

Retail Trade

Quarterly analysis of consumer expectations and activity in retail, wholesale and motor trade

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Executive summary

The 2018Q1 BER Retail Survey indicates that business confidence among retailers recovered handsomely in early-2018 after falling back in 2017Q4. While current activity levels remain relatively subdued, survey participants across the entire trade sector are optimistic that conditions might improve meaningfully going forward. In all, stronger economic growth, lower price inflation and higher confidence levels might translate into stronger growth in overall consumer spending during 2018.

The 2018Q1 BER Retail Survey suggests that business conditions in the **retail sector** improved marginally in early-2018, although overall activity remains below long-run average levels. In all, 42% of retailers reported being satisfied with prevailing business conditions, up from 29% in 2017Q4.

Conditions improved meaningfully for durable goods retailers. Confidence among durable goods retailers picked up to the highest level since 2015Q2, with the business conditions index improving sharply. Non-durable and semi-durable goods retailers also posted better results, however, business conditions in the semi-durable category remain very weak, with sales volumes and overall profitability under significant pressure.

Encouragingly, retailers are optimistic that conditions will improve in 2018Q2 and beyond. In fact, a consistent feature of the 2018Q1 survey results is the sense of optimism reflected in the expectations of survey participants. This might reflect relief at the (partial) alleviation in the political constraints that have hampered activity over recent years, including the apparent willingness of the new administration to engage on outstanding policy issues.

Wholesale confidence held up well in 2018Q1, with 53% of wholesalers reporting being satisfied with prevailing trading conditions. Conditions improved across most of the wholesaler sector. Consumer goods wholesalers continued to

outperform their peers in the non-consumer goods category, with clothing and footwear wholesalers in particular posting strong numbers. In contrast, hardware and building material wholesalers continued to struggle, while machinery and equipment wholesalers appear to be benefitting from the marginal recovery in the mining and manufacturing sectors. As with retailers, wholesalers are confident that conditions will improve further in 2018Q2.

New vehicle trader confidence ticked up to the highest level in almost five years, with both the sales volumes and overall business conditions indices improving to multi-year highs. Pent-up demand, subdued inflation, lower selling price inflation, attractive dealer incentives and a further modest acceleration in credit growth should support sales going forward. Additionally, activity in the used vehicle market also picked up in 2018Q1 after a significant slowdown in 2017H1. Used vehicle traders expect conditions to improve even further going forward.

The latest BER Retail Survey points to better conditions in the trade sector in early-2018, but also suggests that a meaningful acceleration in volume (and turnover) growth is not on the cards for 2018Q1. Survey participants are optimistic that trading conditions will improve further in 2018Q2, but this depends crucially on the sustainability of the apparent recovery in business and consumer confidence levels.

This report was completed on 22 March 2018.

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

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Introduction

The 2018Q1 Retail Trade publication covers two surveys related to consumer spending, namely the FNB/BER Consumer Confidence Survey¹ and the BER Retail Survey. It presents a quarterly analysis of consumer expectations and activity in the retail, wholesale and motor trade sectors.

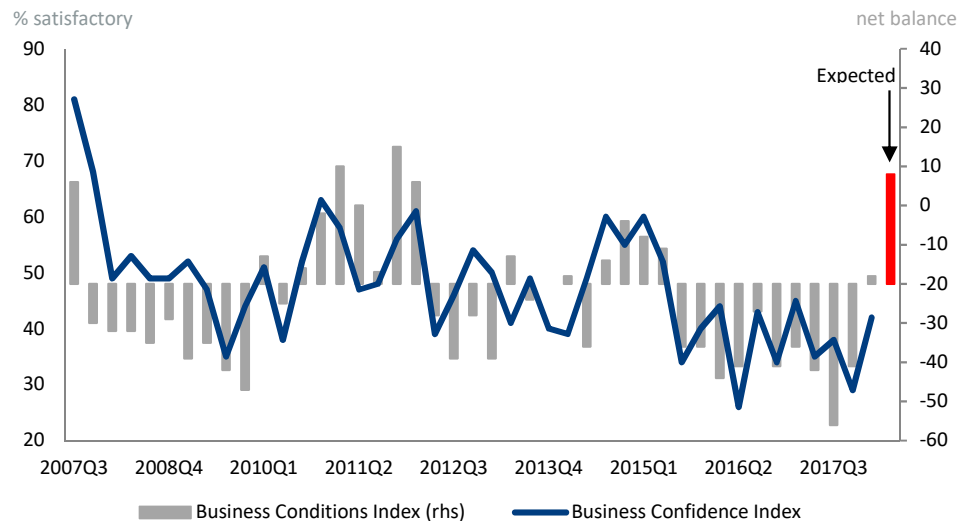
Summary of the 2018Q1 trade sector survey results

Retailer confidence improves, but overall trading conditions remain tough

After falling in 2017Q4, business confidence among retailers rebounded during the first quarter of 2018 (see Figure 1 below). According to the latest BER Retail Survey², 42% of retailers reported being satisfied with prevailing business conditions in 2018Q1, up from 29% in the final quarter of 2017. However, trading conditions remain tough, with a net majority³ of 18% of retailers reporting that business conditions deteriorated relative to a year ago, while a similar percentage reported lower sales volumes.

Retailer confidence ticks up

Figure 1: Retailer business confidence ticks up in 2018Q1



Source: BER

¹ The 2018Q1 FNB/BER CCI results will be published in April.

² The fieldwork for the 2018Q1 survey was conducted between 29 January and 6 March 2018.

³ A net majority indicates the percentage of respondents reporting an improvement in business conditions compared to the same quarter of the previous year less the percentage reporting a deterioration in business conditions.

Volume growth
boosted by low
selling price
inflation

According to Statistics South Africa (Stats SA), retail volume growth measured 3% y-o-y in 2017 versus the 1.7% recorded in 2016. However, much of this improvement can be attributed to the “other” retail category, which expanded by 11.3% y-o-y in 2017. As mentioned in previous publications, a large part of the improvement in this category can be linked to sample changes in the Stats SA survey. Excluding this category, retail volumes expanded by only 2% for the year, virtually unchanged relative to the 1.8% recorded in 2016 (when excluding the “other” category). The concerning fact is that what little volume growth there was in 2017 came at the expense of selling prices. Retail inflation moderated from 6.2% y-o-y in 2016 to 4.1% in 2017 and measured just 2.3% y-o-y in 2017Q4. This implies that turnover growth, and hence overall profitability, remained under pressure.

The latest survey results suggest that trading conditions have improved relative to the weakness recorded in 2016/17. However, the current economic environment remains unsupportive of strong growth in consumer spending. While moderating inflationary pressures and the possibility of a marginal cut in the policy interest rate will likely provide relief to consumers, private sector employment and overall credit growth remains lacklustre, consumer confidence remains subpar, and fiscal policy has become even more restrictive.

However, looking further ahead, retailers are optimistic that conditions will improve more meaningfully as we head deeper into 2018. In fact, according to the latest survey results, a net majority of 8% of retailers expects general business conditions to *improve* in 2018Q2, while a net 18% expects higher sales volumes compared to a year ago. Much of this upturn in expectations can be attributed to the general sense of optimism following the election of Cyril Ramaphosa to the office of President and his apparent willingness to engage on outstanding policy issues in an attempt to unlock economic growth. This is also reflected in the improvement in the overall RMB/BER Business Confidence Index. However, a meaningful acceleration in overall economic growth, and consumer spending specifically, will depend crucially on the sustainability of the apparent improvement in business and consumer confidence levels. This will, in turn, depend partly on the ability of President Ramaphosa to deliver on the early promise shown by his administration.

Retailers are
optimistic that
conditions will
improve in 2018

We now proceed to a more detailed breakdown of the latest survey results per retail category.

Confidence improves across all retail categories

While business confidence ticked up across all retail categories, the most notable shift in sentiment was recorded among **durable goods** (e.g. hardware, furniture

Durable goods category continues to improve

and household appliances) retailers. According to both the latest official data and the 2018Q1 survey results, the durable goods category continued along the path to recovery after posting weak numbers in 2017H1. Durable goods volume growth measured 3.7% y-o-y in 2017H2, more than making up for the 1.5% contraction recorded in the first six months of 2017. Encouragingly, the latest survey results suggest that this improved performance was sustained into early-2018. According to the survey results, 59% of durable goods retailers reported being satisfied with prevailing business conditions (37% in 2017Q4), while a net 15% reported that business conditions had improved relative to a year ago. This is the first time that the business conditions index has been in positive territory since 2015Q2.

Table 1: Year-on-year percentage change in retail sales volumes

	2016	2017Q1	2017Q2	2017Q3	2017Q4	2017
Total	1.7%	-0.7%	2.2%	4.2%	5.6%	3.0%
Non-durable goods ¹	1.8%	0.3%	2.5%	1.9%	3.1%	2.0%
Durable goods ²	1.3%	-1.0%	-2.0%	2.7%	4.6%	1.3%
Semi-durable goods ³	2.2%	-5.9%	1.7%	3.5%	7.7%	2.3%

Source: Statistics South Africa, Retail Sales Statistics

¹Non-durable goods retailers include general dealers, retailers in specialised food, beverages and tobacco, and retailers in pharmaceutical and medical goods, cosmetics and toiletries

²Durable goods retailers include retailers in household furniture, appliances and equipment, and retailers in hardware, paint and glass

³Semi-durable goods retailers include retailers in textiles, clothing, footwear and leather goods

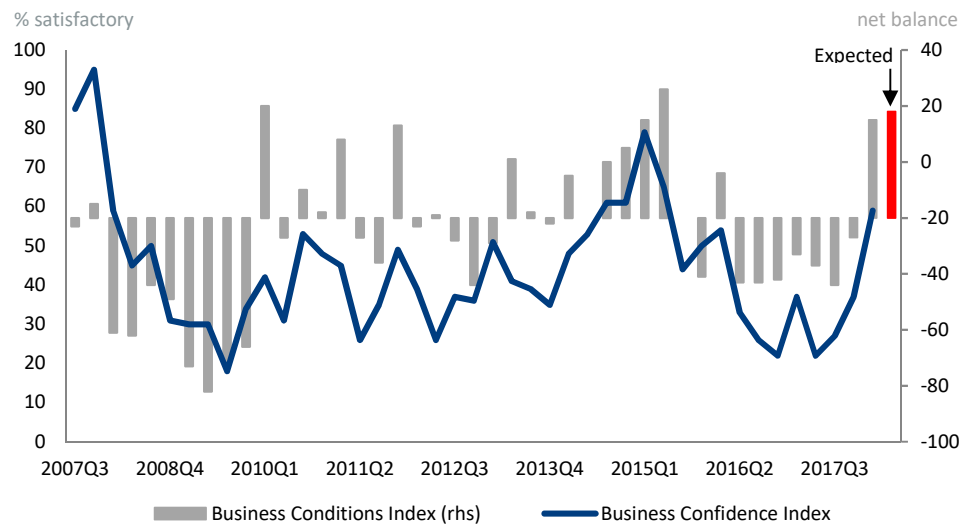
Durable goods volume growth is being boosted by strong growth in household furniture, appliances and equipment sales, with volumes in the category expanding by 8.6% y-o-y in 2017H2. Pent-up demand and the normalisation of the credit market are contributing to the strong recovery in volumes. However, conditions remain tough in the hardware and building material category. After posting weak numbers in the first nine months of 2017, hardware and building material volumes expanded by a meagre 1.7% y-o-y in 2017Q4. The persistent weakness in the category likely reflects the continued struggles in the building and construction industry. However, conditions appear to be improving. According to the latest survey results, a net majority of 17% of hardware and building material retailers reported improved trading conditions during 2018Q1, while many retailers expect conditions to improve further as we head deeper into 2018.

Furniture and household appliances record better results

Importantly, the main driver of volume growth in the durable goods category has been the moderation in selling price inflation. Inflation in the category measured just 1.3% y-o-y in 2016 and declined even further to just 1% in 2017. In fact, prices *declined* by 0.2% y-o-y in 2017Q4. The latest survey results suggest that this trend continued into 2018, with a net majority of only 13% reporting higher selling prices relative to a year ago versus the 51% in 2017Q4. While input costs are moderating on the back of a stronger rand exchange rate, the inability of

durable goods retailers to raise selling prices in the face of persistent weak consumer demand has resulted in overall profitability remaining under pressure. That being said, durable goods retailers are cautiously optimistic that conditions could improve going forward, with a net 11% projecting higher sales volumes and a net 18% expecting better overall trading conditions in 2018Q2 (see Figure 2 below).

Figure 2: Durable goods retailer confidence improves



Source: BER

According to Stats SA, **non-durable** (e.g. food, beverages, groceries, pharmaceuticals and cosmetics) volumes remained relatively well-supported in 2017Q4. After expanding by 1.9% y-o-y in 2017Q3, volume growth measured 3.1% during the fourth quarter (see Table 1). Retailers of pharmaceutical and medical goods, cosmetics and toiletries were the standout performers, recording volume growth of 5.2% y-o-y. As is the case across most of the retail sector, non-durable sales volume growth has been supported by moderating price inflation. Inflation as measured by the implicit retail price deflator slowed to 3.2% y-o-y in December 2017 from a recent peak of 9% in December 2016. Food price inflation has moderated sharply on the back of falling grain and cereal prices, while beverage and pharmaceutical product price inflation has remained contained.

Non-durable
volume growth
picking up

While non-durable goods sales volumes did improve throughout 2017, growth remains well below long-run average levels and, according to the latest survey results, a significant improvement is not expected in 2018Q1. In all, a net majority of 26% of non-durable goods retailers recorded lower volume growth, while a net 22% indicated that conditions deteriorated relative to a year ago. Despite this, confidence ticked up on the back of a slight improvement in overall profitability and expectations for better trading conditions going forward. In fact, a net 22% of non-durable goods retailers expect higher sales volumes in

2018Q2, while 10% project an improvement in overall business conditions. It remains to be seen whether these expectations will be met. But low price inflation and faster overall economic growth could support volume growth in the months ahead, while moderating input costs could prop up overall profitability going forward.

Semi-durable
volume growth
surged in
2017Q4

According to Stats SA, sales volumes in the **semi-durable** category (e.g. clothing, footwear, sporting equipment, CDs and toys) surged by 7.7% y-o-y in 2017Q4 after contracting by 0.2% in the first nine months of 2017. The acceleration in volume growth came at the expense of selling prices, with price inflation in the category moderating to 1.7% in 2017Q4, resulting in continued pressure on overall profitability. In fact, the reduction in pricing power on the back of waning consumer demand resulted in turnover growth of just 5.6% in 2017 – a far cry from the long-run average of close to 9%.

The official data from Stats SA stands in marked contrast to the latest BER survey results. In fact, according to the 2018Q1 results, the semi-durable goods category is the worst performing category covered by the survey. In all, just 19% of semi-durable goods retailers reported being satisfied with prevailing business conditions (up from 16% in 2017Q4), while a net majority of 43% reported that overall business conditions had deteriorated relative to a year ago. The survey results reflect the reality faced by many of the large semi-durable goods retailers. Publicly listed clothing and footwear retailers reported low single-digit turnover growth for 2017, with some even registering *contractions* in nominal sales growth.

But survey
results suggest
conditions
remain tough

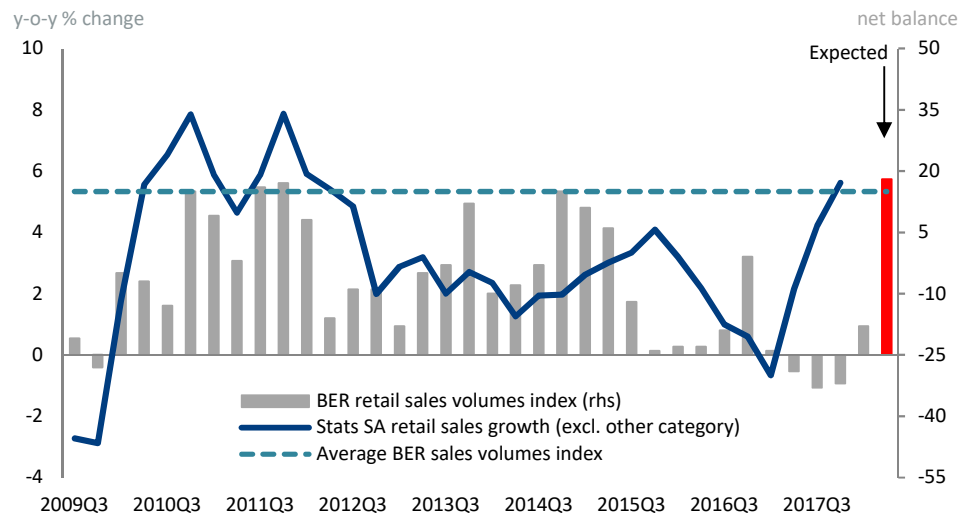
Whatever the reason for the discrepancy between the official statistics and the BER survey results, it is becoming increasingly difficult to reconcile the two sets of data. In our view, the BER survey paints an accurate picture of the prevailing conditions in the semi-durable goods category, suggesting that this category remains under pressure. Conditions are expected to improve going forward on the back of a continued moderation in selling price inflation and improving demand conditions.

While the latest survey results suggest that trading conditions in the broader retail sector remain tough, 2018Q1 saw some improvement across most of the sector. This is reflected in a marginal pick-up in business confidence, general business conditions and overall profit levels. Importantly, retailers are optimistic that conditions will improve meaningfully as we head deeper into 2018. As mentioned above, this will depend crucially on the ability of the new administration to engineer a sustained boost to confidence in both the private business sector and among consumers. While President Ramaphosa started off on the right foot, subsequent developments (such as the motion on land

Solid retail
volume growth
projected for
'18Q1

expropriation without compensation) have dampened optimism to some extent. Retail volume growth surprised on the upside in 2017H2 (mainly due to fast growth in the “other” category). The latest survey results suggest that volume growth could remain well-supported in 2018Q1 (see Figure 3 below), although a further meaningful acceleration is not expected. However, should current expectations be met, a stronger recovery in the retail sector could be on the cards for 2018Q2 and beyond.

Figure 3: Solid retail sales volumes expected for 2018Q1



Source: BER, Statistics South Africa

Wholesaler confidence steady on better business conditions, improved profitability

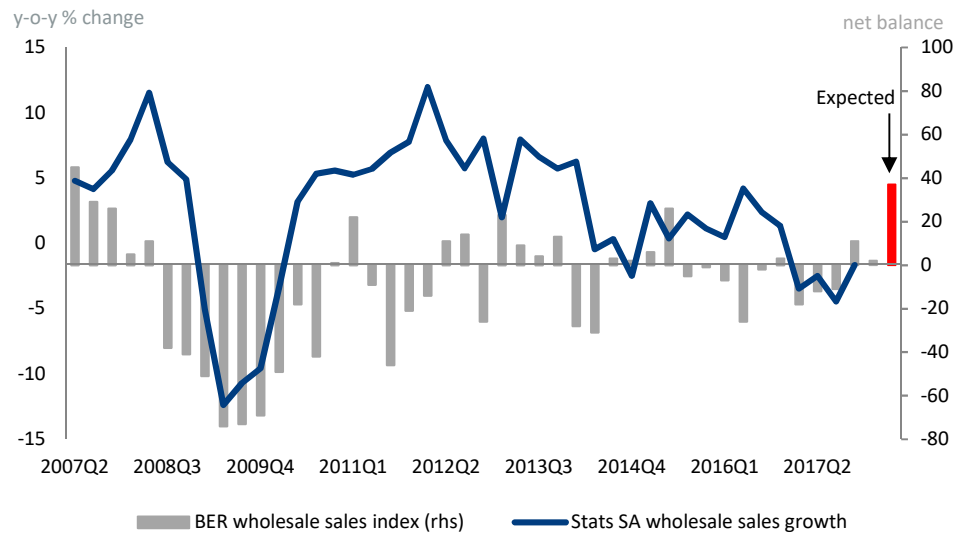
According to Stats SA, total **wholesale** sales volumes contracted by 4.5% y-o-y in 2017Q3. In line with the 2017Q4 survey results, volumes recovered somewhat during the fourth quarter, expanding by 1.7% q-o-q (seasonally adjusted). Be that as it may, wholesale sales volumes contracted by 3% y-o-y for 2017 as a whole. Encouragingly, results from the latest survey suggest that conditions improved somewhat in 2018Q1. In all, 53% of wholesalers reported being satisfied with current conditions, up from 51% in 2017Q4, while a net majority of 14% indicated that trading conditions had improved relative to a year ago – the first positive reading since mid-2015. Higher volumes, combined with a moderation in input cost inflation, resulted in a pick-up in overall profitability in the sector, supporting confidence. In all, the latest survey results suggest that wholesale volumes could continue along the path to recovery in early-2018.

Looking ahead, wholesalers expected conditions to improve meaningfully as we head deeper into 2018. A net majority of 37% of wholesalers expect sales volumes to improve relative to 2017Q2 (see Figure 4 on the next page), while a

Wholesaler confidence ticks up

net 31% project better overall trading conditions. Wholesalers expect input cost inflation to moderate further on the back of a stronger rand exchange rate and low global inflation, which should provide a further boost to overall profitability going forward.

Figure 4: Pick-up in wholesale volume growth expected



Source: Statistics South Africa, BER

In contrast to the 2017Q4 survey results, the latest survey points to improved trading conditions across the entire wholesale sector. Business confidence among wholesalers in the **consumer goods** category (e.g. textiles, clothing, footwear, food, beverages, furniture and household appliances) in particular remained well-supported. In all, 61% of consumer goods wholesalers reported being satisfied with present business conditions, while a net 24% reported that conditions had improved relative to a year ago – the highest reading since 2007Q3. Confidence was underpinned by higher sales volumes and a substantial improvement in overall profitability. Confidence remained well-supported across the entire consumer goods category, with results for wholesalers in both the clothing and footwear, and food and beverages categories pointing to improved trading conditions. The performance of consumer goods wholesalers mirrors the results for semi-durable and non-durable goods *retailers* which both recorded better results. However, clothing and footwear wholesalers appear to be outperforming their peers in the retail sector, suggesting that the consumer might be bypassing retailers and purchasing directly from wholesalers. Consumer goods wholesalers expect conditions to improve further in 2018Q2, with a net 38% projecting higher sales volumes.

Consumer goods
wholesale
confidence
underpinned by
higher volumes,
better profits

In contrast to the 2017Q4 survey results, trading conditions improved markedly for wholesalers in the **non-consumer** goods category (e.g. machinery, building material, chemicals, petroleum products and office equipment). In all, 46% of non-consumer goods wholesalers reported being satisfied with current business

conditions in 2018Q1, up from 37% in 2017Q4, while a net 7% reported that business conditions had improved relative to a year ago – the first positive reading in more than a year.

After falling sharply in 2017H2, confidence among **hardware and building material wholesalers** remained at depressed levels in 2018Q1. Only 5% of wholesalers in this category reported being satisfied with prevailing business conditions, with a net majority of 57% indicating that trading conditions deteriorated relative to a year ago. Residential building activity seems to be improving, but non-residential building and civil construction remain in the doldrums and the survey results for building and hardware wholesalers (and hardware retailers) suggest that overall activity remained under pressure in Q1. While building and hardware wholesalers expect conditions to improve marginally in 2018Q2, they are considerably less optimistic than their peers.

Conditions
improve across
entire wholesale
sector

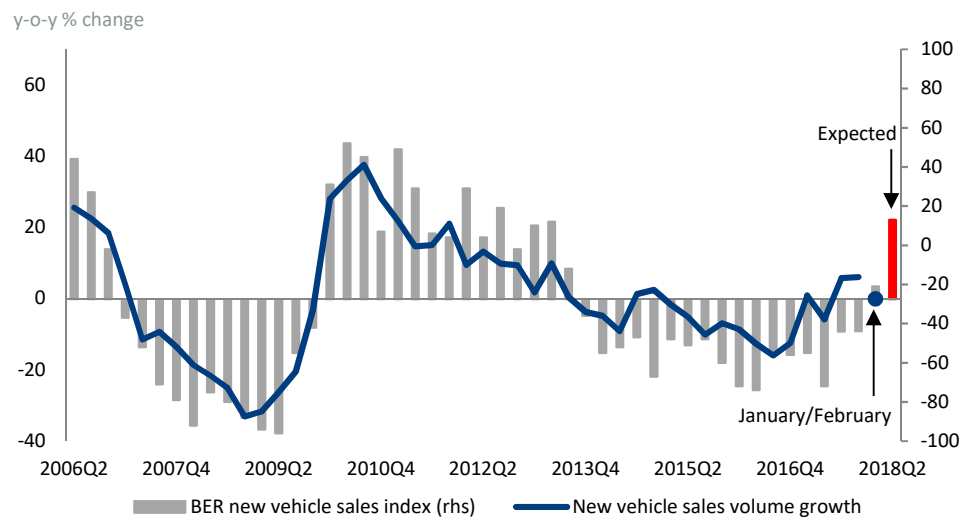
Machinery and equipment wholesalers posted better results in 2018Q1 on the back of the marginal improvement in mining and manufacturing activity registered toward the end of 2017 and in early-2018. In all, 67% of wholesalers in this category reported being satisfied with prevailing business conditions (up from 57% in 2017Q4), with a net majority of 20% reporting higher volumes. Looking ahead, machinery and equipment wholesalers expect conditions to improve further in 2018Q1. Mining and manufacturing activity could benefit from better global growth, higher commodity prices and a recovery in SA's trading partners in Sub-Saharan Africa, leading to optimism among machinery and equipment wholesalers.

New vehicle trader confidence surges to highest level since early-2013

After contracting by 12.4% y-o-y in 2016 and by a further 2.1% in 2017H1, **new passenger car sales** expanded by a robust 5.9% y-o-y in the second half of 2017. While sales volumes contracted marginally in January/February 2018, this was mainly due to seasonal factors with sales to the car rental industry falling sharply. Despite the latest dip in sales, the 2018Q1 survey suggests that conditions improved in the first three months of 2018. In all, 52% of new vehicle traders reported being satisfied with prevailing conditions, the highest level since 2013Q2. Additionally, new vehicle traders expect conditions to improve further in 2018Q2, with a net majority of 13% projecting higher sales volumes (see Figure 5 on the next page). Pent-up demand, lower selling price inflation, attractive dealer incentives, and the normalisation in the credit cycle should boost volume growth in the months ahead. However, tighter fiscal policy and subdued consumer income growth might limit the upside.

Higher volumes
boost new
vehicle trader
confidence

Figure 5: New vehicle sales expected to pick up



Source: dti, BER

After expanding by 21.1% y-o-y in 2016, **used car sales** growth slowed to just 3.3% in 2017 as subdued consumer income growth and weak credit extension weighed on the used car market. However, the latest survey results suggest that conditions improved during 2018Q1, with a net majority of 41% indicating satisfaction with current conditions (up from 34% in 2017Q4). Used vehicle traders expect conditions to improve going forward, with a net majority of 9% projecting higher sales volumes.

Concluding Remarks

Real final household consumption expenditure expanded by 2.2% y-o-y in 2017, while total retail sales volumes grew by 3%. While this does represent an improvement over the weak numbers recorded in 2016, growth in overall consumer spending remains well below long-run average levels. The latest BER Retail Survey points to improving conditions in early-2018, but also suggests that a meaningful acceleration in volume (and turnover) growth is not on the cards. Conditions improved across most of the trade sector, but there are persistent pockets of weakness and, despite a marginal recovery, overall profitability remains under pressure.

Encouragingly, while current underlying activity indicators remain relatively subdued, both retailers and wholesalers are optimistic that conditions could improve meaningfully as we head deeper into 2018. In fact, a consistent feature of the 2018Q1 survey results is the sense of optimism reflected in the expectations of survey participants. This might reflect relief at the (partial) alleviation in the political constraints that have hampered activity over recent years, including the apparent willingness of the new administration to engage on outstanding policy issues. However, a meaningful acceleration in consumer spending will depend on the sustainability of the improvement in business and consumer confidence levels.

Technical note

Short-term planning is hampered as numeric (official) data is released with a time lag. Business *survey results reveal what happened between the release of the last official figures and the current state of affairs*. The results not only reveal beforehand the direction of sales, selling prices, employment etc. (for which official figures are published), but also *provide unique information*, such as business confidence, rating of business conditions and respondents' expectations (or forecast) for the next quarter for which no official figures exist. It is now widely recognised that these subjective individual expectations play a key role in economic developments. Furthermore, the survey results of successive quarters *provide a means of tracking cyclical movements, pinpointing trend changes* and establishing forecasts.

The survey results are obtained from questionnaires completed by senior executives in the trade, manufacturing and building sector during the last month of every quarter. The business survey questionnaire contains a small number of questions. These questions are qualitative in nature, e.g. "Compared to the same quarter a year ago, are the volume of sales up, the same or down?" No figures are requested. The sample of executives remains the same from one survey to the next. A panel is in effect established. The sample is divided according to main sectoral categories. Each firm gets a weighting in relation to turnover or size of workforce to provide for widely differing sizes. Participants have to complete a "participant details form" every few years to ensure that they are correctly classified and to provide for changes in turnover. The list of participants is also reviewed every few years to ensure an agreeable representation of the universe.

Most of the responses are converted into net balances. For example, if the percentage of respondents rating sales volumes higher / the same / lower than a year ago is as follows;

Higher	Same	Lower
70	10	20

then we can conclude that the majority of participants experienced higher sales. A net majority (i.e. the percentage of respondents rating sales higher less the percentage rating sales lower) of 50% is registered in the above example. A net majority of -10% for example would have indicated a decline in sales volumes compared to a year ago. 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 responses relating to business confidence are presented as percentages. For example, business confidence of 10 index points would indicate that 10% gross of the respondents rated prevailing business conditions as satisfactory. These data series vary between zero and 100. A value of zero reflects an extreme lack of confidence and 100 extreme confidence. Furthermore, respondents have to rate the present situation and not how it compares with that of the same quarter a year ago as in the case of the "net balance" questions.

The consumer confidence results are derived from personal at-home interviews of an area-stratified probability sample of 2 500 households. AC Nielsen conducts the surveys for the BER. The surveys cover blacks and whites in metropolitan areas, cities, towns and villages throughout South Africa. Coloured and Indian coverage include the major metropolitan areas. The total coverage represents 92% of the urban adult population and 53% of the total adult population. A trained, experienced fieldworker uses a structured questionnaire and conducts the interview in the home language of the respondent. A 35% validation check is carried out personally or telephonically on the work of each interviewer. The consumer confidence questions are always the first three questions of the questionnaire and only the head of the household (male or female) is interviewed.

The following questions are asked:

1. How do you expect the general economic position in South Africa to develop during the next 12 months? Will it improve considerably, improve slightly, remain the same, deteriorate slightly, deteriorate considerably or don't know?
2. How do you expect the financial position in your household to develop in the next 12 months? Will it improve considerably, improve slightly, remain the same, deteriorate slightly, deteriorate considerably or don't know?
3. What is your opinion of the suitability of the present time for the purchase of domestic appliances such as furniture, washing machines, refrigerators etc. Do you think that for people in general it is the right time, neither a good nor a bad time or the wrong time?

Consumer confidence is expressed as a net balance in contrast to business confidence, which is depicted as a percentage gross. The net balance is derived as the percentage of respondents expecting an improvement less the percentage expecting a deterioration. The answers of the first and second question are weighted as follows: improve considerably (+10), improve slightly (+5), remain the same (0), deteriorate slightly (-5) and deteriorate considerably (-10). The responses of the third question are weighted in the following manner: right time to buy (+10) and wrong time to buy (-10). The composite consumer confidence index is the average of the results of the above three questions.