



Consumer pulse: Consumers face mounting financial pressures

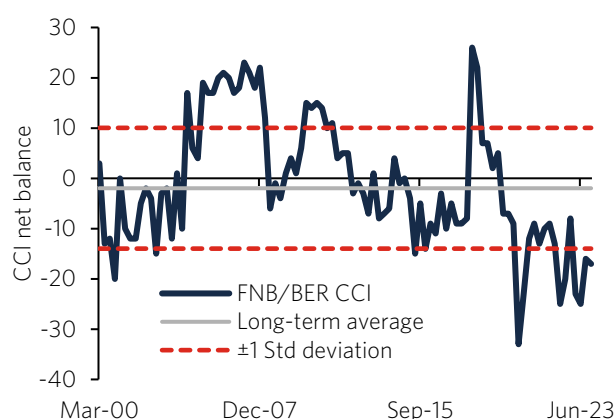
Highlights

- The First National Bank (FNB)/Bureau for Economic Research (BER) Consumer Confidence Index (CCI) dipped slightly to negative 17 points in the fourth quarter of 2023 from negative 16 points in the third quarter. The drop in CCI was due to pessimism about the expected economic outlook. The household finances and time to buy durable goods sub-indices improved.
- Respondents continued to be more optimistic about their expected household finances than the expected performance of the economy. Low-income households were more optimistic about their expected household finances while high-income households were the least optimistic.
- Consumers continue to feel the impact of the past interest rate hikes, as evidenced by nominal household credit extension growth moderating for the ninth consecutive month to 5.2% year-on-year (y/y) from a recent high of 8% and the ratio of household debt-service costs to disposable income increasing to 8.8% from the recent low of 6.7%. Higher debt-servicing costs squeezing consumers' disposable income is making it increasingly difficult for consumers to honour debt repayments.
- According to the National Credit Regulator (NCR), vehicle repossessions in the first half of 2023 were 5.3% higher than in the same period a year ago. On the other hand, mortgage repossessions are relatively flat but Lightstone reported that there is a rise in voluntary home sales, especially among homeowners who took advantage of the low interest rate period in 2021.
- The official unemployment rate, reported by Statistics South Africa (Stats SA), declined to 31.9% in the third quarter of 2023 from 32.6% in the second quarter.
- Despite the decline in the third quarter unemployment rate, household consumption expenditure decreased by 0.3% q/q which reflects that consumer finances are strained.
- BankservAfrica data shows that the total value of sales declined slightly from R4.9 billion in 2022 to R4.5 billion in 2023 and sales volumes decreased from 7.5 million in 2022 to 7.3 million in 2023. Furthermore, consumers prioritised essential spending over discretionary spending and there is a growing preference for online shopping.
- The SA Reserve Bank (SARB) expects an average salary growth rate of 6% in 2024. Higher salary growth compared to the 4.6% in 2023 will likely boost household consumption expenditure next year.
- The implementation of the Two-pot retirement system on 1 September 2024 is expected to support durable goods expenditure but there is a possibility that some consumers may use the funds to repay their debt.
- We forecast modest growth of 0.8% y/y in household consumption expenditure for 2023 and a slight increase to 1.3% y/y in 2024 on the back of moderating inflation, the likelihood of interest rate cuts and higher real wage growth, causing slightly better economic growth of 1% next year.

Consumer sentiment dropped in the third quarter of 2023

After the nine-point improvement in the CCI from negative 25 points in the second quarter of 2023 to negative 16 points in the third quarter, consumer confidence dipped slightly to negative 17 points in the last quarter of 2023 as seen in chart 1.

Chart 1: CCI drifts further into negative territory



Source: Global Insight, BER, Momentum Investments
Data until December 2023

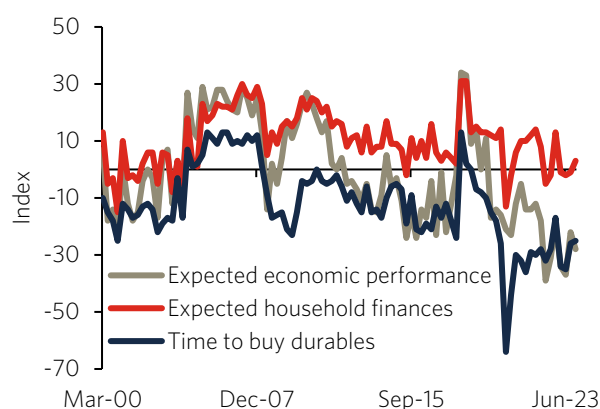
Since the COVID-19 pandemic, consumer confidence has ticked up during the fourth quarter of each year until this year. In December 2020, the index improved by 11 points to negative 12 reflecting the relaxation of restrictions pertaining to international travel and shop trading hours. In 2021, the index improved by only one point but 2022 saw a 12-point increase in the index to negative eight. December 2022 was the first lockdown-free festive season since the start of the pandemic. Not only did the CCI dip in the fourth quarter of 2023 but FNB highlights that “negative 17 is the lowest festive-season consumer confidence reading in more than two decades”.

The fourth quarter CCI survey was conducted between 13 and 24 November 2023. The last day of the survey coincided with Black Friday but some stores were already running specials one week prior. A two-decade-low reading against this backdrop is evidence of the tough economic climate that consumers are navigating.

The dip in sentiment in the fourth quarter was driven by pessimism about the expected economic performance

(see chart 2). The economic outlook sub-index decreased from negative 22 points in the third quarter to negative 28 points in the fourth quarter. On the other hand, the sub-index measuring expected household finances improved to three points, likely influenced by the fuel price drops announced for November and December. The sub-index measuring the suitable time to buy durable goods improved by one point but remained depressed at negative 25, indicating that the current environment is not deemed as suitable for purchasing durable goods.

Chart 2: Respondents remained more optimistic about household finances



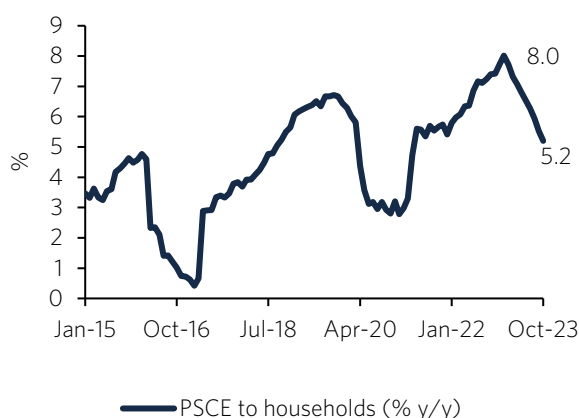
Source: Global Insight, BER, Momentum Investments
Data until December 2023

In terms of income groups, high- and middle-income households were responsible for the decrease in the overall CCI. Both groups' confidence levels dropped by two points to negative 19 points and negative 17 points, respectively. Low-income households reported an improvement in sentiment from negative 16 points in the third quarter to negative 13 points in the fourth quarter. FNB attributes the decline in pessimism among low-income households to job growth and the one-year extension of the Social Relief of Distress (SRD) grant and notes that high- and middle-income households are likely concerned about elevated interest rates, high inflation, deteriorating government fiscal balances and the likelihood of tax changes in the February 2024 budget.

Higher-for-longer rates rhetoric increases risk of financial hardship

In the third quarter Consumer pulse report, we highlighted signs that consumers are increasingly feeling the impact of previous interest rate hikes – this trend has continued in the fourth quarter.

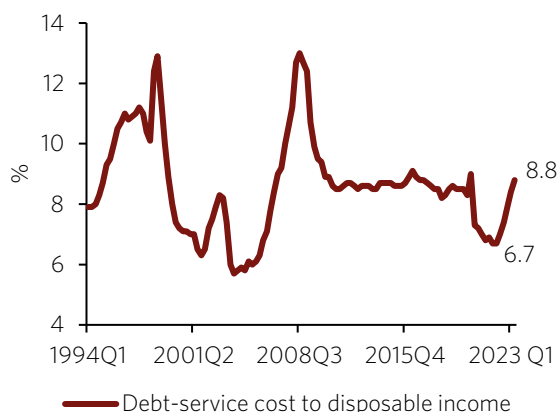
Chart 3: Sharp deceleration in household credit extension



Source: Global Insights, SARB, Momentum Investments

Nominal growth in private sector credit extension to households moderated for the ninth consecutive month to 5.2% y/y in October from a peak of 8% in January (see chart 3). The slowdown in credit demand reflects high borrowing costs.

Chart 4: Cost of servicing debt is climbing



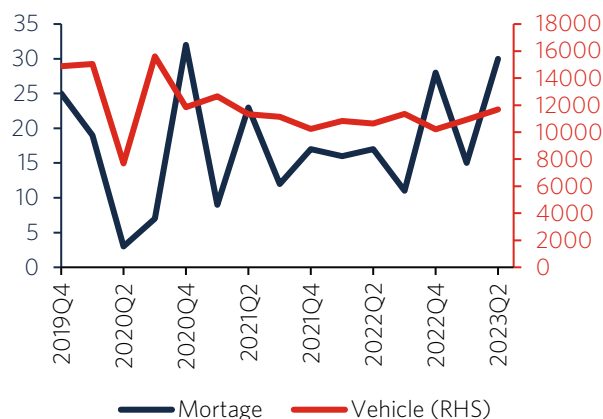
Source: Global Insights, SARB, Momentum Investments
Data until the second quarter of 2023

As seen in chart 4, a higher proportion of households' annual disposable income is required to service debt.

The ratio of household debt-service cost to disposable income increased to 8.8% in the second quarter of 2023, the highest level since the first quarter of 2017 but still lower than the average of 11.5% reached during the global financial crisis. We expect debt-service costs to remain elevated given the SARB's intention to keep interest rates higher for longer.

High debt-service costs to disposable income increases the risk of consumers not being able to service their debt, which is reflected in higher debt default rates. According to the NCR, there is a higher occurrence of vehicle repossessions (see chart 5). There were 22 613 vehicles repossessed in the first six months of 2023, representing a 5.3% increase compared to the same period in 2022. While mortgage repossessions are relatively flat, Lightstone reported that there is a rise in voluntary home sales, especially among homeowners who took advantage of the low interest rate period in 2021.

Chart 5: Number of vehicle repossessions on the rise



Source: NCR, Momentum Investments

Higher income growth and lower inflation rates in the coming months has the potential to cushion the impact of interest rates remaining higher for longer on consumers' financial position. According to the Momentum-Unisa Consumer Financial Vulnerability Index, consumers were less financially vulnerable in the third quarter with the index increasing to 50.9 points from 49.3 points in the second quarter. However, consumers are "still in despair". The report indicates

that the increase in the index was broad-based across the sub-components (income, expenditure, savings and debt servicing) but the main driver of the increase was

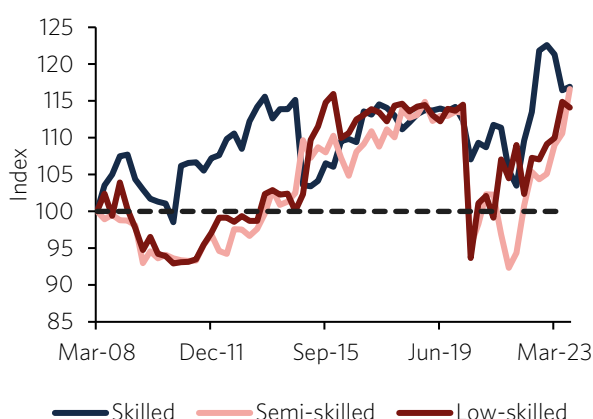
the income sub-component which was influenced by a lower unemployment rate and money transfers from friends and family.

Employment picks up in the third quarter

According to Stats SA, the official unemployment rate declined to 31.9% in the third quarter of 2023 from 32.6% in the second quarter. The number of employed persons increased by 398 588 to 16.7 million. The bulk of these positions were filled in the formal sector (287 000), followed by the agricultural sector (61 000), informal sector (29 000) and private households (22 000).

In terms of occupation, the bulk of jobs created in the third quarter were for semi-skilled workers (416 000). Skilled employment expanded marginally by 16 000 and there were 32 000 job losses among the low-skilled segment (see chart 6). The high absorption of semi-skilled jobs was largely driven by plant and machine operators and assemblers, as well as service workers, and shop and market sales workers. The latter corresponds with the rebound in the tourism industry and the festive season could be a contributing factor.

Chart 6: Semi-skilled jobs spiked in Q3 2023



Source: Global Insights, Stats SA, Momentum Investments
Data until the third quarter of 2023

On a year-on-year basis, the unemployment rate was one percentage point lower compared to 32.9% in the third quarter of 2022. The expanded unemployment rate recorded a larger drop of 1.9 percentage points to 41.2% over the same period but remained elevated,

which indicates that a big part of SA's population is still economically excluded. In recognition of this, government continues to allocate the bulk of spending (around 61%) to the social wage (primarily for healthcare, education and social protection) over the medium term. In the 2023 Medium-Term Budget Policy Statement (MTBPS), National Treasury proposes to implement inflation-linked increases for social grants in 2024/25 and 2025/26 and the SRD grant was extended until March 2025 for 8.5 million recipients. This will continue to support household consumption expenditure in the low-income segment of the population. Discussions of a more permanent basic income grant are still underway.

Loadshedding continues to be a drag on economic activity and has a negative impact on job creation and job losses. The latest estimates from the Minister of Electricity indicate that 840 000 jobs may be lost due to the record-high loadshedding experienced in 2023. This estimate is 200 000 jobs more than the jobs lost in 2022 on account of loadshedding.

The SARB revised growth in average salaries down to 4.6% in 2023 (previously 5.4%) and 6% in 2024 (previously 6.1%) in the November interest rate setting meeting. Despite the downward revision in 2024, the expected growth in average salaries is still substantial and we expect this to contribute toward higher household consumption expenditure but not to the extent of being inflationary.

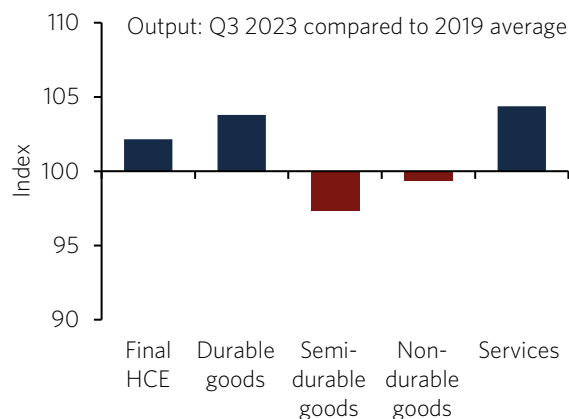
Seasonally adjusted final household consumption expenditure decreased by 0.3% q/q in the third quarter of 2023 and detracted 0.2 percentage points from growth. The contraction in household consumption despite the lower unemployment rate in the quarter is an indication that consumer finances are strained by elevated inflation and interest rates. In the period under review, inflation surged back up from a low of 4.7% y/y

in July to 5.4% y/y in September due to higher fuel prices.

Expenditure growth on non-durable goods (e.g. food and fuel) decreased the most in the third quarter (negative 1% q/q) and total expenditure dipped below pre-pandemic levels (2019 average) as seen in chart 7. This follows seven consecutive months of above pre-pandemic expenditure on non-durable goods and the drop is reflective of elevated food and fuel prices in recent months. Expenditure on durable goods (e.g. furniture and vehicles) and services also decreased in the third quarter but remained above pre-pandemic levels. Semi-durable goods (e.g. clothing and footwear) were the hardest hit during the pandemic. Despite the gradual recovery of expenditure on semi-durable goods witnessed since lock-down restrictions were lifted and the 2% q/q lift in the third quarter of 2023, expenditure

on semi-durable goods in the third quarter remained below pre-pandemic levels.

Chart 7: Household consumption performance relative to pre-pandemic levels



Source: Global Insights, Stats SA, Momentum Investments

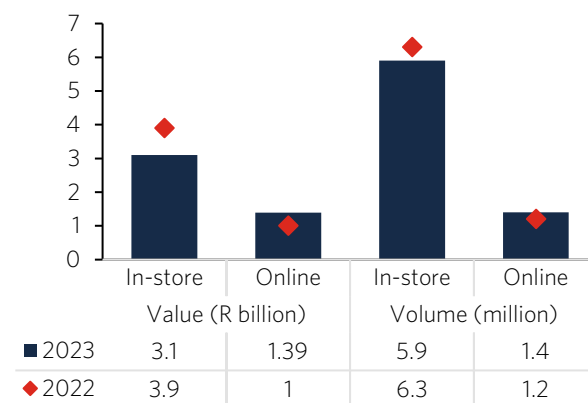
Consumers prioritised essentials during Black Friday 2023

According to BankservAfrica, most of the card transactions processed during Black Friday were in supermarkets, followed by department stores. This is an indication that consumers spent more on essential goods than discretionary goods. Furthermore, *IOL (Independent Online)* reported that the most popular Black Friday purchase in 2023 was groceries which is warranted given that the high cost of living has resulted in basic goods becoming unaffordable. Over R1.7 billion is reported to have been spent at Shoprite, Checkers, Pick 'n Pay and Spar. Therefore, we can expect expenditure on non-durable goods to tick up in the fourth quarter.

Further insights from BankservAfrica indicated that consumers were migrating to digital spending for Black Friday shopping, but the bulk of volumes were still recorded in-store. The volume of online transactions in 2023 was 17% higher than in 2022 (1.4 million from 1.2 million). On the other hand, the volume of in-store transactions was 6% less over the same period (5.9 million from 6.3 million). Consequently, the value of online transactions recorded a growth of 39% y/y to R1.39 billion in 2023 and in-store transactions dropped by 21% y/y to R3.1 billion as shown in chart 8.

On a cumulative basis, BankservAfrica data shows that the total value of sales declined slightly from R4.9 billion in 2022 to R4.5 billion in 2023 and sales volumes decreased from 7.5 million in 2022 to 7.3 million in 2023. This is further evidence of consumers feeling the sting of high interest rates and inflation rates (i.e. lower disposable income).

Chart 8: Black Friday shoppers migrate to online*



Source: BankservAfrica, Momentum Investments

In-store reflects only card transactions

Online sales volumes do not account for transactions that shoppers may have done that did not require a one-time pin

Card transactions are not representative of the full population

Two-pot retirement system comes into effect on 1 September 2024

The two-pot system is an important reform of the retirement system in SA that will affect consumers' behaviour and finances, as well as government tax revenue.

One of the main objectives of reforming the retirement system is to allow access to retirement savings in time of need during employment, with the ultimate goal of ensuring members have enough funds available at retirement.

From 1 September 2024, the retirement savings of existing members will be split into three components (vested, savings and retirement components). The vested component will include all retirement savings available at 31 August 2024. The savings component will house a third of net contributions (contributions less fees) from 1 September 2024 plus an optional 10% or maximum of R30 000 seed capital from the vested pot. The remaining two-thirds net contribution will be preserved in the retirement component. Members will have the option to access funds from the vested pot

before retirement and this will be subject to tax according to the lump sum tables.

Withdrawals from the savings pot before retirement will be taxed at marginal rates and a member will be allowed one withdrawal in a tax year while in employment, provided that the savings pot has a minimum of R2 000. New members (i.e. individuals who start contributing towards retirement from 1 September 2024) will only have the savings and retirement components. Withdrawals are optional and members can opt to keep funds untouched in the different pots.

Given the financial strain that consumers are grappling with, it is expected that some members will access their savings immediately when the two-pot system is implemented. The SARB expects behavioural changes to be gradual and the BER expects additional consumption expenditure to be concentrated in durable goods but highlights the possibility of withdrawals being used to finance debt.

Slightly higher consumption expenditure growth expected in 2024

We forecast modest growth of 0.8% y/y in household consumption expenditure for 2023 and a slight increase to 1.3% y/y in 2024 on the back of moderating inflation, the likelihood of interest rate cuts (75-basis points in 2024) and higher real wage growth, causing slightly better economic growth of 1% next year. However, we expect the benefit of interest rate cuts to impact the

economy with a lag and the impact is expected to be greater as the rate cutting cycle progresses.

Meaningfully higher household consumption expenditure could be achieved from a significant reduction in the unemployment rate and higher sustainable economic growth.

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