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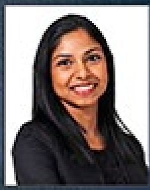

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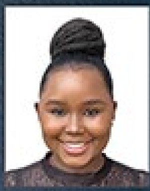

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Consumer pulse: High-income households less pessimistic

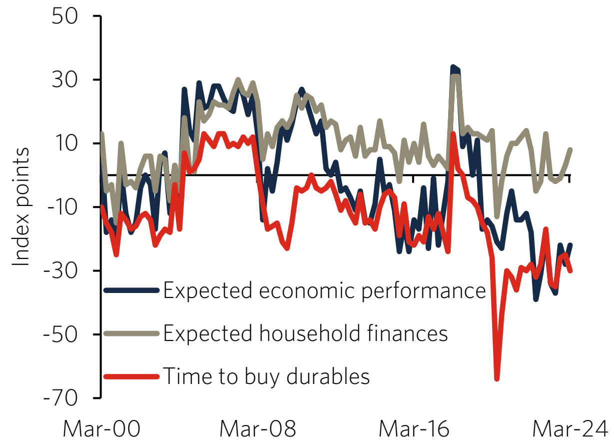
Highlights

- Consumer sentiment, as measured by the First National Bank (FNB)/Bureau for Economic Research (BER) Consumer Confidence Index (CCI), improved slightly to negative 15 points in the first quarter of 2024. This was due to improved sentiment around expected economic performance and expected household finances expressed by high-income households.
- Based on data from Eight20, low- and low-middle-income groups (typically have retail credit) have the highest percentage of individuals with loans in default. High-income earners have the lowest percentage of individuals with loans in default, but this income group is increasingly feeling the strain of high interest rates on mortgages.
- According to the National Credit Regulator (NCR), the value of mortgages in default (more than 90 days in arrears) has spiked from the first quarter of 2023 but overdue balances are still contained relative to the total value of mortgages. As such, South Africa (SA) is unlikely to experience a marked increase in house repossessions. In contrast, unsecured credit (which attracts higher interest rates) has the highest percentage of overdue debt.
- The high cost-of-living environment has led consumers to even cut back on, or downtrade, necessities. This is reflected in the contraction of retail trade sales from general dealers in 2023 as reported by Statistics SA (Stats SA). The decrease in sales volumes is evident across retailers and producers targeting different income groups.
- The income position of consumers may improve in the coming months. Easing inflation will likely lead to higher consumer disposable income levels and higher real wage growth. Furthermore, the announced increase in grants and the higher national minimum wage rate will be supportive of income levels. However, the higher tax burden (bracket creep) announced in the 2024 Budget Review may dampen the prospects for higher-income consumers.
- Government's intention to create almost 400 000 more work opportunities through the Expanded Public Works Programme (EPWP) in the first quarter of 2024, as well as the reported improvement in private sector hiring intentions according to the BER surveys, could possibly help lower SA's high unemployment rate and boost household consumption expenditure. However, benefits accruing from the EPWP programme are not sustainable because the programme is designed for short- to medium-term opportunities.
- The expected moderation in inflation to an average of 5.4% in 2024 (our estimate), possible interest rate cuts (likely from the second half of 2024), the recovery in real wage growth, the noticeable increase in grants and the possibility of employment opportunities could provide relief for consumers in 2024 and consequently boost household consumption expenditure. However, we note that lingering inflation risks and the possibility of a delayed and shallower interest rate cutting cycle, among other factors, could limit the consumer spending pick up.
- We expect household consumption expenditure to grow by 1.2% year-on-year (y/y) in 2024 (0.7% y/y in 2023) and lift slightly to 1.5% y/y in 2025. This should be supportive of economic growth.

Marginal improvement in the CCI but consumer sentiment remains depressed

The FNB/BER CCI improved by two points from negative 17 points in the fourth quarter of 2023 to negative 15 points in the fourth quarter of 2024. FNB notes that consumer confidence was likely supported by less loadshedding and easing food inflation. Notwithstanding the improvement, consumer sentiment remains in negative territory which signals that the average consumer's confidence level is weak.

Chart 1: Consumers more optimistic about expected household finances



Source: Global Insight, BER, Momentum Investments

The slight uptick in consumer sentiment was due to a better perception about the economic outlook and expected household finances (see chart 1). The sub-index measuring the expected performance of the economy improved by six points to negative 22 in the first quarter. The expected household finances sub-index has held up relatively better than the other two sub-indices and increased for the third consecutive quarter to eight points in the first quarter. Consumers do not think the current operating environment is appropriate for buying durable goods (e.g. vehicles and furniture). The sub-index measuring the appropriate time to buy durable goods slipped by 5 points to negative 30 in the first quarter. This is attributed to interest rates remaining higher-for-longer than previously anticipated and above-inflation increases in car prices.

In terms of income groups[1], high-income households were behind the uptick in the CCI. The index of high-income households was up by five points to negative 14 in the first quarter. This group expressed more optimism about their expected household finances (up to 13 points from one point) and were less pessimistic about the economic outlook (at negative 27 from negative 37). On the other hand, the confidence levels of low-income households dropped from negative 13 points in the fourth quarter of 2023 to negative 16 points in the first quarter of 2024. Pessimism from low-income households (negative 16 points from negative 13 points) was across the board in terms of economic outlook, expected household finances and buying durable goods. FNB notes that job losses in the last quarter of 2023 and fuel price increases in the first quarter of 2024 likely dimmed the sentiment of low-income households. The confidence level of low-income households was below that of high-income households for the first time since the third quarter of 2021.

Sentiment of middle-income households remained unchanged at negative 17 points.

More low-income consumers have overdue debt but high-income consumers are also feeling the pinch

Some of the implications of the high inflation environment over the past few years and the subsequent interest rate increases were a decrease in consumers' disposable income and low or negative real

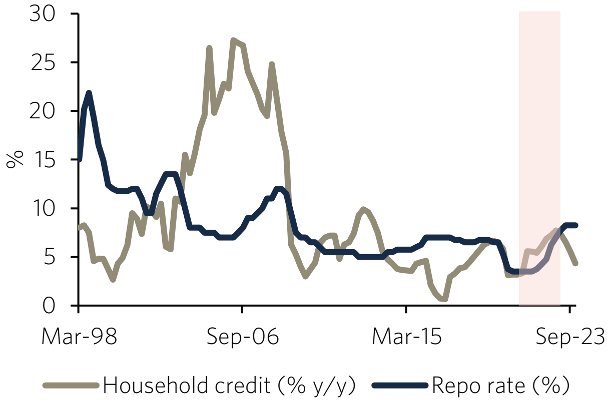
[1] **FNB/BER consumer confidence publication defines income groups as follows:**
Low-income = earning less than R5 000 per month.
Middle-income = earning between R5 000 and R20 000 per month.
High-income = earning more than R20 000 per month.

The earning ranges of the different income groups differ slightly from the categorisation done by Eight20 referred to in this document.

The FNB/BER income groups refer to households and Eighy20 refers to individuals.

wage growth which negatively affected consumption affordability. These developments prompted consumers to turn to credit to supplement their income. According to the SA Reserve Bank (SARB), total household credit increased from R1 817 billion in the first quarter of 2021 to R2 121 billion in the fourth quarter of 2023. More importantly, the rate of growth accelerated at a fast pace from 3.3% y/y in the first quarter of 2021 to the recent peak of 7.7% y/y in the last quarter of 2022 (see chart 2). While the recent acceleration in credit growth pales in comparison to other periods in history, the period between 2021 and 2022 stands out because credit growth was accelerating while interest rates were on an upward trend (normally negatively correlated). Household credit growth has since moderated to 4.3% y/y in the fourth quarter of 2023.

Chart 2: Consumer credit growth moderating



Source: Iress, SARB, Momentum Investments
Shaded area is the period between the first quarter of 2021 and the fourth quarter of 2022

Despite softer credit extension, the stock of debt and interest rates both remain elevated and continue to affect consumers' ability to repay their debt, as we noted in the Consumer pulse report in the fourth quarter of 2023. We turn the focus to evaluate which credit categories and income groups are experiencing the most pressure. According to Eighty20, low- and lower-middle income earners are bearing the biggest brunt. Between 50% and 60% of consumers in these income groups had loans in default in the fourth quarter of 2023. However, this ratio has decreased steadily from the range of 60% to 70% in the first quarter of 2020. Most individuals in these income groups have retail credit and some have credit cards.
The second income group feeling the financial burden is the middle-income group, comprising of approximately 4.1 million adults who typically earn between R8 000 and R30 000 per month. The percentage of middle-income earners who had loans in default in the fourth quarter of 2023 was around 45%. The proportion of middle-income consumers in default has been largely stable since 2020. This income group holds approximately 20% of the total value of vehicle and home loans and NCR data shows that higher-value unsecured loans are being granted to individuals earning R15 000 and above.

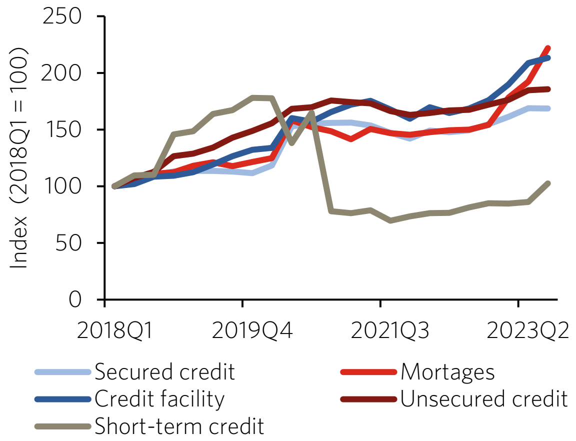
High-income earners (average personal income of R42 000 per month) and what Eighy20 classifies as comfortable retirees had the lowest proportion of defaults (around 20%) in the fourth quarter of 2023. These two groups have the lowest percentage of consumers with loans in default, but this metric has deteriorated since 2020. Eighty20 notes that high-income earners account for 64% of total loan balances (mostly mortgages) and their overdue balances increased by 1.4% quarter-on-quarter (q/q) in the fourth quarter of 2023 following an increase in the third quarter.

The trends reported by Eighty20 correspond with the NCR data. According to the NCR, the total value of mortgages in default[2] increased sharply from the first quarter of 2023 (see chart 3). However, the share of mortgages in default relative to the total value of mortgages remained low at 5.7% in the second quarter of 2023 (see chart 4). The current percentage of mortgages in default is above the levels reached during the pandemic but lower than the peak recorded during the global financial crisis (GFC). According to the *Financial Mail*, we are unlikely to see a marked increase in repossessions or distressed selling such as during the GFC. This is because the percentage of defaults is a small portion of the book value and the circumstances between now and the GFC are different. To help

[2] In arrears for more than 90 days

financially strained consumers, banks have introduced relief measures such as short-term payment holidays and extending repayment periods. However, these relief measures come at a cost.

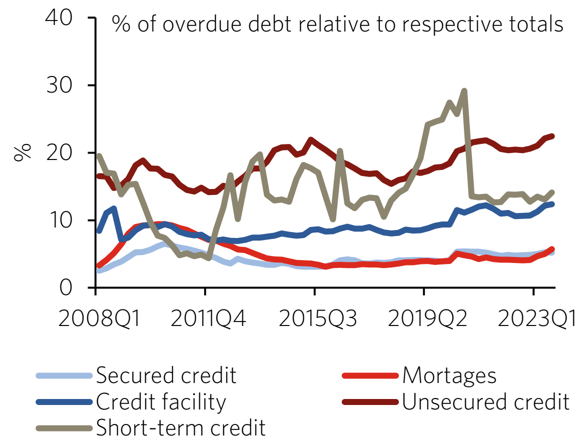
Chart 3: Spike in the value of mortgage defaults



Source: NCR, Momentum Investments
Data until fourth quarter of 2023

The growth in the value of unsecured credit stabilised in the third quarter of 2023 (see chart 3) but had the highest share of defaults relative to the total value of unsecured credit (see chart 4).

Chart 4: Mortgage defaults as a share of total mortgages still contained



Source: NCR, Momentum Investments
Data until fourth quarter of 2023

Consumer behaviour changes in response to the economic climate weigh on retail sales volumes

Apart from turning to credit and at times postponing debt repayments to make ends meet, consumers are also cutting back on purchases. This trend started with downtrading or cancelling discretionary expenditure items such as gym membership and TV subscriptions. The high cost of living has unfortunately propelled consumers to also cut back on, or downtrade, necessities as well.

According to Stats SA, real retail trade sales were 1% lower in 2023 compared to 2022. The reduction was broad-based with six of the seven retail categories contracting, except for clothing and footwear which grew by 6.3% y/y.

The biggest component of total retail trade sales (general dealers[3]) contracted by 2.6% y/y in 2023. *Business Day* reported that all the food retailers and manufacturers listed on the Johannesburg Stock Exchange (JSE) reported a decrease in sales volumes mostly covering the second half of 2023. The fact that lower volumes were reported by retailers and wholesalers targeting different income segments of the population is further evidence that the high cost-of-living environment is impacting consumers across the board although to varying degrees. Shoprite's sales volumes were 1.4% lower in the last half of 2023 and Tiger Brands reported an 8% decrease in the four months ending January 2024.

Business Day notes consumer behaviour changes that have led to lower sales volumes. These changes include skipping meals, reducing meal portions, decreasing purchases of meat and buying on promotion. The article does note that consumers could be buying less in the formal market and more in the informal sector or unlisted supermarkets.

Retail trade sales had a disappointing start to 2024. Stats SA published a 2.1% y/y contraction in real retail

[3] General dealers refer to predominantly retail trade in non-specialised stores with food, beverages and tobacco as well as 'other retail trade' in non-specialised stores.

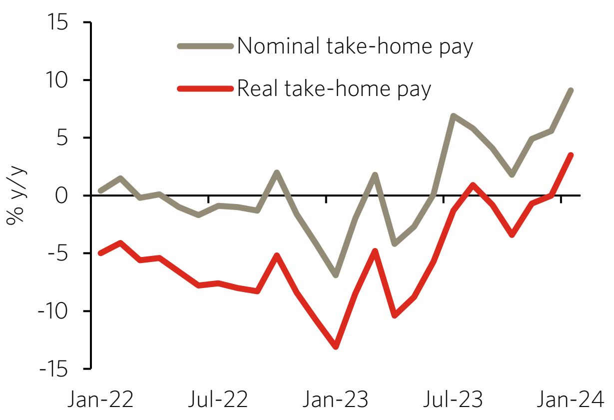
trade sales in January 2024. Five of the seven retail categories recorded a decline in sales. The largest negative contribution stemmed from retailers in textiles, clothing, footwear and leather goods (negative 6.6% y/y, detracting 1.2 percentage points), as well as retailers in pharmaceuticals and medical goods, cosmetics and toiletries (negative 4.4%, detracting 0.4 percentage point).

The BER's first quarter of 2024 retail survey indicates that retailers are downbeat about the current operating environment. The retailer confidence index dropped to 34 in the first quarter which means that two thirds of the respondents expressed dissatisfaction with prevailing business conditions. The BER expects a notable recovery in retail trade from the third quarter of 2024 on the back of moderating inflation, less loadshedding and interest rate cuts. The BER notes the potential risks from the upcoming national elections.

Consumers' income levels show signs of improvement

Moderating inflation over 2023 has been a positive development for consumers' disposable income and real wage growth. According to the BankservAfrica Take-Home Pay Index (an index tracking average take-home pay among four million salary earners in SA), real take-home pay was negative for the majority of 2023 (apart from a slight positive in August). Real take-home pay increased by 3.5% y/y in January 2024 (see chart 5). The meaningful real wage increase in January is an indication that the erosion impact of inflation is fading. We expect inflation to moderate to an average of 5.4% in 2024 from 6% in 2023 which means real wage growth will likely continue to improve.

Chart 5: Real take-home pay growth in positive territory in January 2024



Source: BankservAfrica, Momentum Investments

The higher tax burden on the back of not adjusting personal income tax brackets for inflation in the 2024 Budget Review could potentially result in lower real-wage growth. Bracket creep is estimated to take away R16.3 billion from salary earners' pockets in fiscal year (FY) 2024/25 and a cumulative R52.2 billion over the medium term. Furthermore, medical tax credits were not adjusted for inflation and will thus lower consumers' disposable income. The impact of medical tax credits is an estimated R1.9 billion out of consumers' pockets in FY 2024/25 and a cumulative R6 billion over the medium term.

Table 1: Significant grant increases in FY 2024/25

Social grant	R increase (%)	New grant amount
Old age	R100 (4.8%)	R2 185
War veterans*	R100 (4.8%)	R2 205
Disability	R100 (4.8%)	R2 185
Foster care**	R50 (4.9%)	R1 180
Care dependency	R100 (4.8%)	R2 185
Child support**	R20 (5.0%)	R530
Grant-in-aid	R20 (5.0%)	R530
SRD**	R20 (5.7%)	R370

Source: National Treasury, Momentum Investments

** The grant amount and increase for old age individuals above 75 years old is the same as for war veterans*

*** Increase effective 1 April 2024*

The old age grant, war veterans grant, disability grant and care dependency grant will all increase by R90 in April 2024 and another R10 in October 2024

A positive outcome from the budget in terms of consumer income levels was the substantial grant increases for 2024 and the subsequent announcement of an increase in the Social Relief of Distress (SRD) grant made after the budget (see table 1). FNB indicates that the announcement to increase the SRD grant was made after the first quarter consumer confidence survey was completed. This could have potentially contributed positively to the sentiment of low-income earners. The R20 increase in the SRD grant is the first increase since the grant was introduced during the pandemic. Notably, all the grant increases are more than the estimated inflation rate of 4.7% in FY 2024/25 which translates to positive real increases. The grants collectively have a far reach with an estimated 28.3 million beneficiaries in 2024/25 and will likely contribute towards higher household consumption expenditure. However, this is not expected to be significant given the relatively small contribution to total household consumption expenditure from lower-income households.

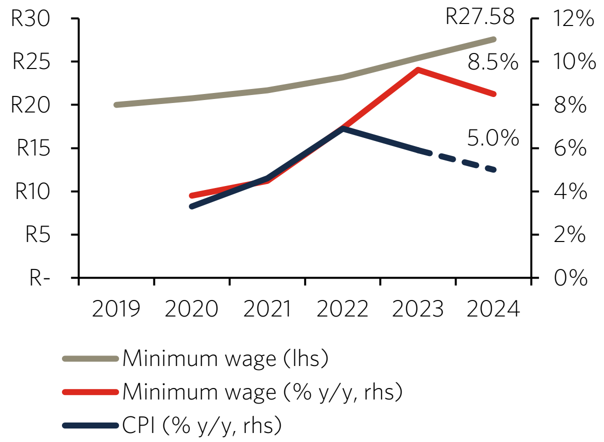
Possibility of employment opportunities on the horizon

South African consumers continue to grapple with high levels of unemployment. The higher rate of unemployment in the fourth quarter of 2023 is likely a contributing factor to lower trade sales in the fourth quarter. The official SA unemployment rate increased to 32.1% in the fourth quarter of 2023 from 31.9% in the previous quarter. This was a function of more people entering the labour force (24 700) and a decrease in the number of employed persons (21 600). The bulk of jobs lost were recorded in the community, social and personal services industry, followed by construction, agriculture and trade.

Government's intention to create more work through the EPWP in the first quarter of 2024, better private sector hiring intentions, as well as the increase in the minimum wage rate, could be supportive of consumption expenditure but the financial burden experienced by consumers may negate the potential benefit.

The National Minimum Wage was implemented in January 2019 at R20 per ordinary hour, five years after the idea was introduced in the 2014 ANC Election manifesto. Occupations entitled to the national minimum wage include domestic workers and farm workers. Since inception, the minimum wage rate has been reviewed annually and increased broadly in line with the annual inflation rate, apart from large increments (above inflation) in 2023 and 2024 (see chart 6) which resulted in positive real increases. The Department of Employment and Labour announced an 8.5% increase in the minimum wage to R27.58 per ordinary hour in 2024 (effective 1 March 2024). Against the SARB's projected 5% inflation rate in 2024, the minimum wage rate is 3.5% higher in real terms.

Chart 6: Above inflation increase in the national minimum wage rate in 2023 and 2024



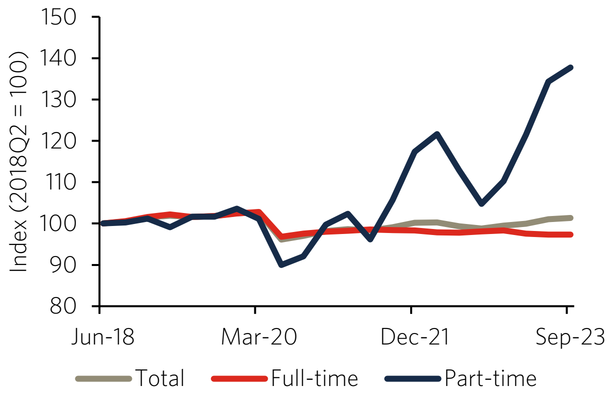
Source: Department of Employment and Labour, Momentum Investments

The benefit of increasing the wages of workers and potential spillover to consumer expenditure may be negated by the tough operating environment and financially strained private households.

According to the 2023 fourth quarter labour statistics (QLFS) published by Stats SA, the number of private households with employed persons (employing domestic staff), was marginally lower (0.7% y/y) relative to December 2022 and this category has not recovered to pre-pandemic (2019) levels. Given the increasing debt burden facing middle- to high-income earners, the large minimum wage increment could make domestic staff less affordable and reduce employment prospects.

The majority of employed persons in SA are employed on a full-time basis. According to the Quarterly Employment Statistics (QES), 86% of total employed individuals were in full-time employment in the third quarter of 2023. However, full-time employment has been stagnant since the pandemic. On the other hand, part-time employment makes up a smaller portion of total employment but has recovered well from the dip experience during the pandemic (see chart 7).

Chart 7: Part-time employment has recovered well since the pandemic. Full-time employment is stagnant



Source: Stats SA, SBG Securities, Momentum Investments

The growth in part-time employment is largely attributable to government programmes such as the Presidential Youth Employment Initiative (PYEI), the Presidential Employment Stimulus (PES) and the EPWP. Private sector-led programmes such as the Youth Employment Service (YES) have also contributed to part-time employment growth. See table 2 for a summary of jobs created by the different programmes since inception.

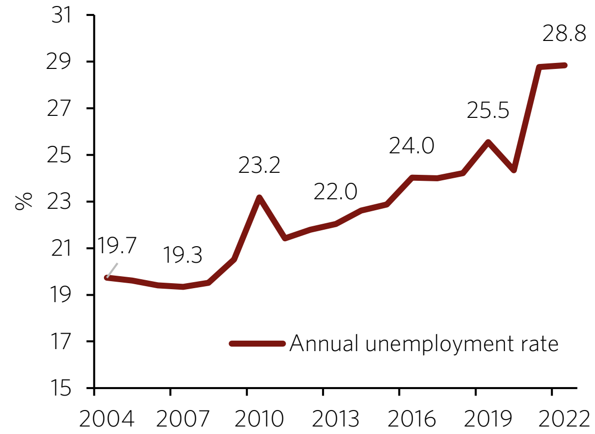
Table 2: EPWP creates 14 million jobs in 20 years

Programme	Jobs created
EPWP	c. 14 million jobs between 2004 and February 2024
PYEI and PES	c. 1.7 million jobs between October 2020 and December 2023
YES	c. 140 000 jobs between 2018 and March 2024

Source: SA government news agency, Western Cape government, yes4youth, Momentum Investments

The EPWP marks 20 years of existence in 2024. During this period, 14 million work opportunities have been created. While these jobs have contributed to skills development, they are designed as short- to medium-term opportunities which means they have a limited impact on the long-term structural problem of unemployment in SA (see chart 8). Only 20% of participants in the EPWP secured employment outside of the programme.

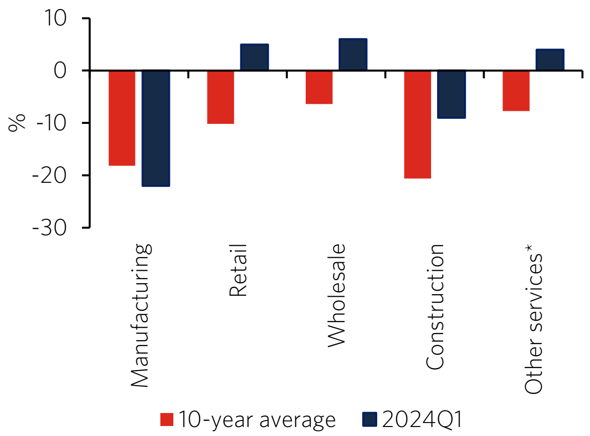
Chart 8: SA's unemployment rate higher over the years



Source: Statista, Momentum Investments

Government intends to create almost 400 000 jobs through the EPWP by March 2024 to reach the goal of five million jobs set out by the sixth parliament. The PYEI has been extended to create more jobs with phase five set to begin in April 2024 and end in March 2029.The minimum wage for individuals employed on the EPWP is lower than the national minimum wage rate at R15.16 per ordinary hour (effective 1 March 2024).

Chart 9: Broad-based improvement in employment sentiment

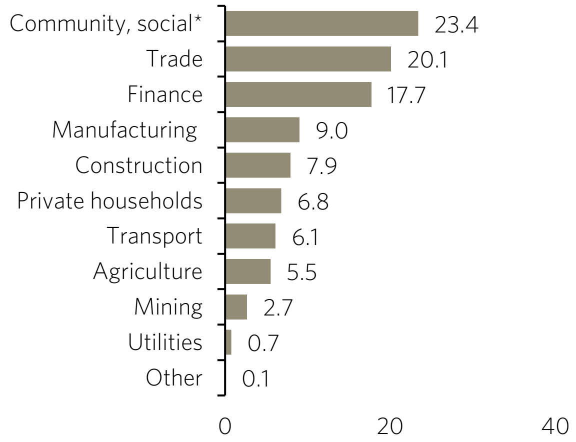


Source: Respective BER surveys, SBG Securities, Momentum Investments
** Latest data point for other services (hotels, restaurants, transport, storage, real estate, business services) is 2023Q4*

Businesses in the formal and informal sectors (non-agriculture) that are surveyed by the BER largely have a better outlook on employment prospects. Respondents in the retail, wholesale, construction and other services industries had a better sentiment of expected employment in the latest survey results relative to their respective 10-year averages (see chart 9). This signals a possibility of employment opportunities in these industries. Retail, wholesale and some industries within other services form part of trade which accounted for 20.1% of the total number of employed individuals in the fourth quarter of 2023 (see chart 10). As such, employment growth in these industries could have a noticeable impact on overall jobs growth.

Respondents in the manufacturing industry were more downbeat about expected employment in the first quarter of 2024 compared to the 10-year average which points to subdued employment growth in the manufacturing industry. Manufacturing accounted for 9% of jobs in the fourth quarter of 2023.

Chart 10: Share of employment by industry in 2023Q4, %



Source: Stats SA, Momentum Investments
** Community, social and personal services*

Expected increase in household consumption expenditure may be dampened

2023 was a challenging year for consumers. Consumers' purchasing power was dented by high inflation while wages were not keeping up with inflation. Furthermore, the high interest rate environment started working its way into the economy as evidenced by the deteriorating debt metrics since last year. Consequently, household consumption expenditure was subdued. Real household consumption expenditure, published by Stats SA, fell into a mild technical recession (two consecutive quarters of negative growth) in the third quarter of 2023 for the first time since the GFC. Consumers bounced back from the technical recession in the fourth quarter of 2023, but overall household consumption expenditure growth was weak at 0.7% y/y in 2023 compared to 2.5% y/y in 2022.

2024 may be a better year for consumers relative to 2023. This is on the back of the expected moderation in inflation, possible interest rate cuts, positive real wage growth, the noticeable increase in grants and the possibility of employment creation. These factors will likely be supportive of household consumption expenditure this year and spill over into next year. The looming risks of higher food inflation due to drier weather conditions in February and March 2024; a delayed and shallower interest rate cutting cycle and rising uncertainty around the upcoming national elections could weigh down on the projected improvement in consumer spending. Furthermore, consumer debt levels are elevated and some consumers may opt to prioritise repaying debt instead of increasing consumption expenditure.

We expect household consumption expenditure to grow by 1.2% y/y in 2024 (0.7% y/y in 2023) and lift slightly to 1.5% y/y in 2025. The National Treasury's estimates for household consumption growth are slightly more optimistic than our projections, at 1.3% y/y in 2024 and 1.8% y/y in 2025. The expected increase in household consumption for this year and next should be supportive of economic growth.