

# Retail chains to reveal the extent of SA's slowdown

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20 Aug 2013

Retail bellwethers Shoprite and Massmart will release their financial results this week, when the extent of SA's consumer spending slowdown is likely to be revealed.



High unemployment and slow income growth in SA have checked household expenditure, already crimped by soaring utility costs and rising debt.

Recent trading updates and earnings forecasts from the two companies and some of their peers have already pointed to a marked deceleration in consumer spending levels.

With disposable incomes under pressure, growth in retail sales will remain subdued in the coming months, Nedbank's economic unit says. Furthermore, the prospect of labour instability in the mining and manufacturing sectors suggests that consumer incomes are likely to come under further pressure, constraining spending growth, particularly on non-discretionary items.

Last month, SA's largest supermarket chain, Shoprite, said total sales growth declined to 10.4% in the six months to June, compared with 13.8% in the first half. Mounting pressure on spending is reflected in the weakening of sales in the supermarket unit, Shoprite's largest division, which grew 9.8%, compared with 12.9% previously.

According to PSG Konsult portfolio manager Drikus Combrinck, the group's update implies that the company is heading into a more difficult period in the next few months.

"We are in a bit of a consumer recession, if I can call it that. There are a lot of difficulties," Combrinck says.

## Massmart

Massmart's trading update was equally bleak. The Walmart-owned group says growth in earnings per share, excluding once-off items and foreign exchange gains, declined 3.9% to 15% in the six months to June 23.

The company expects headline earnings of between 218c and 234c a share for the period, compared with 148.9c a year earlier.

According to analysts, the perceived clout of Walmart backing Massmart has had little effect on the local scene in terms of lower prices and more products for cash-strapped consumers.

From an investment perspective, although there are pockets of value to be found in the retail sector, lower than expected growth from retailers, coupled with disappointing economic growth figures and a falling rand have led to a steady sell-off in retail stocks over the past few months.

Retail shares have had a strong run in the past few years, as the seemingly insatiable appetite of foreign investors continued to drive valuations - bolstered by the hype about the rest of Africa's growth prospects.

But local fund managers have expressed concern that the price-to-earnings ratios of retail companies have been unsustainably high, with retail counters not pricing in the risk of slowing spending. The slowdown in unsecured lending, which has lifted retail sales, is expected to be one of the major contributors to the slump in consumer spending.

## **Loss of momentum**

Stanlib chief economist Kevin Lings says consumer spending has been losing momentum for some time, with consumers having to cope with a range of cost hikes that have systematically eroded their spending power.

"Consumer income growth is slowing, reflecting the lack of jobs as well as some moderation in salary adjustments. Because consumer spending represents more than 60% of the South African economy, the relationship between consumer income and consumer spending can be considered one of the most important economic relationships to track," he says.

Retailers that are heavily reliant on credit, such as Lewis Group, Foschini and Truworths, have also noted the challenging trading conditions.

Upmarket retailer Woolworths, which reports its year-end results next week, has been relatively unaffected.

Full-year total sales at the group rose 23%, compared with 11.8% growth in the previous financial year. Woolies expects to report earnings per share, for the 53 weeks to June, that are between 23% and 28% higher than the previous year.

Noah Capital Markets analyst Roger Tejawani says that, to a degree, as a higher-income focused retailer, Woolworths is in a better position than some other retailers because of the nature of its customer base.

Source: Business Day via I-Net Bridge

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