

Retail hopes up for Christmas trading

Results from the latest Bureau for Economic Research (BER) / Ernst & Young *Festive Season Retail Trends* survey reveal that after a two-year hiatus, consumer spending should be relatively strong over the period leading up to Christmas.



The survey shows that a net majority of 15% of the survey respondents reported higher Q4 sales volumes compared with the final quarter of 2009 and said that selling price increases will be lower than during 2009.

"Based on historical correlations, this suggests that festive season retail sales volumes should increase by more than 5% compared with the weak 2009 holiday trading period," said Derek Engelbrecht, retail and consumer products sector leader at Ernst & Young. The improved prospects are in line with the actual retail sales numbers that have already been released for the year to September 2010. After declining by 3.4% during 2009, according to Stats SA, real retail sales have rebounded by just more than 4% in the first nine months of 2010.

Good news for consumers

Good news for consumers is that despite the upbeat sales expectations, the festive season survey reveals that consumers can look forward to reasonably priced goods with many retailers expecting to cut prices.

"The biggest price discounts are expected for the durable goods (electronic goods, household appliances, furniture, etc.) and semi-durable goods (clothing & footwear, toys, CDs, etc.) categories. Because many of these goods are imported, the lack of retailer pricing power is partly a function of the sustained strength of the rand exchange rate against especially the US dollar," says Engelbrecht.

In terms of expected festive season sales, the biggest turnaround (compared with 2009Q4) was experienced in the durable goods category. Whereas a majority of almost 70% of durable goods retailers reported lower sales in 2009Q4 compared with the 2008 festive season, a slight majority now expect to be in the positive sales column.

Turnaround in sales

A number of developments over the past 12 months are supporting spending on big-ticket items, including another 150 bps

of interest rate reductions (which brought the prime lending rate down to the lowest level since 1974), high wage increases and the strong recovery of domestic share prices on the JSE.

While not as stark, semi-durable and non-durable goods (food, beverages, pharmaceutical products, etc.), retailers are also experiencing a notable turnaround in sales, although the actual data (up to September 2010) from Stats SA suggest that in the case of the non-durable retailers, it is those general dealers selling a variety of non-durable goods that are benefiting most rather than specialised food and beverage stores.

The fact that a large part of the job losses experienced through 2010Q3 affected lower income households, may provide an explanation for the trend as poorer households spend a larger proportion of their income on food. The relatively sharper turnaround for durable goods sales volumes is also in line with the FNB/BER consumer confidence index, which for the last number of quarters has shown that high income consumers (at 23 index points) are significantly more confident than lower income consumers (0). Almost a quarter of non-durable retailers expect higher sales during the festive season compared with 2009 when a small majority reported declining sales volumes.

Turnover still under pressure

In the case of semi-durable goods retailers, almost a third project higher sales over the Christmas period compared with 16% that reported lower sales in the corresponding period of 2009.

Despite the more upbeat sales expectations, the fact that many retailers are reducing selling prices means that turnover is still under pressure and hence profitability levels remain down in many cases compared with last year.

"While the retail environment is improving, continued poor retail profitability indicates that the retail sector still has some way to go before one can start talking of a return to the strong consumer spending years between 2004 and 2007. For a sustained retail recovery to take hold, job creation must first return," Engelbrecht concluded.

The Ernst & Young *Festive Season Retail Trends Survey*

The Bureau of Economic Research's business surveys are conducted quarterly.

The BER's panel for the retail sector consists of 393 retailers and is broadly representative of the formal retail sector, taking into account the response rate and the results from a comparison between the composition of the survey panel and census and other official data. The fourth quarter survey took place between 18 October and 12 November 2010.

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