

Is a consumer recovery underway?

Back in April, we examined a few statistics to ascertain whether a consumer recovery in South Africa was on the cards. To recap, the year started on a tough note with inflation that remained sticky and the market in limbo ahead of the outcome of our general election. Together with the high cost of living over the past few years, this has driven many consumers to debt dependency and our retailers' results have consequently been muted. However, conditions have turned more positive over the past few months. Consumer confidence has improved thanks to factors such as the formation of the GNU, the absence of load shedding, and the start of the long-awaited interest rate cutting cycle. We take a quick look at the consumer's position to see whether the consumer recovery that we were hoping for is finally coming to fruition?



**Jana
van Rooyen**

for SA citizens.

As the second half of this year unfolded, consumer optimism in South Africa has turned positive. Supporting factors include the formation of the GNU, the absence of loadshedding, and the start of the long-awaited interest rate cutting cycle. The SARB's pivot towards easing monetary policy means that inflation has moderated, and policy can now focus on supporting growth and providing much-needed relief

As a research analyst focused on the retail sector, one needs to keep a close eye on the health and mood of the consumer to have an idea as to what we can expect from retailers included in our portfolios. This month, we take a quick look at various consumer-related statistics to gauge whether the consumer recovery that we were hoping for has come to fruition.

In a recent Moneyweb interview, Standard Bank Chief Risk Officer for personal and private banking, Thabani Ndwandwe, was asked if there had been a reigniting of home loan application activity. He noted that the value of home loans outstanding has grown by 3% over the past year, according to the latest data from the Reserve Bank. This was predominantly seen in the middle to lower income brackets and the expectation for the rest of 2024 is that this trend will continue. His outlook for 2025 was more positive given further interest rate cuts on the horizon. He expects not only an increase in market activity, but also a moderation of bad debts as pressure on the consumer wallet

SPEED READ

- As we approach the final quarter of the year, we look at 6 statistics to gauge consumer health to get an idea of what to expect for the retail sector.
- Positive developments have taken place since we last measured consumer sentiment in April.
- Looking forward, improving consumer confidence, higher disposable income with increases in take-home pay above inflation, consumers withdrawing from their two-pot savings, and lower interest rates all point to an improvement in consumer spending and a more positive outlook for 2025.

is eased. Following the first interest rate cut of 25bps last month, and given that SA's total mortgage debt stands at R1.3 trillion, he noted that each 0.25% reduction in interest rates equates to a cR10 billion annual saving in instalment payments for consumers. Could we see this flow into the retail sector, along with withdrawals from the two-pot retirement reforms?

It may be too soon to see the positive effect of these factors on the retailers' results that will be reported over the next six weeks, as there may be a lag effect before these positive trends filter through to discretionary income. Nonetheless, this week we look at six statistics to gauge the consumers' mood and spending habits. Already, little green shoots can be seen and sentiment towards SA's retail equities has improved significantly.

Credit Market

The South African credit market consists of 25.2 million consumers. Of this total demand for credit, clothing retail loans represents a small portion of the pie, valued at R43.3 billion. Apparel retailers have noted a significant increase in applications over the past year. Fortunately, they have been circumspect in their approvals so as not to get burnt by bad debt. For example, Mr Price only approved 18.7% of applications received. SARS has also reported on gross withdrawals following the introduction of the two-pot retirement regime on the 1st September. By the 11th of October, withdrawals had totaled R21.4 billion. The average net withdrawal (after tax) amounted to R18,629. Discovery ran a WhatsApp survey on their policyholders to narrow down the reasons for withdrawing from their retirement savings. Twenty four percent of claimants withdrew money to pay off home and car expenses, while 21% withdrew funds to pay off their short-term debt, which includes retail loans and credit cards. Apparel retailers should benefit from these withdrawals as consumers gear up for festive season spending.

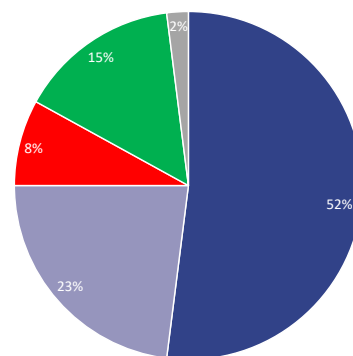
Household Debt

During COVID interest rates were cut to stimulate the economy. Many people bought vehicles or homes to take advantage of affordable interest rate payments. In this chart we see the household demand for credit increasing from end of 2020 to 2023, although encouragingly, the total amount of debt relative to household income remained steady at about 63%. However, as interest rates started to rise in late 2021, the cost of servicing that debt increased sharply – to the point where debt servicing costs as a percentage of income now exceed 9%. It is therefore not surprising that demand for credit has fallen sharply. In the second quarter of 2024, the debt-servicing cost ratio has tapered off slightly, but this is attributable to the increase in nominal wages. Now that we have entered a rate cutting cycle, the cost of servicing debt should decline further.

Impairments

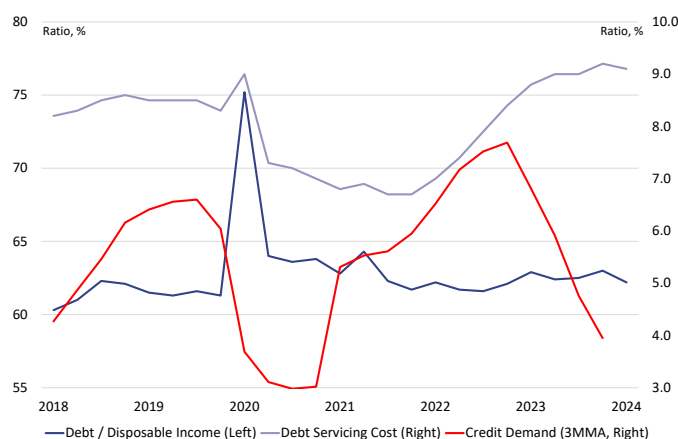
This chart really highlights the extent of the pressure facing consumers in this country. It measures the percentage of total debt that is impaired – the higher the percentage, the more bad debt. Consumer health recovered steadily post the high growth period leading up to 2010 when total debt as a percentage of income reached 78%, forcing impairments higher. That ratio (as per chart above) is now back at 63% - far healthier. But consumer health has deteriorated since 2018 as consumers have felt the cumulative impact of weak growth, the Covid period, riots, loadshedding and everything in-between. Given that debt servicing costs are so elevated (previous chart), it is not surprising that the amount of bad debt has risen too. Consumers were simply unable to meet their debt obligations. Although still high at 5.3%, the good news is that the ratio appears to have peaked. August was the third consecutive monthly improvement. The ratio is the lowest in 18 months. We expect it to improve further.

SOUTH AFRICA CREDIT MARKET BY PRODUCT



■ Home loans ■ Vehicle loans ■ Credit cards ■ Personal loans ■ Clothing retail loans

HOUSEHOLD DEBT VS DEBT-SERVICING COST



— Debt / Disposable Income (Left) — Debt Servicing Cost (Right) — Credit Demand (3MMA, Right)

SA DEBT: TOTAL IMPAIRMENTS



Salary Growth

BankServ Africa's Take-Home Pay Index ("BTPI"), derived from the salary payments made to an average of 3 million people (c. 36% of SA's workforce), has improved from the beginning of this year.

Since January there has been a year-on-year increase every month, ranging between 5 and 10%. This provides some relief to the wage erosion that consumers have experienced in the previous years, with their wages now growing faster than the inflation rate. On a nominal basis, the average salary is just above R16,500 per month, a significant improvement from the average salary of R14,500 per month just fifteen months ago.

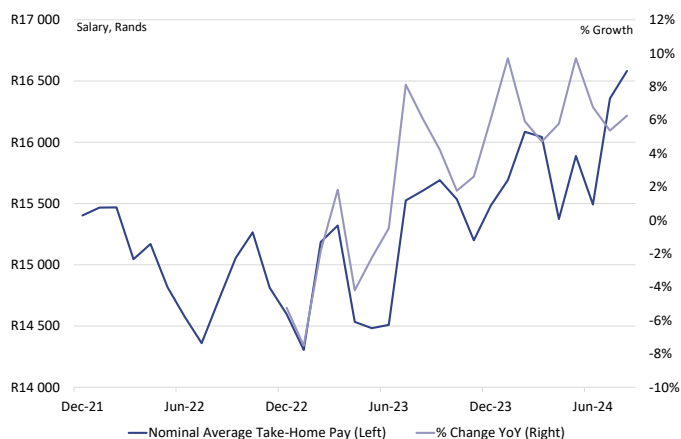
Consumer Confidence

The FNB/BER Consumer Confidence index for South Africa tracks consumer confidence by combining the results of three questions posted to adults living in predominantly urban areas. They are asked about their expectations for the performance of the economy, expectations of their own financial position and rating the appropriateness of the present time to buy durable goods. Michael referenced this index in his article in July as he assessed the impact of the GNU. We have since received one more data point. In the third quarter of 2024 the index jumped to -5 from -10 in the previous quarter, which marks the highest level of confidence since the first half of 2019 – that spike itself the result of "Ramaphoria" which as we all know fizzled out quickly. Accelerating economic growth and job creation would further support a recovery in consumer confidence, which in turn would reinforce consumer spending and growth. It remains a key statistic to watch closely.

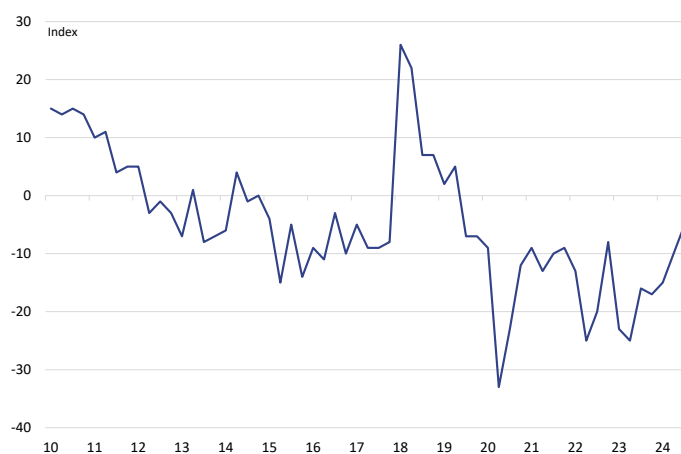
Retail Sales

To wrap up our outlook on the consumer, it is apt to look at retail sales across the economy to see whether the green shoots we have referred to above are manifesting themselves in any way? Retail sales data is released monthly, and it can be quite choppy – especially in more recent times. Consequently, we have charted the 12-month moving average of retail sales to smooth the volatility. If we ignore the distortions caused by Covid, there have only been two periods over the last twenty years when retail sales actually contracted – during the GFC and over the past 15 months. That in itself summarises the pressure that our retailers have faced. Encouragingly, retail sales are growing again, although they remain weak in a historic context. Under normal conditions, it is reasonable to expect retail sales growth of 4% - 5%. This hasn't been the case since 2010 – 2013. Having endured such a tough period, it is our opinion that our retailers are poised to show exceptional profit growth should retail sales accelerate on the back of faster growth and improving confidence.

NOMINAL AVERAGE TAKE-HOME PAY



CONSUMER CONFIDENCE TURNING



SA RETAIL SALES





By the end of November, it will have been six months since our election ushered in the GNU. This presentation will focus on the outlook for 2025, and delve specifically into whether the SA story is still intact.



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Topic:

Outlook for 2025. Is that SA Story Intact?

Natal Midlands

Date: 05 December 2024

Venue: Christ Church Howick, 23 Mare Street, Howick

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

Johannesburg

Date: 04 December 2024

Venue: Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham

Time: 7am for 7.30am

Cape Town

Date: 2 December 2024

Venue: SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor

Time: 7.30am

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

Time: 5.30pm for 6pm



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