

# Nedbank

## Economic commentary

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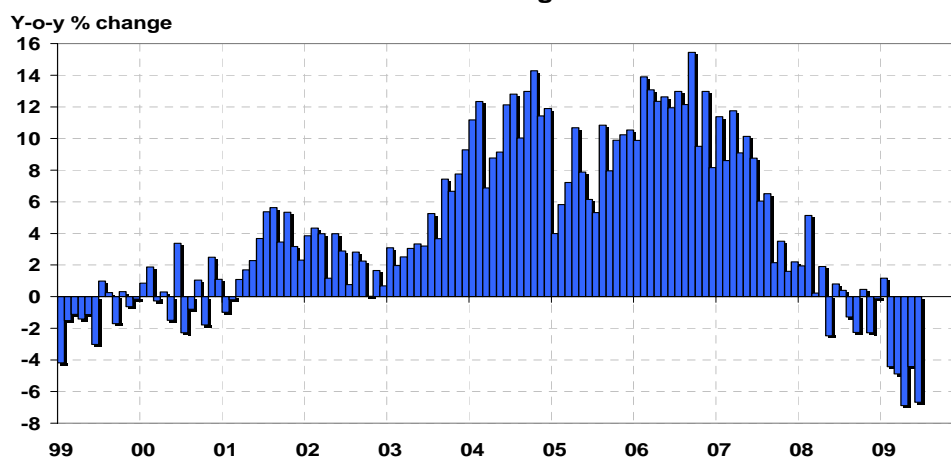
### RETAIL SALES

*Retail sales remained weak in June*

#### Latest (June 2009)

Total: -6,7% y-o-y (-4,4% y-o-y in May, revised from -4,2% y-o-y)

**Retail sales growth**



#### Comment

Consumer spending remains under pressure as financial stress undermines consumer confidence. Households continue to limit purchases of non essential items, with sales in the 'hardware, paint and glass' and the 'household furniture, appliances and equipment' categories dropping by a further 20% y-o-y and 9,9% y-o-y respectively in June following 21,8% and 7,1% declines in the previous month. Sales in the 'textile, clothing and footwear' category also fell sharply by 9,5% in June after growing by 1,6% in May. However, sales of basic non durable goods remained firm in June, with 'food stuff' increasing by 1,6% y-o-y after declining for four successive months, while sales of 'pharmaceutical and medical goods, cosmetics and toiletries' increased by 5,2%.

Over the second quarter of this year, the rate of decline in retail sales accelerated to 6% from 5,4% in both of the previous two quarters. For the year to date, retail sales fell by 4,4% compared with the first half of last year.

#### Outlook

Retail sales should remain depressed in the months ahead as cash-strapped households continue to exercise caution, particularly on purchases of durable goods. The impact of 450 basis point cut in interest rates on spending will probably be offset by higher unemployment, falling income and tighter credit standards for much of 2009. A moderate recovery in retail sales is expected towards the end of the year and into 2010, as confidence picks up on the back of lower interest rates, more manageable debt levels and some stabilisation in the labour market.

#### Research

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## **Implications**

Today's weak retail sales statistics and yesterday's poor manufacturing numbers suggest that local demand conditions remained depressed during the second quarter and that gdp probably contracted further. However, the Reserve Bank's MPC is likely to focus on risks to the inflation outlook and leave interest rates unchanged on Thursday. Towards the end of the year, however, the current optimism around the 'green shoots' of recovery may have faded, with the initial boost provided by fiscal stimulus packages and the turn in the inventory cycle beginning to dissipate. Policymakers' attention will turn to the prognosis for economic growth for 2010, which is likely to remain weak and well below potential. The outlook for inflation will probably also have improved by then. This should tip the scales in favour of further modest rate cuts before the end of the year, bringing prime down to 10% at the bottom of the cycle.

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