INTUITION
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Winter's Big Freeze Puts Margin Management in the Hot Seat

We've officially passed the halfway mark of 2026, making it a good time to pause and assess the state of South Africa's consumer and to see the impact on the retailers' results. Six months ago, the outlook was bright: falling interest rates, improving confidence and stronger economic growth forecasts suggested consumers would finally get some relief. Instead, geopolitical tensions, rising fuel prices and renewed inflationary pressures have left many households back in survival mode. In this article, we examine the consumer's wallet and their spending activity. Against this backdrop, we assess why retail sales growth is expected to moderate during the winter period and why protecting margins has become critical for driving earnings growth.

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At the start of 2026, the outlook for South Africa appeared increasingly constructive. The country entered the year with several positive developments supporting confidence and economic activity. South Africa had successfully exited the FATF grey list, government finances showed improvement in the Medium-Term Budget, a new 3% inflation target was announced, and S&P Global Ratings delivered the country's first sovereign credit rating upgrade in two decades. Strong commodity prices, particularly for gold and PGMs, supported the Rand, while gains across domestic equities and bonds boosted household wealth. Combined with an ongoing interest rate cutting cycle from the SARB, the stage was set for stronger economic growth and an improving consumer environment.

Then, at the end of February, the outbreak of war in the Middle East abruptly changed the narrative.

SPEED READ

- **Consumer tailwinds turned into headwinds. The optimism that greeted the start of 2026 faded quickly following the outbreak of conflict in the Middle East. Higher fuel prices and renewed inflation concerns have weakened confidence and placed South Africa's growth outlook under pressure.**
- **Households are feeling the squeeze. With living costs continuing to outpace wage growth, consumers are finding themselves with less discretionary income and are becoming more selective in their spending, contributing to weaker economic activity.**
- **Retail data flagged a slowdown in momentum. Spending has slowed across all retailers that have provided updates so far, as they "feel the winter chill" in their numbers. However, in this difficult environment, the winners will be those that are able to protect their margin and keep their earnings "hot".**
- **We continue to favour discount retailers: Looking ahead, limited fuel price relief, weaker confidence and continued uncertainty are likely to constrain consumer spending for the rest of the year. In this environment, discount retailers serving essential consumer needs remain the most attractive part of the sector.**

Growth expectations reassessed

The conflict triggered a sharp increase in global oil prices, weighing on consumer and business confidence both globally and locally. While the Rand remained relatively resilient throughout the period, higher fuel costs quickly filtered through to the broader economy, placing renewed pressure on household budgets and business operating costs.

As a result, economists have revised their South African GDP growth expectations lower, with forecasts now sitting at approximately 1.3% for 2026 and 1.7% for 2027. This is disappointing, but at least growth is above the 1% level. A small comfort. Nonetheless, in an environment of slower economic growth, companies face greater pressure to generate sales growth organically or manage their costs rather than relying on a favourable macroeconomic backdrop.

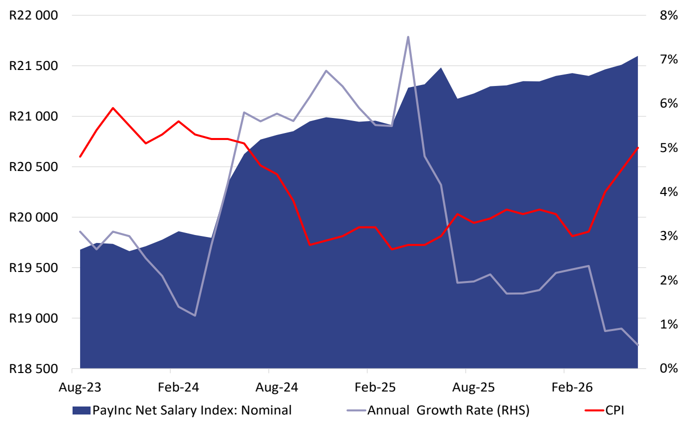
The SARB responded proactively to rising inflationary risks earlier in the year, increasing interest rates by 0.25% in May. Although inflation subsequently accelerated from 3.0% in February to 5.0% by June, the SARB has since opted to leave interest rates unchanged. According to the SARB, its early response to Iran war-related inflation pressures has created scope to pause further rate adjustments while evaluating the inflation trajectory.

The consumer is feeling the strain

The PayInc Net Salary Index, which tracks approximately 2.1 million salary earners, shows that nominal salaries increased by only 1.5% during the first half of 2026 (average inflation for the year is already higher at 3.9%). After adjusting for inflation, real net salaries fell by 2.1% over the same period. By June, real take-home pay had declined 3.6% year-on-year to R20,198, the lowest level in roughly two years. In short, wage growth is no longer keeping pace with inflation.

Adding to the pressure are administered prices (prices of products or services directly or significantly influenced by the government.), which continue to rise significantly faster than headline inflation. Administered inflation excluding fuel reached 8% in June. With July municipal tariff increases now coming into effect, households are likely to face further pressure in the months ahead.

SALARIES VS INFLATION



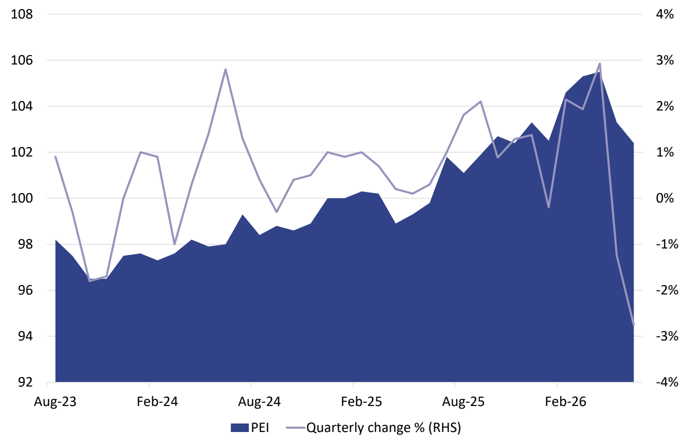
The growth rate in nominal salaries is below the CPI annual growth rate, eroding the consumer's purchasing power.

As purchasing power comes under pressure, consumers are becoming more selective with their spending. This shift in behaviour is clearly visible in the recent moderation in economic activity, as calculated by the PEI.

The PayInc Economic Index (PEI), which measures real economic activity through electronic transaction volumes and cash circulation, declined by 0.9% in June following a 2.0% contraction in May. At 102.4, the index reached its lowest level since November 2025.

After a strong first quarter, activity slowed materially during the second quarter as geopolitical uncertainty, rising fuel costs and higher inflation led households and businesses to delay spending and investment decisions.

PAYINC ECONOMIC INDEX



The PEI clearly shows the slowdown in South African economic activity during the second quarter, which contracted by 2.7% after a period of steady improvement from December 2025 through to April 2026.

Retail data signalled a weak winter season

Against this backdrop, expectations for the winter retail trading season were understandably muted.

Between March and June:

- CPI increased from 3.1% to 5.0%.
- Fuel prices rose approximately 40%.
- For a typical hatchback vehicle, a full tank of fuel cost between R270 and R350 more in June than it did in March.
- Online gambling continued to compete for consumer spending as lower LSM consumers place their hope in the former to increase disposable income.
- Retail sales growth remained modest, with the latest Stats SA retail sales data showing growth of 2.6%.

This pointed to a consumer that remained under significant pressure and suggested a challenging reporting season for retailers. Trading updates released thus far have largely validated these concerns.

Mr Price: margin gains offset weak demand

At first glance, Mr Price's first-quarter trading update appeared exceptional, with revenue growth of 45%. However, this largely reflected the inclusion of German value retailer NKD after its acquisition.
Excluding NKD, revenue growth was a more modest but respectable 3.3%, still ahead of broader sector growth of 0.8% over the period.

The key positive was margin expansion, achieved through disciplined cost control. As a result, earnings growth is expected to exceed revenue growth. One area requiring further scrutiny remains NKD's profitability. Historically, NKD has operated at substantially lower margins than Mr

Price. Unless profitability has improved materially since acquisition, there remains a risk of earnings dilution when interim results are released towards the end of the year.

Performance within the Home segment was notably weak, growing just 0.7%, with management citing elevated promotional activity among competitors.

Woolworths: even affluent consumers felt the pressure

Woolworths described the second half of its financial year as a far more challenging operating environment, coinciding with the period of elevated energy prices following the Middle East conflict.
Importantly, consumer pressure extended up the income spectrum. Higher-income shoppers, who have historically been relatively resilient, were not immune to the impact.

Group turnover increased 4.3%, while headline earnings per share is expected to grow between 2.5% and 7.4%. At the midpoint of guidance, this suggests successful cost management and margin preservation despite relatively modest sales growth.

Food continued to outperform, with turnover growth of 5.7%, supported by internal inflation of 4.7%. For comparison, Checkers last reported internal inflation was approximately 1.9%. Within Fashion, Beauty & Home, growth slowed significantly from 6.2% in the first half to just 2.6% in the second half.

The bright spots were Home (+11.7%) and Beauty (+7.9%), potentially benefiting from the promotional activity that Mr Price highlighted as a competitive challenge.

> *"While topline growth across the retail sector is likely to remain subdued, companies that can protect margins through operational efficiencies."*

Boxer: value retail continues to win

Boxer's 20-week trading update covering the period to mid-July demonstrated that value-focused retail remains highly resilient.

While management acknowledged slower trading momentum relative to the prior six-month period ending February 2026, turnover growth of 7.2% remains impressive given the macroeconomic backdrop.

Importantly, the business achieved volume growth despite internal deflation of 1.9%, highlighting strong customer demand. Although margins did not expand year-on-year, disciplined cost management enabled Boxer to maintain profitability at levels already exceeding the margin targets outlined at listing.

Conclusion

The first wave of retail updates confirms what economic activity and consumer data had already been signalling: South African households remain under significant pressure. While topline growth across the retail sector is likely to remain subdued, companies that can protect margins through operational efficiencies and disciplined cost management are differentiating themselves. Looking ahead, limited fuel price relief, weaker confidence and continued uncertainty are likely to constrain consumer spending. In this environment, discount retailers serving essential consumer needs remain the most attractive part of the sector. As a result, we continue to favour Shoprite, Pepkor, Boxer and Mr Price, although further clarity on NKD's profitability will be important before becoming more constructive on the latter.

Even Woolworths, serving a more affluent clientele, has suffered softer trading in the winter season.

Our next seminar will delve into the complicated world of AI and articulate how we have positioned portfolios to benefit from this fast-moving technology."

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Topic:	**Positioning your portfolio for AI**
Natal Midlands	
Date:	10th of September, 2026
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg	
Date:	8th of September, 2026
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town	
Date:	N/A
Venue:	J&J Belmont Square, Belmont Road, Rondebosch
Time:	7.30am
Venue:	Helderberg Village Lifestyle Estate, 63 Bakkerskloof Rd, Helderberg Village, Cape Town
Time:	5.30pm for 6pm

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