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retail

SNAPSHOT

the impact of
price hikes on
retail spend

Has the high cost
of living impacted
spending habits?

Q2
2018

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CBRE

THE IMPACT OF PRICE HIKES ON RETAIL SPEND

With continuous increases in petrol prices and municipal rates coupled with higher inflation and a VAT hike, the retail sector appears to be headed for a rough time. This retail snapshot will examine how prices of key products and services have increased over the past 10 years as well as year-on-year (y-o-y) in 2018, and the effect this has on the spending power of the average South African.

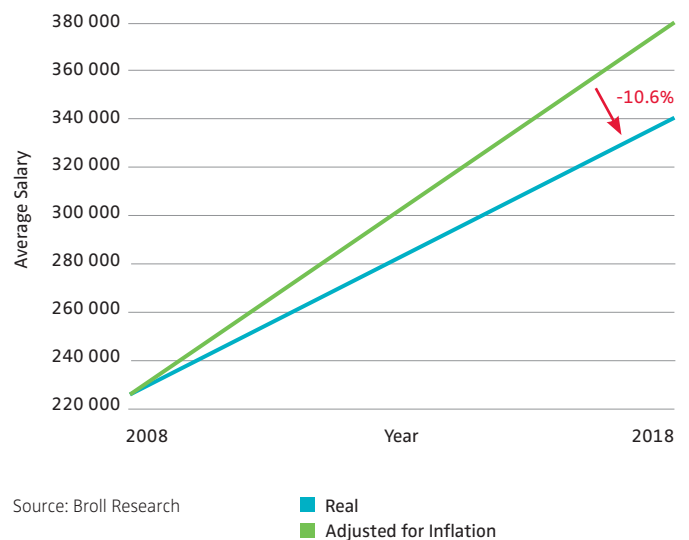
South African Salaries at a Glance

BankservAfrica's latest take-home pay index revealed that South African salaries increased by 2.2% y-o-y as at June 2018. However, inflation grew by 4.6% effectively resulting in a y-o-y salary growth of -2.4%. When comparing the rate at which average salaries for white-collar workers¹ have increased in the last decade, it can be determined that South Africans are in fact getting poorer even though their salaries are technically increasing.

An exercise was undertaken whereby the average salaries for lawyers, administrative assistants, engineers, accountants, personal assistants and teachers from 2008 to 2018 were investigated. It was found that real salaries rose at an average of 4.9% per annum over this period. However, when adjusted for inflation it turns out that salaries should have grown by 6.7% per annum in order for people to be earning the equivalent of what they did in 2008. Thus when comparing 2018 real vs adjusted-for-inflation salaries, people are in fact 10.6% poorer than they were in 2008.

¹White collar workers are known for earning high average salaries and do not perform manual labour.

Average Salary Increases (White-collar Workers)



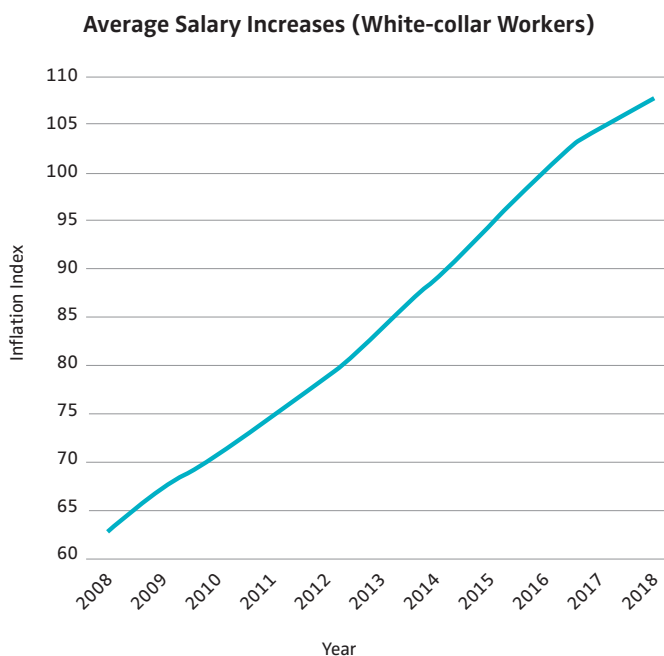


Factors Affecting Consumer Spend

Inflation Rate

The y-o-y inflation rate for June 2018 increased to 4.6%, up from 4.4% in May 2018 with food price inflation increasing to 4.3% y-o-y. When looking at the Inflation Index for 2008 as compared to that for 2018, inflation increased from 63.6 in 2008 to 106.5 in 2018, an increase of 67.5% over the ten-year period.

Inflation index



Source: Stats SA
*2018 data is for a 6 month period to June.

VAT and Taxes

As mentioned in our [Q1:2018 Retail Snapshot](#), VAT increased by 1.0% to 15.0% effective from 1 April 2018 with the spending capacity of consumers further dampened by an increase in the fuel levy of 52 cents per litre and increased sin taxes of between 6.0% and 10.0%, depending on the product.

Electricity

A study undertaken by GlobalEnergyPrices.com during the second quarter of 2018, indicated that the world average price for electricity was R1.51/kWh, with South Africa averaging R2.05/kWh, ranking 58th out of 95 countries globally in terms of price per kWh. In 2008, Eskom experienced a crisis when the demand for electricity outweighed the company's ability to supply adequate power, making power outages (load shedding) a reality and costing the country millions of rands. Today, although the country's electricity supply is more stable, Eskom continues to request price increases which are way above inflation. Electricity prices have risen by over 350.0% in the last decade and this trend is expected to continue should NERSA (The National Energy Regulator of South Africa) approve Eskom's application to increase tariffs.

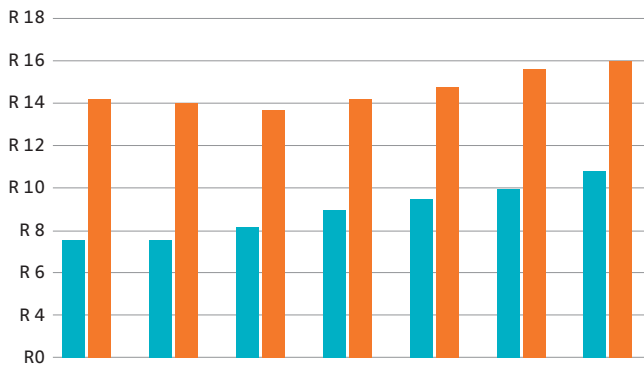
Rates and Taxes

The annual increase in municipal rates, taxes and services costs as well as the re-valuation of properties all increase the financial burden of consumers. For example, increases effective 1 July 2018 had many Johannesburg property owners up in arms, with some reporting increases of between 60% and up to 5,000% on property market values in certain instances. Following this outcry, the City of Johannesburg granted a rebate on the first R350,000 of a property's value, up from R200,000 previously. However, residents still faced increases in the price of water (16.9%), sewerage costs (between 14.2% to 45.0%, depending on the size of the property) and refuse (6.8%).

Fuel

Fuel in South Africa is still considered relatively cheap on a global scale, sitting very much in the middle of an average fuel price scale compared to other countries, with the average price around the world being R15.44/litre. However, the country has been faced with a number of price hikes recently and on the 4th July 2018 yet another fuel price increase was implemented, this time breaking the country's fuel price record with a staggering rate of R16.02/litre for 95 unleaded. When looking at a six month period in 2008 and 2018 (January to July), July in both years reported the highest rate per litre of fuel. When comparing the fuel price in July 2008 vs July 2018 an increase of 49.7% is evident. These increases not only affect the cost of transport but also the cost of food, which is already well above the inflation rate as shown later in this report.

Average Fuel Price Increases








Source: Automobile Association of South Africa

■ 2008
■ 2018

Food

When looking at the cost of food compared to a decade ago, it is evident that most products have risen well above the inflation rate, with an average increase of 93.4% for the same basket of goods. White bread has increased from R5.89 in 2008 to R13.49 in current prices. However when looking at the rate of inflation and adjusting the prices accordingly, white bread should only cost R9.86. That is a 36.8% difference. When considering inflation, the only products that work out slightly cheaper are milk and wine. So why are so many products more expensive than the rate of inflation? The answer is not a simple one as varying factors play a role in determining the cost of goods. However, aspects which majorly contribute to these price changes include the likes of electricity and fuel prices, both of which have increased well above the inflation rate, in addition to climate conditions such as the recent drought across the country.

<p>1L Long Life Milk</p>  <p>2008: R8.46 2018: R13.99 Inflation: R14.16</p>	<p>T-Bone Steak per kg</p>  <p>2008: R56.02 2018: R109.96 Inflation: R93.78</p>	<p>White Bread</p>  <p>2008: R5.89 2018: R13.49 Inflation: R9.86</p>	<p>1kg Gouda</p>  <p>2008: R71.73 2018: R119.90 Inflation: R120.08</p>	<p>750ml Sunflower oil</p>  <p>2008: R12.70 2018: R29.99 Inflation: R21.26</p>	<p>Bottle of Red Wine</p>  <p>2008: R36.42 2018: R60.00 Inflation: R60.97</p>
<p>Broccoli per kg</p>  <p>2008: R20.26 2018: R39.99 Inflation: R33.92</p>	<p>2.5kg White Sugar</p>  <p>2008: R14.79 2018: R29.90 Inflation: R24.76</p>	<p>Chocolate*</p>  <p>2008: R7.93 2018: R14.99 Inflation: R13.27</p>	<p>Cigarette 20pk</p>  <p>2008: R20.13 2018: R45.35 Inflation: R33.70</p>	<p>250g Instant Coffee</p>  <p>2008: R13.89 2018: R36.99 Inflation: R23.25</p>	<p>Six pack of Beer**</p>  <p>2008: R28.87 2018: R59.99 Inflation: R48.33</p>

* In 2008 Chocolate slabs were 100g, in 2018 they are 80g.

** In 2008 Beer was sold in 340ml cans, in 2018 they are 330ml cans.

Note: Inflation = 2008 figures adjusted for inflation.

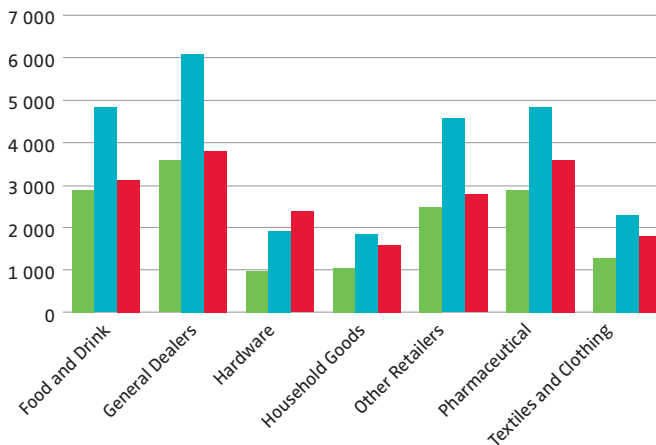
Entertainment

Another interesting fact, although not related to a basic necessity, is the cost of a movie ticket today compared with that of ten years ago. The average movie ticket, not including popcorn and Coke, is now 228.0% more expensive in nominal terms. In 2008, you would have paid R25.00 for a 2D movie where today you are looking at approximately R85.00 a ticket. When taking 2008 prices into consideration and adjusting for inflation, a 2D movie ticket should in fact only cost the consumer R41.85; however, increasing costs of electricity and fuel amongst others, all contribute to higher prices.

Retail Trade Sales

When looking at the trading densities (TD) of national tenants across the Broll-managed portfolio, sales appear to have increased from 2008 to 2018. This should in fact be the case as the cost of products and services have risen in the past decade as detailed above. However, in order to see a true reflection of the trade sales, inflation needs to be taken into consideration. By doing this a different outcome is seen, one which supports current economic data and reinforces the fact that consumers are in fact spending less on certain retail categories as the prices of other services, VAT and transport rise. Of the selected categories, only Hardware experienced an increase in TD, which may be attributed to the fact that consumers are indeed under pressure thus opting to undertake DIY projects themselves rather than paying for contractors to carry out the work

National Tenant Trading Densities



Source: Broll Research

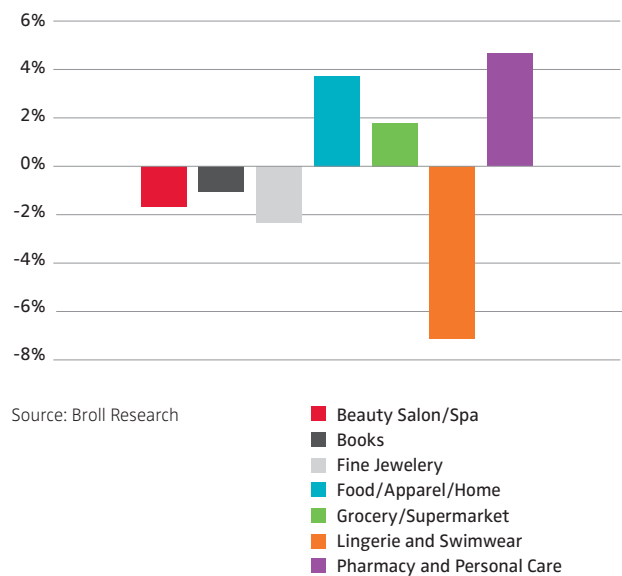
■ 2008
■ 2008 adjusted for inflation
■ 2018

Decreased consumer spend is also evident in the retail sales figures released by some of the country's largest retailers during 2018 thus far. Many of the retailers which are listed on the JSE are reporting minimal growth and, in some instances, even a decline in certain category sales figures, highlighting the challenging times that industry is facing.

Customer Spend in 2018

The question arises: "What in fact are consumers spending their money on in 2018?" When looking at regional shopping centres managed by Broll, narrowing down the sub-categories and looking specifically at luxury spend and necessities, it is possible to ascertain which retail categories are being the hardest hit by the rising cost of living.

TD Growth (y-o-y)



Source: Broll Research

■ Beauty Salon/Spa
■ Books
■ Fine Jewellery
■ Food/Apparel/Home
■ Grocery/Supermarket
■ Lingerie and Swimwear
■ Pharmacy and Personal Care

When looking at y-o-y TD growth² it is easy to see that consumers continue to spend their money on necessities rather than luxuries, with categories such as Fine Jewellery as well as Beauty Salons and Spas reporting a 2.3% and 1.8% decline respectively. Categories such as Grocery/Supermarket in addition to Pharmacy and Personal Care appear to remain resilient in tough economic times as both food and medical products remain a necessity.

²July 2016 - June 2017 vs July 2017 - June 2018.

CONCLUDING REMARKS

Most of the country's population is concerned about the high cost of living, which appears to be increasing faster and higher than the average increase in salaries. When taking all of the above-mentioned factors into account, it is evident that consumers continue to focus their spending on necessities such as food and pharmaceutical products with luxuries such as jewellery taking a back seat.

This trend is set to continue throughout 2018 with little signs of relief likely. The rising price of fuel continues, increased electricity tariffs and living costs overall continue to rise, all of which impact upon the retail supply chain and hence the goods and services which consumers spend on. This will negatively affect consumers' pockets and is expected to place further pressure on disposable income. In conclusion, the retail market looks set to remain under pressure, and landlords and retailers alike need to be conscious of the pressure consumers are under. This makes the provision of shoppertainment and unique offerings more vital than ever before.





Retail Snapshot Q2: 2018

For more information please email research@broll.com

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