

EMBARGO: 12H00, THURSDAY, 21 JUNE 2007



PRESS RELEASE

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Linette Ellis, Senior Economist

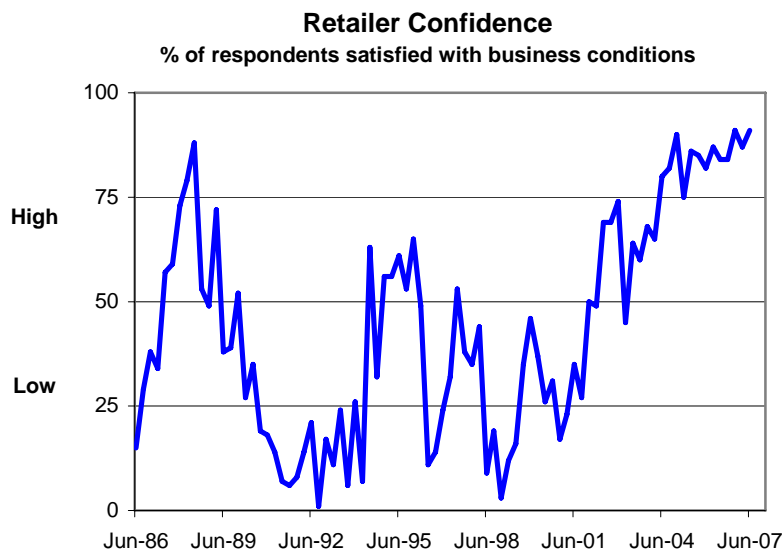
Tel. 021 887 2810

Cell: 083 953 6247

Fax: 021 883 9225

Retail confidence rebounds to record high

Results from the latest Bureau for Economic Research (BER) Retail Survey reveal that the confidence levels of retailers remained extremely high during the second quarter of 2007. In fact, the BER's retailer confidence index rebounded from 87 to 91 index points – the record high reached for the first time during the fourth quarter of 2006.



According to BER economist Linette Ellis, the supreme level of optimism among retailers can probably be ascribed to the breakneck pace with which consumer goods continue to fly from retail shelves. According to Statistics South Africa, retail sales volumes increased by an impressive 9.5% year on year during the first quarter of 2007, showing little sign of slowing from the 9.6% volume growth achieved during 2006. The BER's latest retail survey results are very upbeat and

suggest that, despite higher interest rates and rising price pressures, second quarter retail sales growth was as strong as that of the first quarter. Although official retail sales statistics for the entire second quarter are not yet available, Statistics South Africa has released *preliminary* data showing a sharp decline in year on year growth in real retail sales, from 10.5% in March to 5.4% in April 2007. However, since Statistics South Africa often revises their preliminary figures, and the BER's results suggest that sales growth remained strong during the second quarter, one should probably wait for and consider the May and June official data releases before deciding whether the retail boom is drawing to a close.

The BER's survey results suggest that sales of non-durable goods such as food and beverages performed particularly well during the second quarter - far exceeding respondents' expectations - while the growth in sales of semi-durable goods (e.g. clothing and footwear) regained momentum. However, the growth in sales of durable goods such as furniture, household appliances and electronic goods, the retail category that is most sensitive to interest rate hikes, slowed slightly from the phenomenal pace recorded at the end of 2006 and during the first quarter of 2007. Overall, retailers expect sustained strong sales growth during the third quarter of 2007.

Further evidence that the retail boom is still continuing can be found in retailers' rating of employment numbers and the volume of orders placed. Both of these BER indices improved during the second quarter and are only a few points shy of their respective 10 year highs reached during the fourth quarter of 2006.

Another striking feature of the BER's second quarter survey results is the fact that the vast majority of retailers reported increases in their purchasing and selling prices, suggesting an uptick in inflation. The BER's survey results are in line with the latest (April 2007) inflation data released by Statistics South Africa, which shows that CPIX inflation accelerated from 5.5% yoy in March to 6.3% yoy during April (breaching the SARB's 3.0% - 6.0% target range for the first time since August 2003), while the PPI soared from 10.3% to 11.1% yoy. According to Ellis, the deterioration in the inflation picture, combined with seemingly untameable growth in retail sales, will put pressure on the SARB to hike interest rates by a further 50 basis points at their next MPC meeting in August (following the 50 basis points increase in June 2007).

"Looking ahead, the impact of the new credit act and the lagged effect of the 2.5% point increase in the prime interest rate since the first quarter of 2006, as well as a possible further 50 basis point rate hike, should weigh more significantly on sales of passenger cars, durable goods and, to some extent, on semi-durable goods," said Ellis. Conversely, sharp increases in food and fuel prices will have a negative effect on the budgets of lower income households and hurt the sales of non-durable goods in particular. However, given the positive outlook for employment, the

BER projects that the moderation in consumer spending on non-durable goods will be significantly smaller than the expected slowdown in the growth of durable and semi-durable goods.

The fieldwork for the survey was largely completed before Statistics South Africa released the surprisingly high April CPI and PPI inflation data and the SARB announced a 50 basis point increase in the (repo) interest rate (on 7 June 2007). The fieldwork for the survey was conducted between 10 May and 4 June 2007 and covered roughly 500 regular participants in the retail sector.