

## Retailers may breathe easier in fourth quarter, say analysts

While there is no outright good news for retail, analysts say the last quarter of 2017 is unlikely to plunge the sector to new lows.



"The interest rate cut and lower inflation numbers should see conditions improve for consumers on the balance," said Old Mutual investment professional Meryl Pick.

"There may be a lag and the improvement could be muted to begin with. We may see a marginally better fourth quarter compared with last year."

The South African Reserve Bank surprised markets with an interest rate cut of 25 basis points in July. In the same month, inflation fell to its lowest level since November 2015. Inflation, as recorded by the consumer price index, dipped to 5.1% in June, from 5.4% in May.

Pick said despite this encouraging data, retailers had indicated that trading conditions would remain tough for the rest of 2017.

Cratos Wealth portfolio manager Ron Klipin said there was good news for retail shares at their current prices.

A year ago, Pick n Pay's share price was trading at about R80.76. The share currently trades at about R62.84. Mr Price Group was at about R228.50, but has since fallen to about R175.66.

"Looking at retail counters, prices are becoming more attractive and may see some buying because of the value they offer at these prices. But the conditions in the sector itself aren't great," said Klipin.

Klipin said there was a lack of confidence in the market and the economy, while household incomes were under pressure.

"There are a lot of pluses and minuses and anything could change the balance. There is still a possibility for a downgrade, but the lower level on inflation appears to be a positive aspect."

In clothing retail, Pick and Klipin said Mr Price Group and TFG were best placed to survive the economic environment. In food retail, Klipin said Shoprite would fare best, being affordable for most consumers. The retailer's African operations would also help support it.

*Source: Business Day*

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