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Load shedding casts an ominous cloud over retail sales this festive season

The continuing electricity load shedding has become major obstacle for retail sales growth during this important season for retailers, restaurants and malls alike, warns Growthpoint Properties Retail Portfolio Divisional Director Stephan le Roux.

While initially anticipating festive retail sales would only grow marginally in 2014, le Roux believes the added stumbling block of load shedding, which often unscheduled, has made even slight growth in retail sales unlikely.

“Load shedding is having a severe impact on South African retailers this festive season,” says le Roux. “The situation is especially dire for restaurants where there is limited opportunity to recoup the lost turnover.” Le Roux explains that while many restaurants cook with gas, often the safety systems governing the gas are electric, and thus shut down the gas when the power is down.

Le Roux believes Eskom needs to consider the harmful effects load shedding on the retail sector, and that it should keep South Africa’s mall switched on during peak shopping times. “Businesses and jobs depend on the season’s trade. Many retailers are counting on festive season sales to keep their heads above water after a really tough year,” says le Roux.

He adds the very least Eskom can do is stick to its load shedding schedule so that shoppers can plan their retail trips according, and retailers can be confident and prepared that the power will come back on when it is supposed to.

Le Roux explains that 2014 has been a tough year for retail, based on fortunes of the South African consumer, which have been rocky at best. “The South African consumer remains fragile and possibly worse off than a year ago. The protracted strikes in 2014 resulted in lower annual income for a number of families and unemployment remains high. While the expected reduction in the petrol price may bring some relief in time for the Christmas season, it will not be sufficient to translate to buoyant retail sales.”

While upmarket consumers have proved more resilient to economic pressures in recent years, le Roux points out they’re also feeling the pinch. He notes, “Higher-than-inflation increases in municipal services, medical costs and school fees will impact on the middle- and higher-income consumers; as will the increase in interest rates.”

During this important season for retailers and mall owners alike, le Roux believes that clothing and food retailers are in a better position to benefit from spend, as consumers exchange luxuries for necessities.

Reflecting recent updates from South Africa’s major credit retailers, credit sales will continue to be muted and, while gift cards always sell strongly over the festive season, le Roux believes

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consumers may increasingly opt for more affordable presents and small luxuries, such as chocolates and similar indulgences.

With South Africa's postal fiasco, online purchases are still likely to be limited to couriered items. "Big-ticket electronic purchases and spoil-myself gifts are likely to dominate in the online shopping space this holiday," says le Roux.

He also cautions that festive sales are likely to vary from one shopping centre to another, depending on the market being served. Le Roux expects retail centres in Gauteng and Western Cape to outperform the rest of the country. He also sees shopping centres that cater to higher consumer demographics outperforming others. On the other hand, he believes those in mining areas and in the Eastern Cape are likely to underperform.

But it isn't only the festive season retail sales and online shopping that stand to deliver little growth. Next year is set to be a dreary period for consumers and retailers alike.

"Retailers and retail property are likely to remain under pressure in 2015, especially as the effect of the failure of major retailers such as Ellerines impacts over the next few months," says le Roux. "In the absence of GDP growth, and facing a continuing tightening of credit extension to households, possible further strikes in the public sectors - the biggest employer in South Africa - and imported cost pressures, the consumer will remain under tremendous pressure at middle and lower income levels."

He adds, the possibility of higher personal taxation, rising interest rates and ever-increasing medical costs, education and indirect taxes will weigh down on higher-income consumers' confidence and spending.

And, all this is before considering the effect of load shedding. Le Roux warns, "The damaging impact of load shedding on retail during the festive season could be another dreadful blow for the economy."

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