Elevated unemployment, especially within the youth segment of the market, combined with historically low rates of household credit extension and declining net wealth continues to weigh on consumer confidence. Household consumption expenditure constitutes a significant two thirds of GDP, therefore a revival in consumer spending is key to support a lift in economic growth. Spending on food, housing, general administered costs and healthcare comprises just under 50% of total household spend. As such, gradually rising food price inflation, coupled with elevated administered costs, especially electricity and fuel prices, continue to dilute disposable incomes, impeding the already financially constrained consumer. Domestic demand remains weak as a result, in turn hindering economic growth.

Years of weak growth, constricted by a myriad of factors, including poor governance and regularity barriers leading to lower, and eventually depressed business confidence, has gradually weakened consumer’s financial health, with consumption growth anticipated to remain constrained over the medium term, only improving gradually over the 2020 to 2025 period.

The consumer’s mindset regarding their present and perceived future circumstances is a significant gauge of household spending intentions. That is, the more upbeat consumers are about the general economic outlook and therefore their financial position, the more inclined they are to spend.
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While there was a sharp pick-up in confidence, following Ramaphosa’s election to President at the beginning of last year (see figure 3) it was short lived as consumers become disillusioned amid the slow pace of domestic reform. Subsequently any pick-up in sentiment post the recent elections is likely to be slow and judicious. The release of the FNB/BER’s latest consumer confidence survey for Q2.19 serves to highlight this and emphasises the consumer’s precarious position. That is, while the index ticked up slightly to +5 from +2 in Q1.19, the sub-index measuring the perceived time to buy durable goods declined.

Extensive load shedding during February and March this year severely inhibited economic activity during the first quarter, dragging down Q1.19’s GDP reading to -3.2% qqsaa, its worst quarterly outcome in a decade. This, coupled with rising administrative prices (especially fuel and electricity) and other personal taxes, continues to dilute disposable incomes, undermining the consumer’s financial standing and therefore willingness and ability to spend, especially on non-essential durable goods (see figure 4).

Muted core inflation and subdued retail inflation readings also highlight the lackluster domestic demand environment with retailers having to their squeeze margins, in order to remain competitive.
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Furthermore, SA’s exceedingly high unemployment rate, which climbed to 27.6% in Q1.19, versus the 21.3% reached towards the end of the last decade, also has a dampening effect of confidence. Persistently muted economic growth, which has hindered fixed capital investment and expansion, continues to prevent sufficient absorption of labour into the economy. This is particularly pronounced in the youth space, with unemployment among 15-24 year olds sitting at a staggering 55.4%.

While sustainable economic growth is key to improving this dire situation, any sustainable solution to the unemployment crisis will need to include a significant revaluation of the current education system to ensure necessary skills are produced for the economy. Examples here would include a heavy focus on coding for interested learners, as many skills are still being imported to South Africa in this area. Education remains a key priority of government and as such learning and culture were allocated the largest portion of government spending in the 2019 budget. Additionally, significant measures such as early reading initiatives, improving the capabilities of teachers and introducing subjects into the curriculum that assist in preparing "(y)oung people for the jobs of the future" were outlined in the President’s recent State of the Nation Address.

The World Economic Forum (WEF) assesses the absence of a fully skilled workforce as one of the most challenging factors for doing business in South Africa and is a fundamental deterrent to economic progress. This is particularly imperative amid the rapid onset of the Fourth Industrial Revolution.
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The fourth industrial revolution is slowly infiltrating every aspect of our lives and is set to have an overarching impact on employment dynamics and consumer spending patterns. While many new jobs and skills are set to be created going forward, countless others, especially in the mid to lower skilled categories are at risk to automation, furthering the possibility of increased inequality. This is especially relevant in Emerging Market countries were the majority of the population are semi-skilled or unskilled. Considerable reskilling programmes and adjustments to the education system need to be urgently effected in order to make the fourth industrial revolution less disruptive. In particular, primary, secondary and tertiary schooling in South Africa all need to contain a heavy component of technology (including coding, AI programing, general IT skills and specific training in new and advancing areas) to allow future workers to meet the needs of the fourth industrial revolution in South Africa.

Rapid technological innovation will lead to “(l)ong-term gains in efficiency and productivity”, according to the WEF. That is, “(t)ransportation and communication costs will drop, logistics and global supply chains will become more effective, and the cost of trade will diminish, all of which will open new markets and drive economic growth”.

Figure 7: Portion of the unemployed by education level (%)

Source: Stats SA

Figure 8: Technology adoption (share of companies surveyed) – South Africa

Source: WEF
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Returning to the current economic environment in South Africa, the financial position of households remains weak, due to a combination of lower disposable income and a significant increase in household debt. That is, debt to disposable income levels have moderated from levels seen in 2008, but remain elevated at rates in excess of 72%. The rising cost of living, coupled with slower wage growth and limited employment opportunities, continues to inhibit disposable income growth, impacting negatively on overall consumer spending. This is evinced by BankservAfrica’s latest Take-home Pay Index results, which indicate that real take-home pay decreased by 1.5% y/y for the year to April and is the third consecutive monthly decline.

Net wealth of households however did tick up moderately in Q1.19, as the increase in total assets outpaced that of liabilities, “(u)nderpinned by a gain in equity portfolios”, according to the SARB. This was partially offset however, by “(s)lower growth in the non-financial assets of households due to a further slowdown in nominal house price growth”. House price growth continues to disappoint and is indicative of “(l)ow consumer confidence, lingering uncertainty around land expropriation, high unemployment and continued pressure on households’ disposable income”, according to the Reserve Bank.
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Figure 11: House Price Trend versus CPI

![Figure 11: House Price Trend versus CPI](source: SARB, Financial Stability Review)

Housing market trends and developments "serve as indicators of financial system health and confidence in the economy", according to the SARB. Indeed, in South Africa, residential housing constitutes approximately 22% of households’ total assets, therefore house price movements impact significantly on the balance sheets of households.

House price growth has been trending downwards since the second half of 2015 (with a seemingly temporary upswing towards the end of 2017), with the moderation primarily underpinned by weak domestic economic conditions and constrained household finances.

This is reiterated in the BER’s building confidence survey for Q1.18, which reveals that residential building confidence fell 14 points to 27 in the first quarter of the year, its joint lowest level since Q3.2011. “The lower confidence was consistent with a further decline in residential building activity growth”.

Figure 12: Residential Building Confidence

![Figure 12: Residential Building Confidence](source: BER)
Lending to households has edged up moderately over the past few years, but remains muted relative to historical levels, thus impeding household expenditure, this as "(c)onsumers are actively seeking new credit as a means to supplement their incomes and meet their obligations", according to Transunion.

On the supply side, a tightening of credit criteria towards households is evident with recent data from the National Credit Regulator (NCR) indicating that the rejection rate of new credit applications received, rose to 56.1% in Q4.18 from 53.7% in Q3.18. While on the demand side, consumer credit health has deteriorated, with the TransUnion Consumer Credit Index, which measures consumers’ ability to meet credit obligations, recording the largest decline in Q4.18 since 2011.

Additionally, the NCR’s latest Credit Bureau Monitor for Q4.18, indicates that consumers classified “in good standing”, reported as a percentage of the total number of credit-active consumers fell by 1.9% quarter-on-quarter and 1.0% year-on-year, while the number of consumers with impaired records rose to 10.16 million during the quarter.
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Figure 15: Gross Debtors Book – Number of Accounts

<table>
<thead>
<tr>
<th>Agreements</th>
<th>Q4.17 '000</th>
<th>Q1.18 '000</th>
<th>Q2.18 '000</th>
<th>Q3.18 '000</th>
<th>Q4.18 '000</th>
<th>% Chng. Q/Q</th>
<th>% Chng. Y/Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages</td>
<td>1.725 1.722</td>
<td>1.717 1.705</td>
<td>1.706 4.45%</td>
<td>0.02% 1.13%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secured credit</td>
<td>3.678 3.625</td>
<td>3.606 3.562</td>
<td>3.569 9.32%</td>
<td>0.21% -2.96%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit facilities</td>
<td>25.379 24.816</td>
<td>25.135 25.236</td>
<td>25.668 67.04%</td>
<td>1.71% 1.14%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unsecured credit</td>
<td>5.135 5.042</td>
<td>5.067 5.031</td>
<td>5.217 13.63%</td>
<td>3.70% 1.59%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term credit</td>
<td>1.005 1.021</td>
<td>998 1.019</td>
<td>1.015 2.65%</td>
<td>-0.37% 0.96%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developmental credit</td>
<td>1.062 1.074</td>
<td>1.080 1.098</td>
<td>1.111 2.90%</td>
<td>2.02% 4.61%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>37.984 37.300</td>
<td>37.602 37.641</td>
<td>38.285 100.00%</td>
<td>1.71% 0.79%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: NCR

An analysis of the debtor’s book reveals that credit facilities constitute the largest share of the book at 67.04%, followed by unsecured credit with 13.63%. Credit and garage cards amount to R9.60 billion or 44.31% of the total rand value of credit facilities granted (R21.67 billion), followed by store cards at R6.06 billion (28.0%) (see figure 16).

Gross saving by the household sector declined from R72.6 billion in 2017 to R67.1 billion in 2018. The precarious state of SA consumers is also illustrated by the significant increase in insolvency numbers. Indeed, on a seasonally adjusted basis, the number of insolvency cases climbed 29.1% y/y for the first quarter of 2019. While strides in social and economic progress have been made since the end of apartheid in 1994, striking evidence of inequality in South Africa remains, with high youth unemployment, and urgent skills training needed to tackle joblessness.

Figure 16: Credit facilities granted (Rand value) – Q4.18 % distribution

Source: NCR
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According to Stats SA’s Living Conditions Survey 2014/15 (the most recent report of its kind published) “(t)he highest-income decile, average annual household income was R689 672; in the lowest-income decile, average annual household income was just R6 279”.

Social grants play a crucial role in reducing poverty and inequality and the percentage of individuals that benefitted from social grants has consistently increased from 12.8% in 2003 to 31.0% in 2018. Simultaneously, the percentage of households that received at least one social grant increased from 30.8% in 2003 to 44.3% in 2018. For some households in South Africa, social grants remain a vital safety net, particularly in the poorest provinces, with grants being the second most important source of income (45,2%) for households after salaries (64,8%), and the main source of income for almost one-fifth (19,9%) of households nationally. Nonetheless, “(e)ven after taking social grants into account, the difference between rich and poor is vast”. That is, with a Gini coefficient of 0.63 in 2015, South Africa is one of the most unequal countries on earth. In order to fight poverty and inequality the removal of long-standing structural constraints to growth and the acceleration of job creation is paramount. “An improved business environment resulting from reform implementation would attract much-needed private investment, and, in turn, lead to a virtuous cycle of growth, job creation, and social inclusion”, according to the IMF.
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Figure 19: GDP versus Business Confidence

However, should reforms be delayed, “(i)nvestment would fail to pick up, economic growth would remain weak in the medium term, and per-capita income would continue to decline”. Insufficient skills, remains one of the most pressing impediments to combating unemployment, poverty, crime and inequality in the country, “(d)ue to continued historical disadvantage entrenched in the education system, according to the World Bank. Tackling the unemployment dilemma remains critical, along with an acceleration in the pace of key reforms to lift business confidence and jump-start private investment, thereby reigniting growth.

Unless growth in real disposable (after tax) incomes picks up substantially in South Africa, and the provision of credit loosens, SA faces only a modest household consumption expenditure, and hence economic, growth outlook.

Figure 20: Selected Indicators for the Household Sector (annual percentage change)

<table>
<thead>
<tr>
<th></th>
<th>Q4.17</th>
<th>Q1.18</th>
<th>Q2.18</th>
<th>Q3.18</th>
<th>Q4.18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disposable income</td>
<td>7.6</td>
<td>6.5</td>
<td>5.9</td>
<td>5.3</td>
<td>4.9</td>
</tr>
<tr>
<td>Financial assets</td>
<td>12.5</td>
<td>6.8</td>
<td>8.4</td>
<td>3.1</td>
<td>-3.3</td>
</tr>
<tr>
<td>Total assets</td>
<td>10.0</td>
<td>6.1</td>
<td>7.2</td>
<td>3.8</td>
<td>-0.3</td>
</tr>
<tr>
<td>Net wealth¹</td>
<td>11.0</td>
<td>6.3</td>
<td>7.6</td>
<td>3.5</td>
<td>-1.6</td>
</tr>
<tr>
<td>Consumption expenditure</td>
<td>3.7</td>
<td>1.1</td>
<td>0.1</td>
<td>0.6</td>
<td>3.2</td>
</tr>
<tr>
<td>Consumption expenditure to GDP</td>
<td>59.4</td>
<td>60.9</td>
<td>59.5</td>
<td>59.5</td>
<td>59.8</td>
</tr>
<tr>
<td>Credit extension</td>
<td>3.8</td>
<td>3.9</td>
<td>4.5</td>
<td>5.1</td>
<td>5.7</td>
</tr>
<tr>
<td>Savings as a percentage of disposable income</td>
<td>0.2</td>
<td>-0.3</td>
<td>0.4</td>
<td>0.0</td>
<td>-0.5</td>
</tr>
<tr>
<td>Debt to disposable income</td>
<td>71.3</td>
<td>71.7</td>
<td>71.5</td>
<td>71.8</td>
<td>72.7</td>
</tr>
<tr>
<td>Debt to GDP</td>
<td>42.5</td>
<td>43.6</td>
<td>42.7</td>
<td>42.8</td>
<td>43.3</td>
</tr>
<tr>
<td>Financing costs of household debt</td>
<td>5.2</td>
<td>2.2</td>
<td>1.7</td>
<td>6.1</td>
<td>5.9</td>
</tr>
<tr>
<td>Debt-service costs² as a percentage of disposable income</td>
<td>7.8</td>
<td>7.7</td>
<td>7.6</td>
<td>7.7</td>
<td>7.7</td>
</tr>
<tr>
<td>Capital gearing (%)³</td>
<td>15.8</td>
<td>16.2</td>
<td>16.1</td>
<td>16.3</td>
<td>16.9</td>
</tr>
</tbody>
</table>

Source: SARB Financial Stability Review

1. Household net worth is defined as total assets of households less total financial liabilities
2. Interest payments on housing and personal debt
3. ‘Capital gearing’ refers to household debt as a percentage of total assets of households. Data are preliminary
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