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BUREAU OF MARKET RESEARCH



**RETAIL TRADE SALES FORECAST FOR
SOUTH AFRICA, 2014**

Research Report No 443

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PREFACE

The Economic Research Division of the Bureau of Market Research (BMR) has conducted a forecast for formal retail sales in South Africa on an annual basis for more than 25 years. Building on the past tradition and working in collaboration with members of the BMR's Household Wealth Research Division, the 2014 research calendar once again includes a forecast for formal retail sales. However, in response to syndicate sponsor members' demands, the 2014 forecast differs from the conventional method applied before 2013 by the inclusion of an econometric forecasting model. As in 2013, the 2014 report includes innovative analyses featuring seasonal trend analysis and breakdowns of retail trade sales patterns according to outlet type. These additions are largely complementary to the traditional BMR forecast that mainly featured a forecast by product group and retail prices. By taking into account the prospects of both the 2014 local and national economies, the BMR estimates formal retail sales to grow by 2.8% in 2014. At an estimated 4.7% average price increase in retail items for 2014, total formal retail sales at current prices are expected to amount to R751 229 million. Retail outlets that are expected to show the highest growth rates (in nominal terms) are clothing, footwear and leather retailers (10.2% nominal growth), followed by retailer hardware outlets (9.7% nominal growth). Turning to the forecast of retail expenditure by product group in constant terms, the BMR expects the highest retail demand increases for computer and related equipment and recreational and entertainment goods (above 6.0%). Overall, semidurable goods are anticipated to increase by 5.1% while durable and nondurables are most likely to grow by 4.4% and 1.8% respectively. When compared to 2013, only nondurable retail goods are anticipated to grow at a higher rate in 2014 (2013 = 0.9%).

The report was compiled by Prof DH Tustin, Prof CJ van Aardt, Dr JC Jordaan, Mr JA van Tonder and Ms J Meiring. The typing and technical layout of the report was done by Mrs E Koekemoer (BMR Senior Research Coordinator) while Mrs C Kemp (BMR Language Editor) was responsible for the language editing.

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CHAPTER 1

INTRODUCTION AND RESEARCH METHODOLOGY

1.1 INTRODUCTION

Available data indicates that household income growth is under pressure giving rise to a situation where household expenditure growth is being severely constrained. The relatively low GDP growth rate expected for South Africa during 2014 together with low propensities to employ among businesses will also give rise to sluggish employment growth during 2014, which will put household finances under further pressure. The 50 basis point hike in the repurchase rate by the South African Reserve Bank (SARB) during January 2014 will impact household demand negatively in various ways, contributing to lower growth in household consumption expenditure during 2014. Given the anticipated lower growth in household incomes and expenditures the key question remains how these developments are most likely to impact on the formal retail trade sector of South Africa in 2014. This report aims to provide some clarity in this regard.

During 2013 the Bureau of Market Research (BMR) revamped the way in which annual formal retail trade sales for South Africa are forecasted by employing a macroeconomic forecasting model to arrive at estimates of greatest likelihood. This methodology differs from the previous forecasting model used prior to 2013, which was a mixed method of expert-based forecasting combined with exponential smoothing (as key qualitative forecasting technique) and a backcast retail trade sales time-series model. Although this mixed method of forecasting has not been discarded entirely from the said 2013 retail forecast onwards, its application has been reinforced by the new macroeconomic forecasting model. To align with past practices this report commences with an overview of the international and local macroeconomic environment that serves as a platform for producing retail trade sales estimates of greatest likelihood for 2014.

1.2 RATIONALE FOR METHODOLOGY

South Africa's economic performance correlates closely with international economic events, largely supporting the rationale to first investigate the relationship and/or interdependence between local economic performance and international growth. Generally, strong international economic growth rates result in good performance by the South African economy. Econometric analysis shows a 0.89 correlation between real global gross domestic product (GDP) and real South African GDP during the 2000 to 2012 period and a correlation of 0.96 between the United States and South African GDP.

The strong relationship between international economic events and the South African economy (especially after 2000) can largely be attributed to the openness of the South African economy. More specifically, the extent of openness of the South African economy is determined by the extent of international trade. In this regard, SARB estimates that South Africa's imports and exports comprise almost 60% of South Africa's GDP (58.5% in 2013Q3) (SARB 2013). It therefore follows that an international economic upswing should ultimately stimulate South African exports and imports, while a downswing will lead to a slowdown in South African exports and imports.

Due to the strong relationship between global and South African economic growth and consequently the impact of international economic conditions on South Africa's economic performance, it is critically important to gauge international economic growth before estimating the South African economic growth and retail trade sales in particular.

Against this background, the International Monetary Fund (IMF), as a credible independent international institution, measures and forecasts world economic growth. The IMF estimates that the world economy is expected to expand by 3.7% during 2014 in real terms (excluding inflation), set to accelerate to 3.9% in 2015 (IMF 2014).

A downside risk to this global outlook is said to persist due to unexpected tighter financial conditions, geopolitical risks and prolonged sluggish economic growth. However, the IMF acknowledges the improved confidence in the sustainability of a US economic recovery and the long-term viability of the euro area. In this light, paired with improved final demand in advanced economies and a rebound in exports in emerging economies, the IMF has produced the relatively optimistic growth forecast shown above in its World Economic Outlook Update in January 2014 (IMF 2014). It mentions that the probability of global growth falling below 2.0% during 2014 has decreased significantly (probability of below 10%) compared to previous expectations.

Given the introductory analysis, it is clear that South African economic growth – and therefore retail trade sales – can follow two pathways, depending on the outcome of international economic growth. Should world economic growth pan out positively as foreseen by the more optimistic IMF scenario, South African economic growth and retail trade sales will perform better than expected. However, if international policy makers act less favourably, South African economic growth and retail trade sales performance are expected to be weaker. Furthermore, domestic events such as prolonged labour strikes, the rate at which SARB's repurchase rate is hiked during 2014, levels of political and social stability given that 2014 is election year, investor sentiment regarding South Africa (as reflected by local business confidence indices as well as international rating agencies) and constrained capacity in the form of infrastructure and supportive economic policy could also impact South African economic growth and, in turn, retail sales.

As a result of this uncertainty, the 2014 South African retail trade sales growth at the macrolevel was forecasted following three different scenarios. The first scenario assumes a 3.8% world economic growth rate (optimistic scenario), the second scenario assumes a world economic growth rate of 3.7% (baseline scenario) and the third scenario assumes a world growth rate of 3.4% (pessimistic scenario). It needs to be noted that for purposes of the macroeconomic modelling exercise giving rise to

household consumption expenditure and retail sales estimates, the said 3.7% world growth assumption (see table 1.3) was used as basis for forecasting the 2014 formal retail trade sales.

1.3 **MACROECONOMIC FORECAST**

The macroeconomic forecast was done using a macroeconometric model that was developed by the Bureau of Market Research (BMR), based on a Keynesian demand-side structure.

To produce forecasts for retail sales, a separate set of econometric equations were estimated where retail sales constitute a function of household consumption expenditure and interest rates (if statistically significant). The final results for the subcomponents of retail sales are restricted by the growth forecasted in the model for household consumption expenditure.

A more confined inspection of interdependencies is shown in table 1.1, which displays the coefficient sizes (in natural logs) of the long-run equations of the subcomponents of household consumption expenditure with respect to total household consumption expenditure and interest rates (where statistically significant) in real terms. The durable recreational and entertainment goods sector shows the largest coefficient of 2.58. This can be interpreted as that for every one per cent increase in household consumption expenditure, sales of recreational and entertainment goods increase by 2.58 per cent (and vice versa). Higher coefficients are expected for durable goods and this can be interpreted that such goods can outperform other sectors in economic upswing periods, but suffer the most in economic downturns. The motorcar tyres, parts and accessories sector has the lowest coefficient of 0.36 while the food, beverages and tobacco sector also has a low coefficient of 0.43. As a result, for every one per cent increase in household consumption expenditure, sales in the food, beverages and tobacco sector increase by only 0.43 per cent on average.

Prime interest rates are not significant for any of the nondurable goods sectors. This emphasises the nature of these goods (that they are short-term in nature and as such are not financed through long-term loans). The clothing and footwear (semidurable) sector shows the highest coefficient with respect to the prime interest rate (for every one per cent increase in the prime rate, sales of clothing and footwear decrease, on average, by 0.51 per cent). This is an interesting result as one would expect durable goods to have higher coefficients with respect to prime rates.

The R^2 is an indication of the goodness of fit (the manner to which the movement in total household consumption expenditure and interest rates, where applicable, explain the variation in the particular expenditure subcomponent); a value closer to 1 indicates a better fit.

TABLE 1.1

**COEFFICIENT SIZES OF THE SUBCOMPONENTS OF HOUSEHOLD CONSUMPTION
EXPENDITURE TO HOUSEHOLD CONSUMPTION EXPENDITURE**

Components	Subcomponents	Household consumption expenditure	Prime	R ²
Durable goods	Furniture, household appliances, etc	1.22	-0.12	0.98
	Personal transport equipment	0.24	-0.52	0.81
	Computers and related equipment	1.52	-0.50	0.92
	Recreational and entertainment goods	2.58	Ns	0.98
	Other durable goods	1.16	ns	0.93
Semidurable goods	Clothing and footwear	1.71	-0.51	0.99
	Household textiles, furnishings, glassware, etc	1.57	-0.12	0.98
	Motorcar tyres, parts and accessories	0.36	-0.31	0.75
	Recreational and entertainment goods	1.65	ns	0.95
	Miscellaneous goods	1.40	-0.25	0.99
Nondurable goods	Food, beverages and tobacco	0.43	ns	0.94
	Household fuel and power	0.79	ns	0.91
	Household consumer goods	1.41	ns	0.98
	Medical and pharmaceutical products	0.64	ns	0.86
	Petroleum products	1.09	ns	0.95
	Recreational and entertainment goods	0.77	ns	0.93
Services	Rent	0.61	ns	0.97
	Household services, including domestic servants	0.70	ns	0.99
	Medical services	1.83	ns	0.97
	Transport and communication services	1.67	ns	0.97
	Recreational, entertainment and educational services	0.92	-0.22	0.93
	Miscellaneous services	1.53	ns	0.95

* ns – Not significant; all the variables that are included in the table are statistically significant at a 5% level.

Source: BMR macroeconomic model

Key economic and household indicators used as a base to predict 2014 retail sales are shown in table 1.2. The retail forecasts are modelled as a baseline scenario, but the optimistic and pessimistic scenarios provide an indication of expectations in the light of the uncertainty in the world economy in particular. As indicated above, only the baseline core data shown in table 1.2 were used for modelling purposes to derive 2014 household consumption expenditure and retail sales estimates of greatest likelihood (contained in chapter 3).

The BMR baseline scenario shows that during 2014 the South African GDP is expected to expand in real terms (adjusted for inflation) at 2.8%, while CPI inflation is expected to average at 5.7%. The South African prime rate during early January 2014 is expected to remain constant during the year at 8.5%, provided that no price shocks should hit South Africa. The emerging market contagion following the Turkish lira crisis and indications of tapering by the US Federal Reserve with respect to their bond buying programme during late January 2014, however, provided sufficient pressure on SARB to increase the repo rate. Continuing sluggish domestic economic and employment growth could cause SARB to keep the repo rate unchanged for the remainder of 2014. It is also expected that the US Federal Reserve will keep their rates constant during 2014 and that an upward cycle in international interest rates in large developed economies may only start featuring late in 2014 or early 2015. Household consumption expenditure is expected to grow at 2.8% in real terms and 8.4% in nominal terms, while household credit extension is expected to increase by 7.6% during 2014. However, there are a number of uncertainties and risks that will influence the forecasts (see section 1.4). If required, an update of the formal retail trade forecast will be made available by mid-year to reflect any new information affecting the current forecast.

TABLE 1.2

KEY ECONOMIC AND HOUSEHOLD CONSTRUCT INDICATORS, 2014

Key constructs	Optimistic scenario	Baseline scenario	Pessimistic scenario
	%	%	%
World GDP (real)	3.80	3.70	3.40
US GDP (real)	3.0	2.80	2.60
South Africa: GDP growth (real)	3.10	2.80	2.50
Consumer Price Index (CPI)	5.50	5.70	6.10
Production Price Index (PPI)	5.40	5.80	6.20
Household consumption expenditure growth (real)	3.20	2.80	2.50
Household consumption expenditure growth (nominal)	10.00	8.40	7.60
Household credit extension	8.90	7.60	5.40

Source: BMR macroeconometric model

1.4. **INTERNATIONAL AND DOMESTIC RISKS THAT CAN INFLUENCE THE FORECAST**

There are a number of international and domestic risks that may influence the outcome of the 2014 BMR forecasts. These include, but are not limited to the following international and local risks:

International risks:

- Quicker than expected tapering of quantitative easing by the United States Federal Reserve. This can result in further outflows of foreign portfolio investment that could lead to a further depreciation in the rand and weakening government bonds.
- Tapering by the US taking place too rapidly, causing the US economy to slow down or move into a recession, dragging the world economy back into a recession. Such tapering will also give rise to an emerging country contagion that could severely impact South Africa, given that it is a low-growth emerging country.
- Slower economic growth in China (and emerging markets). This can result in lower global growth, lower business confidence and lower commodity prices that could hurt domestic exports and lead to a further depreciation of the rand. It can also impact levels of investment negatively, and here especially by mining companies. An emerging market crisis, for example instability in Turkey, may also result in an outflow of domestic portfolio investment from South Africa. South African markets are, in some cases, used as a proxy for sentiment in emerging markets, given the well-developed financial markets and easy tradable currency.
- Additional problems in the euro area. This can range from continued slow growth to further threats of one or two countries leaving the euro zone (especially in the Southern EU countries). This could have a further negative impact on the demand for South African exports to the EU.
- Turmoil in the Middle East that may result in escalating crude oil prices (impacting domestic fuel prices).

South African risks:

- Increased strike action, resulting in a further loss of confidence in the South African economy. This could result in a further depreciation of the rand, lower levels of investment, lower levels of imports, lower consumption expenditure and a lower GDP growth rate.
- Electricity shortfall and load shedding. This could result in a loss of confidence, a loss in production and slower economic growth.
- A relatively large (and potentially increasing) budget deficit. The latest budget deficit figure of 4.3% of GDP could increase if government expenditure increases in excess of the increase in tax income. This could result in further disinvestment of especially portfolio investment that could lead to a further depreciation of the rand.
- A large trade deficit (currently at 6.8% of GDP). This is as a result of continued higher levels of imports compared to exports. Foreign inflows (especially portfolio flows) are needed to finance the deficit, and a withdrawal of these funds could result in a sudden depreciation of the rand.
- South Africa receiving further rating downgrades, resulting in the country's sovereign rating to reach close to (or) 'junk' status. This could result in further portfolio investment outflows as international investors re-allocate their portfolios to adjust for risk and return.
- Political unrest and social instability before, during and after the national election scheduled for 7 May 2014. This could result in a depreciation of the rand, lower investment and lower economic confidence.
- Increased service delivery failures by government and municipalities that could result in greater civil unrest and further service delivery protests. This could impact economic confidence and result in lower economic growth.
- Unemployment levels (especially youth unemployment) as well as poverty levels remaining high, possibly resulting in civil unrest.
- Credit amnesty coming into action, impacting the spending behaviour of consumers and, in turn, economic growth.

- Increased corruption, giving rise to higher business and consumer vulnerability levels as well as lower business and household confidence levels.
- Redistribution of land without proper compensation.
- Nationalisation of mines or other assets without proper compensation.
- A sudden increase in inflation (above SARB's target range) as a result of exchange rate depreciation and increased prices of goods (ie food (meat) prices). Higher prices could increase living costs, especially for the poor. This may lead to further strike action as well as further hikes in the Reserve Bank's repurchase rate. Should SARB increase the repo rate too soon and too quickly as a result of higher inflation, this will result in slower economic growth and increasing debt burdens of consumers.
- Extreme weather, influencing especially food security and water supply (ie droughts and floods).

1.5 CONCLUSION

This chapter provided an overview of the macroeconomic model used to predict the economic performance of the South African economy, and ultimately retail trade sales, for 2014 as well as the potential risks that may influence the forecast. The next chapter presents a longitudinal analysis of retail trade sales by outlet and product group. This analysis also presents some comparative analysis between retail prices by outlet type and CPI. Such analysis is supplemented and concluded with forecasts for formal retail trade sales by outlet and product group for 2014, provided in chapter 3. The final chapter presents an overview and some concluding remarks.

CHAPTER 2

RETAIL TRADE SALES ANALYSES

2.1 INTRODUCTION

Retail trade includes the resale (sales without transformation) of new and used goods and products to the general public for household use. By definition, a retailer includes any enterprise deriving more than 50% of its turnover from sales of goods to the general public for household use (Stats SA 2013). Retail sales figures provided by Statistics South Africa (Stats SA) cover retail enterprises according to the following types of retailers:

- General dealers
 - Retail trade in nonspecialised stores with food, beverages and tobacco predominating
 - Other retail trade in nonspecialised stores

- Retail trade in specialised food, beverages and tobacco stores
 - Retailers in fresh fruit and vegetables
 - Retailers in meat and meat products
 - Retailers in bakery products
 - Retailers in beverages
 - Retailers in tobacco
 - Retailers in other food in specialised stores

- Retailers in pharmaceutical and medical goods, cosmetics and toiletries

- Retail trade in textiles, clothing, footwear and leather goods
 - Retailers in men's and boys' clothing
 - Retailers in ladies', girls' and infants' clothing

- General outfitters
- Retailers in footwear

- Retailers in household furniture, appliances and equipment
- Retailers in hardware, paint and glass
- Other retailers
 - Retailers in reading matter and stationery
 - Retailers in jewellery, watches and clocks
 - Retailers in sports goods and entertainment requisites
 - Retailers in other specialised stores
 - Repair of personal and household goods

Retail sales by mail order houses, vending machines, agricultural establishments, manufacturing establishments and the informal retail trade are not reflected in Stats SA's retail sales figures.

Informal retail trade includes spaza shops (small outlets in the traditionally African townships, which provide convenience shopping for residents), street hawkers and the more organised flea markets, which have proliferated in most major cities and towns. However, it should be noted that some of the retail sales channelled through the informal sector might be sourced from the formal retail sector and could therefore be included in the retail sales figures of the formal sector.

In South Africa, retail trade sales data are collected monthly from formal retailers mainly by Stats SA who samples approximately 2 500 enterprises per month (Stats SA 2013). The results of the monthly retail trade sales data are used to, inter alia, compile estimates of GDP and to analyse business and industry performance. It should be noted, however, that Stats SA effected changes to the retail trade sales statistics during

2013. In some instances the changes were substantial and affected past seasonal patterns, growth rates as well as market shares of retailer outlets.

For purposes of this study, retail trade sales data of Stats SA and household consumption and income and expenditure data of SARB and the BMR were used as primary input sources to forecast 2014 retail trade sales by product group and outlet. It is important to note that Stats SA has introduced a new retail trade time series since 2002, which displays retail trade figures by outlet only. This approach differs from past practices (prior to 2002) when Stats SA published retail trade data by product group. These changes largely motivated the revamping of the BMR retail trade sales forecast approach, which, from 2013, also features retail sales predictions by retail outlet. However, to maintain reporting by retail product group, the 2014 retail trade projections by product group are based on historical data captured by SARB (household consumption expenditure) and the BMR (household income and expenditure and household assets and liabilities). It is also important to note that expenditure figures in South African retail statistics include expenditure on goods not classified as retail items. Such goods include personal transport equipment (eg motorcars, motorcycles, bicycles and caravans), motorcar tyres, tubes and parts and accessories, and petroleum products (covered separately in motor trade statistics). Likewise, expenditure on household fuel and power consists mainly of expenditure on electrical power that is supplied by local authorities, not the retail trade.

The BMR retail trade analysis is presented against this background in this chapter. More specifically, the chapter reflects the analysis of retail trade sales by outlet and product group from 2002 to 2013. As a new addition to the retail sales forecast approach of the BMR, the chapter also presents a longitudinal analysis of the retail prices and seasonal patterns experienced by type of retail outlet. A forecast of retail trade sales of greatest likelihood for 2014 is presented in chapter 3.

2.2 RETAIL SALES PATTERNS BY OUTLET

It is a well-documented fact that consumer purchasing patterns change over time. This phenomenon could be ascribed to a myriad of factors such as technological changes, which give rise to advanced products, development of new products, new marketing methods, new tastes, town planning, which affects settlement and residential development, construction of large retail outlets, online purchasing, and many more. In addition to real growth (volumes) in retail trade sales, the changing purchasing patterns of consumers affected the market shares of retailer outlets. The market shares are illustrated below in table 2.1 as well as figures 2.1 and 2.2, as sourced from the historic retail information system of Stats SA.

TABLE 2.1

MARKET SHARES OF RETAIL OUTLETS, 2005 – SEPTEMBER 2013 (CURRENT PRICES)

	General dealers	Food, beverages, tobacco	Pharmaceuticals	Clothing, footwear	Furniture, appliances, equipment	Hardware	All other retailers
2005	35.3	9.9	6.4	20.7	8.5	8.2	11.1
2006	35.4	9.7	6.0	20.3	8.5	9.0	11.1
2007	36.4	9.5	6.1	20.0	7.5	9.1	11.5
2008	37.1	9.4	6.4	20.3	6.3	9.0	11.5
2009	38.6	9.6	7.0	20.0	5.8	7.8	11.1
2010	38.6	9.4	7.5	20.4	6.0	7.4	10.7
2011	39.0	9.1	7.5	20.3	5.8	7.7	10.5
2012	39.2	9.3	7.4	20.5	5.5	7.8	10.3
2013*	39.6	9.1	7.4	20.6	4.8	8.1	10.4

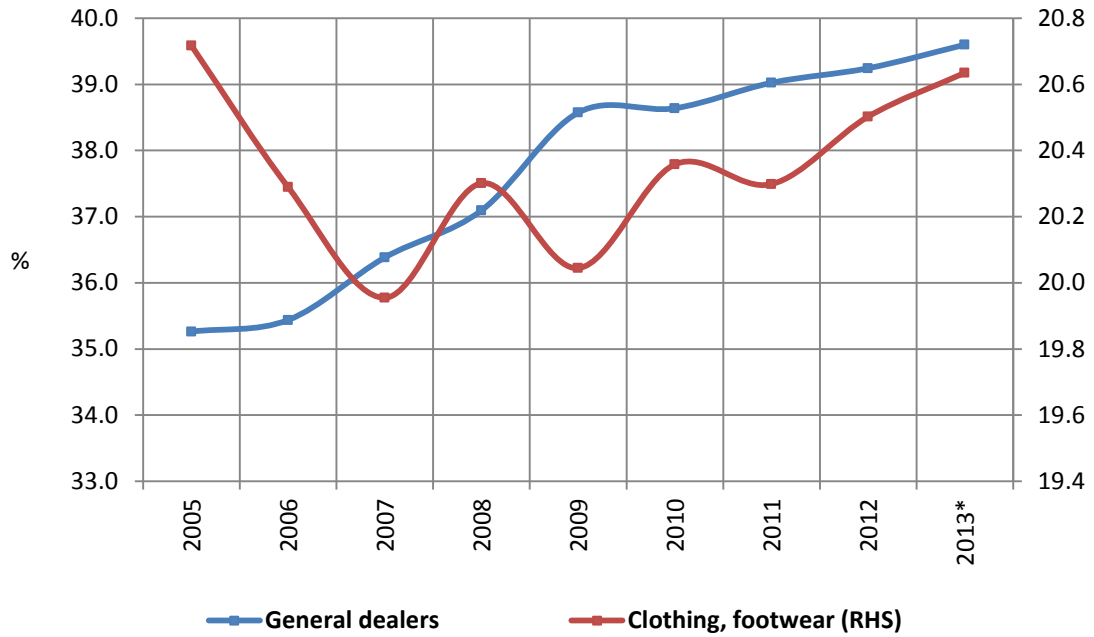
*January to September 2013 (Stats SA 2013)

Source: Stats SA 2013

Prior to interpreting the data reflected in table 2.1, figures 2.1 and 2.2 present some additional supplementary longitudinal analysis (2005 – 2013) of the market share of retailers by outlet.

FIGURE 2.1

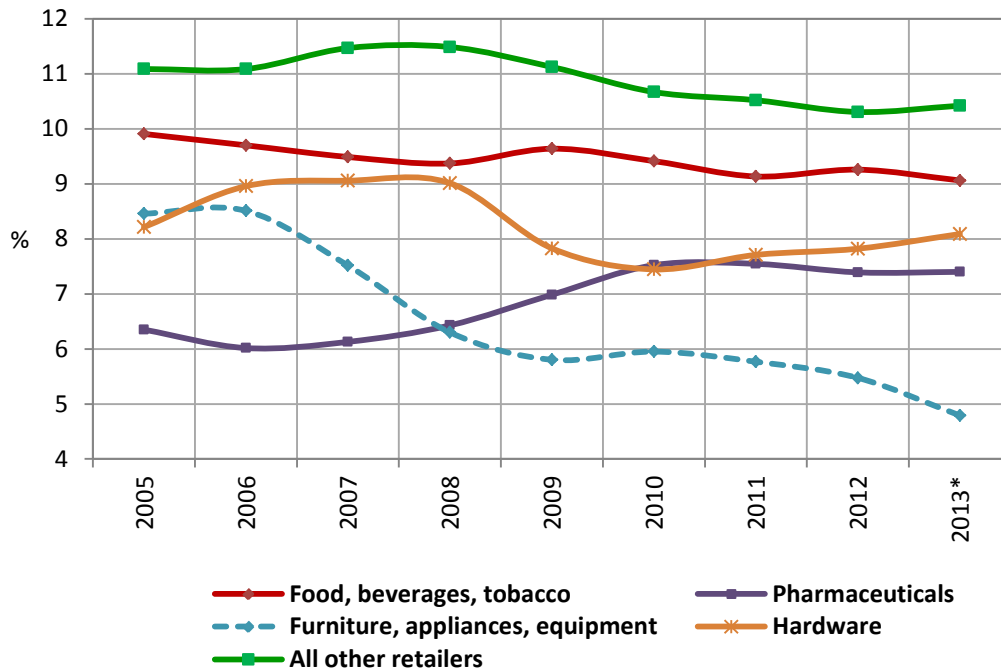
**MARKET SHARES OF THE TWO LARGEST TYPES OF RETAILERS:
GENERAL DEALERS AND CLOTHING AND FOOTWEAR RETAILERS:
JANUARY 2005 TO SEPTEMBER 2013 (CURRENT PRICES)**



*January to September 2013
Sources: Stats SA 2013, BMR calculations

FIGURE 2.2

**MARKET SHARES OF THE OTHER TYPES OF RETAILERS:
JANUARY 2005 TO SEPTEMBER 2013 (CURRENT PRICES)**



*January to September 2013

Sources: Stats SA 2013, BMR calculations

The following inferences can be made from the data presented in table 2.1 and figures 2.1 and 2.2:

- General dealers have gained market share since 2005, adding 4.3 percentage points between 2005 and September 2013.
- Specialised retailers in food, beverages and tobacco have gradually lost market share since 2005.
- Having initially lost market share, retailers specialising in pharmaceuticals, cosmetics and toiletries have clawed back 1.0 percentage point since 2005.
- Although retailers in clothing, footwear and leather goods lost market share between 2005 and 2009, they recently strengthened their position and are almost back at 2005 levels.

- Retailers selling furniture, appliances and equipment are continuing to lose market share at a rapid pace – they have lost 43.5% of their market share since 2005.
- Retailers in hardware, paint and glass lost market share up to 2009, but managed to stabilise their situation and are almost back at 2005 levels.

Apart from the normal factors affecting the market shares of retailers, the graphical displays in figures 2.1 and 2.2 show a clear trend change brought about by the economic recession of 2008/09. Some retailers were negatively affected by the recession, while others benefited. Although some retailers were able to regain the lost market share caused by the recession during the period 2009 to 2013, others are still struggling to maintain their reduced market share. More specifically, the following retailers gained market share after the recession:

- General dealers
- Retailers in pharmaceuticals, cosmetics and toiletries
- Retailers in hardware
- Retailers in clothing, footwear and leather goods

However, the following retailers lost market share during and after the recession:

- Retailers in food, beverages and tobacco
- Retailers in furniture, appliances and equipment

Retailers in clothing, footwear and leather goods maintained their market share during the recession and also recorded increased market share after the recession.

2.3 **SEASONAL PATTERNS BY TYPE OF RETAIL OUTLET**

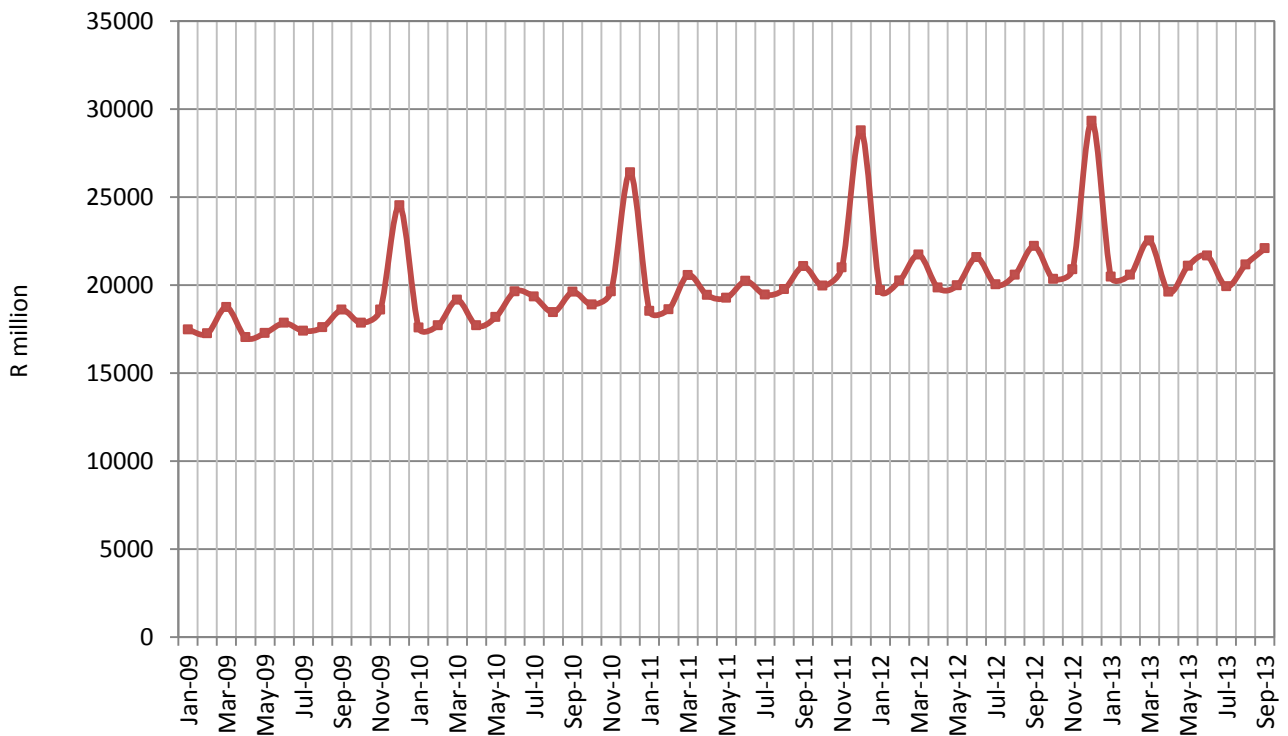
Notwithstanding the influences of the changing purchasing patterns of consumers, retailers also have to contend with seasonal patterns, which, among others things, affect their cash flow, stocking and new orders behaviour. Seasonal patterns are

brought about by many factors such as festive season shopping (December), the number and duration of public holidays, the month in which public holidays fall, school holidays, weather patterns, illnesses and international developments.

It needs to be noted that seasonal patterns cause different high- and low-selling months for retailers. Figures 2.3 to 2.8 provide an overview of the high- and low-selling months per type of retail outlet. The high- and low-selling months are based on an analysis of the real sales per retailer outlet for each month, which provide an indication of volume sales.

FIGURE 2.3

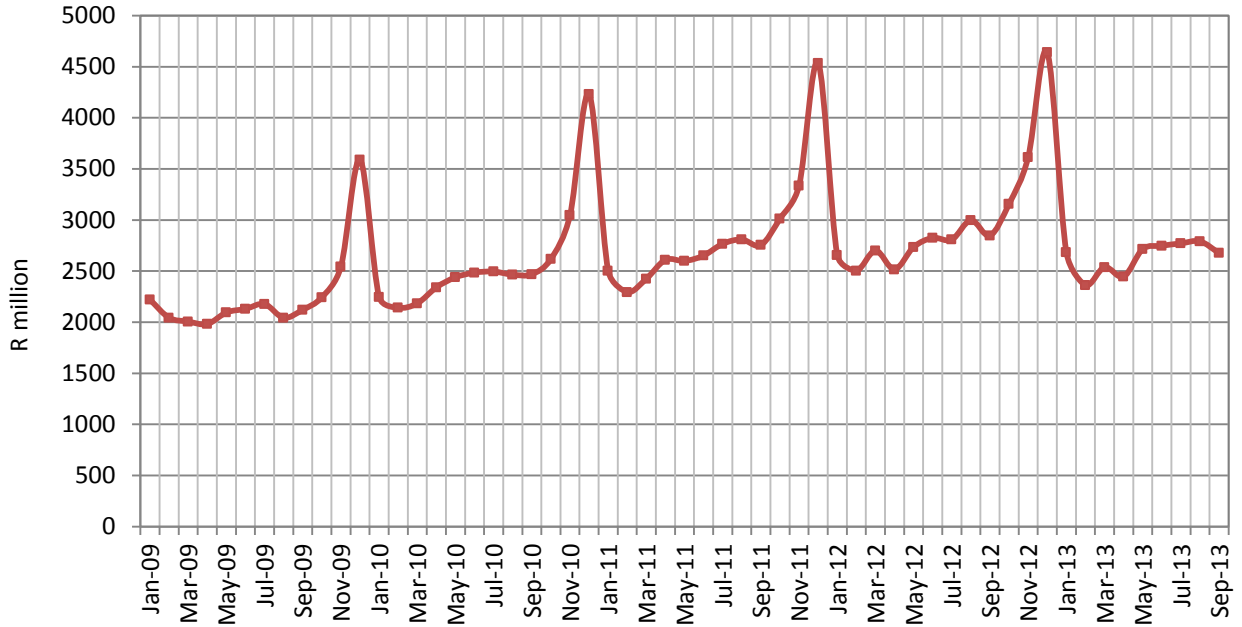
**HIGH- AND LOW-SELLING MONTHS OF GENERAL DEALERS
(CONSTANT PRICES: BASE YEAR 2012)**



Source: Stats SA 2013

FIGURE 2.4

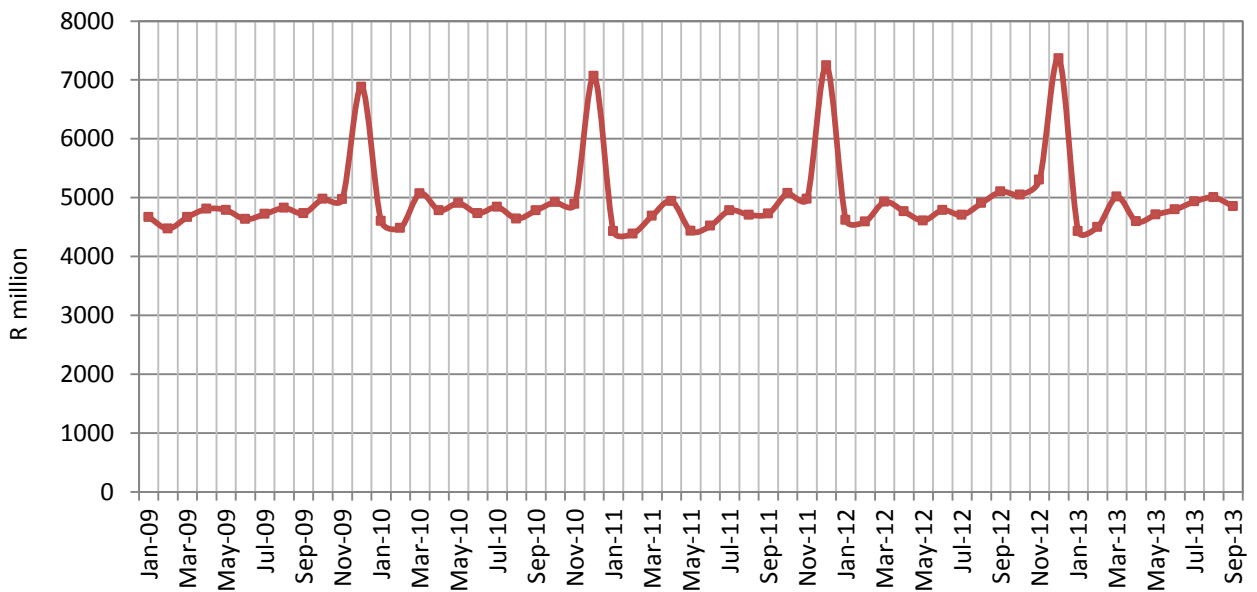
HIGH- AND LOW-SELLING MONTHS OF RETAILERS IN FURNITURE, APPLIANCES AND EQUIPMENT (CONSTANT PRICES: BASE YEAR 2012)



Source: Stats SA 2013

FIGURE 2.5

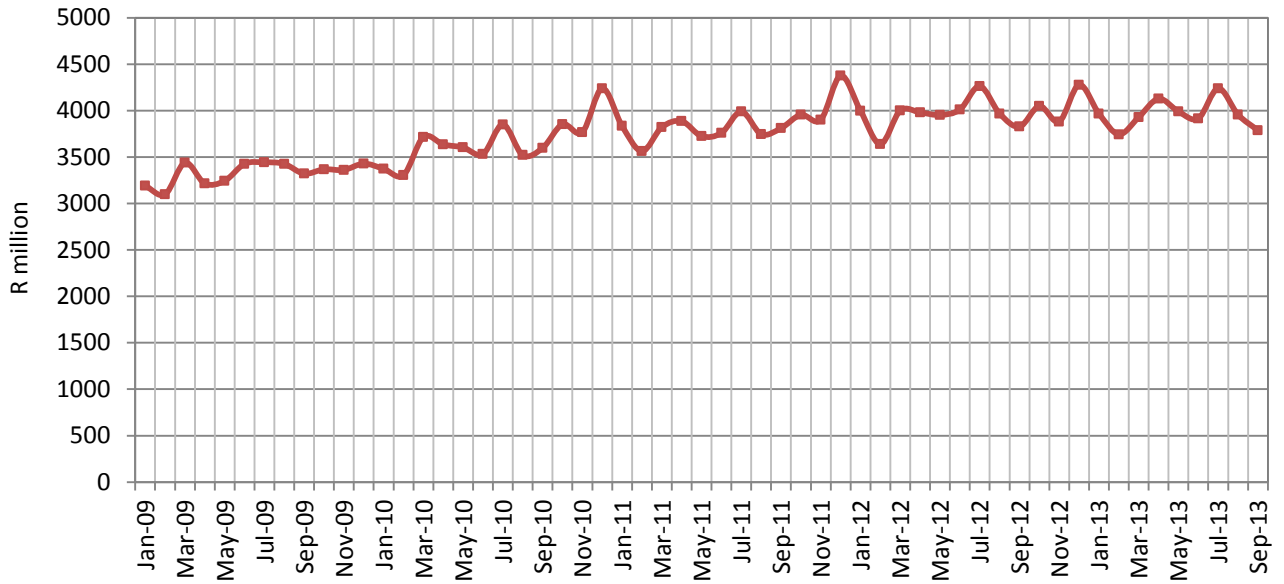
HIGH- AND LOW-SELLING MONTHS OF RETAILERS IN FOOD, BEVERAGES AND TOBACCO (CONSTANT PRICES: BASE YEAR 2012)



Source: Stats SA 2013

FIGURE 2.6

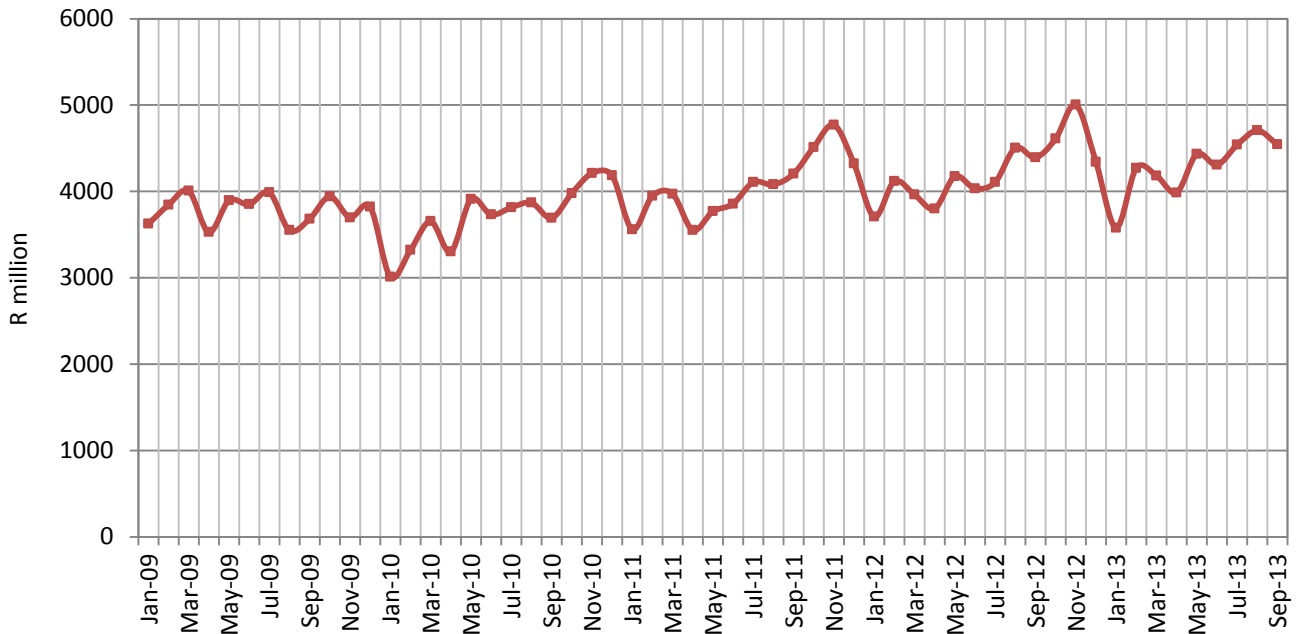
HIGH- AND LOW-SELLING MONTHS OF RETAILERS IN PHARMACEUTICALS, COSMETICS AND TOILETRIES (CONSTANT PRICES: BASE YEAR 2012)



Source: Stats SA 2013

FIGURE 2.7

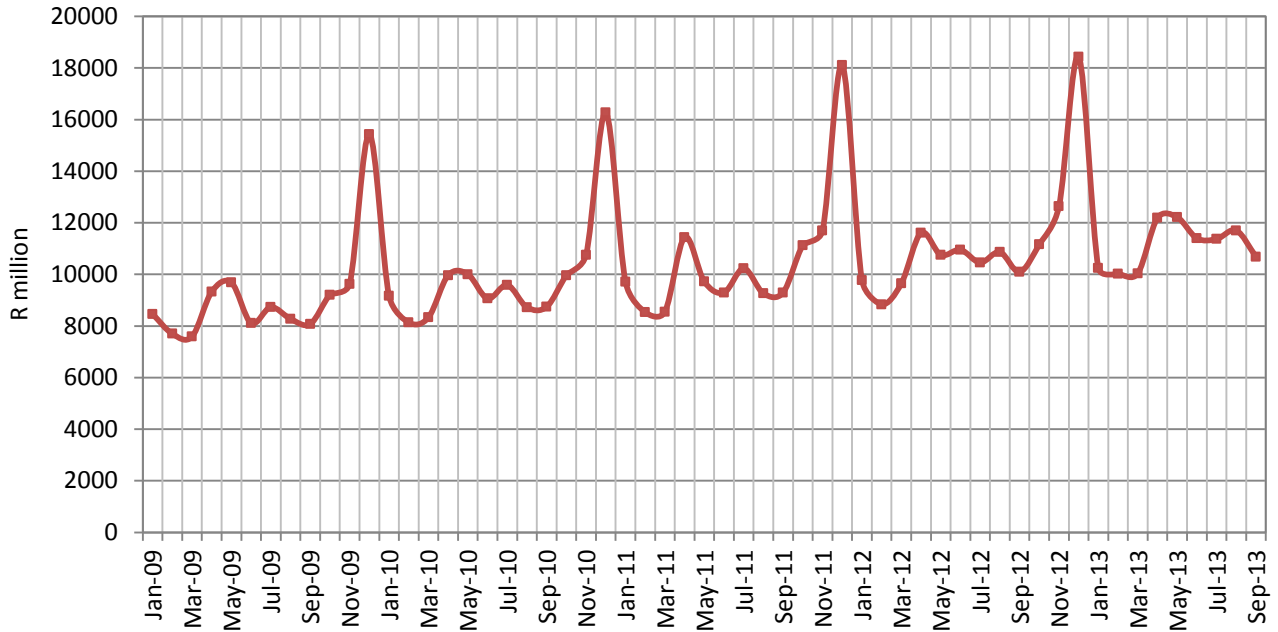
HIGH- AND LOW-SELLING MONTHS OF RETAILERS IN HARDWARE, PAINT AND GLASS (CONSTANT PRICES: BASE YEAR 2012)



Source: Stats SA 2013

FIGURE 2.8

HIGH- AND LOW-SELLING MONTHS OF RETAILERS IN CLOTHING, FOOTWEAR AND LEATHER GOODS (CONSTANT PRICES: BASE YEAR 2012)



Source: Stats SA 2013

To condense the information displayed in figures 2.3 to 2.8, exhibit 2.1 provides a summary of the high- and low-selling months by type of retail outlet. It is important to note that in some instances the high- or low-selling months do not correspond exactly with the normal seasonal pattern as a result of factors such as public or school holidays falling in a different month compared to the previous year. Where these and other seasonal factors disturb the normal pattern in a manner that makes it difficult to identify the month, both months are displayed (ie April/May) in exhibit 2.1.

EXHIBIT 2.1**HIGH- AND LOW-SELLING MONTHS PER TYPE OF RETAIL OUTLET**

Type of retailer	High-selling months	Low-selling months
General dealers	March, June, August/September, November, December	January, April/May, July, October/November
Food, beverages, tobacco	March/April, August, October/November, December	January/February, May/June
Pharmaceutical, cosmetics, toiletries	March, July, October, December	January, February
Clothing, footwear, leather goods	April/May, October/November, December	January, February, March, June, September
Furniture, appliances, equipment	August, October, November, December	January, February, September
Hardware, paint, glass	February, May, August, November	January, April

It is clear from the analysis presented above that December, being the month for festive season shopping, appears to be a high-selling month for almost all types of retailers, while January is a low-selling month.

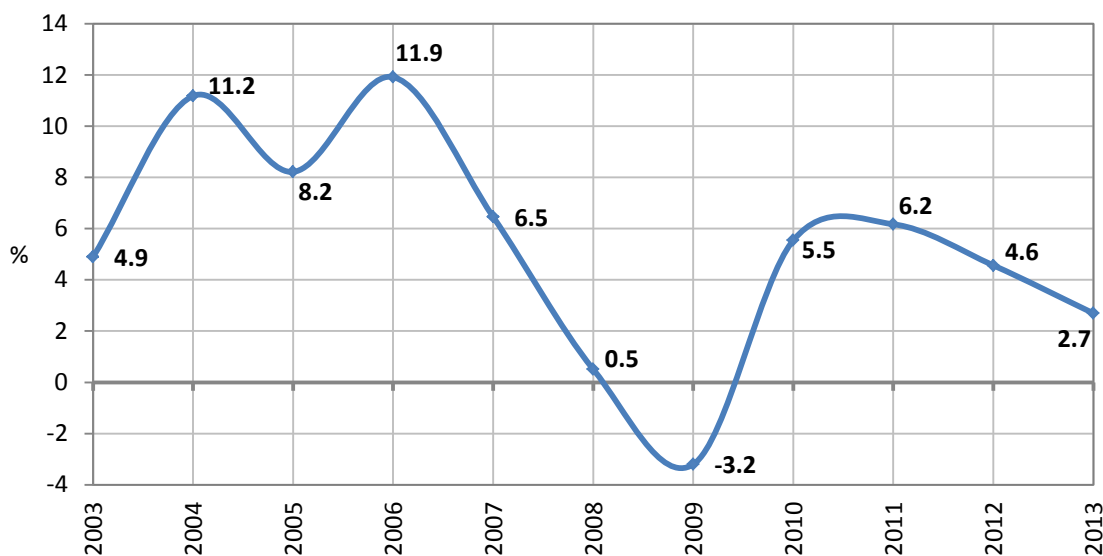
However, December is not the highest selling month for all retailers. Retailers in hardware, paint and glass experience their high point in November (probably as building and maintenance level off during the festive season in December). Retailers in pharmaceuticals, cosmetics and toiletries also have July as a high-selling month, mainly as a result of an increase in some illnesses during the winter months. Also, clothing, footwear and leather goods retailers experience high selling as the seasons change in addition to the festive season period. Most of the sales of retailers in furniture, appliances and equipment occur during December, with upticks also occurring during August and the months preceding the festive season. Retailers in food, beverages and tobacco experience high-selling months in line with the school holidays.

2.4 RETAIL SALES GROWTH TRENDS

As mentioned earlier, the above market shares were affected by the growth rates in volumes of each type of retailers. Such real annual growth rates in retail sales are shown in figure 2.9.

FIGURE 2.9

**REAL ANNUAL PERCENTAGE GROWTH IN RETAIL SALES:
2003 – SEPTEMBER 2013 (CONSTANT 2012 PRICES)**



*Year-on-year percentage change for January – September 2013

Source: Stats SA 2013

Over the 11-year period spanning 2003 to 2013 real retail trade sales averaged a healthy real annual growth rate of 5.4%. However, figure 2.9 shows three clear periods of growth – strong real growth up to 2007, weak and contractionary real growth in 2008 and 2009 and moderate real growth thereafter. The strong growth period includes a boom (2004 – 2007), recessionary (2008 – 2009) and post recessionary cycle. Excluding the boom and recessionary years, the real annual growth rate in retail trade sales averaged 4.8%. This can be interpreted as a fair representation of real retail sales growth in a year of average economic growth (about 3%).

It is important to note that the post recessionary boom period does not entail a consistent boom pattern but rather comprises a strong recovery after the recession during 2010 and 2011, followed by slower growth in 2013. It is expected that such slower growth will continue during 2014, especially due to the factors mentioned in section 1.4.

2.5 RETAIL TRADE SALES GROWTH AND CONTRIBUTIONS BY TYPE OF OUTLET

A more confined analysis of historic retail trade sale patterns by type of outlet reveals that the different types of retail outlets did not make consistent contributions to retail sales growth. This is evident from the annual real growth rates as displayed in table 2.2. The percentage contribution by retail outlet to such real annual growth in total retail trade sales is shown in table 2.3.

TABLE 2.2

**ANNUAL REAL % GROWTH RATES BY TYPE OF RETAILER: 2009 – 2013
(CONSTANT 2012 PRICES)**

	Total real retail sales	General dealers	Food, beverages, tobacco	Pharmaceuticals	Clothing, footwear	Furniture, appliances, equipment	Hardware, paint, glass	All other retailers
2009	-3.2	-0.5	-0.9	1.4	-2.0	-6.1	-18.1	-5.6
2010	5.5	5.5	1.0	10.1	7.7	14.6	-1.7	4.5
2011	6.2	6.2	-1.3	5.4	7.0	10.1	8.9	8.6
2012	4.6	4.0	3.1	3.2	6.5	5.0	4.3	5.3
2013*	2.7	1.7	-0.4	0.0	7.4	-3.5	4.7	3.8

* January – September 2013. Note: The growth rate for 2013 is not directly comparable to that of the other years as 2013 does not represent a full year.

TABLE 2.3**PERCENTAGE CONTRIBUTION BY TYPE OF RETAILER TO THE ANNUAL REAL GROWTH IN TOTAL RETAIL TRADE SALES: 2009 – 2013 (CONSTANT 2012 PRICES)**

	Total real retail sales	General dealers	Food, beverages, tobacco	Pharmaceuticals	Clothing, footwear	Furniture, appliances, equipment	Hardware, paint, glass	All other retailers
2009	-3.2	6.1	2.8	-2.9	12.4	9.6	54.2	18.0
2010	5.5	39.2	1.8	13.0	27.4	12.8	-2.4	8.2
2011	6.2	39.5	-2.2	6.5	22.7	8.6	10.9	13.9
2012	4.6	34.4	6.4	5.2	28.9	6.0	7.4	11.8
2013*	2.7	24.6	-1.4	0.1	56.1	-7.1	13.5	14.2

* January – September 2013. Note: The percentage contributions in 2013 are not directly comparable to those of the other years as 2013 does not represent a full year.

Following analysis of the growth rates and contributions to growth rates as displayed in tables 2.2 and 2.3 above, supported by the market shares shown in table 2.1, a number of observations can be made:

- The growth rate of retailers in hardware, paint and glass declined by 18.1% (see table 2.2) in 2009 compared to 2008 and this decline was responsible for more than half (54.2% - see table 2.3) the contraction of 3.2% in retail trade sales.
- Although retailers in furniture, appliances and equipment registered the highest growth rate of 14.6% during 2010, this growth was responsible for only 12.8% of the total annual retail sales growth of 5.5%. This is due to the small market share of this outlet type in total retail trade sales.
- General dealers contributed almost 40% to total retail trade sales growth in 2011 on account of strong growth of 6.2% and the largest market share.
- During the first nine months of 2013 general dealers had a moderate to weak sales year compared to its history and to other retail outlets. Its annual growth rate of 1.7% over the first nine months of 2013 was responsible for only 24.6% of total retail trade sales growth compared to 34.4% in 2012 and 39.5% in 2011.

- With its growth rate of 7.4% over the first nine months of 2013, retailers in clothing, footwear and leather was responsible for 56.1% of total retail sales trade growth of 2.7% for the first nine months of 2013.
- Retailers in hardware, paint and glass and retailers in clothing, footwear and leather kept total retail sales growth close to the 3% mark. The growth rate of retailers in hardware, paint and glass of 4.7% over the first nine months of 2013 equates to a contribution of 13.5% to total retail trade sales growth over the same period.

2.6 **CONCLUSION**

This chapter presented some longitudinal analysis of retail sales by outlet, seasonal retail trade and retail prices by retail type. The chapter concluded with some complementary trend analyses of retail sales by product type.

CHAPTER 3

RETAIL TRADE SALES FORECAST FOR 2014

3.1 INTRODUCTION

For any business planner it is imperative to firstly invest in the right enterprise, business venture and/or stocks and secondly to invest in them at the right time. Thus, the correct evaluation of the volume and timing of future sales is of the utmost importance. It is against this background that the BMR presents a forecast of estimated retail sales by product group for the year 2014. Retailers are obviously interested not only in forecasts of total annual sales but also in shorter-period forecasts of sales in specific product groups. This chapter presents the retail trade sales of greatest likelihood for South Africa for 2014 by retail outlet and product group. The chapter also reflects on the anticipated retail trade price increases for 2014. All forecasts are based on the BMR's macroeconometric forecasting model that was explained in chapter 1.

3.2 RETAIL SALES FORECAST BY RETAIL OUTLET

Tables 3.1 (at current prices) and 3.2 (at constant 2005 prices) summarise the BMR's retail trade sales forecast for 2014 by retail outlet.

TABLE 3.1

RETAIL TRADE SALES FORECAST GROWTH RATES FOR 2013 AND 2014 (CURRENT PRICES)

Retail outlet	2007	2008	2009	2010	2011	2012	2013*	2014*
	%	%	%	%	%	%	%	%
General dealers	15.63	13.79	9.02	7.13	10.19	9.34	6.93	7.26
Food, beverages, tobacco	10.01	10.70	7.64	4.43	6.14	10.17	5.74	6.92
Pharmaceuticals, cosmetics, toiletries	14.95	17.06	14.19	15.48	8.94	6.46	3.51	4.26
Clothing, footwear, leather goods	10.71	13.51	3.50	8.49	9.08	9.59	10.23	10.23
Furniture, appliances, equipment	-1.79	-6.49	-3.08	9.88	5.54	3.25	-2.93	1.56
Hardware, paint, glass	13.30	11.21	-8.78	2.15	12.51	10.41	9.44	9.66
Other	16.09	11.97	1.35	2.73	7.54	6.61	6.13	6.80
Total	12.38	11.67	4.86	7.01	9.10	8.70	6.82	7.51

* 2013 figures are based on data up to September and a forecast for September to December combined. 2014 figures are entirely forecasted.

Sources: Stats SA 2013; BMR macroeconometric model

TABLE 3.2

RETAIL TRADE SALES FORECAST GROWTH RATES FOR 2013 AND 2014
(CONSTANT 2012 PRICES)

Retail outlet	2009	2010	2011	2012	2013*	2014*
	%	%	%	%	%	%
General dealers	-0.51	5.51	6.18	3.99	2.01	2.18
Food, beverages, tobacco	-0.85	0.96	-1.34	3.08	-0.21	0.67
Pharmaceuticals, cosmetics, toiletries	1.37	10.08	5.41	3.19	0.04	0.54
Clothing, footwear, leather goods	-2.03	7.71	6.95	6.50	6.79	6.63
Furniture, appliances, equipment	-6.10	14.59	10.08	4.96	-3.13	0.28
Hardware, paint, glass	-18.06	-1.66	8.89	4.32	4.27	3.77
Other	-5.58	4.49	8.64	5.30	2.46	1.21
Total	-3.20	5.54	6.17	4.57	2.59	2.81

* 2013 figures are based on data up to September and a forecast for September to December combined. 2014 figures are entirely forecasted.

Sources: Stats SA 2013; BMR macroeconometric model

It is clear from tables 3.1 and 3.2 that, during 2014 the BMR anticipates that retail trade sales will grow by 7.51% in nominal terms and 2.81% in real terms. Retailers who tend to think in terms of prices of the day would probably also prefer data at current prices in real terms. At an estimated 7.51% average nominal price increase in retail items

anticipated for 2014, total retail sales are expected to amount to R751 229 million at 2014 prices (see table 3.3).

TABLE 3.3**RETAIL TRADE SALES FORECAST FOR 2013 AND 2014 (CURRENT PRICES)**

Retail outlet	2007	2008	2009	2010	2011	2012	2013*	2014*
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
General dealers	160 160	182 241	198 674	212 842	234 538	256 441	274 212	294 125
Food, beverages, tobacco	41 743	46 208	49 738	51 941	55 128	60 736	64 223	68 670
Pharmaceuticals, cosmetics, toiletries	26 724	31 284	35 723	41 254	44 941	47 844	49 524	51 633
Clothing, footwear, leather goods	88 736	100 728	104 257	113 105	123 371	135 206	149 035	164 276
Furniture, appliances, equipment	33 180	31 027	30 072	33 044	34 873	36 007	34 953	35 499
Hardware, paint, glass	39 419	43 839	39 990	40 850	45 962	50 745	55 535	60 901
Other	50 246	56 261	57 019	58 575	62 994	67 156	71 276	76 126
Total	440 208	491 588	515 473	551 611	601 807	654 135	698 757	751 229

* 2013 figures are based on data up to September and a forecast for September to December combined. 2014 figures are entirely forecasted.

Sources: Stats SA 2013; BMR macroeconometric model

The retail trade sales forecast for 2013 and 2014 shown in table 3.3 in nominal terms is shown in real terms (constant 2012 prices) in table 3.4. It appears from this table that the highest real growth in retail sales value between 2013 and 2014 will be experienced with respect to clothing, footwear and leather outlets (6.71%) followed by hardware, paint and glass (4.02%) and general dealers (2.10%).

TABLE 3.4**RETAIL TRADE SALES FORECAST FOR 2013 AND 2014 (CONSTANT 2012 PRICES)**

Retail outlet	2008	2009	2010	2011	2012	2013*	2014*	Real growth 2013 to 2014 (%)
General dealers	221 253	220 128	232 252	246 601	256 440	261 595	267 300	2.10
Food, beverages, tobacco	59 663	59 154	59 719	58 920	60 736	60 607	61 013	0.23
Pharmaceuticals, cosmetics, toiletries	39 421	39 960	43 989	46 367	47 845	47 865	48 126	0.29
Clothing, footwear, leather goods	112 492	110 206	118 701	126 956	135 207	144 392	153 967	6.71
Furniture, appliances, equipment	28 959	27 193	31 161	34 302	36 004	34 875	34 974	-1.43
Hardware, paint, glass	55 434	45 423	44 671	48 644	50 746	52 914	54 906	4.02
Other	59 500	56 181	58 705	63 775	67 157	68 810	69 640	1.83
Total	576 722	558 245	589 198	625 565	654 135	671 058	689 926	2.70

* 2013 figures are based on data up to September and a forecast for September to December combined. 2014 figures are entirely forecasted.

Sources: Stats SA 2013; BMR macroeconometric model

3.3 FINAL CONSUMPTION EXPENDITURE FORECAST BY PRODUCT GROUP

A detailed forecast of final consumption expenditure for 2014 by product group forms the basis of a retail forecast by product group. This is achieved by eliminating all final consumption expenditure not occurring at retail outlets. The forecast is provided in table 3.5 below.

It appears from the results provided in table 3.5 that in nominal price terms, the final consumption expenditure product group which will attract most expenditure will be food, beverages and tobacco (26.4% of total final expenditure in 2014). This is followed by rent (10.5%), transport and communication services (8.9%) and miscellaneous services (8.2%).

TABLE 3.5

FINAL CONSUMPTION EXPENDITURE FORECAST FOR 2013 AND 2014 (CURRENT PRICES)

Category	Product/service group	2011	2012	2013*	2014*		Growth (%) 2011 – 2014
		R'm	R'm	R'm	R'm	% contribution	
Durable goods	Furniture, household appliances, etc	24 914	25 170	25 459	26 851	1.2	7.78
	Personal transport equipment	73 111	80 451	87 784	95 766	4.3	30.99
	Computers and related equipment	3 743	4 453	5 180	5 775	0.3	54.30
	Recreational and entertainment goods	16 888	17 836	18 853	20 126	0.9	19.18
	Other durable goods	12 730	13 872	14 728	15 779	0.7	23.95
Subtotal durable goods		131 386	141 782	152 004	164 298	7.3	25.05
Semidurable goods	Clothing and footwear	87 396	96 159	106 764	118 043	5.3	35.07
	Household textiles, furnishings, glassware, etc	22 448	23 957	25 236	26 619	1.2	18.58
	Motorcar tyres, parts and accessories	23 362	25 514	27 853	30 203	1.3	29.28
	Recreational and entertainment goods	11 714	12 169	12 936	13 887	0.6	18.55
	Miscellaneous goods	7 646	8 276	8 990	9 773	0.4	27.81
Subtotal semidurable goods		152 566	166 075	181 779	198 525	8.9	30.12
Nondurable goods	Food, beverages and tobacco	451 300	496 595	542 284	591 308	26.4	31.02
	Household fuel and power	71 328	81 386	91 245	100 874	4.5	41.42
	Household consumer goods	68 638	72 286	77 684	83 047	3.7	20.99
	Medical and pharmaceutical products	31 937	35 515	38 765	41 998	1.9	31.50
	Petroleum products	70 726	81 485	90 278	96 431	4.3	36.34
	Recreational and entertainment goods	14 725	15 959	17 097	18 159	0.8	23.32
Subtotal nondurable goods		708 654	783 226	857 353	931 817	41.6	31.49
Services	Rent	198 597	211 960	222 396	235 542	10.5	18.60
	Household services, including domestic servants	45 581	48 991	52 276	56 116	2.5	23.11
	Medical services	121 480	137 503	151 889	166 768	7.5	37.28
	Transport and communication services	154 988	171 777	183 392	200 159	8.9	29.14
	Recreational, entertainment and educational services	76 123	84 716	92 016	100 073	4.5	31.46
	Miscellaneous services	154 614	161 217	169 486	184 558	8.2	19.37
Subtotal services		751 383	816 164	871 455	943 216	42.1	25.53
Total		1 743 989.	1 907 247.	2 062 590	2 237 856	100.0	28.32

* 2013 figures are based on data up to September and a forecast for September to December combined. 2014 figures are entirely forecasted.

Sources: Stats SA 2013; BMR macroeconometric model

Table 3.6 shows final consumption expenditure annual growth rates per product group (in nominal terms) for the period 2012 to 2014. It appears from the table that the highest annual growth rates (in nominal terms) during the period 2013 to 2014 will be experienced with respect to computers and related equipment (11.5%), clothing and footwear (10.6%), household fuel and power (10.6%), medical services (9.8%), personal transport equipment (9.1%), and transport and communication services (9.1%). Such increases will be driven by both demand- and supply-side factors. Examples of supply-side factors include, inter alia, changes in international oil prices, the rand-dollar exchange rate, energy price increases and municipal services price hikes.

TABLE 3.6

**ANNUAL GROWTH RATES IN FINAL CONSUMPTION EXPENDITURE (%), 2012 – 2014
(CURRENT PRICES)**

Category	Product/service group	2012	2013*	2014*
		%	%	%
Durable goods	Furniture, household appliances, etc	1.0	1.1	5.5
	Personal transport equipment	10.0	9.1	9.1
	Computers and related equipment	19.0	16.3	11.5
	Recreational and entertainment goods	5.6	5.7	6.8
	Other durable goods	9.0	6.2	7.1
Subtotal durable goods		7.9	7.2	8.1
Semidurable goods	Clothing and footwear	10.0	11.0	10.6
	Household textiles, furnishings, glassware, etc	6.7	5.3	5.5
	Motorcar tyres, parts and accessories	9.2	9.2	8.4
	Recreational and entertainment goods	3.9	6.3	7.3
	Miscellaneous goods	8.2	8.6	8.7
Subtotal semidurable goods		8.9	9.5	9.2
Nondurable goods	Food, beverages and tobacco	10.0	9.2	9.0
	Household fuel and power	14.1	12.1	10.6
	Household consumer goods	5.3	7.5	6.9
	Medical and pharmaceutical products	11.2	9.2	8.3
	Petroleum products	15.2	10.8	6.8
	Recreational and entertainment goods	8.4	7.1	6.2

(continued)

TABLE 3.6 (CONTINUED)

Subtotal nondurable goods		10.5	9.5	8.7
Services	Rent	6.7	4.9	5.9
	Household services, including domestic servants	7.5	6.7	7.3
	Medical services	13.2	10.5	9.8
	Transport and communication services	10.8	6.8	9.1
	Recreational, entertainment and educational services	11.3	8.6	8.8
	Miscellaneous services	4.3	5.1	8.9
Subtotal services		8.6	6.8	8.2
Total		9.4	8.1	8.5

* 2013 figures are based on data up to September and a forecast for September to December combined. 2014 figures are entirely forecasted.

Sources: Stats SA 2013; BMR macroeconometric model

Growth in consumption expenditure as shown in table 3.6 can be attributed to two major components, namely price inflation and an increase in demand. Table 3.7 provides information about one of these components, namely price inflation per product group. It appears from table 3.7 that above-average (5.6%) final expenditure price increases will be experienced during 2014 with respect to personal transport equipment (6.2%), food, beverages and tobacco (6.2%), household fuel and power (8.9%), petroleum products (6.8%), transport and communication services (6.1%) and recreational, entertainment and educational services (6.9%). Of the above-mentioned final consumption expenditure product groups being sold via retail outlets the highest price increases will be experienced with respect to food, beverages and tobacco products (6.2%).

TABLE 3.7

FINAL CONSUMPTION EXPENDITURE DEFLATOR FORECAST, 2012 – 2014

Category	Product/service group	2012	2013*	2014*
		%	%	%
Durable goods	Furniture, household appliances, etc	-0.6	0.7	3.3
	Personal transport equipment	-2.1	1.1	6.2
	Computers and related equipment	-8.0	0.1	4.5
	Recreational and entertainment goods	-8.2	-3.8	0.4
	Other durable goods	1.6	1.5	2.0
Subtotal durable goods		-2.8	0.2	4.2
Semidurable goods	Clothing and footwear	3.6	3.3	4.7
	Household textiles, furnishings, glassware, etc	-0.1	-0.4	2.2
	Motorcar tyres, parts and accessories	4.7	5.6	5.2
	Recreational and entertainment goods	-3.3	-0.1	2.0
	Miscellaneous goods	2.1	2.6	3.0
Subtotal semidurable goods		2.5	2.6	4.1
Nondurable goods	Food, beverages and tobacco	7.3	6.7	6.2
	Household fuel and power	10.7	8.9	8.9
	Household consumer goods	3.1	4.9	5.0
	Medical and pharmaceutical products	3.5	3.9	5.0
	Petroleum products	15.8	11.9	6.8
	Recreational and entertainment goods	6.0	4.2	4.3
Subtotal nondurable goods		7.8	7.0	6.3
Services	Rent	5.3	4.7	5.1
	Household services, including domestic servants	5.4	5.7	5.7
	Medical services	6.2	6.3	5.8
	Transport and communication services	6.7	5.9	6.1
	Recreational, entertainment and educational services	7.2	7.0	6.9
	Miscellaneous services	9.5	6.4	6.0
Subtotal services		6.7	5.8	5.8
Total		5.7	5.3	5.6

* 2013 figures are based on data up to September and a forecast for September to December combined. 2014 figures are entirely forecasted.

Sources: Stats SA 2013; BMR macroeconometric model

Tables 3.8 and 3.9 provide information about the growth in final demand (real growth) per product group during the period 2011 to 2014. It appears from table 3.8 that the biggest final consumption expenditure item in 2014 at 2012 constant prices will be food beverages and tobacco (22.3% of final consumption expenditure at constant 2012

prices) followed by two service-related expenditure groups, namely transport and communication services (9.9%) and rent (9.7%).

TABLE 3.8

FINAL CONSUMPTION EXPENDITURE FORECAST, 2010 – 2013 (CONSTANT 2012 PRICES)

Category	Product/service group	2011	2012	2013*	2014*	
		R'm	R'm	R'm	R'm	% contribution
Durable goods	Furniture, household appliances, etc	24 758	25 170	25 274	25 792	1.29
	Personal transport equipment	71 602	80 451	86 796	89 165	4.45
	Computers and related equipment	3 445	4 453	5 175	5 520	0.28
	Recreational and entertainment goods	15 495	17 836	19 590	20 822	1.04
	Other durable goods	12 936	13 872	14 516	15 251	0.76
Subtotal durable goods		128 236	141 782	151 351	156 551	7.82
Semidurable goods	Clothing and footwear	90 549	96 159	103 358	109 107	5.45
	Household textiles, furnishings, glassware, etc	22 432	23 957	25 332	26 148	1.31
	Motorcar tyres, parts and accessories	24 467	25 514	26 376	27 189	1.36
	Recreational and entertainment goods	11 328	12 169	12 952	13 626	0.68
	Miscellaneous goods	7 805	8 276	8 760	9 242	0.46
Subtotal semidurable goods		156 581	166 075	176 778	185 312	9.26
Nondurable goods	Food, beverages and tobacco	484 126	496 595	508 413	522 034	26.08
	Household fuel and power	78 948	81 386	83 754	85 041	4.25
	Household consumer goods	70 737	72 286	74 055	75 391	3.77
	Medical and pharmaceutical products	33 049	35 515	37 316	38 498	1.92
	Petroleum products	81 897	81 485	80 712	80 698	4.03
	Recreational and entertainment goods	15 614	15 959	16 404	16 706	0.83
Subtotal nondurable goods		764 371	783 226	800 654	818 368	40.88
Services	Rent	209 132	211 960	212 451	214 074	10.69
	Household services, including domestic servants	48 030	48 991	49 454	50 207	2.51
	Medical services	129 005	137 503	142 892	148 254	7.41
	Transport and communication services	165 357	171 777	173 126	178 014	8.89
	Recreational, entertainment and educational services	81 637	84 716	85 982	87 469	4.37
	Miscellaneous services	169 328	161 217	159 351	163 764	8.18
Subtotal services		802 489	816 164	823 256	841 782	42.05
Total		1 851 677	1 907 247	1 952 039	2 002 013	100.0

* 2013 figures are based on data up to September and a forecast for September to December combined. 2014 figures are entirely forecasted.

Sources: Stats SA 2013; BMR macroeconometric model

Annual real growth in final consumption expenditure per expenditure category over the period 2012 to 2014 is shown in table 3.9 below. The highest year-on-year expenditure growth rates at 2012 constant prices during 2014 will be experienced with respect to computers and related equipment (6.67%), driven by an increasing demand for computing equipment as the economy continues on its slow recovery path, and recreational and entertainment goods (6.29%) brought about by high-end consumers, who have been showing fairly strong personal income growth during the past two years, continuing with their relatively high spending on luxury goods.

TABLE 3.9

FINAL CONSUMPTION EXPENDITURE FORECAST, 2012 – 2014 (CONSTANT 2012 PRICES)

Category	Product/service group	2012	2013*	2014*
		%	%	%
Durable goods	Furniture, household appliances, etc	1.67	0.41	2.05
	Personal transport equipment	12.36	7.89	2.73
	Computers and related equipment	29.25	16.22	6.67
	Recreational and entertainment goods	15.11	9.83	6.29
	Other durable goods	7.23	4.64	5.07
Subtotal durable goods		10.99	7.04	3.75
Semidurable goods	Clothing and footwear	6.20	7.49	5.56
	Household textiles, furnishings, glassware, etc	6.80	5.74	3.22
	Motorcar tyres, parts and accessories	4.28	3.38	3.08
	Recreational and entertainment goods	7.42	6.43	5.20
	Miscellaneous goods	6.04	5.85	5.50
Subtotal semidurable goods		6.18	6.64	4.92
Nondurable goods	Food, beverages and tobacco	2.58	2.38	2.68
	Household fuel and power	3.09	2.91	1.54
	Household consumer goods	2.19	2.45	1.80
	Medical and pharmaceutical products	7.46	5.07	3.17
	Petroleum products	-0.50	-0.95	-0.02
	Recreational and entertainment goods	2.21	2.79	1.85

(continued)

TABLE 3.9 (CONTINUED)

Subtotal nondurable goods		2.53	2.29	2.27
Services	Rent	1.35	0.23	0.76
	Household services, including domestic servants	2.00	0.95	1.52
	Medical services	6.59	3.92	3.75
	Transport and communication services	3.88	0.79	2.82
	Recreational, entertainment and educational services	3.77	1.49	1.73
	Miscellaneous services	-4.79	-1.16	2.77
Subtotal services		1.77	0.89	2.31
Total	Household consumption expenditure	3.51	2.73	2.78

* 2013 figures are based on data up to September and a forecast for September to December combined. 2014 figures are entirely forecasted.

Sources: Stats SA 2013; BMR macroeconometric model

3.4 RETAIL TRADE SALES FORECAST BY PRODUCT GROUP

Chapter 2 analysed retail price trends. Earlier in this chapter, estimates were provided for retail trade sales at current and constant 2012 prices for 2013 and 2014. The differences between current and constant retail estimates reflect the anticipated growth in retail prices, which are displayed in tables 3.1 and 3.2 by retail outlet. In this section nominal and real price retail estimates by product will be provided with the aim of arriving at an understanding of the expected real growth in retail demand by product group.

The retail estimates by product group for 2014 that were produced for purposes of this report are provided in table 3.10 (current prices) and table 3.11 (constant 2012 prices). A two-pronged process was followed, namely:

- Final consumption expenditure estimates shown in table 3.7 (current prices) and table 3.8 (constant prices) were used as baseline data. The nonretail categories were removed from this table.
- After removing the nonretail categories the resulting estimates were parameter identified against the retail estimates shown in tables 3.3 and 3.4. The product-

based retail estimates were corrected on the basis of the said parameter identification process to ensure that all retail parameters were fully identified.

It appears from table 3.10 that the retail product group that will be attracting the biggest expenditure in 2014 (in nominal terms) will be food, beverages and tobacco (49.41% of retail sales). It is estimated that this product group will attract about 49.4% of retail expenditure while the second largest expenditure group will be clothing and footwear (15.7%). It is also expected that during the medium- to long-term that the contribution of the wider food category will taper off somewhat while the contribution of clothing and footwear, furniture and household appliances, computers and related equipment and household textiles will increase. This could be explained in terms of the Law of Engel which states that the proportion of income spent on food decreases as real incomes of a population increase.

TABLE 3.10

**FORECAST OF FINAL CONSUMPTION EXPENDITURE INCURRED BY CATEGORY AND PRODUCT/SERVICE GROUP (CURRENT PRICES),
2011 – 2014**

Category	Product/service group	2011	2012	2013*	2014*		Growth (%) 2014	Growth (%) 2011 – 2014
		R'm	R'm	R'm	R'm	% contribution		
Durable goods	Furniture, household appliances, etc	24 914	25 170	25 459	26 851	3.57	5.47	7.77
	Personal transport equipment							
	Computers and related equipment	3 743	4 453	5 180	5 775	0.77	11.50	54.29
	Recreational and entertainment goods	16 888	17 836	18 853	20 126	2.68	6.75	19.17
	Other durable goods	12 730	13 872	14 728	15 779	2.10	7.14	23.95
Semidurable goods	Clothing and footwear	87 396	96 159	106 764	118 043	15.71	10.57	35.07
	Household textiles, furnishings, glassware, etc	22 448	23 957	25 236	26 619	3.54	5.48	18.58
	Motorcar tyres, parts and accessories							
	Recreational and entertainment goods	11 714	12 169	12 936	13 887	1.85	7.35	18.55
	Miscellaneous goods	7 646	8 276	8 990	9 773	1.30	8.71	27.82
Nondurable goods	Food, beverages and tobacco	299 028	328 483	347 065	371 172	49.41	6.95	24.13
	Household fuel and power							
	Household consumer goods	68 638	72 286	77 684	83 047	11.05	6.90	20.99
	Medical and pharmaceutical products	31 937	35 515	38 765	41 998	5.59	8.34	31.50
	Petroleum products							
	Recreational and entertainment goods	14 725	15 959	17 097	18 159	2.42	6.21	23.32
Services	Rent	-	-	-	-	-		-
	Household services, including domestic servants	-	-	-	-	-		-
	Medical services	-	-	-	-	-		-
	Transport and communication services	-	-	-	-	-		-
	Recreational, entertainment and educational services	-	-	-	-	-		-
	Miscellaneous services	-	-	-	-	-		-
Total		601 807	654 135	698 757	751 229	100	7.51	24.83

* 2013 figures are based on data up to September and a forecast for September to December combined. 2014 figures are entirely forecasted.

Sources: Stats SA 2013; BMR macroeconomic model

A forecast of retail expenditure by product group (at constant 2012 prices) is provided in table 3.11 below. In terms of real growth – which is the best indicator of actual demand growth – the highest expenditure increases for the period 2011 to 2014 were experienced with respect to personal transport equipment (60.23%) followed by computers and related equipment (34.38%), clothing and footwear (20.49%), recreational and entertainment goods (20.29%) and miscellaneous goods (18.41%). During 2014 the highest product group retail demand increases are expected with respect to personal transport equipment (6.67%), followed by computers and related equipment (6.29%) and clothing and footwear (5.56%).

TABLE 3.11

FORECAST OF FINAL CONSUMPTION EXPENDITURE INCURRED AT RETAIL OUTLETS (CONSTANT 2012 PRICES)

Category	Product/service group	2011	2012	2013*	2014*		Growth (%) 2014	Growth (%) 2011- 2014
		R'm	R'm	R'm	R'm	% contribution		
Durable goods	Furniture, household appliances, etc	24 758	25 170	25 274	25 792	3.95	2.05	4.18
	Personal transport equipment							
	Computers and related equipment	3 445	4 453	5 175	5 520	0.85	6.67	60.23
	Recreational and entertainment goods	15 495	17 836	19 590	20 822	3.19	6.29	34.38
	Other durable goods	12 936	13 872	14 516	15 251	2.34	5.06	17.90
Semidurable goods	Clothing and footwear	90 549	96 159	103 358	109 107	16.72	5.56	20.49
	Household textiles, furnishings, glassware, etc	22 432	23 957	25 332	26 148	4.01	3.22	16.57
	Motorcar tyres, parts and accessories							
	Recreational and entertainment goods	11 328	12 169	12 952	13 626	2.09	5.20	20.29
	Miscellaneous goods	7 805	8 276	8 760	9 242	1.42	5.50	18.41
Nondurable goods	Food, beverages and tobacco	295 378	294 703	293 456	296 526	45.44	1.05	0.39
	Household fuel and power							
	Household consumer goods	70 737	72 286	74 055	75 391	11.55	1.80	6.58
	Medical and pharmaceutical products	33 049	35 515	37 316	38 498	5.90	3.17	16.49
	Petroleum products							
	Recreational and entertainment goods	15 614	15 959	16 404	16 706	2.56	1.84	6.99
Services	Rent	-	-	-	-		-	-
	Household services, including domestic servants	-	-	-	-		-	-
	Medical services	-	-	-	-		-	-
	Transport and communication services	-	-	-	-		-	-
	Recreational, entertainment and educational services	-	-	-	-		-	-
	Miscellaneous services	-	-	-	-		-	-
	Total		603 526	620 355	636 188	652 629	100	2.58

* 2013 figures are based on data up to September and a forecast for September to December combined. 2014 figures are entirely forecasted.

Sources: Stats SA 2013; BMR macroeconometric model

Finally, the BMR also produced retail estimates according to the three broader product group categories shown in tables 3.10 and 3.11, namely durable goods, semidurable goods and nondurable goods. The results of such estimates are provided in table 3.12 (nominal terms) and table 3.13 (real terms). It appears from table 3.12 that, in nominal terms, about 68.47% of retail expenditure during 2014 will be on nondurable goods followed by about 22.41% on semidurable goods. Although durable goods still constitute the lowest expenditure category in rand value terms, it is evident from table 3.13 that the demand for durable goods has shown strong growth during the period 2011 to 2014 at constant prices (see table 3.12). The demand for semidurable goods (at 2012 constant prices) during the period 2011 to 2014 showed the highest growth.

TABLE 3.12

FORECAST OF FINAL CONSUMPTION EXPENDITURE BY PRODUCT GROUP THROUGH THE RETAIL CHANNEL, 2011 – 2014 (CURRENT PRICES)

Category	2011	2012	2013*	2014*	% contribution
	R'm	R'm	R'm	R'm	
Durable goods	58 275	61 331	64 220	68 531	9.1
Semidurable goods	129 204	140 561	153 926	168 322	22.4
Nondurable goods	414 328	452 243	480 611	514 376	68.5
Total	601 807	654 135	698 757	751 229	100
Growth (%)		8.70	6.82	7.51	

* 2013 figures are based on data up to September and a forecast for September to December combined. 2014 figures are entirely forecasted.

Sources: Stats SA 2013; BMR macroeconometric model

TABLE 3.13

**FORECAST OF FINAL CONSUMPTION EXPENDITURE BY PRODUCT GROUP THROUGH THE
RETAIL CHANNEL, 2011 – 2014 (CONSTANT 2012 PRICES)**

Constant	2011	2012	2013*	2014*	% contribution
	R'm	R'm	R'm	R'm	
Durable goods	56 634	61 331	64 554	67 386	9.8
Growth (%)	-	8.29	5.26	4.39	
Semidurable goods	132 114	140 561	150 402	158 123	22.9
Growth (%)	-	6.39	7.00	5.13	
Nondurable goods	436 817	452 243	456 102	464 417	67.3
Growth (%)	-	3.53	0.85	1.82	
Total	625 565	654 135	671 058	689 926	100
Growth (%)	6.17	4.57	2.59	2.81	

* 2013 figures are based on data up to September and a forecast for September to December combined. 2014 figures are entirely forecasted.

Sources: Stats SA 2013; BMR macroeconometric model

3.5 CONCLUSION

This chapter presented a forecast of retail trade sales for 2014 based on the BMR's macroeconometric forecasting model. This report will conclude with an overview and some concluding remarks in the next chapter.

CHAPTER 4

OVERVIEW AND CONCLUDING REMARKS

4.1 OVERVIEW

When interpreting the findings emerging from the retail sales forecast and anticipated retail trade and macroeconomic environments that are most likely to unfold during 2014, business strategists and planners should take note of the following megatrends covered in the discussion above:

- Differential retail trade sales growth was found with respect to different products and services and outlets. From the 2014 retail trade sales forecast, it is evident that general dealers are leading the growth among retail outlets while strong growth is especially notable for durable goods. It is interesting, however, that the growth trends in retail food, beverages and tobacco sales have largely stagnated. Also, retailers selling furniture, appliances and equipment are continuing to lose market share at a rapid pace.
- The transmission mechanism of international growth impacting on local growth and consequently employment, household income and consumption expenditure and finally retail trade sales performance, has become weaker over recent years. At the time of concluding the report, the international economy was starting to emerge from the worldwide recession and was gaining traction for a new period of higher growth. However, local economic growth prospects were rather depressing with the BMR's probabilistic projection model showing that, given available economic trends up to January 2014, the most likely February economic growth projection for South Africa for 2014 was 1.84%, which is substantially lower than the 2.8% GDP growth estimate of the macroeconomic model reported on in this study. Although the results of the probabilistic model should in no way be seen as a replacement of those of the macroeconomic model, the results of the probabilistic model reflect the downside risks experienced by the economy during early 2014, which could result in lower than 2.8% GDP growth during 2014. Furthermore, with a less

elastic linkage between GDP and employment (businesses prepared to employ fewer employees), income growth will decline and consequently consumption expenditure and retail trade purchases will decrease.

- When analysing time-series data regarding retail trade sales, it is clear that year-on-year growth patterns are increasingly volatile, giving rise to increasing difficulty in forecasting future retail trade patterns. A good example in this regard is the fact that while many economists during the early months of 2013 expected a GDP growth rate of about 3.0%, the final 2013 growth rate will most likely be about 1.9 to 2.0%. The same holds true for 2014 and consequently also for the formal retail trade sales forecast in this report.
- During the post-recession period, the economy struggled to gain traction to move towards a higher level of sustained growth. The implication of this is that the existing businesses had to compete for low growth in the available pool of retail spend. This resulted in an increasing number of business closures among retailers as well as declining profit margins among surviving formal retail outlets. The question in this regard remains whether this pattern is purely of a temporary nature or whether it can be expected that reduced profit margins will become the norm. It appears from the experiences of retailers worldwide that this pattern is becoming the norm, especially in the light of increased competition from in-country warehouses as well as international warehouse-based distributors like Amazon.
- It appears from the expenditure and retail deflators provided in this report that there is an unexpected negative correlation between retail growth and retail inflation. One of the major reasons for this phenomenon is the fact that there is a disjuncture between the service sector (including the retail sector) and manufacturing sector performances. It appears in this regard from available input-output tables that the bulk of goods being sold in the South African retail sector is imported, thus giving rise to increased exposure of formal sector retailers to international price trends, the weakening value of the currency, increasing international transport costs as well as infrastructure deficiencies and

inefficiencies in South Africa, pushing up local direct and indirect transport-related cost.

- Upon analysing trends in retail spend by product and outlet during the period 2003 to 2014, it is noticeable that there are fairly rapid changes in the tastes of consumers for different products. This phenomenon could be explained by six factors, namely: political (rapid growth in the black middle class), economic (rapid changing structure of the South African economy and employment), social (rapidly changing social values, giving rise to rapidly changing consumer demands), technological (technological goods having a shorter life span as new technology becomes increasingly available, and more consumers shopping online), environmental (concerns regarding the environment, giving rise to consumers moving rapidly towards green products and shopping behaviour) and legal (rapidly changing legal structure in SA, giving rise to the demise of selected products such as tobacco, alcoholic beverages, etc).
- There are increasingly clear signs that South African consumers tend towards particularly conspicuous consumption (luxury goods and services). This is reflected on a macrolevel through the figures published in this report, showing that a higher proportion of South African consumers spend on computers and related equipment (ie smart phones) and recreation and entertainment goods (ie sports equipment, books and toys) than their international counterparts. On a microlevel, a visit to a typical South African mall will bring an observer face-to-face with many clothing, electronics and niche food shops. The reason for the survival and proliferation of these shops is a strong demand for the conspicuous consumption goods sold at these shops.

4.2 **CONCLUDING REMARKS**

The 2014 BMR retail sales prediction shows that retail sales are anticipated to increase by 2.81% in real terms. This prediction reflects positive growth for 2014 and is similar to the 2013 BMR prediction of 2.59% but lower when compared to 2011 (6.17%) and 2012 (4.57%). The slowdown in retail sales is anticipated against a slowdown in final consumption expenditure with the retail sales of nondurable goods and services

anticipated to slow down the most. However, upon comparing 2013 with 2014, it appears that, in relation to other expenditure categories, retail sales with respect to semidurable products will increase slightly. At an estimated 4.70% average price increase in retail items for 2014, total retail sales at current prices are expected to amount to R751 229 million at 2014 prices (see table 3.3).

The figures provided in this report provide a good indication of retail expenditure by outlet and product group during 2014 for marketers, analysts and strategists/planners. The said figures are estimates of greatest likelihood in the sense that the said figures were derived by means of a comprehensive macroeconometric model with a very good forecasting track record, whereafter detailed parameter identification against other available economic and socioeconomic parameters was conducted. There are still numerous downside risks to sustained economic and retail trade growth, which have been discounted as far as possible in the retail estimates produced for purposes of this report. Compared to 2013, the extent of such downside risk from within South Africa has increased (ie strikes, protest actions and stagnating employment creation) while the certain international downside risks have increased (ie emerging market contagion and depreciation value of the rand) while some other international downside risks have subsided somewhat (ie higher GDP growth expected globally). Only time will tell to what extent too little or too much discounting has been conducted. As such downside risks manifest during the forecast year, the BMR will update the retail forecast presented and discussed in this report and will inform BMR members of such revised estimates.

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