Research indicates 21.8 point drop in consumer confidence

The MasterCard Index of Consumer Confidence has released the results for November and December 2012, recording an overall decline of 21.8 points, falling to a score of 48.0, compared to 69.8 six months ago. The South African consumer sentiment currently portrays a negative-neutral view.

Described as the Asia/Pacific, Middle East and Africa (APMEA) region's most comprehensive consumer confidence index, it involved 11,339 respondents aged 18-64 across 25 markets in the region.

Now in its ninth year in South Africa, the Index is based on a survey which measures consumer confidence on prevailing expectations in the country for the next six months based on five economic indicators: Economy, Employment, Stock Market, Regular Income and Quality of Life. The Index score is calculated with zero as the most pessimistic, 100 as the most optimistic and 50 as neutral.

"The Index results reflect the uncertainty felt by South Africans in the last six months of 2012, as they considered the six months ahead," says Philip Panaino, division president, MasterCard, South Africa.

Neither optimistic nor pessimistic

"It must however be noted that while the Index scores fell sharply, showing a drop in sentiment, the overall score of 48.0 still falls within the Index's neutral range (between 40.0 and 60.0). This means that the South Africans surveyed are neither optimistic nor pessimistic about South Africa for the next six months - they are simply less optimistic than before.

"The expectations of South Africans for their future were affected by the Marikana mine massacre and incidents of labour unrest that swept across the country in late 2012. Other contributing factors include downgrades by several international ratings agencies, slower private-sector and consumer spending, higher inflation as well as persistent unemployment," adds Dr Martyn Davies, independent economist and CEO at Frontier Advisory.

Quality of life hardest hit

Four of the five indicators, namely Employment, Economy, Stock Market and Quality of Life, saw a decline of more than 20 points each, signalling an extreme deterioration in outlook when compared to scores from the previous survey. The Regular Income indicator declined by only 10.3 points, from 80.3 to 70.0, recording the highest score of all five indicators for this survey period despite the marked decrease.

The Quality of Life indicator showed the steepest decline of 28.1 points from 70.0 in the second half of 2012 to 41.9 in the current Index.

"Contributing to this steep decline were low salary increases, higher inflation and poor employment prospects that are directly linked to consumer spending trends, with all this being exacerbated by the low savings rate in South Africa," says Panaino.

The Employment indicator saw the second largest decline, falling by 25.5 points from 67.8 six months ago, to 42.3.

"A loss of employment was recorded in the formal sector in the fourth quarter of 2012. In addition, only 80,000 new jobs were created in 2012, falling far short of the government's target of 500,000 jobs per annum. Given the significant job losses in the mining sector and ongoing labour unrest, the outlook for employment opportunities, at least in the private sector, has declined," Davies says.

Economy, Stock Exchange views reflect slower growth prospects

South Africans' overall view of the Economy experienced extreme deterioration declining by 23.4 points from 64.2 in the last survey to a current 40.8.

Davies explains that likely causes of the deterioration in sentiment around the economy include a slower increase in real household consumption expenditure, retail sales and formal sector job creation, especially in the third quarter of 2012. Marginally slower growth prospects in some of South Africa's leading trading partners, in particular the Eurozone, have further contributed to the gloomy economic outlook, impacting on how South Africans view their economic position in the coming six months.

The Stock Market indicator fell by 21.6 points to a score of 45.1, which, despite the deteriorating outlook, still reflects a certain level of neutrality that shows that respondents more than likely expect the market to decrease marginally in the first half of 2013.

"This decline is somewhat surprising, given the strong gains of 26% made on the JSE All Share Index (Alsi) during 2012, culminating in an all-time high on 23 November 2012," Davies adds. "However, this high was driven by a weakening rand and higher equity prices internally, and capital raised on the JSE in the first 10 months of 2012 was 10% lower than in the same period the previous year."

Positive outlook for 2013

On a more positive note, South Africans remained optimistic about their capacity to earn a regular income for the first half of 2013. The Regular Income indicator, despite dropping by 10.3 points, still came in at 70.0, a score that is considered positive within the Index's framework.

"The comparatively small drop in this indicator was most likely caused by low dividend payments in the third quarter of 2012, with fewer dividend declarations last year than in previous years. It also links to lower increases in salaries seen in the formal sector," Davies explains.

Africa equally pessimistic

The Index's results elsewhere on the African continent saw consumer confidence declining in nearly all markets compared to six months ago, with only Kenya showing growth of eight points to a positive neutral outlook at 57.1. Even Nigeria, which maintains its position as the most optimistic country on the African continent, saw a fall of 2.9 points on the Index, to a score of 88.5. The only country on the continent to have seen a more dramatic drop in consumer confidence than South Africa was Egypt, which fell by 24.1 points from 90.7 six months ago to 66.6. However, despite this fall, the Egyptian score remains firmly in optimistic territory.

"South Africa continues to lead Africa in terms of competitiveness and ease of doing business indicators (goods markets efficiency, financial market development, technological readiness, business sophistication and innovation and infrastructure development). However, other indicators such as health, education and training, and labour market efficiency are areas that will require much improvement going forward," says Davies.

"Despite seeing declines on all five of the indicators in the latest consumer confidence Index, the overall score of 48 means that South Africans are on the fence about their confidence in South Africa over the next six months. The recent budget speech has provided some welcome changes in the form of R7bn in employee tax relief, an increase of between 4-5% in social grant payouts, and the fact that the government has committed to supporting retirement funding. We are hopeful that consumer sentiment in the next Index will recognise these positive changes," Panaino concludes.