

Is a consumer recovery on the cards?

In my previous article I noted a festive season recovery for many retailers. Given seasonal trends, we did not expect the same upbeat note for “Januworry”. The slowdown in retail sales over January confirmed our concerns, and signals that consumers are in dire straits. Health insurance was one of the highest price increases for the month of February, according to the CPI data, which exacerbates the pressure on other discretionary spending. In this article we re-examine the consumer’s health and ask whether we can expect a recovery in the retail sector this year?

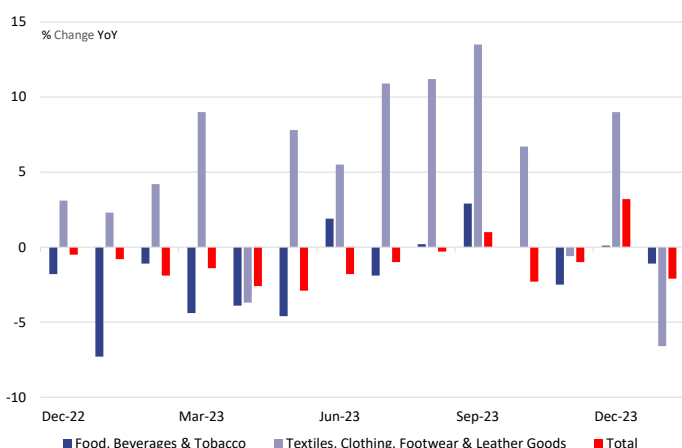


Jana van Rooyen

As consumers, our basket of groceries either had fewer products in it or is more expensive as inflation increased sharply relative to 2022. Since February 2023, potatoes and eggs are 33% and 31% more expensive respectively, the latter influenced by the avian flu outbreak last year. With Easter behind us, I am sure we have all noticed how much more expensive our favorite easter eggs became. South Africans

are known for their resilience, but I must say, I am tired of being resilient! Just when you think there is light at the end of the tunnel, we are faced with another petrol price hike while also bracing for an electricity tariff increase

SA RETAIL SALES GROWTH



Total retail sales grew strongly in December, thanks to strong sales of clothing and footwear, but this momentum did not continue into January, with sales declining sharply. Food and beverage sales are less volatile, but are generally also contracting, highlighting the pressure that consumers are facing.

SPEED READ

- January 2024 retail sales data confirms that the momentum evident in December did not continue into the new year.
- The good news is that the ratio of household debt to disposable income is tapering off, so consumers are not taking on more debt. Unfortunately, the cost to service existing debt has increased due to higher interest rates, and this has eaten away at the consumer’s disposable income.
- BankServ Africa’s Take-Home Pay Index, derived from the salary payments made to an average of 36% of SA’s workforce, has improved each month since November 2023.
- Inflation remains sticky with the February CPI at 5.6%. There are a few red flags that suggest that inflation may not come down this year as quickly as previously hoped.
- This year has started on a tough note and there are still some bumps in the road ahead. A sustained consumer recovery could therefore only materialize in 2025 – underpinned by two rate cuts in H2 2024, access to retirement savings through the two-pot retirement reform and the Social Relief Grant becoming a permanent feature.

this month. All these things have a knock-on effect, and although companies such as retailers try their best to not place all the burden of their increases onto the consumer, it ultimately has nowhere else to fall. We look at the data to see if there is any indication of what we can expect for the retailers and their customers in the year ahead.

Retail sales

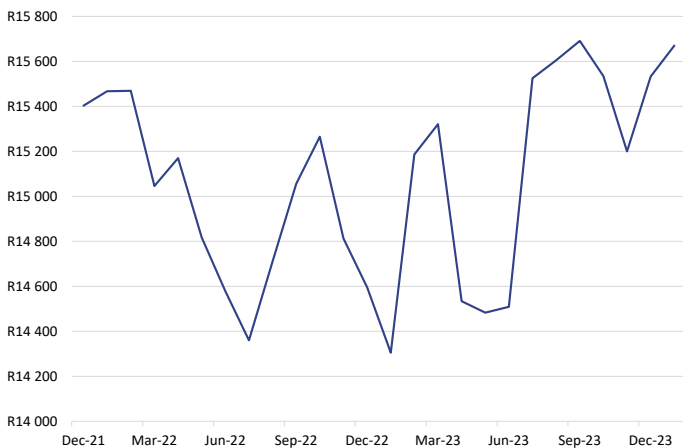
Most of the retailers that posted trading updates in January indicated that December trade was very upbeat. This is evident from the growth rate in SA's retail sales where December's growth rate was the highest for the year. Unfortunately, this momentum did not continue into the new year. In January, sales growth for the broad textile (incl. clothing and footwear) category and the food & beverage category declined by 6.6% and 1.1% respectively. In fact, this was the weakest rate of growth in textiles for 13 months. The food sector fared better, albeit growth was still negative.

Financial health

Although the latest data provided by the Reserve Bank is only up to Q3 2023, it is encouraging to note that the ratio of household debt to disposable income is tapering off, so consumers are not taking on more debt. This is confirmed by the slowdown in private sector credit extension (growing at just 3.3% in March versus 7.2% a year earlier) and the TransUnion Consumer Credit Index for Q4 2023, which shows that SA's consumer health has recovered from the record low reached in Q2 2023. Unfortunately, the cost to service existing debt has increased due to higher interest rates and this is what has been eating away at disposable income.

BankServ Africa's Nominal Take Home Pay Index has improved since November. In February, there was an increase of 9.5% compared to February 2023, which saw a decline of 1.8% year-on-year. This provides some relief to the wage erosion that consumers have experienced in the past year, where their wages did not grow more than inflation.

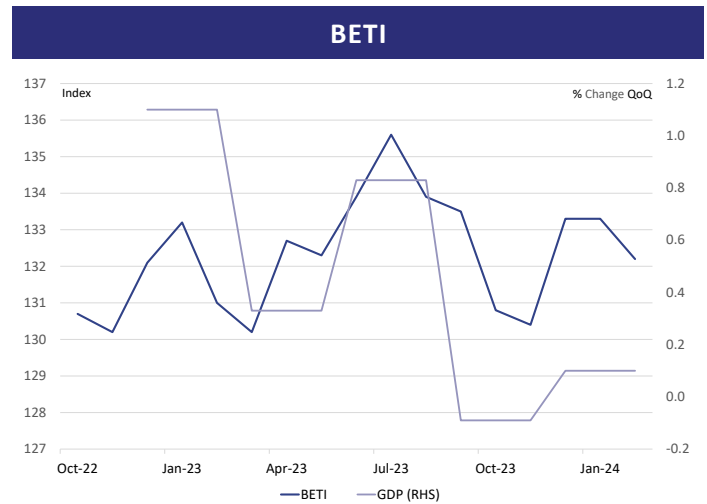
BANKSERV TAKE-HOME PAY INDEX



BankServ Africa's Take-Home Pay Index, derived from the salary payments made to an average of 3 million people (c. 36% of SA's workforce), has improved over the course of 2023. But it is not much changed over the past two years, highlighting the lack of growth in disposable income."

BETI

Another data point that we follow is the Bankserv Africa Economic Transaction Index ("BETI") which provides a robust early economic indicator for SA's anticipated GDP growth. Bankserv Africa notes that this correlates highly with our GDP figures (output of SA economy), appearing a quarter earlier. In the chart below the quarterly GDP growth rate for SA is plotted against the BETI. An uptick appeared in December which coincides with other data we have already highlighted. However, a slowdown is evident in February. Relative to February a year ago, the growth profile is exactly the same, confirming the stagnant economic narrative in South Africa. Does this suggest a weakening in the GDP for Q1 2024 and will the decline in retail sales continue into the rest of Q1?



The Bankserv Africa Economic Transaction Indicator correlates well with our overall GDP growth rate. Does February 2024's downward trend in economic transactions portend that a weaker quarter of economic growth lies ahead?

Sticky inflation

What will bring a reprieve? A reduction in interest rates to reduce the cost of servicing debt should help a bit. This frees up cash for more discretionary spending. Unfortunately, inflation remains sticky with the February CPI at 5.6%, above the consensus of 5.5% and an increase relative to January's reading of 5.3%. A steep hike in the cost of health insurance was a big culprit, but this should be a once-off and not repeated in future months.

Most economists expect this to be the peak of inflation for now, with a gradual reduction over the remainder of the year to reach the midpoint of the SARB's target range of 3-6%. That will then provide the scope for interest rates to start falling. There are however a few red flags that might suggest that inflation may not come down this year as quickly as we might previously have hoped:

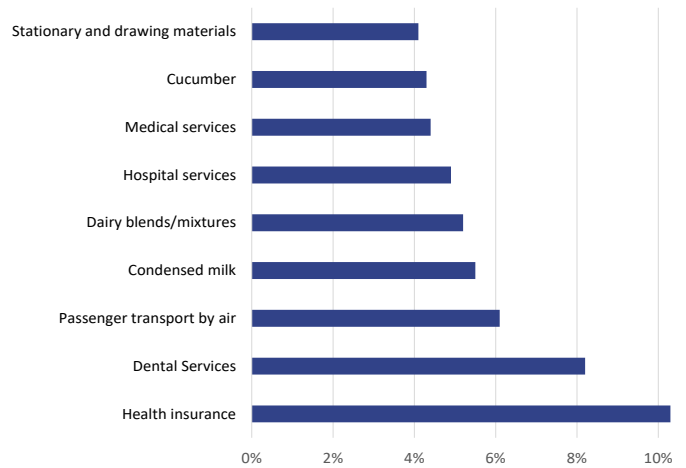
1. A big culprit is the oil price coupled with the weak

exchange rate. The Coastal Unleaded 95 petrol price rose from R21.77 in January to R24.33 this month.

2. Eskom is hiking electricity tariffs by 12% this month.
3. Another key upside risk is food prices, with the El Niño impact still uncertain. We may have been oblivious to this in the luscious Midlands after good rainfalls over the last couple of months, but the drought has been evident in other parts of the country.
4. The deteriorating performance across our logistics and ports adds further uncertainty to apparel retailers' supply chains as South Africa imports c. 49% of apparel and footwear from China. Truworths and Pepkor recently noted a two-week delay.

This year has started on a tough note and there are still a few bumps ahead in the road. The retail sector will remain weak for this first half of this calendar year as the high interest rate environment and rising unemployment push consumers to prioritize essentials over non-essentials. Recovery for the consumer might therefore only transpire in 2025 – on the back of interest rate cuts in the second half of the year, consumers accessing their savings from the reform of the two-pot retirement policy, and the Social Relief Grant becoming a permanent feature. That should lead to a recovery in retail sales for both volumes and

INFLATION: CATEGORY INCREASES



Some of the products that have become more expensive over the month of February are shown in the chart above. The largest price increase was Health insurance - we would have all noticed the increase in our January medical aid statement.

prices, which will underpin share prices. But investors may need to be patient for another quarter or two before the good news starts to become more evident.



If you are still putting the same number of products in your basket, you might have found that it is weighing less. This practice is called shrinkflation, where the size or quantity of a product is reduced while the price of the product remains the same or slightly increased.



By the time of our next Insight seminar, our election will be out of the way. We will take the opportunity to review market performance for the first five months of the year, and look ahead to what the second half might hold.

Please note that we will be hosting both a morning and evening presentation in Cape Town. The venues will be communicated once finalised.



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Topic: **Taking Stock: Mid Year Update**

Natal Midlands

Date: 20 June, 2024

Venue: Oasis Conference Centre,
72 Main Road, Howick

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

Johannesburg

Date: 11 June, 2024

Venue: Rosebank Union Church, Cnr
William Nichol and St Andrews
Road, Hurlingham

Time: 7am for 7.30am

Cape Town

Date: 13 June, 2024

Venue: ABRU Motor Studio, Lourensford
Wine Estate, Somerset West

Time: 5.30pm for 6pm

HARVARD HOUSE GROUP

 3 Harvard Street, Howick, 3290, South Africa

 P.O. Box 235, Howick, 3290, South Africa

 +27 (0) 33 330 2164

 +27 (0) 33 330 2617

 admin@hhgroup.co.za

 www.hhgroup.co.za

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