

A Consumer and his Confidence

Consumer confidence has deteriorated sharply as loadshedding, inflation and rising costs impact on how we see the future. A current reflection might not be an expression of how you really spend your money. Despite doom and gloom, we make plans to adjust our behaviours and areas of spend as a coping mechanism.

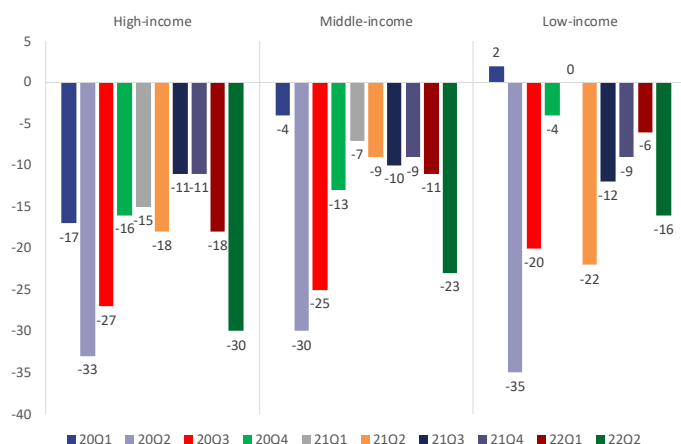


**Willie
Pelsner**

We can argue that it is easy to complete a confidence survey – you simply express your current (or anticipated) feelings based on current, historical, and potentially future events. But at the end of the day as a consumer you still “vote” with your wallet.

South Africa’s consumer confidence index is released on a quarterly basis. Unfortunately the current reading is the lowest in more than 3 decades. The results are published by the Bureau for Economic Research and sponsored by FNB. This followed official data showing that the growth in real consumer spending remained robust (3.2% year-on-year) during the first quarter of 2022. However, it did come at a time of worsening inflation, increases in interest rates and accelerating loadshedding. The dramatic deterioration in consumer sentiment now signals a marked slowdown in consumer spending in coming months.

CONSUMER CONFIDENCE PER INCOME GROUP



While consumer confidence fell notably across all income groups, high-income confidence has soured more than low-income confidence since the end of 2021.

SPEED READ

- Trends from surveys are probably more important than a single data point at a moment in time as you simply express how you feel at the time of completing the survey.
- Consumer confidence has taken a nosedive at a time of heightened inflation, costs and interest rate hikes.
- Consumers are swapping brands and reducing spending in various categories to reduce the impact of inflation.
- Which is your preferred bread and maize brand? See the latest results from consumers from all walks of life.

The detailed breakdown of the Confidence Index by 3 income groups shows that confidence levels fell notably across all three. The confidence level of high-income households (earning more than R20 000 per month) probably fell the most and is now only 3 index points north of the historic low of -33 recorded for this sub-index in the second quarter of 2020 – the height of Covid.

Even though consumers are likely to tighten their purse strings, the surprisingly large fall in the CCI could signify somewhat of an overreaction to recent developments and may not translate into an equally large contraction in consumer spending. The combination of soaring food and fuel prices and increased wariness among consumers will no doubt see a realignment of consumer budgets to buttress purchases of basic necessities (food) or to shift personal spending habits between things like clothing, restaurants, recreation and/or entertainment.

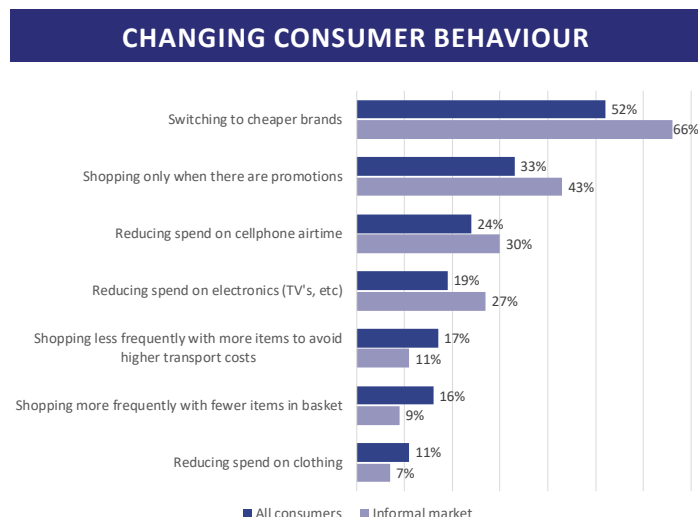
A month ago I read an article by Standard Bank Securities’ Equity Research team which I found quite fascinating. They commissioned a research group to put some consumer preferences under the spotlight. Although the survey is

small in comparison to the more “official” surveys like the one we just discussed and done by the Bureau of Economic Research, it did shed some new insights into consumer behaviour.

The survey was conducted in Johannesburg, Cape Town and Durban and was split equally between the formal and informal sector. Thirty six percent of participants received a government grant and 51% of those surveyed earn an income below R5,000 per month, whilst 25% earn more than R20,000 per month. The focus was on consumer shopping preferences and to ascertain bread and maize meal purchasing patterns.

I believe that the chart below encapsulates a lot of the latest consumer behaviour, the anticipation on how to spend to avoid the inflationary impact and the pressure from transport/energy costs.

The top bars reflect that 52% of all those surveyed will switch to cheaper brands, however of those from the



Consumers change their behaviour to adapt to external pressures. Surprisingly, it appears that new clothes are more important than airtime!

informal market, many more (66%) will go for cheaper brands. What is very interesting is the behaviour around cell phone airtime spend and a reduction in clothing spend. It appears that a high percentage will reduce airtime, but not a lot of people are prepared to reduce on clothing spend. My interpretation of is that consumers are feeling the effects of food inflation immediately and are trading down immediately to no-name or alternative brands to mitigate the impact of higher prices, whereas clothing inflation is less prevalent whilst we are in the current fashion season.

The bread and maize part of the survey drew the following conclusions:

- Bread and maize are important components of the nation’s diet and are bought daily – especially bread. However, both are consumed daily. The survey questioned when bread is consumed, and the results show that it is most preferred at breakfast, then lunch, followed by being a snack and then dinner. As expected maize is mostly preferred for breakfast, but then secondly for dinner, well before being consumed at lunch.

Furthermore, participants revealed that when it comes to buying bread, taste and price are the most important considerations. The most preferred bread brand based on this survey is Sasko, followed by Blue Ribbon and then in-store bakeries. Albany (manufactured by Tiger Brands) is further down the line. Participants were unanimous that brand, followed by taste, influenced their spending. The impact of price and convenience are secondary factors. What is your preferred maize brand? Well from this survey Iwisa came out tops, followed by White Star and then Ace.

In conclusion, I think we can all agree that even though your personal consumer confidence indicator might be low, you are still spending something somewhere. This falls squarely into our consumerism theme, namely the “supported consumer”. Although we don’t all get a government grant to support our purchases (wouldn’t that be nice!), we act in similar ways by looking for alternatives when the going gets tough – by shifting behaviours and patterns. Perhaps, in fact, we did all get a “grant” given that the the fuel levy was temporarily adjusted to lessen the blow of the increases over the last couple of months.

Happy spending despite the turmoil.



Sasko bread is South Africa’s most popular.



Topic: **Topic to be confirmed**

Natal Midlands

Date:	15th September 2022
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	20 September 2022
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

The next topic for our Insight seminars will be announced in due course.



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