

Herman van Papendorp
Head of Investment Research & Asset Allocation

Sanisha Packirisamy
Economist

Roberta Noise
Economic Analyst

in the moment

Discouraging retail trade sales in September 2019

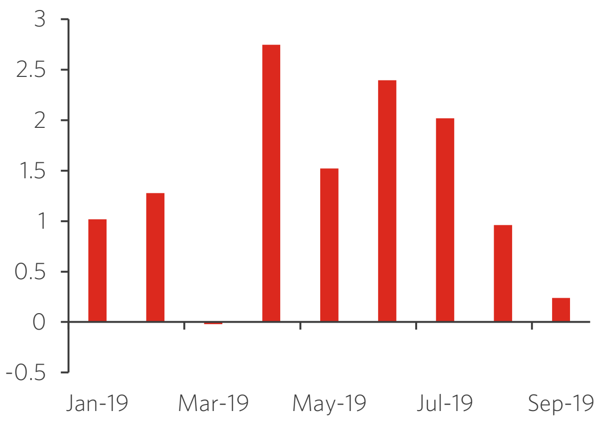
Highlights

- Retail trade sales for September 2019 disappointed and only grew by 0.2%, which was below the 1.0% growth rate reported in August 2019, and below the Iress expectation of 1.9%. Growth in the third quarter slowed from the second quarter and was lower than the same period a year ago.
- Hardware retailers subtracted 0.5% from retail sales growth in the third quarter, while growth in sales from general dealers as well as food, beverage and tobacco retailers was flat.
- Robust growth was reported in the textiles, clothing, footwear and leather retailers, which increased by 3.0% (previously 0.9%) and added 0.5% to the September 2019 number.
- The unemployment rate grew to an all-time high, although the Commission for Conciliation Mediation and Arbitration (CCMA) prevented a higher retrenchment rate, by dealing with a record number of cases in the current financial year.
- The Consumer Confidence Index dipped back into negative territory in the third quarter of 2019, with a broad-based deterioration in all the contributing sub-indices.
- In our view, near-term growth in retail sales will continue to remain muted, owing to increased retrenchments and gloomy confidence.

Retail trade sales lost further momentum in September 2019

Statistics South Africa (Stats SA) released retail trade sales for September 2019 and the number disappointed, as it only grew by 0.2% in year-on-year (y/y) terms (see chart 1). This is below the 1.0% y/y growth rate reported in August 2019 and below the 1.9% y/y expectation by the Iress consensus for September 2019. Seasonally adjusted growth in retail sales was flat quarter on quarter (q/q), but grew by 1.1% y/y in the third quarter of 2019 and previously grew 0.8% q/q and 2.2% y/y in the second quarter of 2019. Contributions to the lower 1.1% y/y third-quarter growth number arose from hardware retailers subtracting 0.5% and flat growth from general dealers as well as food, beverage and tobacco retailers.

Chart 1: Growth in retail sales slowed further (% y/y)

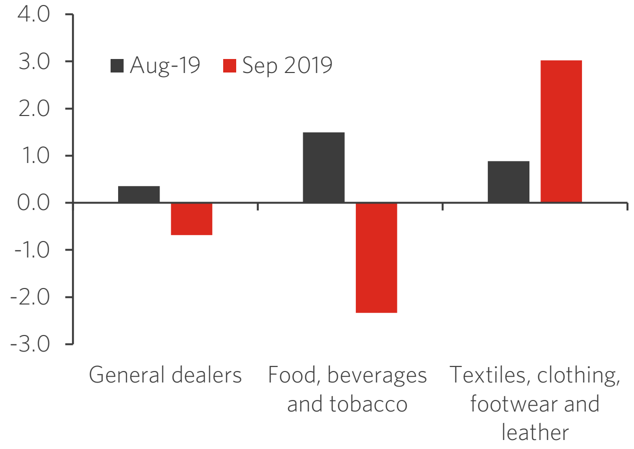


Source: Stats SA, Momentum Investments

Meanwhile, all other retailers as well as textile, clothing, footwear and leather product-type retailers contributed 0.5% and 0.4%, respectively, to the third-quarter number for 2019 of 1.1% y/y.

The September 2019 growth figure was strikingly lower. Lower growth was driven by general dealers (declining 0.7% y/y) as well as food, beverage and tobacco (decreasing 2.3% y/y) retailers, which subtracted 0.3% and 0.2% respectively from the 0.2% y/y rate (see chart 2). Still, robust growth was reported in the textiles, clothing, footwear and leather retailers, which grew by 3.0% y/y (previously 0.9% y/y), and added 0.5% to the 0.2% y/y September 2019 number (see chart 2).

Chart 2: Sales growth by retailer type (% y/y)

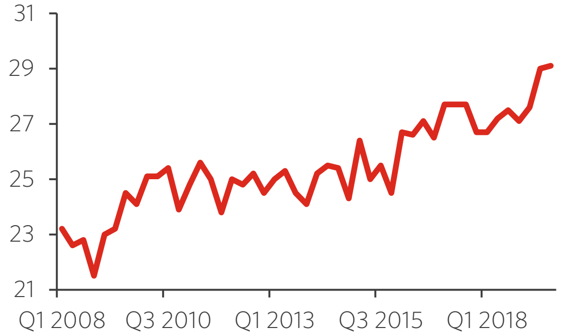


Source: Stats SA, Momentum Investments

Jobs outlook darkens amid increased retrenchments

Although the unemployment rate rose marginally to 29.1% in the third quarter of 2019 from 29.0% in the second quarter of 2019, the rate is the highest in the history of the series (see chart 3). The expanded rate (including discouraged workers, who have given up looking for work for longer than four weeks) of unemployment remained unchanged at 38.5% but the number of discouraged workers increased by 44 000. There were more working-age entrants into the labour market, which increased by 149 000. The labour force rose by 141 000. However, the number of employed rose by 62 000 (43 000 was explained by a rise in government jobs and could be lagged spillover effects from temporary employment created in preparation for the national elections). Jobs in the agricultural sector and private household sector were up 38 000 and 35 000, respectively.

Chart 3: Unemployment rate grinds higher



Source: Stats SA, Momentum Investments

The Commission for Conciliation Mediation and Arbitration (CCMA) reported that it is dealing with a record-high number of cases in the current financial year, rising to 193 732 in 2018/19 from 186 902 in 2017/18. The business (27%), security (12%) and retail (11%) sectors have recorded the highest referrals in the current period. The Basic Conditions of Employment Act (BCEA) and the National Minimum Wage Act (NMWA) represented 8% of the current cases and is likely to grow by 25% in the next financial year. The CCMA reportedly prevented 15 787 retrenchments that were supposed to reach a high of 38 588. This suggests the current unemployment rate could have been higher.

Retrenchment announcements of 1 000 employees from ArcelorMittal (relating to the closure of Saldanha Steel) and 900 from SA Airways (SAA) highlight that the unemployment rate is likely to stay elevated, particularly in light of a muted outlook for economic growth. The economy is expected to grow by 0.5% in 2019, according to National Treasury, with only a mild uptick anticipated for 2020. This lacklustre growth backdrop is likely to continue weighing on consumer activity in the near term.

Economic conditions are likely to remain subdued in the near term

Consumer confidence dipped back into negative territory in the third quarter of 2019 to negative seven index points from five index points in the second quarter. There was a widespread deterioration in all the contributing sub-indices in the third quarter. The only sub-index still in positive territory for the year was the expected household finances. Meanwhile, the indices measuring expected economic conditions in 12 months and the appropriateness of the current reading for time to buy durables were in negative territory.

Standard Bank's Financial Conditions Index contracted to negative 0.17 in the third quarter of 2019 from negative 0.28. This is representative of weakness in the economy extending into the third quarter.

Retail sales will likely contribute less to total gross domestic product (GDP) in the third quarter relative to the second quarter of 2019. In our view, near-term growth in retail sales will likely remain modest, given ongoing retrenchments and gloomy confidence.