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PROPERTY BAROMETER – SEPTEMBER RETAIL

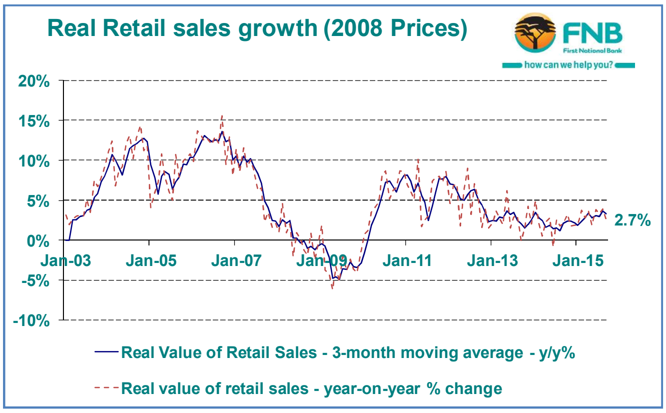
Real retail Sales growth still in part defies "economic gravity", which has possibly kept Retail Property performing slightly better than other Commercial Segments. But much of this may merely be due to lagged impacts of economic slowdown

18 November 2015

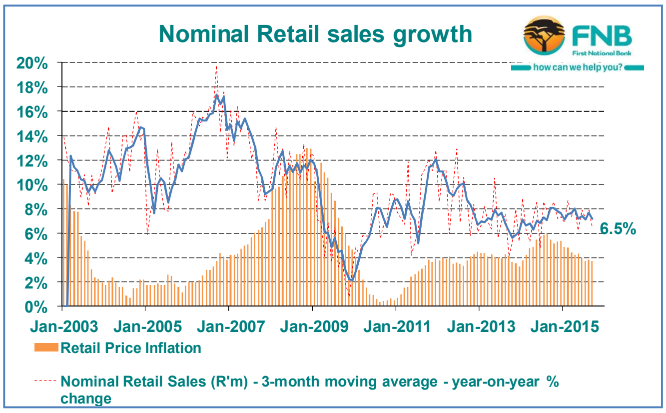
THE RETAIL NUMBERS

Real retail sales growth for September continued to record a reasonably healthy growth rate under the weak economic circumstances. From 4% year-on-year, growth in Real Retail sales slowed to 2.7%, but this is still healthy considering an economy probably growing at nearer to 1.5% year-on-year.

Cutting out data volatility by looking at the 3-month moving average, year-on-year growth also slowed from 3.7% for the 3 months to August to 3.3% for the 3 months to September.



The still-reasonable real growth has been less about any strong nominal sales growth, which measured 6.5% year-on-year in September, and more about still very low Retail Price Inflation of 3.7%, contained by a broader benign inflationary environment that currently persists in South Africa.

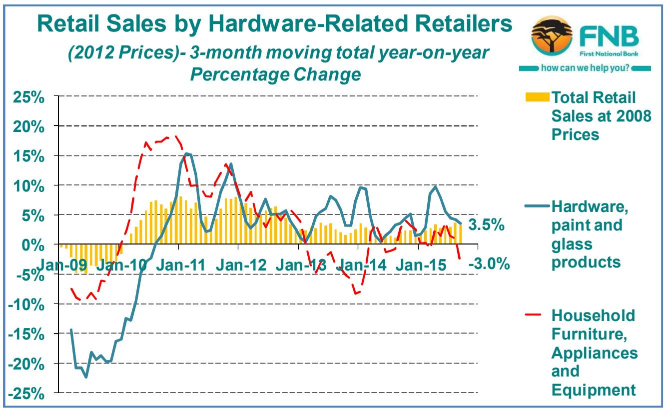


MAIN SUB-CATEGORIES OF RETAIL

For the 3 months to September, the Retailer Category with the fastest year-on-year real sales growth was the broad "Other Retail" category with 4.5%. This was followed by "General Dealers" with 4.2%, followed by Textiles, Clothing, Footwear and Leather with 4.1%. "Pharmaceutical and Medical Goods, Cosmetics and Toiletries" also made a reasonable contribution with 2.7% growth for the 3 months to September year-on-year.

At the low end of the growth scale, "Specialised Food, Beverages and Tobacco Stores" fared poorly with 0.1% growth.

Focusing on the Housing-related retail categories we see, however, some developments that may be leading indicators of slower real retail sales growth to come. Typically, a leading area of consumer demand in the cycle is the area of Durable Goods Consumption. Household Furniture, Appliances and Equipment Retail falls very strongly into this Durables category, and declined by -3% year-on-year for three 3-months to September in Real terms.



This seems to tie in with a steady slowing in the growth rate of Real Durable Consumption Expenditure, as per the SARB quarterly data, in recent quarters.

The other residential-related retail category, i.e. Real Hardware, Paint and Glass Products Retailers, still experience respectable growth of 3.5% year-on-year for the 3 months to September, reflecting strong levels of home maintenance as per the recent FNB Estate Agent Surveys. However, this growth has slowed from 9.7% in April 2015, possibly signaling a leveling out in previously-improving home maintenance and upgrade levels.

WHAT DO RETAIL FIGURES SAY ABOUT THE CONSUMER?

One month's worth of growth slowing in real retail sales growth is not conclusive evidence of growing financial pressure, especially when the growth is still quite solid given the weak economic growth conditions.

To the contrary, a 2.7% to us still suggests a lack of any severe financial stress amongst the consumers as a group. Nevertheless, the slower growth rate may be starting to suggest some consumer "constraints" with Disposable Income growth having slowed in recent years.

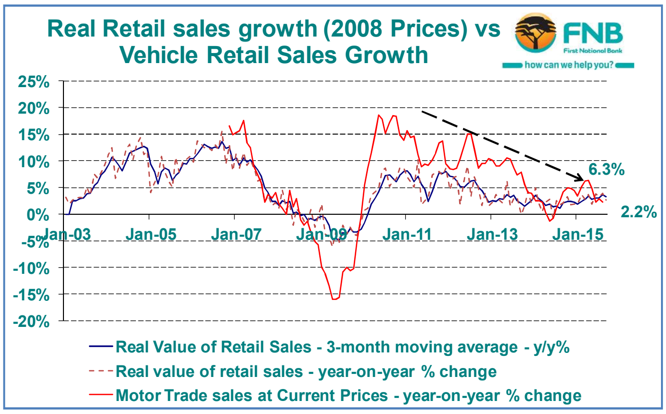
CONCLUSIONS AND OUTLOOK

In short, recent Retail numbers still don't reflect a Household Sector that is under severe financial stress. However, slowing real growth, should it persist in coming months, may be starting to reflect income "growth constraints" in lagged response to a multiyear economic growth slowdown.

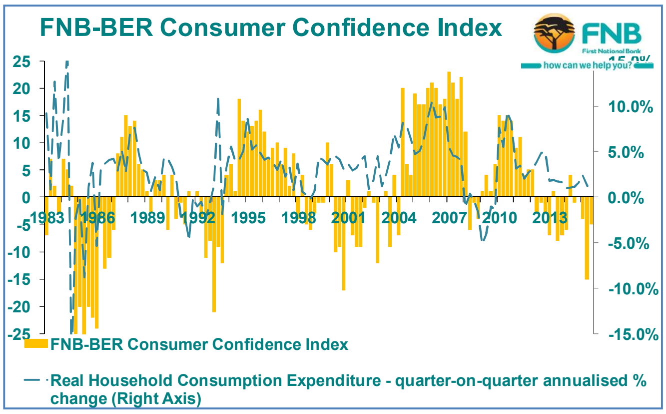
We have for a while been of the expectation that "mainstream" real retail sales growth will slow more into line with the rest of the economy.

The sector has admittedly "defied gravity" for a lengthy period of time, but other consumer-related data as well as economic data suggests that some slowing could be on its way.

Besides slowing in that cyclical area of retail that is Household Furniture, Appliances and Equipment appearing ominous, the growth in nominal value of Motor Vehicle Trade Sales had slowed all the way to 2.2% (which probably implies negative growth in real terms when adjusted for inflation), from 6.3% year-on-year as recently as April. This reflects a renewed slowing in sales growth after an uptick from late in 2014, and we suspect mainstream retail will merely follow with a lag.



A further indicator which leads to a weakening growth expectation in retail is that of the FNB-BER Consumer Confidence Index. This index has been in negative territory for the 1st 3 quarters of 2015.



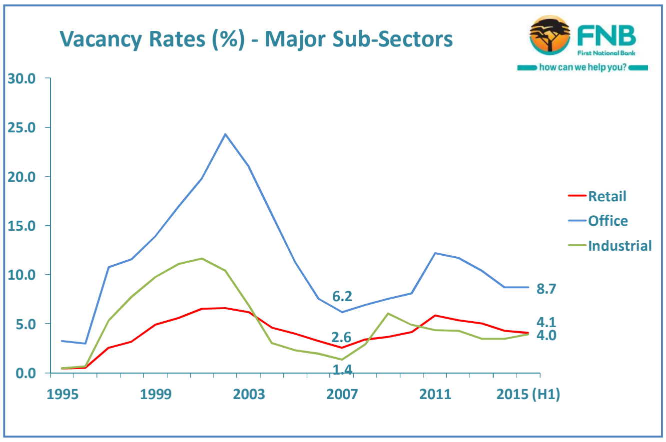
So, with the abovementioned "Lead" indicators pointing to weakness, as does the continuously declining SARB Leading Business Cycle Indicator, we would expect Real retail sales growth to slow into the 1-2% range as 2016 approaches.

This, in turn, may bring about an end to the gradually declining trend in Retail Property Vacancy Rates as reported by the IPD (Investment Property Databank).

In the 1st half of 2015, the IPD reported only the Retail Property Sector to still have a slightly declining *vacancy rate, with Office Space vacancies "high but steady" and Industrial Property vacancies having risen slightly.*

An Industrial Property vacancy rise would not be surprising, given the weakness of the Manufacturing Sector in recent times.

Retail Property by comparison appears to have been "protected". But ultimately the negative impacts of an anaemic economic growth rate should begin to filter through.



Data source: IPD

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