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retail

SNAPSHOT

Understanding
the impact
of increased tax rates

How have prices and
sales figures changed?

Q1
2018

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2018 TAX RATE INCREASE

During the 2018 Budget Speech it was announced that VAT would increase by 1% to 15% from 1st April 2018, the first increase in 25 years. This increase affects all spectrums of the supply chain, from the supplier to the manufacturer, from the distributor to the retailer and ultimately on to the consumer.

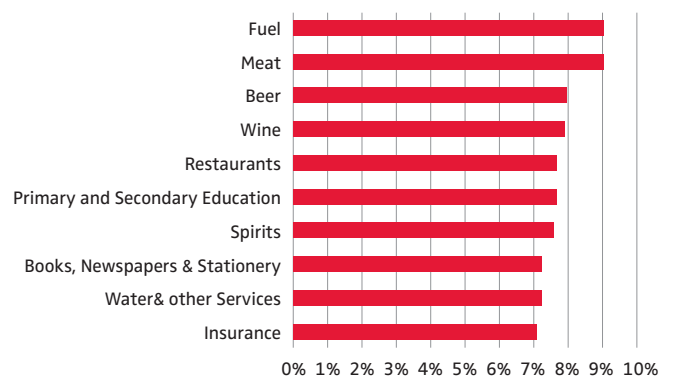
Although consumers have been under pressure, with year-on-year inflation being 4.5% as at April and with a prime lending rate of 10%, consumer confidence in the first quarter increased to +26 from -8 the previous quarter which may be attributed to positive political and economic developments. Increased consumer confidence may result in an improved willingness by consumers to spend which will bode well for the economy. However, with increased VAT consumer spending patterns may change. Even though certain food items are zero VAT-rated, the majority of goods and services which consumers, across the varying income groups, purchase will now cost more. Additionally, increases in fuel and sin taxes will also lead to increased expenditure, thus cautious spending may prevail.

In this snapshot we examine how prices have changed in a year and endeavour to understand whether any changing market dynamics are evident as yet. Has there been a marked month-on-month (m-o-m) sales growth or decline? What impact has the increased VAT rate had on retail sales?

How Have Prices Changed?

Inflation increased by 4.5% year-on-year (y-o-y) as at April 2018, which is an increase from 3.8% recorded in March 2018 and is the highest rate recorded for the year thus far. The three product categories that experienced the highest increases were Fuel (9%), Meat (9%) and Beer (8%) while Wine, Restaurants, Primary and Secondary Education, Water and Other Services were rated in the top 10 highest price increases.

Top 10 Highest Price Increases



Source: Stats SA

While not all of the above-mentioned items incur VAT (i.e. education), the increased VAT rate has played a crucial role in increasing inflation overall. Additional tax increases highlighted in the budget speech e.g. higher fuel tax and increased sin taxes, have also contributed significantly to the increased inflation rate for the month of April.

Retail Sales

When looking at various Broll-managed centres across South Africa, an understanding of which retail categories are reflecting reduced consumer spend can be easily ascertained. While some categories continue to remain somewhat resilient, others experienced marked changes in retail sales.



March 2017 vs March 2018

The Easter long weekend started at the end of March 2018 which was a contributing factor to the high growth evident within department stores as well as the positive growth within food and food services. Some consumers stocked up on essential as well as indulgent goods for the Easter weekend while others took leave over this period thus benefiting food services. Another contributing factor was that many consumers anticipated the increase in VAT as well as other tax rates; these consumers spent more than usual in March 2018 as they tried to avoid, as far as possible, paying the higher prices which materialised in April.

With VAT and sin taxes increasing, Bottle Stores saw increased growth of 18.3% y-o-y in March, in comparison to a decline in April of -5.6% y-o-y and -14.2% m-o-m. This category showcases how the increased prices resulted in reduced spending alternating with people rushing to avoid tax increases prior to the end of March

When taking a closer look overall, Department Stores recorded the highest growth (17.2%), with General Dealers (as a sub-category) experiencing the highest y-o-y growth of 25.4% in comparison to Food/Apparel/Home (17.4%) and Food/Electronics/Appliance (-2.5%). This may be an indication of consumers focusing on bargain and bulk shopping, stocking up in anticipation of increased prices in April.

Decreases in growth were evident for Accessories, Jewellery and Watches as well as Entertainment, which may be an indication of a reduction in luxury spending and entertainment due to financial pressures. Many consumers are buckling under financial strain with household debt to disposable income standing at 71.2% at the end of last year.

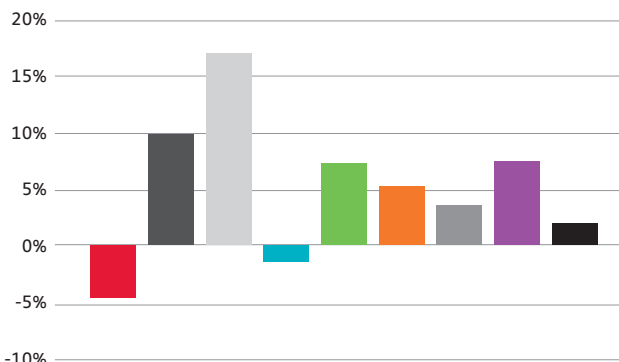
April 2017 vs April 2018

A very different picture is seen in April in comparison to March with regards to y-o-y sales growth. Of the selected primary categories only Department Stores, Health and Beauty and Homeware Stores experienced slight increases, 2.1%, 0.5% and 1.3% respectively with all other categories declining.

The largest decline was -27.5% for Entertainment, made up of entertainment centres such as ice rinks and bowling alleys as well as movies, which can be attributed to parents cutting back on expenditure during school holidays. Another contributing factor is that in 2017 the Easter long weekend was in April, whereas in 2018 it was at the end of March going into April so some of this holiday season spending would have also taken place in March.

The increased VAT rate led to increased prices across the board with a reduction in retail spend evident with y-o-y sales figures declining, reflecting a possible indication that consumers have cut back on their spending.

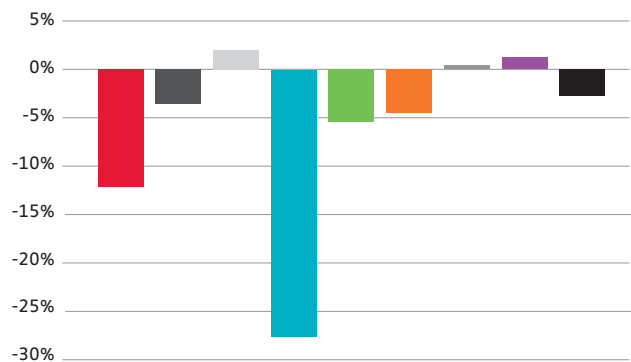
Average Sales Growth (Primary Categories)
– March 2017 vs March 2018



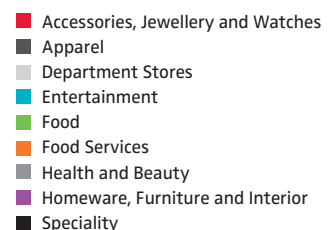
Source: Broll Research



Average Sales Growth – April 2017 vs April 2018



Source: Broll Research





March 2018 vs April 2018

When comparing March 2018 to April 2018 the highest increase in m-o-m sales growth was evident for Entertainment, attributable to school holidays (12 days) being in April. Again the change of date of the Easter long weekend and tax increases appear to have impacted upon retail trade with Department Stores, Food and Food Services experiencing a m-o-m decline.

With regards to luxury spend items such as Accessories, Jewellery and Watches, an increase of 1.9% was recorded for the category overall; however, upon further investigation, Accessories declined by 3.0% while Watches declined by 12.0%, with Fine Jewellery being the only sub-category showing an increase (3.8%). At the end of March certain Fine Jewellery retailers ran promotions where large discounts on diamonds were being offered. These promotions ran throughout the month of April and may have contributed significantly to increased sales.

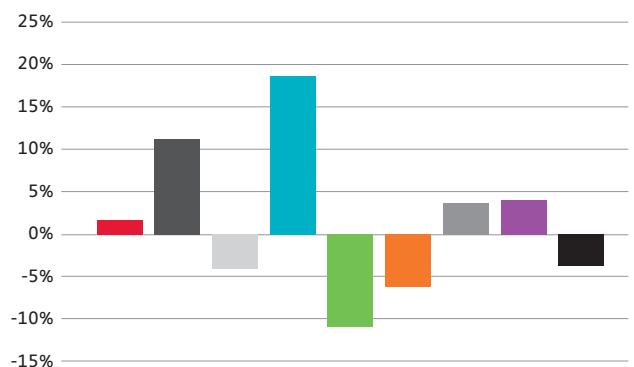
Apparel experienced a m-o-m growth of 11.1%, driven by increased sales in Children's Wear (19.7%), Women's Wear (18.1%) and Unisex Wear (14.2%), which may have been as a result of the school holidays coinciding with a change in season when new fashion was introduced into the market.

Health and Beauty experienced positive growth within the three time periods under review. However, in terms of sub-categories (Beauty Salon/Spa, Cosmetics and Perfumery, Hairdresser and Pharmacy) Pharmacy was the only category that experienced positive y-o-y growth as at March and April as well as m-o-m as at April. Beauty Salon/Spa recorded declined growth over all three time periods while Cosmetics and Hairdresser recorded negative growth y-o-y and m-o-m as at April respectively. This is a strong indication of consumers focusing more on "needs" and less on "wants".

Homeware retailers appear to be somewhat resilient albeit at lower growth rates than other categories. Furniture Focus is the only sub-category which recorded negative growth m-o-m in April (-10.8%), most likely as a result of the expensive nature of such products.

Speciality is made up of varying retailers, from Baby Accessories, to Gifts and Fine Ware, to Hardware, Security and Home Improvement, Travel Stores and others. Hardware, Security and Home Improvement experienced positive y-o-y growth in March (7.5%); thereafter growth has been negative which is also evident in a number of the other sub-categories. This decrease in growth is evidence of cautious, discretionary and reduced consumer spend.

Average Sales Growth – March 2018 vs April 2018



Source: Broll Research

- Accessories, Jewellery and Watches
- Apparel
- Department Stores
- Entertainment
- Food
- Food Services
- Health and Beauty
- Homeware, Furniture and Interior
- Speciality

CONCLUDING REMARKS

Based on the above analysis, it appears that consumer spending has been impacted by increases in VAT and other tax rates.

Whilst y-o-y sales growth in March has been mostly positive, y-o-y growth in April has declined for most categories, with only minimal increases recorded for certain retailers. The change in the date of the Easter long weekend has also played a role in changed sales figures. The question remains “Will reduced sales continue to be the norm?” Only time will tell. The increased taxes have only recently been introduced so their long-term impact will

need to be monitored. Retailers will have to be more innovative than ever before in order to maintain their existing customer base as well as to attract new interest. This is where technology will play a role, with a number of new innovations already being tried and tested in the global retail market as indicated in our [Future of Retail](#) report.





Retail Snapshot Q1: 2018

For more information please email research@broll.com

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