



Herman van Papendorp

Head of Investment
Research & Asset
Allocation



Sanisha Packirisamy

Economist



Roberta Noise

Economic Analyst

Slight slippage in retail trade sales for May 2019

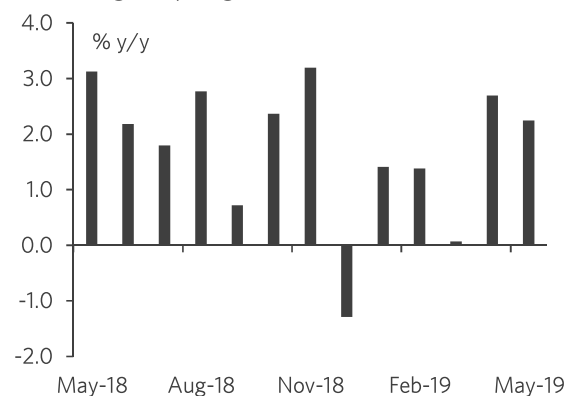
Highlights

- Growth in retail trade sales for May 2019 showed a slight deterioration to 2.2% from an upwardly revised 2.7% in April.
- The momentum in retail trade sales waned and can be explained by the 54 c/l increase in the petrol price in May.
- Growth in May 2019 was significantly driven by general dealers that added 1.7%, followed by the food and beverages retailers that added only 0.2%.
- Growth in real household income has been dwindling in the last few quarters as economic conditions deteriorated. This is explained by increases in personal income tax and utility prices, and struggling economic growth. However, household credit growth has added marginally to consumers' purchasing ability.
- Late cycle growth in advanced economies has led to a slowdown in retail trade sales. Meanwhile, retail sales growth in emerging economies is still showing resilience.
- A repo rate cut by the South African Reserve Bank (Sarb) would not just be positive for the spending appetite of consumers, but also boost confidence for retailers in anticipation of a marginal recovery in demand.
- Growth in retail trade sales is likely to remain stable in the near term, but a constrained consumer will keep a lid on retail sales volumes.

Growth in retail trade sales slightly softer, but still above 2%

Statistics (Stats) SA published retail trade sales for May 2019 and the print showed a slight deterioration in growth to 2.2% in year-on-year (y/y) terms from 2.7% y/y (revised upwardly from 2.4% y/y) in April 2019 (see chart 1). The momentum in retail trade sales waned to 0.1% in month-on-month (m/m) terms from 1.0% m/m in April 2019. This slowdown can be explained by the 54 c/l increase in the price of petrol in May 2019. Growth for the three months ending in May 2019 however improved to 1.1% from its previously negative trajectory, indicating that retail trade sales will likely add more significantly to the economic growth print for the second quarter.

Chart 1: Slight dip in growth in retail volumes

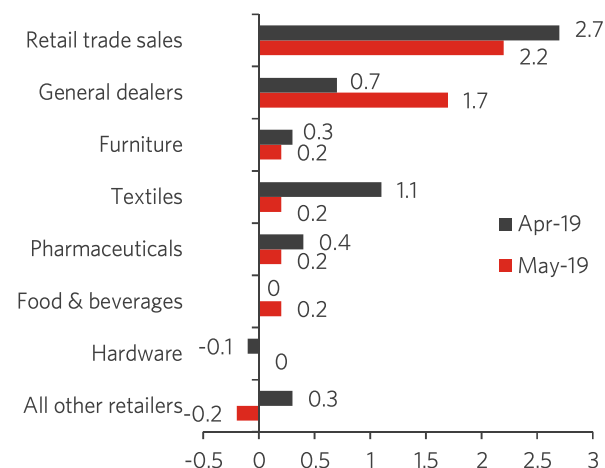


Source: Stats SA, Momentum Investments

Growth in retail trade sales was significantly driven by general dealers. It grew to a robust 4.0% y/y (previously 1.8% y/y) and added 1.7%. Food and beverages retailers, that had their second month of positive growth, improved more robustly than previously, growing from 2.7% y/y (previously 0.1%) and adding 0.2%. The rest of the retailer divisions contributed 0.2%, while hardware, paint and glass had no contribution and remained in contraction at 0.1% y/y (previously negative 1.8% y/y). All other retailer divisions subtracted 0.2% and declined by 1.8% y/y (previously 2.5% y/y) (see chart 2).

April sales were boosted by Easter holiday shopping, and May sales were partially weakened by a petrol price increase. The latter is also likely to have a negative effect in June, although less so.

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



Source: Stats SA, Momentum Investments

Household credit dynamics are supportive for retail sales growth

Growth in real household income has been dwindling in the last few quarters as economic conditions deteriorated, and can be explained by increases in personal income tax and utility prices, and struggling economic growth (see chart 3). Growth in real income has remained below 2% since the second quarter of 2018. Growth in the real compensation of employees was still negative in the first quarter of 2019, but has slightly improved to 0.2% y/y (previously contracting by 0.4% y/y). Growth in real disposable income has remained unchanged at 0.4% y/y for the past three quarters.

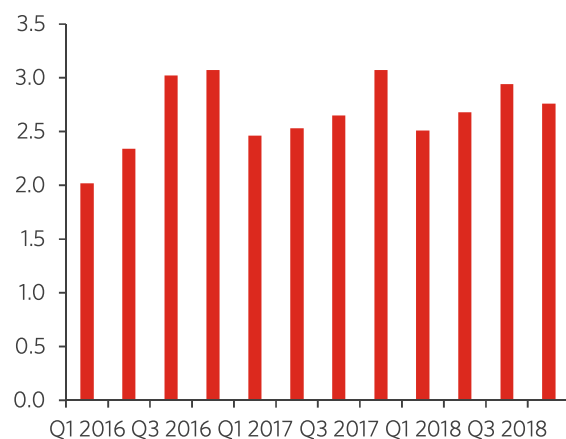
Chart 3: Measures of real income (% y/y)



Source: Sarb, Momentum Investments

Although administered price inflation slowed to 8.2% in May 2019 from 8.3% in April 2019, it is still above its 7.1% average (calculated from 2008). Administered prices have surpassed this average since June 2018, except for January and February 2019, when there were large fuel price declines. Fuel and electricity prices are the largest contributors, adding 3.5% and 1.5% to total administered prices in May 2019. The consumer's purchasing ability is thus still constrained and the uptake of household credit is likely to continue, supporting retail sales in the near term.

Chart 4: Consumer retail credit demand (R' millions)

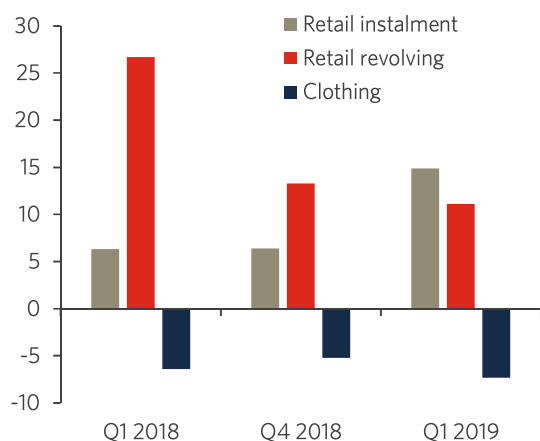


Source: NCR, Momentum Investments, data up to Q4 2018

Credit enquiries (in the retail sector) by consumers moderated in the fourth quarter of 2018 to R2.8 million from R2.9 million in the third quarter of 2018, as published by the National Credit Regulator (NCR) (see chart 4). Data for the first quarter of 2019 will only be published towards the end of July and is likely to show a moderate increase.

TransUnion's industry insights report for the first quarter of 2019 shows that average retail account demand remains strong for revolving retail credit (non-clothing accounts, i.e. Game) and instalment retail credit (fixed instalment, i.e. furniture-type stores) as seen in the rising average balances (see chart 5). The opening of new clothing accounts however grew robustly to 21.6% y/y in the first quarter of 2019 from 13.6% y/y in the fourth quarter of 2018, most likely because clothing credit is being offered at reduced prices. New accounts for retail instalment credit improved to 5.0% y/y (previously negative 4.2% y/y) and revolving retail weakened to 0.8% y/y (previously 1.0%) between the first quarter of 2019 and the fourth quarter of 2018. Delinquency rates are declining for retail instalments and clothing, but were still rising for revolving retail credit in the first quarter of 2019.

Chart 5: Retail credit average balances (% y/y)

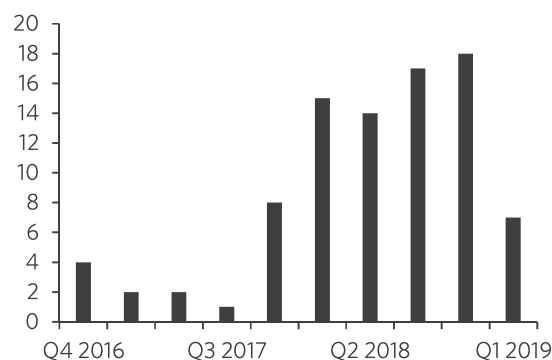


Source: TransUnion, Momentum Investments

Household credit uptake increased to 6% in the first quarter of 2019, according to the Sarb, and some of it is likely to be explained by retail credit enquiries. Growth in unsecured credit has risen significantly in the last few quarters, but is not a cause for concern as yet given a consumer that has reduced debt significantly since the financial crisis.

Debt-servicing costs for these unsecured loans may however prove onerous for consumers. Benign inflation is likely to remain at modest levels on the back of a shallow upward cycle, keeping demand-pull inflation pressures at bay. Somewhat accommodating interest rates and the expectations of repo rate cuts are all positive contributors for modest growth in retail trade sales in the near term.

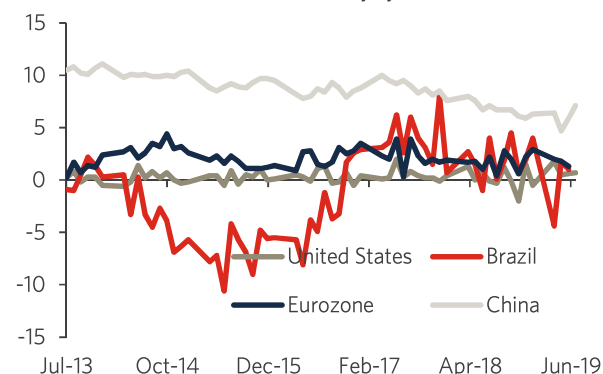
Chart 6: Wholesale and retail sector credit uptake plummeted (% change)



Source: Sarb, Momentum Investments

The retail sector saw significant credit demand growth in the third and fourth quarter of 2018, underpinned by an anticipation of a firm recovery in consumer spending ability ahead. Significant credit uptake in 2018 slowed in the first quarter of 2019 (see chart 6) as business conditions weakened. This was partly attributed to continued financial constraints on consumers' pockets in the last few months and bouts of political uncertainty, domestically and abroad. Growth in the first quarter of 2019 therefore deteriorated to 7% from 18% in the fourth quarter of 2018, in line with levels last seen at the end of 2017.

Chart 7: Global retail trends (% y/y)



Source: Bloomberg, Momentum Investments

Developed market economies appear to be in their late cycle of growth with retail sales in the United States and the Eurozone either moving sideways or slowing down. Meanwhile, emerging market economies like Brazil and China are experiencing an uptick in retail sales (see chart 7). Developed market central banks have paused on policy normalisation in the wake of renewed growth risks and tepid inflation, and have taken a more dovish stance. Easier monetary policy could reverse some of the slippage in retail sales growth momentum in these economies.

Consumer confidence in SA is still low, but picked up in the second quarter of 2019 alongside a small uptick in retail trade sales confidence (see chart 8). A repo rate cut by the Sarb would not just be positive for spending appetite for consumers, but also boost confidence for retailers.

Chart 8: Sentiment from retailers and consumers in the doldrums (index levels)



Source: BER, Momentum Investments

Retail trade sales are likely to continue showing stable growth in the near term, but a constrained consumer could keep a lid on growth. Purchasing ability will still be supported by household credit growth with a repo rate cut making the case stronger for a marginal uptick in growth in household credit. Benign inflation and a recovery in economic growth could contribute to retail trade sales being stronger than expected in the second half of 2019.

A number of local and international constraints continue to prohibit significant growth in retail trade sales in the near term. However, Momentum Investments' well-diversified outcome-based solutions provide protection against SA economic weakness. It has appropriate exposure to local fixed income investments that benefit from the poor-performing economy and low inflation, and has meaningful global exposure unaffected by weak local growth conditions, while gaining from the rand weakness likely associated with fragile local growth conditions.

