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MACRO-ECONOMIC AND RETAIL TRADE SALES FORECAST FOR SOUTH AFRICA, 2018

Research Report No 493

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college of economic and management sciences

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MACROECONOMIC AND RETAIL TRADE SALES FORECAST FOR SOUTH AFRICA, 2018

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PREFACE

The Bureau of Market Research (BMR) has been conducting a forecast for formal retail sales in South Africa on an annual basis over the last two decades. This practice has been maintained in 2018 and in line with the previous time series. This research report presents a forecast of formal retail sales for the year under review. More specifically, the 2018 forecast provides results derived from a probabilistic macro-economic forecasting model in addition to an exploration of the drivers of cash sales in the South African retail market and the methods of payment. As in 2017, the 2018 report includes innovative analyses featuring seasonal trend analysis and breakdowns of retail trade sales patterns according to the type of outlet. By taking into account the prospects of both the 2018 global, national and local economies, the BMR estimates formal retail sales to grow by 7.2% in nominal terms and 1.9% in real terms during 2018. At an estimated 5.3% average price increase in retail items for 2018, the total formal retail sales at current prices are expected to amount to R1 078 699 million. Retail outlets that are expected to show the highest growth rates (in nominal terms) are food, beverages and tobacco in specialised stores (9.1% nominal growth), followed by pharmaceuticals and medical goods, cosmetics and toiletries outlets (9.0% nominal growth). Turning to the forecast of retail expenditure by product group in constant terms, the BMR expects the highest retail demand increases to be for durable goods in the form of recreational and entertainment goods (10.5%) and computers and related equipment (9.8%). Overall, semi-durable goods are anticipated to increase by 3.1% while durable and non-durables are most likely to grow by 0.5% and 1.1% respectively, and last but not least, services are expected to grow by 1.4%.

Prof. P Kibuuka compiled the report. Prof. C.J. van Aardt was responsible for constructing the BMR econometric modelling that provided valuable economic statistics for compiling the 2018 retail trade forecast. Mr J Chokwe (BMR Language Editor) was responsible for language editing while Mrs M Goetz was responsible for the technical editing of the report.

Prof. DH Tustin
Head: Bureau of Market Research

CHAPTER 1

INTRODUCTION AND RESEARCH METHODOLOGY

1.1 INTRODUCTION

According to the Organisation for Economic Co-operation and Development (OECD) (2017), South African economic growth is projected to pick up moderately in 2018-19, as stronger economic activity in the trading partners boosts exports. Investment will support growth on the assumption that business confidence increases and policy uncertainty fades. Despite persistently high unemployment, private consumption expenditure will expand as wages increase moderately and food prices stabilise. Falling inflation leaves room for a moderately expansionary monetary policy to support activity. Furthermore, unexpected slippage of the budget deficit is contributing to growth in the short-term, but also creating more pressure to contain rising public debt. Consequently, this increases the risk of a further credit downgrade. Improving the efficiency of public spending and better controlling the deficits of state-owned enterprises (SOEs) are necessary to raise fiscal credibility and create room for pubic investment to foster growth and reduce social inequality. Moreover, the high dependence on external financing is the main source of financial vulnerability. Low investor confidence and credit rating downgrades in 2017 have contributed to a net outflow of foreign investment. To cushion the transmission of external shocks to the financial system, implementation of the financial sector regulatory reform should be accelerated and foreign – currency denominated debt issued by private entities further monitored. Given the anticipated moderate growth in household incomes and expenditures during 2018 as well, the key question remains how these developments are most likely to impact on the formal retail trade sector of South Africa in 2018. This report aims to provide some clarity in this regard.

In 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 macro-econometric 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 a key qualitative forecasting technique) and a back-cast retail trade sales time-series model. Although this mixed method of forecasting has not been discarded entirely from the said 2013 retail forecast onwards, the new macro-econometric forecasting model has reinforced its application. The 2018 forecasts required for the purposes of this report were therefore derived from the BMR's Probabilistic Macro-economic Model. The projections are prepared and finalised by the beginning of February each year and for the current issue on 12 February 2018. Since the release of the economic model forecasts, a few critical domestic political-economic events that are expected to impact the results have taken place. The most important event is the resignation of former President Jacob Zuma on 14 February 2018, the appointment of President Cyril Ramaphosa on 15 February 2018 and the Cabinet reshuffle that happened on of 26 February 2018. This was followed by the affirmation of South Africa's sovereign rating as 'investment grade' and the change of the outlook from negative to stable by Moody's Investors Service towards the end of March 2018. On the contrary, Standard and Poor's reaffirmed South Africa's sovereign sub-investment grade and a stable outlook at the end of May 2018. However, five major global economic aspects followed these developments during May and June 2018:

- the rise in the global crude oil price;
- the increase in tariffs on steel and aluminium by the United States;
- a looming trade war with its allies, China and Russia;
- an increase in interest rates in the United States; and
- the quantitative easing tapering by the ECB.

These aspects have led to a reduction in portfolio investments in emerging markets including South Africa, a rise in the petrol price, deterioration in the value of the rand, inflationary pressures, and a likelihood of a rise in interest rates. On 05 June 2018, Statistics South Africa (Stats SA) announced that South Africa's economy had contracted by 2.2% in first quarter of 2018. 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 2018.

1.2 RATIONALE FOR METHODOLOGY

Econometric analysis shows a 0.89 correlation between real global GDP and real South African GDP during the 2000 to 2012 period. This coefficient confirms a strong relationship between global and South African economic growth, hence the impact of international economic conditions on South Africa's economic performance. As a result, it is critically important to gauge international economic growth before estimating the South African economic growth and retail trade sales in particular.

In this regard, the Economist Intelligence Unit (EIU) (2018), as a credible independent international institution, measures and forecasts world economic growth. The EIU estimates that the world economy is expected to expand by 3.0% during 2018 in real terms (excluding inflation) same as the rate estimated for 2017.

Turning to expected GDP growth in South Africa during 2018, the EIU (2018) forecasts 1.5% real GDP growth during 2018 up from 1.3% during 2017. However, the EIU is generally optimistic with respect to its South African forecast as is evident from the following:

- Real private consumption expenditure growth is expected to increase from 2.2% in 2017 to 2.9% during 2018.
- Real gross fixed investment growth is expected to increase from 0.4%% in 2017 to 1.8% in 2018.
- Export growth is expected to increase from -0.1% in 2017 to 4.1% during 2018.
- Real domestic demand is expected to increase marginally from 1.8% in 2017 to 2.7% in 2018.

- Consumer price inflation (CPI) growth is expected to rise slightly from 4.5% in 2017 to 5.2% in 2018.
- The current account balance is expected to deteriorate from -2.6% in 2017 to -2.8% in 2018.
- The budget deficit as a proportion of GDP is expected to fall from -4.3% in 2017 to -3.6% in 2018.

Given the forecast information provided above, it appears at first glance that 2018 will be a better year for the South African economy than 2017. In this regard, a significant number of upside economic factors exist as pointed out by the Monetary Policy Committee (MPC) of the SARB (March 2018), namely:

- The global economic outlook has remained favourable amid a relatively synchronised upswing in the advanced economies. However, the recent trade policy actions by the United States (US) could escalate into a fully-fledged trade war, which could in turn undermine this positive prognosis for growth and push inflation higher.
- Headline inflation is now expected to average 4.9% in 2018, 5.2% in 2019 and 5.1% in 2020. A peak of 5.5% is expected by the first quarter of 2019 before the value-added tax (VAT) increase falls out of the data.
- Annual food price inflation is no longer seen as a major risk to the inflation outlook. While the continued drought in the Western Cape is likely to adversely affect agricultural production in the region, the direct impact on food prices is expected to be fairly limited.
- The VAT increase is expected to add about 0.6 percentage points to the headline inflation trajectory for the four quarters from the second quarter of 2018, with marginal second round effects persisting into subsequent quarters.
- While the increase in VAT rate to 15% places temporary upside pressure on inflation, this is mitigated by the stronger exchange rate, which has contributed to the changing risk profile.

- The affirmation of South Africa’s sovereign rating as ‘investment grade’ and the change of the outlook from negative to stable by Moody’s Investors Service has contributed to the recent rand resilience.
- On 28 March 2018, the SARB cut its benchmark interest rate by 25 basis points to 6.50 percent, making the prime lending rate drop to 10 percent with effect from 29 March. The cut in rates provided a relief to under pressure consumers who are facing the first VAT hike, a hike in the petrol price and the introduction of the sugar tax.
- In announcing the cut, the Governor of the Reserve Bank noted that a key external risk to the rand remains the possibility of a tighter-than-expected stance of monetary policy in the US in particular. As anticipated, a moderately faster pace of tightening was signalled by the US federal Open Market Committee, particularly for 2019, and at this stage, further tightening is expected to remain measured in the absence of significant inflation or growth surprises.
- The domestic economic growth outlook for this year is more favourable but remains challenging. Following an annual growth rate of 1.3% in 2017, the SARB expects a growth rate of 1.7% for 2018 compared with 1.4% previously. The composite leading business cycle indicator continued its upward trend in January, consistent with the improved outlook.
- The improved growth outlook is driven primarily by an increase in business and consumer confidence. This is reflected in the RMB/BER Business Confidence Index, which increased markedly in the first quarter of 2018 although it remains below the neutral 50 level.
- The SARB noted that the ‘expected business conditions’ category in the ABSA Purchasing Managers’ Index (PMI) surged in February to its highest level since 2001. In this context, growth in gross fixed capital formation is forecast to increase gradually over the forecast period.
- Consumption expenditure by households is also expected to be positively impacted by the expected increase in consumer confidence, although this is not yet evident in the consumer confidence surveys. In the next term, consumption expenditure is

expected to be constrained by the tax increases, the lack of compensation for fiscal drag, weak employment growth, as well as subdued growth in credit extension to households. While consumption expenditure is expected to grow at a slightly slower rate in 2018 compared with last year, the trend over the forecast period is moderately stronger than previously expected reaching 2.1% in 2020.

- The national budget presented in February 2018 proposed a faster pace of fiscal consolidation than that indicated in the October Medium Term Budget Policy Statement. This revised path is expected to result in the stabilisation of the ratio of government debt to GDP at about 56% over the medium-term.

In conclusion, the SARB acknowledges that although the growth forecast has improved, the outlook remains relatively constrained. Despite the higher levels of consumption expenditure in the latter part of 2017, demand pressures in the economy are not assessed to pose a risk to the inflation outlook. The MPC assesses the risks to the growth forecast to be moderately on the upside. To make an appreciable impact on employment and potential output, the current improved levels of confidence will need to be sustained and translate into higher levels of investment. This can only be achieved through a firm commitment to, and implementation of credible structural reforms by government. Last but not least, economists have cautioned on the potential impacts whether positive or negative of regional and global events including the creation of the Africa free trade area but also the implication of the withdrawal of the US from the Iran nuclear treaty.

1.3 MACRO-ECONOMIC FORECAST

The macro-economic forecast was done using a probabilistic macro-econometric model that was developed by the BMR based on the rebased economic time series of the SARB covering the period 1946 to 2017.

In a probabilistic macro-econometric model available time series are used, namely, in the case of this study, the SARB time series indicated above. By means of econometric analysis, the long-run elasticities between such variables were determined. Expert opinion with respect to key economic variables was used to generate the 2018 macro-economic forecast of greatest likelihood. The key macroeconomic forecast results for 2018 are shown in table 1.1 below. This table also contains 2017 data for comparison purposes.

TABLE 1.1

KEY MACROECONOMIC FORECAST RESULTS (% GROWTH)

Variable	2017	2018
Gross domestic product (GDP)	1.14%	1.25%
Household consumption expenditure	1.26%	1.35%
Gross domestic expenditure	1.23%	1.42%
Rand-dollar exchange rate	R13.79	R13.20
Prime interest rate	10.50%	10.17%
Long bond rate	8.73%	8.97%
Consumer price inflation	5.76%	5.15%
Producer price inflation	5.89%	4.55%
Current account balance (R bn)	-3.87	-3.00
Gross fixed capital formation	1.45%	1.00%

Source: BMR Probabilistic Macro-economic Model, 2018

It appears from table 1.1 that 2018 should be a better year in many more respects than 2017. Nevertheless, a sizeable number of downside risks remain and should they be realised, they could cause the forecast results shown in table 1.1 to be much lower.

1.4 GLOBAL AND DOMESTIC RISKS THAT CAN INFLUENCE THE FORECAST

A number of global and domestic risks may influence the outcome of the 2018 BMR macroeconomic forecasts. These include, but are not limited to the top four global risks identified by the World Economic Forum (2018) in terms of likelihood and impact as indicated in *italics* in the global risks outlined below. These risks are highlighted alongside the 10 biggest risks to business in South Africa as identified by the Allianz Risk Barometer (2018).

Global risks:

- *Environmental risks* have grown in prominence in recent years. This trend has continued this year, with all five risks in the environmental category, namely, extreme weather events, climate change, natural disasters, failure of climate change mitigation and adaptation ranked higher than average for both likelihood and impact over a ten year horizon.
- This follows a year characterised by high impact hurricanes, extreme temperatures and the first rise in carbon dioxide emissions for four years.
- *Cybersecurity risks* are also growing, both in their prevalence and in their disruptive potential. Attacks against businesses have almost doubled in five years, and incidents that would once have been considered extraordinary are increasingly becoming common place.
- The financial impact of cybersecurity breaches is rising and some of the largest costs in 2017 related to ransomware attacks, which accounted for 64% of all malicious emails.
- *Headline economic* indicators suggest the world is finally getting back on track after the global crisis that erupted 10 years ago, but this upbeat picture masks continuing underlying concerns. The global economy faces a mix of long-standing vulnerabilities and newer threats that have emerged or evolved in the years since the crisis.
- The familiar risks include potentially unsustainable asset prices, with the world now eight years into a bull run.
- Elevated indebtedness, particularly in China and continuing strains in the global financial system.
- Among the newer challenges are limited policy firepower in the event of a new crisis, disruptions caused by intensifying patterns of automation and digitisation and build-up of mercantilist and protectionist pressures against a backdrop of rising nationalist and populist politics.

– *The world has moved into a new and unsettling geopolitical phase.* Multilateral rules based approaches have been fraying. Re-establishing the state as a the primary locus of power and legitimacy has become an increasingly attractive strategy for many countries but one that leaves many smaller states squeezed as the geopolitical sands shift.

South African (local) upside factors and downside risks:

- The Allianz Risk Barometer Report 2018 reveals that cyber incidents remain a top threat with 38% of responses for a third year in a row for South African businesses.
- Business interruption (BI) ranked second at 34%. No business is too small to be impacted. Companies face an increasing number of scenarios, ranging from traditional exposures such as fire, natural disasters and supply chain disruption to new triggers stemming from digitisation and interconnectedness that typically come without physical damage but with high financial loss.
- Changes in legislation and regulation are in third place at 29%. – This is up from fifth place in 2017, as policy uncertainty and sluggishness in the market has had a negative impact on business confidence over the past year.
- Market developments as a threat has slightly declined to fourth place at 23% from third in 2017 regardless of prevailing political uncertainty and a difficult business environment.
- Fires and explosions are sixth at 19%, proving this is still a concern as South Africa was plagued with incidents of large fires at Durban Harbour, Braampark and Knysna.
- New technologies are also tied in sixth at 19% indicating that vulnerability of automated or even autonomous or self-learning machines to failure or malicious cyber acts, such as extortion or espionage, will increase in future and could have a significant impact if critical infrastructure, such as IT networks or power supply are involved.

- The report revealed two new business threats that have emerged in South Africa both at 16%, as part of the top ten list, namely climate change/increasing volatility of weather and loss of reputation or brand value.
- These new threats are not surprising, especially given the extreme weather patterns that have resulted in frequent droughts and floods affecting the country.
- Macroeconomic developments registered 13% of the responses sliding seven places to tenth on the list.

1.5 CONCLUSION

This chapter provided an overview of the probabilistic macro-econometric model used to predict the economic performance of the South African economy, and ultimately retail trade sales for 2018 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 2018 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, 2018). Retail sales figures provided by Stats SA cover retail enterprises according to the following types of retailers:

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

- o General outfitters; and
- o Retailers in footwear.

- Retailers in household furniture, appliances and equipment
- Retailers in hardware, paint and glass
- Other retailers

- o Retailers in reading matter and stationery;
- o Retailers in jewellery, watches and clocks;
- o Retailers in sports goods and entertainment requisites;
- o Retailers in other specialised stores; and
- o 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 which samples approximately 2 500 enterprises per month (Stats SA, 2018). The results of the monthly retail trade sales data are used to, among others, compile estimates of GDP and to analyse business and industry performance. For purposes of this study, retail trade sales data of Stats SA and household consumption and income and expenditure data of the SARB and the BMR were used as primary input sources to forecast the 2018 retail trade sales by product group and outlet.

It is noteworthy 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 2018 retail trade projections by product group are based on historical data captured by the SARB (household consumption expenditure) and BMR (household income and expenditure and household assets and liabilities).

It is also important to note that household consumption expenditure includes expenditure on goods not classified as retail items. Such goods include personal transport equipment (e.g. motorcars, motorcycles, bicycles and caravans), motorcar tyres, tubes, 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 and not by the retail trade industry. From Stats SA’s retail trade sales statistics and the SARB’s household consumption expenditure numbers, it is estimated that retail trade sales comprised approximately 34.1% and 33.5% of household consumption expenditure in 2012 and 2013 respectively.

However, individuals do not make all retail trade purchases. Stats SA previously released a new Large Sample Survey conducted among approximately 3 000 retailers over the period 1 July 2011 to 30 June 2012 to, among others, determine the clients of retailers. In the publication called Retail Trade Industry (2012), it was estimated that some 87.4% of purchases were made by individuals, 12.0% by companies and 0.6% by government.

Following from the above, it is estimated that 29% to 30% of household consumption expenditure comprise retail purchases made by individual consumers or households.

This BMR retail trade analysis is presented against the above-mentioned background. More specifically, this chapter reflects the analysis of retail trade sales by outlet and product group from 2005 to 2017. As currently part of the retail sales forecast approach of the BMR, the chapter also presents a longitudinal analysis of retail prices and seasonal patterns experienced by type of retail outlet, while the method of payment (cash and credit payments) also receives attention. The analyses show that overall, retail trade sales volume growth had been on a downward trend and identify the retailers that performed well despite difficult economic conditions. A forecast of retail trade sales of greatest likelihood for 2018 is presented in chapter 3.

2.2 RETAIL SALES PATTERNS BY OUTLET

It is a well-documented fact that consumers' purchasing patterns change over time. This phenomenon can be ascribed to myriad factors. These include, but not limited to, technological changes that give rise to advanced products, development of new products, new marketing methods, as well as town and spatial planning that affect settlement and residential development, construction of large retail outlets, online purchasing, behavioural and perception changes, convenience, and many more. These changing purchasing patterns of consumers impact the market shares of retailer outlets. The market shares, expressed as the percentage of total retail trade sales (in current prices) occurring at the type of retailer outlet, are presented in table 2.1 below. It is important to note that the numbers show the market shares relative to each other. The information was sourced from the historic retail information system of Stats SA. The changing purchasing patterns as reflected by the market shares of retail outlets in table 2.1 are also illustrated in figures 2.1 and 2.2.

TABLE 2.1

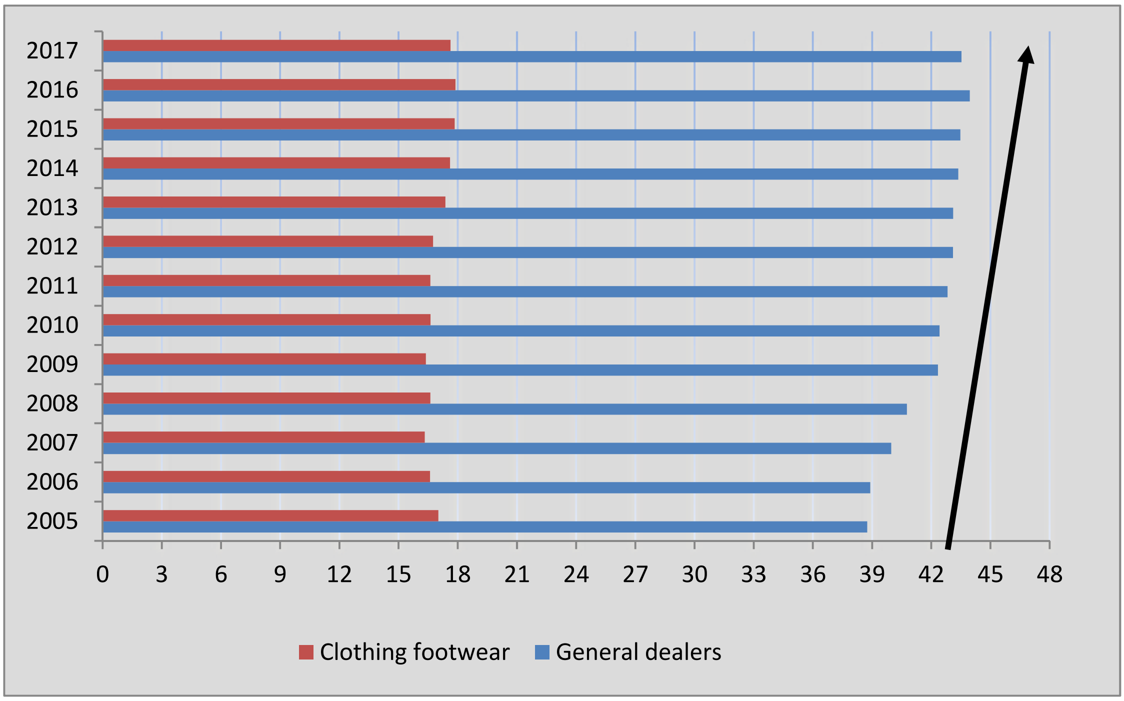
MARKET SHARES OF RETAIL OUTLETS, 2005 – 2017 (CURRENT PRICES)

Year	General dealers	Clothing, footwear	Other retailers	Food, beverages, tobacco	Furniture, appliances, equipment	Hardware	Pharmaceuticals
2005	38.75	17.02	12.09	8.69	9.19	8.17	6.09
2006	38.91	16.60	12.10	8.51	9.21	8.89	5.78
2007	39.98	16.33	12.49	8.32	8.03	8.95	5.91
2008	40.76	16.61	12.53	8.25	6.73	8.92	6.20
2009	42.34	16.38	12.10	8.46	6.22	7.76	6.74
2010	42.42	16.62	11.62	8.26	6.39	7.41	7.28
2011	42.82	16.61	11.45	8.03	6.18	7.64	7.27
2012	43.10	16.75	11.24	8.15	5.87	7.76	7.12
2013	43.10	17.38	11.23	8.06	5.26	8.04	6.95
2014	43.37	17.61	10.98	8.04	5.02	8.08	6.90
2015	43.48	17.84	10.83	8.03	4.68	8.14	7.01
2016	43.95	17.89	10.58	8.20	4.37	7.81	7.20
2017	43.53	17.64	11.21	8.61	4.18	7.44	7.40

Source: Stats SA. Retail trade sales, 2018

FIGURE 2.1

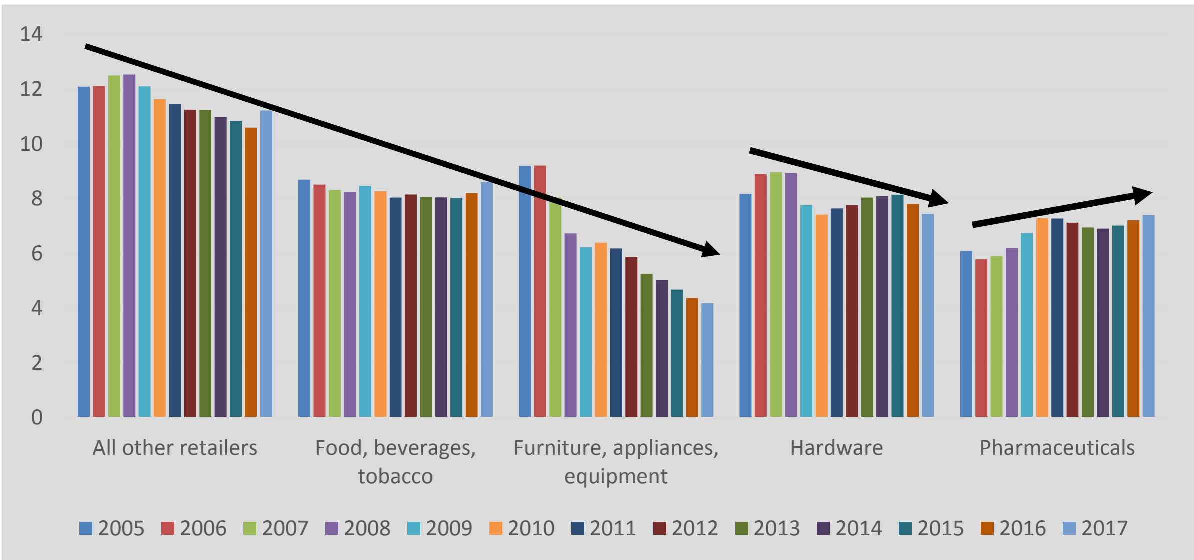
MARKET SHARES OF THE TWO LARGEST TYPES OF RETAILERS FROM 2005 TO 2017: GENERAL DEALERS AND CLOTHING AND FOOTWEAR RETAILERS



Source: Stats SA. Retail trade sales, 2018

FIGURE 2.2

MARKET SHARES OF THE OTHER TYPES OF RETAILERS FROM 2005 TO 2017



Source: Stats SA. Retail trade sales, 2018

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

- General dealers have gained market share since 2005, adding 5.0 percentage points over 12 years to 2017.
- Although retailers in clothing, footwear and leather goods lost market share relative to other retailers between 2005 and 2012, they steadily regained their share and are now above 2005 levels.
- Specialised retailers in food, beverages and tobacco lost market share between 2005 and 2011, but have since stabilised their share.
- Retailers selling furniture, appliances, and equipment are continuing to lose market share at a rapid pace – by 2016 they have lost 54.5% of the market share they had in 2005.
- Having initially lost out, retailers specialising in pharmaceuticals, cosmetics and toiletries regained market share between 2008 and 2011, declining thereafter up to 2014 but registering a recovery from 2015.
- Retailers in hardware, paint and glass lost market share up to 2011, but managed to increase their market share. However, they have now declined again back to the levels last recorded in 2010.
- Other retailers (e.g. jewellery, books, personal goods, sports equipment) continued to lose market share since 2010 registering a modest recovery in 2017 after six consecutive years of decline.

Apart from the normal factors affecting the market shares of retailers, the graphical displays in figures 2.1 and 2.2 show a clear change in trend brought about by the economic recession of 2008/09. Some retailers were negatively affected by the recession, while others benefitted. Although some retailers were able to regain the lost market share caused by the recession, 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; and
- Retailers in clothing, footwear and leather goods.

The following retailers lost market share during or a year after the recession:

- Retailers in food, beverages and tobacco;
- Retailers in furniture, appliances and equipment;
- Retailers in hardware; and
- Other retailers.

However, the above analysis on market shares is based on retail trade sales in current prices - and therefore includes the impact of both price increases and volumes of goods sold. In order to determine whether retailers depend on price increases or volumes of goods sold for market share, it is necessary to perform a market share analysis based on the volume of goods sold (sales expressed in 2012 prices). The results of this exercise are shown in table 2.2 and figure 2.3.

In terms of volume of goods sold by type of retailer outlet, the market shares remained more stable compared to the market shares in current prices. This suggests that price changes played an important role in relative market shares. Figure 2.4 and table 2.3 below portray the retail inflation rates per retailer outlet from 2009 to 2016.

TABLE 2.2

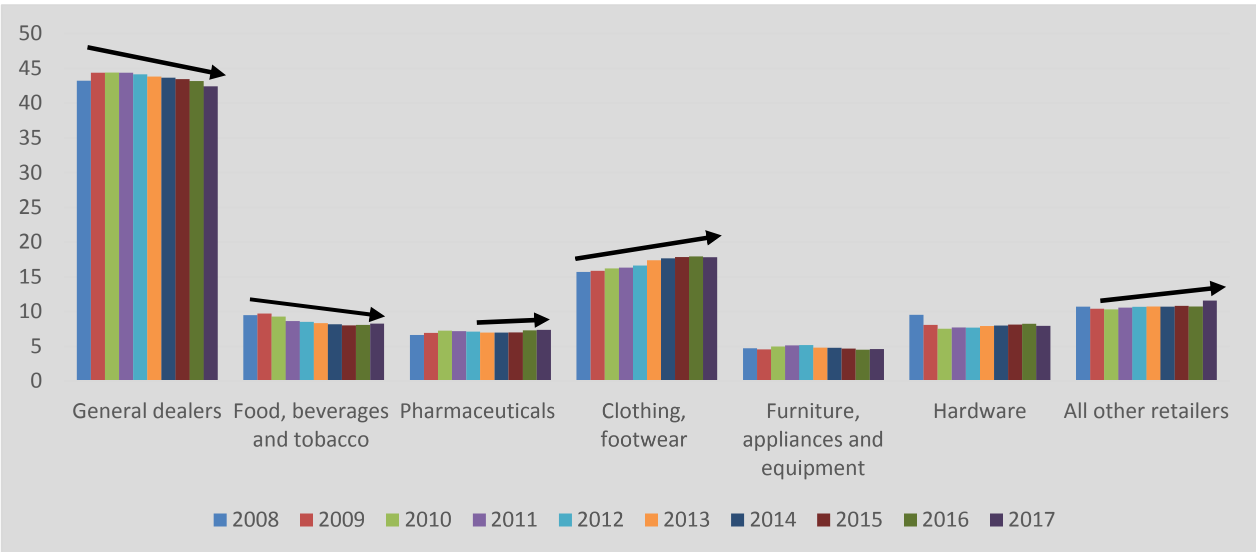
MARKET SHARES OF RETAIL OUTLETS, 2008 – 2017
(PERCENTAGE SHARE IN 2012 PRICES)

Year	General dealers	Clothing & footwear	All other retailers	Food, beverages & tobacco	Furniture, appliances & equipment	Hardware	Pharmaceuticals
2008	43.22	15.70	10.70	9.50	4.72	9.54	6.63
2009	44.39	15.88	10.42	9.72	4.57	8.07	6.94
2010	44.41	16.22	10.33	9.30	4.97	7.53	7.25
2011	44.40	16.33	10.57	8.64	5.15	7.72	7.19
2012	44.14	16.65	10.67	8.53	5.19	7.71	7.12
2013	43.83	17.41	10.73	8.32	4.81	7.92	6.98
2014	43.66	17.67	10.71	8.18	4.80	7.99	6.98
2015	43.48	17.84	10.83	8.03	4.68	8.14	7.01
2016	43.19	17.94	10.72	8.09	4.53	8.24	7.29
2017	42.41	17.83	11.59	8.26	4.60	7.96	7.36

Source: Stats SA. Retail trade sales, 2018

FIGURE 2.3

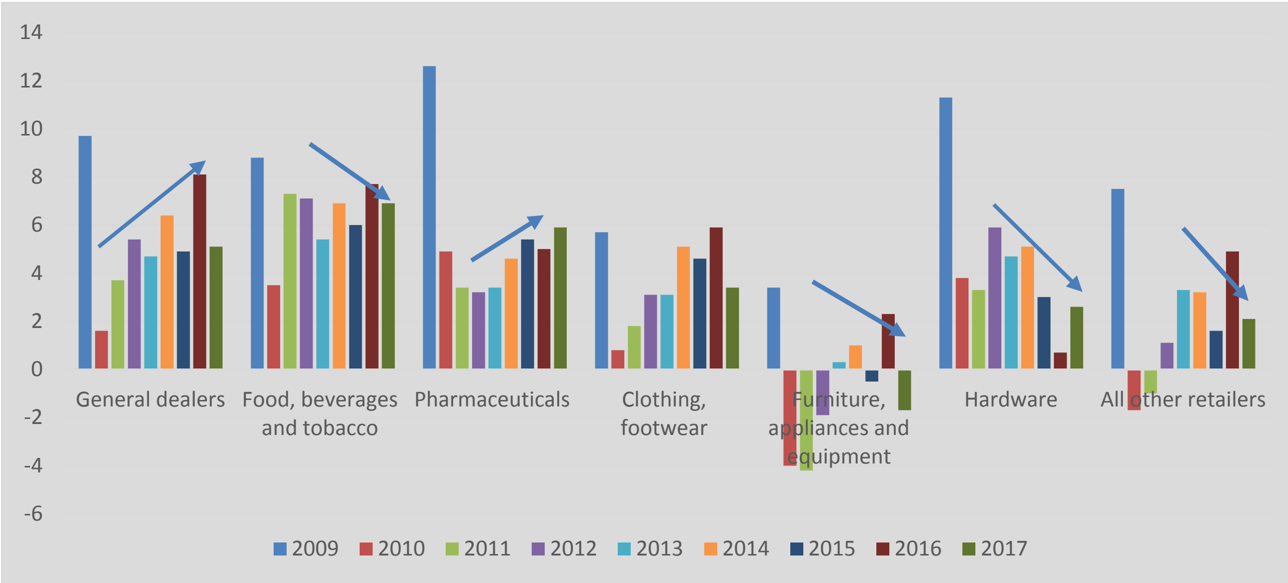
MARKET SHARES OF TYPES OF RETAILERS FROM 2008 TO 2017
(PERCENTAGE SHARE IN 2012 PRICES)



Source: Stats SA. Retail trade sales, 2018

FIGURE 2.4

**RETAIL PRICE INFLATION BY TYPE OF RETAILER OUTLET: 2009 TO 2017
(YEAR OVER YEAR PERCENTAGE CHANGE)**



Source: Stats SA. Retail trade sales, 2018

TABLE 2.3

**RETAIL PRICE INFLATION BY TYPE OF RETAILER OUTLET: 2009 TO 2017
(YEAR OVER YEAR PERCENTAGE CHANGE)**

Year	General dealers	Food, beverages, tobacco	Pharmaceuticals	Clothing, footwear	Furniture, appliances, equipment	Hard-ware	All other retailers	Total
2009	9.7	8.8	12.6	5.7	3.4	11.3	7.5	8.4
2010	1.6	3.5	4.9	0.8	-0.4	3.8	-1.7	1.3
2011	3.7	7.3	3.4	1.8	-4.2	3.3	-1.0	2.0
2012	5.4	7.1	3.2	3.1	-1.9	5.9	1.1	3.4
2013	4.7	5.4	3.4	3.1	0.3	4.7	3.3	3.6
2014	6.4	6.9	4.6	5.1	1.0	5.1	3.2	4.6
2015	4.9	6.0	5.4	4.6	-0.5	3.0	1.6	3.6
2016	8.1	7.7	5.0	5.9	2.3	0.7	4.9	4.9
2017	5.1	6.9	5.9	3.4	-1.7	2.6	2.1	3.5
Average	5.5	6.6	5.4	3.7	-0.6	4.5	2.3	3.9

Source: Stats SA. Retail trade sales, 2018

The following inferences can be drawn from a comparison between market share in current prices (table 2.1 and figures 2.1 and 2.2) and in terms of volume of goods sold (tables 2.2 and 2.3 and figures 2.3 and 2.4):

- Whereas general dealers gained market share in current prices, their market share remained relatively stable in terms of volume of goods sold. This suggests that part of general dealers' market share accrued from price increases. Figure 2.4 and table 2.3 show that this was indeed the case as general dealers registered the second highest inflation rate (prices paid by consumers) of all the types of retailers since 2012 and particularly the highest in 2016, dropping to third for the first time in 2017.
- The same phenomenon applies to retailers in food, beverages and tobacco. Whereas their relative market share increased by 4.3% in current prices between 2008 and 2017, it declined by 13.1% in terms of volume of goods sold over the same period. Figure 2.4 and table 2.3 show that they registered the highest inflation rate of all types of retailers, suggesting that prices played a significant role in terms of market share.
- Retailers in furniture, appliances and equipment experienced the other side of the above-mentioned coin. Their market share in current prices declined from 6.7% in 2008 to 4.2% in 2017, but in terms of volume of goods sold, their market share was 4.7% and 4.6% in 2008 and 2017 respectively. However, prices of goods sold by retailers in furniture, appliances and equipment were 21.6% lower in 2017 compared to 2009. This means that lower prices of goods sold contributed largely to the decline in market share in current prices and that they relied on volume of goods sold for market share.
- Retailers in clothing and footwear gained market share of 6.2 percentage points (between 2008 and 2017) in current prices, but an increase of 13.6 percentage points in terms of volume of goods sold. This suggests that they relied more on the volume of goods sold than price increases for market share. As shown in figure 2.4,

retailers in clothing and footwear registered the fourth lowest inflation rate (prices paid by consumers) of all the types of retailers in 2017.

- Retailers in hardware also relied more on price increases than volume of goods sold for market share. Consumers experienced an average hardware price inflation rate of 4.5% from 2009 to 2017. This contributed to retailers in hardware goods' market share declining by 16.6 percentage points between 2008 and 2017 in current prices and a similar decline of 16.6 percentage points in terms of volume of goods sold. Put differently, had it not been for price increases, retailers in hardware would have lost a significant market share (current prices).

In summary, general dealers, retailers specialising in food, beverages and tobacco, and retailers selling clothing and footwear relied more on price increases than volume of goods sold to increase their relative market share over the period 2008 to 2017. Therefore, the major source of market share of the other types of retailers was the volume of goods sold. However, this does not mean that the retailers relying on volume of goods sold for market share had strong balance sheets allowing them to absorb price increases – as conventional theory postulates. The relatively poor performance of retail trade sales – which will be discussed later in this chapter – proposes that in most cases, their price behaviour can be attributed to tough trading conditions in the form of weak demand that forced them to absorb some of the cost pressures they experienced.

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 other things, affect their cash flow, stocking and new orders behaviour. Seasonal patterns are brought about by many factors such as festive season shopping, number of public holidays, the month in which public holidays occur, school holidays, weather patterns, illnesses, international developments and lately, the occurrence of labour strikes and community service protests.

It needs to be noted that seasonal patterns cause different high and low selling months for retailers. In addition, some of the high and low selling months can shift depending on changes in the factors mentioned above. However, these shifts are infrequent and of a short-term nature and the normal high and low selling months normally continue after a short break. Table 2.4 provides a summary of the high and low selling months by type of retail outlet during 2017. The following can be deduced from an analysis of high and low selling months:

- January is a very low selling month for general dealers and hardware. February is for retailers in food, beverages and tobacco, as well as pharmaceuticals, furniture, appliances, and equipment. In contrast, March is also a very low selling month for retailers in clothing and footwear.
- However, January and May are low selling months for retailers in food, beverages and tobacco while June is low for pharmaceuticals, hardware and retailers in the other category – thus a low selling month for retailers with some 26.1% of the retail trade market share (current prices) in 2017 .
- April is also a low selling month for retailers with a combined market share (current prices) of 55.2% in 2017 (general dealers, furniture, appliances, equipment, and hardware) registering low sales.
- All retailers registered three low selling months during 2017 apart from clothing and footwear in addition to the other retailers' category that registered as high as four low selling months.
- In terms of high selling months, all retail outlets except for retailers in hardware register very high selling months in December. Retailers in hardware registered very high selling in November.
- October and November are also good selling months for retailers. In October, five types of retailers register high selling months while November is a high selling month for all types of retailers except pharmaceuticals.

TABLE 2.4

HIGH- AND LOW-SELLING MONTHS PER TYPE OF RETAIL OUTLET: 2017

High points	**General dealers**	**Food, beverages, tobacco**	**Pharmaceuticals**	**Clothing, footwear**	**Furniture, appliances, equipment**	**Hardware**	**All other retailers**
January							High
February							
March							
April				High			
May	High			High			
June							
July		High	High		High		
August	High				High	High	High
September	High	High					
October		High	High		High	High	High
November	High	High		High	High	**Very high**	High
December	**Very high**	**Very high**	**Very high**	**Very high**	**Very high**	High	**Very high**
Low points	General dealers	Food, beverages, tobacco	Pharmaceuticals	Clothing, footwear	Furniture, appliances, equipment	Hardware	All other retailers
January	**Very low**	Low		Low	Low	**Very low**	
February		**Very low**	**Very low**	Low	**Very low**		Low
March				**Very low**			
April	Low				Low	Low	**Very low**
May		Low					Low
June			Low			Low	Low
July	Low						
August							
September			Low	Low			
October							
November							
December							

Source: Stats SA. Retail trade sales 2018

2.4 METHOD OF PAYMENT

Technological advances played a huge role in making payment for retail purchases easier and more convenient for retail clients. A few decades ago, payments by way of the Internet and using a cell phone did not exist. However, a survey of Stats SA among retailers shows that in 2012, some 10.6% of payments to retailers were made via transfers (including internet transfers).

Table 2.5 shows the method of payment per retail outlet in 2012 and 2017. The first column of the table shows the channel used to make payments to retailers (total distribution of payment types to retailers) while the second, third and fourth columns show the percentage contribution in 2012, 2016 and 2017 respectively by each payment type to the total income received by retailers. For instance, 46.8% of payments to retailers in 2012 were by way of cash payments (first row in the second column of the table). The figure declined to 42.9% in 2016 and down to 39.7% in 2017. The 2012 figures were obtained from Stats SA retail industry data while the 2016 and 2017 figures were sourced from the Standard Bank of South Africa database.

TABLE 2.5

INCOME FROM SALES OF GOODS AND SERVICES RENDERED BY METHOD OF PAYMENT IN THE RETAIL TRADE INDUSTRY, 2012 & 2017

Method of payment	**% contribution to total income from sales of goods and services 2012**	**% contribution to total income from sales of goods and services 2016**	**% contribution to total income from sales of goods and services 2017**
Cash	46.8	42.9	39.7
Debit card	15.7	20.7	22.0
Credit card	21.4	13.7	13.8
Retail card	5.5	7.5	7.8
Transfers (including internet transfers)	10.6	15.2	16.7
Total	**100.0**	**100.0**	**100.0**

Source: Stats SA. Retail trade industry (2012) & SBSA (2017 & 2018)

The following inferences can be made from the information in table 2.5:

- Cash is the preferred method of payment at most type of retailers but the method of this kind of payment is declining from 46.8% in 2012 to 39.7% in 2017.

- Debit cards have replaced credit card payments as the second most popular method of payment climbing from 15.7% in 2012 to 22.0% in 2017 of all payments.
- Payments using debit cards are considered to be a substitute for cash payments by many clients.
- Transfer payments comprised 10.6% of all payments in 2012. This method has experienced a 6.1 percentage point increase to reach 16.7% in 2017.
- The use of store cards is the least popular method of payment as only 5.5% and 7.8% of all payments were made via this channel in 2012 and 2017 respectively.

The above survey results also allow for a rough estimate on cash and credit purchases – although it necessitates some assumptions. It is relatively straightforward to assume that cash payments consist of actual cash payments and purchases by way of debit cards, while credit purchases comprise payments by way of credit and store cards. A case can be made that transfer payments also belong to the cash category. However, a portion thereof can also qualify as credit purchases. However, a lack of information makes division into cash and credit payments difficult. This necessitates two types of calculations – one including transfer payments as cash, and another excluding transfer payments altogether from the calculations. The following can be inferred from the analysis:

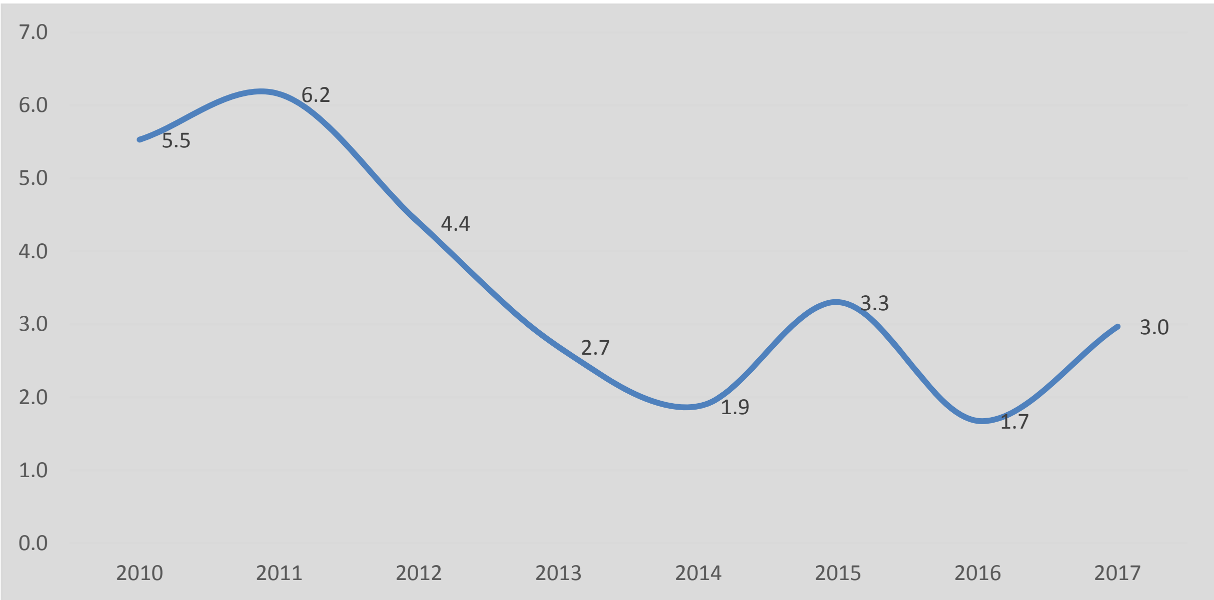
- Cash payments comprised 73.1% of all payments in 2012 when including transfers into the cash component. This proportion has increased to 78.4% in 2017.
- Credit payments that made up 26.9% in 2012 have now declined to 21.6% in 2017.

2.5 RETAIL SALES GROWTH TRENDS

Before analysing the annual growth rates in the volumes of retail sales, it must be noted that Stats SA effected changes to the sales numbers that affected the annual growth rates from 2008 onward. The data utilised in figure 2.5 comprises constant 2012 prices. Although these changes contributed to some years' growth rates either being higher or lower (than the previous growth rates), it did not affect the growth trend. In this respect, figure 2.5 shows that following a high growth period (up to 2007) and subsequent recessionary conditions (2008 and 2009), the real annual growth rate in retail sales volumes trended down from 6.2% in 2011 and bottoming in 2014 at 1.9% (see figure 2.5). Thereafter, annual growth rate rose to reach a level of 3.3% in 2015 before tapering down to 1.7% in 2016 and recovering to 3.0% in 2017.

FIGURE 2.5

REAL ANNUAL GROWTH (%) IN RETAIL SALES (2010 – 2017) (CONSTANT 2012 PRICES)



Source: Stats SA: Monthly release of retail sales, 2018

The average annual growth rate in retail trade sales volumes over the past eight years (2010 – 2016) was 3.6%. However, as figure 2.5 shows, the growth rate was very volatile and seldom registered growth rates close to the average. A number of factors affect the growth in retail sales volumes, including but not limited to the change in household income, prices, credit, and interest rates. During 2017, a number of macro-economic factors had a positive impact on the volume of products sold by retailers.

According to Business Report Online (2018), these included:

- The ending of drought conditions in the summer rainfall regions that resulted in food inflation declining quite sharply from its double digit levels at the end of 2016.
- The average value of the rand during 2017 improved to be significantly stronger than in 2016, contributing towards a steeper decline in inflation than had been anticipated in early 2017. It also facilitated a 25 basis point reduction in the repo rate in July 2017.
- The election of Cyril Ramaphosa as the ANC President at the party's elective conference in mid-December 2017 resulted in increased consumer confidence towards the end of the month, encouraging a spurt feel-good buying.
- In line with the above trends, the sector's recovery is expected to continue throughout 2018, spurred on by low inflation, another possible 25 basis points interest rate cut and decent real wage growth.

2.5.1 **Retail trade sales growth by type of outlet**

A more detailed analysis of the growth in retail trade sales volumes by type of outlet reveals that the different types of retailers did not make consistent contributions to real retail sales growth. This follows from an analysis of the share of volume sales by type of retailer and their respective annual growth rates. The results of the analysis are displayed in table 2.6.

TABLE 2.6

PERCENTAGE CONTRIBUTION BY TYPE OF RETAILER TO TOTAL RETAIL SALES GROWTH (2008 – 2017) (CONSTANT 2012 PRICES)

Percentage share of retail sales volumes								
	Total retail sales	**General dealers**	**Food, beverages & tobacco**	**Pharmaceuticals**	**Clothing & footwear**	**Furniture, appliances & equipment**	**Hard-ware**	**All other retailers**
2008	100	43.22	9.50	6.63	15.70	4.72	9.54	10.70
2009	100	43.05	9.58	6.94	15.88	4.57	8.07	10.42
2010	100	44.50	9.37	7.25	16.22	4.97	7.53	10.33
2011	100	46.09	9.10	7.19	16.33	5.15	7.72	10.57
2012	100	47.19	9.00	7.12	16.65	5.19	7.71	10.67
2013	100	47.76	8.93	6.98	17.41	4.81	7.92	10.73
2014	100	48.25	8.91	6.98	17.67	4.80	7.99	10.71
2015	100	49.05	8.83	7.01	17.84	4.68	8.14	10.83
2016	100	43.19	8.09	7.29	17.94	4.53	8.24	10.72
2017	100	42.41	8.26	7.36	17.83	4.60	7.96	11.59
Year over year (YoY) percentage growth in constant prices								
	Total retail sales	**General dealers**	**Food, beverages & tobacco**	**Pharmaceuticals**	**Clothing & footwear**	**Furniture, appliances & equipment**	**Hard-ware**	**All other retailers**
2009	-3.2	-0.6	-0.9	1.3	-2.1	-6.2	-18.1	-5.7
2010	5.5	5.6	1.0	10.2	7.8	14.6	-1.6	4.6
2011	6.2	6.1	-1.4	5.3	6.9	10.0	8.8	8.6
2012	4.4	3.8	3.0	3.3	6.4	5.2	4.3	5.4
2013	2.7	2.0	0.2	0.7	7.4	-4.8	5.5	3.2
2014	1.9	1.5	0.1	1.9	3.4	1.6	2.7	1.7
2015	3.3	2.9	1.4	3.8	4.3	0.6	5.2	4.4
2016	1.7	1.0	2.5	5.7	2.2	-1.5	2.9	0.7
2017	3.0	1.1	5.1	3.9	2.3	4.5	-0.5	11.3

Source: Stats SA. Retail trade sales, 2018

The following can be inferred from table 2.6:

- When retail sales volumes contracted by 3.2% in 2009 (compared to 2008), it was mainly because of weaker sales at furniture, appliances and equipment as well as hardware stores. Furniture, appliances, equipment, and hardware stores had a market share of 4.7% and 9.5% respectively at the end of 2008.
- Although 2016 was a difficult year in terms of total volume sales, retailers in pharmaceuticals and hardware dominated the retailer sales market. The annual sales of the pharmaceutical outlets grew at a rate of 5.7% in 2016 recording the highest growth rate than any other outlet that year.
- On the other scale, retailers in hardware experienced the worst returns in 2017 as volume of sales contracted by 0.5% compared to 2016. Likewise, their share of the retail sales volume declined from 8.2% in 2016 to 8.0% in 2017.
- In addition to all other retailers category, retailers in food, beverages and tobacco again performed better compared to other types of retailers in 2017. This enabled the retail store to maintain a market share close to 8% in both 2016 and 2017.
- General dealers, clothing and footwear and hardware all registered a decline in market shares during 2017.

2.6 **CONCLUSION**

This chapter presented some longitudinal analyses of retail sales by outlet, seasonal retail trade, the method by which retailers are paid, and retail prices by retail type. The findings can be summarised as follows:

- The relative market share (value of sales) of retailers in food, beverages and tobacco; furniture, appliances and equipment; other retailers; and hardware had been on a downward trend for a long period.

- Analysing market share in terms of volume of sales shows a somewhat different picture with pharmaceuticals, clothing and foot wear increasing their market share and all other retailers' category maintaining their market share while the rest of the outlets manifested a declining trend.
- Over the past three years, general dealers and retailers specialising in food, beverages and tobacco registered the highest selling price inflation. This can be ascribed to high food prices as food is the dominating selling category at both retailer types.
- Although seasonal patterns contribute to December as the highest selling month and January as the lowest for most retailer types, it is clear that different retailers benefit comparatively in different months. However, apart from January, the months of February and March are not high selling months.
- Cash is the preferred method of payment at most type of retailers as 78.4% of all payments are cash or cash-like payments, followed by debit cards.
- Retail sales growth had been on a downward trend since 2011 reflecting both the difficult economic environment and impact of prolonged labour strikes. In 2017, retailers specialising in the all other retailers category and food, beverages and tobacco achieved the highest growth rate followed by furniture, appliances and equipment.

The final chapter presents the 2018 forecast for retail trade sales by outlet and product type.

CHAPTER 3

RETAIL TRADE SALES FORECAST FOR 2018

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. Therefore, the correct evaluation of the volume and timing of future sales is of utmost importance. It is against this background that the BMR presents a forecast of estimated retail sales by product group for the year 2018. 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 2018 by retail outlet and product group. The chapter also reflects on the anticipated retail trade price increases for 2018. All forecasts are based on the BMR's probabilistic macro-econometric 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 2010 prices) summarise the BMR's retail trade sales forecast for 2018 by retail outlet.

TABLE 3.1

RETAIL TRADE SALES FORECAST GROWTH RATES, 2010 - 2018 (CURRENT PRICES)

Retail outlet	2010	2011	2012	2013	2014	2015	2016	2017	2018
General dealers	7.20	10.14	9.40	6.73	8.01	7.85	9.24	6.11	7.36
Retailers of food, beverages and tobacco in specialised stores	4.50	6.09	10.23	5.53	7.14	7.40	10.44	12.38	9.12
Retailers in pharmaceutical and medical goods, cosmetics and toiletries	15.58	8.87	6.53	4.09	6.61	9.38	11.01	10.06	8.97
Retailers in textiles, clothing, footwear and leather goods	8.54	9.04	9.65	10.68	8.79	9.01	8.34	5.63	7.43
Retailers in household furniture, appliances and equipment	9.95	5.49	3.32	-4.45	2.60	0.17	0.87	2.45	1.14
Retailers in hardware, paint and glass	2.21	12.46	10.49	10.44	8.00	8.32	3.64	2.12	4.94
All other retailers	2.81	7.48	6.68	6.59	4.97	6.13	5.62	13.48	7.33
Total	**7.01**	**9.10**	**8.70**	**6.72**	**7.35**	**7.59**	**8.06**	**7.13**	**7.20**

Sources: Stats SA 2018; BMR probabilistic macroeconomic model

TABLE 3.2

RETAIL TRADE SALES FORECAST GROWTH RATES, 2010 - 2018 (CONSTANT 2012 PRICES)

Retail outlet	2010	2011	2012	2013	2014	2015	2016	2017	2018
General dealers	5.58	6.13	3.78	1.97	1.50	2.86	1.00	1.11	1.02
Retailers of food, beverages and tobacco in specialised stores	1.02	-1.37	2.98	0.21	0.12	1.39	2.48	5.10	1.71
Retailers in pharmaceutical and medical goods, cosmetics and toiletries	10.18	5.35	3.27	0.69	1.94	3.79	5.72	3.94	3.27
Retailers in textiles, clothing, footwear and leather goods	7.75	6.93	6.40	7.38	3.43	4.28	2.23	2.33	2.45
Retailers in household furniture, appliances and equipment	14.65	10.01	5.20	-4.76	1.64	0.65	-1.47	4.55	0.74
Retailers in hardware, paint and glass	-1.60	8.81	4.28	5.53	2.75	5.22	2.92	-0.52	1.94
All other retailers	4.58	8.59	5.45	3.23	1.70	4.43	0.69	11.28	3.98
Total	**5.53**	**6.16**	**4.39**	**2.69**	**1.88**	**3.30**	**1.68**	**2.97**	**1.90**

Sources: Stats SA 2018; BMR probabilistic macroeconomic model

It is clear from tables 3.1 and 3.2 that during 2018, the BMR anticipates that retail trade sales will grow by 7.2% in nominal terms and 1.9% in real terms. Moreover, retailers who tend to think in terms of prices of the day would probably also prefer data at current prices in rand terms. At an estimated 7.2% average nominal price increase in retail items anticipated for 2018, the total retail sales are expected to amount to R1 078 699 million at 2018 prices (see table 3.3).

TABLE 3.3

RETAIL TRADE SALES FORECAST CURRENT PRICES: R MILLIONS

Retail outlet	2010	2011	2012	2013	2014	2015	2016	2017	2018
General dealers	252 212	277 798	303 916	324 374	350 361	377 877	412 807	438 039	470 265
Retailers of food, beverages and tobacco in specialised stores	49 127	52 120	57 451	60 628	64 959	69 769	77 050	86 590	94 491
Retailers in pharmaceutical and medical goods, cosmetics and toiletries	43 304	47 146	50 223	52 278	55 731	60 959	67 669	74 476	81 160
Retailers in textiles, clothing, footwear and leather goods	98 810	107 747	118 140	130 756	142 254	155 067	168 004	177 458	190 652
Retailers in household furniture, appliances and equipment	37 993	40 077	41 407	39 564	40 591	40 658	41 011	42 017	42 496
Retailers in hardware, paint and glass	44 062	49 553	54 751	60 468	65 305	70 737	73 311	74 864	78 566
All other retailers	69 116	74 288	79 251	84 474	88 676	94 109	99 401	112 805	121 070
Total	594 624	648 729	705 139	752 542	807 877	869 176	939 253	1 006 249	1 078 699

Sources: Stats SA 2018; BMR probabilistic macroeconomic model

The retail trade sales forecast for 2018 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 2017 and 2018 will be experienced. This will be with respect to retailers in the all other retailers category (3.9%) followed by pharmaceuticals and medical goods, cosmetics, and toiletries (3.3%) as well as retailers in textiles, clothing, footwear, and leather goods (2.5%).

TABLE 3.4

RETAIL TRADE SALES FORECAST (CONSTANT 2012 PRICES): RAND MILLION

Retail outlet	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
General dealers	322 280	342 046	354 967	361 961	367 383	377 878	381 662	385 888	389 820
Retailers of food, beverages and tobacco in specialised stores	67 527	66 601	68 586	68 731	68 813	69 771	71 502	75 151	76 436
Retailers in pharmaceutical and medical goods, cosmetics and toiletries	52 603	55 415	57 225	57 617	58 732	60 957	64 445	66 981	69 173
Retailers in textiles, clothing, footwear and leather goods	117 683	125 841	133 893	143 772	148 705	155 067	158 523	162 219	166 189
Retailers in household furniture, appliances and equipment	36 057	39 665	41 726	39 741	40 394	40 655	40 056	41 877	42 188
Retailers in hardware, paint and glass	54 636	59 451	61 998	65 427	67 226	70 738	72 806	72 429	73 835
All other retailers	74 961	81 401	85 835	88 609	90 115	94 109	94 760	105 452	109 645
Total	725 747	770 420	804 230	825 858	841 368	869 175	883 754	909 997	927 287

Sources: Stats SA 2018; BMR probabilistic macroeconomic model

3.3 FINAL CONSUMPTION EXPENDITURE FORECAST BY PRODUCT GROUP

A detailed forecast of final consumption expenditure for 2018 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 (26.6% of total final expenditure in 2018). This is followed by rent (10.2%), miscellaneous services (9.6%), and transport and communication services (8.4%).

TABLE 3.5

FINAL CONSUMPTION EXPENDITURE FORECAST FOR 2018 (CURRENT PRICES): RAND MILLION

Current prices	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Furniture, household appliances, etc.	28 227	29 304	30 221	31 215	33 493	34 888
Personal transport equipment	131 560	131 775	128 682	118 417	128 518	127 432
Computers and related equipment	5 114	5 397	5 735	6 156	6 770	7 252
Recreational and entertainment goods	21 019	22 323	23 715	25 398	27 312	29 098
Other durable goods	9 711	10 311	11 098	12 031	13 245	14 294
Durable goods	**195 631**	**199 110**	**199 451**	**193 217**	**209 338**	**212 965**
Clothing and footwear	103 829	112 777	122 860	133 527	141 055	151 776
Household textiles, furnishings, glassware, etc.	26 634	28 414	30 217	32 308	34 284	36 423
Motorcar tyres, parts and accessories	18 145	19 177	20 747	22 145	22 232	23 306
Recreational and entertainment goods	13 026	13 758	14 643	15 733	17 342	18 605
Miscellaneous goods	12 432	13 296	14 330	15 841	16 755	18 006
Semi-durable goods	**174 066**	**187 422**	**202 797**	**219 554**	**231 668**	**248 116**
Food, beverages and tobacco	523 947	565 734	610 958	676 041	727 480	787 804
Household fuel, power and water	95 852	103 006	110 189	118 330	126 351	135 029
Household consumer goods	76 728	82 486	88 762	95 406	101 891	109 084
Medical and pharmaceutical products	31 065	33 133	36 153	40 201	44 211	48 225
Petroleum products	95 137	100 762	91 566	91 000	97 435	97 781
Recreational and entertainment goods	20 365	21 616	23 114	24 683	26 802	28 652
Non-durable goods	**843 094**	**906 737**	**960 742**	**1 045 661**	**1 124 170**	**1 206 575**
Rent	221 355	234 789	249 426	265 569	283 006	300 219
Household services, including domestic servants	49 682	53 263	57 700	64 251	72 649	79 868
Medical services	123 164	131 668	141 411	161 635	171 324	185 648
Transport and communication services	211 175	225 163	230 321	238 355	240 839	248 111
Services - Recreational entertainment and educational services	114 954	125 497	137 251	149 528	163 573	178 210
Miscellaneous services	211 064	217 884	231 304	240 098	267 832	284 007
Services	**931 394**	**988 264**	**1 047 413**	**1 119 436**	**1 199 223**	**1 276 062**
Security services	8 689	9 340	10 528	11 492	12 568	13 750
Total	**2 152 874**	**2 290 873**	**2 420 931**	**2 589 360**	**2 776 967**	**2 957 469**

Sources: SARB 2018; BMR probabilistic macroeconomic model

Table 3.6 shows final consumption expenditure annual growth rates per product group (in nominal terms) for the period 2016 to 2018. It appears from the table that the highest average annual growth rates (in nominal terms) during the period 2016 to 2018 will be experienced with respect to household services, including domestic servants (9.9%), security services (9.4%), medical and pharmaceutical services (9.1%), services –

recreational entertainment and educational services (8.9%) and medical services (8.4%) as well as food, beverages and tobacco (8.3%). Such increases will be driven by both demand- and supply-side factors. Examples of supply-side factors include, among others, the rand-dollar exchange rate, energy price increases, medical and municipal services price hikes, and recently the settlement achieved on the national minimum wage.

TABLE 3.6

ANNUAL GROWTH RATES IN FINAL CONSUMPTION EXPENDITURE (%), 2016 – 2018 (CURRENT PRICES)

Product Group	**2016**	**2017**	**2018**
Furniture, household appliances, etc.	3.3	7.3	4.2
Personal transport equipment	-8.0	8.5	-0.8
Computers and related equipment	7.3	10.0	7.1
Recreational and entertainment goods	7.1	7.5	6.5
Other durable goods	8.4	10.1	7.9
Durable goods	**-3.1**	**8.3**	**1.7**
Clothing and footwear	8.7	5.6	7.6
Household textiles, furnishings, glassware, etc.	6.9	6.1	6.2
Motorcar tyres, parts and accessories	6.7	0.4	4.8
Recreational and entertainment goods	7.4	10.2	7.3
Miscellaneous goods	10.5	5.8	7.5
Semi-durable goods	**8.3**	**5.5**	**7.1**
Food, beverages and tobacco	10.7	7.6	8.3
Household fuel, power and water	7.4	6.8	6.9
Household consumer goods	7.5	6.8	7.1
Medical and pharmaceutical products	11.2	10.0	9.1
Petroleum products	-0.6	7.1	0.4
Recreational and entertainment goods	6.8	8.6	6.9
Non-durable goods	**8.8**	**7.5**	**7.3**
Rent	6.5	6.6	6.1
Household services, including domestic servants	11.4	13.1	9.9
Medical services	14.3	6.0	8.4
Transport and communication services	3.5	1.0	3.0
Services - Recreational entertainment and educational services	8.9	9.4	8.9
Miscellaneous services	3.8	11.6	6.0
Services	**6.9**	**7.1**	**6.4**
Security services	9.2	9.4	9.4
Total	**7.0**	**7.2**	**6.5**

Sources: SARB 2018; BMR probabilistic macroeconomic 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 final expenditure price increases will be experienced during 2018. This will be with respect to security services (9.6%); personal transport equipment (8.9%); food, beverages and tobacco (7.3%); household fuel, power and water (6.9%); and recreational and entertainment goods (6.8%). 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 (7.3%).

TABLE 3.7

FINAL CONSUMPTION EXPENDITURE DEFLATOR FORECAST, 2016 – 2018

Product Group	**2016**	**2017**	**2018**
Furniture, household appliances, etc.	-0.2	-4.2	-2.1
Personal transport equipment	-3.4	8.8	8.9
Computers and related equipment-	2.9	-9.4	-2.3
Recreational and entertainment goods	4.1	-9.9	-1.0
Other durable goods	1.5	2.7	2.6
Durable goods	**4.1**	**-0.2**	**2.5**
Clothing and footwear	5.1	3.4	4.7
Household textiles, furnishings, glassware, etc.	4.8	0.3	1.6
Motorcar tyres, parts and accessories	3.7	3.0	3.6
Recreational and entertainment goods	2.5	3.0	4.2
Miscellaneous goods	4.3	2.6	3.7
Semi-durable goods	**-7.0**	**2.7**	**-0.9**
Food, beverages and tobacco	9.6	6.3	7.3
Household fuel, power and water	4.8	6.0	6.9
Household consumer goods	4.1	3.8	4.1
Medical and pharmaceutical products	4.8	6.3	5.4
Petroleum products	1.4	8.1	1.1
Recreational and entertainment goods	7.1	7.5	6.8
Non-durable goods	**7.1**	**6.2**	**6.1**
Rent	6.1	5.1	5.2
Household services, including domestic servants	-0.4	-3.7	-0.6
Medical services	3.8	5.4	5.3
Transport and communication services	3.5	2.9	3.2
Services - Recreational entertainment and educational services	9.4	-2.7	5.7
Miscellaneous services	-0.5	5.5	4.2
Services	**3.2**	**5.1**	**4.8**
Security services	11.4	9.5	9.6
Total	**6.2**	**5.2**	**5.3**

Sources: SARB 2018; BMR probabilistic macroeconomic model

Tables 3.8 and 3.9 provide information about the growth in final demand (real growth) per product group during the period 2015 to 2018. It appears from table 3.8 that the biggest final consumption expenditure item in 2018 at 2010 constant prices will be food, beverages and tobacco (23.6%) followed by two service-related expenditure groups, namely, rent (10.6%) and transport and communication services (9.6%).

TABLE 3.8

FINAL CONSUMPTION EXPENDITURE FORECAST, 2015 – 2018 (CONSTANT 2010 PRICES): RAND MILLION

Product Group	**2015**	**2016**	**2017**	**2018**
Furniture, household appliances, etc.	32 764	33 768	37 815	40 204
Personal transport equipment	103 757	87 658	90 580	84 061
Computers and related equipment	6 666	6 630	8 449	9 275
Recreational and entertainment goods	27 615	28 983	34 592	38 215
Other durable goods	10 311	10 801	11 582	12 145
Durable goods	**181 113**	**167 840**	**182 998**	**183 900**
Clothing and footwear	100 945	104 511	106 737	109 691
Household textiles, furnishings, glassware, etc.	29 147	29 951	31 690	33 178
Motorcar tyres, parts and accessories	16 596	17 064	16 636	16 842
Recreational and entertainment goods	12 794	12 946	13 855	14 286
Miscellaneous goods	13 097	13 876	14 302	14 827
Semi-durable goods	**172 579**	**178 348**	**183 220**	**188 824**
Food, beverages and tobacco	443 674	447 555	452 635	457 279
Household fuel, power and water	68 115	67 560	68 032	67 974
Household consumer goods	73 468	75 808	77 923	80 185
Medical and pharmaceutical products	29 329	31 095	32 158	33 290
Petroleum products	61 188	59 921	59 369	58926
Recreational and entertainment goods	17 279	17 364	17 532	17 589
Non-durable goods	**693 053**	**699 303**	**707 649**	**715 243**
Rent	197 872	200 344	202 482	204 302
Household services, including domestic servants	43 878	46 391	49 007	50 871
Medical services	105 675	114 241	117 875	122 015
Transport and communication services	181 705	183 145	184 375	185 307
Services - Recreational entertainment and educational services	95 134	98 642	101 234	103 550
Miscellaneous services	175 615	173 759	175 107	175 743
Services	**799 879**	**816 522**	**830 081**	**841 789**
Security Services	6 880	6 736	6 728	6 718
Total	**1 853 504**	**1 868 749**	**1 910 675**	**1 936 473**

Sources: SARB 2018; BMR Probabilistic Macro-economic Model

Annual real growth in final consumption expenditure per expenditure category over the period 2016 to 2018 is shown in table 3.9 below. The highest year-on-year expenditure growth rates at 2010 constant prices during 2018 will be experienced. This will be with respect to recreational and entertainment goods (10.5%), driven by an increasing demand for furniture, household appliances (6.3%) and computers and related equipment (9.8%) 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.

Major declines in consumption expenditure during 2018 are expected in personal transport equipment (7.2%) and petroleum products (0.7%) as well as household fuel, power and water (0.1%). This is owing to the expected weakening of the rand, higher borrowing costs, declining investment and consumer confidence, the rise in crude oil, gas and petrol prices, and the residual impact of drought in addition to an increase in energy costs, including electricity prices during 2018.

TABLE 3.9

FINAL CONSUMPTION EXPENDITURE ANNUAL REAL GROWTH RATE FORECAST, 2016 – 2018 (CONSTANT 2010 PRICES)

Product Group	**2016**	**2017**	**2018**
Furniture, household appliances, etc.	3.1	12.0	6.3
Personal transport equipment	-15.5	3.3	-7.2
Computers and related equipment	-0.5	27.4	9.8
Recreational and entertainment goods	5.0	19.4	10.5
Other durable goods	4.8	7.2	4.9
Durable goods	**-7.3**	**9.0**	**0.5**
Clothing and footwear	3.5	2.1	2.8
Household textiles, furnishings, glassware, etc.	2.8	5.8	4.7
Motorcar tyres, parts and accessories	2.8	-2.5	1.2
Recreational and entertainment goods	1.2	7.0	3.1
Miscellaneous goods	5.9	3.1	3.7
Semi-durable goods	**3.3**	**2.7**	**3.1**
Food, beverages and tobacco	0.9	1.1	1.0
Household fuel, power and water	-0.8	0.7	-0.1
Household consumer goods	3.2	2.8	2.9
Medical and pharmaceutical products	6.0	3.4	3.5
Petroleum products	-2.1	-0.9	-0.7
Recreational and entertainment goods	0.5	1.0	0.3

TABLE 3.9 (CONTINUED)

Product Group	**2016**	**2017**	**2018**
Non-durable goods	**0.9**	**1.2**	**1.1**
Rent	1.2	1.1	0.9
Household services, including domestic servants	5.7	5.6	3.8
Medical services	8.1	3.2	3.5
Transport and communication services	0.8	0.7	0.5
Services - Recreational entertainment and educational services	3.7	2.6	2.3
Miscellaneous services	-1.1	0.8	0.4
Services	**2.1**	**1.7**	**1.4**
Security Services	-2.1	-0.1	-0.1
Total	**0.8**	**2.2**	**1.4**

Sources: SARB 2018; BMR Probabilistic Macro-economic 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 2010 prices for 2018. 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. It needs to be emphasised that whereas 2012 constant prices were used in chapter 2 owing to such prices being used by Stats SA, 2010 constant prices are being used in this chapter as published by the SARB (SARB, 2018).

The retail estimates by product group for 2018 that were produced for the purpose 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 3.5 (current prices) and table 3.8 (constant prices) were used as baseline data. The non-retail categories were removed from this table; and

- After removing the non-retail 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 based on 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 2018 (in nominal terms) will be food, beverages and tobacco. It is estimated that this product group will attract about 55.7% of retail expenditure while the second largest expenditure group will be clothing and footwear (10.7%). It is also expected that during the medium- to long-term, the contribution of the wider food category will taper off somewhat. On the contrary, 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 AT RETAIL OUTLETS BY CATEGORY AND PRODUCT/SERVICE GROUP (CURRENT PRICES), 2015 – 2018: RAND MILLION

Product Group	**2015**	**2016**	**2017**	**2018**
Furniture, household appliances, etc.	30 221	31 215	33 493	34 888
Computers and related equipment	5 735	6 156	6 770	7 252
Recreational and entertainment goods	23 715	25 398	27 312	29 098
Other durable goods	11 098	12 031	13 245	14 294
Durable goods	**70 769**	**74 800**	**80 820**	**85 532**
Clothing and footwear	122 860	133 527	141 055	151 776
Household textiles, furnishings, glassware, etc.	30 217	32 308	34 284	36 423
Recreational and entertainment goods	14 643	15 733	17 342	18 605
Miscellaneous goods	14 330	15 841	17 755	18 006
Semi-durable goods	**182 050**	**197 409**	**209 436**	**224 810**
Food, beverages and tobacco	610 958	676 041	727 480	787 804
Household fuel, power and water	110 189	118 330	126 351	135 029
Household consumer goods	88 762	95 406	101 891	109 084
Medical and pharmaceutical products	36 153	40 201	44 211	48 225
Recreational and entertainment goods	23 114	24 683	26 802	28 652
Non-durable goods	**869 176**	**954 661**	**1 026 735**	**1 108 794**
Total	**1 121 995**	**1 226 870**	**1 316 991**	**1 419 136**

Sources: SARB 2018; BMR Probabilistic Macro-economic Model

A forecast of retail expenditure by product group (at constant 2010 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 2015 to 2018 will be experienced with respect to computers and related equipment (39.1%), followed by recreational and entertainment goods (38.4%), furniture and household appliances (22.7%) and other durable goods (17.8%). During 2018, the highest product group retail demand increases are expected with respect to computers and related equipment (9.8%) followed by furniture and household appliances (6.3%).

TABLE 3.11

FORECAST OF FINAL CONSUMPTION EXPENDITURE INCURRED AT RETAIL OUTLETS (CONSTANT 2010 PRICES), 2015 – 2018

Constant 2010 prices	**2015**	**2016**	**2017**	**2018**
Furniture, household appliances, etc.	32 764	33 768	37 815	40 204
Computers and related equipment	6 666	6 630	8 449	9 275
Recreational and entertainment goods	27 615	28 983	34 592	38 215
Other durable goods	10 311	10 801	11 582	12 145
Durable goods	**77 356**	**80 182**	**92 438**	**99 839**
Clothing and footwear	100 945	104 511	106 737	109 691
Household textiles, furnishings, glassware, etc.	29 147	29 951	31 690	33 178
Recreational and entertainment goods	12 794	12 946	13 855	14 286
Miscellaneous goods	13 097	13 876	14 302	14 827
Semi-durable goods	**155 983**	**161 284**	**166 584**	**171 982**
Food, beverages and tobacco	443 674	447 555	452 635	457 279
Household fuel, power and water	68 115	67 560	68 032	67 974
Household consumer goods	73 468	75 808	77 923	80 185
Medical and pharmaceutical products	29 329	31 095	32 158	33 290
Recreational and entertainment goods	17 279	17 364	17 532	17 589
Non-durable goods	**631 865**	**639 382**	**648 280**	**656 317**
Total	**865 204**	**880 848**	**907 302**	**928 138**

Sources: SARB 2018; BMR Probabilistic Macroeconomic 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, semi-durable goods and non-durable 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 78.1% of retail expenditure during 2018 will be on non-durable goods followed by about 15.8% on semi-durable 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 2015 to 2018 at constant prices (see table 3.12).

TABLE 3.12

FORECAST OF FINAL CONSUMPTION EXPENDITURE BY PRODUCT GROUP THROUGH THE RETAIL CHANNEL, 2015 – 2018 (CURRENT PRICES)

Product Group	2015	2016	2017	2018
Durable goods	70 769	74 800	80 820	85 532
Semi-durable goods	182 050	197 409	209 436	224 810
Non-durable goods	869 176	954 661	1 026 735	1 108 794
Total	**1 121 995**	**1 226 870**	**1 316 991**	**1 419 136**

Sources: SARB 2018; BMR Probabilistic Macroeconomic Model

TABLE 3.13

FORECAST OF FINAL CONSUMPTION EXPENDITURE BY PRODUCT GROUP THROUGH THE RETAIL CHANNEL, 2015 – 2018 (CONSTANT 2010 PRICES)

Product Group	2015	2016	2017	2018
Durable goods	77 356	80 182	92 438	99 839
Semi-durable goods	155 983	161 284	166 584	171 982
Non-durable goods	631 865	639 382	648 280	656 317
Total	**865 204**	**880 848**	**907 302**	**928 138**

Sources: SARB 2018; BMR Probabilistic Macroeconomic Model

3.5 CONCLUSION

This chapter presented a forecast of retail trade sales for 2018 based on the BMR's Macro-econometric Forecasting Model. This report will conclude with an overview and some concluding remarks in the next chapter.

CHAPTER 4

IMPLICATIONS OF MACRO-ECONOMIC RETAIL FORECASTS AND CONCLUDING REMARKS

4.1 OVERVIEW

When interpreting the findings emerging from the retail sales forecast and anticipated retail trade and macro-economic environments that are most likely to unfold during 2018, business strategists and planners should take note of the following megatrends covered in the discussion above:

- Consumers are still very vulnerable financially. This causes a heavy impact on the spending power of consumers, especially with respect to the consumption expenditure of the lower income groups.
- The resignation of former President Jacob Zuma on 14 February 2018, the appointment of President Cyril Ramaphosa on 15 February 2018 and the Cabinet reshuffle that happened on of 26 February 2018. This was followed by the affirmation of South Africa's sovereign rating as 'investment grade'. Specifically, Moody's Investors Service changed the outlook from negative to stable towards the end of March 2018 in addition to the Standard and Poor's reaffirmation of South Africa's sovereign sub-investment grade and a stable outlook at the end of May 2018. As a result, these incidents led to a transient improvement in investor and consumer confidence.
- However, five major global economic aspects have followed this during May and June 2018. They include, the rise in the global crude oil price; the increase in tariffs on steel and aluminium by the US; a looming trade war with its allies, China and Russia; an increase in interest rates in the US; and the quantitative easing tapering by the ECB. These aspects have led to a reduction in portfolio investments in emerging markets including South Africa, a rise in the petrol price, deterioration in the value of the rand, inflationary pressures, and a likelihood of a rise in interest rates. Differential retail trade sales growth was found with respect to different products and services and

outlets. From the 2018 retail trade sales forecast, it is evident that all other retailers category are leading the pack in retail volume terms among retail outlets while strong growth is also notable for pharmaceuticals and medical goods, cosmetics and toiletries and retailers in textiles, clothing, footwear, and leather goods.

- 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 showed signs of slow recovery. However, local economic growth prospects are rather depressing, with the economy contracting by 2.2% in the first quarter and the likely economic growth for South Africa for 2018 being 1.25% though international finance institutions such as the IMF had revised their projections to as high as 1.5% in April 2018. 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. This will give rise to increasing difficulty in forecasting future retail trade patterns. Such volatility is being expected to increase during the short-term because of a large number of economic uncertainties as well as low levels of consumer and business confidence in the South African economy.
- 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 spends. 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. Therefore, this gives 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 2004 to 2018, 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. They are as follows:
  - 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 South Africa, giving rise to the demise of selected products such as tobacco, alcoholic beverages, etc.).

- Cash remains the preferred method of payment at most retailers but this kind of method of payment is declining. Debit cards have replaced credit card payments as the second most popular method of payment. On the contrary, transfer payments increased by 5.3 percentage points between 2012 and 2017. The research also shows that the use of store cards is the least popular method of payment for retail sales.
- There are increasingly clear signs that South African consumers are inclined towards particularly conspicuous consumption (luxury goods and services). This is reflected on a macro-level through the figures published in this report. The latter shows that a higher proportion of South African consumers spend on computers and related equipment (i.e. smart phones) and recreation and entertainment goods (i.e. sports equipment, books and toys) than their international counterparts. On a micro-level, 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 2018 BMR retail sales forecast shows that retail sales are anticipated to increase by 7.2% in nominal and 1.9% in real terms. This forecast reflects a low but positive growth for 2018.

The figures provided in this report provide a good indication of retail expenditure by outlet and product group during 2018 for marketers, analysts and strategists/planners. The said figures are estimates of greatest likelihood in the sense that they were derived by means of a comprehensive probabilistic macro-economic model with a very good forecasting track record, after which detailed parameter identification against other available economic and socio-economic parameters was conducted. There are still numerous downside risks to sustained economic and retail trade growth. However, those risks have been discounted as far as possible in the retail estimates produced for the purpose of this report. Compared to 2017, the extent of such downside risk from within South Africa has increased (i.e. political and policy uncertainty, sovereign downgrades, strikes, protest actions, energy costs, and stagnating employment creation). However, certain international downside risks have also increased (i.e. increase in the price of crude oil, looming trade war, populist geopolitics, increase in US interest rates, slowing growth in China, ECB tapering policy, emerging market contagion and depreciation value of the rand) while some other international downside risks have subsided somewhat (i.e. slightly higher commodity prices 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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