

Nedbank

Economic commentary

21 September 2009

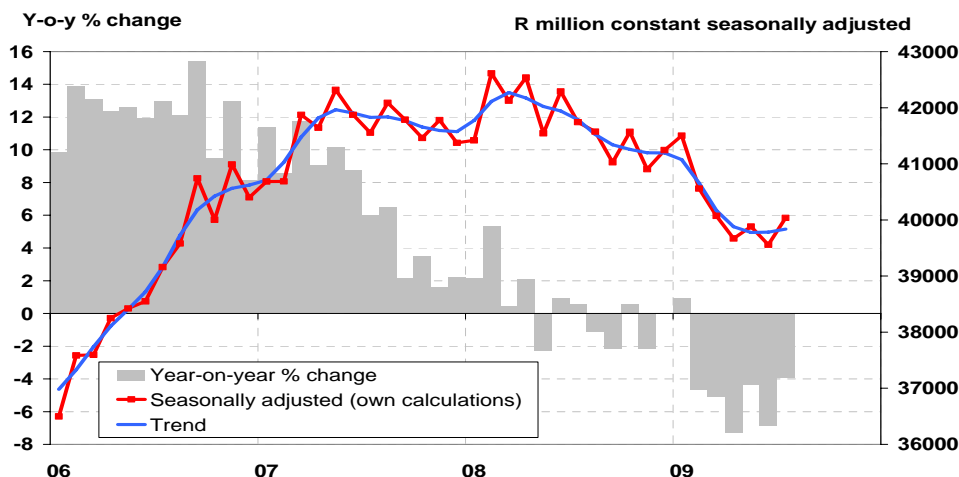
RETAIL SALES

Retail sales declined at a slower pace in July

- Retail sales are starting to show early signs of life off a low base
- Food and pharmaceuticals performed relatively well
- Signs of some improvement in demand may cause the Reserve Bank to hesitate before cutting interest rates again in October

Latest (July 2009)

Total: -3,9% y-o-y (-6,9% y-o-y in June, revised from -6,7% y-o-y)



Comment

The annual rate of decline in retail sales continued to ease in July, providing further evidence that the worst of the economic slowdown is over for now, and that a gradual consolidation has commenced. While two of the major categories showed an annual increase, four out of the seven categories recorded slower annual rates of decline in the month, suggesting that households' confidence is starting to improve, helped by lower interest rates and inflation. Sales of non-durable goods items were the main driver of retail sales in July, with sales by 'retailers of food, beverages and tobacco in specialised stores' up by 3,8% following a 2,9% increase in June, while 'pharmaceutical and medical goods, cosmetics and toiletries' sales increased by 0,4%. The rate of decline by 'retailers in hardware, paint and glass' eased to -14,4% from -20,4% in the previous month.

Over the three months period to July, retail sales declined by 5,1% compared with the same period last year, and so far this year, retail sales have fallen by 4,5% compared with the first seven months of 2008.

Research

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Outlook

Monthly retail sales are likely to show further signs of consolidation throughout the remainder of the year, as previous interest rate cuts continue to help and the festive season approaches. Easier lending standards by commercial banks could also help to boost consumer purchasing power. However, total retail sales will remain weak as households exercise caution when making purchases, particularly of durable goods due to poor employment prospects.

Implications

Today's retail sales numbers suggest that demand conditions are starting to improve off a very low base. Although the recovery will remain fragile it will probably add to the MPC's reluctance to cut interest rates at tomorrow's meeting. We do, however, still think that another 50 basis point cut is possible in this cycle, on negative growth or positive inflation surprises later in the year.

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