The Macro Research Desk

Consumer confidence picks up to five index points in the second quarter of 2019

Herman van Papendorp
Head of Investment Research & Asset Allocation

Sanisha Packirisamy
Economist

Roberta Noise
Economic Analyst

Highlights

- Consumer confidence ticked higher to five index points from two index points in the first quarter of 2019.
- Expected economic performance improved significantly relative to the high in the first quarter of 2018, possibly attributable to a stabilisation in electricity supply.
- Expected financial conditions remained static between the first and the second quarter of 2019, with low meat inflation neutralising the rise in transport inflation.
- The appropriateness of the time to buy durable goods has, however, deteriorated further into negative territory across all income groups.
- The decline in growth in disposable income since the start of 2018 has been largely driven by the rise in transport inflation, which explains the deterioration in the appropriateness of the current time to buy durables.
- Momentum Investments sees the likelihood of consumer confidence continuing to improve, supported by reduced political instability, contained inflation and the increased likelihood of a cut in the repo rate.

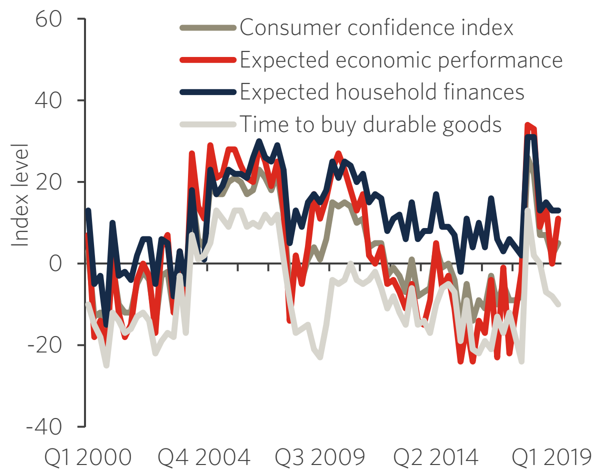
Consumer confidence improved, however, not enough to stimulate durable goods spending

The Bureau of Economic Research (BER) released its consumer confidence print for the second quarter of 2019, which improved by three index points to five index points in the first quarter of 2019.
The improvement was attributable to a host of factors, including the stabilisation in electricity supply since March 2019 and the slower-than-anticipated build up in inflation pressure confirmed by a marginal decline in headline inflation in April 2019.

The consumer confidence index is comprised of the appropriateness of the current time to buy durables, the expected economic performance and expected household finances in a year's time.

Expected economic performance in a year's time moved up to 11 index points in the second quarter of 2019 from 0, which was the largest increase since the high point in the first quarter of 2018. The restoration in electricity stability likely contributed to this robust increase.

Chart 1: Improvement in consumer confidence



Source: BER, Momentum Investments, data up to Q2 2019

Expected economic finances remained steady at 13 index points between the first and the second quarters of 2019. Although transport inflation rose (the petrol price surged to R16.67/l), this sharp increase was partly neutralised by low rental inflation in March and April 2019, which remained at 2.6%. Moreover, meat prices have deflated since February 2019, providing some purchasing power reprieve for consumers. The appropriateness of the time to buy durables has, however, deteriorated to negative 10 index points from negative eight index points between the first and the second quarters of 2019. This is reflective of how constrained the ability of consumers is to buy discretionary goods.

Nominal growth in disposable income declined for four consecutive quarters in 2018 from 6.5% in the first quarter of 2018 to 4.9% in the fourth quarter of 2018, as petrol prices soared. The appropriateness of the current time to buy durables is negative across the board of various (high, middle and low) income groups. Although the various income groups are not equally constrained, the deterioration in the appropriateness of the current time to buy durables indicates the severity of weakness in demand in the economy.

Momentum Investments expects inflation to average close to the midpoint of the 3% to 6% inflation target band at 4.6% in 2019. Meat inflation is expected to rise as the export ban (due to the foot and mouth disease) has been lifted allowing meat prices to normalise going forward.

Meanwhile, the international price of oil could be capped by increased supply from Saudi Arabia and the United Arab Emirates as well as lower global demand for oil. A marginal petrol price decline of 6c/l is expected in June 2019, according to the Central Energy Fund over-recovery analysed between 26 April and 29 May 2019. This should provide marginal relief to consumers.

The South African Reserve Bank (Sarb) kept interest rates steady at 6.75% in May 2019, although two of the five Monetary Policy Committee members preferred a cut. In Momentum Investments' view, structurally lower inflation raises the probability of a cut in the repo rate. This would likely boost consumer confidence and improve the appropriateness of the current time to buy durables through a reduction in debt-servicing costs. In addition, the results from the recent national elections and a positive announcement on the reconfiguration of cabinet should reduce political uncertainty and foster higher levels of consumer confidence in the coming quarters.