The Macro Research Desk

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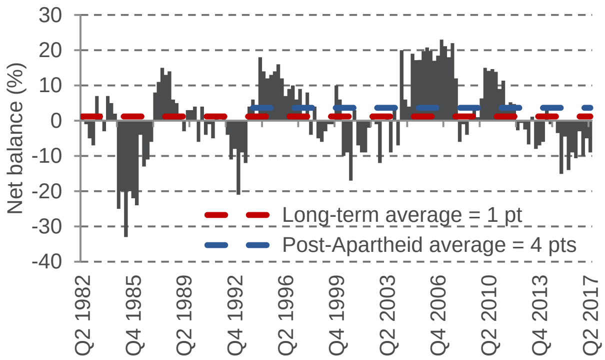
Consumer mood remained gloomy in the second quarter of 2017

Consumer sentiment dives to negative nine index points

The Bureau of Economic Research's (BER) Consumer Confidence Index (CCI) slid from negative five index points to negative nine in the second quarter of the year. First and second quarter readings were released together, given a delay in the first quarter's readings, due to a switch in market research firms.
Consumer sentiment has been tracking in negative territory (with the exception of one quarter when the index had a flat reading) for three years, which registers as the longest period of depressed sentiment since 1982, when the BER started reporting on the consumer sentiment survey data (see chart 1).

Chart 1: Consumer sentiment flat or outright negative for three years running



Source: BER, Momentum Investments

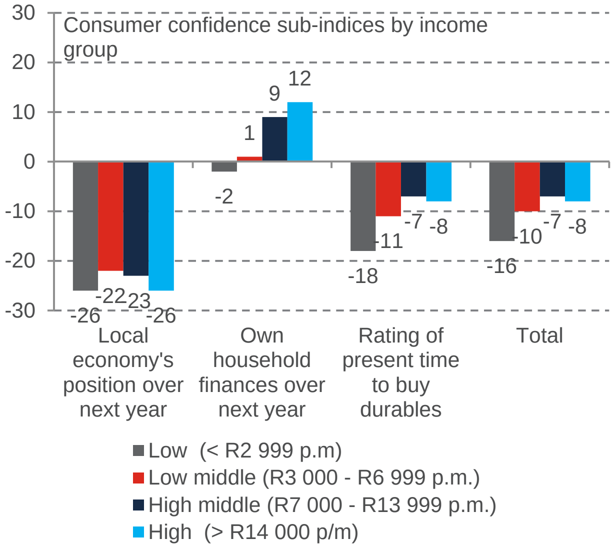
This exceeds the period for which consumer confidence printed in negative territory during the mid-1980s by two quarters, although the average of this period ranked more negatively (negative 18 points in the mid-1980s relative to negative seven points now).

Although there was an improvement in the readings for consumers' financial prospects a year out and consumers' current rating of the present time to purchase durables (including furniture, appliances and electronic equipment), expectations regarding South Africa's (SA) economic outlook a year from now sank back to levels experienced in the fourth quarter of 2016. According to the BER, households' expectations on the economy have likely waned in response to a damaging Cabinet reshuffle, followed by sovereign rating downgrades. The news that SA entered a technical recession (two consecutive quarters of negative growth) in the first quarter of the year, likely dampened sentiment further.

Large unfavourable swing in confidence at the higher end of the market

The gap in confidence between low- and high-income earners narrowed from a record-high 23 points in the first quarter to eight points in the second quarter of 2017 (see chart 2). While subdued levels of consumer confidence persisted for the low-income earning group (earning less than R2 999 per month), confidence swung into negative territory for high-income earners (earning of more than R14 000 per month) from five index points in the first quarter to negative eight points in the second quarter. During the second quarter, high-income earners became more negative on viewing the current time as appropriate to buy durable goods (negative three points to negative eight points), but the key factor underlying pessimism at the upper end of the market, was the extent to which high-income earners' expectations of the economy in a year's time deteriorated. This reading fell from seven index points to negative 26 points in just one reading.

Chart 2: All consumers pessimistic about the outlook for the economy

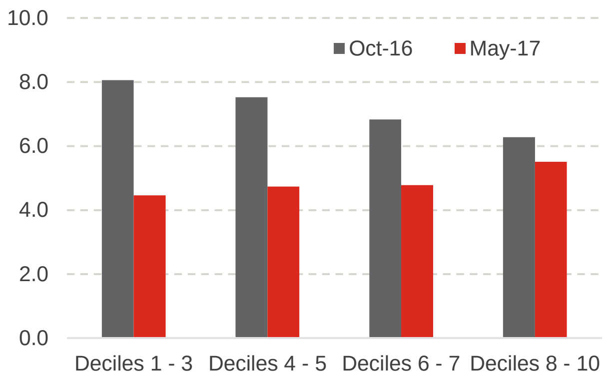


Source: BER, Momentum Investments

Not anticipating a quick turnaround in consumer spending

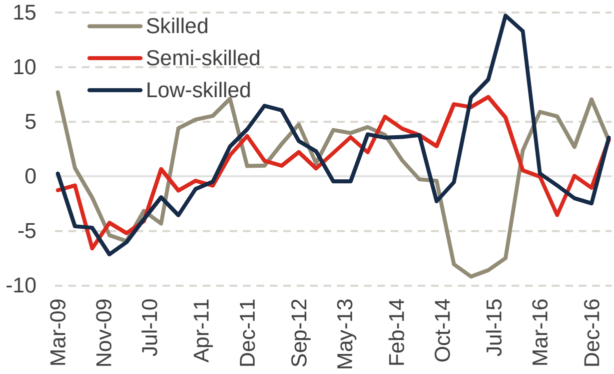
Suppressed consumer sentiment prints remain discouraging for consumer spend this year. Although Momentum Investments expects lower-income earners to benefit from a downward trend in food inflation (see chart 3), the company does not expect a robust recovery in employment. Stats SA's Quarterly Labour Force Survey showed a year-on-year increase in jobs growth for low- and semi-skilled workers in the first quarter of the year (see chart 4), but muted business confidence warns against significant employment creation in this area of the economy in upcoming quarters.

Chart 3: Inflation per income-earning decile (% y/y)



Source: Stats SA, Global Insight, Momentum Investments

Chart 4: Employment growth (% y/y)



Source: Global Insight, Momentum Investments, data up to Q1 2017

While jobs growth in the high-skilled area of the economy has been positive for six consecutive quarters, growth slowed in the latest print for the first quarter of the year. Higher-income earners have also been hit with more onerous taxes (including an increase in the marginal tax rate on personal income above R1.5 million from 41% to 45% and a rise in the dividend withholding tax from 15% to 20%), which have negatively affected disposable income. Wealth gains, while still positive, are dwindling for higher-income earners, which adds to the headwinds facing the upper end of the income-earning scale.

Momentum Investments expects the lower-than-expected growth print for the first quarter of the year and continued positive inflation surprises to have lowered the bar for interest rate cuts. The SA Reserve Bank is likely to respond to an increase in real interest rates (likely to be brought about by a disinflationary trend in the near term) by cutting nominal interest rates by up to 50 basis points. This could, at the margin, alleviate pressure on indebted consumers.

Meanwhile, the middle-income consumer continues to be squeezed. The 2017/18 national budget did not protect the middle-income group from bracket creep, while government is likely to enforce more stringent hiring conditions in the public sector (largely middle-income earners) in an attempt to contain the wage bill.
The current three-year civil servant wage deal will come up for renegotiation in 2018. Given the approaching 2019 national elections and the fractious relationship between the Congress of the SA Trade Unions (Cosatu), government may face considerable pressure to raise wages markedly above the rate of inflation, leaving less room for public sector hiring. Moreover, negative real growth in household credit (a consequence of reduced demand and tighter lending criteria) suggests little additional support for consumer spend in the near term.