Shop stock levels worryingly high

By Adele Shevel

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Rising interest rates are stifling one of the JSE's hottest sectors — but we will only really see the effects of the retail slowdown after the festive season.

Chris Gilmour, an analyst at Absa Asset Management Private Clients, said recent poor results by retailers have not included the impact of the last two interest rate increases — one in October and this week's.

“It's going to be deadly. It's going to kill consumer demand, especially in certain segments of the market.

“What bothers me is that all of the results are showing consumers are not spending at the retailers. Are we going to have a great Christmas? Probably not — but it's always difficult to say. People at this time of the year tend to think ‘what the hell' and get their hangover in January.”

Gilmour expects the middle-income bracket will be hardest hit. “And everyone is talking about another interest rate hike in January. Also, the impact of higher oil and food prices is not good at all.”

Credit retailers were under pressure before this week's interest rate increase, and the hike compounds challenges facing the sector.

Syd Vianello, retail analyst at Nedcor Securities, said retailers are not opening new accounts.

“Customers are stretched to their limits with existing accounts. That means their incremental spend for existing account holders is not much, probably no more than 6%.

“And if you have a dearth of new accounts it's difficult to raise turnover significantly beyond these levels. The double whammy of another rate hike and a 6.5% increase in the price of fuel will make the next three weeks particularly tough.”

Vianello's view is that the first week of December is an important barometer of Christmas trading.

“And the weekend wasn't great. My biggest fear — unlike what we've experienced to date — is that we're facing retrenchments throughout the economy.”

Vianello explained that if furniture retailers, for example, remain lacklustre they will not take delivery of orders next week. Factories will be overloaded with stock and by January might have to reduce production.

The same applies to motor factories. “If they haven't pushed all the stock out, they will open next year with no orders and will operate on short time. If fewer cars are manufactured, there is reduced head count,” he noted.

“Retrenchments have a ripple effect through the system. The big telltale sign will be next week — if retailers go on sale next week, then you know they are seriously overstocked.”

Shaun le Roux of Alphen Asset Management said in a recent research note that the fallout on credit retailers and related stocks on the JSE has been significant.

From May 7, when many retail stocks peaked, most share prices have lost in excess of 20% of their value. Over the same period, the JSE All Share index was up almost 4%.

The motor vehicle retailers, which enjoyed boom times in recent years, were the first to encounter tough times.

Next to feel the pain was the durable goods sector, and the furniture retailers have experienced a sharp slowdown in credit sales, coupled with deteriorating bad debts.

Le Roux said JD Group, in its August annual results, reported a 26% drop in headline earnings a share on the previous year on the back of negative credit sales growth and a 65% rise in debtor costs.

The Ellerines share price has not dropped as much as the other furniture retailers because African Bank (Abil) stepped in to buy the business.

“The JD Group share price would be even lower if management had not signalled their intent to split their consumer finance and retail businesses, effectively putting up a ‘for sale' sign,” said Le Roux.

“It is difficult to see the outlook for retailers and other interest rate- sensitive businesses improving in the near term and, in the circumstances of further upside risks to interest rates, share prices are likely to stay under pressure.”

Source: *Sunday Times*

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