Consumer confidence recovers To five-year high

South Africans are becoming more optimistic that their financial situations will improve over the next few months.

Persistently high inflation and interest rates have weighed heavily on household finances for the past two years. The high chance of an interest rate cut this week and sustained moderation in inflation have added to the improvement in consumers' willingness to spend, especially in higher-income groups.

This was according to the latest FNB/BER Consumer Confidence Index, which lifted to a five-year high in the third quarter.

"A confluence of positive developments has bolstered the confidence levels of SA's more affluent consumers over the last six months. These include the formation of a government of national unity, the absence of load-shedding, a stronger rand exchange rate, substantial fuel price declines, a deceleration in inflation and expectations of interest rate cuts in coming months," said FNB chief economist Mamello Matikinca-Ngwenya.

The implementation of the two-pot retirement system on September 1, which provided consumers with access to a portion of their retirement savings, had also come as a welcome relief for households experiencing financial distress, she said.

The index jumped from -10 to -5 points in the third quarter, recording its second consecutive five-point increase and reaching the highest reading since 2019.

"Although the latest reading remains somewhat below the long-term average of the [index] (at zero since 1994), the reading of -5 is the highest that confidence has been since the first half of 2019, before the global outbreak of the Covid-19 pandemic," said Matikinca-Ngwenya.

The 10-point jump in the index over the past six months (and a 20-point increase since mid-2023) indicated a pronounced improvement in consumers' willingness to spend and bode well for the outlook for consumer spending for the remainder of the year, she said.

Whereas the second-quarter increase was primarily driven by a major improvement in the economic outlook subindex due to the cessation of load-shedding, the third-quarter uptick could mainly be attributed to a marked increase in the household financial outlook subindex.

The improvement in sentiment was mostly among high-income households (earning more than R20,000/month), however, there was also a further uptick for middle-income households.

The confidence of low-income households (earning less than R5,000/month) markedly improved in the second quarter but slipped back slightly in the third quarter.

“Although the termination of load-shedding, the deceleration in food inflation and substantial fuel price cuts would also have buoyed the confidence levels of less affluent consumers in recent months, low-income households are less likely to have pension funds and debt that is tied to the prime interest rate. Prospects of interest rate cuts and the implementation of the two-pot retirement system would, therefore, be less beneficial to low-income consumers,” said Matikinca-Ngwenya.

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