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Retail sales rebounded in the second quarter as June print edged higher

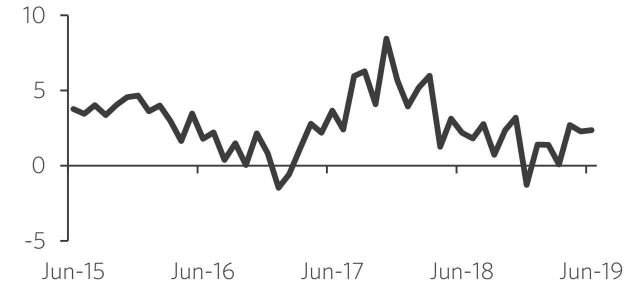
Highlights

- Retail trade sales increased by 1.1% in the second quarter of 2019 and the June 2019 print grew by 2.4%, relative to a year ago, marginally outpacing the Reuters poll of 2% and the May 2019 print of 2.3%.
- Sales in five out of the seven retail divisions grew in June 2019. However, only three contributed significantly to the monthly print.
- Contributions to the June 2019 print of 2.4% y/y came largely from other retailers which added 0.8%. Retailers of household furniture and appliances added 0.7% and retailers in textiles, clothing and footwear contributed 0.5%.
- Consumers have been hoarding cash. The decline in spend from consumers has intensified and has perpetuated low growth in the economy.
- Credit enquiries for retail dropped to 3.4% as a share of total enquiries in the first quarter of 2019 from 6.4% in the fourth quarter of 2018.
- Delinquency rates slowed in the retail instalment and retail clothing divisions, while the retail revolving division showed a slight uptick in the first quarter, indicating deleveraging activity from some consumers.
- Consumers who have reduced or paid-off their outstanding credit balances are using the lay-by facility more and retailers are increasingly providing this facility.
- Growth in retail sales is likely to remain soft in an environment of low confidence, high administered costs and an elevated tax burden.

June retail trade sales are marginally higher than anticipated

Retail trade sales increased to 1.1% in the second quarter of 2019 as published by Statistics South Africa (Stats SA). June 2019 print grew by 2.4% in year-on-year (y/y) terms, marginally outpacing the 2% y/y Reuters poll and the 2.3% upwardly-revised (2.2% y/y) May 2019 print (see chart 1). Retail trade sales improved by 0.3% in month-on-month (m/m) terms from 0.1% in May 2019. Although headline inflation remained unchanged at 4.5% between the first and second quarter of 2019, petrol prices increased by 194 c/l.

Chart 1: Slight uptick in retail trade sales (% y/y)

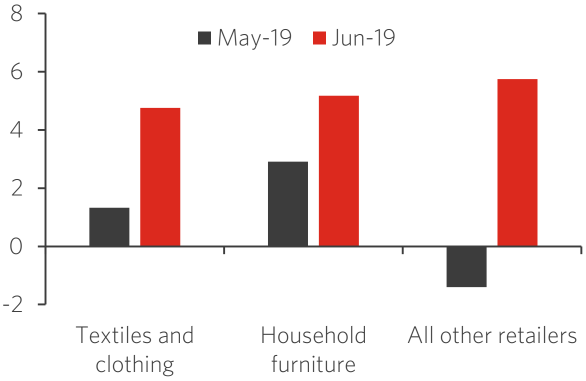


Source: Stats SA, Momentum Investments

Sales in five out of the seven retail divisions grew in June, but only three contributed significantly to the print (see chart 2). Contributions to the June 2019 print of 2.4% y/y came largely from other retailers, which grew 5.7% y/y (previously negative 1.4% y/y) and added 0.8% to total sales.

Retailers of household furniture, appliances and equipment grew by 5.2% y/y (previously 2.9% y/y) and added 0.7%. Retailers in textiles, clothing and footwear grew by 4.8% y/y (previously1.3% y/y) and contributed 0.5% to the June print of 2.4% y/y. Sales of food and beverage retailers contracted by 0.1% in June 2019 and did not contribute to the 2.4% y/y increase in overall sales. Growth in the hardware, paint and glass retailer division also turned negative to 0.7% y/y and this was the only retailer division which subtracted 0.1% in June 2019.

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

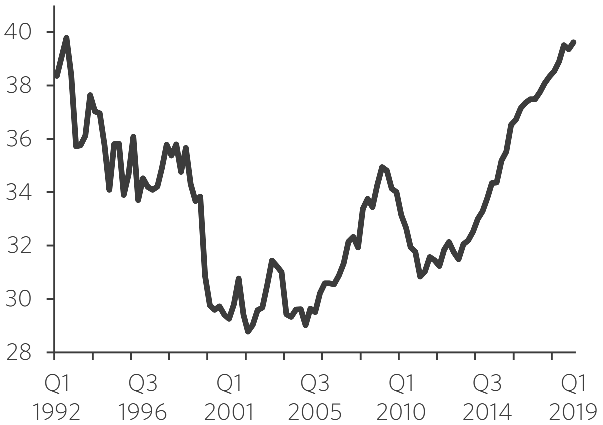


Source: Stats SA, Momentum Investments

Consumer appetite for retail trade expenditure remains low

Bank deposits, as a share of personal disposable income, have been on an upward trend since the start of 2013 (see chart 3) and coincides with the start of the current economic downswing, now over 60-months long. Consumers are essentially hoarding cash. The decline in spending from consumers has intensified and perpetuated low growth in the economy.

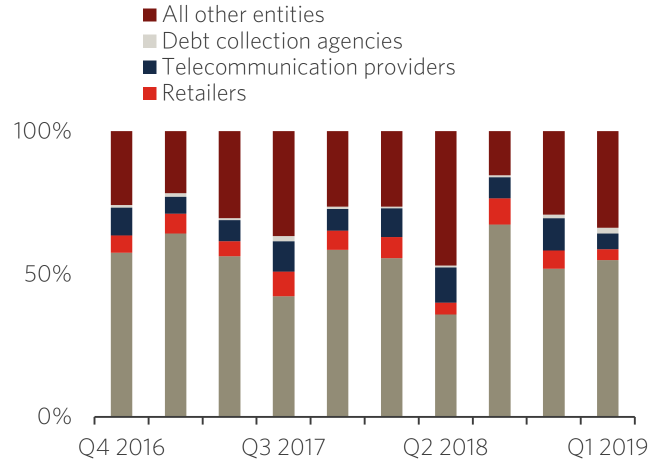
Chart 3: Bank deposits as a % of personal disposable income



Source: Sarb, Momentum Investments

Although consumer credit has raked up in the last few quarters, it has generally been in the form of unsecured credit, which can be attributed to distress borrowing or to top-up on existing unsecured credit. Credit enquiries for retail slowed to 3.4% as a share of total enquiries in the first quarter of 2019 from 6.4% in the fourth quarter of 2018 and lower than 7.4% reported in the first quarter of 2018 (see chart 4).

Chart 4: Retail credit enquiries making up a smaller share of total enquiries

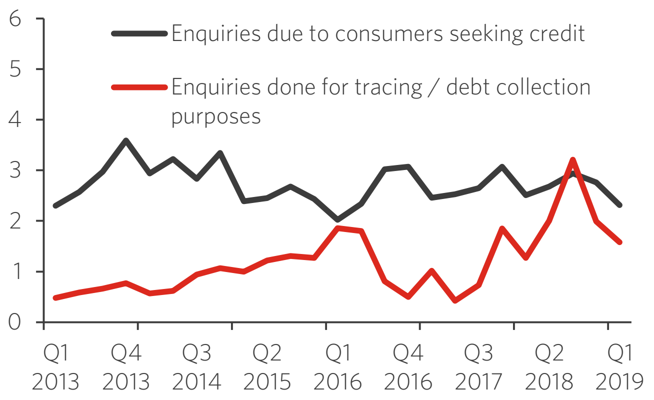


Source: NCR, Momentum Investments

The break-down of retail enquiries shows slower growth in consumers seeking retail credit and in the number of enquiries by debt collectors (see chart 5). Enquiries from consumers seeking credit declined to 2.3 million in the first quarter of 2019 from 2.8 million in the fourth quarter of 2018, also lower than the 2.5 million recorded for the same period a year ago. Similarly, debt collection enquiries for retailers dropped to 1.6 million in the first quarter of 2019 from 2 million in the fourth quarter of 2018.

However, it has increased from the 1.3 million that was recorded in the first quarter of 2018, when analysed on a year-on-year basis.

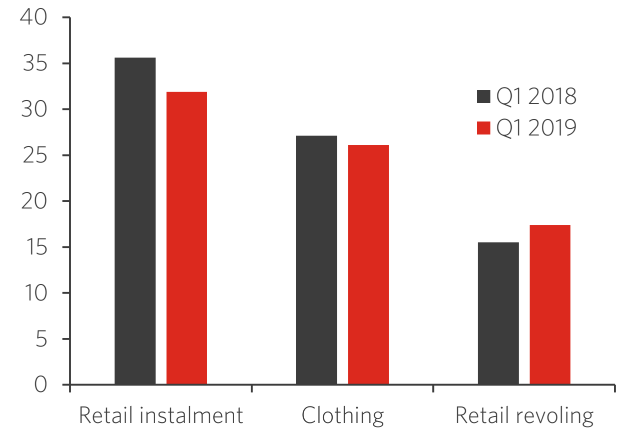
Chart 5: Retail enquiries have slowed (% y/y)



Source: NCR, Momentum Investments

Delinquency rates slowed in the retail instalment and retail clothing divisions, while rates in the retail revolving division showed a slight uptick in the first quarter (see chart 6). Some consumers are thus still deleveraging where they can, to preserve and stretch their income. This also further explains the overall weakness in retail trade spending.

Chart 6: Delinquency rates (% change)

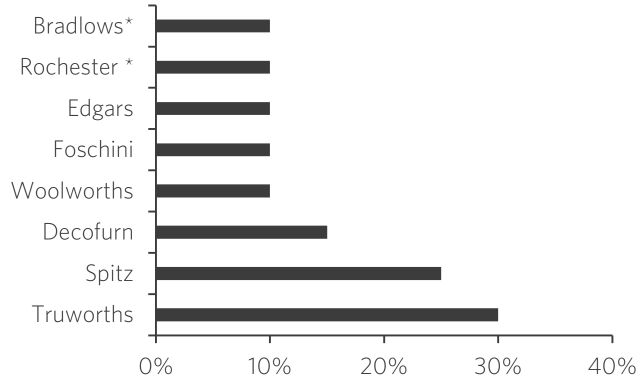


Source: TransUnion, Momentum Investments

Retailers have reintroduced the lay-by facility which allows consumers to pay a deposit and pay off the remainder instalments over a minimum of three months.
Consumers who have reduced or paid-off their outstanding credit balances are using this facility more and retailers are increasingly providing this facility.

A variety of clothing and furniture stores provide this payment facility and the minimum deposit fee is 10%.
The minimum is set at R100 for some furniture stores, while the maximum can go up to 30% (see chart 7).
This payment facility could, to some extent, explain how some consumers have contributed to growth in retail trade sales.

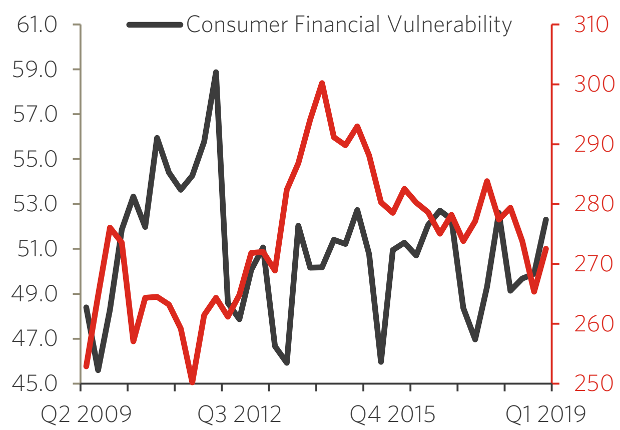
Chart 7: Lay-by availability in durable and semi-durable retailers (% deposit)



*Source: Websites of individual stores, Momentum Investments, *=R100 deposit*

Although consumer wealth as a share of gross income improved from 256% in the fourth quarter of 2018 to 273% in the first quarter of 2019, this has not translated into an increased willingness to spend (see chart 8).
Consumer financial vulnerability (calculated by Momentum/Unisa) deteriorated in the same period from 49.9 to 52.3 index points and can be explained by a rise in expenditure, debt-servicing costs and an income reduction.

Chart 8: Consumer vulnerability has increased



Source: Momentum/Unisa, Momentum Investments

The 95 c/l decline in the price of petrol in July 2019 is likely to have a positive effect on consumer spending ability and is thus a positive contributor for an increase in retail trade sales in July 2019. Subdued confidence and continued consumer headwinds does not inspire confidence that retail trade sales will see a robust growth trajectory in 2019, even though growth in the second half of the year is likely to perform better than in the first half of 2019.

Retailer financial reports have also been disappointing across the income spectrum. Massmart, which caters to both lower and middle-income groups, expects to make a loss of approximately R30 million in the first six months of 2019, which is lower than the R500 million profit reported for the same period a year ago.

Growth in retail sales is likely to remain soft in an environment of low confidence, high- administered costs and an elevated tax burden. Households are also facing a higher unemployment rate. The weaker global outlook further poses a risk to growth in SA. Low retailer confidence and subdued consumer sentiment points to soft growth in retail trade sales in the coming months.