momentum investments

in the moment

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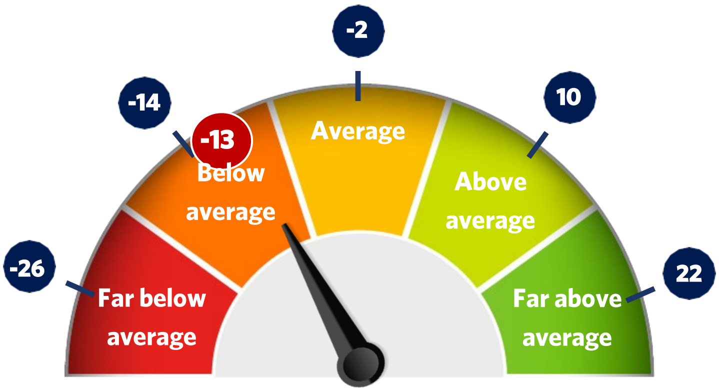
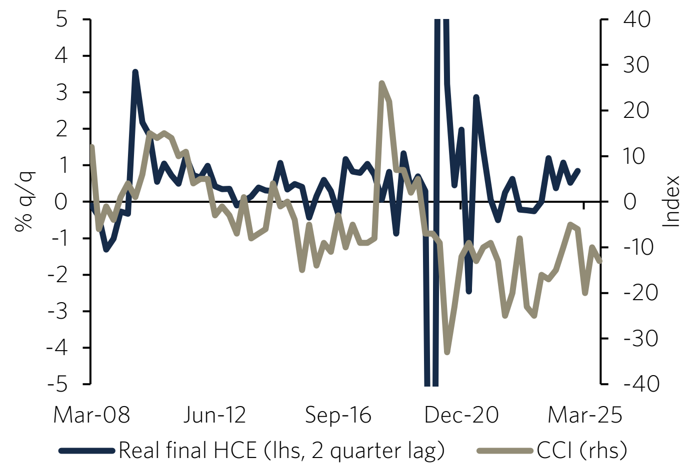
Middle-income consumers feel the pinch

Consumer Confidence Index (CCI)

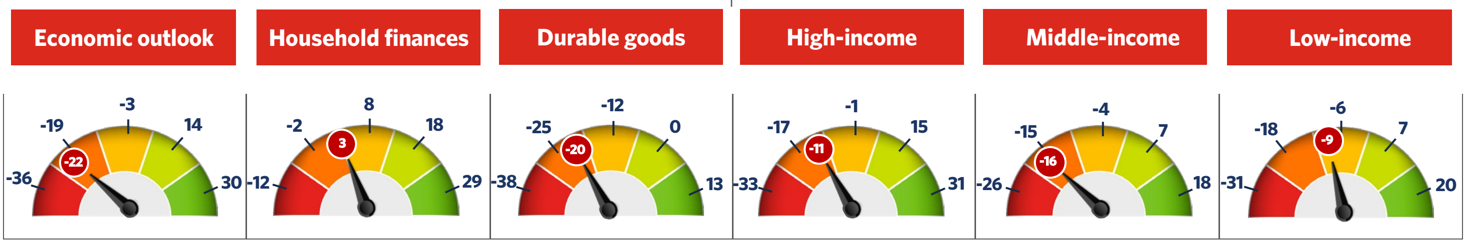


Source: Bureau for Economic Research (BER), Momentum Investments
Far below (above) average = 2 standard deviations (std. dev.) below (above) average
Below (above) average = 1 std. dev. below (above) average
Red circle = current quarter's index

Consumer confidence and spending



Source: BER, Statistics South Africa (Stats SA), Momentum Investments
Data until September 2025 for CCI and June 2025 for real final household consumption expenditure (HCE)



Source: BER, Momentum Investments

So what?

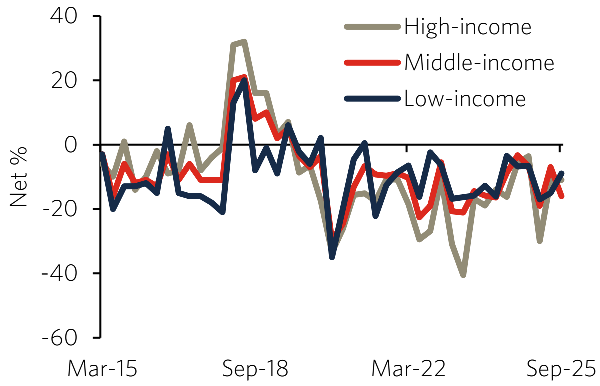
Consumer confidence fell three points in the third quarter of 2025 but remained above the weak levels seen in the first quarter. July retail trade sales and new vehicle sales for July and August point to resilient consumer spending, though weaker confidence, driven by middle-income households, may weigh on consumption. However, high-income earners, who hold the most purchasing power, maintained steady confidence, suggesting overall consumption could be cushioned.

While economic growth also depends on various factors, consumer confidence is key in South Africa (SA), where household spending exceeds 60% of gross domestic product (GDP). Areas of improvement to boost consumer sentiment include service delivery, job creation, stable incomes, control over cost-of-living expenses and reduced political uncertainty. Our household consumption estimate is slightly lower at 1.7% in 2025 (previously 1.8%) and we expect the economy to expand by 1% in 2025.

Middle-class pressures weigh on consumer confidence

The First National Bank (FNB)/BER CCI dipped to negative 13 in the third quarter of 2025 from negative 10 in the second quarter (negative 20 in the first quarter). Households were more pessimistic about the expected performance of the economy (negative 22 from negative 18) and less confident about their expected finances (three from nine). Notably, the decline in confidence was driven by middle-income households, falling to negative 16 from negative seven. High-income households' confidence was unchanged at a pessimistic negative 11, while low-income households improved from negative 15 to negative nine.

Chart 1: Middle-income households most pessimistic in Q3



Source: BER, Momentum Investments

The consumer confidence survey was conducted between the 18 and 29 August 2025. This was before the rebound in second quarter GDP (0.8% quarter-on-quarter (q/q) from 0.1% q/q in the first quarter) was published so households were likely considering the weak growth in the first quarter as a starting point for future economic growth.

> FNB highlights that the deterioration in middle-income households' (earning between R5 000 and R20 000 per month) confidence was likely due to weak job creation, rising inflation in June and July and dwindling two-pot pension fund withdrawals.

Steady confidence by high-income households (earning more than R20 000 per month) was supported by the strong performance of the stock market and the strengthening of the exchange rate. The recovery in house prices and jobs created likely also helped. Factors that could have weighed on high-income households include higher income taxes, the imposition of higher reciprocal tariffs on SA exports, lingering global uncertainty and rising inflation.

The rise in low-income households' (earning less than R5 000 per month) confidence could be explained by the decline in public transport inflation and real social wage increases.

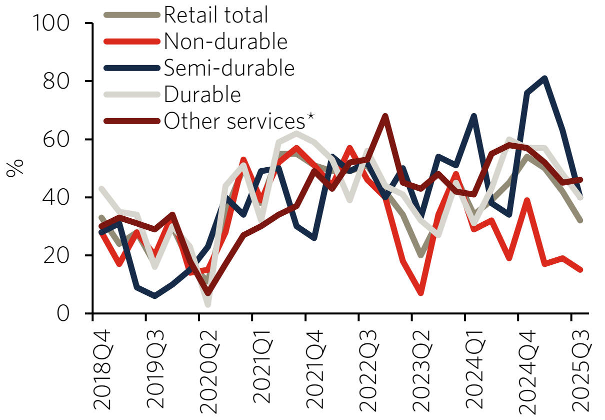
Tentative indications of sustained consumer spending but risks linger

Seasonally adjusted real final household consumption expenditure grew by 0.8% q/q in the second quarter of 2025 from 0.5% q/q in the first quarter. This increase was largely due to a rebound in semi-durable goods (2.6% q/q from negative 1.3% q/q) and durable goods (1.6% q/q from 0.3% q/q). On the other hand, non-durable goods contracted and the growth in expenditure on services slowed.

> Stats SA's seasonally adjusted retail trade sales were strong in July (5.8% y/y), suggesting continued strength in household consumption expenditure in the third quarter. However, the 10-point drop in retailer confidence to below the long-term average in the third quarter as well as the dip in consumer confidence signals a slowdown in activity.

All the categories (non-durable, semi-durable, and durable goods) in the BER's retailer survey reported increased pessimism, with semi-durable goods retailers recording the largest decline in confidence (see chart 2).

Chart 2: Drop in retailer confidence signals risk to household spending



Source: BER, Momentum Investments

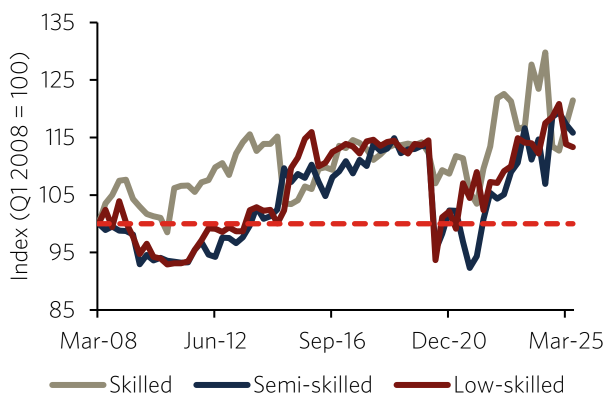
** Includes hotels and restaurants, transport and storage as well as real estate and business services*

The number of new vehicles sold, according to data from Naamsa, declined by 6.6% q/q in the second quarter of 2025 following four successive quarters of growth.

New vehicle sales in July and August rebounded to highs last recorded in October 2019, which signals a rebound in the third quarter if September new vehicle sales hold up.

The unemployment rate rose to 33.2% in the second quarter of 2025 (32.9% in the first quarter). Job losses were concentrated in semi- and low-skilled segments while employment growth was recorded only among skilled workers (see chart 3). The rise in skilled employment is a positive sign for consumer consumption as this higher-earning segment contributes more to household spending.

Chart 3: Rebound in skilled employment



Source: Global Insight, Stats SA, Momentum Investments

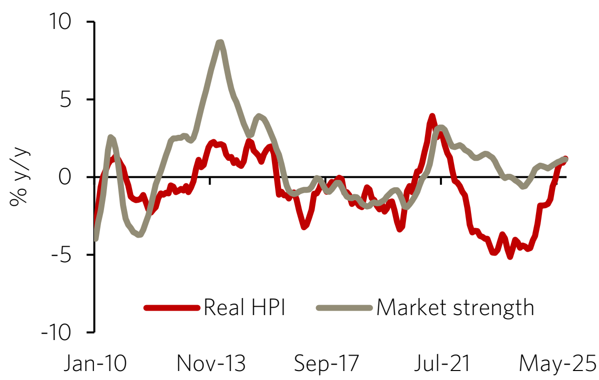
Data until June 2025

House price momentum despite slow credit growth

The FNB House Price Index (HPI) has grown by more than 3% y/y since May 2025. In August, it rose 4.5% y/y, the fastest pace since May 2022. In real terms, the index has been positive for four consecutive months, indicating a recovery in house prices (see chart 4).

> FNB notes that the current interest rate, inflation and house demand environment supports continued positive momentum in house prices in the near term. However, a sustained recovery will hinge on stronger credit growth.

Chart 4: Recent house price growth has caught up with underlying fundamentals



Source: Global Insight, FNB, Momentum Investments

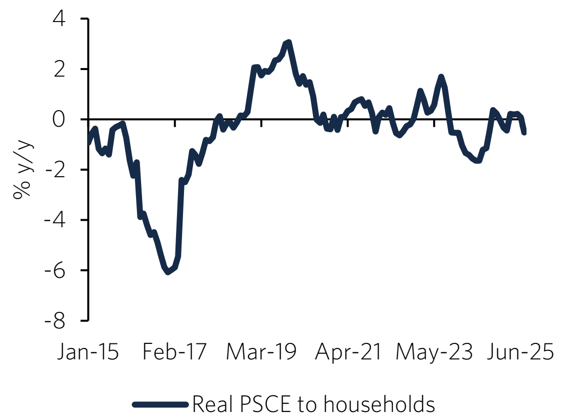
Market strength is the gap between demand and supply in the housing market

Data until August 2025

Mortgage credit extension decelerated slightly to 2% y/y in July from 2.2% y/y in June. This signals muted growth in housing credit, reflecting either limited appetite from banks to extend new mortgages or caution from consumers in taking on additional debt.

Overall private sector credit extension (PSCE) to households eased to 3% y/y in July from 3.1% y/y in June (see chart 5), though still above the recent trough of 2.7% y/y in February 2025. In real terms, private sector credit extension to households reverted to negative territory in July, due to an acceleration in inflation, following four consecutive months of growth. The improvement in real PSCE from negative 1.6% in June 2024 is modest relative to the 125 basis points of interest rate cuts since September 2024, reflecting still-subdued credit demand and the typical lagged impact of monetary policy on the real economy.

Chart 5: Real PSCE growth turned negative in July 2025



Source: Global Insight, SA Reserve Bank (SARB), Stats SA, Momentum Investments Data until July 2025

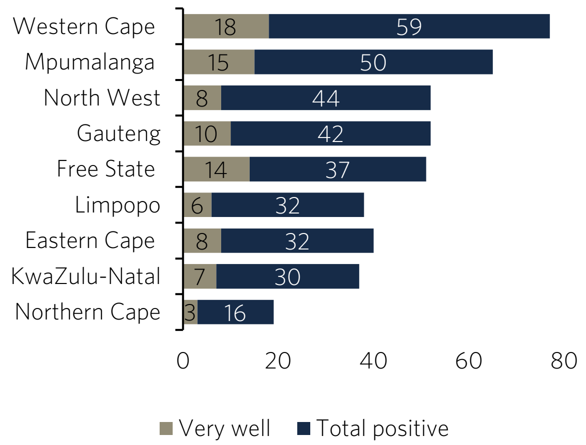
Poor service delivery a drag on sentiment

> In the lead-up to the local government elections (due to take place between November 2026 and January 2027), only two out of 10 South Africans believe the country is moving in the right direction, according IPSOS's September 2025 survey.

This is lower than about three out of 10 people in May 2025, when the national budget was approved, and almost four out of 10 people in July 2024, when the government of national unity was formed. The negative outlook on the direction of the country weighs on both consumer and business confidence.

A range of factors shape perceptions of whether a country is moving in the right or wrong direction and municipal performance is one of them. According to the latest IPSOS survey, only two provinces (Western Cape and Mpumalanga) had more than half of its respondents expressing a positive view of their municipalities. Across all provinces, fewer than 20% gave their municipalities a "very well" rating (see chart 6).

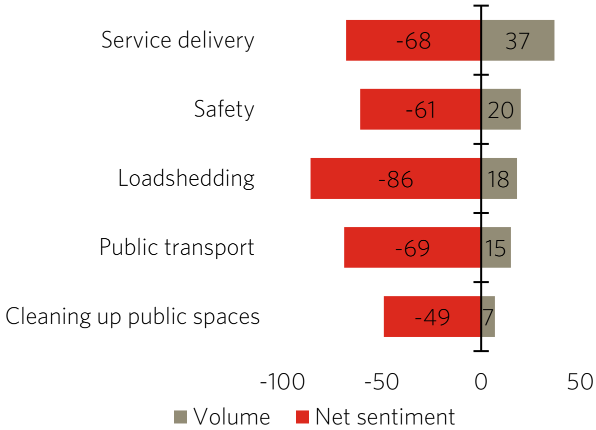
Chart 6: Low provincial municipal performance ratings (%)



Source: IPSOS's September 2025 survey, Momentum Investments

DataEQ's report on SA's four largest metros (Cape Town, Johannesburg, Tshwane and eThekwini) highlights service delivery as a key concern among residents (see chart 7). Water stood out in Cape Town and eThekwini, making up nearly half of all service delivery complaints. Loadshedding also featured as a concern, suggesting that while the country is not facing nationwide outages, localised blackouts (particularly in Tshwane) was a major source of dissatisfaction.

Chart 7: Service delivery widely discussed as a concern among residents (%)

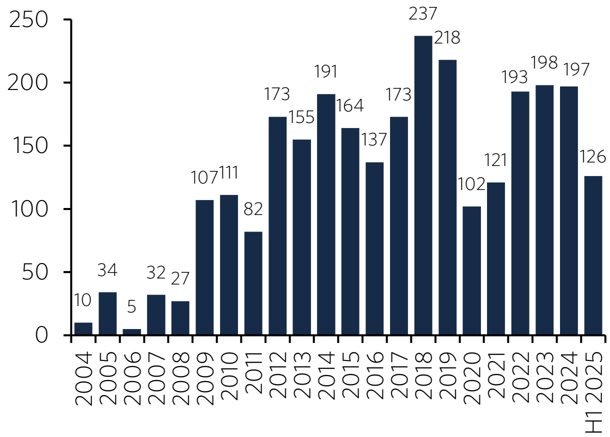


Source: DataEQ, Momentum Investments
Report based on 300 00 online public mentions between 1 December 2024 and 28 February 2025
Volume = number of complaints

Dissatisfaction with service delivery often translates into protests. Municipal IQ recorded 37 major service delivery protests in June 2025, bringing the total for the first half of the year to 126 (see chart 8).

The steady rise in protests reflects not only seasonal factors, with social discontent typically peaking in colder months, but also failures in essential services. Water and electricity remain the primary triggers, driving 65% of all major service delivery protests in June, according to Municipal IQ.

Chart 8: Number of major service delivery protests in H1 2025 equate to more than half of protests in 2024



Source: Standard Bank Research, Momentum Investments

Addressing municipal inefficiencies is central to restoring public confidence. Operation Vulindlela's reform agenda highlights this by prioritising measures such as ringfencing revenue for water and electricity services. Ensuring that funds collected for essential services are reinvested directly into maintaining and upgrading infrastructure is a key step toward improving municipal performance and reducing the drivers of community dissatisfaction.

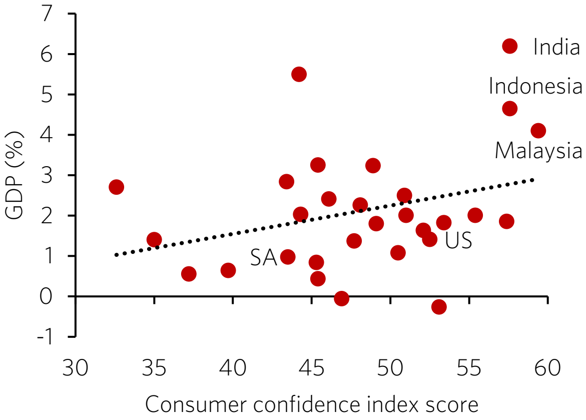
Higher confidence typically aligns with stronger economic growth

The drop in consumer sentiment in the third quarter signals caution over the extent of SA's economic growth recovery.

Globally, SA ranks low on consumer confidence, ranking 25th out of 30 countries surveyed by IPSOS.

Weak consumer confidence dampens household spending and, consequently, GDP growth. As shown in chart 9, countries with higher confidence generally experience stronger economic growth. Confident consumers are more willing to spend and borrow, boosting household consumption, which is the largest component of GDP in most economies.

Chart 9: Positive relationship between consumer confidence and economic growth



Source: International Monetary Fund (IMF), IPSOS, Momentum Investments
GDP data = 2025 estimates from the IMF's April 2025 World Economic Outlook
Consumer confidence index score = IPSOS's August 2025 survey

While we acknowledge that economic growth also depends on structural, policy, and external factors, higher consumer confidence remains particularly important for SA, given that household consumption accounts for more than 60% of GDP. Boosting confidence can therefore have a significant impact on overall economic growth. Key areas which could boost consumer confidence include:

- Service delivery improvements
- Employment creation
- Stable income
- Cost of living control
- Political and policy uncertainty

Our household consumption expenditure estimate is slightly lower at 1.7% in 2025 (previously 1.8%) and we expect the economy to expand by 1% in 2025.