BUREAU FOR ECONOMIC RESEARCH

Consumer Confidence Survey

Quarterly analysis of consumer expectations

Third quarter 2021
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Executive summary

Having slipped from -9 to -13 index points during the second quarter of 2021, the **FNB/BER Consumer Confidence Index (CCI)** recovered some lost ground to -10 in the third quarter of 2021.

The increase in the CCI can be ascribed to upticks in the household financial position and time-to-buy durable goods sub-indices.

The confidence levels of all three income groups were at broadly similar levels in the third quarter.

Sentiment among both low-income and high-income consumers was also largely driven by an improvement in their household financial prospects.

The violent looting, job losses and soaring petrol prices saw middle-income consumers turning less optimistic about the outlook for their household finances.

Fiscal support in the form of the reintroduction of the SRD grant and cash allowances for government employees to a large extent countered the adverse impacts of the civil unrest on consumer confidence.

Despite significant disruptions to economic activity in the third quarter, consumer sentiment remained resilient.

This report was completed on 6 September 2021.
Please refer to the glossary on the BER's website for explanations of technical terms.

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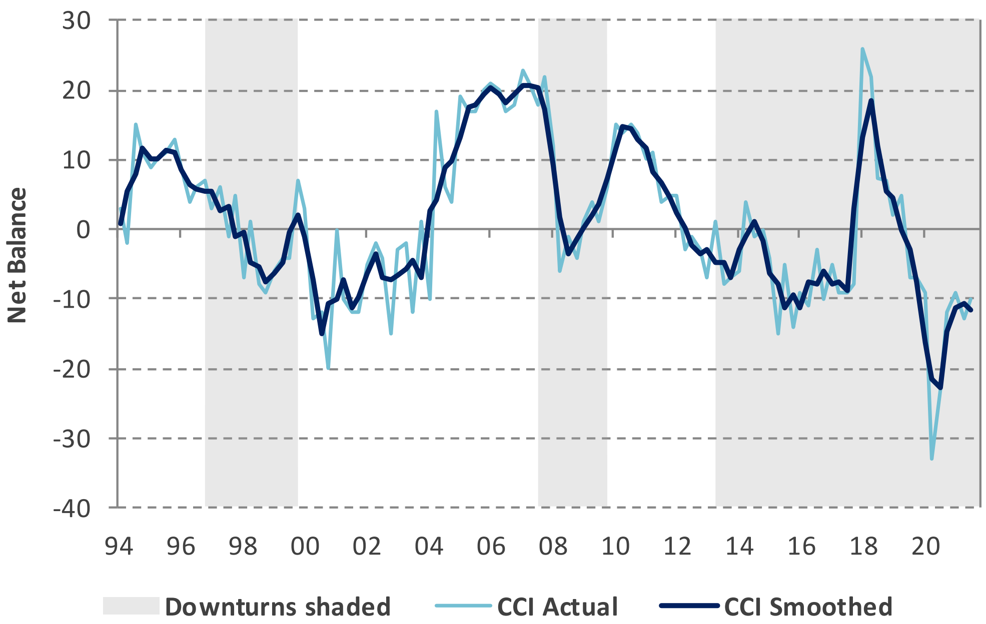
Summary of the 2021Q3 consumer confidence survey results

Consumer confidence edges up despite deadly riots and looting

Consumer Confidence recovered some lost ground in the third quarter

Having slipped from -9 to -13 index points during the second quarter of 2021, the FNB/BER Consumer Confidence Index (CCI) recovered some lost ground to -10 in the third quarter of 2021.[1] The fact that consumer sentiment did not deteriorate further on the back of the violent protests and rampant looting that tore through KwaZulu-Natal and Gauteng during July points to a level of resilience among consumers, and by extension consumer spending, during the third quarter of 2021. While the latest CCI reading of -10 remains well below the average CCI reading (of +2 since 1994) and therefore denotes depressed consumer confidence levels, it is nevertheless quite close to the reading of -9 recorded just prior to the onset of the COVID-19 epidemic in South Africa (in the first quarter of 2020).

Figure 1: Consumer Confidence edged higher in the third quarter



Source: BER

[1] The third quarter CCI survey was conducted by means of a telephone call survey between 16 and 31 August 2021. South Africa was on level 4 of the risk adjusted strategy from 28 June to 25 July, which included a 9pm curfew at night, prohibited social gatherings and leisure travel from Gauteng and once again banned alcohol sales. The country reverted back to adjusted alert level 3 on 26 July 2021.

The increase in the CCI can be ascribed to upticks in the household financial position and time-to-buy durable goods sub-indices

The increase in the CCI during the third quarter of 2021 can be ascribed to upticks in the household financial position and time-to-buy durable goods sub-indices of the CCI. Consumers turned notably *less pessimistic* about the appropriateness of the present time to buy durable goods (e.g. vehicles, furniture, household appliances and electronic goods), with this index recovering by 7 points to the best reading since the first quarter of 2020 - albeit still quite negative at -29 index points. The household finances index improved by 2 index points to +12, indicating that the majority of consumers anticipate an improvement in their household finances over the next 12 months. However, the economic outlook sub-index of the CCI remained rather depressed at -14 index points.

Table 1: Consumer confidence per question

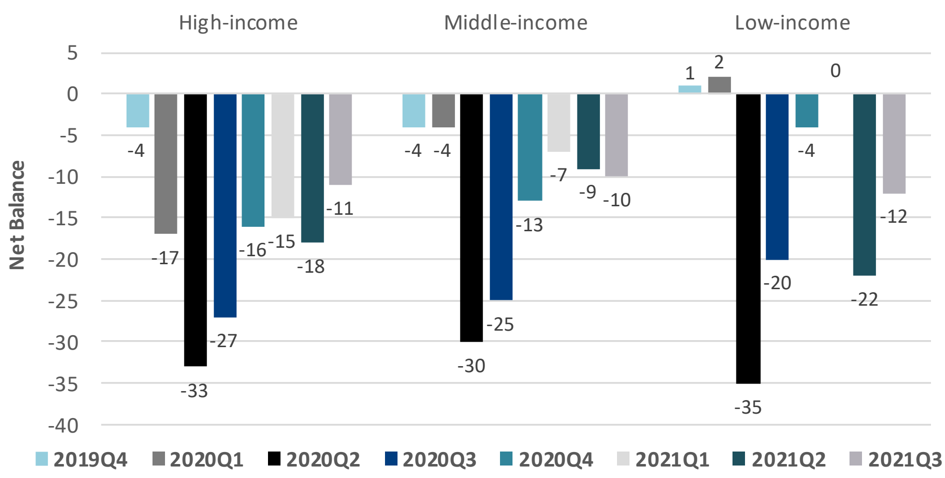
	19Q3	**19Q4**	**20Q1**	**20Q2**	**20Q3**	**20Q4**	**21Q1**	**21Q2**	**21Q3**
Overall FNB/BER CCI	-7	-7	-9	-33	-23	-12	-9	-13	-10
Economic outlook	-17	-14	-16	-21	-23	-12	-5	-14	-14
Household financial outlook	12	11	14	-13	-2	6	10	10	12
Suitability of the present time to buy durable goods	-15	-18	-26	-64	-44	-30	-32	-36	-29

Source: BER

The confidence levels of all three income groups were at broadly similar levels in the third quarter

A breakdown of the CCI per household income group shows diverging results for the different income groups in South Africa. The confidence levels of high-income households (earning more than R20 000 per month) increased significantly, from -18 to -11 during the third quarter, while low-income confidence (consumers earning less than R2 500 per month) also rebounded strongly from -22 to -12. However, the confidence levels of middle-income households (earning between R2 500 and R20 000 per month) slipped further from -9 to -10 index points. Whereas the *second quarter* saw a sharp drop in the confidence levels of low-income consumers to lower levels compared to that of the other two income groups, the confidence levels of all three income groups were at broadly similar levels during the *third quarter* of 2021.

Figure 2: Consumer confidence per income group



Source: BER

The reinstatement of the R350 per month Social Relief of Distress (SRD) grant between August 2021 and March 2022 would have been a major relief to millions of low-income households. Given soaring food and fuel prices and the fact that South Africa's unemployment rate climbed to a record high during the second quarter, the expiration of these grants at the end of April left gaping holes in the budgets of low-income households.

Sentiment among both low-income and high-income consumers was also largely driven by an improvement in their household financial prospects

Similar to the CCI results for the low-income group, the upturn in consumer sentiment among high-income consumers was also largely driven by an improvement in their household financial prospects. The public sector wage agreement that was reached at the end of July in all likelihood bolstered the confidence levels of the more than a million civil servants in South Africa, most of whom fall in the high-income category. Although government employees will only receive a 1.5% increase in their salaries this year, the wage deal does include a non-pensionable cash allowance for civil servants ranging between R1 220 and R1 695 per month until March 2022. Since the cash allowances will be backdated to 1 April 2021, government employees will receive a significant boost to their September remuneration.

The violent looting, job losses and soaring petrol prices saw

In contrast to the high- and low-income groups, middle-income consumers turned less optimistic about the outlook for their household finances during the third quarter. This accounted for the small decline in the overall sentiment among middle-income consumers. Middle-income earners would typically not qualify for the reinstated SRD grant, but some will be government employees that would benefit from the recently negotiated cash allowances. The alarming decline in formal sector employment during the second quarter - a drop of 375 000, or 3.5%

middle-income consumers turning less optimistic about the outlook for their household finances

quarter-on-quarter - in all likelihood hit middle-income households the hardest. The violent looting and arson that ravaged shopping malls, warehouses, factories and small businesses in KwaZulu-Natal and Gauteng during July would only have exacerbated the employment prospects for middle-income earners in particular during the third quarter. Furthermore, middle-income consumers are also less likely to be able to work from home compared to high-income earners, implying that soaring petrol prices - up by nearly R3,50 per litre since January - would also have a disproportionally negative impact on this group.

The deadly protests, looting and property destruction that engulfed parts of KwaZulu-Natal and Gauteng would undoubtedly have knocked both business and consumer confidence during July. However, it appears as though the subsequent announcements of substantial further fiscal support in the form of the reintroduction of the SRD grant and cash allowances for government employees to a large extent countered the adverse impacts of the civil unrest on consumer confidence during the third quarter. The rollout of COVID-19 vaccinations to the 35-49 age group from 15 July and subsequently to the 18-35 age group from 20 August probably also bolstered the confidence levels of these age groups.[2]

Despite significant disruptions to economic activity in the third quarter, consumer sentiment remained resilient

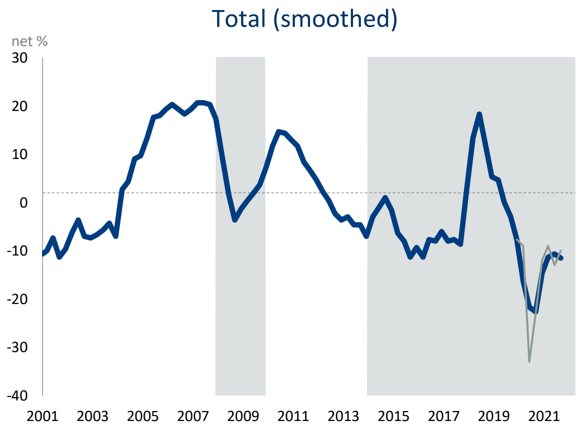
The fact that consumer sentiment was able to recover so quickly following the extended level 4 lockdown and unprecedented social unrest points to a level of resilience amongst consumers - consumer spending may well hold up better than initially anticipated during the second half of 2021. Yet, since total employment remains nearly 1.5 million below pre-COVID levels, much of this resilience appears to be tied to government support, as well as special factors such as retrenchment packages and life insurance payouts. We remain hopeful that job creation will start to recover next year once heavily hit industries such as tourism, liquor and restaurants and hotels are able to reopen fully, and that this will sustain the consumer spending recovery. However, there is certainly downside risk to the outlook should the current sizeable levels of fiscal support and other special factors propping up household income start to fade.

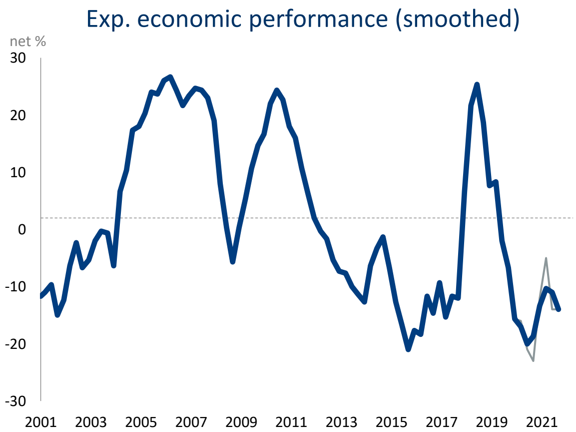
[2] Confidence levels increased slightly across all age groups during the third quarter, bar the 50+ age group.

Survey results

Consumer confidence

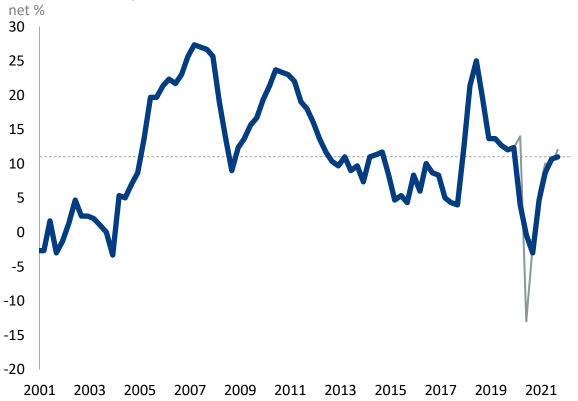
Indicator	Unit	μ-σ	μ	μ+σ	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	Δ	σ Δ
Composite														
Total	Net %	-11	1	14	-7	-9	-33	-23	-12	-9	-13	**-10**	3	9
Expected economic performance	Net %	-14	2	19	-14	-16	-21	-23	-12	-5	-14	**-14**	0	12
Expected household finances	Net %	3	12	22	11	14	-13	-2	6	10	10	**12**	2	9
Time to buy durables	Net %	-24	-10	4	-18	-26	-64	-44	-30	-32	-36	**-29**	7	9
Per income group														
High	Net %	-9	5	20	-4	-17	-33	-27	-16	-15	-18	**-11**	7	10
Middle	Net %	-13	-2	8	-4	-4	-30	-25	-13	-7	-9	**-10**	-1	9
Low	Net %	-19	-8	3	1	2	-35	-20	-4	0	-22	**-12**	10	13
Per age group														
Age 16-24	Net %	-1	12	25	-3	-1	-17	-14	-7	-4	-8	**-6**	2	10
Age 25-34	Net %	-5	8	20	-4	-5	-20	-20	-8	0	-10	**-7**	3	8
Age 35-49	Net %	-13	0	13	-11	-22	-34	-30	-17	-13	-17	**-14**	3	9
Age 50+	Net %	-26	-13	0	-19	-37	-43	-36	-34	-32	-29	**-40**	-11	10



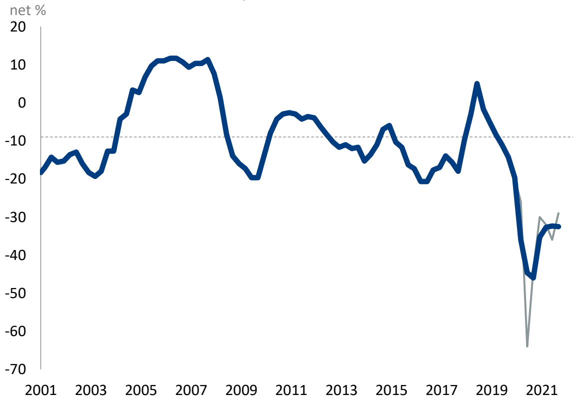


Consumer confidence

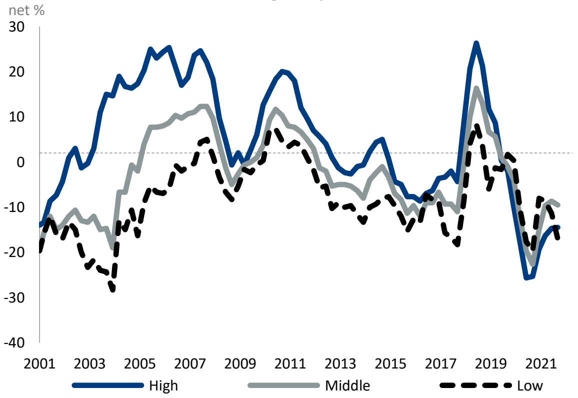
Exp. household finances (smoothed)



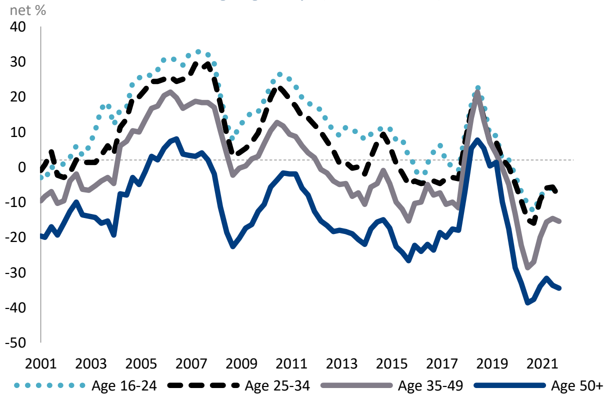
Time to buy durables (smoothed)



Per income group (smoothed)



Per age group (smoothed)



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 third quarter CCI survey was conducted by means of a telephone call survey between 16 and 31 August 2021. South Africa was on level 4 of the risk adjusted strategy from 28 June to 25 July, which included a 9pm curfew at night, prohibited social gatherings and leisure travel from Gauteng and once again banned alcohol sales. The country reverted back to adjusted alert level 3 on 26 July 2021.

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.

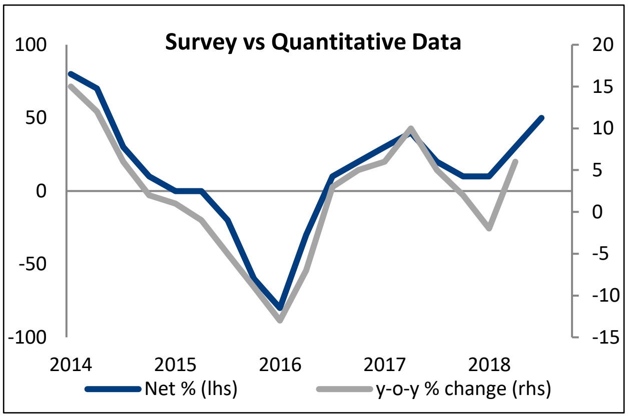
The unique units of measurement of qualitative surveys

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.