

Waning consumer confidence could signal subdued growth in 2013

The FNB/BER Consumer Confidence Index (CCI) for the fourth quarter of 2012 remains at levels last witnessed at the onset of the global financial crisis in the second half of 2008. Coupled with rising inflation and deterioration in the outlook for household income growth, low consumer confidence levels foreshadow subdued growth in household consumption expenditure during 2013.

The CCI declined by 2 index points, from -1 to -3, during 4Q 2012. This brings the CCI back to the 3½ year low reached during 2Q 2012, when the CCI dropped from +5 to -3 index points on the back of an alarming escalation in the Eurozone debt crisis. The CCI has been losing ground since reaching a peak of +15 index points around the time of the 2010 Soccer World cup tournament hosted by South Africa. With the average reading for the CCI at +6 since 1994, the latest reading of -3 implies that consumer confidence is low and not supportive of strong growth in consumer spending.

Consumers' ratings at 2008 lows

The FNB/BER CCI combines the results of three questions posed to adults in South Africa between 24 October and 9 November 2012, 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.

During 4Q 2012, consumers' rating of the outlook for the national economy and the appropriateness of the present time to buy durable goods deteriorated notably, but consumers' rating of their financial prospects remained virtually unchanged. All three sub-indices of the CCI remain well below the levels that prevailed during 2010 and 2011 when solid growth in consumer spending led the domestic economic recovery.

Strikes impact confidence

The economic outlook sub-index of the CCI slumped from -4 to -7 during 4Q 2012, indicating that most consumers continue to expect the economic situation in South Africa to worsen over the next 12 months. In fact, the economic outlook sub-index is currently at the lowest level since 2008, when the Eskom power crisis and ensuing global financial crisis plunged the South African economy into recession.

Given the adverse implications for fixed investment and job creation in South Africa because of the violent strikes in the mining, transport and now agricultural sectors, it is not surprising that consumers are becoming increasingly concerned about the outlook for the domestic economy. In fact, the fieldwork for the latest consumer confidence survey was conducted before the brutal farmworker strike in De Doorns in mid-November, implying that the industrial action in the agricultural sector could continue to weigh on consumer sentiment in coming months.

Own finances look good

The financial position sub-index of the CCI improved marginally from +11 index points to +12 between 3Q 2012 and 4Q 2012. While the majority of consumers anticipate deterioration in South Africa's economic position during the next 12 months, most households still expect their own financial position to improve. Consumers' relatively optimistic expectations regarding their financial prospects suggest that most households have not felt the pinch from the deterioration in the economic climate, reflecting the continued comparative strength of the consumer sector.

Consumers' rating of the outlook for their household finances may also have been buoyed by improved job creation in

recent months, as well as expectations of higher wages following recent hefty wage hikes of between 10% (truck drivers) and 22% (Lonmin mine workers) for striking employees. According to the Quarterly Labour Force Survey by Statistics South Africa, total employment increased by an impressive 198 000 during 3Q 2012, following a substantial deceleration in the pace of job creation during the first half of 2012.

Durable goods slump

Similar to the economic outlook sub-index of the CCI, the time to buy durable goods index fell by four index points to a three year low of -12 during 4Q 2012. The decline in the index since the beginning of the year indicates that consumers are becoming more cautious about purchasing durable goods, which correlates with the deceleration in sales growth reported by retailers in furniture and household appliances since the end of 2011. Apart from the slowdown in real disposable income growth, the depreciation in the Rand exchange rate since the first quarter of 2012 has now also started to weigh on durable goods sales volumes. The Rand has depreciated by 15% against the US dollar since March 2012 - from R7.65 in March to between R8.80 and R9.0 in recent weeks - putting upward pressure on the prices of imported durable goods such as household appliances and electronic goods.

Conclusion

According to Cees Bruggemans, consulting economist at FNB, economic conditions in the Eurozone remain tenuous, while the escalation in domestic political tensions and spate of violent wildcat strikes have dented South Africa's fixed investment and general economic growth prospects.

Although consumer confidence declined by 2 index points during 4Q 2012, the drop could have been larger: It appears as though many consumers are, for the time being, still largely unaffected by the recent deterioration in the domestic economic performance.

Nevertheless, at -3, consumer confidence remains weak and not supportive of strong growth in consumer spending. Looking forward, job creation is expected to wane, in tandem with weaker domestic economic growth and fixed investment prospects, while rapidly rising food prices have once again started to erode the purchasing power of households. Coupled with low consumer confidence levels, the growth in household consumption expenditure - the mainstay of domestic economic growth over the last two years - is likely to remain subdued during 2013.