

Market Sentiment Index (MSI) – Release 20.1 – Last quarter 2007

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TNS Research Surveys (Pty) Ltd, South Africa's leading marketing and social insights company, has released their Market Sentiment Index (MSI) results for metropolitan adults for the last quarter 2007 (the study was conducted end October/early November 2007).

The MSI, at 144.6 (base = 100.0 in May 2002), is up 4.7 points (3.4%) from its second quarter reading of 139.9, making up its decline from the first quarter to the second quarter. This is against a backdrop of increasing food inflation (12.3 % year on year in October – especially vegetables at 26% and grain products at 17%) and three consecutive fuel price increases (up 27% since December 2006 and 7% since May 2007). The increase in South Africa's consumer price index excluding mortgage rate changes (CPIX) for metro and other areas, used by the SA Reserve Bank (SARB) for its inflation target, was up 7.3 percent year-on-year in October (CPI was up 7.9%). There have been seven consecutive prime rate increases, each of 0.5%, since mid-2005.

However, the MSI is down 1.7 points (-1.1%) from the same time last year.

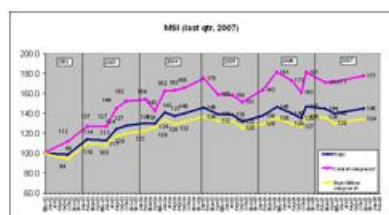
Two components

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 figure for the *current* component rose 6.1 points from 171.2 in the second quarter to 177.3 in the last quarter, making up much of its first quarter losses to end the year 3.5 points (1.9%) down on this time last year. The figure for the *future expectations* component rose from 129.8 in the second quarter to 134.1 (a rise of 3.3%) to close 1.8 points down on this time last year (-1.3%).

The rise in the *current* component for the last quarter over the second quarter 2007 is due largely to feelings that people economic circumstances are better than in the second quarter, and that business conditions are good at present.

In the *expectations* component, perhaps surprisingly, there is a strong optimistic sentiment around income and economic circumstances improving in the next six months after a decline in optimism mid-year. However, there are concerns around inflation not decreasing.

Compared with this time last year, the main dynamics are serious concerns around inflation and some concerns over business conditions in 2008, as well as concerns over unemployment.



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Who changed?

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

MSI since inception - May 2002 to November 2007

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
March 2007	144	131	151	135	146
May 2007	140	125	148	134	132
November 2007	145	134	148	143	162

- Amongst whites, after a record high of 137 in May 2006, there was a sudden decline in August 2006. There was a recovery until March 2007, a decline in May 2007 but a recovery back to 134 to end the year.
- For blacks, after a record reading of 157 in November 2006, the Index is down 11 points.
- The MSI for coloureds peaked in November 2006 at 152, dropped sharply in the first half of 2007 and has partially recovered to 143. The Indian/Asian figures are more variable but are at an all-time high in the latest reading.

Our take-out

The end of 2006 showed record highs in the MSI. The Index declined for two consecutive quarters in the first half of the year, although, to keep it in context, it has run in the same broad range since mid-2004. However, there has been a good recovery in the last quarter of 2007. There are significant concerns about business conditions next year and about inflation though people remain optimistic about their own economic circumstances at present. The concerns about inflation will be fuelled by the recent interest rate increase, the current CPIX figures having remained outside the Reserve Bank's target range for the whole of 2007, by food inflation and by fuel prices.

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. TNS Research Surveys (Pty) Ltd, South Africa's leading marketing and social 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 wellbeing.

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, 1 265 blacks, 385 whites, 235 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 and is tracked regularly. 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.

Technical note

The study was conducted amongst a sample of 2 000 adults (1260 blacks, 385 whites, 240 coloureds and 115 Indians/Asians) in the seven major metropolitan areas: the study has a margin of error of under 2.5% for the results found for the total sample. People were interviewed face-to-face in their homes. The study was conducted by TNS Research Surveys (Pty) Ltd as part of their ongoing research into current social and political issues and was funded by TNS Research Surveys (Pty) Ltd. For more details, please contact Neil Higgs, Director, on (011) 778-7500 or 082-376-6312. Website: www.tnsresearchsurveys.co.za.

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