Enquiries: John Loos, Household and Property Sector Strategist FNB

Tel: (087) 328 0151
E-mail: john.loos@fnb.co.za
Website: http://blog.fnb.co.za/category/economics/

FNB/BER CONSUMER CONFIDENCE INDEX

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Consumer confidence nosedives, again

After recovering from a 14.5-year low of -15 index points in 2Q2015 to -5 in 3Q2015, the FNB/BER Consumer Confidence Index (CCI) collapsed back to -14 in 4Q2015. For the second time this year, the CCI is far lower than the lowest reading recorded during the 2008/09 global financial crisis and recession (-6). It is also only the third time since South Africa's first democratic election in 1994 that the CCI has dropped to below -12 index points.[1]

During 4Q2015, the financial position sub-index of the CCI declined by 7 index points to +4, while the economic outlook index slumped by 9 index points back to the 22-year low of -24 recorded in 2Q2015. The time to buy durable goods index plunged by 12 index points to -21, the lowest level since the 2008/09 recession (-23 in 3Q2009). In all, the vast majority of consumers believe that South Africa's economic prospects will deteriorate further over the next year and that it is <u>not</u> a good time to buy durable goods.

Strong headwinds - in the form of higher personal income taxes, poor job creation, frequent power outages, drought conditions in large parts of the country, rising interest rates and an alarming depreciation in the rand exchange rate -have been battering household income growth and consumer confidence levels since the beginning of the year. To be sure, the drop in petrol and paraffin prices and the respite in load-shedding bolstered consumer confidence in 3Q2015. However, the nationwide student protests over tuition fees and chaos that erupted inside and outside parliament during the Finance Minister's interim budget speech, coupled with the intensification of drought conditions and the implementation of water restrictions in some of the worst affected areas, probably weighed heavily on consumer sentiment in 4Q2015.

In fact, with an 18 index point drop to a 13-year low level of -5 during 4Q2015, the CCI for the 16-24 year old age group booked by far the largest decline of all the age groups surveyed. The dramatic deterioration in the CCI for this age group in all likelihood reflects, among others, the disruptive impact of the student riots and sometimes violent clashes with police that occurred during the #FeesMustFall campaign. In contrast, the CCI for the 50+ year age group only declined by 2 index points. Nevertheless, at -24 index points - the lowest reading of all the age groups - consumer sentiment among the 50+ year age group is extremely negative.[2]

Consumer confidence levels also declined sharply across all population and household income groups in 4Q2015, but the fall was particularly large for high-income households. The confidence levels of high[3] income consumers plunged by 15 index points to a 13-year low of -14, while higher-middle[4] income confidence dropped by 14 index points to -12. Consumer sentiment among

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[1] The CCI has ranged between +23 and -17 index points since 1994. This latest reading of -14 is just three index points shy of the historic low of -17 that was recorded in 4Q2000.

[2] The CCI for the 25-34 year age group slumped by 7 index points to -7 in 4Q2015, while the CCI for the 35-49 year age group dropped by 12 to -19.

[3] Earning more than R14 000 per month.

[4] Earning between R7 000 and R14 000 per month.

lower-middle[5] income consumers also declined by 10 index points to -16, but the confidence levels of low[6] income consumers remained unchanged at -13.

The large decline and generally low level of consumer confidence among high- and higher-middle-income consumers does not bode well for retail sales during the festive season, as these households have the greatest spending power. Higher-income consumers are currently even more concerned about their financial prospects compared to the 2008/09 recession, when easy access to unsecured credit and strong growth in government employment and public sector wages still underpinned their spending. When consumer confidence is low, households tend to postpone their durable goods purchases and cut their spending on luxury goods and discretionary items.

Coupled with the myriad of adverse economic forces that have already been hammering household income growth and credit extension since the beginning of the year, low consumer confidence levels are likely to translate into weak retail sales growth during the Christmas holidays. Economic policymakers have already exhausted South Africa's fiscal and monetary arsenals in their bid to bolster economic growth. Given low business confidence levels, poor job creation prospects and with food inflation now set to increase significantly on the back of the drought-induced rise in domestic grain prices and extraordinarily weak rand exchange rate, consumer spending is expected to come under even more pressure in the first half of 2016."

Background

Consumer confidence surveys 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 CCI combines the results of three questions posed to 2 500 adults in South Africa, namely the expected performance of the economy, the expected financial position of households and the rating of the appropriateness of the present time to buy durable goods, such as furniture, appliances and electronic equipment. The fieldwork for the fourth quarter survey was conducted between 16 October and 1 November 2015.

Consumer confidence is expressed as a net balance. The net balance is derived as the percentage of respondents expecting an improvement / good time to buy durable goods less the percentage expecting a deterioration / bad time to buy durable goods.

A low level of confidence indicates that consumers are concerned about the future. They may be worried about job security, pay rises 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.

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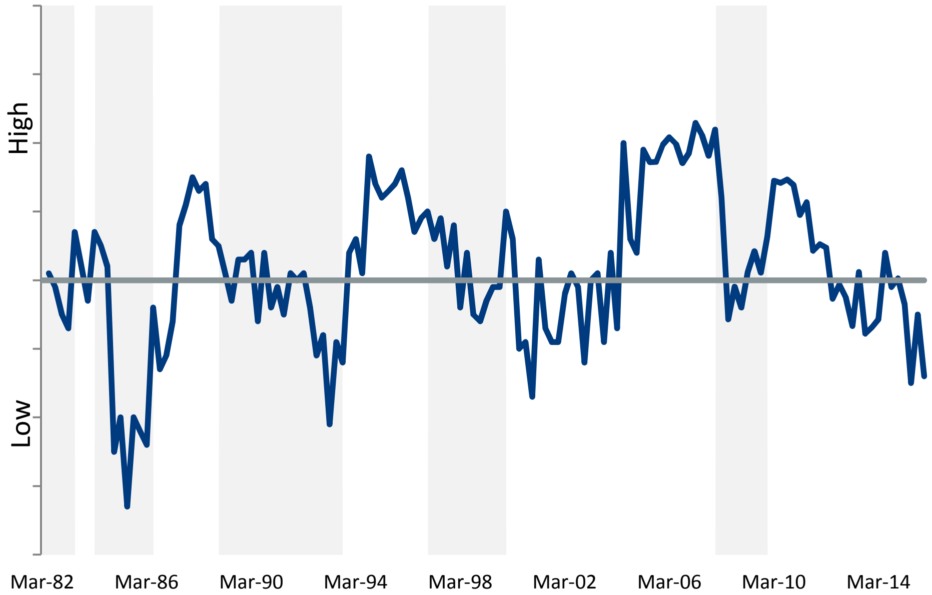
[5] Earning between R3 000 and R7 000 per month.

[6] Earning less than R3 000 per month.

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. The opposite applies when the level of consumer confidence declines.

FNB/BER Consumer Confidence
(downturn is shaded)



FNB/BER Consumer Confidence
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