INTUITION

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SA Retailers' Festive Season Trading update

This past festive season almost felt like things were back to normal, with traffic queues building up on the highway and around the shopping malls. I tried my best to avoid this by doing my shopping online, so I was definitely part of the increase in online sales that most of the retailers recorded during the last quarter of the year. The beginning of 2023 year was marred by severe loadshedding, steep inflation and muted economic growth. Having a business in South Africa requires great stamina. The month of December, however, was more buoyant for the retailers. It seems that consumers curbed their Black Friday spending to save for Christmas. In this article we will look at some of the hurdles that hindered the retailers' festive season trade and yet despite this still showed resilience.

Jana
van Rooyen

Having a business in South Africa means you need to grit your teeth and tolerate a lot of headwinds. Not only are your consumers under macro-economic pressures like the rest of the world, but you also need to deal with loadshedding, port congestion and an economy that barely grows, to name but a few. Stats SA is very slow to report retail sales compared to countries like the US and UK. However, we found some tasty morsels in recent trading updates that offer an insight into trading over the festive season. In this article we will look at some of the key factors, or more hurdles, that hindered the retailers' festive season trade and yet despite this, some still showed resilience.

SPEED READ

- **Consumers' salary increases could not keep up with inflation. In addition to the rising cost of debt, consumers' disposable income shrunk. Inevitably they prioritized essentials over discretionary during 2023 so apparel retailers felt the pinch.**
- **Although 2023 was plagued by high loadshedding, there was a significant improvement in the last quarter of 2023.**
- **Port congestion impeded the planned inventory flow for some retailers and disrupted their festive season's trade.**
- **Amidst all these issues, most retailers reported a solid festive season, which mitigates the slow Black Friday sales that they encountered.**

Strained consumer

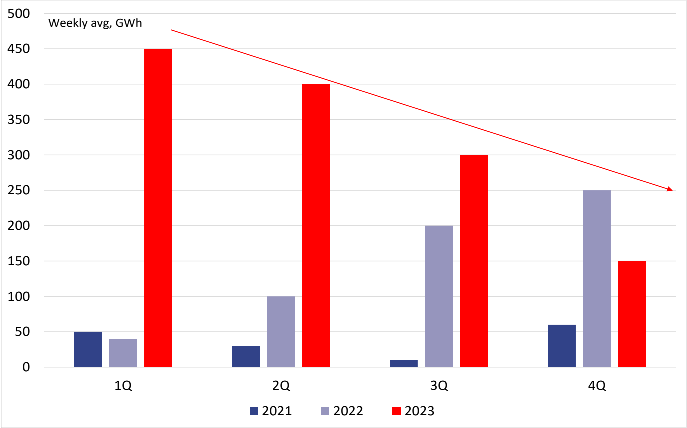
In 2023, various factors placed pressure on the consumer. The combination of rising inflation and higher interest rates saw disposable income shrink. Woolworths FBH (Fashion, Beauty & Home), Woolworths Food, and Clicks posted price inflation of 11.4%, 9.1% and 7.5% respectively while the average middle-income household's salary only increased by an average of 5%. It is not hard to see why consumers prioritized essentials over discretionary spending in 2023, with apparel retailers bearing the brunt of it.

Consequently, consumers started looking towards credit to supplement their spending. Truworths, where 70% of its SA sales consist of account sales, posted strong credit growth momentum in the 2023 financial year. However, this growth turned out to be somewhat of a poisoned chalice, as bad debts have also subsequently moved higher. Towards the end of 2023, the retailers' appetite for advancing credit shrunk as they became more risk averse. Consequently, account sales were muted in Q4, which dampened sales growth for those reliant on credit sales, whilst those focused on cash sales saw sales rebound strongly.

Eased Loadshedding

Another 2023 headwind was the record level of loadshedding which was a major hindrance for the retailers. Persistently higher levels of loadshedding in the first half of the year caught some retailers off-guard. That was quickly rectified. Nonetheless, whilst loadshedding in 2023 was the worst that we have ever experienced, the incidence of loadshedding did fall as the year progressed. Furthermore, Q4 23 saw less loadshedding than Q4 in 2022, providing retailers with an easier base from which to grow. I am sure I speak for many of the joy of having three weeks with no loadshedding in December!

QUARTERLY LOADSHEDDING



Although 2023 was plagued by high loadshedding, we experienced some relief during the last quarter of the year. Furthermore, it was less than what we suffered in the same quarter of 2022. This ensured that shops were open for business.

Trouble at Sea

In mid-November 2023, congestion at the Durban port made headlines as watchers counted more than 60 ships at anchor off our Coast. This impeded the planned inventory flow for retailers such as Woolworths and Mr Price and disrupted their festive season's trade. The Foschini Group was able to partially offset this risk by increasing volumes from their local manufacturing capacity. Although most of the backlog has since cleared, this situation is still seen as a threat until the core challenges are successfully remedied.

Furthermore, the instability of the Red Sea shipping route is currently the hot topic. It is causing an increase in transit times, as ships must travel alternative routes and this in turn is increasing shipping rates. Normally a hive of activity, only 6 container ships passed through the Suez Canal last week, down from an average of 50 per week prior to the current instability. This is causing freight rates to soar globally, regardless of whether cargo needs to pass through the Canal or not. For now, most retailers have locked in their rates for the next couple of months, so this has time to settle before an impact is felt. But if it lasts, then we can expect some margin pressure to manifest itself later in the year.

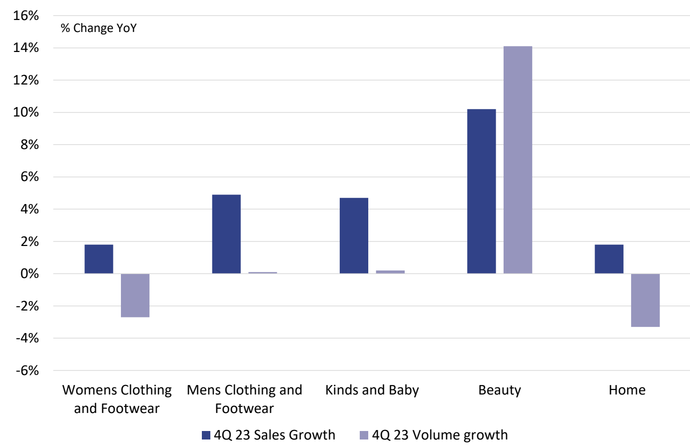
Bumper festive season

Despite all these issues, most retailers reported a bumper festive season, which mitigates the weaker Black Friday period. Clicks reported record trading in the week preceding Christmas, and achieved its highest ever daily sales on the Friday before Christmas. Given the robust growth across the personal care and beauty categories, it's not hard to guess who did the last-minute shopping for their wives, girlfriends, or sister.

> "The Foschini Group and Mr Price Group saw double-digit growth over the month of December. "

The Foschini Group and Mr Price Group saw double-digit growth over the month of December. This was also achieved by higher full price contribution (fewer mark-downs), so we expect some margin recovery when the full reports are available. Mr Price's stand out performer was their apparel segment, with all the acquisitions now in the base and Mr Price Kids' single stores showing a good boost over the festive season. Growth for Woolworths Food accelerated during the festive season compared to their Fashion Beauty Home segment where weaker growth was largely blamed on port congestion and the late arrival of their summer ranges.

Q4 23 RETAIL SALES BY CATEGORY



Retailers' Liaison Committee data for December 2023 reflected strong growth over the month in Beauty, Kids & Baby, and Menswear, confirming the trends reported by Clicks and Mr Price.

From another perspective, most mall owners noted that they produced positive results during December as consumers were enticed by the one-stop-shop offering that malls are known for. With another e-Coli scare and Durban beaches closed, the outlook for the tourism sector looked bleak, but this was not the case. The CEO of Old Mutual Property, which owns malls such as Gateway Theatre of Shopping in Umhlanga, Cavendish Square in Cape Town and the Zone @ Rosebank in Gauteng, reported growth during the festive season which was largely supported by the influx of local and international travelers to coastal provinces.

Overall, it seems there have been some pockets of excellence and we await the rest of the food retailers' updates to get the bigger picture. Nonetheless, there was a welcome improvement in inflation for December, which fell further to 5.1%. This in turn gave the Reserve Bank flexibility to leave interest rates unchanged at their recent meeting. Yet, whilst GDP growth is forecast to remain muted, we are expecting higher growth in the second half of this year, once elections are out of the way, loadshedding improves and interest rates start to decline. That keeps us "shopping for more" when value presents itself.

" Nonetheless, there was a welcome improvement in inflation for December, which fell further to 5.1%. "

QUEUING FOR THE GOODS

The Mall of Africa made news in December with a picture of the long line outside their Gucci store. Clearly not everyone was limited to shopping for essentials!

Our schedule for 2024 will be published early in due course.

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Topic:	To Be Announced
Natal Midlands	
Date:	14 March 2024
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm
Johannesburg	
Date:	12 March 2024
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am
Cape Town	
Date:	N/a
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

CONTACT DETAILS:

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