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# The Cost of Living and Effects on Retail Spend

INDUSTRY INSIGHTS

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# Introduction

Due to the COVID-19 pandemic, consumers are cautious about frequenting public spaces and risking exposure to the virus. Convenience and safety now play an increasingly important role in all parts of daily life under the COVID-19 pandemic umbrella. When examining the way in which the world has adapted, as people navigate the ever-changing but new normal brought on by COVID-19, Broll Property Intel made the decision to compare certain aspects touched on in a report that it undertook in recent years to determine how the cost of things have changed, and how this affects consumers spending patterns and the retail industry in 2021.

With continued pressure on the South African population and also that of global economies with the rise in unemployment rates, now compounded by COVID-19, many consumers struggle to survive month-to-month, and have shifted their focus to necessities rather than luxuries. This, coupled with COVID-19 supply chain complications, has seen the retail industry battle, facing its toughest times yet.

## Salaries and Credit

In a recent report from BankservAfrica, the average monthly take-home salary for South African's was claimed to be 0.1% higher than that of a year ago, coming in at R12,650. This stagnation is comparative to that of 2018, which was R12,706.

However, when examining the rising costs of petrol, food and municipal rates along with increasing inflation – although currently running off a reasonable rate to that of a few years ago – spending power for the average South African is now under severe pressure. Salaries have not increased in line with other price escalations.

According to a survey conducted by Deloitte, 70% of South African consumers deplete their monthly income entirely, while 41% spend more than they earn. While this trend could bode well for money lenders, it simply leaves less disposable income for other markets (such as the retail industry) and forces consumers to limit their spend to absolute necessities.

A recent Insights report undertaken by TansUnion, shows the burden brought on by COVID-19 continues to weigh heavily on the economy and household income with increased outstanding credit balances experienced across all consumer credit categories. Unsecured lending products are also on the rise as consumers explore ways to manage their household budgets. However, an appetite for additional sources or new credit has in fact decreased.

## Consumer Confidence

As at Q2:2021, the FNB/BER Consumer Confidence Index (CCI), after showing recovery in the previous quarter from -12 points to -9 points, has regressed to -13. This decline represents a shift in consumers willingness to spend, which could negatively affect the retail industry because of slower retail spend. This downward trajectory could further deteriorate with new restrictions imposed by the government in the latest third wave national lockdown in another bid to control the latest COVID-19 outbreak, manifesting in a less-than-positive outlook on the economy. Another contributing factor to the adverse spend is the upsurge in debt to disposable income, exacerbated by the uncertainty in the job market as the unemployment rate rises to 32.6% as at Q1:2021, up from 32.5% in Q4:2020. With over 7.2-million people unemployed, this is one of the highest rates ever recorded and it continues to climb each reporting period.

**Consumer Confidence Index (Over a 10-year period)**


*Source: FNB/BER*

# Consumer Price Index

The Consumer Price Index (CPI), which measures the monthly changes in prices for a range of consumer products, increased to 5.2% for May 2021 year-on-year (y-o-y), up from April 2021 at 4.4%. The highest rate recorded in 30-months, was due to:

- Food and non-alcoholic beverage prices, which rose by 6.7% year-on-year and contributed 1.2% to the overall increase in the annual CPI rate;
- Housing and utilities recording an increase of 2.3%; and
- Transport increased by 15.3% y-o-y.

**Consumer Price Index (Over a 10-year period)**


*Source: FNB/BER*

While economists predict that the CPI will continue on an upward trajectory, the medium-term outlook remains optimistic, indicative that the South African Reserve Bank (SARB) will keep interest rates unchanged. This should provide some relief to cash-strapped consumers, with the rise in spend-per-head since the onset of the pandemic, estimated at 25.2% for a basket of goods. This provides some much-needed stimulus to the retail market and economy, and allows consumers to borrow more and repay at a reduced rate to that of a few years ago.

# Fuel

**Broken down by the Automobile Association (AA) in May 2021, a 50-litre tank of petrol now costs an average of R250 more than it did a year ago. Although this may not directly weigh down consumers finances due to stay at home orders and actual savings on petrol because of reduced commutes to work, it does translate into an increase in other goods and services such as food, passed onto the consumer by businesses and other industries, in recouping costs.**

## Housing and Municipal Rates

While the repo rate has reduced over the past year and remains at a record low of 3.25% in a bid to stimulate a COVID-19 affected economy and assist cash-strapped South Africans with mortgage payments, municipal rates and electricity costs continue to increase. In May 2021, the City of Johannesburg announced that electricity rates were to increase by 14.6%, sanitation and water by 6.8%, refusal removal by 4.3%, and whole property rates by 2%. Cape Town advised an increase of 13.5% was expected for electricity, and KwaZulu-Natal a 14.9% increase.

When accounting for rising costs coupled with the increased usage of electricity for the average home in South Africa due to working from home, these increased rates can be detrimental to household budgets and disposable income.

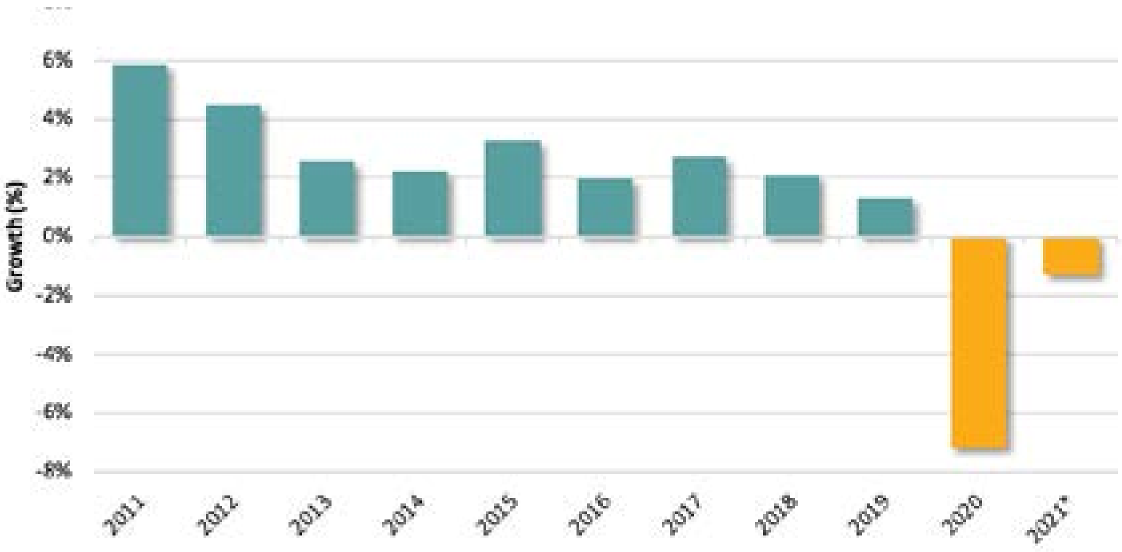
## Food Costs

Food prices continue to skyrocket in South Africa; sunflower cooking oil now costs customers 30.3% more than a year ago and white sugar has increased by 11.5%. Global food prices have also recorded the fastest growing rate in more than a decade. The Food and Agricultural Organisation of the United Nations reported an overall 4.8% increase in May 2021, its highest value since September 2011. These costs, affected by the rise in fuel and electricity tariffs, are set to continue to rise, impacting the entire economy and placing further downward pressure on consumer spend.

# Retail Trade Sales[1]

Retail trade sales, for the first three-month period to March 2021, recorded an average decline of 1.3%. This is not a considerable decrease when compared to the positive 2.0% average reported for the same period in 2020. This highlights that despite retail spend being negatively affected due to COVID-19, when coupled with minimal to zero income growth, high unemployment rates, and the overall rise in the cost of living, sales have started to recover from the record lows as reported mid-2020.

**Real Annual Retail Sales Growth (Y-o-Y) – Over a 10-year period**




*Source: Stats SA (*2021 figure is for three months only (Jan – March))*


With more than half of the retail categories reporting negative to minimal growth rates for the three-month period, other retailers (-18.5%) reported their largest negative annual growth rate, followed by pharmaceuticals and medical goods, cosmetics and toiletries (-10.7%). The overall picture is, therefore, not as dismal as it appears, all things considered. These substantial decreases could be attributed to the stockpiling that occurred in late March 2020, when panic-buying followed the Presidential announcement of the first stringent measures associated with the initial Level 5 lockdown, thus presenting anomalies in the retail market.

While essential service retailers such as Pharmacy and Grocery outlets saw an increase in trading figures over the past year, a decrease in consumer spend is evident in the retail sales figures released by some of the country's largest retailers during the last few months. Many of these retailers, which are listed on the JSE, reported negative to minimal growth, prevalent in certain category sales figures, and highlighting the challenging times the industry is facing, not only with decreased disposable income but also the additional challenges brought about by COVID-19.

[1] It is noted that the latest Retail Trade Sales Figures, April 2021 was released while this report was being compiled. However, due to the vast anomalies caused by COVID-19 and the retail sector shutdown in April 2020, we decided not to include these figures as a full 12-month period of Trade Sales for 2021 was preferred to be reported in order to reflect a complete and accurate picture.

# Conclusion

As fuel, food, electricity tariffs and living costs continue to increase overall, the impact on retail categories not deemed essential, is sure to be negative, especially as consumers' pockets are placed under increasing pressure with increases in the ratio of debt-to-disposable income. While the full impact brought on by the rise in costs and the ever-present COVID-19 challenges is yet to be seen or determined, the retail market looks set to remain under pressure, battling undeniably the most difficult period it has faced to date. One thing is certain however; that even in the hardest of times, the retail industry continues to show resilience as sales figures begin to recover in the wake of a global pandemic.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