INTUITION
6 NOVEMBER 2026

The bumpy road to Christmas

As retailers head into their golden trading season, the South African consumer is navigating a road filled with potholes. Since the start of the year, fuel prices have surged, economic growth expectations have been downgraded, and real incomes remain under pressure. Yet, despite these headwinds, retail spending has proved surprisingly resilient. In this article, we assess whether consumers can keep moving forward into the festive season, and what that could mean for South Africa's retailers.



Jana van Rooyen

As we head into the retailers' golden season, the festive period, the road ahead for the South African consumer is full of potholes. Earlier this year, during the National Budget Speech, GDP growth for the 2026 fiscal year was projected at 1.6%. However, in the recent Medium-Term Budget Policy Statement, often referred to as the "mini-budget" or a halfway check-in on the country's finances, Finance Minister Enoch Godongwana revised the real GDP growth forecast down to 1.2%. This is before our GDP calculations were revised to include illegal mining, sex workers, online gambling and e-hailing.

This downgrade neatly captures how dramatically sentiment has shifted since the start of the year. When the National Budget was delivered on 25 February, consumers, businesses and policymakers were still largely optimistic, unaware of the "Orange Swan" event that would unfold just days later and reshape the outlook for growth, inflation and household finances.

In this article, we compare the festive season backdrop last year with today's environment, explore how consumer behaviour is changing, and assess what this means for South African retailers.

SPEED READ

- **Fuel has been the biggest pothole for consumers. Since April's oil shock, higher petrol and diesel costs have squeezed household budgets, slowed economic activity and reduced disposable income heading into the festive season.**
- **Food inflation is likely the next bump in the road. While grocery inflation has remained relatively contained so far, rising fuel, transport and agricultural costs are beginning to filter through the supply chain, suggesting higher food prices lie ahead.**
- **Household finances remain under pressure. Despite modest salary increases, real earnings are declining, leaving consumers with less spending power and increasing pressure on discretionary purchases.**
- **Not all retailers will be impacted equally. Discretionary retailers may face a tougher festive season, but food and value-focused retailers such as supermarkets and discount chains appear better positioned, with rising food inflation and consumer trade-down behaviour likely supporting sales growth.**

Running on empty

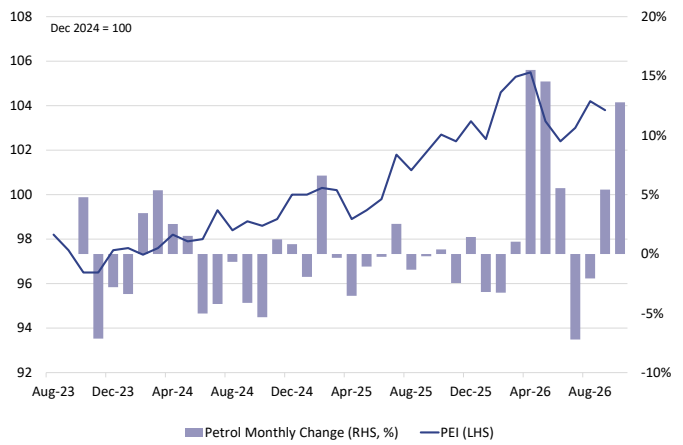
We all know the ripple effects the war with Iran has had on our wallets, with crude oil prices surging well beyond $100 per barrel. Since the first fuel price shock in April, the impact on inflation and economic activity has been clear. Fortunately, inflation across several key household spending categories has remained relatively contained. Clothing, footwear and food inflation have all been reasonably benign, helping to cushion consumers from some of the pressure elsewhere. Unfortunately, the category that has absorbed a growing share of household budgets is the one that few consumers can avoid: fuel.

The news on economic activity is not as encouraging. The PayInc Economic Index (PEI) (this index reflects the value of all electronic transactions cleared through PayInc as well as monthly wholesale cash demand in SA's economy) shows a sharp slowdown as higher fuel costs squeezed household budgets and reduced spending. When some fuel price relief arrived in July and, to a lesser extent, August, economic activity showed signs of recovery as consumers regained a little breathing room.

Unfortunately, that recovery proved short-lived. Renewed tensions in the Middle East pushed fuel prices higher again in September and then to record levels in October. That has forced Treasury to suspend the fuel levy for a further two

months to try and reign in surging prices. Not surprisingly, the PEI has begun to weaken once more, highlighting the sensitivity of South African consumers to fuel price shocks.

PETROL PRICES & ECONOMIC ACTIVITY



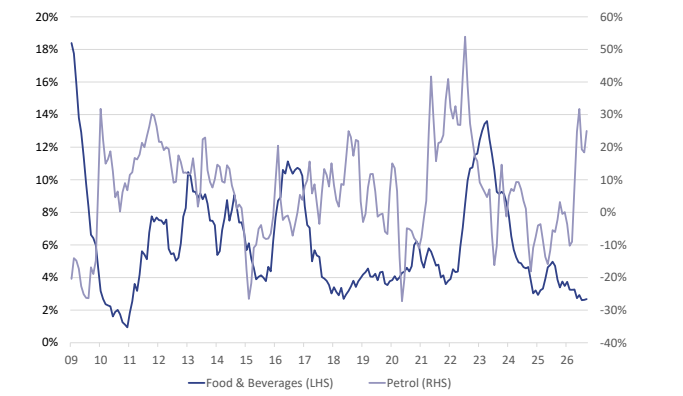
There is a strong inverse relationship between petrol prices and the PayInc Economic Index. As fuel prices eased in July and August, economic activity showed a modest recovery. However, the renewed oil price shock in September and October is likely to have placed pressure on consumers and weighed on economic activity once again.

Brace for Impact

After fuel, the next concern is food inflation. Fortunately, food inflation has remained relatively subdued compared with fuel, helping consumers absorb some of the pressure. However, higher transport and production costs (e.g. fertiliser) eventually find their way into supermarket prices, and history suggests that food inflation tends to follow fuel inflation with a lag.

Early signs are already emerging. Sugar prices are rising, local maize prices have strengthened, and retailers such as Shoprite and Boxer have noted increasing selling price inflation.

FOOD AND PETROL INFLATION



Historically, there has been a lag between fuel price increases and food inflation. Unfortunately, as we move into the festive season, we expect that lagged effect to begin feeding through more meaningfully into food prices.

While higher food inflation is unwelcome news for households, it may provide some support for food retailers. Even if shoppers become more selective, retailers can still benefit from higher selling prices and maintain revenue growth despite softer basket volumes. Earlier this year, when fears of rising food prices were largely absent and the sector was operating in a more deflationary environment, the share prices of food retailers underperformed the broader market. Since March, however, inflation expectations have steadily risen, and food retailers have begun to outperform. Investors appear to be recognising that the sector may provide a degree of shelter in what is becoming an increasingly challenging environment for consumers.

Stuck in Low Gear

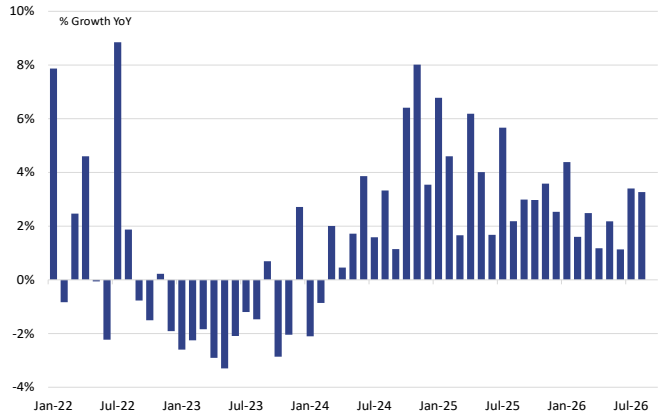
Inflation pressure would be easier to absorb if salaries were keeping pace. Unfortunately, they are not.

Although average take-home pay increased modestly in September, real earnings, after accounting for inflation, were 2.6% lower than a year ago. Put differently, pay packets may be growing, but purchasing power is travelling in the opposite direction.

Can Retail Sales Stay in the Fast Lane?

The final piece of the puzzle is retail sales, which have remained surprisingly resilient despite consumers facing both rising fuel costs and higher interest rates.

SA RETAIL SALES



Retail sales for December 2025 faced a tough comparison against a buoyant December 2024, when two-pot retirement withdrawals provided consumers with extra spending power. Even so, retail sales were gaining at the start of the year before the April fuel shock abruptly stalled the recovery. Sales then softened markedly, although lower fuel prices and a pause in rate hikes helped spark a modest rebound in July and August.

Rising fuel costs and increasing food inflation going into the festive period suggest that this relief may be short-lived. The pressure is unlikely to be felt evenly across the

retail sector. Retailers exposed to discretionary purchases may find trading conditions challenging, while food and value-focused retailers appear better positioned. Consumers may delay buying a new outfit or household appliance, but they still need to put food on the table.

> *"Pepkor remains a favourite in this environment, combining value-focused retailing with exposure to a broad range of consumer needs."*

Retailers that have successfully diversified their offerings may be particularly well placed. Pepkor remains a favourite in this environment, combining value-focused retailing with exposure to a broad range of consumer needs. In addition, the back-to-school season in January should provide an important tailwind. Many households that purchased school uniforms and clothing from premium retailers such as Woolworths in the beginning of this year may increasingly trade down to more affordable alternatives like PEP as they look to stretch household budgets further.

The Road to Christmas

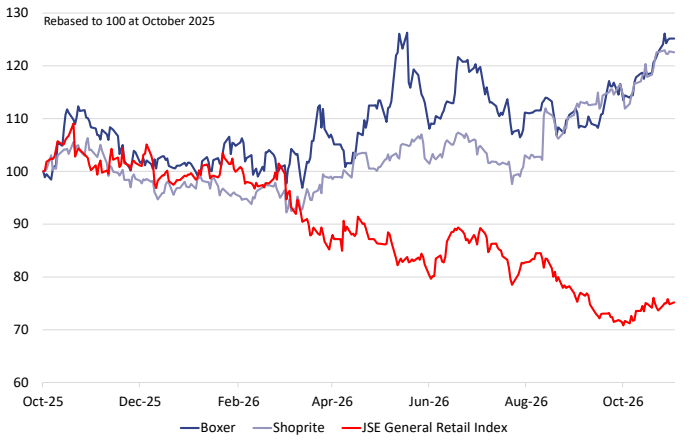
Every time I sit down to write about the South African consumer, I seem to arrive at the same conclusion: South Africans are an incredibly resilient bunch, and so are our companies. We have a remarkable ability to navigate potholes, roadworks, detours and the occasional sinkhole, and somehow still make it to our destination.

While the festive season may present a few more bumps in the road than usual, consumers have shown time and again that they know how to stretch a Rand further than anyone thought possible. Retailers, too, have become experts at adapting to challenging conditions, which is why I wouldn't bet against them just yet.

As this is my final article for the year, I'd like to wish you all a truly golden Christmas and a restful holiday season. Yes, I realise it's still a little early, but Checkers has already put up its Christmas decorations, so I'm simply following their lead.

Safe travels on the road to Christmas. May all your festive-season detours lead to pleasant surprises rather than unexpected fuel bills.

RETAIL SECTOR PERFORMANCE



Food retailers have outperformed general retailers since the start of the war, as investors look for the safety and predictability of food retail relative to clothing and other discretionary retailers.

PEP STORE



Pepkor has proven highly adaptable and serves the value segment of the market, well suited for the current enviornment.

Or next seminar series will be held in November, when we traditionally review the past year and cast our eyes forward to the new year. We will do some with some trepidation, as we try to unpack whether 2027 will bring clam or chaos.

Topic:	Outlook for 2027 – a more normal year?
Natal Midlands	
Date:	3rd of December, 2026
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm
Johannesburg	
Date:	24th of November, 2026
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am
Cape Town	
Date:	26th of November, 2026
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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