

Market Sentiment Index drop wipes out gains of the last five years

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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 June 2008 (the study was conducted from 5 to 15 June).

The Index dropped another 18 points (its second consecutive drop of this magnitude) from 127 in the first quarter of 2008 to 109 in June 2008 to reach its lowest point since October 2002 (base = 100 in May 2002). The index stood at 140 in June 2007.

The drop of 18 points is the largest ever drop in the index since the MSI has been tracked (May 2002) and the combined drop of 36 points over the last two readings in the fastest fall ever recorded. What is even more significant is that, at the end of November 2007, the index was standing very close to its all time high of 147. This means that the last six months has seen all the gains made in the last five years in what is essentially a barometer of the confidence people have in the economy wiped out.

This is against a backdrop of increasing food inflation (17.0% year on year in May) and transport inflation (16.7% in May) after eleven consecutive fuel price increases. 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 11.7% year-on-year in February. There have been ten consecutive prime rate increases, each of 0.5%, starting mid-2006.

In addition, December and January saw the advent of widespread power outages caused by load-shedding by Eskom, as well as the ANC's Polokwane conference. April and May saw the outbreak of xenophobic violence and June saw the deterioration of the situation in Zimbabwe culminating in what are widely regarded as sham elections.

What fuelled this drop?

Almost all components of the index showed declines in February, with the largest being -

- serious concerns about current **business** conditions (-26 points);
- serious concerns about people's **personal** current economic circumstances (-19 points);
- an expectation that people's **personal** economic circumstances will be much worse in six months' time (-15 points); and
- a continuing increase in pessimism in terms how people are feeling about **business** conditions in six months' time (-14 points).

Compared with the same time last year, every component of the index has fallen considerably, especially those looking at perceptions of business conditions and people's personal economic circumstances. Further, people's concerns about inflation are the highest they have been since the index has been measured.



MSI - June 2008

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Who changed?

MSI since inception - May 2002 to June 2008					
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
February 2008	127	108	134	127	133
June 2008	109	79	123	112	82

Large drops were recorded for all race groups. However, the figures for whites and Indians/Asians reached new all-time lows.

Our take-out

People's confidence in South Africa's economy has been growing fairly steadily for five years, peaking in 2006 but still maintaining high levels through 2007. However, the last six months have seen all these gains wiped out - it is as if we are living in another country.

Whilst very high and rising food and fuel inflation, as well as rising interest rates, are, no doubt, key contributor to this feeling of negativity, other research conducted by TNS Research Surveys in the first six months of 2008 shows that January's load shedding not only affected two-thirds of people financially, but was also perceived to have a negative effect on the economy. In addition, we see President Mbeki's approval rating continuing to drop quite sharply, and there are serious concerns over Jacob Zuma becoming South Africa's next President - a leadership vacuum is perceived to be developing. This uncertainty is likely also to have been a contributor. Add to that xenophobic violence, the disastrous elections in Zimbabwe and perceptions around crime: it is unlikely that the Index will recover in the short term.

What is to be done? Whilst visible and decisive leadership is always necessary, it is absolutely central in South Africa at present - at all levels of society but particularly in

Government. People need to feel that they and the country are not adrift. In addition, anyone in a leadership position needs to be prepared to give their people clear and unequivocal views and decisions - indecisiveness adds considerably to people's levels of pessimism. Transparent communication is central and the veracity of bad news and of rumours should be checked before they are transmitted to others.

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 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, 1 259 blacks, 385 whites, 241 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

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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