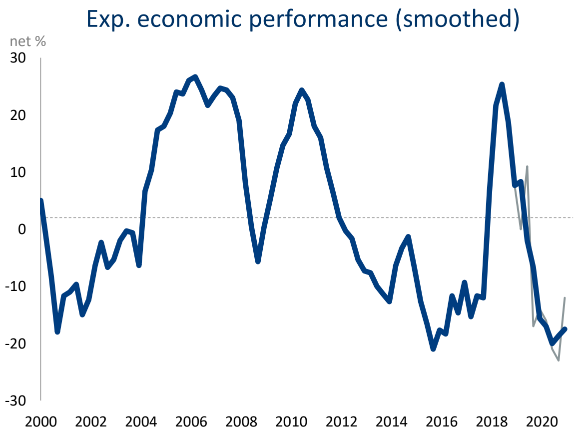
Non-durable goods sales are expected to outshine the other consumer spending categories heading into the New Year, but could come under significant pressure once the COVID-19-related welfare payments expire. The termination of the social grant top-ups and SRD grant therefore holds significant downside risk for both the confidence levels and spending power of low-income households. The apparent resurgence of COVID-19 infections in the Western and Eastern Cape and possible renewed restrictions could also weigh on consumer sentiment and hamper the pace of recovery in household expenditure during the first quarter of 2021.

Survey results

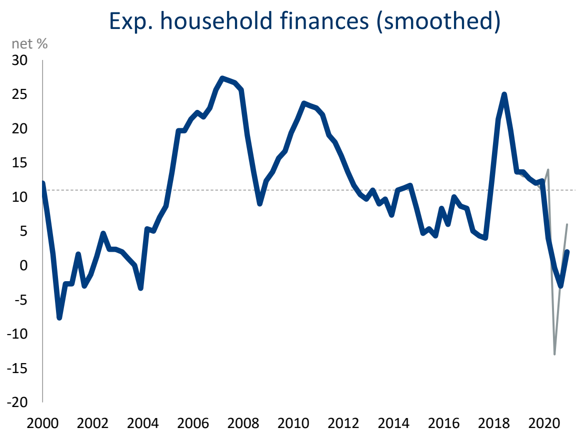
Consumer confidence

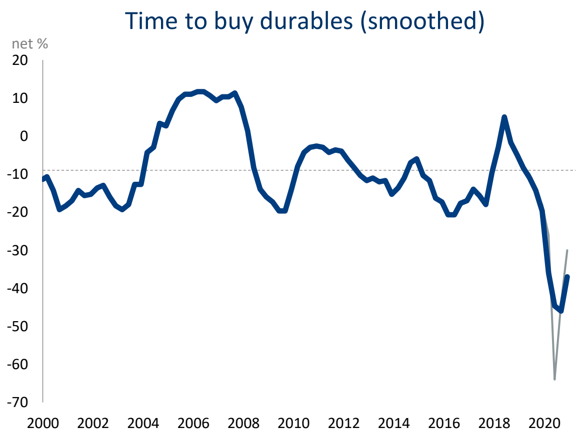
Indicator	Unit	μ-σ	μ	μ+σ	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	Δ	σ Δ
Composite														
Total	Net %	-11	2	14	2	5	-7	-7	-9	-33	-23	**-12**	11	9
Expected economic performance	Net %	-14	2	19	0	11	-17	-14	-16	-21	-23	**-12**	11	12
Expected household finances	Net %	2	12	21	13	13	12	11	14	-13	-2	**6**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

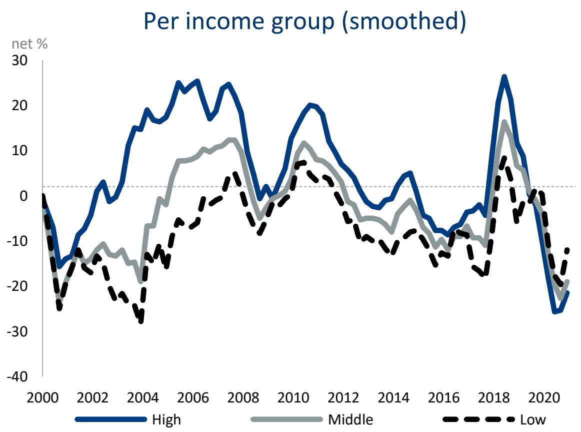


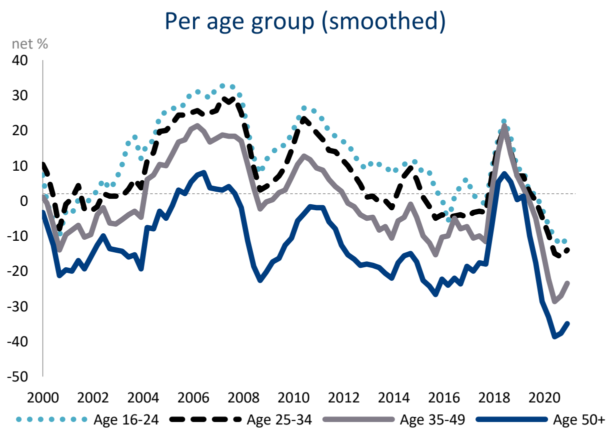


Consumer confidence









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 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.

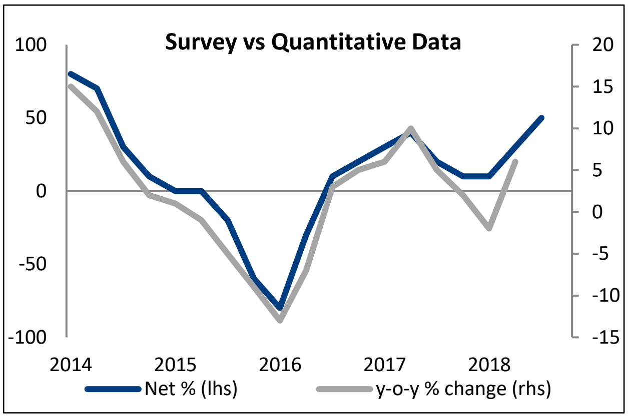
The unique units of measurement of qualitative surveys

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 (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.