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## South Africa

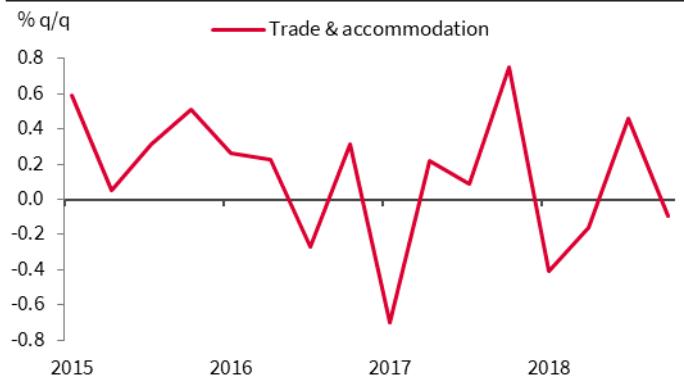
# February retail sales: stronger than expected - but still weak

**Retail sales growth surprised to the upside in February, but still slowed on a month-on-month and year-on-year basis. The January and February data suggest that real seasonally adjusted retail sales are likely to decline on a quarter-on-quarter basis in Q1 19, subtracting somewhat from GDP growth. The consumer is likely to remain under pressure in the remainder of 2019, in our view.**

**Retail sales surprised on the upside in February.** Month-on-month constant price retail sales growth slowed to 0.5% in February from a surprisingly strong 1.6% in January. This was sufficient to deliver year-on-year growth down marginally from 1.2% y/y in January to 1.1% in February. This outcome is well above the Thomson Reuters median forecast of 0.6% y/y, and significantly above our -0.1% y/y forecast. The detailed retail sales categories showed mixed developments in February. General dealers' sales posted 1.2% y/y growth, along with 'pharmaceuticals' 1.2% y/y, 'clothing' retailers 4.4% y/y and 'household furniture' retailers 7.4% y/y. Meanwhile, negative growth rates prevailed in other categories: food, beverages and tobacco retailers -1.9% y/y; 'hardware' retailers -2.0% y/y; and 'other' retailers -1.5% y/y.

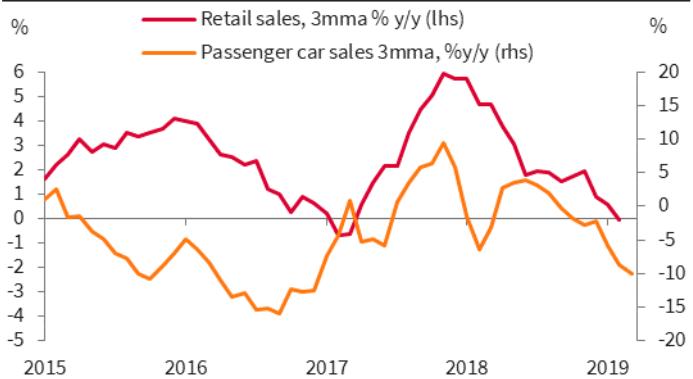
**Seasonally adjusted retail sales would need to grow by 1.8% m/m in March to avoid a Q1 19 contraction (compared with Q4 18), by our calculations.** However, we believe that this is unlikely as the consumer is faced with headwinds such as rising fuel prices (up 5.3% m/m sa in March), stagnant job creation, slowing income growth and low confidence. And of course, from April onwards fuel prices have risen still further, while big personal income tax hikes worth 0.25% of GDP took effect at the start of the current tax year. Thus, we believe retail sales will likely contract q/q saar in Q1 19. Other parts of household spending also appear to have been under pressure in Q1 19. For example, after adjusting for seasonal factors, NAAMSA's data on passenger car sales declined nearly 29% q/q saar in Q1 19. Of course, retail sales and motor vehicle sales are only parts of the trade sector, which also includes wholesale sales, household purchases of certain services, accommodation and catering. Plugging today's retail sales print into our GDP tracker lifts the Q1 19 tracking estimate slightly to -0.2% q/q saar, still well below the +0.5% q/q saar forecast from our demand-side model. Still, the March activity prints could come in quite weak given intense load shedding for a number of days that month, and this argument suggests some downside risk even to our GDP tracker estimate.

**Figure 1: Trade sector could take from quarterly GDP in Q1 19**



Source: Stats SA, Absa Research

**Figure 2: Retail sales likely to decline on a quarterly basis**



Source: Stats SA, NAAAMSA, Absa Research

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