

WHITE PAPER:

# IMPROVE INVESTMENT DECISION IN AFRICA WITH CONSUMER CONFIDENCE DATA



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## INTRODUCTION

Given the relatively low growth rates in the developed markets (Europe, US), the argument for investing in less mature economies is strong. Investing in frontier market economies such as Kenya, Uganda or Ghana offers the potential to earn attractive long-term returns. For those willing to be patient and willing to take the road less traveled, these markets offer investment opportunities with higher growth rates and often attractive valuations. Another advantage of frontier markets is that growth is increasingly more dependent on domestic consumption than on exports to developed economies. In fact, Africa plays a marginal role in global trade with exports accounting for just 2.4 percent of global trade value [1] in 2015. As a result, these economies are less correlated to developed markets. For example, African economies were not as impacted by the 2008 financial crisis due to their relative isolation and minimal exposure to mortgage financing. According to Jan Schalkwijk, CFA who manages a fund dedicated to the frontier markets of Africa, internal sources of growth, fueled by favorable demographics and rapidly increasing productivity, are the main drivers of expected returns in frontier markets. The Holy Grail for global equity investors is uncorrelated sources of return and Africa is the place to look. It does require a long-term perspective and a willingness to look beyond the typical emerging markets for growth opportunities. The MSCI Frontier Markets Index that captures large and mid-cap representation across 30 frontier market countries is up 10.37 percent in dollar terms this year through April, compared with 8.16 percent for the MCSI Developed Markets Index. Granted, a few months does not make a trend, but with the dollar's multi-year rise appearing to be losing some momentum, the underlying growth of frontier markets is becoming more visible and perhaps now is the time to take a closer look.



Forecasted contribution  
of urban Africa to the  
African GDP by 2020  
(McKinsey report)

[1] [https://www.wto.org/english/res\\_e/statis\\_e/wts2016\\_e/wts2016\\_e.pdf](https://www.wto.org/english/res_e/statis_e/wts2016_e/wts2016_e.pdf)

## THE CHALLENGES OF INVESTING IN AFRICAN COUNTRIES & SECTORS

Given that capital markets are still in their infancy in Africa, it is not easy to make investment decisions and take positions in these markets. The investment process can be lengthy and difficult due to the lack of reliable and actionable data. Furthermore, on most African stock exchanges it is nearly impossible to short stocks, which limits investors' ability to express negative views and improve pricing through arbitrage. In addition to lack of data and trading restrictions, investors also face low liquidity and market depth. Trading volume in most frontier stock markets is still relatively low and trading costs are high, which further disincentivizes trading. For example, a good day on the Nairobi Stock Exchange is trading value that exceeds \$10 million. By comparison, average daily trade value for Apple (NASDAQ:AAPL) amounts to \$4 billion.

Today, frontier market investors rely on a variety of data to help with picking the right countries, companies and industries to invest in. Macro data on African countries is available via organizations such as the World Bank, the IMF, and the IFC, as well as from data providers such as Bloomberg and Reuters. Even though macro data provides insights into the economic health of frontier markets, it does not do a good job at capturing idiosyncratic risks and opportunities that are intra-country or industry specific. Consumer spending makes up roughly two thirds [2] of GDP in Africa but there is a lack of good data that allows investors to gauge consumer confidence and spending attitudes when it comes to the regional and metro level in frontier markets in Africa.

There has been a lot of hype about Africa's economic ascendance over the past 10 years as GDP estimates were far exceeding developed markets growth estimates. Unfortunately, these rosy numbers were mostly driven by external factors such as high commodity prices and foreign direct investments. The fact that some economies were not well-diversified meant that when commodity prices dropped, economies took a turn for the worse.

[2] [http://www.un.org/en/africa/osaa/pdf/policybriefs/2014\\_ecoindicators.pdf](http://www.un.org/en/africa/osaa/pdf/policybriefs/2014_ecoindicators.pdf)

Most importantly, how capable governments are of implementing effective economic policies and how confident people are that things are getting better on a national and personal level, are critical factors not captured by global macro estimates. Without this data, it is more difficult for businesses and investors to make capital allocation decisions and for governments to improve their policies in response to measurable feedback.

Global consulting firms have also started to pay attention to Africa and are providing reports on markets and opportunities on the continent. These reports are released once every 2 to 3 years and provide a snapshot that may not be current and does not capture shifts in economic activity at the time of publication. Similar to the aforementioned public and commercial data providers, consulting firms provide high level assessments of consumer trends and business opportunities. The data is capturing some bottom-up business intelligence, but the low frequency and lag of reporting diminishes the value of these reports to investors. They fail to capture the latest trends and actionable ground-level data, considering Africa's rapid pace of change.

## Africa – the dark continent?



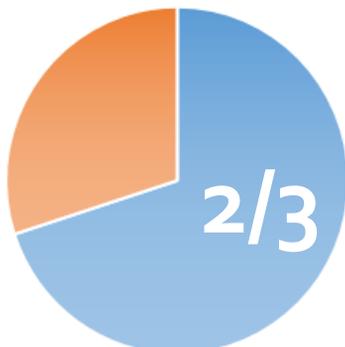
## THE IMPORTANCE OF CONSUMER CONFIDENCE DATA

Most investors will say there is still a lack of data on Africa that is accurate, reliable, independent and current. The African consumer, who is the main driver of future growth in Africa, is not very well understood. In many parts of the world, public and private surveys track consumer confidence and sentiment to guide business decisions for consumer-focused companies and also to convey a sense of the economic climate.

A few global research companies also produce consumer confidence measures for a few key African economies. However, these tend to come out with a quarterly lag and the published metrics cover wide - usually national - populations. However, consumer behavior differs within countries. Furthermore, economic conditions also vary widely within countries, with the average income in cities much higher than in rural areas, for example.

Research has found that responses to questions about the general economy tend to be more volatile and less predictive than those to more micro/personal questions. Responses to macroeconomic questions also tend to be less correlated to actual personal consumption.

Consumer confidence is an economic indicator that measures how confident consumers are about the overall state of the economy. It also measures how confident people feel about their income's stability. In turn, their confidence impacts their economic decisions and spending patterns. Consumer confidence usually increases when the economy expands and decreases when the economy contracts. The measure is considered a lagging indicator of economic performance.



**Gross domestic product  
that is driven by internal  
consumption**

Investors, manufacturers, retailers, banks, and government agencies use various consumer assessments to plan their actions. For example, if weak consumer confidence indicates a decline in consumer spending, manufacturers will decrease their inventories in response. They might delay investing in new projects and facilities. Banks will prepare for a reduction in lending activities like personal and commercial lending. The government will get ready for the reduction in future tax revenues.

Apart from confidence, consumer spending is also affected by factors like monetary or fiscal policy, inflation, purchasing power, and supply of goods. As a result, investors, businesses, and governments should review economic indicators that are related to these other factors. The economic indicators help to gauge the economy's overall health.

Africa Capital Group, an Africa fund manager based in San Diego (USA), partnered with KASI Insight to evaluate KASI's monthly consumer confidence index in terms of its predictive strength. Of particular interest was to 1) examine whether the confidence score accurately affirmed a decline or increase in the level of economic growth and 2) whether the prediction of the confidence index aligned with existing macro forecasts of public and commercial data providers.

Specifically, Africa Capital Group is looking to use the consumer confidence index to:

- Examine whether the confidence score accurately signals a decline or increase in the level of economic growth and can thus be used as a lagging indicator
- Test the consensus forecast of economic growth for specific countries.

If the consumer confidence index matches the consensus it would give Africa Capital Group greater confidence in the consensus view. Conversely, if the confidence index differs from the consensus, then Africa Capital Group would be more skeptical of the consensus view.

# CASE STUDY – IVORY COAST

Ivory Coast has seen strong GDP growth for the past 3 years, consistently outperforming peers within the continent and in developed markets. Back in October 2016, CNN hailed Ivory Coast as Africa’s fastest growing economy and back in business. The IMF had forecasted GDP growth of over 7% for 2017. The consensus was that Ivory Coast had a strong growth trend.

On the other hand, the KASI consumer confidence index for Ivory Coast had been underperforming since July 2016, hitting -13 in September, its lowest point since inception, on a scale of -100 to + 100. In fact as of October 2016, the index had plotted a negative reading 3 times (August, September and October) which may have indicated a deceleration of economic growth. The index moved into positive territory in November (+3) and December (+4), which was most likely driven by holidays shopping.

In January 2017 while consensus estimates from IMF and major pundits were upbeat, the KASI consumer confidence index levels were hovering around zero effectively reaffirming a slowdown in the economy.

## KASI Terminal Feed

<b>Name</b>	Ivory Coast Consumer Confidence Index	<b>Ticker</b>	IVCCI Index	<b>Source</b>	KASI Insight
<b>Category</b>	Consumer Confidence	<b>Latest</b>	+6	<b>High</b>	+10
<b>Period</b>	Apr-17	<b>Next release</b>	06/10/17	<b>Low</b>	-13
<b>Frequency</b>	Monthly	<b>Start Date</b>	06/31/16	<b>YoY</b>	+5%
<b>Country</b>	Ivory Coast				

**Target Audience:** Urban dwellers households

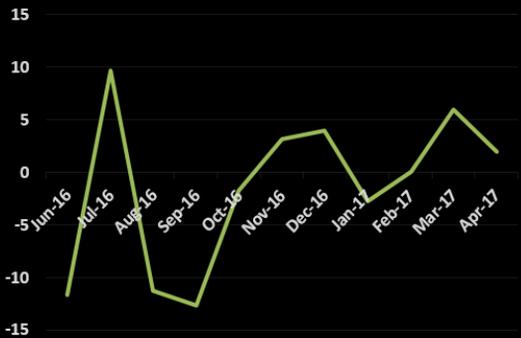
The KASI Insight Consumer Perceptions Index (KIC Score) is a composite index of 7 questions that runs monthly via our consumer polls in the countries surveyed. The data output is based on a fresh, randomly selected representative sample of city dwellers aged 18-64.

The KIC Score will boil down to a single metric. For each question, the final metric will be a ‘balance measure’ of the percentage of positive responses minus the percentage of negative responses. The overall metric can range between -100 and +100, will be an average across all the questions.

For questions or feedback, please email us at [info@kasiinsight.com](mailto:info@kasiinsight.com).



### Historical Chart



Month	Index Value
Jun-16	-13
Jul-16	+10
Aug-16	-10
Sep-16	-13
Oct-16	-10
Nov-16	+3
Dec-16	+4
Jan-17	-1
Feb-17	+1
Mar-17	+6
Apr-17	+6

Fast forward to April 2017,

- The Ivory Coast stock market (BRVM index) is down 6.42 % YTD as of May 27<sup>th</sup> and down 12.15 % YoY (May 2016-2017)
- GDP growth was down 10 % in January to 8.1 % from 9.2% in October 2016
- Major consumer goods companies like Unilever have performed poorly in the stock market since 2016
- In March, the government announced a review of its 2017 budget after prices of cocoa dropped 30%
- Since January 2017, the country has seen two major instances of social unrest reinforcing our view that the perceived economic strength of Ivory Coast has been overestimated.

## CONCLUSION

Whether consumer confidence is a robust lagging indicator of economic activity in African markets and how long the lag is as well as the accuracy of the signal, will require academic research that goes way beyond the scope of this paper.

But the beauty of data-as-a-service, is that the consumer of data can use it as they see fit and decide for themselves what is signal and what is noise. What is important to the consumer of data is that the data is accurate and the process by which it is gathered is consistent across geography and time.

KASI strives to provide data that is timely, actionable, accurate, and agnostic so that its clients can start from a blank slate, but with plenty of chalk.

## KEY BENEFITS OF THE KIC SCORE

- Monthly trending of consumer confidence in multiple cities in Africa
- Fresh data set on current, future city and personal economic conditions, intentions and expectations
- Tracking of multiple Cities Confidence Score available to all users
- 7 standard measures available with monthly history
- Deep demographic breakdown of Consumer Confidence

# INTRODUCING THE KIC SCORE

## THE DATA

The KASI Insight Consumer Confidence Score (KIC Score) is a composite index of 7 questions that runs monthly via our consumer polls in the countries surveyed. The data output is based on a fresh, randomly selected representative sample of city dwellers aged 18-64.

## THE SERIES

Users can subscribe to the monthly release or the historical series. In addition, customized surveys to focus on particular demographic segments or unique questions is also available for an additional fee.

The seven questions capture consumer views on:

1. Expectations - Overall economic situation in country
2. Expectations – Overall state of economy in city
3. Expectations - Personal financial situation
4. Comfort in making regular expenses
5. Comfort in making large purchases
6. Confidence in ability to spend in the future
7. Confidence about job security & prospects

## THE METRIC

The KIC Score will boil down to a single metric. For each question, the final metric will be a 'balance measure' of the percentage of positive responses minus the percentage of negative responses. The overall metric will be an average across all the questions.

## COVERAGE

Cameroon, Nigeria, South Africa, Ivory Coast, Ghana, Kenya, Tanzania

	POSITIVE	NEUTRAL	NEGATIVE	Amongst all respondents
Q1	Improve	Stay the same	Worsen	$Q1 = (\%Positive) - (\%Negative)$
Q2	Improve	Stay the same	Worsen	$Q2 = (\%Positive) - (\%Negative)$
Q3	Improve	Stay the same	Worsen	...
Q4	Yes	Maybe	No	...
Q5	Yes	Maybe	No	...
Q6	More	Same	Less	...
Q7	Difficult	Same	Easier	$Q7 = (\%Positive) - (\%Negative)$
			SCORE:	$(Q1 + Q2....Q7)/7$

## ABOUT KASI INSIGHT

KASI Insight is an award-winning consumer research, data analytics and advisory firm focusing on Africa. We solve problems that present challenges for most firms doing business in Africa – lack of fresh local market data, slow project turnarounds, and a need for contextual insight and innovative research methods.

We empower frontier markets investors and funds with on-the-ground reliable data and insights. The KIC Score, Africa's first monthly consumer confidence index provides a pulse of consumer perceptions, expectations from seven of the biggest consumer centers in Africa. Combining the CCI with other macro data such as GDP provide a holistic view of frontier markets to investors, hedge fund managers, and asset managers.

KASI Insight is a member of the World association for opinion and market research (ESOMAR). KASI Insight abides by the ESOMAR CODE and ESOMAR World Research Guidelines standards.

Learn more about KASI Insight Inc. at [www.kasiinsight.com/kic](http://www.kasiinsight.com/kic)

## ABOUT AFRICA CAPITAL GROUP

Africa Capital Group LLC is an independent investment firm based in Coronado, California, USA. Our mission is to provide our clients a focused, transparent and cost-effective means to access the tremendous growth opportunities on the continent of Africa.

Through our US-based investment fund we target a hard-to-access but very durable and long-lived growth avenue: the fast-growing, consumer-facing sectors in sub-Saharan Africa. We are an active and nimble manager and target investment in a small number of the best-run, most promising companies in Africa.

Learn more about Africa Capital Group at [www.africacapitalgroup.com](http://www.africacapitalgroup.com).

