Consumer Confidence Survey
Quarterly analysis of consumer expectations

First quarter 2019
Executive summary

After holding steady between the third and fourth quarters of 2018, the FNB/BER Consumer Confidence Index (CCI) renewed its downward trajectory during 2019Q1.

The latest reading of +2 (down from +7 in 2018Q4) is dead on the long-run average reading for the CCI (of +2 since 1994), suggesting that most consumers are neither optimistic nor pessimistic about the outlook for the SA economy and their own household finances in 2019.

The drop in the CCI during 2019Q1 can largely be ascribed to a substantial decline in the economic outlook sub-index of the CCI, although the financial position and time-to-buy durable goods sub-indices also edged lower.

A breakdown of the CCI according to household income group shows that consumer sentiment deteriorated across all income groups, but the fall was particularly severe among high-income consumers (earning more than R14 000 per month). High-income confidence plunged by 13 index points, while the confidence levels of middle-income consumers (earning between R3 000 and R14 000 per month) and low-income consumers (earning less than R3 000 per month) also deteriorated. Given the disproportionally large spending power of high-income households, the significant deterioration in consumer confidence among high-income households does not bode well for the already ailing retail sector.

The shock implementation of stage 4 load shedding by beleaguered Eskom during February and March no doubt had a very detrimental impact on the South African economy and it is therefore not surprising that consumers are becoming especially concerned about our economic prospects.

The deterioration in consumer sentiment during the first quarter mirrors the drop in the RMB/BER business confidence index and points to dismal growth in consumer spending in the first half of 2019. Although the national election in May could see a transitory uptick in consumer sentiment, real after-tax household income will likely remain under pressure throughout 2019 on the back of higher personal income taxes, sharp fuel and electricity price hikes and anaemic private sector wage growth.

The recent uptick in credit growth is no doubt helping to prop up household expenditure, but the combination of lower consumer confidence levels and even weaker disposable income growth will likely push real consumer spending growth down further in 2019.
Summary of the 2019Q1 consumer confidence survey results

Consumer confidence dipped further in 19Q1

After holding steady at +7 index points between the third and fourth quarters of 2018, the FNB/BER Consumer Confidence Index (CCI) renewed its downward trajectory with a drop to +2 index points during 2019Q1. Consumer sentiment soared to a record high of +26 at the peak of Ramaphoria during the first quarter of 2018, but waned to +7 index points by the second half of 2018. The latest reading of +2 is dead on the long-run average reading for the CCI (of +2 since 1994), suggesting that most consumers are neither optimistic nor pessimistic about the outlook for the SA economy and their own household finances in 2019. To be sure, consumer confidence remains higher compared to the depressed levels recorded between 2015 and 2017. However, for the first time in just more than a year, consumers do not expect South Africa’s economic prospects to improve over the next 12 months (as they did throughout 2018).

The drop in the CCI during 2019Q1 can largely be ascribed to a substantial decline in the economic outlook sub-index of the CCI, although the financial position and time-to-buy durable goods sub-indices also edged lower. The net majority of consumers expecting an upturn in the South African economy over the next year plunged from +14 to zero. The latest economic outlook reading is now lower compared to the long-run average of +4 for this sub-index, suggesting that most South Africans are no longer optimistic about the outlook for the South African economy. The net majority of consumers anticipating an improvement in their household finances over the next twelve months slipped from +15 to +13, while a slightly larger net majority of consumers rated the present time as inappropriate to buy durable goods (e.g. vehicles, furniture, household appliances and electronic goods) – the time-to-buy durable goods index of the CCI declined from -7 index points in 2018Q4 to -8 in 2019Q1. In contrast to the economic outlook sub-index of the CCI that has now dipped below its long-run average reading, the financial position and time-to-buy durable goods sub-indices are still in line with their long-run average readings.
High-income confidence drops

A breakdown of the CCI according to household income group shows that consumer sentiment deteriorated across all income groups, but the fall was particularly severe among high-income consumers (earning more than R14 000 per month) – see Figure 2. High-income confidence plunged by 13 index points to +3, while the confidence levels of middle-income consumers (earning between R3 000 and R14 000 per month) and low-income consumers (earning less than R3 000 per month) each dropped by 8 index points to +2 and -9 respectively.

The hefty deterioration in high-income confidence comes on the back of a massive 26-index point drop in high-income consumers’ rating of South Africa’s economic prospects over the next 12 months (from +23 to -3). High-income consumers also turned pessimistic about the appropriateness of the present time to buy durable goods (for the first time since the fourth quarter of 2017), with this index dipping from +3 to -5 in the first quarter.
The shock implementation of stage 4 load shedding by beleaguered Eskom during February and March no doubt had a very detrimental impact on the South African economy and it is therefore not surprising that consumers are becoming especially concerned about our economic prospects. Other factors that may have contributed to the deterioration in consumer confidence during the first quarter include prolonged labour strikes, the depreciation in the rand exchange rate, sharp fuel price hikes and marked further increases in personal income taxes announced in the February national budget.

After dipping below the R13.50/$ level in early February, Eskom’s power crisis, among other factors, saw the rand depreciate to close to R14.50/$ by the end of March. This helped to push the petrol price up from R13.49 per litre (95 unleaded at the coast) to R14.23 per litre in March, followed by a further increase to R15.49 in April. Similarly, paraffin prices rose from R7.63 per litre in February to R8.95 per litre in April (17.3%). In his February budget speech, Finance Minister Tito Mboweni also announced tax hikes to the tune of R15bn (of which R13.8bn is projected to come from higher personal income taxes). This brings the projected increase in direct and indirect taxes up to nearly R80bn over the last three years, the brunt of which would be borne by high-income consumers. Although the All Share index of the JSE recovered strongly from around 51 000 in early December to nearly 57 000 by the end of March, it appears as though this was not enough to counter the impact of the other negative developments on high-income sentiment during the first quarter.
Given the disproportionally large spending power of high-income households, the significant deterioration in consumer confidence among high-income households does not bode well for the already ailing retail sector. The rand value of retail sales grew by only 3% year-on-year between October 2018 and January 2019, the slowest rate since the recession in 2009. Whereas durable goods such as furniture and household appliances were one of the best performing retail sales categories during 2018, the deterioration in high-income consumers’ rating of the appropriateness of the present time to buy durable goods signals that furniture and household appliance sales growth, in particular, could slow in 2019. When consumer confidence is low, consumers tend to postpone big-ticket purchases and slash their discretionary spending in favour of saving and/or spending on necessities. The fact that new passenger car sales declined by an alarming 8.6% year-on-year during the first quarter of 2019 signals that high-income consumers, in particular, have started to cut back their durable goods spending.

The deterioration in consumer sentiment during the first quarter mirrors the drop in the RMB/BER business confidence index and points to dismal growth in consumer spending in the first half of 2019. Although the national election in May could see a transitory uptick in consumer sentiment (as is often the case in election quarters in South Africa), real after-tax household income will likely remain under pressure throughout 2019 on the back of higher personal income taxes, sharp fuel and electricity price hikes and anaemic private sector wage growth.

Credit extension data points to increased borrowing from especially high- and middle-income households in order to maintain quality of life amidst deteriorating income growth. The uptick in credit growth no doubt helps to prop up household expenditure, but the combination of lower consumer confidence levels and even weaker disposable income growth will likely push real consumer spending growth down further in 2019.
### Survey results

#### Consumer confidence

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<th>18Q2</th>
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μ – average  
σ – standard deviation  
Δ – change from previous period  
σ_Δ – volatility (standard deviation of the changes)  
All of the above calculated over the last 20 years  
See Technical note for further details
Consumer confidence

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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.
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.