BIZCOMMUNITY

Massmart shares consumers' pain

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With the market braced for a grimmer future, retailer Massmart pointed to a down, but not quite out, South African consumer in its sales update on Wednesday, 15 January 2014.

Even so, stagnant spending, which last year saw consumer confidence slump to its lowest level in 20 years, is likely to persist this year. The usual mix of a moderation in income growth, the curbing of rampant unsecured credit growth, poor job prospects, and a rise in the cost of living is weighing on disposable income.

Although Statistics SA data on Wednesday showed retail sales rose much more than expected in November supported by general dealers and textiles, clothing, footwear and leather goods, analysts are not optimistic the strong growth will be sustained.

Consumer spending trends

Economists and retail pundits point to another trend: cooler growth from retailers who target middle-to-low living standards measure consumers, with the resilient part of consumer activity inclined to be higher-income earners, supporting the more upmarket players.

Massmart's total sales grew 9.7% to R72.2bn in the 53 weeks to December 29, but by only 7.5% on a 52-week basis. A relief rally saw the Walmart-owned retailer's shares rise as much as 5.4% to close at R131.85 on Wednesday. Its shares have fallen about 36% since last May.

While Massmart had "a little bit" of pressure over the festive season, it was nothing too dramatic, Noah Capital Markets retail analyst Roger Tejwani said. "It's slow (the numbers) but they didn't really fall off a cliff. Across the board the retailers are coming under pressure," he said.

Sales at Massbuild, which trades in do-it-yourself, home improvement and builders hardware under the Builders Warehouse, Builders Express and Builders Trade Depot brands, rose 11.9%, and 8.2% on a comparable basis, while Masswarehouse, which houses the Makro brand, grew 14.1% and 4%. Massmart's food wholesale business Masscash gained 6.5% and 3.8% on a comparable basis.

Sales slowdown

The biggest slowdown was seen in the group's Massdiscounters division, which includes Game and DionWired. It saw sales advance 8.6% and 1% comparably. This was in part due to closing the group's stores on December 15 in honour of the late Nelson Mandela's burial.

"That was a key trading day in the retail calendar ... the second Sunday before Christmas," Tejwani said.

The estimated net sales lost due to store closures on December 15 was about R200m.

Paying up to Woolies

Proving that the high end is spending much more comfortably, Woolworths on Wednesday said food sales grew 15.3% in the 26 weeks to December 29. Sales in comparable stores rose 11.8%. With consistently robust sales, the upmarket player emerged as South Africa's retail darling last year.

Absa Investments analyst Chris Gilmour said the "emerging" consumer in South Africa was prepared to "pay up" to go to Woolies. "They are exceptionally quality conscious and the service levels are also notably higher than any other retailer.

"The food side of their business is especially good, way ahead of expectations, even when you strip out inflation and look at like-for-like sales - it's still very good. Clothing was okay ... pretty much in line with expectations," he said.

The Cape Town-based group said clothing sales in South Africa increased 10.7%. Sales in comparable stores grew 8.8%, while general merchandise rose 6.9% and 5.1% in comparable stores. The Woolworths Financial Services debtors book reflected year-on-year growth of 13.8% at the end of last month, with the annualised impairment rate, inclusive of collection costs, for the six months to December at 4.3% from 2.7% in 2012.

Retail sales

The Statistics SA data out on Wednesday showed retail sales rose by a more than expected 4.2% in November compared with a year ago, from a 1.4% increase in October. Nedbank economists said the strong figures could be attributed to some recovery following strikes in the third quarter and that they were unlikely to represent a new trend. Statistics SA said general dealers and retailers in textiles, clothing, footwear and leather goods were the main contributors to the 4.2% increase in retail sales.

This backs views that consumers are shunning big-ticket items for cheaper-priced ones.

Stanlib chief economist Kevin Lings said that sales of furniture and appliances were experiencing "outright recession conditions".