momentum investments

in the moment

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Growth in retail sales a touch milder in October 2019

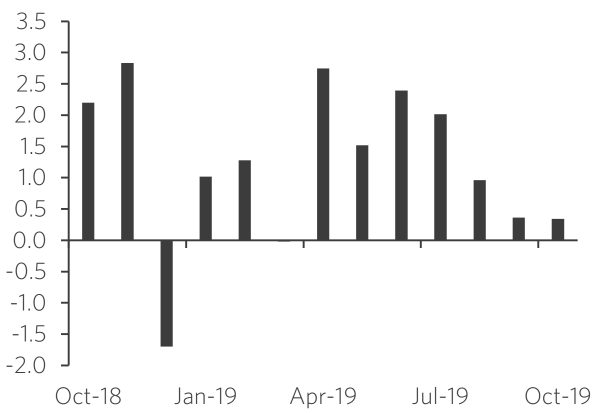
Highlights

- Growth in retail trade sales for October 2019 slowed marginally to 0.3% from 0.4% recorded in September 2019.
- Sales in three out of the seven retailer divisions grew in October 2019, relative to four divisions growing in September 2019.
- Food and beverage sales added 0.4%, followed by general dealer sales and household furniture, appliances and equipment sales, which added 0.2%, respectively.
- Food, beverage and tobacco sales grew by a robust 4.5% y/y in October, previously contracting by 1.9% y/y in September 2019. This was the most the index grew since September 2017.
- The rise in consumer delinquency rates across all credit facilities is of concern and also points to the degree of financial vulnerability amongst consumers.
- Retail sales could strengthen marginally in the fourth quarter of 2019, skewed by Black Friday specials and holiday spending, but downbeat consumer confidence, rising unemployment and an elevated tax burden will continue to cap growth in retail sales in the near term.

Retail trade sales remained soft in October 2019

Retail trade sales for October 2019 slowed marginally to 0.3% in year-on-year (y/y) terms, from 0.4% y/y released by Statistics South Africa (Stats SA) (see chart 1). In November 2019 the month-on-month (m/m) seasonally-adjusted momentum slowed to 0.2% m/m, down from 0.6% m/m. Retail trade sales for the three months ended October 2019 contracted to 0.5% m/m (seasonally adjusted), previously recording flat growth at the end of September 2019. Sales in three out of the seven retailer divisions grew in October 2019, relative to four divisions growing in September 2019. Food and beverage sales added 0.4%, followed by general dealer sales and household furniture, appliances and equipment sales, which added 0.2%, respectively.

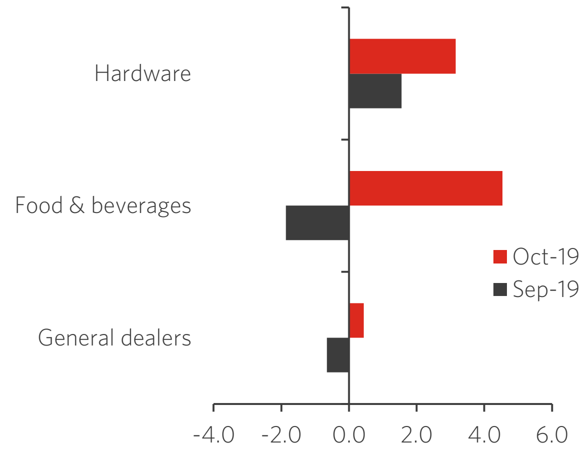
Chart 1: Growth in retail sales almost flat (% y/y)



Source: Stats SA, Momentum Investments

Food, beverages and tobacco sales grew by a robust 4.5% y/y in October 2019, previously contracting by 1.9% y/y in September 2019. This was the most the index grew since September 2017. Household furniture, appliances and equipment sales grew by 3.2% y/y, up from 1.6% y/y in September 2019. General dealer sales improved 0.4% y/y, before recording a contraction of 0.6% y/y in September 2019 (see chart 2).

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



Source: Stats SA, Momentum Investments

Textile and clothing sales contracted by 0.6% y/y in October 2019, previously growing by a solid 2.9% y/y. The division subtracted 0.1% from the October retail trade sales number. Hardware, paint and glass sales slipped into negative territory, after showing tepid growth of 0.3% y/y in September 2019. The index contracted by 2.5% y/y in October 2019.

The November number is likely to see some upward momentum underpinned by Black Friday sales, whereas holiday season spending into the end of the year should also support the December number. This will likely underpin retail sales for the full quarter given the sluggish start in October. However, consumers' financial ability to spend is significantly limited and the current low growth and high unemployment environment does not encourage spending unless it is seen as necessary.

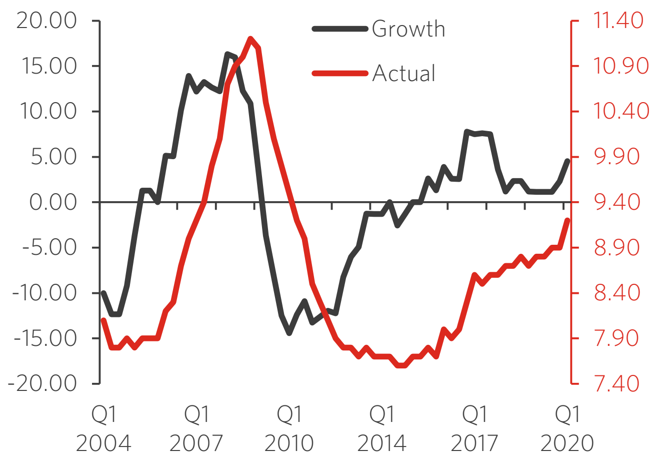
Consumer debt rising, but not all will be reflected in higher spending

Consumer debt has been on the rise since 2017, growing from 0.7% y/y in March 2017 to 6.7% y/y in October 2019. Worryingly, the pace of growth in unsecured credit has outstripped that of secured credit in this credit cycle. According to the SA Reserve Bank (Sarb), unsecured credit grew by 10.5% in the first quarter of 2019 relative to secured credit at 4.9%. Unsecured credit is generally more expensive to service compared to secured credit because initiation and service fees have to be factored in alongside actual debt service costs. This has contributed to financial strain for domestic consumers, hampering their willingness and ability to spend.

Debt service costs may not be at similar levels recorded around the global financial crisis, but it is rising nonetheless (see chart 3). A highly indebted household sector is a cause for concern, as households are particularly sensitive to shocks in the economy, such as sudden increases in prices or interest rates.

TransUnion data shows a rise in the number of credit card accounts alongside non-bank personal loans (another form of unsecured credit) in the third quarter of 2019 (see table 1). The rise in delinquency rates across all credit facilities is of concern and also points to the degree of financial vulnerability among consumers.

Chart 3: Debt service ratio



Source: Sarb, Momentum Investments

Table 1: Credit industry insights for the third quarter of 2019

	Credit cards	Bank personal loans	Non-bank personal loans	Home loans	Vehicle finance
Change in originations (y/y)	-5.5% ↓	53% ↑	-0.6% ↓	-7.6% ↓	-4.2% ↓
Change in serious delinquency rate (y/y)	0.4% ↓	1.2% ↑	5.9% ↓	0.9% ↓	0.6% ↓
Shifts in number of accounts (y/y)	9.4% ↑	4.8% ↓	15.0% ↑	1.8% ↑	3.2% ↑
Shifts in number of outstanding balances (y/y)	16.1% ↑	12.3% ↑	29.4% ↑	8.4% ↑	5.6% ↑

Source: TransUnion, Momentum Investment

The continued rise in credit growth (and specifically unsecured credit growth) is a likely sign of consumer needs to service existing debt or daily living expenses. Given that the tepid rise in retail sales has not matched the upswing in unsecured credit, a level of consumer stress is apparent.

The low growth and subdued confidence backdrop do not motivate for spend either. Retail sales could strengthen marginally in the fourth quarter of 2019, skewed by Black Friday specials and holiday spending, but downbeat consumer confidence, rising unemployment and an elevated tax burden will continue to cap growth in retail sales in the near term.