



Consumer | Market Trends

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Retail sales: September 2014



Outcome for September

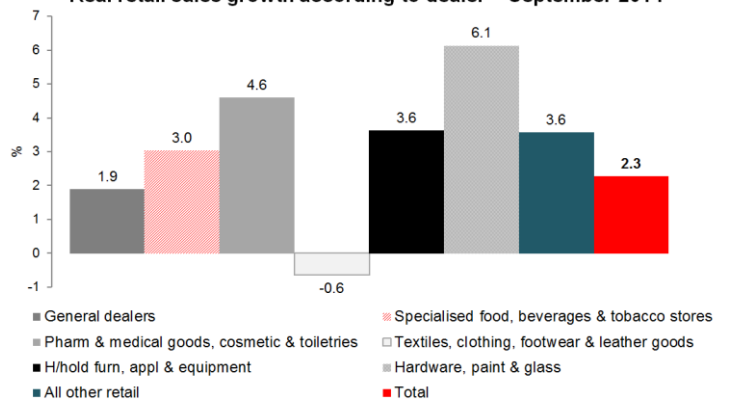
	August '14	September '14	2014 YTD
Total real sales (growth y/y) ▲	2.0%	2.3%	2.1%
Total nominal sales (growth y/y) ▼	8.2%	8.0%	7.4%

Y/y growth in retail sales at **constant prices** increased slightly in September, to 2.3%, from 2.0% in August and year-to-date growth of 2.1%. Total **nominal** retail sales growth declined slightly in September, to 8.0%, from 8.2% in August. This was greater than the year-to-date growth rate of 7.4%. Sales for September 2014 amounted to R62.6 billion (compared to R58.0 billion recorded in September 2013).

Reasons for fall in growth

Retail sales figures for September were somewhat disappointing and contrasted with some of the other better-than-expected and more upbeat data on real economic activity since the ending of the platinum mining and metal industries strikes. M-o-m seasonally adjusted growth was weak, at -0.8%. Households have been coming under increased pressure financially over recent months. Inflation had increased to over 6% over past months. Furthermore, the fallout from the unsecured lending boom of the earlier years and the 0.75% rise in short-term interest rates during the first nine months of the year have negatively impacted household balance sheets. At the margin, it is also conceivable that retail sales in September this year were depressed by the fact that the Heritage Day public holiday fell on a Wednesday. As a result, very few people were able to convert the public holiday into a long weekend. In recent years, it has been noticeable that when people are on holiday they have more time to spend at shopping centres and this encourages increased impulse spending. This was not the case in September this year.

Real retail sales growth according to dealer - September 2014



Source: StatsSA

Implications for monetary policy

Interest rates expected to remain on hold for remainder of 2014.... The September retail sales figures are not in any way strong enough to entice the Reserve Bank to consider raising interest rates at its Monetary Policy Committee (MPC) meeting this week. Especially with fuel prices set to fall further and food inflation tapering off, the MPC is bound to feel appeased about the buildup of inflationary pressures.

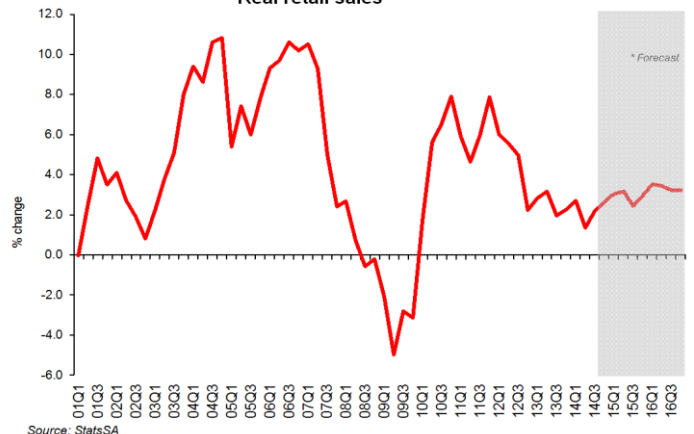
Outlook

Moderate growth in retail sales expected...

Consumer spending growth is expected to continue to moderate in coming months. However, it is unlikely to decline dramatically. Real interest rates remain low, inflationary pressures are receding and the growth in the Black middle-class continues unabated.

In addition, one must bear in mind that life expectancy has begun to increase substantially on the back of success in the fight against deaths through HIV/AIDS. As a result, growth in the population has been increasing, which has positive implications for retail sales going forward.

Real retail sales



Source: StatsSA

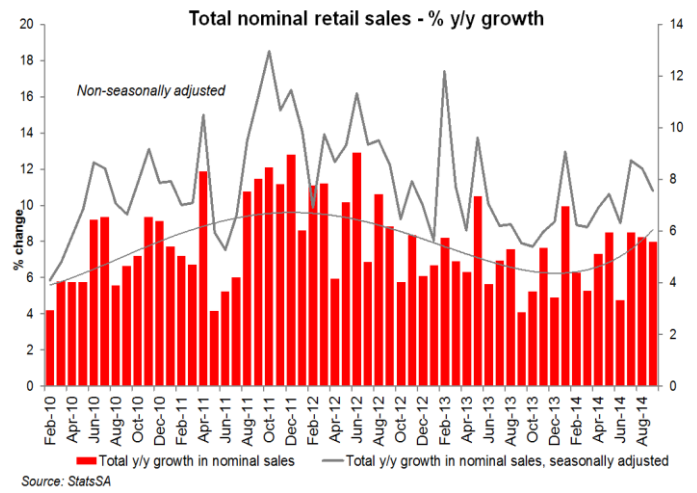
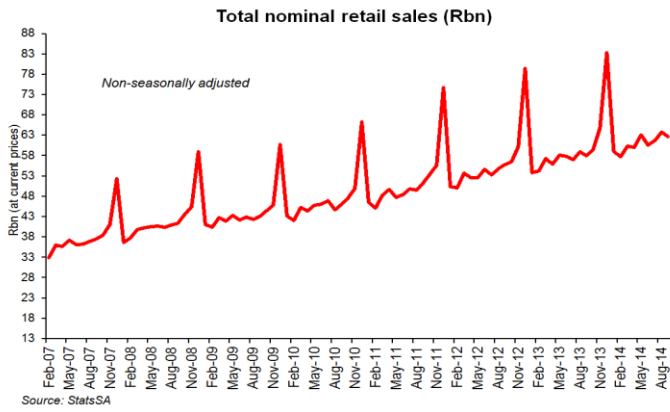
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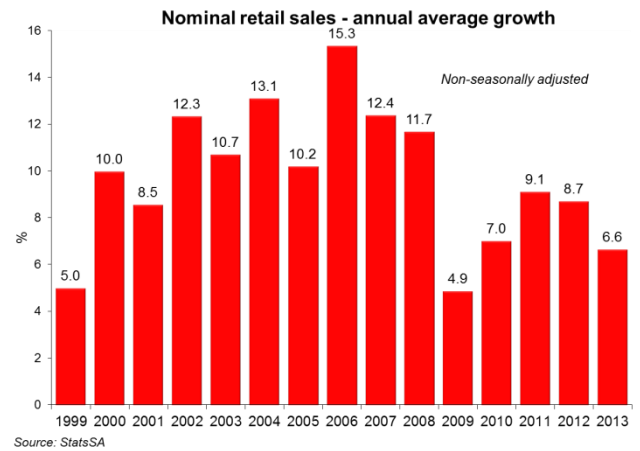
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Nominal retail sales

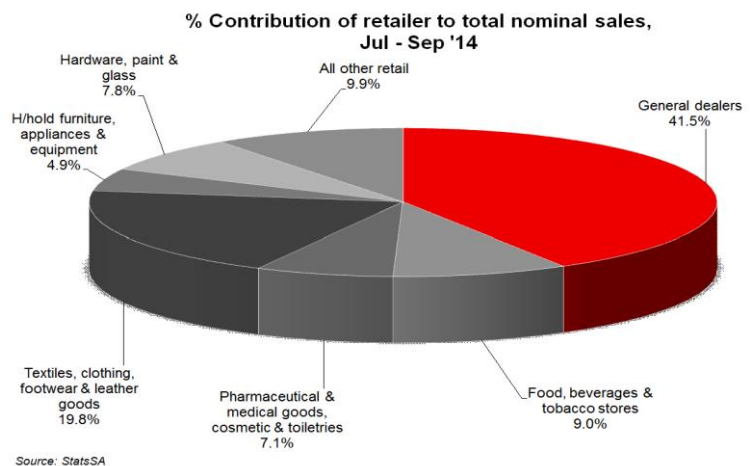


Total nominal retail sales: year-on-year percentage change*	
2005	10.2
2006	15.3
2007	12.4
2008	11.7
2009	4.9
2010	7.0
2011	9.1
2012	8.7
2013	6.6



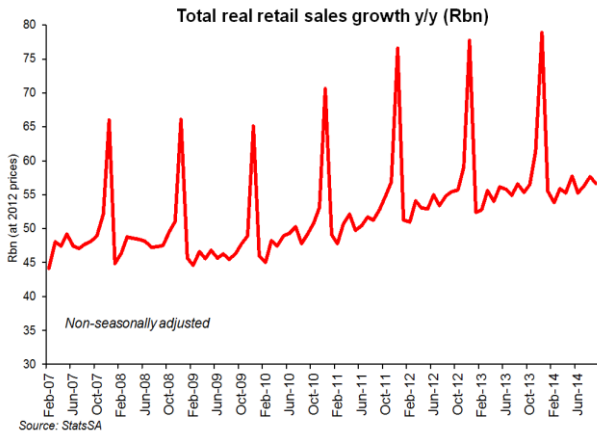
	2010	2011	2012	2013	2014
Jan	4.8	7.7	8.6	6.7	9.9
Feb	4.2	7.2	11.1	8.2	6.3
Mar	5.8	6.7	11.2	6.9	5.3
Apr	5.8	11.8	6.0	6.3	7.3
May	5.8	4.2	10.1	10.5	8.5
Jun	9.2	5.3	12.9	5.7	4.8
Jul	9.3	6.0	6.9	7.0	8.5
Aug	5.6	10.8	10.6	7.6	8.2
Sep	6.7	11.4	8.8	4.1	8.0
Oct	7.2	12.1	5.8	5.3	
Nov	9.3	11.1	8.3	7.6	
Dec	9.1	12.8	6.1	4.9	

Quarterly averages	
2012 Q2	10.0
2012 Q3	8.8
2012 Q4	6.7
2013 Q1	7.3
2013 Q2	7.5
2013 Q3	6.2
2013 Q4	5.8
2014 Q1	7.1
2014 Q2	6.9
2014 Q3	8.2
YTD growth of 2014 vs 2013 = 7.4%	



* Current prices & not seasonally adjusted. % change of the relevant year compared with previous year, Source: Statistics SA

Real retail sales



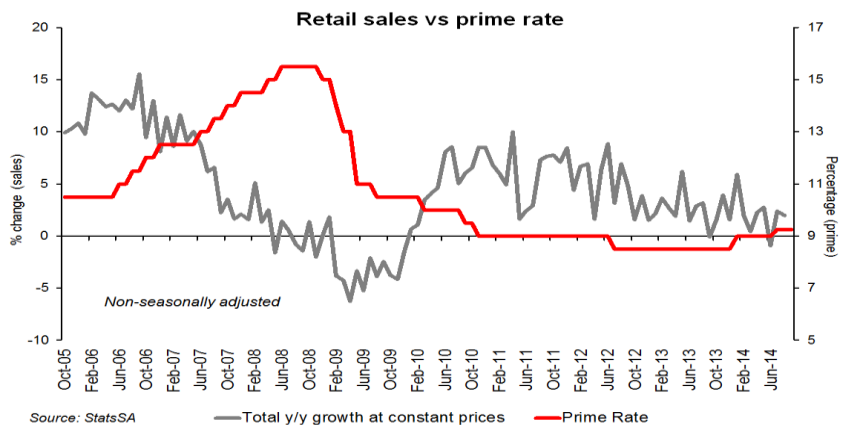
Total real retail sales: year-on-year percentage change*	
2006	12.1
2007	6.8
2008	0.6
2009	-3.2
2010	5.6
2011	6.1
2012	4.5
2013	2.6



	2010	2011	2012	2013	2014
Jan	0.7	6.8	4.4	2.2	5.9
Feb	1.1	6.0	6.7	3.6	2.0
Mar	3.4	4.9	6.9	2.7	0.5
Apr	4.1	10.0	1.6	1.9	2.2
May	4.6	1.6	6.3	6.2	2.8
Jun	8.1	2.4	8.8	1.5	-0.9
Jul	8.5	2.9	3.2	2.9	2.4
Aug	5.0	7.3	6.9	3.1	2.0
Sep	6.1	7.6	4.8	-0.1	2.3
Oct	6.5	7.8	1.6	1.5	
Nov	8.5	7.1	3.8	3.9	
Dec	8.5	8.4	1.5	1.5	

Quarterly averages	
2012 Q1	5.9
2012 Q2	5.5
2012 Q3	5.0
2012 Q4	2.3
2013 Q1	2.8
2013 Q2	3.2
2013 Q3	2.0
2013 Q4	2.3
2014 Q1	2.7
2014 Q2	1.4
2014 Q3	2.2

**YTD growth
(i.e. 2014 vs 2013) = 2.1%**



* Constant 2012 prices & not seasonally adjusted. % change of relevant year compared with the previous year; Source: Statistics SA

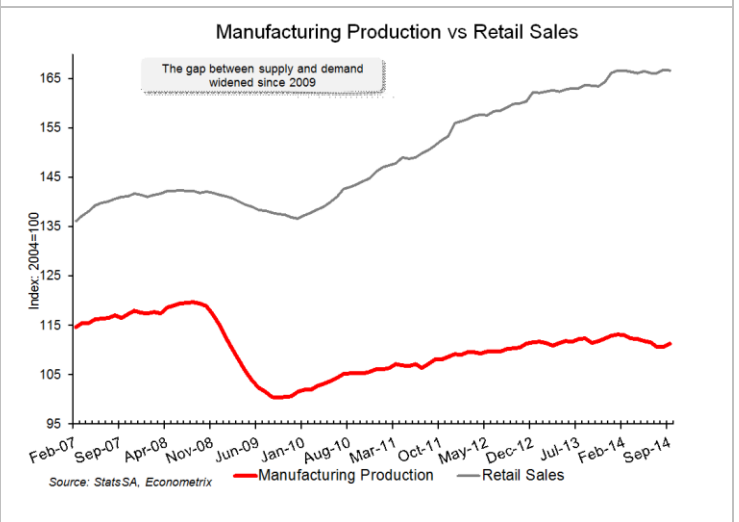
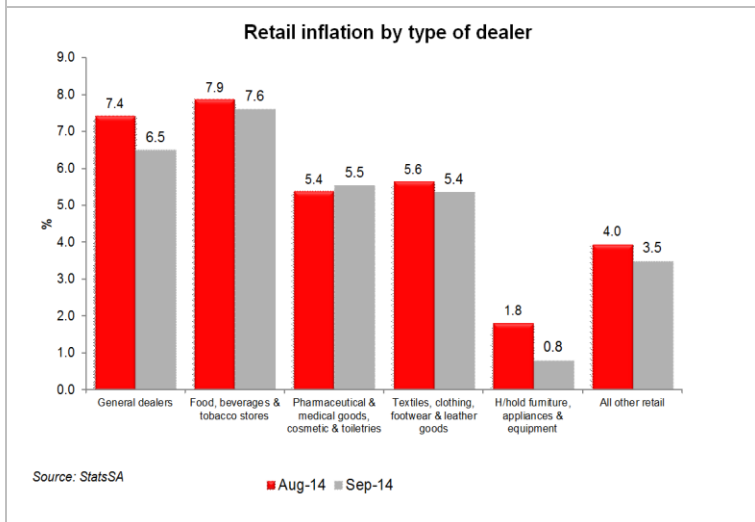
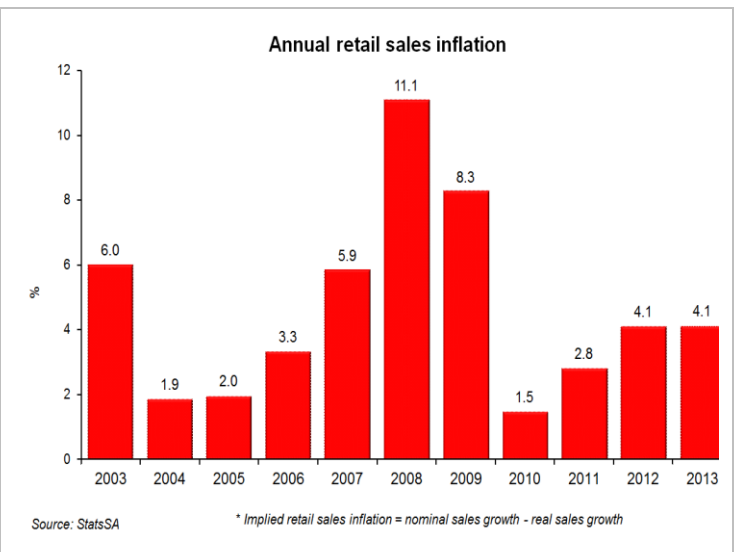
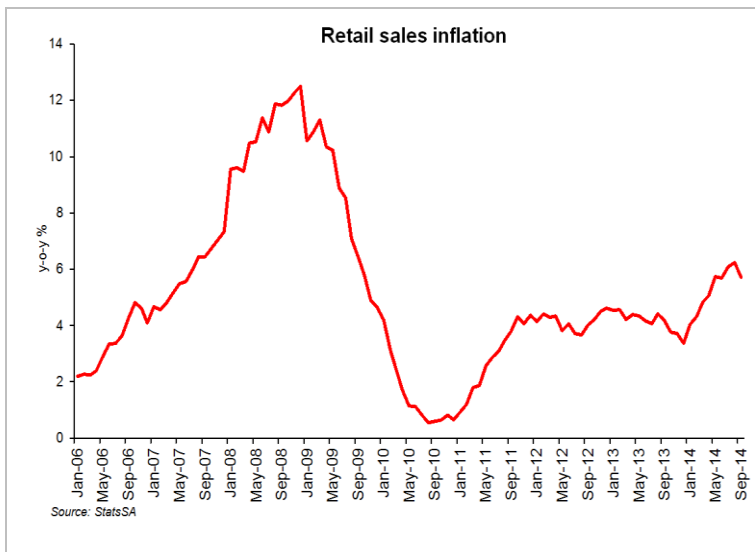
Factors that impact on sales

Retail inflation (y/y) ▲

August '14	September '14	2014 YTD
6.2%	5.7%	5.3%

Evidence for the softness in consumer demand is also gleaned from the reduction in retail inflation, calculated crudely by us as the difference between growth in sales at current prices and growth at constant prices. The estimated retail inflation rate fell quite sharply in September, to 5.7%, from 6.2% in August. These figures are in line with the trend of CPI inflation, which declined to 5.9% in September, from 6.4% in August. For the year as a whole the estimated retail inflation rate has been 5.3%, but this masks the fact that retail prices accelerated as the year progressed on the back of the pass-through effect of last year's steep depreciation in the value of the Rand. However, what the September figures suggest, is that those pass-through effects have begun to fade in the wake of relative stability in the exchange rate.

	2010	2011	2012	2013	2014
Jan	4.1	0.9	4.2	4.5	4.0
Feb	3.1	1.2	4.4	4.6	4.3
Mar	2.4	1.8	4.3	4.2	4.8
Apr	1.7	1.8	4.4	4.4	5.1
May	1.2	2.6	3.8	4.3	5.7
Jun	1.1	2.9	4.1	4.2	5.7
Jul	0.8	3.1	3.7	4.1	6.1
Aug	0.6	3.5	3.7	4.5	6.2
Sep	0.6	3.8	4.0	4.2	5.7
Oct	0.7	4.3	4.2	3.8	
Nov	0.8	4.0	4.5	3.7	
Dec	0.6	4.4	4.6	3.4	
Year	1.5	2.9	4.1	4.1	



Income

	Q1 2014	Q2 2014	2013 Average
Real wage (y/y growth) ▼	1.3%	1.0%	2.9%
Real disposable income (y/y growth) ▲	1.0%	2.3%	1.9%

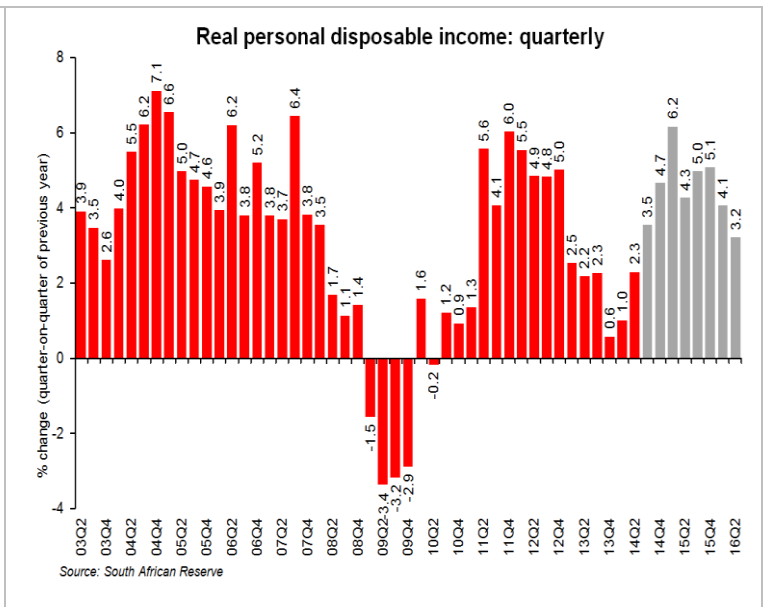
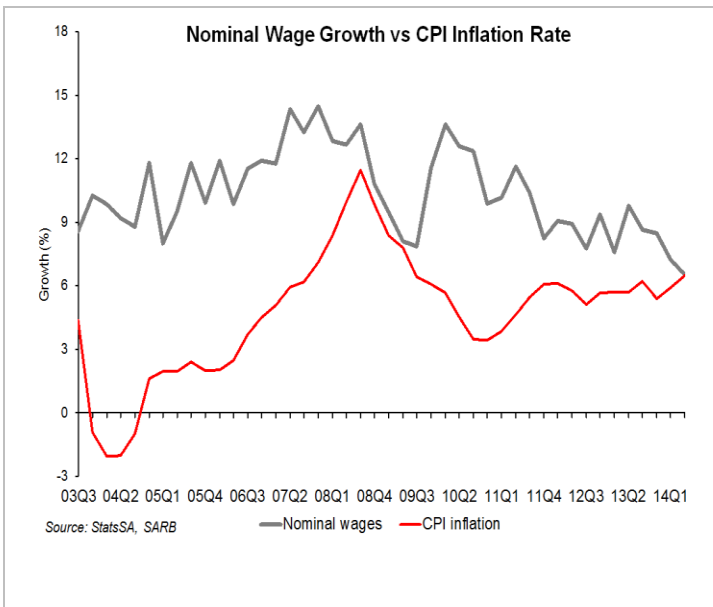
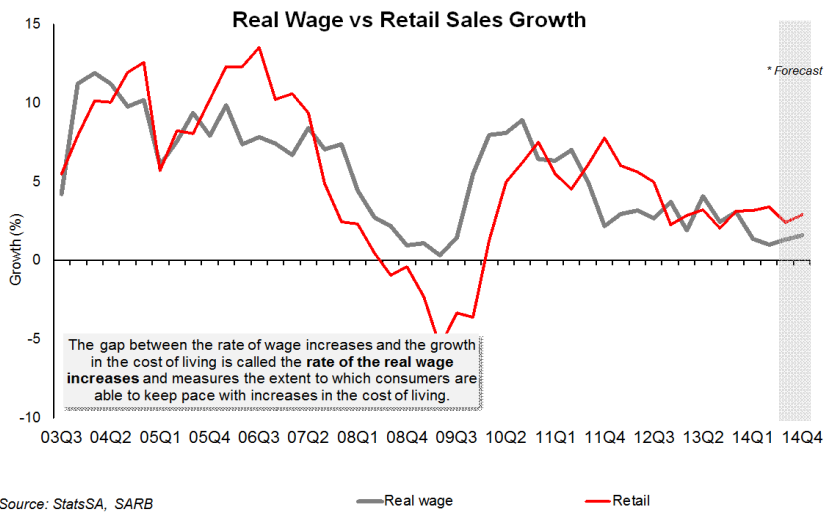
Real wage growth declined further in Q2 2014... After having increased in Q4 2013, y/y growth in real wages declined for the second consecutive quarter in Q2 2014, to 1.0%, from 1.3% in Q4 2014.

This ties in with the decline in growth in real wages witnessed on an annual basis since 2011. Y/y growth in real wages declined to 2.9% in 2013, down from 5.1% and 3.1% in 2011 and 2012, respectively.

Disposable income growth increases in Q2 2014... After having been on a downward trajectory since Q4 2011, y/y growth in real disposable income increased in Q2 2014, to 2.3%, from 1.0% in Q1 2014. This was slightly up on the 1.9% growth recorded for the whole of 2013. Undoubtedly, disposable income of households will have continued to come under pressure in Q2 as a result of rising inflation more generally, higher debt servicing costs on the back of the 0.5% rise in interest rates at the end of January and the adverse effect of widespread labour unrest in the platinum mining sector which continued through to the end of Q2. In addition, it can be expected that household income would have remained under pressure in Q3 2014 following the 0.25% rise in interest rates in July, which took the prime lending rate to 9.25%.

The slight improvement in y/y growth in real disposable income in Q2 occurred at a time when households reduced their indebtedness to 73.5% of disposable income in Q2, from 74.4% in Q1 and a recent peak of 82.4% of disposable income in 2008. This represents quite a sharp decline from one quarter to the next in household indebtedness. It does not come as a total surprise given the evidence of the steep fall in the growth of unsecured lending to households. Disturbingly, the ratio of savings to GDP fell steeply to its lowest level in decades, to 13.2% in Q2, from 14.6% in Q1.

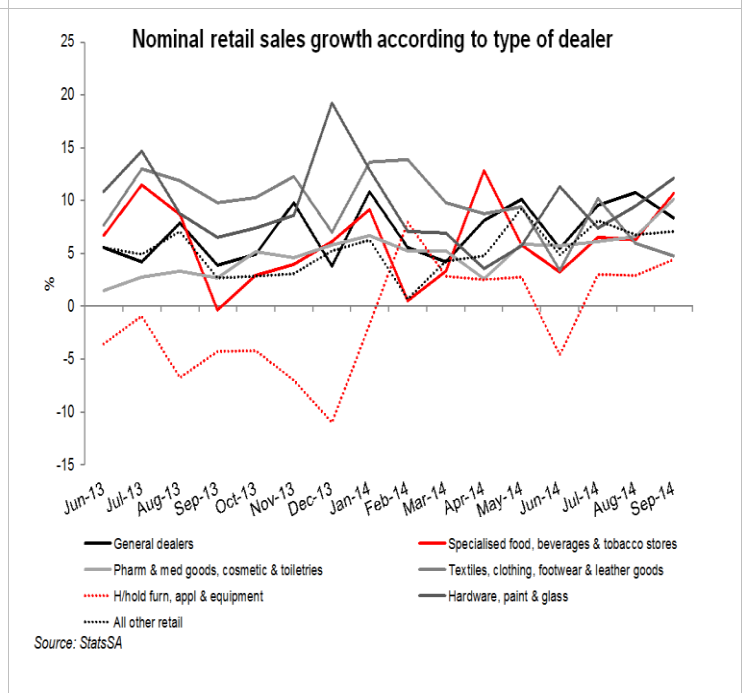
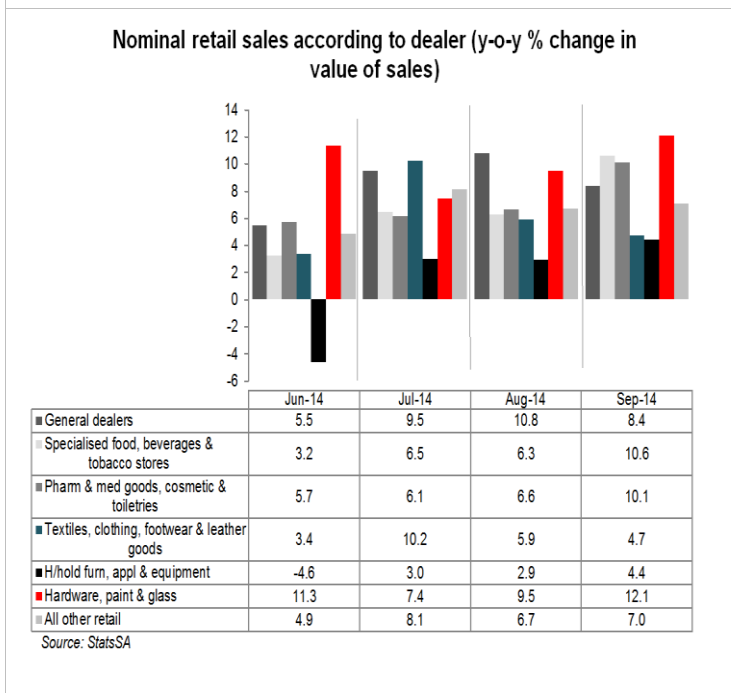
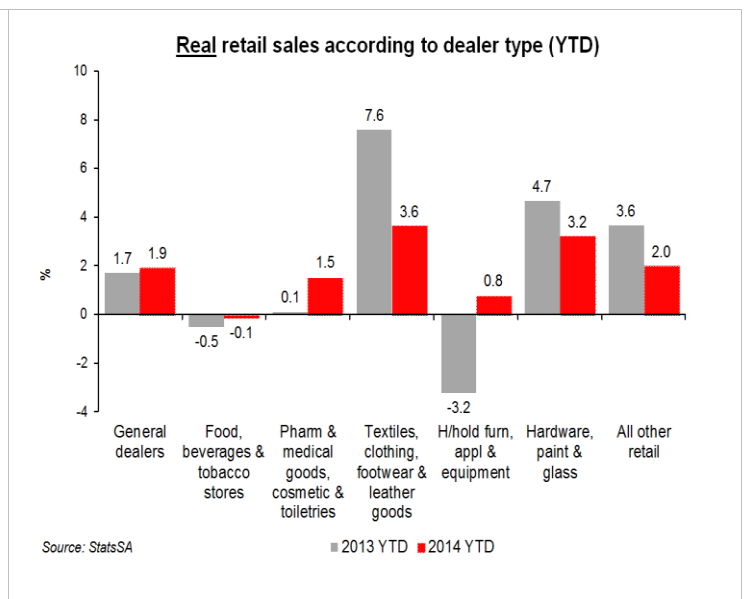
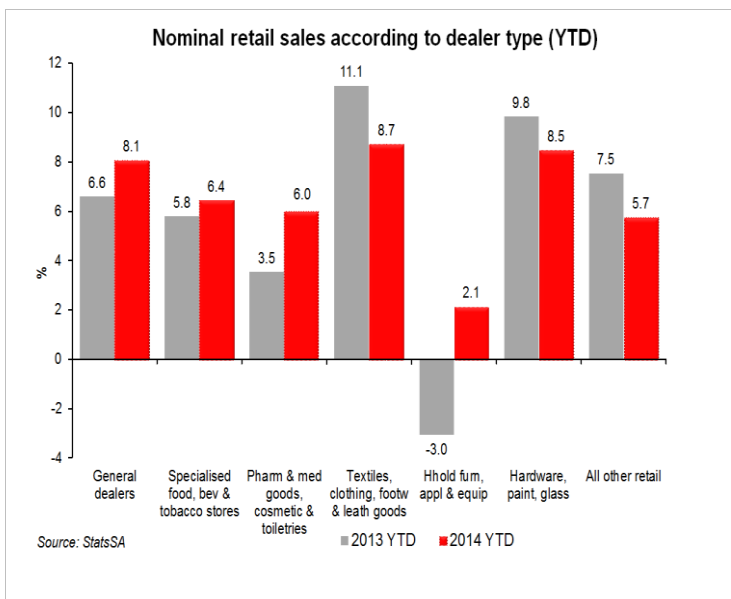
Evidence suggests that aggressive wage demands by the working class is not translating into their enrichment, but is instead leading to less employment and less spending by them. This is not conducive towards increased wage inflation, something of which the Reserve Bank has been increasingly afraid in the wake of the aggressive trade union wage demands.



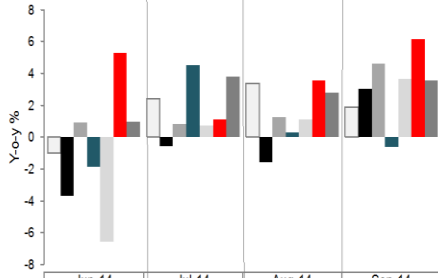
Retail sales according to type of dealer

Spending by those who had been on strike normalises in September

The primary reason for the slightly disappointing outcome was that growth in sales amongst **general dealers** (i.e. the main retail stores such as Pick n Pay, Woolworths, Checkers, etc.), slowed perceptibly, to 1.9% in September, from 3.4% in August. This suggests that the initial spurt to sales provided immediately after the mining strike faded away somewhat in September. One suspects that once workers were no longer on strike, they had been able to go out and spend newly earned money in a fairly aggressive way in order to make up for their inability to spend in earlier months whilst on strike. However, by September, some sense of normality had probably returned. In contrast, there was a solid pickup for the third successive month in growth of sales amongst dealers in **furniture and appliances**, to 3.6% in September, from 1.1% in August. Growth in sales by **builders' merchants** also picked up to 6.1% in September, from 3.6% in August. In other words, there was a slight shift in the focus of spending **away from essential goods**, towards more **discretionary items**. Sales growth also improved in the case of **pharmaceuticals, cosmetics and toiletries**, to 4.6% in September, from 1.2% in August. These outcomes tend to coincide with the slight pickup in unsecured lending to households which occurred in September compared with preceding months. We interpreted this to support the view that we have been conveying in recent months to the effect that the steep slump in growth of unsecured lending to households which had taken place in 2013 and the early part of this year, has begun to stabilise. Much of the bad debt incurred has come home to roost but the fallout is largely now complete.



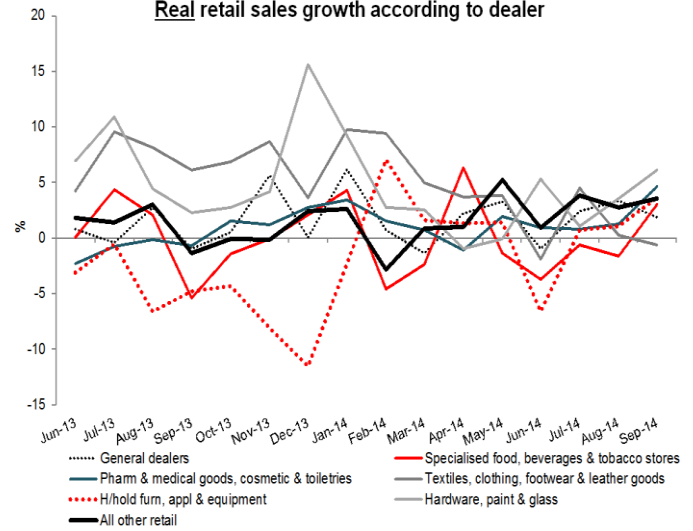
Real retail sales according to dealer



	Jun-14	Jul-14	Aug-14	Sep-14
General dealers	-1.0	2.4	3.4	1.9
Specialised food, beverages & tobacco stores	-3.7	-0.6	-1.6	3.0
Pharm & medical goods, cosmetic & toiletries	0.9	0.8	1.2	4.6
Textiles, clothing, footwear & leather goods	-1.9	4.5	0.3	-0.6
H/hold furn, appl & equipment	-6.6	0.7	1.1	3.6
Hardware, paint & glass	5.3	1.1	3.6	6.1
All other retail	1.0	3.8	2.8	3.6

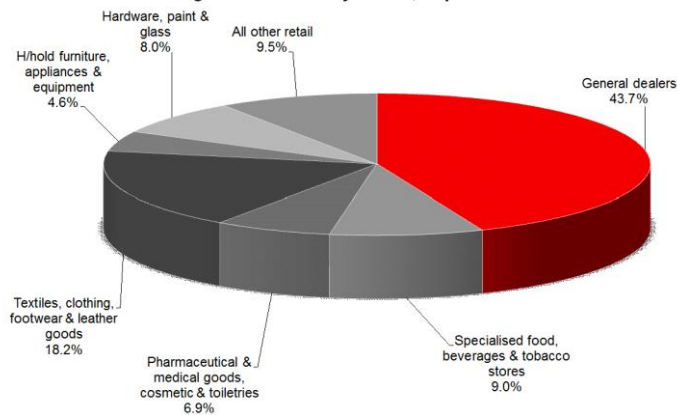
Source: StatsSA

Real retail sales growth according to dealer



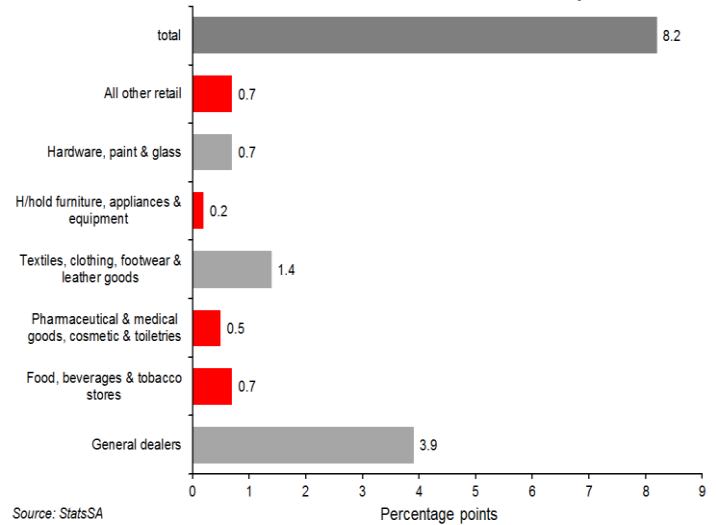
Source: StatsSA

Percentage contribution by dealer, September 2014



Source: StatsSA

Contribution of dealer to total nominal sales, Jun-Sep'14



Source: StatsSA

Retail sales according to type of dealer at nominal prices (%)

	2012	2013	2012	2013	Q1 14	Q2 14	Q3 14	Aug '14	Sep '14	Aug/Sep
	% of Total	% of Total	y/y %	y/y %	y/y %			y/y %		m/m%
General dealers	41.6	41.6	9.3	6.4	6.7	7.9	9.5	10.8	8.4	2.2
Specialised food, beverages & tobacco	9.0	8.9	10.2	5.4	4.2	7.2	7.8	6.3	10.6	0.6
Pharmaceutical, Medical Goods, Cosmetics & Toiletries	7.2	7.0	6.5	4.0	5.7	4.7	7.6	6.6	10.1	-0.7
Textiles, clothing, footwear & leather goods	19.5	20.3	9.6	10.6	12.4	7.2	7.0	5.9	4.7	-9.5
Household furniture, appliances & equipment	5.4	4.9	3.3	-4.6	2.8	0.2	3.4	2.9	4.4	-1.4
Hardware, Paint & Glass	7.2	7.4	10.4	10.3	8.7	6.9	9.6	9.5	12.1	-2.1
All Other Trade	10.1	10.0	6.6	6.5	3.7	6.3	7.3	6.7	7.0	-5.4
Total	100.0	100.0	8.7	6.6	7.1	6.9	8.2	8.2	8.0	-1.7

* The makeup of the proportionate share of the retail trade by different types of dealer between 2010 and 2011 (see table above) shows the biggest change to be an increase in the share taken up by general dealers and hardware, paint and glass, and a relative decline in the share taken up by pharmaceutical, medical goods, cosmetics and toiletries.

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