



Consumer pulse: Weak sentiment across income groups

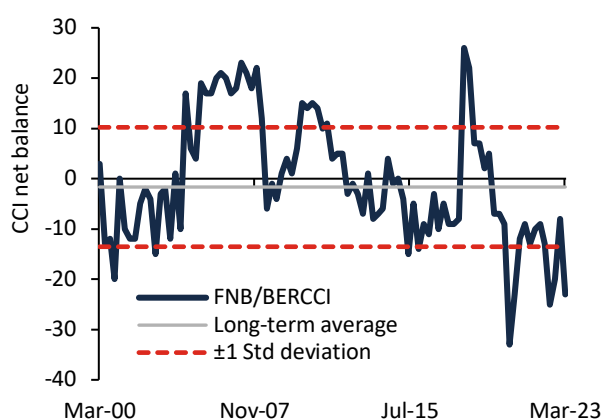
Highlights

- According to the FNB/BER Consumer Confidence Index (CCI), consumer sentiment dropped significantly to negative 23 points in the first quarter of 2023. Weak sentiment was recorded across all the sub-indices and income groups.
- While confidence remains subdued across all the income groups, high- and middle-income earners showed signs of a faster post-pandemic recovery. This is supported by access to credit, income growth and more employment opportunities.
- There has been an uneven recovery in income growth. Standard Bank's client data shows that income growth of individuals earning more than R60 000 per month (p/m) has increased much faster than the other income bands.
- There has also been an uneven recovery in employment. Jobs created for skilled labour have surpassed pre-pandemic levels.
- Higher economic activity in restaurants/hotels and vehicle sales supports the perception that middle- to high-income earners are recovering faster than low-income earners who spend the bulk of their income on food and transport.
- A sizeable segment of the consumer base has not recovered from the economic disruptions that the pandemic caused and this is reflected in the subdued CCI and expressed financial insecurity. The Momentum-UNISA Consumer Financial Vulnerability Index (CFVI) decreased from 49.7 points in the third quarter of 2022 to 47 points in the fourth quarter.
- Loadshedding, political instability/corruption and higher food prices are taking a toll on consumer sentiment. Loadshedding moved from being ranked 10th among a list of 14 risks in the beginning of 2022 to first place by the end of the year in the CFVI report.
- Proposals in the 2023 National Budget review consider constrained consumers in the sense that no major tax increases were implemented (most changes were inflation-related increases). The spending composition remains redistributive with social spending amounting to 61.7% of consolidated non-interest expenditure for the fiscal year 2023/24.
- In light of weaker consumer confidence, elevated inflation, high interest rates, persistent loadshedding and high unemployment rates, we expect consumption expenditure to grow at 1.4% in 2023. This is significantly lower than the 3.1% rate recorded in 2022.

CCI plummets in the first quarter of 2023, reversing the gains from the previous quarter

Consumer confidence in the first quarter of 2023 fell further into negative territory (negative 23 points) after an improvement from negative 20 points in the third quarter of 2022 to negative eight points in the fourth quarter. This reading moves CCI further from the long-term average of negative 1.7 points and 1.8 standard deviations below the mean as illustrated in chart 1.

Chart 1: CCI plunged to negative 23 points



Source: BER, Momentum Investments

According to the BER, the electricity crisis and concerns about the high cost of living hurt sentiment. The survey was conducted between 27 February and 9 March 2023 and during this period, the country experienced 205 hours of loadshedding at an average intensity of stage 4.

All three sub-indices deteriorated in the first quarter of 2023. The biggest decrease was from the sub-index measuring the suitable time to buy durable goods which fell by 17 points to negative 34 points. This was followed by a dip in sentiment around the expected economic performance from negative 19 points to negative 34 points. Notably, the sub-index measuring households'

expected finances fell back into negative territory (negative one) following a significant improvement to 13 points in the fourth quarter of 2022.

Optimism about household finances in the fourth quarter of 2022 was driven by high- and middle-income earners. However, the pessimism expressed in the first quarter of 2023 was across all income groups but remains in positive territory for the low- and middle-income group at six points and one point, respectively.

Similarly, the perception of the suitable time to buy durable goods during the fourth quarter improved because of high- and middle-income earners. This may have been due to increased sales during Black Friday. Low-income earners had the lowest reading of negative 30 points as they continue to prioritise meeting basic needs. The deterioration in the first quarter of 2023 was largely due to the middle-income group and the confidence levels of all three groups in this regard fell below negative 30 points in the first quarter. Retail trade sales for January revealed that non-seasonally adjusted (nsa) sales for household furniture, appliances and equipment fell by negative 1.2% y/y. However, new vehicle sales for the first two months of the year were 4.1% higher than a year ago, according to NAAMSA.

Lastly, none of the three income groups are optimistic about the performance of the economy in the next 12 months. High-income earners expressed the most concern with sentiment for economic performance crashing by 33 points to negative 51 points, a new historical low. This is in line with the bleak growth outlook for 2023 projected by various institutions.

Middle- to high-income earners drive recovery in vehicle sales and hospitality sector

Seasonally-adjusted (sa) retail trade sales in the fourth quarter of 2022 were 0.4% higher than the third quarter of 2022. Higher sales were recorded in all seven retail categories. Clothing and footwear (53.3%, nsa q/q) and household furniture (28.2%, nsa q/q) contributed the

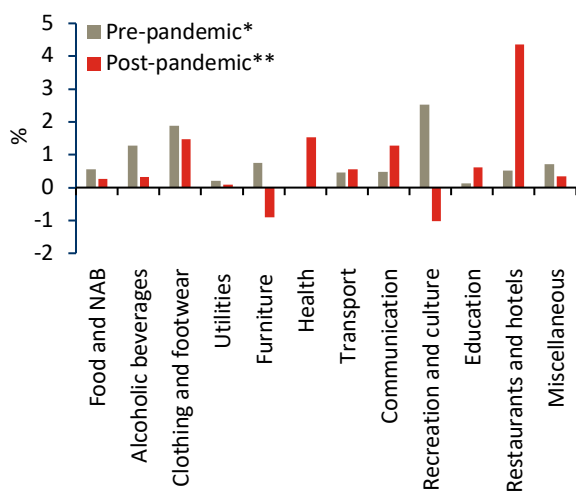
most to the increase in sales. On the other hand, pharmaceutical and toiletries (0.1%, nsa, q/q) and hardware, paint and glass (5.5%, nsa q/q) had the smallest increase in sales. The boost in fourth quarter sales was due to Black Friday in November as well as

holiday spending in December (busiest month for retailers).

On an annual basis, November sales grew by 0.8% (nsa) which indicates that the first Black Friday without lockdown restrictions was a success. However, December sales were 0.5% (nsa) less than a year ago which reflects consumers reduced disposable income due to high inflation and interest rates. We expect first quarter retail sales to be lower relative to the fourth quarter because of base effects, the impact of more intensive loadshedding during the quarter and the expressed view in the consumer confidence survey that the first quarter was not a suitable time to buy durable goods given continued headwinds facing consumers.

The final household consumption expenditure breakdown provides interesting insights regarding spending patterns following the pandemic disruptions.

Chart 2: Restaurant/hotel spending gains momentum



Source: Global Insight, Momentum Investments

* Average q/q growth in 2019

** Average q/q growth in 2022

Note: Some expenditure category names have been amended from the Stats SA publication

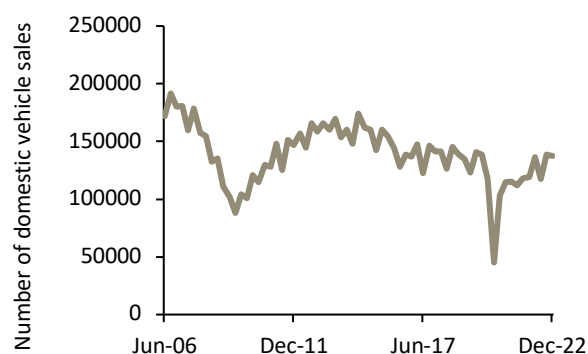
As illustrated in chart 2, growth in restaurant and hotel spending has increased from an average of 0.5% before the pandemic (2019) to 4.7% last year.

According to the first quarter BER Services Survey, confidence among respondents in the hotel and restaurant sector improved to 75, the highest level since

the first quarter of 2014. The survey results attribute most of the improvement to an increase in realised profits, fees charged and business volumes. The report notes that hotel rates have been increased to pre-pandemic levels due to higher demand from international and local customers. On the other hand, restaurants increased prices to account for higher food prices and loadshedding costs. The surge in hotel inflation to 6.1% y/y in February from 2.3% in January reflects these upward price changes.

The increase in restaurant expenditure may also be due to a preference for convenience through food deliveries, as well as loadshedding which leads to a higher reliance on takeaways during power cuts. However, in level terms, spending in this category during 2022 was still lower than in 2019 (pre-pandemic) given the reality of lower disposable incomes and the need to reprioritise expenditure. On the other hand, average growth in furnishings, household equipment and maintenance is below pre-pandemic levels. The post-pandemic contraction reflects significantly reduced spending for renovations compared to during the pandemic.

Chart 3: New vehicle sales almost back at pre-pandemic levels



Source: Naamsa, Momentum Investments

Another sector that has shown a significant recovery is new vehicle sales. The number of new vehicles sold has gradually been increasing since the trough in June 2020 as illustrated in chart 3. The total number of new vehicles sold domestically in the fourth quarter of 2022

was 137 402. This was shy of 919 vehicles sales from the 138 321 sales made in the fourth quarter of 2019. The improvement in new vehicle sales is despite the substantial increases in interest rates, high inflation rates and weak consumer confidence. NAAMSA expects the sector to remain resilient this year despite weakening economic conditions. However, the council expects single-digit growth rates given the subdued economic growth outlook for 2023.

On a quarter-on-quarter basis, fourth quarter domestic vehicle sales were 0.9% lower than in the third quarter. Sales in the fourth quarter were dragged down by figures for December 2022. However, we note seasonality in this sector insofar as December and April generally have lower sales which lead to dips in the second and fourth quarter outcomes.

In the first two months of 2023, 89 434 new vehicles were sold. This is higher than a year ago, but less than sales in the first two months of the previous quarter.

Among 42 manufacturers, Toyota consistently captures the largest share of total domestic sales with an average

share of 22% since 2006. According to *BusinessTech*, the Toyota Hilux (starting price of above R300 000) remains the bestselling car in South Africa (SA) and was the top selling car in 2022.

In terms of the used-vehicles industry, TransUnion indicates that there is demand for second-hand vehicles, but there is not enough supply of good quality vehicles, resulting in upward price pressure. The report ascribes this to lower new vehicle sales over the past two years. We believe this may also be due to consumers taking longer to upgrade their vehicles than before because of tighter personal finances. As such, the undersupply has led to an increase in prices as seen in the historically high inflation rate for second-hand vehicles. In February 2023, used-vehicle inflation was 14.4% y/y, down from a peak of 16% y/y in December 2022.

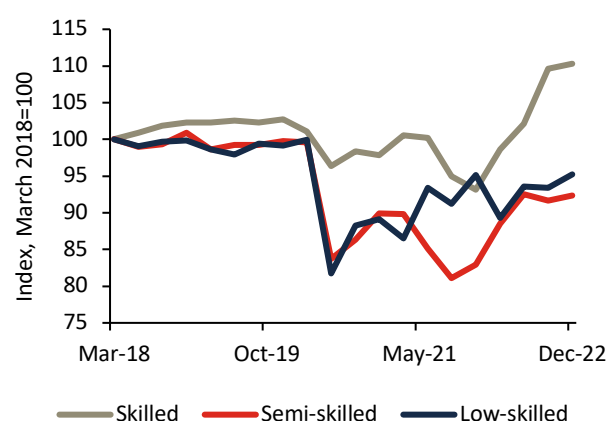
The recovery path in hotels and restaurants as well as vehicle sales points to an unbalanced recovery in the spending power of consumers, with higher income earners displaying a higher level of purchasing power.

Unbalanced access to sources of income and income growth

High-income and middle-income earners have experienced a faster rebound from the impact of the pandemic compared to low-income earners. This is seen in the employment statistics, income growth figures and credit extension statistics. However, these two income groups are more pessimistic about their household finances over the next 12 months than low-income earners.

According to Statistics SA (Stats SA), the unemployment rate dropped slightly by 0.2% to 32.7% in the fourth quarter of 2022. This represents the fourth consecutive drop in the unemployment rate. The lower unemployment rate in the fourth quarter was due to 142 805 jobs created in the formal sector (non-agriculture). On the other hand, 15 474 jobs were shed in the informal sector (non-agriculture).

Chart 4: Inconsistent recovery in job creation



Source: Global Insight, Momentum Investments

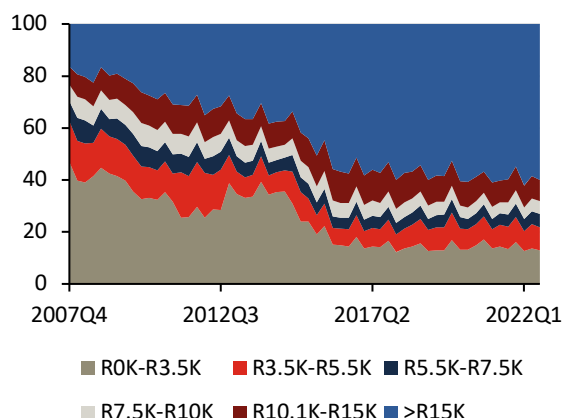
As illustrated in chart 4, the number of jobs created for skilled individuals (managers, professionals and

technicians) has recovered to levels above the COVID-19 pandemic. The recovery for semi- and low-skilled jobs lags and remains below pre-pandemic levels. Moreover, the latter categories experienced the largest number of job losses during the pandemic.

The fourth quarter Consumer pulse report flagged results from Standard Bank regarding their clients' nominal income growth. The data showed that income growth for individuals earning R60 000 p/m and above was disproportionately larger than clients earning below R60 000 p/m. Although this is a sample of the SA consumer base, it indicates trends in income growth.

Lastly, data from the National Credit Regulator (NCR) reveals that middle- to high-income earners (earning more than R15 000 p/m) have more access to credit to supplement their disposable income. In the fourth quarter Consumer pulse report, we showed that this income group was granted the bulk of unsecured credit. The share of unsecured credit to middle- and high-income earners increased from 8% in the fourth quarter of 2007 to 53% in the third quarter of 2022. The same trend is witnessed in the issuance of secured credit (excluding mortgage loans) as illustrated in chart 5 below.

Chart 5: Share of secured credit granted is skewed to higher income individuals



Source: NCR, Momentum Investments
Data until the third quarter of 2022

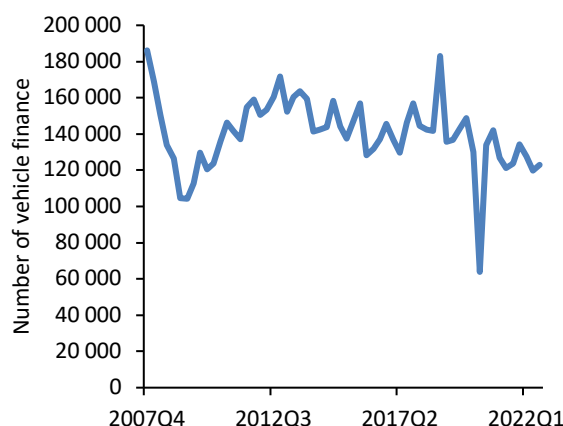
Almost 60% of secured loans granted were issued to individuals earning above R15 000 p/m in the third

quarter of 2022. The share has increased from 53% in the fourth quarter of 2019.

Secured credit comprises vehicle finance (new and second-hand vehicles), furniture and other durable goods, insurance-backed loans, pension-backed loans and other security. Vehicle finance has consistently dominated the total value of secured credit at R43.3 billion (90.8% share) in the third quarter of 2022. This is above R42.5 billion granted in the fourth quarter of 2019 and above the long-term average of R31.9 billion (excluding latest data point).

However, the number of clients who have been granted vehicle finance has not recovered to pre-pandemic levels as seen in chart 6, which implies that a smaller pool of individuals who meet the qualifying criteria are granted larger loan amounts.

Chart 6: Number of vehicle loans granted is decreasing



Source: NCR, Momentum Investments
Data until the third quarter of 2022

Despite this backdrop, high income-earners are still pessimistic because some variables which influence their CCI levels, such as house prices and the equity market, are still under pressure.

A large segment of SA's consumer base has not yet recovered from the job losses in 2020 which worsened already-high structural unemployment. Low-income earners are also on the back foot because less credit is granted to them and the recovery in their income levels has not kept pace with that of high-income earners.

Moreover, this income group is disproportionately impacted by high inflation given that the bulk of their spending is allocated to food and transport (biggest contributors to the elevated inflation rates).

In February 2023, the average inflation rate for expenditure deciles one to three was 10.1% y/y. This was higher than 7.5% y/y for deciles four to seven and the 6.9% y/y inflation for deciles eight to ten.

The Momentum-UNISA CFVI dipped by 2.7 points to 47 points in the fourth quarter of 2022, the lowest level since June 2021. A reading of 47 points indicates that consumer finances are 'very exposed'. All the sub-components of the CFVI (income, expenditure, savings and debt servicing) declined during the fourth quarter and income and expenditure sub-indices fell below 50 resulting in all the sub-indices being below 50 points. According to the report, the root cause of weaker sentiment in all the sub-indices is a deterioration in disposable income. Weaker purchasing power directly impacts the income sub-index. This has a ripple effect to the other sub-indices because lower income results in consumers not being able to comfortably meet all their

expenditure requirements. Therefore, consumers do not have enough money to meet their debt obligations and save.

In the third quarter CFVI report, the top four risks affecting consumer finances were increasing food prices, loadshedding, high fuel prices and political instability/corruption. The ranking of these risks shifted from the third quarter to the fourth quarter with loadshedding being the highest risk followed by political instability/corruption and increased food prices. Risk emanating from high fuel prices was replaced by persistent unemployment, poverty and inequality.

Loadshedding was ranked 10th out of 14 risks in the first quarter of 2022. The shift from the first quarter to the last quarter is consistent with the increasing duration and severity of loadshedding with each passing quarter.

The risks expressed by respondents in this survey are expected to persist over the coming months, which implies that consumers' level of financial security will remain suppressed.

The 2023 National Budget is cognisant of pressures faced by consumers

The National Budget tabled in February 2023 notes that consumers face tough economic conditions. As such, the proposed tax and expenditure measures announced intend to provide much needed relief to consumers.

The budget indicates that raising taxes in an environment of low growth and high uncertainty increases the risk of hindering economic activity. As such, government has not implemented any major tax changes. The tax overruns and the estimated strong revenue collections over the medium term despite economic headwinds have created an enabling environment for government to withhold major tax increases for 2023/24 as detailed below.

Personal income tax brackets were adjusted in line with the expected inflation rate of 4.9% for fiscal 2023/24 to avoid bracket creep. According to the budget, this adjustment translates to around R15.7 billion relief for

consumers and will mainly benefit middle-income households.

Direct support for low-income households is mainly through the grant system. The R350 social relief of distress (SRD) grant has been extended for another year. The SRD grant is expected to provide support to around 8.5 million individuals, up from 8 million individuals last year. Discussions around a more permanent basic income support are still underway. Furthermore, government has allocated an additional R20.9 billion for social grants in 2023/24. This is due to an increase in beneficiaries and the annual nominal increase in the value of the grants: old age (5%), war veterans (5%), disability (5%), foster care (5.1%), care dependency (5%), child support (5.2%) and grant-in-aid (5.2%). The estimated inflation rate of 4.9% in fiscal year 2023/24 means social grants will increase by an average of 0.17% in real terms, keeping pace with inflation.

The general fuel and Road Accident Fund (RAF) levies were kept constant for the second consecutive year. This is intended to provide relief from high fuel prices. Furthermore, consumers will benefit from the two-year extension of the diesel fuel levy refund to manufacturers of foodstuffs. The refund system aims to reduce the impact of loadshedding on food prices as manufacturers continue to spend more on diesel to remain operational during power cuts. To assist households with reducing the impact of loadshedding, government has implemented a one-year rooftop solar panel incentive in the form of a 25% tax rebate on the cost of new and unused solar PV panels. The budget makes provision of R4 billion for relief in this regard.

Further tax relief is provided through inflation-related increases in excise duties in 2023/24, no sugar tax increases for the next two fiscal years and a 10% upward adjustment on the transfer duty and retirement tax brackets.

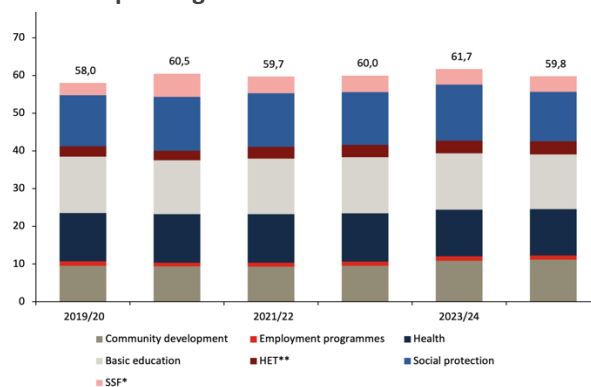
The tax proposals in the 2023 National Budget do not place pressure on consumers' disposable income because they do not increase the tax burden.

Prevailing economic conditions are unfavourable for consumption expenditure

Higher economic activity in restaurants/hotels and vehicle sales indicates that middle- to high-income earners are recovering at a faster pace than low-income earners who spend the bulk of the income on food and transport. A one-year extension of the SRD grant will help a large part of the economically inactive population to meet some basic needs. However, a boost in economic activity from this segment of the population is only likely to come from a more meaningful creation of employment opportunities.

Moreover, the budget remains redistributive and supportive of poor households. As illustrated in chart 7, 61.7% (R1.2 trillion) of consolidated non-interest spending is allocated for the social wage in 2023/24. Basic education and social protection make up the bulk of social wage spending. Over the medium term, R3.6 trillion is estimated to be spent on social wage. This is likely to be taken into account when considering a more permanent solution for a basic income support.

Chart 7: Social wage as a % of consolidated non-interest spending



Source: National Treasury, Momentum Investments

* Social security funds

** Higher education and training

A pedestrian growth outlook is unlikely to positively impact consumer confidence and consumption expenditure in any meaningful way. Elevated interest rates will continue to dampen consumers' appetite for credit, suggesting muted support for household consumption from a further accumulation in debt.

Therefore, we still hold the view that growth in household consumption expenditure will remain weak at 1.4% in 2023 and increase only slightly to 1.7% in 2024 as inflation and interest rates moderate.

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