

# SA retailers pessimistic about business conditions - survey

South African retailer confidence has declined by 13 points in the first quarter of 2021, impacted by the Covid-19 pandemic and related trade restrictions. This is according to the results of the latest retail trade survey, completed by senior executives in the industry and conducted by the Bureau for Economic Research (BER).



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"As expected, the trade sector has experienced another tough start to the new year. Much of the performance of the sector still largely reflects a Covid-19 narrative. Be it in terms of its restrictions on trade or its impact on the labour market, the pandemic's sustained influence on business and consumer sentiment remains concerning amid the uncertainty about its trajectory," the BER report said.

During the survey period, South Africa moved from Level 1 to Level 3 of the risk-adjusted strategy on 29 December 2020. Restrictions on the sale of alcohol were eased on 1 February and South Africa moved back down to Level 1 on 1 March. The trade survey took place from 18 January to 1 March 2021, but most of the responses were received during the last two weeks of February. At this time, it was clear that the peak of South Africa's second wave of Covid-19 infections had passed.

## Retailer confidence

After making a recovery from its 29-year low of 11 in the second quarter of 2020, to 50 points by the fourth quarter, retailer confidence has declined by 13 index points to 37.

"This was to be expected considering that much of the momentum gained in the final quarter of last year was from pent-up demand for alcohol, anticipated festive season sales and the vital social grant top-ups, which all petered out by the first quarter," the report added.

The sector also benefitted from a significant uptick in the durable goods category in the fourth quarter, as many people still worked from home, or home-schooled their children, and continued to implement home improvements and purchase home office equipment and furniture. However, this trend reversed in the first quarter of 2021. Despite the decline in the first quarter, overall retailer confidence levels remain in line with the long-term average of 38.



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Barbara Cador, Kantar 25 Feb 2021



Retail volume growth worsened on aggregate in the first quarter (from -1 to -16), largely dragged down by significant declines in the durable goods category (i.e. retailers in hardware, furniture and household appliances). Non-durable goods (e.g. food, beverages, tobacco, pharmaceuticals and cosmetics) sales volumes held firm during the first quarter, but sales of durable and semi-durable goods (e.g. clothing and footwear, sporting equipment) slumped.

The BER survey also indicated that retailers, in general, kept selling prices elevated, and durable goods retailers, in particular, hiked their prices.

"Current price increases can be attributed to several factors. Among these are the increases in import prices, particularly of steel and raw materials, as well as relatively high food inflation. Costs associated with Covid-19 related hygiene protocols also remain an extra expense to retailers. Looking ahead, rising fuel and electricity prices will also have an impact on prices," the report said.

## Wholesaler confidence

After climbing from 33 to 59 in the fourth quarter of 2020 on higher spending on consumer goods, wholesaler confidence remained largely unchanged during the first quarter.

"It is somewhat surprising that wholesalers were able to sustain their 20Q4 confidence levels despite a deterioration in business conditions (from -5 to -29), lower sales volumes (from 1 to -10) and a lack of pricing power (from 28 to 26). Therefore, the sustained confidence in the first quarter could merely reflect wholesalers' optimism about business conditions in the second quarter of 2021," the report explained.



## SA retail sales fell 3,5% in January

17 Mar 2021



Wholesalers expect strong growth in sales volumes in the second quarter for both sub-categories (i.e. consumer and non-consumer goods). Consumer goods wholesalers expect to profit from a pick-up in alcohol sales amid eased trading restrictions, winter clothing sales and more importantly, the resilient agricultural sector which has benefitted from favourable weather conditions and bumper crops.

Meanwhile, non-consumer goods wholesalers (which includes those selling metal ores, building materials and chemicals) should benefit from the better global growth in 2021, which is expected to keep commodity prices elevated and boost SA

export volumes. In addition, improved conditions in the building and construction sector also bode well for this wholesale goods sub-category.

## Significant risks lie ahead

"Looking ahead into the second quarter, it is discouraging that the overall retail sector (except for the non-durable retailers) is pessimistic about business conditions and sales volumes. Significant risks lie ahead with the prospect of a third wave in SA looming amid a very slow vaccine rollout. Renewed lockdown restrictions to curb the spread of the virus will certainly harm the sector," the report said.



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It added, "Furthermore, given the hikes in fuel and electricity prices, rising food inflation, below-inflation adjustments to social grants and the expiration of the SRD grant and TERS programme at the end of April, there is a real risk that the household finances of low-income consumers could come under significant pressure. This could hurt non-durable goods sales volumes in particular. The weak labour market as well as the power supply crisis at Eskom also do not bode well for the trade sector in general.

"In all, given that the pent-up demand for durable goods has now mostly been met, coupled with some warning bells for the hitherto robust non-durable goods sector, momentum in the second quarter will in all likelihood depend on the performance of semi-durable goods retailers, particularly through the sale of winter clothing and school uniforms."

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