

Low consumer confidence set to hurt retailers

By [Asha Speckman](#)

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The 'significant' drop in consumers' durable goods consumption will continue to hurt retailers, say economists.



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Consumer confidence dropped in the fourth quarter of 2016, signalling bad news for durable goods retailers, economists warned on Thursday.

Economists keep a close watch on consumers' durable goods consumption as a key gauge of how business is doing. Durable goods retailers, such as equipment, vehicle, furniture and mainstream retailers, experienced a growth slump throughout most of 2016.

First National Bank (FNB) household and property sector strategist John Loos said the -3.7% year-on-year contraction documented for durable goods in the three months to November was "significant".

Consumer confidence fell seven index points to -10 in the fourth quarter, according to the FNB-sponsored consumer confidence index, compiled by the Bureau for Economic Research, which was published on Thursday.

The index has been below a long-term average of +4 since July 2014, indicating a prolonged slump of consumer confidence as households have been under increasing pressure because of the high cost of living.

The main index has sub-indices which are used to measure consumer outlook on economic trends, including household disposable income.

In the third quarter of 2016, one such gauge had shown that consumers expected their financial position to improve, but this changed to a negative outlook in the fourth quarter.

FNB senior economic analyst Jason Muscat said a firmer rand and a drop in the petrol price, as well as a modest recovery in job creation, in the third quarter of 2016 had boosted spending power and consumers' outlook.

However, this changed in the fourth quarter, when consumers were confronted with the "economic realities of weak household income growth, poor credit extension and soaring food prices", he said.

Muscat said a majority of high-income households expect their finances to improve over the next 12 months, but low-income households expect their finances to remain unchanged.

Investec economist Kamilla Kaplan said: "Underlying durable goods demand is likely to remain restrained by depressed consumer confidence and weak rates of household credit extension.

"On balance, depressed consumer confidence is likely to continue being reflected in relatively weak rates of household consumption expenditure," she added.

She said that was based on available data which showed that real household consumption expenditure decelerated to 0.9% year on year in the first three quarters of 2016 from 1.7% year on year in 2015.

Source: Business Day

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