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Retail trade sales print for February 2019 surprises positively, but remains weak

Highlights

- Statistics South Africa (Stats SA) released retail trade sales for February 2019, which recorded higher-than-expected growth of 1.1%. This was, however, lower than the 1.2% recorded in January 2019.
- Four out of the seven types of retailers reported an increase in sales relative to a year ago, compared to five in January 2019, highlighting broader-based weakness.
- Growth in retail sales for February 2019 was driven by sales in the clothing and footwear category as well as by general dealers.
- Fuel and utility prices are eroding consumers' disposable incomes.
- The household debt-to-disposable income ratio has declined to levels last seen in 2005, suggesting some room to lever up.
- The National Credit Regulator (NCR) reported that the number of credit-active consumers rebounded to 25.9 million in the fourth quarter of 2018 from 24.1 million previously.
- Consumer retail credit applications have picked up from the previous low, printed in the first quarter of 2016, suggesting an increase in consumer appetite for retail credit.
- Total retailer confidence published by the Bureau of Economic Research (BER) slumped further to 24 index points in the first quarter of 2019, substantially below the neutral 50 mark.
- In Momentum Investments' view, consumer spend is likely to remain under pressure in the near term.

Growth in retail sales remains significantly below its longer-term average

Retail trade sales for February 2019 grew at 1.1% in year-on-year terms (y/y) relative to the 1.2% y/y growth rate printed in January 2019 (see chart 1). Although still substantially weaker than longer-term trends, retail sales surprised significantly to the upside relative to the IRESS consensus expectation of 0.2%. Month-on-month (m/m) growth increased by 0.5%, which was lower than the 1.6% increase in the previous month.

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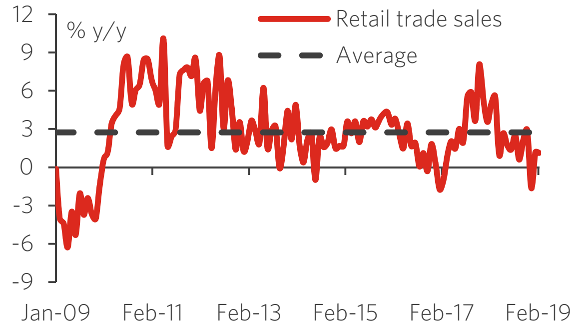
Retail sales growth was driven by the clothing and footwear category, which grew by 4.4% y/y and contributed 0.7% to the growth rate in overall retail sales. General dealers were the second-largest contributor. Sales, here, grew at a slower pace of 1.2% y/y relative to 1.4% y/y in the previous month, but contributed 0.5% to the overall February 2019 print. Household furniture, appliances and equipment showed the most robust growth of 7.4% y/y and contributed 0.3% to overall retail sales growth. Growth in sales in this division has averaged 2% since 2013 and 3.6% since 2009.

In the last three months (ended February 2019) retail trade sales declined by 1.8% relative to a softer positive growth print of 0.3% in the previous three months, highlighting a drop in momentum. Growth in retail sales for the year to date recorded at 1.1%, which was substantially weaker than the 4.9% rate recorded for the same period a year ago.

Chart 1: Weak momentum in first-quarter growth

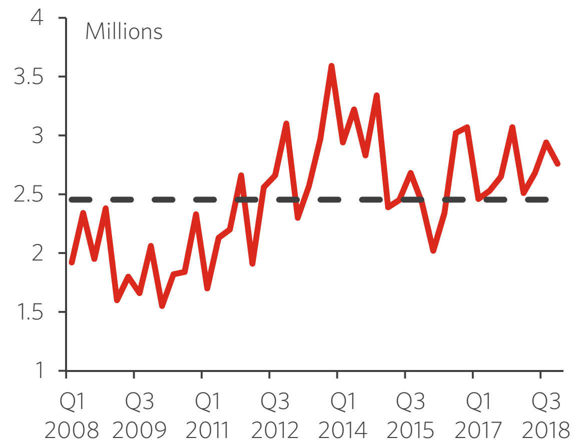


Source: Stats SA, Momentum Investments

Trend in household deleveraging reversing

The NCR reported the number of credit-active consumers rebounded to 25.9 million in the fourth quarter of 2018 from 24.1 million in the third quarter of 2018 and 25.3 million in the fourth quarter of 2017. Retail credit applications for the fourth quarter of 2018 declined to 2.8 million from 2.9 million in the previous quarter, but has increased from 2 million in Q1 2016, suggesting more consumer appetite for retail credit (see chart 2).

Chart 2: Retail credit enquiries above average



Source: NCR, Momentum Investments, data up to Q4 2018

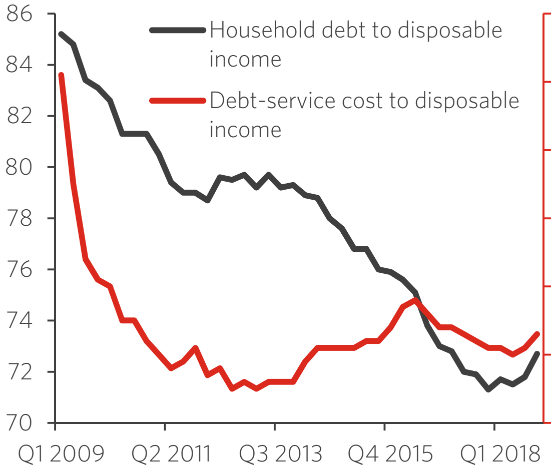
Enquiries done for tracing or debt collection purposes have slumped from 3.2 million in the third quarter of 2018 to 2 million in the fourth quarter of 2018, suggesting little sign of distressed borrowing and highlighting an increased ability to repay debt on time.

The National Credit Bill also loosely called the 'debt forgiveness bill' has not yet been signed off and is still awaiting approval from the president. The NCR will be given the authority to write off debt not exceeding R50 000 for citizens earning less than R7 500 for up to two years. TransUnion shows that retailers were significantly exposed when the bill was announced, but retailers have since reduced credit extension to the lower-income bracket and have significantly reduced their exposure.

The decline in debt tracing is also reflective of the consumer balance sheet being accommodative enough for the consumer to not miss debt repayments, although consumers are still constrained.
The South African Reserve Bank (SARB) household balance sheet data shows that on a quarterly basis, the household debt-to-disposable income ratio increased from 71.8% to 72.7%, while the debt-servicing costs-to-disposable income ratio rose from 9.1% to 9.3% between the third and fourth quarter of 2018. Nevertheless, chart 3 shows the significant improvement in both these ratios since the global financial crisis. The household debt-to-disposable income ratio is registering at healthier levels, which were last observed before the crisis in 2005.

An increase in household credit is expected to only partly counter pressure on household income, which is coming under pressure from fuel and utility price increases. The headline consumer price index published by Stats SA increased to 4.5% in March 2019 from 4.1% in February, underpinned by higher utilities and transport inflation, contributing 1.1% and 0.9% respectively.

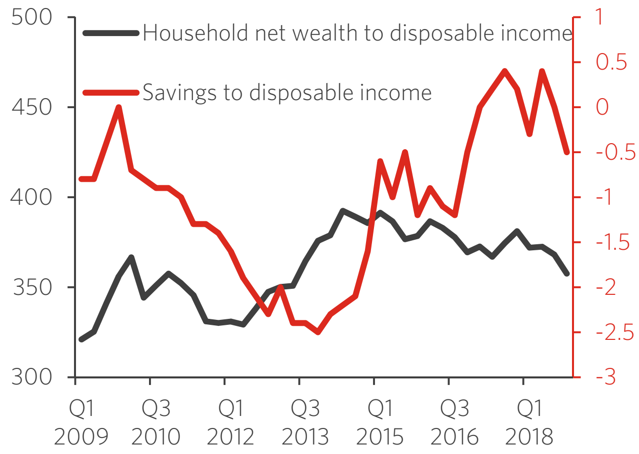
Chart 3: Significant household deleveraging (%)



Source: SARB, Momentum Investments, data up to Q4 2018

Growth in real compensation of employees, published by Stats SA, has slumped to below 1% for all four quarters of 2018 and has been negative since the second quarter of 2018, signalling a distressed consumer. Wealth and savings have also deteriorated in the fourth quarter of 2018. The SARB household net wealth-to-disposable income and savings-to-disposable income ratios declined from 368% to 358% and from 0% to negative 0.5%, respectively, between the third and fourth quarter of 2018 (see chart 4).

Chart 4: Deterioration in wealth and savings (%)



Source: SARB, Momentum Investments, data up to Q4 2018

The first half of 2019 is unlikely to provide much reprieve to the consumer with another fuel price hike anticipated for May 2019, making it the third successive increase year to date. The Central Energy Fund's (CEF) under-recovery between 29 March 2019 and 16 April 2019 is indicating a 52.5c/l increase in the price of petrol and a 5.4c decrease in the price of diesel. This signals additional pressure on household disposable income and leaves the consumer with less spending power for discretionary expenditure.

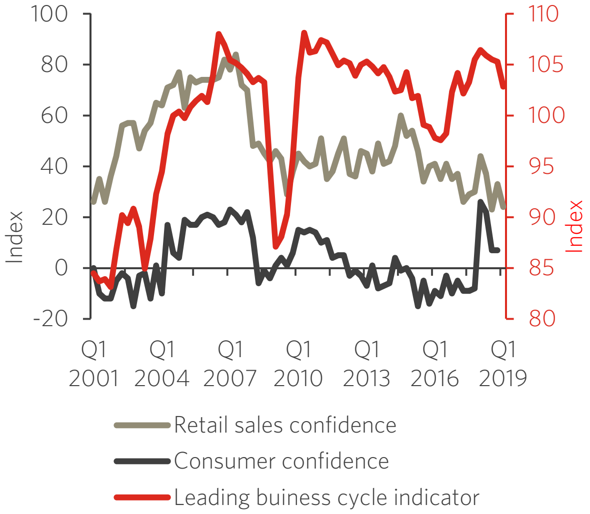
Widespread deterioration in confidence

Retailer confidence published by the BER for the first quarter of 2019 in the three main spending categories indicates further weakness ahead. Confidence for semi-durable retailers (predominantly clothing and footwear) increased to 32 index points, up from 27 index points in the fourth quarter of 2018, but remained below the neutral 50 mark. Retailers of non-durable (food and fuel) and durable (furniture) goods, however, showed a decline in confidence levels from 27 to 16 and from 42 to 35 index points, respectively, between the fourth quarter of 2018 and the first quarter of 2019. Total retailer confidence slumped to 24 in the first quarter of 2019 from 33 index points in the fourth quarter of 2018, which could be attributed to higher-than-expected purchase prices, declining new orders and negative profitability.

Consumer confidence published by the BER remained stagnant at 7 index points between the third and the fourth quarter of 2018, from the first quarter high of 26 in 2018. The SARB's leading business cycle indicator has also been rolling over from a high of 106.4 index points in the first quarter of 2018 to 102.8 in January 2019 (see chart 5).

The above-mentioned indicators are all signalling weakness ahead, which does not bode well for a significant turnaround in the poor performance of retail sales. Moreover, Moody's has signalled in its annual credit analysis that the restoration in confidence is likely to show only after the election, when policy certainty is expected to improve.

Chart 5: Weak domestic sentiment



Source: BER, SARB, Momentum Investments

Household consumption expenditure increased in the fourth quarter of 2018 to 1.1% and recorded robust growth of 1.8% for 2018.

However, Momentum Investments expects growth in household consumption to decline to 1.3% in 2019, given pressure on real disposable income growth, elevated economic uncertainty, a dip in wealth ratios and a subdued outlook for employment.

The expectation for a significant near-term rebound in retail sales is, therefore, low amid the increase in downside risks to the consumer balance sheet and continued weakening sentiment.