Consumer Spending: from a Zimbabwean Point of View

Author: Nyasha Mukechi . September 2019

The main players in an economy are individuals, companies, and governments, each contributing to its success and strength (Vitez, 2019). Governments consider things like consumer spending when assessing confidence in the nation’s economy. Consumer spending; consumer consumption represents the consumption of goods and services. It is affected by four main components namely, consumer confidence, interest rates, consumer debt and wealth (Intelligent Economist, 2019).

Consumer Confidence

Consumers in Zimbabwe are subject to the ever-increasing prices amidst the current inflationary period being experienced in the country. This directly affects their current income, as well as, their future income, as both lose real value. The number of goods and services that these incomes are able to afford keep getting less and less. As a result, consumers are forced to spend less on normal and luxury goods, and more on basic and inferior goods. Thus, the level of consumer spending as a whole has decreased as a result.

The gloomy outlook of the economy is also having an adverse effect on consumer spending. Consumers are not able to plan well in advance as the future in itself is uncertain. Most consumers have resorted to a change in lifestyle, whilst others have stopped keeping savings altogether. A survey conducted by IPC revealed that a whopping 76% do not have savings or an emergency fund. This means that should consumers in Zimbabwe experience any unexpected tragedy or need for finance, they would be poorly equipped to handle it. The survey also revealed that the median USD amount kept by Zimbabweans at the bank (US$200) is less than the median USD amount saved at home or at the bank (US$300). This shows a loss in confidence in the financial system in Zimbabwe, a country where many people especially pensioners suffered the agony of seeing their savings and pensions eroded by inflation and virtually valueless.

Furthermore, companies in Zimbabwe have started laying off employees, thereby compounding employees’ anxiety as their job security is threatened. This also leads to a decrease in consumer spending.

Interest Rates

The inflation rate in Zimbabwe which was at a modest 5.39% in September 2018, is now at an oppressive 288.5%, as in August 2019. The Zimbabwean consumer is experiencing an increase in housing and utilities costs as electricity tariffs have been increased in an attempt to reduce the burden and need for load shedding in the country. In addition to this, inflation in transport has also been increasing, as the prices of petrol and diesel have been frequently hiked throughout the year, and at times every week. On 13 September 2019, in an attempt to arrest the ever increasing inflation in Zimbabwe, as well as, support the Zimbabwean Dollar, the Reserve Bank of Zimbabwe (RBZ) increased its overnight lending rate to 70%. The overnight rate, which is the rate at which banks lend to each other at the end of the day on the basis of ensuring they comply with the reserve requirements set by RBZ, has carryover effects on to consumers and businesses (Corporate Finance Institute, 2019). Increasing the interest rate results in a reduction in the circulation of money in the economy. Such a high rate of 70%, means that banks will lend to consumers and businesses at higher rates. Consequently, consumer spending will decrease.

Pettinger (2019) postulates that higher interest rates encourage saving, although not directly or instantly. The recently introduced RBZ US dollar savings bond may very well aid in making saving more attractive to consumers. This along with the depreciating local currency is likely to inspire an attitude of saving within the Zimbabwean consumers, which will provide them with cushioning in times of disaster and emergency.

Consumer Debt

The economic tumoil in the country has meant that many Zimbabweans have amassed massive debts to both financial and governmental institutions. Debt owed to service providers by consumers has adversely impacted providers. Essential services such as electricity have suffered immensely with Zimbabwe Electricity Supply Authority (ZESA), the nation's power utility, failing to provide sufficient electricity to the nation. According to Minister{Energy and Power Development}Fortune Chasi, ZESA is currently owed an amount of ZWL$1.2 billion by service users and has only managed to recover ZWL$55 million (The Herald, 2019). Consequently, ZESA has been forced to turn to other nations' power utilities for assistance, and in so doing have run up a debt of US$70 million. Understandably, these other power utilities have cut back on the amount of electricity they are providing to Zimbabwe. This has led to a daily 18 hour load shedding schedule which affects consumers and businesses alike. Service providers have to set up payment plans or customised tariffs in an attempt to recover the debt owed to them. Thus, consumers with a lot of debt are likely to consume less as they need to settle their debt in order for the resumption of services.

Wealth

The employee spending patterns survey conducted by IPC also revealed that a very small percentage of participants spent their salaries on investments, which can perhaps be attributed to the lack of disposable income. This casual attitude towards investing translates to low consumer spending.

It is clear to see that consumer spending in the Zimbabwean economy has reduced across all four aspects. This leads to a reduction in the aggregate demand in an economy, which incorporates other factors, such as investment, government spending, imports, and exports. Aggregate demand provides insight to the government, and the policies they need to take to ensure a healthy economy.

Nyasha Mukechi is an Analtytics Consultant at Industrial Psychology Consultants (Pvt.) Ltd a management and human resources consulting firm.Phone +263 4 481946-48/481950 or cell number +263 773274381 or email: nyasham@ipcconsultants.com or visit our website at www.ipcconsultants.com

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