Consumer Confidence Survey
Quarterly analysis of consumer expectations

Third quarter 2018
Executive summary

Consumer confidence levels deteriorated substantially during 2018Q3, with the FNB/BER Consumer Confidence Index (CCI) falling from +22 in the second quarter to +7 in the third quarter. However, given the extraordinary surge in consumer sentiment witnessed in the first half of 2018, it is not surprising that the CCI deflated somewhat in recent months.

The deterioration in consumer sentiment during 2018Q3 can mainly be ascribed to substantial drops in the economic outlook and household financial prospects sub-indices of the CCI, where the indices plunged by 24 and 18 points respectively. Nevertheless, the majority of consumers still expect the domestic economy and their household finances to improve over the next twelve months.

Consumer sentiment deteriorated across all income groups, but the drop in confidence levels of low-income consumers (earning less than R3 000 per month) was particularly severe. Although the confidence levels of all income groups remain well above the very depressed levels reached during 2017, the majority of low-income consumers have once again become pessimistic about the outlook for the national economy and their own household finances.

A confluence of adverse economic developments in all likelihood deflated the confidence levels of consumers in recent months, including a technical recession in the first half of the year, rising unemployment, an increase in VAT and personal income taxes, a substantial drop in share prices on the JSE, a depreciation in the rand exchange rate and soaring fuel prices.

Despite the negative correction in consumer sentiment during the third quarter, the latest CCI reading still reflects an above-average level of optimism among consumers. The relatively high level of consumer confidence continues to diverge from the economic reality of disappointingly low economic growth.

The elevated consumer confidence level points to a relatively high willingness to spend among consumers, consumers’ ability to spend – as determined by their income levels and access to credit – would also have had to improve in conjunction with the positive sentiment to see strong household expenditure growth during the third quarter.
Summary of the 2018Q3 consumer confidence survey results

Consumer confidence dips in ’18Q3

Consumer confidence retreats from record highs

Consumer confidence levels deteriorated substantially during the third quarter of 2018, with the FNB/BER Consumer Confidence Index (CCI) falling from +22 in the second quarter to +7 in the third quarter. However, given the extraordinary surge in consumer sentiment witnessed in the first quarter of 2018 (from -8 index points to a record high of +26), it is not surprising that the CCI deflated somewhat in recent months. The CCI jumped by an unparalleled 34 index points in the first quarter, but eased by 4 index points during the second quarter and then retreated by another 15 index points in the third quarter. Despite these declines, the latest reading of +7 remains far higher than the very low readings recorded during the last 3 years of president Zuma’s term (ranging between -3 and -15). The third quarter reading of +7 is also significantly above the long-run average reading of the CCI (of +2 since 1994), suggesting that consumers are still optimistic (albeit less so than earlier in the year) that the outlook for the SA economy and their own household finances will improve during the next 12 months.

The deterioration in consumer sentiment during the third quarter of 2018 can mainly be ascribed to substantial drops in the economic outlook and household financial prospects sub-indices of the CCI, where the indices plunged by 24 and 18 points respectively. Nevertheless, the majority of consumers still expect the domestic economy (9% net) and their household finances (13% net) to improve over the next twelve months. The CCI sub-index measuring the appropriateness of the present time to buy durable goods (e.g. vehicles, furniture, household appliances and electronic goods) only shed 2 index points during the third quarter (from +2 to a level of zero), and remains far higher compared to the 17-year low of -24 reached during the fourth quarter of 2017.

---

1 Please note: several changes to the survey method and index calculations were affected during 2018Q3 - please see the note on p. 9.

2 The fieldwork for the third quarter survey was conducted between 24 October and 8 November 2018.
Figure 1: Consumer confidence retreats in 2018Q3

The surge in the time-to-buy durable goods index of the CCI during the first quarter of 2018 (from -24 to +13, the highest reading since 2006) accurately foreshadowed the significant improvement in retail sales of furniture and household appliances witnessed at the start of 2018. Supported by high consumer confidence and declining prices, volume growth in this retail sales category soared from 8.6% year-on-year (y-o-y) during the fourth quarter of 2017 to an impressive 14.8% y-o-y in the first quarter of 2018. However, furniture and household appliances volume growth subsequently eased to 12.5% y-o-y in the second quarter and 9.5% y-o-y in the third quarter (in line with the decline in the time-to-buy durable goods sub-index of the CCI). Although furniture and household appliances sales growth has slowed in recent months, it remains the fastest growing retail sales category (in terms of both volume and value growth).

A breakdown of the CCI according to household income group shows that consumer sentiment deteriorated across all income groups, but the drop in confidence levels of low-income consumers (earning less than R3 000 per month) was particularly severe. The CCI index for low-income consumers plunged from +20 in the second quarter to -8 index points in the third quarter. The confidence levels of high-income consumers (earning more than R14 000 per month) declined from +32 to +16 index points, while the confidence levels of middle-income households (earning between R3 000 and R14 000 per month) retreated from +17 to +8 index points. Although the confidence levels of all income groups remain well above the very depressed levels reached during...
2017, the majority of low-income consumers have once again become pessimistic about the outlook for the national economy and their own household finances and consider the present as an inappropriate time to buy durable goods.

A confluence of adverse economic developments in all likelihood deflated the confidence levels of consumers in recent months, including a technical recession in the first half of the year, rising unemployment, an increase in VAT and personal income taxes, a substantial drop in share prices on the JSE, a depreciation in the rand exchange rate and soaring fuel prices. The real GDP print released on 4 September showed that the South African economy contracted by 0.7% quarter-on-quarter (seasonally adjusted and annualised) during the second quarter of 2018 - following an alarming 2.6% quarter-on-quarter decline during the first quarter – constituting the first technical recession since 2009. In turn, falling from roughly R/$ 11.70 in March to R/$14.50 in October, the exchange rate of the rand against the US dollar has depreciated by more than 20%, which will put upward pressure on the prices of imported goods in coming months. In addition, the JSE All Share price index has plunged by roughly 10% since the end of the second quarter, while the official unemployment rate edged up further to 27.5% during the third quarter.

The massive increase in the price of petrol and paraffin since March – of around R3 per litre, or 24% in the case of unleaded petrol and 39% in the case of illuminating paraffin – probably weighed heavily on the purchasing power of low-income consumers in particular during the third quarter. Low-income households spend a large proportion of their budgets on food, transport costs and paraffin. The deceleration in food inflation to only 3.1% y-o-y in the third quarter on the back of declining bread, cereal and grain prices was good news for poor households, but is probably insufficient to counter the budgetary strain on these households resulting from skyrocketing fuel prices.

**Bottom line**

Given that negative corrections have typically followed soon after dramatic surges in the CCI, it is not surprising that the CCI has wilted somewhat after the unprecedented increase and record-high level recorded during the first quarter of 2018. "Ramaphoria” has faded and it has become increasingly clear that domestic economic growth and job creation are still stuck in low gear. Furthermore, while the government’s plan to change the constitution to explicitly allow for the expropriation of land without compensation probably heartens less affluent consumers, it is creating apprehension among property owners and the

---

3 A technical recession is defined as two consecutive quarters in which real GDP contracts on a quarter-on-quarter basis.
investment community. Add in negative developments in terms of the rand exchange rate, fuel prices and share prices and one can appreciate why consumers are less optimistic about South Africa’s economic prospects and the outlook for their household finances compared to earlier in the year.

Despite the negative correction in consumer sentiment during the third quarter, the latest CCI reading of +7 still reflects an above-average level of optimism among consumers. The relatively high level of consumer confidence continues to diverge from the economic reality of disappointingly low economic growth (see graph below). Although the elevated consumer confidence level points to a relatively high willingness to spend among consumers, consumers’ ability to spend – as determined by their income levels and access to credit – would also have had to improve in conjunction with the positive sentiment to see strong household expenditure growth during the third quarter. Given that retail volume growth slowed from 4.7% y-o-y during the first quarter to 1.8% y-o-y in the second quarter and further to 1.5% y-o-y in the third quarter, overall consumer spending probably remained weak during the third quarter of 2018.

**Figure 2: Large gap between actual economic growth and consumer confidence**

![Graph showing the gap between actual economic growth and consumer confidence.](source: BER, Stats SA)

In fact, at only 3.7% y-o-y in the third quarter, the growth in the rand value of retail sales is now the slowest since 2009. Even though most consumers still anticipate an improvement in South Africa’s economic growth and the financial position of their household in twelve months’ time, household budgets are clearly being stretched at the moment. Household income growth will in all likelihood remain constrained during the fourth quarter as anaemic economic growth continues to weigh on job creation and overtime, commission and bonus...
payments, but the projected sharp drop in fuel prices (of as much as R1.50 per litre in the case of petrol in December) should bring some welcome budgetary relief to consumers during the festive season.
### Survey results

#### Consumer confidence

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
<th>$\mu$-$\sigma$</th>
<th>$\mu$</th>
<th>$\mu$+$\sigma$</th>
<th>16Q4</th>
<th>17Q1</th>
<th>17Q2</th>
<th>17Q3</th>
<th>17Q4</th>
<th>18Q1</th>
<th>18Q2</th>
<th>18Q3</th>
<th>$\Delta$</th>
<th>$\sigma$</th>
<th>$\mu$+$\Delta$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composite</td>
<td>Net %</td>
<td>-10</td>
<td>2</td>
<td>13</td>
<td>-10</td>
<td>-5</td>
<td>-9</td>
<td>-9</td>
<td>-8</td>
<td>26</td>
<td>22</td>
<td>7</td>
<td>-15</td>
<td>9</td>
<td>-10</td>
</tr>
<tr>
<td>Expected economic performance</td>
<td>Net %</td>
<td>-13</td>
<td>3</td>
<td>19</td>
<td>-23</td>
<td>-1</td>
<td>-22</td>
<td>-12</td>
<td>-2</td>
<td>34</td>
<td>33</td>
<td>9</td>
<td>-24</td>
<td>12</td>
<td>-13</td>
</tr>
<tr>
<td>Expected household finances</td>
<td>Net %</td>
<td>1</td>
<td>11</td>
<td>21</td>
<td>6</td>
<td>3</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>31</td>
<td>31</td>
<td>13</td>
<td>-18</td>
<td>9</td>
<td>-14</td>
</tr>
<tr>
<td>Time to buy durables</td>
<td>Net %</td>
<td>-19</td>
<td>-8</td>
<td>3</td>
<td>-13</td>
<td>-17</td>
<td>-12</td>
<td>-18</td>
<td>-24</td>
<td>13</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td><strong>Per income group</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>Net %</td>
<td>-8</td>
<td>5</td>
<td>19</td>
<td>-8</td>
<td>6</td>
<td>-8</td>
<td>-4</td>
<td>-1</td>
<td>31</td>
<td>32</td>
<td>16</td>
<td>-16</td>
<td>10</td>
<td>-16</td>
</tr>
<tr>
<td>Middle</td>
<td>Net %</td>
<td>-14</td>
<td>-3</td>
<td>8</td>
<td>-11</td>
<td>-6</td>
<td>-11</td>
<td>-11</td>
<td>-11</td>
<td>20</td>
<td>21</td>
<td>8</td>
<td>-13</td>
<td>9</td>
<td>-11</td>
</tr>
<tr>
<td>Low</td>
<td>Net %</td>
<td>-19</td>
<td>-8</td>
<td>4</td>
<td>-15</td>
<td>-16</td>
<td>-16</td>
<td>-18</td>
<td>-21</td>
<td>13</td>
<td>20</td>
<td>-8</td>
<td>-28</td>
<td>12</td>
<td>-24</td>
</tr>
<tr>
<td><strong>Per LSM group</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LSM 1-4</td>
<td>Net %</td>
<td>-21</td>
<td>-7</td>
<td>8</td>
<td>-22</td>
<td>-18</td>
<td>-12</td>
<td>-11</td>
<td>-10</td>
<td>-1</td>
<td>8</td>
<td>23</td>
<td>15</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>LSM 5-7</td>
<td>Net %</td>
<td>-7</td>
<td>4</td>
<td>15</td>
<td>-9</td>
<td>-5</td>
<td>-11</td>
<td>-10</td>
<td>-8</td>
<td>5</td>
<td>18</td>
<td>8</td>
<td>-10</td>
<td>8</td>
<td>-12</td>
</tr>
<tr>
<td>LSM 8-10</td>
<td>Net %</td>
<td>-12</td>
<td>1</td>
<td>14</td>
<td>-9</td>
<td>4</td>
<td>-8</td>
<td>-10</td>
<td>-12</td>
<td>-2</td>
<td>26</td>
<td>10</td>
<td>-16</td>
<td>11</td>
<td>-12</td>
</tr>
<tr>
<td><strong>Per province</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gauteng</td>
<td>Net %</td>
<td>-7</td>
<td>7</td>
<td>21</td>
<td>-8</td>
<td>-3</td>
<td>-10</td>
<td>-5</td>
<td>-1</td>
<td>33</td>
<td>31</td>
<td>14</td>
<td>-17</td>
<td>9</td>
<td>-14</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>Net %</td>
<td>-16</td>
<td>-6</td>
<td>4</td>
<td>-6</td>
<td>8</td>
<td>-6</td>
<td>-7</td>
<td>-8</td>
<td>27</td>
<td>-1</td>
<td>6</td>
<td>7</td>
<td>10</td>
<td>13</td>
</tr>
<tr>
<td>Western Cape</td>
<td>Net %</td>
<td>-20</td>
<td>-6</td>
<td>7</td>
<td>-13</td>
<td>-7</td>
<td>-11</td>
<td>-15</td>
<td>-18</td>
<td>9</td>
<td>29</td>
<td>-6</td>
<td>-35</td>
<td>11</td>
<td>-22</td>
</tr>
</tbody>
</table>

$\mu$ – average  
$\sigma$ – standard deviation  
$\Delta$ – change from previous period  
$\sigma_\Delta$ – volatility (standard deviation of the changes)  
All of the above calculated over the last 20 years  
See Technical note for further details
Consumer confidence

\[\mu - \text{average}\]
\[\sigma - \text{standard deviation}\]
\[\Delta - \text{change from previous period}\]
\[\sigma_\Delta - \text{volatility (standard deviation of the changes)}\]

All of the above calculated over the last 20 years

See Technical note for further details
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.

The FNB/BER CCI is based on face-to-face interviews of a representative sample of between 2 000 and 2 500 urban adults. A new sample is put together every quarter. In the past the BER has exclusively used Nielsen, a reputable international market research firm, to conduct these interviews and ensure consistency over time. However, since 2016 Nielsen, for a number of reasons, has not been conducting surveys every quarter. To prevent a break in the long historical time series, the BER added the CCI questions to the bi-annual surveys of Ipsos Markinor and TNS Kantar to estimate the CCI. Although different service providers put together the samples and conduct the interviews, the results remain consistent given that the survey method and population universe agree.

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.
Third quarter of 2018 changes in the Consumer Confidence Survey report

Consumer confidence

Demographic categories

From the third quarter of 2018, the BER will no longer publish the results for the individual LSM groups and the smaller provinces separately due to their small sizes and resultant volatility.

Since 2015, the South African Advertising Research Foundation (SAARF) no longer produces the living standard measure (LSM) groups. For the time being, the BER will continue to publish the results for three broader LSM categories separately, namely LSM 1 to 4, LSM 5 to 7 and LSM 8 to 10. Historical time series for the three groups were calculated as the average of the individual groups. For instance, LSM 1 to 4 is the average of LSM 1-3 and LSM 4. LSM 8 to 10 consists only of LSM 9.

From the third quarter of 2018, the data for only the Western Cape, KwaZulu-Natal and Gauteng will be published individually. The provincial data for the Free State, Eastern Cape, North-West/Northern Cape and Northern Province (Limpopo)/Mpumalanga will no longer be published separately.

A middle income group, calculated as the average of the lower and higher middle income groups, was added to the results per household income group. This addition makes it possible to compare the results for the high, middle and low income groups.

Revision of historical data prior to the third quarter of 2004

In the third quarter of 2004, an adjustment factor was added to the expected economic performance index to provide for the fact that the interviewers did not offer a “no change” option to respondents by mistake. The adjustment in the economic performance index, in turn, affected the composite index.

In the third quarter of 2018, this adjustment factor was removed and the time series reverted to the one originally published prior to the third quarter of 2004. The levels of the historical time series of the composite and expected economic performance indices prior to the third quarter of 2004, therefore, differ slightly from those published until the fourth quarter of 2018.
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.