Hard times for retailers as spending falls

By Zeenat Moorad

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Food inflation and increases in the price of petrol and municipal services will continue to "burden consumers' disposable income, while economic growth and household spending is likely to remain sluggish", Pick n Pay chairman Gareth Ackerman warned in the group's annual report on Monday, 3 June 2013.

His views echo the pessimistic outlook of other retail companies on trading prospects for the rest of the year. They expect consumers to put the brakes on spending amid anaemic employment and income growth and a slowdown in unsecured lending.

"The trading environment in the year ahead shows little sign of improving," Ackerman said.

Noah Capital Markets retail analyst Roger Tejwani said the decline in consumer spending was likely to deteriorate over the next few months.

"Unsecured credit is now slowing. Over the last few years it has grown quite rapidly, giving retail sales quite a boost," Tejwani said.

Consumers, especially those in the lower living standards measure have been using unsecured credit and short-term debt to offset the loss of discretionary spending power.

"Lower income consumers have been supported in part by welfare and social grant growth, which is now slower. If you look at the middle income group, what's been supporting that customer base is public sector employment - wage growth has been strong in this segment over the last few years," said Tejwani.

Cost of living rising

"For both it's not a comfortable place to be in at the moment with the rising cost of living. There is relative safety in the higher income group, obviously because we have historically low interest rates but once the rate cycle starts turning, higher income consumers will start feeling the pinch," he said.

The effect of the recent weakening of the rand on the price of imported and dollar-denominated commodities, especially maize, oil and fuel, imported food products and imported inputs into food and other manufactured goods will lead to rising food inflation, further affecting consumers pockets.

Last month, Spar Group, like rivals Shoprite and Massmart, said it saw challenging trading conditions persisting for the remainder of the year.

"We don't see it getting any better. There are some issues that look pretty tricky for the consumer," Spar; chief executive Wayne Hook said.

Ackerman said that any deterioration in the violent nature of industrial action across multiple sectors would impact on fixed investment and job creation, further suppressing the consumer confidence on which retailers depend.

The company reported a 30.8% drop in full-year profit in April.

Newly appointed chief executive Richard Brasher said in the group's annual report that the debate on strategic restructuring and the recent financial performance of Pick n Pay should never obscure the enduring strengths of its business, which together made up its "powerful, beating heart."

"Any change incurs costs and a risk of disruption and we have seen our fair share of both. My task is to ensure that we replace disruption with direction, and inject the right discipline and determination into the business," Brasher said.

According to Pick n Pay's annual report, Brasher, was paid R1.1m between 23 January and 3 March this year. This excluded contractor fees prior to his appointment of R897,489 and relocation costs of R971,447.

Brasher was formerly Tesco's chief executive of UK operations.