

'Consumers still reluctant to spend'

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Consumers remain reluctant to spend despite indications of emergence from economic recession, retail sector leader at Ernst and Young SA Derek Engelbrecht said on Thursday, 10 June 2010.

"The consumer has burnt fingers and is reluctant to easily slip into spending quite as easily as before," said Engelbrecht.

Spending outlook

The Bureau for Economic Research's (BER) recent Consumer Spending Outlook showed that real consumer spending fell by 3.1% during 2009 but was expected to gain momentum throughout this year.

Being a consumption driven economy, South Africa suffered severely after the economic recession because consumers shunned retail stores as they felt the pinch of the downturn.

But retail trade sales, a key indication of consumer spending patterns and demand-side performance, have been slowly improving as official figures show.

Retail sales growth

According to Statistics South Africa, retail trade sales at constant (2008) prices for March increased 1.0% year-on-year (y/y) after a revised 1.3% contraction in February.

The growth in retail sales in March brought to an end 13 consecutive months of annual decline.

Durable and semi-durable goods retailers were hit the hardest at the start of the economic meltdown.

But the BER pointed out that these retailers were expected to bounce back strongly this year.

"Durable goods are expected to post the strongest volume growth (averaging 6.4%) over the next 6 years, followed by semi-durable goods (5.4%).

"High debt levels are likely to prevent the growth in durable and semi-durable goods from soaring back to the spectacular rates seen during the 2004-06 period," the BER said in its report.

It did not expect significant growth for non-durable goods sales volumes, with only a 0.7% increase projected for 2010.

Still recovering

Engelbrecht said it would be a while before consumers fully got back on their feet despite assurances that the corner has been turned.

"The world is a changed place and the road to recovery is both long and arduous," he stated.

The BER expected factors such as high real wage increases, low interest rates, a strong exchange rate and falling inflation to contribute to improving consumer spending.

The research organisation also expects real consumer spending to increase by just 2.1% this year and accelerate to 3.7% in 2011 and 4% in 2012.

Global factors

"Recovery is tainted heavily with global impacts such as the Chilean earthquake, the Icelandic volcano and the Greek economic meltdown," said Engelbrecht.

"These events have global reach and global impact, the consumer is already weary and wary and each event seems to make turning the corner further off that it once seemed to be," he added.

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