

Retail Trade

Quarterly analysis of activity in retail, wholesale
and motor trade

Third quarter 2020
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Executive summary

The COVID-19 lockdown restrictions narrative continued to find expression in the third quarter of 2020.

Business confidence surprised on the upside in 20Q3, but trading conditions remain tough.

Retailers are reconfiguring their business models to adjust to the new normal.

The volume of retail sales remained weak in 20Q3. However, both semi-durable and durable goods posted improvements.

Retailers hiked prices in 20Q3 amid rising operating costs.

A bleak economic backdrop continues to weigh on consumer spending.

Wholesale confidence and conditions rebound from 20Q2's record-low levels as sales volumes shrink at a significantly slower pace compared to 20Q2.

Wholesale selling prices remain relatively high due to increased operating costs.

New vehicle dealer confidence is up slightly despite very weak sales volumes.

Motor trade is likely to remain under significant pressure.

This report was completed on 21 September 2020.

Please refer to the [glossary on the BER's website](#) for explanations of technical terms.

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Summary of the 2020Q3 trade sector survey results

The COVID-19 restrictions narrative continues to find expression in the third quarter of 2020

The trading environment has improved for retailers since the BER 20Q2 survey

The trading environment has certainly improved for retailers since the BER's 20Q2 survey – when the sector registered record low levels across all major categories. COVID-19 lockdown restrictions have eased from a regime that only permitted the sale of essential goods under restricted trading hours, to one that pretty much allowed retailers to trade all products except for cigarettes and alcohol. Liquor sales were permitted in June but then banned again on 13 July 2020 (before being allowed once again from 17 August). The Motor trade industry, likewise, also resumed full trade through its car dealerships as of 1 June 2020. What remains constant between the 20Q2 and 20Q3 business environment is the somewhat restricted trading hours and adherence to COVID-19 hygiene protocols – which continue to increase the operating costs of retailers. Therefore, the overall 20Q3 BER survey¹ simply reflects the changes in the business environment and how consumer spending adjusted following these changes.

Business confidence surprises on the upside in Q3

Retail confidence edges up in Q3, but underlying conditions remain tough

After plunging to a 29-year low of 11 in the second quarter of 2020, business confidence surprised on the upside during the third quarter – rising to 36 index points. At these levels, retailer confidence is significantly higher than pre-crisis levels and much closer to the historical average of 38 index points. However, it is prudent to point out that a technical base effect might be driving the higher results, especially given that retailers of durable and semi-durable goods were non-operational and could not generate any income for a significant part of the second quarter. Therefore, the spike in sentiment may simply be reflecting their optimism about their ability to trade again, rather than a fundamental improvement in the operating or macroeconomic environment.

Business conditions remain tough for retailers

Business conditions remain tough for retailers given the bleak domestic backdrop which was further exacerbated by the COVID-19 induced disruptions. Therefore, it is no surprise that the slight improvement in business conditions in the third quarter (from -74 to -47) still mirrors the weak trend sustained before the pandemic.

In fact, retailers have begun reconfiguring their business models for survival and adaptation to this operationally constrained business environment.

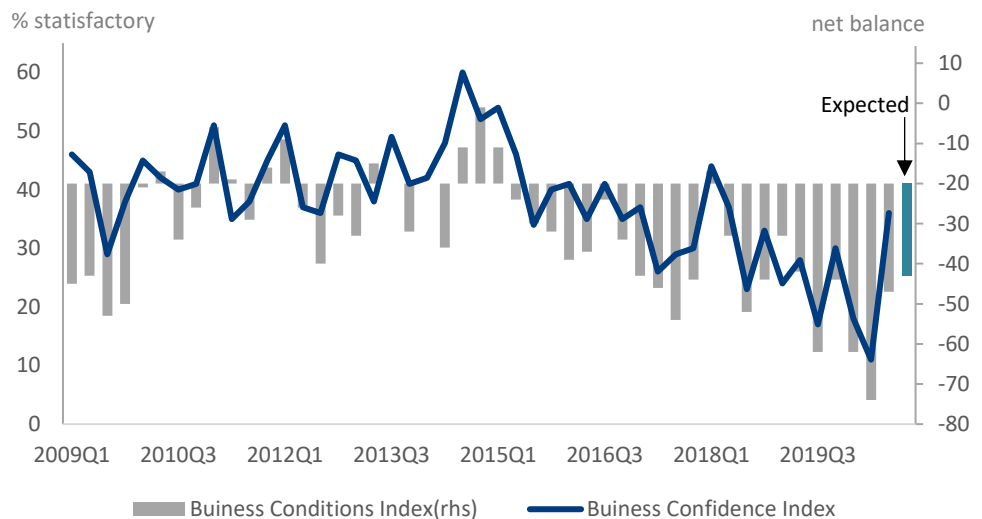
Some of the adjustments undertaken by retailers are:

- A fundamental shift in business focus from profitability to liquidity and cash flow management.
- The termination of investment and expansion plans as profitability is undermined by the COVID-19 lockdown restrictions.
- A complete renegotiation of debt agreements with banks.
- The withholding of interim dividends to support their balance sheets.
- Salary reductions or job cuts in line with changed trading conditions.
- A shift to online sales or e-commerce. This is fast becoming a central feature of the business model of the trade sector, especially given the uncertainties around the possible resurgence of new infections.

A bleak economic backdrop will continue to weigh on consumer spending

Looking ahead, the outlook for the retail sector remains gloomy, with retailers not expecting conditions to improve much further in the fourth quarter (see Figure 1). A weakness in the balance sheets of households due to lost or reduced income, restrictive fiscal policy, labour market uncertainty as well as muted consumer confidence levels are all likely to weigh on consumer spending over the coming months.

Figure 1: Retailer business confidence rebounds in 2020Q3



Source: BER

¹ The fieldwork for the 2020Q3 survey was conducted between 12 and 31 August 2020.

Sales volumes recovered somewhat in the third quarter

Retail sales volumes recovered some lost ground (from -57 to -42) in the third quarter, although remaining well below the 19Q3 level. While the weakness in retail sales volumes is broad-based, non-durable goods took the hardest knock relative to the second quarter – declining from -25 in the second quarter to -35 in the third quarter. Much of the poor performance can be attributed to the alcohol and tobacco ban, especially since both products contribute significantly to the revenue stream of non-durable goods retailers. Secondly, restaurants and take-away outlets have also resumed operations, resulting in a shift in consumer spending away from grocery stores. Thirdly, the initial pent-up demand for pharmaceutical stock has also moderated amid decreasing infection rates across the country.

Given the income uncertainty and pressure facing SA's consumers, the 20Q3 BER survey still reflects a sustained spending bias towards essential food items. No doubt, non-durable goods sales have also benefitted from the special COVID-19 social distress grants and top-ups to the existing grants such as the old age, disability and child support grants, but these in themselves pose a significant risk to this category given their expected termination in October 2020.

Semi-durable goods post sales improvements in Q3

Conversely, sales volumes for semi-durable goods rebounded from the second quarter's record-low level of -100 to -40 index points in the third quarter. Despite this improvement, clothing retailers are still losing out on: winter sales as some customers continue to avoid large shopping malls; sales of school clothes as schools were shuttered for many weeks; formal attire as people continued to work from home; as well as casual clothing that consumers usually wear for social outings or holidays. Likewise, durable goods sales volumes retracted from the historic low of -91 to -49 index points. However, this print remains way below the historical average and the pre-crisis levels.

Despite the overall grim durable sales volumes, it is encouraging to see improvements posted by both hardware and furniture retailers in the third quarter. Indeed, hardware sales benefitted as the construction sector resumed operations under lockdown level 3. In addition, given that the pandemic has seen most people spending more time at home, they are investing more in their homes and their living spaces. Meanwhile, the improvement in furniture sales owes mainly to home office equipment, electronics and appliances purchased for remote working and home-bound entertainment. The latest retail sales data from Stats SA also confirms the BER survey results, with the sale of household furniture, appliances, and equipment reported to have increased by 13.4% in June 2020 (y-o-y).

Hardware and furniture sales performed better in Q3

Retailers hike prices in Q3, in line with rising operating costs

Unlike in the second quarter - where weak demand and the prosecution of price "gougers" kept price increases low – retail selling prices increased in the third quarter (from 16 to 40). Increased operating costs associated with the implementation of COVID-19 protocols, relatively higher petrol prices and an exchange rate depreciation impacting the price of imported semi-durable and durable goods (i.e. clothing, electronics, etc.) have all contributed to the price hikes by retailers.

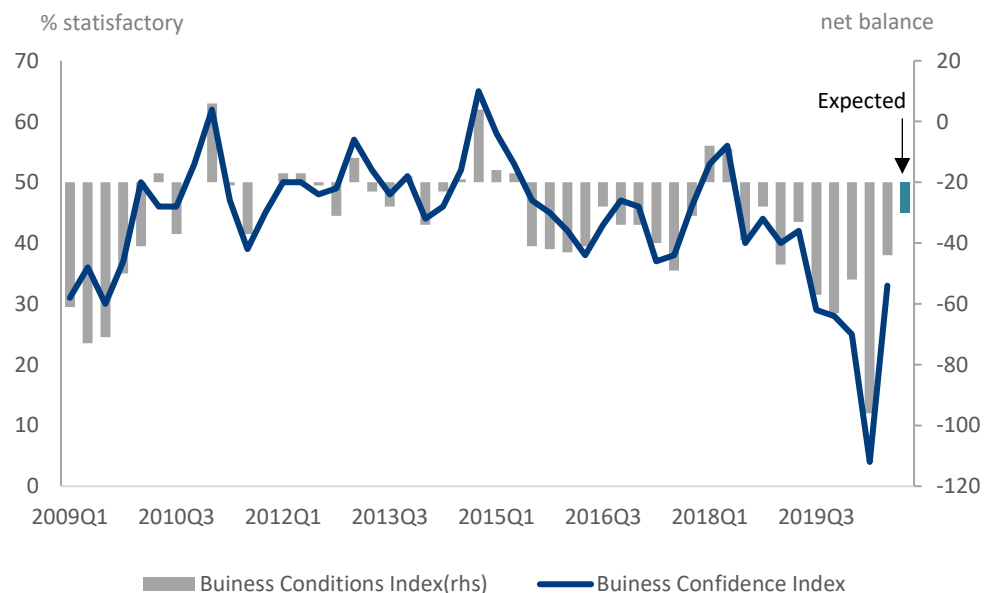
Moreover, given the sales knock experienced in the second quarter, it is no surprise that retailers could not afford to absorb the increased purchasing costs and offer significant discounts any longer.

Wholesalers performance slightly upbeat in Q3

Wholesale confidence and conditions rebound from Q2's record-low levels

Confidence among wholesalers improved in the third quarter, reflecting a positive change in the business environment. After plunging to a record low of 4 index points in the second quarter, wholesale confidence edged up to 33 during the third quarter. In fact, the overall performance of wholesalers in the third quarter was more upbeat compared to other trade categories (retail and motor trade). Eased trading restrictions also saw business conditions rebound from an all-time low (from -96 to -44).

Figure 2: Wholesaler confidence and conditions improve in Q3



Source: BER

Wholesale sales
volumes rebound
in Q3

The BER's survey indicated that - while the sales volumes of both sub-categories of total wholesale sales remained weaker compared to the same quarter of last year - there has been remarkable improvement compared to the second quarter. The latest Stats SA total wholesale sales volumes point to a contraction of 19.9% q-o-q in 2020Q2. In all, sales volumes shrank at a much slower pace in the third quarter compared to the second quarter. The rate of contraction in the volume of sales of consumer goods (such as food, beverages, clothing, and other household goods) eased somewhat more than non-consumer goods (building materials, chemicals, and machinery). One possible explanation for the relatively better performance of wholesale sales of consumer goods (with a net balance of -15 in 20Q3) compared to overall retail sales (-42) could be that an increasing number of consumers are buying directly from wholesalers, in search of lower prices and bulk discounts given the downward pressure on their household finances.

Wholesale selling
prices remain
supported amid
increased
operating costs

Wholesale selling prices remained well supported in the third quarter, at levels similar to the second quarter. Increased COVID-induced operating costs, fuel price hikes, an uptick in demand as well as an exchange rate depreciation relative to last year, all justify why wholesalers maintained their relatively higher selling prices in the third quarter.

With lockdown restrictions now greatly relaxed and the crucial Black Friday and Christmas shopping periods on the horizon, wholesalers expect a marked further improvement in business conditions during the fourth quarter (see figure 2). However, given that retailers are more pessimistic about the outlook for the festive season (negatively affecting their orders from wholesalers), and the pace of the recovery in overall economic activity is likely to slow in the fourth quarter, there is a risk that wholesale sales may disappoint relative to wholesalers current expectations.

Dealer
confidence up
slightly despite
weak vehicle
sales volumes

Motor trade continues to feel "COVID-19 pinch"

The motor industry resumed trade through its dealerships under significantly eased lockdown restrictions on 1 June 2020. As a result, dealer confidence edged up to 16 index points in the third quarter, after crashing to levels last experienced during the global financial crisis in the second quarter.

Looking at sales volumes, it is quite evident that used car sales performed remarkably better than new passenger car sales in the third quarter. This suggests that the current economic climate (i.e. suppressed income levels, labour market uncertainty and high new car prices) favours the used passenger car market. The price of used vehicles declined by 20% between May and July -

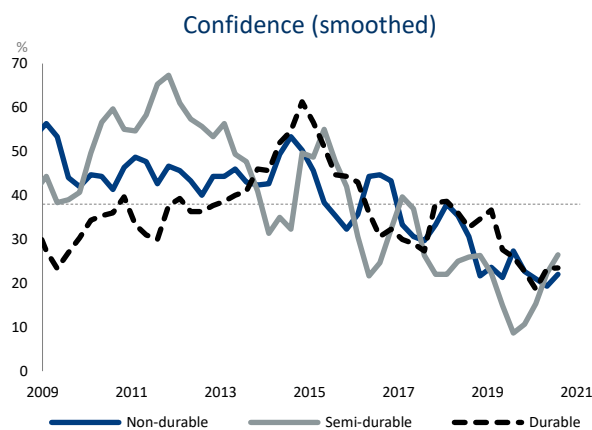
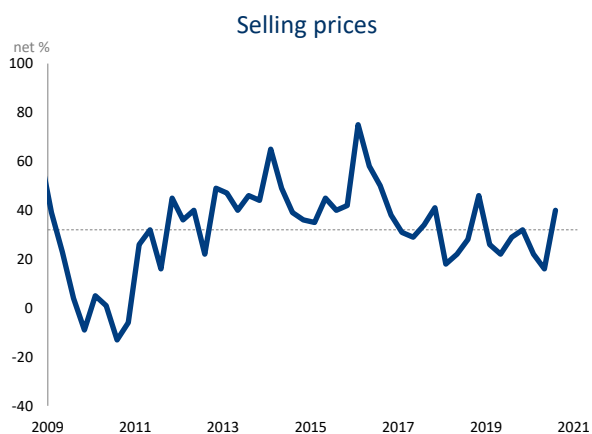
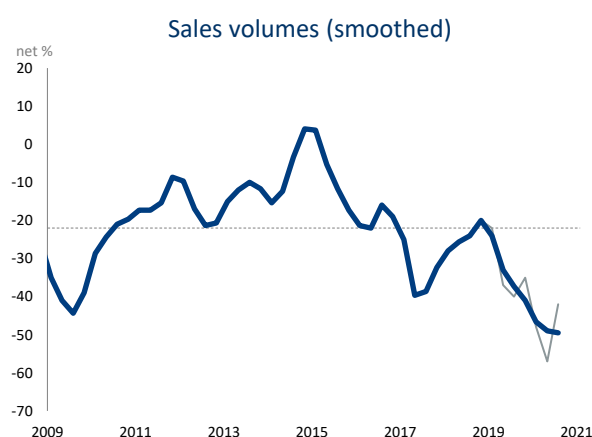
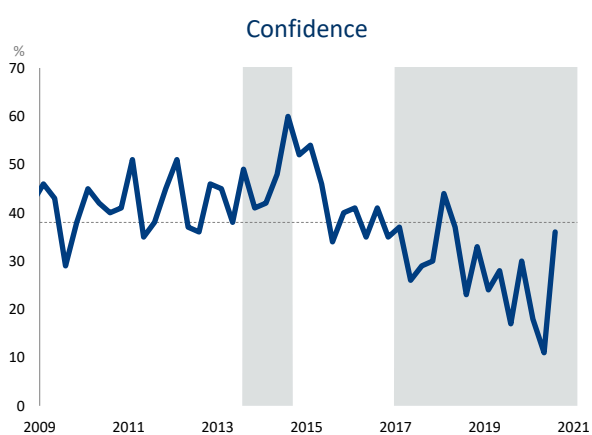
due to increased supply emanating from car repossessions as well as asset disposals by major car rental companies.

Motor trade is likely to remain under significant pressure

The sustained weak trend in new vehicle sales is reflected in the latest passenger car sales data from NAAMSA, which illustrates that following a -99.6% year-on-year contraction in April 2020 - the sector has not seen a satisfactory pick-up in activity. New vehicle sales still contracted by a massive 32.6% y-o-y in August, following a 36.5% decline in July 2020. All of this is despite a 300-basis points interest rate cut which was meant to boost the industry. Unfortunately, the motor trade is likely to remain under significant pressure, especially in the absence of any changes to the weak balance sheets of households and corporates. The latest Consumer Confidence Index (CCI) survey also reinforces this grim outlook, with the vast majority of consumers indicating that they do not think now is the appropriate time to purchase big-ticket items such as new vehicles.

Retail trade: total²

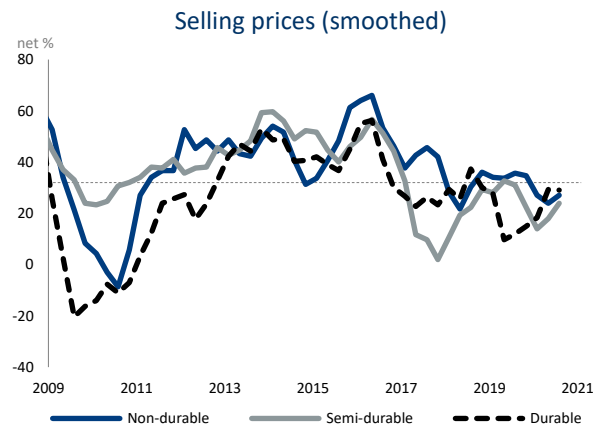
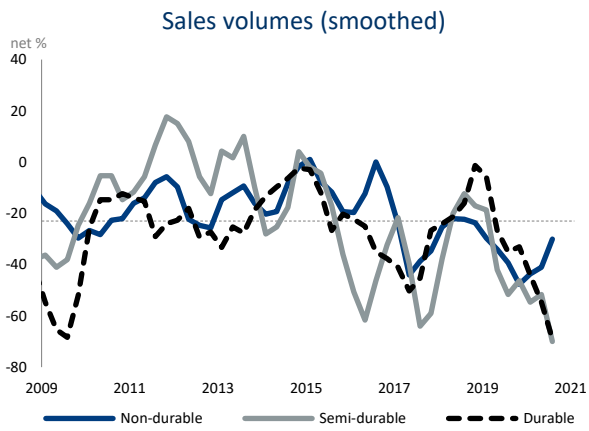
Indicator	Unit	$\mu-\sigma$	μ	$\mu+\sigma$	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	Δ	σ_{Δ}
Confidence	%	28	38	48	33	24	28	17	30	18	11	36	25	9
Business conditions	Net %	-49	-33	-17	-44	-33	-42	-62	-44	-62	-74	-47	27	14
Sales volumes	Net %	-38	-23	-8	-13	-22	-37	-40	-35	-48	-57	-42	15	12
Seasonally adjusted	Net %	-37	-23	-8	-20	-26	-31	-35	-42	-52	-51	-37	14	10
Smoothed	Net %	-36	-23	-10	-20	-24	-33	-37	-41	-47	-49	-50	-1	5
Selling prices	Net %	14	32	50	46	26	22	29	32	22	16	40	24	15



² The "retail trade total" consists of the "retail trade durables", the "retail trade semi-durables" and the "retail trade non-durables" goods sectors. The BER does not cover the retail trade in second hand goods in stores (SIC code 624), the retail trade not in stores (625) and the repair of personal and household goods (626).

μ – average
 σ – standard deviation
 Δ – change from previous period
 σ_{Δ} – volatility (standard deviation of the changes)
 All of the above calculated over the last 20 years
 See Technical note for further details

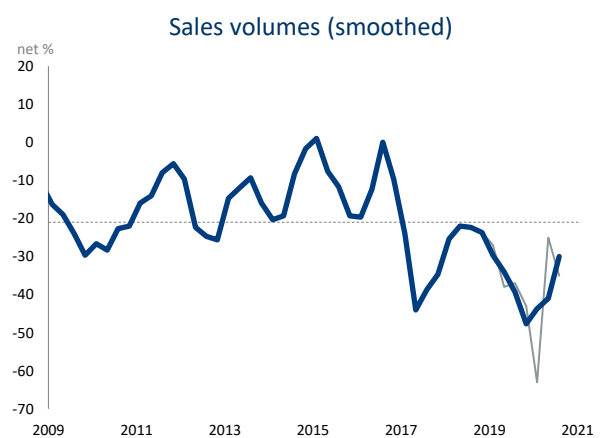
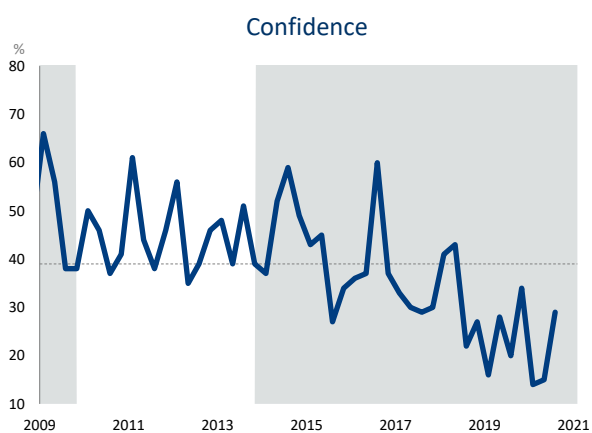
Retail trade: total



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 All of the above calculated over the last 20 years
 See Technical note for further details

Retail trade: non-durables³

Indicator	Unit	$\mu-\sigma$	μ	$\mu+\sigma$	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	Δ	σ_{Δ}
Confidence	%	27	39	51	27	16	28	20	34	14	15	29	14	12
Business conditions	Net %	-51	-34	-16	-57	-37	-37	-60	-43	-73	-51	-38	13	19
Sales volumes	Net %	-36	-21	-6	-24	-27	-38	-37	-43	-63	-25	-35	-10	15
Seasonally adjusted	Net %	-36	-21	-6	-30	-26	-32	-38	-49	-62	-19	-36	-17	14
Smoothed	Net %	-33	-21	-9	-24	-30	-34	-39	-48	-44	-41	-30	11	7
Selling prices	Net %	16	36	56	44	37	21	43	43	18	20	34	14	19

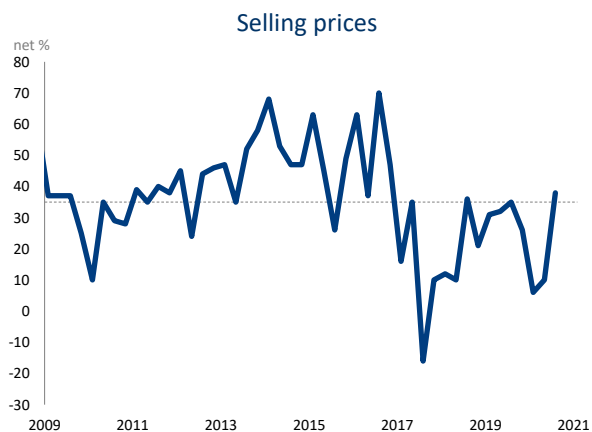
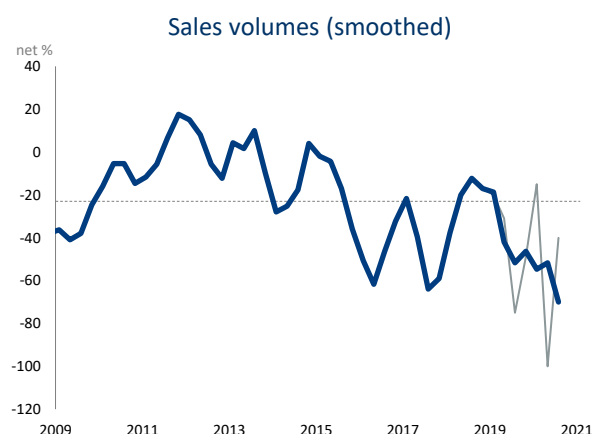
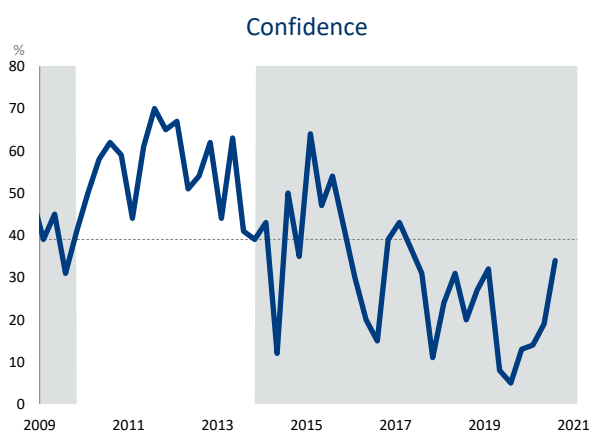


³ Food, inedible groceries, tobacco (SIC code 621), beverages (622), pharmaceutical & medical goods, cosmetic & toiletry articles (6231), reading matter, stationery, office supplies (62391), other non-durable goods (62399)

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 σ – standard deviation
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 All of the above calculated over the last 20 years
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Retail trade: semi-durables⁴

Indicator	Unit	$\mu-\sigma$	μ	$\mu+\sigma$	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	Δ	σ_{Δ}
Confidence	%	22	39	57	27	32	8	5	13	14	19	34	15	14
Business conditions	Net %	-67	-39	-12	-40	-67	-61	-75	-73	-49	-100	-52	48	29
Sales volumes	Net %	-53	-23	7	-5	-20	-31	-75	-49	-15	-100	-40	60	33
Smoothed	Net %	-46	-23	0	-17	-19	-42	-52	-46	-55	-52	-70	-18	12
Selling prices	Net %	18	35	53	21	31	32	35	26	6	10	38	28	18

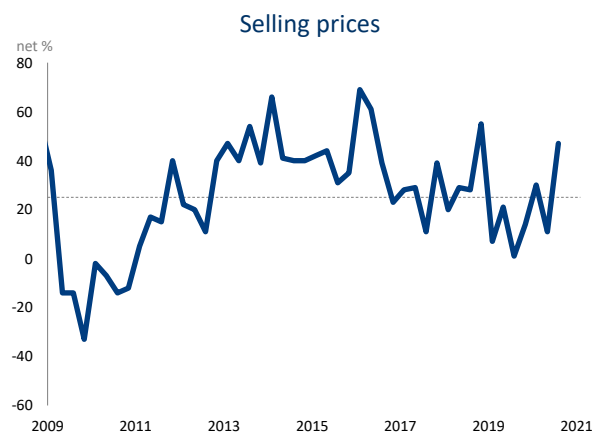
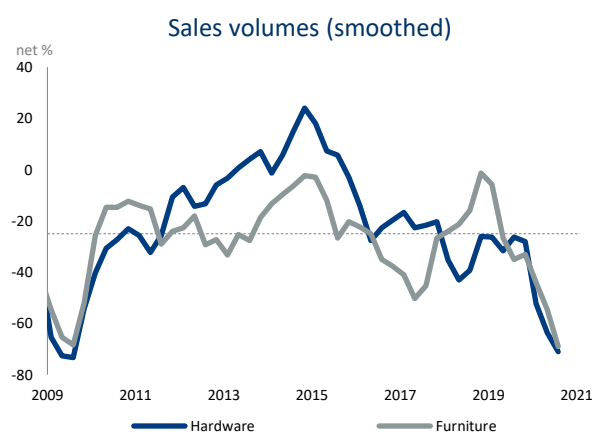
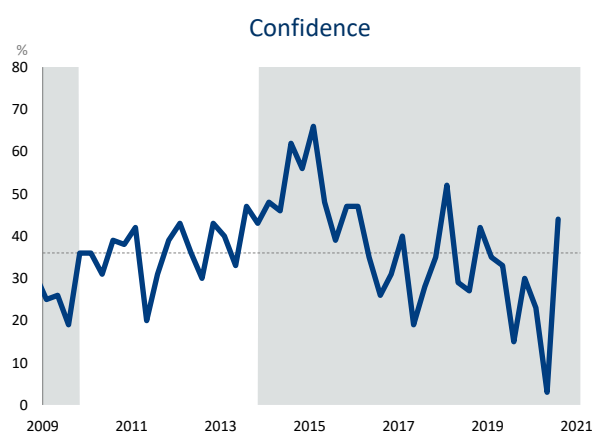


⁴ Textiles, clothing, footwear & leather goods (SIC code 6232), sports goods & entertainment requisites (62393), other semi-durable goods (62399)

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 σ – standard deviation
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 All of the above calculated over the last 20 years
 See Technical note for further details

Retail trade: durables⁵

Indicator	Unit	$\mu-\sigma$	μ	$\mu+\sigma$	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	Δ	σ_{Δ}
Confidence	%	24	36	48	42	35	33	15	30	23	3	44	41	13
Business conditions	Net %	-53	-32	-10	-28	-19	-44	-63	-38	-53	-95	-56	39	20
Sales volumes														
Total	Net %	-48	-25	-3	1	-14	-39	-36	-18	-39	-91	-49	42	20
Hardware	Net %	-51	-22	6	-8	-27	-44	-24	-11	-49	-97	-45	52	24
Furniture	Net %	-50	-28	-5	13	2	-32	-50	-23	-26	-83	-55	28	24
Selling prices	Net %	3	25	48	55	7	21	1	14	30	11	47	36	20

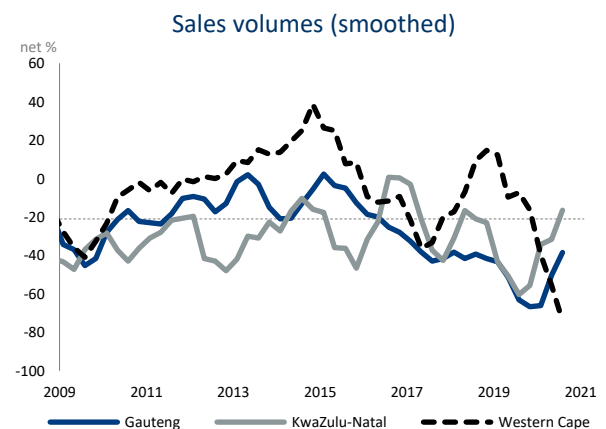
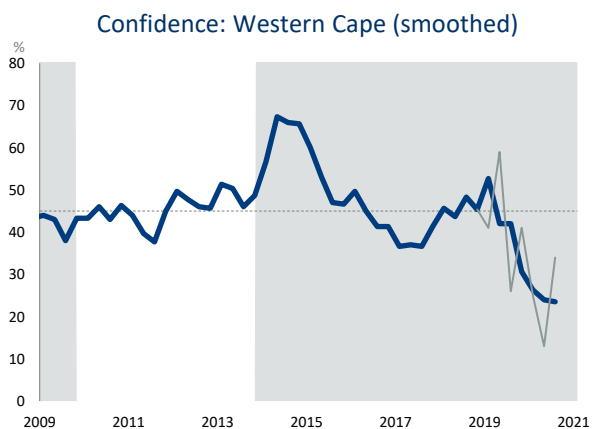
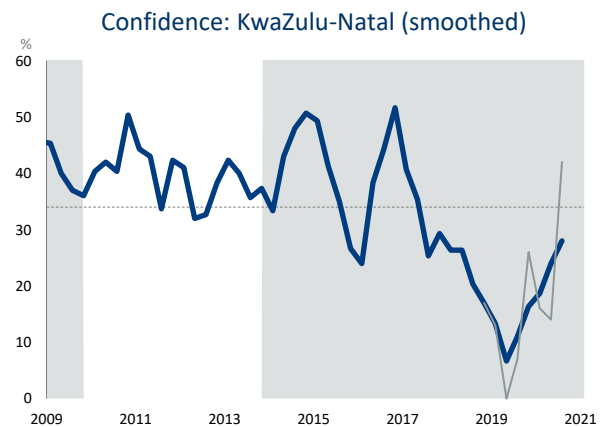
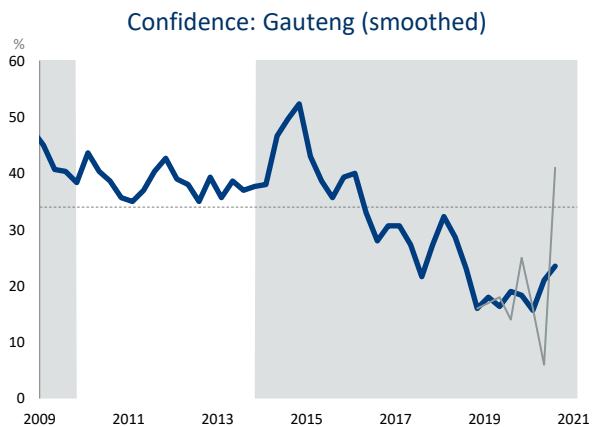


⁵ "Retail trade durables" consists of "hardware" and "furniture". "Hardware" includes hardware, paint and glass (SIC code 6234). "Furniture" consists of household furniture, appliances, articles and equipment (6233), jewellery and related items (62392) and other durable goods (62399)

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 See Technical note for further details

Retail trade: provinces

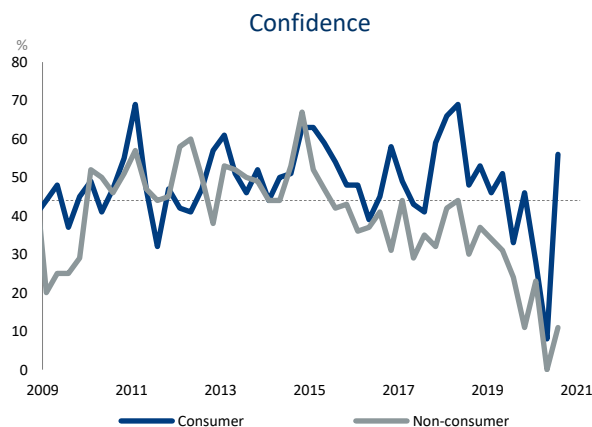
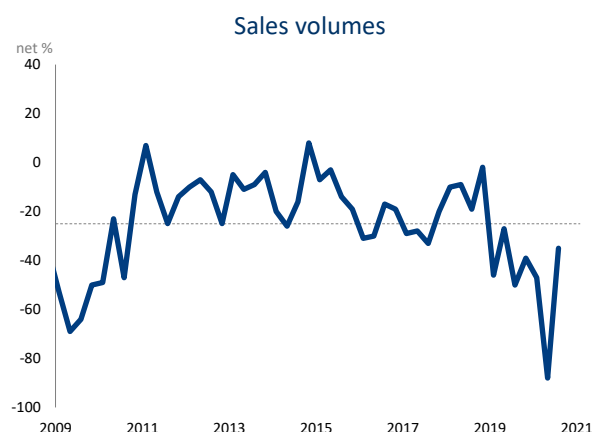
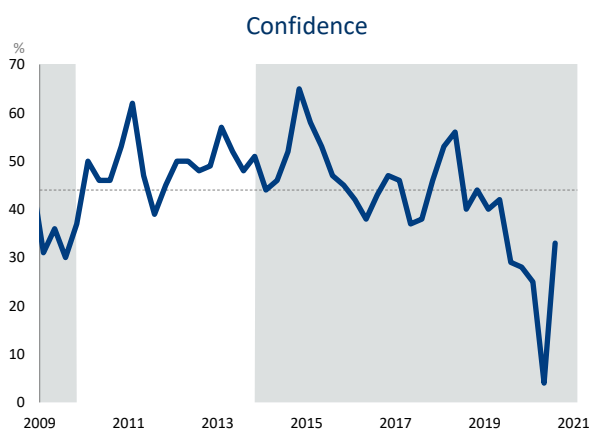
Indicator	Unit	$\mu-\sigma$	μ	$\mu+\sigma$	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	Δ	σ_{Δ}
Gauteng														
Confidence	%	22	34	46	19	17	18	14	25	16	6	41	35	12
Smoothed	%	25	34	43	16	18	16	19	18	16	21	24	3	4
Sales volumes	Net %	-47	-27	-6	-24	-43	-63	-48	-78	-74	-46	-31	15	18
Smoothed	Net %	-45	-27	-9	-42	-43	-51	-63	-67	-66	-50	-39	11	7
KwaZulu-Natal														
Confidence	%	19	35	50	27	13	0	7	26	16	14	42	28	19
Smoothed	%	23	34	45	17	13	7	11	16	19	24	28	4	6
Sales volumes	Net %	-52	-31	-10	-45	-9	-76	-67	-38	-62	-3	-30	-27	27
Smoothed	Net %	-44	-30	-17	-23	-43	-51	-60	-56	-34	-32	-17	15	10
Western Cape														
Confidence	%	33	45	58	58	41	59	26	41	25	13	34	21	15
Smoothed	%	36	45	54	45	53	42	42	31	26	24	24	0	5
Sales volumes	Net %	-34	-7	20	43	-14	8	-23	-7	-19	-93	-55	38	25
Smoothed	Net %	-29	-7	15	15	12	-10	-7	-16	-40	-56	-74	-18	10



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Wholesale trade: total⁶

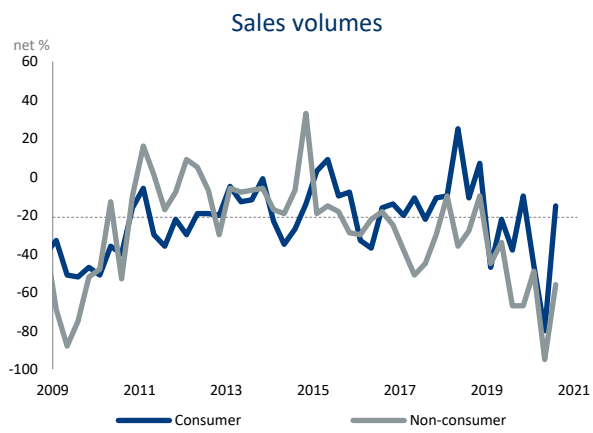
Indicator	Unit	$\mu-\sigma$	μ	$\mu+\sigma$	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	Δ	σ_{Δ}
Confidence	%	33	44	55	44	40	42	29	28	25	4	33	29	9
Business conditions	Net %	-53	-33	-14	-28	-47	-33	-57	-63	-52	-96	-44	52	18
Sales volumes	Net %	-45	-25	-5	-2	-46	-27	-50	-39	-47	-88	-35	53	18
Selling prices	Net %	0	21	42	28	10	11	17	13	11	40	37	-3	16



⁶ The "wholesale trade total" consists of the "wholesale trade consumer goods" and the "wholesale trade non-consumer goods" sectors. The BER does not cover the wholesale trade on a fee or contract basis (SIC code 611), the wholesale trade in precious stones, jewellery and silverware (61393) and the wholesale trade in solid, liquid and gaseous fuels and related products (6141)

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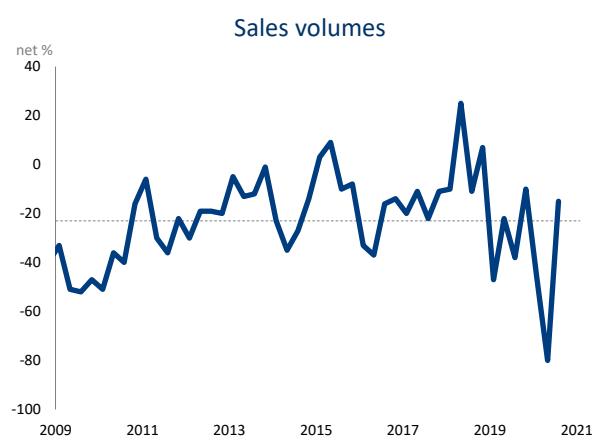
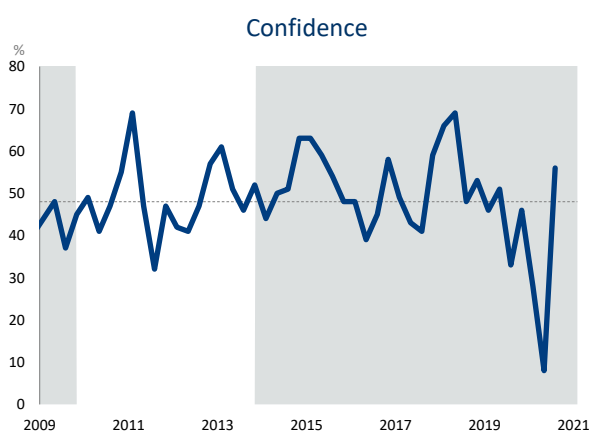
Wholesale trade: total



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 σ – standard deviation
 Δ – change from previous period
 σ_{Δ} – volatility (standard deviation of the changes)
All of the above calculated over the last 20 years
See Technical note for further details

Wholesale trade: consumer goods⁷

Indicator	Unit	$\mu-\sigma$	μ	$\mu+\sigma$	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	Δ	σ_{Δ}
Confidence	%	38	48	59	53	46	51	33	46	28	8	56	48	12
Business conditions	Net %	-52	-34	-15	-29	-55	-25	-51	-50	-57	-99	-31	68	21
Sales volumes	Net %	-41	-22	-3	7	-47	-22	-38	-10	-46	-80	-15	65	21
Selling prices	Net %	1	23	44	23	9	5	23	23	17	12	7	-5	18

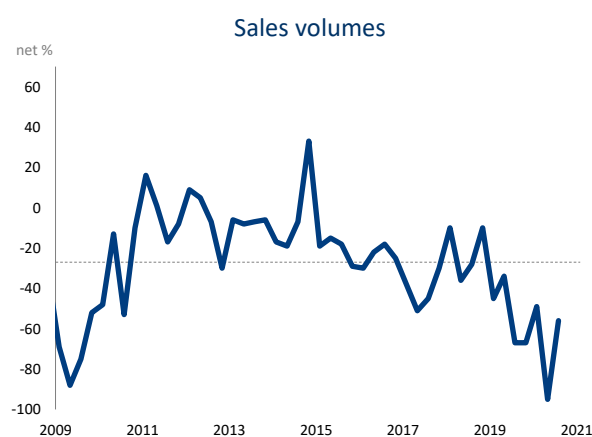
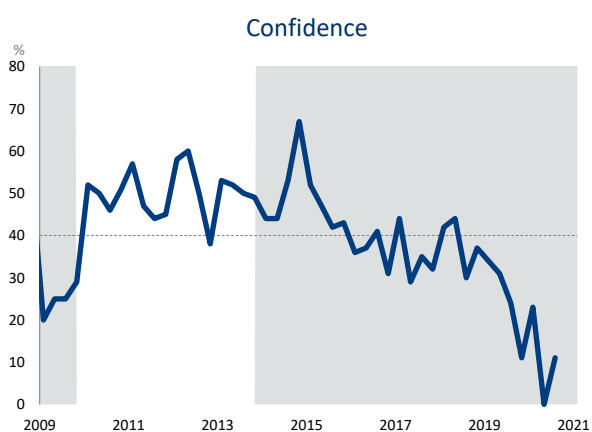


⁷ Agricultural raw materials and livestock (SIC 6121), food, beverages and tobacco (6122), textiles, clothing and footwear (6131) and other household goods (6139).

μ – average
 σ – standard deviation
 Δ – change from previous period
 σ_{Δ} – volatility (standard deviation of the changes)
 All of the above calculated over the last 20 years
 See Technical note for further details

Wholesale trade: non-consumer goods⁸

Indicator	Unit	$\mu-\sigma$	μ	$\mu+\sigma$	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	Δ	σ_{Δ}
Confidence	%	26	40	53	37	34	31	24	11	23	0	11	11	10
Business conditions	Net %	-58	-34	-9	-27	-40	-42	-66	-75	-45	-93	-57	36	20
Sales volumes	Net %	-55	-28	-1	-10	-45	-34	-67	-67	-49	-95	-56	39	22
Selling prices	Net %	-5	20	44	33	11	18	8	4	5	67	66	-1	19

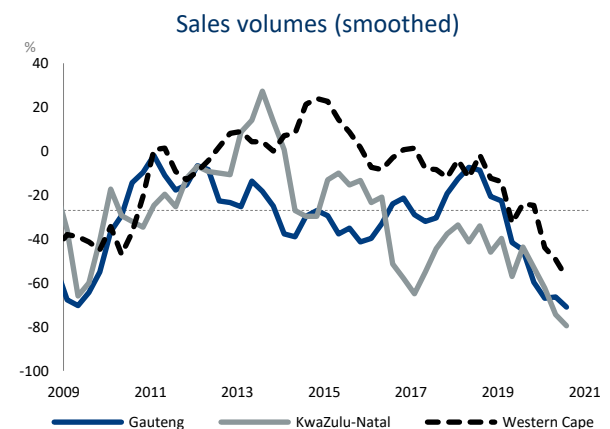
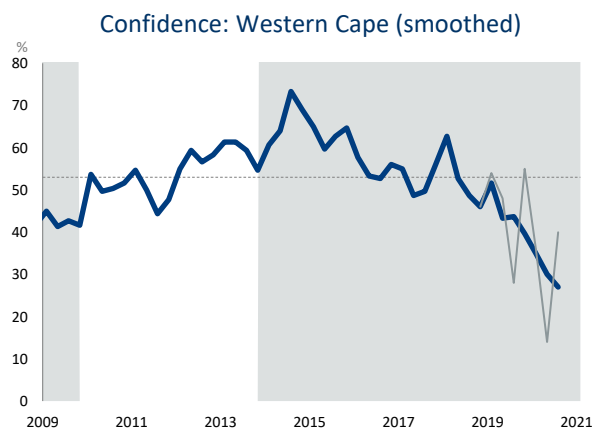
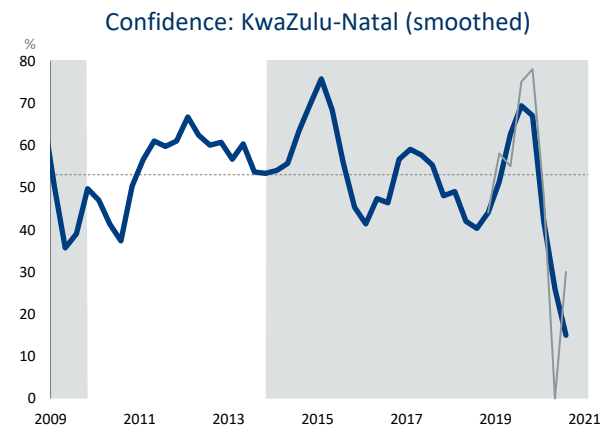
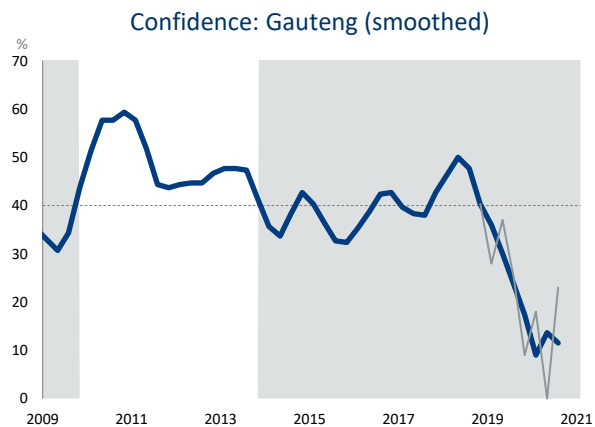


⁸ Metals and metal ores (SIC code 6142), construction materials, hardware, plumbing and supplies (6143), other intermediate products, waste and scrap (6149) and machinery and equipment (615).

μ – average
 σ – standard deviation
 Δ – change from previous period
 σ_{Δ} – volatility (standard deviation of the changes)
 All of the above calculated over the last 20 years
 See Technical note for further details

Wholesale trade: provinces

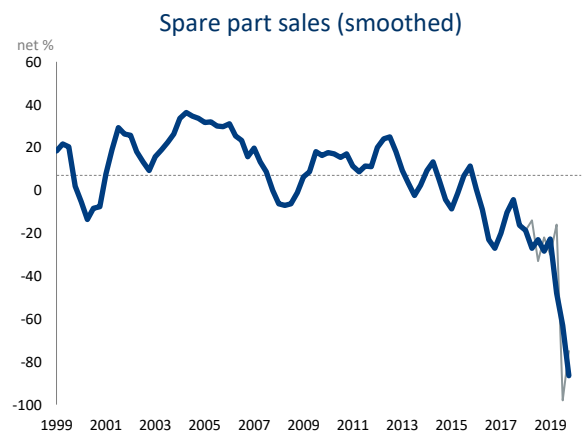
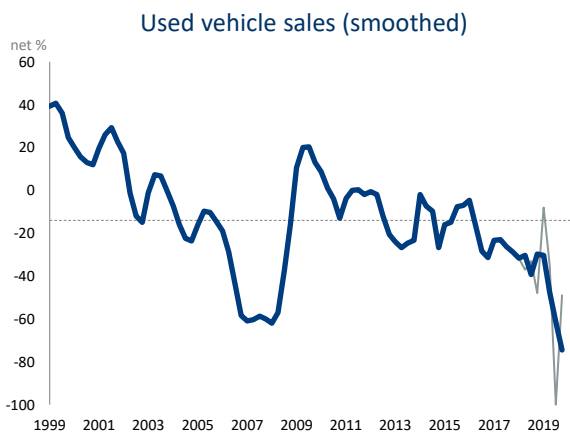
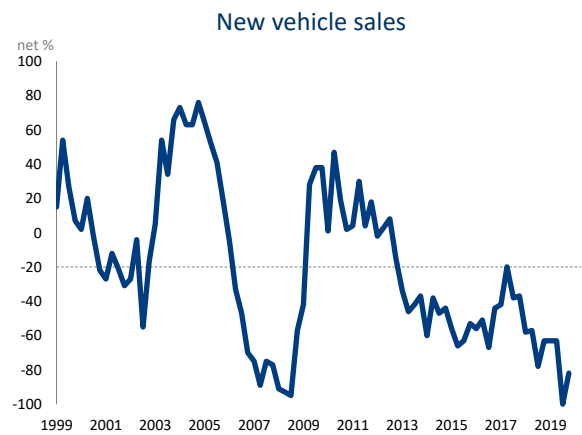
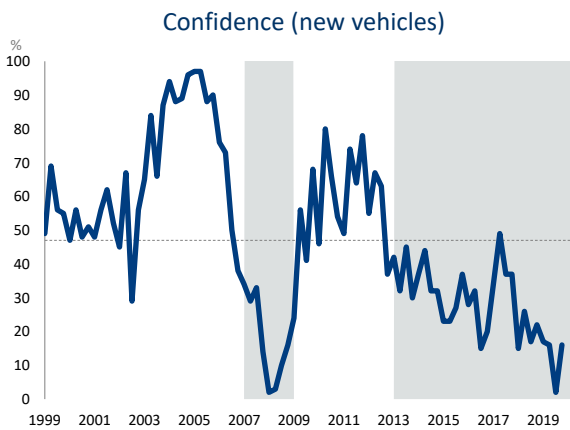
Indicator	Unit	$\mu-\sigma$	μ	$\mu+\sigma$	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	Δ	σ_{Δ}
Gauteng														
Confidence	%	27	40	52	43	28	37	25	9	18	0	23	23	9
Smoothed	%	28	40	51	40	36	30	24	17	9	14	12	-2	4
Sales volumes	Net %	-54	-31	-9	-6	-49	-13	-63	-59	-57	-85	-57	28	21
Smoothed	Net %	-50	-31	-12	-21	-23	-42	-45	-60	-67	-66	-71	-5	8
KwaZulu-Natal														
Confidence	%	36	52	69	41	58	55	75	78	48	0	30	30	20
Smoothed	%	41	53	64	44	51	63	69	67	42	26	15	-11	8
Sales volumes	Net %	-60	-31	-1	-8	-75	-36	-60	-35	-64	-88	-71	17	31
Smoothed	Net %	-54	-30	-6	-46	-40	-57	-44	-53	-62	-74	-80	-6	12
Western Cape														
Confidence	%	40	53	66	53	54	48	28	55	36	14	40	26	15
Smoothed	%	43	52	62	46	52	43	44	40	35	30	27	-3	5
Sales volumes	Net %	-36	-11	14	20	-31	-31	-36	-5	-33	-94	-21	73	26
Smoothed	Net %	-32	-11	9	-12	-14	-33	-24	-25	-44	-49	-58	-9	8



μ – average
 σ – standard deviation
 Δ – change from previous period
 σ_{Δ} – volatility (standard deviation of the changes)
 All of the above calculated over the last 20 years
 See Technical note for further details

Motor trade⁹

Indicator	Unit	$\mu-\sigma$	μ	$\mu+\sigma$	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	Δ	σ_{Δ}
New vehicles														
Confidence	%	22	47	72	15	26	17	22	17	16	2	16	14	14
Sales volumes	Net %	-67	-21	25	-58	-57	-78	-63	-63	-63	-100	-82	18	21
Used vehicles														
Sales volumes	Net %	-42	-15	11	-21	-37	-33	-48	-8	-35	-100	-49	51	20
Smoothed	Net %	-39	-15	8	-32	-30	-39	-30	-30	-48	-61	-75	-14	9
Spare parts														
Sales volumes	Net %	-19	5	30	-34	-14	-33	-22	-30	-16	-98	-75	23	17
Smoothed	Net %	-17	5	28	-19	-27	-23	-28	-23	-48	-63	-87	-24	7

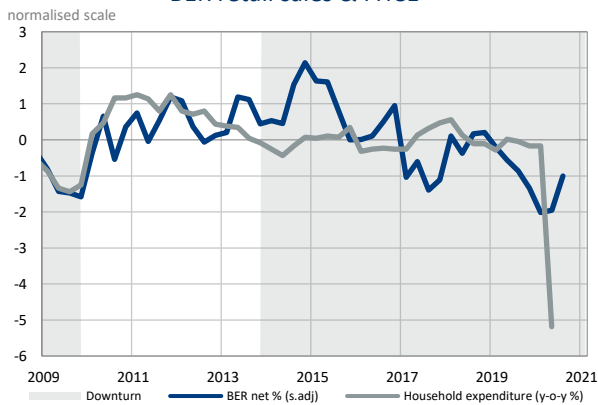


⁹ The "motor trade" consists of the retail sales of new and used vehicles (SIC code 6312), as well as new spare parts and accessories (6331). The BER does not cover the wholesale sale of motor vehicles (6311), the maintenance and repair of motor vehicles (632), the sale of used parts and accessories (6332), the sale, maintenance and repair of motor cycles (634) and the retail sale of automotive fuel (635).

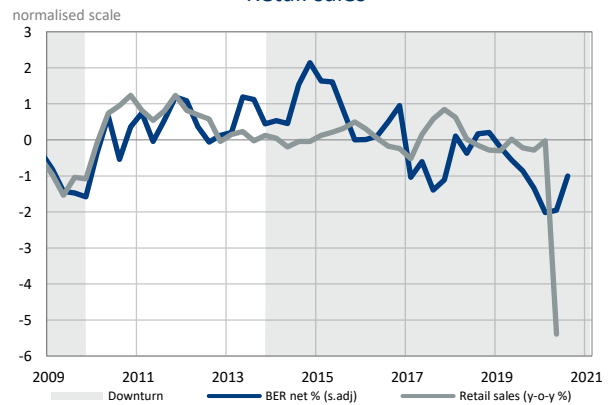
μ – average
 σ – standard deviation
 Δ – change from previous period
 σ_{Δ} – volatility (standard deviation of the changes)
 All of the above calculated over the last 20 years
 See Technical note for further details

Summary

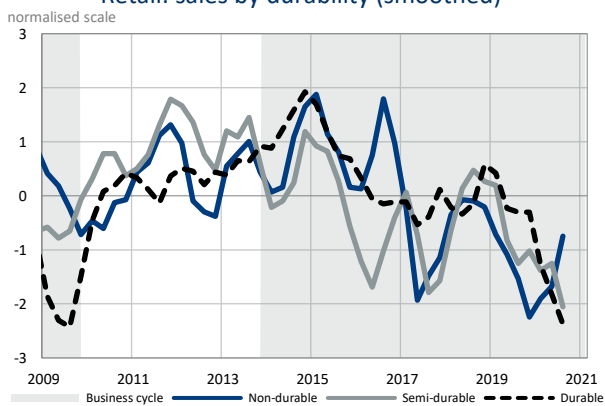
BER retail sales & FHCE*



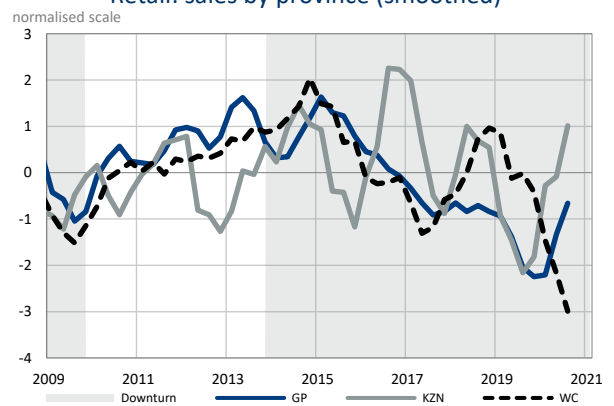
Retail sales



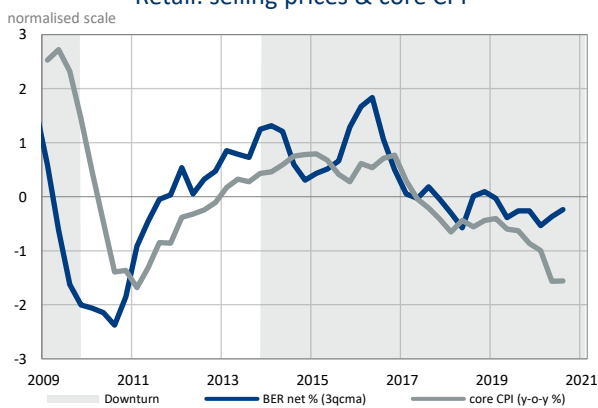
Retail: sales by durability (smoothed)



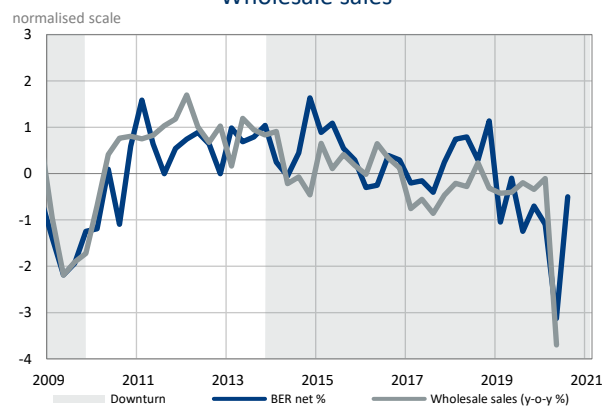
Retail: sales by province (smoothed)



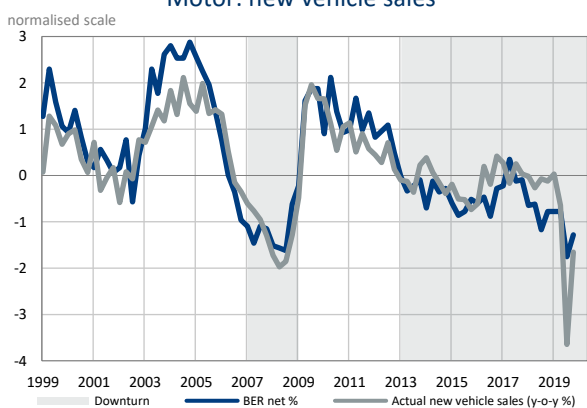
Retail: selling prices & core CPI



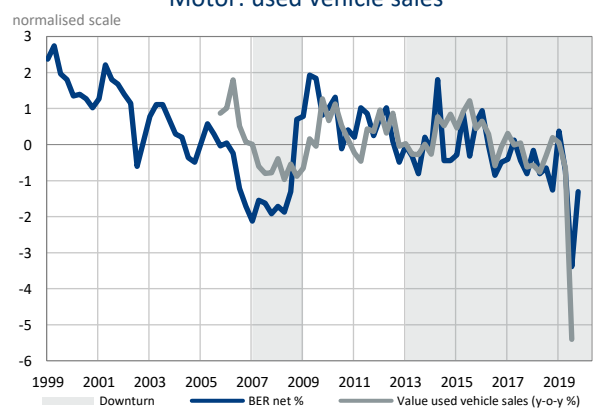
Wholesale sales



Motor: new vehicle sales



Motor: used vehicle sales



* Incl. spending on cars, petrol and services.

Technical note

The retail, wholesale and motor trade survey method

Short-term planning is hampered as official (quantitative or numeric) data is released with a time lag. Business tendency survey (BTS) results reveal what happened between the release of the last official figures and the current state of affairs. The survey results not only reveal earlier developments in activity, employment etc. (for which official figures are published), but also provide unique information, such as business confidence and respondents' expectations (or forecast) for the next quarter for which no official figures exist. It is now widely recognised that such subjective individual expectations play a key role in economic developments. Furthermore, the survey results of successive quarters provide a means of tracking cyclical movements, pinpointing trend changes and establishing forecasts.

The survey results are obtained from questionnaires completed by senior executives in the retail, wholesale and motor trade sector during the middle month of every calendar quarter.

The business survey questionnaire contains a small number of questions. These questions are qualitative in nature, e.g. "Compared to the same quarter a year ago, is the volume of sales up, the same or down?". No figures are requested.

The sample of executives remains the same from one survey to the next. A panel is in effect established. The sample provides for the main sectors. The list of participants is reviewed every few years to replace those firms that went out of business or stopped responding during the previous two years with new ones.

To provide for widely differing sizes, each firm in the manufacturing and trade sectors is allocated a weight based on its turnover. Participants have to complete a "participant details form" at the time of recruitment and every few years to ensure that their sector classification and turnover (optional) are correct.

The BER conducted its first survey of the manufacturing and trade (i.e. retail, wholesale and motor trade) sectors in 1954. The sector coverage was expanded to the building sector (i.e. main contractors and sub-contractors) in 1969.

Consult the BER web page (www.ber.ac.za) for more information about the business tendency survey method.

The unique units of measurement of qualitative surveys

Net percentage (net %)

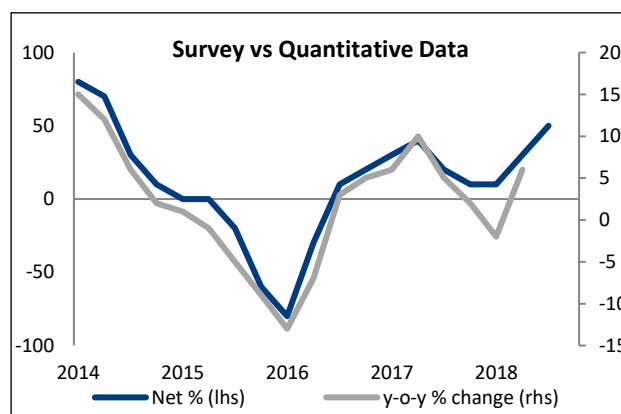
The responses related to the change in activity, prices, employment, business conditions, expected economic performance etc. are presented as a "net percentage" (also called a "net balance" or a "net majority"). If, for example, the percentages of respondents rating the volume of sales as "higher", the "same" or "lower" compared to a year ago are 70%, 10% and 20% respectively, then one can conclude that the majority of participants experienced higher sales. The net percentage is calculated as the percentage of respondents rating "sales" as higher less the percentage rating it as "lower". The percentage rating it as the "same" is ignored. The net percentage in this example is therefore 50%, being the difference between the 70% "higher" and the 20% "lower". A net percentage of -10%, for instance, would indicate a decline in sales compared to a year ago. Take note that this does not mean a year-on-year contraction of 10%. It only means that the activity of a majority of 10% of the respondents was lower compared to a year ago.

The net percentage, or net balance statistic, can theoretically vary between a minimum of -100 (when all participants replied "lower") and a maximum of +100 (when all respondents replied "higher"). Theoretically a value of zero, therefore, indicates no change, between 0 and 100 reflects a rise (or improvement) and between 0 and -100 a decline (or deterioration) compared to the same quarter a year ago. The net balance statistic is a diffusion index, i.e. it indicates the degree to which the indicated change is "diffused" (spread) throughout the sample population. It indicates both the direction and size of the change.

Given that it reflects respondents' estimation of the change in the phenomenon/variable in the current quarter relative to the same quarter a year ago, the net percentage corresponds to a year-on-year percentage change/growth rate in the corresponding/equivalent official data series (see the figure on the right).

Percentage (%)

The responses relating to business confidence are presented as percentages.



In the case of business confidence, respondents have to rate prevailing business conditions as either "satisfactory" or "unsatisfactory". The percentage of respondents rating prevailing business conditions as satisfactory is taken as an indicator (proxy) for business confidence. A reading of 10 for business confidence, for instance, means that only 10% of the respondents indicated that they were satisfied. In this example, 90% were, therefore, unsatisfied.

Theoretically, the confidence series can vary between a minimum of zero and a maximum of 100. A value of zero would reflect an extreme lack of confidence and 100 extreme confidence. These results reflect respondents' evaluation of the phenomenon/the survey variable in respect to that specific survey quarter, i.e. not relative to some period in the past or future.

Descriptive statistics in the tables

Smoothed

Some series show erratic/volatile movements, i.e. data jumps around quite a bit between consecutive quarters. In such cases, it is necessary to smooth these movements over a longer period to obtain a general trend. Another case where we added moving averages is when the correlation between the survey results and the corresponding reference series is low or non-existent.

Three-quarter centred moving averages (3qcm) were selected in order to not disturb turning points too much, e.g. the moving average of 17Q4 is calculated as the average of 17Q3, 17Q4 and 18Q1, that of 18Q1 is calculated as the average of 17Q4, 18Q1 and 18Q2 etc. In order for the smoothed series to run up to the last unsmoothed data point, the last smoothed data point is only the average of two quarters, namely the previous and current quarter.

When a smoothed series is added, it is prudent not to attach too much value to the unsmoothed results of a particular quarter, but rather to evaluate it in its historical context.

Seasonal adjustment (SA)

In theory, the time series ought to display no seasonal patterns because respondents are instructed to compare the current quarter with the same one of a year ago (e.g. they have to compare the current Festive Season or wet/dry winter period with the same time a year ago). However, in practice, some series nevertheless reveal seasonal patterns, probably because some respondents incorrectly compare the survey quarter with the one directly preceding it. In such cases, a seasonally adjusted series (i.e. where such seasonal variation is eliminated with X12 ARIMA) is added.

Average (μ)

The neutral level of the time series for the two measurement types, net percentage and percentage, is 50 or zero respectively. The long-term average (mean) is often not equivalent to this neutral level. In such cases, it is more useful to evaluate the current results relative to such a long-term average than the neutral level.

One standard deviation below ($\mu-\sigma$) and above ($\mu+\sigma$) the average

The standard deviation indicates the common variation in or dispersion of the values. Data points falling between one standard deviation below and above the average could be regarded as common. Any data point falling outside these ranges, therefore, displays statistically significant variation.

Change (Delta: Δ)

This statistic indicates the change in the results of the latest quarter relative to the preceding quarter.

Volatility (standard deviation of the deltas: $\Delta\sigma$)

This statistic indicates the volatility of the quarter-on-quarter change. If the size (regardless if it is an increase or decline) of the change is greater than the standard deviation of the deltas, then it displays a statistically significant variation.

Conventions and aids provided in the charts

Shaded areas

Indicates cyclical downturns as demarcated by the South African Reserve Bank. Users need to take note that the business cycle could have already reversed course towards the end of the period covered in the chart, but usually we wait until the bank determines a turning point before changing the shaded areas.

Solid vs. dotted horizontal (X) axes:

A solid line indicates the theoretical mid-points of 50 or zero respectively, while a dotted line indicates the long-term average (mean). Also see the section on the "average" above.

Normalised scale

Time series data is normalised (standardised) when one wishes to observe the co-movement among indicators with different units of measurement, say for instance, between a diffusion index (confidence) and the growth rate in a volume index (GDP growth). Normalisation converts both series to the same scale (unit) by subtracting the long-term average from each series and dividing it by its standard deviation. This ensures that one compares "apples" with "apples" when making a visual inspection and not mistakenly identify co-movements or deviations that different scales could produce.