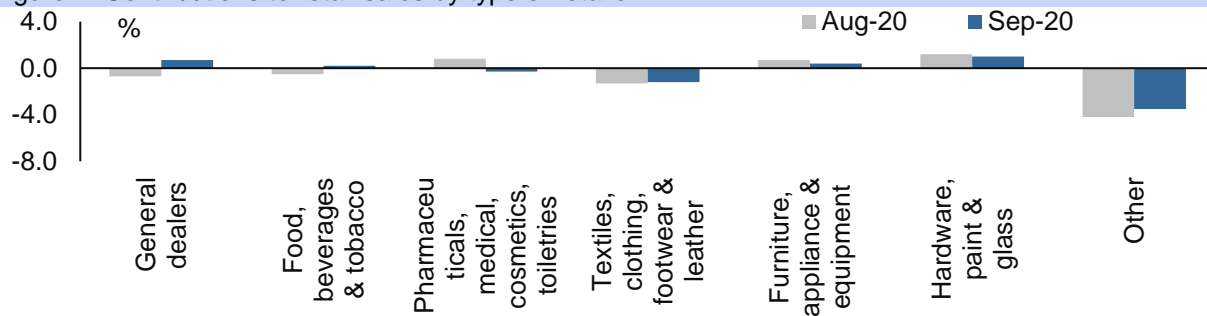


## Retail sales update: The contraction in retail activity eased to -2.7% y/y in September, however demand remains subdued



Wednesday 18 November 2020

Figure 1: Contributions to retail sales by type of retailer



Sources: Stats SA, Investec

- The contraction in retail trade sales continued to decelerate in September, moderating to -2.7% y/y, following August's -4.1% y/y (revised) decline and is reflective of the further easing of lockdown restrictions, allowing more people to return to work and earn an income. The September update concludes the sector's releases for the Q3.20 period. The seasonally adjusted measure, which is used to determine GDP, signals that the sector will make a positive contribution to Q3.20 GDP following the sharp lockdown induced fall in Q2.20.
- September's -2.7% y/y decline was largely underpinned by the continued sharp decline in the catchall category, 'all other retailers', which makes up 13.1% of the retail basket. Specifically, activity in this segment plunged by a further -27.2% y/y in September, detracting a marked -3.5% from the headline reading. Additionally, the textiles and clothing grouping sliced a further -1.2% off the top line result, on the back of a -7.8% y/y decline in sales.
- Positive results were however recorded by all the other retail categories, besides pharmaceuticals. The hardware, paint and glass segment made the largest positive contribution to the headline outcome of 1.0%, supported by growth of a further 13.0% y/y. Home improvement has been a notable trend during this precarious time, with more people opting to remain at home, even as restrictions have been gradually lifted.
- Indeed, the trading environment has improved from levels experienced in Q2.20, when a large part of the economy was essentially shut down and accordingly retailer confidence levels have increased notably, as evinced by the BER's latest Q3.20 retail survey results. However, the BER report does stress that the "(s)pike in sentiment may simply be reflecting their optimism about their ability to trade again, rather than a fundamental improvement in the operating or macroeconomic environment". Specifically, trading conditions remain difficult, underpinned by weak demand. A protracted recovery in household consumption expenditure is anticipated, with retailers "(n)ot expecting conditions to improve much further in the fourth quarter," according to the BER's retail survey. Highly constrained consumers, with many facing financial uncertainty continue to remain cautious and mindful of their purchases.
- Indeed, unemployment which is a lagging indicator is hovering above 30%, with the full effects of the pandemic on job losses likely not yet felt. A second wave, accompanied by further restrictions also cannot be ruled out, which would have a disastrous effect on the already fragile economy which has highly constrained government finances.
- Black Friday, Cyber Monday and festive season spend should lend some support to struggling retailers. However, a marked move to online purchasing activity is envisioned as many consumers will likely be reluctant to brave crowds (although strict health protocols are expected to be in place). Retailers' will likely want to establish a digital presence/ upgrade their e-commerce capabilities to remain relevant and competitive and adjust to the "new normal", characterised by new consumer behaviour patterns.

Figure 2: Key growth rates in retail trade sales (constant prices)

	August 2020	September 2020
Year on year %	-4.1	-2.7
Month on month %, seasonally adjusted	4.0	1.1
3-month %, seasonally adjusted	16.7	23.9

4 Source: Stats SA

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Wednesday 18 November 2020

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Wednesday 18 November 2020

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