BIZCOMMUNITY

Interest rates, power cuts ‘trim retail sales'

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Actual figures will begin to appear this week.

Analysts expect sales growth to be muted in comparison to growth over the previous few years as interest rate hikes place pressure on disposable income.

A recent Ernst & Young survey, in conjunction with the Bureau for Economic Research, predicted last year that fourth quarter retail sales would not grow as much as in 2006, and retailers would come under margin pressure.

Chris Gilmour, an analyst at Absa Asset Management Private Clients, said furniture retailers were expected to show revenue growth in low single digits compared with the 2006 festive season. Clothing retailers were expected to have revenue growth of high single digits and food retailers were expected to show growth of 12%-15%.

In November, a Deloitte survey indicated that consumers expected to spend 12,4% more on average in the 2007 festive season than the prior year.

At the time, Econometrix Treasury Management economist George Glynos said inflation should be stripped out of growth figures. In November, inflation was 7,9%.

The Ernst & Young survey said growth was expected to slow due to a drain on disposable income, with durable goods retailers — the most sensitive to interest rates — expected to be hardest hit.

Warwick Lucas, an analyst at Imara SP Reid, said the share prices of JD Group and Lewis had come off sharply recently.

Furniture was a cheap sector and the market was pricing through the risks in recent interest rate hikes. The Reserve Bank has raised interest rates four percentage points since June 2006.

Standard Bank economists said last month that retail sales growth was trending downwards and could “in due course” result in reduced sales.

Volume growth figures, expected to show a slowdown in growth, would start being released only when retailers started reporting interim and financial year results from about March. Gilmour said this would give an indication of how much revenue growth was inflation- related and how much was real year-on year growth.

He said signs that people were using credit cards to pay for food became apparent. This was worrying as it indicated distress. Also, people were expected to start trading down as higher maize and fuel prices filtered through to food inflation. Power outages were also expected to have taken their toll on sales.

Mike Harvey, MD of health and beauty retailer Clicks, said load shedding was a problem for all retailers. “We have to close our stores while the power is down and we are tracking the impact on our sales very closely. December is by far our highest turnover month.”

Harvey said shoppers left malls when power was cut, which affected trading for the rest of the day.

Edcon spokesman Tessa Christelis said it was ironic that Eskom was managing to curb growth more effectively than the Reserve Bank through load shedding. She said outages during November and December, which accounted for about 25% of the group's annual sales, had pushed volumes down. On days when there were power cuts, sales were 5% lower than on normal days.

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