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## Rosier retail trade sales print for April 2019

### Highlights

- The retail trade sales print for April 2019 recorded at 2.4%, outperforming the Iress consensus expectation of 1.3% and the previous March 2019 print of 0.1%.
- Sales growth for five out of the seven types of retailers expanded in April 2019, relative to only one out of seven in March 2019.
- Growth in household expenditure has been subdued and reached the first negative print in 11 quarters in the first quarter of 2019, contracting by 0.8%.
- Growth in all four of the household consumption expenditure categories contracted in the first quarter of the year in line with a decline in consumer purchasing power.
- Positive sales growth for clothing and furniture retailers in April 2019 is a positive sign for a marginal improvement in sales of durable and semi-durable goods for the second quarter of 2019.
- Retail trade sales could remain volatile in the near term, as the consumer remains constrained. However, pockets of consumers have more spending ability and are being able to contribute positively to consumption spend.

### Retail sales growth surprises positively

Retail trade sales for April 2019 surprised positively and grew by 2.4% in year-on-year (y/y) terms, as published by Statistics South Africa (Stats SA) (see chart 1). The April print outperformed the Iress consensus expectation of 1.3% y/y and the 0.1% y/y March 2019 print. Despite a solid growth figure for April, year-to-date growth at 1.3% remains weaker than the 4.1% reported for the same period a year ago. Month-on-month (m/m) growth also rebounded to 0.8% from the 0.7% contraction in March 2019. Sales for five out of the seven types of retailers expanded in April 2019 relative to only one out of seven growing in March 2019.

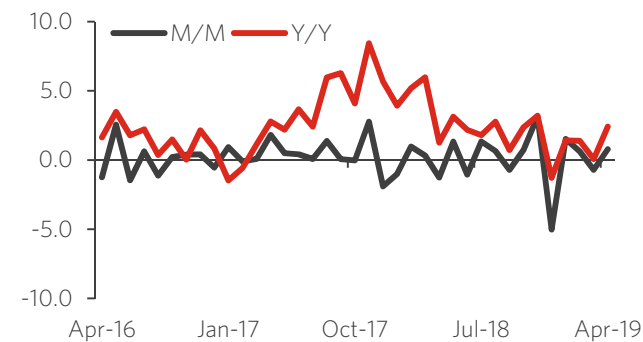
Higher retail trade sales growth in April 2019 coincided with a marginal uptick in consumer confidence across all the household income groups in the second quarter of 2019. The restoration in electricity supply and an unsurprising national election outcome could likely explain this improvement. The low base in March 2019 further explains the jump in m/m terms.

Retail sectors, which contributed to the rebound in growth, were textiles, clothing, footwear and leather goods (sales grew by 6.4% y/y and contributed 1.2% to the overall retail sales print after previously contracting by 1.6% y/y in March 2019), general dealers

(which added 0.5% to total sales and grew by 1.2% y/y) and pharmaceuticals and medical goods retailers (which added 0.4% and grew by 5.3% y/y).

Although household furniture and equipment only contributed 0.2% to total retail trade sales, volumes in that category grew by 4.6% y/y from a 0.3% y/y contraction in March 2019, which indicates a slight improvement in the appetite for durable goods. Growth in specialised food and beverage sales (bakeries, butcheries, etc.) was flat in April 2019, after declining by 2.4% y/y.

**Chart 1: Positive surprise in retail sales growth (%)**



Source: Stats SA, Momentum Investments

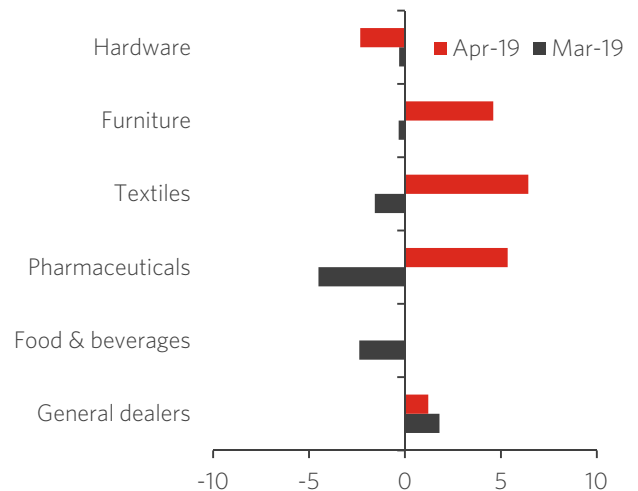
## Growth in household consumption expenditure disappointed in the first quarter

Growth in household expenditure has been subdued in recent quarters and reached its first negative print in 11 quarters in the first quarter of 2019, contracting by 0.8% in quarter-on-quarter seasonally adjusted (q/q saar) terms. This depressed growth level was last seen in the first quarter of 2016 and is considerably weaker than the recent high of 3.2% reached in the last quarter of 2018 (see chart 3). Growth in household spend also deteriorated on a year-on-year (y/y) basis to 1.9% in the first quarter of 2019 from 3.3% in the first quarter of 2018.

Q/q saar growth in the four categories of household consumption spend groupings (durables, semi-durables, non-durables and services) experienced a contraction, as consumer purchasing power diminished between the first quarter of 2018 and that of 2019. Growth in spend on big-ticket discretionary items experienced a deeper decline, while growth in spend on necessities and services remained in positive territory (see chart 4).

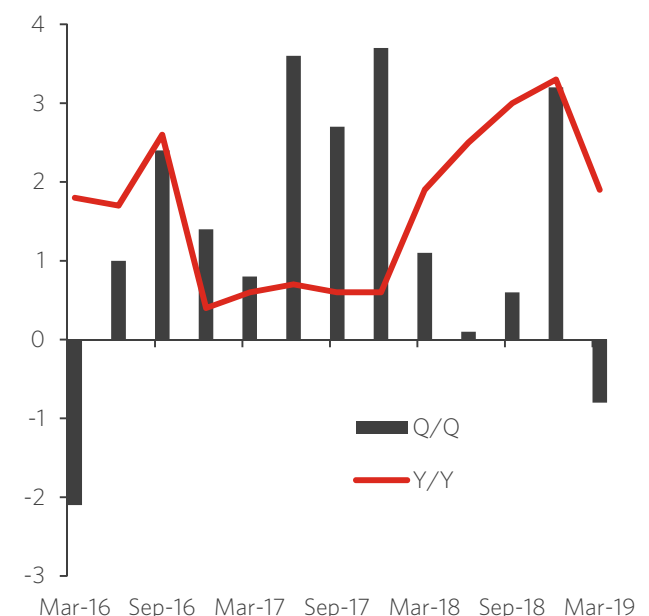
However, growth finally broke into positive territory after disappointing for the past 12 months. Sales by hardware, paint and glass retailers remained depressed and contracted by 2.3% y/y, while subtracting 0.2% from total retail trade sales (see chart 2).

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



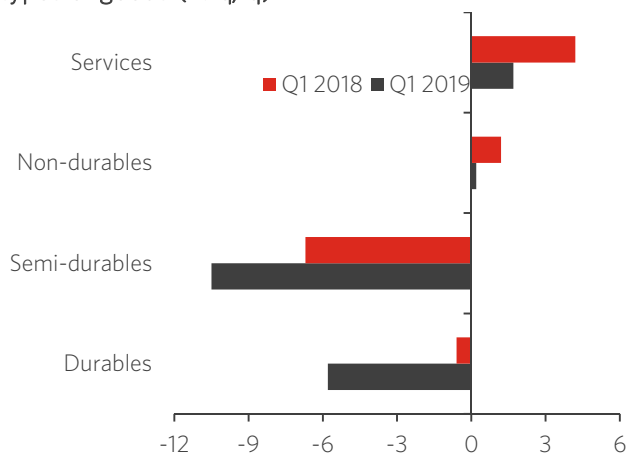
Source: Stats SA, Momentum Investments

**Chart 3: Growth in household consumption (%)**



Source: Stats SA, Momentum Investments

**Chart 4: Household consumption expenditure by types of goods (% q/q)**



Source: Stats SA, Momentum Investments

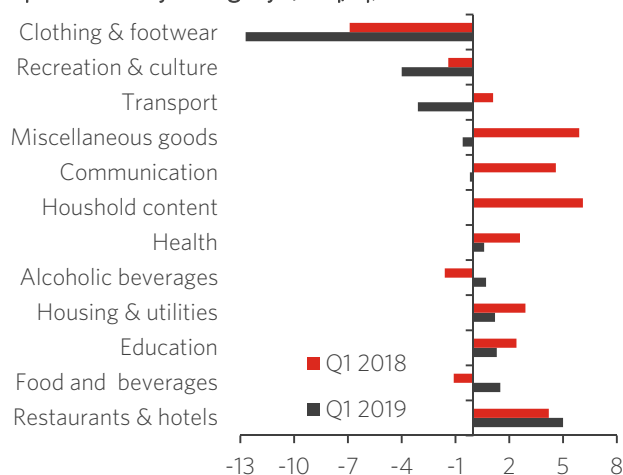
Growth in spend on durable goods deteriorated further between the first quarter of 2018 and the first quarter of 2019, contracting by 0.6% q/q saar and worsening to 5.8% q/q saar. The appropriateness of the current time to buy durables (which is a sub-index for the composite consumer confidence index) corroborated this decline and also deteriorated between the first quarter of 2018 and the first quarter of 2019 from 13 index points to negative 8 index points.

Semi-durable goods contracted by 10.5% q/q saar in the first quarter of 2019 in comparison to a 6.7% q/q saar decline in the first quarter of 2018. Growth in non-durable goods weakened from 1.2% q/q saar in the first quarter of 2018 to 0.2% q/q saar in the first quarter of 2019. Services grew by 4.2% q/q saar in the first quarter of 2018, but slowed to 1.7% q/q saar in the first quarter of 2019. Although monthly retail sales from Stats SA do not capture spend on services, it is quite clear growth in household expenditure is subdued across all categories according to the growth data released for the first quarter of the year.

Spend in only three out of the 12 household consumption expenditure categories improved between the first quarter of 2018 and the first quarter of 2019 (see chart 5). Spend on clothing and footwear deteriorated the most and recorded a double-digit (12.7%) decline relative to the 6.9% contraction in the first quarter of 2018. Spend on household content (furniture, appliances and equipment) was muted at

0% in the first quarter of 2019 relative to growth of 6.1% in the first quarter of 2018 (see chart 5).

**Chart 5: Growth in household consumption expenditure by category (% q/q)**

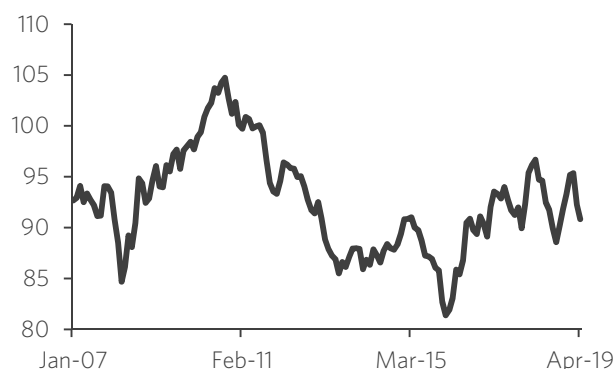


Source: Stats SA, Momentum Investments

Positive growth in sales of clothing and household furniture in April 2019 is, however, a positive (albeit tentative) sign for a marginal improvement in the second quarter of 2019.

The Iress financial conditions index weakened between March 2019 and April 2019 from 92.3 index points to 90.8 index points, which was the second consecutive monthly decline (see chart 6). While the potential for a cut in local interest rates in the coming months could improve financial conditions for consumers, electricity price hikes will be implemented by municipalities in July and August. This will likely have a negative effect on consumers' ability to spend and could hamper the recent momentum in retail trade sales.

**Chart 6: Weaker financial conditions index**



Source: Iress, Momentum Investments

Retail trade sales could remain volatile in the near term, as the consumer remains constrained. However, pockets of consumers have more spending ability and are being able to contribute positively to retail trade sales. Retail trade business confidence published by the Bureau of Economic Research (BER) improved to 28 index points in the second quarter of 2019 from 24 index points in the first quarter of 2019. This tentatively suggests a bottoming out of retailer confidence and could suggest a marginal improvement from a low base in the near term.

The rising likelihood of an interest rate cut in the coming months could further add to positive consumer sentiment and their willingness to spend.

