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Few jingling tills this year, say analysts

By **THABISO MOCHIKO**

● Retail, which had a tough year navigating load-shedding and a weak macroeconomic environment that hit consumers' disposable income, could be in for another difficult year as analysts flag risks to growth.

Grocery and clothing retailers, as well as food producers, have bemoaned the high cost of operations caused by load-shedding, as they spent hundreds of millions keeping their operations running in a year when blackouts were even worse than the year before.

And the delays at South African ports could add more woes to some clothing retailers as they wait for autumn fashions.

Analyst Casparus Treurnicht of Gryphon Asset Management said with load-shedding not getting worse it would be possible to have a better year. But working against that are an inflationary environment that is likely to remain tough and high interest rates putting consumers on the back foot.

"Global growth is being revised downwards, which does not bode well for a commodity-based country like ours. We should be lucky if retail performs better, but we are not growing GDP per capita. New leadership in government is urgently needed to point South Africa in the right direction," Treurnicht said.

Makwe Masilela, chief investment officer at Makwe Fund Managers, said if load-shedding improved, retailers' balance sheets could take a "breather".

If the elevated consumer inflation lasted longer, there would be "second-round effects and interest rates will stay higher for longer and we'll get a recession or maybe a soft landing. That will continue to hit already low consumer confidence and the retail sector will barely survive. But the opposite still holds," he said.

According to a Bureau for Economic Research (BER) report released this week, retailer business confidence recovered further during the fourth quarter of 2023, even though sales volumes remained weak. It said retail tills "will not jingle so merrily this festive season, even though less load-shedding and improved profitability have bolstered retailer confidence".

Craig Lemboe, deputy director at the BER, said: "High inflation and interest rates have reduced the purchasing power of consumers, and retail sales volumes will likely disappoint compared to the same quarter last year. With cost-of-living pressures projected to remain high in the near term, business conditions will remain challenging in the trade sector during the first half of 2024."

Treurnicht said 2023 was a "terrible" year for food and clothing retailers. It was generally expected that food would hold up well, but it was hit just as hard.

Inflation certainly made its mark, especially on lower-income groups, and because food is a low-margin product there was less room to play with.

Retailers will face further headwinds in 2024, analysts predict. Picture: 123RF

For nine consecutive months, retail sales fell before increasing in October. Food fared better than clothing as more than 50% of consumers spend more than 60% of their disposable incomes on food. Despite many people returning physically to their workplaces, some were still "working hybrid" and that resulted in postponed clothes purchases, Masilela said.

Spar and Pick n Pay had a tough 2023, with earnings declining for different reasons as Shoprite continued to eat into their market shares. Both companies introduced new leadership this year to turn around their fortunes. Pick n Pay brought back former CEO Sean Summers while Spar appointed Angelo Swartz, who has been with the group 16 years.

Mohamed Mitha, investment analyst for Camissa Asset Management, expects Shoprite's strong trading momentum to persist into 2024, albeit at a lower rate of growth compared to its "phenomenal" recent performance. "Momentum is a powerful force in food retail where success often leads to more success, with Shoprite remaining in the virtuous circle."

He expects Pick n Pay to continue to struggle with operational challenges in the short to medium term at least, which should support stronger competitors such as Shoprite.

But there may be a silver lining for Spar.

"We're encouraged by plans to dispose of the Polish division as we believe the prospects of success for this business are slim," he said.

Spar's earnings for the year to September plummeted partly due to the botched implementation of the SAP software system at its KwaZulu-Natal distribution centre, which led to much lower sales.

"As we've seen with countless other companies, implementing a new ERP [enterprise resource planning] system almost always proves to be problematic and there may be more pain for Spar. But we're sanguine that in the fullness of time, Spar should reap the benefits of its world-class ERP system," said Mitha.