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South Africa

November retail sales get a Black Friday cheer

Retail sales came in significantly better than expected in November, likely due to the effects of Black Friday specials. While labour and credit market headwinds against the consumer persist, the recent fuel price cuts and implementation of the National Minimum wage could offer some short-term spending resilience.

Black Friday specials likely spurred retail sales strength in November. Seasonally adjusted constant price retail sales increased by a solid 3.3% m/m during the month, even as October growth was revised higher to 1.0% m/m from an initial estimate of 0.6% m/m. On a y/y basis, November printed at 3.1%, up from 2.1% in October. Retail sales by general dealers (roughly 40% of total retail sales) was the main driver of the overall improvement, increasing 3.7% y/y in November, up from 0.7% y/y in October. Two other categories that showed a strong improvement in retail sales were 'textiles and clothing' as well as 'household furniture, appliances and equipment'. Retail sales growth in the household furniture, appliances and equipment category, which had already showed strong momentum in recent months, rose further to 13.5% y/y in November from 10.4% y/y in October. Meanwhile, textile and clothing retail sales growth picked up to 4.2% y/y (October: 2.0%). Across the other categories, only the 'food and beverages' and 'hardware and paint' categories recorded negative y/y sales growth in November of 1.9% and 2.4%, respectively.

Retail sales strength is supportive of our view of continued growth recovery in Q4. Given that the November surge is mainly reflective of the effects of Black Friday specials, some m/m pullback is likely in December. That said, overall Q4 retail sales still seem likely to post strong growth. For instance, even our forecast of a relatively strong pullback of 2.8% m/m (sa) in December would still leave retail sales up by 9.2% q/q saar in Q4 18. We therefore see today's retail sales as supportive of our view of continued GDP growth of around 1.8% q/q saar in Q4 18. As we argued in the *South Africa Q1 19 Quarterly Perspectives*, weak labour markets (as reflected in poor job creation and declining wage settlements) and tightening credit markets remain major headwinds against the consumer that will likely keep the lid on spending growth. However, the sharp declines in fuel prices since December will assist household budgets a lot. For example, if petrol prices remain at current levels for the remainder of the year, then households would spend over ZAR10bn less on petroleum products in 2019. (And, in fact, current over-recovery rates on the petrol price suggest another price decline in February, albeit a small one.) Furthermore, the implementation of the National Minimum Wage (NMW) legislation from the first of January may offer some additional relief, though it is challenging to quantify just how much. But a couple of years ago, the NMW panel found 6.6mn workers earning less than the proposed minimum wage of ZAR20/hour. Conservatively, assuming a quarter of these have now graduated beyond the NMW of ZAR20/hour, the remainder work 30 hours per week, compliance with the legislation is 50% and that workers positively affected by the new rules enjoy a wage uplift on average of ZAR2 per hour, the direct boost to household incomes would amount to nearly ZAR8bn in 2019.

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