

# Nedbank

## Economic commentary

15 July 2009

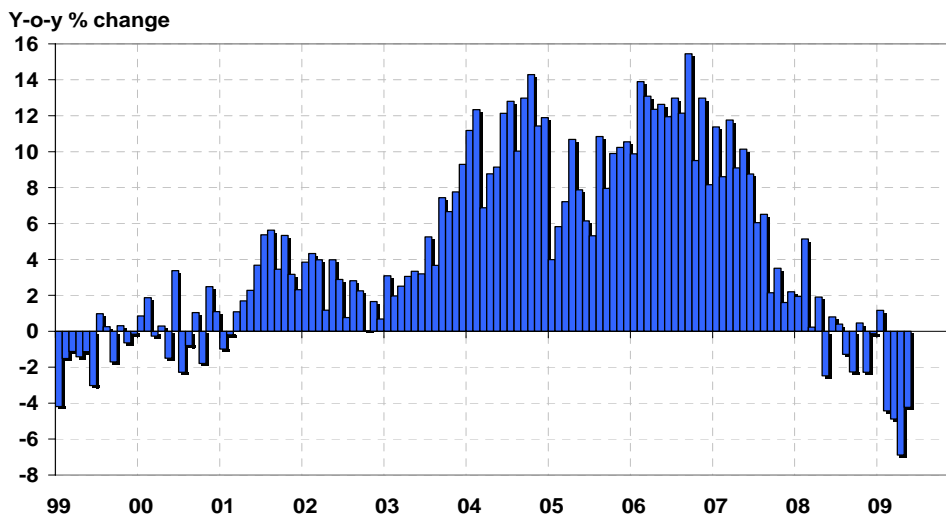
### RETAIL SALES

*Retail sales remained weak in May*

**Latest (May 2009)**

Total: -4,2% y-o-y (-6,9% y-o-y in April, revised from -6,7% y-o-y)

**Retail sales growth**



### **Comment**

Following a massive drop in April, mainly due seasonal factors, the annual rate of decline in retail sales moderated to its lowest level since January. The better than expected 4,2% y-o-y decline in May was mainly attributed to the increase in sales of basic consumer goods, with sales in the 'food, beverages and tobacco' as well as in the 'textiles, clothing, footwear and leather goods' categories increasing by 0,6% y-o-y and 2,0% respectively. These were their first increases since the beginning of the year. However, consumers remained hesitant in increasing spending on non-essential products, with sales of 'hardware, paint and glass' and of 'household furniture, appliances and equipment' down by 21,0% y-o-y and 7,1% respectively, but the rates of decline moderated from 27,5% and 11,2% in April.

For the first five months of this year, total retail sales fell by 3,9% compared with the same period last year, reflecting the deterioration in economic conditions.

### Research

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## **Outlook**

Retail sales are likely to remain weak throughout the year as falling income due to lower employment and falling asset prices is likely to limit consumers' purchasing power. Stricter lending criteria will also contribute to weaker sales. In addition, consumers may take advantage of falling interest rates to repay their debts rather than to increase spending if confidence remains weak. A moderate recovery in retail sales, however, is expected towards the end of the year and into 2010, as confidence picks up on the back of lower interest rates, more manageable debt levels and some stabilisation in the labour market.

## **Implications**

Weak retail sales for the second consecutive month in the second quarter, combined with the decline in manufacturing during the same period as well as other recently released weak economic data suggest that economic activity probably contracted again in the second quarter of the year. We expect that recessionary conditions will prevail well into the third quarter and that real gdp will contract by around 2% in 2009 as a whole. Although the MPC left the policy rate unchanged at its June meeting and indicated reluctance to ease further, we still feel that there is scope for another 100 basis point cut in interest rates before the end of the year. This reduction could take the form of two 50 basis point cuts in September and October or a full 100 basis point cut in October. Prime is therefore expected to end the year at 10%.

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