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From the Desk of…

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No Consumer Confidence Contagion in Asia, Middle East and Africa

The global recession has galvanised governments in the Asia/Pacific, Middle East and Africa (APMEA) region into action like never before. Interest rates have been cut aggressively across the region (made easier by falling inflation); and fiscal spending has been increased massively to boost growth and mitigate the collapse of exports. Fiscal spending, in relation to GDP, has been especially large in China, Australia, Malaysia, Korea and Singapore.

To a large extent the effectiveness of monetary easing and fiscal spending in boosting economic growth hinges on consumer confidence and its associated savings and spending behavior. If consumer risk aversion becomes deeply entrenched due to deepening anxiety over job security and dismal outlook on future income, then consumers may cut back on their spending and save more. This could happen in spite of lower interest rates and the windfall from governments' fiscal spending. The boosts from lower interest rates and higher government spending could then be easily neutralised; thus dampening prospects of a stronger recovery, at least in the near term.

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Confidence (both consumer and business) has been referred to by John Maynard Keynes as the "animalspirit" without which a decision can never be made in the face of uncertainty. And the future is, of course, always uncertain. Thus, confidence is as important as interest rates, price movement, and effective demand in affecting investment and cosumption decisions; and thereby the momentum of the business cycle; whether it is on the up or down swing.

Confidence, however, it not a private matter. Just as there is an income multiplier, there is also a confidence multiplier. A confidence multiplier comes into play when people are affected by the level of confidence seen in other people. It is in this sense that confidence is a public, and not a private, matter. It has a contagion effect if enough people are showing that that they have become more confident than before. Repeated encounters with people demonstrating rising confidence could even lift the negative sentiments of die-hard pessimists.

At a basic level, the confidence multiplier is just a fancy way of saying that people tend to follow what they believe the majority of people are doing. This simple insight is apparently behind President Obama's success in his campaign in getting more Americans to come out to vote. His campaign organisers pushed the message that "a record turn out is expected". The more the message was seen, the more people who did not vote before decided that perhaps they too should vote, since so many people are planning to do it. And, of course, it turned out that most of these new voters voted for Obama; something his campaign organisers knew.

The point is that a powerful motivator for people to switch from behaving one way to behaving in another is for them to be convinced that everyone else is doing it. This is true for hotel guests to reuse their towels to supposedly save the environment (which immediately saves the hotel money); put rubbish in the garbage bins instead of throwing it on the road; and feel sufficiently more optimistic about the future to spend more.

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The swing from consumer pessimism to optimism could, under the right conditions, lift consumption and turn the business cycle around from contraction to expansion, especially if there is significant pent-up demand and healthy disposable income. To perform this trick, however, the confidence multiplier has to be doubly strong. Recent research in behavioral economics has uncovered that we have an asymmetric response to financial gains and losses. It turns out that our satisfaction of knowing that we have avoided losing $100 is double that of having gained a $100. In other words, avoiding a loss takes priority over gaining the same amount. Under conditions of market volatility and uncertainty, which typify the downswing of a business cycle, this asymmetric response means that we are more concerned with, as matter of principle, avoiding financial losses than realising financial gains. In fact, the potential gain realised has to be exactly twice that of the potential loss avoided for the consumer to view the two as being equal.

This asymmetric response could blunt the effects of the confidence multiplier, especially during a severe downturn as we are seeing today. As we are approaching mid-year, GDP data from Q1 are being announced; and they are all gloomy. For example, in the eurozone, the economy contracted in Q1 at an annualised rate of almost 10%; and about 6% in the US, over 15% in Japan, and an astonishing 16% in Europe's strongest economy, Germany. Given these depressing headline news, and the fact that they get repeated coverage in the media, the sense of uncertainty and the anxiety over what may come next has been magnified, in spite of a series of equity market rallies and the appearance of "green shoots" of recovery. Under these conditions, an incipient rise in confidence could dissipate easily without being able to gain traction; and hence hence no confidence contagion. contagion.

The latest consumer confidence confidence survey by MasterCard Worldwide in the Asia/Pacific, Middle East and Africa region (APMEA) shows that in Asia/Pacific consumer sentiments have become slightly more pessimistic compared with the last survey. While consumers in the Middle East and Africa are still optimistic, their optimism has also weakened (50 denotes neutral outlook, 100 being most optimistic, and 0 being most pessimistic).

In Asia/Pacific, there appears to be a sharp divide between markets where consumers are more confident that their domestic economies are more capable of weathering the global storm versus those where such confidence is absent. The former include China, India and Vietnam. Apart from these three markets, all others are stuck in pessimism. In the Middle East and Africa region, three markets have also slipped into pessimism; Egypt, Kuwait, and UAE.

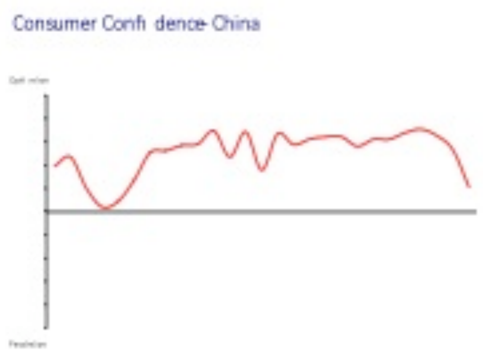
Consumer Confidence: 2H 2008 vs 1H 2009
(Source MasterCard Worldwide)

	2H 2008	1H 2009
Asia Pacific	**47.4**	**38.7**
Australia	49.0	24.1
China	76.6	60.8
Hong Kong	41.8	24.7
India	63.9	68.0
Indonesia	38.5	49.2
Japan	17.2	21.5
Korea	31.4	28.8
Malaysia	35.9	27.8
New Zealand	33.7	21.5
Philippines	40.0	40.5
Singapore	62.3	31.2
Taiwan	32.1	39.4
Thailand	26.2	23.0
Vietnam	88.1	60.9

	2H 2008	1H 2009
Middle East & Africa	**74.0**	**53.9**
Egypt	55.6	*32.3*
Kuwait	96.6	*49.5*
Lebanon	69.1	64.4
Qatar	76.2	71.4
Saudi Arabia	72.4	67.1
South Africa	78.7	67.3
UAE	75.4	*29.6*

In Asia Pacific, historically China and India have the strongest levels of consumer confidence in the region. As shown in the chart, consumer confidence in China has declined significantly since the beginning of 2008; though remaining optimistic; it is now at the lowest level since 1999.

Similarly, the other chart shows that consumer confidence in India has also declined sharply since hitting a peak in mid-2008; although there has been a slight improvement in the latest survey compared with the outlook seen in late 2008.



Complementing the consumer confidence data are survey results on households' precautionary savings. Precautionary savings is distinct from other forms of savings. Household savings are often meant for specific purchases and spending later, especially when large ticket item purchases are involved. Typical reasons for savings in this regard include purchase of property, cars, and consumer durables; investment, children's education, and for one's own retirement. When households save for these reasons, the savings are merely postponed consumption and spending. However, when households save for precautionary reasons because they feel more insecure about future income and employment; or simply because of a sense of rising anxiety generally; such savings are simply taken out of the household's consumption budget altogether, now or later. Hence, an increase in precautionary savings reduces household consumption absolutely, until such time when consumer confidence returns.

The consumer confidence survey in Asia Pacific, Middle East and Africa accordingly covers households' savings and spending decisions, including the percentage of households reporting that they are saving for precautionary reasons. Precautionary savings clearly have gone up in both Asia Pacific and the Middle East and Africa. In Asia Pacific, they have declined in only five of the 14 markets: Australia, New Zealand, China, Japan, and Korea. In the Middle East and Africa, only in one out of the seven markets surveyed, Egypt, has precautionary savings been reduced. Overall, households in the entire region clearly have become more concerned with their future prospects of income and employment.

The conclusion, based on the evidence, is clear; there will be no "confidence contagion" in the APMEA region in the next six months, at least.

Precautionary Savings: 2H 2008 vs 1H 2009

% of households that are saving for precautionary reasons	2H 2008	1H 2009
Asia Pacific	**65.5%**	**70.5%**
Australia	63.9%	55.5%
China	58.5%	50.0%
Hong Kong	57.0%	66.5%
India	68.7%	79.5%
Indonesia	64.7%	81.8%
Japan	80.4%	64.7%
Korea	79.1%	49.1%
Malaysia	58.4%	69.7%
New Zealand	58.8%	48.8%
Philippines	61.7%	83.0%
Singapore	75.5%	79.4%
Taiwan	65.3%	79.3%
Thailand	80.5%	94.8%
Vietnam	48.4%	88.7%
Middle East & Africa	**64.8%**	**73.4%**
Egypt	81.3%	75.2%
Kuwait	51.2%	68.0%
Lebanon	67.1%	66.4%
Qatar	75.9%	83.5%
Saudi Arabia	59.3%	62.5%
South Africa	46.2%	75.0%
UAE	75.6%	83.7%

(Source MasterCard Worldwide)

About Dr Yuwa Hedrick-Wong and The Insight Bureau

Yuwa Hedrick-Wong chairs and coordinates MasterCard's MasterIntelligence Knowledge Panel, comprising leading economists and business strategists, many of whom are also members of The Insight Bureau's resource network, providing speeches and presentations at business conferences as well as confidential, in-house briefings to senior executives. Based in Singapore, Yuwa Hedrick-Wong is a highly respected global economist and Asia business strategist.

The Insight Bureau provides speaker placements and briefings as a service that helps achieve a better understanding of the world in which we do business and ultimately enables companies to make better business decisions.

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