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in the moment

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Consumer confidence returns to negative territory in the third quarter of 2019

Highlights

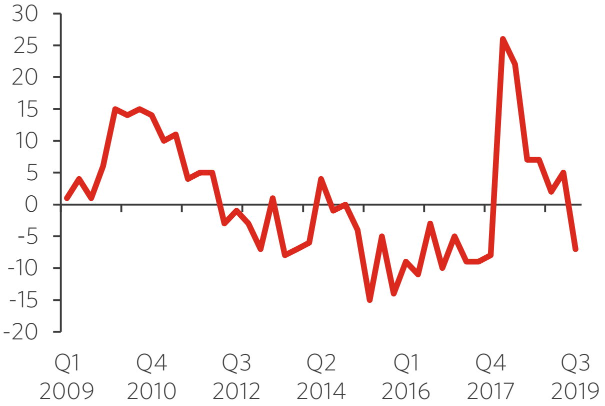
- The Consumer Confidence Index (CCI) for the third quarter of 2019 surprised to the downside to negative seven index points from five index points in the second quarter of 2019.
- The survey was conducted after a string of negative news plagued the country, including the 29.0% unemployment rate, high femicide, xenophobic attacks and retrenchment announcements from the banking sector. The news negated the effect from the rebound in economic growth to 3.1% in the second quarter of 2019 and the 25-basis-point repo rate cut in July 2019.
- There was a broad-based deterioration in all the sub-indices in the third quarter of 2019.
- The corrosion in the expected economic growth reading in 12 months' time was reported across all income groups, which are now all in negative territory.
- Expected household finances in 12 months' time deteriorated by one index point to 12 index points in the third quarter of 2019. This is the only constituent of the CCI that is still in positive territory.
- The reading on the time to buy durables, which was already negative, contracted further for all the income groups.
- A high risk of electricity shortages in the near term, a disappointing budget speech and Moody's negative outlook on the sovereign will likely stifle consumer confidence in the near term.

Broad-based deterioration in the constituents of the CCI

The Bureau of Economic Research (BER) released the CCI for the third quarter of 2019. The index surprised significantly to the downside to negative seven index points from positive five index points in the second quarter of 2019. The last time the CCI was this bearish was in December 2017, just before incumbent President Cyril Ramaphosa replaced Jacob Zuma.

The CCI peaked in the first quarter of 2018 and remained positive for six quarters before going back into negative territory. This marked the longest bout of bullish consumer sentiment since June 2012.

Chart 1: CCI dips back into negative territory (index)



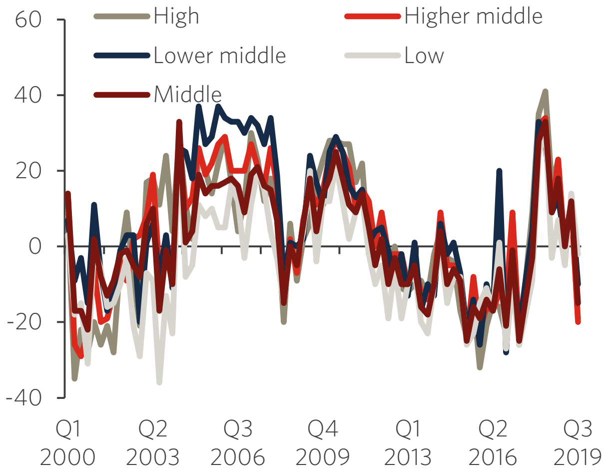
Source: Naamsa, Momentum Investments

The methodology behind the survey changed in the third quarter of 2019. Only 500 respondents were surveyed telephonically compared to between 2000 and 2500 by means of face-to-face interviews until the second quarter of 2019.

The survey was conducted from 12 to 20 September 2019 after a string of negative news plagued the country. This included the release of the unemployment rate for the second quarter of 2019, which reached 29.0%, a substantial rise in femicide attacks, the return of xenophobic attacks across various cities that have a high rate of African immigrants and retrenchment announcements from the banking sector in early September 2019. The news negated the effect from the rebound in economic growth to 3.1% in the second quarter of 2019 and the 25-basis-point repo rate cut in July 2019.

There was a broad-based deterioration in all the sub-indices in the third quarter of 2019. Expected economic performance in the next 12 months contracted significantly to negative 17 index points in the third quarter of 2019. The deterioration in this sub-index was reported across all income groups, which are now all in negative territory (see chart 2). Confidence among the high-income group slipped significantly into negative territory to 19 index points from positive 11 index points. Various institutions have lowered their economic growth expectation for 2019 to below 1%, estimated to be lower than the 0.8% growth reported in 2018.

Chart 2: Economic expectation in the next 12 months according to income group (index)

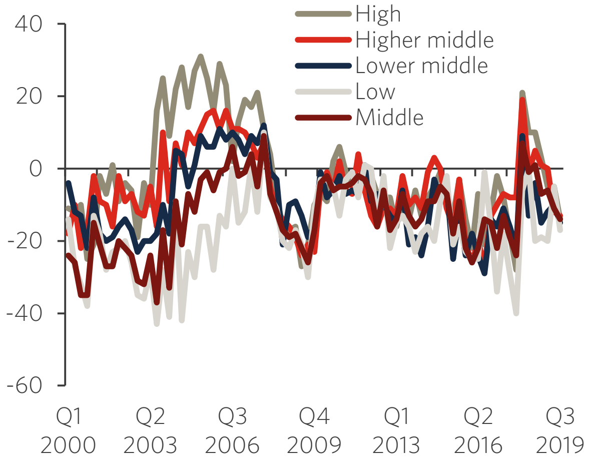


Source: BER, Momentum Investments

Expected household finances in 12 months' time have deteriorated by one index point to 12 index points in the third quarter of 2019. This is the only constituent of the CCI that is still in positive territory. This index is still higher than the pre-Ramaphosa level, which was below five index points on average in the last year before former President Jacob Zuma stepped down. Inflation has persistently trended around the midpoint of the 3% to 6% inflation target, alongside inflation expectations, which have continued to decline. This could explain why the expected financial conditions in 12 months' time are still positive. The middle- and lower-middle income groups are the most bullish about expected economic performance in 12 months' time and the index actually improved for these groups between the second and the third quarter of 2019.

The reading on the time to buy durables contracted further to 15 index points in the third quarter of 2019 from negative 10 index points in the second quarter of 2019. A significant deterioration in the confidence to buy durable goods was reported across all the income groups (see chart 3).

Chart 3: Time to buy durables according to all income groups (index)



Source: BER, Momentum Investments

The low- and lower-middle income groups were the most bullish on the current time being appropriate to buy durables and reported negative 17 index points (previously negative five index points) and negative 15 index points (previously negative 10 index points), respectively, in the third quarter of 2019. Higher income groups, generally the least affected by economic shocks because they have more than one income stream, reported a deeper contraction in confidence in the current time being appropriate to buy durable goods. This index fell to negative 14 index points in the third quarter of 2019 from negative five index points in the second quarter of 2019.

The deeper contraction in the time to buy durables sub-index occurred after the South African Reserve Bank (Sarb) lowered the repo rate by 25 basis points in July 2019. This highlights the extent of weakness in consumer sentiment.

A bout of load shedding returned in October 2019 and is likely to remain a risk to confidence in the near term. The Medium-term Budget Policy Statement (MTBPS) disappointed investors, given graver fiscal slippage and with no clear plan on how Eskom's operational and financial shortcomings will be resolved. Moody's changed SA's sovereign ratings outlook to negative from stable after the MTBPS. This bodes negative for capital inflows, business confidence and growth, which is negative for the consumer.

In our view, consumer confidence will not improve significantly in the near term, particularly if fiscal consolidation efforts materialise in the 2020 budget.