Consumer Confidence Survey
Quarterly analysis of consumer expectations

First quarter 2018
Executive summary

After hovering around -8 index points for most of 2017, the FNB/BER Consumer Confidence Index (CCI) skyrocketed to an all-time high of +26 in the first quarter of 2018. The jump to +26 index points in the first quarter of 2018 breaks the trend of below-zero readings on the CCI and indicates that most consumers are now optimistic about the outlook for the South African economy and their household finances.

The complete turnabout in consumer sentiment during the first quarter can be ascribed to massive jumps in all three sub-indices of the CCI. Consumers turned very positive about the outlook for the South African economy over the next twelve months, while their rating of the financial prospects of their household soared. The first quarter also saw a total reversal in consumers’ rating of the appropriateness of the present time to buy durable goods.

A breakdown of the CCI according to household income and race shows that consumer confidence surged across all income and population groups during the first quarter of 2018.

The extraordinary improvement in consumer sentiment during the first quarter of 2018 can largely be ascribed to the confidence-inspiring election of Mr. Cyril Ramaphosa as South Africa's new president. After the deluge of negative political and economic developments during former president Zuma’s second term of office, the turnaround brought about by Mr Ramaphosa’s presence led to a ‘relief rally”. This change in leadership triggered many positive economic developments.

In light of the extraordinary large increase in consumer sentiment in the first quarter, it is important to note that two of the CCI sub-indices - the economic outlook and financial prospects indices - are forward looking in nature. President Ramaphosa’s "new dawn" and pledge to turn the tide of corruption has clearly created great optimism among consumers and the business community.

However, it will take some time to implement investor-friendly reforms to boost economic growth and household income levels on a more enduring basis. There is therefore a risk that the CCI overshot during the first quarter on the back of "Cyril Ramaphosa euphoria", implying that there could be a negative correction during the second quarter.

The dramatic increase in consumer confidence during the first quarter of 2018 signals a substantial improvement in consumers’ willingness to spend. The tightening in fiscal policy will inhibit the pace of household expenditure growth - and we expect to see some correction in consumer confidence levels following the unparalleled surge recorded in the first quarter - but it seems as though the seeds of economic recovery have finally been planted.
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Consumer confidence shoots the lights out

After hovering around -8 index points for most of 2017, the FNB/BER Consumer Confidence Index (CCI) skyrocketed to an all-time high of +26 in the first quarter of 2018 (see Figure 1).\(^1\) The latest reading surpassed the previous record high of +23 index points reached in the first quarter of 2007 when the South African economy pumped out real economic growth of nearly 6%. The 34-index point increase in the CCI is also the largest single quarter improvement in consumer sentiment since the BER started publishing a composite index of whites and blacks in 1982.\(^2\) Previously, the biggest jump in the CCI occurred during the second quarter of 2004, when the CCI soared by 27 index points from -7 to +20. Although positive political and economic developments also helped to shore up consumer confidence in 2004, the announcement that South Africa would host the 2010 World Cup Soccer Tournament in all likelihood contributed significantly to the large leap in the CCI at the time.

The CCI has averaged +4 since 1994, but readings have been consistently below zero since the beginning of 2015. The fourth quarter of 2017 reading of -8 marked the longest uninterrupted negative streak (3 consecutive years) since the survey started in 1982. However, the jump to +26 index points in the first quarter of 2018 breaks this trend and indicates that most consumers are now optimistic about the outlook for the South African economy and their household finances.

The complete turnabout in consumer sentiment during the first quarter can be ascribed to massive jumps in all three sub-indices of the CCI. Consumers turned very positive about the outlook for the South African economy over the next twelve months, with the economic outlook index rebounding from -2 to +34. Similarly, consumers’ rating of the financial prospects of their household soared from +2 to +31. Both the financial and economic outlook indices are now at unprecedented highs. The first quarter also saw a total reversal in consumers’ rating of the appropriateness of the present time to buy durable goods. Whereas a net majority of 24% of consumers rated the fourth quarter of 2017 as the

\(^1\) The fieldwork for the first quarter survey was conducted between 26 February and 8 March 2018.
\(^2\) The white consumer confidence index dates back to 1975.
inappropriate time to purchase durable goods (a 17-year low for the index), 13% net now rate the present as the right time to purchase durables (the highest reading since the second quarter of 2006).

Figure 1: FNB/BER CCI surges in 2018Q1

A breakdown of the CCI according to household income and race shows that consumer confidence surged across all income and population groups during the first quarter of 2018. The CCI indices for high income, middle income and low income households all jumped by between 30 and 34 index points during the first quarter (see Figure 2). The CCI for high income earners (earning more than R14,000 per month) and middle income earners (earning between R3,000 and R14,000 per month) reached new record highs (of +31 and +26 respectively), while the CCI for low income consumers (earning less than R3,000 per month) improved to levels last seen in 1995/6 (+13). White consumers recorded the largest increase in confidence, with a leap of 45 index points to +18 (the highest level since 1988). Black consumer confidence soared by 34 index points to +33, the second highest level since the all-time high of 38 recorded after the 1994-election.

3. Note that the data in the chart below is smoothed, using a three-quarter moving average.

4. Although much higher, this is still below the all-time high of 30 registered at the time of the gold price boom in the second quarter of 1980.
Mr Ramaphosa’s election as president boosted sentiment

Numerous other factors led to surge in confidence

The extraordinary improvement in consumer sentiment during the first quarter of 2018 can largely be ascribed to the confidence-inspiring election of Mr. Cyril Ramaphosa as South Africa’s new president. After the deluge of negative political and economic developments during former president Zuma’s second term of office, the turnaround brought about by Mr Ramaphosa's presence led to a ‘relief rally’

Other positive developments since the end of 2017 that may have heartened some consumers include the government’s announcement that it would provide fee-free higher education and training for students from families with incomes less than R350 000 a year; the pushing back of “Day Zero” - the day when Cape Town’s taps were projected to run dry amidst a catastrophic three-year-long drought; as well as president Ramaphosa’s cabinet reshuffle on 26 February in which several ministers implicated in state capture were axed and highly regarded former ministers like Pravin Gordhan and Nhlanhla Nene were reappointed.
The Finance Minister's budget speech of 21 February - in which the National Treasury was forced to make difficult decisions to address the government's bulging budget deficit and to fund free higher education - was also generally well received. While the VAT hike to 15% would have weighed on consumer sentiment, the zero rating of basic food items such as maize meal, brown bread, dried beans and rice will mitigate the impact of this tax increase on low-income households who spend a large proportion of their household budgets on food. In addition, Minister Gigaba announced some relief for the poor and the working class in the form of above-inflation increases in social grants expenditure and below-inflation increases in personal income tax for individuals earning less than R410 000 per year.

In light of the extraordinary large increase in consumer sentiment in the first quarter, it is important to note that two of the CCI sub-indices - the economic outlook and financial prospects indices - are forward looking in nature. Consumers are asked to give their view on the outlook for the South African economy and their household's financial position in twelve months' time. President Ramaphosa's "new dawn" and pledge to turn the tide of corruption has clearly created great optimism among consumers and the business community about South Africa's economic prospects under his leadership. Although we have already witnessed a number of positive ripple effects, it will take some time to implement investor-friendly reforms to boost economic growth and household income levels on a more enduring basis. There is therefore a risk that the CCI overshot during the first quarter on the back of "Cyril Ramaphosa euphoria", implying that there could be a negative correction during the second quarter.

Indeed, after surging by 27 index points from -7 to +20 on the back of Soccer World Cup jubilation during the second quarter of 2004, the CCI subsequently backtracked by 14 index points to +6 in the third quarter of 2004. It then took another 6 months for confidence to revert back to double digit positive numbers, and this was at a time when the South African economy grew at a breakneck pace of more than 5% per year (far higher than the current growth rate of around 1%).

To be sure, there have been further positive developments since the fieldwork for the first quarter survey was conducted, including the fact that ratings agency Moody's affirmed South Africa's investment-grade credit rating (and revised its credit outlook to stable from negative) and a 25 basis point cut in the prime interest rate. However, the VAT hike kicked in on 1 April, the petrol price rose sharply on 4 April and the JSE All Share index has been losing ground since middle March - all of which could likely weigh on confidence during the second
quarter. In addition, the current debate about expropriation of land without compensation has created some apprehension among investors and land owners in South Africa, although it probably heartened less affluent consumers.

The dramatic increase in consumer confidence during the first quarter of 2018 signals a substantial improvement in consumers’ willingness to spend. Indeed, the time-to-buy durable goods sub-index of the CCI saw the largest improvement (37 index points), entering positive territory for the first time since the 2008/09 global financial crisis. In addition to improved consumer confidence levels, the sharp appreciation in the rand exchange rate and lower import prices, the cut in the prime interest rate and the gradual recovery in credit extension all favour the durable goods category. To be sure, the latest retail sales data from Statistics South Africa shows that furniture and household appliances prices were 5% lower in January 2018 compared to the same time last year, while sales volumes were up by 9.2% year-on-year - by far the best performing retail sales category in terms of volume growth.

Semi-durable goods retailers (e.g. clothing, footwear, toys and sporting equipment) are also expected to benefit from lower price inflation and stronger credit growth, but the economic recovery would need to gain further momentum to move the needle on the much larger non-durable goods and services categories of consumer spending. (These categories typically have a smaller import content and lower credit sensitivity.) The tightening in fiscal policy will inhibit the pace of household expenditure growth - and we expect to see some correction in consumer confidence levels following the unparalleled surge recorded in the first quarter - but it seems as though the seeds of economic recovery have finally been planted.
Technical note

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.