The Macro Research Desk

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Weak momentum in retail sales for March 2019

Highlights

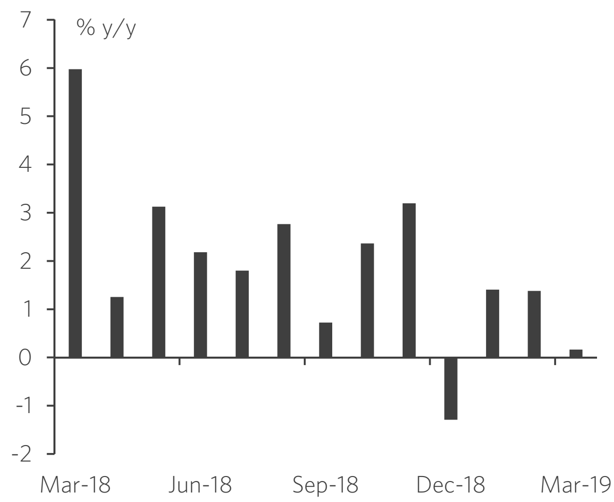
- Retail trade sales for March 2019 reported positive growth of 0.2%, from 1.4% recorded in February 2019.
- Retail sales for the first quarter of 2019 slipped 0.7% relative to the last quarter of 2018.
- Sales in five out of the seven retail sectors increased in the first quarter of 2019. Growth for the first three months of the year was significantly lower at 1.0%, relative to 6.0% in the same period in 2018.
- Growth in sales of specialised food and beverages has been contracting since April 2018, alongside sales growth for hardware, paint and glass retailers, which has been declining since February 2018.
- Despite lower inflation in some sectors creating a more attractive price point, sale volumes have underperformed.
- Domestic demand in the economy remains weak in line with depressed sentiment levels, elevated unemployment, sub-optimal health in consumer credit and a deterioration in purchasing power.

Growth in retail sales negative for the first quarter of 2019

Statistics South Africa (Stats SA) released retail sales data for March 2019 and reported a 0.2% increase in year-on-year (y/y) terms relative to the 1.4% increase in February 2019. Month-on-month (m/m) growth slipped by 0.7%. The IRESS consensus had expected an even more bearish print of negative 0.7% y/y. Retail sales dropped 0.7% in the first quarter of 2019 relative to growth of 0.8% in the last quarter of 2018. This deterioration in sales momentum could be attributable to significant increases in the petrol price in the first quarter, which likely dampened spend.

Retail sales in five out of the seven sectors increased in the first quarter of 2019 y/y. Sales for general dealers increased by 1.5% and added 0.6% to retail sales growth for the first quarter.

Chart 1: Soft retail sales momentum



Source: Stats SA, Momentum Investments

Sales for textile, clothing, footwear and leather retailers grew by 1.8% and added 0.3% to overall growth in retail sales volumes in the first quarter. Sales for food and beverage retailers and hardware, paint and glass retailers declined by 2.3% and 1.6% and subtracted 0.2% and 0.1% from growth in the first quarter, respectively. Growth for the first three months of 2019 dropped to 1.0% relative to 6.0% in the same period a year ago.

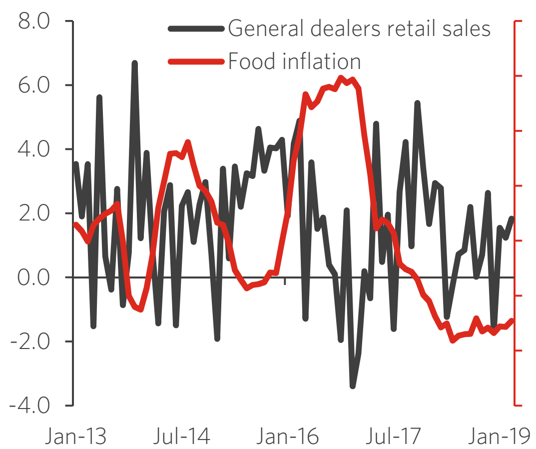
Retail sales for March 2019 were supported by general dealer sales, which grew by 1.8% y/y and contributed 0.8% to the overall 0.2% y/y growth. Sales for retailers in household furniture, appliances and equipment grew by 1.9% and contributed 0.1%.

Specialised food and beverages sales declined by 3.6% y/y. This was followed by a 4% y/y contraction in sales of pharmaceuticals, medical goods, cosmetics and toiletries and a 1.8% y/y decline in textiles, clothing, footwear and leather goods. Each of these retail sectors subtracted 0.3% from growth in total retail sales in March 2019. Sales of specialised food and beverages have been contracting since April 2018, alongside sales for hardware, paint and glass retailers, which have been declining since February 2018.

Continued weak domestic demand despite muted inflation

Sales for general dealers have been relatively weak despite subdued food inflation since the start of 2017. This is at odds with previous cycles, where a low inflation environment encouraged growth in general dealer sales volumes (see chart 2). Growth in general dealer sales averaged 1.1% since the start of 2017, while inflation in the same period averaged 4.5%. The previous low inflation cycle for food, which averaged 5.6% between September 2014 and November 2015, resulted in growth in general dealer sales averaging a more robust 2.4%.

Chart 2: Muted spend despite low inflation (% y/y)



Source: Stats SA, Momentum Investments, data up to March 2019

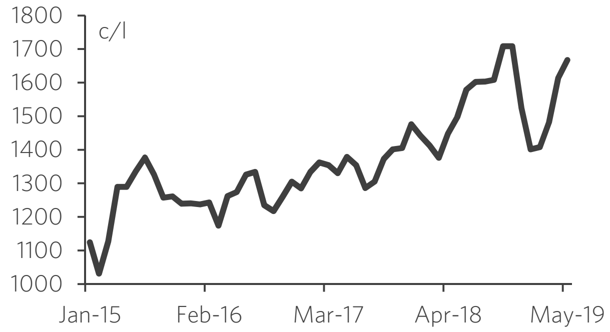
The same pattern is prevalent with textile and clothing retailers, which have also not performed well despite low textile and clothing inflation. Sales for textile and clothing retailers averaged 2.5% since November 2016, while inflation in textiles and clothing in the same period averaged 2.7%. The previous low inflation cycle for textile and clothing recorded an average of 3.1% between February 2013 and November 2013, while textile and clothing sales surged to an average of 8.3% for the same period.

These trends point to low domestic demand in the economy, capped by weak confidence.
Consumer sentiment in the first quarter of 2019 dipped to two index points from a high of 26 index points in the first quarter of 2018. The TransUnion SA Consumer Credit Index (CCI) remained unchanged at 48 index points between the fourth quarter of 2018 and the first quarter of 2019. This level (below 50) is indicative of sub-optimal consumer credit health. The credit bureau also reported a rise in early defaults to 6% in y/y terms, while household cash flow remained unchanged at negative 0.4% y/y in the first quarter of 2019.

The price of 95 petrol increased on 1 May 2019 by 54 c/l and by 1c/l for diesel after increasing by R1.34 c/l for 95 petrol and 81 c/l for diesel on 3 April 2019.

The petrol price on 15 May 2019 was at R16.67/l relative to R14.97 in May 2018, representing an 11.4% y/y increase (see chart 3). The SA Reserve Bank (SARB) expects the price of Brent crude oil to average at US$64.4/bbl in 2019, which is below the current level of US$70.86/bbl, at the time of writing.
The Central Energy Fund reported an average over-recovery between 26 April 2019 and 14 May 2019 of 4.5 c/l (petrol price drop), but an under-recovery (price increase) of 11.5 c/l for diesel.

Chart 3: Petrol price continues to reduce purchasing power



Source: IRESS, Momentum Investments

The consumer is under pressure and will likely remain constrained in the near term, given high levels of unemployment, depressed sentiment and a deterioration in purchasing power.

Nevertheless, Momentum Investments expects the SARB to keep the repo rate unchanged at 6.75%, which is likely to support the rise in household credit extension and can aid spend in the second half of the year. Moreover, a less uncertain political and economic environment should lead to a revival in consumer confidence, which could underpin spend in upcoming quarters.