Consumer Confidence Survey
Quarterly analysis of consumer expectations

Second quarter 2018
Executive summary

After skyrocketing to an all-time high during the first quarter of 2018, the FNB/BER Consumer Confidence Index (CCI) dipped marginally in the second quarter. In the past, dramatic surges in the CCI were typically followed by a negative correction in the next quarter. However, this time around, consumer confidence remained extraordinarily high. Consumers remain optimistic that the domestic economy and their own household finances will improve markedly over the next year, but unfortunately these lofty expectations diverge from the current economic reality.

After reaching an all-time high of +26 during the first quarter of 2018, the FNB/BER CCI shed only 4 index points to reach +22 in the second quarter. The 34-index point jump in the CCI during the first quarter was the largest single quarter increase in consumer sentiment. In the past, such dramatic surges in the CCI were typically followed by a negative correction in the next quarter. However, this time around, consumer confidence remained extraordinarily high.

During the second quarter, both the economic outlook and household financial prospects sub-indices of the CCI remained nearly unchanged from the record highs reached in the first quarter. However, consumers’ rating of the appropriateness of the present time to buy durable goods deteriorated.

A breakdown of the CCI according to household income group also shows diverging results. The CCI index for high income consumers remained relatively stable during the second quarter, but the confidence levels of middle income households retreated notably. In contrast, the CCI for low income consumers improved to a record high in the second quarter.

Since negative corrections have typically followed large spikes in the CCI in the past, we are somewhat surprised that consumer confidence levels remained so high following the unparalleled surge in consumer sentiment during the first quarter of 2018. Furthermore, there were several adverse developments in recent months that had the potential to deflate consumer confidence.

While the change in South Africa’s political leadership in December 2017 and the ensuing positive ripple effects have duly created great optimism, there is currently a large disconnect between consumers’ sky-high expectations for domestic economic growth and the actual performance of the South African economy.

These elevated consumer expectations may also partly explain the spate of service delivery protests and high wage hike demands during the first half of the year. Should actual economic growth, and hence the financial positions of households, fail to improve in line with consumers’ lofty expectations, frustrations will likely grow and dissatisfaction may set in.
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Summary of the 2018Q2 consumer confidence survey results

Consumer confidence remains elevated

After skyrocketing from -8 index points to an all-time high of +26 during the first quarter of 2018, the FNB/BER Consumer Confidence Index (CCI) shed only 4 index points to reach +22 in the second quarter.\(^1\) The latest reading almost equals the previous record high of +23 index points reached in the first quarter of 2007 when real economic growth peaked at nearly 6%. The 34-index point jump in the CCI during the first quarter was the largest single quarter increase in consumer sentiment since the BER started publishing a composite index of white and black consumers in 1982.\(^2\) In the past, such dramatic surges in the CCI were typically followed by a negative correction in the next quarter. However, this time around, consumer confidence remained extraordinarily high – and this in the face of a generally weak economy and significant drop in business confidence levels during the second quarter.

Figure 1: Consumer confidence dips in 2018Q2

The dramatic rebound in consumer sentiment during the first quarter of 2018 came on the back of massive jumps in all three sub-indices of the CCI. During

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1 The fieldwork for the second quarter survey was conducted between 20 April and 7 June 2018.

2 The white consumer confidence index dates back to 1975.
the second quarter, both the economic outlook and household financial prospects sub-indices of the CCI remained nearly unchanged from the record highs reached in the first quarter. However, consumers’ rating of the appropriateness of the present time to buy durable goods (e.g. vehicles, furniture, household appliances and electronic goods) deteriorated. Whereas the vast majority of consumers still expect the domestic economy (33% net) and their household finances (31% net) to improve over the next twelve months, only a small net majority (2%) of consumers now consider the present to be the right time to purchase durables goods.

The first quarter surge in the time-to-buy durable goods index (from a 17-year low of -24 to +13, the highest reading since 2006) accurately foreshadowed the significant uptick in retail sales of furniture and household appliances. Volume growth in this retail sales category rallied from 8% year-on-year (y-o-y) during the fourth quarter of 2017 to a remarkable 15.2% y-o-y in the first quarter of 2018. However, despite further price cuts, volume growth eased to 11% y-o-y in April, in line with the second quarter deterioration in the time-to-buy durable goods sub-index of the CCI.

A breakdown of the CCI according to household income group also shows diverging results. The CCI index for high income consumers (earning more than R14 000 per month) remained relatively stable (+32) during the second quarter, but the confidence levels of middle income households (earning between R3 000 and R14 000 per month) retreated notably from +26 to +17 index points. In contrast, the CCI for low income consumers (earning less than R3 000 per month) improved further, from +13 in the first quarter to a record high of +21 in the second quarter.

Since negative corrections have typically followed large spikes in the CCI in the past, we are somewhat surprised that consumer confidence levels remained so high following the unparalleled surge in consumer sentiment during the first quarter of 2018. Furthermore, there were several adverse developments in recent months that had the potential to deflate consumer confidence. These include petrol price hikes of nearly R2 per litre between March and June, higher personal income taxes from the end of March and an increase in the VAT rate on the first of April. The real GDP print for the first quarter of 2018 that showed the economy shrinking by 2.2% quarter-on-quarter (seasonally adjusted and annualised) was also extremely disappointing, but this data was released after most of the fieldwork for the CCI survey had already been completed.
On the other hand, there were also some positive developments, including an interest rate cut of 0.25 percentage points, better rains in the drought-stricken Western Cape since May and hefty wage hikes in certain sectors (e.g. bus drivers and civil servants). The CPI inflation rate also surprised on the low side in recent months, suggesting that retailers absorbed a portion of the VAT hike to alleviate some of the adverse impact on the purchasing power of consumers. The further deceleration in food inflation to only 3% in May is particularly good news for low income households, who typically spend the largest portion of their household budgets on food. The current debate about the expropriation of land without compensation probably also heartened less affluent consumers in South Africa, although it may have created some apprehension among others.

There is currently a striking divergence between extraordinarily high consumer confidence levels on the one hand and relatively low business confidence and generally weak economic growth in South Africa on the other hand (see the graph below). In particular, the two forward looking\(^3\) sub-indices of the CCI – the economic outlook and household financial prospects indices - soared to record highs during the first quarter and remained steadfast during the second quarter. This contrasts sharply with the latest economic data that points to dismal actual economic growth during the first half of 2018. The improvement in business

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\(^3\) 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.
confidence (as measured by the RMB/BER business confidence index\textsuperscript{4}) during the first quarter was also more modest compared to the resurgence in consumer sentiment, and business confidence sagged back notably during the second quarter.

While the change in South Africa’s political leadership in December 2017 and the ensuing positive ripple effects have duly created great optimism, there is currently a large disconnect between consumers’ sky-high expectations for domestic economic growth (and household income growth) and the actual (sub-par) performance of the South African economy. These elevated consumer expectations may also partly explain the spate of service delivery protests and high wage hike demands during the first half of the year. Should actual economic growth, and hence the financial positions of households, fail to improve in line with consumers’ lofty expectations, frustrations will likely grow and dissatisfaction may set in.

**Figure 3: Large gap between actual economic growth and consumer confidence**

\textsuperscript{4} The RMB/BER business confidence index rallied from 34 to 45 index points during the first quarter of 2018, but retreated to 39 in the second quarter of 2018. This implies that only 39\% of the respondents surveyed now regard prevailing business conditions as satisfactory.
credit would have had to improve in conjunction with the positive sentiment to see strong household expenditure growth during the second quarter.

Since the growth in retail sales volumes slumped from an impressive 4.1% year-on-year (y-o-y) in the first quarter to a mere 0.5% y-o-y in April, household expenditure growth probably weakened during the second quarter. Soaring petrol prices, rising taxes and the pedestrian pace of real economic growth are now likely constraining after tax income growth in South Africa. Indeed, the fall in the time to buy durable goods sub-index of the CCI also points to greater apprehension among consumers to spend their money on big-ticket items at the present time. Consumers remain staunchly optimistic that the domestic economy and their own household finances will improve markedly over the next year, but unfortunately these lofty expectations diverge from the current economic reality. Although the seeds of an economic recovery were planted with President Ramaphosa’s "new dawn" and pledge to eradicate the scourge of corruption, further investor-friendly reforms are urgently needed to boost economic growth and household income levels to avoid bitter disappointment that could potentially spill over into labour unrest or social instability.
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.