

MSI sets a new record high as the year draws to a close

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Research Surveys (Pty) Ltd (RS), South Africa's leading marketing and social insights company, has released their Market Sentiment Index (MSI) results for metropolitan adults for the last quarter 2006 (the study was conducted in November 2006). The MSI, at 146.8, is up 0.5 points on its previous all-time high of 146.3, reached in the second quarter this year. Since then, it has experienced a steady decline, falling to 140.0 in August and 134.9 in October.

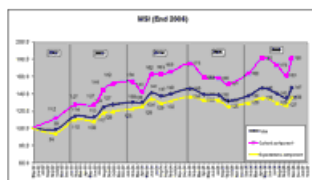
The sharp rise in November is likely to be due to people's expectations of a bumper festive season, to reduced fuel prices in November and to the expectation of the December fuel price decrease. This suggests that the rise in interest rates announced last week by the Reserve Bank will be unlikely to slow festive season spending to any significant degree.

Two components

The MSI comprises two components: one examines how people are feeling about their economic circumstances (prices, economic circumstances, availability of jobs and business conditions) now; the other looks at their expectations of these same circumstances six months into the future. The figures for both components rose in November (by twenty and nine points respectively) compared with October. Compared with this time a year ago, whilst the overall index has risen 15 points, the *current* component has risen by 30 points (151 to 181) and the *expectations* component has risen 11 points (from 125 to 136). Hence, the rise both quarter-on-quarter and year-on-year has been largely a result of people feeling very much better about their current circumstances and somewhat optimistic about the future.

The sharp rise in the *current* component in this final reading for 2006 is largely driven by a much better sentiment over people's own current personal economic circumstances and over their much more positive perceptions of the current business climate. Again, this points to a record spending spree over the festive season.

The rise in the *expectations* component is due to expectations again that people's personal financial circumstances will continue to improve, as well as expectations of an improving business climate over the next six months. There is also a slightly improved perception around the ease of finding jobs in the next six months. Inflationary fears, after rising in the first half of the year, have now stabilised. Compared with this time last year, the main dynamic is a better feeling about people's current economic circumstances, a perception of a much better business climate as the year ends and high expectations for this to continue into 2007, along with a greater ease in finding jobs in 2007.



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Who changed?

With May 2002 as the base of 100, the table below shows how sentiment has changed since the end of 2005:

MSI since inception - May 2002 to end 2006

Indices on May 2002	Total	White	Black	Coloured	Indian
May 2002	100	100	100	100	100
Oct 2002	99	90	102	95	86
Feb 2003	114	110	116	115	94
June 2003	113	115	112	125	100
Aug 2003	124	122	127	122	101
Oct 2003	127	128	126	136	138
FebMar 2004	130	122	132	140	123
Apr 2004	130	109	137	136	128
June 2004	141	120	151	140	112
August 2004	137	113	145	156	110
Oct 2004	140	142	129	140	132
Feb 2005	146	130	153	146	145
May 2005	139	120	146	141	139
Aug 2005	138	129	144	144	108
Oct 2005	132	114	138	129	138
Feb 2006	138	128	143	137	133
May 2006	146	137	151	147	137
Aug 2006	140	115	149	149	118
Oct 2006	135	120	142	134	128
Nov 2006	147	124	157	152	152

- This shows that, amongst whites, after a record MSI reading of 137 in May this year, there was a major drop to 115 by August, this occurring across almost all the indicators, both current and in terms of expectations of the following six months. Only a partial recovery for this population group has occurred.
- For blacks, the strongest decline took place between August and October but that has more than been made up now.
- The MSI for coloureds peaked in August and, after a drop in October, is again at record levels. The Indian/Asian figures are more variable, showing a large drop in August but are now at record highs.

Our take-out

Clearly, the middle of 2006 was a difficult time for many people, with rising fuel prices, higher than average food inflation (varying from 7% to 9% - meat alone is 20% more expensive now than a year ago) and the prospect of an extensive round of interest rate increases - there have been four successive rate increases in the last six months. However, exchange rates have softened somewhat, stimulating the manufacturing and export sectors. Further, inflation overall is still well within the Reserve Bank's target band. People are looking at the end of the year with confidence and are expecting a very positive 2007.

Background to the MSI

"Sentiment" is said by many to be one of the key drivers in many markets - financial, consumer, durables, the stock market and so on. Research Surveys (Pty) Ltd, South Africa's leading marketing insights company, has developed a Market Sentiment Index (MSI) ideally suited to SA conditions (as a developing country) to provide decision-makers in all parts of the economy with some idea of people's sentiment towards the economy and, hence, their future well-being.

This index examines people's current and future perceptions of the economy in terms of job availability, business conditions, general economic conditions, prices and inflation, likely income, and the effects of AIDS and crime on the economy. These two constructs - "where are we now?" and "where are we going?" are then combined into an overall index. The future perceptions measure, in particular, can be a leading indicator of changes in people's spending patterns if it changes over time by any material amount. The index is calculated via a survey every two to three months of 2 000 metropolitan adults aged 18 years and over, sampled from the major metropolitan areas of South Africa. In the latest reading, 1 260 blacks, 385 whites, 240 coloureds and 115 Indians/Asians were questioned. The overall margin of error is less than 2.5%

The index was first measured in May/June 2002. The MSI is tracked regularly, using the first study in May/June 2002 as the benchmark to report future changes. The study is conducted with a sample of 2 000 adults (male and female) in South Africa's main metropolitan areas, and is representative of all population groups in those areas.

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