BUREAU FOR ECONOMIC RESEARCH

Retail Trade

Quarterly analysis of activity in retail, wholesale and motor trade

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Executive summary

According to the 2018Q2 BER Retail Survey, business confidence among retailers fell back after recovering handsomely in 2018Q1. Current activity levels remain subdued, while survey participants have downgraded their outlook after the actual performance of the sector missed earlier expectations. In all, the results suggest that the trade sector remains under strain and could provide less of a boost to overall economic growth in 2018Q2 than previously thought.

The 2018Q2 BER Retail Survey suggests that business conditions in the **retail sector** deteriorated during the second quarter, with realised activity indicators coming in much weaker than expected. In all, 33% of retailers reported being satisfied with prevailing business conditions, down from 42% in 2018Q1.

While conditions improved somewhat in the semi-durable goods category, trading conditions deteriorated meaningfully in both the non-durable and durable goods sectors. Durable goods traders in particular recorded weak results, with sales volumes missing expectations by quite some margin. Pent-up demand, pre-emptive buying and the normalisation of the credit market contributed to a strong recovery in durable volume growth during 2018Q1. However, rising selling prices, subdued consumer income growth and the fading of the euphoria that gripped consumers in 2018Q1 likely weighed on volume growth in the second quarter.

Retailers are optimistic that conditions will improve going forward, but expectations have been tempered significantly following the weaker-than-expected turnout in 2018Q2.

Wholesale confidence ticked up in 2018Q2, with 62% of wholesalers reporting being satisfied with prevailing trading conditions. Consumer goods wholesalers outperformed their peers in the non-consumer goods category by some margin as the continued weakness in the mining and manufacturing sectors weighed on machinery and equipment sales. As with retailers, wholesalers are cautiously optimistic that conditions will improve in 2018Q2.

New vehicle trader confidence fell back after reaching the highest level in almost five years during 2018Q1, with both the sales volumes and overall business conditions indices dipping sharply and missing expectations. In all, only 35% of new vehicle traders reported being satisfied with current business conditions. Pent-up demand, attractive dealer incentives, and the normalisation in the credit cycle could boost volumes further going forward. However, rising selling price inflation (on the back of a weaker rand), tighter fiscal policy and subdued consumer income growth might limit the upside. Activity in the used vehicle market also moderated after picking up somewhat in 2018Q1. Used vehicle traders expect conditions to improve going forward.

A key feature of the 2018Q1 survey results was the sense of optimism reflected in the expectations of survey participants. However, underlying activity indicators did not necessarily warrant this kind of optimism. The latest survey results suggest that both retailers and wholesalers have adjusted their expectations based on the realisation that underlying trading conditions remain tough. The results do not suggest that the trade sector will provide much of a boost to overall economic growth in 2018Q2.

This report was completed on 20 June 2018.
Please refer to the glossary on the BER's website for explanations of technical terms.

Contents

Introduction 1

Summary of the 2018Q2 trade sector survey results 1

Retailer confidence dips as overall trading conditions remain tough 1

Mixed bag for retail categories 2

Wholesaler confidence improves on higher volumes, profits 5

New vehicle trader confidence tracks back as sales miss expectations 7

Concluding Remarks 8

Technical note 9

Introduction

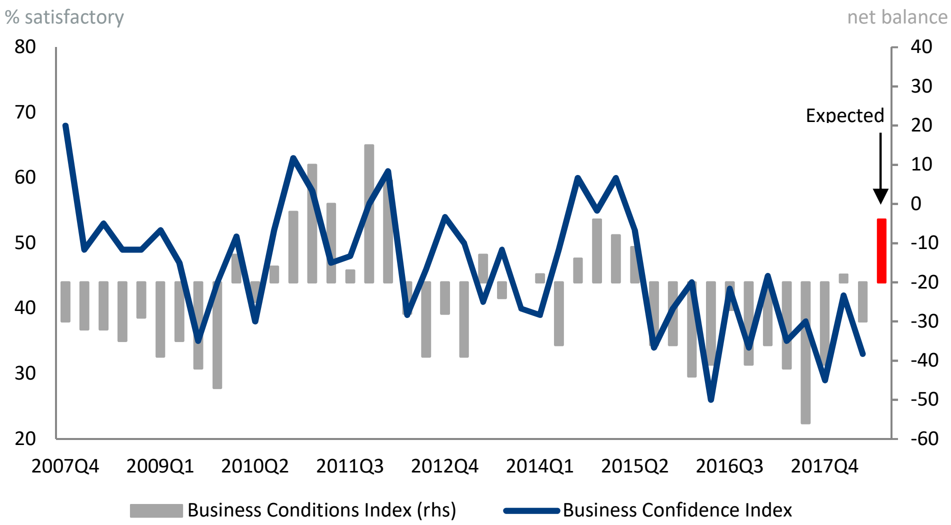
The 2018Q2 Retail Trade publication covers two surveys related to consumer spending, namely the FNB/BER Consumer Confidence Survey[1] and the BER Retail Survey. It presents a quarterly analysis of consumer expectations and activity in the retail, wholesale and motor trade sectors.

Summary of the 2018Q2 trade sector survey results

Retailer confidence dips as overall trading conditions remain tough

According to the latest BER Retail Survey[2], business confidence among retailers deteriorated during 2018Q2 following the strong rebound recorded in the first quarter of 2018 (see Figure 1 below). In all, 33% of retailers reported being satisfied with prevailing business conditions in 2018Q2, down from 42% in Q1.

Figure 1: Retailer business confidence dips in 2018Q2



Source: BER

One of the main reasons for the dip in confidence was the fact that actual activity disappointed relative to expectations. Trading conditions remained tough, with a net majority of 30%[3] of retailers reporting that business conditions

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[1] The 2018Q1 FNB/BER CCI results will be published in July.

[2] The fieldwork for the 2018Q2 survey was conducted between 30 April and 5 June 2018.

[3] A net majority indicates the percentage of respondents reporting an improvement in business conditions compared to the same quarter of the previous year less the percentage reporting a deterioration in business conditions.

deteriorated in 2018Q2 relative to a year ago versus the 8% that expected an *improvement*. Additionally, a net 17% of retailers reported lower sales volumes versus the 18% that expected higher volumes during the second quarter.

Retailers still expect conditions to improve as we head into 2018H2, but expectations have been tempered significantly. Much of the upturn in confidence in 2018Q1, and the elevated expectations for Q2, can be attributed to the general sense of optimism following the election of Cyril Ramaphosa to the office of president and his apparent willingness to engage on outstanding policy issues. However, as reflected in the latest retail trade survey results as well as the overall RMB/BER Business Confidence Index, real economic activity remains lacklustre. A meaningful acceleration in overall economic growth, and consumer spending specifically, will depend on the ability of President Ramaphosa to deliver on the early promise shown by his administration.

Retailer expectations adjusted down

In all, the latest survey results point to tough trading conditions in the retail sector. According to Statistics South Africa (Stats SA), retail volume growth measured 4.1% y-o-y in 2018Q1, down from the 5.5% recorded in 2017Q4. Moderating inflationary pressure and the marginal cut in the policy interest rate provided some support to overall retail volume growth in 2018Q1. However, given the fact that private sector employment and overall credit growth remains lacklustre, fiscal policy has become even more restrictive and soaring petrol prices threaten consumers' budgets. As such, meaningful acceleration in real retail sales growth is not expected. In fact, the latest survey results suggest that volume growth could moderate in 2018Q2, particularly when taking into account the higher base in 2017Q2 (volume growth ticked up to 2.5% y-o-y after contracting by 0.6% in 2017Q1). In fact, volume growth slowed to just 0.5% y-o-y in April.

Survey suggests subdued retail volume growth in 2018Q2

We now proceed to a more detailed breakdown of the latest survey results per retail category.

Mixed bag for retail categories

According to Stats SA, sales volumes in the **semi-durable category** (e.g. clothing, footwear, sporting equipment, CDs and toys) surged by 7.9% y-o-y in 2018Q1 after posting growth of 2.3% in 2017 (see Table 1). The acceleration in volume growth in the final quarter of 2017 and into 2018 came at the expense of selling prices, with price inflation in the category moderating to 1.3% in March 2018. This resulted in profit margins remaining under pressure, as reflected in the 2018Q1 retail survey results.

Semi-durable volumes surge

The latest survey results suggest that, despite a further moderation in selling price inflation, solid volume growth and subdued input cost pressure resulted in overall profitability improving to the best level in more than a year. This likely contributed to the 13-point bump in confidence in the category during 2018Q2. In all, 32% of semi-durable goods retailers reported being satisfied with current business conditions.

While semi-durable goods retailers are confident that conditions will continue to improve going forward, some caution is warranted. Much of the recent improvement in semi-durable sales volume growth can be attributed to the moderation in selling prices. Retailers expect selling price pressure to pick up in 2018Q3, likely due to the recent weakening in the rand exchange rate. Combine rising selling prices with lacklustre employment and credit growth, and a moderation in volume growth might be on the cards.

Table 1: Year-on-year percentage change in retail sales volumes

	2017Q1	2017Q2	2017Q3	2017Q4	2017	2018Q1
Total	**-0.7%**	**2.2%**	**4.2%**	**5.5%**	**2.9%**	**4.1%**
Non-durable goods[1]	0.3%	2.5%	1.9%	3.0%	2.0%	2.6%
Durable goods[2]	-1.0%	-2.0%	2.7%	3.9%	1.1%	5.0%
Semi-durable goods[3]	-5.9%	1.7%	3.5%	7.8%	2.3%	7.9%

Source: Statistics South Africa, Retail Sales Statistics

[1]Non-durable goods retailers include general dealers, retailers in specialised food, beverages and tobacco, and retailers in pharmaceutical and medical goods, cosmetics and toiletries
[2] Durable goods retailers include retailers in household furniture, appliances and equipment, and retailers in hardware, paint and glass
[3] Semi-durable goods retailers include retailers in textiles, clothing, footwear and leather goods

Non-durable volume growth dips in Q1

Volumes in the **non-durable** (e.g. food, beverages, groceries, pharmaceuticals and cosmetics) category expanded by 2.6% y-o-y in 2018Q1 after posting volume growth of 3% in the final quarter of 2017 (see Table 1). Retailers of pharmaceutical and medical goods, cosmetics and toiletries were once again the standout performers, but general dealers disappointed. As is the case across most of the retail sector, non-durable sales volume growth continues to be supported by moderating price inflation. Inflation as measured by the implicit retail price deflator measured just 2.6% in March 2018, a far cry from the recent peak of 9% recorded in December 2016 and the longer-term average of 5.6%.

Survey points to further slowdown in volume growth

While non-durable goods sales volumes improved throughout 2017, growth moderated in 2018Q1 and, according to the latest survey results, the category is on track for a further slowdown in Q2. In all, a net majority of 26% of non-durable goods retailers recorded lower volume growth, while a net 30% indicated that conditions deteriorated relative to a year ago. Add to this the sharp deterioration in profitability and the fact sales volumes missed expectations by some margin, and it comes as no surprise that non-durable confidence took a knock in 2018Q2. Disconcertingly, non-durable goods retailers do not expect conditions to improve meaningfully going forward. A net 23% of retailers project lower volumes in 2018Q3, while a net 35% expect overall trading conditions to deteriorate. Renewed pressure on consumer budgets in the form of rising petrol prices and the increase in VAT will likely hit demand (and hence sales volumes), while increased input cost pressure could weigh on overall profitability.

The most disappointing feature of the 2018Q2 survey results is the sharp deterioration recorded in the **durable goods** (e.g. hardware, furniture and household appliances) category. Durable volumes expanded by a robust 5.0% y-o-y in 2018Q1, supported by strong growth in household furniture, appliances and equipment sales, with volumes in the category expanding by 15.2% y-o-y. Overall confidence followed suit, surging by more than 20 points in 2018Q1. However, confidence fell back by an even larger margin during Q2 on the back of a sharp deterioration in sales volumes, with only 30% of durable retailers reporting being satisfied with prevailing conditions in 2018Q2. In all, a net majority of 37% of durable goods retailers noted that conditions had deteriorated in Q2, while a net 47% reported lower sales volumes. In contrast to previous survey rounds, *both* hardware and building material retailers and furniture and household appliance retailers noted that conditions deteriorated sharply during the survey quarter.

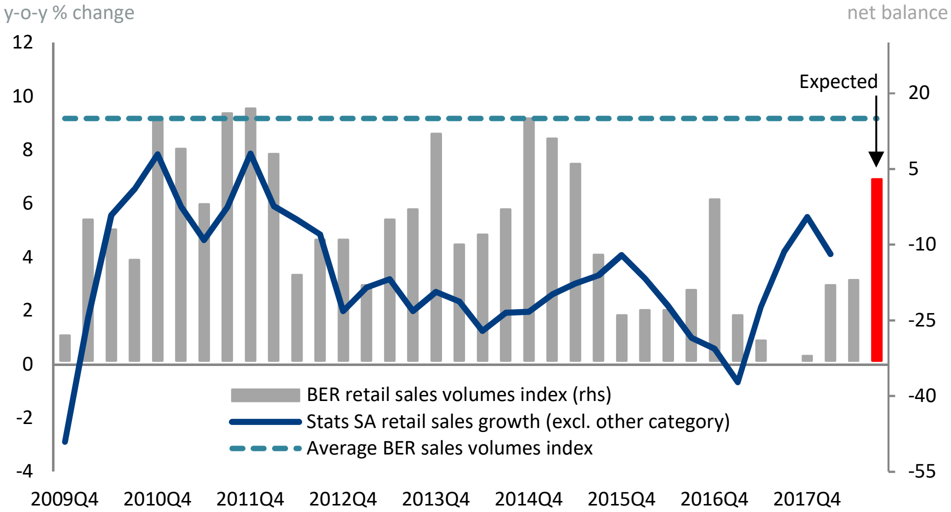
Durable retailers disappoint after strong showing in 2018Q1

Pent-up demand and the normalisation of the credit market contributed to the strong recovery in volume growth in furniture and household appliance sales during 2017H2, while some pre-emptive buying in the face of the imminent increase in the VAT rate likely provided additional support during 2018Q1. However, rising selling prices on the back of a weakening rand exchange rate, subdued consumer income growth and the fading of the euphoria that gripped consumers in 2018Q1 likely weighed on volume growth in the second quarter. While durable goods retailers expect some improvement in 2018H2, expectations have been tempered on the realisation that the consumer remains under pressure.

The 2018Q2 survey results suggest that trading conditions in the broader retail sector remain tough. This is reflected in the decline in business confidence, general business conditions and overall profitability. Retailers are cautiously optimistic that conditions will improve in 2018Q3, but expectations have been scaled back relative to the very positive sentiment expressed in Q1. Retail volume growth surprised on the upside in 2017H2 (mainly due to fast growth in the "other" category and moderating price inflation) and growth remained well supported in 2018Q1. The latest survey results suggest that volume growth might slow in 2018Q2, although a sharp deceleration is not expected. The consumer faces renewed headwinds in the form of tighter fiscal policy and rising transport costs, which, combined with lacklustre employment creation, could weigh on income growth and spending in coming months.

Latest survey points to subdued volume growth

Figure 2: Slowdown in retail volume growth on the cards



Source: BER, Statistics South Africa

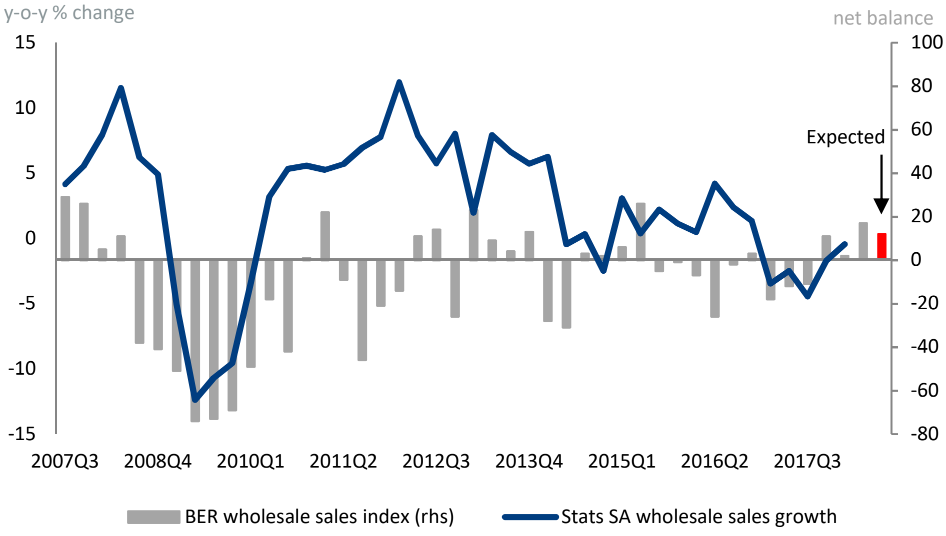
Wholesaler confidence improves on higher volumes, profits

According to Stats SA, total **wholesale** sales volumes contracted by 3% y-o-y in 2017. In line with the 2018Q1 survey results, volumes recovered somewhat during the first quarter of 2018, contracting by only 0.3% y-o-y. Encouragingly, results from the latest survey suggest that conditions improved further in 2018Q2. In all, 62% of wholesalers reported being satisfied with current conditions, up from 53% in 2018Q1, while a net majority of 17% indicated that trading conditions had improved relative to a year ago. Higher volumes resulted in a pick-up in overall profitability in the sector despite muted growth in selling prices, supporting confidence. In all, the latest survey results suggest that wholesale volumes could continue along the path to recovery in 2018Q2.

Wholesaler confidence up on improving volume growth

Looking ahead, wholesaler expectations have also been tempered after actual activity missed expectations in 2018Q2. However, wholesalers still expect conditions to remain broadly supportive of a pick-up in volume growth going forward. A net majority of 12% of wholesalers expect sales volumes to improve relative to 2017Q3 (see Figure 3 on the next page), while a net 8% project better overall trading conditions. Wholesalers project input cost inflation to moderate somewhat following a rand-induced spike in 2018Q2, which should provide a further boost to overall profitability going forward.

Figure 3: Marginal pick-up in wholesale volume growth expected



Source: Statistics South Africa, BER

Consumer goods wholesalers post strong numbers

Fortunes across the wholesale sector were mixed, with wholesalers in the **consumer goods** category (e.g. textiles, clothing, footwear, food, beverages, furniture and household appliances) outperforming their peers in the non-consumer goods category by some margin. Business confidence among consumer goods wholesalers ticked up the highest level since 2007Q3, supported by strong volume growth and a substantial improvement in overall profitability. The performance of consumer goods wholesalers stands in marked contrast to the results for the retail sector. One factor that could explain the apparent divergence is the fact that actual retail activity undershot expectations by some margin during 2018Q2. Retailers appeared to stock up in anticipation of higher sales volumes, boosting demand for the wholesale sector and supporting volume growth in Q2. However, retail stock levels ticked up as sales missed expectations, with semi-durable and durable retailers in particular recording elevated stock levels. This suggests that consumer goods wholesalers could come under pressure in 2018Q3 given that retailers remain well stocked. This is reflected in expectations, with consumer goods wholesalers expecting conditions to deteriorate somewhat in Q3.

Non-consumer goods wholesalers under pressure

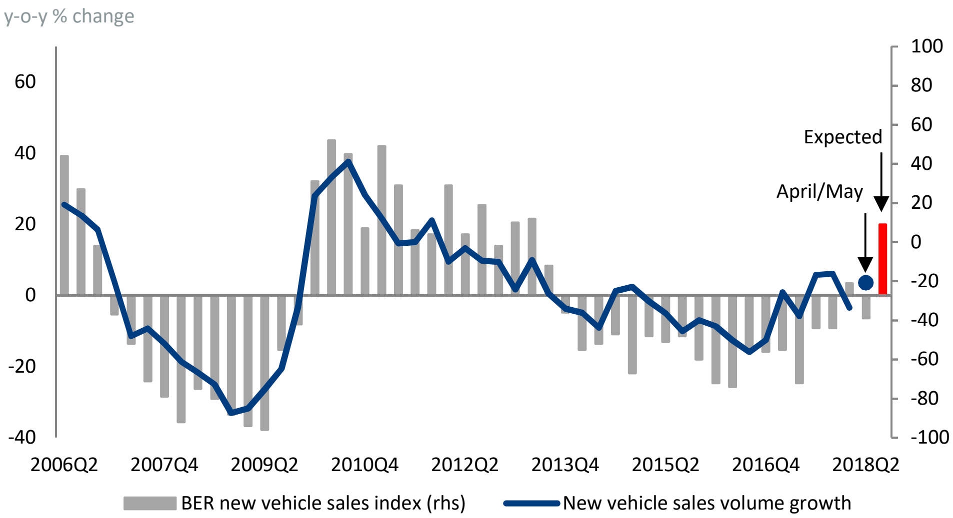
Conditions in the **non-consumer goods** category (e.g. machinery, building material, chemicals, petroleum products and office equipment) remained constrained, with only 45% of wholesalers satisfied with prevailing conditions in 2018Q2. A net majority of 30% reported lower volumes relative to a year ago, while 15% indicated that overall business conditions had deteriorated. Machinery and equipment wholesalers in particular posted disappointing results, mirroring the continued weakness in the mining and manufacturing industries.

New vehicle trader confidence tracks back as sales miss expectations

New vehicle trader confidence dips ion lower volumes

After contracting by 12.4% y-o-y in 2016, **new passenger car sales** expanded by 1.9% y-o-y in 2017. While sales contracted once again in 2018Q1, this was mainly due to seasonal factors with sales to the car rental industry falling sharply in January. In fact, sales expanded once more in April/May with growth measuring 3.5% y-o-y. While pent-up demand, attractive dealer incentives, and the normalisation in the credit cycle could boost volume further going forward, rising selling price inflation (on the back of a weaker rand), tighter fiscal policy and subdued consumer income growth might limit the upside. In fact, despite the uptick in April/May, sales volumes for 2018Q2 as a whole missed expectations (according to the latest survey results) resulting in a drop in overall confidence in the sector. In all, confidence dipped from a reading of 52 to 35. While new vehicle traders remain confident that conditions could improve going forward, expectations have been tempered following the weaker-than-expected results for 2018Q2. We still expect sales volume growth to trend higher over coming months, but at a relatively subdued pace.

Figure 4: New vehicle sales expected to pick up



Source: dti, BER

After slowing sharply in 2017, **used car sales** contracted by 2.3% y-o-y in the first three months of 2018. The latest survey results suggest that conditions remained tough in 2018Q2, with a net majority of 23% of traders reporting lower sales volumes and a net 25% indicating that overall trading conditions deteriorated. Used vehicle traders could come under further strain going forward as consumer demand shifts toward new vehicles.

Concluding Remarks

A key feature of the 2018Q1 survey results was the sense of optimism reflected in the expectations of survey participants. This likely reflected relief at the (partial) alleviation in the political constraints that have hampered activity over recent years. However, underlying activity indicators did not necessarily warrant this kind of optimism. In fact, the trade sector contracted by a sharp 3.2% q-o-q (annualised) in 2018Q1, while annual growth measured a meagre 0.6% y-o-y.

The latest survey results suggest that both retailers and wholesalers have adjusted their expectations based on the realisation that underlying trading conditions remain tough. Consumer income growth has come under renewed pressure on the back of tighter fiscal policy and rising transport costs, while employment growth remains lacklustre. The marginal cut in the policy interest rate and subdued inflation might provide some support to real income (and hence spending power), but a meaningful acceleration in consumer spending does not appear to be on the cards. Disappointingly, after a very weak 2018Q1 GDP print, the latest survey results do not suggest that the trade sector will provide much of a boost to overall economic growth in 2018Q2.

Technical note

Short-term planning is hampered as numeric (official) data is released with a time lag. Business *survey results reveal what happened between the release of the last official figures and the current state of affairs*. The results not only reveal beforehand the direction of sales, selling prices, employment etc. (for which official figures are published), but also *provide unique information*, such as business confidence, rating of business conditions and respondents' expectations (or forecast) for the next quarter for which no official figures exist. It is now widely recognised that these 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 trade, manufacturing and building sector during the last month of every 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, are 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 is divided according to main sectoral categories. Each firm gets a weighting in relation to turnover or size of workforce to provide for widely differing sizes. Participants have to complete a "participant details form" every few years to ensure that they are correctly classified and to provide for changes in turnover. The list of participants is also reviewed every few years to ensure an agreeable representation of the universe.

Most of the responses are converted into net balances. For example, if the percentage of respondents rating sales volumes higher / the same / lower than a year ago is as follows;

Higher	Same	Lower
70	10	20

then we can conclude that the majority of participants experienced higher sales. A net majority (i.e. the percentage of respondents rating sales higher less the percentage rating sales lower) of 50% is registered in the above example. A net majority of –10% for example would have indicated a decline in sales volumes compared to a year ago. 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 responses relating to business confidence are presented as percentages. For example, business confidence of 10 index points would indicate that 10% gross of the respondents rated prevailing business conditions as satisfactory. These data series vary between zero and 100. A value of zero reflects an extreme lack of confidence and 100 extreme confidence. Furthermore, respondents have to rate the present situation and not how it compares with that of the same quarter a year ago as in the case of the "net balance" questions.

The consumer confidence results are derived from personal at-home interviews of an area-stratified probability sample of 2 500 households. AC Nielsen conducts the surveys for the BER. The surveys cover blacks and whites in metropolitan areas, cities, towns and villages throughout South Africa. Coloured and Indian coverage include the major metropolitan areas. The total coverage represents 92% of the urban adult population and 53% of the total adult population. A trained, experienced fieldworker uses a structured questionnaire and conducts the interview in the home language of the respondent. A 35% validation check is carried out personally or telephonically on the work of each interviewer. The consumer confidence questions are always the first three questions of the questionnaire and only the head of the household (male or female) is interviewed.

The following questions are asked:

1. How do you expect the general economic position in South Africa to develop during the next 12 months? Will it improve considerably, improve slightly, remain the same, deteriorate slightly, deteriorate considerably or don't know?
2. How do you expect the financial position in your household to develop in the next 12 months? Will it improve considerably, improve slightly, remain the same, deteriorate slightly, deteriorate considerably or don't know?
3. What is your opinion of the suitability of the present time for the purchase of domestic appliances such as furniture, washing machines, refrigerators etc. Do you think that for people in general it is the right time, neither a good nor a bad time or the wrong time?

Consumer confidence is expressed as a net balance in contrast to business confidence, which is depicted as a percentage gross. The net balance is derived as the percentage of respondents expecting an improvement less the percentage expecting a deterioration. The answers of the first and second question are weighted as follows: improve considerably (+10), improve slightly (+5), remain the same (0), deteriorate slightly (-5) and deteriorate considerably (-10). The responses of the third question are weighted in the following manner: right time to buy (+10) and wrong time to buy (-10). The composite consumer confidence index is the average of the results of the above three questions.