

ECI - first quarter 2010: Consumer confidence bounces back with a vengeance

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TNS Research Surveys (Pty) Ltd, South Africa's leading marketing and social insights company, has released their Economic Confidence Index (ECI) results for metropolitan adults for the first quarter of 2010 (the latest study was conducted in the middle two weeks of February). The overall ECI has staged a dramatic rise of nine points from the figure of 130 it held through the last six months of 2009 to 139 in the first quarter of 2010 (May 2002 = 100), reaching levels not seen for two years - since before the load-shedding of 2008.

The Index is made up of two components: how people are feeling *now* about the economy, and their *expectations for the next six months*. The reading for the *current* component, after a major fall in the third quarter of 2009 when the effects of the recession began to be most strongly felt (and when there was a major increase in the rate of job losses), has risen very strongly to 138 (from 114 in November), suggesting that people are beginning to shake off the effects of the recession. This indicates a resilience amongst people and suggests that they will largely return to their pre-recession spending patterns.

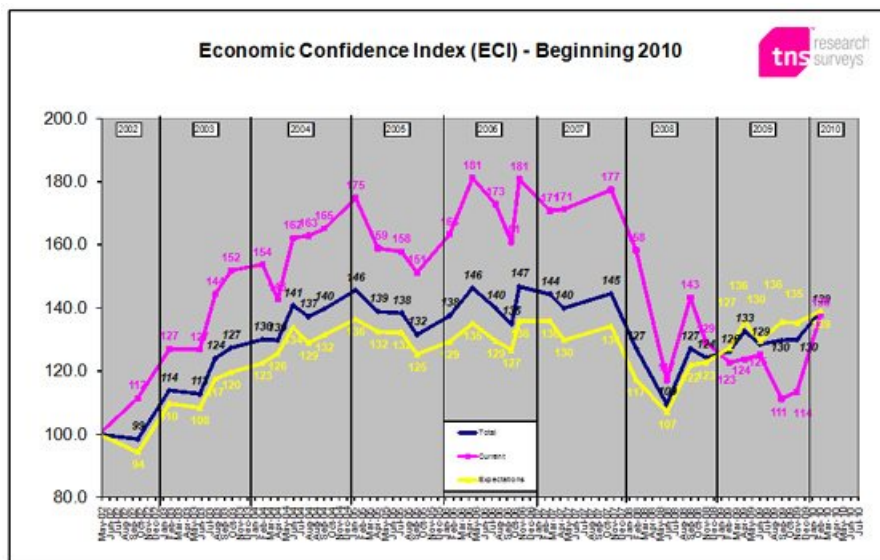
The *expectations* component continued its steady upward trend also to reach 139 - its highest figure since measuring began in 2002.

Normally, the expectations component is lower than the current component but, for all of 2009, the reverse was the case - and, as the graph below shows, especially in the last six months of last year. That the three lines have now reached another intersection indicates that, bar any further unforeseen black swan events such as a melt-down in Greece, a further severe ash-cloud event or a protracted Transnet strike, there is an excellent chance that South Africa will climb out of the recession by mid-year.

The latest figures are set against a backdrop of three successive quarterly falls in economic growth, followed by a marginal increase in the third quarter of 2009 and much better increase in the fourth quarter. Inflation ran at over 8.0% in the first half of 2009 but averaged just over 6% in the last six months before falling to 5.7% in February this year - just inside the Reserve Bank's target range - with the main threat to it staying in that range being the Eskom rates increase. Interest rates steadily declined during the first half of 2009 before flattening out - the repo rate remained unchanged at 7.00% from August 2009 to February 2010. Despite starting 2009 with a large drop, the fuel price rose almost uninterruptedly from January to a peak in September, before dropping again on October. However, since then, the price has risen strongly.

What sentiments changed in the ECI?

The main items fuelling the decline in the last half of last year in the *current* component of the ECI were simply people's current economic circumstances. The rise in February 2010 is fuelled by two strong improvements: people perceive their economic circumstances to be better and they feel that business conditions are looking up. Whilst these perceptions occur across all demographics, the strongest improvement is amongst poorer people. The improvement in the *expectations* component is due to improved sentiment around inflation going forward and around business conditions and the availability of jobs. Whilst this rise in February is largely triggered by an improved confidence amongst more wealthy people, the *expectations* index is at levels very close to its all time high for poorer people and is at its all-time high for wealthier people.



Our take-out

The Economic Confidence Index shows that the recession bit deeply in the second half of the year. Poorer people were affected first with wealthier people reaching their all-time low in November. However, there has been a strong rise in the index with again, poorer people reacting first but with wealthier people showing a strong rise in confidence in the future. The Index has reached levels not seen since 2007, suggesting resilience amongst South African consumers.

All groups show high expectations for future improvement, indicating a continued rise out of the doldrums as 2010 heads towards mid-year.

Background to the ECI

Sentiment is said by many to be one of the key drivers in many markets - financial, consumer, durables, the stock market. TNS Research Surveys (Pty) Ltd, South Africa's leading marketing and social insights company, has developed an economic confidence measure that examines people's confidence in the state of the economy - a key factor in how they manage their finances and make or put off buying decisions.

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.

Technical note

2 000 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.

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