

Economic Commentary

Retail sales

Retail sales slightly firmer than expected in October

- Retail sales rose by 6,1% y-o-y following 6% growth in September.
- Over the month, total sales rose by a seasonally adjusted 0,7%, reflecting better consumer confidence, attractive retail prices, lower interest rates and perhaps some support from early festive spending.
- Strong sales were recorded in the 'textiles, clothing, footwear and leather goods' as well as 'household furniture, appliances and equipment' categories.
- Retail sales are likely to remain strong in November and December, reflecting a low base effect in 2009, better consumer confidence and a boost from festive spending. However, sales are likely to experience softer growth during 2011 as base effects diminish.
- The data provide further evidence that consumption continues to recover. However, other recent economic releases suggest that the overall economic recovery remains fragile, with production still taking strain. We expect the Reserve Bank's Monetary Policy Committee (MPC) to keep interest rates steady throughout next year before starting to hike towards the middle of 2012.

Table 1 : Retail sales

	October Y-o-y%	October M-o-m%	September Y-o-y%	Nedbank Forecast Y-o-y%	Market Forecast Y-o-y%
Total	6,1		6,0	5,8	6,0
Seasonally adjusted		0,7			

Source: Statistics South Africa, Reuters, Nedbank

Comment

Retail sales remained strong in October, indicating resilience in consumer spending, and supported by better consumer confidence and lower interest rates.

The 'general dealers category', which accounts for about 40% of total sales, increased by 4,7% y-o-y, moderating from 5,7% recorded in September. Sales of 'textiles, clothing, footwear and leather goods' performed well in October, rising by 9,2% y-o-y, while that of 'household furniture, appliances, equipment' and 'pharmaceuticals, medical goods and cosmetics' increased by 17,1% y-o-y and 17,4% y-o-y respectively following 16,8% and 10,8% y-o-y growth in September. However, sales of 'hardware, paint & glass' remained weak, falling by 0,7% y-o-y, but the rate of decline has moderated from 1,6% y-o-y recorded in September and was better than the double digit drops recorded in 2009 and earlier this year.

So far this year, retail sales rose by 4,4% compared with the first ten months of last year, with all the major categories of sales, except 'hardware, paint and glass' recording growth.

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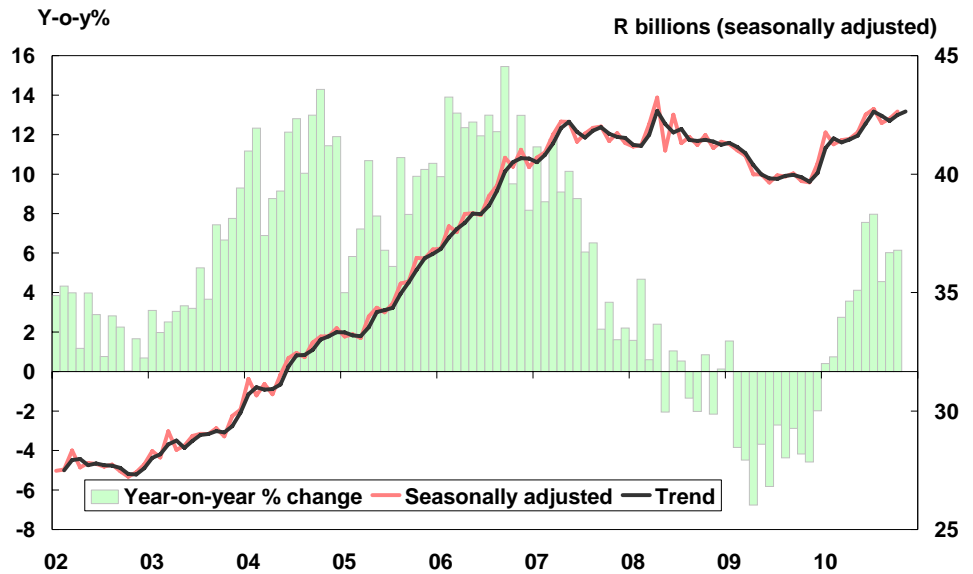
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Important disclosures can be found in the Disclosures Appendix.

Chart 1 : Retail sales



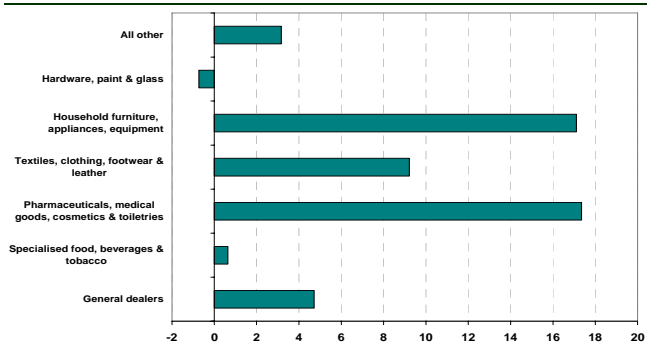
Source: Statistics South Africa

Outlook

Annual growth in retail sales is likely to remain strong in November and December, reflecting the base effect, better consumer confidence and some boost from festive spending. The latest FNB/BER consumer confidence index, which polls consumer attitudes and expectations, showed that confidence of high earners increased during the fourth quarter, while that of middle income earners remained unchanged, with the respondents in the middle and high earner categories expressing that it is a good time to purchase durable goods.

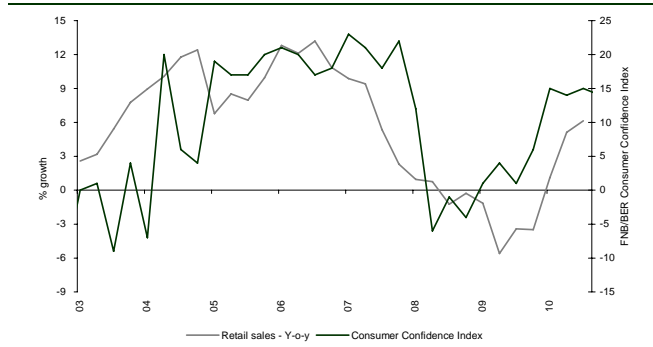
While retail sales will continue to be supported by lower interest rates, rising household income and attractive retail prices during 2011, sales growth is likely to show a softer trend as the base effects diminish.

Chart 2 : Annual growth in retail sales by sector



Source: Statistics South Africa

Chart 3 : Confidence indices and retail sales



Source: Statistics South Africa and BER/FNB

Implications

Today's retail sales data provide further evidence that consumption continues to recover. However, other recent economic releases suggest that the overall economic recovery remains fragile, with production still taking strain. This, against the backdrop of a strong rand and subdued inflation should prompt the Reserve Bank's Monetary Policy Committee (MPC) to keep interest rates steady throughout next year before starting to hike towards the middle of 2012.

Table 2 : Breakdown of retail sales: Y-o-y% (NSA)

	General dealers	Specialised food, beverages & tobacco	Pharmaceuticals, medical goods, cosmetics & toiletries	Textiles, clothing, footwear & leather	Household furniture, appliances, equipment	Hardware, paint & glass	All other	Total
Weight	39.7	9.6	6.7	18.4	5.4	7.0	13.2	100
Jan-09	1.9	9.2	1.0	4.4	-5.4	-7.3	-0.1	1.5
Feb-09	-1.6	-1.1	-8.2	-1.3	-5.1	-20.0	-2.7	-3.8
Mar-09	-2.8	-6.4	3.1	-7.7	-9.3	-16.0	1.8	-4.5
Apr-09	-3.9	2.8	-1.7	-3.2	-10.5	-27.7	-13.5	-6.8
May-09	-4.1	0.2	-0.1	2.6	-7.7	-20.0	-4.5	-3.7
Jun-09	-5.0	2.3	6.5	-7.6	-10.3	-20.6	-5.0	-5.8
Jul-09	0.8	2.4	-1.1	-0.5	-6.6	-14.9	-9.8	-2.7
Aug-09	-0.8	-1.0	3.8	-3.5	-10.5	-23.2	-7.5	-4.4
Sep-09	-0.4	-4.1	0.2	0.3	0.1	-18.5	-6.8	-2.9
Oct-09	-1.3	-7.1	0.7	0.0	-6.8	-17.8	-8.3	-4.2
Nov-09	0.4	-5.3	2.1	-7.9	-3.1	-22.5	-5.4	-4.6
Dec-09	-0.2	-2.2	1.0	-0.9	2.9	-7.6	-10.5	-2.0
2009	-1.4	-1.1	0.6	-2.1	-5.7	-18.3	-6.2	-3.6
Jan-10	-0.5	-1.9	5.4	8.6	2.3	-17.0	-1.5	0.4
Feb-10	1.7	-0.1	6.5	6.1	6.0	-13.7	-5.0	0.7
Mar-10	0.6	7.9	8.2	10.4	9.8	-8.8	-2.8	2.7
Apr-10	2.3	-0.7	13.4	7.3	18.7	-7.5	-1.1	3.6
May-10	3.5	2.5	11.3	4.0	17.3	0.6	0.3	4.1
Jun-10	8.3	1.4	2.9	12.0	16.9	-2.5	6.9	7.6
Jul-10	9.4	2.4	13.4	9.8	13.9	-6.6	7.9	8.0
Aug-10	4.1	-1.7	4.9	5.8	20.9	5.2	1.6	4.6
Sep-10	5.7	2.9	10.8	9.1	16.8	-1.6	2.0	6.0
Oct-10	4.7	0.6	17.4	9.2	17.1	-0.7	3.2	6.1
year to date	4.0	1.3	9.4	8.1	13.9	-5.3	1.0	4.4

Source: Statistics South Africa

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