Consumer confidence bounces back from nine-year low

By Helmo Preuss

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Consumer confidence bounced to 1 in the second quarter 2013 from a nine-year low of -7 in the first quarter, signalling a recovery in household spending, the economy's main engine, according to a survey released on Wednesday, 31 July 2013.

The consumer confidence index (CCI) compiled by the Bureau for Economic Research (BER) and sponsored by First National Bank (FNB) was -3 in the fourth quarter of last year.

Consumer confidence levels improved across all income and population groups in the second quarter.

The CCI is typically a good indication of consumers' willingness to spend or utilise credit, while disposable income growth and their access to credit determine their ability to spend.

"The improvement in the CCI during the second quarter suggests an increased willingness among consumers to spend and helps to explain the improvement in retail and car sales in recent months. However, in order for the rise in consumer confidence levels to translate into a more permanent improvement in household consumption expenditure, there also needs to be a sustained recovery in real disposable income growth and household credit extension," said FNB chief economist Sizwe Nxedlana.

Factors such as record high fuel prices, rising food inflation, muted job creation and slower growth in government spending will likely continue to weigh down income and credit growth - and hence household consumption expenditure - during the second half of 2013.

The first quarter CCI reading of -7 was at an even more depressed level than the low of -4 registered during the 2008 global financial crisis in the fourth quarter 2008, and was at a similar level compared with the reading of -6 recorded in the first quarter of 2008 when an acute shortage of electricity led to a spate of power outages throughout the country. The increase in the CCI during the second quarter may therefore, in part, reflect a correction from an overly negative first quarter 2013 result.

The state-owned electricity utility warned on July 8 2013 that delays to the new Medupi power station would mean that the first unit would only be connected to the grid in the second half of 2014.

Its new build programme of Medupi, Kusile and Ingula are well behind schedule, which is one of the reasons why real economic growth this year is expected to slow to 2% from 2.5% in 2012 and 3.1% in 2011 as Eskom buys back power from ferrochrome producers and cuts power to large users such the mines and aluminium smelters.

FNB said that despite the bounce in the second quarter 2013, it however remained well below the post apartheid average of 6 index points, signalling a significant moderation - but not a collapse - in household spending. In order for the rise in consumer confidence levels to translate into a more permanent improvement in household consumption expenditure, there also needed to be a sustained recovery in real disposable income growth and household credit extension. Factors such as record high fuel prices, rising food inflation, muted job creation and slower growth in government spending would likely continue to put pressure on income and credit growth - and hence household consumption expenditure - during the second half of 2013, it said.

"The absence of major power outages in recent months, following earlier warning signs that Eskom may need to resort to load shedding during winter, and the reprieve from large-scale violent strike action during the second quarter may have bolstered the confidence levels of consumers. The fact that consumer inflation has remained relatively contained up until now, in the face of the dramatic depreciation in the rand exchange rate over the last 18 months, has also been a positive development," Nxedlana said.

An analysis of the survey results by household income group shows that, although consumer confidence levels improved across the board during the second quarter of 2013, the rise was larger and the actual levels remain higher for middle and high income consumers compared to the low income group (earning less than R2,000 per month).

Middle and high income consumers are notably more optimistic about the outlook for their household finances and less concerned about the appropriateness of the present time to buy durable goods compared to low income consumers.