Relief for retailers as consumer pressure lifts

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The worst seems to be over for SA's retailers as the recovery in strike-affected incomes and substantially lower fuel prices suggest a continued improvement in consumer spending during the second quarter.

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For most of last year retailers targeting the lower-middle income segment bore the brunt of weak consumer demand as debt, industrial action and rising living costs slashed spending. This resulted in tepid performances by most retailers, largely driven by aggressive store expansion.

However, the latest EY/Bureau for Economic Research (BER) Retail survey said retail sales volumes continued to recover during the first quarter of the year.

"A recovery in strike-affected incomes following the end of debilitating industrial action in the platinum and engineering sectors has been supporting the retail sector since August last year. In addition the petrol price declined by nearly R4/l between August last year and February this year while the price of illuminating paraffin dropped by R3.45 over the same period," said Derek Engelbrecht, retail & consumer products sector leader at EY.

Though fuel prices increased considerably again this month, petrol and paraffin prices are still 22% and 32% lower, respectively, than in March last year, signifying a substantial boost to the purchasing power of low- and middle-income households. Cheaper fuel has also provided some reprieve for retailers as lower transport costs improve margins.

According to the EY/BER Retail survey the tide seems to have turned for those selling durable goods such as furniture, household appliances, electronic goods and hardware.

Business confidence levels among durable goods retailers improved from 61 in the fourth quarter of last year to 79 in the first quarter of this year - the highest level since 2007.

The survey also showed most retailers hiked prices and expect to increase selling prices at an even faster rate in the second quarter.

There are some headwinds as the sharp increase in the fuel and Road Accident Fund levies, the recent depreciation in the rand against the dollar, a projected slowdown in government spending and higher personal income taxes for high-income consumers rein in real disposable income growth.

Source: Business Day via I-Net Bridge