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# Retail sales set to reflect subdued economy

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Local retail trade sales in February will be released on Wednesday, 16 April 2014, and are likely to come in lower than the strong growth recorded in January.


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Apart from retail sales there are no major local data releases set for next week with the market likely to focus on the JSE and rand, as well as factors that could influence two important releases at the end of May.

The first is gross domestic product (GDP) growth for the first quarter, which will be released by Stats SA on May 27, a few days after the Reserve Bank's monetary policy committee (MPC) meeting is set to deliver its rate decision on May 22, the third for the year. In the first meeting of 2014, at the end of January, rates were hiked by 50 basis points, but at the next meeting at the end of March rates were kept unchanged.

Much depends on the consumer-inflation trajectory ahead, after the Reserve Bank predicted the consumer price index (CPI) could hit a high of 6.6% in August. Since then the rand has firmed, but the Bank did not change their projections for 2014 after the second MPC meeting. However, the projections for 2015 were moderated, with the Bank expecting CPI to fall within the below 6% again early in 2015.

Investec economist Kamilla Kaplan says retail sales growth are likely to correct in February to 2.9% on an annual basis, from the strong comparable bounce of 6.8% registered in January. Statistical factors relating to a lower base in January 2013, and a substantial revision to the December 2013 outcome, together produced an upside bias to the growth in sales for January 2014.

## Slowing consumption

The retail sales performance in February is, therefore, likely to be more reflective of underlying consumer consumption activity. Specifically, various measures of consumer consumption spending, which makes up nearly two-thirds of annual GDP, signal that the direction and magnitude of future spending is likely to moderate.

The weakening in private consumption dynamics has emulated developments in the slower pace of credit expansion as well as the erosion of real disposable income, by price inflation of essential goods and services. Increased pressure on household finances, and by extension the rise in nonperforming loans, has prompted lenders to tighten credit conditions towards households, Kaplan said.

Slowing household consumption expenditure coupled with the relatively subdued start to the year on the production side of the economy augur for a measured pace of monetary-policy normalisation.

"Particularly if the inflation trajectory proves more moderate than presently expected by the Reserve Bank," Kaplan said. Recent rand strength, and consequently the expected petrol price cuts during the second quarter, coupled with the retrace in maize price futures, would contribute to a moderation in CPI, from an annual 5.9% in February, to 5.7% in March and April. The breach of the Bank's 3%-6% target toward mid-year is likely to be temporary. "We continue to expect only one more interest-rate hike this year, to be delivered in July," Kaplan said.

## No indication on interest rate

Reserve Bank governor Gill Marcus did not give any clues as to possible interest rate movements at her London address last week. She said the Reserve Bank was uncertain where the "new normal" rate of interest should be, either in South Africa or globally, after the current period of stimulatory cuts end. Barclays Research said in a note they expected South Africa's real interest rate to normalise at a level about one percentage point below the 3.5% average that prevailed before the global crisis, but admitted there was still considerable uncertainty.

What seems more clear is that the Bank is hesitant, or in no rush, to hike rates aggressively. Markets expected drastic hikes after the January decision, but have since moderated their expectations. The message of the Bank, however, remains that rates will have to normalise at some stage in future from present low levels, which does imply further hikes, but probably not in a major way this year.

## Mining, manufacturing data disappointing

Disappointing mining and manufacturing data for February released last week strengthened this view. The data showed real contraction in output, which led HSBC economist David Faulkner to lower his GDP-growth forecast for the whole of 2014 to only 1.8% from a present consensus of 2.5%. The Bank is expected to lower its growth projections, which were at 2.8% at the end May, in its MPC statement.

Against this background the Bank faces a difficult balancing act. Further rate hikes could result in more serious economic contractions, which will probably make the Bank hesitant to hike excessively this year, more so as the rand has strengthened considerably since the end of January, gaining 90c against the dollar as of early April. But the committee has stated its core mandate remains combating inflation and it will not hesitate to act if necessary.