# Hope for credit retailers

By Sasha Planting

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Even when the chips are down JD Group CEO David Sussman has a bullish outlook on life. So when he points to an uptick in the furniture group's credit sales as “heartening” in a consumer recession, it would be easy to dismiss this as overly enthusiastic.

But Sussman was the first of the retailers to identify slowing sales (in September 2006) as a signal that the cycle was about to turn.

The world changed for credit retailers on 1 June 2007 with the introduction of the National Credit Act (NCA). At that point, double-digit sales growth did a complete reversal.

Is there reason to believe that this cycle, compounded by inflation and the global recession, may be turning?

JD's numbers give hope. Credit sales accounted for 71.7% of sales at the end of February. By end-April they had increased to 72%, and by end-May, to 73%.

CFO Gerald Völkel cautions that the positive May numbers may be distorted by “crazy pricing from Ellerines this time last year”. But then he adds: “We see this as a lead indicator for the debtors' [book] starting to turn.” There is a little more disposable income in the system and some pent-up buying demand which is reflecting in the top line, he says. “We hope to see a turn on the debtors' [book] performance in three to four months. That is the key.”

Lewis is equally cautious. Credit sales for the group for the financial year to March were 64% of total sales. In April and May these grew by a little over 1%, says COO Johan Enslin “But we have had a strong value added programme running in May, which has contributed to a good month.” May was better than April and April was better than the six preceding months, he says. “But the period is too short for comparison.”

Foschini, which has a conservatively run book, also notes a slight shift in spending patterns.

Credit sales for the full year to March grew by 2.5%. But in the first half they experienced negative growth. In the second half credit sales grew by 4.8%. Cash sales for the full year grew 10.7%.

“When times are tough, cash sales grow faster than credit sales,” says CFO Ronnie Steyn. “But when the economy starts to turn, that changes and we are seeing those signs.”

He won't disclose the monthly figures but says: “Trade for the first 10 weeks of this financial year show [credit sales] were a growing trend. Normally I would say it's an indication that the economy is turning, but I don't want to read too much into it. Turnover remains volatile and a clear trend is not yet visible.”

Edcon CFO Steve Binnie is not convinced. “Our credit sales have ranged between 52% and 53% of total sales for the past year. We haven't noticed a significant change.” The last major shift, he says, was the introduction of the NCA, which caused credit sales to fall from about 60%.

"According to SA Reserve Bank numbers, private-sector credit extension (of which the biggest number is mortgages) is barely rising," says Absa Capital research head Jeff Gable.

At household level, credit extension is moving, but slowly. “There are increases in instalment sales, but the increases are in the low hundreds of millions; they used to be in the multibillions.”

Gryphon Asset Management director Abri du Plessis is taking the widening yield gap as an indication that the green shoots may just be emerging.

The yield gap (long rates minus short term interest rates) is a good indicator of the business cycle. When the gap is widening, as it is at the moment, it indicates an expectation of an improving business environment. “My feeling is that we saw the bottom of the cycle in April,” says Du Plessis. But reservations remain: “It sounds promising, but it's too early to say,” he says.

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