



Predicting consumer demand during election cycles in Africa

A case study of Ghana, Kenya and Ivory Coast

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EXECUTIVE SUMMARY

The consumer confidence index (CCI) is one of the most reliable predictors of consumption. This is evident in African countries where a rise in consumers' optimism leads to an increase in their aggregate expenditure. As such, we believe, and indeed discover that, CCI can be a good predictor of consumer demand in an election year and that the nature of the predictability could differ depending on whether a country has a history of election-related violence or not.

In our whitepaper, we explore the behaviour of the KASI CCI during election years in Africa. We examine the trends of the CCI in previous elections with a special focus on Ghana, a historically peaceful country during elections, and Kenya, which has a history of election-related violence. From this, we forecast the probable direction the CCI will move in during the upcoming elections in Ghana and Ivory Coast and what that would mean for household consumption and retailers.

The key findings are:

- ✓ **Consumer confidence in countries with a history of election-related violence diminishes as the elections approach while consumer confidence in more peaceful countries expands.**
- ✓ With empirical studies showing a positive correlation between CCI and consumption, and the fact that consumption accounts for at least 69% of GDP in both Ghana and Kenya, **countries prone to election-related violence should expect lower household consumption as both consumer confidence and quarterly GDP shrink in these countries.**
- ✓ **For both violence-prone and peaceful countries, GDP growth weakens during election years however it does not turn negative.** In violence-prone countries though, GDP contracts between the preceding quarter of the election and the quarter in which the election is scheduled as

was the case for Kenya in 2017.

These findings are very important for retailers in election periods:

- ✓ **Consumer confidence data such as KASI CCI is a better predictor of consumption and demand** in contrast to other measures such as investor confidence.
- ✓ Retailers should expect consumer **demand to drop in countries where elections are prone to violence** and expect **demand to be steady when the elections are conducted peacefully.**
- ✓ With the ongoing COVID-19 pandemic, **the impact of elections on consumer demand may be more severe** for countries where elections are contentious in 2020.

BACKGROUND

Elections in Africa are highly contentious events with factors such as corruption, fraud and irregularities besetting the process.² Consequently, some elections result into violence such as the 2007-2008 post-election crisis in Kenya which killed over 1,200 people.³ In fact, it is suggested that violence affects 20-25% of elections in Africa.⁴ In spite of this, elections have aided the emergence of democracies and stable societies. They have, however, also been known to be influenced by people of power to guarantee succession of dynasties or legitimize autocracies.⁵

With wide consensus that consumer confidence is a leading indicator of economic activity, it is essential to investigate the effect of elections on consumer confidence.⁶ By understanding this behaviour, governments and businesses alike can respond accordingly in terms of resource allocation and risk-management. Given the nature of elections in Africa as aforementioned, comprehending this relationship between elections and consumer confidence can serve as critical insight and advanced warning of a potential economic downturn to businesses operating in the continent.

Using consumer confidence to predict consumption demand during election cycle in Africa. An empirical analysis in Kenya and Ghana

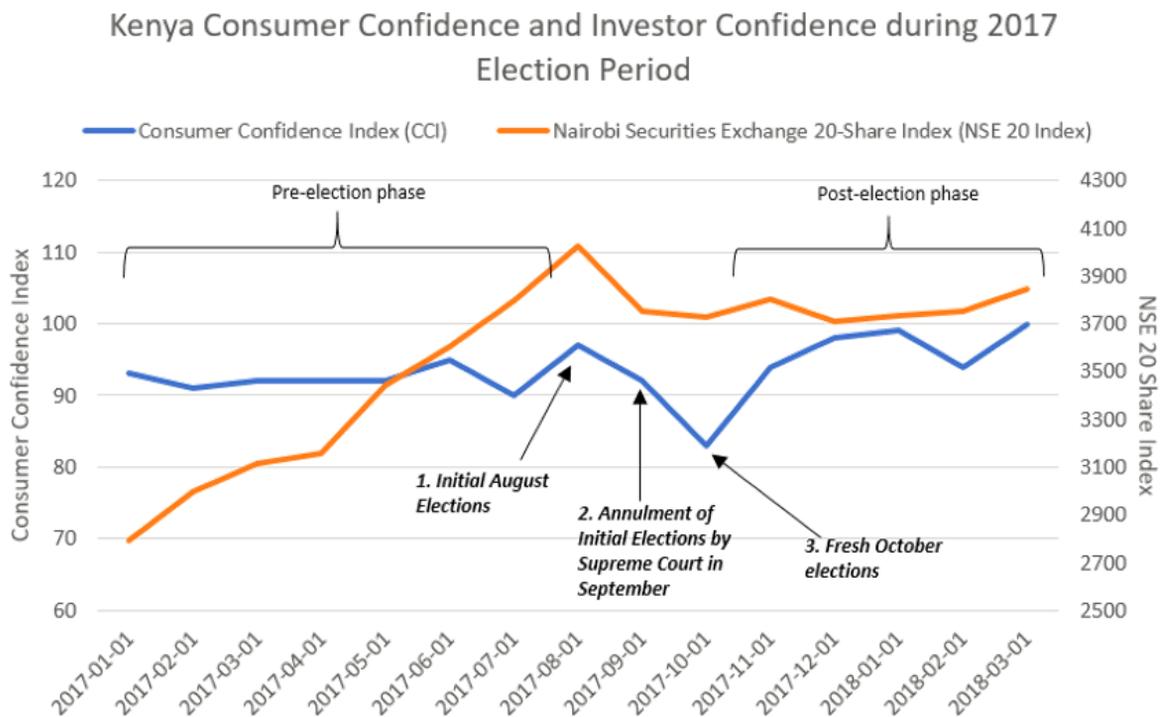
Consumer confidence in countries with a history of election-related violence is a better predictor of consumer demand and tend to decrease ahead of the elections. The case of Kenya

Kenya held their last presidential elections in 2017. These elections were unique in that the initial results were nullified by Kenya's Supreme Court making Kenya the first African country to void a presidential election. The initial elections were held on 8th August 2017 and after their annulment, fresh elections were conducted on 26th October 2017.

The main candidates in these elections were Uhuru Kenyatta and Raila Odinga.⁷

As these two candidates were facing off once again, tensions were high within the country. Following the initial re-election of Kenyatta in August, protests erupted with instances of stone-throwing, looting and property destruction as well as violence in the form of police brutality.⁸ Odinga challenged the results in the Supreme Court, and he later won although he opted to boycott the October fresh elections. This resulted in Kenyatta winning 98.26% of the total valid votes though only 7.6 million votes were cast. In comparison, 15.1 million valid votes were cast in the August elections and Kenyatta garnered 54.27% of the vote whereas Odinga got 44.74% of the vote (in October, Odinga won 0.96% of the votes).⁹

Consumer confidence in countries with a history of election-related violence is a better predictor of consumer demand and tends to decrease ahead of the elections.



Source: KASI Insight and Investing.com

Consumer confidence falls prior to the election month for Kenya which has a history of election-related violence.

As illustrated on the chart, during the pre-election phase, consumer confidence in Kenya was steady. Notwithstanding, in July, one month before the election, consumer confidence declined to levels lower than those attained earlier in the year. The CCI rebounded in August but upon the invalidation of the elections in September, the index fell. With the ongoing political rhetoric in much of October, consumer sentiment experienced its sharpest reversal of the year (9 points) dropping to its lowest levels of the year. After the October election, consumer confidence revived, gaining 11 points in November, and closing out the year with a new high.

So, what did this mean for consumption? Unfortunately, monthly or quarterly private consumption data for Kenya, at least to the best of our knowledge, is unavailable. But we can make some evidence-based assumptions. Aside from empirical evidence showing a positive correlation between consumer sentiment and expenditure¹⁰, we can make an assumption based on another statistic. According to the World Bank, Kenya's household and NPISHs (non-profit institutions supporting households) final consumption expenditure¹¹ as a percentage of Gross Domestic Product (GDP) was 81.6% in 2017.¹² Therefore, as consumption expenditure makes up such a large percentage of GDP, we can assume that lower GDP means less consumption expenditure. Following this analysis of GDP behaviour in an election year can paint a picture for consumption. In the 2017 elections, real GDP in 2009 constant prices withered by US\$ 324 million (KShs. 35 billion) between Q2 2017 and Q3 2017 before rebounding in Q4 2017 by US\$ 30.5 million (KShs. 3.3 billion).¹³ Using our assumptions in the previous paragraph, consumption should follow the same path of GDP i.e. deteriorating between Q2 2017 and Q3 2017 and then recovering in Q4 2017.

This pattern, and an identical trend in CCI, suggests that retailers experienced lower demand in Q3 2017 when the 1st elections and their subsequent nullification occurred. Despite GDP decreasing in Q3 2017, yearly GDP for 2017 did not contract but its GDP growth did slow down to 4.9% in 2017 from a rate of 5.9% in 2016.¹⁴

Meanwhile, consumer confidence is a better predictor when it comes to consumption compared to investor confidence during an election year. The stock market is not a great reflection of labour income, rather it reflects wealth. Furthermore, studies have shown that the marginal propensity to consume from income is greater than that from wealth.¹⁵ Because aspects of labour income are more present in the CCI relative to the stock market, the CCI is a superior predictor of consumption. If we inspect the behaviour of CCI, investor confidence (as measured by stock market index performance) and quarterly GDP, we discover that CCI is indeed a better predictor of GDP and consumption.

Investor confidence soared during the pre-election phase and even on election month. However, investor confidence collapsed in September with the voiding of the initial election but flattened in October when the fresh elections occurred. After the fresh elections, investor confidence remained flat even into the 1st quarter of 2018. Clearly, the behaviour of investor confidence is not in tandem with that of GDP and CCI. The behaviour of CCI and GDP is much closer reinforcing the fact that CCI is a better predictor of GDP and hence, based on our assumptions, consumption.

In countries where elections are more peaceful consumer confidence tends to increase ahead of the elections and is a better predictor of consumption. The case of Ghana

Elections in Ghana were held on 7th December 2016. To date, the two major parties dominating

Ghanaian politics are the National Democratic Congress (NDC) and the New Patriotic Party (NPP). In these elections, incumbent President John Mahama represented NDC while main rivals NPP fielded Nana Akufo-Addo as their presidential candidate.¹⁶

This was the second time that the two rivals were contesting for the presidential seat and the third time Akufo-Addo was vying for the seat. Similar to the Kenyan case, this presidential election was heated as it was an opportunity for Akufo-Addo to defeat Mahama after losing to him in the 2012 elections.

Like many other African countries, Ghana experiences election violence albeit, at less extreme levels. Certainly, Ghana is viewed as a beacon of democracy and peace in Africa.¹⁷ Nonetheless, election violence and protests do occur. They tend to arise in situations where supporters of a minority party openly celebrate victory in the rival majority's party stronghold.¹⁸ The main perpetrators of violence are young men who tend to be incited by local MPs.¹⁹

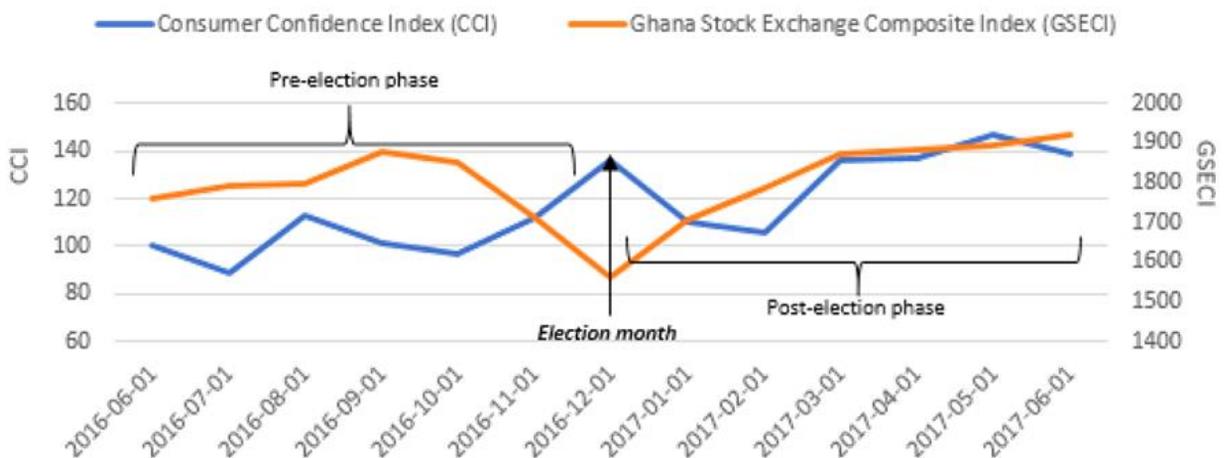
While there were reports of hacking of the Ghana's Electoral Commission website, elections generally run smoothly though there were small pockets of conflicts between supporters of NDC and NPP.²⁰

Akufo-Addo emerged as the victor winning 53.7% of the votes (5.76 million votes) while Mahama attained 44.5% of the votes (4.77 million votes).²¹

In countries where elections are more peaceful such as Ghana, consumer sentiment advances in an election year. Prior to the elections in December 2016, CCI hovered between the 85 and 115 range. In December 2016, the election month, consumer confidence rose to an all-time high for the year of 136. This trend differs from the one observed in Kenya, but it is not uncommon. In fact, it is shown that in some countries, for example France and Germany, elections drive up consumers' expectations regarding the general economic conditions.²² Following these elections, CCI receded drastically in the first 2 months of 2017 before returning to the December 2016 levels in March and then ticking upwards.

In countries where elections are more peaceful consumer confidence tends to increase ahead of the elections and is a better predictor of consumption.

Ghana Consumer Confidence and Investor Confidence during the 2016 Election Period



Source: KASI Insight and African Markets

As household and NPISHs final expenditure as a percent of GDP was 73.3% in 2016²³, we make the same assumptions on the behaviour of GDP and consumption as in the Kenyan case. Data shows that real GDP in 2006 constant prices expanded by US\$ 30 million (GH¢ 176.4 million) between Q3 2016 and Q4 2016 but it shrunk between Q4 2016 and Q1 2017 by approximately US\$ 267.9 million (GH¢ 1.55 billion).²⁴

From this and using our assumptions, the improvement in GDP between Q3 and Q4 2016 means that consumption grew over the same period before plunging in Q1 2017. Consequently, retailers faced higher demand prior to the election and this demand plummeted in Q1 2017. Ghana GDP growth rate decreased slightly from 3.8% in 2015 to 3.7% in 2016.²⁵

Consumer confidence in Ghana is a better predictor for consumption compared to investor confidence.

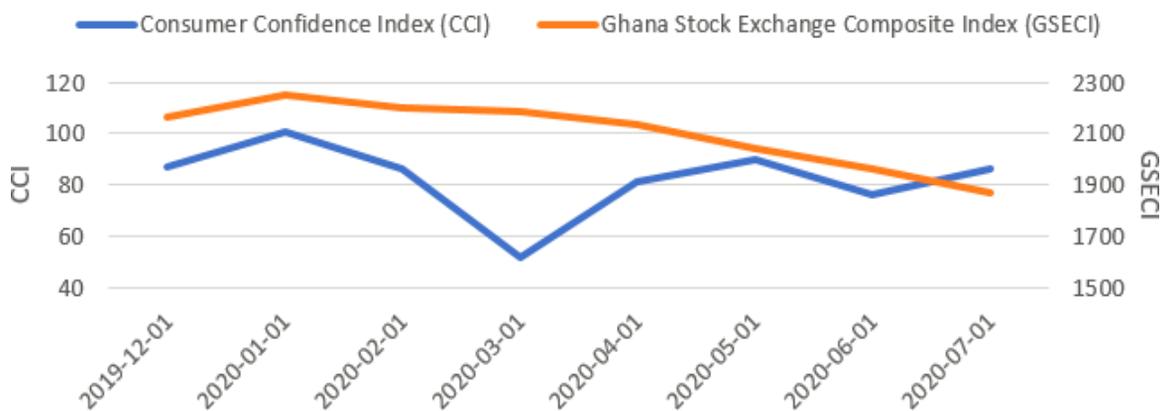
For Ghana, investor confidence cripples as elections approach. Evidently from the chart, investor confidence was stable in the pre-election phase, but it began dwindling in November 2016 and then fell to the year’s all-time low in December 2016, the election month.

Thereafter, once the elections concluded, investor confidence bounced back in January 2017 and by March 2017, investor confidence was restored to levels observed in the pre-election phase. Here, similar to the Kenyan case, the behaviour of investor confidence is not identical to the behaviour of GDP while the behaviour of CCI is akin to that of GDP. This again augments the notion that CCI is a better predictor of GDP and consumption in comparison to investor confidence.

Upcoming Elections in Ghana - We predict consumer demand to be choppy during this election cycle in Ghana mostly due to COVID-19. KASI CCI is expected to perform better than other measures such as investor confidence.

The next elections are to be held on 7th December 2020. Naturally, with the ongoing Covid-19 pandemic, there are questions on whether or not to conduct these elections. Given that most of the resources have been committed to mitigate the socio-economic impact of the pandemic, the number of resources left to conduct effective, free, fair and credible elections are limited, and low voter turnout could be an issue.²⁶

Ghana Consumer Confidence and Investor Confidence (Dec 2019 - July 2020)



Source: KASI Insight and African Markets

Moreover, if governments decide to divert resources from fighting the pandemic, they may jeopardize their health and economic systems.

Ghana's government has not cancelled the elections and it seems as if they will proceed with the process. Unsurprisingly, the two main rival parties in these elections are NDC and NPP. And, for the third time, Mahama of NDC will face-off with current President Akufo-Addo.

Consumer confidence in Ghana was increasing as we entered into the new decade. The outbreak of the coronavirus put a halt on this and caused consumer sentiment in March 2020 to plummet to its lowest level recorded since inception of the index. Though the index has been on the recovery path since March, it has not attained the January 2020 confidence levels.

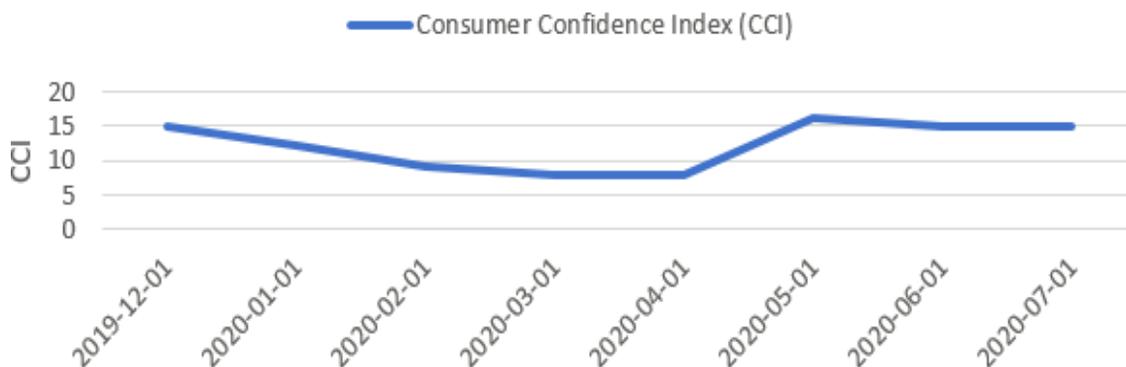
Volatility in investor confidence is not as apparent as that of consumer confidence although it has been on a downward trend in 2020. In the 2016 elections, investor confidence began falling 2 months prior to the elections (in October) while consumer confidence rose. This pattern shall be one to watch as the December 2020 elections approach.

Upcoming Elections in Ivory Coast - We predict consumer demand to be depressed significantly during this election cycle in Ivory Coast mostly due to COVID-19 and the contested 3rd term of the incumbent president.

KASI CCI is expected to perform better than other measures such as investor confidence. Ivory Coast's elections are scheduled to be on 31st October 2020. Initially, incumbent President Alassane Ouattara of the RHDP announced that he would not contest again for the presidential seat. RHDP then nominated Prime Minister Amadou Gon Coulibaly as their candidate, but he passed away 8th July 2020. As a result, RHDP nominated Alassane Ouattara for a 3rd term.

Other presidential candidates include former Prime Minister Pascal Affi N'Guessan of AFD and former President Henri Konan Bédié of the PDCI-RDA party. Violence has been a feature of Ivorian elections. The country suffered a civil war in 2010-2011 stemming from the elections leaving over 3000 people dead while others went missing or were randomly detained and arrested. Incidents of rape were also reported during the crisis.²⁷

Ivory Coast Consumer Confidence (Dec 2019 - July 2020)



Source: KASI Insight

The violence was a consequence of a second runoff elections where the then incumbent President Laurent Gbagbo and Alassane Ouattara both claimed to be winners of the runoff vote and proceeded to inaugurate themselves separately.²⁸ Ouattara used the Ivory Coast Independent Electoral Commission (IEC) results, which were certified by the U.N and backed by the international community, to prove his win. However, Gbagbo appealed the results to a Constitutional Council comprised of his allies who eventually invalidated the results leaving Gbagbo in power and a civil war ensued.

Unlike other African countries tracked by the CCI that began to see decline in sentiment in March 2020 when the pandemic hit, consumer confidence began declining in Ivory Coast long before that. In fact, while other countries saw significant declines in sentiment as a result of COVID-19, the decline seen in Ivory Coast was relatively modest.²⁹ As Ivory Coast has a history of election violence like Kenya, we would expect consumer confidence to decline before the election month. From the chart, consumer confidence is currently steady but with October approaching, the expectation is that the CCI will weaken in the upcoming months. Thus, it can be expected that consumer demand will fall as well.

CONCLUSION

- KASI Consumer confidence index is a better predictor of consumption and demand compared to other measures
- As a retailer, expect consumer demand to drop when elections are prone to violence and expect to be steady when peaceful
- Due to COVID-19, the impact may be more severe for countries where elections are contentious in 2020.
- Understanding all these factors will help retailers weather the storm in Ghana and Ivory Coast.

Our examination so far shows that elections do have an influence on consumer confidence. The influence of elections on consumer confidence

can be both positive and negative. For election-violence prone countries like Kenya, elections have a negative effect on consumer confidence as it tends to decline as the elections approach.

On the other hand, countries like Ghana where the election process is more peaceful, elections have a positive effect on consumer confidence as the expectations on general economic conditions improves. While consumer confidence rises with elections in more peaceful countries, investor confidence tumbles as elections approach in these countries.

Following a set of evidence-based assumptions, GDP trends reflect consumption trends thus if GDP increases, consumption follows suit and vice versa. Ergo, for countries where elections cause a drop in consumer sentiment and reduced GDP, this means lower consumption in these countries hence depressed sales and revenues for retailers operating in such countries.

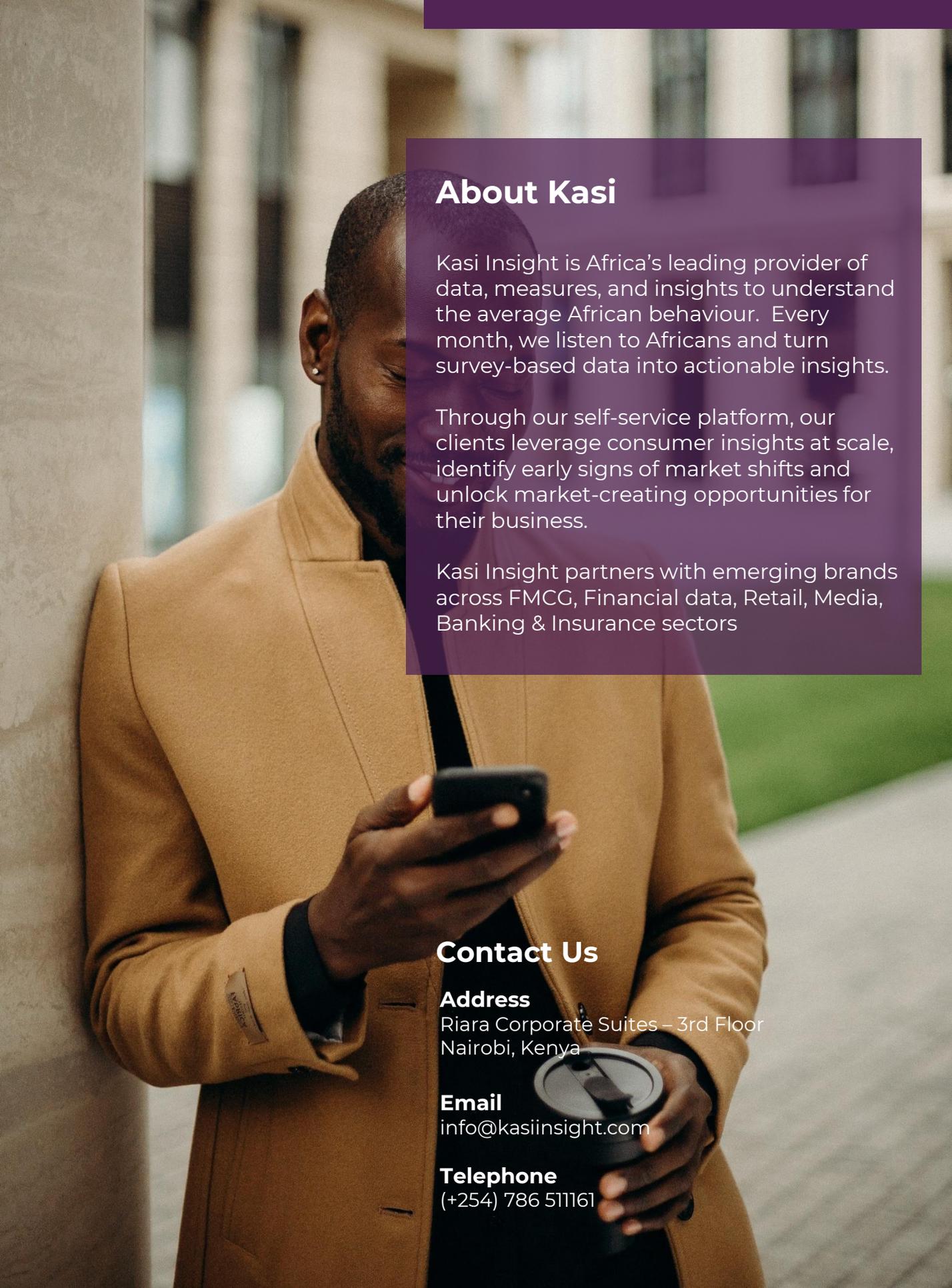
Finally, we have also noticed that the trends of CCI and GDP are more analogous in contrast to that of investor confidence and GDP thus strengthening the view that CCI is a better predictor of GDP and consumption.

With these observations, upcoming elections in October for Ivory Coast and in December for Ghana will have different implications for retailers in these countries. Given the history of election-related violence in Ivory Coast, we expect consumer confidence in Ivory Coast to wither as the elections approach and this means retailers could face lower demand for their products. Now though, Ivory Coast's CCI is stable.

For retailers in Ghana, consumer sentiment and GDP growth may not be negatively affected by the upcoming elections, as was the case in the 2016 elections, and therefore Ghanaian retailers should expect their sales to remain unaffected. As these elections approach, we shall monitor the respective country's CCI to determine whether our hypotheses will prove to be true.

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A man in a tan jacket is looking at his phone. The background is a blurred outdoor setting with a building. A purple semi-transparent box is overlaid on the right side of the image, containing text.

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