Clothing retail sector hits the skids

By Ann Crotty

17 Aug 2017

SA's clothing retail sector is hanging by a thread after nearly a decade's strong performance. Factors such as unemployment, credit, competition and saturation in the market are likely to make it nearly impossible for the sector to grow the way it did in its glory days.

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Retail sales hit a record of 15.5% in September 2006 and averaged about 12% a year between 2004 and 2007. From 2010 to 2015, sales outperformed growth in GDP. But sales growth has steadily decreased since 2016, growing just 1.7% in May, compared with the year-earlier period.

The macroeconomic statistics website Trading Economics forecasts retail sales will contract 0.3% in June. Meryl Pick, an Old Mutual Investment Group retail analyst, said on Tuesday that four factors were dictating the fortunes of clothing retailers.

"South Africans are becoming richer at a slower pace, store credit will grow at a pedestrian rate, a saturated market offers fewer flag-planting opportunities and global entrants will make retail more competitive," said Pick.

She said the tightening of lending criteria by the National Credit Regulator would continue to affect retailers such as Truworths and Edcon because between 30% and 50% of sales were made on credit.

Pick said customers were incentivised to take a personal loan with a bank or extend their credit facilities with a bank because it was easier and the terms were better than opening an account with a retailer. "Credit cards and personal loans have become more accessible, with income thresholds as low as R4,000 a month," Pick said.

"At the same time, most store accounts now carry interest charges similar to credit card rates. Some banks also offer close on three years to pay credit-card balances, whereas store accounts have to be paid back within 12 months, making the monthly instalments much higher. All the while, as the economy slows, the pool of credit-worthy customers has stopped growing.

"This presents a tougher environment," she said.

The market will once again get a chance to assess the conditions in the sector as a whole when a number of listed players release their results in the next two weeks.

Woolworths, considered the bellwether for the health of South African retail, will be watched closely. It has exposure to the clothing and food segments. The company said in a trading statement that it expected group sales for the year to June 25 to increase 3%.

Investment analyst Chris Gilmour said comparable food sales, which for years had been the mainstay of the company, rose 4.6%, but food inflation averaged 8.4%, meaning that, in inflation-adjusted terms, even food sales declined.

Pick said that Old Mutual, through its investors fund had taken a wait-and-see approach to the retail sector while holding a position in TFG. It believed TFG was "well placed to navigate the changing retail landscape".

Source: Business Day