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Retail sales in July 2019 were weaker, but still positive

Highlights

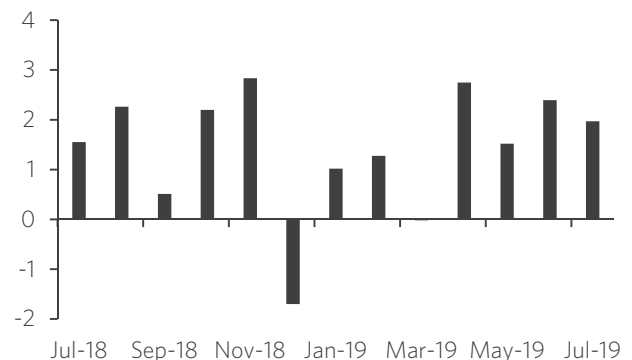
- Growth in retail sales remained positive and rose 2.0% in July 2019, but was lower than the 2.4% reported in June 2019.
- Seasonally adjusted retail trade sales slowed month on month (m/m) to 0.2% from 0.7% in June 2019.
- Volumes in six out of the seven retail divisions increased and contributed positively to the July print. Sales volumes by all other retailers grew by 7.9% (previously 6.6%) and added 1.0% to the July 2019 print, whereas retailers of clothing and footwear grew by 3.2% (previously 4.2%) and added 0.6% to the July number. Hardware, paint and glass volumes, meanwhile, contracted for the fourth consecutive month to 1.7%.
- Slower growth in retail sales in July can partly be explained by household credit growth slipping to 6.3%.
- The 25-basis-point cut in the repo rate in July 2019 should contribute positively to consumer purchasing power.
- Confidence in the retail sector deteriorated to 17 index points in the third quarter of 2019 from 28 index points in the second quarter, suggesting headwinds to this sector remain. As such, retail sales growth should remain modest in the near term until sentiment improves on the back of confidence-instilling structural reform.

Retail sales disappointed consensus in July 2019

Statistics South Africa (Stats SA) released retail trade sales data which remained positive and grew to 2.0% in year-on-year (y/y) terms in July 2019, but came in lower than the 2.4% y/y reported in June 2019 (see chart 1). The Iress consensus expected an increase in retail sales momentum to 2.5% y/y in July 2019. Seasonally adjusted retail trade sales slowed m/m to 0.2% from 0.7% in June 2019. Volumes for the three months ended in July 2019 also slowed to 0.8% from 0.9%.

Volumes in six out of the seven retail divisions increased and contributed positively to the July print (see chart 2). Sales volumes by all other retailers grew by 7.9% (previously 6.6%) and added 1.0% to the July 2019 print, whereas retailers of clothing and footwear grew by 3.2% (previously 4.2%) and added 0.6% to the July number.

Chart 1: Slower retail sales momentum in July (% y/y)

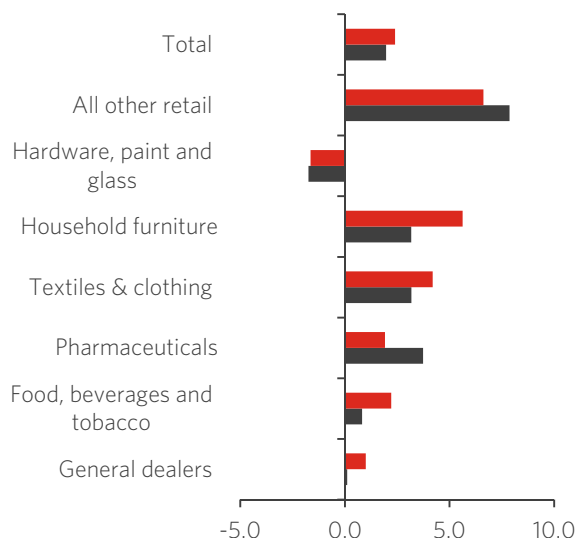


Source: Stats SA, Momentum Investments

Hardware, paint and glass volumes meanwhile contracted for the fourth consecutive month to 1.7%. This retailer division subtracted 0.1% from the July print (see chart 2).

In July 2019, year-to-date retail trade sales were reported to be 1.6% higher than the 1.4% figure reported in June 2019. The global retail trade trajectory continues to slow as the growth outlook continues to deteriorate in view of trade tensions remaining heightened and curbing sentiment.

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



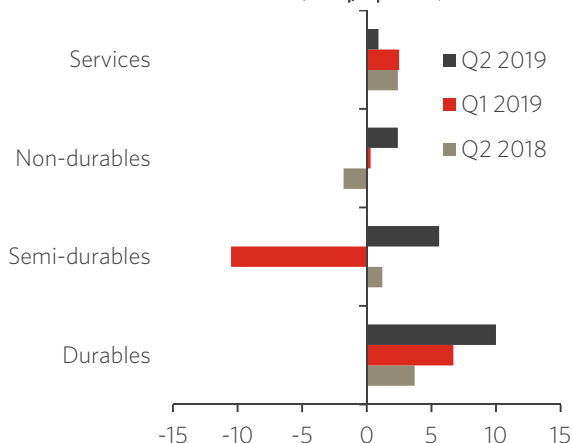
Source: Stats SA, Momentum Investments

Suppressed retail confidence indicates further sluggishness in consumer spend

Household spend increased in the second quarter of 2019 to 2.8% in quarter-on-quarter seasonally adjusted (q/q saar) annualised rates from a 0.6% contraction in the first quarter of 2019. There was broad-based improvement in growth in the second quarter of 2019 for durable, semi-durable and non-durable goods (see chart 3).

of 2019. Consumption of non-durable goods increased 2.4% q/q saar from 0.3% in the first quarter. During this period, growth in spend on services declined to 0.9% q/q saar from 2.5% q/q saar in the first quarter of 2019.

Chart 3: Goods and services (% q/q saar)



Source: Sarb, Momentum Investments

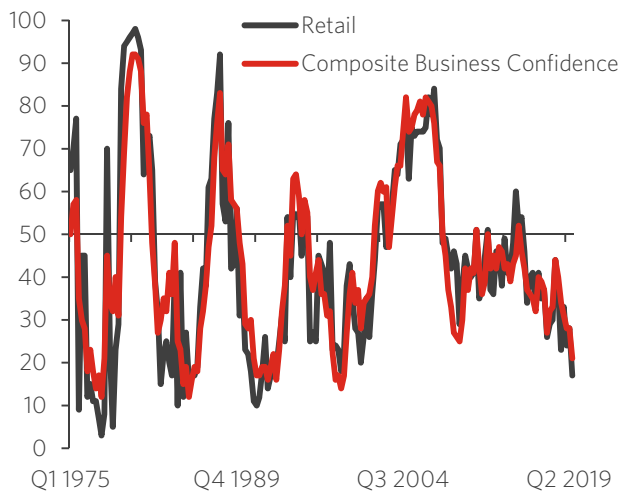
Slower growth in retail sales in July can partly be explained by household credit growth slipping to 6.3% in July 2019 from 6.5%. However, the 25-basis point cut in the repo rate in July 2019 should contribute positively to consumer purchasing power.

Confidence in the retail sector deteriorated to 17 index points in the third quarter of 2019 from 28 index points in the second quarter, suggesting headwinds to this sector remain (see chart 4). The index shaved of 11 index points, three index points less than what was lost in the third quarter of 2018, when the index declined by 14 index points, although from a higher base. The last time the index was at this low level was in the first quarter of 1991.

Durable expenditure increased by 10% q/q saar from 6.7% q/q saar in the first quarter of 2019, rising faster than the 3.7% second quarter print. Semi-durable goods consumption contracted 10.5% q/q saar in the first quarter of 2019, but recovered partly by 5.6% in the second quarter

The lower retail sales growth print for July 2019 corroborates the knock to the retailer confidence print for the third quarter. Overall business confidence is weak and adds more pressure to an already-constrained consumer as the influx of retrenchment news continues.

Chart 4: Severe drop in retailer confidence (index level)



Source: Bureau of Economic Research, Momentum Investments

The recent wage negotiations for vehicle manufacturers settled above inflation and should boost those consumers' spending ability, so long as this is not offset by additional job losses. The deadlock in the platinum sector wage negotiations acts as a further negative for business confidence and creates uncertainty for consumers' spending ability until an agreement can be reached.

In our opinion, retail sales growth should remain modest in the near term until sentiment improves on the back of confidence-instilling structural reform.

