

ECI - end 2009: Recession bottomed out in fourth quarter, confidence in future healthy

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TNS Research Surveys (Pty) Ltd, South Africa's leading marketing and social insights company, has released their Economic Confidence Index (ECI) results for metropolitan adults for the end of 2009 (the latest study was conducted in the last two weeks of November). Whilst the overall ECI has stayed static since mid-year at 130 (May 2002 = 100), this hides considerable - and counterbalancing - movements in the two components that make up the Index.

The Index is made up of two components: how people are feeling *now* about the economy, and their *expectations for the next six months*. The reading for the *current* component dropped from 125 in June to 111 in September - the lowest figure since October 2002 - but rose slightly to 114 in November 2009. This illustrates the extent to which the recession hit people in the third quarter of 2009 (which also showed the highest job loss figure of the year). That the year-end figure is not greatly changed shows that the recession continued to bite into the fourth quarter despite a small, largely technical, growth in GDP, but that it may have bottomed out. There will be somewhat of a lag, though, before consumer spending rises to any degree.

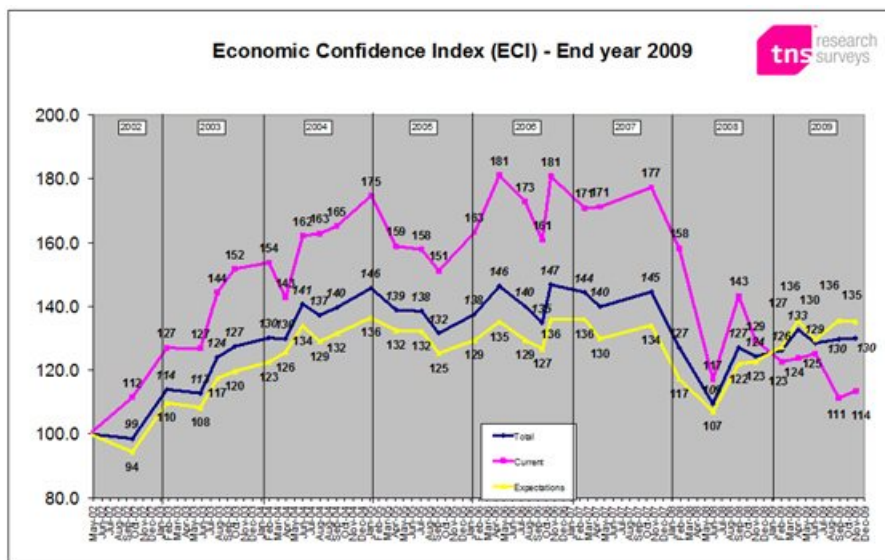
The *expectations* component, however, rose from 130 to 136 between mid-year and September, and remained at that level for November. These are near the all-time highs for this part of the Index.

Normally, the expectations component is lower than the current component but, for the last five readings, the reverse has been the case - and, as the graph below shows, especially in the last six months of the year. This shows that, whilst people are really feeling the pain strongly now, they do have clear expectations of an improvement.

The latest figures are set against a backdrop of three successive quarterly falls in economic growth, followed by a marginal increase. Inflation ran at between 8.0% and 8.6% in the first half of the year but declined to 6.1% in September and 5.8% in November - just inside the Reserve Bank's target range - with the main threat to it staying in that range being the mooted Eskom rates increase. The Reserve Bank reports that real household consumption expenditure weakened in the second quarter of 2009 and remained subdued in the second half of the year alongside declining real disposable income and high levels of household debt despite reduced demand for credit. Interest rates steadily declined during the first half of 2009, but have remained constant in recent months. Despite starting the year with a large drop, the fuel price rose almost uninterrupted since January to a peak in September, before dropping again on October.

What sentiments changed in the ECI?

The main items fuelling the decline in September in the *current* component were simply people's current economic circumstances. These bottomed out in November and there were some who felt business conditions were showing marginal improvement. The improvement in September in the *expectations* component was due to improved sentiment around inflation going forward and around business conditions and availability of jobs. Improved sentiment about inflation was what kept this component steady in November. Hence, the outcome of the Eskom price hike request could have a critical effect on economic confidence.



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Who changed?

The dramatic fall in the *current* component in September was amongst poorer people - who were also largely responsible for the small improvement in November, despite the Index for wealthier people falling to its lowest level ever in that month.

The rise in the *expectations* component in September was largely due to more wealthy people.

Our take-out

The Economic Confidence Index shows clearly that the recession bit deeply in the second half of the year but there are clear signs of it bottoming out, with confidence in the future at healthy levels. Poorer people were affected first with wealthier people reaching their all-time low in November. But all groups show high expectations for future improvement, suggesting a slow rise out of the doldrums in the first half of 2010.

Background to the ECI

Sentiment is said by many to be one of the key drivers in many markets - financial, consumer, durables, the stock market. TNS Research Surveys (Pty) Ltd, South Africa's leading marketing and social insights company, has developed an economic confidence measure that examines people's confidence in the state of the economy - a key factor in how they manage their finances and make or put off buying decisions.

This index examines people's current and future perceptions of the economy in terms of job availability, business conditions, general economic conditions, prices and inflation, likely income, and the effects of AIDS and crime on the economy. These two constructs - "where are we now?" and "where are we going?" are then combined into an overall index. The future perceptions measure, in particular, can be a leading indicator of changes in people's spending patterns if it changes over time by any material amount. The index is calculated via a survey every two to three months of 2 000 metropolitan adults aged 18 years and over, sampled from the major metropolitan areas of South Africa. In the latest reading, 1 260 blacks, 385 whites, 240 coloureds and 115 Indians/Asians were questioned. The overall margin of error is less than 2.5%. The index was first measured in May/June 2002.

Technical note

2 000 people were interviewed face-to-face in their homes. The study was conducted by TNS Research Surveys (Pty) Ltd as part of their ongoing research into current social and political issues and was funded by TNS Research Surveys (Pty) Ltd. For more details, please contact Neil Higgs, Director, on (011) 778-7500 or 082-376-6312.

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