Consumers keep wallets in pocket

By Adele Shevel

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Retail sales post sharpest fall since October 2000.

Consumers are keeping a tight grip on their wallets as the tough economic conditions start to hit home.

According to figures from Statistics South Africa released yesterday, retail sales fell 1.7% in March from a year ago. This is the first year-on-year decline in 2008 and the sharpest decline since October 2000.

The monthly figures are a clear sign that consumers are tightening their belts, but analysts expect the Reserve Bank to remain unflinching in its commitment to fight inflation by raising interest rates again when its Monetary Policy Committee (MPC) meets next month.

If the MPC does raise rates it will be the 10th increase since 2006 — and talk is that there might be more to come.

Reserve Bank governor Tito Mboweni hinted strongly on Tuesday that rates would rise again, saying that price pressures had spread beyond food and energy and needed to be curbed.

Consumer demand has been the primary driver of economic growth for the past few years, with the retail sector contributing 14% to the economy.

According to Stanlib economist Kevin Lings, the March reading was worse than expected.

Discretionary spending will be cut

He said: “The basic concern is that since consumers are facing a range of bigger-than-normal price hikes, which impact more fully on non-discretionary spending, the amount of money available for discretionary spending will be substantially curtailed this year.”

These include the petrol price, debt-servicing costs, food prices, electricity tariffs, rentals, education, healthcare and municipal assessment rates.

Together these expenses account for about 65% of total consumer spending.

Lings said total non-discretionary spending was likely to be at least 16percent higher this year — assuming no change in volumes — including at least a 25percent rise in petrol price for the year, an average 13percent increase in food prices, and an average 20percent increase in electricity tariffs.

Absa Capital said retail sales data, together with slow vehicle sales and lacklustre manufacturing activity provided strong evidence of the Reserve Bank's success in curbing consumption.

Meanwhile, supermarket group Spar posted a 24.8percent rise in operating profit to R496.2- million for the six months to March 30. Revenue was up 21.1percent to R13.06-billion.

Spar group CEO Wayne Hook said the favourable results were due mainly to strong volume growth in distribution activity and buoyant trading at the Spar retailer level.

Hook said food inflation, which averaged 10.3% in the period, spiked to around 14% in March, which was a worry.

He expects interest rates and fuel price rises will continue to dent consumer spending, but reckons Spar's performance for the rest of the 2008 financial year will be satisfactory.

Source: *The Times*

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