

Business and consumer surveys in South Africa

Current research activities, development work and plans for change

by

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Introduction

The Bureau for Economic Research (BER) at Stellenbosch University, South Africa, has a long history of conducting business surveys.

CGW Schumann, professor in Economics and dean of the Faculty of Economics and Management Science, founded the institute in 1944. In the beginning, the institute focussed exclusively on conducting business surveys and analysing the business cycle. During the mid-1980s, the institute expanded its research activities. An econometric model of the South African economy was developed to generate macro-economic forecasts. Around that time, the South African Reserve Bank compiled series of business cycle indicators and started determining the official business cycle turning points.

University funding of the institute was reduced over the years. Since 1995, the university ended all funding to the institute and at present only provides the building in which the institute is based. Sales of survey results and forecast reports and donations from survey participants and the private sector became the main source of funding. The institute also reduced its staff numbers drastically to remain financially viable. However, sales of reports declined dramatically in the late 1990s due to the improved economic coverage of the media dailies and weeklies and an explosion of free information on the Internet. Although the research findings of the BER continued to be regarded as authoritative, some people began regarding the institute's work as outdated, as it was perceived not to have changed with the times.

After two years of careful consideration and strategic planning, a new strategy to restore the financial viability and to raise the profile of the institute was implemented in 1999. The largest changes were: (1) the institute became a full-scale consultancy business instead of a publisher of research reports and (2) the rights to name composite indices and release the survey results publicly were sold to sponsors. Regarding the latter, the BER is fortunate as its business and consumer surveys are held in high esteem in South Africa and firms were willing to pay for the publicity surrounding the release of the survey results and to be associated with the BER. Although the university does not fund the institute, a management committee consisting of the management of the BER and selected members of the Faculty of Economics and Management Science still oversees its activities.

Background to business and consumer surveys

Scope of surveys

The BER has been conducting business surveys amongst manufacturers and retailers since 1954. Building contractors and sub-contractors were added in 1969. In 1975, the coverage of the surveys was broadened to differentiate between sub-sectors in the manufacturing, trade (retail, wholesale and motor trade) and building sectors. Architects and quantity surveyors were added in 1986, civil engineers in 1997, manufacturing purchasing managers in 1999, banks in 2002 and asset managers and life insurers in 2003. Quantity surveyors complete an additional questionnaire, which is used to calculate a building cost index. An inflation expectation survey of business executives, analysts, trade union leaders and households was launched in 2000. In 1975, a consumer survey amongst whites was launched. Then blacks were included in 1982. In 1994, the coverage of the consumer survey was expanded to all population groups.

Research methodology

The BER's survey method of the manufacturing, trade and building sectors is modelled on those of the Munich based IFO Institute and the European Commission. The consumer survey is modelled on those of the University of Michigan in the USA. The PMI survey is based on the survey of the Institute of Supply Management (ISM) in the USA. The Financial Survey conducted by the Confederation of British Industries (CBI) in the UK served as example for the development of the South African equivalent. The inflation expectation survey is based on the New Zealand one.

Except for the monthly PMI survey, all business surveys are conducted quarterly. Questionnaires are sent by regular postal mail to a panel of 3 000 regular participants. During the third quarter of 2002, for example, the following approximate numbers of questionnaires were sent to architects (140), quantity surveyors (200), formal residential and non-residential building contractors and sub-contractors (450), civil engineers (100), retailers (480), wholesalers (320), dealers in new vehicles, used vehicles and spare parts (200), manufacturers (1150) and retail, merchant and investment bankers (40). The panel of participants are representative of the formal manufacturing, retail, building and financial sectors. Informal

street vendors, emerging builders and unregistered businesses are not covered¹. The response rate varies between 45% and 60%.

Individual responses in the retail, wholesale and motor trade are weighted according to annual sales turnover and those of manufacturers, according to the number of full-time factory workers. The individual responses of building contractors are not weighted. The sub-sectors of the retail, wholesale and manufacturing sectors are weighted according to their percentage contribution to total sales and production respectively as calculated by Statistics South Africa.

The consumer confidence surveys are conducted quarterly and are derived from personal at-home interviews of an area-stratified probability sample of 2 500 households. An international market research company, AC Nielsen, conducts the interviews on behalf of the BER. The total coverage of households represents 92% of the urban adult population and 53% of the total adult population. The surveys cover blacks and whites in metropolitan areas, cities, towns and villages throughout South Africa. Coloured and Indian coverage include the major metropolitan areas.

Whereas the composite consumer confidence index in the USA is based on five questions, the questions have been reduced to the following three in South Africa due to cost considerations:

1. How do you expect the general economic position in South Africa to develop during the next 12 months? Will it improve considerably, improve slightly, deteriorate slightly, deteriorate considerably or don't know?
2. How do you expect the financial position in your household to develop in the next 12 months? Will it improve considerably, improve slightly, deteriorate slightly, deteriorate considerably or don't know?
3. What is your opinion of the suitability of the present time for the purchase of domestic appliances such as furniture, washing machines, refrigerators etc. Do you think that for people in general it is the right time, neither a good nor a bad time or the wrong time?

¹ Details about the composition of the panels and their representation appear in an article "An evaluation of the BER's trade and building survey panels" in the Journal for Studies in Economics and Econometrics (SEE) vol. 26 no. 1, April 2002, pp. 33-49 by GJ Kershoff.

Current research activities

Of late, the BER's research activities have primarily focussed on restoring the financial viability and raising the profile of the business and consumer surveys instead of more academic type research on methodology and survey results. In respect of the latter, two papers have appeared in the South African Journal for Economics and Econometrics (SEE) in the last two years. The BER's trade and building survey panels were evaluated in one paper² and the BER's composite business confidence index compared to equivalent indices produced in South Africa in the other³. In October 2002, a paper on the development of a purchasing managers index (PMI) for South Africa by Smit & Pellissier was delivered at the 26th CIRET conference in Taipei⁴. A master's degree thesis done at Cambridge University in the UK, examined the seasonality and weighting of the BER's composite business confidence index. An honours' degree student at Stellenbosch University analysed the seasonality of the BER's composite consumer confidence index, but the research findings have not yet been published.

The BER conducted the following major projects in the recent past. Some of these projects are ongoing, whereas others have been completed.

1. In 1997, the outlay of all the BER's research reports was changed to make it more user friendly. Previously the reports included a discussion of the survey results and the survey data was published according to activity (e.g. sales, orders, employment, prices) in tabular form at the end of the report. In the new reports, the survey data is published according to the main and sub-sectors. All the survey data relating to a particular sub-sector (e.g. retail trade in durable goods or manufacturing of metal products) appears on opposing pages in both tabular and graphical form.
2. In 1999 a project to restore the representation of and to maintain the panel of participants – in particular of the building and trade sectors – could be launched thanks to a grant of the Research Committee of Stellenbosch University. In 1998, the response rate in the trade and building sectors dropped to 16,9% and 15,4% respectively, as 51% and 59% of the participants in the trade and building sectors in that order ceased participating. All non-responding firms were removed from the panel and replaced with new participants after an extensive recruitment exercise. As a

² Kershoff, G.J. (2002): "An evaluation of the BER's trade and building survey panels", Studies in Economics & Econometrics, Vol. 26 No. 1, pp. 33-49.

³ Pellissier, G.M. (2002): "Business Confidence and the South African Business Cycle", Studies in Economics and Econometrics, Vol. 26 No. 2, pp. 51-67.

⁴ Smit, B.W. & Pellissier, G.M. (2002): "The development of a Purchasing Managers Index (PMI) for South Africa", paper delivered at the 26th CIRET Conference, October 2002, Taipei.

result, the response rate increased to 50%. An added benefit was that the surveys were made more cost effective, as this higher response rate was achieved without increasing the number of questionnaires mailed every quarter. Since 2001, this activity has been repeated at the beginning of each year in selected sub-sectors to maintain the representation and cost effectiveness of the overall panel of participants.

3. Between 1997 and 2001, the procedure according to which the survey results are processed has been streamlined and modernised. Currently two researchers deal with all the logistics and processing of the survey results compared to the whole research staff in the past. Administrative staff will take over this function in 2004. All the contact details of participants and capturing of questionnaires have been transferred to an MS Access database and a new visual basic software programme was compiled to process the results. At the same time, the number of questions on the building contractor and sub-contractor questionnaire was reduced significantly and the layout of the retail and wholesale questionnaire simplified. The new procedure allows for much more flexibility and all the surveys can now be conducted and processed simultaneously. For example, at present, another question could easily be added to a particular survey, whereas it was impossible in the past. The time to process the results has also been reduced considerably. Administrative staff make use of standardised tables and charts to produce the results reports and feedback to respondents. Labour costs are further reduced, as the workload of researchers is limited to checking the data and writing an interpretation of the survey results.
4. Since 2000, the BER began using new mediums and channels to distribute the research findings. In the past, the results were only released in the form of hard copies that became available a month after the date of return on the questionnaires. At present, all reports are available to subscribers on the BER's web page as soon as they are finished and the sponsor has made the findings public, which usually is two weeks after the date of return on the questionnaire. Higher paying macro-clients also have access to research notes, in which the composite business confidence index and composite consumer confidence index are analysed in depth. The survey results are provided to other commercial electronic information vendors and non-commercial entities, such as CIRET and the OECD (for inclusion in its Main Economic Indicators publication) after a time lag. These days BER researchers also use the survey results extensively in their personal in-house presentations to firms, analysts, the SA Reserve Bank, National Treasury, the Department of Trade and Industry, parliament and at conferences.

5. The BER has developed several new surveys over the last few years. A survey to measure quantitative inflation expectations of the business sector, financial analysts, trade union movement and households was developed for the SA Reserve Bank in 1999. In 2000, a manufacturing PMI was launched successfully. In 2002, the banking survey was released for the first time, followed by an asset management survey in 2003. These new surveys helped to restore the BER's position as one of the leading economic research institutes in South Africa and once again made its work relevant.
6. The partnerships the BER concluded with private sector firms, a government department and the central bank not only finance the surveys, but these associations have also raised the profiles and credibility of the surveys. First National Bank sponsors the Consumer Confidence Index, Rand Merchant Bank the Business Confidence Index, Investec Asset Management the PMI, Ernst & Young the Financial Services Survey and the Department of Trade and Industry the Manufacturing Survey. The building industry made funds available to conduct customised research that partly finances the building survey. The SA Reserve Bank contracted the BER to conduct the inflation expectations survey.

Development work

- More work needs to be done to establish and raise the profile of the Financial Services Survey. The consolidation of the financial sector in South Africa makes maintaining an adequate number of participants difficult.
- South Africa's second largest life insurer contracted the BER to develop a qualitative longitudinal survey of the challenges facing small and emerging businesses.
- An annual survey to measure the impact of HIV/Aids on business was started in October 2003.

Plans for change

The BER is considering the following new ideas:

1. Plans to raise the profile of the business and consumer surveys further include (a) generating more anticipation in the financial markets for the release of the survey results by ensuring that the release dates appear on the information release calendars of the major news service providers, (b) convincing the interest rate setting monetary policy committee (MPC) of the SA Reserve Bank to make use of the survey results

in their deliberations and to refer to these in their statements and in the *Quarterly Bulletin* and (c) convincing analysts of the usefulness of the survey results by demonstrating the relationship between survey data and corresponding indices of the Johannesburg Stock Exchange (JSE).

2. The expansion of the coverage of the surveys to the mining and services (restaurants, hotels and business services) sectors has to be considered.
3. The cost to conduct the surveys and distribute the data needs to be reduced further. At present, only participants in the inflation expectations and financial survey can complete questionnaires on the Internet. The cost impact of expanding the completion of questionnaires on the Internet to the other surveys has to be assessed. Discontinuing publishing hard copies of the survey results would represent a large cost saving and therefore will have to be considered.
4. Ways to release the survey results in an even more user friendly and customised manner have to be found. For instance, similar to the survey results report of the European Commission, the long-term average, minimum value and maximum value could be included in the tables of survey results, as this assists in the interpretation of the most recent data point. Likewise, a report summarizing the survey results per province could be designed.

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